**Session 08 BUSA 7800 - Strategic Management Chapter 07**

Learning Outcomes

At the end of this session you should be able to:

* 1. Explain the importance of international expansion as a viable diversification strategy.
  2. Describe the motivations, benefits, and the risks associated with international expansion.
  3. Compare the two opposing forces that firms face when entering international markets.
  4. Differentiate between the four basic strategies for achieving competitive advantage in global markets.
  5. Compare several types of entry strategies with their relative benefits and risks.
  6. Describe the emergence of offshoring and outsourcing as vehicles for firms to disperse their value chains across countries.

Chapter 7 - International Strategy: Creating Value in Global Markets

**I. International Expansion: A Company's Motivations and Risks**

**A. Motivations**

What are several of the more popular reasons to expand into international markets?

1. To gain access to new customers
2. To achieve lower costs and enhance the firm’s competitiveness
3. To gain access to resources and capabilities located in foreign markets
4. To spread its business risk across a wider market base

1. To gain access to new customers (increase profits)

Why would a company have to seek new customers in other countries?

2. To achieve lower costs and enhance the firm’s competitiveness  
What is a major problem with the size of the Canadian market?

3. To gain access to resources and capabilities located in foreign markets

What kinds of resources are firms looking to exploit?

* + *Cheap power*
  + *Cheap talent*
  + *Cheap labour*

4. To spread its business risk across a wider market base (smooth out fluctuations in sales)

What is the idea behind reducing your business risk when you expand into international markets?

**B. Potential Risks of International Expansion**

*i. Four Types of Risk with International Expansion:*

1. Political,
2. Economic,
3. Currency, and
4. Management

* 1. What kinds of questions are addressed under *political risk*?

What is the worry with countries that have high *political risks*?

* 1. What kinds of questions are asked to address *economic risks*?

* 1. How do *currency fluctuations* pose substantial risks?

* 1. How do we describe *management risk*?

**II. Achieving Competitive Advantage in Global Markets**

**A. Two Opposing Forces: Reducing Costs and Adapting to Local Markets**

When you expand into global markets, what is the main advantage from standardizing your product?

When you expand into global markets, what is the main advantage of adapting your product to local tastes?

* 1. **Opposing Pressures and Four Strategies**

 What are the four strategies in international business? (Exhibit 7.5)

* 1. International Strategy
  2. Global Strategy
  3. Multidomestic Strategy
  4. Transnational Strategy

* 1. *International Strategy*

What is the firm doing when they use an international strategy?

In what situation would a firm use an international strategy?

Why is the international strategy becoming more limited over time?

*ii. Global Strategy – Think-Global, Act-Global*

How does the global strategy work?

What are some disadvantages of the global strategy?

*iii. Multi-domestic Strategy – Think Local, Act Local*

What is the idea behind the multi-domestic strategy?

When is the multi-domestic strategy useful?

What are the two big drawbacks of the multi-domestic strategy?

*iv. Transnational Strategy – Think-Global, Act-Local*(Middle Ground Approach)

How is the transnational strategy different from the other strategies?

What are some drawbacks of the transnational strategy?

* 1. **Entry Modes of International Expansion**

What are the five general modes of entering a foreign market?

* 1. Maintain a national (one-country) production base and export goods to foreign markets.
  2. License foreign firms to produce and distribute the company’s products.
  3. Employ a franchising strategy.
  4. Rely on strategic alliances or joint ventures with foreign partners to enter new country markets.
  5. Establish a wholly owned subsidiary in a foreign market.

**A. Export Strategies**

Why is exporting a good way to get started in international business?

What can reduce the effectiveness of your export strategy?

**B. Licensing Strategies**

What is licensing?

When does licensing make sense?

What are some of the largest risks associated with licensing?

**C. Franchising Strategies**

What types of businesses are better suited to franchising?

What are you buying when you buy a franchise? What is the advantage of becoming a Tim Horton franchisee instead of opening up your own doughnut shop from scratch?

What are the main advantages of expanding by franchising?

What are some of the disadvantages of expanding your business by franchising?

**D. Using International Strategic Alliances and Joint Ventures to Build Competitive Strength in Foreign Markets**

What are some of the benefits of a cross-border alliance?

**E. Establishing a Subsidiary in a Foreign Market**

Why does establishing a subsidiary in a foreign market contain more risk than the previous approaches to international business?

What is the fastest way to develop a subsidiary?

When is an internal start-up strategy more appealing?

**F. Global Dispersion of Value Chains: Outsourcing and Offshoring**

Why do so many companies use global sourcing?

What is the difference between outsourcing and offshoring?

Why was there a large increase in outsourcing services in the 1990s?

**Next Session:**

Chapter 8 – Industry Change and Competitive Dynamics