

Strategy of International Business

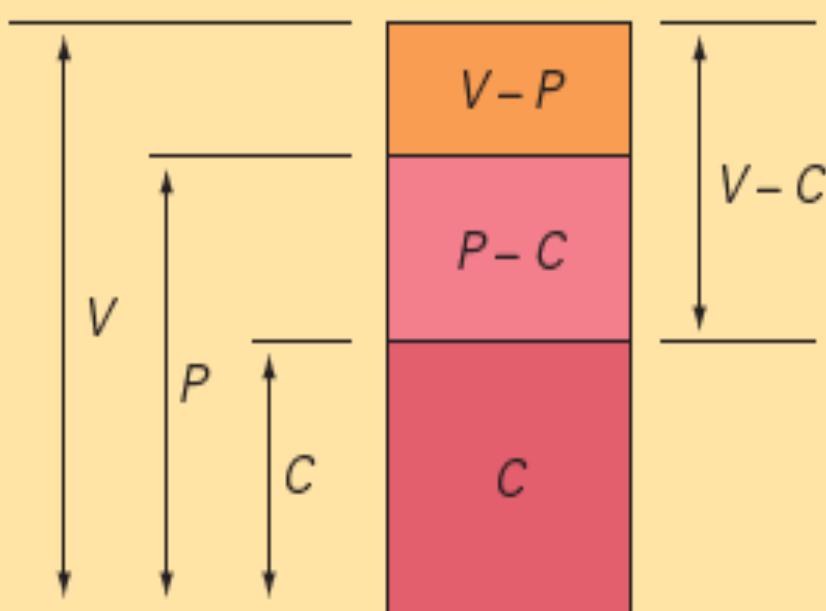
Chapter 8 in book = Chapter 13 on Connect

Strategy

- A firm's **strategy** refers to the actions that managers take to attain the goals of the firm
- Firms need to pursue strategies that increase profitability and profit growth
 - **Profitability** is the rate of return the firm makes on its invested capital
 - **Profit growth** is the percentage increase in net profits over time

Strategy – Example Methods for creating growth and firm profit

- To increase profitability and profit growth, firms can
 - add value
 - lower costs
 - sell more in existing markets
 - expand internationally



V = value of product to an average consumer

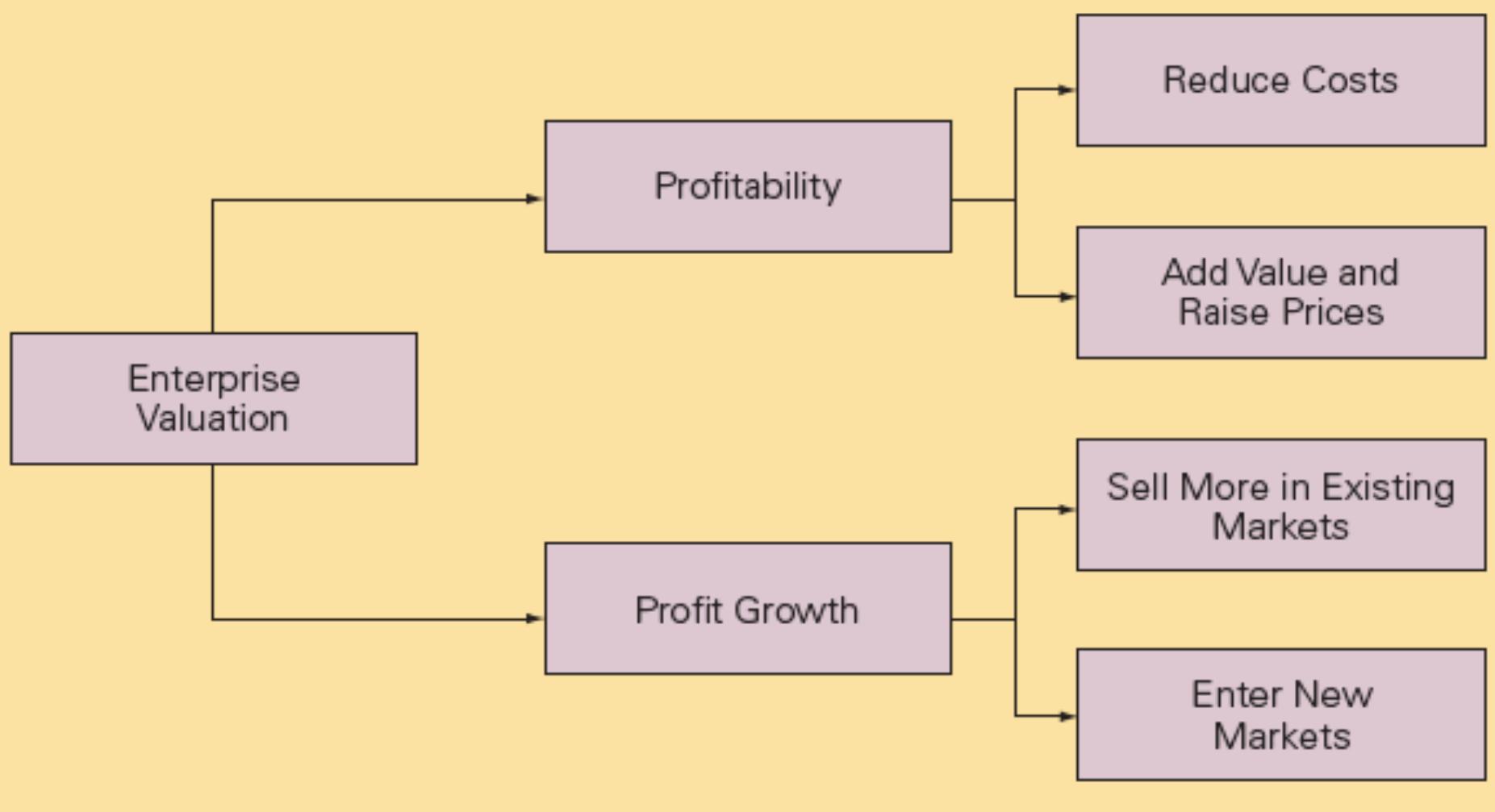
P = price per unit

C = cost of production per unit

$V - P$ = consumer surplus per unit

$P - C$ = profit per unit sold

$V - C$ = value created per unit

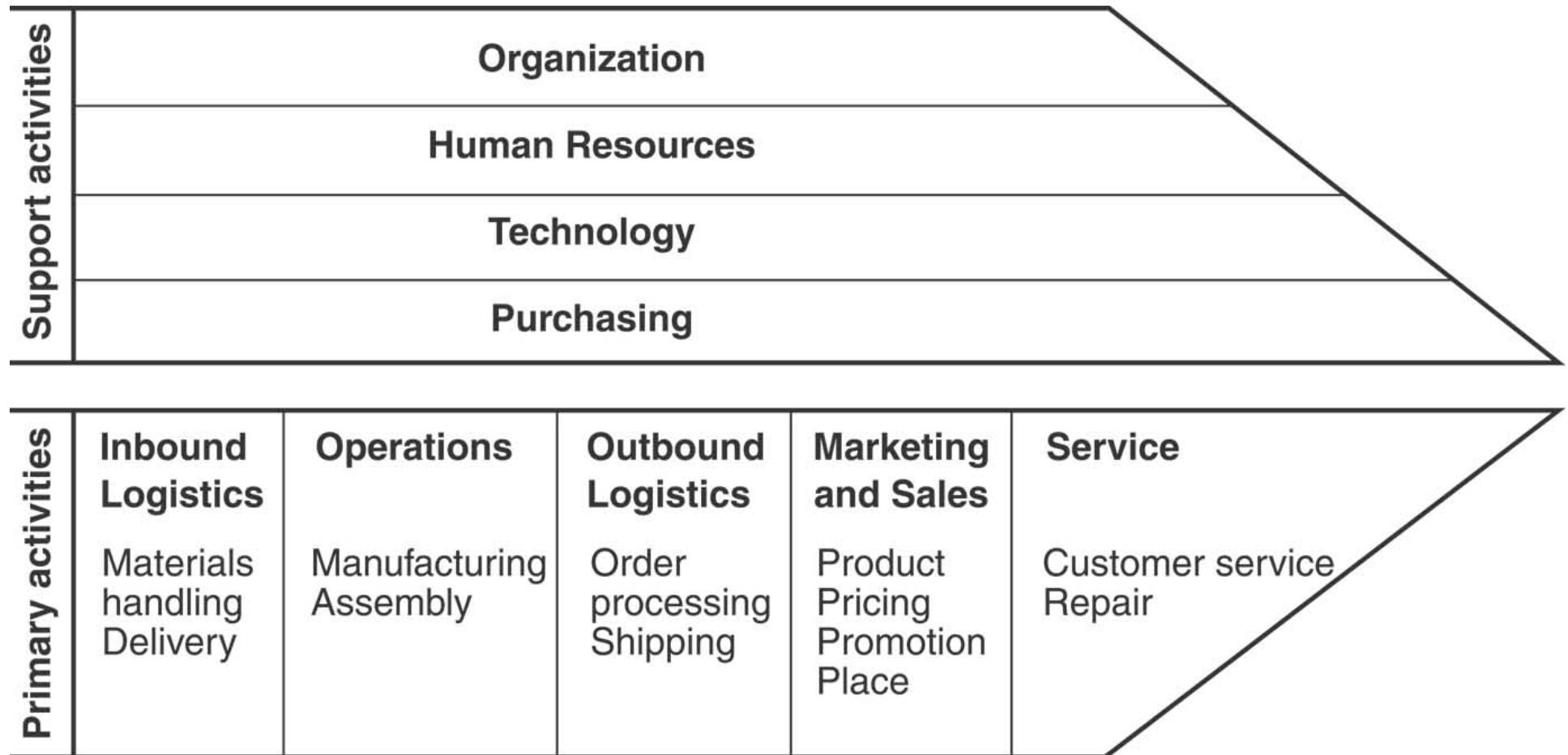


Strategic Positioning

- Firms have a need to differentiate
- You can do that from a operational perspective
 - Low cost
 - High quality
 - High Design
- And follow that up with brand positioning

Value Chain

- Value creation activities can be categorized as
 - 1. Primary activities
 - R&D
 - Production
 - marketing and sales
 - customer service
 - 2. Support activities
 - information systems
 - logistics
 - human resources



International Expansion Strategy



Why Expansion

1. Expand markets – more opportunities to sell stuff
2. Economies of location – opportunities to operate more (cost) efficient in another location
3. Increase experience – learning organizations leverage knowledge across the whole organization...





- Firms that take advantage of location economies in different parts of the world, create a **global web** of value creation activities
- different stages of the value chain are dispersed to locations where perceived value is maximized or where the costs of value creation are minimized

Competencies

- Core competencies - skills within the firm that competitors **cannot** easily match or imitate
 - **can exist in any value creation activity**

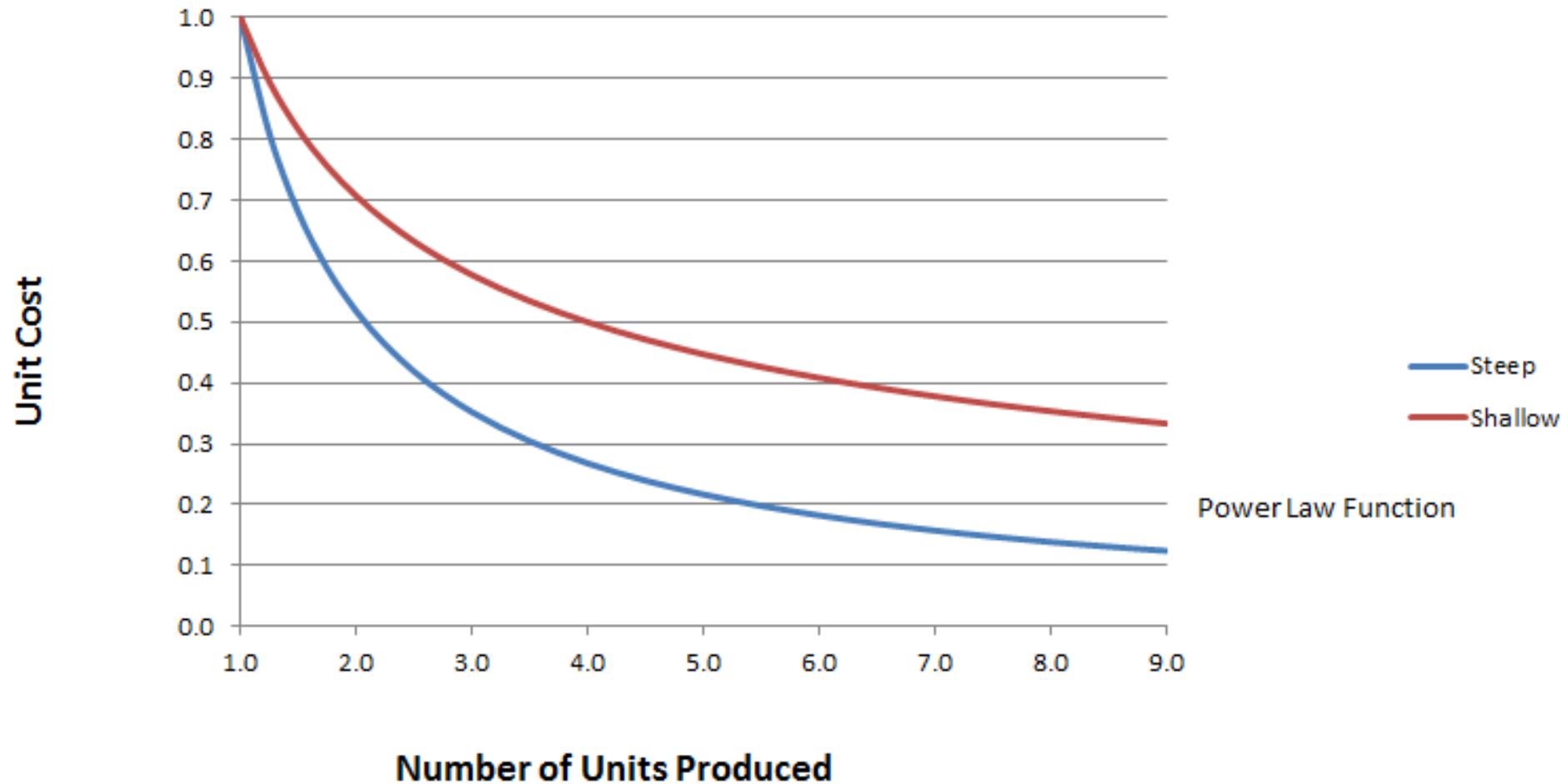
Competencies

- Core competencies - skills within the firm that competitors **cannot** easily match or imitate
 - **can exist in any value creation activity**
- Core competencies allow firms to reduce the costs of value creation and/or to create perceived value so that premium pricing is possible

Experience Curve

- The **experience curve** refers to the systematic reductions in production costs that occur over the life of a product
 - by moving down the experience curve, firms reduce the cost of creating value
 - to get down the experience curve quickly, firms can use a single plant to serve global markets

Experience Curve



Learning Effects

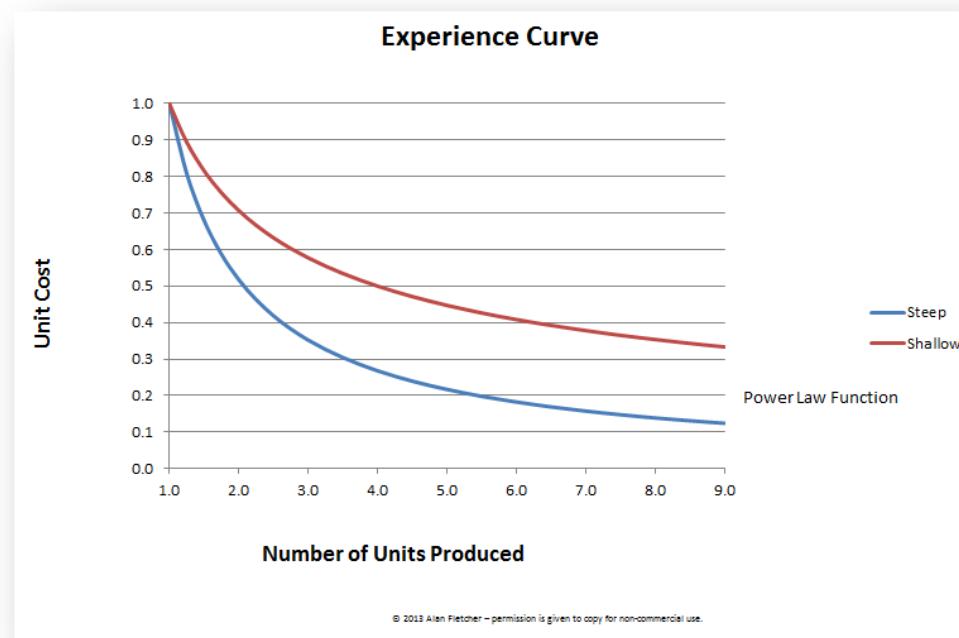
- Learning effects are cost savings that come from learning by doing
- When labor productivity increases
 - individuals learn the most efficient ways to perform particular tasks
 - managers learn how to manage the new operation more efficiently

Learning Effects

- Labor Productivity
- Management Efficiency

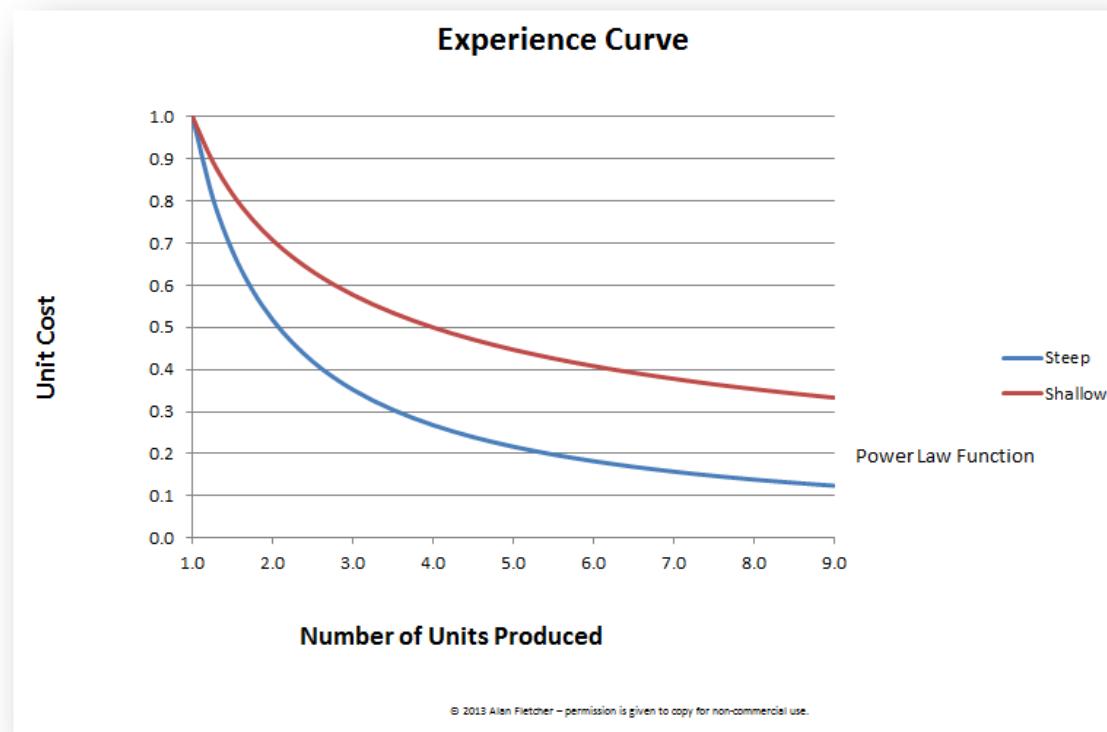
Learning Effects

- Labor Productivity
- Management Efficiency
- The Learning Curve is the result of these two factors...



Economies of Scale

- Internal (operations)
- External (suppliers & customers)



Global Competitive Pressures

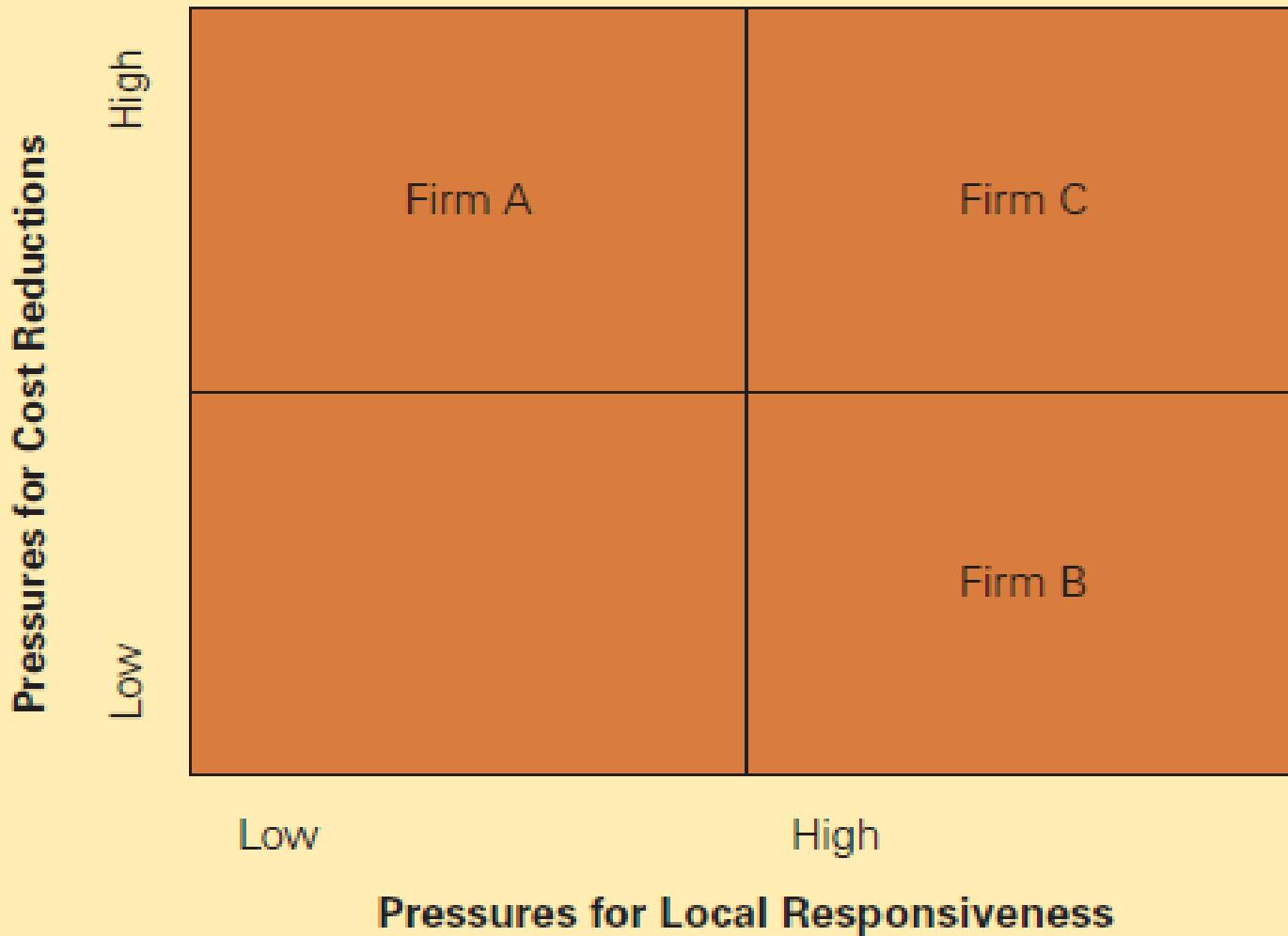
- Firms that compete in the global marketplace face two conflicting types of competitive pressures
 - the pressures limit the ability of firms to realize location economies and experience effects, leverage products, and transfer skills within the firm
- Dealing with both pressures is challenging

Dillema

- Two competitive pressures:
 1. Pressures for cost reductions
 - force the firm to lower unit costs
 2. Pressures to be locally responsive
 - require the firm to adapt its product to meet local demands in each market
 - but, this strategy can raise costs



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Cost Reduction Pressures

- 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 are based in low cost locations
 3. Where there is persistent excess capacity
 4. Where consumers are powerful and face low switching costs

Cost Reduction Pressures

- Pressures for local responsiveness arise from
 1. Differences in consumer tastes and preferences
 - strong pressure emerges when consumer tastes and preferences differ significantly between countries
 2. Differences in traditional practices and infrastructure
 - strong pressure emerges when there are significant differences in infrastructure and/or traditional practices between countries

Cost Reduction Pressures

3. Differences in distribution channels

- need to be responsive to differences in distribution channels between countries

4. Host government demands

- economic and political demands imposed by host country governments may require local responsiveness

4 Basic Strategies

4 Basic Strategies

1. **Global standardization** - increase profitability and profit growth by reaping the cost reductions from economies of scale, learning effects, and location economies
 - goal is to pursue a low-cost strategy on a global scale
- This strategy makes sense when
 - there are strong pressures for cost reductions and demands for local responsiveness are minimal

4 Basic Strategies

2. **Localization** - increase profitability by customizing goods or services so that they match tastes and preferences in different national markets
 - This strategy makes sense when
 - there are substantial differences across nations with regard to consumer tastes and preferences and cost pressures are not too intense

4 Basic Strategies

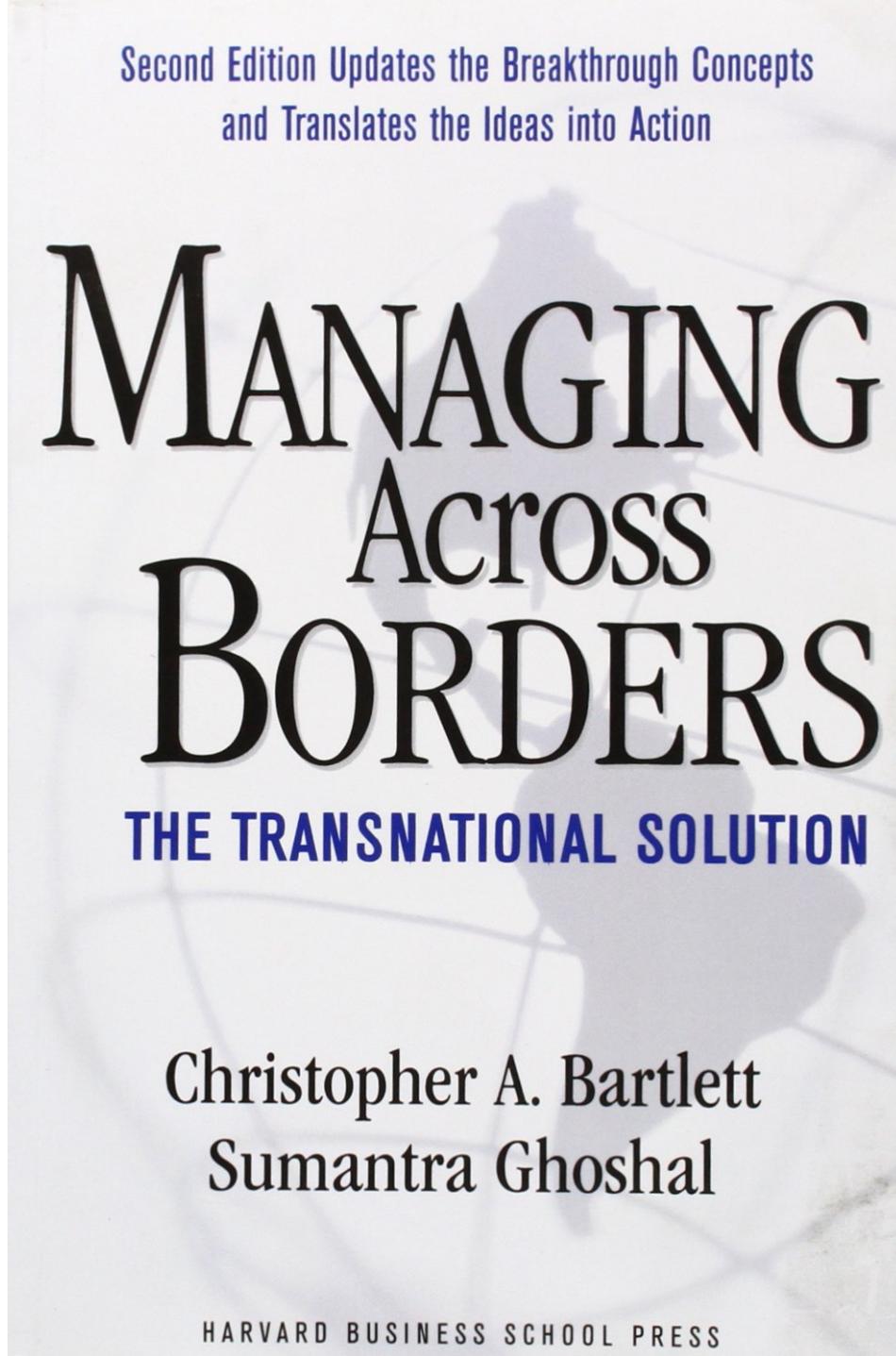
3. **Transnational** - tries to simultaneously achieve low costs through location economies, economies of scale, and learning effects
 - firms differentiate their product across geographic markets to account for local differences and foster a multidirectional flow of skills between different subsidiaries in the firm's global network of operations
 - This strategy makes sense when
 - both cost pressures and pressures for local responsiveness are intense

4 Basic Strategies

4. International – take products first produced for the domestic market and sell them internationally with only minimal local customization
 - This strategy makes sense when
 - there are low cost pressures and low pressures for local responsiveness



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Second Edition Updates the Breakthrough Concepts
and Translates the Ideas into Action

MANAGING Across BORDERS

THE TRANSNATIONAL SOLUTION

Christopher A. Bartlett
Sumantra Ghoshal

HARVARD BUSINESS SCHOOL PRESS

Table 4.1 Four approaches to being international

Organisational Characteristics	Multinational	Global	International	Transnational
Configuration of assets and capabilities	Decentralised and nationally self-sufficient	Centralised and scaled globally	Sources of core abilities centralised; others decentralised	Dispersed, interdependent, and specialised
Role of overseas operations	Sensing and exploiting local opportunities	Implementing parent-company's strategies	Adapting and exploiting parent-company's abilities	Differentiated contributions by national units to integrated worldwide operations
Development and diffusion of knowledge	Knowledge developed and retained within each unit	Knowledge developed and retained at centre <i>U7P78</i>	Knowledge developed at centre and transferred to overseas units	Knowledge developed jointly and shared worldwide

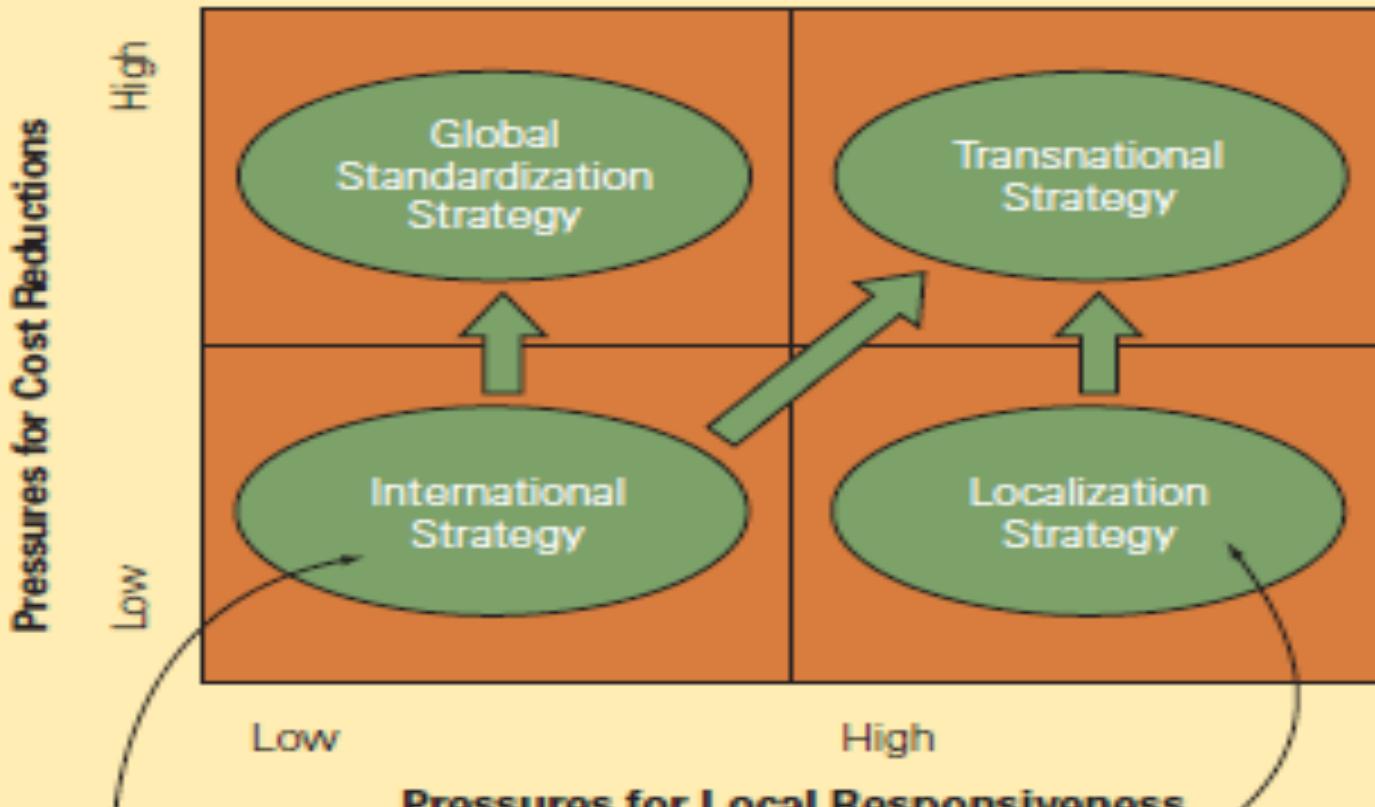
Source: Bartlett and Ghoshal (1989)

Table 4.2 Ghoshal's 'organising framework'

Sources of competitive advantage			
Strategic objectives	National differences	Scale economies	Scope economies
Achieving efficiency in current operations	Benefiting from differences in factor costs (e.g. wages and cost of capital)	Expanding and exploiting potential scale economies in each activity	Sharing of investments and costs across products, markets and businesses
Managing risks	Managing different kinds of risk arising from market or policy-induced changes in comparative advantages of different countries	Balancing scale with strategic and operational flexibility	Portfolio diversification of risks and creation of options and side-bets
Innovation, learning and adaptation	Learning from societal differences in organisational and managerial processes and systems	Benefiting from experience (cost reduction and innovation)	Shared learning across organisational components in different products, markets or businesses

International Strategy Options





As competitors emerge,
these strategies become
less viable