



University  
of Victoria  
Business

*The world looks  
different from here.*



Seeing new horizons.

SEPTEMBER 2008 | VOLUME 1

**BACHELOR OF COMMERCE  
BEST BUSINESS RESEARCH PAPERS**

# Bachelor of Commerce Best Business Research Papers

Volume 1, September 2008

## Table of Contents

### **NOTE FROM THE EDITOR**

*Anthony Goerzen* 1

### **THE DUTCH BUSINESS SYSTEM IN TRANSITION: AN APPLICATION OF WHITLEY'S BUSINESS SYSTEMS APPROACH FOR THE USE OF EXECUTIVES, MANAGERS, AND POLICY MAKERS**

*Eric Brewis* 2

### **SWENSEN'S MUST ENGAGE IN MARKET PENETRATION AND DIVERSIFICATION TO RETAIN ITS LEADING POSITION IN THE THAILAND MARKET**

*Kailee Douglas* 13

### **DISNEYLAND PARIS: EUROPEANIZING A RESORT**

*Amanda Louie* 22

### **IKEA: A STRATEGY FOR SUCCESS**

*Garret Luu* 31

### **COMPULSORY LICENSING IN THAILAND**

*Simran Mann* 38

### **CHANGING POVERTY AND INEQUITY THROUGH BUSINESS**

*Matthew R. Tanner* 47

### **SWEDEN IS A NESTING GROUND FOR YOUNG START-UP ENTREPRENEURS**

*James Whyte* 56

# Note from the Editor

In business today, “globalization” is a key concept with the firms across nations intertwined as never before. With overseas customers, suppliers, operations, and competitors, today’s managers need an international outlook. Therefore, the mission of the University of Victoria’s Bachelor of Commerce program is to give students the essential knowledge and skills they need to be effective and successful managers in the global economy.

At UVic Business, we ensure that our students develop an international perspective through direct experience with issues in management and organization. In fact, UVic Business has one of the largest international exchange programs in Canada with 55 active partnerships in 27 countries. The strength of these partnerships is represented in the total number of outbound students; Annually, approximately 80% of BCom students participate in international exchanges and study tours. In 2007-2008, we sent a total number 137 students on exchange to 35 universities in 19 countries.

Many of these students were enrolled in COM 470 Business Research, the purpose of which is to give students who go on international exchange an opportunity to develop their research and writing skills by analyzing a business issue that relates to the place visited while on exchange. They explore in depth a topic of their choosing, reporting on a phenomenon that affects the entire country or region; Or, they can focus on a specific issue that pertains to a particular private, public, or not-for-profit organization.

Beginning with our 2007-2008 cohort of students, we have decided to showcase the best COM 470 Business Research papers in this inaugural volume. The topics range widely from an analysis of the impact of regulatory issues to the nature of corporate social responsibility. Yet what these papers have in common is that the authors have dedicated themselves to producing interesting and thoughtful research—the best in their class!

While a small group of students is being honoured in this volume, there are many people behind the scenes that allow this rather complex international exchange operation to function, including Dr. A.R. Elangovan, Director of International Programs; Brian Leacock, Associate Director, International Programs; Jane Collins, International Exchange Programs Coordinator; Cynthia Cameron, Exchange Student Advisor; Ann Peng, International Student Advisor; Donna Davis, Clerk for International Programs; and Wendy Mah, Academic Advisor. Thanks also go to Lisa Russell, Research & Special Projects Officer, for coordinating and compiling this volume.

Anthony Goerzen, PhD  
Associate Professor of Strategy & International Business  
Editor, *Bachelor of Commerce Best Business Research Papers* Volume 1  
Instructor, COM 470 Business Research

---

# The Dutch Business System in Transition: An Application of Whitley's Business Systems Approach for the use of Executives, Managers, and Policy Makers

Eric Brewis

## Abstract

The changing nature of the Dutch business system has serious implications for businesses wishing to expand into the Netherlands, and for businesses that already operate within it. This paper attempts to clarify these changes by dissecting the nature of the system into three mutually related components based on Whitley's business systems approach. These components include the nature of market organization, the political system, and the labour system, and are substantiated with evidence from previous studies, as well as from personal discussions with individuals that have lived in the Netherlands. In general, the basic conclusions of the research suggest that changes in voter preferences in the Netherlands have resulted in more capitalistic political policies, such as increased tax incentives for entrepreneurial start-ups, which have in turn, resulted in lower trade union participation rates, and a less egalitarian corporate atmosphere with more individual incentives for performance. For managers, this means that less emphasis needs to be placed on practices such as collective bargaining and equality, and that more emphasis needs to be placed on sustaining their competitive advantage, knowing that more small to medium sized enterprises will be entering the marketplace. However, despite these changes to a more free-market approach, the Netherlands still remains a corporatist system, where trade unions still play a significant role. Thus, the Dutch business system is not as laissez-faire as in Canada or in the United States, but is more free-market than it used to be in response to the collapse of their traditional welfare state.

---

## Introduction

Throughout the world, many countries succeed by employing different methods of business operations, systems, and approaches. In particular, the Netherlands

---

has shown exemplary success based on the Human Development Index, as it is placed as the tenth most developed and desirable place to live in the world (United Nations Development Programme, 2006, p. 299). One method of analyzing this success is based upon Whitley's Business System's approach (Whitley, 1997). This paper provides a brief overview of Whitley's Business System's approach, and analyzes the Dutch business system based on three main characteristics of his model, including: the nature of market organization, the influences of the political system, and the influences of the labour system. Moreover, it attempts to explain the mutual relations between the three aforementioned components to determine the overall type of business system that has developed in the Netherlands in general. In turn, executives, managers, and policy makers could use this information for a variety of purposes.

### Benefactors of the Information

The information collected and analyzed regarding the nature of the Dutch Business System will be useful for a variety of purposes and benefactors. For instance, corporations wishing to expand operations into the Netherlands will be better able to optimize their organizational structure and human resource policies, which will lead to higher effectiveness, efficiency, and profitability. It will also allow them to assess if expanding into the Netherlands is suitable for their business strategy given the national business climate. Additionally, public policy makers around the world should be able to assess the effectiveness of the Dutch system in comparison to their own national systems based on the results of this analysis, which will allow for a greater understanding of which business practices to promote and implement. Even local Dutch companies could benefit from this information because it should provide an overall benchmark for assessing their current performance and structure in comparison to the business practices and structures that the Dutch espouse in general. As such, the information

will serve as an evaluative tool for assessing the effectiveness of the Dutch business system and its overall suitability for businesses considering expansion into the Dutch market.

### Whitley's Business Systems Approach

Whitley's Business Systems approach is based on the notion that "business systems are distinctive ways of organizing economic activities that develop interdependently with dominant institutions in market economies." (Whitley, 1997, p.173). In particular, he breaks them down into three main categories, including: the nature of firms as economic actors, the nature of market relations between firms, and the nature of coordination and control systems within firms (Whitley, 1997, p.173). He also identifies four primary influences on business systems including: the specified region's cultural system, political system, financial system, and labour system (Whitley, 1997, p.181-184). This paper analyzes the relationship between the nature of market relations between firms, or, in other words, the Netherlands' market organization, in combination with the two institutional influences of the Netherlands' political system and labour system, because of the constraints of too much information otherwise. The nature of the Netherlands' market organization can be further broken down into the extent to which Dutch firms form obligational networks and alliances, the degree to which they collectively organize within industries and sectors, and "the extent to which transactions are governed by informal, collective sanctions" (cf. Whitley, 1997, p.175). Whereas, the political system is largely based on the degree of state integration in the business system and the state's commitment to economic development and risk sharing with private enterprises (Whitley, 1997, p.183). Lastly, the labour system is based on the degree of dual or unitary education, the degree to which the labour markets are regulated, and the power and structure of trade unions and occupational associations (Whitley, 1997,

p.183). Each of these components may be mutually related to provide an overview of the Dutch Business System in general, which, in turn, may assist managers and policy makers in making effective business decisions for operations in the Netherlands.

## The Dutch Nature of Market Organization

The nature of the market organization in the Netherlands is somewhat of a difficult issue to address because of the relatively unique attitude of the Dutch in this respect. For instance, despite the fact that the Dutch are tied with Canada for being the fourth most individualistic nation out of the 50 nations analyzed by Hofstede (2003), they are still considered to ascribe to the values of a welfare state. As such, the Dutch business system is characterized by firms that collectively organize within certain industries and sectors for the purpose of satisfying corporate business interests, and the well being of society is enforced through government intervention and public policy (EuroFound, 2007). This theme of co-operation is prominent throughout other aspects of Dutch market organization and their overall business systems approach as well. This is well exemplified by the notion that firms often engage in informal transactions with the understanding that co-operation and trust are essential for corporate success, and that explicit documentation is not needed for all business agreements (EuroFound, 2007). Perhaps most fundamental to the Dutch nature of market organization is the extent to which they ascribe to the values of a corporatist nation. By this, it is meant that top managers from organizations and corporations within specific sectors will meet and discuss formal aspects of business affecting their sector such as wages and prices (EuroFound, 2007). In a conversation with Katharina Ernst (2007), a Dutch business student, many of these conclusions about the nature of market organization in the Netherlands were confirmed based on personal experiences and teachings at the University of Maastricht.

It could therefore be said that through the process of collaboration and effective teamwork, Dutch companies and organizations collectively organize within industries to promote their own self-interests and the betterment of their sector in general.

## The Dutch Political System

The Dutch political system is based on the multi-party approach and has undergone significant changes with regards to voter orientation in response to high unemployment rates and budget deficits in the late 1980s (Mooij, 2006). This change in political orientation was exemplified by government deregulation of key industries, lowered taxes, and lower social benefits (Mooij, 2006). However, in comparison to most countries around the world, the Netherlands still represents a strong welfare state that focuses on the balance of maintaining corporate interests while ensuring a sufficient social security net (Mooij, 2006). Another definition of this type of political system was coined by Schmidt (2002, p.113-114) as "managed capitalist," because of the state's significant commitment to economic development, and because of the somewhat long-term outlook towards economic growth.

In particular, this is accomplished through a multi-party electoral system that, like the nature of market organization, relies on alliances and co-operation to succeed. In comparison to the United States, for instance, where only two key parties vie for electoral supremacy, the Dutch political system is characterized by multiple parties, where historically, it is rare for one party to get much more than 35% of the popular vote (Schofield, 1998). As such, alliances between parties must be made to form majority governments, where the party with the most number of seats is not necessarily used in forming a majority government unless it is part of the alliance holding more than half of the available seats (Schofield, 1998). More specifically, the three dominant parties of the last two decades in the Netherlands have been the Christen Democratisch Appel

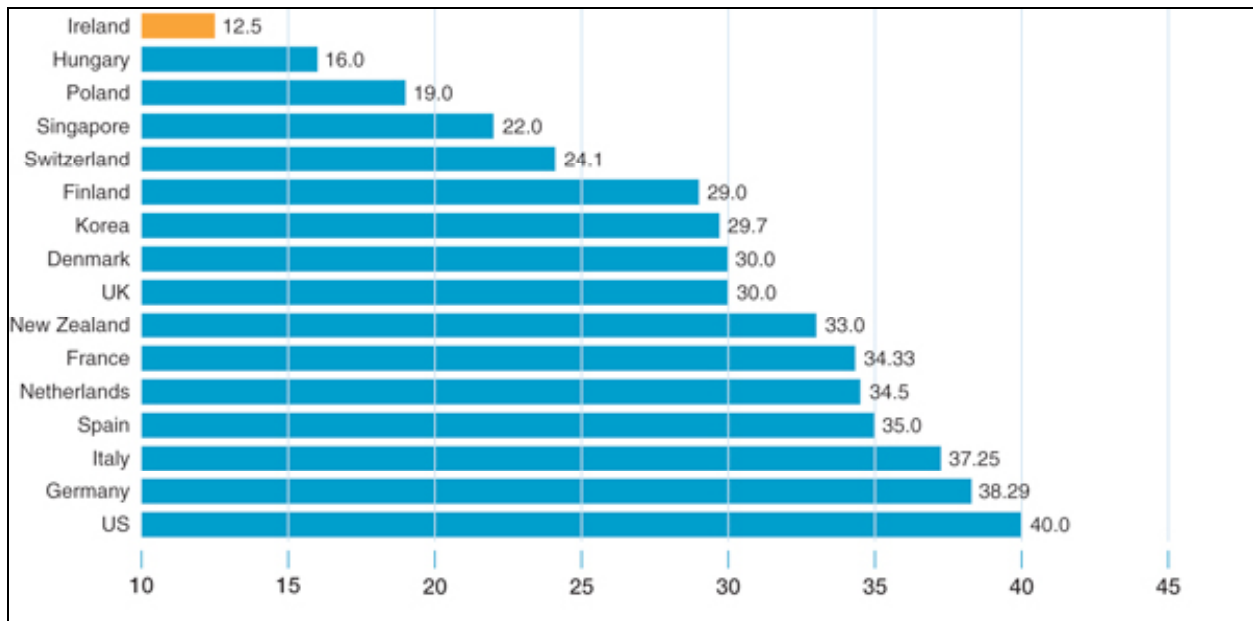
(CDA), the Partij van de Arbeid (PvdA), and the Volkspartij voor Vrijheid en Democratie (VVD) (Netherlands Election Results, 2007). The CDA currently holds the most seats and holds the most centrist view between the three. During the periods of greatest economic reform however, the VVD grew in popularity substantially as it espouses the most conservative right wing values of the main parties in the Netherlands (Netherlands Election Results, 2007). This composition of the Dutch political system, and its transition to a more capitalist mentality, has a significant role in determining the nature of the Dutch political system.

Although less than in previous years, the Dutch government is still integrated within the Dutch business system and is heavily committed to Dutch economic development. This is, in part, accomplished through the Netherlands' progressive tax system that collects significantly more taxes per capita than other individualistic nations, such as Canada and the United States (Figures 1 – 3, Taxation in Europe and the Netherlands). For instance, tax rates for the top income bracket in the Netherlands were as high as 72% in the 1980s, and even after reform to more capitalist mentalities, currently sit at 52% for those making more than 52 000 Euros per year (National Competitiveness Council, 2007). This is substantially higher than the approximate amount of 40% collected in Canada in an even higher top income bracket. Other notable taxes include the second lowest corporate tax rate in Europe at

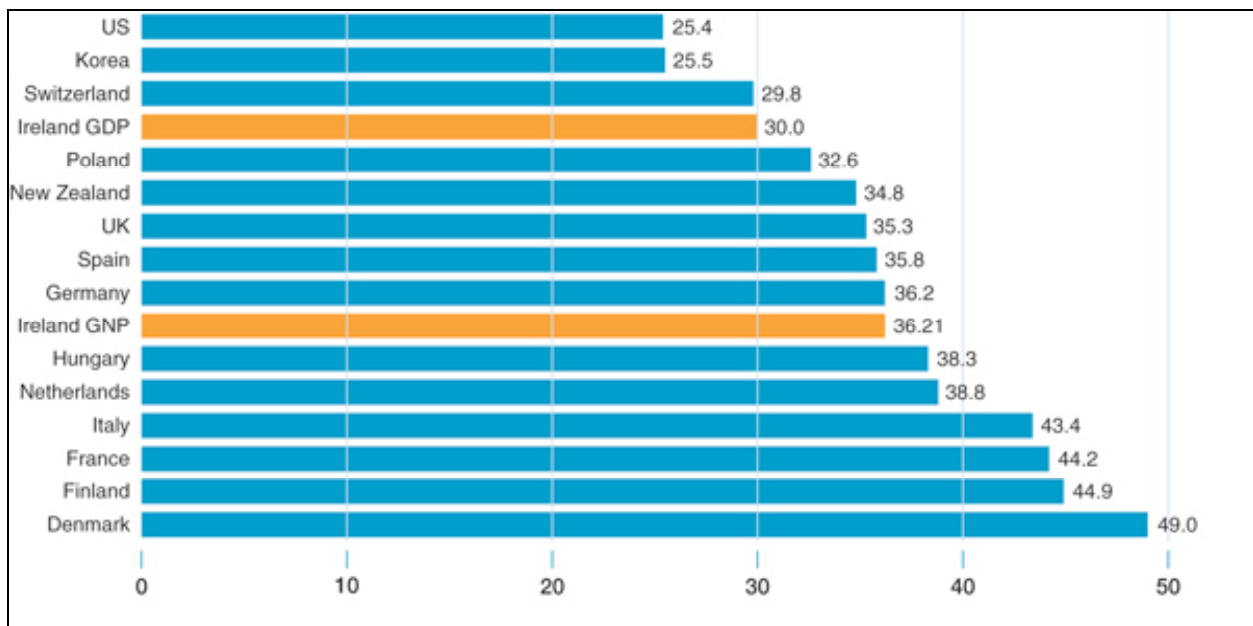
34.5% for profits of more than 27,000 Euros and 29.5% for those making less than that (National Competitiveness Council, 2007). This reinforces the concept that the Dutch espouse the importance of corporate development and economic success for the achievement of overall societal well being because lower taxes are associated with greater economic development. As will be discussed later in this paper, the Dutch political parties use much of the taxes collected to support higher education, with the understanding that they will aid the business system by developing a competitive advantage through providing a high level of human capital. Other explanations for expenditures of this nature reside in the fact that the Dutch strongly believe in egalitarian principles, which are the foundation of most welfare states worldwide. As such, providing essential services such as universal higher education at minimal costs, universal healthcare, adequate transportation, and other such services, is necessary and fair for a well functioning society. This high level of taxation to fund these expenditures has created strong voter participation in the Dutch political process, with voter participation rates consistently hovering around 80%, because citizens are clearly interested in the effective use of their tax dollars given how much is collected (Netherlands Election Results, 2007). As such, changing tax policies have had an important influence on the political system, and vice versa.

Taxation in Europe and the Netherlands (National Competitiveness Council, 2007)

**Figure 1** – Standard Corporate Tax Rate (%), 2003



**Figure 2** – Total Tax Revenue (%) of GDP, 2003



**Figure 3 – Decreasing Taxes (2000 – 2005)**

**If You Can't Beat 'Em ...**  
 Combined national and local rates of tax on corporate income

	2005	2000
Ireland	12.5%	24.0%
Hungary	16.0	18.0
Poland	19.0	28.0
Slovakia	19.0	29.0
U.K.	30.0	30.0
Netherlands	31.5	35.0
Belgium	34.0	40.2
France	34.3	37.8
Italy	37.2	41.2
<b>Germany</b>	<b>38.3*</b>	<b>52.0</b>
U.S.	39.4	39.4
Japan	40.9	40.9

\* Current rate, which consists of federal and local taxes. Gerhard Schröder proposes to cut the federal part to 19% from 25%, making a combined federal and local rate that would average about 32%.  
 Source: KPMG; OECD

According to Ernst (2007), the deregulation of key industries and increased incentives for entrepreneurial start-ups has brought forth the somewhat subjective advantage of increased choice in the marketplace. For example, under a highly regulated welfare state economy, consumers are only given limited choice for products in specific categories because market entrance by competitors is stifled by high tax rates and import tariffs, and because large state-affiliated competitors are able to better compete on price for similar products. This is mostly because of the cost savings associated with developing economies of scale. Additionally, increased consumer choice is associated with increased competition because companies are better able to target specific niche categories that would not normally be addressed, which, in turn, results in a higher societal well being because of more appropriate product selection.

### The Dutch Labour System

The Dutch labour system is characterized by many of the values espoused within the Dutch political system and nature of market organization. One of the most important elements of the Dutch labour system is that it follows a certain form of collective bargaining standards, as is common within most corporatist nations. In particular, there are more than one thousand sectoral and company collective agreements in the Netherlands, which in many cases, are more important than statute law because of their implications on wages and working conditions that are not explicitly written out in statute law (International Labour Organization, 2002). Other aspects of collective agreements often focus on issues of equality of opportunity including: “affirmative action, part-time work, pregnancy, childbirth and parental leave, childcare facilities, sexual harassment and remuneration (International Labour Organization, 2002). As such, the power and structure of trade unions in the Netherlands is considerable, and much of the regulation of labour markets for specific sectors is done within trade unions via collective agreements. More specifically, the Netherlands is reported to have union membership rates hovering around the twenty five percent mark, which is comparable to the United Kingdom (EIRO, 2004). However, as the Netherlands has become more capitalistic, trade union rates have begun to drop (EIRO, 2004), which has required some government integration to ensure that labour markets are regulated fairly and effectively. Additionally, in accordance with these capitalistic values, lower taxes, and decreasing trade union participation, wage compression within the Netherlands has decreased as well, although it is still significant compared to most other nations with the exception of those within the European Union. One might suggest that the main influence behind this is that much of the populace no longer agrees with the advantages of absolute solidaristic pay policies and the inefficiencies associated with having an extremely equitable working

environment. The Netherlands' original wage compression and solidaristic pay policies referred to egalitarian philosophies that organized workers' pay structures based on the premise of equal pay for work of equal value (Schulten, 2002, p.172-p.173). The result was a wage regulation structure that paid highly educated workers, such as lawyers and economists less, and blue-collar workers more, such as plumbers and electricians. From an economic perspective, inefficiencies were created because the associated collective bargaining within trade unions resulted in base wages that were far above equilibrium values.

Another important consideration concerning the Dutch labour system is the extent to which it represents a dualistic or unitary structure. By a dualistic educational system, Whitley is referring to a system that strongly correlates with developing occupationally oriented professional skills as opposed to a unitary educational system that corresponds to strict academic training and limited integration with the work force (Whitley, 1997, p.182-183). Based on this, the Netherlands is considerably more unitary than dualistic, and this has created some interesting dynamics in the workforce. Most notable is the current problem of underemployment in the Netherlands (Graaf, Utree, & Maarten, 2001, p.5). The main problem behind this lies within the fact that since the government so strongly subsidizes higher education with the intent of increasing human capital and providing equitable possibilities for all individuals, the Netherlands has many individuals with degrees that are unable to find work in their specified fields (Graaf, Utree, & Marten, 2001, p.5). As a result, these individuals end up finding work that pays less than their qualifications would suggest they should make elsewhere in developed countries. Another important influence on this is that unitary educational systems espouse the values of traditional education, and as such, many students graduate without any relevant work experience, but rather with a depth of knowledge in traditional theory. This has sparked the beginnings of a dualistic

educational program, which offers internships and more business specific training in certain instances (Ernst, 2007). However, most students still do not participate in these internships because of limited availability and high competition (Ernst, 2007).

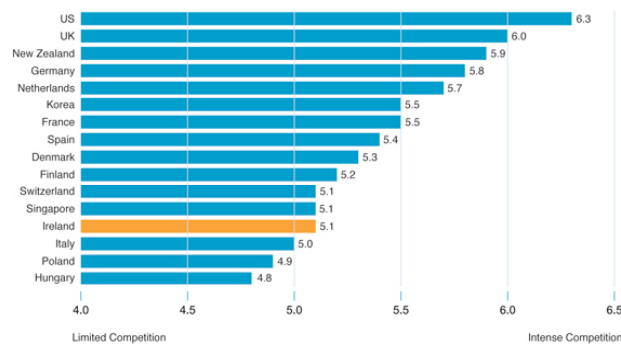
## Characterizing the Dutch Business System

It is clear that the Dutch business system still advocates many of the values of its traditional welfare state; however, in adopting stronger capitalist mentalities, many elements of the business system have begun to shift, which, in turn, is changing the structure of the entire business system. For instance, as tax rates have begun to drop in response to the election of more conservative political parties, traditional egalitarian values have been jeopardized as lower tax programs denote less government spending on social programs, and less state commitment to economic development. Accordingly, in adopting a lower corporate tax structure, the Dutch are inviting foreign investment and are encouraging entrepreneurial start-ups, which has the consequence of reducing the collaborative, informal element of market organization, and increasing overall competitiveness (Refer to Figure 4, Intensity of Local Competition, 2004). In turn, companies are opting out of collective bargaining procedures, which is associated with lower union membership rates and less egalitarian wage compression philosophies. With less co-operative bargaining, and lower trade union participation rates, the power of trade unions is beginning to slightly diminish. However, in consideration of all of these facts, it is important to note that the transitional phase has begun to wane to some extent, and that the overall Dutch business system is representative of a collaborative, corporatist structure, where trade unions still play an important role despite lowering participation rates. As such, the Dutch business system is not as free-market as the United States and Canada, but yet promotes the separation of industry and government more so than much of Europe in

response to the collapse of their welfare state in the late 1980s.

### Increased Competition in the Netherlands (National Competitiveness Council, 2007)

**Figure 4** – Intensity of Local Competition, 2004 (Scale 1-7)



### Further Analysis: Implications for Executives, Managers, and Policy Makers

There are many inferences that business executives, managers, and policy makers can make from this information. For instance, based on the substantial role of collective bargaining in the Netherlands, executives wishing to expand business into the Netherlands must be aware that pre-determined wages and working conditions exist based on specific professions, and that lobbying the government is largely ineffective for changing this policy. Instead, working collaboratively with trade unions and occupational associations is much more likely to produce efficient and effective results. Also, with regards to taxation, businesses should understand that although the Netherlands is taxed more heavily than many regions in the world, it has a capable workforce and is currently decreasing tax rates, and could thus be an appropriate headquarters for European operations.

Another possibility for consideration is that since the Netherlands has only recently been exposed to more consumer choice as a result of more capitalist mentalities, there may be

interesting marketing implications. Based on personal experiences, and an interview with Ernst (2007), many Dutch are strongly impacted by brand recognition. However, because new products are becoming more readily available through the reformed business system, consumers are keen to purchase products they have not yet tried before. This creates an interesting opportunity to quickly establish a businesses' product range through branding. As in the transitional stage of the economy, businesses could achieve first mover advantages.

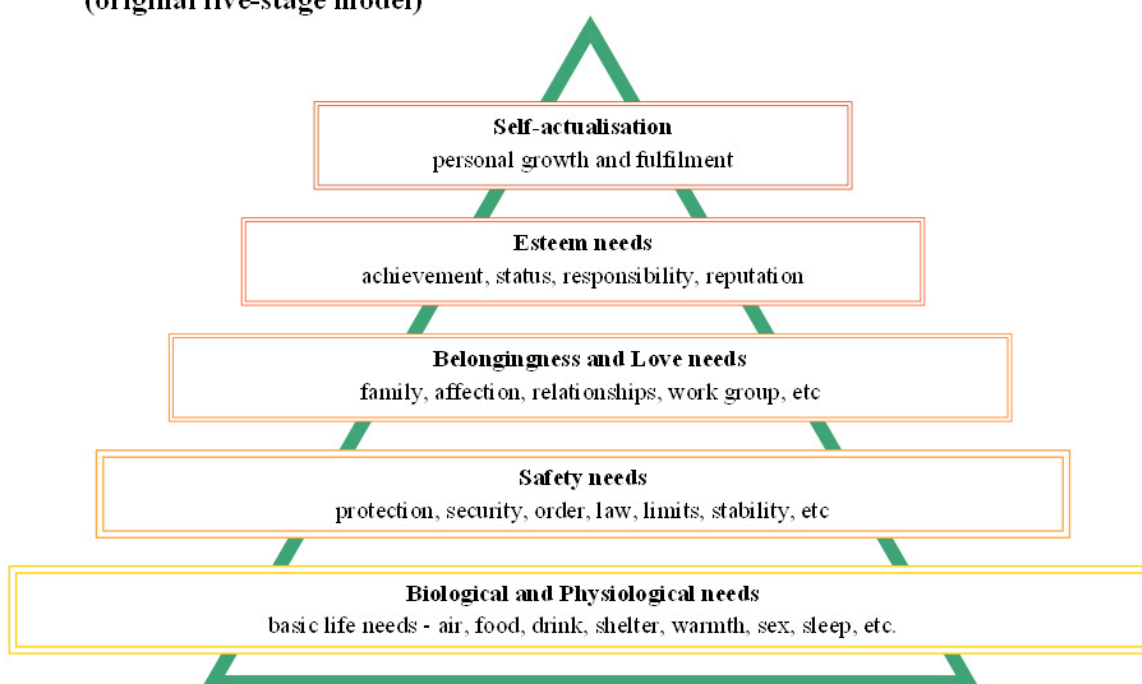
With regards to organizational behavior, it is important that businesses offer individual incentives to address the Dutch orientation towards individualism. This could be offered through financial incentives for exceptional individual work, or quite simply through recognizing one's efforts through awards and other means, such as increased vacation time. This, in part, depends on one's needs, as is well exemplified by Maslow's Hierarchy of Needs (Refer to Figure 5), which suggests that financially independent individuals require self-actualization and poorer individuals require the basic needs to survive, which could be satisfied through monetary compensation (Sharma, 1995). However, on the other hand, the Dutch attitude towards egalitarianism reinforces the importance of establishing a fair work environment that is based on trust, honesty, and treating others with integrity. This directly coincides with the notion that the Dutch are quite deliberate in ensuring that all opinions are heard and understood in collective bargaining and other work negotiations. Furthermore, the power and structure of trade unions in the Netherlands means that businesses need to pay special attention to meeting the desires and established working conditions for their employees (via collective agreements), in order to avoid strikes, and to ensure that the business remains competitive in hiring the best talent. Moreover, human resource policies that promote a more autonomous work environment are likely best for most scenarios, with the exception of certain instances of work in the trades, and other

related jobs, because of the high level of human capital in the Netherlands. For instance, based on the differences between motivational theories X and Y, there are two different types of individuals (Sharma, 1995). Motivation X suggests that some people inherently dislike work, and that these people prefer to be controlled to achieve objectives, while Motivation Y presumes that people learn to seek and accept responsibility and

will exercise self-direction towards their work (Sharma, 1995). When a highly proportionate amount of a populace is educated, it might suggest that these individuals are self-motivated, and therefore follow the principles of theory Y as opposed to theory X. Hence; managers should develop human resource policies that are less coercive in these instances.

Figure 5 – Maslow's Hierarchy of Needs (Original Five Stage Model)

**Maslow's Hierarchy of Needs  
(original five-stage model)**



Furthermore, with regards to the overall framework for assessing the Dutch business systems approach, there are many observations that can be made that will aid policy makers. For instance, the Dutch well established the ability to lower unemployment rates through a revamping of fiscal and monetary policy at the political level in a re-configuration of their initial business system to better adapt to the current global environment. Other European countries, such as Sweden, followed this approach as well. This provides a benchmark for other nations worldwide as to a possible option for tackling

the issue of rising unemployment rates. However, the mutual relations between the different aspects of the business components suggest that policy makers should be wary when attempting to change policy because all aspects of the business system will be affected accordingly. Therefore, even if policy implementation only aims to address one issue area of a business system, such as taxation, other elements will be affected as well because of their mutual relations.

## Conclusions

In conclusion, the Netherlands is an interesting application of Whitley's Business Systems approach because of its somewhat unique welfare state, and its success in making the Netherlands one of the best countries to live worldwide according to the United Nations Human Development Programme (2007). After a close analysis of the Dutch market organization, political system, and labour system, as they are described by Whitley, it is clear that the Netherlands' Welfare state is a business system in transition. In providing an overview of the Dutch welfare state prior to the economic reforms of the 1980s and 1990s, the Netherlands mutually organized its market organization, political system, and labour system based on the ideologies of co-operation and egalitarianism. As such, its market organization was based on obligational networks and alliances with collective organization between industries and sectors where transactions were, to a great extent, governed by informal collective sanctions. The Dutch political system had high levels of state integration and autonomy and a large state commitment to long-term economic development through the recognition that industry was a vital aspect to success. This was financed through means such as high levels of taxation. Lastly, the labour system was exemplified by a unitary educational system, and powerful trade unions and occupational associations that informally regulated the labour market. However, since the economic reforms, there has been an evolution in all three of these components because of their mutual relationship.

In particular, the more conservative approach implemented by the Dutch government started the transitional phase for the Netherlands' business system. This is well exemplified by the income tax restructuring that promoted the development of privatization of previously public sectors and an increased concentration of small to medium sized enterprises in the economy. As

such, it slightly altered the original co-operative and egalitarian philosophies originally existing in the Netherlands to be more competitive. In turn, this slightly lowered levels of state integration and state commitment to economic development. This also affected the labour system because the Dutch have begun to implement a more dualistic educational system in light of concerns of underemployment and inexperience, and because they have also decreased the power of trade unions through trends towards individual firms allocating wages as opposed to collective bargaining. The mutual relations are also well represented in terms of the altered political systems affect on the nature of market organization. Firms are now less likely to form obligational networks and are less likely to engage in informal collective agreements because of increased competition and the need to innovate individually to succeed. Essentially, the promotion of a more conservative political system in the Netherlands has slightly altered the entire business system because of the corresponding mutual relationships of its components. As such, the Dutch business system may be defined as co-operative and egalitarian but moving towards a more competitive market-oriented approach in which its affected components are mutually related.

## References

- Ernst, K. (2007) Personal Interview, November 31, 2007.
- European Foundation for the Improvement of Living and Working Conditions [EuroFound] (2007) *Netherlands – Collective Bargaining*, <http://www.eurofound.europa.eu/emire/NETHERLANDS/COLLECTIVEBARGAINING-NL.htm>, (accessed 6 December 2007).
- European Foundation for the Improvement of Living and Working Conditions [EuroFound] (2007), *Netherlands – Corporatism* <http://www.eurofound.europa.eu/emire/NETHERLANDS/CORPORATISM-NL.htm>, (accessed 6 December 2007).
- European Industrial Relations Observatory On-Line [EIRO] (2004), *Trade Union Membership 1993-2003*,

- <http://www.eurofound.europa.eu/eiro/2004/03/update/tn0403105u.htm>, (accessed 6 December 2007).
- Feinstein, C. (1999) 'Structural change in the developed countries during the twentieth century', *Oxford Review of Economic Policy*.
- Ferris, J. (1991) 'Competition and Regulation in Higher Education: A Comparison of the Netherlands and the United States', *Higher Education* 22: 93-108.
- Graaf, P., Ultee W., and Maarten, H. (2001) 'Trends in the Occupational Returns to Educational Credentials in the Dutch Labor Market: Changes in Structures and in the Association?', *Research Centre for Education and the Labor Market*.
- Hofstede, G. (2003) *Cultural Dimensions*, <http://www.geert-hofstede.com/>.
- International Labour Organization (2002) *Netherlands*, <http://www.ilo.org>, (accessed 31 November 2007).
- Mooij, R. (2006) 'Reinventing the Welfare State', *Central Planbureau: Netherlands Bureau for Economic Policy Analysis*.
- National Competitiveness Council (2007), Taxation and Regulation. *Annual Competitiveness Report 2005*, [http://www.forfas.ie/ncc/reports/ncc\\_annual\\_05/ch04/ch04\\_01.html](http://www.forfas.ie/ncc/reports/ncc_annual_05/ch04/ch04_01.html). (accessed 31 November 2007)
- Netherlands Election Results (2007), *Dutch Election Results Since 1918*, [http://www.nlverkiezingen.com/index\\_en.html](http://www.nlverkiezingen.com/index_en.html), (accessed 31 November 2007).
- Schmidt, V. A. (2002), *The Futures of European Capitalism*, Oxford University Press: Oxford, 107-146.
- Schofield et. al (1998), Multiparty Electoral Competition in the Netherlands and Germany: A Model Based on Multinomial Probit, *Public Choice* 97: 257-293.
- Schulten, T. (2002) A European Solidaristic Wage Policy?, *European Journal of Industrial Relations* 8(2):173-196.
- Sharma, S. (1995) *Motivation: Hierarchy of Needs Theory*, <http://choo.fis.utoronto.ca/FIS/Courses/LIS1230/LIS1230sharma/motive1.htm>. (accessed 6 December, 2007).
- Sharma, S. (1995) *Motivation: Theory X and Y*, <http://choo.fis.utoronto.ca/FIS/Courses/LIS1230/LIS1230sharma/motive2.htm>. (accessed 6 December 2007).
- United Nations Development Programme (2006) *Human Development Report 2006*, New York: Palgrave Macmillan.
- Whitley, R. (1997) Business systems, in: Arndt Sorge & Malcolm Warner (eds.), *The IEBM Handbook of Organizational Behaviour*, International Thomson Business Press: London, 173-185.

# Swensen's Must Engage in Market Penetration and Diversification to Retain its Leading Position in the Thailand Market

Kailee Douglas

## Abstract

This paper will determine ways in which Swensen's Ice Cream Parlour can retain its leading position in the premium ice cream market of Thailand. Analysis of the company, market, and customers determined that Swensen's must engage in market penetration and diversification growth strategies. Market penetration includes opening university locations, promoting beverages, engaging in customer relationship programs, increasing the experience, and reducing the delivery gap. Diversification growth strategies include offering souvenirs, food items and media. In conclusion, these recommendations will allow managers to improve the company's position against competitors, and maintain Swensen's as the most popular destination for all ice cream lovers.

---

## Company Background

Swensen's Ice Cream Parlour was established in 1948 in San Francisco by Earle Swensen, and has grown into a global chain of over 300 ice cream outlets. Its international mission is "To be the Number 1 Franchisor in the World offering the ultimate ice cream dessert experience that will put a smile on every member of the family's face, both young and old." The company has evolved into two offerings, Swensen's Ice Cream Parlor and Swensen's Restaurant, although only Swensen's Ice Cream Parlor is only available in Thailand.

Today Swensen's Inc. is owned by the International Franchise Corporation of Ontario, Canada.<sup>1</sup> In Thailand, the Minor Food Group became the first Swensen's franchisee for the country twenty years ago. With over 90 outlets, it is the country's largest premium ice cream concept, and holds over 75% of the premium ice cream market. Minor Food Group also owns

---

<sup>1</sup> CoolBrands International Inc. *Form 6-K*. December 2005, Edgar Online. <http://sec.edgar-online.com/2005/12/29/0000950117-05-004950/Section5.asp> (accessed 1 December 2007).

---

The Pizza Company, Sizzler Restaurant, Burger King and Dairy Queen in Thailand.<sup>2</sup>

## Analysis

### 1. Marketing Mix

#### A) Product

The main products of Swensen's Ice Cream Parlour are ice cream-based desserts and beverages. There are over 180 flavours of ice cream, sundaes, toppings, and ice cream cakes offered. Recently Swensen's introduced Yogen Fruz, a low-fat ice cream from Canada to target health conscious consumers in Thailand.<sup>3</sup> Refer to Figure 1 for a sample Swensen's menu.

#### B) Price

Swensen's focuses its strategy on quality and quantity, and makes an effort to be a premium brand that provides ice cream at a reasonable price. The prices range from 35 baht for one scoop of ice cream to over 250 baht for large sundaes. Compared to other premium ice cream companies, Swensen's is priced at the lower-end to target the teenage market as well.

#### C) Placement

Swensen's has many channels to reach customers: full-service parlours, kiosks, internet orders, and phone orders. The store channels are found in malls and allow Swensen's to provide personalized service; customers can sample flavors; and most importantly, customers can enjoy the social experience. In addition to the store channel, Swensen's also has an internet channel and a phone line. In select areas customers can order Swensen's ice cream cake online or by phone for free delivery. Swensen's tries to reach customers that are not able to visit the

ice cream parlours by selling through kiosks, or small containers of ice cream at certain higher-end restaurants. The Pizza Company also asks customers if they would like to add Swensen's ice cream to their pizza order.

#### D) Promotion

Swensen's has a variety of ways to promote and advertise its products and brand name effectively. Advertising is done through TV commercials, website, magazines, flyers, and store banners. Promotional activities include reduced prices for festive ice cream, and a Privilege Card where at 129 baht, a customer can receive discounts from any Minor Food Group food company for a year. Swensen's also distributes coupons for discounts and offers a Swensen's gift voucher.

**Figure 1-** Sample Swensen's menu



<sup>2</sup> Minor Food Group Official website. [www.minorfoodgroup.com](http://www.minorfoodgroup.com) (accessed December 14, 2007).

<sup>3</sup> Esmerk. *Thailand: New Product, More Stores from Swensen's*. Frozen B2B. December 2005. <http://www.frozenb2b.com/News/Default.aspx?id=News&NewsNo=620#em5NZR82> (accessed 1 December 2007).

## 2. SWOT Analysis

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>-brand image</li> <li>-festive packaging to match occasion</li> <li>-promotes special flavours for seasons or holidays</li> <li>-order online or by phone</li> <li>-free delivery</li> <li>-support from franchisor</li> <li>-Minor Food Group as supplier</li> </ul> <p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>-university locations</li> <li>-food development</li> <li>-Thailand's warm climate</li> <li>-customer loyalty programs</li> <li>-diversification</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>-high investment cost for franchisee</li> <li>-10 year contract with franchisor</li> <li>-poor customer service</li> </ul> <p><b>Threats</b></p> <ul style="list-style-type: none"> <li>-Thailand market saturated</li> <li>-competitors move into premium market</li> </ul>
---	--

## 3. Competitive Analysis

The competitor analysis can be categorized into two groups: direct and indirect competitors. Direct competitors include the retailers that specialize in premium ice cream, such as Haagen-Dazs and The Cream & Fudge Factory. Baskin Robbins has recently moved into the premium ice cream market, and copied Swensen's promotions for certain events and holidays.<sup>4</sup> Dairy Queen is another close competitor that carries a large variety of ice cream desserts. Indirect competitors include the fast-food chains McDonald's, Burger King and KFC, all of which provide some small assortment of ice cream.

## 4. Segmenting, Targeting and Positioning

### A) Segmenting

Swensen's relies on geodemographic and lifestyle segmentation to identify its main customers. Geodemographic characteristics include families and groups of friends that visit malls and can afford premium ice cream.

<sup>4</sup> Jitpleecheep, S. *Nestle Takes on Swensen's in Top Segment*. June 2000. <http://www.siamfuture.com/ThaiNews/ThNewsTxt.asp?tid=168> (accessed 1 December 2007).

The lifestyle of this segment is recreational consumption - visiting the ice cream parlour for the experience.

### B) Targeting

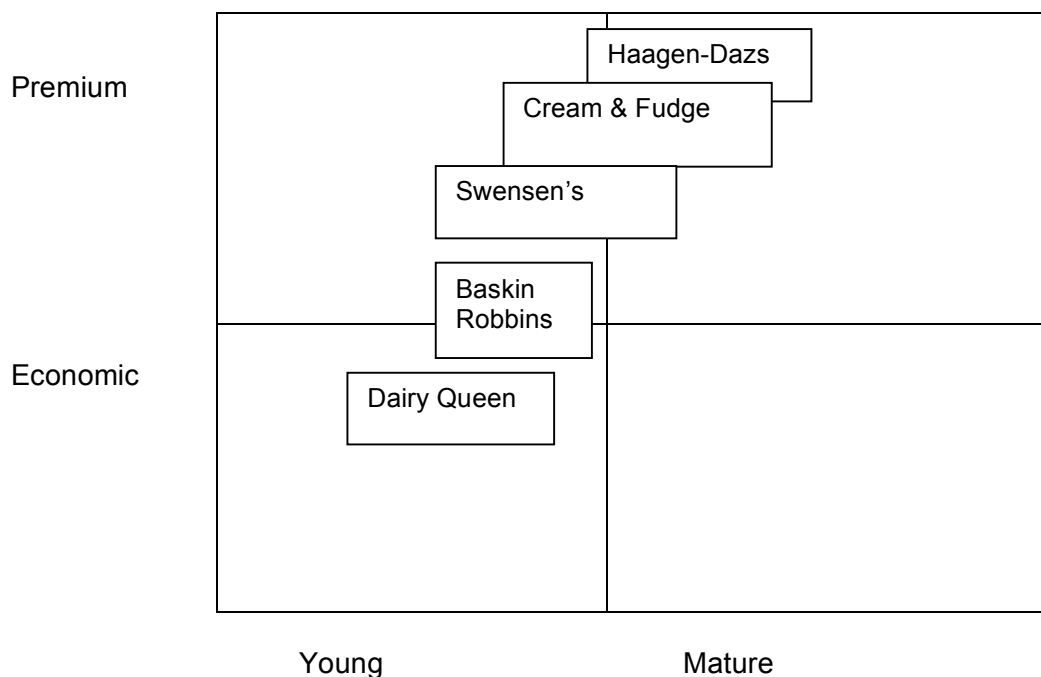
As identified in their mission statement, Swensen's caters to all members of the family. The company is now focusing its strategy on targeting the new generation by updating its storefront, while their secondary target market is family-oriented community.

### C) Positioning

Positioning must be based on four concepts: clarity, consistency, credibility, and competitiveness.<sup>5</sup> Swensen's competitive advantage comes from the innovative sundaes, great locations, value for money, social experience and established brand name.

<sup>5</sup> Bruce, M., Moore, C. and Birtwistle, G. (2004) *International Retail Marketing: A Case Study Approach*, Elsevier Butterworth-Heinemann: Burlington, 190.

**Figure 2:** Swensen's positioning as compared to its competitors



## 5. Customer Buying Behavior

When consumers engage in a buying process, there are three types of buying decisions: extended problem solving, limited problem solving, and habitual decision solving.<sup>6</sup> Swensen's consumers engage in habitual decision making because they give very little thought to visiting the store, mainly due to brand loyalty. Swensen's creates loyalty by providing cheap promotions and convenient locations in many malls across Thailand.

By selling the experience as well as the dessert, Swensen's attracts mainly recreational customers. It is shown that the customer's motivation orientation regulates the effect of arousal on pleasantness. Recreational customers are seeking intrinsic rewards, such as the atmosphere and social

experience.<sup>7</sup> Therefore, recreational customers enjoy high arousal and high-energy environments. Swensen's creates high arousal with bright lighting, busy seating areas, and background music. Other colourful advertisements and pictures are present to increase arousal. Task-orientated customers that are just seeking the extrinsic reward of the product would find the high-energy environment distracting and that it takes their energy away from the task of obtaining the dessert. Swensen's satisfies these task-oriented customers by allowing them to order at the counter and take-away.

## 6. Market Evaluation

### A) Industry Overview

Thailand ice cream producers are expanding with new innovative products, further establishing brand names, and expanding

<sup>6</sup> Hasty, R. and Reardon, J. (1997) *Retail Management*. (McGraw-Hill: New York), 106

<sup>7</sup> Kaltcheva, V. and Weitz, B. (2006) 'When Should a Retailer Create an Exciting Store Environment?' *Journal of Marketing*, 70(110).

their distribution channels. Thailand is emerging as an ice cream hub due to several regional factors. Due to Thailand's warm weather all year round, the country is motivated to produce ice cream to serve the continual demand. A new trend in producing healthy ice cream mainly made of fruits leads to the demand of more raw materials, which Thailand can supply. Furthermore, Thailand has many producers and suppliers to serve the growing demand of ice cream in neighbouring countries.

In addition to operating Swensen's parlors, the company owns its ice cream factories to assure a consistent supply of high quality products for its growing network. Minor Dairy and Minor Cheese, wholly owned subsidiaries of the Minor Food Group, were founded to provide a reliable supply of cheese and dairy to the Thai and international markets. Minor Dairy produces a variety of ice cream products for Swensen's, Dairy Queen and Burger King.<sup>8</sup>

#### B) Growth Opportunities

Swensen's has a global focus and is already established in North America, Asia and South America. While continuing to grow in the mature markets, the company is looking towards aggressive expansion in Central America, the Middle East and Europe.

In 2006, Swensen's business plan was to capture an 85% share of the 1.8 billion baht premium ice cream market in Thailand, and opened 10 company-run outlets and franchised another 20 outlets in the country.<sup>9</sup> While Swensen's (Thai) Co Ltd is adding more franchises in the saturated Thai market, it has a market expansion growth strategy focused on having 250 outlets across Asia by 2010.<sup>10</sup> The company holds a license to

operate the American ice cream chain in 16 Asian countries, and most outlets will be operated under franchise format.

## Recommendations

### 1. Market Penetration

#### A) Location

Swensen's currently is the leading company in a saturated Thailand ice cream market but has no plans to stop opening more outlets. When selecting the location, it is important to consider the population characteristics, such as size, age, income level and buying needs. Other characteristics include competition, accessibility, banking, advertising, high demand, labour force, and legal issues.<sup>11</sup> Swensen's is currently located in malls, and targets all ice cream lovers.

It is recommended that Swensen's open new locations close to universities as young adults attending post-secondary can afford premium ice cream and enjoy social experiences. Locations near primary and middle schools could target younger markets, but children usually rely on parents to buy ice cream, and many cannot leave the schoolyard during breaks.

A study conducted at Mahidol University International College indicated that a high majority of students visit Swensen's at least once a month, and spend between 150 and 200 baht on themselves each visit. Please refer to Figure 2 for a copy of the survey. When asked how often they would visit a Swensen's across the street from Mahidol, responses showed the number of visits per month would double. University locations satisfy the issues of accessibility, banking, advertising, demand and labour force. There are ATMs located near all universities, and the company would have great selection of

<sup>8</sup> Minor Food Group Official website, [www.minorfoodgroup.com](http://www.minorfoodgroup.com) (accessed 12 November 2007).

<sup>9</sup> Esmerk. *Thailand: New Product, More Stores from Swensen's*. Frozen B2B. December 2005. <http://www.frozenb2b.com/News/Default.aspx?id=News&NewsNo=620#em5NZR82> (accessed 1 December 2007).

<sup>10</sup> Market New Zealand. *Food and Beverage: Global Update*. December 2006. Market New

Zealand. <http://www.marketnewzealand.com/mnz/Services/GlobalAnalysis/14423/16416.aspx> (accessed 1 December 2007).

<sup>11</sup> Diamond, J. and Pintel, P. (1996) *Retail Buying*, Prentice Hall: New Jersey, 132-133.

employees from the demographic segment. Swensen's may come across legal issues about a location within the campus, but a

location near the institution will draw students regardless.

**Figure 2** - Swensen's Survey, conducted by Kailee Douglas. Survey given to 30 Thai students at Mahidol International University College, Bangkok.

1) How often do you approximately visit Swensen's? (*circle one*)  
 once a week                      twice a week                      once a month                      twice a month  
 once a year                      twice a year                      never                      other \_\_\_\_\_

2) If you visit Swensen's, what is the common reason why?

3) If you do not visit Swensen's, then why not?

4) What competitor's ice cream do you eat the most? (*circle one*)  
 Haagen-Dazs                      McDonald's                      Burger King                      Baskin Robbins  
 Dairy Queen                      local ice cream stand                      other \_\_\_\_\_

5) How much money do you usually spend on yourself each visit? \_\_\_\_\_

6) What do you enjoy the most about your Swensen's visit?  
 the dessert                      the friends                      the location                      the experience  
 other \_\_\_\_\_

7) If there was a Swensen's located across the street from MUIC, how often would you visit it?

8) Would you be interested in any of these possible Swensen's products or promotions? (*circle as many that apply*)

VIP card that gives discounts	burgers and fries	Asian food
alcoholic drinks	breakfast	steak dinners
souvenirs such as pens, pencils and toys		

9) Swensen's has two formats: Restaurant and Ice Cream Parlour. Would you be interested in seeing a Swensen's Restaurant in Thailand? Why or why not?

#### B) Beverages

Swensen's already offers both regular and ice cream based beverages. A recommendation for Swensen's is to put more effort into promoting these beverages and developing the variety. Many Thai adults feel that ice

cream is too high in calories and a variety of premium teas, coffees and juices would draw this segment to Swensen's where they can also enjoy the experience. It would also encourage more money spent by parents during family visits.

C) Customer Relationship Management Programs  
 One way to increase customer loyalty and retain the best customers is by offering a VIP card for the most profitable shoppers. A customer loyalty program is an important CRM tool used to identify, reward and retain customers.<sup>12</sup> To implement a CRM program with Swensen's loyal customers, Swensen's requires an efficient IT system in order to collect and keep track of customer data. By monitoring each customer's visit and the transaction, the information retrieval system can identify gold customers through RFM (Recency, Frequency, and Monetary) analysis. A VIP promotion card could give rewards such as a free birthday voucher or free souvenirs. In addition, by implementing the IT system, Swensen's employees could engage in personalization and greet the customer by name, or remember their favorite dessert. A strong VIP program would enhance customer loyalty and convert good customers into best customers.

A second recommended CRM program is sponsorship of a local athletic team. This would also create customer retention and show support of the community. Both recommendations for CRM programs are related to market penetration, which increases the visits and money spent of existing customers.

#### D) Increasing Experience

As identified previously, many recreational shoppers visit Swensen's for the social experience. To increase arousal, it is recommended that when it is a customer's birthday, Swensen's employees gather around the table and sing a birthday song. This would also enhance the experience for the customer and entice others to celebrate their birthday at Swensen's.

#### E) Reducing the Delivery Gap

The delivery gap is the difference between the retailer's service standards and the actual

service provided.<sup>13</sup> After approximately six visits to various Swensen's Ice Cream Parlours around Thailand, it was noted that the employees are relatively unenthusiastic and inefficient. The Swensen's franchisee is responsible for recruiting a store supervisor, unit manager, and servers, and it is recommended that the hiring process be stricter. The following is a job qualification for a Swensen's server:

#### Job Scope:

- Ability to get as many orders from the customers as possible
- To ensure 100% customer satisfaction
- Full Time or Part Time
- Baht 25/hr

#### Job Qualifications:

- Age above 18 years old, no degree is required
- Friendly, well mannered and likes to smile
- Good in handling things
- Able to work as a team under high pressure

Swensen's must re-state the importance of customer service to its employees, and train servers on how to be more efficient. It was observed that efficiency could improve if certain servers took the order, while designated servers behind the counter made the desserts. General personal characteristics for successful employees include level of creativity, interpersonal skills, communication style, decision-making style, ability to work under pressure, motivation level, energy level, and overall attitude.<sup>14</sup> Swensen's needs to improve the motivation level, energy level and attitude of its employees to create a great experience for customers.

### 3. Diversification

#### A) Souvenirs

<sup>12</sup> Krafft, M. and Mantrala, M. (2006), *Retailing in the 21<sup>st</sup> Century*. Springer Berlin: Germany, 361

<sup>13</sup> Hasty, R. and Reardon, J. (1997) *Retail Management*, McGraw-Hill: New York, 526.

<sup>14</sup> Heil, G. and Thomas, C. (2006) *Employee Management and Customer Service in the Retail Industry*, John Wiley & Sons, Inc: New York, 3.

If Swensen's were to provide souvenirs for customers, it would allow Swensen's customers to spend more money with each visit. All souvenirs would have the Swensen's logo, and items such as toy figurines, playing cards, key chains, and school supplies would target the younger generation. This is comparable to the Hard Rock Café, but because customers visit Swensen's more frequently and spend less money, the souvenirs should be limited and not expensive. Customers who use these items would be reminded of Swensen's, and the souvenirs would act as marketing tools to other consumers as well. As a premium ice cream parlour, the souvenirs should be of high quality, but reasonably priced, reflecting the value and quality mission of the company.

#### B) Food

Swensen's in Singapore and Malaysia has shown great success with its ice cream and food offerings.<sup>15</sup> Some of Singapore Swensen's Restaurants offers include Asian food, breakfast and steak dinners.<sup>16</sup> A survey completed at MUIC indicated that approximately one-third of students would be interested in seeing food offered. These results may be due to the fact that many university students visit Swensen's with friends for dessert, while Swensen's Restaurants would cater to mainly families and the older generation. The success of Swensen's Restaurants in Singapore, Brunei, Malaysia and China can easily be replicated in Thailand.

#### C) Media

It is recommended that Swensen's diversify into music and game offerings. Swensen's usually has trendy background music playing, and the company could offer a selection of the latest albums that they play in the store. This would simply require the company to buy CDs in bulk and distribute them to the stores,

where the store would make a moderate profit margin. This diversification may be slightly risky due to the increase in downloaded music.

A second recommendation is to offer Swensen's computer games. Swensen's currently has two simple games on its website, and should offer customers the opportunity to purchase more complex computer games through the store. The computer games could be educational, and target primary school children whose parents feel they need to brush up on Math or Thai skills.

Swensen's already engages in vertical diversification by using the Minor Food Group subsidiary, Minor Dairy, as a supplier.

### Conclusion

After examining Swensen's company background, several analyses were completed including the marketing mix, SWOT analysis, Competitive Analysis, Segmenting, Targeting and Position of the company, Customer Buying Behaviour, and Market Evaluation. Swensen's is the leading premium ice cream concept in a saturated Thai market with a market share of over 75%. The company must engage in market penetration and diversification to retain its leading position. Some of these growth activities include opening locations near universities, promoting a variety of beverages, implementing customer relationship management programs, increasing the experience, and reducing the delivery gap. Diversification growth strategies include offering souvenirs, food and media items. By implementing these recommendations, Swensen's can remain the leader of the premium ice cream market of Thailand.

### References

- Bruce, M., Moore, C. and Birtwistle, G. (2004) *International Retail Marketing: A Case Study Approach*, Elsevier Butterworth-Heinemann: Burlington.

<sup>15</sup> Darshini, Nathan. *Swensen Coming Back With A Bang*. Siam Future Development PLC. <http://www.siamfuture.com/asianews/asianewstxt.asp?aid=1381> (accessed 13 December 2007).

<sup>16</sup> Official Swensen's Singapore website. [www.swensens.com.sg/](http://www.swensens.com.sg/) (accessed 3 November 2007).

- CoolBrands International Inc., *Form 6-K*.  
December 2005. Edgar Online.  
<http://sec.edgar-online.com/2005/12/29/0000950117-05-004950/Section5.asp> (accessed 1 December 2007).
- Diamond, J. and Pintel, G. (1996) *Retail Buying*.  
Prentice Hall: New Jersey.
- Esmerk. *Thailand: New Product, More Stores from Swensen's*, Frozen B2B, December 2005,  
<http://www.frozenb2b.com/News/Default.aspx?id=News&NewsNo=620#em5NZR82> (accessed 1 December 2007).
- Hasty, R. and Reardon, J. (1997) *Retail Management*, McGraw-Hill: New York.
- Heil, G. and Thomas, C. (2006) *Employee Management and Customer Service in the Retail Industry*, John Wiley & Sons, Inc.: New York.
- Kaltcheva, V. and Weitz, B. (2006) 'When Should a Retailer Create an Exciting Store Environment?' *Journal of Marketing*, 70: 107-116.
- Krafft, M. and Mantrala, M. (2006) *Retailing in the 21<sup>st</sup> Century*, Springer Berlin: Germany.
- Market New Zealand. *Food and Beverage: Global Update*, December 2006, Market New Zealand,  
<http://www.marketnewzealand.com/mnz/Services/GlobalAnalysis/14423/16416.aspx>  
(accessed 1 December 2007).
- Minor Food Group Official website,  
[www.minorfoodgroup.com](http://www.minorfoodgroup.com) (accessed 12 November 2007).
- Nathan, D., *Swensen Coming Back With A Bang*,  
Siam Future Development PLC,  
<http://www.siamfuture.com/asiannews/asiannewstxt.asp?aid=1381> (accessed 13 December 2007).
- P'Au. (Manager, Swensen's Pin Klao) Personal Interview, October 3, 2007.
- Jitpleecheep, S. (2000) *Nestle Takes on Swensen's in Top Segment*,  
<http://www.siamfuture.com/ThaiNews/ThNewsTtxt.asp?tid=168> (accessed 1 December 2007).
- Swensen's Official website,  
<http://www.swensensicecream.com> (accessed 1 November 2007).
- Swensen's Singapore Official website,  
[www.swensens.com.sg/](http://www.swensens.com.sg/) (accessed 3 November 2007).

---

# Disneyland Paris: Europeanizing a Resort An International Expansion Experience

Amanda Louie

## Abstract

This paper explores the cultural challenges faced by The Disney Company during their international expansion into the European market. With wildly successful park launches in America and Japan, Disney was hungry for further growth and global reach. However, the subsequent launch of the Euro Disney Park near Paris in 1992 did not attract the guest numbers expected and instead was met with some resentment and hostility due to anti-American sentiment. This paper discusses the cultural blunders made by Disney that lead to the disappointing launch. It will focus on the operation and marketing strategies of the company with comparisons drawn between American and French culture to highlight the different perceptions of the park. The paper will also discuss the actions taken by Disney to “Europeanize” the park to appeal to their new marketplace. The report aims to enlighten readers that even the most successfully laid plans must be thoroughly re-examined with a cultural lens during international expansions.

---

## Introduction

International expansion is a growing trend amongst small and large enterprises alike, as organizations begin to recognize the potential of the global market place. For decades companies have explored these opportunities in hopes of expanding their market size and generating new revenues. With these opportunities, however, comes a myriad of threats that stem from operating in unfamiliar territory. Amongst the risks included in foreign investment are the inability to recognize or adapt to local preferences, languages, customs, and business practices.

This report will examine the challenges associated with international expansion through the Walt Disney Company's experience in France. The Disneyland Resort in California has dominated the theme park industry for years with successful marketing and operations strategies geared towards their American consumers. With two subsequent launches of successful resorts in Orlando and Tokyo in 1971 and 1983 respectively, The Walt Disney Company decided to enter the European market in 1992. This report will address the challenges faced by the Disney Company

---

during their expansion into Europe with a focus on errors in the operation and marketing strategies. It will also address how Disney responded to these errors and what adjustments were made in order to make this park successful in the European market. The aim of this report is to understand the complexities of expanding into international markets, in particular Europe, for small or large corporations alike. Although this report could not possibly encompass the enormity of the Disney marketing and operations strategies, it will aim to highlight those factors that have been impacted by cultural differences.

## Park History

The first plans for a Disney park in Europe originated back in 1984 when the feasibility of the project was considered and potential sites for the park development was investigated (Grant & Neupert, 2003: 263). In 1987, the French government announced that the Euro Disney Resort was to be opened in the eastern outskirts of Paris. This location was chosen due to its proximity to Paris as well as its central location to neighbouring countries, which would put “the park within 4-hours drive for around 68 million people, and 2 hours flight for a further 300 million,” (Solarius, 2006). In addition to this, the French government offered special concessions in order to attract the theme park, including cutting the taxes on entrance tickets in half and extending the public metro and high-speed train systems to the park (Lewis, 1987). The government also “provided a twenty-year loan of \$960 million...and arranged other loans with syndicates and the state bank,” in addition to selling the land at a discounted rate of \$5000 per acre (McGuigan, 2004: 70). In return, the French economy would benefit by the numerous jobs that the park would stimulate, as well as the continual revenues generated by visitors to the park.

During the creation of the park, it was made well aware to the park engineers, known as *imagineers*, that the French treasured their

culture and that this should be reflected in the park. There are three notable examples of how the imagineers tried to incorporate French and European culture into the park. First of all, many of the attractions would be renamed to reflect European literature and films; for example, Space Mountain was named “De la Terre à la Lune” in homage to the French author, Jules Verne (Solarius, 2006). Secondly, the cuisine served in the park was tailored towards European tastes, including an entirely French restaurant on Main Street. These trends continue today with crêpes and espressos being served at food stands in place of the churro and ice cream stands typical of the American parks. Finally, the appearance of the park itself was modified:

For example we created the gardens in front of the hotel because we felt we have to give people something before they give back to us..... In California, where everybody is used to paying and getting in line, it is just a row of ticket booths and fences - no one expects anything more. It is not like going to Versailles or the Tuileries or any public space in France where there is a presentation and the staging of the arrival sequence is important. (Baxter, 1995 Interview)

The park also modified its architecture and included more interconnected and covered areas than any other theme park (Grant & Neupert, 2003: 264-5). This was modified in order to make the park less weather dependent in anticipation of the typical gray winters in Northern France.

## Park Opening

Euro Disney Resort opened on April 12, 1992. The optimistic executives who had gone to great lengths into planning and executing this project had predicted that 11 million guests would visit the park each year, with half of those being of French origin (Introducing Walt D'isigny, 1992). Despite the careful preparations and the \$4.4 billion invested into the park, opening day was wrought with troubles. A mix of rioters and protesters, which included intellectuals,

farmers, and labour unionists, protested at the gates, while a strike on the train line that connects Paris to Marne-la-Vallee cut access to the park for thousands of individuals. In addition to this, attempts to cut the park's power were made as two bombs damaged nearby electricity pylons (Riding, 1992).

Attendance rates on opening day fell below expected figures. This seemed to be a repeating pattern over the next 24 months. Guest figures fell short of predictions with only an estimated three in ten guests being of French origin (Solarius, 2006). The park reported a \$900 million dollar loss in the first year (Murphy, 2004: 173). The financial crisis and flop of Euro Disney became a favourite topic of discussion amongst Europeans, which many believe exacerbated attendance rates:

Comments included claims that many French were too individualistic and private to appreciate the standardized and crowded Disney theme park experience. Others felt that the French tended to enjoy entertainment which was more intellectual in nature than Euro Disney. (Peck, 1999: 369)

Panicked executives and investors began to re-evaluate this business prospect, as it became clear that some adjustments were necessary in order to change perceptions and earn a profit.

## Causes for Initial Failures

### Marketing Errors

The park's initial failures can be linked to a number of causes, including those that stem from a lack of cultural understanding. From the start of this project, the Disney imagineers underestimated the cultural gap between America and Europe. Although efforts were made to adapt to French culture, the changes were subtle and were widely criticized in the media:

Euro Disney is not a French adaptation of the company's parks in California and Florida...Euro Disney is the familiar all-

American park somehow landed on 5,000 acres of wheat fields and beet fields in Marne-la-Vallee. (Corliss, 1992)

The park, complete with American flags waving along Main Street U.S.A., was perceived as an unwelcome cultural invasion.

This perception was embellished by the aggressive marketing approach. Prior to the park opening, "the company inundated the European press and airwaves with an advertising and marketing blitz said to cost \$220 million, including a \$10 million gala televised across the continent" (Riding, 1992). Although this aggressive approach is common in America, Cédric Manara, Professor at ED-HEC Business School, explained that aggressive marketing is highly frowned upon in French culture.<sup>17</sup> Advertisements that appealed more to the emotional experience of the park would have been much better received by the French population than the "bigger is better" American style. Overconfident executives worsened the situation when they were quoted saying things like "We're building something immortal, like the pharaohs built the Sphinx" (Eisner with Swartz, 1998: 221). The media used these quotes to portray Disney executives as arrogant imperialists, which stimulated more negativity towards the coming theme park.

The media contributed to the perception of Americanization by referring to the park as 'a terrifying giant step toward world homogenization', 'a cultural Chernobyl', and a 'conservatory of nothingness' (Kuisel, 1993, 228). Other reporters, however, argued that the unashamed all-American style of the park was the main attraction:

Despite what French intellectuals like Jack Lang say, the ordinary Frenchman likes American mass culture. American films now account for 60% of ticket sales in French cinemas--twice the proportion a decade ago.

<sup>17</sup> Cédric Manara, European Law Professor, ED-HEC Business School, Interviewed by the author with permission, November 6, 2007

American pop music dominates French record sales. French television would likewise be swamped with American productions if the government had not imposed quotas requiring at least 60% of television films to be of European origin. (Introducing Walt D'isigny, 1992)

The opposing viewpoint served only to confirm amongst French intellegensia that their culture was being threatened. Disneyland became a symbol of both Americanization and of America itself as protestors with different causes used the park to demonstrate their dissatisfaction with the US. Amongst the mix of opening-day protestors were farmers who were protesting US farm policies and who tried to enforce a blockade of the park (Grant & Neupert, 2003: 269). Many media sources warned visitors to stay away due to large crowds and conflict with protestors. This media disaster contributed to low park attendance, and immediately gave a poor reputation to the Euro Disney name.

## Operational Errors and Misjudgments

Disney has always been a family-oriented themed park, and has thus taken a stance to serve no alcohol and have designated smoke areas away from large public spaces. This stance was extended to the Euro Disneyland Resort who only offered "mocktails" in place of alcoholic beverages (Corliss, 1992). These restrictions were met with strong resistance from many Europeans, namely the French, who incorporate both as an important part of their culture and identity. It outraged a large number of individuals, who were accustomed to having a glass of wine with each meal, which generated more negative media attention.

Another misjudgment was not allowing guests to carry in their prepared lunches. Many people were trying to save money and time by bringing meals to the park, whilst the Disney Company anticipated the French purchasing lunch in their restaurants and stands. Cédric Manara remembers how

many people were angered by the bag checks which initially prevented outside food from being brought into the park.<sup>18</sup>

This problem was compounded because Disney did not anticipate the eating patterns of Europeans. In America, the lunch break is typically spread over a three-hour peak period; whereas in Europe, it is usually compacted into one hour and a half between 12:00 and 1:30, in which everyone is expecting to eat. This made for difficult staffing for that short peak period when the majority of the guests converged upon the restaurants. Furthermore, park imagineers actually scrapped much of the seating that was originally conceived since they believed that many visitors would eat their meals as they strolled in the park. This was a big misconception, as many Europeans preferred a leisurely sit down lunch rather than the fast food pace typical in American culture (Grant & Neupert, 2003: 269). The long lines and lack of seating coupled with the lack of alcohol, created a poor Disney experience for many park goers.

The executives also miscalculated the time and money that park-goers would spend in Disneyland. Overdevelopment and overstaffing of the nearby hotel industries created huge financial difficulties for the park when it was discovered that the average European family spent only two days at the Euro Disney Park, as opposed to the four day averages in the American parks (Keegan, 172). In addition to this, the less materialistic nature of the Europeans meant that much less was being spent on souvenirs than anticipated. The slight recession in Europe further distorted the executives' optimistic estimates.

A final critical operational error was Disney's human resource management. Disney has always had very strict codes of conduct and appearance in order to ensure the best

<sup>18</sup> Cédric Manara, European Law Professor, ED-HEC Business School, Interviewed by the author with permission, November 6, 2007

customer service is provided to its guests. In September of 1991, Disney began to hire and recruit the 10,000 needed employees that would help operate the park. During the application process, a video as well as an employee handbook was given to the applicants specifically describing "The Euro Disney Look" which included regulations on hair color and length, mustaches and beards, tattoos, jewelry, make-up, as well as the colour of undergarments, which could only be of neutral colour (Grant & Neupert, 2004: 269-70). This immediately generated protests from local labour unions, such as the General Confederation of Labour who claimed that these practices were "an attack on individual freedom" (Grant & Neupert, 2003: 270). In addition to these criticisms, many employees were unhappy with the longer workdays and shorter breaks. As a result, in the first year of operations, 34% of the staff chose to leave or were dismissed (James, 1993). These created costly turnovers, and generated more criticisms from labour unions.

## Making Adjustments

### Marketing Changes

Disney has made a number of changes to help "Europeanize" the Euro Disney Park. One of the first most notable changes was changing the name from Euro Disney to Paris Disneyland in 1993. This served two main purposes. First of all it allowed the park to be associated one of the most romantic cities in the world, rather than the term "Euro" which the Europeans associated with currency and bureaucracy (Murphy, 2004: 174). Secondly, the renaming of the park allowed for the negative connotations associated with the Euro Disney name to fade, and allowed a fresh start for Paris Disneyland.

Disney also had to make huge efforts to restructure their marketing campaign to reflect and reinforce the values of the European market, such as family bonding. They have also moderated their marketing approach to be less aggressive. Disney has

achieved this by expanding its distribution system to be more subtle than their direct television ad bombardment. Although they continue to use television advertisement, they now use several more mediums to reach their target markets. For example, Disney has now incorporated the use of billboards, metro station advertising space (on walls and on exiting doors), grocery stores, and internet advertising on server sites such as Orange, a popular European search engine available in many languages.

Another important change for the company was expanding their marketing efforts to neighbouring countries. This has included efforts in Africa and Israel (Burgoyne, 1995). Much of this effort has come after the 1994 stock restructuring in which Saudi Prince Al-Walid bin Talal bought \$55 million in stocks to help bail Euro-Disney out of financial bankruptcy. This partnership continues to be advantageous to Disney as in 2006 the Prince made an agreement to help distribute Disney merchandise across the Middle East and Africa (*Saudi Prince Wants Disney Park*, 2007).

Disney has also made some smart partnerships with travel agencies and tour groups, such as Britain's largest tour operator Airtours, as they have discovered that Europeans are more reliant than Americans on such intermediaries while they plan their vacations (Chu, 2002). Disney also began to understand the traveling patterns of their European consumers. They have learned that rather than the week long vacations that are typical in the American theme parks, that the average six weeks of vacation time accrued by Europeans meant that Disneyland was just one of many traveling stops on a lengthier vacation. Disney used this knowledge to incorporate itself as one of many destinations on several travel itineraries.

A final marketing strategy implemented by Disney was their efforts to enhance their own reputation by improving their media relations and their public image. This has been

achieved partially by losing the arrogant attitude associated with the park opening in 1992. For example, a decade after the initial park opening, Disney introduced a second theme park to the Disneyland Paris Resort with the opening of Walt Disney Studios in 2002. High cautions were made to ensure that the disaster of the first park opening would not be repeated:

The obvious goal of that three-day media extravaganza was to make sure that the press not only saw the new park, but encouraged its readers to visit as well... Yet the underlying theme of the event was almost a plea to the media to please, please be kind. It seemed as if everyone in the resort—from the overly friendly media hosts who couldn't find a bad word to say about anything, to the anxious publicists determined to put the right spin on everything—were holding their collective breaths, waiting for the reviews to come in. (Vincent-Phoenix, Disneyland Paris: Re-branding a Resort)

In addition to the change of name from Euro Disney to Disneyland Paris, the company was able to improve their public image by downplaying their financial situations and instead concentrating their efforts on their growth, their cultural improvements, and their milestone events. They have also been active within the community, sponsoring many events and donating to charities.

### Operational Changes

Disney has long since admitted that it was unprepared to tackle such an international business venture:

"We had not yet had an on-the-ground experience in a multicultural environment," says ceo Jay Rasulo, a Disney veteran who took the helm of Euro Disney in 1998. "It was really the first park that had the majority of its guests coming from very diverse cultural backgrounds." (Chu, 2002)

Some of their first operational changes included transforming the American Park in France into a multicultural park of Europe. Park maps, signs, and even attractions

became multi-lingual, offering services in six different languages: English, French, Dutch, German, Italian and Spanish. For the attractions in particular, becoming multi-lingual took some ingenuity. Shows and attractions that included dialogue included headsets in which languages could be selected, or had several television prompters that had sub-titles in each of the respective languages. The parades are a mixture of French and English songs and dialogues, while the live theater shows are offered in French or in English at different show times. The ideas generated in order to "internationalize" the park were so successful that it inspired the Anaheim Resort to adopt the same bilingualism with their large number of Spanish speaking guests.

Another concession made to "Europeanize" the resort was allowing alcohol to be served in the park. This was an early operational change within the first year as it was a widely criticized by the public and media. Beer and wine were available for the first time in many of the Disney restaurants. Another early change was allowing food to be brought into the park. This served two purposes: first, to appease the critique of the public; and second, to help reduce the long line ups generated by the peak eating hours at the restaurants. To additionally help reduce the long wait times for tables at restaurants, the park reduced the prices at the fast-food restaurants and increased seating capacity (Keegan, 2001: 172).

To address the large number of vacancies and overstaffing, the resort closed down several of the hotels during the off-season to re-evaluate their needs. Reduction in hotel prices and new packages were introduced in order to help stimulate attendance. To deal with the extreme seasonality and patterns of European holidays, Disney introduced new weekend packages and introduced new seasonal entertainment specials such as Halloween and Guy Fawkes Day. This helped increase hotel capacity in addition to dispersing attendance more throughout the year. Additionally, the opening of a second

park, the Walt Disney Studios, had the specific objective of increasing the average length of stay of guests:

An expected two-park total of about 17 million in the Studios' first full year — will stay an extra day and night. More time on-site means more time to spend on meals, rooms and Mickey Mouse ears. "The profit doesn't come from the theme parks," says Mark Abramson, an analyst with Bear, Stearns in London. "The profit comes from the hotels, restaurants and shops, all high-margin businesses."

The opening of the second park led to a record attendance year of 13.1 million guests which has just recently been surpassed by the current 2007 year which celebrates the Resort's 15<sup>th</sup> Anniversary with 14.5 million guests (DLRP Today, November 8, 2007).

Disney has also made efforts to improve their employee relations. They have restructured their dress and behavioral codes to reflect European standards and traditions, while introducing maximum work week hours for employees. They have also reclassified their job positions using the French classification system, which better allowed French citizens to recognize and understand the positions (Burgoyne, 1995). In addition to this, Disney has also provided an enormous amount of training to its staff, including free language lessons, French and European cultural lessons, and advancement opportunities. Although they still continue to struggle with unions, only about 10% of the parks 12,000 employees are part of seven various unions, which include the French Christian Workers' Confederation and the Communist General Confederation of Labour (BBC News, Strike at Disneyland Paris, 1999). Besides a strike that lasted 20 days in the summer of 1998, strikes and union disruptions have been relatively minor in recent years.

Disney has tried to maintain their high standards and expectations from their employees; however, the park has become more cordial towards French service standards. Anne Witte (Professor and

Assistant Dean at ED-HEC Business School in France), who has studied anthropology and is a French culture specialist, explains that the French view customer service in a very different way than those in North America. She explains that the French feel that customer service is demeaning and is an undignified act.<sup>19</sup> Thus, even though the "Disney look" and the "Disney smile" are taught to all Disney employees across the world, there is a clear distinction between North American and the French employees' behaviours. Bryan Maroun, who has worked for Disneyland Park in Anaheim, California for three and a half years, recounts his first impression of the Cast Members (employees) on his recent visit to Disneyland Paris:

My impression of the Cast and Standards of Paris were dismal. The standards that I hold my Cast Members to seem to be much higher than what Disneyland Paris' are. For example, my Cast Members are expected and taught from day one [that] if you see trash on the floor, to pick it up. This is from the Executive level to Hourly [employees]. I did not see this at all in Paris. There was trash cans overflowing, trash on the floors, even vomit in the queue of an attraction. I informed the Cast Member at the attraction and she said, "oh yeah, we know" and kept moving. I was shocked. I also noticed that the Cast Members were not as friendly. I can't remember any "out of this world" interaction with a Cast Member where I felt they went above and beyond for me or made an impact on my experience, which is sad because Cast Members should be striving for that.<sup>20</sup>

The quality of service may still be high for the largely French employee base; however, the obvious differences in standards show the concessions that Disney has had to make in order to operate a theme park in France.

<sup>19</sup> Anne Witte, Professor and Assistant Dean, ED-HEC Business School. Cited with permission to the author, December 12, 2007

<sup>20</sup> Bryan Maroun, Manager, Disneyland Park, Anaheim, California. Interviewed by the author with permission, December 11, 2007

## Current Perspectives of Paris Disneyland

Many business analysts are still trying to assess whether or not Disneyland Paris can be considered a success. Following the changes made to make the park more culturally sensitive, Paris Disneyland experienced several years of profit; however, in recent years it has been operating at a loss, partially due to economic downturns, and other macroeconomic factors. Despite this, Disneyland is the most popular destination in Europe, surpassing iconic monuments and museums such as the Colosseum, the Louvre, and the Eiffel Tower. It is also celebrating its' 15<sup>th</sup> Anniversary, which suggests that the park is establishing its roots in France.

At present, the company continues to be critiqued on their marketing and operational strategies. For example, for the celebration of the Park's 15<sup>th</sup> Anniversary, the marketing budget was increased 13.3%, from 106.3 million euros to 120.4 million euros (EuroDisney S.C.A, Annual Report 2006). The heavy advertising campaign led a local French newspaper, *Les Echos*, to once again question the parks aggressive marketing tactics (November 27, 2007); however, Disney responded by saying that they wouldn't be Disney if they didn't follow their customary approach to each major anniversary.

Whether or not Disney has truly "Europeanized" is still in question. Upon interviewing several European and North American students, the general consensus felt that the park still had a largely American flavour to it, despite the changes made to appease European cultural norms and preferences. One Canadian park enthusiast, who has visited the California Park and the Paris Park on three and two occasions, respectively, uses the analogy of an American person who has moved to Europe: he eats the European food, he speaks the French language, and he adapts a European

lifestyle; but at heart, he is still an American.<sup>21</sup> Perhaps the park has become just European enough, albeit with the same American appeal, to allow it to continue to be a popular tourist destination and a thriving success in the coming years.

## Conclusion

Disneyland is a prime example of the dangers of misjudging cultural diversity. A key lesson can be derived from the Euro Disney/Disneyland Paris experience: no matter how meticulously executives plan and forecast their operational, marketing, and financial details and budgets, there is high chance of failure if cultural sensitivity and analysis is not thoroughly performed. Even the tried and true Disney formula that had been a success in Tokyo could not overcome the cultural barriers presented in the European market. Disney was fortunate enough to have the opportunity to rectify many of these cultural blunders; however, they would not have been able to remain open had it not been for the generosity of their bankers and investors. The Disneyland Paris Resort was able to revisit and revise their strategies to align them closer to the values and norms of Europe, yet doing so without losing the identity and characteristics that have made it uniquely Disney.

## References

- Baxter, T. 'An Interview with Tony Baxter, Disneyland Paris Park's Chief Designer', Interviewed by Didier Ghez, May 31, 1995, <http://homepages.which.net/~ian/historybaxter.html> (accessed 14 November).
- BBC News. 'Strike at Disneyland Paris', December 23, 1999, BBC News: <http://news.bbc.co.uk/1/hi/business/574387.stm> (accessed 5 December 2007).
- Burgoyne, L. (1995) 'Walt Disney Company's Euro Disneyland Venture, A Study in Corporate Foreign Expansion', <http://www.hiddenmickeys.org/Paris/English/LynEuroDisney.html> (accessed 5 December, 2007).

<sup>21</sup> Brett Thompson, Disney Park Enthusiast, Interviewed by the author with permission, December 8, 2007.

- Chu, J. 'Happily Ever After?' Time in Partnership with CNN, March 18, 2002, <http://www.time.com/time/magazine/article/0,9171,901020325-218398,00.html> (accessed 15 November 2007).
- Corliss, R. 'Voila! Disney Invades Europe. Will The French Resist?' Time in Partnership with CNN, April 20, 1992, <http://www.time.com/time/magazine/article/0,9171,975357-1,00.html> (accessed 8 November 2007)
- DLRP Today, 'Euro Disney Annual Report Announces Losses Halved by 50%, Smashing the 14 Million', November 8, 2007, <http://www.dlrpmagic.com/today/2007/11/08/euro-disney-annual-report-announces-losses-halved-by-50-attendance-smashing-the-14-million> (accessed 11 November 2007).
- EuroDisney S.C.A. 'Annual Report 2006', EuroDisney S.C.A.: <http://www.eurodisney.com/data/327.pdf> (accessed 30 November 2007).
- Grant, R. M. and Neupert, K. E. (2003) 'Case 13 Euro Disney: From Dream to Nightmare, 1987-1994', *Cases in Contemporary Strategy Analysis*, 3<sup>rd</sup> Ed., Blackwell Publishing: Boston.
- James, B. 'Euro Disney Eases into 2d Year', *International Herald Tribune*, April 12, 1993. [http://www.iht.com/articles/1993/04/12/dis\\_.php](http://www.iht.com/articles/1993/04/12/dis_.php) (accessed 8 November 2007).
- Lewis, P. 'A French Disneyland Near Paris is Approved', *New York Times*, March 22, 1987, <http://www.nytimes.com/> (accessed 13 November 2007).
- Keegan, W. and Schlegelmilch, B. (2001) 'Global Marketing Management: A European Perspective,' 172-175, Pearson Education.
- Murphy, P. and Murphy, A. (2004) 'Strategic Management for Tourism Communities, Bridging the Gap', 172-4, Channel View Publications.
- McGuigan, J. (2004) 'Cultural Policy Proper and as Display', *Rethinking Cultural Policy*, McGraw-Hill International.
- Paris Correspondence (1992) 'Introducing Walt D'isigny', *The Economist* 232 (7754), April 11, 1992. Ebsco Host Research Databases, <http://web.ebscohost.com.ezproxy.library.uvic.ca/ehost/detail?vid=4&hid=120&sid=6c8495ce-e0cf-4569-9b1d-f3cdef6a2418%40sessionmgr107> (accessed 13 November 2007).
- Peck, H. (1999) 'Euro Disney, the First 100 Days', *Relationship Marketing: Text and Cases*, 351- 374, Elsevier: New Jersey.
- Riding, A. 'Only the French Elite Scorn Mickey's Debut,' *The New York Times*, April 13, 1992, *The New York Times Archives*: <http://query.nytimes.com/gst/fullpage.html?res=9E0CE2DC123EF930A25757C0A964958260&sec=&spon=&pagewanted=1FirefoxHTML\Shell\Open\Command> (accessed 13 November 2007).
- Royal Watch News, 'Saudi prince wants Disney Park', *Bank Media International*, February 7, 2007, [http://people.monstersandcritics.com/royalwatch/news/article\\_1258688.php/Saudi\\_prince\\_wants\\_Disney\\_park](http://people.monstersandcritics.com/royalwatch/news/article_1258688.php/Saudi_prince_wants_Disney_park)
- Solarius, 'The History of Disneyland Paris', Last revised July 4, 2006, *Disney Vacation Planning*, <http://www.solarius.com/dvp/dlp/dlp-history.htm> (accessed 13 November 2007)
- Vincent-Phoenix, A. 'Disneyland Paris, Re-branding a Resort', *Mouse Planet*: <http://www.mouseplanet.com/paris/020415AVP.htm> (accessed 1 December 2007).

# Ikea: A Strategy for Success

Garret Luu

## Abstract

The way business is conducted has changed significantly over the years due to globalization and rapid advancements in technology. The economy is ridding itself of small family owned businesses and is replacing them with giant multinational corporations. These corporations are complex machines, which need highly skilled personnel to ensure their success. This paper examines how multinational corporations employ strategies and techniques that enable them to manage employees from varying diverse backgrounds. It focuses on IKEA and what they have done to transform a single store located in southern Sweden into the international powerhouse it has become today. The paper studies the underlying reasons for their success and how IKEA has spread its corporate culture through the utilization of its expatriates.

---

## Introduction

The world has changed dramatically over the past fifty years. Consumerism, globalization and technology have transformed the way people do business. People used to purchase their goods from small, family run businesses, which never had any significant impact on the market that surrounded them. Times have since changed and the world is now filled with one-stop shop discount super store megaliths. Names like Wal-Mart, Costco, JC Penny and Target have now taken over and have turned the market place into an environment filled with fierce competition. Even though those companies compete with each other selling a wide variety of goods, there is only one name that stands out for home products, IKEA.

The question then arises “how did IKEA become so successful?” Sure people like their utilitarian modern designs coupled with low prices and, of course, who could forget those Swedish meatball lunches which are served everyday for only one dollar, but those are just the external benefits that IKEA patrons have come to love over the years. The underlying reason for IKEA’s multi national success lies in its corporate culture and its expatriates.

---

## IKEA's History

### Creating the "IKEAN" Culture

To truly understand IKEA culture, one must make the journey to Älmhult, Sweden. Essentially, Älmhult is the heart of IKEA and it is known as the "IKEA Village;" Here, everything is IKEA. Älmhult is the epicenter for all IKEA activity worldwide. New products, production schedules, catalogue planning and of course the IKEA philosophy are all produced out of this little village nestled in the forests of southern Sweden. Since the town is small, almost every household is in some way related to IKEA. There are jokes made amongst the locals with regards to how similar 'IKEAN's' really are. For example, when they receive bicycles as gifts on Christmas, it was said that "...and the day after you could see the whole village biking around on identical bikes" (Salzer, 1994). Over the years some of the functions that have traditionally taken place in Älmhult have since been moved to other locations, but it is still regarded as the centre of the IKEA group. The sense of family and belongingness that 'IKEAN's' share with one another helps stimulate their drive and sense of purpose within the IKEA organization. A corporate culture had been created that is unique but still in line with IKEA's philosophy and business strategy.

In order to better understand corporate culture at IKEA it is important to have sufficient knowledge about the company's history. The company's story has its roots dating back more than sixty years ago where a young boy named Ingvar Kamprad grew up in the southern area of Sweden known as Småland, in particular, a small village named Agunnaryd. There Kamprad began learning entrepreneurial skills and began his training in the business world. At a young age he began selling matches door to door to his neighbors and people living in the surrounding area. Soon he expanded his product line and was selling an array of goods from pencils and pens to fresh fish and watches (Salzer, 1994). His business was off

to a great start and at a tender age of 17 Ingvar Kamprad, with monetary aid by his father, decided to open the first store in Älmhult, Sweden. When coming up with a name for the store, Ingvar wanted something personal that he could relate to, something that would define his company. The name is derived from Ingvar Kamprad's initials followed by the farm, Elmtaryd, which he grew up on and finally ended with Agunnaryd, the village in which he lived. The end result was IKEA, a household name that today has operations in over 30 countries and has annual sales of over 17 billion euros.

### Cultural Dimensions

Ingvar Kamprad has gone to great lengths to increase Swedish 'IKEAN' culture throughout all of his stores worldwide. So, what exactly is this culture that Ingvar Kamprad has masterminded over the years? Culture, according to Hofstede, is "the collective programming of the human mind that distinguishes the members of one human group from those of another. Culture in this sense is a system of collectively held values." (Hofstede, 1980, p.21) Hofstede has identified a number of cultural dimensions which exist in countries world wide. There is a high correlation between the cultural dimensions in Sweden and the corporate culture that exists in IKEA. One of the cultural dimensions Hofstede identified was power distance and it relates to the amount of equality seen in everyday lives. Sweden ranks high in equality and therefore, communication is very open. People, no matter what their rank or status, are encouraged to speak freely. This is also true of IKEA's corporate culture. Not only do the sales people on the show room floor have just as much of a right to speak out and voice their opinion as does a top level manager, but it is actually encouraged for them to do so.

Another example of the minimal power distance relationship that exists in IKEA is the way people dress. "There has always been a special IKEA-dress; in the beginning it was

the jeans, t-shirts and wooden shoes, you know. Ingvar himself followed that style. The dress code has merely been refined over the years..." (Salzer, 1994, p. 125) Having IKEA's employees dress like this makes them different from most of the other large organizations where people are required to dress in a suit and tie. It's seen as a way of "being different" and "unconventional solutions." Of course, the people on the floor are supposed to dress in the store provided red and blue uniform so they can be identified by customers, but even some store employees don't follow the dress code; they simply wear their own red sweaters or dress in civilian clothes. (Salzer, 1994) Usually, in most multi-national organizations, the 'floor' staff are all required to wear matching uniforms, while the 'big wigs' always dress in formal business attire, but not in IKEA. The ability for lower level employees to dress the same as the owner and CEO shows a minimal power distance relationship. Dressing in such a manner further promotes the fact that everyone who is part of the IKEA team should and will be treated like equals. The fact that everyone is viewed as equals, with regards to communication and dress code, is a key success factor that has helped create the family oriented style of corporate culture that exists in IKEA today.

The other cultural dimension, which correlates highly with IKEA, is what Hofstede has labeled masculinity vs. femininity, which plays a huge role in Swedish culture and has since found its way into IKEA's as well. Masculinity vs. femininity is the degree to which formal and informal roles are carried out by the two genders. Sweden is ranked the most feminine country in the world. (Hofstede, 1980) This is apparent, not only in everyday tasks such as domestic duties but in the workforce as well. In Sweden, women are as highly educated as men, if not educated even higher. Women in Sweden are coming closer to breaking the "glass ceiling" than any other society in the world and are becoming more involved in traditionally male dominated positions such as CEO's and top level managers. Again,

this type of equality as viewed in Swedish culture has filtered its way into the IKEA philosophy. Due to this highly ranked feminine culture, the exchanges that take place between lower level employees and higher-level managers in IKEA are different compared to that of larger organizations. As the Leader-Member Exchange theory suggests, the roles carried out by employees move from scripted to negotiated, and the influence co-workers have on each other from one way to reciprocal. This IKEA philosophy contradicts the traditional hierarchical form of management. This approach can also be seen in the way IKEA handles conflict. Instead of a boss deciding on what strict rules should be implemented and followed to solve a problem, conflicts are instead solved through compromises and negotiations. (Backbro, Schmidt and Stener, 2004) In North America conflicts and disputes amongst employees are dealt with in a rather aggressive and intimidating boardroom style manner. However, at IKEA, things are handled different. Employees are more open about how they feel and will work with one another to help solve the problem at hand. This type of team oriented approach to problem solving leads to a less informal way of finding solutions and thus reduces the anxiety and pressure employees feel when management is introduced into problematic situations.

### Ingvar's Culture

It is apparent that Swedish society and cultural values have been embedded into IKEA and its philosophy. Ingvar Kamprad believes that:

The true IKEA spirit is still built on our enthusiasm, from our constant striving for renewal, from our cost-consciousness, from our readiness to take responsibility and help out, from our humbleness in approaching our task and from the simplicity of our way of doing things. We must look after each other and inspire each other. Those who cannot or will not join us are to be pitied." (Kamprad, 1998, p.5)

By this Kamprad identifies that everyone within the IKEA organization or 'family' all share these similar beliefs. Kamprad believes that just like a true family, everybody within it should help each other out and push each other to achieve great things. In most multi-national companies employees are given certain job titles and are expected to carry out their required duties in an individualistic type manner. Perhaps they know how they are contributing to the organization, but at the end of the day feel like they have just performed the day's work to collect a pay check. IKEA, on the other hand, is completely different. The reason they are expanding so quickly and are experiencing such high levels of success is because of the way the company is designed. Kamprad has created a culture where everybody feels like they are a part of the IKEA 'family'. Therefore, they will work together to achieve organizationally desired goals opposed to working individually to complete assigned tasks. Creating and implementing this type of culture in one store is a difficult task, but how do you implement such an environment across all of your stores in over 40 countries?

### The Ikea Way

With IKEA rapidly expanding into foreign territory in the 1970's it was important for Ingvar that every IKEA store, no matter where they were located, would all possess that same Ikean culture that exists in Sweden. Ingvar came up with an inventive solution. In the 1980's he introduced a special training program called the "IKEA Way." The purpose of this program was to train managers from across the world to promote correct Ikean culture to their employees within their respective stores. The program is held in Älmhult a couple of times a year and its duration is one week. Here, participating managers are given lectures on IKEA's history, their product range, the distribution systems along with group sessions regarding different projects and outings in to the surrounding areas of Älmhult. (Salzer, 1994) This first hand introduction of Swedish culture

to managers from varying stores is a crucial step in linking IKEA culture to the rest of the stores around the world. Not everybody within the IKEA organization has the same view of IKEA culture and that is why the managers come to Älmhult to train. On the last day of each "IKEA Way" training week, managers participate in a ceremony where they receive special pins which are of miniature IKEA key inserts. These keys are to signify that the participating manager is now an official "IKEA ambassador" and that he or she has a "license" to spread IKEA culture at "Mini Ikea Way" seminars held at their own stores. (Salzer, 1994)

The culture that exists within IKEA is a valuable asset. It is the cornerstone to IKEA's success. Due to its significance to the organization, it is crucial that managers across all stores share the same values and preach the same IKEA culture to their employees. Creating this "IKEA Way" is one safeguard that will help to ensure that IKEA's traditions remain true long after Ingvar Kamprad has passed. The "IKEA Way" will act as a stepping stone for future generations of managers, so that when they are out conquering and spreading IKEA throughout the world that they will always remember what type of culture was created years ago in that small town of Älmhult.

### Spreading Culture amongst Expatriates

Globalization has changed the way people do business and as a result IKEA's production takes place all over the world, most of which in lower-cost countries. 20 percent is manufactured in China and 12 percent in Poland. Only 8 percent of IKEA's products are manufactured in Sweden. Germany and Italy together account for a further 13 percent of production and the remainder is produced throughout the rest of the world. (Konzelmann, et al., 2005) Along with stores in over 40 countries from Canada to Russia and from Ireland to Japan, employing 118,000 people from varying cultural

backgrounds can be a gargantuan disaster, but only if you let it.

IKEA is so big that they have expanded into almost every geographic region in the world. Having such a diverse company will mean that managers will have to interact with one another from different parts of the world, and if necessary, they will be required to move to a completely different country. As with many multi-national companies, IKEA wants the best person for the job, no matter where they come from. Whether it is a head designer from Japan needed in Mexico or a production manager from Canada needed in Sweden, they all have to be fully integrated into the "IKEA Way" but first they will need to become accustomed to local culture.

It is apparent that IKEA goes through great lengths to spread IKEA culture throughout all of its stores, but it must prepare its expatriates so that they are able to successfully complete their jobs in other countries. According to Backbro, "The main transfer of knowledge comes from a few experienced IKEA Transferred Employees, (TE) who have experience from other IKEA Countries." (Backbro, Schmidt and Stener, 2004 p. 32) These expatriates are a vital key to IKEA's success. The problem is that these expatriates can and will most likely face problems with regards to cross cultural issues including, but not limited to: language barriers, training, and the over all adjustment process known as the 'honey moon' period.

To make this 'honey moon' period easier for expatriates, it is important that they participate in pre-departure training. The knowledge the expatriate will gain will not only help them become accustomed to local cultures and traditions, but will help them integrate into the company's corporate culture. Learning different approaches to problem solving or knowing different methods of completing tasks can be a huge asset for the expatriate. If the expatriate is able to work in a manner that is more suitable to their new environment, they will be better prepared for

their job at hand and will be less likely to make mistakes at the work place.

Selmer (2002, p 37) argues that "there are various kinds of pre-departure training and on-spot support available [to IKEA employees] in order to make expatriates adapt more quickly, and become more successful in their foreign assignment." There are a number of programs which IKEA has developed and implemented over the years that better enable their expatriate employees to adapt to their new working environment. However, the pre-departure training is not a specific course or set of rules to follow. Every country and every employee is different and thus will require a different pre-departure training experience. Evans et al. (2002) believes that pre-departure training and on-spot support will be universally appropriate. Given the unique social and cultural barriers that exist, it is important that every employee is given sufficient training to overcome the obstacles that lay before them.

### Pre-departure Training

So what exactly does this pre-departure training consist of? To have a better understanding of what pre-departure training entails, we will examine the process of a Canadian expatriate and what factors led to his success. Dave Keith, a University of Victoria BCom graduate, decided that he wanted a career that would enable him to fully utilize his skills as a business graduate while at the same time providing him with the flexibility and opportunity for the traveling that he desired. Dave had lived in Sweden for a period of one year beginning in May of 2004. He appreciated the Swedish way of life and the similarities it shared with his home country of Canada; Before long, Dave decided that IKEA would be the perfect fit.

Dave currently works in Älmhult and lives in an IKEA owned and furnished apartment. He works with 800 other IKEA employees in the international design office. Dave's job title is "Supply Planner." At his office there are different departments for the entirety of the

IKEA product range. There exists what IKEA call their different “rooms.” They are essentially mock up rooms where new product lines are designed and built. There are rooms dedicated to kitchens, bathrooms, living areas, etc. Dave works in what is called the “Green Room;” this is where all the plants, furniture and outdoor equipment are designed. His job is to forecast the world wide demand for “Green Room” products and to order enough of them to satisfy the demand for all of Europe, Asia and North America.

Though his success is great, he did not get to where he is over night. Dave is on the path to becoming an IKEA manager. It is a five year program that he started at the Vancouver store. He said that the purpose of his first year of training was to “learn every aspect of the store, from the store’s perspective.” (Keith, 2007) He was rotated around various jobs from cashier to on floor sales support staff. Having potential managers become familiar with all aspects of the store is crucial, not only will they have expert knowledge in almost every area of the business, but during the process the employees are being integrated into the IKEA family. For Dave to be properly trained, the Vancouver store manager attended the “IKEA Way” seminar in Älmhult. According to Dave, the corporate culture that exists in Vancouver is very similar to that in Älmhult. He said that the Vancouver store even took part in the Lucia day, which is a major celebration in Sweden. They had little girls in white dresses come in to sing traditional Lucia day songs for half an hour. This is a perfect example of how IKEA spreads the same Swedish IKEA culture throughout their stores world wide. IKEA employees are very proud of their traditional Swedish culture which IKEA has its roots in; Dave mentioned that “we want to seem Swedish.” (Keith, 2007) Having been taught the “IKEA Way” from certified individuals in Vancouver, it helped to ease Dave’s transfer to the IKEA he worked at in Stockholm and to his current location in Älmhult.

## Bridging the Gap

Apart from the pre-departure training Dave received before leaving, IKEA also provided support for the physical move and his arrival. Before Dave moved to Sweden he was put in touch with IKEA’s mobility department based in Holland, which sent him a package containing information about what to expect as an expatriate, booklets about the town he was moving to and other pieces of pertinent information. Upon Dave’s arrival in Älmhult, he was given a tour of the city. His tour guide showed him the locations of the shopping malls, hockey arenas, car washes and anything else he needed to make the move go as smoothly as possible. IKEA also paid for all the expenses incurred during the move as well as provided Dave with money for him to furnish his apartment. All of the steps taken on IKEA’s behalf made the transition for Dave a lot easier. This extra care taken to ensure that Dave’s transition went well exemplifies how IKEA employees really are treated like family.

Perhaps the largest hurdle Dave encountered and had to overcome was the language barrier. Even though Dave had spent one year in Sweden prior to moving there as an expatriate, he had no previous Swedish language training. As a result, IKEA paid for Dave to have 40 hours of one-on-one language training. This was crucial for Dave to perform his work. In the Stockholm store everybody speaks Swedish and thus it took Dave a while to get used to. When there was a meeting, his fellow employees would ask him if he would prefer the meeting to be done in English or Swedish. Due to the fact that Swedes have nearly impeccable English really played to Dave’s advantage within the IKEA business environment. He also noted how his fellow co-workers went out of their way to help him become familiar with his job and the new office. They would come by his desk several times a day to chat and answer any questions he might have had. Again, this type of behaviour exhibited by his fellow employees show how good relationships are formed and fostered within the IKEA family.

Even though IKEA and its employees were doing everything in their power to help Dave through his transition, there were times when Dave said he felt “de-motivated” and felt “a sense of being overwhelmed.” Apart from IKEA, and all they have done, Dave believes that an equally important factor to his success as an expatriate was his fiancée and her family who reside in Sweden. Those rare days when Dave said “he just felt like giving up” he was able to turn to his family, just like the IKEA family he had become apart of. They provided additional moral support and helped him become accustomed to Swedish culture and their way of life.

### The “Check-Out”

Ingvar Kamprad created more than a successful multi-billion dollar empire; he has created a family of over 118,000 people. The IKEA family exhibits a corporate culture that truly unifies employees from around the world. Ingvar has created clever and effective systems for spreading the IKEA culture throughout his stores. From the way IKEA employees dress and communicate to the “IKEA Way” and the expatriate pre-departure training process, the ability to create a culture where everybody feels like a member of a family is an outstanding achievement. The reason for IKEA’s overwhelming success is the sense of unity and belongings achieved through their corporate culture, which is transferred and carried out by their expatriates.

### References

Backbro, J., Schmidt, C. and Liselott S. (2004), *IKEA and the bond to IKEA Shanghai: A Cultural Study*. Jonkoping University.

- Evans, P., Pucik, V. & Barsoux, J-L. (2002) *The Global Challenge – Frameworks for International Human Resource Management*, McGraw-Hill/Irwin: New York, NY.
- Hofstede, G. (1980), *Culture’s consequences: International differences in work-related values*, SAGE Publications: New York, NY, Inc.
- Kamprad, I. (1998). *A Furniture Dealer’s Testament* [Brochure]. Inter IKEA Systems B.V.
- Keith, David. 2007. Personal interview, December 4.
- Konzelmann, S. J., et al. *The Export of National Varieties of Capitalism: The Cases of Wal-Mart and Ikea*.
- Salzer, M. (1994), *Identity Across Borders, A Study in the “IKEA World”*. Linkoping, Sweden: Linkoping Studies in Management and Economics, Dissertations No. 27.
- Selmer, J., (2002), ‘To Train or Not to Train? – European Expatriates Managers China’, *International Journal of Cross Cultural Management*, 2(1).

---

# Compulsory Licensing in Thailand

Simran Mann

## Abstract

The government of Thailand instituted compulsory licenses on several types of cardiovascular disease and antiretroviral medications in 2006. This report focuses on the debate of compulsory licensing for these drugs and whether the Thai government is justified in this policy implementation. The research finds that the compulsory licensing policy adopted by the Thai government is not justified due to the following arguments: a) Thailand's health expenditure is among the lowest, b) the country is in a strong economic position to afford western medicines, c) Thailand has high tariffs on pharmaceutical imports, d) the GPO generates millions in profit and produces low-quality generic versions, e) international pharmaceutical companies have revolutionized health care by developing safe drugs for global diseases, and f) there are alternative approaches other than compulsory licenses that could be employed.

---

## Introduction

In November 2006, Thailand's Ministry of Public Health began instituting compulsory drug licenses for several types of cardiovascular diseases and antiretroviral (in January 2007) medications. The policy allows Thailand to either domestically produce generic versions of these drugs or import generic versions of the drugs from countries such as India and then sell these medicines through Thailand's Government Pharmaceutical Organization (GPO). Is this policy implemented by the Thai government justified? Is the suspension of patent protection validated for providing better healthcare to approximately 64 million people?<sup>22</sup> The issue of compulsory licensing is one of the most sensitive issues the Thai government is facing today. Given the sensitivity of the topic, and the restrictions on available information on the issue, the top three sources (industry-related companies and executives) used for this research paper requested to remain anonymous.

Compulsory Licensing is the decision of a government allowing the production of a patent protected process or product without the consent of the patent holder of that process or product.<sup>23</sup> The World Trade Organization's

---

<sup>22</sup> *Thailand Info*, United Nations Thailand, <http://www.un.or.th/thailand/population.html> (accessed 20 November 2007).

<sup>23</sup> *Compulsory Licensing of Pharmaceuticals & TRIPS*, World Trade Organization, [www.wto.org/english/tratop\\_e/trips\\_e/public\\_health\\_faq\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/public_health_faq_e.htm) (accessed 20 November 2007).

---

Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) has some flexibility on patent protection laws.<sup>24</sup> The agreement recognizes that less developed countries will take more time to implement and regulate patent laws. This recognition allows for some flexibility in the agreement. Exceptions or flexibility occurs if the authorization efforts from the patent holder fail on reasonable terms and conditions or if the nation is facing a 'national emergency' as mentioned in the TRIPS agreement.<sup>25</sup> With recent policy implementations and law revisions, foreign investors and foreign pharmaceutical companies are skeptical on Thailand's current situation after the military coup in September 2006.

Drug research and development is a time-consuming and difficult process (approximately ten years to develop a drug). Pharmaceutical companies generate large profits, but profits are re-directed toward advancing technology and creating high-quality medicines for illnesses. The government of Thailand claims the country to be undergoing an AIDS epidemic, but in Thailand only a marginal percentage of people are HIV positive. The generic versions are less expensive but have a higher risk attached due to the low-quality copies produced by the GPO. The GPO is also generating millions in profits in the business of compulsory licensing. The recent changes in policy by the Thai government have created a snowball effect, with other nations legalizing compulsory licensing. This will not only discourage drug companies to stop innovating but also put millions of lives in jeopardy in the future. The government of Thailand instituting compulsory licenses for certain pharmaceuticals is therefore not justified.

<sup>24</sup> *The TRIPS Agreement*, World Trade Organization, [http://www.wto.org/english/tratop\\_e/trips\\_e/intel2\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/intel2_e.htm) (accessed 20 November 2007).

<sup>25</sup> *Thailand produces a compulsory license to produce generic copies of Kaletra*, Students Stop Aids Campaign, <http://www.stopaidssocieties.org.uk/2007/02/thailand-issues-a-compulsory-license-for-importing-generic-copies-of-kaletra/> (accessed 20 November 2007).

## The Noise and Facts for Compulsory Licensing

Thailand is in the middle of an AIDS epidemic...

The noise and facts on both sides are easily distinguishable even though many are skeptical to talk about this topic when opinions are requested. The government of Thailand believes that the country is facing a "health emergency" and it cannot afford to treat patients with expensive western medicines produced by large pharmaceutical companies. In other words, the government says that it is unable to fulfill universal health obligations. It is estimated that approximately 1.4% of all adults in Thailand are HIV positive, which makes AIDS the leading cause of death among young adults in the country.<sup>26</sup> This percentage is hardly considered an "emergency" when compared to other countries around the world. The nation's AIDS/HIV statistic is relatively marginal to justify a compulsory license for antiretroviral medicines.

### Thailand Statistics<sup>27</sup>

Estimated total population, July 2005	64,233,000
Estimated number of people living with HIV, end 2005	580,000
Adults (15+)	560,000
Women (15+)	220,000
Children (0-15)	16,000
Estimated adult HIV prevalence	1.4%
Estimated number of AIDS deaths in 2005	21,000

<sup>26</sup> Cumming-Bruce, N. 'Thailand faces new AIDS threat,' *International Herald Tribune*, November 27, 2005, <http://www.iht.com/articles/2005/11/27/news/thai.php> (accessed 25 November 2007).

Companies such as Abbott Labs and Merck & Co. don't care about Thai patients...

Non-government organizations (Doctors without Borders and Student Global AIDS Campaign) believe that pharmaceutical companies are not willing to negotiate and that company priority is placed on profits and shareholder returns over the health of millions. However, compulsory licensing in Thailand was passed in legislation without informing or notifying any pharmaceutical or industry-related companies. The situation between Abbott Labs and Thailand has changed the dynamics of the pharmaceutical industry in Thailand. Thailand announced the implementation of compulsory licensing before patent expiration for two of Abbott's antiretroviral drugs (e.g. Kaletra); Consequently, Abbott Labs responded by withdrawing the future entry of their new medications into the Thai market. Abbott Labs' spokesman indicated, "Thailand has revoked the patent on our medicine, ignoring the patent system. Under these circumstances, we have elected not to introduce new medicines there."<sup>28</sup> Protests broke out all over Thailand as activists accused the large pharmaceutical company of "depriving poor people of lifesaving medicines."<sup>29</sup> Abbott Labs is one of several large drug companies that have been targeted for withdrawing human healthcare to gain large profits. Merck & Co. is another company that encountered conflicts with the Thai government upon compulsory license issuing on their Efavirenz drug (antiretroviral). Merck claimed that it made no profits on Efavirenz in Thailand. But Thawat Suntrajarn, head of the Health Ministry's Department of

Disease Control, said foreign companies' prices are "very high, making it a big hurdle for patients to access [HIV/AIDS drugs] and the government cannot afford them. In the long run [patients] need this anti-retroviral drug to live a normal life like others."<sup>30</sup> Even after the implementation of generic versions of Efavirenz, Merck receives a 0.5% royalty of the sales of the generic drugs.<sup>31</sup> However, it is pharmaceutical companies' rights to choose the market for new drug distribution. If a government decides to ignore the patent law, the pharmaceutical organizations are completely justified in removing their products from the market. Thailand cannot accuse the companies of disregarding Thai patients' well being as the government itself implemented a policy without informing them of compulsory licensing legislation.

American pharmaceutical companies and the U.S. government are bullies...

According to local industry specialists and executives, The United States plays a primary role in the compulsory licensing debate. The pharmaceutical industry-related companies that requested confidentiality stated "American bullying highlights pharmaceutical companies' profits without caring for global humanity." Several large local companies in Thailand (Bangkok) support the government's actions on recent compulsory licensing. The United States is seen as the primary problem to the lack of global distribution for medicines as the country only cares about large economic and financial growth. The belief is that the "hypocritical nation selfishly diminishes poverty's and developing nation's chance of providing a better healthcare system."<sup>32</sup> Several local Thai companies' spokesmen

<sup>27</sup> *HIV and AIDS in Thailand 2005*, USAID, [http://www.usaid.gov/our\\_work/global\\_health/aids/Countries/asia/thailand.html](http://www.usaid.gov/our_work/global_health/aids/Countries/asia/thailand.html) (accessed 25 November 2007).

<sup>28</sup> 'Abbott Laboratories won't introduce new drugs in Thailand due to breaking of patent', *International Herald Tribune*, March 14, 2007, <http://www.iht.com/articles/ap/2007/03/14/asia/AS-GEN-Thailand-Drug-Patent.php> (accessed 25 November 2007).

<sup>29</sup> 'Abbott Laboratories won't introduce new drugs in Thailand due to breaking of patent', *International Herald Tribune*, March 14, 2007, <http://www.iht.com/articles/ap/2007/03/14/asia/AS-GEN-Thailand-Drug-Patent.php> (accessed 25 November 2007).

<sup>30</sup> 'Thailand issues license to manufacture generic version of Efavirenz; snubs Merck AIDS drug monopoly', *News Target*, <http://www.newstarget.com/021232.html> (accessed 25 November 2007).

<sup>31</sup> 'Thailand issues license to manufacture generic version of Efavirenz; snubs Merck AIDS drug monopoly', *News Target*, <http://www.newstarget.com/021232.html> (accessed 25 November 2007).

<sup>32</sup> Local industry specialists and executives that requested to remain anonymous for providing information and personal perspective.

support the local “anti-American” view highlighting that the US has a strong standing against Thailand’s compulsory licensing decisions, but the US itself has compulsory licensing on the following: Dell’s bus technology for personal computers, satellite technology for the US government, night vision glasses for the US army, air pollution technology and nuclear technology for the US government, and cablesatellite television for the US government.

The local perspective of American pharmaceutical organizations seems skewed because if these companies lacked a presence in Thailand, the country would not have access to many of the new, high-quality, life-saving drugs as American companies manufacture most HIV/AIDS and cardiovascular medicines used in the Thai market.

The local perspective is that the decision in favor of compulsory licensing of pharmaceuticals has improved the healthcare of millions in the short term. Many now have access to antiretroviral drugs that were not available or were not affordable before the introduction of generic versions. Recently, countries such as Brazil and South Africa have also adopted compulsory licensing in support of this perspective<sup>33</sup>. According to local industry-related companies, the government of Thailand is within its legal rights when implementing these policies. Supporters of compulsory licensing policies believe that a nation itself knows and recognizes the needs of its citizens and provides healthcare solutions for health epidemics as a priority. According to the World Bank, it is estimated that Thailand could reduce the cost of therapy of AIDS/HIV by 90% through the introduction of compulsory licensing by importing generics from India and selling them through the GPO. The forecasted savings of US\$3.3 billion

<sup>33</sup> *Compulsory Licensing of Pharmaceuticals & TRIPS*, World Trade Organization, [www.wto.org/english/tratop\\_e/trips\\_e/public\\_health\\_faqs\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/public_health_faqs_e.htm) (accessed 25 November 2007).

dollars is estimated in the next 20 years.<sup>34</sup> Therefore the outcome of compulsory licensing will not only help the government in the long run, but also more importantly help save lives by creating and expanding the access to medicines across Thailand. This argument will be discussed later as Thailand’s health expenditure is extremely low in comparison to other countries and the country is more focused on increasing military budget rather than improving health care.

## The Noise & Facts against Compulsory Licensing

The Thai government is not justified in instituting compulsory licenses. It is true that the policy provides increased access to medication at a lower price, but the approach taken by the Ministry of Public Health in Thailand conflicts with the pharmaceutical industry’s ability to develop essential medicines for Thailand. In effect, the Thai government is placing an entry barrier for future medicines into the country. As previously stated, there are several reasons that were used to justify the policy, including the AIDS epidemic “crisis” in Thailand, the large profits of pharmaceutical companies, and the United States not caring for the global well being of humanity. However, each of these reasons has been elaborated and fabricated to justify a solution that only benefits one side.

Thailand’s Health Expenditure is among the lowest...

The government of Thailand announced that AIDS and HIV in Thailand is a national health emergency. It can hardly be considered an “epidemic” when less than 2% (1.4% to be specific) of the nation’s population is suffering

<sup>34</sup> Revenga, A. et al., *The Economics of Effective AIDS treatment: evaluating policy options for Thailand* (East Asia & Pacific, 2006), [http://www.wds.worldbank.org/external/default/main?pagePK=64193027&piPK=64187937&theSitePK=523679&menuPK=64187510&searchMenuPK=64187283&theSitePK=523679&entityID=000310607\\_20060926124315&searchMenuPK=64187283&theSitePK=523679](http://www.wds.worldbank.org/external/default/main?pagePK=64193027&piPK=64187937&theSitePK=523679&menuPK=64187510&searchMenuPK=64187283&theSitePK=523679&entityID=000310607_20060926124315&searchMenuPK=64187283&theSitePK=523679) (accessed 15 November 2007).

from the disease. This statistic pales in comparison to other countries levels of HIV and AIDS such as Zimbabwe with 22% and Botswana with 24%.<sup>35</sup> If HIV and AIDS is such a pressing problem faced by the Thai people today, why isn't the government spending more of its budget on health care for the country? Thailand spends a mere 3.3% of its GDP on total health expenditure according to the World Health Organization's 2006 World Health Report.<sup>36</sup> This figure is quite low when compared to other middle-income and lower-income nations considered equivalent to Thailand. In addition, Thailand has a low number of physicians for its population (3.5 per 10 000 population) when compared to other Southeast Asian nations (Philippines at 12.6 and Malaysia at 7.1).<sup>37</sup> In comparison, Thailand's military spending is expected to increase by 24% in 2008, which is supported by the military coup on September 19, 2006 (33% increase in military expenditure since then).<sup>38</sup> Instead of focusing on its military expenditure, the government should concentrate on increasing the investment in local health care, which will help enhance and improve the overall public health care system in Thailand.

#### Thailand's Health Expenditure from 1999 - 2003

Member State	Total expenditure on health as % of gross domestic product				
	1999	2000	2001	2002	2003
Australia	8.7	9.0	9.2	9.3	9.5
Brazil	7.8	7.6	7.8	7.7	7.6
Canada	9.0	8.9	9.4	9.6	9.9
China	4.9	5.1	5.2	5.5	5.6
France	9.3	9.3	9.4	9.7	10.1
Germany	10.6	10.6	10.8	10.9	11.1
India	5.1	5.0	5.0	4.9	4.8
Indonesia	2.6	2.5	3.1	3.2	3.1
Japan	7.4	7.6	7.8	7.9	7.9
Malaysia	3.2	3.3	3.7	3.7	3.8
Mexico	5.6	5.6	6.0	6.0	6.2
Philippines	3.5	3.4	3.2	3.0	3.2
Singapore	4.1	3.6	4.3	4.3	4.5
<b>Thailand</b>	<b>3.5</b>	<b>3.4</b>	<b>3.3</b>	<b>3.4</b>	<b>3.3</b>
Vietnam	4.9	5.3	5.5	5.1	5.4

Source : The World Health Report 2006

<sup>35</sup> *World Health Outlook*, The United Nations, [http://data.unaids.org/pub/GlobalReport/2006/Annex2\\_Data\\_en.xls](http://data.unaids.org/pub/GlobalReport/2006/Annex2_Data_en.xls) (accessed 15 November 2007).

<sup>36</sup> *The World Health Report*, World Health Organization, [http://www.who.int/whr/2006/annex/06\\_annex2\\_en.pdf](http://www.who.int/whr/2006/annex/06_annex2_en.pdf) (accessed 15 November 2007).

<sup>37</sup> *Core Health Indicators*, World Health Organization, [http://www.who.int/whosis/database/core/core\\_select.cfm](http://www.who.int/whosis/database/core/core_select.cfm) (accessed 15 November 2007).

<sup>38</sup> Don Pathan, 'Military Spending to soar a further 24%', *The Nation*, June 28, 2007, [http://www.nationmultimedia.com/2007/06/28/politics/politics\\_30037960.php](http://www.nationmultimedia.com/2007/06/28/politics/politics_30037960.php) (accessed 25 November 2007).

Thailand is in a strong economic position...

The underlying question really lies within Thailand's capabilities of affording western medicines at global prices. Thailand's current GDP growth rate is approximately 5%, which is equal to the total world GDP growth rate.<sup>39</sup> According to the World Bank, Thailand is considered a middle-income country that is supported by a strong global ranking position in terms of total GDP (21<sup>st</sup> rank).<sup>40</sup> Thailand also ranks high economically as the second largest economy in South-East Asia following Singapore.<sup>41</sup> With all the positive economic and social indicators of Thailand's global position, it seems that it is in a far better position compared to other related countries to finance imported pharmaceuticals. Thailand is in a strong financial and economic position in terms of potential for future growth and can afford the western medicines produced by international pharmaceutical companies.

Lowering prices by lowering tariffs...

If it is a priority for the Thai government to provide the best healthcare for the Thai people, it should focus on lowering the price of medicines. However, Thailand can make the existing western medicines cheaper in an alternative method to compulsory licensing. In addition to increasing investment and funding in the healthcare sector of the country, the government can encourage high quality western medicines to be readily and easily available in Thailand. The goal could be achieved by changing policies currently in place. Thailand places a 10% tariff on most medicines imported into the country and all

<sup>39</sup> *Thailand Data Profile*, The World Bank Group, <http://devdata.worldbank.org/external/CPProfile.asp?SelectedCountry=THA&CCODE=THA&CNAME=Thailand&PTYPE=CP> (accessed 25 November 2007).

<sup>40</sup> *World Development Indicators Database*, The World Bank, <http://devdata.worldbank.org/external/CPProfile.asp?SelectedCountry=THA&CCODE=THA&CNAME=Thailand&PTYPE=CP> (accessed 25 November 2007).

<sup>41</sup> *Thailand Economic Monitor*, The World Bank, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/THAILANDEXTN/0..menuPK:333302~pagePK:141159~piPK:141110~theSitePK:333296,00.html> (accessed 25 November 2007).

medicines in Thailand carry a 7% Value Added Tax. Thus, it can be argued that the government is placing a tax on poor sick people.<sup>42</sup> Lowering tax burdens placed on imported medicines will help alleviate the price burdens on the end-consumer or Thai patients and in turn make medicines more affordable.

### Pharmaceutical companies give hope with their research and development...

Another significant argument is that large pharmaceutical companies are putting priority on profits and high shareholder returns over health of millions of poor people. International pharmaceutical companies are profit-generating organizations, like most other corporations and business entities. What is important is the objective of existence of such corporations. The objectives of these companies, aside from revenue, are to generate hope for the future to millions around the world through the development of new drugs and medications for serious illnesses. Research and development by global pharmaceutical companies create high quality and effective medicines that have increased longevity and well being of humans. The average life expectancy in Thailand has increased by ten years (from 61 years to 71 years) in the last 34 years (1970 to 2004).<sup>43</sup> The increase is a direct result of the innovation and development of high quality medicines made available worldwide by pharmaceutical organizations.

### The Government Pharmaceutical Organization of Thailand generates millions in profits...

Critics accuse large pharmaceutical companies for being profit driven and not caring about the lives of people who cannot

afford the medicines. However, the GPO that distributes the generic drugs in Thailand is a profit generating entity itself. It is focused on profit margins and not its role of distributing medicines to the Thai patients. Further questions can be raised over whether the GPO is pricing generic versions of medicines fairly. The Government Pharmaceutical Organization of Thailand (GPO) reported a net profit of 989.02 million Baht for the operating year of 2005.<sup>44</sup> This is the hypocritical state-enterprise that accuses pharmaceutical companies of being profit driven. Further more, the financial information of the GPO is not available to the public. The government's subsidiary (GPO) that claims to exist to ensure the overall health care of Thai patients and for the distribution of essential medicines all over the country is a for-profit organization. This is compelling evidence that the GPO is only instituting compulsory licensing for the profit advantage of producing generics. Further more, government financials in Thailand are not publicized without the authorization of officials.<sup>45</sup> The result would be a twisted perspective, as the government itself does not believe in transparency.

GPO's Financials in 2005

RETAINED EARNINGS STATEMENT		
For the Years Ending September 30, 2005 and 2004		
	2005 (Baht)	2004 (Baht)
Retained Earnings Before Adjustments at the Beginning of the Year	5,497,179,051.51	4,954,204,479.84
Less Adjustments after Accumulated Impacts on Changes in Accounting	13,918,120.18	13,491,487.58
Retained Earnings after Adjustments at the Beginning of the Year	5,511,097,171.69	4,967,695,967.22
Less Allocation of Net Profit for Contribution as State Income	(303,430,000.00)	(240,580,000.00)
Total	5,207,667,171.69	4,727,115,967.22
Add Net Profit of the Year	989,017,011.19	783,981,203.97
Retained Earnings at the End of the Year	6,196,684,182.88	5,511,097,171.69

Notes: accompanying the financial statements are an integral part of the financial statement

Source: GPO Annual Report 2005

<sup>42</sup> Olcay, M. *Pharmaceutical Tariffs: What is their policy on prices, protection of local industry and revenue generation?* World Health Organization's Commission on Intellectual Property Rights, Innovation and Public Health Report, May 2005.

<sup>43</sup> *World Bank's Health, Nutrition and Population Data Platform*, World Bank, <http://devdata.worldbank.org/hnpstats/query/default.html> (accessed 25 November 2007).

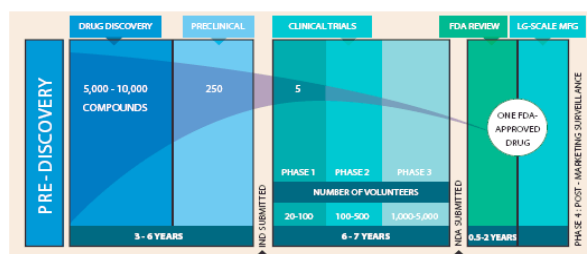
<sup>44</sup> Government Pharmaceutical Organization, *2005 Annual Report* (Bangkok, Thailand: GPO 2005), p. 44.

<sup>45</sup> This information was provided confidentially through anonymous sources, as government financials access needs authorization.

Drug Development is extremely time-consuming, expensive and risky...

The research and development of medicines in the pharmaceutical industry is extremely difficult, tedious, risky, and expensive. Common perceptions underestimate how difficult and the amount of time that it takes to produce a new medicine. There is a high failure rate and unexpected side effects often appear in the development process. Scientists and researchers spend a vast amount of time trying to eliminate defects but there are high costs incurred with the experiments and research. It is estimated that most new medicines take approximately ten years and that only one in every five medicines pass human trials. For every ten medicines that are finally available in the market,<sup>46</sup> only three are able to successfully cover their research and development costs.<sup>47</sup> According to the International Herald Tribune, Pfizer abandoned the production of a drug (Torcetrapib for heart disease) after spending approximately US\$ 1 billion in research and development.<sup>48</sup> Implementing compulsory licenses for these kinds of medicines reduces the incentive for pharmaceutical companies to initiate the production of new innovative medicines.

Drug Development Process Overview



Source : [www.innovation.org](http://www.innovation.org)

<sup>46</sup> Gradowski, H.G. (2002) 'Returns on Research and Development for 1990s New Drug Introductions', *Pharmacoeconomics* 20, Suppl 3, 11-29.

<sup>47</sup> *Inside Drug Discovery*, Pharmaceutical Research and Manufacturers of America, [www.innovation.org](http://www.innovation.org) (accessed 29 November 2007).

<sup>48</sup> *Pfizer Stops All Torcetrapib Clinical Trials in Interest of Patient Safety*, US Department of Health & Human Services, <http://www.fda.gov/bbs/topics/NEWS/2006/NEW01514.html> (accessed 29 November 2007).

The GPO produces low-quality, dangerous generic versions...

The government of Thailand claims that the GPO produces high quality generics for the market. However, this claim is not entirely accurate. In July 2007, the *Bangkok Post* reported that seven new cardiovascular drugs locally produced were removed from hospitals and pharmacies as they failed to clear health tests. Researchers at Khon Kaen University in Bangkok claimed, "the drugs were found to be substandard... and quality of drugs should not be traded for a cheaper price."<sup>49</sup> Another study at Thailand's Mahidol University (Faculty of Medicine) concluded that a generic version of an antiretroviral medicine produced by the GPO resulted in a 39.6% to 58% resistance factor among 300 patients tested.<sup>50</sup> Substituting quality for price is a dangerous and risky process that can endanger the lives of many Thai patients. The development of sub-standard generic medication does not put priority on the health and lives of millions of Thais.

American pharmaceutical companies have revolutionized global health care...

The United States of America is identified as a primary player by local perspective in the debate on compulsory licensing in Thailand. The United States' health care industry/system is fundamentally organized and designed in a completely different format from the rest of the world. American health insurance companies and pharmaceutical companies generate high profits that are used for further development of advanced technologies and medicines for global consumption. The American government places incentives (for socially responsibility) and subsidizes these large organizations and collaborates with them to provide for the public. Most of the large pharmaceutical companies originate in the United States and

<sup>49</sup> Treerutkuarkul, A. '7 heart drugs removed from hospital shelves', *The Bangkok Post*, July 12, 2007.

<sup>50</sup> Bate, R. 'Thai-ing Pharma Down', *Wall Street Journal*, February 9, 2007, Asia Edition. [http://aei.org/publications/pubID.25585/pub\\_detail.asp](http://aei.org/publications/pubID.25585/pub_detail.asp) (accessed 1 December 2007).

provide innovation for the future by revolutionizing medicines to overcoming major diseases such as AIDS and cancer. Thailand needs to recognize that the future of drug innovation may lie in the United States, and that the Thai public will need more help than just cardiovascular and antiretroviral medication. To ensure the availability of future medication that overcomes serious diseases, the Thai government needs to include American pharmaceutical companies in negotiations before implementing new public policies.

### Alternative approaches to compulsory licensing are possible...

At this moment, the debate on compulsory licensing is a lose-lose situation. The current approach implemented by the Thai government will discourage pharmaceutical companies from entering the Thai market, preventing access to high-quality medicines for patients. The Thai government should collaborate with drug companies and negotiate lower prices for certain medicines. Through negotiation, tiered pricing for certain antiretroviral drugs is already successfully established in some sub-Saharan African countries. Thailand also needs to prioritize its health care spending over its current military spending and lower its taxes on drug imports. Large pharmaceutical companies practice global social responsibility.

Companies are helping patients worldwide by not only providing better healthcare and medicines but also by establishing quality health programs. For example, Pfizer Inc. established *HIV/AIDS Positive Partnership Program* in Thailand, which has provided over 15 million Baht to the cause. It also began a "Micro Credit Loan" project that helps people with HIV/AIDS gain financial independence.<sup>51</sup> The Thai government will lose out on these kinds of investments when instituting policies without cooperation or collaboration.

<sup>51</sup> *Pfizer Community Programs*, Pfizer, [http://www.pfizer.com/responsibility/community\\_programs/community\\_programs.jsp](http://www.pfizer.com/responsibility/community_programs/community_programs.jsp) (accessed 1 December 2007).

This is a political issue as much as it is a moral and ethical issue. The Thai government needs to initiate communication without acting out legislation irrationally. Collaboration and cooperation on both sides (Thai government and pharmaceutical companies) will not only improve the public access to medicines in Thailand but will also facilitate the effort towards innovation and development of high quality medicines for the millions of lives in the future. Compulsory licensing is not justified in a nation such as Thailand, which has alternative solutions available.

### Conclusion

In conclusion, the government of Thailand is not justified in instituting compulsory licenses of certain types of medicines. This is based on several reasons including: international pharmaceutical companies have developed life saving medicines that have improved quality of global health care; new drug research and development is time-consuming and expensive; Thailand is in a strong economic position to be able to afford the existing medicines; Thailand places tariffs on pharmaceutical imports; the country's health expenditure is relatively low; the GPO produces low-quality generic versions and is generating high profits itself and, finally; there are alternative approaches to compulsory licensing available to Thailand such as collaboration and negotiation. Providing universal health care is a global priority, but placing a compulsory license policy in Thailand is not the optimal solution.

### References

- 'Abbott Laboratories won't introduce new drugs in Thailand due to breaking of patent', *International Herald Tribune*, March 14, 2007, <http://www.ihf.com/articles/ap/2007/03/14/asia/AS-GEN-Thailand-Drug-Patent.php> (accessed 25 November 2007).
- 'Abbott Laboratories won't introduce new drugs in Thailand due to breaking of patent', *International Herald Tribune*, March 14, 2007, <http://www.ihf.com/articles/ap/2007/03/14/asia/AS-GEN-Thailand-Drug-Patent.php> (accessed 25 November 2007).

- Bate, R. 'Thai-ing Pharma Down', *Wall Street Journal*, February 9, 2007, Asia Edition, [http://aei.org/publications/pubID.25585/pub\\_detail.asp](http://aei.org/publications/pubID.25585/pub_detail.asp) (accessed 1 December 2007).
- Compulsory Licensing of Pharmaceuticals & TRIPS*, World Trade Organization, [www.wto.org/english/tratop\\_e/trips\\_e/public\\_health\\_faqs\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/public_health_faqs_e.htm) (accessed 25 November 2007).
- Compulsory Licensing of Pharmaceuticals & TRIPS*. World Trade Organization, [www.wto.org/english/tratop\\_e/trips\\_e/public\\_health\\_faqs\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/public_health_faqs_e.htm) (accessed 20 November 2007).
- Core Health Indicators*, World Health Organization, [http://www.who.int/whosis/database/core/core\\_select.cfm](http://www.who.int/whosis/database/core/core_select.cfm) (accessed 15 November 15 2007).
- Cumming-Bruce, N. 'Thailand faces new AIDS threat', *International Herald Tribune*, November 27, 2005. <http://www.iht.com/articles/2005/11/27/news/thai.php> (accessed 25 November 2007).
- Government Pharmaceutical Organization, *2005 Annual Report* (Bangkok, Thailand: GPO 2005).
- Gradowski, H.G. (2002) 'Returns on Research and Development for 1990s New Drug Introductions', *Pharmacoeconomics* (2002).
- HIV and AIDS in Thailand 2005*, USAID, [http://www.usaid.gov/our\\_work/global\\_health/aids/Countries/ane/thailand.html](http://www.usaid.gov/our_work/global_health/aids/Countries/ane/thailand.html) (accessed 25 November 2007).
- Inside Drug Discovery*, Pharmaceutical Research and Manufacturers of America, [www.innovation.org](http://www.innovation.org) (accessed 27 November 2007).
- Olcay, M. 'Pharmaceutical Tariffs: What is their policy on prices, protection of local industry and revenue generation?' *World Health Organization's Commission on Intellectual Property Rights, Innovation and Public Health Report*, May 2005.
- Pathan, D. 'Military Spending to soar a further 24%', *The Nation*, June 28, 2007 [http://www.nationmultimedia.com/2007/06/28/politics/politics\\_30037960.php](http://www.nationmultimedia.com/2007/06/28/politics/politics_30037960.php) (accessed 25 November 2007).
- Pfizer Community Programs*, Pfizer, [http://www.pfizer.com/responsibility/community\\_programs/community\\_programs.jsp](http://www.pfizer.com/responsibility/community_programs/community_programs.jsp) (accessed 1 December 2007).
- Pfizer Stops All Torcetrapib Clinical Trials in Interest of Patient Safety*, US Department of Health & Human Services, <http://www.fda.gov/bbs/topics/NEWS/2006/NEW01514.html> (accessed 29 November 2007).
- Revinga, A. et al. *The Economics of Effective AIDS treatment: evaluating policy options for Thailand* (East Asia & Pacific, 2006), [http://www.wds.worldbank.org/external/default/main?pagePK=64193027&piPK=64187937&theSitePK=523679&menuPK=64187510&searchMenuPK=64187283&theSitePK=523679&entityID=000310607\\_20060926124315&searchMenuPK=64187283&theSitePK=523679](http://www.wds.worldbank.org/external/default/main?pagePK=64193027&piPK=64187937&theSitePK=523679&menuPK=64187510&searchMenuPK=64187283&theSitePK=523679&entityID=000310607_20060926124315&searchMenuPK=64187283&theSitePK=523679) (accessed 15 November 2007).
- Thailand Data Profile*, The World Bank Group, <http://devdata.worldbank.org/external/CPProfile.asp?SelectedCountry=THA&CCODE=THA&CNAME=Thailand&PTYPE=CP> (accessed 25 November 2007).
- Thailand Economic Monitor*, The World Bank, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/THAILANDEXTN/0,,menuPK:333302~pagePK:141159~piPK:141110~theSitePK:333296,00.html> (accessed 25 November 2007).
- Thailand Info*, United Nations Thailand, <http://www.un.or.th/thailand/population.html> (accessed 20 November 2007).
- Thailand issues license to manufacture generic version of Efavirenz; snubs Merck AIDS drug monopoly*, News Target, <http://www.newstarget.com/021232.html> (accessed 25 November 2007).
- Thailand produces a compulsory license to produce generic copies of Kaletra*, Students Stop Aids Campaign, <http://www.stopaidssocieties.org.uk/2007/02/thailand-issues-a-compulsory-license-for-importing-generic-copies-of-kaletra/> (accessed 20 November 2007).
- The TRIPS Agreement*. World Trade Organization. [http://www.wto.org/english/tratop\\_e/trips\\_e/intel2\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/intel2_e.htm) (accessed 20 November 2007).
- The World Health Report*, World Health Organization, [http://www.who.int/whr/2006/annex/06\\_annex2\\_en.pdf](http://www.who.int/whr/2006/annex/06_annex2_en.pdf) (accessed 15 November 2007).
- Treerutkuarkul, A., '7 heart drugs removed from hospital shelves', *The Bangkok Post*, July 12, 2007.
- World Bank's Health, Nutrition and Population Data Platform*, The World Bank, <http://devdata.worldbank.org/hnpstats/query/default.html> (accessed 25 November 2007).
- World Development Indicators Database*, The World Bank, <http://devdata.worldbank.org/external/CPProfile.asp?SelectedCountry=THA&CCODE=THA&CNAME=Thailand&PTYPE=CP> (accessed 25 November 2007).
- World Health Outlook*, The United Nations, [http://data.unaids.org/pub/GlobalReport/2006/Annex2\\_Data\\_en.xls](http://data.unaids.org/pub/GlobalReport/2006/Annex2_Data_en.xls) (accessed 25 November 2007).

# Changing Poverty and Inequity through Business

Matthew R. Tanner

## Abstract

Business has the capacity to positively change the global problem of poverty and inequity but traditional ways of doing and thinking about business must be transformed and revolutionized. This paper will illustrate how business can become an innovative tool for social change by focusing on the pioneering principals of microfinance and the market Base of the Pyramid (BOP). These two business models will be examined in a macro and micro context to allow the reader to fully envision how the concepts can be used to change the brutal reality of the World's demographics. Latin America is focused on throughout the paper because it is saturated with poverty (nearly 1/4 of Latin Americans live on under \$2 US per day) and has the highest rate of inequity in the World.

This paper proves that if business does not harness the ideas of Microfinance and the market of the BOP, economic and social consequences have the potential to become more devastating. These two business models enforce that there is an opportunity to make a profit while providing much needed services and products to the poor. The prospects of using business to fight poverty and inequity are vast and the results can be extraordinary.

---

## Introduction

The poverty of our century is unlike that of any other. It is not, as poverty was before, the result of natural scarcity, but of a set of priorities imposed upon the rest of the world by the rich. Consequently, the modern poor are not pitied...but written off as trash. The twentieth-century consumer economy has produced the first culture for which a beggar is a reminder of nothing. ~John Berger

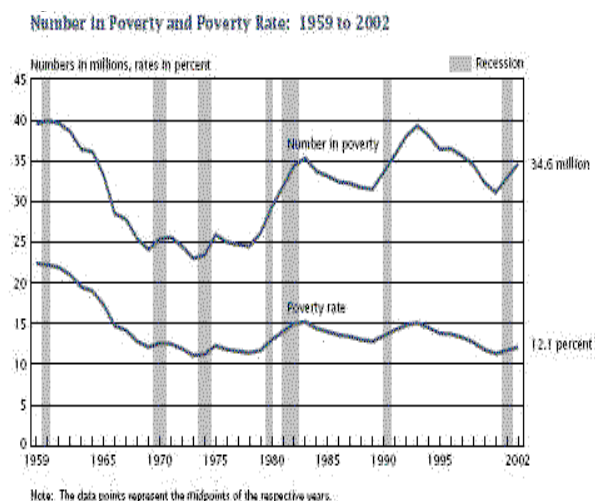
Poverty and Inequity have surrounded and saturated Latin America like a fog; the poor seldom see the horizon of hope and do not have the luxury to be guided through it. This report is not trying to solve the problems of poverty and inequity, but it will illustrate how business can become a revolutionary tool for social change. The report encompasses the concepts of microfinance and the market at the Base of the Pyramid (BOP). These two business

---

models enforce that there is opportunity to make a profit while providing much needed services and products to the poor.

Currently microfinance and BOP markets have been successful, but they have not evolved rapidly enough to change the demographics of our world (Figure 1). These innovative ideas have essentially not been fully created and have an immense amount of potential. A parallel can be drawn with the business opportunities, which are related to the phenomenon of global warming. The truth is global warming, like poverty, is a global issue, which we have created; therefore we can also create solutions. Business will become a major factor in the eradication of poverty and inequity, the BOP markets and microfinance reinforce the concept that business can effectively and efficiently solve the problems of the poor (their customers).

**Figure 1 - Poverty and Inequality in Latin America**



Latin American has faced the problems of inequality and poverty since the arrival of the Spanish colonialists in the late 1400s. Humankind's tendency to conquer would continue. It has been over 500 years since the arrival of the Europeans to Latin America and the issues of slavery, exploitation, poverty and inequality continue to be part of everyday life (Figure 2). Latin America hosts the world's highest rate of income distribution and has the most unbalanced distribution of

resources (Hofman and Centeno 2004). The Gap between the rich and the poor is immense and the phenomenon of globalization has continued to allow this gap to increase. An example of this is Brazil; Currently, it boasts the world's 10<sup>th</sup> strongest economy and in a shocking 73<sup>rd</sup> place in social development. This extreme inequality and poverty has created many problems such as violence, drug abuse, crime and, most importantly, it has suppressed the ability for the Poor's dreams to turn into reality.

**Figure 2**

In Latin American Countries (LAC) a small percentage of people have control over the government and the resources. The rich and

#### Poverty in Latin America and the Caribbean 1981-2001

Share of people living on less than \$1 a day (%)

1981	1984	1987	1990	1993	1996	1999	2001
9.7	11.8	10.9	11.3	11.3	10.7	10.5	9.5

Share of people living on less than \$2 a day (%)

1981	1984	1987	1990	1993	1996	1999	2001
26.9	30.4	27.8	28.4	29.5	24.1	25.1	24.5

Source: 2004 World Development Indicators

powerful reap all of the benefits of the country's economy through the work of the poor. The poor gain nothing as the rich gain everything.

"The richest one-tenth of the population of Latin America and the Caribbean earn 48 percent of total income, while the poorest tenth earn only 1.6 percent ... In industrialized countries, by contrast, the top tenth receive 29.1 percent, while the bottom tenth earn 2.5 percent (The World Bank Group 2004)."

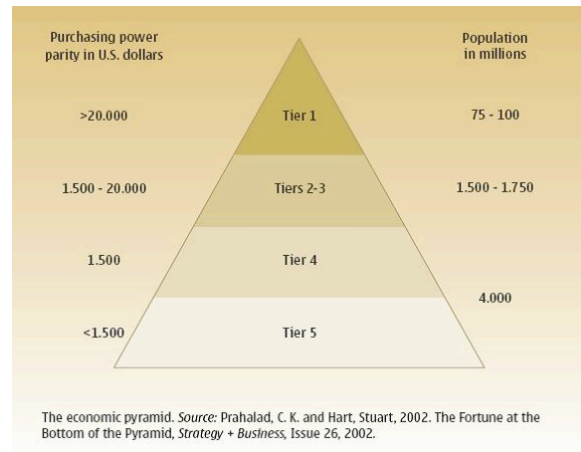
This theme of the haves and the have-nots is best illustrated in high traffic urban areas such as Downtown Buenos Aires or Rio De Janeiro. This is where the poor and rich are pushed together.

From Mexico to Argentina this vicious cycle of poverty and inequity has become a way of life. The number of people who live below the poverty line is alarming and the recent financial crises of the region have worsened the situation. It is estimated that 128 million people (24.5% of the total population) in Latin America and the Caribbean live in Poverty (living on less than \$2 a day) and 50 million of these people live in extreme poverty (living on less than \$1 per day) (The World Bank Group 2004). The poverty rate from 1981 – 2001 is shown in Figure 2 and shows a minimal amount of positive change. The problems of inequity and poverty in LA have not seen much improvement in the last two decades, although numerous local, national and international organizations have desperately tried to combat these issues. The solutions these institutions have implemented have been largely ineffective and inefficient.

### The Role of Business

Business, in the current and traditional state, has not catered to the base of the pyramid (BOP) market segment (Figure 3) because of closed mindedness, lack of innovation and government policy shortcomings. As markets in North America and Western Europe continue to become exhausted and saturated, the world's business community must find new ways to make profits. The credit crisis in America is a perfect example of how Americans have extended their purchasing abilities too far and do not have enough income to support their current lifestyles. Either big business finds new markets or the world's economy may be in grave danger.

**Figure 3 - The Economic Pyramid**



New and dynamic business models are slowly directing their attention to the vast and growing market of the world's poor. The idea of the poor as a market is ironic yet realistic. "The primary role of business is to provide "the engine for Growth"... this unrealized potential offers both a commercial and social opportunity (IBLF n.d.)." Businesses can make a profit by providing products and services to the poor, but traditional business models, which cater to the top three tiers of the pyramid, need to be reevaluated and drastically changed. Until now business along with government policy have allowed poverty and inequality in Latin America to flourish and reproduce. The business community has the opportunity to impregnate poor communities with hope while making a profit.

### The Opportunity at the Base of the Pyramid

There are over 4 billion people who are living at the base of the pyramid and the estimated Purchasing Power Parity ranges from 1.3 trillion dollars to 13 trillion dollars (Warnholtz 2007). Either way, this virtually untouched market is desperately waiting for the chance to be sold products and services which have been adapted to suit their lifestyles.

Stuart Hart, a renowned business professor at Cornell, is the founder of the BOP theory and believes targeting the BOP is a positive sum game where all stakeholders can be

provided for (Meyers 2005). "While most MNCs tend to ignore the people earning \$1,500 a year or less -- about two thirds of the world's population -- Hart contends that this is a lost social, environmental and financial opportunity (Meyers 2005)." Major multinational corporations are embracing Hart's ideas and believe he is right about the vast opportunities at the BOP. Hart strongly believes business must transform into "a more inclusive form of capitalism -- one that seeks to lift the entire human community, not just the 800 million richest -- and does so in a way that does not destroy the planet (Meyers 2005)."

The current marketing strategies of big business, which are directed towards people with high disposable incomes, will not work at the BOP; Therefore, marketing strategies must move from style based to substance based. A poor mother is not worried about the brand of shoes she is going to buy for her son, but she is worried about how long they will last. Best business practices of the developed world will not hold strong in the BOP markets of developing nations. A major drawback to this concept is if business is not socially and environmentally responsible, many new problems will be created.

### SC Johnson at the BOP

C K Prahalad argues in his popular book, *The Fortune at the Bottom of the Pyramid*, that selling to the poor people at the 'bottom of the pyramid' (BOP) can simultaneously be profitable and help eradicate poverty (Karnani 2007). He argues in his book that this market segment is very lucrative and is a serious opportunity for big business (Karnani 2007). Large Multi-National Corporations such as SC Johnson have begun to embrace this market of 4 billion people.

In 2005, SC Johnson began a BOP protocol in Kenya; this project focused on both rural applications and urban applications. The two areas, which were focused on, were Kibera, (one of the world's largest slums) which is located just outside of Nairobi, and Nyota,

which is located in the agricultural rift valley (Base of the Pyramid Protocol n.d.). The goal of SC Johnson's protocol was to identify business opportunities in the regions. The area of Nyota is particularly important for SC Johnson because it produces a natural insecticide pyrethrum. SC Johnson uses this insecticide in many of its products, illustrating this MNC is not primarily driven by corporate responsibility (Base of the Pyramid Protocol n.d.). Primary data for the protocol was gained by having members of the team live with the potential consumers. Below is a testimonial of Justin DeKoszmovszky, a JC Johnson BoP Intern:

"It was clear from the start that the Protocol was not business as usual. We were generating deeper, more holistic relationships and very new insights into a potential consumer group by learning from them, living with them and partnering with them. We were co-creating new business models and routes to market that met the requirements and challenges of business in the BoP. It was crucial that the BoP enterprises created not be charity from any partner's perspective. Rather, to be sustainable, the new initiative had to be valuable and profitable for everyone involved (DeKoszmovszky 2005)."

Justin's testimonial reinforces that the traditional business model must be disregarded and that to succeed in this market businesses must be innovative, dynamic and think outside of the box.

### Unilever at the BOP

Unilever is another large MNC that has decided to direct attention to the BOP market. Currently, there is a heated debate going on about Unilever's product "Fair and Lovely," a skin whitening cream which is marketed and sold to BOP in India (Leonard 2007). CK Prahalad has directed one side of the debate; Arneel Karnani has headed the other. (Leonard 2007). Both of these men are renowned professors and experts in business but have very different opinions on the BOP market. Prahalad believes the cream is socially positive while Karnani believes the cream is promoting racial ideals. The two

professors have been debating via essays, which have been published online (Leonard 2007).

Prahalad's essay "Selling to the Poor" tries to show the positive effects the skin whitening cream can have on the women in India who live at the BOP. This passage from "Selling to the Poor" illustrates Prahalad's views:

Beyond such benefits as higher standards of living and greater purchasing power, poor consumers find real value in dignity and choice. In part, lack of choice is what being poor is all about. In India, a young woman working as a sweeper outdoors in the hot sun recently expressed pride in being able to use a fashion product -- Fair and Lovely cream, which is part sun screen, part moisturizer, and part skin-lightener -- because, she says, her hard labor will take less of a toll on her skin than it did on her parents'. She has a choice and feels empowered because of an affordable consumer product formulated for her needs (Leonard 2007).

Prahalad's essay promotes Unilever's efforts to providing products to the BOP and he believes this product is a progressive step towards the evolution of the BOP market theory. As for Karnani, he is opposed to Unilever's product in India and believes the BOP markets will create more problems than solutions. In his essay "The Fortune at the BOP: A Mirage" he writes:

This is no empowerment! At best, it is an illusion; at worst, it serves to entrench her disempowerment. Women's movements in countries from India to Malaysia to Egypt obviously do not agree with Hammond and Prahalad, and have campaigned against these products. The way to truly empower this woman is to make her less poor, financially independent, and better educated; we need social and cultural changes that eliminate the prejudices that are the cause of her deprivations (Leonard 2007).

The debate between the two men shows how the BOP markets are product sensitive and for true progress to be made the right products and services must be offered.

## KX Industries at the BOP

This idea of penetrating the market at the BOP has created a new type of business model, which is concerned with substance rather than style. The most dynamic firms will succeed in this emerging market. For example, KX industries has created a water filter which is both cheap and effective; it can provide water to a family for around \$10 a year (Subramaniam 2006).

The United Nations predicts that 1.3 billion people lack sufficient access to drinking water and they estimate by 2050 the number will rise to 4 billion (Subramaniam 2006). This filter has the potential to help millions of people while making a profit but KX Industries must find a way to successfully market their product to the BOP. The idea of providing to the BOP is still at a conception phase but will soon become a vital part of the poverty puzzle.

## Microfinance

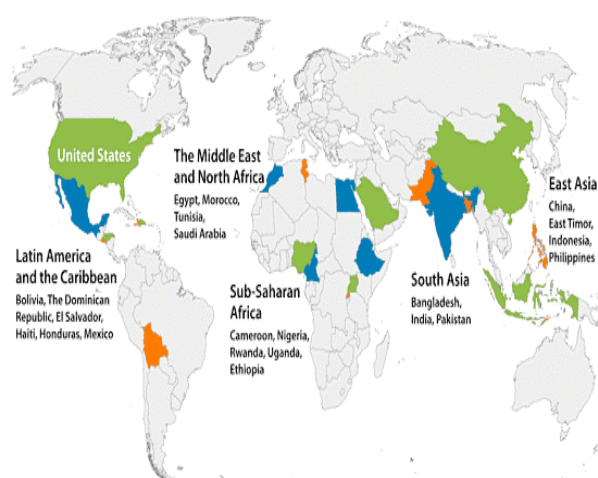
Business is slowly recognizing the opportunities of becoming part of sustainable development and many experts believe there is a huge potential in providing financial services for the poor. Microfinance is becoming a popular topic among business people, governments, academics and the general public. This form of business seems revolutionary and has attracted much support and interest. The potential for growth in this sector is enormous because of the amount of people living in the BOP. Microfinance is a BOP business, which currently has both strengths and weaknesses.

## Background of Microfinance

Microfinance is nothing new, but Mohammad Yunus, who is the founder of Grameen Bank (Grameen means village), has turned this idea into a revolutionary weapon in the war on poverty and inequality (Infoplease n.d.). Yunus made his first loan in 1974 and founded the Grameen Bank in 1976 (Infoplease n.d.). The concept of microloans was harnessed by Yunus and, in honor of his success, he was awarded the Nobel Peace

Prize in 2006 (Infoplease n.d.). The Grameen Bank works all over the World but has only offered its' financial services to seven LAC (refer to Figure 4). Although Yunus' success has been grand, the consumers at the BOP continue to grow and the need for financial services is in great demand (refer to Figure 5). Countries like Haiti and Nicaragua have the highest percentage of people living on less than one dollar a day in the Americas; both country's poverty rate hovers around 50%. This type of poverty is unacceptable and should not be tolerated.

**Figure 4** -The Grameen Bank Areas of Operation



**Figure 5**

**MFI Growth Has Been Rapid:  
Number of Microenterprise Loans and Growth**

December 1998	1,520,000
December 2000	1,914,000
June 2003	3,241,000
Total growth (1998-2003)	113%
Average annual growth	18.3%
<i>Source: IDB and CGAP surveys of 17 LA countries</i>	

The revolutionary idea of microloans has spread across the World from India to Bolivia and has allowed the microloan model to evolve into microfinance. Microfinance does

not only provide microloans. In theory, it is a business model that enables the user or consumer to benefit from multiple services. The main segments of microfinance include microinsurance, micropayments and microsavings. These three segments together offer the World's poor the opportunity to begin a new life where the joys of security and optimism are present and constantly growing. Currently, most providers of microfinance only provide their customers with the service of microcredits.

Spending time with people who are unemployed or who live below the poverty line is astonishing because you gain first hand knowledge about how they have learned to live on basically nothing by efficiently using their resources. Knowing how to turn nothing into everything is the key to business. The resourcefulness of the poor people who have been encountered is truly motivating.

### Microfinance in Latin America

Microfinance in Latin America has not had the same exposure as many other parts of the world such as India and Africa (Merolae 2007). Microfinance is spread unevenly across Latin America; countries such as Bolivia and Honduras have gained most of the attention from MFIs (Merolae 2007) (Figure 6).

Currently, many traditional financial providers are becoming interested in the potential for profits by providing services for the poor. Microfinance is slowly being directed towards the hands of private business instead of relying on NGOs to provide the service. Microenterprises employ a major sector of working people in Latin America (Figure 7); this illustrates the need for microfinance.

Figure 6

## Share of Microenterprises in Latin America with MFI Credit

Country	Date of Household Survey	Number of Single-Person Firms	Number of Firms with 1-5 Employees <sup>a</sup>	Total Number of Microenterprises	Number of Microenterprises with MFI Credit	Share of Microenterprises with MFI Credit
Bolivia	1999	1,300,313	62,008	1,362,321	379,117	27.83%
Nicaragua	1998	377,148	40,422	417,570	84,285	20.18%
El Salvador	1998	606,569	60,617	667,186	93,808	14.06%
Honduras	1999	832,941	58,239	891,180	107,054	12.01%
Chile	1998	1,069,139	138,045	1,207,184	82,825	6.86%
Guatemala	1998	1,328,476	93,238	1,421,714	71,187	5.01%
Costa Rica	1998	232,328	78,891	311,219	12,794	4.11%
Ecuador	1998	1,396,139	298,524	1,694,663	65,719	3.88%
Dominican Republic	1998	1,315,016	77,172	1,392,188	49,437	3.55%
Colombia	1999	5,726,653	775,152	6,501,805	219,240	3.37%
Paraguay	1998	319,113	668,213	987,326	30,203	3.06%
Peru	1997	4,102,561	2,763,632	6,866,193	185,431	2.70%
Panama	1999	267,854	21,150	289,004	6,390	2.21%
Mexico	1998	8,503,552	1,770,393	10,273,945	67,249	0.65%
Uruguay	1998	314,891	27,018	341,909	1,600	0.47%
Brazil	1999	16,567,943	2,421,810	18,989,753	62,485	0.33%
Argentina	1998	1,807,615	103,555	1,911,170	4,940	0.26%
Venezuela	1999	2,906,975	340,296	3,247,271	2,364	0.07%
<b>Latin America Total Firms</b>		<b>48,975,225</b>	<b>9,798,375</b>	<b>58,773,600</b>	<b>1,526,128</b>	
<b>Latin America - Weighted Average Share<sup>b</sup></b>						<b>2.60%</b>
<b>Latin America - Unweighted Average Share<sup>c</sup></b>						<b>6.15%</b>

Sources: Household surveys for number of microenterprises; Christen (2000) for number of microenterprises with MFI credit, except for Panama. Christen's data refer to the second half of 1999 and cover most of the larger regulated financial institutions and NGOs lending to microenterprises, but do not cover credit unions. Data for the number of microenterprises with MFI credit for Panama are obtained from the IDB loan files, refer to December 1999, and are as follows: Multicredit Bank 3881, Credifundes 1549, and Mi Banco 960.

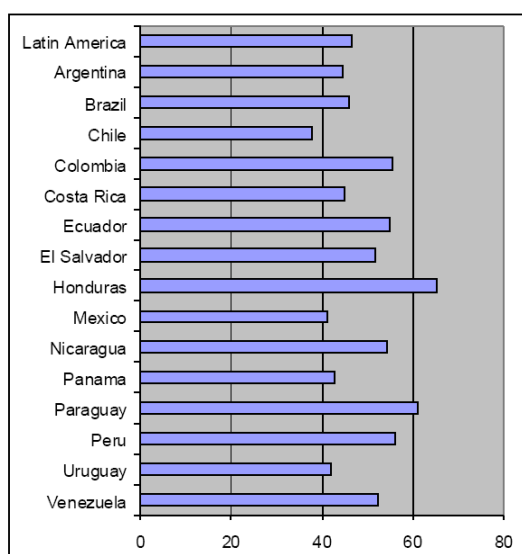
<sup>a</sup> Unlike the other 15 countries in the table, in the Dominican Republic, Colombia, and Brazil, the number of firms with 1-5 employees is not counted directly, but, rather, is calculated as 83% of the total number of firms with 1 or more employees. This 83% share is the overall ratio for the other 15 countries, taken as a whole, of the number of firms with 1-5 employees divided by the total number of firms with 1 or more employees.

<sup>b</sup> Calculated as (total number of microenterprises with MFI credit)/(total number of microenterprises).

<sup>c</sup> Calculated as the unweighted average of the 18 individual-country percentages shown in the final column.

**Figure 7**

Microenterprise Share of Employment, 2002 (%)  
(from *Panorama Laboral*, 2003, ILO)



### Mujeres 2000 – Microfinance in Argentina

It is estimated that Argentina has around 200 microfinance institutions (MFI) and the majority of these institutions are informal (not recognized by the Government) (Merolae 2007<sup>52</sup>). Currently in Argentina there is no legislation to control who enters this type of business. This creates problems because basically anyone can lend money without having the proper credentials. Less than 1% of all financial institutes represent microfinance but, in Argentina, there has been exponential growth in this sector in the last few years (Merolae 2007). The growth of MFIs in LAC is also rapidly increasing (refer to Figure 5). This is both positive and negative; the more MFIs in the market allow for more competition, but it also creates a need for more capital, which is not currently available (Merolae 2007). Most of the capital comes from charitable donations or from government subsidies (Merolae 2007).

<sup>52</sup> The information gathered from Maria Merolae was obtained in a personal interview. Maria works for Mujeres 2000 as a volunteer. She also studies at la UCA in Buenos Aires. An explicit verbal agreement was established between Matt Tanner and Marie Merolae to allow her interview to be published in this report.

Mujeres 2000 was founded in 2000 and is a non-profit organization, which works only with microcredits. Currently, Mujeres 2000 is providing loans to 179 women in the Greater Buenos Aires area. Since its conception, 350 loans have been lent to women entrepreneurs totaling \$300,000. This microcredit organization provides its loans through donations from people, business and other non-profit organizations.

Mujeres 2000 provides loans only for women because they have proven to be the better candidates than men. Lending money to women is very common in this sector of finance and seems to be a best business practice. Women have the ability to make payments because they have the superior organizational skills, their children's futures motivate them and they desperately want to leave the vicious cycle of poverty (Merolae 2007). One of the major problems Mujeres 2000 has had is that the women get discouraged from obtaining loans because the process takes sometimes months to complete; these women do not have the time to wait because they are evidently living their lives on a day to day basis (Merolae 2007).

Mujeres 2000 is having success, but the organization reflects how many MFI are operated. The organization has only one employee who is paid (volunteer based), the interest rates are high (20% annual interest rate) when compared to financial institutions who provide services to the traditional market and, the market is being entered by firms without restrictions or government regulation (Merolae 2007). The future of microfinance is in private business where the bottom line is the motivator not empathy.

### The Future of Microfinance

The future of microfinance is uncertain, but the expansion of providing financial services to the BOP is inevitable. Microfinance has currently not been the most efficient nor the most effective solution for providing loans to the poor; the high interest rates are a prime example of this. The lack of competition in

many of these impoverished areas is a major factor to high interest rates. Without the opportunity to use other financial services, the poor are forced to deal with inflated interest rates.

Soon, the small MFIs will be pushed out of this sector because the competition from formal financial providers will be too much for them to handle. Large financial firms like large MNC will be forced to enter these BOP markets because the traditional markets will not offer enough room for growth. The concept of providing financial services to the poor will evolve rapidly within the next decade, but microfinance may not be the final solution. The idea of using the Islamic form of banking has yet to emerge, but this type of lending without interest may soon replace microfinancing.

## The Future for the BOP

The reality of the BOP markets illustrates that there is an enormous amount of potential for MFIs to penetrate a large market. Both microfinance and the market at the BOP are examples of how business is tackling the problems of inequity and poverty. These powerful tools can both be used to equalize the world's playing field and will continue to evolve through business. The 4 billion people living at the base of the pyramid need alternatives to improve their life. The common misperception that these people are incapable of providing for themselves is false. This report reveals how capable and motivated the world's poor are and, with some well guided help from business, the world's poor will transcend from their lives of poverty. The future generation of business will positively change the demographics of our world.

## References

'Business Bridging the Gap', *IBLF*,  
<http://72.14.205.104/search?q=cache:zRO846UnfcgJ:www.iblf.org/docs/BridgingtheGap.pdf+poverty+and+business&hl=en&ct=clnk&cd=4&gl=ca>, (accessed 2 December 2007).

- Hofman, K. (2003) 'The Lopsided Continent: Inequality in Latin America', *ARJournals*, **29**: 363-390
- Karnani, A. 'Aneel Karnani: A 'Poor' Market', *The Next Billion*, <http://www.nextbillion.net/newsroom/2007/07/04/a-poor-market>, (accessed 4 December 2007).
- 'Latin American and the Caribbean: Regional Overview,' *The World Bank Group*, <http://wbln0018.worldbank.org/LAC/LAC.nsf/ECADocByUnid/53AEDA6320C3215285256CFE00518DF0?Opendocument>, (accessed 2 December 2007).
- Leonard, A. 'Race, poverty and skin-whitner', *Salon*, [http://archive.salon.com/tech/htww/2007/02/13/fair\\_and\\_lovely/index.html](http://archive.salon.com/tech/htww/2007/02/13/fair_and_lovely/index.html). (Accessed 2 December 2007)
- Maria Merolae, Personal Interview, November 29 2007
- Meyers, L. 'Solving problems of world's poorest may help businesses, and the planet, thrive', *Cornell Chronicle*, [http://www.news.cornell.edu/chronicle/05/3.3.05/help\\_for\\_poorest.html](http://www.news.cornell.edu/chronicle/05/3.3.05/help_for_poorest.html). Internet; accessed 02 December 2007.
- 'Muhammad Yunus', *Infoplease*, <http://www.infoplease.com/biography/var/muhammadyunus.html>. (Accessed 1 December 2007).
- 'SC Johnson in Keyna', *Base of the Pyramid Protocol*, <http://bop-protocol.org/projectbriefs/scjkenya.html>. (accessed 1 December 2007).
- Subramaniam, V. 'KX looking for Distributors for Water Filter in Mexico', *Base of the Pyramid Learning Lab*, <http://www.bopnetwork.org/node/55> (Accessed 4 December 2007).
- Warnholtz, J.-L. 'Poverty Reduction for Profit? A critical examination of opportunities at the bottom of the pyramid', *QEH Working Papers*, <http://72.14.205.104/search?q=cache:qQMhbO65xl4J:www.qeh.ox.ac.uk/RePEc/qeh/qehwps/qehwps160.pdf+1.3+trillion+prahalad&hl=en&ct=clnk&cd=1&gl=ca>. (accessed 3 December 2007).

---

# Sweden is a Nesting Ground for Young Start-up Entrepreneurs

James Whyte

## Abstract

This paper explores the business climate in Sweden and the recent steps Sweden has made to make their country an attractive place for young international entrepreneurs to begin their careers. Through an examination of Sweden's laws, labour force, education system and culture (supported by first-hand testimonials), the author builds a convincing case that places Sweden as an international leader in entrepreneurial thinking and policy and a favourable climate for first time start-ups.

---

## Introduction

With globalization being highly prominent in the world today, business can be conducted easily by virtually any individual from any country. A facet of modern day business is entrepreneurship. Although the concept and study of entrepreneurship has been around for decades, it has grown in understanding and has been redefined from "active risk taking" in the 19<sup>th</sup> Century to "the discovery and exploitation of profitable business opportunities" in the 21<sup>st</sup> Century (Wickham, 2006, pg 17).

The global economic growth rate during the Roman Empire era following up to the Industrial Revolution was virtually 0%. It was power, war and politics that defined a society. Since the Industrial Revolution, however, economic growth has been exponentially spiking. This indicates the importance of innovation. Global society has been moving towards the growth of small businesses as they foster innovations and inventions – created by inventors and entrepreneurs. Although large companies possess all of the resources to develop ideas and refine them, they often are not the ones who create them.

Sweden is a nation that has not been primarily focused on promoting entrepreneurship in the past however, has recently taken enormous steps to promote entrepreneurial activity. The Swedish laws and regulations, their labour market, their education system and their culture are pertinent factors that contribute to making Sweden a

---

prosperous and attractive country for students from around the world to become successful start-up entrepreneurs.

## Swedish Laws and Regulations

Sweden is a developed industrial country, which allows it to offer top quality opportunities to business enterprises. An entrepreneur looks for a business setting where entering the market is simple but, more importantly, remaining and prospering in the long run as well. First time start-up entrepreneurs do not have much 'real world' experience and to begin their venture in a country that has little complications allows for a favourable business climate.

Sweden's public administration is accessible, efficient and service minded. In addition, the country's first class infrastructure guarantees fast transportation and efficient use of time which all contribute to helping run a business trouble-free (Ernst & Young, 2005, pg 1).

Recent laws and regulations have been created to allow easier start-up businesses in Sweden as "an entrepreneur is a key determinant to business growth and success." (Box, 2005, pg 33) Since 1992, overseas citizens or companies may run a business in Sweden without first having to obtain authorization (Ernst & Young, 2005, pg 2). There are five basic legal forms for business ventures in Sweden: Sole Trader (enkelt bolag), Trading Partnership (handelsbolag), Limited Partnership (kommanditbolag), Limited Liability Company (aktiebolag) and Branch of a Foreign Company (filial). There are different laws pending on the type of business; however, there are also particular rules and regulations that pertain to all five. All businesses in Sweden must comply with the Swedish Bookkeeping Act of 1999 called 'Bokföringslagen' or 'BL' (Ernst & Young, 2005, pg 7). A major advantage of starting any one of the five types of businesses in Sweden, in comparison to other industrialized countries, is that the corporate tax is one of the lowest in Europe – a nominal tax rate of

28%. Having a Limited Company, the nominal tax rate can be reduced to approximately 20% using profit allocations to Reserves (Ernst & Young, 2005, pg 9-10). Sweden has an enabling tax system meaning that having "lower business taxation can help stimulate business creation and enabling of investments for companies who want to grow" (Baumol, 2007). According to a new small business entrepreneur, Niclas Jinnestrand owner of TRYCKMAN 2.0:

Starting TRYCKMAN was easier than I expected. I received 8000 SEK (roughly \$1250 CAD) non-taxed a month from the government for the first 6 months to get me on my feet. It felt nice to be paid to try something I really wanted to do!

Sweden is looking towards the future. The government has been taking action, by promoting and investing in young start-up businesses, in order to keep the economy growing as the workforce is getting older and many will soon retire. "Sweden needs new – and growing – companies that provide new jobs. To achieve this, it must become more attractive and profitable to own, run and develop companies." (Confederation of Swedish Enterprise, 2006)

A German citizen on an international exchange in Sweden, Bartos Malcherek, attending Junketing International School, stated:

I had to start a business with 200 SEK (roughly \$30 CAD) and turn a profit in 6 weeks for a course project. I created an Events Planning company which was very easy to do and I made a profit of 15 000 SEK (roughly \$2340 CAD). I never knew being an entrepreneur could be so easy and fun at the same time!

Since the Swedish government is promoting entrepreneurship and small business start-ups, they are changing the way small businesses are viewed and have created incentives for people, especially students, to start up businesses in Sweden. Students that are in school and start up a business for class

requirements, are not subject to tax unless the revenue exceeds 20 000 SEK (roughly \$3100 CAD) in one year. This encourages schools to implement entrepreneurial education.

Sweden realizes that small businesses will be the future of the country's economic growth. Laws and regulations benefit young entrepreneurs to enter Sweden. "Institutional change and new policy have affected [business] structures." (Box, 2005, pg72) Sweden, not to mention its first class quality living standards, has a favourable business environment to easily start-up a company as well as maintaining profitability in the long run due to certain policies and laws regarding small businesses. Along with laws and regulations, Sweden's labour market favours entrepreneurship.

### Sweden's Labour Market

Sweden, unlike many countries, strives for gender equality, which makes it possible to start a business no matter if the entrepreneur is male or female. "The overall objective of Sweden's gender equality policy is that women and men shall have equal power to shape society and their own lives." (Statistics Sweden, 2006) This enables business to function with fewer conflicts that might occur in a nation where gender equality is not enforced. In terms of population, Sweden is in 84th place among the world's 227 countries and has a literacy rate of 99 %. (Statistics Sweden, 2006) This depicts why Sweden has such a skilled labour force. Sweden's total labour force is approximately 75% of their total population with an unemployment rate of 5.6%. With such a low unemployment rate, Sweden is expected to have rapid economic growth in the next 10 years (Central Intelligence Agency, 2007). This creates an opening for international business start-up entrepreneurs to take advantage of. Small businesses which are "a more efficient form of organization" are growing in Sweden and are treated well as they are the current and future heart of the country's economy as 'the era of 'big' businesses is over.'" (Box, 2005,

pg72) Being an entrepreneur, according to Wickham, is not only being able to see opportunities, but being able to exploit them (Wickham, 2006, pg 72). The current success of the Swedish economy and their soon to be diminished labour force, due to baby boomers retiring, is the type of opportunity a young international entrepreneur should exploit. Another reason to become a part of the Swedish labour force is their powerful unions that enforce job security which will enable one to prosper safely in the long run.

There are four major organizations that represent the labour force: two for employers and two for employees. The largest Swedish employers' organization in the private sector is the Confederation of Swedish Enterprises (SEC), which acts as an umbrella organization for various employers' organizations in various sectors. The Government has their own negotiating bodies for public employers. The two major organizations that represent employees in Sweden are The Swedish Confederation of Professional Employees (SCPE) and The Swedish Trade Union Confederation (STUC). These powerful organizations provide many benefits for both employers' and employees alike such as bargaining power and job security; however, it is not mandatory for either an employer or employee to join these organizations (Ernst & Young, 2005, pg 33).

In Sweden, there are four major laws that govern the labour market which new start-up entrepreneurs would find attractive: *The Security of Employment Act*, which contains regulations governing employment security, lay-offs and termination of employment; *The Industrial Codetermination Act*, which contains regulations governing collective agreements, negotiating law, industrial peace etc.; *The Holiday Act*, stipulating 25 days of paid holiday per year; and *The Working Hours Restriction Act*, stating that work weeks may not exceed 40 hours unless overtime pay is given. All of these laws allow a new start-up entrepreneur to enter and remain in the market with protection to conduct safe and humane business. If these

laws are not followed, a complaint can be disputed through a special court – The Labour Tribunal (Ernst & Young, 2005, pg 34).

Working in Sweden allows me to have a great and secure career as well as a personal life due to laws that guarantee me time off work. My employees get the same rights as I do. I am a businessman but I also understand that when work is done, I go home to my family - and so do my employees. Personal time is mutually respected and cherished by bosses and employees in Sweden. (Jinnestrand, 2007)

Every business is stressful, but starting up a business in Sweden allows the entrepreneur to maintain their personal life after working hours, which is a valuable asset to any individual. Sweden's labour force is skilled; however, it is diminishing. For Sweden to keep economically growing they will need to keep their unemployment rate low; hence, finding a job or starting up a business should not be a tough task if the entrepreneur is educated and knowledgeable. Unions and labour laws are in place favouring everyone in the labour force and, in addition to Sweden's ever expanding job opportunities, it is a prime time for young, educated, and knowledgeable aspiring entrepreneurs to enter the Swedish market.

### The Swedish Education System

As pointed out earlier in this paper, entrepreneurship was defined by recognizing opportunities and exploiting them. In order to be able to do both, the acquisition of knowledge through education proves to be a pivotal asset. "Research suggests that knowledge may be particularly essential to the discovery as well as the evaluation and exploitation of opportunities." (Butler, 2004, pg 220) Sweden is aware that they need to expand their small businesses "as [they] are viewed as having more entrepreneurial orientation; growth and performance have been found to be intimately related to an individual's competence and knowledge." (Box, 2005, pg 33) The Swedish education

system has been restructured to advance students learning in accordance to becoming more entrepreneurially focused. The director of the Belmont University in The U.S. quoted that:

Over the past several years I have seen an explosion of interest in entrepreneurship and free enterprise in Sweden. They are developing amazing educational programs at their universities. They are enacting public policy decisions that the US should pay attention to. It now appears that the Swedish government is moving ahead of the US in recognition of the global shift to a new entrepreneurial economy. Perhaps we are witnessing the beginning of an entrepreneurial, grassroots transformation of the economic climate in Europe. (Cornwall, 2006)

Sweden has business schools that focus strictly on entrepreneurship such as Jönköping International Business School. A Swedish belief that has been established in young students today is that "knowledge is not a static resource" and is the foundation to business success (Butler, 2004, pg 245). There has been debate concerning whether education makes a better entrepreneur and studies have been conducted to clarify these debates. Conclusions have been made that "Entrepreneurs who [have] university education achieve a higher level of profitability than entrepreneurs with a lower level of education." (Bjorn, 1993, pg V) Due to constant findings that education improves entrepreneurial success, the Swedish government has poured resources, such as schools and business start-up allocation money to stimulate growth in their entrepreneurs and small businesses.

Aforementioned, Malcherek's experience at Jönköping International Business School has been something that illustrates the educational system.

I have never been pushed so hard to succeed in a course project before. I learned and practiced real life business skills that will be with me for longer than just theory I have

learned in the past and will help me greatly when I start my own business one day.

In Sweden, school is paid for by the government no matter what level the education is. It is not compulsory to attend university, but it is 'expected' and frowned upon socially if one does not get tertiary education. Since Sweden's labour force is so highly skilled, one may not be hired unless the correct level of education is achieved. Jinnestrand graduated from the Jönköping's Communication and Science University in 2003. Since he did not have a business or entrepreneurship degree, the government would not give him his six-month business start-up allocation money unless he had education regarding business. He needed the money from the government to get him on his feet so he had to take a six-month business start-up course, which was funded by the government, before he started TRYCKMAN. (Jinnestrand, 2007) This system explicitly denotes how much the Swedish educational system is viewed – essential. One will be supported financially and encouraged to start up a business if and only if the entrepreneur has the correct education level and is knowledgeable about what he/she is doing.

This system is engraved in society, which limits some entrepreneurs from starting a business in Sweden unless they have a high level of education and competence. This is to prevent anybody from just starting a business for the sake of it and wasting the government's investment money. The studies have shown that the "higher the entrepreneurs level of education is, the more profitable and likely to achieve growth he/she is." (Bjorn, 1993, pg 208) The educational system in Sweden is of a very high caliber, which is conveyed through their extremely competent labour force. Young start-up entrepreneurs must know that education is important to being successful in Sweden. The Swedes have a vivid way of thinking and a specific way of conducting business. One must be aware that Sweden is its own proud nation, which creates many cultural

differences in doing business in Sweden compared to other nations.

## Swedish Culture

"Since World War II, globalization has been advancing throughout the world." (Northhouse, 2007, pg 301) This modern day feature has affected the way cultures have grown and developed especially with more and more countries, like Sweden, becoming westernized. Businesses are rapidly expanding internationally and there is more "cultural exchange" which employees have to adapt to in order for their organization to be successful. With most of the Swedish business being done across its borders, the Swedish culture has softened and is moulding towards the way of the western world. There are, however, still a few cultural differences that a young entrepreneur may need to be aware of before starting up a business in Sweden. Before culture can be elaborated on further, one must understand the constantly debated definition of culture. For the purpose of this paper, culture is defined as "the learned beliefs, values, roles, norms, symbols, and norms that are common to a group of people." (Northhouse, 2007, pg 302) One must be aware that there are many differences in doing business in another country; however, "in business, rejection isn't personal." (Norman, 2004, pg 40)

National culture varies with every customer I have. Americans are aggressive and demanding whereas Asians are extremely quiet and shy; I sometimes don't even know how to deal with them because they do not tell me what they want. Swedes are somewhere in between. Getting beyond language barriers may be difficult, but it is even more difficult to not feel awkward in certain business situations depending on different national culture differences (Jinnestrand, 2007)

Malcherek found that "Societal culture in Sweden is very different. I had a difficult time trying to communicate with Swedes not because I did not know how to speak Swedish, but just that the Swedes are shy people in general. It certainly creates a

barrier when doing business.” Complications occur in all types of situations, including business settings. Culture differences are eminent no matter where one does business; however, Sweden is an easier place to adapt as well as be accepted for having a different culture. “There are a lot of organizations involved in assisting and supporting the creation and development of new companies in Sweden.” (Kruzich & Fahraeus, 1998, pg 41)

According to a study conducted by House et. al (which is mainly referenced from Hofstede), labeled *Dimensions of Culture and Leadership*, conclusions regarding the differences between Anglo (North American) and Nordic (Sweden) cultures, is that the Swedish culture is more focused on Humane-Oriented Leadership. “Humane-Oriented Leadership emphasizes being supportive, considerate, compassionate, and generous.” (Northhouse, 2007, pg 314) This aspect of the Swedish culture ensures that starting a business in Sweden will be supported by those around the new entrepreneur. “We were taught to accept other cultures from a very young age and that is what makes working with so many different people easy.” (Jinnestrand, 2007) Since Sweden is focused on being entrepreneurial, there are certain aspects that have been created in order to develop an entrepreneurial culture. “The fostering of a more pronounced entrepreneurial culture is crucial for industrial renewal, economic growth and employment creation in a mature industrialized economy like Sweden.” (Kruzich & Fahraeus, 1998, pg 79) Entrepreneurs that start up an international business have a step up in today’s globalized economy. Being part of another culture creates diversity in an individual, which allows better interpersonal skills, and relationship building that can foster growth. “The obstacles to a strengthened entrepreneurial culture are primarily connected with how institutions and economic policies forge the incentive structure of both potential and extant entrepreneurs.” (Kruzich & Fahraeus, 1998, pg 81) For a young entrepreneur, to start a business in Sweden

allows them to reap all the benefits while being able to merge into society through their accepting culture; not to mention the help and support from the local community.

## Conclusion

Sweden is a prosperous and attractive country for students from around the world to become successful start-up entrepreneurs. There are many factors that make Sweden’s business climate suitable for success. “Vast areas of the Swedish economy have remained unexploited as sources of commercial growth.” (Kruzich & Fahraeus, 1998, pg 98) The laws and regulations surrounding entrepreneurship favour starting up a business in Sweden as small enterprises are what will be the competitive force of Sweden’s business practices in the future. There are many opportunities in Sweden for young entrepreneurs wanting to begin their business including a low business tax in comparison to other countries in the EU as well as the mass amount of job openings in the labour force. Education is paid for by the government in Sweden, which may be a magnet for aspiring students to want to go to Sweden. Education and knowledge has been the key component for why the world has developed exponentially in the past century and who knows where it will lead us in the future. One of the most important reasons, which could make or break a start-up company, is the entrepreneur’s ability to work in the country’s climate stemming from their culture. Ethnocentrism is “the tendency for individuals to place their own group (ethnic, racial, or cultural) at the center of their observations of others and the world,” which is not invoked in Swedish business. Swedish people are very open and accepting of those around them. This makes adjusting to a new country effortless and comfortable for those young international entrepreneurs beginning their career in Sweden.

Sweden is a very entrepreneurial focused nation whereas other nations do not have the ability to become so entrepreneurial through their laws, labour force, education, or culture.

If every nation could aspire to view entrepreneurship the way Sweden does, there would be an educated global business society bringing many competencies to the global economy table while respecting as well as maintaining cultural aspects from all over the world.

## References

- Baumol, W. (2007), Swedish Foundation for Small Business Research, <http://www.fsf.se/eng/news/061113newyork.htm> (accessed 7 November 2007).
- Box, M. (2005). *New Venture, Survival, Growth*, Almqvist & Wiksell International: Stockholm, Sweden.
- Butler, J. E. (2004) *Opportunity Identification and Entrepreneurial Behaviour*, Connecticut, U.S.A.: Information Age Publishing.
- Central Intelligence Agency (2007) *The World Factbook: Sweden*, <https://www.cia.gov/library/publications/the-world-factbook/print/sw.html> (Accessed 17 November 2007).
- Confederation of Swedish Enterprise (2006), *More – and Growing – Small Enterprises*, <http://www.svensktnaringsliv.se/english/theme-sheets/article16020.ecee> (Accessed 15 November 2007).
- Cornwall, J. (2006), *The Entrepreneurial Mind*, <http://forum.belmont.edu/cornwall/archives/004543.html> (21 November 2007).
- Ernst & Young (2005), *Establishing a Business in Sweden*, Oresund Publishers Limited: Malmö, Sweden.
- Jinnestrand, N. (2007), Personal Interview, October 24.
- Kruzich, J. P. and Fahraeus, A. (1998). *What We Can Learn From Silicon Valley: American and Swedish Culture*, Industrihuset: Stockholm, Sweden.
- Malcherek, Bartos. (2007). Personal Interview. November 5.
- Norman, J. (2004) *Starting your own business*, Dearborn Trade Publishing: Chicago, U.S.A..
- Northhouse, P. G. (2007), *Leadership: theory and Practise*, SAGE Publications: California, U.S.A..
- Olsen, B. (1993), *New venture Post Start-up Success: Factors Affecting Profitability and Growth for New Ventures in Norway and Sweden*, Universitetet I Trondheim: Stockholm, Sweden.
- Statistics Sweden (2006). *Facts and Figures: Men and Women in Sweden*. (Accessed November 15, 2007) from [http://www.scb.se/statistik/\\_publikationer/LE0202\\_2006A01\\_BR\\_X10ST0602.pdf](http://www.scb.se/statistik/_publikationer/LE0202_2006A01_BR_X10ST0602.pdf)
- Statistics Sweden (2006) *Population Statistics*, Retrieved November 15, 2007 from [http://www.scb.se/templates/pressinfo\\_95792.asp](http://www.scb.se/templates/pressinfo_95792.asp)
- Wickham, P. A. (2006) *Strategic Entrepreneurship*, Pearson Education Limited: Essex, Great Britain.