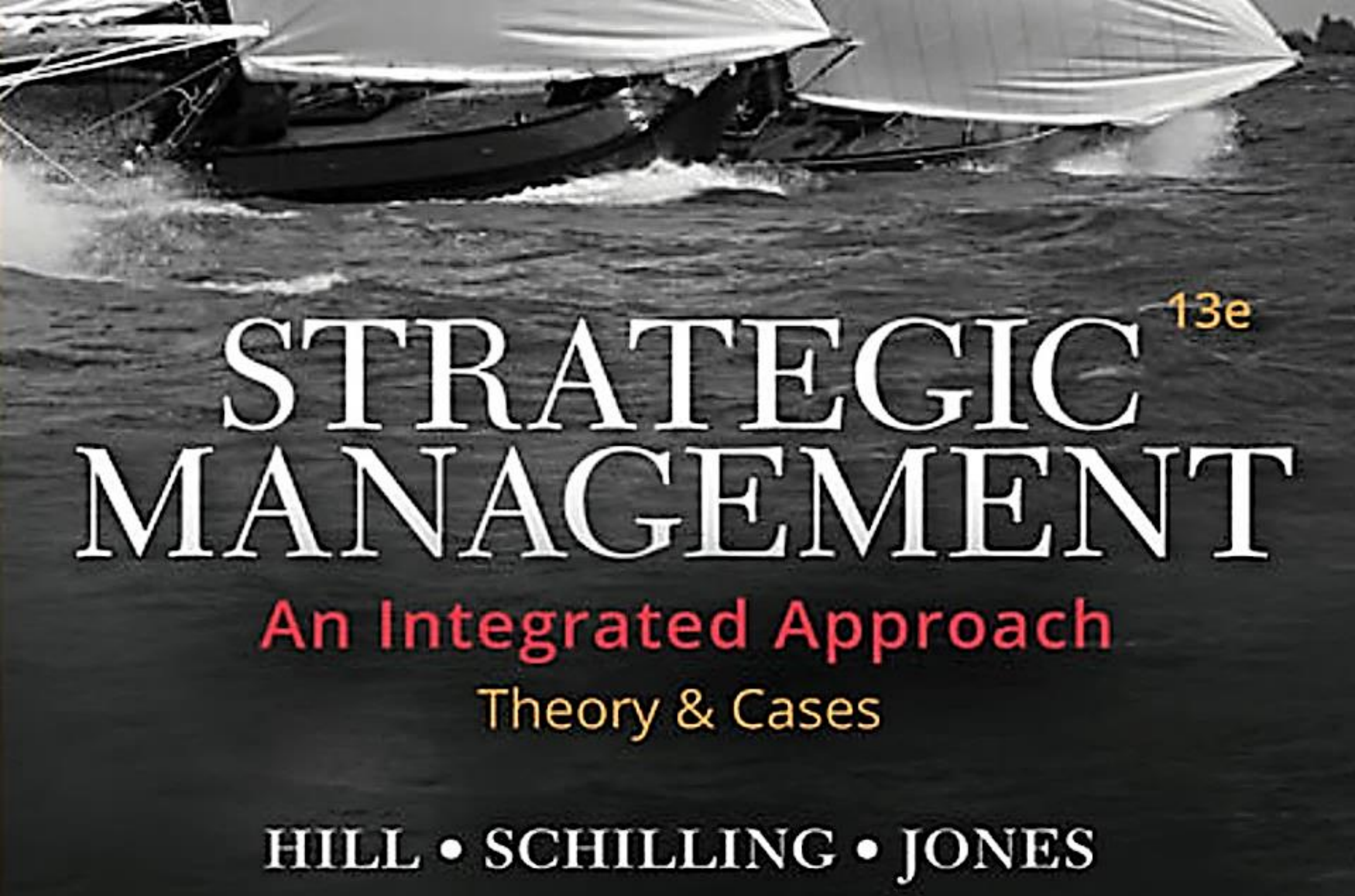
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CHAPTER 8
Strategy in the Global Environment

LEARNING OBJECTIVES

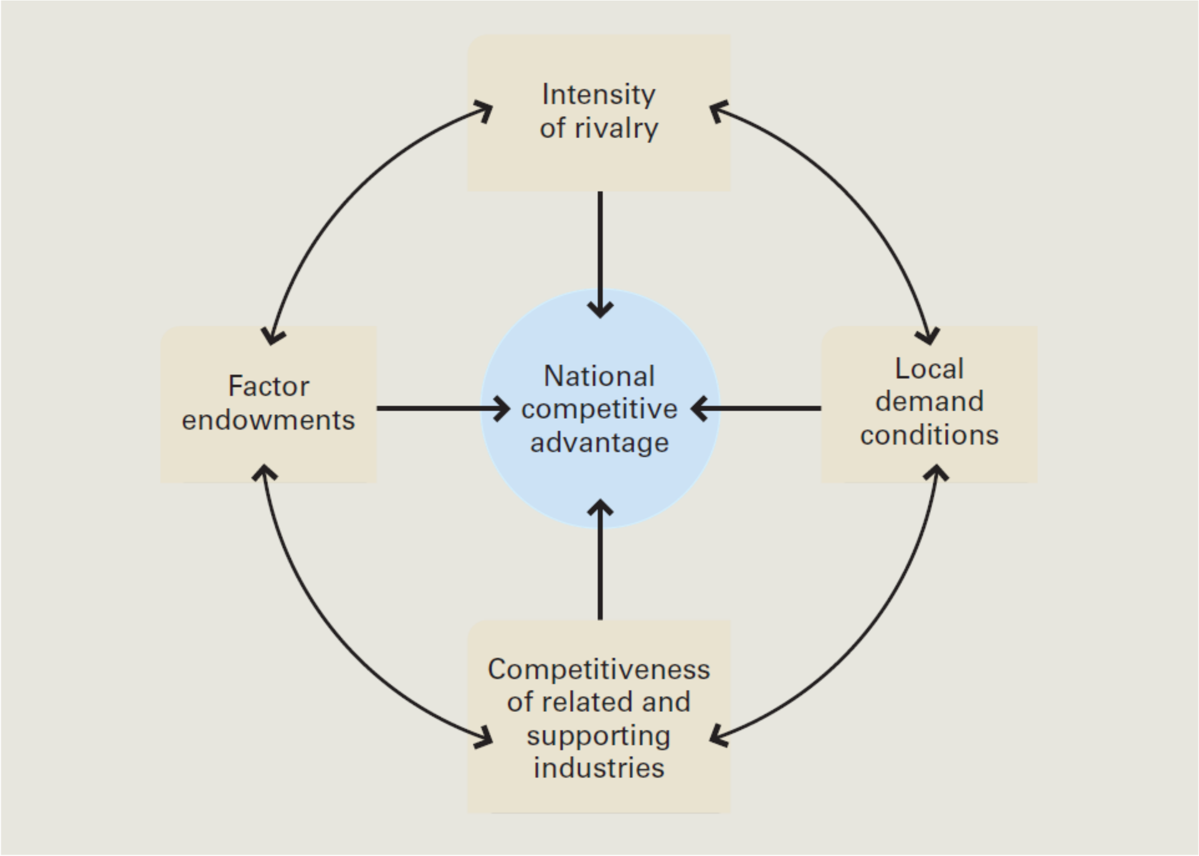
- Understand the process of globalization and how it impacts a company's strategy
- Discuss the motives for expanding internationally
- Review the different strategies that companies use to compete in the global marketplace
- Explain the pros and cons of different modes for entering foreign markets

GLOBALIZATION OF PRODUCTION AND MARKETS

- Globalization of production and markets
  - Increased as companies took advantage of lower barriers to international trade and investment
  - National markets started merging into one global marketplace
- Implications
  - Companies finding home markets inundated by foreign competitors
  - Critical to maximize efficiency, quality, customer responsiveness, and innovative ability
  - Opportunities abound in international markets

NATIONAL COMPETITIVE ADVANTAGES

Figure 8.1 National Competitive Advantages



Source: Adapted from M. E. Porter, "The Competitive Advantage of Nations," *Harvard Business Review*, March–April 1990, p. 77.

ATTRIBUTES THAT DETERMINE THE NATIONAL COMPETITIVE ADVANTAGE IN A GLOBAL MARKET

Factor endowments

- Nation’s position in factors of production necessary to compete in an industry.

Local demand conditions

- Nature of home demand for the industry’s product or service.

Related and supporting industries

- Presence or absence in the nation of supplier and related industries that are internationally competitive.

Firm strategy, structure, and rivalry

- Conditions in the nation governing:
  - How companies are created, organized, and managed.
  - Nature of domestic rivalry.

EXPANDING THE MARKET: LEVERAGING PRODUCTS

- A company can sell goods, developed at home, internationally to increase its growth rate.
- **Multinational company** - One that does business in two or more national markets.
- Success depends on the distinctive competencies that underlie its production and marketing process.

REALIZING COST ECONOMIES FROM GLOBAL VOLUME

- A company can realize cost savings from economies of scale by:
  - spreading the fixed costs and setting up production facilities over its global sales volume.
  - serving a global market, a company utilizes its production facilities more intensively.
  - bargaining down the cost of key inputs with suppliers.
  - increasing its sales volume more rapidly.

LOCATION ECONOMIES

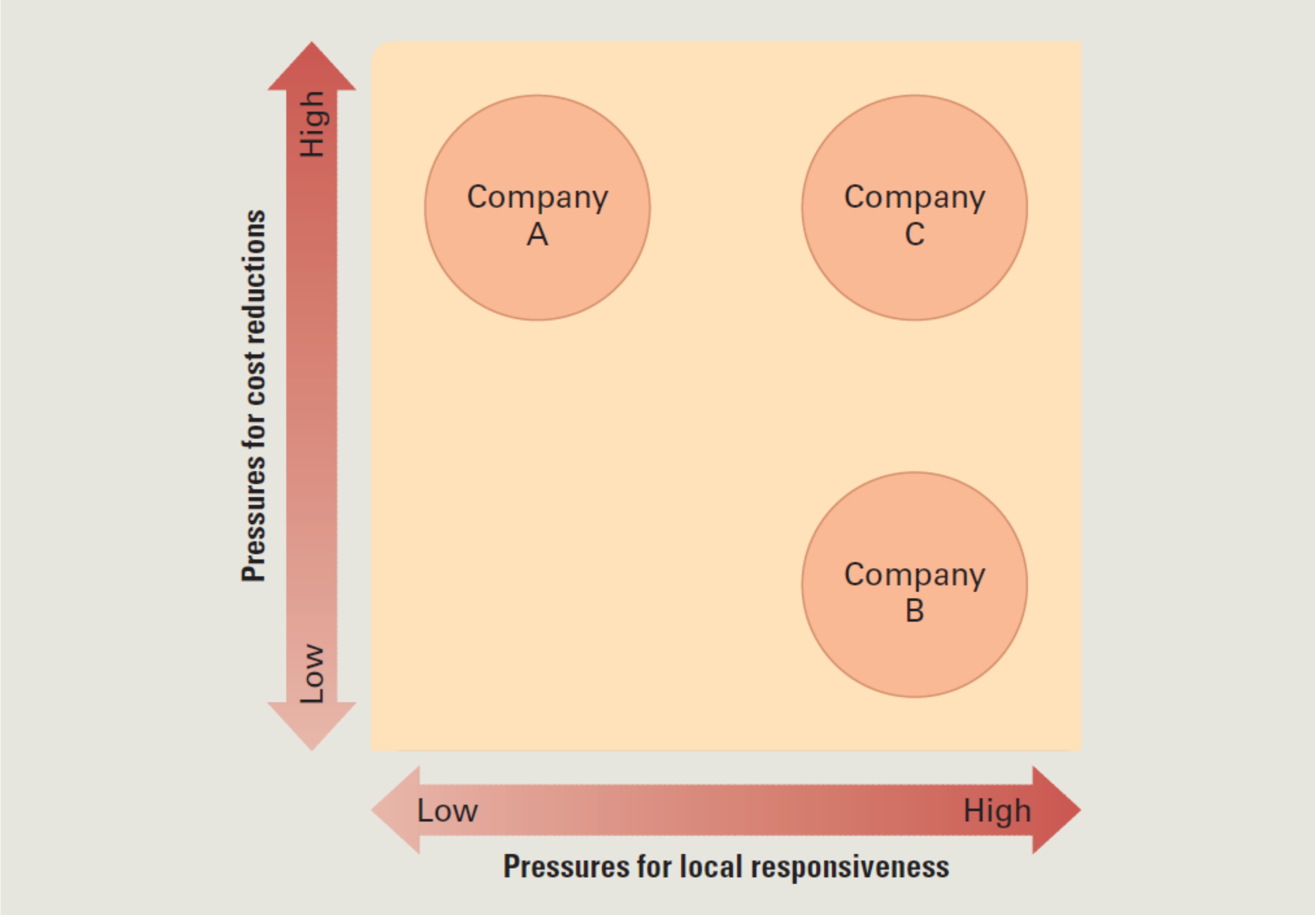
- **Location Economies** - Economic benefits that arise from performing a value creation activity in an optimal location.
- Help a company:
  - achieve a low-cost position.
  - to differentiate its product offering.
  - to gain competitive advantage over rivals who base all their value creation activities at a single location.
- Transportation costs and trade barriers complicate the process of realizing location economies.

LEVERAGING THE COMPETENCIES OF GLOBAL SUBSIDIARIES

- Managers must:
  - realize that valuable skills can arise anywhere within a firm's global network.
  - establish an incentive system that encourages local employees to acquire new competencies.
  - have a process for identifying valuable new skills created in a subsidiary.
  - help transfer valuable skills within the firm.

COST PRESSURES AND PRESSURES FOR LOCAL RESPONSIVENESS

Figure 8.2 Pressures for Cost Reduction and Local Responsiveness



PRESSURES FOR COST REDUCTIONS

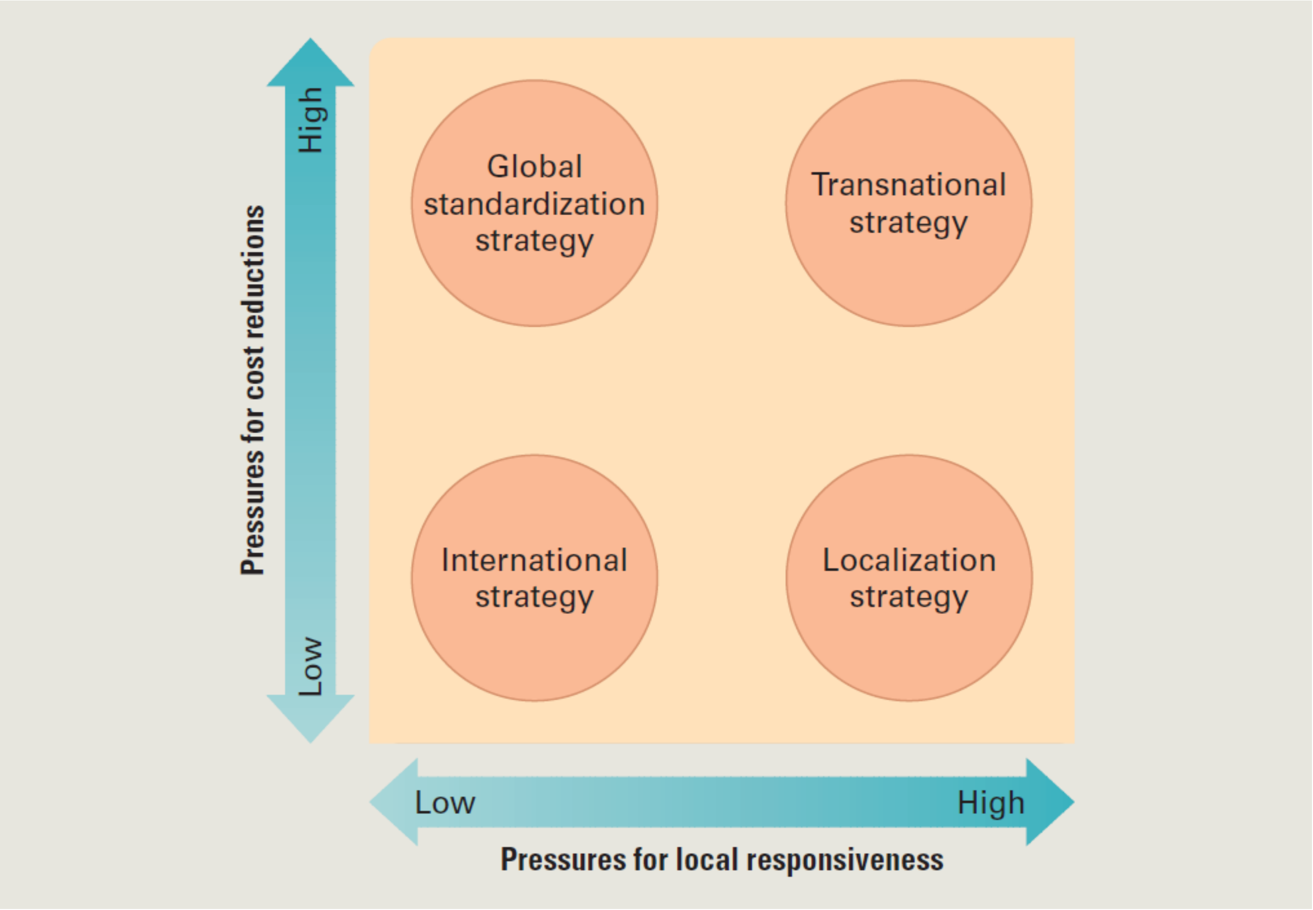
- To respond to them, a firm must try to lower the costs of value creation.
- Pressures are intense:
  - in industries producing commodity-type products.
  - for products that serve universal needs.
  - when major competitors are based in low-cost locations, there is excess capacity, and consumers face low switching costs.

PRESSURES FOR LOCAL RESPONSIVENESS

- To respond to them, a firm must differentiate its products and marketing strategy from country to country.
- Raises a company's cost structure.
- Occurs as a result of:
  - differences in customer tastes and preferences.
  - differences in infrastructure and traditional practices.
  - differences in distribution channels.
  - host government demands.
  - the rise of regionalism.

CHOOSING A GLOBAL STRATEGY

Figure 8.3 Four Basic Strategies



GLOBAL STANDARDIZATION STRATEGY

- **Global standardization strategy** - Business model based on pursuing a low-cost strategy on a global scale.
- Companies market a standardized product worldwide to reap maximum benefit from economies of scale.
- Most appropriate when:
  - pressures for cost reductions are strong.
  - demand for local responsiveness is minimal.

LOCALIZATION STRATEGY

- **Localization strategy** - Focuses on increasing profitability by customizing a company's goods to provide a favorable match to preferences in different national markets.
- Most appropriate when:
  - consumer tastes and preferences differ across nations.
  - cost pressures are not very strong.
- Benefit - Product value raises in the local market.
- Limitation - Cost reduction by mass-producing a standardized product is not possible.

TRANSNATIONAL STRATEGY

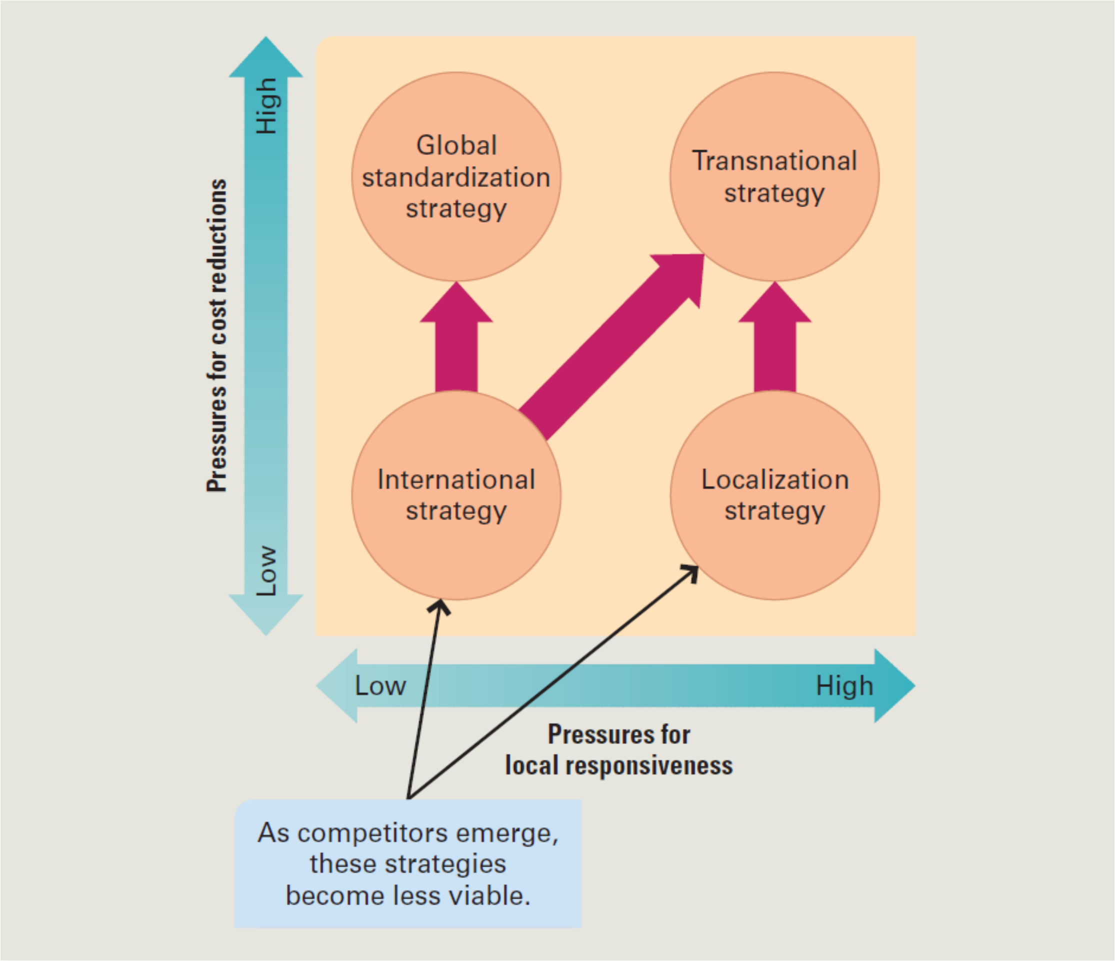
- **Transnational strategy** - Simultaneously:
  - achieves low costs.
  - differentiates the product offering across geographic markets.
  - fosters a flow of skills between global subsidiaries.
- Difficult to pursue because it places conflicting demands on a company.

INTERNATIONAL STRATEGY

- International strategy - Occurs when:
  - companies establish manufacturing and marketing functions in each major country they do business in.
  - local customization of product offering and marketing strategy is limited in scope.
- Most appropriate when:
  - product serves universal needs.
  - companies are not confronted with cost pressures.

CHANGES IN STRATEGY OVER TIME

Figure 8.4 Changes over Time



THE CHOICE OF ENTRY MODE

Exporting

- Manufacturing the product in a centralized location and then exporting it to other national markets.

Licensing

- Licensees purchase the rights to produce a company's product in their country for a negotiated fee.

Franchising

- Specialized form of licensing in which the franchiser expects the franchisee to abide by rules governing how it does business.

Joint venture

- Each party takes a part ownership stake and a team of managers from both companies share control.

Wholly owned subsidiary

- Parent company owns 100% of the subsidiary's stock.

ENTRY MODES

Table 8.1 The Advantages and Disadvantages of Different Entry Modes

Entry Mode	Advantages	Disadvantages
Exporting	• Ability to realize location- and scale-based economies	• High transport costs • Trade barriers • Problems with local marketing agents
Licensing	• Low development costs and risks	• Inability to realize location- and scale-based economies • Inability to engage in global strategic coordination • Lack of control over technology
Franchising	• Low development costs and risks	• Inability to engage in global strategic coordination • Lack of control over quality
Joint ventures	• Access to local partner's knowledge • Shared development costs and risks • Political dependency	• Inability to engage in global strategic coordination • Inability to realize location- and scale-based economies • Lack of control over technology
Wholly-owned subsidiaries	• Protection of technology • Ability to engage in global strategic coordination • Ability to realize location- and scale-based economies	• High costs and risks

DISTINCTIVE COMPETENCIES AND ENTRY MODE

- If a company's distinctive competency is its technological expertise:
  - licensing and joint-ventures should be avoided.
  - wholly owned subsidiary should be given preference.
- Combination of franchising and subsidiaries for service companies whose distinctive competency is management proficiency.

PRESSURES FOR COST REDUCTION AND ENTRY MODE

- Companies pursuing global or transnational strategies prefer establishing a wholly-owned subsidiary because:
  - it gives them tight control over marketing to coordinate a globally dispersed value chain.
  - it gives them tight control over a local operation.
  - enables use of profits generated in one market to improve competitive position in another.

GLOBAL STRATEGIC ALLIANCES (1 of 3)

- **Global strategic alliances** - Cooperative agreements between companies from different countries that are actual or potential competitors.
- Advantages
  - Facilitates entry into a foreign market.
  - Allows firms to share the costs of developing new products or processes.

GLOBAL STRATEGIC ALLIANCES (2 of 3)

- Brings together skills and assets that cannot be developed alone.
- Helps establish technological standards for the industry that will benefit the firm.
- Disadvantage - Gives competitors a low-cost route to new technology and markets.

GLOBAL STRATEGIC ALLIANCES (3 of 3)

- Success of an alliance depends on:
  - Partner selection.
  - Alliance structure - Ensure alliance agreement guards against the risk of opportunism by a partner.
    - **Opportunism** - Seeking one’s own self-interest, through guile.
  - Managing the alliance - Building relational capital.
    - Relational capital - Interpersonal relationships between the firms’ managers.

APPENDIX

NOTE TO INSTRUCTOR: Choose from the following questions (also found in the text at the end of the chapter) to conduct in-class discussions around key chapter concepts.

DISCUSSION:

- Plot the position of the following companies on Figure 8.3: Microsoft, Google, Coca-Cola, Dow Chemicals, Pfizer, and McDonald’s. In each case, justify your answer.

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DISCUSSION:

- Discuss how the need for control over foreign operations varies with the strategy and distinctive competencies of a company. What are the implications of this relationship for the choice of entry mode?

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DISCUSSION:

- Licensing proprietary technology to foreign competitors is the best way to give up a company’s competitive advantage. Discuss.

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