Global Business Environment and International Strategy MOD007191

Lecture 6

Internationalization Strategy

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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)

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?

Process of entering (foreign) markets – Action road map

OBJECTIVES

↓

STRATEGY

↓

Overlaying Tactic: Choice of Countries

Choosing new locations

- Scan for alternatives
- Choose and weight variables
- Collect and analyze data for variables
- Use tools to compare variables and narrow alternatives

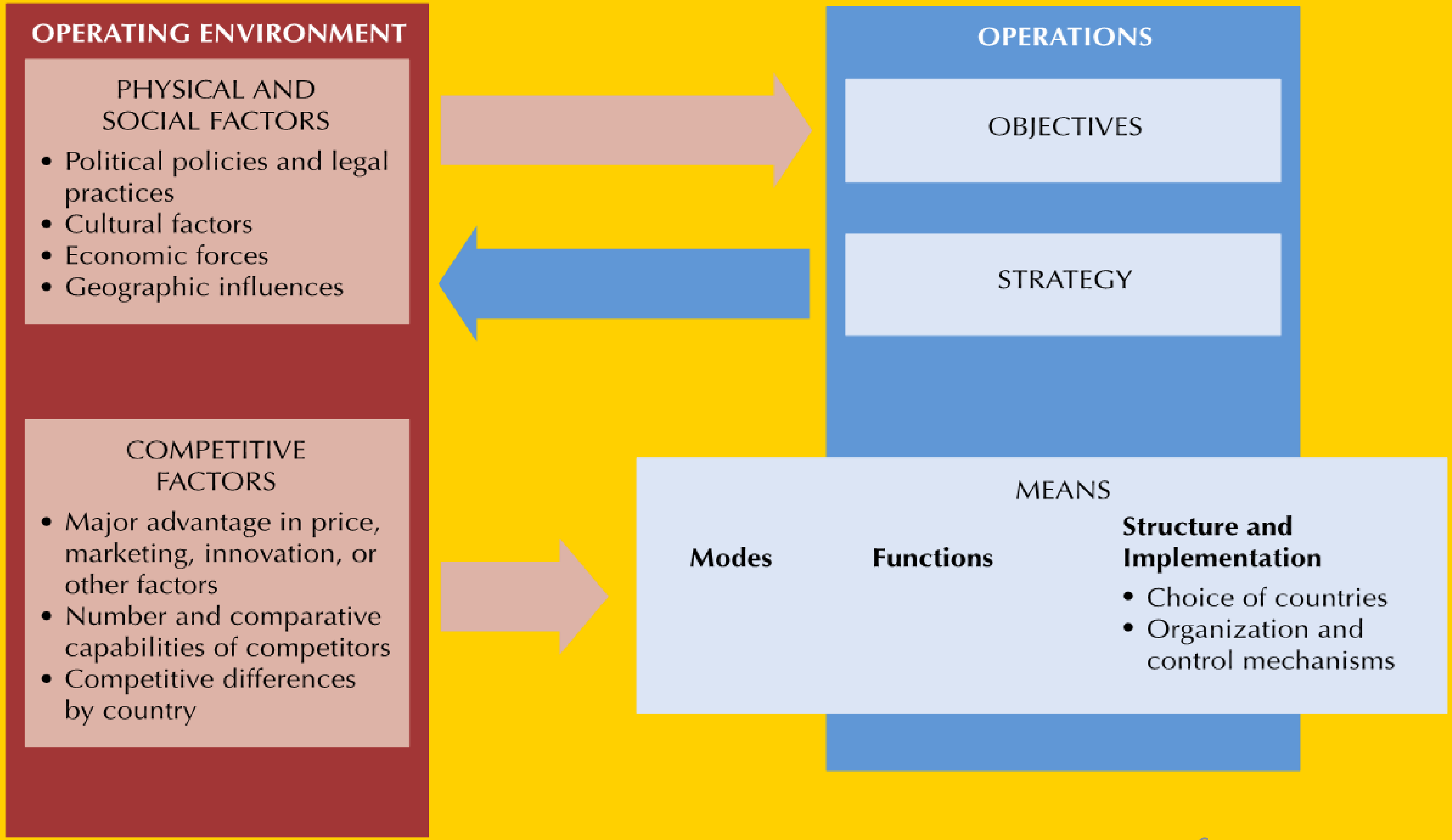
Allocating among locations

- Analyze effects of reinvestment versus harvesting in existing operating locations
- Appraise interdependence of locations on performance
- Examine needs for diversification versus concentration of foreign operations

Making final decisions

- Conduct detailed feasibility study for new locations
- Estimate expected outcome for reinvestments
- Make location and allocation decisions based on company's financial decision-making tools

Process of entering (foreign) markets - Planning



Why Amazon's Marketplace Failed In China

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

Where to Enter?
Location-Specific Advantages

- **Location-Specific Advantages**
  - Geographical advantages
  - Agglomeration: Clustering of economic activities
- **Cultural/Institutional Distances and Foreign Entry Locations**
  - Cultural distance – the difference between two cultures
  - Institutional distance – comparing the **regulatory**, **normative**, and **cognitive** institutions
- **Strategic Goals** – Seeking natural resources, markets, efficiency and innovation near potential locations

Matching Strategic Goals with Location

Strategic Goals	Location-Specific Advantages	Examples in the Text
Natural resource seeking	Possession of natural resources and related transport and communication infrastructure	Oil in the Middle East, Russia, Argentina, and Venezuela
Market seeking	Abundance of strong market demand and customers willing to pay	Automakers and business jet producers enter China
Efficiency seeking	Economies of scale and abundance of low-cost factors	US and Canadian firms in Mexico; Western European firms in Eastern Europe, Morocco, and Turkey
Capability seeking	Abundance of world-class capabilities	Silicon Valley and Bangalore (IT); Dallas (telecom); Denmark (wind turbines); Britain and Sweden (high-end car making)

Peng (2022, p.173) Chp 6

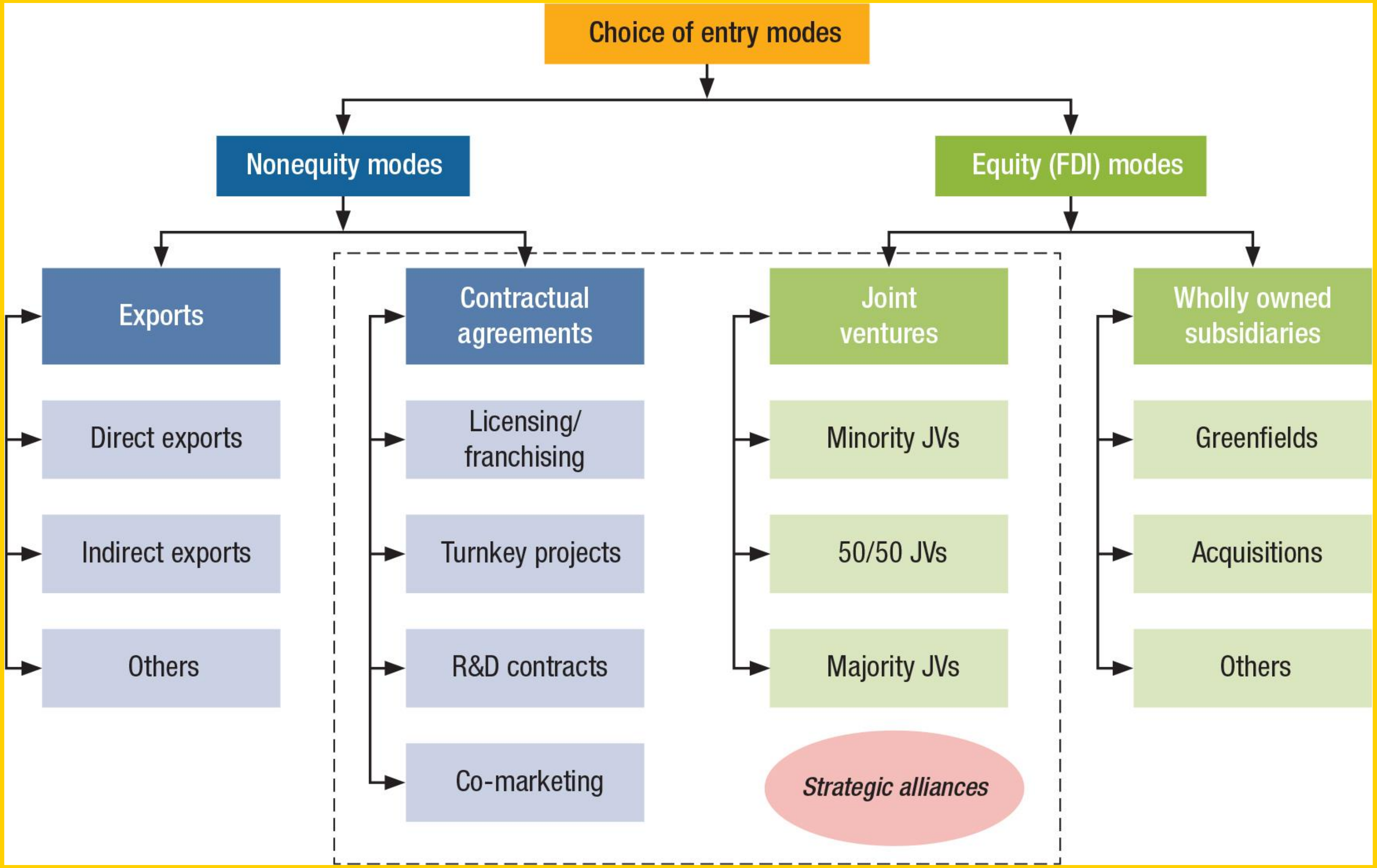
When to Enter?

- **First mover advantages**
  - Developing proprietary, technological leadership
  - Preempting scarce assets
  - Establishing entry barriers
  - Becomes the dominant firm
  - Opportunity for relationships with key stakeholders
- **Late mover advantages**
  - Benefit from first mover investments
  - Learn from first mover experience in market uncertainties
  - Leapfrogging first mover inflexibility of fixed assets

Examples of First vs Late Mover

First-Mover Advantages	Examples in the Text	Late-Mover Advantages	Examples in the Text
Proprietary, technological leadership	Apple's iPhone	Opportunity to free ride on first mover investments	Amazon free rides on Flipkart's investment in educating customers in India
Preemption of scarce resources	Japanese MNEs in Southeast Asia	Resolution of technological and market uncertainties	Tesla as well as BMW, GM, and Toyota wait until the Nissan Leaf resolves technical uncertainties
Establishment of entry barriers for late entrants	Poland's F-16 fighter contract	First mover's difficulty to adapt to market changes	Greyhound is stuck with the bus depots, whereas Megabus simply uses curbside stops
Avoidance of clash with dominant firms at home	Sony, Honda, and Epson went to the US market ahead of their dominant Japanese rivals		
Relationships with key stakeholders such as governments	Citigroup, JP Morgan Chase, and Metallurgical Corporation of China entered Afghanistan		

How to Enter- Entry Modes



Strategic Options - Operations

Low Risk

Indirect merchandise (retailers)

Medium Risk

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

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

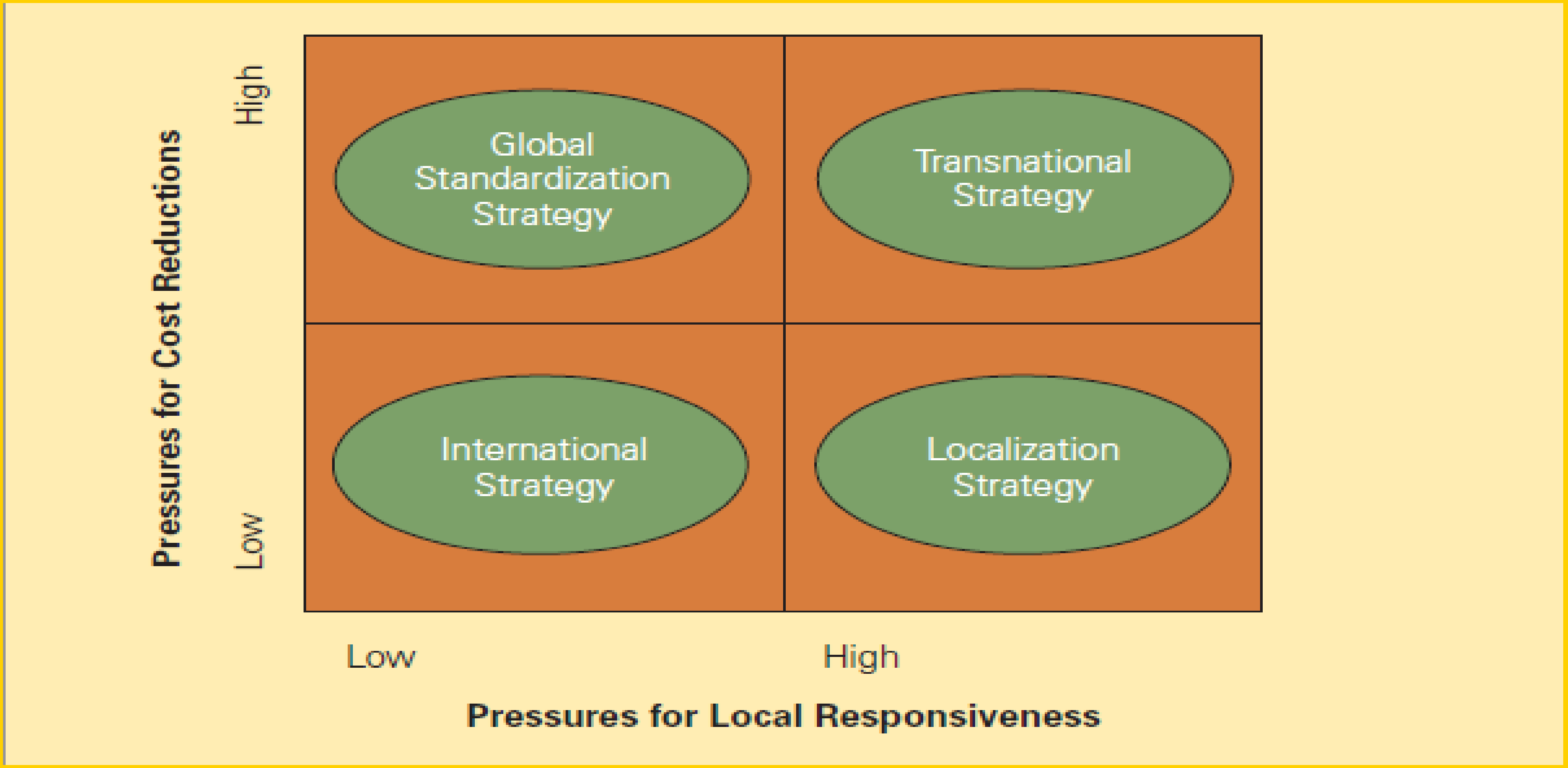
Strategic choices (options)

- Strategic directions (development, penetration, diversification)?
- Internationalisation/globalisation?
- Evolution and Innovation?
- Mergers, acquisitions and alliances?

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)

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 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.