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Do Local firms have a competitive advantage over Multinational enterprises?

Research submitted

by

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of

MASTERS OF BUSINESS ADMINISTRATION

Abstract

This study describes the factors that drive competitiveness between local firms and multinational enterprises (MNE) in a retail consumer market of an emerging country. It also seeks to identify the approaches and strategies the competitors consider and adopt to maintain the advantage in the consumer market.

The objective of this study is to identify the factors local firms and MNE's will consider when competing with each other. The study also wants to identify the preferred mode of entry of MNE's.

The study will be a quantitative study where relationships between competitors and their performance in the market are measured.

The results revealed that local firms do have a competitive advantage over MNE's in the retail consumer market due to the local firm's knowledge of the market, rather than the technology and skills. It's also clear that MNE have a preferred mode of entry and they chose to compete in the industries where they are stronger than the local firms.

Key words: Competitive Advantage, Mode of Entry, Bottom of the Pyramid,

Multinational Enterprise & Living Standard Measure

Declaration

I declare that this project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria.

It has not been submitted before for any degree or examination in any other university.

I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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Ulrich Janse van Rensburg Date

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1. Introduction

Research problem

Initial research has addressed the question as to whether Multinational Enterprises (MNEs) have a competitive advantage over Local firms within a specific country or state (Poulis, Yamin, & Poulis, 2011). The reasons for the competitive advantages can vary and the Local firms do get the upper hand in some instances, these reasons are dependent on the environment in which the firms find themselves, as will be discussed in the literature. The MNEs do make use of their global industry knowledge and broader access to resources. The Local firms on the other hand have a better understanding of the competitive environment in their industry and within their borders.

The South African economy is an economy that finds itself in the middle of economies defined as developed-and-developing economies. The South African economy has a mature high income class and large low income class. This is also changing as the country is experiencing a growth in the middle income class. In addition to serving the South African consumer market's (high-and-low income classes) the Local firms and MNE's have to adapt their resources, capabilities and skills to address the growing middle class economy.

When MNE's consider entering markets of developing countries one of their key components of their market research will include gaining an understanding of the consumers in this developing market. The Bottom of the Pyramid (BOP) is a concept discussed in literature to break the consumer markets down into four tiers of wealth. The literature argues that two thirds of the world's population finds themselves in the fourth tier of the pyramid also referred to as the BOP (Prahalad & Hart, 2002). Prahaland and Hart (2002) argues that MNE's will have to change their traditional business model to cater for the BOP in developing countries like South Africa where the economy might be mature, but the consumer dynamics still has a large fourth tier (BOP). They consider the key changes in the business model to include new innovation in technology and strategic change. In addition

Prahaland and Hart (2002) believe that MNE's should take note of the elements that creates buying power.

In order to determine how a MNE will approach the developing market will be to assess if the MNE can demonstrate its ability to compete with Local firms. The MNE's approach can determine how competitive the MNE is in the developing market. These abilities are dependent on how flexible the MNE is when it comes to changing their traditional business model. The traditional business model of MNEs will typically produce a better perceived product to the upmarket segments/Tier 1 while the Local firms will produce affordable low margin products in high volumes for the middle and low market segments/ Tier 2 to 4 (Dawar & Chattopadhyay, 2002). Literature therefore argues that MNE's cannot approach developing countries without tweaking the products to account for the consumer's tastes, price and demand (Khanna & Palepu, 2010).

Dunning (Dunning, 1993) however looks at MNEs entering the Local arena and he says that these MNE's have access to better resources and their co-ordination abilities can also stand out against the Local firms and, therefore, they are considered as superior to the Local competitor (Chang & Xu, 2008). More literature looks at MNEs competing with Local firms in South Africa and MNE's realise that their success is dependent on how well they exploit their firm-specific assets when they compete in the same market (Bobillo, Lopez-Iturriaga, & Tejerina-Giate, 2010).

Another aspect considered to determine competitive advantgae between MNE's and Local firms are modes of entry. The modes of entry can range from joint ventures to wholly owned subsidiaries (Guillen & Carcia-Canal, 2009). The MNEs will consider global alliances or acquisitions (Rui & Yip, 2008) which, they believe, will help them overcome the liability of foreignness. The choice to modes of entry is mainly driven by the MNE's desired control requirements and the MNE's level of risk appetite (Cespedes, 1988). Higher control modes might be more efficient and

this will lead to higher levels of product differentiation (Anderson & Coughlan, 1987) Wu and Pangarkar (Wu & Pangarkar, 2006) suggest that Local firms forming alliances with MNEs stand a better chance to survive and enhance their competitive position in the developing country.

The success of MNE's entering developing markets like South Africa's is also dependent on the response of the Local firms. These Local firms can decide to compete with the MNE's or partner with them. Local firms in South Africa face various challenges in the market they operate. One of these challenges is to compete with MNEs entering the Local market. Local firms are not always aware of the impact MNE competitiveness has on the Local industries. The Local firms will only understand the impact of the MNEs' activity on the industry and Local businesses if the business operates in a similar way and they operate in the same markets (Chen, 1996; Yu & Cannella, 2007). MNEs have the competitive advantage of relying on the assets like sourcing, capital and scale, but according to Meyer (Meyer, 2001); the MNEs must also try to adapt their strategies to align to the Local institutions.

Research motivation

Over the past couple of decades the number of MNEs entering the South African economy keeps on rising and their wealth of knowledge and resources do not make doing business in the country easy for the Local firms. The Local firms have a better understanding of the Local market they operate in. This research will assess whether the Local firms have to rely on MNEs technologies and operating models. The MNEs entering the South African economy from developed economies needs to adapt their model to service the lower income economies of the South African market. MNEs from developing/emerging countries on the other hand need to understand the demands of the higher income economies in the South African market.

The need to understand the dynamics that exist between Local firms and MNE's competing in the South African consumer market will help us to understand how Local firms and MNE's will approach competition amongst each other.

The research will help us to understand whether Local firms have a competitive advantage over MNE's in the Local market. To support this need the following additional aspects will also be analysed:

- The ability of Local firms to provide more products and service to all consumers in the Local market, irrespective of their buying power;
- MNE's chose any mode of entry to participate in the Local market;
- MNE's presence in the Local market cause for Local firms to respond competitively and as a result MNE's are limited to the industries where they can actively compete with Local firms.

Research scope and objectives

This research will aim, using literature and data, to determine whether Local firms in South Africa find themselves in the fortunate position where they understand how to serve low-, medium- and high income groups in the Local economy.

The research objective is to determine whether Local firms who operate in South Africa are able to service the high-, middle- and low income economies of the emerging market, using the low-, middle- and high income Living Standard Measure (LSM) levels categories, better than MNEs.

The research will not assess whether Local firms sell more products and services that MNE's. Those statistics are readily available and Local firms do service more consumers in the South African market than MNE's. The research rather wants to explore the competitive advantage the firms have and wants identify the reasons that might contribute to the success of the Local firms and MNE's.

The research wants to assess how Local firms and MNE's service all consumers on the South African market. This will require that the research break the BOP

down in measurable components. The research will therefore select specific industries where all consumers are affected by retail products and services. The research will also focus on customers in these industries using the Living Measure Standards (LSM) index. The index will group the consumers using various parameters (detail discussed in Chapter 4 – Methodology).

The next chapter consist of literature that will explore the research objectives

2. Literature reviews

A lot of research has been done addressing MNEs competing against Local firms, but not enough has been studied on how Local firms compete against the MNEs (Coucke & Sleuwaegen, 2008). The research addresses a number of questions about how MNE intend to compete with Local firms and also how Local firms plan to react to the threat in their own market.

The South African economy has a unique consumer profile and the competitive advantage of a firm depends on their ability to gain access to every level of this consumer pyramid.

MNE's do not approach the emerging markets without understanding the risks involved. Literature reveals that the opportunities in the market for MNE's do not reside with the wealthy countries and fast growing emerging markets (Prahalad & Hart, 2002). They reckon the real opportunities for MNE's reside with the poor mass market. They believe this (poor mass market) untapped market has an aggregated buying power where no MNE's compete for it. They broke the consumer market up in four Tiers.

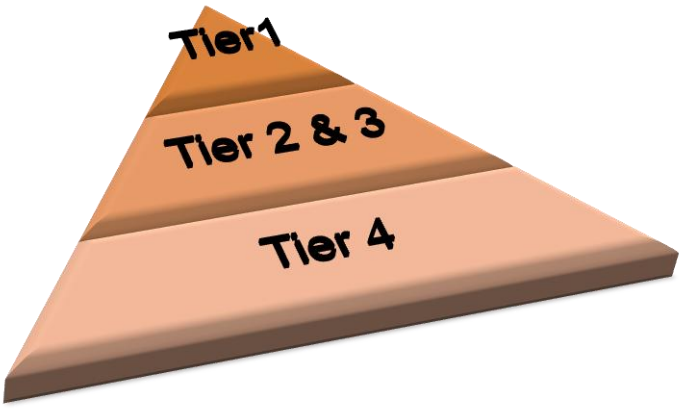


Figure 1 - Consumer Pyramid

The first tier of the pyramid consists of the wealthy consumers in the developed world. These consumers have the majority of the world's wealth, but are less

than 2% of the world's population. The second and third tier of the pyramid is the emerging middle market is the market MNE's are more comfortable to target and this market makes up approximately 30% of the world's population. The consumer market segment Prahalad and Hart (2002) suggest to target if you're a MNE is the fourth tier. This tier consists of approximately two thirds of the consumer market.

Taking the above recommendations into consideration will cause disruptions in the MNE's existing business model. The business models of the MNE's are designed to earn high margin by selling low volumes of products. The new business model will require MNE to attract consumer with low margins, but selling high volumes (Prahalad & Hart, 2002).

Literature suggest that although buying power in these developing economies are low and infrastructure is non-existent MNE should approach developing countries with innovative technologies, business models and management processes that's different to the one they adopt in the developed economies (Prahalad & Hart, 2002). This literature also maintains that if MNE's manage to cater for the above mentioned in their approach to tier 4 markets they will be able to address the four elements:

- Creating buying power
- Shaping aspirations
- Improving access
- Tailoring solutions

(Prahalad & Hart, 2002)

An additional benefit for MNE's is that if they manage to change their business model and support with the four elements they will not only be able to compete with the Local firms, but they can also adopt the approach in the other countries where tier 4 markets exist.

In contrast to Prahaland's view other literature opposes this view of MNE's entering tier 4 markets (Karnani, 2007). They believe the bottom of the pyramid is a financial desert where MNE's will endure more losses than they will gain profits. Instead the opposing literature believes job creation is more important as wages earned will create the buying power required for MNE's to use their existing developed market business model.

Another opposing view see consumers grouped based on their lifetime consumer value (Zeithaml, Rust, & Lemon, 2001). According to them profits is the key driver of success. The customers were segmented into different profitability tiers (Platinum – highest segment and Lead – lowest segment). Zeithaml, Rust & Lemon (2001) said platinum customers are exponentially more worth than lead customers and this contradicted Prahaland (2002) who said MNE's should either chase profits on low volumes where margins are high in developed markets or they should chase low margins where volumes are high in developing markets.

When MNE's do consider approaching the developing countries and target the bottom of the pyramid (tier 4) they cannot pursue this by themselves. They have to do so by approaching local institutions. These institutions should form part of the public-and-private sectors. The MNE's must also choose the developing countries where the public-and-private sectors have a common goal by improving the social wellbeing of the community (tier 4) (Prahalad & Hart, 2002).

When MNE's evaluate the risks of entering a developing country to target the bottom of the pyramid these MNE's must realise that it will not be an easy task. These MNE's will have to realise that it will be a capital intensive exercise and will require innovative foresight (Seelos & Mair, 2007). Understanding the

different consumer layers will help MNE's to make their mark in the South African consumer market (Karnani, 2007)

There are two types of MNE's that will approach the South African consumer market. They are referred to as the traditional-and-new MNE's (Guillen & Carcia-Canal, 2009). The traditional MNE's are the developed world MNE's who has been competing globally for decades and who are present in most countries i.e. Toyota. The emerging MNE's are those firms who evolved over the last couple of decades to dominant competitors on the global scene i.e. Samsung.

The traditional MNEs have two significant challenges they have to address before considering entrance in an emerging economy. The first challenge is the prevalence to institutional voids and the second challenge refers to the nimble ambitious competitors who, in their own right, target exactly the same markets (Khanna & Palepu, 2010).

The new MNEs of the world originate from middle income- and emerging countries. Their approach to globalisation requires more innovative methods, as they do not have access to resources similar to traditional MNEs (Guillen & Carcia-Canal, 2009). Like the traditional MNEs the new MNEs also consider South Africa as a country with opportunities. These MNEs, some more innovative than others or better resource equipped, create a definite awareness of their presence under Local firms in South Africa. These new MNEs have become very relevant in globalisation by participating in foreign direct investment and cross-border acquisitions (UNCTAD, 2006).

Some emerging MNEs have become very relevant, as countries like China require various resources for their own infrastructure development. These MNEs invest in different industries and pose a definite threat to Local firms who also want access to the same resources. The emerging MNEs also expand vertically

by relocating assets or employees to South Africa. This could threaten Local firms as MNE employees might be more skilled or have more assets which could mean more advanced technology (Guillen & Carcia-Canal, 2009).

Local firms need to be aware of the fact that MNEs will implement more sophisticated equipment to produce products at a cheaper rate and at higher volumes. The MNEs will typically produce a better perceived product to the upmarket segments while the Local firms will produce affordable low margin products in high volumes (Dawar & Chattopadhyay, 2002). In South Africa however it is perceived that the Local firms can produce products that can serve the upper-, middle- and low-income segments. It is possible that the Local firms have a better understanding of their buying power over all the market segments.

Although MNEs have existed for decades, the first individual who tried to understand the model was an economist named Stephen Hymer (Guillen & Carcia-Canal, 2009). Hymer managed to show that MNEs possessed resources, which helped these firms overcome their liability of foreignness (Guillen & Carcia-Canal, 2009). An accepted definition of an MNE is that it is a specific organisational form that comprises of entities in two or more countries, regardless of legal form and fields of activities of those entities in which it operates (Ghoshal & Westney, 1993).

When MNEs enter the Local arena they may have access to better resources and their co-ordination abilities can also stand out against the Local firms (Dunning, 1993) and, therefore, they are considered as superior to the Local competitor (Chang & Xu, 2008). Local firms can however interact with the MNEs regularly and this will help Local firms build the capabilities they need to compete with the MNEs (Cortright, 2006; Porter, 1988).

This sounds intimidating as it is clear that Local firms face an uphill battle in taking on a MNE who has a bigger capital base and business infrastructure (knowledge, resources, etc.). Some researchers (Poulis K. , 2008) suggest Local firms need to avoid direct competition with the MNEs and develop strategies to operate niches. These strategies should be based on their Local identity and culture (Ger, 1999; Miller, Thomas, Eden, & Hitt, 2008).

Although Local products might represent a sense of pride, some MNE products like Coca-cola will still enjoy more preference from Local consumers than a similar Local brand. MNE products have a better brand awareness in most Local environments. Facing this challenge, Lavie (2006), questioned the idea of non-shared resources amongst Local firms. This suggests Local firms need to see sharing of resources as a competitive advantage and expand their resource sharing network (Hadley & Wilson, 2003).

Dunning (2001) also says MNEs have resources, which help them to be superior over Local firms. These resources include innovative processes and technologies (Tsang, Yip, & Toh, 2008); marketing skills (Nachum & Rolle, 1999), channel related resources (Das & Teng, 2000) and managerial skills (Zaheer, 1995).

MNEs evolved over the past three to four decades. Organisations started to move across borders as the organisational structures were fairly simple. The need for resources and market share caused the cross the border activity, which became a very sophisticated model (Narula & Dunning, 2009).

According to Dunning (2003), MNEs continue to exist because their entrance in emerging markets helps them cut costs and exploit new markets. This results in increased profits. At the same time host countries welcome MNEs to invest in their country. The host countries hope to gain access to the technologies and

skills they do not yet possess. Local firms lag behind when it comes to capital, as MNEs can afford high fixed costs for the development of transport, communications and financial services required to manufacture and/or export (Blomstrom & Kokko, Multinational corporations and spillovers, 1998). MNEs from developed countries cannot approach emerging countries with their products without tweaking the products to account for local tastes, price and demand for these countries (Khanna & Palepu, 2010). If these MNEs do not take the above into consideration they may not be in a position to compete with the Local firms. The MNEs targeting emerging countries will realise how different their approach has to be compared to their home country environments. They will have to recognise that their approach to sell into emerging markets is more complex. Khanna and Palepu (2010) stressed that MNEs must understand emerging market consumer needs, emerging market distribution networks and institutional frameworks supporting their activities in the emerging markets.

The proliferation of MNEs can cause concern for Local firms in South Africa, as they have to deal with more foreign direct investments, which add to the pressures on suppliers and resources. The observers, policymakers and scholars did not expect such a proliferation of the new MNEs (Guillen & Carcia-Canal, 2009).

As mentioned, the new MNEs might have access to fewer resources compared to traditional MNEs, but new MNEs have better political capabilities. This is particularly useful in countries like South Africa where political influence will contribute to greater access. The new MNEs have a better understanding of the unstableness of emerging market governments as these are the environments they have been exposed to in their home countries (Cuervo-Cazurra & Genc, 2008). The new MNEs political capability also eliminates the advantage Local firms in South Africa have in understanding the political challenges they will experience when dealing with consumers, one of which could be the government.

In order for MNEs to expand in foreign countries they have to be able to familiarise themselves with the Local market and be able to compete. Knowledge is considered a powerful way to gain competitive advantage in the Local market (Lavie & Giegenbaum, 2000). MNEs have the infrastructure network they can utilise to gather market knowledge and rely on subsidiaries to support them.

New MNEs who do not find enough growth in their home countries due to government limitations exercise their options in other emerging/middle income economy countries, like South Africa, where the need for foreign direct investments are welcomed. The new MNEs demonstrate their ability to adapt their operating model in the emerging/middle income economy countries. The result of new MNEs present in the South African consumer market causes a disruption for Local firm operations (Guillen & Carcia-Canal, 2009).

Firms who intend to be competitive and stay ahead of the trend by using the knowledge they gained from competitors use their human capital and organisational structures to improve innovation (Blomstrom & Kokko, 2003).

MNEs competing against Local firms in South Africa realise that their success is dependent on how well they exploit their firm-specific assets when they compete in the same market (Bobillo, Lopez-Iturriaga, & Tejerina-Giate, 2010). These assets include organisational advantages, technological knowledge and firm reputation (Caves, 1996; Dunning,1993).

Based on the research it seems that MNE’s will experience limited to no problems to compete with Local firms in the South African economy. Therefore a need exist to assess whether Local firms can compete with MNE’s. To measure the ability of Local firms and MNE’s competing with one another it is required to

level the playing field where the ability of competition will be measured and not the scale.

Ha1 - *Local firms can overall service a broader spectrum of retail consumers in the LSM categories than MNE's*

Wu and Pangarkar (2006) suggest that Local firms forming alliances with MNEs stand a better chance to survive and enhance their competitive position. The question lies in whether the alliance approach of Local firms will be sufficient for these firms to have a competitive advantage over other MNEs. In reply to this argument Dunning (1993) suggest that MNEs should rather create subsidiaries in the emerging countries like South Africa to compete with Local firms where the subsidiary can rely on better resources and better co-ordinating abilities. Dunning (2001) also says MNEs have resources, which help them to be superior over Local firms. These resources include innovative processes and technologies (Tsang, Yip, & Toh, 2008); marketing skills (Nachum & Rolle, 1999), channel related resources (Das & Teng, 2000) and managerial skills (Zaheer, 1995).

MNEs also started to originate from emerging- and middle income- and oil-rich countries. The new MNEs were classified as new organisms that were not similar to the traditional MNEs. MNEs enter countries like South Africa using different modes of entry.

Guillen and Carcia-Canal (2009) raised a new concept of MNEs. These MNEs are not considered traditional MNEs originating from the developed world. These MNEs started rising in the 1990s. The new MNEs, depending on their home countries, emerge only from certain industries, for example, South Korea who produces electronic equipment and vehicles (UNCTAD, 2006). As an attempt to compete, Local firms can identify these new MNEs and position themselves to deal with this threat when the new MNE enters the South African economy.

The new MNEs do not possess all the resources (sophisticated technologies or marketing skills) traditional MNEs possess and therefore they find innovative ways to be competitive in both developed and developing countries (UNCTAD, 2006). The new MNEs will target emerging countries so as to grow and improve their operational experience. They will also target a few developed countries who can contribute to improving their capabilities (Guillen & Carcia-Canal, 2009).

New MNEs do not necessarily gain access to intangible assets. Instead, they form crucial alliances with Local firms and in doing so get access to critical skills and resources. These skills and resources help new MNEs to catch up with other competitors and also result in themselves being formidable competitors to Local firms (Cuervo & Villalonga, 2000).

These modes can range from joint ventures to wholly owned subsidiaries (Guillen & Carcia-Canal, 2009). The MNEs will consider global alliances and acquisitions (Rui & Yip, 2008) which, they believe, will help them overcome the liability of foreignness and give them a competitive advantage in the South African market where they can add Local skill to their business operations. Although it is perceived that foreignness liability is not considered as a factor to halter MNEs (Zaheer, 1995) to be competitive, literature (Verbeke & Brugman, 2009) has highlighted mixed reaction as to whether MNEs can be competitive. Reasons for the uncompetitveness of MNEs are based on the fact that MNEs might be unfamiliar with the institutions and environments (Poulis, Yamin, & Poulis, 2011). South Africa's Local market might have a complex environment where factors like a very diverse economy exist. This might impact the MNEs' ability to compete with the Local firms.

MNE's have to consider one of four different modes of entry when consider to take part in another economy where they have limited to now presence (Agarwal & Ramaswami, 1992).

The modes of entry can be one of the following types:

- Exports
- Joint venture
- Licensing
- Wholly owned subsidiary

(Agarwal & Ramaswami, 1992)

The choice to mode of entry is mainly driven by the MNE's desired control requirements and the MNE's level of risk appetite (Cespedes, 1988). More operational control reflects higher risks (assumptions and resources) (Anderson and Gatignon, 1986). When MNE's consider wholly owned subsidiary as a mode of entry they require significant capital investment and will have high levels of control (Agarwal & Ramaswami, 1992).

As discussed Local firms face an uphill battle when facing MNE's due to the MNE's access to resources. Researchers (Poulis K. , 2008) suggest Local firm's needs to avoid confrontation and focus their efforts of niche segments of the market. In contrast to this, it is also suggested (Grant & Baden-Fuller, 2004) that Local firms form alliances with one another and in doing so compliment each other's products or services which will provide Local firms with a competitive advantage. Poulis, Yamin, and Poulis (2011) disagree with the retreating approach and suggest Local firms stand their ground. They discuss how Local firms need to be clever about accessing the resources complimenting the core product or service offering.

Dunning (1988) says that ownership advantage is one of the key determinants for an MNE when deciding on the mode of entry. Firms often consider entering foreign countries using less risky modes of entry like exporting instead of wholly

owned subsidiaries. MNE's also identify countries where the market seems to have high growth potential. Where countries have high growth potential MNE can also consider joint venture or licensing modes of entry (Agarwal & Ramaswami, 1992).

MNE's must possess superior assets and skills compared to its Local counterparts. These MNE's will most probably have higher service costs which shall be absorbed by the MNE's superior assets and skill (Agarwal & Ramaswami, 1992).

MNE's might not be interested in anything less than wholly owned operation due to the fact that they will have to share with country firms (Agarwal & Ramaswami, 1992). Higher control modes might be more efficient and this will lead to higher levels of product differentiation (Anderson and Coughlan 1987; Coughlan 1985);

Agarwal & Ramaswami (1992) says asset power will be required in order for a MNE to compete with a Local firm Asset power can be described as the MNE's ability to absorb costs (marketing, economies of scale, host country contracts, etc.) and the MNE's MNE experience (Agarwal & Ramaswami, 1992)

Mode of entry is not only determined based on a firm's own abilities. It's also decided based on where the investment will be made. MNE's will rather consider low risk modes of entry i.e. exporting in high risk markets than considering high risk modes of entry i.e. wholly owned subsidiaries (Leontiades, 1985).

This brings up the point of unknown markets where culture and the differences between cultures exist. This in its own right can be considered as a high risk for MNE's who do not understand the new market.

MNE normally wants more control when entering a country if they feel a great cultural distance exist between them and the host country. The effectiveness of the MNE's depends on the level of control they have and therefore the MNE's feel that they need more equity ownership where the cultures have significant differences (Tihanyi, Griffith, & Russell, 2006)

Desirable technologies are sometimes a bargaining tool for MNE's with governments when entering these new emerging markets (Ting, 1988)

The literature clearly shows that MNE's consider different modes of entering a foreign country to participate in the foreign economy. The mode choice is dependent on the risk the MNE is prepared to take when entering the country. As a result the research will attempt to determine what MNE's preferred mode of entry is. As a result the following hypothesis was derived.

Ha2 – *MNE's use licensing as the preferred mode of entry to access the customers in the South African consumer market.*

Local firms in South Africa face various challenges in the market they operate. One of these challenges is to compete with MNEs entering the Local market. In order for the Local firms to cope with this challenge management scholars suggest the Local firms need to:

- Be aware of the MNEs presence and acknowledge the threats the MNEs could pose,
- Be motivated to compete with the MNEs, and
- Obtain the necessary capabilities required

(Chen, 1996; Smith, Ferrier, & Ndofor, 2001).

Local firms who do not enjoy enough institutional protection will be more motivated to react to the challenge of competing with the MNEs entering the South African markets (Baum & Korn, 1996).

Local firms are not always aware what the effect of the impact from MNE competitiveness has on the Local industries. The Local firms will only understand the impact of the MNEs' activity on the industry and Local businesses if the business operates in a similar way and they operate in the same markets (Chen, 1996; Yu & Cannella, 2007). Local firms in South Africa will therefore have to be aware of their MNE competitors and understand their operations.

Dunning (2003) says that firms are price takers, and given this, the choice of location for these firms is based on stage production (where different parts of the products are produced at different production plants). Therefore MNEs will seek opportunities in South Africa where they can optimally produce the products, or part thereof, by using low cost labour. This factor is very attractive to MNEs when they source resources and produce products (Khanna & Palepu, 2010). The low labour cost factor makes it very difficult for Local firms as they do not have the luxury of seeking the cheapest production points outside of South Africa. This can lead to a competitive advantage for MNEs. One of the

challenges modern MNEs will face if they do produce products at a strategic/cost effective location is that they cannot perform many activities such as marketing and research and development at the same location. MNE firms find it extremely challenging to integrate all three components.

In South Africa the operations of MNEs and Local firms are very similar and these competitors (for example, Heineken and South African Breweries; or Shoprite Checkers and Walmart) have a high level of awareness (Chen, 1996; Yu & Cannella, 2007). The presence of these foreign investors in the South African industries increases the level of competitiveness among the rivals. These rivals will introduce their products with new marketing campaigns, value added product features or even improved products to gain market share (Blomstrom & Kokko, 2003; Driffield & Love, 2007)

When we try to assess the competitive advantages between Local firms and MNEs we want to understand what they have at their disposal to compete against each other. We also want to understand how they utilise these factors to their advantage.

From the literature it is very clear that Local firms have one of two options to compete with MNEs seeking opportunities in South Africa. Firstly the Local firms can use their understanding of the Local market (LSM levels – consumer base) to approach customers with unique offerings that suite their needs and to which they can relate. The Local firms also need to become aware of the MNEs and strategically position themselves in the market to compete aggressively; for example, Nando's advertise very relevant South African humour and consumers are very aware of their presence in the market. Secondly Local firms can decide to form an alliance with a MNE where the Local firm can gain access to the MNE resources. This combination of resources and Local market knowledge will form a powerful competitor in the Local market. This alliance can also attempt to

provide the quality products at affordable prices to a broad segment (LSM levels) of the market.

MNEs have the competitive advantage of relying on the above assets, but according to Meyer (2001), the MNEs must also try to adapt their strategies to align to the Local institutions.

One of the challenges MNEs face when they start up their operations is with implementing the strategies which in turn is influenced by external factors over which the MNEs have no control (Geringer, Tallman, & Olsen, 2000). This forces MNEs to implement more flexible systems which will allow them to react better and more promptly to changes in the environments in which they operate (Buckley & Casson, 1998). In South Africa MNE's can benefit by familiarising themselves with labour quality to promote innovative ideas (Barro, 1991).

There are a number of MNEs operating or intending to operate in South Africa. The fact that these firms are active does not mean they do not experience strain by entering the economy. Literature has shown (Vissak, 2009) that when a firm diversifies internationally this activity will have an impact on its performance. MNEs entering other economies realise that their performance is impacted by the new country's financial system and the skilled labour market that exists in the new country (Carlin & Mayer, 2003). This creates opportunities for the Local firms to take advantage of the challenges by ensuring they employ top skills and hold on to these skills. Some MNEs do not want to experience these challenges and they therefore exploit firm specific assets (Dikova & Van Witteloostuijn, 2007).

The first research questions MNE's ability to compete with Local firms in the South African economy. Research show that Local firms become aware of the MNE's who enter their market and as a result these Local firms respond in various ways to compete with the new entrants. It is therefore possible that

MNE's do not have the ability to compete with Local firms on all fronts. As a result this research will have to assess if MNE's compete selectively.

Ha3 – *MNE's can only compete with Local firm in selected industry segments of the retail consumer market.*

3. Research questions and hypotheses

The literature in Chapter 2 suggests that both the Local firms and MNEs have different features contributing to their ability to be competitive with each other in the South African consumer market.

This research measures the firms' (Local and MNE) ability to compete across the broad spectrum of the consumer classes. The consumer classes are defined using the Living Standard Measure index. This research will attempt to identify whether Local firms are able to compete with MNEs in the South African consumer retail market.

These research propositions will attempt to proof service across all levels of the South African consumer market and identify competitiveness amongst parties (Local markets versus MNEs). Thereafter the research will attempt to identify if the competitiveness exists in certain industries.

The following hypotheses were formulated to determine if the research question can be answered:

Hypothesis 1:

Ha1: *Local firm's can overall service a broader spectrum of retail consumers in the LSM categories than MNE's*

H01: *Local firm's service overall similar or less retail consumer spread over the LSM categories than MNE's*

Hypothesis 2:

Ha2: *MNE's use licensing as the preferred mode of entry to access the customers in the South African consumer market.*

H02: *MNE's rely on modes of entry other than licensing to gain access to the customers in the South African consumer market.*

Hypothesis 3:

Ha3: *MNE's can only compete with Local firm in selected industry segments of the retail consumer market.*

H03: *MNE's are able to compete with Local firms across all the retail industry segments with the same level of intensity.*

This research paper will attempt to answer the three hypotheses using a statistical analysis and referring back to the literature. The research methodology is discussed in Chapter 4.

4. Research Method

This chapter elaborates on the research methodology used, including research design, data universe, population size, sampling, analysis and limitation.

Introduction

A quantitative study was undertaken using secondary data. The secondary data was sourced from four different credible data sources. The goal with using the secondary data from the different sources was to determine the relationships that exist between consumer products available in the South African market and the firms competing for the consumer market.

The research aimed to proof the hypotheses discussed in Chapter 3. The hypotheses each have one of two results and the research will use the results to determine which null hypotheses are accepted and rejected. The research will aim to identify if Local firms do have a competitive advantage over MNEs in the South African consumer market.

Based on research by the Worldbank, the South African population is estimated at fifty one million as at mid 2011 (Worldbank, 2011). The opportunity that reside is that such a large population is a fine recipe for fierce competition.

The South African Audience Research Foundation (SAARF, 2011) is a non-profit organisation that performs research on the South African consumer market (media and product/brand) research. Their research aligns with international research practices and therefore it is assumed the data sourced from their research is complete and accurate. The research foundation aligned to international standards by starting their measurement on the South African consumer population from age 15 years and older. The sample size per product or category, sourced from SAARF, consists of approximately thirty four million units in the South African consumer market.

The consumption of all the consumers over the age of 15 years is measured, and the research grouped the consumers per product or firm purchased from in categories based on the consumer buyer strength. These categories refers to the 10 LSM

groups where LSM 10 is the highest LSM group (high living standard) and LSM 1 is the lowest LSM group (lowest living standard).

The consumer degree of urbanisation and ownership of cars and major appliances are some of the parameters that are assessed to group the South African population into segments. SAARF group the population into the LSM categories using predefined categories. The following table illustrates some of the parameters:

Table 1 - LSM Variables

Built in kitchen sink	Fridge/Freezer	No insurance policy
No car in household	Washing machine	Hi-Fi/Music centre
Flush toilet	No financial services	Video cassette recorder
Supermarket shopper	Hut	No domestic servant
Microwave oven	Stove/hotplate	TV set
Credit facility	Polisher/Vacuum cleaner	Car
Hot running water	Home telephone	

(SAARF, 2011)

The above criterion calculations and assumptions were not analysed as part of the research and therefore the LSM classification as per the SAARF definition will be considered as accurate and complete for the use of secondary data sourced for the analysis.

Terminology descriptions

The following terminologies will be mentioned and used in chapter 4 to 7:

- **Firm** – This is the ultimate legal entity of a firm i.e. Edcon.
- **Subsidiary firm** – This is a firm trading under its own name or the parent firm trading name i.e. Edgars.
- **Product** – This is a retail product traded in the consumer market i.e. Valpre water.
- **Sector** – This is the product type being traded in the retail consumer market i.e. clothing and dairy.

- **Subsector** – This is a breakdown of sectors in the retail consumer market i.e. clothing and fresh milk.
- **Local** – This is a firm trading in South Africa and is owned by South Africans i.e. Edgars.
- **MNE's** – This is a firm trading in South Africa but is foreign owned i.e. Parmalat.
- **LSM Categories** – This is the Living Standard Measure index scales 1 to 10 i.e. LSM category 4.
- **Brand/License** – This is when firms sell the brand houses the rights/license to trade and distribute their products in South Africa i.e. AVI Group selling COTY.
- **Franchise** – This is where another firm purchases an existing Local brand to use as part of their trading operations i.e. Bonnita brand purchased by Parmalat from Tiger Brands (South African Bran-House).

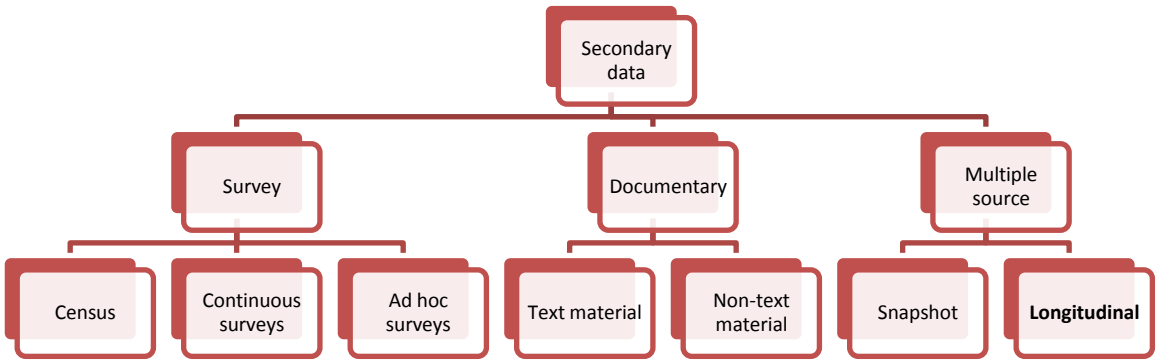
Research design

The research was led by the literature from Chapter 2 where the focus is on whether Local firms are inferior to MNEs (Poulis & Yamin, 2011) given the Local firm's access to resources. The descriptive and quantitative analysis will be used to determine if the above statement of Local firm inferiority is valid. To determine this, hypotheses were formulated and statistical analyses were performed to decide how the South African consumers grouped in different LSM categories of data were used in determining the relationship of consumers with market participants (Local firms and MNEs). The secondary data was sourced from different credible data sources (Factiva, Eighty20, etc.). The data extracted from the different sources had to follow a series of logical processes to analyse the data and determine the relationships.

Secondary data was the only data used in answering the research questions in Chapter 3. The research was a desktop study (the researcher gathered information from secondary data sources). The research method approach was used to determine the relationship as mentioned earlier between the firms and the consumption of products in the South African economy using the different LSM categories. The data is publically available and current to anybody who has user

access to AMPS, Factiva and Who owns whom (AMPS June 2011, 2012; McGregor, 2012; Corporate Companies, 2012)

Figure 2 - Research method (Longitudinal)



The secondary data used in this study will be longitudinal. The data represents the latest version of firm and product data available in the market. The data collected was statistically analysed to determine the relationship of the firms to consumers, and the researcher will attempt to tie the relationship back to the research questions.

Before the analysis can start the independent variables must be defined. The first two independent variables that will be used in the analysis are “Local” or “MNE” parents. These variables will be used to classify data in the first hypothesis where ability to penetrate the consumer market across LSM spread will be measured.

- **Local Parent** – can be defined as the ultimate legal entity or main shareholder of a South African registered firm.
- **MNE’s** – can be defined as the ultimate legal entity or main shareholder of a firm operating in the South African consumer market, but is registered in a foreign country.

The next independent variables that need clarification are variables to determine whether the firms used in the data sample is a Local franchise or a MNE franchise.

- **Local Franchise** – can be defined as the firm or brand that originates in South Africa consumer market e.g. Nando’s.
- **MNE Franchise** – can be defined as the firm or brand that originates on foreign soil and has been brought to the South African consumer market by a Local or foreign firm e.g. McDonalds.

The last independent variable will be used during the analysis of product data to assess whether the data shows possible mode of entry. Every product in the product data set will have an assigned owner which will be either a Local firm or a MNE. The product data set will then be split to isolate all the products with a MNE owner. Once the MNE product data set has been isolated every product will be classified using the mode of entry variable – Brand house/Licensing or Wholly owned subsidiary.

- **Bran-house/Licensing** – MNE's sell the rights to distribute their products in the South African consumer market.
- **Wholly owned subsidiary** – MNE register a firm in South Africa and trade their products in the South African consumer market.

Unit of analysis

The unit of analysis is firms (Local and MNEs) who compete on a subsidiary ownership level with products and services for market share across all LSM categories. Data units of products sold to the South African consumers are mapped to LSM's and firms.

Population

The population is used to assess whether Local firms have a competitive advantage over MNE firms operating in the boundaries of South Africa. In addition, the population will be used to assess what the preferred mode of entry is for MNEs that are actively involved in the South African consumer market.

The objective of the data consolidation (AMPS with Factiva) is to merge the products sold to South African consumers to firm ownership (Local or MNE) and mode of entry (Bran-house/Licensing, Exports or Wholly owned).

The population is made up of data from AMPS and Factiva. The data universe reflects economic activity of the consumers in South Africa.

The data populations were sourced and built as follows:

- AMPS data is the dataset of products consumed in the Local market. The number of data points (consumer and product data) for different firms and products vary, but will not exceed more than thirty-four million units sold. The complete data set selected for this research was made up of four main categories - clothing and shoes, grocery and toiletry, household goods, and products and brands.
- Factiva data (firm data) consists of approximately five-thousand-three-hundred firms spread across all the South African industries.

The data consolidation is driven by the selected consumer and product industry data sourced from AMPS – refer to the Sampling section below to gain an understanding of the sampling method used. In the AMPS dataset the subsidiary firms mapped against every product were identified and these subsidiary firms in the AMPS dataset had to be identified on a firm level. This had to be done to determine whether firm and subsidiary firms are Local or foreign owned. Once the subsidiary firms sourced from AMPS were mapped back to the firm data sourced from Factiva the dataset was ready to determine if ownership is locally or foreign based.

All the firms, mapped back to the subsidiary firms in the AMPS data sample, were individually assessed on a data source “Who Owns Whom” (AMPS June 2011, 2012). The purpose of the assessment was to identify whether the firms mapped back to the subsidiary firms are South African owned or multinational owned.

The Local and MNE classification for subsidiary firms will be determined sourcing the legal entity information from the “Who Owns Whom” (AMPS June 2011, 2012) data source.

Sampling

For the purpose of this research, non probability, purposive sampling will be used to obtain the firms, subsidiary firms and products required to best answer the research questions (Saunders & Lewis, 2012).

The benefit of using this sampling method is that this method will best be able to answer the research questions and objectives (Saunders & Lewis, 2012).

In order for this research method to work it is important for the researcher to clearly explain the categories for selecting the samples and be able to explain reasons why the samples are selected.

The sampling technique for purposive sampling which the researcher used was *Heterogeneous.* This sampling technique was chosen is because the technique will have a sufficiently diverse list of characteristics which will result in a wide variety in the data sourced from the respective sources (Saunders & Lewis, 2012).

The data sample consists of the following parameters:

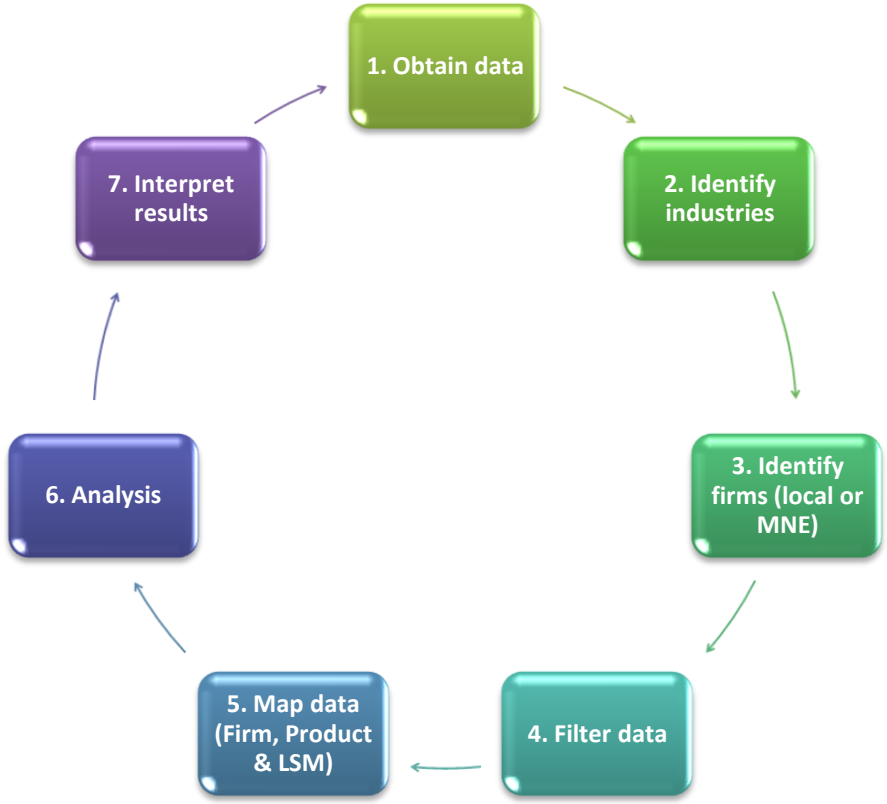
- Number of units sold in 2011 per LSM category;
- Subsidiary firm name (AMPS);
- Parent firm name (Factiva);
- Product name (AMPS);
- Industry (AMPS & Factiva);
- Local firm or MNE firm classification (Who owns whom);
- Local franchise or MNE franchise classification (Who owns whom).

The ultimate legal entities of the firms selected for the firm sample analysis will be considered as one of the independent variables

Data collections/Instrument

Data collected from databases (AMPS, Factiva & Who owns Whom) contain firms' data and consumer data.

Diagram 1 - Data Collection Process



Obtain data

Consumer data

The AMPS data source (SAARF, 2011) was used to source the consumer data per firm and per product. The firms in the consumer data sample represents the subsidiary firm's active in this data sample. The consumer data was selected from different subsector categories i.e. groceries. Apart from sourcing the consumer data from products and subsector categories, the data was also sourced in LSM criteria for the analysis of units sold (per subsector). The objective of the sourcing of product and subsidiary firm data against LSM data was to determine which subsidiary firms and products are being consumed by which groups (LSM category) of the population..

Firm data

The firm data was sourced from Factiva (Corporate Companies, 2012). This data was obtained to determine which firms operated in South Africa and in what sector. This firm data represents all the parent firms operating in South Africa.

The last source of data was from the "Who Owns Whom" (McGregor, 2012) data source. In order to determine the ultimate parent/legal entity for every subsidiary firm

(in the AMPS dataset) operating in South Africa the researcher had to identify the firms considered as part of the sample of products and subsectors. Once the researcher identified the firms that fall within our product and subsector categories we accessed the "Who Owns Whom" (McGregor, 2012) data source where we had to search for every firm individually to map the firm data (Factiva) back to the subsidiary firm data. This helped the research to classify firms based on ownership (Local or MNE) which was required to determine if consumers prefer Local firm or MNE products.

Identify industries

The research objective was to assess how Local-and-MNE competes against one another and therefore the industry selection process focussed on retail industries wherein the majority of the population will participate.

The industries had to cover the basic-needs industries and therefore the category selection excluded the following categories:

- Attitude,
- Communication,
- Financial;

and included the following:

- Clothing and shoes,
- Groceries and toiletries,
- Household goods,
- Products and brands.

Considering the relevant industries will help us understand whether both Local and MNE participants have the sufficient market knowledge (Poulis, Yamin, & Poulis, 2011).

Filter data

The firm data sourced from Factiva included all parent/legal entity firms active in the South African sectors. They comprise of both Local and MNE firms and they operate in all the sectors i.e. mining, commodities, manufacturing, retail, etc.

Based on the AMPS industries identified earlier, the relevant firms who operate in the selected industries had to be identified and isolated from the firm data sample. The isolated firms were then filtered based on industries and these filtered industries were aligned to the AMPS industries.

Map data

Once the Factiva firm parent/legal entity has been identified these entities were mapped back to the AMPS subsidiary firms. The mapping of the data focussed on three important variables as part of the firm mapping. The first was to ensure the parent/legal entity firm was mapped back to the relevant company in the AMPS (AMPS June 2011, 2012) data set. Next, all the firms mapped in the AMPS data set had to be classified as either a Local or a MNE using the “Who Owns Whom” (McGregor, 2012) classifications. The reason for the classification was to use the classification as the independent variable when running the first hypothesis (Local firms are able to service a broader spectrum of the LSMs than MNE firms). Lastly, all subsidiary firms had to be classified as either a Local or MNE franchise. In classifying the subsidiary firms into Local or MNE franchises the second hypothesis could be addressed (licensing is an alternative mode of entry into the lower LSM category).

Table 2 - Company Data Sample Summary

Company data	Number of items sold										
	LSM 1	LSM 2	LSM 3	LSM 4	LSM 5	LSM 6	LSM 7	LSM 8	LSM 9	LSM 10	TOTAL
Bought an appliance	7480 data fields across the 10 LSM's and 748 subsidiary companies in 18 subsetcors										4 279 580
Children's Clothing											10 737 536
Children's Other Shoes											4 010 377
Fast Food											61 729 270
Fresh milk											33 961 130
Groceries - Convenience shopping											43 670 022
Groceries - Household											12 925 069
Groceries - Toileteries											46 568 575
Groceries - Usual Bulk											35 267 638
Groceries - Usual Fill-up											26 427 430
Groceries - Usual non-Bulk											17 780 581
Men's Clothing											10 216 330
Men's Other Shoes											3 631 420
Small Electrical Appliances											9 460 208
Sports Clothing											3 191 998
Women's Clothing: Inner Items											9 375 535
Women's Clothing: Outer Items											12 798 107
Women's Other Shoes											5 227 136
Total	4 200 215	12 543 229	15 740 659	34 493 921	57 195 222	80 139 078	45 406 596	34 735 776	37 645 428	29 157 818	351 257 942

Table 3 - Product Data Sample Summary

Product data	Number of items sold										
	LSM 1	LSM 2	LSM 3	LSM 4	LSM 5	LSM 6	LSM 7	LSM 8	LSM 9	LSM 10	TOTAL
Cereals	2000 data fields across the 10 LSM's and 200 products in 6 product categories										4 279 580
Chewing gum											10 737 536
Chocolate											4 010 377
Yoghurt											61 729 270
Fruit / vegetable juice											33 961 130
Mineral / spring water											43 670 022
Total	4 200 215	12 543 229	15 740 659	34 493 921	57 195 222	80 139 078	45 406 596	34 735 776	37 645 428	29 157 818	351 257 942

Analysis

After the data set has been prepared the analysis started. The data analysis was covered in two stages.

The first stage was descriptive analysis using frequency tables and graphical measurements to evaluate and discuss the findings. The descriptive analysis was aimed at presenting the data sample in a way that would be easy to interpret and understand.

The second stage involved analysis where the significance of the hypothesis was tested. In order to perform these tests the different sources of data were used for data gathering purposes.

The analysis using the two stages aimed at providing sufficient oversight on the firms operating in the South African economic environment as Local or MNE firms.

The subsidiary firms were sourced from the same source as the consumer products (AMPS). Given that the data sets are enormous the researcher narrowed the data down to a level where completeness is satisfactory. Missing data cannot form part of the final dataset as the data sets cannot necessarily be interpolated.

In instances where the data from the AMPS sample is small and grouped we assumed the small unspecified firms are Locally owned.

The data selected from AMPS was a point in time dataset where data measures were performed from January to December 2011. The research did not look at the consumer and product data over time as corporate actions and acquisitions will influence the data sample.

The data sample selected focussed on the following:

- Clothing and shoes,
- Groceries and toiletries,
- Household goods,
- LSM and SAARF segmentation,
- Products and brands.

The above subsectors sample was sufficient for the analysis performed in this research.

The data was consolidated to end up with one data sample where the above consumer goods reflected per LSM, and also included firm (parent and subsidiary) information. All the subsidiaries were linked to a parent firm and these parent firms were classified as being either a Local company or a MNE. In addition, all the subsidiary firms were also classified as a Local franchise or a MNE franchise using the “Who Owns Whom” (McGregor, 2012) firm records.

Over and above the marrying of company and consumer data the data were also classified using different LSM categories.

The above will be a contribution to the analysis of the data as this will proof the research propositions to be accepted or rejected.

Interpret results

Refer to Chapter 5 for results.

Data analysis

The analysis of the data presents descriptive and inferential analysis.

Descriptive statistics can be defined as a way to provide a summarised version of the sample or population used for analysis (Descriptive statistics, 2012). The descriptive analysis for this research assessed market presence in pure volumes for Local versus MNE firms. It addressed the frequency levels per sector, LSM category, ownership and franchise. Use of the descriptive statistics helps the understanding and interpretation of the data with meaningful results.

The descriptive analysis was performed using Microsoft Excel and graphs drawn from the analysis were used during the results discussions.

Inferential statistics can be defined as basket of statistical method that is used to infer characteristics of the data (population of sample) (Albright, Winston, & Zappe, 2009) The inferential statistics were used to analyse the population using Statistical Analysis System (SAS). The results were produced in Microsoft Excel format.

Analysis took the form of predictive relationship, association and strength of association.

1. The association method that was used in the analysis was the Chi-square test (Bain & Engelhardt, 1992). This test was be used to test the independence of the paired observations. This helped the researcher determine whether there exists a relationship between the participants spread over different LSM levels.
2. Pearson – The Pearson Chi-square was used to test for goodness for fit (Bain & Engelhardt, 1992).

The secondary data samples used for the analysis were different firm and product categories and the two classifications were assigned to every product in the product sample.

The first classification was to allocate parent firm entities to the subsidiary entities across all subsectors selected for the analysis of competitive advantage. Once all parent firm entities were allocated each parent firm entity was classified as either a Local firm or a MNE.

The second classification involved allocating a Local firm or MNE classification to every product in the product sample. Similar to the first hypothesis the classification was based on definition (Ghoshal & Westney, 1993) of a MNE. This was done to differentiate between Local firms and MNE's in order to assess whether the products are owned by Local firm or MNE's. Once the products were individually classified another classification is assigned to every product. The purpose of this classification is to determine if the product forms part of a brand house who distributes the products on the firm's behalf. The can be seen as a mode of entry for MNE's. The product data is spread across the 10 LSM categories based on units sold per category.

Research limitations

Although the methodology above proves to be the most suitable methodology for this study the research did experience limitations:

- The sample will be affected by missing data,
- The sample will not be granular enough in some cases to marry company data with product data,
- The consumer data is restricted to certain industries which limits the results.

5. Results

In Chapter 4 the research method was discussed which includes the research questions (hypothesis), methodologies and data population. The chapter also highlighted the data sources and the approach to consolidate the two data sets before the analysis was performed.

Chapters 2 & 3 addressed the literature and hypotheses/research questions. The purpose of Chapter 5 is to present the results using a quantitative style. The first part of this chapter focuses on descriptive statistics and will be used to discuss some of the results. The descriptive section will be followed by an inferential results discussion. The inferential statistics will address the three hypotheses as defined in Chapter 3.

Descriptive statistics

As mentioned in Chapter 3, the firm and product data was sourced from two different data sources (AMPS & Factiva).

The company data used in the analysis was spread across different subsidiary sectors and LSM category. There are 68 firms and 173 subsidiary firms represented in the data sample used for the analysis. The unique subsidiaries are, in some instances, represented more than once in the data sample as these subsidiaries participate in more than one sector or subsector.

Table 4 - Ownership Frequency and Percentage

Ownership	Subsidiary firm		Firm (Parent)	
Classification	Frequency	Percentage	Frequency	Percentage
Local	159	91%	57	83%
MNE	14	9%	11	16%

That said, there are 746 subsidiary firms spread across 18 subsectors. As mentioned, the subsidiary firms are measured based on number of units sold in every subsector across ten different LSM categories.

Once the firm (parent and franchise) has been mapped back to every subsidiary firm in the data sample, the subsidiary firms were classified as Local or MNE owned.

In addition to classifying firms based on ownership these subsidiaries were also classified as Local or MNE franchises.

Table 5 - Franchise Frequency and Percentage

Franchise	Subsidiary firm		Firm (Parent)	
Classification	Frequency	Percentage	Frequency	Percentage
Local	160	92%	56	82%
MNE	130	8%	12	17%

It is clear that the number of Local firms far outweighed the number of MNE firms, based on either parent or franchise type.

The data in the workings was classified using four different combinations:

- LP-MF – Local Parents who trades a MNE Franchise
- LP LF – Local Parents who trades a Local firm Franchise
- MP-LF – MNE Parent who trades a Local firm Franchise
- MP-MF – MNE Parent who trades a MNE Franchise

There was only one LP-MF combinations (Studio 88/Studio 88) and one MP-LF (Parmalat/Bonnita) combination. Considering MPs only, there were 12 unique MPs listed in the data set. Only one of these (Parmalat/Bonnita) was associated with a Local franchise, while the rest were MP-MF. This is an indication that the preferred route of operation of MPs is via MF and not LF.

The product data used as part of the analysis were randomly selected from the Product and Brand category of the AMPS data source. The product data is classified into several product categories and consist of product subcategories. The product subcategories are the individual products that are mapped back to the firm who produce and distribute the product.

The firm that owns the product is either a Local firm or a MNE firm.

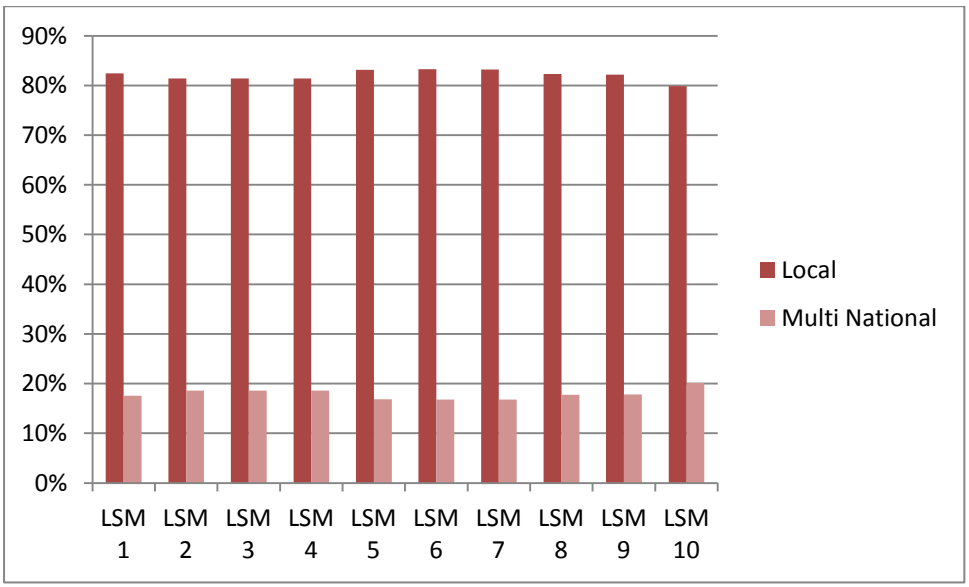
There are 201 products in the different product categories and it was found that several products might be produced and distributed by the same firm. In instances where the firm that owns the product does not distribute the product, the services of distributing this product might be outsourced to a bran house.

Table 6 - Product Ownership and Frequency

Products	Firm ownership		Brand house	
Classification	Frequency	Percentage	Frequency	Percentage
Local	104	52%	42	81%
MNE	97	48%	10	19%

The firms used in the research as indicated above are active participates in the retail consumer market and the majority of the firms are Locally owned. The competitive advantage of the firm operating in a particular sector can be derived from using their pure dominance in the market i.e. market presence can enhance their capabilities to own the market. The graph below demonstrates how Local firms dominate the Local retail consumer market. Overall the MNE firms in the retail consumer industry represent less than 20% of the firms transacting with the Local retail consumers.

Graph 1 - Overall Market Share



The presence of Local firms in the retail consumer sectors proofs that Local firms have the potential to dominate the retail consumer market seeing as how they have four times more presence in the market. Their success, however, cannot be

measured by their presence in the market, but rather by their ability to penetrate the retail consumers market. In order to assess the success of penetration, the retail consumer market analysis was done using market presence (ownership) and market share. If the presence in the market is lower than the number of units sold in the market one can assume that the company is able to service more customers with their capacity and presence.

The table below shows different subcategories. Every subcategory has a Local firm and MNE participant as can been in the second column. In the third column the percentage of ownership is reflected. The fourth column reflects the percentage of units sold per subcategory. The assumption is made that if the ownership in the third column is less than the percentage of unit sold in the fourth column then the Local or MNE are able to sell more products in the subcategory than its ownership presence in the market. For example if the MNE clothing subcategory sells 7% of the products, but they only have 2% presence in the market then their assets (shops/presence) produced better results.

Table 7 - Company Market Presence

Market Presence and Success		Ownership	Market Share	Penetration Success
Clothing	Local	97,56%	92,91%	-4,65%
	MNE	2,44%	**7,09%**	4,65%
Fresh Milk	Local	85,71%	77,29%	-8,42%
	MNE	14,29%	**22,71%**	8,42%
Shoes	Local	97,71%	93,19%	-4,52%
	MNE	2,29%	**6,81%**	4,52%
Groceries	Local	80,00%	**81,95%**	1,95%
	MNE	20,00%	18,05%	-1,95%
Fast Food	Local	94,59%	71,13%	-23,47%
	MNE	5,41%	**28,87%**	23,47%
Appliance	Local	95,74%	**99,60%**	3,86%
	MNE	4,26%	0,40%	-3,86%

The table below shows different product categories. Every product category has a Local and MNE participant as can been in the second column. In the fourth column the percentage of product ownership is reflected. The sixth column reflects the percentage of units sold per subcategory. The assumption is made that if the ownership in the fourth column is less than the percentage of unit sold in the sixth column then the Local or MNE are able to sell more products in the subcategory than its ownership presence in the market. For example if the cereal subcategory sells 71% of the product, but the products only control 61% of the product line then it means that the product line is less than the product performance.

Table - Product Market Presence

Products		Firms	Products	Bran House	Market share
Beer	Local	1	41%	0%	**67%**
	MNE	2	59%	29%	33%
Bread	Local	4	100%	89%	100%
	MNE	0	0%	0%	0%
Cereal	Local	5	61%	68%	**71%**
	MNE	3	39%	0%	29%
Chewing gum	Local	2	20%	0%	10%
	MNE	3	80%	24%	**90%**
Chocolate	Local	4	34%	12%	14%
	MNE	3	66%	1%	**86%**
Fruit/vegetable juice	Local	17	84%	26%	**86%**
	MNE	1	16%	0%	14%
Milk and creamers	Local	13	37%	9%	37%
	MNE	8	63%	0%	63%
Mineral water	Local	5	62%	0%	60%
	MNE	2	38%	0%	**40%**
Yoghurt	Local	5	44%	0%	14%

	MNE	3	56%	0%	**86%**

Like with the Firm Market Presence table discussed earlier, a similar approach was taken to assess the market share of firms who launch their products in the retail consumer market. The total number of products in a subsector was used and the proportion of these products produced by Local firms was compared to the market share the Local firms have (unit sold). Based on this view Local firms (Beer, Bread, Cereal and Fruit/Vegetable juice) control a significant portion of the product market.

Also forming part of this observation is brand houses. The aim is to assess what mode of entry MNEs use to participate in the market.

We note that MNEs were active (at least to some extent) in each of the sectors.

Inferential statistics

Hypothesis 1:

Ha1: *Local firms can overall service a broader spectrum of retail consumers in the LSM categories than MNE's*

H01: *Local firm's service overall similar or less retail consumer spread over the LSM categories than MNE's*

.The statistical methods chosen for the analysis of the first hypothesis are the Chi-square and Pearson.

The Chi-square test was used to determine the significance of association between the number of units sold in the different LSM categories and the firm-franchise type. In addition to the Chi-square test the Cramer's V statistic was used to test the strength of the association.

The overall Chi-square test results reflect a significant association between the number of units sold across the different LSM categories and the firm types. The strength of the association, tested using the Cramer's V statistic, showed the association to be weak. The Chi-square was also performed on the 18 subsectors (Children's clothing, Groceries – Household), and in all the subsectors the

significance of association between the retail data and the independent variable was proven. The strength of the associations on all 18 subsectors, however, was found to be weak.

Table 8 - Firm Analysis (Chi-square & Cramer's V)

Sector	Chi-squared test p-value	Cramer's V
Overall	< 0.0001	0,06
Bought an appliance	< 0.0001	0,14
Children's Clothing	< 0.0001	0,15
Children's Other Shoes	< 0.0001	0,16
Fast Food	< 0.0001	0,20
Fresh milk	< 0.0001	0,12
Groceries - Convenience shopping	< 0.0001	0,13
Groceries - Household	< 0.0001	0,12
Groceries - Toiletries	< 0.0001	0,13
Groceries - Usual Bulk	< 0.0001	0,11
Groceries - Usual Fill-up	< 0.0001	0,10
Groceries - Usual non-Bulk	< 0.0001	0,09
Men's Clothing	< 0.0001	0,17
Men's Other Shoes	< 0.0001	0,16
NEW Small Electrical Appliances	< 0.0001	0,08
Sports Clothing	< 0.0001	0,13
Women's Clothing: Inner Items	< 0.0001	0,17
Women's Clothing: Outer Items	< 0.0001	0,12
Women's Other Shoes	< 0.0001	0,14

The association between the number of items sold in different LSM categories and the parent-franchise firm type was tested by means of Pearson's X^2 test at the 95% confidence level. This was done for each sector, as well as for the overall data set.

The strength of the associations was determined by Cramer's V, the absolute values of which were interpreted as follows:

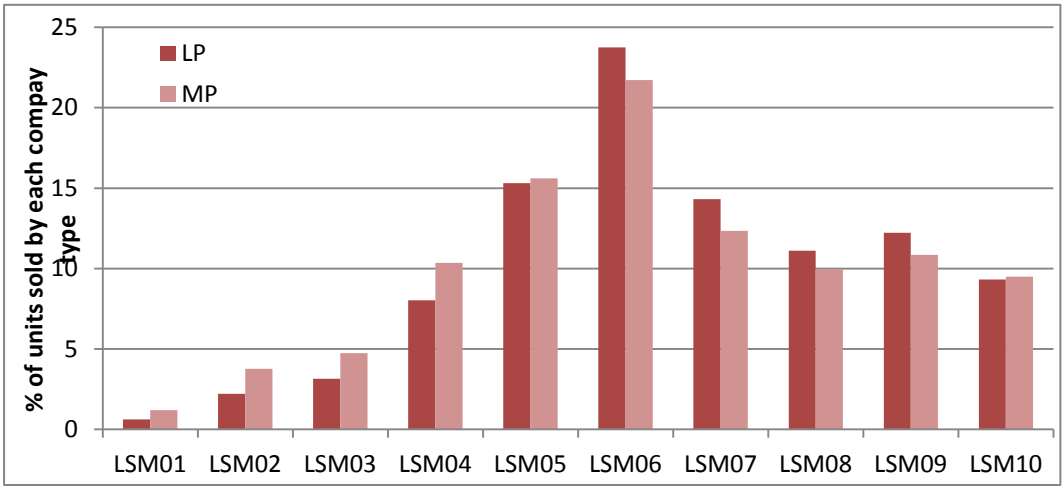
- 0.50 and above high/strong association,
- 0.30 to 0.49 moderate association,
- 0.10 to 0.29 weak association,
- below 0.10 little, if any, association.

Once it was proven that an association existed between the numbers of unit sold per parent firm over the spectrum of LSMs (1 to 10) the analysis assessed the deviance. The deviance looks at the differences between the actual and expected number of

items sold at each combination of the LSM and firm type. The largest deviance indicates the most significant differences between the LSMs and the firm types. The deviance was plotted for every retail subsector (Men's Clothing, Fast Food) in the data sample. The deviance for these subsectors was plotted against the 10 LSM categories and it clearly reflected the advantage relationship that existed between the Local and MNE enterprises.

The graph below shows the deviance for the firms overall (all sectors selected as part of the sample). It was clear in the deviance below the Local firms have a competitive advantage over the MNEs in the lower LSM categories (1 to 5). The MNEs on the other hand enjoy advantage over the Local firms in the higher LSM spreads (6 to 10).

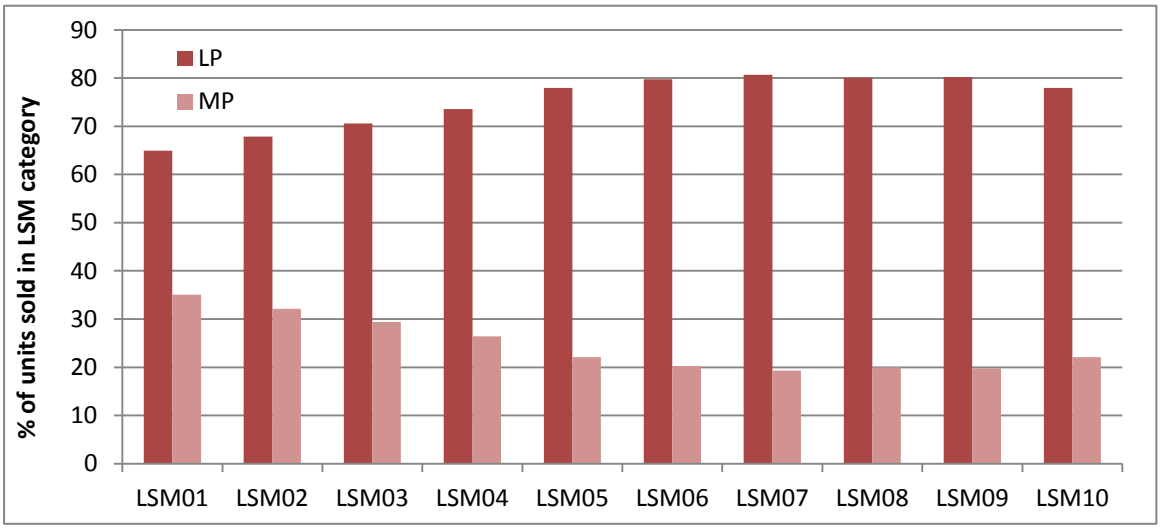
Graph 2 - Overall deviance across LSMs



Although both firm types covered the entire LSM spectrum the strength association (Cramer's V = 0.03) is very weak; however there are differences in the deviance analysis (LSM 1 to 5 & 6 to 9).

When the results were broken up into their respective subsectors it was clear that for specific sectors the spread of market penetration, based on deviance, across the different levels of LSMs, are fairly equal. These sectors manage to spread their products and services across all the LSMs and similarity between the Local firms and MNE firms, reflected in their deviance across the different LSMs.

Graph 3 - Overall firm presence



The overall analysis showed that a significant number of units were sold mainly by the Local firms. These firms sold 82% of all the product units across all the sectors included in the sample, of which 81% of the units were sold in the LSM 5 to 10 brackets. MNEs sold more than the average number of items in LSM 10, while the Local firms on average covered more of the LSM 5 to 7 brackets.

Hypothesis 1 Summary

The results first had to proof the significance that exists in the data sample between the firms (parent and subsidiaries) and the 10 LSM categories. Once this was proven the strength of this association was tested. Lastly the deviance was determined and illustrated using a graph per industry.

The results, as per Chapter 5, revealed the following for Hypothesis 1:

- The Chi-square tests showed that there was a significant relationship ($p>0.001$) between the firms (parent and subsidiaries) and the 10 LSM categories.
- The Cramer V tests showed that the strength of the association between the firms (Local versus MNE) and the 10 LSM categories are mostly weak (0.08 – 0.20)
- The deviance tests were done on every subsector within the retail industry (groceries, shoes, clothing, appliances and fast food).

- The groceries sectors deviance showed that although the Local firms still sold more units over the 10 LSM categories their ability to penetrate LSM categories 1 – 5 was weaker than MNE's. Local firms on the other hand managed to penetrate LSM categories 6 – 10 better than MNE's. The deviance also did not apply for all groceries sectors as convenience shopping reflected the exact opposite (Local firms in lower LSM categories and MNE's in the higher LSM categories) of grocery shops discussed in the results (discussed separately below).
- Children shoes are one of the subsectors assessed and despite the controlling market share that Local shoe retailers have, MNE's still manage to penetrate the higher LSM categories (7 – 10). The deviance results show that the MNE's do have some presence in lower LSM categories (4 – 6), but they have no convincing market presence.
- The fast food sector is the only sector where it seems that the MNE's owns a significant part of the market. The MNE's control the lower LSM categories and have a presence across all the LSM categories (1 to 10). The fast food market deviance analysis shows that the MNE's outperform Local firms. The only anomaly in this finding is that the MNE who controls the Fast Food sector is one MNE named Kentucky Fried Chicken "KFC". If you exclude KFC from the sample it appears that MNE's have little to no market presence.
- The last subsector assessed that contributed significantly to the numbers of units sold in the products and services sector was Groceries – Convenience shopping. Unlike the other Grocery sectors discussed earlier, where they manage to penetrate the market fairly evenly it is different for Groceries – Convenience shopping. Convenience shopping includes all shops where basic goods are purchased. The deviance analysis shows that MNE firms do not participate in the low LSM categories and it seems they mainly provide products and services to the upper bound LSM's. This is the only Grocery sector where this result reflects.

The results support the alternative hypothesis (Ha1) stating that Local firms service a broader spectrum of the products and service markets across all the LSM categories

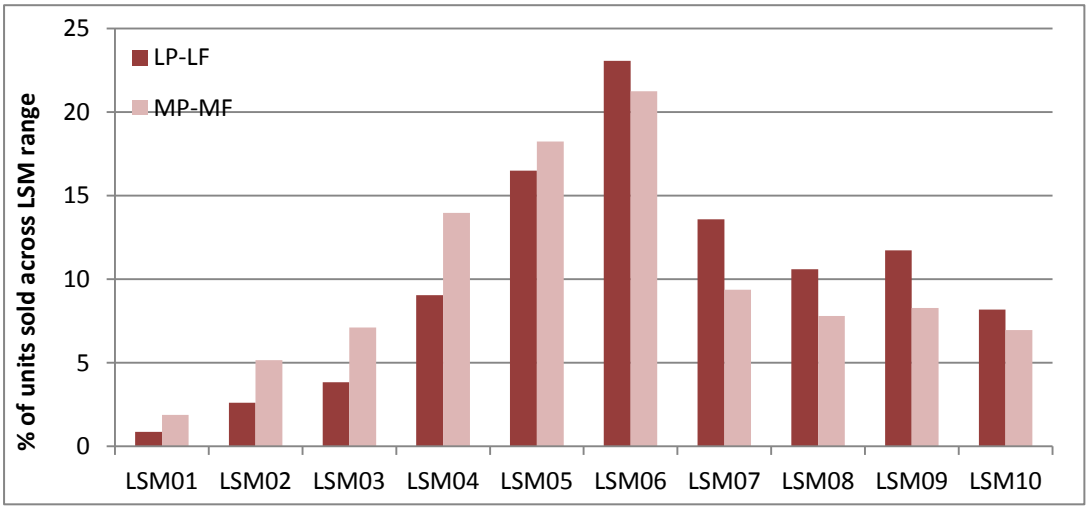
than MNE's. Overall the MNE's do not, based on the deviance analysis, service the consumers in South Africa across all the sectors like the Local firms

Analysis of selected retail subsectors

Groceries - Toiletries

Toiletries are common in all households. The Chi-square for Groceries - Toiletries is p=0.001 suggesting a significant association exist between the independent variables (Local and MNE) with a weak strength (Cramer's V) of 0.13. The graph below reflects the deviance between Local and MNE firms. The MNEs seem to be performing better in the lower LSM categories (1 to 5); thereafter it seems as if Local firms start to perform better in the higher LSM categories (6 to 10).

Graph 4 – Groceries - Toiletries (Deviance)



Groc - Toilet	LSM 1	LSM 2	LSM 3	LSM 4	LSM 5	LSM 6	LSM 7	LSM 8	LSM 9	LSM 10
Local	0,9%	2,6%	3,8%	9,0%	16,5%	23,1%	13,6%	10,6%	11,7%	8,2%
Multi national	1,9%	5,2%	7,1%	14,0%	18,2%	21,2%	9,4%	7,8%	8,3%	7,0%
Deviance	-1,0%	-2,5%	-3,3%	-4,9%	-1,7%	1,8%	4,2%	2,8%	3,5%	1,2%

Table 9 - Groceries Toiletries Deviance

The majority of the products supplied by Local and MNE firms cater mostly for the mid LSMs.

The analysis covered 18 subcategories of the main sectors and more than half of the subcategories showed similar deviance graphs to that of the Groceries - Toiletries

(Deviance) graph above. The following subsectors displayed similar trends during the analysis:

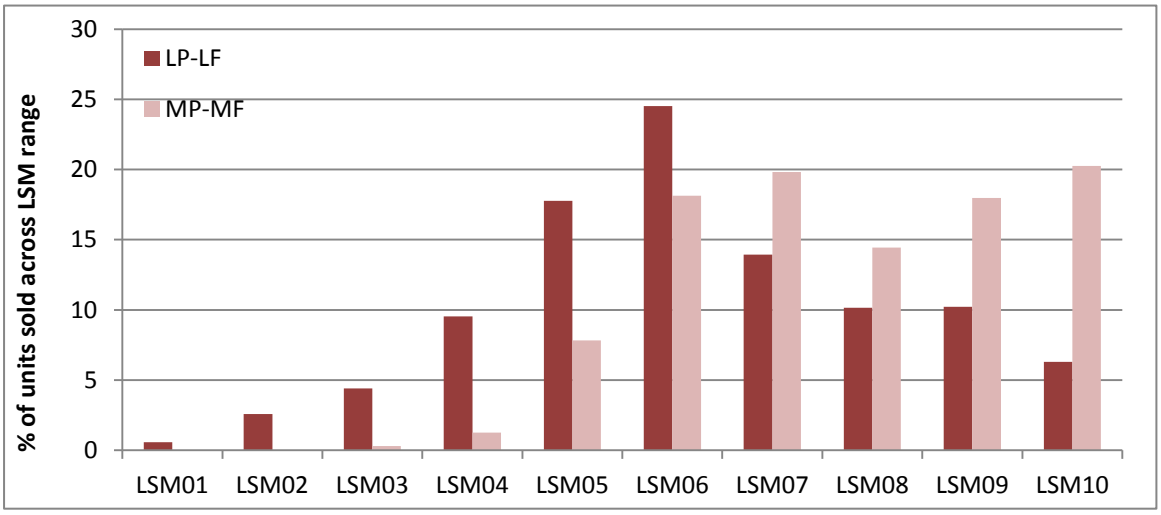
- Groceries – Household,
- Groceries – Usual bulk,
- Groceries – Usual fill up,
- Groceries – Usual non bulk.

All the subcategories mentioned above are products that would appear in most, if not all, consumer supermarkets.

Children's Clothing

Apart from the abovementioned analysis where the overall products and services consumer market was assessed, the analysis also identified a few sectors where clear differences exist. The Local and MNE firms both participate in the Children's Clothing subsector, and, based on the market activity, 90% of all children's clothing is sold by Locally owned firms, while approximately 84% of the clothing items in this sector are sold within the LSM 5 – 10 categories. The Local firms are the only retailers in the LSM 1 to 4 categories and thereafter the MNEs compete as well. The diagram below highlights how the deviance is greater in the units sold by the Local firms from LSM 1 to LSM 6. Thereafter the MNEs start to gain advantage where they continue to penetrate more consumers. In real terms, Local firms still sell significantly more than MNEs.

Graph 5 – Children's Clothing (Deviance)



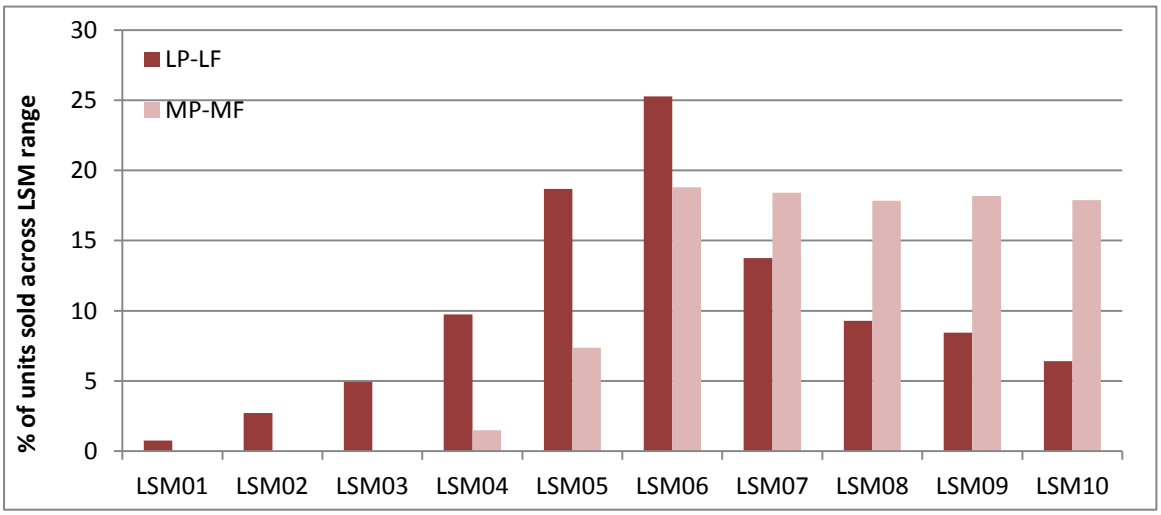
Child Cloth	LSM 1	LSM 2	LSM 3	LSM 4	LSM 5	LSM 6	LSM 7	LSM 8	LSM 9	LSM 10
Local	0,6%	2,6%	4,4%	9,5%	17,8%	24,5%	13,9%	10,2%	10,2%	6,3%
Multi national	0,0%	0,0%	0,3%	1,3%	7,8%	18,1%	19,8%	14,5%	18,0%	20,3%
Deviance	0,6%	2,6%	4,1%	8,3%	9,9%	6,4%	-5,9%	-4,3%	-7,8%	-14,0%

Table 10 – Children's Clothing Deviance

Children's Shoes

Children's shoes are one of the subcategories where the MNE segments have limited to no presence in the lower LSMs (1 and 2). Over 90% of the items sold in the subsector were by Local firms, and approximately 83% of the products and service units sold by these Local firms fall in LSMs 5 – 10.

Graph 6 – Children's Shoes (Deviance)



Child Cloth	LSM 1	LSM 2	LSM 3	LSM 4	LSM 5	LSM 6	LSM 7	LSM 8	LSM 9	LSM 10
Local	0,8%	2,7%	4,9%	9,7%	18,7%	25,3%	13,8%	9,3%	8,4%	6,4%
Multi national	0,0%	0,0%	0,0%	1,5%	7,4%	18,8%	18,4%	17,8%	18,2%	17,9%
Deviance	0,8%	2,7%	4,9%	8,2%	11,3%	6,5%	-4,7%	-8,5%	-9,8%	-11,5%

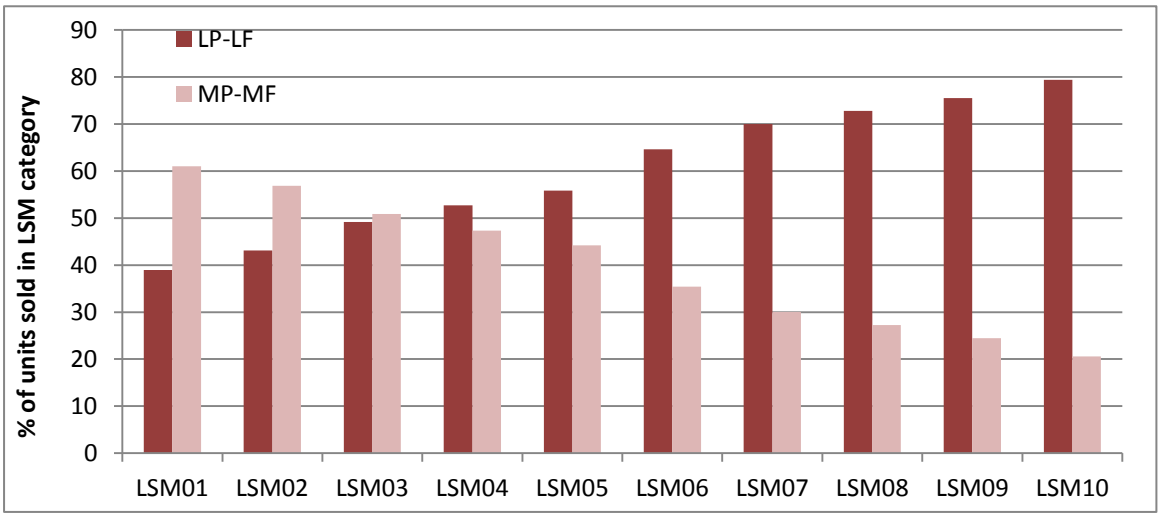
Table 11 – Children's Shoes Deviance

It is clear from the graph above that the MNEs were increasingly active in the higher LSM (6 – 10) categories. As a result of their active presence in the higher LSM categories the Local firm demand for children's shoes is dropping. Overall, MNEs do not cover the LSM spectrum in the same magnitude as the Local firms.

Fast Food

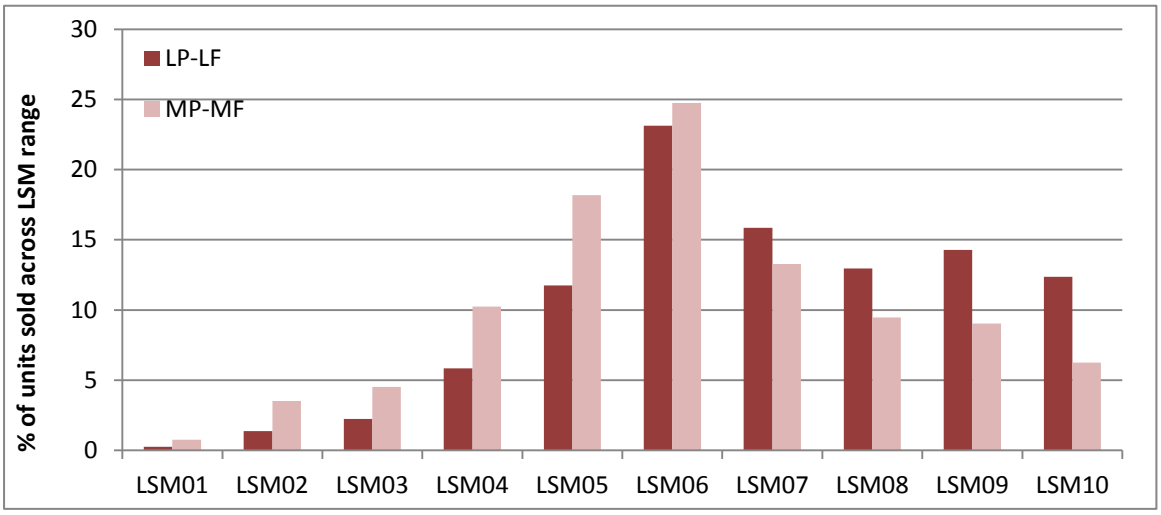
The fast food sector is one of the only subcategories selected in the research products and services sample for the research where the MNEs (MP-MF) actively compete with the Local firms. The majority of the fast food market is still dominated by the Local firms (LP-LF), but the MNE competitors consist of two participants of which one (KFC) contributes to almost all of the units sold by a MNE. The MNE contribution is very strong and they contribute to 29% of all fast food items sold where 86% of the items are sold in LSM categories 5 – 10.

Graph 7 - Fast Food (Percentage Sold)



Overall, across all the LSM categories, the single MNE (KFC) contributes to the majority of units sold. If this MNE (KFC) is excluded from the data sample then it is clear that limited to no fast food MNEs compete with the Local fast food firms. Another interesting observation from the analysis is that the fast food industry, with the contribution of a single MNE (KFC), is the only industry where the MNEs have a higher deviance in the lower LSMs (1 – 6) than the Local firms; and the Local firms have a higher deviance in the higher LSMs (7 – 10). See the Fast Food deviance graph below.

Graph 8 - Fast Food (Deviance)



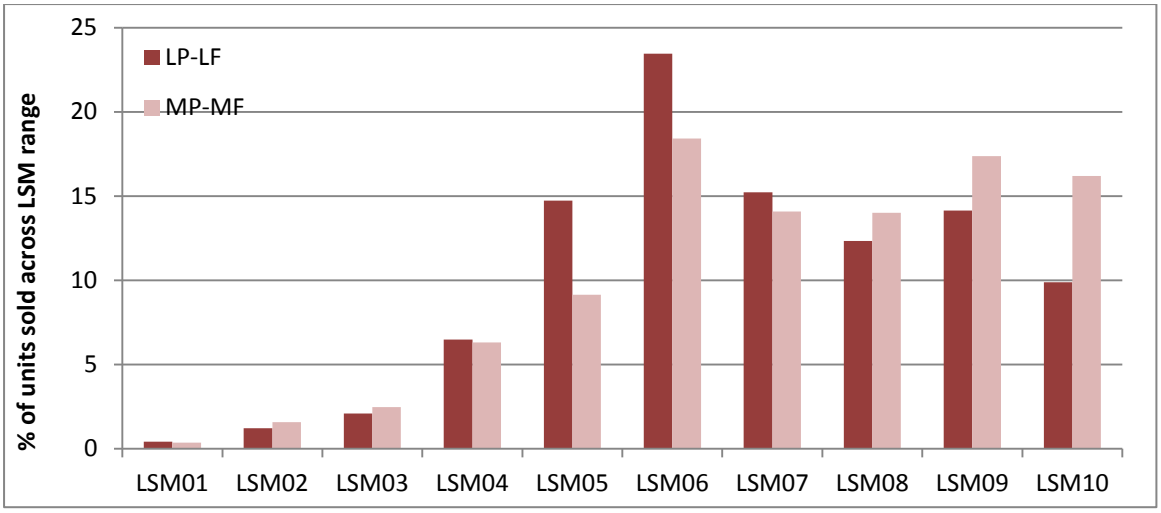
Fast Food	LSM 1	LSM 2	LSM 3	LSM 4	LSM 5	LSM 6	LSM 7	LSM 8	LSM 9	LSM 10
Local	0,3%	1,4%	2,2%	5,8%	11,8%	23,1%	15,9%	13,0%	14,3%	12,4%
Multi national	0,8%	3,5%	4,5%	10,2%	18,2%	24,7%	13,3%	9,5%	9,0%	6,3%
Deviance	-0,5%	-2,2%	-2,3%	-4,4%	-6,4%	-1,6%	2,6%	3,5%	5,2%	6,1%

Table 12 - Fast Food Deviance

Groceries - Convenience shopping

In this subsector the MNE firms contribute significantly more than in the other sectors. They manage to take 15% of this subsector market share. What is interesting about this subsector is that the Local firms have a bigger presence in the lower LSMs (1 to 6) and from there onwards the MNEs control LSMs 7 to 10. Convenience stores are wide spread and sell basic needs products. MNEs have a relatively strong presence in the higher LSMs, but not necessarily in the low LSMs. The size of these MNEs, or their lack of market knowledge, could contribute to their inability to penetrate the rural areas.

Graph 9 - Groceries - Convenience Shopping (Deviance)



Groc Conven	LSM 1	LSM 2	LSM 3	LSM 4	LSM 5	LSM 6	LSM 7	LSM 8	LSM 9	LSM 10
Local	0,4%	1,2%	2,1%	6,5%	14,7%	23,5%	15,2%	12,3%	14,2%	9,9%
Multi national	0,4%	1,6%	2,5%	6,3%	9,1%	18,4%	14,1%	14,0%	17,4%	16,2%
Deviance	0,1%	-0,4%	-0,4%	0,2%	5,6%	5,0%	1,2%	-1,7%	-3,2%	-6,3%

Table 13 - Groceries – Convenience Shopping Deviance

Both groups covered the LSMs well, but MNEs tended to sell more at the higher LSMs (7 to 10). Certain subsectors were not perused for further analysis as their contribution to the retail products and services market was insignificant. These subcategories include the following:

- Bought an appliance,
- Men's clothing,
- Men's shoes,
- Small electrical appliances,
- Sports clothing.

The null hypothesis is rejected based on the statistical results and descriptive statistic findings.

Hypothesis 2:

Ha2: *MNE's use licensing as the preferred mode of entry to access the customers in the South African consumer market.*

H02: *MNE's rely on modes of entry other than licensing to gain access to the customers in the South African consumer market.*

To test hypothesis 2 product data was classified as locally owned and MNEs. In addition, the products were mapped to brand houses where relevant. The main reason for the brand house association was to see who use licensing to compete in the market. In addition we also want to assess if the licensing mode of entry will help the firm (Local or MNE) to compete in all the LSM categories.

The analysis was restricted to seven product categories:

- Chewing gum,
- Chocolate,
- Cereal and cereal ready-to-eat (one group),
- Bread,
- Yoghurt,
- Fruit/Vegetable juice,
- Mineral water.

The association between the number of items sold in different LSM categories and the brand/bran-house type was tested by means of Pearson's X^2 test at the 95% confidence level. This was done for each of the product groups in the list above, excluding Bread (all bread are produced by locally owned firms).

The Chi-square test was used to determine the significance of association between the number of units sold in the different LSM categories and the firm-franchise (LP/MP-LF/MF) firm type. In addition the Cramer's V statistic was used to test the strength of the association.

The overall Chi-square test results reflect a significant association between the number of units sold across the different LSM categories and the parent firm types. The strength of the association was also tested across the different sector categories and the result showed a significant association between the number of units sold and parent firm types existed.

Table 14 - Product Chi-square & Cramer's V

Sector	Chi-squared test p-value	Cramer's V
Cereals	< 0.0001	0.17
Chewing gum	< 0.0001	0.09
Chocolate	< 0.0001	0.04
Yoghurt	< 0.0001	0.09
Fruit / vegetable juice	< 0.0001	0.07
Mineral / spring water	< 0.0001	0.08

In all cases there were a significant association between the number of items sold in the different LSM categories and the brand/bran-house type. The strength of the association was very weak in most cases, and weak in the case of the Cereals sector.

Hypothesis 2 Summary

The results have proven that a significant association exist between the different product ownerships and the 10 LSM categories. The significance of association was proven between product ownership and units sold across the different LSM categories (1 to 10). Thereafter the strength of the association between the product ownership and the different LSM's was determined. The strength of association was tested using the Cramer V and the results showed that although an association exist the strength of the association is mostly weak (Cramer V, 0.04 – 0.17). Lastly the deviance was determined and illustrated using a graph per industry.

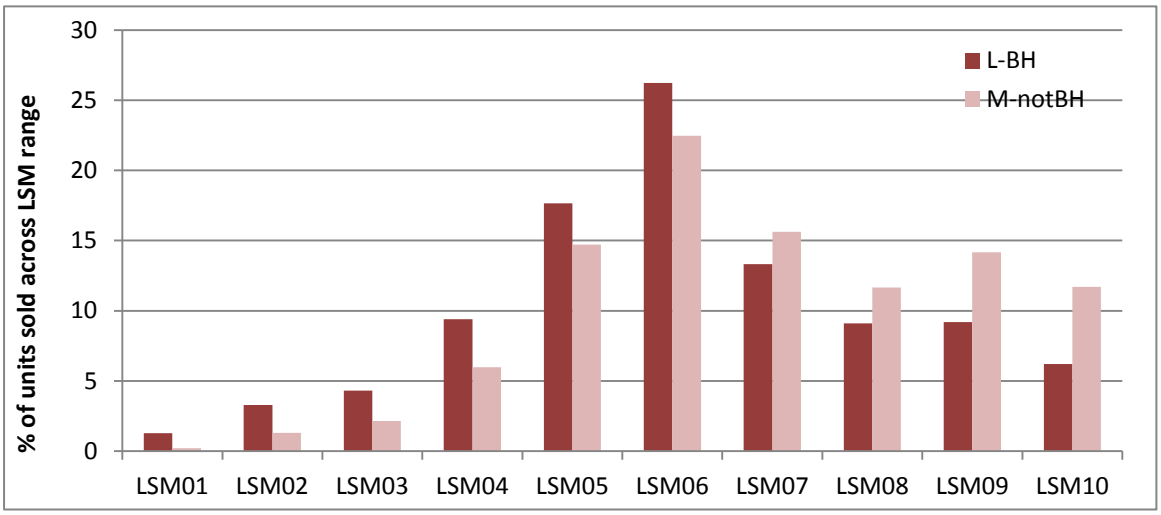
- The Chi-square tests showed that there were significant relationships ($p>0.001$) between the products (Locally-or-MNE owned) and the 10 LSM categories.
- The Cramer V tests showed that the strength of the association is mostly weak (0.04 – 0.17)
- The deviance tests were done on every product category (cereal, chewing gum, fresh milk, chocolate, etc.)
    - The deviance analysis shows that Local firms are more able to penetrate the South African consumer market in the lower LSM categories (1 to 6). The MNE's in return are more able to penetrate the higher LSM categories (7 to 10) than the Local firms. The Local firms sell more than double the number of units of cereal in the Local market. Another interesting fact is that the Local firms are associated with Brand houses and the MNE's are wholly owned subsidiaries.
    - Local firms sell 69% of the units in the Fresh Milk subsector and approximately 80% of all the fresh milk is sold in the LSM 5 to 10 categories. The deviance analysis performed shows that the MNE's perform better in the lower LSM categories (1 to 4) with an average of 4.3% more presence than the Local firms, while the Local firms in return reply with an average presence of 2.9% more in LSM categories 5 to 10. The fresh milk MNE's operating in the South African consumer market is wholly owned.
    - MNE's control approximately 82% of the chocolate consumer market in volumes sold across all the LSM categories (1 to 10). The Local firms are all associated with Brand houses while the MNE's are all wholly owned subsidiaries. The deviance analysis shows that the MNE's have on average approximately 3.8% more presence in LSM categories 7 to 10 and the Local firms have on average 2.5% more presence in LSM categories 1 to 6.
    - Another subsector that forms part of the product sample is Yogurt. In this subsector the MNE's control approximately 88% of the South African consumer market. The consumer market mostly caters for the higher LSM's as 80% of the yoghurt consumed in South Africa falls in

the higher LSM categories (5 to 10). The market penetration across all the LSM categories (1 to 10) was assessed again. The Local firms do not have sufficient market share as mentioned before and their ability to penetrate the higher end of the LSM categories (7 to 10) were on average 3.1% than MNE's. The LSM 7 to 10 categories however only caters for 37% of the consumer market. The deviance analysis also reflected that the MNE market penetration per LSM category for the lower categories (1 to 6) were on average 2.1% higher than that of the Local firms.

Cereal

The product sector is dominated by two Local brand houses and one MNE. The two brand houses cater for approximately 70% of the consumer market and the remainder of the market goes to the MNE. More than 60% of all the cereal units are sold to the lower LSM (1 to 6) categories and more than 50% of the MNEs cereal is sold to the upper LSM (7 to 10).

Graph 10 - Cereal (Deviance)



Cereal	LSM 1	LSM 2	LSM 3	LSM 4	LSM 5	LSM 6	LSM 7	LSM 8	LSM 9	LSM 10
Local	1,3%	3,3%	4,3%	9,4%	17,7%	26,2%	13,3%	9,1%	9,2%	6,2%
Multi national	0,2%	1,3%	2,2%	6,0%	14,7%	22,5%	15,6%	11,7%	14,2%	11,7%
Deviance	1,1%	2,0%	2,2%	3,4%	3,0%	3,8%	-2,3%	-2,6%	-5,0%	-5,5%

Table 15 - Cereal Deviance

When the Chi-square for cereal was calculated, as reflected in the table above, the result showed that a significant association existed between the product firms. The Cramer's V test however showed the strength of the association was weak.

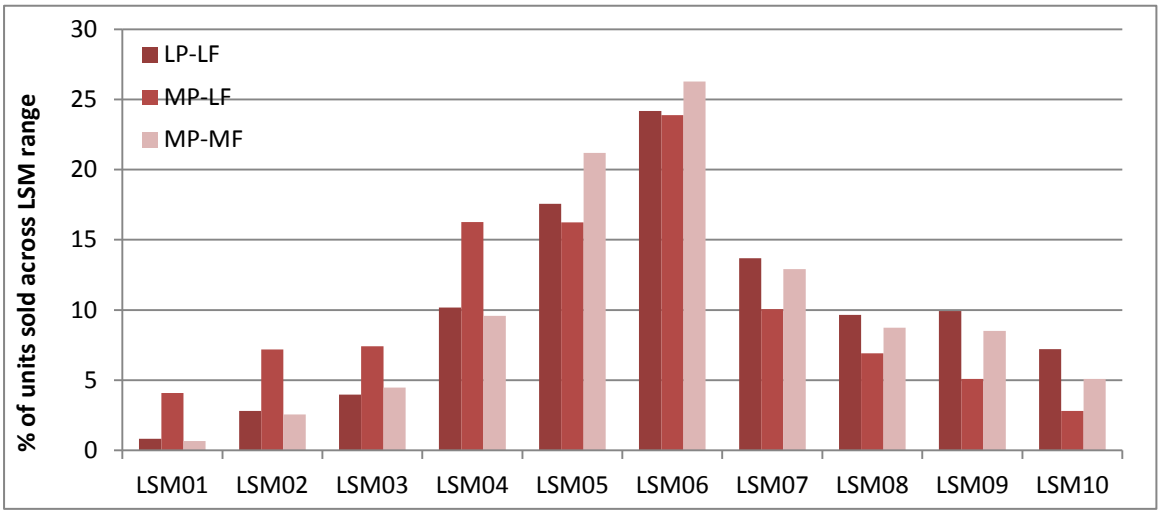
The above graph indicates the difference between Local and MNEs in the lower categories (1 to 6) which shows that the Local firms are performing better, and that MNEs are able to compete in the upper LSM category (7 to 10). The two main Local cereal firms (Bokomo and Oats) are linked to brand houses (Pioneer Foods and Tiger Brand). The MNE is a wholly owned subsidiary competing in a market with brand houses. The MNEs in the Cereal subsector are wholly owned subsidiaries.

Fresh Milk

Although the Fresh Milk sector is dominated by Local firms, in particular Clover South Africa (Pty) Ltd, the MNE dairy firms still manage to gain access to the consumer market across all the LSM categories. The MNEs only sell to 31% of the consumer market compared to the Local firms controlling the majority share of the market. In the Fresh Milk sector, 81% of the items sold are done so in the LSM 5 to 10 categories.

The p-value of Fresh Milk using the Chi-squared test is < 0.0001 indicating a significant relation exists between the units sold across the LSM categories and the Local versus MNE classification.

Graph 11 - Fresh Milk (Deviance)



Fresh Milk	LSM 1	LSM 2	LSM 3	LSM 4	LSM 5	LSM 6	LSM 7	LSM 8	LSM 9	LSM 10
Local	0,8%	2,8%	4,0%	10,2%	17,6%	24,2%	13,7%	9,7%	9,9%	7,2%
Multi national	4,1%	7,2%	7,4%	16,3%	16,3%	23,9%	10,1%	6,9%	5,1%	2,8%
Deviance	-3,3%	-4,4%	-3,4%	-6,1%	1,3%	0,3%	3,6%	2,7%	4,8%	4,4%

Table 16 - Fresh Milk Deviance

The Fresh Milk graph presents a deviance where the MNE owned firms are able to serve the fresh milk sector (based on equal weighting or size) in all LSM categories (1 – 10).

The lower level LSM categories (LSM 1 to 4) are dominated by the MNE that owns the Local franchises (MP-LF). The next LSM categories (5 to 6) were dominated by the MNEs with MNE Franchises (MP-MF). In the remaining LSM categories (7 to 10) the Local firms (LP-LF) took control over those sections of the LSM categories.

The MNEs in the Fresh Milk subsector are wholly owned subsidiaries.

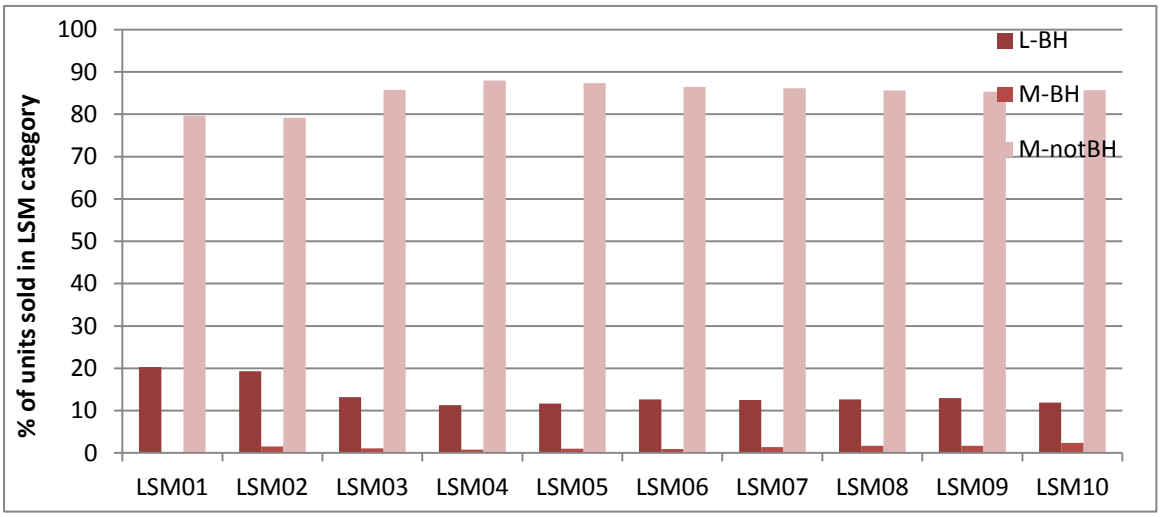
Chocolate

This subsector is dominated by three main firms of which two are MNEs and one is a Local firm. The MNEs however, sell 91% of all the chocolate units sold in the South African market.

The deviance conducted on the chocolate subsector revealed there are very small differences between Local and MNE firms competing against each other in the different LSM categories (1 to 10).

When comparing the percentage of units sold the main Local chocolate producer is associated with a brand house to distribute the products in the consumer market across all the LSMs. Comparing the deviance differences the deviance range varies between 0.1% and 1.5%.

Graph 12 - Chocolate units sold



Chocolate	LSM 1	LSM 2	LSM 3	LSM 4	LSM 5	LSM 6	LSM 7	LSM 8	LSM 9	LSM 10
Local	1,2%	4,1%	4,1%	8,9%	16,4%	25,4%	13,7%	9,9%	9,8%	6,5%
Multi national	0,0%	3,3%	3,4%	6,1%	14,2%	18,2%	15,6%	13,2%	12,9%	13,2%
Deviance	1,2%	0,8%	0,7%	2,8%	2,3%	7,2%	-1,9%	-3,3%	-3,1%	-6,7%

Table 17 - Chocolate Deviance

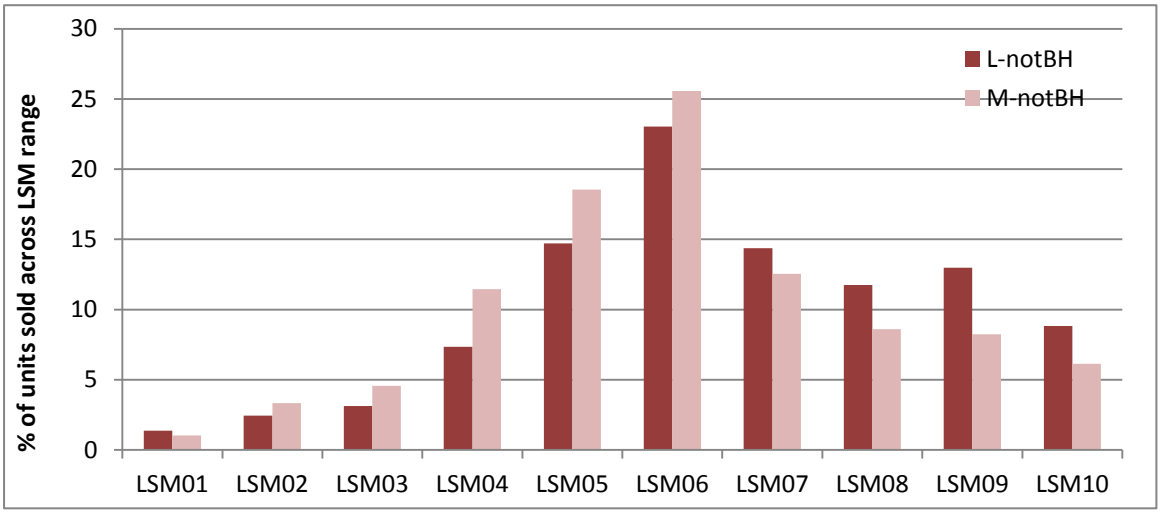
The chart reflects the number of units sold as a percentage in every LSM. The MNEs with no Brand house (M-not BH) are wholly owned subsidiaries in South Africa; they sold approximately 85% of all the chocolate sold in this subsector. The Locally owned firms with Brand house (L-BH) association sold approximately 14% of the chocolates. The MNEs in the Chocolate subsector are wholly owned subsidiaries.

Yoghurt

The yoghurt subsector has seven firms producing yoghurt for the South African consumers. The MNE's produce and distribute approximately 88% of the yoghurt while the Local firms produce the remaining 12%.

Approximately 67% of all the yoghurt produced and distributed in the South African consumer market is consumed by LSMs 4 to 7.

Graph 13 - Yoghurt (Deviance)



Yoghurt	LSM 1	LSM 2	LSM 3	LSM 4	LSM 5	LSM 6	LSM 7	LSM 8	LSM 9	LSM 10
Local	1,4%	2,4%	3,1%	7,4%	14,7%	23,0%	14,4%	11,7%	13,0%	8,8%
Multi national	1,0%	3,3%	4,6%	11,5%	18,5%	25,6%	12,6%	8,6%	8,2%	6,1%
Deviance	0,3%	-0,9%	-1,4%	-4,1%	-3,8%	-2,5%	1,8%	3,1%	4,8%	2,7%

Table 18 - Yoghurt Deviance

The MNEs in this subsector (M-not BH) are licence entities and, based on the above chart; it seems that they are able to compete with the Local firms where they perform better in LSM 2 to 6. The deviance in the chart reflects that the MNE Enterprises in LSM 2 to 6 outperforms Local firms on average by 2,6% per LSM and the Local firms in return outperforms MNE Enterprise on average by 3,1% per LSM in the higher LSM categories (7 to 10). The MNE Enterprises in the Yoghurt sub-sector are wholly owned subsidiaries.

The alternative hypothesis (Ha1) is rejected as the majority of MNEs competing in the market are wholly owned subsidiaries.

The null hypothesis (H01) is accepted.

Hypothesis 3:

Ha3: *MNE's can only compete with Local firm in selected parts of the retail consumer market.*

H03: *MNE's are able to compete with Local firms across all the retail sectors with the same level of intensity.*

The subsectors were combined into three subcategories:

- Split LSM spread across the 10 LSM categories – "Split"
- Inconclusive LSM spread split across the LSM categories – "Inconclusive"
- Even LSM spread across the 10 LSM categories – "Even"

During the analysis of the 18 subsectors' deviance graphs all the individual subsector graphs showed three different trends. The subsectors were then group into three segments. The different trends did not change Local firm dominance in market share and the Local firms still manage to service the majority of the South African retail consumer market.

The three segments were grouped using the deviance as this could be one way of looking how both Local firms and MNEs penetrate the complete LSM spectrum.

The three segments were determined based on the following:

The first segment consisted of firms who were able to penetrate the lower LSMs (1 to 5). These firms were all Local firms and that they were mostly clothes reflects medium to long-term purchases. MNEs mostly dominated the higher LSMs.

The next segment was an even spread of penetration across the entire LSM spectrum. Both the Local firms and MNEs were able to compete in this segment across the entire LSM spread. This segment consisted mostly of grocery sectors.

The last segment consisted of firms from different subsectors i.e. sports clothing, appliances, etc. The reflected results are inconclusive and the reason why this results are reported as inconclusive are because the results do not show a definite trend when the deviance analysis graph was produce.

Hypothesis 3 Summary

The result on the "Split" graph shows that 90% of the consumers in the South African market purchase units from the Local firms and of the entire market these Local firms provide services to 79% of the consumer market between LSM categories 5 to 10.

The deviance analysis performed on all the subsectors forming part of the "Split" sample showed that the Local firms manage to penetrate the subsectors on average 4.7% more per LSM category (1 to 10) than the MNE's. The Local firms however, did not outperform the MNE penetration per LSM for categories 7 to 10. In fact the MNE's penetrated the LSM categories for LSM 7 to 10 at 7.1% better than the Local firms.

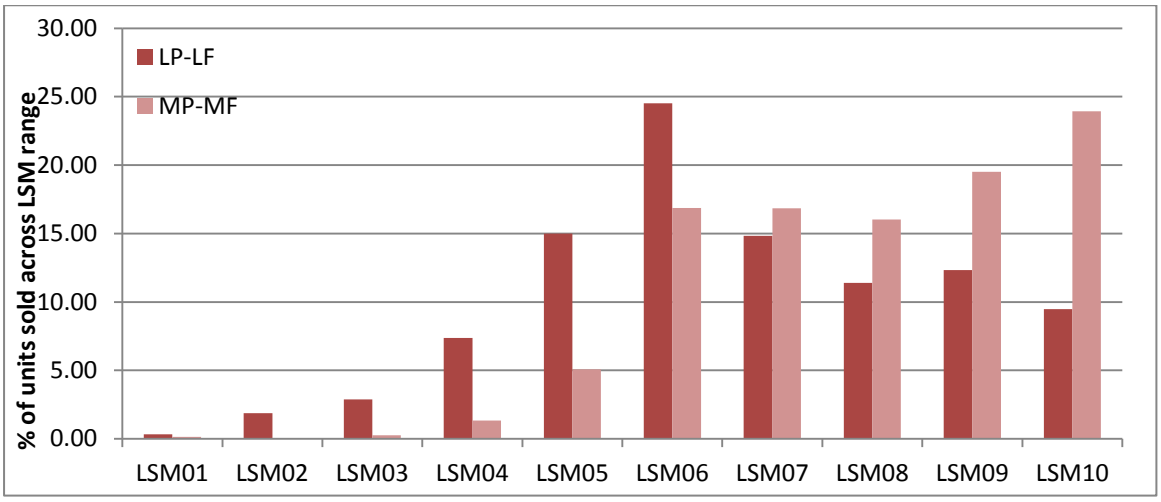
The results on the "Inconclusive" graph show that almost the entire market is serviced by the Local firms. The Local firms own 98% of the South African market and approximately 80% of the units sold are sold to the consumers falling into LSM 6 to 10 categories. These subsectors show that MNE's have almost no market presence. The subsectors included into the "Inconclusive" graph are appliances, sports clothing and men's shoes. Although deviance analysis was performed the results is very inconsistent and no accurate conclusion on the deviance analysis can therefore be determined.

The results on the "Even" graph shows that in selected sub-sectors MNE's can compete with Local firms. The Local firms still have market dominance (number of units sold) across all the LSM categories (1 to 10) for the group subsectors (Fast Food, Groceries and Fresh Milk). The group was determined by identifying the subsectors showing similarities in the deviance analysis and graphs. The Local firms

still dominate 76% of the consumer market in units sold across the LSM categories (1 to 10). Approximately 83% of the market for the subsectors analysed fall in LSM categories 5 to 10. The Fast Food subsector contributes significantly to this selected sample and their contribution to MNE's in the sample is on average approximately 61% per LSM category (1 to 10). The deviance analysis on the "Even" sample shows that MNE's perform on average 1.5% better in LSM categories 1 to 5 compared to Local firms. In reply Local firms perform on average 1.5% better than MNE's in LSM categories 6 to 10.

The deviance graphs below support the above:

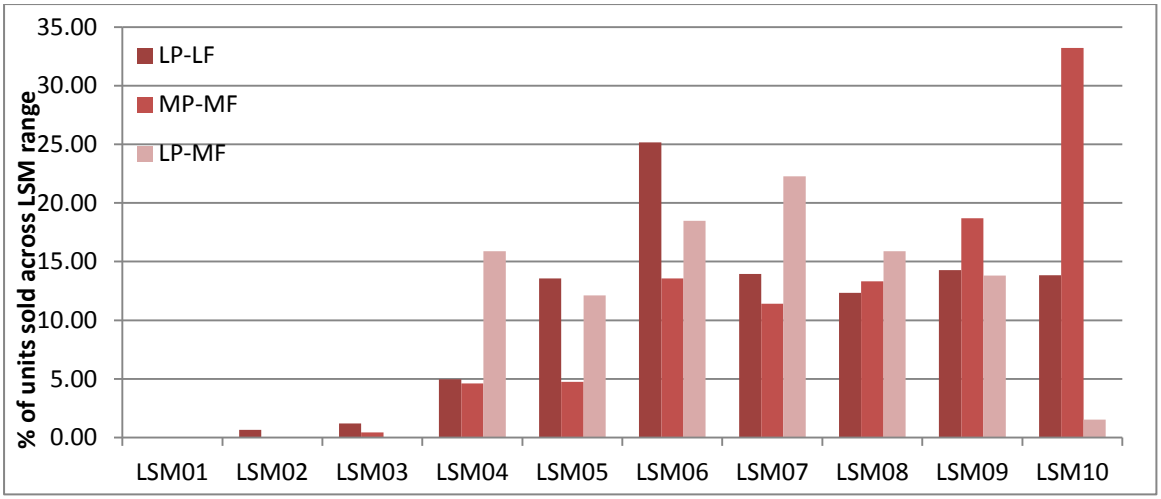
Graph 14 - Split LSM Spread



Subsectors that formed part of the split LSM spread are:

- Woman shoes,
- Woman clothing,
- Men's clothing,
- Children shoes,
- Children clothing.

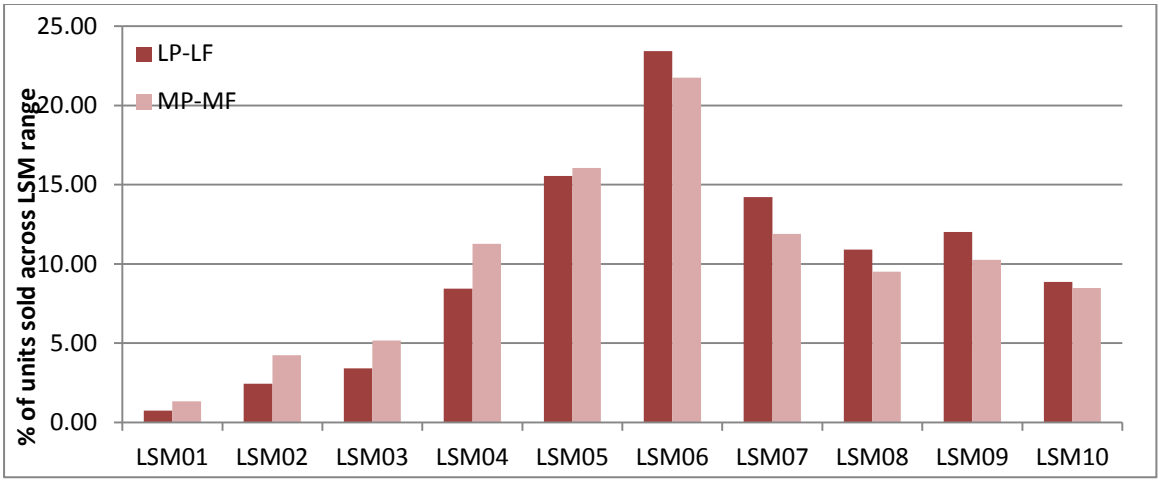
Graph 15 - Inconclusive LSM Spread



Subsectors that formed part of an inconclusive LSM spread are:

- Appliances,
- Sports Clothing,
- Men's Shoes.

Graph 16 - Shared LSM Spread



Subsectors that formed part of the split LSM spread are:

- Fast Food,
- Groceries – Usual non bulk,
- Groceries – Usual fill up,
- Groceries – Usual bulk,
- Groceries – Toiletries,

- Groceries – Household,
- Groceries – Convenience,
- Fresh Milk.

The alternative hypothesis is accepted (Ha3) and the null hypothesis (H03) is rejected. Based on the analysis it is clear that MNEs can compete with Local firms in selected sectors, i.e. groceries, and not necessarily all sectors.

6 – Results Discussion

The purpose of this chapter is to address the results and to support the results with literature from Chapter 2

Introduction

The global position of firms has changed and the Local markets in which they operate are simply not enough to satisfy their appetite for growth. Ghoshal and Westney (1993) identified MNE's as the firms operate in two or more countries.

Local firms in South Africa therefore have to face the intense competition they have to compete with when the MNE's start trading in their sectors or subsectors.

The Local firms attempt to use their Local market knowledge and brand presence as a competitive advantage to compete with MNE's. MNE's enter the Local markets with multiple resources that they can rely on to overpower the Local firms.

MNE's consider different modes of entering the Local market as an important factor to position them.

The research will attempt to understand what factors contribute to proof Local firms have a competitive advantage over MNE's:

- Local firms can outperform MNE's in its own market
- MNE's consider different modes of entering the market
- MNE's choose selected parts of the industries to compete with Local firms.

Hypothesis 1

Ha1: *Local firm's can overall service a broader spectrum of retail consumers in the LSM categories than MNE's*

H01: *Local firm's service overall similar or less retail consumer spread over the LSM categories than MNE's*

The results in this research statistically proved that Local firms do service an overall broader spectrum of the retail consumers in the different LSM categories than MNE's. The secondary data sample used was a combination of parent-and-subsidiary firms covering various industries. The firm data spread across 10 LSM categories.

Khanna & Palepu (2010) stress that MNE's must understand emerging market consumer needs, emerging market distribution networks and institutional frameworks supporting their activities in the emerging markets. The results showed that the MNE's are able to approach the market with their operating model, but they cannot necessarily penetrate the entire LSM spectrum. This could be due to either one of the three factors mentioned by Khanna & Palepu (2010) or all of the above. These MNE's are more familiar with the middle-and-high income market and therefore they mostly compete in the higher LSM categories. The Groceries – Convenience shops results showed that the MNE's cannot spread their networks to gain sufficient competitive access to the lower LSM's. The results clearly substantiate that MNE"s have the ability to compete with the Local firms in some of the subsectors (Groceries) and even some of the higher middle income class LSM categories, but they are still uncompetitive. The MNE's can still not compete against the Local firms based on volumes of units sold in the South African consumer market. Similar to Khanna & Papepu (2010) views, Poulis, Yamin & Poulis states that reasons why MNE's struggle to compete with Local firms are based on the fact that they might be unfamiliar with the institutions and environments (Poulis, Yamin, & Poulis, 2011). South Africa's Local market might have a complex environment where factors like a very diverse economy (high- middle-and-low income classes), remote rural communities and different to MNE country customer needs exist. This might impact MNE's ability to compete with the Local firms.

The MNE's will typically produce a better perceived product to the up-market segments while the Local firms will produce affordable low margin products in high volumes (Dawar & Chattopadhyay, 2002). Based on the results Dawar & Chattopadhyay might be right as the MNE's feature mostly in the higher middle-and-high income class. This is especially relevant where MNE's produce clothing, but not so relevant when consumers purchase toiletries and food (low value products).

One subsector where higher margins might apply, but the MNE's still manage to overtake the Local firms is with the Fast Food subsector. The MNE Fast Food brand has become a household brand and KFC (the Fast Food MNE) control half the Fast Food sector. MNE's competing against Local firms in South Africa realise that their success is dependent on how well they exploit their firm specific assets when they compete (Bobillo, Lopez-Iturriaga, & Tejerina-Giate, 2010). The Fast Food MNE provides fast food where the product quality and price is consistent. In addition they provide affordable fast food while amending the fast food to suit the Local consumer needs.

The host countries hope to gain access to the technologies and skills they do not yet possess. Local firms lack behind when it comes to capital, as MNE's can afford high fixed costs for the development of transport, communications and financial services required to manufacture and/or export (Blomstrom & Kokko, Multinational corporations and spillovers, 1998).

The new MNE's will have to demonstrate their ability to adapt their operating model in the emerging/middle income economy countries. In adapting their operating model to be relevant to the South African consumer market it will help the MNE's to compete with the Local firms for the LSM 4 to 7 category consumers. The active competition with the Local firms will cause disruption to their operations (Guillen & Carcia-Canal, 2009).

Therefore it is important for the MNE's to understand the factors that will affect their ability to compete with Local firms in the South African consumer markets. These MNE firms will have to ensure they either compete aggressively with Local firms in the higher LSM's seeing that they have the ability to penetrate these consumer LSM categories or they must gain an understanding of the institutional frameworks, customer needs and networks required to compete more with Local firms in the

lower LSM categories as well (Khanna & Palepu, 2010). In addition these MNE's must also determine how best they can exploit their assets (Bobillo, Lopez-Iturriaga, & Tejerina-Giate, 2010) to compete better with Local firms.

Hypothesis 2

Ha2: *MNE's use licensing as the preferred mode of entry to access the customers in the South African consumer market.*

H02: *MNE's rely on modes of entry other than licensing to gain access to the customers in the South African consumer market.*

The results in the product categories where Local firms and MNE's compete for market share clearly shows that MNE's use modes of entry other than licensing to access the South African consumer market.

MNE's enter countries like South Africa using different modes of entry. These modes can range from joint ventures to wholly owned subsidiaries (Guillen & Carcia-Canal, 2009). The MNE's believe that global alliances and acquisitions (Rui & Yip, 2008) will help them overcome liability of foreignness. MNE's also believe that global alliance and acquisition will give them a competitive advantage in the South African market where they can add Local skill to their business operations. In the diary subsector household brand Clover SA (Locally owned) produced products like yoghurt. They managed to supply to the consumer market across all the LSM categories (1 to 10). French yoghurt producer Danone is a global industry leader and respected yoghurt producer in Europe. Danone approached Clover SA and partnered with Clover SA to produce better yoghurt to the South African consumers. In forming this alliance Danone gained access to Clover's Local market (emerging market), which they had limited knowledge of. Danone produced the yoghurts in partnership with Clover SA and gained market knowledge of the South African consumer market during this joint venture partnership. In 2009 Danone acquired the entire yoghurt operations from Clover SA and with the yoghurt brand being changed over time the consumer recognised the Danone brand. Today Danone controls a significant portion of the South African consumer market in supplying yoghurt.

Another product in the dairy industry that formed part of this research product sample was Fresh Milk. Clover SA is the leading supplier of Fresh Milk to consumers across all the LSM categories (1 to 10). Their main competitor, a foreign owned subsidiary, Paramalat SA could only compete with them in the upper LSM categories because these are the consumer segments (middle-and-high income) they are

familiar with (Parent firm market knowledge). In order to gain access to the lower LSM's Parmalat SA acquired a Local firm who had sufficient networks in the lower LSM's. This allowed Paramalat SA to gain access to the entire LSM spectrum.

In South Africa the operations of MNE's and Local firms are very similar and these competitors (for example Heineken and South African Breweries or Shoprite Checkers and Wallmart) have high levels of awareness (Chen, 1996; Yu & Cannella, 2007). The presence of these foreign investors into the South African industries increases the level of competitiveness among the rivals. These rivals will introduce their products with new marketing campaigns, value added product features or even improved products to gain market share (Blomstrom & Kokko, 2003; Driffield & Love, 2007). For example Checkers increased the product sourcing capability by 3 times and also launched a marketing campaign promoting that Local firms understands the South African consumer market.

The new MNE's do not possess all the resources (sophisticated technologies of marketing skills) traditional MNE's possess and they therefore find innovative ways to be competitive in both developed and developing countries (UNCTAD, 2006). The new MNE's will target emerging countries to grow and improve their operational experience. They will also target a few developed countries that contribute to improving their capabilities (Guillen & Carcia-Canal, 2009).

The new MNE's like Wallmart intends to compete with the Local firms ensure they gain an understanding of the market which includes the political capability. This eliminates the advantage Local firms in South Africa has in understanding the political challenges they will experience when dealing with consumers of which government could be one (Cuervo-Cazurra & Genc, 2008).

MNE's have the infrastructure network they can utilise to gather market knowledge and rely on subsidiaries to support them (Lavie & Giegenbaum, The strategic reaction of domestic firms to foreign MNC dominance: The Israeli experience. Long Range Planning, 2000).

New MNE's, like Danone, do not necessarily gain access to intangible assets. Instead they form crucial alliances with Local firms, like Clover SA, and gain access to critical skills and resources. These skills and resources help new MNE's to catch

up with other competitors and also result in being formidable competitors to Local firms (Cuervo & Villalonga, 2000).

Wu & Pangarkar (2006) suggest that Local firms forming alliances with MNE's stand a better chance to survive and enhancement of their competitive position.

MNE's like Danone, Kellogg and Nestle established subsidiaries in South Africa to compete with the Local firms. This aligns to what Dunning (1993) suggested that MNE"s should rather create subsidiaries in the emerging countries like South Africa to compete with Local firms where the subsidiary can rely on better resources and better co-ordinating abilities. He (Dunning, 2001) says MNE's have resources, which helps them to be superior over Local firms. These resources includes innovative processes and technologies (Tsang, Yip, & Toh, 2008), marketing skills (Nachum & Rolle, 1999), channel related resources (Das & Teng, 2000) and managerial skills (Zaheer, 1995).

The results of the product sample assessed for Hypothesis 2 clearly shows that the MNE's in the South African consumer market choose wholly owned subsidiaries rather than forming alliances as a mode of entry. This aligns to Dunning's (1993) views on the preferred mode of entry for the MNE's into an unknown market (emerging). This hypothesis is not disproving Wu & Pangakar (2006) views where they suggest MNE's should form alliances with Local firms, but none of their views were identified in the product sample used for this hypothesis.

Hypothesis 3

Ha3: *MNE's can only compete with Local firm in selected industry segments of the retail consumer market.*

H03: *MNE's are able to compete with Local firms across all the retail industry segments with the same level of intensity.*

The purpose of this hypothesis was to assess whether MNE's can compete with Local firms in certain sectors or subsectors by penetrating the full LSM spectrum. The samples were combined where statistical similarities existed.

The subsectors were combined into three subcategories:

- Split LSM spread across the 10 LSM categories – "Split"
- Inconclusive LSM spread split across the LSM categories – "Inconclusive"
- Even LSM spread across the 10 LSM categories – "Even"

Literature highlighted that foreignness liability prevents MNE's to compete with Local firms in the South African market (Zaheer, 1995) and being unfamiliar with the institutions and environments might be a reason why MNE's cannot compete (Poulis, Yamin, & Poulis, 2011). The above results show that MNE can compete in selected sectors (groceries) and struggle to compete with Local firms across all the LSM categories in other sectors (clothing). This means that MNE's can only compete with Local firms in the South African market if they attempt to understand the local market. This factor is one of the main reasons why Local firms have a competitive advantage over MNE's (Lavie & Giegenbaum, The strategic reaction of domestic firms to foreign MNC dominance: The Israeli experience. Long Range Planning, 2000).

Although the MNE's displayed a willingness to compete with the Local firms in sectors like groceries, fresh milk and fast food the market is still dominated by Local firms. That said it is important for Local firms to take note of the future competition they will receive from growing MNE's. In addition Local firms must also be motivated

to compete with MNE's and obtain the necessary capabilities (Chen, 1996; Smith, Ferrier, & Ndofor, 2001).

It is said that MNE's can typically produce better perceived products than Local firms and that Local firms produce product at an affordable price (Dawar & Chattopadhyay, 2002). Local firms like Mr Price and Ackermans do provide products of a lower quality at a cheaper price, but the majority of the local market prefers this clothing. Local firms who do not enjoy enough institutional protection will be more motivated to react to the challenge of competing with the MNE's entering the South African markets (Baum & Korn, 1996).

The Fast Food sector on the other side is a product produced and consumed by all the LSM categories (1 to 10) and the product is affordable for all the consumers.

The MNE's can only compete in selected sectors of the consumer market and in sectors like groceries the MNE's cannot approach the South African consumer market with their products without tweaking these products (tastes, price & demand) in South Africa (Khanna & Palepu, 2010).

MNE's have the competitive advantage of relying on their assets as just mentioned, but according to Meyer (2001) the MNE's must also try to adapt their strategies to align to the Local institutions.

It is therefore important for MNE's to understand in which subsectors they can compete with Local firms. The MNE's should also understand why they are not able to compete with Local firms in certain subsectors and based on this knowledge the MNE's must try to adapt their strategy to compete with the Local firms. The change of the MNE's might also involve the MNE's tweaking their products where similarities can be drawn between MNE and Local products.

7 – Conclusion

Introduction

Chapter 6 aimed to pull the results and literature together. This chapter summarises the major findings of the research and recommendations for future research. In addition this chapter will discuss the contribution the research will make to the body of knowledge and address research limitations followed by a conclusion to this research.

Major Findings

The Local firms are still selling more products than the MNE's, but when the ability to penetrate the different LSM categories are assessed Local firms sell longer term products i.e. Clothing and Appliances better than MNE's across the LSM categories. The MNE's manage to service the Local consumer market marginally better in the short term products i.e. Groceries & Fast Food, better than the Local firms. MNE's still only service the Local consumers in the upper LSM categories (LSM 5 to 10.

In order for MNEs to expand in foreign countries they have to be able to familiarise themselves with the Local market and be able to compete. Knowledge is considered a powerful way to gain competitive advantage in the Local market (Lavie & Giegenbaum, 2000)

MNE's can use different modes of entry when they enter a foreign market, but in this research the key findings was that all the MNE's in the product sample were all wholly owned subsidiaries. This showed that in the sectors analysed the preferred mode of entry was wholly owned subsidiaries and not licensing or alliance. This finding is in agreement with Agarwal and Ramaswami (2002) stating that MNE's are not interested in anything less than wholly owned operation due to the fact that they will have to share with country firms.

Lastly MNE's only compete with Local firms in selected subcategory industries i.e. Groceries and Fast Food. The Clothing and Shoes subcategories are still industries where MNE's cannot produce products that are affordable for the mid to low LSM categories. Dunning (2001) says MNEs have resources, which help them to be superior over Local firms. These resources include innovative processes and technologies (Tsang, Yip, & Toh, 2008), marketing skills (Nachum & Rolle, 1999), channel related resources (Das & Teng, 2000) and managerial skills (Zaheer, 1995)Local firms in South Africa face various challenges in the market they operate. Local firms however still compete vigorously with MNE despite the lack of the resources as referred to by Dunning (2001). Local firms are still able to compete with MNE's in the Groceries subcategories and maintain their dominance in the middle LSM categories.

In addition to this Local firms are still competitive in the clothing and shoes subcategories as well and their competitiveness prevents MNE's to compete for the customers the middle and lower LSM categories which MNE's are not familiar with. In order for the Local firms to cope with MNE's entering their market they ensure that they are aware of MNE's presence, stay motivated to compete and obtain the necessary capabilities to compete (Chen, 1996; Smith, Ferrier, & Ndofor, 2001).

Research Limitations

There are several limitations to the research to be considered when exploring this topic and future topics related.

The AMPS data set will be affected by missing references on the data (i.e. registered firm names) reflecting against the number of units sold. The AMPS database aggregates all small trader activities and group these trades under informal traders or flea market trade. The accuracy of the data can therefore not be guaranteed on products sold in the informal rural sectors. The informal traders are mostly operating in the rural areas and they play a key role in fulfilling the rural need.

Like with the incomplete trader data in the AMPS data sample there are also incomplete product data where products are traded and the volumes of these products sold are considered significant based on the AMPS sample size criteria.

However the owners of these products are single entities operating in specific regions. It is therefore difficult to determine whether the competitive advantage of a Local firm operating nationally, a MNE and a regional firm compete on even grounds. Factors like operating cost and regional support/pride might benefit regional firms.

Research ideas

This research raised a few questions which could be considered for future research. The following could be some of the themes to be considered:

- The research did not segment MNE's based on the duration they've been active in the South African consumer market. There will be value in measuring the performance of MNE's who has been trading in the Local market for more than 15 years compared to MNE's trading in the Local market for less than 15 years. Traditional versus new MNE approaches might play a role in the analysis. Innovation and understanding emerging markets could also be a factor
- Research has been done where LSM categories were clustered. Future research could assess the results of clustered LSM groups where competitive markets exist between Local firms and MNE's In addition the research can assess how this competition changed over time.
- The effectiveness of the informal sector in the rural areas should be measured against the formal sector. The research must not measure the scale of the firms, but rather the success small spaza shops and flea markets achieve in the rural areas. The Bottom of the Pyramid elements should also form part of this research to establish if the informal sector can enjoy economic growth (expanding operations and networks).

Conclusion

The research was conducted in a time where Local firms experience a lot of competition in the South African consumer market from MNE's. This competition forces Local firms to become more innovative and change their business model to adapt with industry changes. Along with these activities the South African consumer market also experience growth in the middle income class which makes it easier for MNE's to compete for market share as they might understand the consumer types better.

Dunning (2001) also says MNEs have resources, which help them to be superior over Local firms. These resources include innovative processes and technologies (Tsang, Yip, & Toh, 2008); marketing skills (Nachum & Rolle, 1999), channel related resources (Das & Teng, 2000) and managerial skills (Zaheer, 1995). However, what became clear in the research is that MNE's might have all these valuable assets, but they do not have scale or an understanding of the South African consumer market. They also do not understand how to approach the Bottom of the pyramid (Agarwal & Ramaswami, 1992).

The study was aimed at exploring the competitive advantage Local firms have over MNE's in the South African consumer market. The findings have revealed that Local firms can service a broader spectrum of the consumer market. The research also wanted to assess how MNE's approach the South African consumer market to compete with the Local firms and found MNE's also prefer wholly owned subsidiary as the mode of entry when entering the South African consumer market. Lastly the research wanted to assess if the competitive advantage MNE's have over Local firms might be limited to certain sectors and subsectors. The results revealed that although MNE partake in most sectors and subsectors they choose the one's where they have a competitive advantage.

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