DOWNSTREAM_UPGRADING_IN
THE_CANNED_TUNA_GLOBAL_VALUE_CHAIN

Pavida_Pananond

Submitted as
Workshop/Interactive_Paper
to
The_29th_Euro-Asia_Management_Studies_Association_Annual_Conference
31_October_to_3_November_2012
National_University_of_Singapore

Please_do_not_cite_without_authors’_permission!

1 Thammasat_University, Bangkok, Thailand, Email: pavida@tbs.tu.ac.th
ABSTRACT

This paper analyses how developing country firms upgrade their position in a global value chain to become global leaders in their industry. The analysis of a food manufacturer, the Thai Union Group, reveals three insights. First, developing country firms use international expansion as a means to upgrade their position in the global value chain of their industry. Starting as a low-cost supplier to global buyers, the Thai Union Group moved up the value chain by acquiring brands and distribution channels in developed economies. Second, developing country firms can enhance their strengths in the lower-value operations through strategic production management, whereby different production sites are used for different purposes. Third, emerging Thai multinationals internationalise in the direction of their global value chain governance to upgrade their position within the chain structure. By integrating the literature on emerging market multinationals (EMNEs) and on the global value chain, the paper sheds more light on how internationalization can be used as a strategy for low-cost suppliers in developing countries to enhance their position within the global value chain.

Keywords: developing countries; multinationals; internationalization strategy; global value chains; Thailand

Acknowledgement

This paper is based on the ‘Competitive Strategies of Thai Multinationals’ research project sponsored by the Thailand Research Fund (RSA 5280032). The author wishes to thank the Thailand Research Fund for their financial support and Naunghathai Intakhantee for her excellent research assistance.
INTRODUCTION

The increasing significance of emerging-market multinational enterprises (EMNEs)\(^2\) is now a major feature in the global economy. The aggressive expansion of firms from large developing economies like China and India, helps intensify and enrich research interests on the issue. From being a peripheral research topic, the rise of EMNEs has become one of the key questions addressed in the mainstream international business research as well as policy debates. Yet, the current debate has been predominantly based on studies of big and successful emerging MNEs from a limited group of advanced developing economies, particularly those from the Newly Industrialised Countries (NICs) of East Asia (Narula 2010). This skewed representation of dominant players from large developing economies, which have become more like established MNEs from developed economies, may not fully represent the patterns followed by firms from smaller developing economies like those from Southeast Asia, whose firms only recently began expanding abroad. The stage of evolution as an MNE could be an important factor that shapes different behaviour of EMNEs of different stages of development (Ramamurti 2012). The different home-country institutional context from which these firms emerge, along with the co-evolution of these firms and their institutional environment could influence their subsequent international expansion strategies and behavior (see Gammeltoft, Barnard and Madhok 2010). It is therefore theoretically valid to ask whether the early development as suppliers to global MNEs could lead to different patterns of international expansion for firms from smaller developing economies.

The splitting up and globalisation of production networks has been a key institutional factor that speeds up the development of developing country firms. This phenomenon has been explained through the ‘global value chain’ (GVC) perspective (see Sturgeon & Gereffi 2009 and Bair 2009 for reviews of the development of this literature). The GVC approach has been widely accepted to help explain the growth trajectories of many export-led industries, including electronics, automotive, food, and apparels. This stream of research is however limited by the view that local firms

\(^2\) Many terms have been used to refer to multinationals from developing countries, from ‘Third-world multinationals’, which was commonly used in the early 1980s, to the more politically sensitive ‘emerging market multinationals’ we see today. This paper interchangeably use a few terms to refer to the same phenomenon, including, emerging-market multinationals (EMNEs), emerging multinationals, and multinationals from developing countries.
only serve as subsidiaries or suppliers to established MNEs and that their operations are limited to the domestic market only. Rarely has the GVCs literature considered how local firms in host developing economies could one day engage in outward foreign investment, and how the international expansion of these firms could alter their position in the global value chains.

Whilst overlapping on their focus of firms from developing economies, these two streams of literature have yet to address a key feature of many of these firms—the co-evolution of these firms as suppliers to global lead firms and as emerging multinationals themselves. On the one end, the international business literature has hardly touched upon the experience of smaller developing country MNEs whose initial role was suppliers in many globally integrated industries and yet later undertook their own international expansion. On the other end, the GVC literature is short of explanations on what happen to local suppliers in developing countries once they start to expand internationally.

To fill the gap between these two streams of literature, this paper addresses the emergence of EMNEs from the global value chain perspective. The paper looks at the international expansion of the Thai Union Group, a Thai seafood manufacturer and exporter that with a humble beginning but has grown to become the world’s largest canned tuna processor. The paper traces how TUF uses international acquisitions of brands and distribution channels in advanced economies to improve its position within the global value chain of canned tuna. The paper has four parts. Starting with a review of the literature on emerging multinationals and on global value chains, the paper addresses key features in the canned tuna industry to provide the context of how TUF has grown. The development of the Thai Union Group is used as case study before the paper concludes with inferences for future theoretical development.

REVIEW OF THE LITERATURE

The rise of emerging multinationals

Gammeltoft, Pradhan and Goldstein (2010) suggested that there have been three ‘waves’ of OFDI flows from developing economies: the first wave took place up to the mid-1980s, the second from the mid-1980s to mid-1990s, and the third from the
mid-1990s up to today. These three waves of OFDI from developing economies not only show quantitative differences in their directions and amount, but also display qualitative changes in their characteristics.

The early literature on EMNEs argued that these firms derived their competitive advantage from the ability to reduce costs of imported technology through ‘descaling’ techniques like replacing imported inputs with cheaper local ones. These cost advantages could only be exploited in other developing countries, whose conditions are similar to the home country, and are unlikely to be sustained in the long run (see, for example, Lecraw 1977, 1981; Kumar 1982; Wells 1977, 1981, 1983). The next wave of the literature, those emerged in the 1990s, appeared more optimistic about the long-term sustainability of EMNEs. Scholars in this group argued that the competitive advantages of these firms were derived from technological accumulation undertaken through the ‘learning-by-doing’ process (see, for example, Cantwell and Tolentino 1990; Dunning, van Hoesel & Narula 1997; Lall 1983a, b; Lecraw 1993; Tolentino 1993). It is argued that through this process, emerging multinationals would become more similar and competitive to their predecessors from the more advanced economies.

With the sole emphasis on accumulating sufficient proprietary technological capabilities, the above literature was criticized on two counts. First, the precondition of having existing competitive advantages at the outset of internationalization process did not bode well with the emergence of EMNEs, which often relied on international expansion to augment their competitive advantages (see Mathews 2002, 2006). Second, the literature was criticized for offering an ‘under-socialized’ view, in which firms were perceived to be detached from other social institutions and their competitive advantages were therefore derived from within its own boundaries only. This view is contrary to empirical evidence of MNEs from latecomer developing countries, particularly those from Asia, which showed how network relationships and the ability to leverage from different types of networks were significant in their domestic and international expansion (Mathews 2002, 2006; Pananond and Zeithaml 1998; Pananond 2001, 2007; Peng 2003; Peng and Zhou 2005; UNCTAD 2006; Yeung 1998).

3 Although debates still continue whether the ‘third wave’ is actually an ‘advanced version of the second wave’ (see Narula 2010), this paper uses the ‘wave’ explanation as a chronological order that describes the emergence of OFDI from developing economies.
The recent debate on emerging multinationals focused on whether their rise warrants new sets of theoretical explanations. One group suggests that new theoretical concepts are needed as these firms follow a much more aggressive international patterns not previously seen before among established MNEs. Proponents of this view often highlight the aggressive, risk-taking measures these emerging multinationals take to acquire critical assets to compensate for their lack of competitive assets (see, for example, Luo and Tung 2007, Mathews 2006). According to Mathews (2006), international expansion of EMNEs is not based on prior possession of resources, as was the case for traditional MNEs from developed economies. Rather, international expansion is used as a mechanism to tap into resources that would further strengthen their competitiveness. Through leveraging linkages with external firms in the increasingly globalized economy, newcomer MNEs can speed up their internationalization and learning process and become international players.

Disagreeing with this view, Dunning (2006) and, in particular, Narula (2010) argued that asset-augmenting international activities can improve a firm’s competitiveness only when the firm already possess some unique ownership advantages which can then be integrated with the newly acquired resources. Narula (2010) therefore argued that EMNEs are increasingly behaving like their ‘conventional’ predecessors from developed economies by deciding their FDI locations based on the comparative advantages of host countries.

Finding a definite answer to the above question would be problematic, as both groups of MNEs do not comprise homogenous members. Rather, Ramamurti (2009) suggested that studies of EMNEs should be used to enrich and extend established IB theories on key aspects of the internationalization process of firm. One particular area that research on EMNEs could do so is to highlight how differences in context—from home-country to industry and to the broader macro international context—affect the internationalization strategy of these firms. Although these firms are grouped together as ‘EMNEs’, the institutional context from which they evolve varies substantially, rendering generalizations difficult and vague on points of reference.

Despite the growing interest, the literature on EMNEs continues to rely on empirical samples of a limited group of more advanced developing economies, like South Korea and Taiwan. Only lately that examples from other large emerging economies, particularly the BRICs (Brazil, Russia, India and China), increasingly draw more attention. The emergence of EMNEs is much more heterogeneous,
however. Theoretical implications drawn mainly from large and more advanced developing economies, whose firms have already been successful abroad, may not fully represent the early internationalization pattern of EMNEs from smaller developing economies, whose firms are even ‘later’ latecomers.

Despite being the second most active outward investors following East Asia, Southeast Asia attracts little interest from EMNEs scholars. From the GVC perspective, Southeast Asia provides an interesting case as their economic development has generally been led by positioning themselves as export platform for the world’s leading multinationals. Many of Southeast Asia’s leading firms have developed in partnership with foreign MNEs, mostly as suppliers in the global production networks. How such a semi-dependent early development as suppliers in the global value chain could influence their subsequent evolution and international expansion is then the focus of this paper.

**Global value chains and emerging multinationals**

While the literature on EMNEs often ignores the pre-internationalization development of firms, a different, yet related, stream of literature appears to do the opposite. Focusing mainly on how firms from emerging economies develop through their integration into the value chain of globally integrated industries, the global value chain (GVC) literature often ignores what happen to these local firms once their growth extend beyond their borders. Despite the similar interest in explaining growth paths of firms from emerging economies, these two streams of literature disconnect when it comes to the international expansion of these firms. On the one end, the EMNEs literature overlooks how the pre-internationalization development affects their subsequent international expansion strategy. On the other, the GVC literature focuses exclusively on the *domestic* emergence of these supplier firms, without paying enough attention to their subsequent internationalization. It is this particular gap that we are addressing in this paper. The following paragraphs therefore provide some background on the GVC literature before later addressing specifically on its implications on the EMNEs literature.

The GVC literature focuses on the relationships established among firms from developed and developing countries. Led most prominently by Gary Gereffi and his colleagues, supporters of this view look at global commodity chains (GCC) as inter-firm networks that connect manufacturers, suppliers in global industries to each other,
and ultimately to buyers in developed country markets. The ultimate goal of this approach is to explain how different types of powerful economic actors exude control over global commodity chains. The key concept used in explaining these relationships is ‘governance structure’, which is defined as the ‘authority and power relationships that determine how financial, material and human resources are allocated and flow within a chain’ (Gereffi 1994). Firms that control such authority and power are called ‘lead firms’. Two types of global commodity chains were then identified based on the nature of ‘lead firm’. Producer-driven chains are typical of capital-intensive industries in which manufacturers ‘drive’ the chains forward through their control and ownership of suppliers’ activities. Tightly integrated vertical chains, comprising of MNEs and their subsidiaries, is the main feature of these industries. Examples include motor vehicle production and electronics, in which manufacturers play a dominant role in determining how products and resources flow within the chain. On the contrary, buyer-driven chains, common in food, apparel and footwear, are characterised by the dominant role of buyers or brand-name marketers, which often manage these inter-firm linkages through non-equity ties. Put simply, producer-driven chains have more linkages between affiliates of MNEs, whereas buyer-driven chains present more linkages between legally independent firms in different countries.

The chain concept of global integration has attracted much interest but overlapping terminologies used in this stream of research disguised the common ideas shared among their proponents. In addition, the changing nature of governance structure in global industries, which sees producers becoming more buyer-like through outsourcing, has led proponents of the chain concept to search for explanations of the more complex governance structure of global industries. The term ‘global value chain’ was coined in 2000 as the most inclusive term that covers that full range of chain activities and end products (Gereffi, Humphrey, Kaplinsky & Sturgeon 2001: 3, see also Bair 2009). Works under the newly created term continue to focus on ‘governance’ as the central concept of the GVC approach (Humphrey & Schmitz 2001: 20).

An important implication from the literature on global value chains is that success for local firms in developing countries depends on their ability to access and be inserted into these global networks. Gereffi (2001: 32) clearly stated that ‘in order for countries and firms to succeed in today’s international economy, they need to position themselves strategically within these global networks and develop strategies
for gaining access to the lead firms in order to improve their position’. Empirical research adopting the GVC perspective often highlight how global sourcing allowed firms from developing countries to gain access to developed markets and to upgrade themselves as suppliers to multinational lead firms in both buyer- and producer-driven industries.

Humphrey and Schmitz (2002, 2004), however, argued that industrial upgrading for local producers is not an automatic result of participating in global value chains. Rather, chain governance largely determines the upgrading opportunities for developing country firms. Morrison, Pietrobelli and Rabellotti (2008) also stressed the role played by local firms in accumulating their technological capabilities before upgrading can be achieved. The view that the onus is on local firms to increase their capabilities in order to benefit from global value chain integration provides a link between the two previously discussed streams of literature. Buckley and Ghauri (2004) stated that the increasingly sophisticated slicing up of firm activities and finding optimum locations for each closely defined activity is an area where the international business (IB) and the GVC literature can benefit from each other. Similarly, in his propositions of the five generic internationalization strategies undertaken by EMNEs, Ramamurti (2009) identified the ‘low-cost partner’ strategy as one likely to be pursued by firms that began as partners or suppliers of companies in high-wage countries but later move up or down the value chain to strengthen their competitiveness. A more in-depth understanding on how a semi-dependent early development as suppliers in global industries affects subsequent internationalization of EMNEs could enrich the IB literature. At the same time, the GVC literature can be extended by taking into account what happen to the governance structure of globally integrated industries when suppliers in developing economies move toward the higher value-added positions within the value chain. Against the background of the canned tuna industry, we now look at the growth and development of the Thai Union Group, a Thai food manufacturer that grew from a small domestic firm to become one of the largest players in the global seafood market.

THE CANNED TUNA INDUSTRY

Canned tuna is a rather well established industry whose beginning can be traced back to the 1860s when tuna was used as a low-value substitute for salmon or
sardines (Miyake, Guillotreau, Sun and Ishimura 2010). The shortage of sardine supply contributed to the growth of the canned tuna industry during the 1880s to the 1900s. France, Spain and Portugal were the early locations for canneries before the industry expanded in the US since 1906 and later in Japan after the end of the First World War. The canned tuna industry has since then become one of the most globalized industries, both in terms of production and consumption. Three trends that have characterized the nature of the industry from the beginning until today are: the increasing globalization of production and consumption; the increasing concentration of the industry; and the intensifying power of the retailers. The paper will discuss these three trends to provide a background understanding of the industry before the internationalization of TUF is discussed next.

**The globalization of production and consumption**

During the early beginning of the canned tuna industry, production facilities were located near where the market was—mainly the developed economies of Europe, the US and Japan. While Spain, France and Portugal were the key locations for tuna canneries in the early period, the improvement of fishing technology allowed production facilities to be relocated to coastal countries in Africa, particularly Senegal, Congo, Côte d’Ivoire, and Kenya in the 1970s. When the European fleet expanded their reach to the Western Indian Ocean in the 1980s and 1990s, canneries were established in Madagascar, the Seychelles and Mauritius.

In the US, production facilities were initially concentrated along the West coast and Hawaii. The longstanding “big three” US processors—StarKist, Bumble Bee and Chicken of the Sea (now part of Thai Union Group) began to establish tuna canneries in Puerto Rico, Ecuador and American Samoa in the 1960s. The US became the largest producer until low-cost competition from Japan, and later from Thailand and other Asian countries, eroded its dominant position since the 1970s. The search for lower-cost locations, along with the withdrawal of US fleets from the Eastern Pacific Ocean, led to the closure of canning facilities in the mainland US during the 1990s. This relocation of production facilities enabled developing countries, like Thailand and Ecuador, to emerge as key production sites for canned tuna. In 2006, the

---

4 Unless stated otherwise, most of the industry background is based on a comprehensive Food and Agriculture Organization (FAO) report on the tuna industry prepared by Miyake, Guillotreau, Sun and Ishimura (2010).
five main producing countries were Thailand, Spain, the US (mainly the American Samoa), Ecuador and Iran. Thailand has been a leading producer, accounting for 24 per cent of world production by net weight and 46 per cent of world exports in 2006 (Miyake et al., 2010). The entry of Thailand and other developing countries in Southeast Asia, Central America and the Indian Ocean, reinforced the global structure of production. Past major producers, namely the US, European countries and Japan, lost their dominance of the global production to newer developing economies, which have an advantage in terms of accessibility to materials and lower labor costs.

On the consumption side, however, the US, Europe and Japan remained among the largest market for canned tuna. In 2004, the combined consumption of the US and the EU accounted for 83% of the total global consumption of canned tuna (UNDP 2010). Between these two large markets, Europe has been gaining more significance thanks to the gradual widening of the EU membership and the reduction in tariff rates between 2003 and 2008 for Asian exporters and to countries in Central and South America who were eligible to the GSP+ trading regime. The five largest consumers of canned tuna in the EU are Italy, the United Kingdom, France, Spain and Germany (Miyake et al., 2010). The market in the EU has not changed much over the past few decades, resulting in an average consumption per capita of around 1.53 kg. The consumption trend in the US is not as steady, however. The US consumption per capita of canned tuna in 2007 was 1.3 kg—the lowest level in the past 20 years. Despite this declining trend, the US remained the most significant individual importing country, accounting for 14 per cent of world imports by net weight in 2006.

With the global demand for canned tuna remains concentrated in developed countries, whereas production facilities are spread out to many lower-cost developing economies which are located closer to the fishing grounds, the value chain of the canned tuna industry has inevitably spread across the globe and involved an increasing number of countries. According to Hamilton et al., (2011), the canned tuna global supply chain is one of the most complex and globally integrated chains whereby developments in any of the component can affect the entire chain. With

---

5 The Generalised System of Preference (GSP+) regime (formally called the GSP anti-Drug regime initially established in 1990) is available to countries having ratified a number of international conventions on labour and human rights, and on the environment and good governance. Eligible countries are found in Central and South America, including Bolivia, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Peru and Venezuela. The GSP+ has triggered significant flows of EU investment in canning facilities in these countries and contributed to the rising role of Ecuador as a major exporter in the canned tuna industry (Miyake et al., 2010).
firms from developing countries, especially Thailand, gaining a more significant role in the chain dynamics, it is of particular interest to this research project to select this industry as a case study to explore how Thai firms have adjusted to the changing dynamics in the industry.

The increasing concentration of players

The value chain of the canned tuna industry can be broadly divided into 4 stages: fishing; trading; processing; and retail & distribution (see Hamilton et al., 2011). The processing part includes two steps, loining, in which the whole fish is cooked, cleaned and cut into loins; and canning, in which loins are cut into pieces and packed into cans. Although each stage of the value chain shows different levels of concentration, an overall picture that has emerged in the canned tuna industry is that most stages are now under the control of a few large multinational firms that exert strong influence in the industry.

Among the key stages of the canned tuna value chains, trading is likely to be the most concentrated, with only three companies dominating the entire tuna trading in the world. Tuna trading involves the procurement of raw materials from multiple fishing vessels and coordinating transshipment of catches into reefer carriers for sale and delivery to tuna processors (Hamilton et al., 2011). Tuna trading companies have gained dominance within the value chain, mainly due to the effectiveness of the services they provide to fishing vessel owners and to canned tuna processors alike. For vessel owners, engaging with trading companies allows them to channel all their energy to fishing rather than dealing with the logistics of selling their catch. In the case of processors, dealing with trading companies removes the complexities of having to deal with a large number of vessel operators. Three major companies that dominate the tuna trading stage in the Western and Central Pacific Ocean (WCPO) are: Tri Marine, Itochu, and FCF Fishery. Collectively, they handled around 70 per cent of the total number of canning material that are sourced from the WCPO. Of the three companies, FCF handles the largest volume (650,000 mt/year). Despite its lower handling volume (500,000 mt/year), Tri Marine has more global presence and is known for its vertically integrated business model (Hamilton et al., 2011).

Given the rising concentration among operators, economies of scale have become the most important competitive factor during each stage of the canned tuna global value chain. Mergers and acquisitions have taken place, first at a domestic
level and later at a regional and global level, as an attempt to achieve larger scale economies. The increasing concentration of capital into a limited number of MNEs has been rather evident in the canned tuna industry. While the concentration is most obvious in the tuna trading stage of the value chain, the recent rise in concentration of players during the canning stage is also noticeable. As discussed in the previous part, developing economies, especially Thailand and Ecuador, have become influential players in the production of canned tuna thanks to their abilities to achieve economies of scale, cluster synergies in food production industries and tandem development of supporting industries like can making and labeling/packaging. These developments, along with the decline of many tuna canneries from developed economies, enable local firms from new players in the tuna industry to assume more influence in the industry. As a result of the decline of the industry in developed markets, ownership patterns are also changing, allowing firms from developing economies to take control of some of the leading brands in the developed market (see more discussion in the next part). The need to achieve economies of scale in the canned tuna industry makes it necessary for firms to look for mergers and acquisition opportunities as a way to increase its dominance. The next part discusses the third characteristic of the industry—the increasing power of retail buyers.

**The increasing power of retail buyers**

In the three major markets for canned tuna (i.e. the European Union, the United States and Japan), supermarkets occupy a large share in the sales of canned tuna. In France, the market share of supermarkets for sales of canned fish rose from less than 20 per cent in 1980 to 89 percent in 2007. Similarly in the US, the increasing dominance of supermarkets is obvious with the top ten supermarkets’ share for national grocery sales increased from 39 percent in the early 1980s to 70 percent in 2007 (Miyake et al., 2010: 100). Given the increasing use of private labels by supermarkets to improve their profit margins, the power within the canned tuna global value chain has been increasingly shifted toward retailers, who contracted production to tuna processors. The market power of retailers, which is exercised throughout the value chain, produces enormous pressure on the upstream sectors, particularly the fishers and the canneries. At every stage of the canned tuna value chain, markets are very competitive and unit margins are tight for all stakeholders.
Although supply is the natural dominant factor in the fishing industry, the canned tuna market is equally driven by the variability of demand. Market demands for tuna are strongly affected by the availability of substitute products and other external elements, including health, safety, and environmental concerns; healthy lifestyle; trade barriers; exchange rates and the overall global economy (Miyake et al., 2010: 105). This feature of the canned tuna industry increases the importance of demand-side factors. Despite Thailand’s prominent role in leading global prices in tuna canning materials, the prices in Bangkok are most responsive to demand conditions in large export markets, especially the US, rather than to supply conditions (Sun and Hseih 2000, cited in Miyake et al., 2010: 104). The increasing dominance of retailers and supermarkets reinforces this demand-driven characteristic of the industry even further, forcing firms in the upstream sectors to pay more attention to consumer demands in key markets.

Vertical integration has been adopted as a response to the increasing demand-driven nature of the industry. Although vertical integration along the tuna value chain is not new, as tuna trading companies are often integrated into tuna fishing to guarantee stable supply, the upstream-to-downstream integration is nonetheless practiced by a limited number of leading multinationals in the canned tuna industry. A well-known example is Tri Marine, one of the ‘big three’ tuna trading companies whose businesses have expanded vertically to cover all aspects of the canned tuna supply chain—fishing, trading, processing, logistics and marketing. The company’s vertical integration allows it to strengthen its global presence with a strong and long-connection in the European markets and a strong foothold in tuna trading and processing in South America (see more in Hamilton et al., 2011: 139-144). Vertical integration into the downstream stages has also been adopted by leading firms in tuna processing. As stated earlier, canned tuna prices are heavily influenced by demand conditions in key markets like the US and the EU. As a result, tuna processors have been increasingly squeezed between the supply side, which is dominated by tuna trading companies, and the demand end, in which retailers dominate the sales of private labels and brands in canned tuna. Despite the increasing popularity of private labels, traditional brands in the canned tuna industry still command strong sales. In the US, the ‘big three’ brands (i.e. Star Kist, Bumble Bee, and Chicken of the Sea) still command upward of 80% of the value in the US retail market (Hamilton et al., 2011). The need to push closer to the demand side of the industry makes it more
necessary than ever for firms to integrate forward into the downstream stages of the value chain.

It is against this context that we explain the development of Thai Union Frozen, a Thai company that rose from a local tuna processor to become one of the most significant multinational companies in the canned tuna industry.

**Thai Union Group**

Thai Union Frozen Products PCL (TUF), the flagship company of the Thai Union group, positions itself as ‘a leading global seafood expert and industry leader’ (see the company’s website, [www.thaiuniongroup.com](http://www.thaiuniongroup.com)). Despite its broad product category (e.g. tuna products, frozen shrimp, canned pet food, canned seafood, canned sardine and mackerel, frozen cephalopod, and shrimp feed), tuna products, especially canned tuna, are the group’s most important product, accounting for 48 percent of sales in 2011. In the global arena, TUF is known as the world’s largest canned tuna producer and exporter, accounting for one third of Thailand’s total combined annual processing capacity. TUF’s global leadership has been further strengthened with its 2010 acquisition of MW Brands, the European canned seafood firm that controlled tuna processing facilities in Europe, fishing vessels and four leading European canned tuna brands (i.e. John West, Petit Navire, Mareblu, and Hyacinthe Parmentier). The discussion in this part divides TUF’s growth into two different periods: domestic expansion (1993-1996); early international expansion (1997-2009); and Globalisation (2010-present)

**Domestic expansion (1973-1996)**

The beginning of the Thai Union group dated back to 1973, when Thai Union Manufacturing was established as a seafood processing company. The company’s history with seafood processing and export formally took off with the setting up of Thai Union Frozen Products in 1988. The company’s initial products were frozen cooked tuna and canned cat food. In the same year, the group also invested 20 percent in Lucky Union Foods to produce other frozen seafood products. The first milestone

---

6 Thailand’s total canning capacity is approximately 3,000 million ton (mt)/day, whereas TUF’s capacity is around 1,000 mt/day. Thailand’s second largest processor, Sea Value, accounts for approximately 850 mt/day (see Hamilton et al., 2011: 159).

7 Details on the early development of Thai Union Frozen (TUF) were based on the group’s 56-1 report in 1999.
took place in 1992, when the company embarked on a partnership with Mitsubishi Corporation and Hogoromo Foods Corporation, both of which are Japanese firms that served both as TUF’s distributors and buyers. This relationship proved to be a critical step in transforming TUF into an international standard exporter of seafood products. Both firms remain key partners in TUF, with Mitsubishi Corporation still holding 7.58 percent of the equity and Hogoromo Foods Corporation holding 1.98 percent as of 2012. Each company is also represented on the current board of directors. The next major step came in 1994, when TUF became a publicly listed company in the Stock Exchange of Thailand. Public listing allowed the company to raise capital to further its growth both domestically and internationally. In the same year, the group also invested 58.08 percent in Thai Ruamsin Pattana, then Thailand’s largest canned tuna and canned cat food processor. Investment in Lucky Union Foods and Thai Ruamsin Pattana allowed the group to command a larger scale in raw materials procurement, hence reducing its costs of production. In 1998, the Thai Union group acquired the majority of equity in these two firms and solidified its position as the country’s largest seafood producer and exporter.

Domestic growth was also led by the group’s attempt toward vertical integration into the fast food market as well as to packaging and labeling to serve its growing tuna canning business. In addition, the group strengthened its position in the domestic market through the introduction of its own brands ‘Sealect’ for canned tuna and ‘Fisho’ for fish snacks.

The first decade of TUF was characterized by the attempt to establish itself as a leading seafood producer and exporter. This strategy was undertaken through both horizontal and vertical integration. TUF acquired two previous alliance partners to increase its scale and hence bargaining power toward its suppliers. At the same time, the group expanded its operations vertically by integrating forward into downstream activities. However, it is not until after 1997 that the group began to look beyond Thailand’s borders for further growth opportunities. The next part elaborates more on the group’s international expansions.

**Early international expansion (1997-2009)**

---

8 The 5 largest shareholders, as of August 2012, are: the Chansiri family (25.25%); the Niruttinanon family (7.93%); Mitsubishi Corporation (7.58%); Thai NDVR (4%); and Merrill Lynch International (3.12%).
The most important milestone that set TUF on an international growth path was the 1997 acquisition of the ‘Chicken of the Sea’—the third largest canned tuna brand in the US. TUF, along with its US ally, Tri-Marine, one of the ‘Big Three’ tuna traders and Ed Gann, an individual who operated a large tuna fishing fleet, set up a 50:25:25 joint venture company, Tri-Union Seafoods, to acquire the assets of Van Camp Seafoods Company—the owner of the ‘Chicken of the Sea’ brand. Tri Marine and Ed Gann were tuna suppliers of Van Camp, and the main reason for their acquisition was to prevent their buyer, Van Camp, from going under as the company was having financial difficulty at the time (see more details in Kingkaew 2011). As a tuna processor and exporter, whose main market was the US, TUF made the acquisition in order to enter into higher value added activities of selling branded products, and to benefit from Van Camp’s distribution and retail networks. With more confidence in its international activities, TUF acquired the remaining stake from Tri Marine and Ed Gann to become the sole owner of Tri Union Seafoods Company. To strengthen its distribution networks in the US market, TUF acquired a 100 percent ownership of Empress International, a seafood marketer company in 2003. Later in 2006, the group set up Chicken of the Sea Frozen Foods to market frozen seafood under the Chicken of the Sea brand. This US acquisition was a major milestone in TUF’s corporate history. From a Thai canned tuna packer, the group has now become a key player in the US seafood industry, extending their market coverage from their own branded products, private labels and food services (i.e. catering and restaurants).9

The acquisition of Chicken of the Sea also allowed TUF more flexibility in production management. The firm made history in the US canned tuna production when it decided to close its plant in American Samoa and relocated to Lyons, Georgia in the mainland US, in 2009, making it the first onshore investment in US tuna processing since the 1970s (Hamilton et al., 2011: 169). Given the new production trend of using tuna loins for canning instead of processing the whole round fish, the canned tuna plants in the mainland US have become leaner, more productive and more capital-intensive than the labour-intensive operations in the American Samoa, especially after the 2007 increase in wages (ibid.). The new plant in Georgia is highly mechanized, requiring a limited labour for its operations. Locating their capital-intensive production plant in Georgia allowed TUF to benefit from the exemption of

---

9 Interview with Mr. Thiraphong Chansiri, TUF President, 16 November 2011.
tariffs the US places on canned tuna imports from other countries. At the same time, TUF can locate its more labour-intensive processing operations in Thailand, a country that still offers lower labour costs but higher productivity, when compared to Samoa.

Following the US acquisition, TUF pursued more expansions within the Asian region. Marketing and sales distribution facilities were established in China in 2005. More regional production facilities were added with the 76.5 percent acquisition of an Indonesian tuna packer, PT Juifa International Foods in 2006 and the 51 percent acquisition of the Vietnam-based canned shellfish and seafood processor Yueh Chyang Canned Food in 2008. In addition to the canned seafood industry, the group made further investment in the shrimp industry to expand its product variety. TUF invested in two shrimp feed production companies in India in 2008 and 2009.

With investment in production and downstream activities secured through acquisitions of the US brand and of regional production facilities, TUF also invested, for the very first time, in the upstream activity of fisheries. In 2007, the group acquired a tuna fishing fleet consisting of 4 purse-seiners and 1 scout boat to catch fish in the Indian Ocean.

In the decade following the acquisition of Chicken of the Sea, TUF rose to become a major seafood processor and exporter, with canned tuna as its main product. The group’s forward integration into having its own brands and other marketing-related activities in the US market stamps its authority as one of the world’s leading seafood company, a position that is further enhanced with its 2010 acquisition of MW Brands. The next part elaborates more on the group’s latest acquisitions.

**Globalisation (2010 – present)**

Another significant milestone for TUF was its 2010 acquisition of the European canned seafood giant, MW Brands, from Trilantic Capital Partners (see Hamilton et al., 2011: 163). This €680 million acquisition proved to be one of the most significant developments in the global canned tuna industry. Given TUF’s already strong position as the world’s largest canned tuna supplier and as the owner of one of the major ‘big three’ brands in the US, the takeover of MW Brands enabled TUF to strengthen its foothold in the EU market, and as a result, to become one of the most significant vertically-integrated canned tuna companies in the world. The takeover also gave TUF leading positions in France, UK, the Netherlands, Ireland and Italy, through the portfolio of four European brands under the control of MW Brands.
(i.e. John West, Petit Navire, Mareblu, and Hyacinthe Parmentier). In addition to brands, the takeover also added four more productions sites in France, Portugal, Seychelles and Ghana Europe and five additional fishing vessels. To strengthen their access to the EU, TUF, in cooperation with their partners in the Philippines, set up canned tuna processing facilities in Papua New Guinea (PNG) to benefit from PNG’s preferential market access to the EU. The 2010 acquisition MW Brands has significantly reinforced TUF’s position as one of the largest seafood companies in the world. The sale of MW Brands to Thai Union is the most important development in the EU canned tuna industry in recent years (Hamilton et al., 2011:192). Not only has it deepened the concentration in the global canned tuna industry, it also allowed Thai Union to gain a seat at the EU lobby group, Eurothon, whose main focus prior to TUF’s joining was the competitive threats posed by processors from Southeast Asia. TUF’s membership in the Eurothon is therefore a key strategic move that is likely to fragment the political coherence of the EU tuna lobby toward strategic trade issues in the industry.

Within four decades from its beginning, the Thai Union group has emerged from a small canned tuna processor operating mainly under contracts from overseas buyers to one of the largest and the most vertically integrated company in the canned tuna industry. The next part analyses how TUF has used international expansion as a way to increase its value in the global value chain. Table 1 provides details on TUF’s international expansions from the beginning to present.

(Insert Table 1 about here)

Discussion and Conclusion

As of the end of 2009, TUF ranked number one as listed firm in food & beverage with the highest amount of outward foreign direct investment of nearly US$49 million.10 While domestic expansion was a major step in the group’s early history, international expansion to extend its activities from the low value-added

---

10 Although the Minor Group also ranks high in terms of OFDI, MINT groups together three types of businesses: food; hotel; and retail trading (see www.minornet.com). The majority of their overseas investment is from their hotel operations. Although their overall overseas investment ranked the highest in the food & beverage category, investment in their food (restaurant) business along was estimated at US$ 10.25m.
position of processor to more value added ones has certainly been a key move that brought the group to its current position. What is notable from the TUF case study is how a firm that first started as suppliers in the buyer-driven industry of canned tuna enhances its position within the global value chain through a continuous investment toward the downstream operations, particularly in marketing and distribution.

According to the ‘smile of value creation’ proposed by Ram Mudambi (2007, 2008), the spread of value creation along the value chain is concentrated at the upstream and the downstream ends, leaving the middle the least value added position. Activities at the upstream end are generally supported by R&D knowledge, while activities at the downstream end are more supported by marketing knowledge. The geographic realities associated with the smile of value creation are such that activities at both the upstream and downstream ends are largely located in advanced market economies, while those in the middle of the value chain are concentrated in emerging market economies. This explanation forms the core argument of many studies that have adopted the global value chain concept to explain how industries have been globally integrated through the offshoring of lower value-added activities to firms in developing economies. It is therefore interesting to use the case study of TUF to present how a Thai firm whose very beginning lied at the lowest value-added position can move along its value chain to become one of the world’s largest firms in its industry. This paper argues that TUF has used internationalization as a key strategy that enables the group to move along the value chain.

TUF’s most significant internationalization milestones were their acquisitions of leading brands in the markets to which they sell. As stated by Mr. Thiraphong Chansiri, TUF’s CEO, “having brands allows us to exert more control on our future directions”.

The 1997 acquisition of the ‘Chicken of the Sea’ brand in the US market marked the milestone in the group’s attempt to move away from the low value-added original equipment manufacture (OEM) position to higher-value position toward the downstream end of the value chain. Because canned tuna is a rather well established industry that has long been dominated by key players in each market, each region is likely to be populated by a few well-known brands, making it harder to introduce new ones. For example, the US market is dominated by the ‘big three’ brands of Starkist, Bumble Bee and Chicken of the Sea. Similarly, European

---

11 Interview, Mr. Thiraphong Chansiri, 16 November 2010.
consumers are likely to be more familiar with their own established brand names, like John West (the number one brand in the UK, Ireland and the Netherlands), Petit Navire and Hyacinthe Parmentier in France, and Mareblu in Italy (Hamilton et al., 2011, see also the company website). International acquisition of leading brands in the canned tuna industry has therefore been a major strategy for TUF to move more toward the downstream end of the value chain. Explaining the need to acquire leading brands in different geographical regions, Mr. Thiraphong said “There is no global brand in the canned tuna industry. Most established brands are national ones. We cannot sell American brands in Europe, nor in Thailand. They don’t mean much.” (Bangkok Post, 11 July 2012). Given its portfolio of leading brands around the world, the Thai Union group has successfully moved away from being the least value-added player in the chain—tuna canner, to a much stronger position. With more than 60 percent of revenues stemming from sales of their own brands, the Thai Union group has effectively reduced their OEM role and focused more on developing its own brands.12

In addition to gaining control of leading brands, the group’s international acquisitions also enhanced its production facilities and capacity as each of its major acquisition also included production plants. Because tariff and non-tariff trade barriers, particularly to the US and the EU markets, continued to be a feature of the canned tuna industry, having production facilities inside each major market allowed the group to supply from within the region, hence avoiding trade barriers imposed on imports into those areas. Thai Union’s control of production facilities in key production areas adds to the competitive advantage of the group as it allows the group to position each production site for different market. For example, production facilities in the US mainly serve their own US brands, while canneries in the EU and Africa focus on producing for their EU-based brands. Given the prior experience of being OEM producers and their lower labour costs, Thai canneries can accommodate a broader diversity of orders and are used therefore for branded and private label exports to the US market (Interview, 16 November 2010; see also Hamilton et al., 2011: 35). What is notable from the TUF case study is how a firm that first started as suppliers in the buyer-driven industry of canned tuna enhances its position within the global value chain through a continuous investment toward the downstream

---

12 Interview, Mr. Thiraphong Chansiri, 16 November 2010.
operations, particularly in marketing and distribution. This marks an attempt to exert more control in the direction in which global ‘lead firms’ play a dominant role. TUF uses international expansions to increase its downstream activities. Foreign acquisitions have been undertaken to develop more distribution channels and to acquire established brands in the territory previously under the dominant control of their global buyers.

Figure 1 shows TUF’s value chain disaggregation in the form of the smile of value creation (Mudambi 2007, 2008). It is clear from Figure 1 that TUF focuses its international expansion toward the downstream end of the global value chain. Although the firm also uses international expansion to expand into upstream activities such as procurement and fishing, TUF’s main focus for international expansion is to increase value through establishment of sales and distribution activities in key markets such as the US and Europe. In his own words, Mr. Thirapong Chansiri, TUF’s CEO, explained

“we have to look at the entire value chain to see where we place our emphasis. Now we feel that the industry is driven by consumers’ demand, so we placed more emphasis on downstream operations to move in that direction. If one day supply becomes tight, then we will give more weight to expansion toward that direction.”

(Interview, 16 November 2010)

In sum, the analysis of TUF’s international expansion shows three insights. First, developing country firms use international expansion as a means to upgrade their position in the global value chain of their industry. Starting as a low-cost supplier to global buyers, the Thai Union Group moved up the value chain by acquiring brands and distribution channels in developed economies. Second, developing country firms can enhance their strengths in the lower-value operations through strategic production management, whereby different production sites are used for different purposes. How TUF allocates responsibilities for each of its production sites is a case in point. Third, emerging Thai multinationals internationalise in the direction of their global ‘lead firms’ to upgrade their position within the chain structure. In the canned tuna industry, ‘lead firms’ are the brand owners and retailers
who buy for their private labels. TUF uses international expansions to increase its
downstream activities. Foreign acquisitions have been undertaken to develop more
distribution channels and to acquire established brands in the territory previously
under the dominant control of their global buyers. While this is yet to be conclusive, it
is a theoretical inference that can be further explored in future studies.
REFERENCES


Developing Economies, Japan External Trade Organization (IDE-JETRO) and Institute of Southeast Asian Studies (ISEAS).


Lecraw, D. J. 1981. Internationalization of Firms from LDCs: Evidence from the ASEAN Region. In K. Kumar and M. G. McLeod. Lexington (Eds), *Multinationals from Developing Countries*: 37-51, Massachusetts, D.C. Heath.


Table 1: Thai Union Group’s overseas investment, as of 2009.

<table>
<thead>
<tr>
<th>Name of affiliates</th>
<th>Year</th>
<th>Destination</th>
<th>Investment Value ($)</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thaiunion International Co.,Ltd.</td>
<td>1996</td>
<td>USA</td>
<td>10,000,000</td>
<td>Investment company</td>
</tr>
<tr>
<td>Tri-Union Seafood, LLC</td>
<td>1997</td>
<td>USA</td>
<td>62,390,422</td>
<td>Manufacturing canned seafood</td>
</tr>
<tr>
<td>Cindena Resources Limited</td>
<td>2003</td>
<td>China</td>
<td>250,000</td>
<td>Investment Company</td>
</tr>
<tr>
<td>Century Union(Shanghai) Food Co., Ltd.</td>
<td>2005</td>
<td>China</td>
<td>1,250,000</td>
<td>Distributing processed seafood in China</td>
</tr>
<tr>
<td>Century Trading (Shanghai) Co., Ltd.</td>
<td>2005</td>
<td>China</td>
<td>1,801,600</td>
<td>Marketing and distributing processed seafood in China</td>
</tr>
<tr>
<td>PT Juifa International Foods</td>
<td>2006</td>
<td>Indonesia</td>
<td>2,065,500</td>
<td>Marketing and sales</td>
</tr>
<tr>
<td>Siam Fishing Co., Ltd.</td>
<td>2007</td>
<td>Singapore</td>
<td>66,600</td>
<td>Operating tuna fishing vessels in the Indian Ocean</td>
</tr>
<tr>
<td>Yuen Chyang Canned Food Co., Ltd.</td>
<td>2008</td>
<td>Vietnam</td>
<td>883,171</td>
<td>Manufacturing and exporting canned seafood</td>
</tr>
<tr>
<td>Avanti Feeds Limited</td>
<td>2009</td>
<td>India</td>
<td>239,840</td>
<td>Producing and distributing shrimp feeds and exporting processed shrimp</td>
</tr>
<tr>
<td>Avanti Thai Aqua Feed Private Limited</td>
<td>2009</td>
<td>India</td>
<td>831,600</td>
<td>Producing and distributing shrimp feeds and exporting processed shrimp</td>
</tr>
<tr>
<td>Moresby International Holding Ltd.</td>
<td>2009</td>
<td>BVI</td>
<td>1,666,500</td>
<td>Investment in deep sea fishing company in Papua New Guinea</td>
</tr>
<tr>
<td>Thai Union Investment Holding Co., Ltd.</td>
<td>2010</td>
<td>Mauritius</td>
<td>29,040,000</td>
<td>Investment company</td>
</tr>
<tr>
<td>Tri Union Frozen Product Inc</td>
<td>2010</td>
<td>USA</td>
<td>n/a</td>
<td>Importing and distributing frozen seafood</td>
</tr>
<tr>
<td>US Pet Nutrition, LLC</td>
<td>2010</td>
<td>USA</td>
<td>n/a</td>
<td>Manufacturing and distributing feeds</td>
</tr>
<tr>
<td>Mauritius Company</td>
<td>2010</td>
<td>Mauritius</td>
<td>n/a</td>
<td>Investment company</td>
</tr>
<tr>
<td>Thai Union EU Seafood 1 SA</td>
<td>2010</td>
<td>Luxembourg</td>
<td>n/a</td>
<td>Investment company</td>
</tr>
<tr>
<td>Thai Union EU Seafood 2 SA</td>
<td>2010</td>
<td>Luxembourg</td>
<td>n/a</td>
<td>Investment company</td>
</tr>
<tr>
<td>Thai Union France Holding SAS</td>
<td>2010</td>
<td>France</td>
<td>n/a</td>
<td>Investment company</td>
</tr>
<tr>
<td>MW Brands Holding SAS</td>
<td>2010</td>
<td>France</td>
<td>41,404,440</td>
<td>Investment company</td>
</tr>
<tr>
<td>MW Brands SAS</td>
<td>2010</td>
<td>France</td>
<td>n/a</td>
<td>Head Quarter</td>
</tr>
<tr>
<td>MW Brands Seychelles Limited</td>
<td>2010</td>
<td>Seychelles</td>
<td>n/a</td>
<td>Exporting canned tuna</td>
</tr>
<tr>
<td>Etablissements Paul Paulet SAS</td>
<td>2010</td>
<td>France</td>
<td>n/a</td>
<td>Manufacturing, distributing, importing &amp; exporting canned seafood</td>
</tr>
<tr>
<td>European Seafood Investment Portugal</td>
<td>2010</td>
<td>Portugal</td>
<td>n/a</td>
<td>Manufacturing and exporting canned Mackerel and Sardine</td>
</tr>
<tr>
<td>Pioneer Food Cannery Limited</td>
<td>2010</td>
<td>Ghana</td>
<td>n/a</td>
<td>Manufacturing canned tuna</td>
</tr>
<tr>
<td>Marebli SRL</td>
<td>2010</td>
<td>Italy</td>
<td>n/a</td>
<td>Importing and distributing of canned seafood</td>
</tr>
<tr>
<td>UK Seafood Investments Limited</td>
<td>2010</td>
<td>UK</td>
<td>n/a</td>
<td>Investment company</td>
</tr>
<tr>
<td>Indian Ocean Tuna Limited</td>
<td>2010</td>
<td>Seychelles</td>
<td>n/a</td>
<td>Manufacturing and exporting canned tuna</td>
</tr>
<tr>
<td>John West Foods Limited</td>
<td>2010</td>
<td>UK</td>
<td>n/a</td>
<td>Importing and distributing of canned seafood</td>
</tr>
<tr>
<td>Irish Seafood Investments Limited</td>
<td>2010</td>
<td>Ireland</td>
<td>n/a</td>
<td>Importing and distributing of canned seafood</td>
</tr>
<tr>
<td>John West Holland BV</td>
<td>2010</td>
<td>Netherland</td>
<td>n/a</td>
<td>Importing and distributing of canned seafood</td>
</tr>
<tr>
<td>TTV Limited</td>
<td>2010</td>
<td>Ghana</td>
<td>n/a</td>
<td>Deep-sea fishing</td>
</tr>
<tr>
<td>LDH (La Doria) Limited</td>
<td>2010</td>
<td>UK</td>
<td>322,000</td>
<td>Food wholesaling</td>
</tr>
</tbody>
</table>
Figure 1: TUF’s value chain disaggregation

**Value Added**

- **R&D Knowledge**
- **Marketing Knowledge**

**Input**

- **Fishing** (Papua New Guinea, Ghana)
- **Manufacturing**
  - Canned Tuna/ Canned Seafood (US, Vietnam, France, Portugal, Indonesia, Ghana, Seychelles)
  - Frozen shrimp (India x2)
  - Feed Mills (India x2, US)

**Wholesales, Import & Export** (Singapore, UK)

**Distribution**

- Canned Tuna/Canned Seafood (US, Vietnam, Seychelles x2, France, Italy, UK x2, Netherland)
- Frozen Seafood (India x2, US, Indonesia, US, China)
- Feed Mills (India x2, US)