Global Business Environment and International Strategy MOD007191

Lecture 6

Internationalization Strategy

Dr Andre Samuel
andre.samuel@sam.edu.tt

Why Go Global ?

- Saturation of local market
- Inability to adapt to the local market / product suitability
- Too much competition
- Low margin
- Availability of better resources at global locations
- To develop a new market
- To launch a completely new product
- To avoid stagnation

The Big Questions

- Which country should I go to ?
- Is it just one country or multiple countries ?
- Should the countries have some commonalities ?
- **What is the strategy for Entering Foreign Markets?**

Why Amazon's Marketplace Failed In China

https://youtu.be/g3ddcu-LLWI?si=mXf0vovK1YiIBl9-

From Local to Global Strategy

Local Vs Global

Market	Pros	Cons
Local	• Known Market • Established brand/footprint/process	• Saturation of potential • Stagnation in growth
Global	• Opportunity to develop new market • Business growth • New product development opportunities	• Unknown Market • To be established afresh(Cost intensive)

Multinational Corporations

- An important aspect of globalization has been the market **dominance of the multinational corporation (MNC).**
- A company is called a multinational if **it functions in its country of origin and has a branch in at least one foreign country**
- Seeking to **maximize profits on a global** rather than national level only
- Initially, characterized by the **production and distribution of a standardized product** or service on a world-wide basis

So what is a MNC?

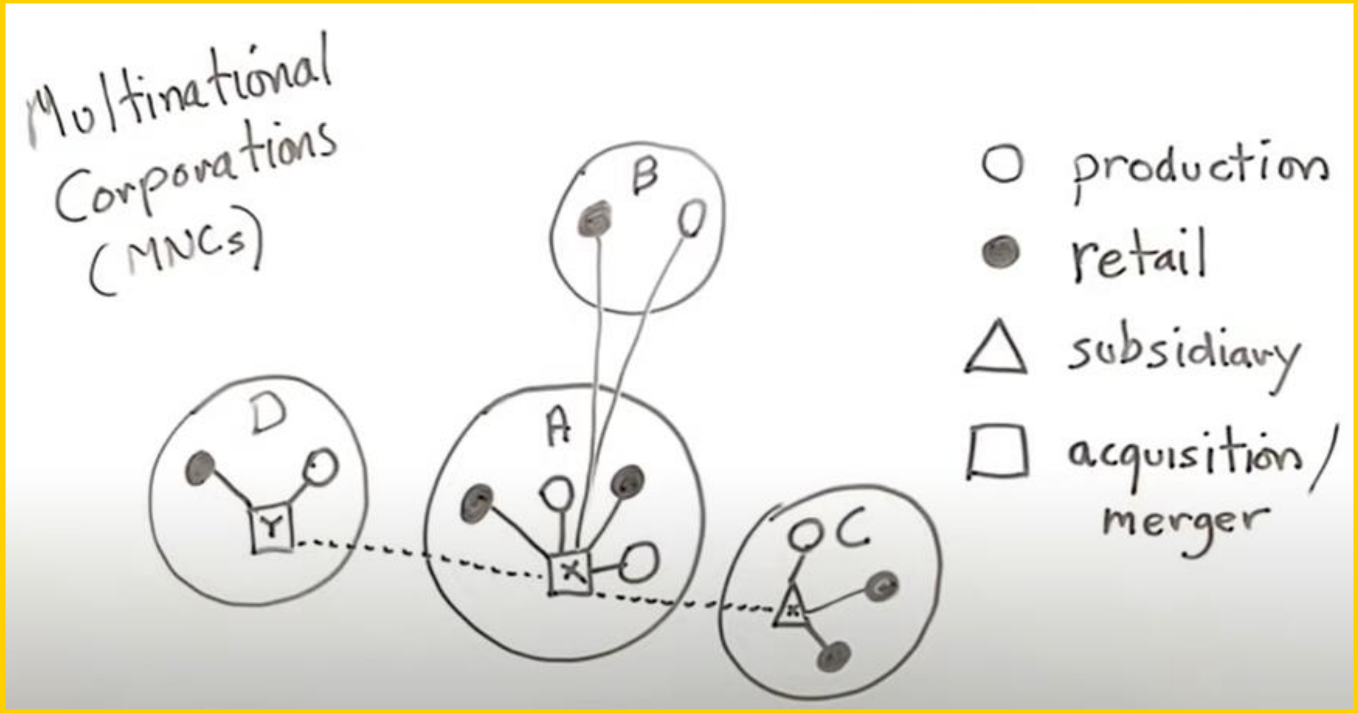
- "A firm that **engages in Foreign Direct Investment** (FDI) by directly controlling and managing **value adding activities in other countries**" (Peng 2022, p.4)

- A multinational firm is one that operates and is **managed from bases in a number of countries**.

- **Ownership of assets in a foreign country** is considered a defining feature

So How do they do this?

- Offshore Production
- Subsidiaries
- Mergers and Acquisition



https://www.youtube.com/watch?v=FCojpFwWuG0

T&C Garments Factory Egypt (Levi's)

https://www.youtube.com/watch?v=C1j9ipTFjmw

Why go Global?

- Changes in the global economy
- There is a **shift** away from multinationals using wholly owned subsidiaries to a greater involvement of, **joint ventures and outsourcing using contract manufacturers**
- And **Vertical Specialization**

Vertical Specialization leads to The Global Factory

- A global factory relates to the **disaggregation of the production process across a number of different firms in different countries**.

- i.e. firms are locating different parts of an increasingly fragmented production process in different countries

- Based on a number of factors including not only access to raw materials and nearness to markets but also the attractiveness of taxation regimes, other regulatory controls, and, of course, the level of wages

- To further understand this shift to Global Value chains, we must **delve into the Value Chain Model**

- Remember, a MNC **engages in Foreign Direct Investment** (FDI) by directly controlling and managing **value adding activities in other countries**" (Peng 2022, p.4)

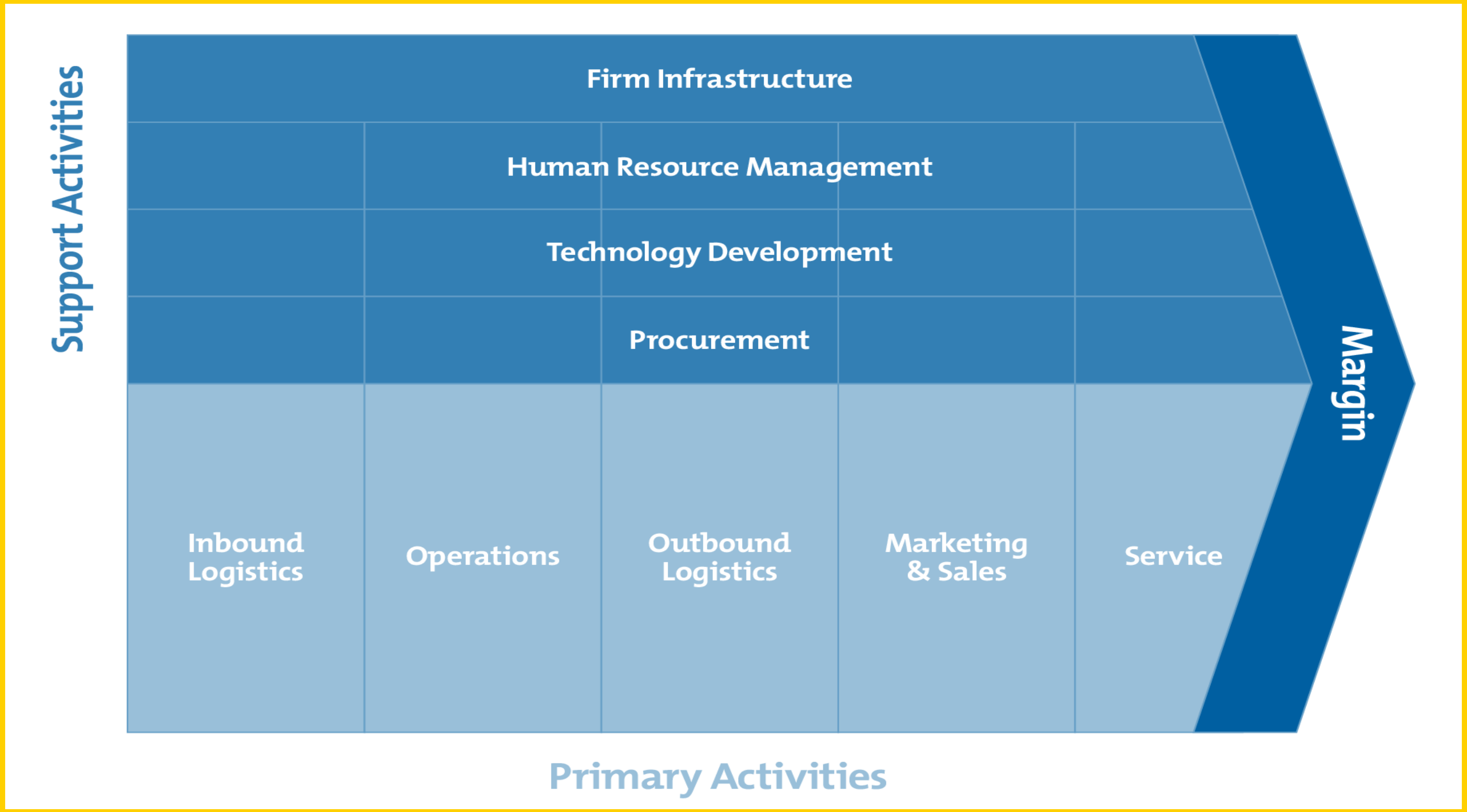
Modules/Units of Business Operation

- Resourcing
- Production
- Haulage and Storage(Distribution)
- Marketing
- Sales
- Service

Porter, M.E., 1985 Competitive Advantage, The Free Press

- “Competitive advantage cannot be understood by looking at a firm as a whole
- It stems from the many discrete activities a firm performs in designing, producing, marketing, delivering, and supporting its product.
- Each of these activities can contribute to a firm’s relative cost position and create a basis for differentiation”

Value Chain Model



Competitive advantage is derived from the way in which firms organize and perform these activities within the value chain.

Primary Activities

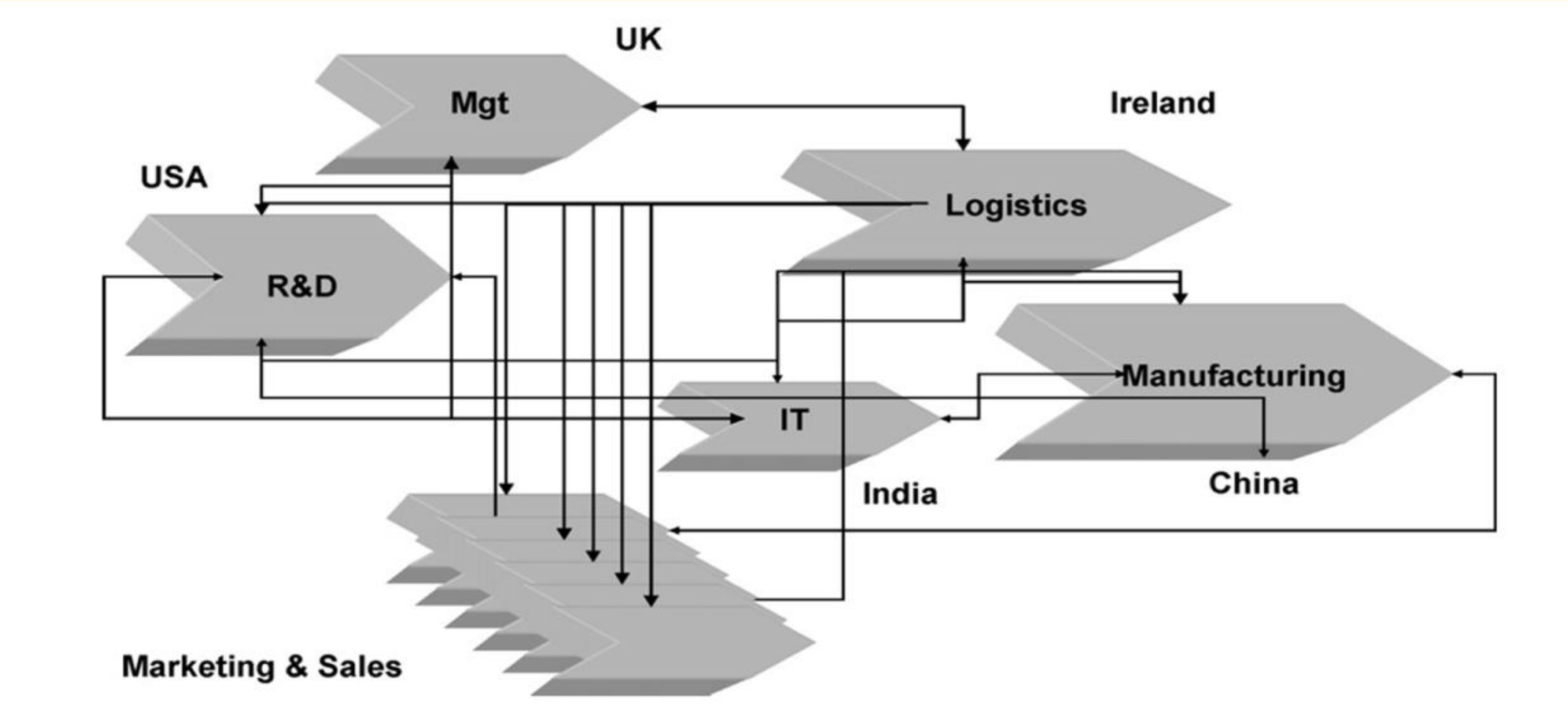
- **Inbound logistics**
  - Receiving raw materials and/or partly finished goods; storing them; and transferring them to the manufacturing section
- **Operations**
  - Producing finished goods from raw materials and/or partly finished goods
- **Outbound logistics**
  - Storing finished goods and then distributing them to customers
- **Marketing and sales**
  - Promoting the firm's products; soliciting orders from prospective customers
- **After-sales service**
  - Maintaining the value of the product to the customer after it has been delivered

Support Activities

- **Firm infrastructure**
  - General management; accounting and finance; legal department; health and safety; etc.
- **Human Resource Management**
  - Recruiting; training and developing; appraising; career planning; etc.
- **Technology development**
  - Research and development, relating to both products and processes
- **Procurement**
  - Acquiring the goods and services that the firm needs in order to operate effectively; applicable to both primary and support activities

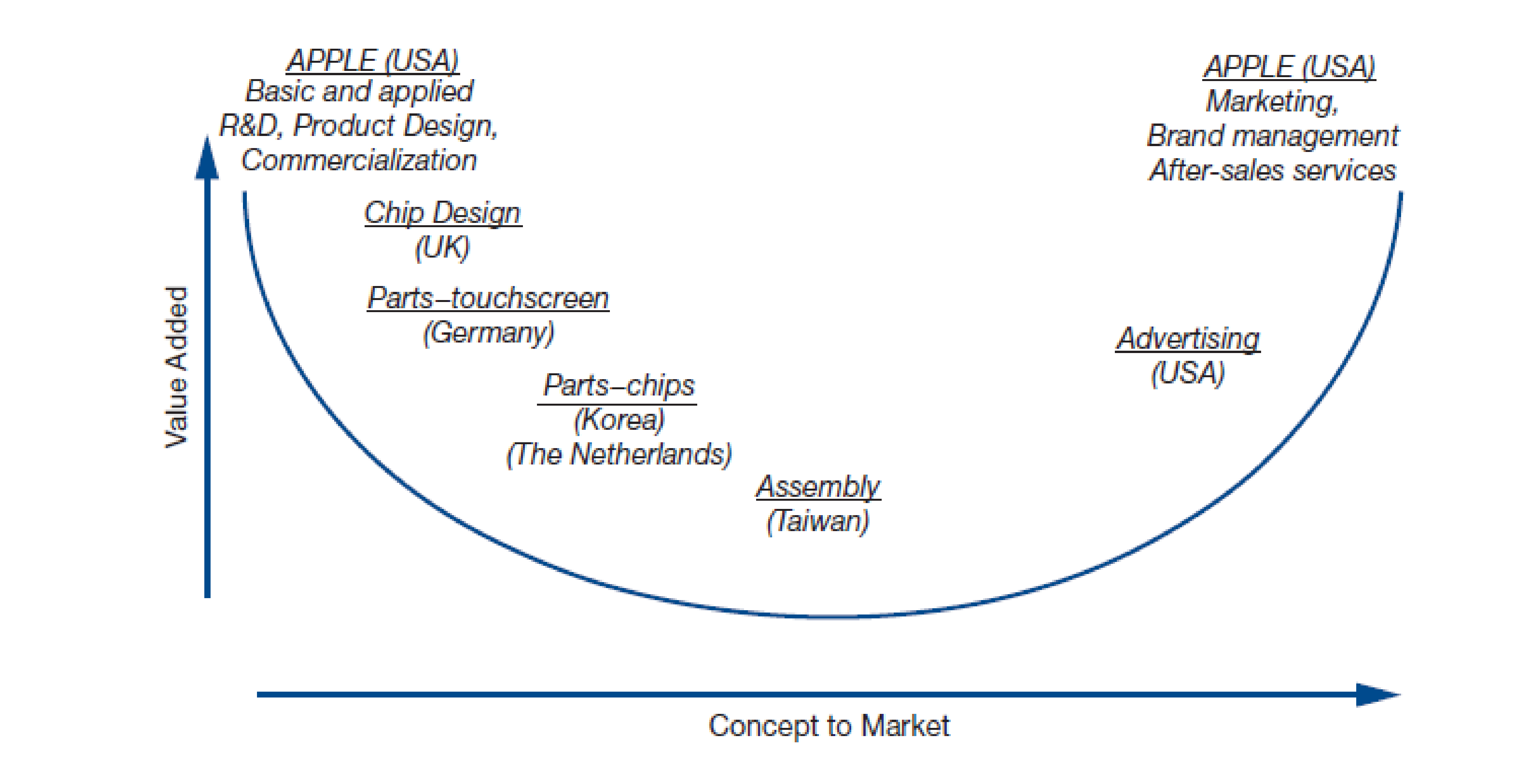
Global Value Chain (GVC)

- Represents the build up of value along a supply chain made up of a number of international partners



M.W. Hansen et al. / Journal of World Business 44 (2009) 121–130

Apple iPhone’s GVC



What are Global Value Chains and why they matter?

https://www.youtube.com/watch?v=_sY8nbtDTTY

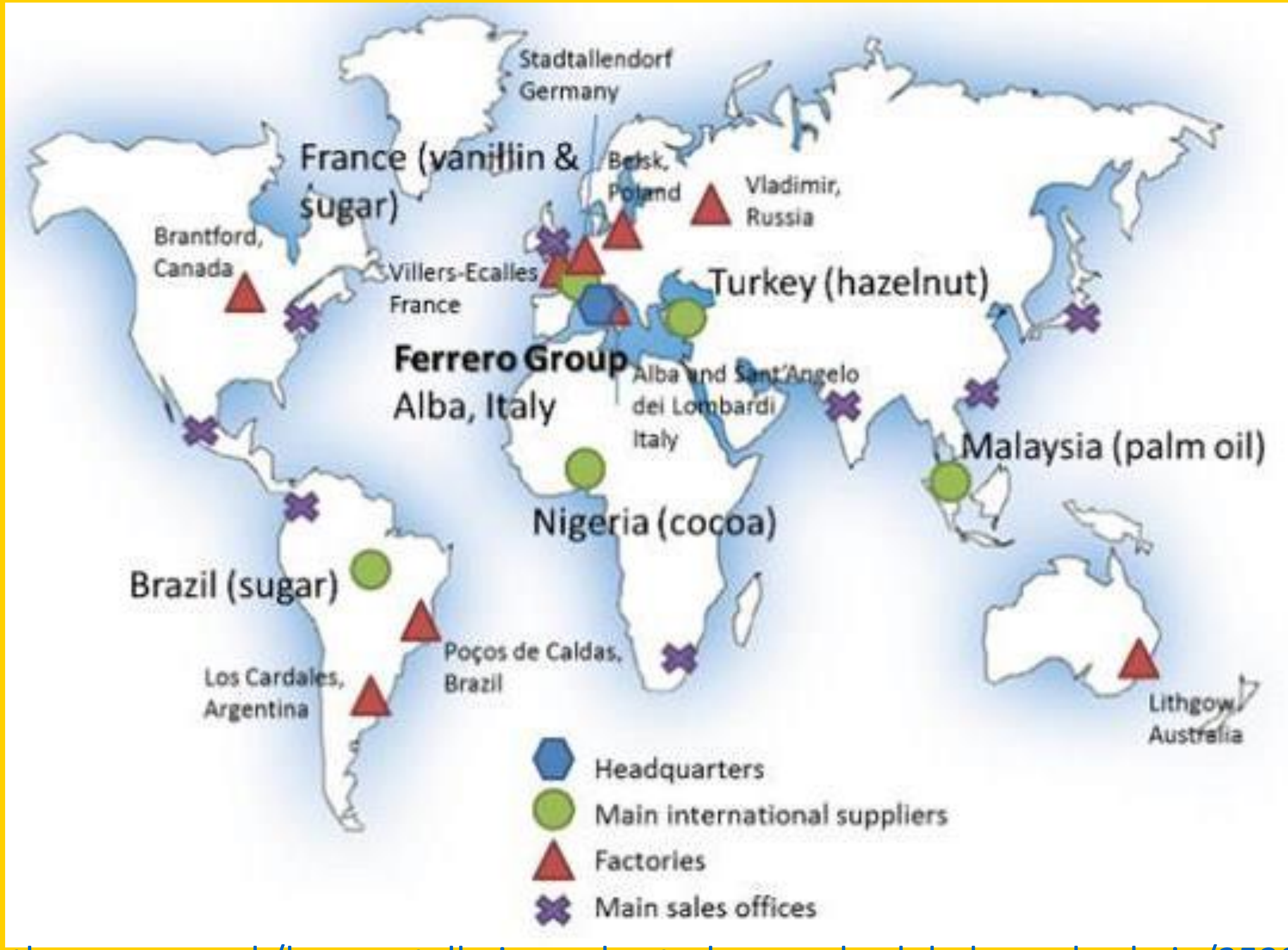
What's the idea?

- We can see from the value chain of the iPhone that **the key value added activities are kept in house** by Apple and include R&D, design, branding and marketing
- The **least value added component is** manufacture, the assembly of the parts, which is **outsourced** either to Taiwan or China, although most iPhones are now assembled in China
- The assembly process represents only about 1 per cent of the cost of the iPhone.

- The MNC retains significant control of the entire process.

- The MNC controls less tangible, high value activities such as design, marketing, branding and management skills and consequently makes it difficult for local firms to compete since these activities are more difficult to copy

Nutella Global Value Chain



https://www.thegrocer.co.uk/how-nutella-is-made-study-reveals-global-supply-chain/352954.article

What is a strategy ?

- A path from A to B ?
- A method to reach a goal ?
- A set of actions ?
- A series of planning and execution ?
- Are there multiple options from A to B ?

Strategy Building

Managing your business strategy

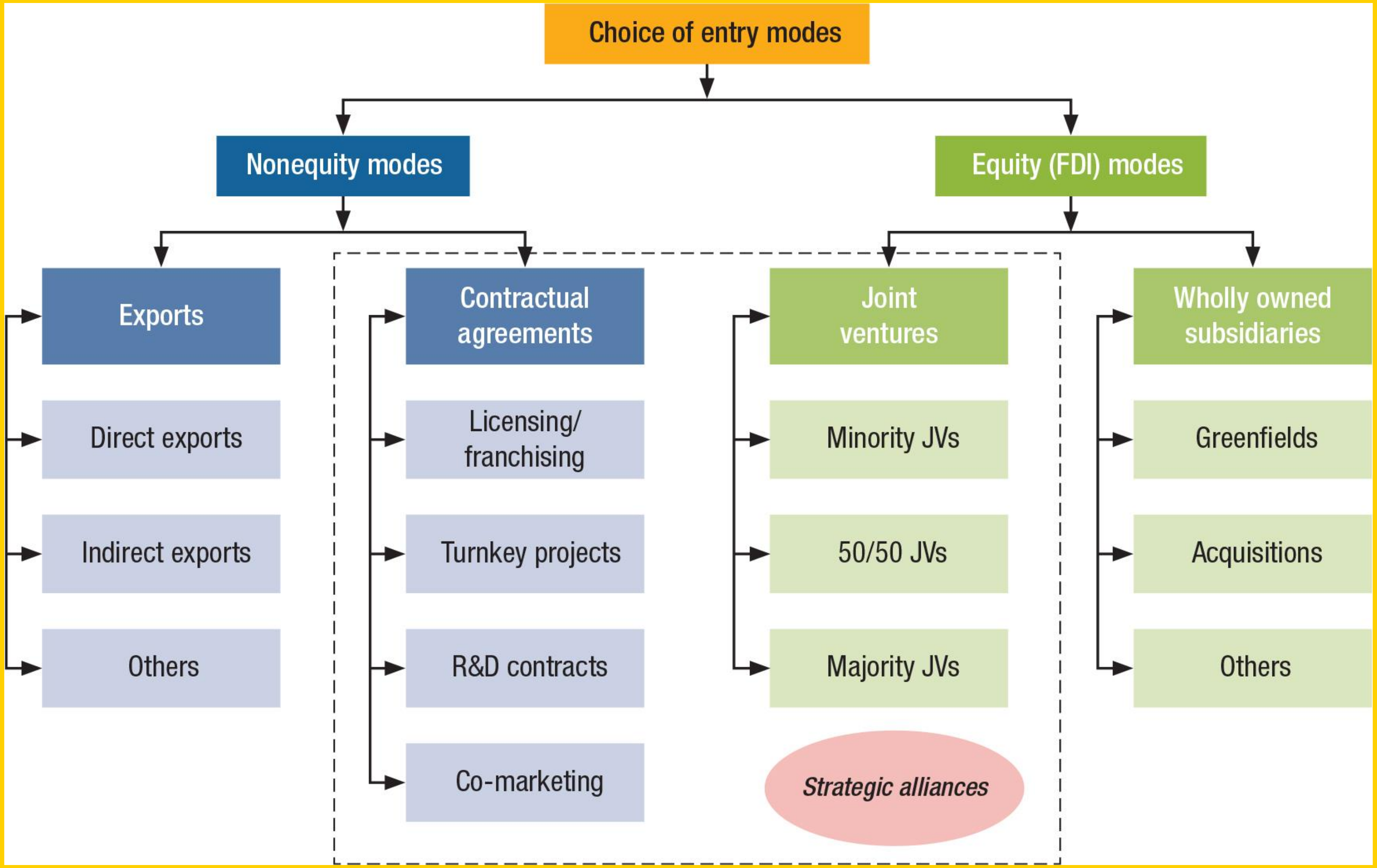
Benefits
Size of the Economy
Likely Economic Growth

Costs
Corruption
Legal Costs
Lack of Infrastructure

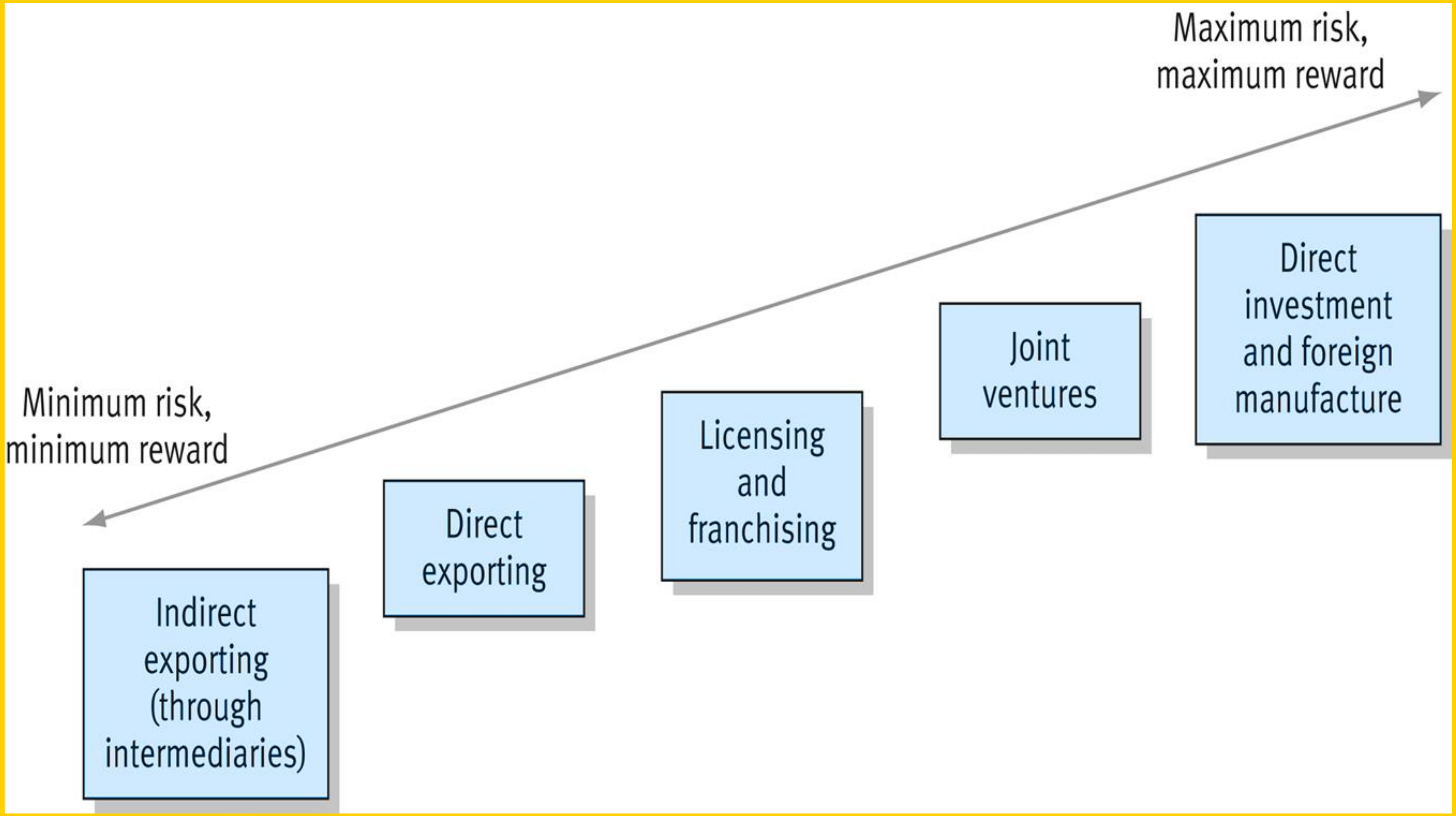
Overall Attractiveness

Risks
Political Risks: Social Unrest / Anti-Business Trends
Economic Risks: Mismanagement of Economy
Legal Risks: Failure to Safeguard Basic Rights

How to Enter- Entry Modes



Risk Management : Progress slowly



Strategic Options - Operations

Low Risk → **Medium Risk**

Indirect merchandise (retailers)

Direct merchandise exports

Different strategic paths to mitigate risk

Low/Med Risk

- **Licensing and franchising**- agreement to allow a partner to manufacture or sell abroad.
- **Joint ventures-** collaborative arrangements or alliances in which an equity investment is made with a partner.
- **Strategic alliances-** companies work together, but the agreement is critical to at least one partner.

High Risk

Entry Mode Examples

Entry Modes (Examples in the Text)		Advantages	Disadvantages
1. Nonequity modes: Exports	Direct exports (Pearl River exports pianos to more than 80 countries)	• Economies of scale in production concentrated in home country • Better control over distribution	• High transportation costs for bulky products • Marketing distance from customers • Trade barriers and protectionism
	Indirect exports (Commodities trade in textiles and meats)	• Concentration of resources on production • No need to directly handle export processes	• Less control over distribution (relative to direct exports) • Inability to learn how to operate overseas
2. Nonequity modes: Contractual agreements	Licensing/franchising (Burger King and Hungry Jack's in Australia)	• Low development costs • Low risk in overseas expansion	• Little control over technology and marketing • May create competitors • Inability to engage in global coordination
	Turnkey projects (Safi Energy in Morocco)	• Ability to earn returns from process technology in countries where FDI is restricted	• May create competitors • Lack of long-term presence
	R&D contracts (wind turbines research in Denmark)	• Ability to tap into the best locations for certain innovations at low costs	• Difficult to negotiate and enforce contracts • May nurture innovative competitors • May lose core innovation capabilities
	Co-marketing (McDonald's deals with toymakers and movie studios; airline alliances)	• Ability to reach more customers	• Limited coordination
3. Equity modes: Partially owned subsidiaries	Joint ventures (Shanghai Volkswagen)	• Sharing costs, risks, and profits • Access to partners' knowledge and assets • Politically acceptable	• Divergent goals and interests of partners • Limited equity and operational control • Difficult to coordinate globally
4. Equity modes: Wholly owned subsidiaries	Greenfield operations (Amazon.in; Japanese automobile plants in the United States)	• Complete equity and operational control • Protection of know-how • Ability to coordinate globally	• Potential political problems and risks • High development costs • Add new capacity to industry • Slow entry speed (relative to acquisitions)
	Acquisitions (Pearl River's acquisition of Ritmüller)	• Same as greenfield (above) • Do not add new capacity • Fast entry speed	• Same as greenfield (above), except adding new capacity and slow speed • Postacquisition integration problems

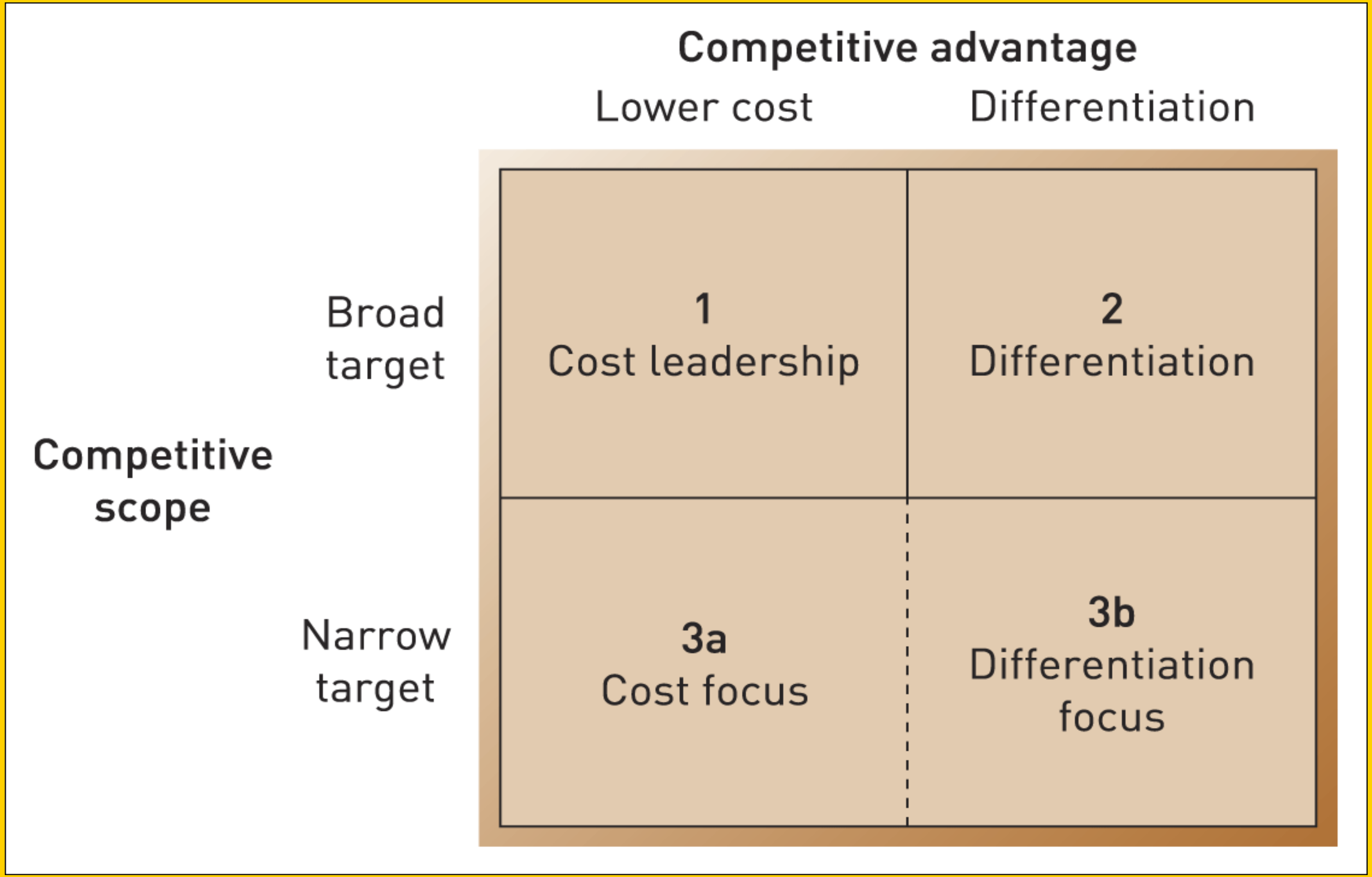
Strategic choices (options)

- Strategic directions (development, penetration, diversification)?
- Internationalisation/globalisation?

Generic strategies

- **Porter** introduced the term ***'Generic Strategy'*** to mean basic types of competitive strategy that hold across many kinds of business situations.
- ***Competitive strategy*** is concerned with how a strategic business unit achieves competitive advantage in its domain of activity.
- ***Competitive advantage*** is about how an SBU creates value for its users both greater than the costs of supplying them and superior to that of rival SBUs.

Three generic strategies



Source: Adapted with the permission of The Free Press, a Division of Simon & Schuster, Inc., from *Competitive Advantage: Creating and Sustaining Superior Performance*
by Michael E. Porter.

Cost-leadership

Cost-leadership strategy involves becoming the lowest-cost organisation in a domain of activity.

Four **key cost drivers** that can help deliver cost leadership:

- *Lower input costs.*
- *Economies of scale.*
- *Experience.*
- *Product process and design.*

- **Example:**

- **Ryanair** focuses on minimizing operational costs by using secondary airports, which have lower landing fees.

- They operate a single type of aircraft (Boeing 737), which reduces maintenance and training costs.

Differentiation strategies

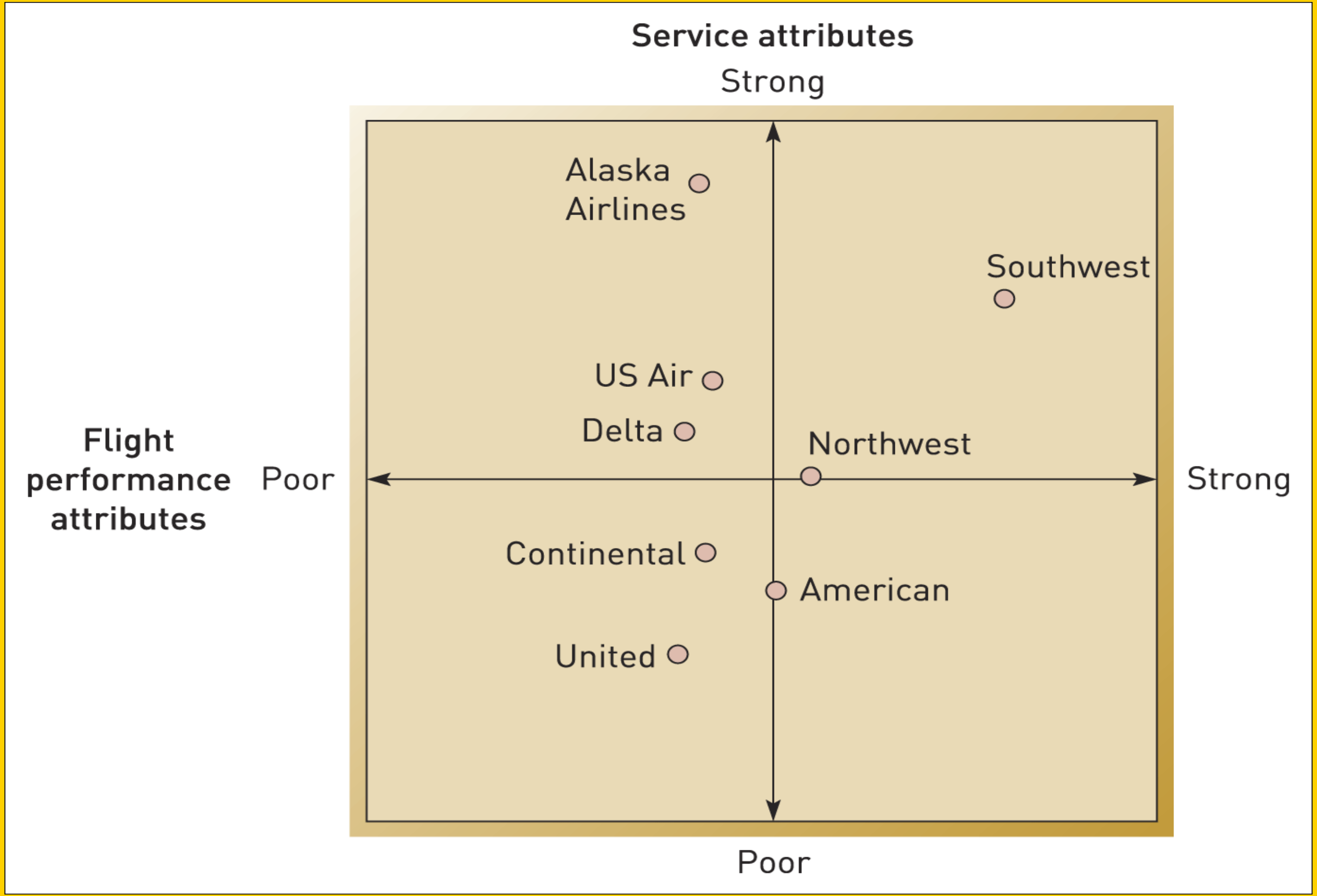
Differentiation involves uniqueness along some dimension that is sufficiently valued by customers to allow a price premium.

Two key issues:

- The *strategic customer* on whose needs the differentiation is based.
- *Key competitors* – who are the rivals and who may *become* a rival.

- **Example:**
- **Emirates**
- Premium Customer Experience: Emirates is known for its luxurious in-flight experience, including spacious seating, gourmet meals, and high-quality entertainment systems.
- Innovative Amenities: Features like private suites in First Class, on-board lounges, and showers on their A380 aircraft set them apart from competitors.

Differentiation in the US airline industry



Mapping differentiation in the US airline industry

Source: Simplified from Figure 1, in D. Gursoy, M. Chen and H. Kim (2005), 'The US airlines relative positioning', *Tourism Management*, 26, 5, 57–67: p. 62

Focus strategies

A focus strategy targets a narrow segment of domain of an activity and tailors its products or services to the needs of that specific segment to the exclusion of others.

Two types of focus strategy:

- *cost-focus strategy*
- *differentiation focus strategy*

- **Example:**
- **Virgin Atlantic**

- Target Market: Virgin Atlantic focuses on long-haul flights, particularly between the UK and destinations like the US, targeting business and premium leisure travelers.
- Unique Customer Experience: The airline differentiates itself with stylish branding, innovative amenities like in-flight bars, mood lighting, and high-quality in-flight entertainment. These features appeal to a specific segment that values a premium travel experience.

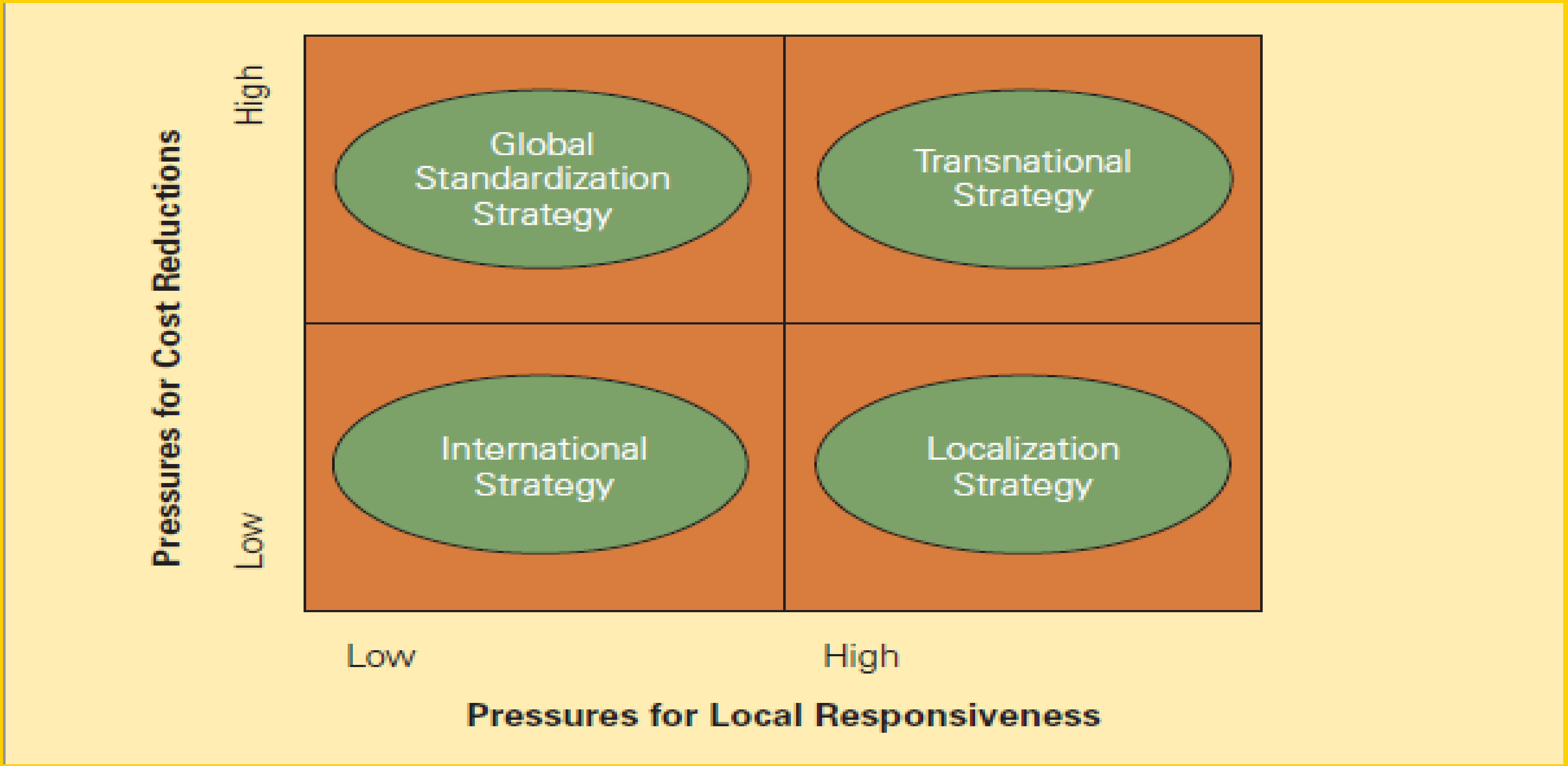
Summary- Three Generic Competitive Strategies

Strategy as Plan	Product Differentiation	Market Segmentation	Key Functional Areas
Cost leadership	Low (mainly by price)	Low (mass market)	Manufacturing, services, and logistics
Differentiation	High (mainly by uniqueness)	High (many market segments)	Research and development (R&D), marketing, and sales
Focus	Extremely high	Low (one or a few segments)	R&D, marketing, and sales

Strategic Options – Product/Service

- Global Standardisation
- Localisation
- International
- Transnational

Types of International Strategies



Organisational Focus

1. Cost reductions
   - Forces the firm to lower unit costs

2. Being locally responsive
   - Requires the firm to adapt its product to meet local demands in each market but, this strategy can raise costs

3. Being differentiable
   - By offering something unique – requires the the firm to be innovative and resourceful

Pressures for Cost Reductions

Pressures for cost reductions are greatest

1. In industries producing **commodity type products** that fill universal needs (needs that exist when the tastes and preferences of consumers in different nations are similar if not identical) where price is the main competitive weapon
2. When major **competitors operate on low-cost-high volume model**
3. Where there is **persistent excess capacity**
4. Where **consumers are powerful and face low switching costs**

Pressures for Local Responsiveness

1. **Differences in consumer tastes and preferences** (Source location and destination location)
   - When consumer tastes and preferences differ significantly between countries
2. **Differences in traditional practices and infrastructure**
   - When there are significant differences in infrastructure and/or traditional practices between countries
3. **Differences in PESTEL factors**
   - Any difference in any or more of the elements may initiate the need for local responsiveness – Classic example : (Car steering on the right-hand side in UK – Legal/Regulatory element)

Strategic Options 1- Global standardization

- Increase profitability and profit growth by cost reductions
- Depends on economy of scale
- Aims to pursue a low-cost strategy on a global scale

- This strategy works when there are strong pressures for cost reductions and demands for local responsiveness are minimal

Examples of Global Standardization

- **Microsoft**, for example, offers the same software programs around the world but adjusts the programs to match local languages.
- **Procter & Gamble** attempts to gain efficiency by creating global brands whenever possible. Global strategies also can be very effective for firms whose product or service is largely hidden from the customer's view, such as silicon chip maker **Intel.**
- **Lenovo** also uses this strategy. For such firms, variance in local preferences is not very important, but pricing is.

Strategic Options 2- Localization

- Increase profitability by **customizing products/services** in response to the expectation/demand of different local markets
- This strategy works when there are substantial **differences across nations/markets** as regards to consumer preferences / choices / expectations and yet
- Cost focus is not a primary requirement.

- **Netflix** customizes the programming that is shown on its channels within dozens of countries, including New Zealand, Portugal, Pakistan, and India.
- Case:
- Netflix bets big on Asia as it sees 'significant potential' in these markets

Example of Localization

- **Heinz** adapts its products to match local preferences.
- India market- will not eat garlic and onion
- Heinz offers a version of its signature ketchup that does not include these two ingredients.

Strategic Options 3- International

- Take products first produced for the domestic market and sell them internationally with only minimal local customization
- This strategy works when there are not much requirement for cost focus and local responsiveness.
- Generally true for globally recognized brands
- However some localisation may still be required based on the legal/infrastructural requirement of the country (remember PESTEL) – Example : Changing the charging plug according to the country for an electronic item

Examples of International

- **Belgium chocolate exporters** do not lower their price when exporting to the American market to compete with Hershey's, nor do they adapt their product to American tastes.
- **Starbucks** and **Rolex** watches are other examples of firms pursuing the international strategy.

Strategic Options 4- Transnational

- A blend of low costs through location economies, economies of scale, and learning effects
    - Differentiation of products across geographic markets
    - Response to local variations
    - Adopts to multidirectional flow of skills between different locations in the firm's global network
- This strategy works when both cost pressures and pressures for local responsiveness are intense

Transnational Examples

- Large fast-food chains such as McDonald's and Kentucky Fried Chicken (KFC) rely on the same brand names and the same core menu items around the world.
- These firms make **some concessions to local tastes** too.
- In **France**, for example, wine can be purchased at McDonald's. This approach makes sense for McDonald's because wine is a central element of French diets.
- In **Saudi Arabia**, McDonalds serves a McArabia Chicken sandwich, and its breakfast menu features no pork products like ham, bacon, or sausage.

Strategic Decision – While entering a market

- **Brownfield Investment**- Acquisition of existing firm.
- **Greenfield Investment-** Setting up entirely new facilities.
- **Foreign direct investment (FDI)**- shift of money capital but using local resources in host country & investor takes a controlling interest in foreign company.

FDI – A large scale operation for MNCs

Foreign direct investment (FDI):

- Greater market access.
- Search for lower production costs- offshoring for lower labour costs e.g. software industry in India.
- Quest for natural resources & other assets e.g. Shell, Exxon.
- Competition from developing country MNCs – Tata taking over European Steel firm- Corus.