Phase 1 Individual Project

Resources and Their Impact on Global Strategy

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Strategic Management in Dynamic Environments

MGMT690-1602B-01

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May 23, 2016

**Table of contents**

Essential Resources for Global Strategy Page 3

Resources of Italy Page 4

 Agriculture Page 4

 Natural Resources Page 4

 Transportation Page 4

 Personal Wealth Page 5

 Multinational Corporations Page 5

 Global Trade and Trade Partners Page 6

Impact of Resources on Outsourcing to Italy Page 6

Impact of Resources on Competitive Strategy Page 7

References Page 8

**Resources and Their Impact on Global Strategy**

 Continuing the beginning phase of Ferrer Furniture’s possible global expansion, the subject of product resources has arisen. Specifically, fabrics made in the U.S. the company uses in their furniture, international regulations prohibiting the use of those fabrics, and the quality requirements of fabrics used by Ferrer’s Furniture. This document addresses the importance of resources on global strategy, the resources of concern in Italy, the impact available resources will have on setting up production in Italy, and the impact resources will have on the competitive strategy for the global market. The following document discloses all research and findings.

**Essential Resources for Global Strategy**

 For global strategy success, the following resources are absolute essentials: Sufficient funding to properly establish and sustain overseas operations; Production quality standards established and enforced to maintain brand standards; Appropriate time frame for global expansion to be properly executed, established and be successful; Full understanding and commitment of top management, pertaining to the benefit of globalization for the company, and that the rewards of globalization will outweigh the costs of setting up business overseas; and investment in new and efficient technology, and R & D, to establish the most cost efficient production and distribution of the products and services (Lynch, 2014).

Resources also include production facilities, construction materials, trained and qualified staff for all departments (production, bi-lingual management, vendor and in-field sales, distribution, accounting, and payroll), and local contacts to establish sales and shipping accounts. All of these factors will have to be addressed as part of the process of establishing production, and as part of the overall global strategy.

**Resources of Italy**

 **Agriculture**. Italy boasts 1.6 million farms, 99% of which are small, averaging eight hectares, are family owned, and about 63% are in Southern Italy. For simplicity, this portion will concentrate on livestock, as wool and hides will be the primary concern of Ferrer’s Furniture. Italy’s livestock includes: six million heads of cattle, 8.6 million pigs, 6.8 million sheep, and 0.9 million goats (N.A., Italian Economy, 2016).

 **Natural Resources**. During the 70’s, Italy was self-sufficient on natural resources including: pyrites, asbestos, fluorite, salt, aluminum, sulfur, lead and zinc. The early 90’s saw Italy deplete their natural resources, with the exceptions of pumice, pozzolana, feldspar and Carrara marble, has moderate resources of natural gas, and currently lacks major deposits of iron, coal and oil. Additionally, Italy imports 99.7% of its solid fuels, 93.5% of its oil, 91.2% of its natural gas, and 13% of its electricity, and imports most of their manufacturing raw materials. Because of their reliance on fuel imports, the average power bill is 45% higher than the EU rate. Thanks to Italy’s involvement in nuclear power plant construction, they are able to access nuclear power from France to supplement their power needs. Italy’s saving grace is they are a major producer of renewable energy which produces 27.5% of their electricity. Italy’s renewable energy includes: 12.6% hydro-electric, 5.7% solar, 4.1% wind power, 3.5% bioenergy, and 1.6% with geothermal. Italy’s remaining energy needs are met with fossil fuels including: 38.2% natural gas, 13% coal, 8.4% oil, and through imports (N.A., Italian Economy, 2016).

 **Transportation**. Italy’s transportation resources include: 668,721 km of roadways throughout the country, which are all state owned, and maintained by the privately owned Atlantia Company; and an extensive 16,862 km railway network, of which 69% are electric powered, and runs 4,937 locomotive and railcars. The railway system is also state owned, and maintained by the privately owned Rete Ferroviaria Italiana. The bulk of the railway system is in Northern Italy, which makes railway shipping practical to the rest of the EU. Additionally, Italy has an extensive commuter railway system connecting most major cities, making commuting simple and practical; Italy boasts 130 airports, 99 or which are paved; Italy also boasts 43 major seaports, which are used by 581 ships (N.A., Italian Economy, 2016).

**Personal Wealth**. In order to sell high-end luxury furniture, there must be a market for the product, or the product will not sell. For this reason, Italy is a major market in the EU for high-end products. Italy boasts more than 1.4 million millionaires, a total national net worth of $11.857 trillion, is the fifth wealthiest nation globally, and represents 4.92% of the world’s wealth. For 2013, the mid income in Italy was $138,653, based on Credit Suisse figures, and ranked fifth globally, and €45,770, based on Allianz Global Wealth Report, and ranked thirteenth globally (N.A., Italian Economy, 2016).

**Multinational Corporations**. Because of Italy’s proximity to the EU, and their well-known global trade, a few multinational corporations have established division, but the majority of foreign investment comes from small to mid-sized companies, situated in established industrial parks, and make up a large part of Italy’s manufacturing sector. The majority of foreign manufacturers center in North West Italy (Milan, Turin and Genoa), center around the automotive, aerospace and naval production, and produce niche and luxury products. The North East and Central corridors are home to family owned companies specializing in apparel, leather, footwear, furniture, textiles, appliances and jewelry industries. The North West and North Eastern regions are popular for export because of their proximity to seaports and railways (N.A., Italian Economy, 2016).

**Global Trade and Trade Partners**. Since Italy joined the EU, their exports have increased dramatically, and in 2013 Italy was the 10th largest global exporter, and the 11th largest global importer. Over the past eight years, exports have gradually outpaced imports, resulting in a 2013 surplus trade balance. Italy’s primary export trade partners include: Germany with 12 %; France with 9.8 %; U.S. with 5.5 %; Switzerland with 4.4 %; Spain with 4.2 %; Belgium and Luxembourg with 3.3 %; China with 2.9%; Turkey with 2.4 %; Russia with 2.4 %; Poland with 2.4 %; Netherlands with 2.3 %; and Austria with 2.1%. Italy’s remaining export partners represent less than 2 % each (N.A., Italy Economic Outlook, 2016).



Map of Western Europe courtesy of ( (N.A., Western Europe, 2016).

**Impact of Resources On Outsourcing to Italy**

 Italy lack of natural resources means that outsourcing to Italy will require importing production based resources including wood, metal and some fabric components. Ferrer’s Furniture would be wise to establish their own renewable energy source for the production facilities, and use Italy’s extensive railway and seaport system for shipping finished products throughout the EU, Middle East and Asia.

To address furniture production resources, it would be best for Ferrer’s Furniture to supply wood and metal components from the states. Since the fabrics used in Ferrer’s furniture face regulations inhibiting their shipment to other countries, it would be wise to source fabrics of equal quality from Italy. This policy would maintain the quality Ferrer’s Furniture is known for, and would establish long-term relationships with Italian and European suppliers. Additionally, this policy would provide the European consumer an incentive to purchase Ferrer’s Furniture. As their purchase would be supporting their own economy.

**Impact of Resources on Competitive Strategy**

 The primary reason most manufacturers of high-end luxury goods produce in Italy is their global notoriety of being the second largest exporter in the world. Italy is also known around the world for producing top quality, high-end products, and their products are highly prized and sought after, from markets around the world. Since the competitive strategy is based on the quality of production, and the fact that Italian produced products are so highly prized by high-end consumer around the world, the lack of natural resources does not affect the demand for Italian made products, and therefore does not affect the competitive strategy.

The biggest concern with manufacturing in Italy is their lack of natural resources, but their extensive seaport, railway, and roadway networks, provide an easily accessible transportation system for shipping throughout the EU, the Middle East, and Asia through the Suez Canal, and enhances the competitive strategy.

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