The value-chain configuration dilemma

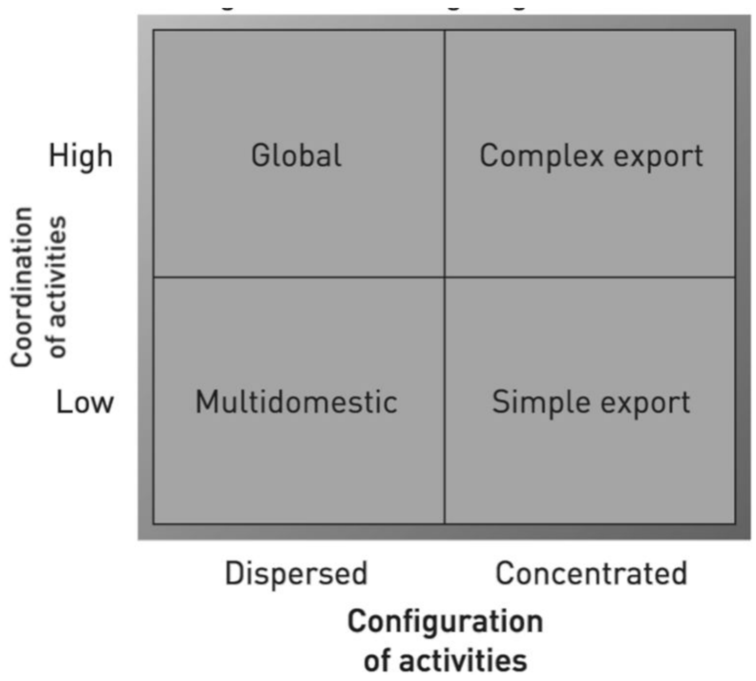
The value-chain configuration dilemma questions the extent to which relates to the extent to which the configuration of activities should be concentrated or dispersed across national boundaries. Four international strategies can be derived from the answer to this dilemma: the simple export strategy, the multi-domestic strategy, the complex export strategy and the global strategy.

The value-chain configuration dilemma: centralization vs. dispersion of activities

The value-chain configuration dilemma questions the extent to which activities may be concentrated or dispersed across national boundaries to leverage location advantages, against the need to coordinate interdependent activities.

To solve this dilemma, organizations need to assess to what degree there are potential location advantages of concentrating activities in a given location or dispersing them, and balance those pressures against the need to coordinate activities. Four international strategies can be derived from this dilemma:

- Simple export: This strategy involves a concentration of activity (in particular manufacturing) in one country. It is typically chosen by companies with a strong locational advantage (Porter's Diamond) and is often a first step to go international.
- Complex export: This strategy still involves the location of core activities in a single country, but built on more coordinated marketing and sales as well as supply chain management. It is the classical strategy for companies from emerging markets.
- Multi-domestic strategy: Strategy and operating decisions are decentralized to strategic business units (SBU) in each country. Products and services are tailored to local markets and business units in each country are independent.
- Global strategy: This strategy builds on centralized decision making for the coordination of a fragmented value-chain globally. The objective is to leverage different location advantages globally while keeping a strong interdependency between business units.



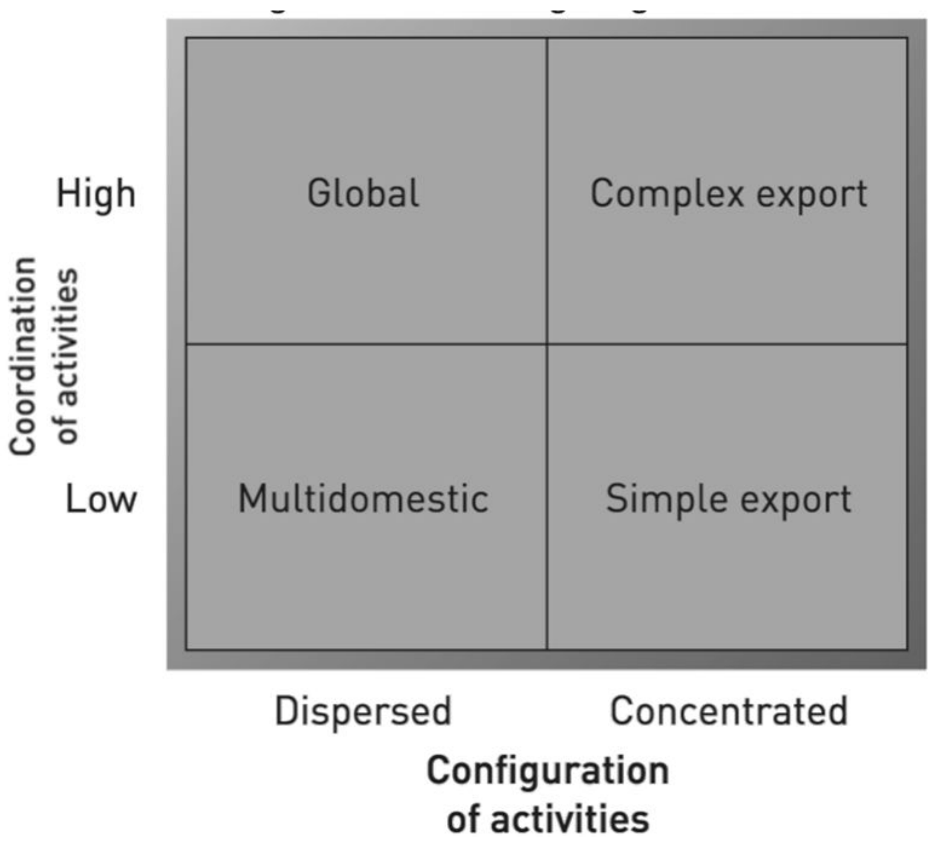
Source: Pearson. Adapted 'Changing patterns of international competition', pp. 9–39, Figure 5 (Porter, M. 1987).

The value-chain configuration dilemma: examples

Examples of the four international strategies according to the value-chain configuration dilemma. This illustrates how organizations assess the extent to which activities may be concentrated or dispersed across national boundaries to leverage location advantages, against the need to coordinate interdependent activities.

Apple's fragmented value-chain with high degree of central coordination

McDonald's adapted menus to each country



Huawei optimizing location advantage in China while adapting to the requirements of internationalization (market adaptation, sales coordination…)

French wine companies concentrating their activities in the production location to leverage location advantage.

Source: Pearson. Adapted 'Changing patterns of international competition', pp. 9–39, Figure 5 (Porter, M. 1987).

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