# MAN 4633 Homework 7

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## Assurance of Learning Exercises

> 1. *L'Oréal markets 32 brands of cosmetics, fragrances, and hair care products in 130 countries. The company's international strategy involves manufacturing these products in 40 plants located around the world. L'Oréal's international strategy is discussed in its operations section of the company's website (**www loreal com careers who ou can be operations**) and in its press releases, annual reports, and presentations. Why has the company chosen to pursue a foreign subsidiary strategy? Are there strategic advantages to global sourcing and production in the cosmetics, fragrances, and hair care products industry relative to an export strategy?*

- L'Oreal has chosen to pursue a foreign subsidiary strategy in order to specialize to the needs of people in different countries. For example, the needs of people in Scandinavian countries is probably very different from those in Kenya or Nigeria. By operating locally in different countries, L'Oreal can be closer to the ground and trends in each country they operate in. In addition to being more in touch with their customers, the foreign subsidiary strategy allows them to optimize import and export costs by choosing which plant a country receives their product from.

2. *Alliances, joint ventures, and mergers with foreign companies are widely used as a means of entering foreign markets. Such arrangements have many purposes, including learning about unfamiliar environments, and the opportunity to access the complementary resources and capabilities of a foreign partner. Illustration Capsule ?1 provides an example of how Walgreens used a strategy of entering foreign markets via alliance, followed by a merger with the same entity. What was this entry strategy designed to achieve, and why would this make sense for a company like Walgreens?*

**ILLUSTRATION CAPSULE 7.1**

## Walgreens Boots Alliance, Inc.: Entering Foreign Markets via Alliance Followed by Merger

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Walgreens pharmacy began in 1901 as a single store on the South Side of Chicago, and grew to become the largest chain of pharmacy retailers in America. Walgreens was an early pioneer of the "self-service" pharmacy and found success by moving quickly to build a vast domestic network of stores after the Second World War. This growth-focused strategy served Walgreens well up until the beginning of the 21st century, by which time it had nearly saturated the U.S. market. By 2014, 75 percent of Americans lived within five miles of a Walgreens. The company was also facing threats to its core business model. Walgreens relies heavily on pharmacy sales, which generally are paid for by someone other than the patient, usually the government or an insurance company. As the government and insurers started to make a more sustained effort to cut costs, Walgreens's core profit center was at risk. To mitigate these threats, Walgreens looked to enter foreign markets.

Walgreens found an ideal international partner in Alliance Boots. Based in the UK, Alliance Boots had a global footprint with 3,300 stores across 10 countries. A partnership with Alliance Boots had several strategic advantages, allowing Walgreens to gain swift entry into foreign markets as well as complementary assets and expertise. First, it gave Walgreens access to new markets beyond the saturated United States for its retail pharmacies. Second, it provided Walgreens with a new revenue stream in wholesale drugs. Alliance Boots held a vast European distribution network for wholesale drug sales; Walgreens could leverage that network and expertise to build a similar model in the United States. Finally, a merger with Alliance Boots would strengthen Walgreens's existing business by increasing the company's market position and therefore bargaining power with drug companies. In light of these advantages, Walgreens moved quickly to partner with and later acquire Alliance Boots and merged both companies in 2014 to become Walgreens Boots Alliance. Walgreens Boots Alliance, Inc. is now one of the world's largest drug purchasers, able to negotiate from a strong position with drug companies and other suppliers to realize economies of scale in its current businesses.

The market has thus far responded favorably to the merger. Walgreens Boots Alliance's stock has more than doubled in value since the first news of the partnership in 2012. However, the company is still struggling to integrate and faces new risks such as currency fluctuation in its new combined position. Yet as the pharmaceutical industry continues to consolidate, Walgreens is in an undoubtedly stronger position to continue to grow in the future thanks to its strategic international acquisition.

*Note:* Developed with Katherine Coster.

*Sources:* Company 10-K Form, 2015, **investor.walgreensbootsalliance.com/secfiling.cfm?filingID=1140361-15-38791&CIK=1618921;** L. Capron and W. Mitchell, "When to Change a Winning Strategy," *Harvard Business Review,* July 25, 2012, **hbr.org/2012/07/when-to-change-a-winning-strat;** T. Martin and R. Dezember, "Walgreen Spends $6.7 Billion on Alliance Boots Stake," *The Wall Street Journal,* June 20, 2012.

- The alliance then merger strategy made sense for Walgreens because they were able to leverage the new alliance and both companies could benefit from each other's strengths. Boots was able to expand their product line into the US market in Walgreens stores and Walgreens was able to work with Boots' wholesale drug business to bring down costs. Once Walgreens saw that the alliance between the two was successful, they merged to further cut down on costs and integrate both businesses.

> 3. *Assume you are in charge of developing the strategy for an international company selling products in some 50 different countries around the world. One of the issues you face is whether to employ a multidomestic strategy, a global strategy, or a transnational strategy.*
> *a. If your company's product is mobile phones, which of these strategies do you think it would make better strategic sense to employ? Why?*

- If my company's product is mobile phones, I would employ a *transnational* business strategy. Smartphone budgets and needs can vary around the world, but some countries may have similar needs that can be addressed simultaneously. A good example of these differences is how phones produced for different countries will have antennas for each country's designated frequencies or how some phones, such as Samsung's M series, is primarily marketed towards the Indian market while the Galaxy series is marketed to more wealthy nations such as the US and UK.

> *b. If your company's product is dry soup mixes and canned soups, would a multi-domestic strategy seem to be more advisable than a global strategy or a transnational strategy? Why or why not?*

- I believe that a global strategy would be more advisable than a multi-domestic or transnational strategy. Dry mixes and canned goods are incredibly durable and can therefore be shipped across the globe without fear of spoilage. In addition, many of the same soups are enjoyed around the world. This means you don't have to create products that are specific to certain countries or regions, but rather can focus on high quality staple soups such as chicken noodle or lentil.

> *c. If your company's product is large home appliances such as washing machines, ranges, ovens, and refrigerators, would it seem to make more sense to pursue a multidomestic strategy, a global strategy, or a transnational strategy? Why?*

- Large home appliances are expensive to design, produce, and ship.

However, they are also relatively low volume products compared to mobile phones or canned soup. I'm not entirely sure what the best strategy would be. I think a global strategy would be best because the business would become more efficient and a lineup of appliances could be developed that address the wide variety of needs across the globe.

> 4. *Using your university library's subscription to LexisNexis, EBSCO, or a similar database, identify and discuss three key strategies that Volkswagen is using to compete in China.*

- All strategies from https://www.volkswagenag.com/en/news/2019/04/e-mobility_strategy.html#

1. Use China to produce more than half of battery electric vehicles by 2028
2. Improve the R&D department for the Volkswagen auto group in China
3. Partner with Star Charge, FAW, and JAC to inncrease the network of public electric vehicle charging in China

# Go Pro's Struggle for Survival

> *Please write up your analysis of the case and the pertinent takeaways. Please submit your one-page analysis to Canvas by 2/21/21, 2021.*
>
> *All uncited quotes are from the textbook.*

When I joined Robinhood in the fall of 2019, I was a bit disappointed that I was given a GoPro stock, even if it was free. Once a giant in mobile video and extreme sports video technology, GoPro has slowly lost its edge and almost failed when trying to launch a new line of video drones.

GoPro began as a startup after the founder, Nick Woodman, used a Kodak camera strapped to his wrist to capture his surfing and a friend of his told him there had to be a better way. Thus, the GoPro brand was born. In fall 2006, YouTube was propelled into the spotlight when it was purchased by Google. Just a few months later, GoPro launched their HERO3 camera with considerably better video quality than its predecessors and competitors. The combination of high quality video and YouTube's newfound popularity caused GoPro's sales to triple. In 2010, BestBuy began carrying GoPro products. GoPro finally went public in June of 2014 at a valuation of $24 per share. While revenue continued to increase through 2016, revenue growth began to decrease. This led to the development of the GoPro Karma drone, GoPro's first major failure.

In the US in 2016, the drone market was already well established. Chinese brand DJI already had roughly 50 market share with Parrot, Protocol, Yuneec, and 3D Robotics filling in the rest. 2015 holiday sales were up 445 from the previous year. The drone market continued to get worse for new entrants when Apple and DJI entered into a deal for Apply to stock DJI drones in their stores and when Xiaomi, another Chinese giant, launched their competing drone called the Yi4k which undercut many companies on price.

In mid-2016, GoPro made its first mis-step. They announced and offered pre-orders for the GoPro Omni, a 360-degree video system which required six cameras to operate and cost $4,999. At this point, Samsung had launched their Gear 360 camera which cost just $349. While the video quality between the two may not have been equal, the Gear 360 was much more accessible.

Amid lacklust sales in mid-2016, GoPro pushed back the launch of their Karma drone to the holiday season. This gave established competitors more time to entrench their brands and make it harder for new entrants such as GoPro. GoPro ended 2016 with their gross revenue down by 50 , their operating income was down a whopping 645 , and their net income down by an even larger 742 .