

# The International Success of British Companies

An industry perspective

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The Advanced Institute of Management Research (AIM) develops UK-based world-class management research. AIM seeks to identify ways to enhance the competitiveness of the UK economy and its infrastructure through research into management and organisational performance in both the private and public sectors.

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\*The research for this paper was conducted while Professor of Strategic and International Management at London Business School. A more detailed report of this study will be published in 'Long Range Planning', Vol. 39, No. 3, 2006.

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### **Current AIM research projects focus on:**

#### **UK productivity and performance for the 21st century.**

*How can UK policymakers evaluate and address concerns surrounding the UK's performance in relation to other countries?*

National productivity has been the concern of economists, government policymakers, and corporate decision-makers for some time. Further research by scholars from a range of disciplines is bringing new voices to the debates about how the productivity gap can be measured, and what the UK can do to improve the effectiveness of UK industry and its supporting public services.

#### **Sustaining innovation to achieve competitive advantage and high quality public services.**

*How can UK managers capture the benefits of innovation while meeting other demands of a competitive and social environment?*

Innovation is a key source of competitive advantage and public value through new strategies, products, services and organisational processes. The UK has outstanding exemplars of innovative private and public sector organisations and is investing significantly in its science and skills base to underpin future innovative capacity.

#### **Adapting promising practices to enhance performance across varied organisational contexts.**

*How can UK managers disseminate their experience whilst learning from others?*

Improved management practices are identified as important for enhancing productivity and performance. The main focus is on how evidence behind good or promising practices can be systematically assessed, creatively adapted, successfully implemented and knowledge diffused to other organisations that will benefit.

This briefing examines the international success of British companies in the context of the industries that they operate in. It does this by measuring international success using global market share and international revenues and combining these in a matrix to create a visual representation of those industries in which British companies are internationally successful or not. The briefing also investigates whether these are attractive industries in terms of profitability and growth.

In terms of global share, the results show that there are certain industries in which British firms are clearly global winners. Interestingly, these feature a high proportion of so-called 'sin' industries and other industries which might well be excluded from an ethical fund. These include mining, casinos and gaming, major oil companies, distillers and brewers, and tobacco.

By combining global share with international share of revenues in a matrix, it is easy to see the industries in which British companies are global champions: aerospace; mining; major oil companies; pharmaceuticals; tobacco; and wireless communications.

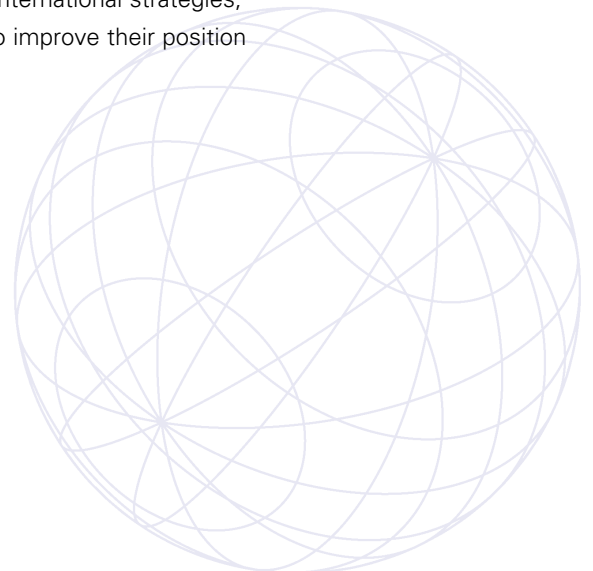
There is evidence to suggest that some companies are able to thrive in industries where average global market share of companies is high, but internationalisation in the form of international share of revenues is low. Companies in these industries appear to be insulated from the effects of global competition as they are predominantly service industries requiring a high degree of local knowledge, such as casinos and gaming, home construction and transportation services.

The undoubted losers in terms of international success are those companies with both low global market share and low international share of revenues. These companies are involved in the following industries: broadcasting; consumer electronics; cosmetics; fixed-line communications; footwear; and internet services.

In addition, British companies have done a good job of building up global market share in higher growth industries.

What the matrices in this briefing provide is a tool for managers to benchmark their international success across the different measurements, against the industry average. And, by using the matrices, they can develop international strategies, some of which are suggested in this briefing, in order to improve their position and become a global champion.

**In terms of global share, the results show that there are certain industries in which British firms are clearly global winners.**



## introduction: international success – are you in the right industry?

In what industries are British companies most successful internationally? This is an important question for both managers and government policymakers. For managers, the answer shows where to focus their firms' efforts and how to align the capabilities of the firm with industry opportunities. The answer may even indicate underexploited gaps. For policymakers it provides help to show where they should be using resources to support British industry.

International business research supports the idea that the nature of the industry a company operates in, may affect its prospects of international success. This is complicated further by the fact that inherent country conditions favour some industries rather than others.

Countries clearly differ in the mix of industries in which their companies excel. For example, among similar sized European economies, German firms have some of their largest global market shares in air freight, advanced industrial equipment, and automobiles; and French firms in water utilities, cosmetics, and food retailing. South Korea is even more different – its largest global market shares are in shipbuilding, semiconductors, specialty conductors, and consumer electronics.



The home country effect comprises a mix of home country factors – such as the nature of demand (e.g. British liking for gambling) and supply (e.g. work force abilities as in creative industries) – and of history (e.g. British firms were the first to internationalise in a number of industries, following the Empire). There may even be a country management effect – through training, experience and preference. British managers may be more effective in finance-based industries or in creativity-based ones.

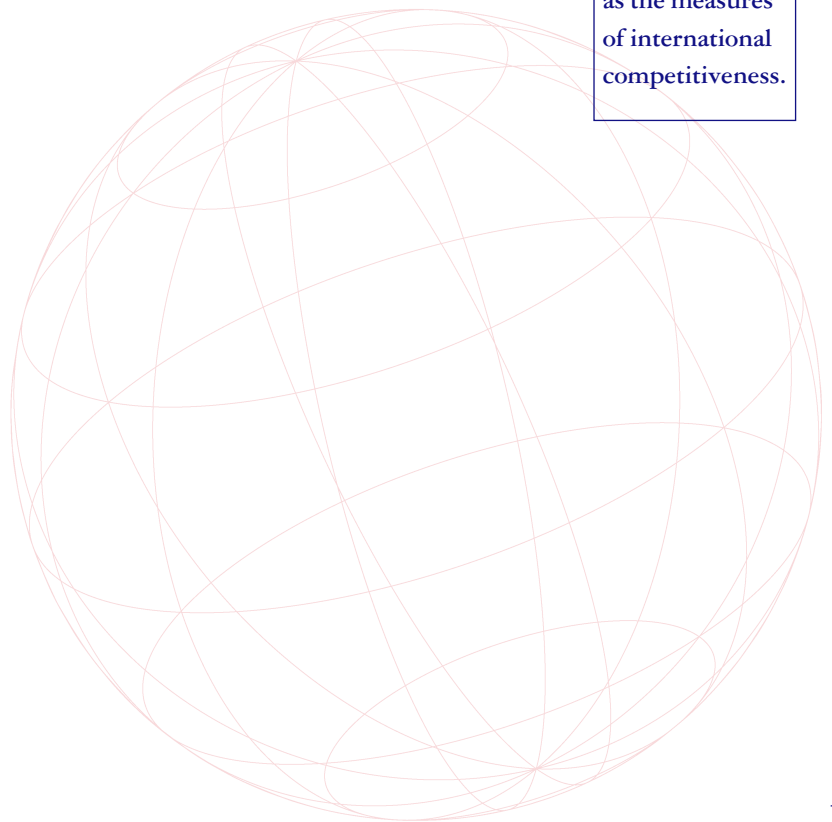
The research does not aim to test all the possible explanations of national differences in industry performance. It does, however, seek to identify, as a first step, the industries in which British companies excel. This provides some guidance to managers on where to seek competitive advantage, and what possible strategies might be employed to pursue international success.

This question of international success is not a new one. What is new is the approach. Nearly all research before has focused on *industry exports* or *industry productivity* as the measures of international competitiveness.

While exports and productivity are of great interest to economists, managers are more concerned with total revenues, regardless of source, than just exports. Managers also care more about total profitability rather than just the productivity that contributes to profits.

As a result the study<sup>1</sup> focuses on the *international success of companies*, based on their worldwide activities, using new measurements of international success and shining a spotlight on the abilities of British companies rather than those of the British economy.

Nearly all research before has focused on industry exports or industry productivity as the measures of international competitiveness.



# defining international success

Two measures of success are used to determine the industries in which British companies are the most successful internationally: global market share and the international share of revenues. Additionally, the attractiveness of these industries is considered in terms of profitability and growth.

## 1 Global market share

Large British companies need to be competitive internationally. One measure of this is their global market share in the relevant industry group (see Table 1).

There are many different ways to measure profitability. Performance can mean many things to many different stakeholders.

Global market share provides a measure of competitive advantage and company size relative to global competitors. While various measures of size, particularly revenues, assets, profits, and market capitalisation are used by researchers, this research uses revenues as it is a much more stable measure over time. Revenues are also a better indicator of the extent of activities. For example, quite small firms can have very large market capitalisations.

## 2 International share of revenues

As British firms now need to compete with other firms in a deeply integrated European regional market, as well as in a flatter world economy, the degree of international revenues is an important indicator of success in international markets.

It is possible for a company to have a large global market share but derive the bulk of its revenues domestically from a large home market. This is especially true of large US firms like Wal-Mart, rather than British firms which have a smaller home economy.

To be internationally successful, a company needs, by definition, to have significant international activities. Measuring the percentage of revenues that is international means that figure can be combined with global market share to provide a strong measure of international success. Total international revenues are the sum of foreign subsidiary revenues plus exports from the headquarters country.

## 3 Profitability

There are many different ways to measure profitability. Performance can mean many things to many different stakeholders. For example, shareholders pay most attention to total return to shareholders (TRS). However, shareholder-based measures of performance may not work for distinguishing between domestic and international performance, as TRS is a globally unitary measure that cannot be allocated geographically.

A better measure in this case is net profits as a percentage of revenues. The database that is used reports the geographical segment data for the worldwide earnings (net profits) of firms. Thus the net profits of subsidiaries can be used as a metric for profitability.

## 4 Growth rate

With growth rates the key issue is which period to measure the growth over. As the measures of global market share and international percentage are for the three-year period of 2001 to 2003. The same period is used for the industry growth rate.

**Table 1: Alternative measures of international success**

<b>Country level</b>	
Exports (or net of imports) as % of GNP	Measures the entire economy and includes export activities of locally-based subsidiaries of foreign companies. Hence, it is not a good measure of the success of domestic companies, e.g. Ireland has very strong export performance but mostly by locally-based foreign companies. Also, it is hard to compare the export activities (or other local aspects of performance) of domestic and foreign companies as each depends on the worldwide business systems of the companies, e.g. the performance of Toyota's UK subsidiary depends a great deal on products developed in Japan even though much of the production is in the UK.
<hr/>	
<b>Industry level</b>	
Exports (or net of imports) as % of industry	Same arguments apply as for the country level.
<hr/>	
<b>Company level</b>	
Exports as % of revenues	Measures primarily the performance of the domestic part of the company, and depends a great deal on domestic country factors.
Global market share	Provides measure of competitive and achieved position relative to all global competitors. Has advantage of capturing the performance of the entire company, not just the domestic portion. Has the drawback of favouring companies based in larger economies when comparing across countries, or favouring companies in categories with above (global) average usage or consumption rates when comparing within countries (e.g. gambling has higher usage rate in the UK than in most other countries compared with cosmetics).
International share of revenues	Offsets the drawbacks of global market share. Has own drawback of bias from home country size when comparing companies across countries, but not a problem when comparing within countries. Provides complement to global market share as joint measures of international success.

## global winners and global champions

The results are interesting and, to a degree, unexpected, right across the range of measures.

### 1 Global market share

Take the combined revenues of all British companies in an industry, divide it by the combined revenues of all companies in the world in the same industry, and you get a picture of those industries in which British companies can be considered to be the most successful on a global basis in terms of global market share. The results can be divided into winners, challengers and losers.

Winners are the industries in which British companies have an average of over 10% of global share, above the British all-industry average of 8.8%, and at 10% or more are clearly notable, even dominant, on a global scale. There are 25 industries in this category.

Challengers have average shares between 2% and 10%, and represent industries in which British companies have significant but not dominant roles. There are 31 industries (26th to 56th) in this category.



Finally, there are losers; those industries in which British companies average less than 2% share. There are 33 industries in this category.

Table 2 shows the global market share of all public British companies, averaged over the three years 2001-2003.

**Table 2: Industries Ranked by Global Share of British Companies  
(2001-2003 average, listed companies)**

Rank	Name of Industry	Market Share	Rank	Name of Industry	Market share	Rank	Name of Industry	Market share
1	Mining	56.7	31	Heavy Construction	6.7	59	Advanced Industrial Equipment	1.6
2	Casinos (and Gaming)	33.1	32	Marine Transport	6.6	60	Oil Companies (Secondary)	1.5
3	Oil Companies (Major)	29.1	33	Airlines	6.0	61	Communications Technology	1.4
4	Distillers & Brewers	21.5	34	Retailers (Drug-based)	5.9	62	Electric Components	1.3
5	Water Utilities	21.4	35	Household Products (Nondurable)	5.7	63	Insurance (Property)	1.3
6	Transportation Services	19.8	36	Software	5.5	64	Biotechnology	1.2
7	Wireless Communications	19.7	37	Industrial Services	5.4	65	Internet Services	1.1
8	Advertising	19.2	38	Fixed-Line Communications	4.9	66	Clothing & Fabrics	0.9
9	Tobacco	18.6	39	Industrial (Diversified)	4.8	67	Medical Supplies	0.7
10	Restaurants	17.4	40	Railroads	4.5	68	Footwear	0.7
11	Publishing	16.9	41	Precious Metals	4.4	69	Chemicals (Commodity)	0.7
12	Insurance (Life)	16.1	42	Real Estate	4.3	70	Factory Equipment	0.6
13	Home Construction	15.4	43	Household Products Durable	4.2	71	Computers	0.6
14	Entertainment	15.3	44	Advanced Medical Devices	3.8	72	Heavy Machinery	0.6
15	Retailers (Specialty)	14.8	45	Retailers (Broad-line)	3.7	73	Healthcare Providers	0.5
16	Gas Utilities	13.5	46	Electric Utilities	3.4	74	Tyres	0.4
17	Pharmaceuticals	12.7	47	Shipbuilding	3.4	75	Consumer Electronics	0.3
18	Lodging	11.9	48	Steel	3.4	76	Office Equipment	0.3
19	Consumer Services	11.5	49	Investment Services	3.3	77	Semiconductors	0.3
20	Insurance (Full Line)	11.5	50	Furnishings & Appliances	3.2	78	Cosmetics	0.2
21	Banks (Excluding-S&L)	11.3	51	Broadcasting	2.7	79	Trucking	0.2
22	Recreation Products	10.9	52	Diversified Technology	2.6	80	Land Transportation Equipment	0.2
23	Food Retailers	10.9	53	Toys	2.5	81	Soft Drinks	0.2
24	Food Products	10.8	54	Pollution Control	2.1	82	Paper Products	0.1
25	Aerospace	10.2	55	Auto Parts	2.0	83	Pipelines	0.0
26	Building Materials	8.3	56	Oil Drilling (Equipment)	2.0	84	Forest Products	0.0
27	Containers & Packaging	7.9	57	Diversified Financial	1.7	85	Air Freight	n/a*
28	Chemicals (Specialty)	7.1	58	Agriculture	1.6	86	Aluminium	n/a*
29	Retailers (Apparel)	6.9				87	Automobile	n/a*
30	Coal	6.8				88	Nonferrous Metals	n/a*
						89	Savings & Loan	n/a*

\* No British companies are reported in OSIRIS database for this sector.

## 2 International share of revenues

Table 3 shows the average international share of revenues (foreign/total or F/T) for British firms in each industry.

**Table 3: Industries Ranked by International Share of Revenues of British Companies, 2003\***

Rank	Name of Industry	F/T	Rank	Name of Industry	F/T	Rank	Name of Industry	F/T
1	Precious Metals	100.0	22	Electric Utilities	48.4	42	Diversified Technology	22.7
2	Pharmaceuticals	93.4	23	Gas Utilities	48.3	43	Transportation Services	22.4
3	Industrial (Diversified)	82.4	24	Containers & Packaging	47.7	44	Fixed-Line Communications	21.4
4	Oil Companies (Secondary)	81.7	25	Furnishings & Appliances	47.0	45	Broadcasting	20.5
5	Mining	75.8	26	Household Products Durable	45.4	46	Banks (Ex-S&L)	20.4
6	Auto Parts	74.5	27	Entertainment	44.6	47	Heavy Construction	19.6
7	Oil Drilling (Equipment)	72.4	28	Investment Services	42.2	48	Distillers & Brewers	19.2
8	Tobacco	71.0	29	Publishing	41.2	49	Water Utilities	17.8
9	Biotechnology	69.8	30	Toys	39.9	50	Footwear	17.1
10	Oil Companies (Major)	67.5	31	Retailers (Drug-based)	39.7	51	Consumer Electronics	16.9
11	Electric Components	66.9	32	Insurance (Full Line)	39.7	52	Casinos (and Gaming)	14.6
12	Chemicals (Commodity)	65.8	33	Recreation Products	39.3	53	Internet Services	14.1
13	Insurance (Property)	65.0	34	Communications Technology	37.8	54	Cosmetics	13.0
14	Building Materials	59.8	35	Airlines	35.8	55	Real Estate	11.7
15	Wireless Communications	59.7	36	Medical Supplies	34.9	56	Railroads	9.6
16	Aerospace	55.4	37	Household Products Nondurable	32.0	57	Insurance (Life)	9.6
17	Marine Transport	54.7	38	Consumer Services	30.4	58	Retailers (Broad-line)	8.6
18	Software	51.2	39	Retailers (Speciality)	28.7	59	Restaurants	7.7
19	Advanced Industrial Equipment	48.9	40	Lodging	25.1	60	Retailers (Apparel)	7.4
20	Industrial Services	48.7	41	Advertising	23.6	61	Food Retailers	6.2
21	Food Products	48.7				62	Home Construction	4.8

\*Based on British companies in the global top 100 companies per industry (the number of British companies range from 2 to 13 per industry, totalling 303). 27 industries excluded for having no companies or none (or just one) reporting foreign revenues.

What the results show is that companies in service industries have a strong international position in terms of global market share. And so-called 'sin' industries, also figure prominently in the top ten. Sin industries are usually defined as alcohol, tobacco and gaming, while sometimes extending to include arms manufacture. Similarly, ethical funds might have criteria which preclude them investing in stocks in companies involved in these activities as well as activities such as oil and gas, mining, the automotive industry and others.

The top ten are, in descending order: mining (57%); casinos and gaming (33%); major oil companies (29%); distillers and brewers (22%); water utilities (21%); transportation services (20%); wireless communications (20%); advertising (19%); tobacco (19%); and restaurants (17%).

At the other end of the list, in joint last place is the automobile industry. There are no public British companies left in this industry. The results require some qualification. The top position of mining owes much to some of the very large mining companies from Commonwealth countries, such as Australia, Canada, and South Africa, which have their headquarters in Britain, even though the bulk of their activities is overseas.

**Sin industries are usually defined as alcohol, tobacco and gaming, while sometimes extending to include arms manufacture.**



Also the position of casinos and gaming is boosted by the fact that the largest British casino company, as classified by the Dow Jones system, is the Hilton Group. However, a significant portion of the Hilton Group's revenues comes from hotels and not casinos.

While the UK's share of global gross domestic product for the three years from which the data is taken is 4.8%, the average share across all industries of British companies is 8.8%. So British companies are relatively more important vis-à-vis their global counterparts than the UK economy is vis-à-vis the global economy.

There were certain limitations on measuring the average international share of revenues (foreign/total or F/T). Data was collected only for the 312 British firms in the global top 100 in each industry. The 27 industries where there were either no British firms in the top 100, or the firms did not report international revenues, were excluded. As some firms reported Europe revenues versus non-Europe as opposed to UK versus non-UK revenues, the extent of international (non-UK) revenues is understated. On the other hand, using only those British companies in the top 100 of their industries overstates the extent of international share, as smaller companies typically have lower rates of internationalisation.

Once again the results can be divided into three groups: companies in industries where the average F/T is over 50% are no longer British (or other national) companies with some international activities, but multinational or global companies; those between 25% and 50% are possibly on the way to becoming really international; and those at 25% or below, at present, rely on the domestic market.

Divided in this way, the industries fall into three roughly equal groups. The majority of British industries (44 of 62 = 71%) have companies with their sales primarily at home and an F/T of less than 50%.



### **3 Combining global market share and international share of revenues**

Combining global market share and F/T rankings in a matrix, provides a good representation of those British businesses that are successful internationally. In other words: which industries contain companies that are both 'winners' in terms of global market share and also derive a high proportion of revenues from their international operations?

**Figure 1: Classification of Industries (2001-2003, average)**

		Global Market Share of British Companies		
		0% to 2% 'British as Losers'	2% to 10% 'British as Challengers'	10% + 'British as Winners'
Extent of Internationalisation of British Companies	Product Based Industries in bold	C1  <b>Biotechnology, Chemicals (Commodity) Electric Components</b> Insurance (Property) <b>Oil Companies (Secondary)</b>	B1  <b>Auto Parts, Building Materials, Industrial (Diversified)</b> Marine Transport, <b>Oil Drilling (Equipment)</b> <b>Precious Metals, Software</b>	A1  <b>Aerospace, Mining, Oil Companies (Major), Pharmaceuticals, Tobacco,</b> Wireless Communications
		C2  <b>Advanced Industrial Equipment, Communications Technology, Medical Supplies</b>	B2  Airlines, <b>Containers &amp; Packaging, Electric Utilities, Furnishings &amp; Appliances, Household Products (Durable), Household Products (Nondurable),</b> Industrial Services, Investment Services, Retailers (Drug-based), <b>Toys</b>	A2  Consumer Services, Entertainment, <b>Food Products,</b> Gas Utilities, Insurance, Full Line, Lodging, Publishing, <b>Recreation Products,</b> Retailers (Specialty)
		C3  Broadcasting, <b>Consumer Electronics, Cosmetics,</b> Fixed-Line Communications, <b>Footwear,</b> Internet Services	B3  <b>Diversified Technology,</b> Heavy Construction, Railroads, Real Estate, Retailers, Retailers (Apparel), Broad-line	A3  Advertising, Banks (excluding S&L), Casinos (and Gaming), <b>Distillers &amp; Brewers,</b> Food Retailers, Home Construction, Insurance (Life), Restaurants, Transportation Services, Water Utilities

Note: Number of industries in columns is not equal as 27 of the 89 industries were excluded for having no British companies present, or none (or just one) reporting foreign revenues. Product based industries are in bold.

The matrix shows very clearly in which industries companies are achieving international success.

**(i) Global winners**

In the top right cell A1 are those industries in which British companies have both large global market shares and F/T greater than 50%. These can be considered as the industries in which British companies are 'global champions': aerospace, mining, major oil companies, pharmaceuticals, tobacco and wireless communications.

**(ii) The nearly industries**

Cells B1 and A2 contain those companies that are almost global winners. They either fall short on global market share – B1 – or the extent of internationalisation – A2.

**(iii) The single dimension winners**

The companies in cells C1 and A3 are winners, but only in one dimension. Those in C1 such as biotechnology, commodity chemicals, electric components, and property insurance have the lowest global market shares, but an international share of revenues of over 50%.

Fourteen out of 18 industries in the top row of highly international industries are product-based industries.



In the bottom right cell – A3 – are those industries, casinos and gaming, and water utilities, for example, in which British companies have large global market shares, but F/T that is relatively low. These are 'domestic champions'.

**(iv) The losers**

In the bottom left hand corner, cell C3 contains the industries in which British companies are global losers: broadcasting, consumer electronics, cosmetics, fixed-line communications, footwear, and internet services.

#### (v) Some insights

**Products or services:** There is a clear distinction in terms of product based and service based industries.

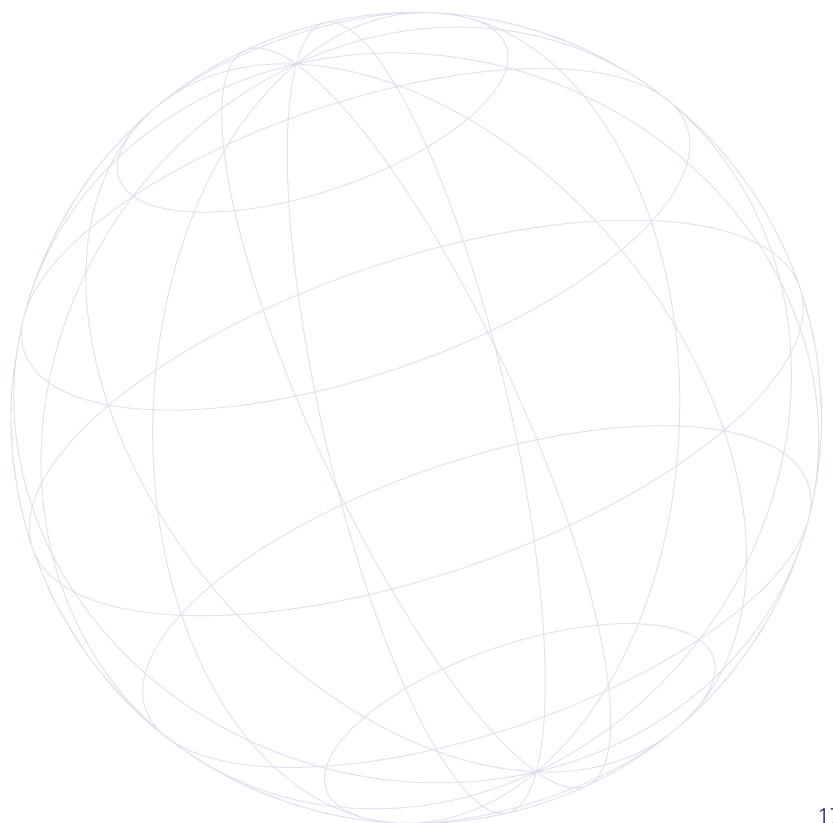
Fourteen out of 18 industries in the top row of highly international industries are product-based industries. In contrast 17 out of 22 industries in the bottom row of low international are service-based industries.

This pattern fits the general notion that services are harder to internationalise. It also shows how any perception that British companies are predominantly engaged in service based industries is misconceived.

**Resisting the global threat:** Cell A3, contains the domestic champions, industries where the companies have a high global market share but low internationalisation. Apart from distillers and brewers, which has a very large service component in the operation of public houses, these are all service based industries.

This supports the notion that these industries are mostly immune to imports, partly because they require a high degree of local knowledge. They therefore suit sustainable domination by domestic companies. Consequently a concentration on services by British companies appears to provide some insulation from global competition.

**Size matters:** Figure 2 looks at where the largest British companies, the 32 companies in the *Fortune* Global 500 in 2003, are located in this matrix. Nearly all are located in the right hand column of 'winners'. Only one, BT, falls into the 'losers' column, and only five into the 'challengers' column. Interestingly, however, many (50%) are still in the 'low international' row.



**Figure 2: Classification of Fortune Global 500 British Companies in 2003**

		Global Market Share of British Companies (2001-2003)		
		Industry Average for British 0% to 2%	Industry Average for British 2% to 10%	Industry Average for British 10% +
<b>Extent of Internationalisation of British Companies</b> (2001-2003 average)	<b>Highly International</b> (F/T > 50%)	C1	B1	A1 AngloAmerican AstraZeneca BAE Systems BP British American Tobacco Vodafone GlaxoSmithKline
	<b>Moderately International</b> (50% < F/T < 25%)	C2	B2 National Grid Transco Alliance Unichem BA	A2 Aviva Centrica Kingfisher Royal & Sun Alliance Royal Mail Wolseley
	<b>Low International</b> (F/T < 25%)	C3 BT	B3 Marks & Spencer GUS	A3 Abbey National Barclays Compass Group HBOS, HSBC Hilton Group J. Sainsbury Lloyds TSB Legal & General Old Mutual Prudential Royal Bank of Scotland Tesco

This figure classifies the largest British companies according to the average statistics of the main industries in which they participate. Hence the statistics refer to the industries and not the individual companies.

#### 4 Profitability and growth

It is all very well operating in an industry in which British companies are global champions, but not that impressive if the industry turns out to be one that is not very profitable, or is in decline. Are the industries in which British companies are internationally successful also attractive from the profit and growth perspective?

**Table 4: Industries Ranked by Profitability of British Companies  
(2001-2003 average, listed companies)**

Rank	Name of Industry	Profitability	Rank	Name of Industry	Profitability	Rank	Name of Industry	Profitability
1	Banks (Excluding S&L)	21.83	31	Marine Transport	3.15	61	Factory Equipment	-0.99
2	Precious Metals	20.08	32	Household Products Durable	3.04	62	Customer Services	-1.03
3	Pharmaceuticals	15.89	33	Gas Utilities	2.95	63	Cosmetics	-1.88
4	Mining	14.00	34	Insurance (Property)	2.86	64	Footwear	-1.97
5	Oil Companies (Secondary)	13.36	35	Chemicals (Specialty)	2.85	65	Electric Components	-2.16
6	Real Estate	11.65	36	Food Retailers	2.78	66	Publishing	-3.00
7	Household Products Nondurable	9.99	37	Land Transportation Equipment	2.53	67	Computers	-3.75
8	Diversified Financial	9.28	38	Building Materials	2.34	68	Steel	-4.80
9	Water Utilities	9.19	39	Retailers (Specialty)	2.15	69	Coal	-4.84
10	Home Construction	8.86	40	Shipbuilding	2.00	70	Diversified Technology	-5.49
11	Agriculture	8.18	41	Advertising	1.93	71	Broadcasting	-6.03
12	Distillers & Brewers	7.96	42	Casinos (and Gaming)	1.84	72	Paper Products	-7.64
13	Transportation Services	7.52	43	Clothing & Fabrics	1.63	73	Fixed-Line Communications	-10.21
14	Trucking	7.45	44	Heavy Construction	1.60	74	Software	-13.48
15	Retailers (Apparel)	7.41	45	Railroads	1.58	75	Semiconductors	-25.21
16	Soft Drinks	7.18	46	Pollution Control	1.44	76	Communications Technology	-31.41
17	Heavy Machinery	6.51	47	Consumer Electronics	1.42	77	Industrial (Diversified)	-31.43
18	Tobacco	6.38	48	Auto Parts	1.37	78	Forest Products	-39.96
19	Lodging	6.02	49	Industrial Services	1.20	79	Biotechnology	-10.48
20	Office Equipment	5.89	50	Airlines	0.67	80	Wireless Communications	-43.29
21	Advanced Medical Devices	5.85	51	Toys	0.50	81	Advanced Industrial Equipment	-55.55
22	Oil Companies (Major)	5.35	52	Aerospace	0.41	82	Investment Services	-64.65
23	Chemicals (Commodity)	4.92	53	Furnishings & Appliances	0.31	83	Internet Services	-111.45
24	Food Products	4.89	54	Containers & Packaging	0.27	84	Pipelines	-149.73
25	Electric Utilities	4.78	55	Insurance (Life)	-0.29	85	Air Freight	n/a*
26	Retailers (Broad-line)	3.94	56	Tyres	-0.47	86	Aluminium	n/a*
27	Oil Drilling (Equipment)	3.85	57	Insurance (Full Line)	-0.57	87	Automobile	n/a*
28	Retailers (Drug-based)	3.63	58	Recreation Products	-0.64	88	Nonferrous Metals	n/a*
29	Restaurants	3.45	59	Healthcare Providers	-0.72	89	Savings & Loan	n/a*
30	Medical Supplies	3.41	60	Entertainment	-0.78			

\*No British companies are reported in OSIRIS database for this sector.

#### (i) Profitability

Table 4 ranks the 89 industries by the *profitability* of British companies averaged over the three years 2001-2003, with profitability calculated as the ratio of net income to operating revenue.

**Figure 3: Classification of Industries (2001-2003, average)  
with Profitability Highlighted**

		Global Market Share of British Companies		
		0% to 2% 'British as Losers'	2% to 10% 'British as Challengers'	10% + 'British as Winners'
Extent of Internationalisation of British Companies	Highly International  (F/T>50%)	C1  Biotechnology, <b>CHEMICALS (COMMODITY),</b> Electric Components <b>Insurance, Property, OIL COMPANIES (SECONDARY)</b>	B1  <b>Auto Parts, Building Materials,</b> Industrial (Diversified) <b>Marine Transport, Oil Drilling (Equipment), PRECIOUS METALS,</b> Software	A1  <b>Aerospace, MINING, OIL COMPANIES (MAJOR), Pharmaceuticals, Tobacco,</b> Wireless Communications
	Moderately International  (50%<F/T<25%)	C2  <b>ADVANCED INDUSTRIAL EQUIPMENT,</b> Communications Technology, <b>Medical Supplies</b>	B2  Airlines, <b>Containers &amp; Packaging, ELECTRIC UTILITIES, Furnishings &amp; Appliances, Household Products (Durable), Household Products (Nondurable), Industrial Services, Investment Services, Retailers (Drug-based), Toys</b>	A2  Consumer Services, Entertainment, <b>FOOD PRODUCTS, Gas Utilities, Insurance (Full Line), LODGING, Publishing, Recreation Products, Retailers (Specialty)</b>
	Low International  (F/T <25%)	C3  Broadcasting, <b>Consumer Electronics,</b> Cosmetics, Fixed-Line Communications, <b>Footwear,</b> Internet Services	B3  Diversified Technology, <b>Heavy Construction, Railroads, REAL ESTATE, Retailers (Broad-line), RETAILERS (APPAREL)</b>	A3  Advertising, <b>BANKS (S&amp;L), Casinos (and Gaming), DISTILLERS &amp; BREWERS,</b> Food Retailers, <b>HOME CONSTRUCTION,</b> Insurance (Life), <b>Restaurants, TRANSPORTATION SERVICES, WATER UTILITIES</b>

Note: Capital font indicates top third in profitability; bold smaller font indicates middle third; and plain smaller font indicates bottom third.

Figure 3 shows profitability mapped against the international success matrix.

The profitability story supports some of the implications from the international success matrix. Namely, companies operating in Cell A3 – the domestic champions – are protected from global competition to a degree and are operating in mostly profitable industries (see Figure 3).

Unsurprisingly, the majority of industries in cell C3 – the global losers – were in the lower profitability band.

**Table 5: Industries Ranked by the World Growth Rate  
(2001-2003 compound, listed companies)**

Rank	Name of Industry	Growth Rate	Rank	Name of Industry	Growth Rate	Rank	Name of Industry	Growth Rate
1	Gas Utilities	15.42	31	Water Utilities	3.01	61	Electric Components	0.45
2	Agriculture	15.10	32	Heavy Construction	2.99	62	Containers & Packaging	0.30
3	Insurance (Life)	13.08	33	Distillers & Brewers	2.95	63	Tyres	0.18
4	Biotechnology	12.66	34	Toys	2.70	64	Healthcare Providers	0.13
5	Internet Services	12.45	35	Shipbuilding	2.69	65	Lodging	-0.14
6	Marine Transport	11.01	36	Automobile	2.54	66	Electric Utilities	-0.23
7	Advertising	9.87	37	Recreation Products	2.44	67	Office Equipment	-0.47
8	Pipelines	9.33	38	Building Materials	2.32	68	Publishing	-0.58
9	Casinos (and Gaming)	9.16	39	Food Retailers	2.24	69	Aerospace	-0.84
10	Investment Services	8.98	40	Semiconductors	2.16	70	Railroads	-0.93
11	Coal	8.16	41	Nonferrous Metals	2.14	71	Retailers (Broad-line)	-0.95
12	Wireless Communications	7.61	42	Factory Equipment	2.11	72	Trucking	-1.02
13	Consumer Electronics	6.63	43	Footwear	1.93	73	Broadcasting	-1.05
14	Chemicals (Specialty)	6.44	44	Restaurants	1.87	74	Advanced Industrial Equipment	-1.07
15	Precious Metals	6.37	45	Chemicals (Commodity)	1.86	75	Pollution Control	-1.11
16	Steel	6.34	46	Auto Parts	1.68	76	Fixed-Line Communications	-1.61
17	Insurance (Full Line)	5.98	47	Retailers (Specialty)	1.63	77	Food Products	-2.09
18	Home Construction	5.92	48	Consumer Services	1.61	78	Aluminium	-2.09
19	Insurance (Property)	5.56	49	Pharmaceuticals	1.55	79	Tobacco	-2.15
20	Transportation Services	5.45	50	Entertainment	1.53	80	Diversified Technology	-2.29
21	Oil Companies (Secondary)	4.76	51	Diversified Financial	1.36	81	Industrial (Diversified)	-2.56
22	Advanced Medical Devices	4.59	52	Cosmetics	1.27	82	Soft Drinks	-2.90
23	Banks (Excluding-S&L)	4.44	53	Computers	1.02	83	Forest Products	-3.17
24	Oil Companies (Major)	4.39	54	Paper Products	0.96	84	Household Products Durable	-4.13
25	Savings & Loan	3.89	55	Heavy Machinery	0.95	85	Software	-5.10
26	Real Estate	3.71	56	Oil Drilling (Equipment)	0.81	86	Clothing & Fabrics	-5.54
27	Land Transportation Equipment	3.69	57	Furnishings & Appliances	0.73	87	Communications Technology	-6.23
28	Air Freight	3.13	58	Household Products Nondurable	0.70	88	Medical Supplies	-6.27
29	Retailers (Drug-based)	3.07	59	Retailers (Apparel)	0.57	89	Industrial Services	-7.14
30	Mining	3.04	60	Airlines	0.52			

## (ii) Growth

Table 5 ranks the 89 industries by the annual compound *growth* rate of the worldwide industry over the same three years, using the growth rate for all firms in each industry, not just British firms.

**Figure 4: Classification of Industries (2001-2003, average)  
with Growth Highlighted**

		Global Market Share of British Companies		
		0% to 2% 'British as Losers'	2% to 10% 'British as Challengers'	10% + 'British as Winners'
Extent of Internationalisation of British Companies	Highly International (F/T > 50%)	C1  <b>Biotechnology, Chemicals (Commodity),</b> Electric Components <b>INSURANCE (PROPERTY),</b> <b>OIL COMPANIES (SECONDARY)</b>	B1  <b>AUTO PARTS, Building Materials,</b> Industrial (Diversified), <b>Marine Transport, OIL DRILLING, EQUIPMENT,</b> <b>Precious Metals,</b> Software	A1  Aerospace, <b>Mining, OIL COMPANIES (MAJOR),</b> <b>Pharmaceuticals,</b> Tobacco, <b>WIRELESS COMMUNICATIONS</b>
	Moderately International (50% < F/T < 25%)	C2  Advanced Industrial Equipment, Communications Technology, Medical Supplies	B2  <b>Airlines,</b> Containers & Packaging, Electric Utilities, <b>Furnishings &amp; Appliances,</b> <b>HOUSEHOLD PRODUCTS (DURABLE),</b> <b>Household Products (Nondurable),</b> Industrial Services, <b>Investment Services, RETAILERS (DRUG-BASED), Toys</b>	A2  <b>CONSUMER SERVICES, ENTERTAINMENT,</b> Food Products, <b>GAS UTILITIES, INSURANCE (FULL LINE),</b> Lodging, Publishing, <b>RECREATION PRODUCTS, Retailers (Specialty)</b>
	Low International (F/T < 25%)	C3  Broadcasting, <b>CONSUMER ELECTRONICS,</b> <b>Cosmetics,</b> Fixed-Line Communications, <b>Footwear, INTERNET SERVICES</b>	B3  Diversified Technology, <b>HEAVY CONSTRUCTION,</b> Railroads, <b>Real Estate,</b> Retailers (Broad-line), <b>Retailers (Apparel)</b>	A3  <b>Advertising, BANKS (EXCLUDING S&amp;L),</b> <b>CASINOS (AND GAMING),</b> <b>Distillers &amp; Brewers,</b> <b>Food Retailers, HOME CONSTRUCTION, INSURANCE (LIFE),</b> Restaurants, <b>TRANSPORTATION SERVICES,</b> <b>Water Utilities</b>

Note: Capital font indicates top third in growth rate; bold smaller font indicates middle third; and plain smaller font indicates bottom third.

Figure 4 shows growth mapped against the international success matrix.

It is encouraging for British companies that most industries in which British companies have large global markets shares also have moderate or high growth rates (the right hand, A column). Once again cell A3 – domestic champions – which has the most profitable industries, comes out top with the most high or moderate growth industries.

In contrast, a majority of industries (eight of 15) in which British companies have low global market shares, also have low growth rates. This pattern of growth rates suggests that British companies have been reasonably adept at focusing efforts in higher growth industries.

### (iii) The relationship between internationalisation and profitability

**Figure 5: Return on Sales and Degree of Internationalisation**

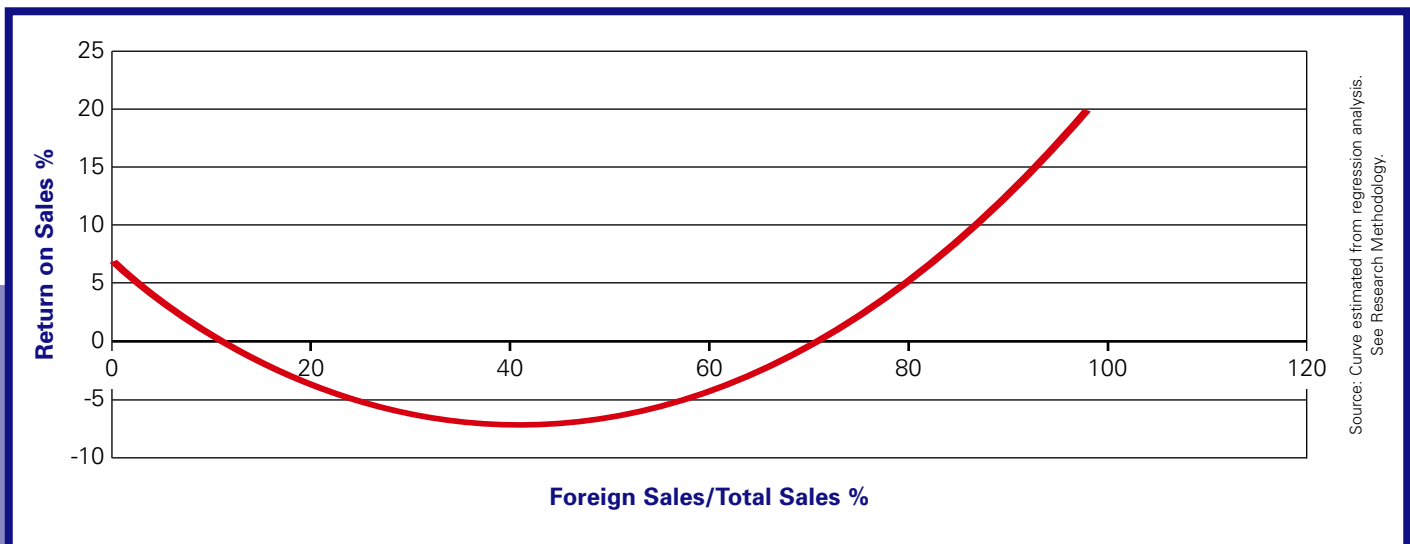


Figure 5 shows the relationship between internationalisation and profitability. The standard theory in international business is that profitability declines as companies begin to internationalise. This is because of the difficulties of learning how to internationalise as well as a reciprocal vulnerability to foreign competition coming into the home market.

In the graph the negative effect bottoms out at about 40% F/T, after which profitability starts to rise. From this point on, it seems that British companies in those industries have both learned how to operate internationally and go on to dominate the global space in their industries.

### (v) Some insights

The message for managers is clear. Either stick to industries that are primarily domestic, or choose industries that are highly international, but in which you can also achieve at least a moderate level of global market share.

What you must not do, however, is get 'stuck in the middle' in industries that have middling levels of internationalisation (say 10% to 40% F/T); especially if you can achieve only a low global market share. A company can escape the fate of its industry, but it is not easy.

Now that companies can see where they lie in the matrix in terms of international success and in relation to profitability and growth, what can and should they do in relation to their international strategy, if they are unhappy with their position?

## 1 Increase the international share of revenues

Companies can try to move up the matrix by increasing the international share of revenues. Typically this means increasing international revenues faster than the rate of increase of domestic revenues (rather than actually reducing domestic revenues). As usual, a company can increase its revenues through both organic growth and acquisition.

### (i) Relatively easy

Companies in the 'highly international' row (industries with F/T above 50%) are in the fortunate position of being in industries where internationalisation is comparatively easy and barrier free. They can grow or buy revenues. Many industries in this row are technologically intensive and technology advantages are particularly easy to leverage into foreign markets.

In the middle, 'moderately international' row, companies face mixed drivers and barriers for internationalisation. The key here is to pick those products or services that are more suitable for internationalisation, to exploit the drivers and to overcome the barriers for internationalisation.

In food products, for example, some products are much easier than others to internationalise. Thus Unilever has been able to build a global business in ice cream, because that product does not have a strong tradition in most countries. By contrast, in airlines, companies face major regulatory barriers to international expansion. So they have resorted to alliances as their most common internationalisation strategy.

### (ii) More difficult

In the bottom row (industries with F/T below 25%) companies are probably in industries where internationalisation is going to be tough. Customer preferences may be very different across countries, products may be expensive to transport, services may have to be provided locally, governments may impose barriers to trade or foreign investment and so on.

Consequently companies in these industries may find it hard to increase internationalisation through organic growth, and will have to resort to acquisition instead.

Take water utilities, for example. The UK's largest firm, Thames Water, was acquired in 2001 by Germany's RWE, as was Wessex Water in 2003 by Malaysia's YTL. As a result neither Thames Water nor Wessex Water feature in the list of British water utility companies. Despite that, water utilities still ranks fifth among British industries in global market share, and first in the world because the combined market share of British companies' in this industry is larger than that of any other country's.

Companies can try to move up the matrix by increasing the international share of revenues.

It is certainly possible to greatly increase the level of internationalisation. GlaxoSmithKline is a good example of a company among the 32 largest British companies (Figure 2) that has reached the top 'highly international' row by merging a large British and a large American company.

Equally, several companies in the bottom 'low international' row, including Barclays, HSBC, Royal Bank of Scotland, and Tesco, are using both internal expansion and acquisition to increase their level of international activity. For example, Tesco announced plans in early 2006 to expand into the US West Coast.

## **2 Increase global market share**

Companies can move to the right of the matrix, and increase global market share, by using all the standard strategies for market share growth – especially by enhancing bases of competitive advantage.

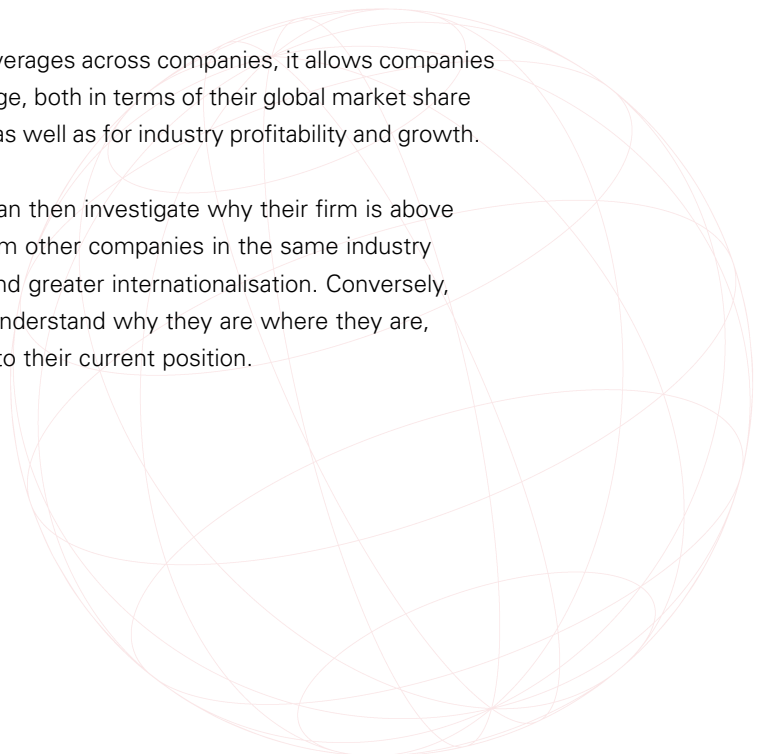
Take internationalisation. A company with an established source of competitive advantage, from its home or other existing country-markets, often finds it easier to increase global market share by adding new countries rather than by trying to increase share in existing countries.

Many of the companies in the industries in the 'winner' industry column, especially those in the 'highly' and 'moderately' international rows, expanded global share by going international. Vodafone, in cell A3 – 'global champions' – is an example of an internationalisation through acquisition – its acquisition of Germany's Mannesmann, for example. Vodafone is now the world's largest wireless communications company.

## **3 Improving 'par' performance**

As the data presented shows industry averages across companies, it allows companies to benchmark against the industry average, both in terms of their global market share or their international share of revenues, as well as for industry profitability and growth.

Taking the average as 'par', managers can then investigate why their firm is above or below par. There is much to learn from other companies in the same industry that have higher global market shares and greater internationalisation. Conversely, companies that are above par need to understand why they are where they are, and preserve the factors that got them to their current position.



## conclusions

This study is the first to use global market share based on worldwide revenues... to measure international success.

This study is the first to use global market share based on worldwide revenues (including subsidiary sales), instead of exports, coupled with the international share of revenues, to measure international success. By applying these new international metrics to British industries and also to a set of the largest British multinational enterprises, and examining their positioning and performance, it is possible to provide new insight into the international success of British companies, with clear implications for international strategy as outlined previously.

The study reveals a number of key findings regarding the international success of British companies. For example:

- Increasingly a company's prospects can be separated from the prospects of its home country. Managers need to take account of the entire worldwide activities of the company and not just exports from the home country when measuring international success.
- There are, however, strong country effects, and these help determine which industries are more likely to provide a route for international success in a particular country.
- Industries can be divided into those in which a country's companies can be winners, challengers, or losers in terms of global market share.
- The international success of companies is best measured by the combination of global market share and international share of revenues. Neither is sufficient on its own. The matrix in this briefing, combining these two measures, provides a new way to think about how to compare companies and industries in terms of international success.

In an increasingly globalised world the long term success of companies depends on the ability to maintain international competitiveness, especially in industries that lack insulation from global competition. Global market share and international share of revenues, provide good indicators of this international competitiveness. British companies can use the matrices in this briefing to diagnose if their performance is typical of their industry. If typical, or above average, their positions may benefit from industry protections and be defensible. If below average, the company is likely to be more vulnerable than its industry to global competition, and may well need to make strategic changes to achieve greater international success.



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