Lecture 1

The Strategy of International Business

Learning Objectives

- To evaluate industry structure, firm strategy, and value creation
- To profile the features and functions of the value chain
- To assess how managers configure and coordinate a value chain
- To explain global integration and local responsiveness
- To profile the types of strategies firms use in international business

Why Internationalize?

- Potential new opportunities
- Apply innovations in domestic market to foreign markets
- Extend product life cycle
- Pressure for global integration and globally branded products
- Global economies of scale
- High potential demand for products and services
- Currency fluctuations and tariffs
- Capitalize on core competencies
- Growth

What are Strategies?

Strategies are the plans that help business achieve their aims and objectives,
which

- take into account financial, operational and human resource requirements;
- are delivered through a series of shorter term tactics;
- can be developed for different levels within an organisation.

An International Strategy

is a strategy through which the firm sells its goods or services outside its domestic market.

- A growth strategy
- Also referred to as geographic diversification

Levels and Types of GD

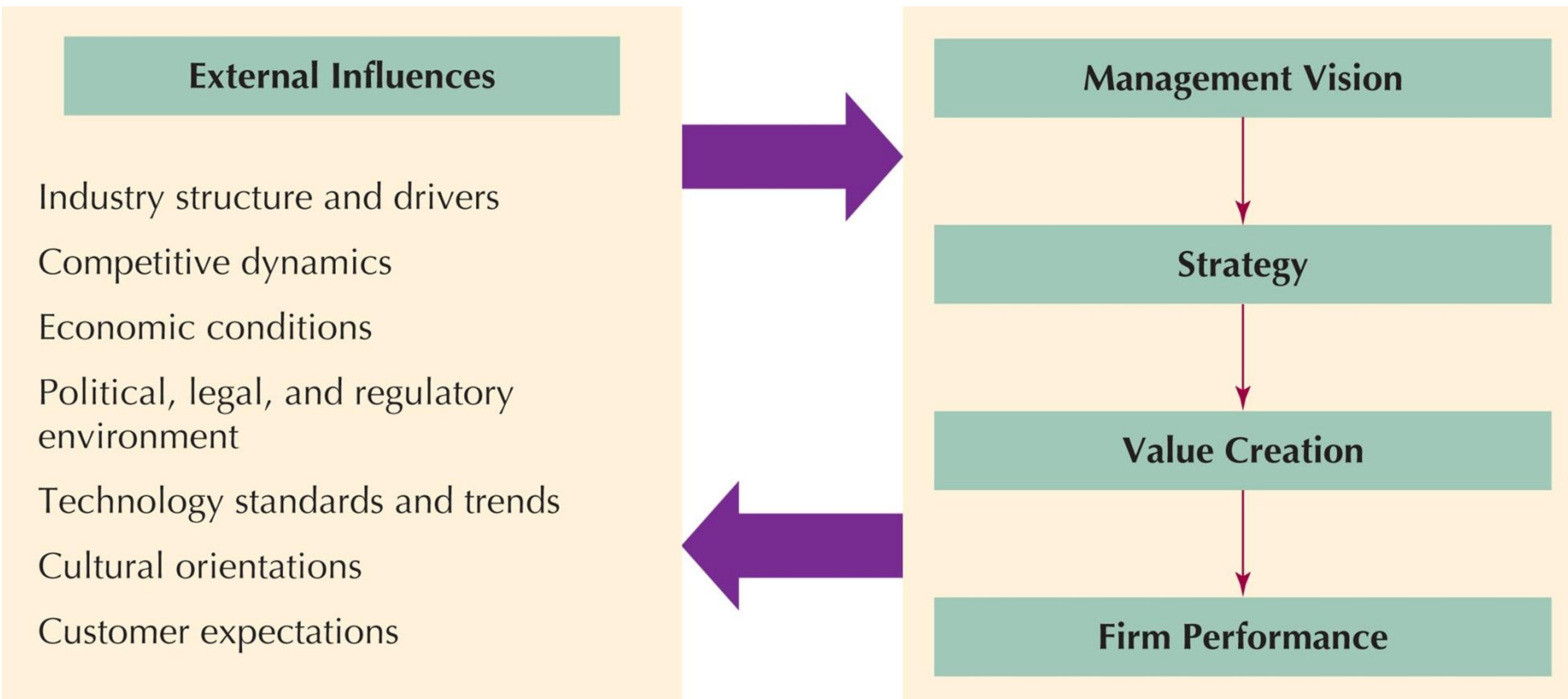
Level is a number of

- countries
- markets
- or regions

Types are

- Multidomestic
- Global
- Transnational

The Role of Strategy in International Business



Internal Drivers for IS

Influenced by prevailing mind-set in the company:

- Ethnocentrism – home country orientation
- Polycentrism – host country orientation with low involvement
- Regiocentrism – regional orientation
- Geocentrism – global orientation, looking at best practices

4 Primary Benefits of IS

- **Increased market share**
  - Can expand size of potential market
  - Domestic market may have limited growth opportunities
  - Larger markets offer higher potential returns and pose less risk for a firm’s investments

4 Primary Benefits of IS

- **Greater return on investment (ROI)**
  - Larger markets are more attractive
  - To generate above average returns on investments

4 Primary Benefits of IS

- **Greater economies of Scale, Scope, or Learning**
  - Expanding size or scope of markets can help firms achieve economies of scale in manufacturing, marketing, R&D, distribution, and service activities
  - Can exploit core competencies in international markets through resource and knowledge sharing across borders

4 Primary Benefits of IS

- **Competitive advantages through location**
  - Can help the firm reduce costs
  - Access to lower-cost labor, energy, and other natural resources
  - Access to critical supplies and to customers

Industry Structure

Learning Objective 1:

To evaluate industry structure, firm strategy, and value creation

Industry Structure

- **Industry structure** involves the relationships among
  - Suppliers of inputs
  - Buyers of outputs
  - Substitute products
  - Potential new entrants
  - Rivalry among competing firms

The Porter's 5 Forces Model

Industry Change

- Industry structure changes because of
  - Competitor moves
  - Government policies
  - Shifting preferences
  - Technological developments

Creating Value

- Value
  - the measure of a firm's capability of selling what it makes for more than the costs incurred to make it
- Create value using
  - A **cost leadership** strategy
    - make products for a lower cost than competitors
  - A **differentiation strategy**
    - make products for which consumers are willing to pay a premium price

The Firm as a Value Chain

Learning Objective 2:

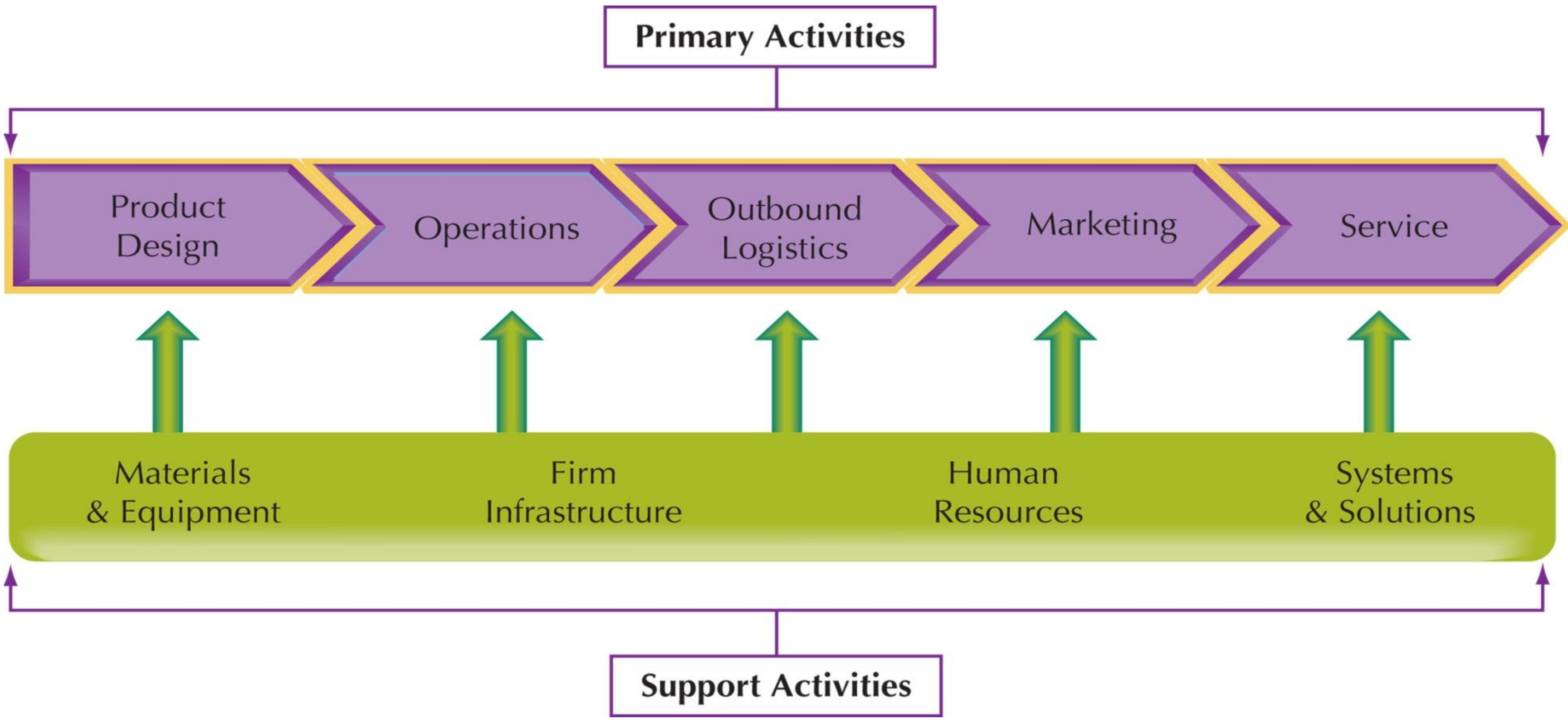
To profile the features and functions of the value chain

The Firm as a Value Chain

- The **value chain**
  - the set of linked activities the company performs to design, produce, market, distribute, and support a product
- The value chain consists of
  - **Primary activities**
    - design, make, sell, and deliver the product
  - **Support activities**
    - implement primary activities

The Firm as a Value Chain

Primary and Support Activities



International Strategy and Value Chain

International strategy development helps achieving certain global synergies:

- Localizing operations globally
- Localizing core competencies globally
- Economies of scale
- Economies of scope
- International growth

A Core Competency

is a set of a company's unique skills and/or knowledge that is better than its competitors and is essential for its competitiveness.

- Product development
- Employee productivity
- Manufacturing experience
- Marketing imagination
- Executive leadership

Managing the Value Chain

Learning Objective 3:

To assess how managers configure and coordinate a value chain

Managing the Value Chain

- **Configuration**
  - distributing value chain activities around the world
    - **concentrated**
      - putting all value chain activities in one location
    - **dispersed**
      - performing different value chain activities in different locations
        - **location economies**

Managing the Value Chain

- When configuring the value, consider
  - The business environment
  - Innovation context
  - Resource costs
  - Logistics
  - Digitization
  - Scale economies
  - Cluster effects
  - Customer needs

Managing the Value Chain

- **Coordination**
  - linking the value chain activities
- Factors that influence coordination
  - Operational obstacles
  - National cultures
  - **Core competencies (Learning Effects & Experience Curve)**
    - special outlook, skill, capability, or technology that runs through the firm’s operations, threading disconnected activities into an integrated value chain
  - Subsidiary networks
    - social networks

Change and the Value Chain

- The configuration and coordination of a value chain responds to changes in customers, competitors, industries, and environments
  - Even a well configured and coordinated value chain can become obsolete
    - So, designing and delivering a strategy should be an ongoing process

Global Integration vs. Local Responsiveness

Learning Objective 4:

To explain global integration and local responsiveness

Global Integration vs. Local Responsiveness

- Firms face two conflicting pressures:
- Pressures for **global integration**
  - the process of combining differentiated parts into a standardized whole
  - maximize efficiency
- Pressures for **local responsiveness**
  - the process of disaggregating a standardized whole into differentiated parts
  - optimize effectiveness

Pressures for Global Integration

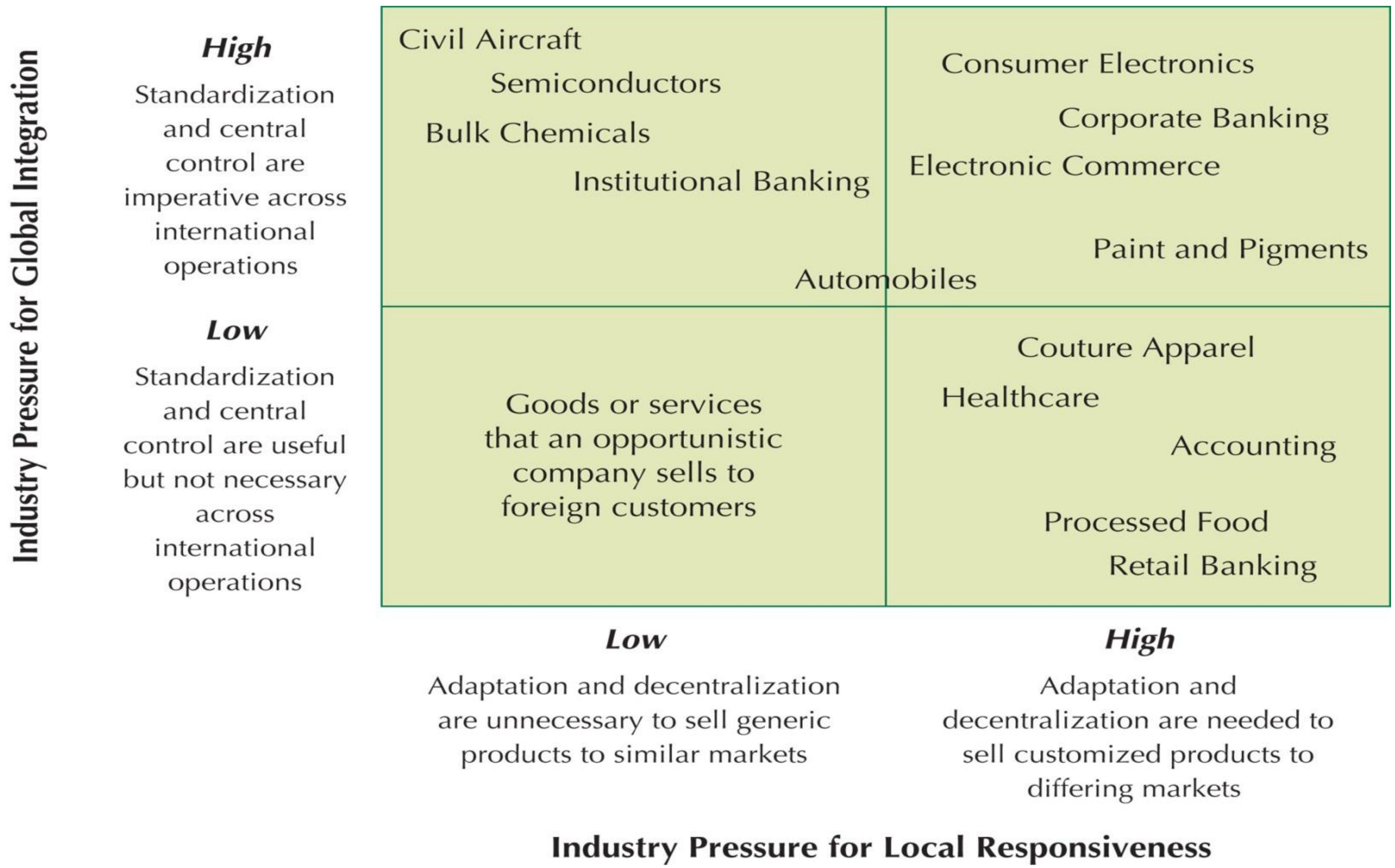
- Drivers of global integration
  - The globalization of markets
    - Technology helps standardize consumer preferences
    - Global products have become popular
      - allows for standardization of product design
  - The efficiency gains of standardization
    - Location, scale, and learning effects
    - WTO supports global standards

Pressures for Local Responsiveness

- Pressure for local responsiveness is driven by
  - Consumer divergence
    - cultural predisposition
    - historical legacy
    - nationalism
  - Host government policies
    - fiscal, monetary, and business regulations

When Pressures Interact

Integration/Responsiveness (I/R) Grid



Types of Strategy

Learning Objective 5:

To profile the types of strategies firms use in international business

Types of Strategy

International Strategy

- **International strategy**
  - leverage a company's core competencies into foreign markets
  - critical elements of the value chain are centralized at headquarters
- The strategy works well when
  - the firm has core competencies that foreign rivals lack
  - there is low pressure for global integration
  - there is low pressure for local responsiveness

Multidomestic Strategy

- **Multidomestic strategy**
  - emphasizes responsiveness to the unique circumstances that prevail in a country's market
  - value added activities are adapted to local markets
- The strategy works well when
  - there is high pressure for local responsiveness
  - there is low pressure for global integration

Transnational Strategy

- **Transnational strategy** simultaneously leverages core competencies worldwide, reduces costs by exploiting location economics, and adapts to local conditions
- The strategy works well when
  - global learning and knowledge flows are emphasized
  - there is high pressure for local responsiveness
  - there is high pressure for global integration

Global Strategy

- **Global strategy**
  - make standardized products that are marketed with little adaptation to local conditions
  - exploit location economies and capture scale economies
- The strategy works well when
  - the MNE is the cost leader
  - there is low pressure for local responsiveness
  - there is high pressure for global integration

Market Entry Strategies

- Exports
- Joint ventures and alliances
- Licensing
- Foreign Direct Investment (FDI)

How to Manage Strategy?

Market based view on strategy requires:

- Strategic leadership
- Strategic planning

Key Drivers of Strategizing

- Logical incrementalism
- Resource allocation
- Organizational policies
- Organizational culture

Systematic Process to Adopt IS

Proper analysis with…

- Identification of potential economies
- Identification of other internationalization benefits
- Develop managers'capacities for international business
- Adapt performance and reward systems
- Balance analysis with vision

The two phases of an IBP

- **Analytical phase:**
- Internal analysis
- External analysis
- SWOT analysis for an international market
- Risk assessment
- **Planning phase:**
- International business strategy
- International marketing plan
- International business action plan
- Costs and benefits estimate