

Strategy in a global environment

Part 2

Profiting From Global Expansion

- Earning high returns from transferring distinctive competencies to foreign markets.
- Realizing location economies
 - Using lower-cost locations reduces overall costs and fosters product differentiation for premium pricing.
- Moving down the experience curve
 - Larger global markets = more accumulated volume.
- Global expansion and business-level strategies
 - Linked by cost reductions and value creation.

Pressures for Cost Reduction and Local Responsiveness

- Pressures for cost reductions
 - Global competitors seek to minimize unit costs through location economies and attain low-cost competitor status.
 - In commodity-type product industries, intense price competition predominates strategic concerns.
- Pressures for local responsiveness arise from:
 - Differences in local consumer tastes and preferences.
 - Differences in infrastructure and traditional practices.
 - Differences in distribution channels among countries.
 - Host government economic and political demands.

Pressures for Cost Reduction and Local Responsiveness

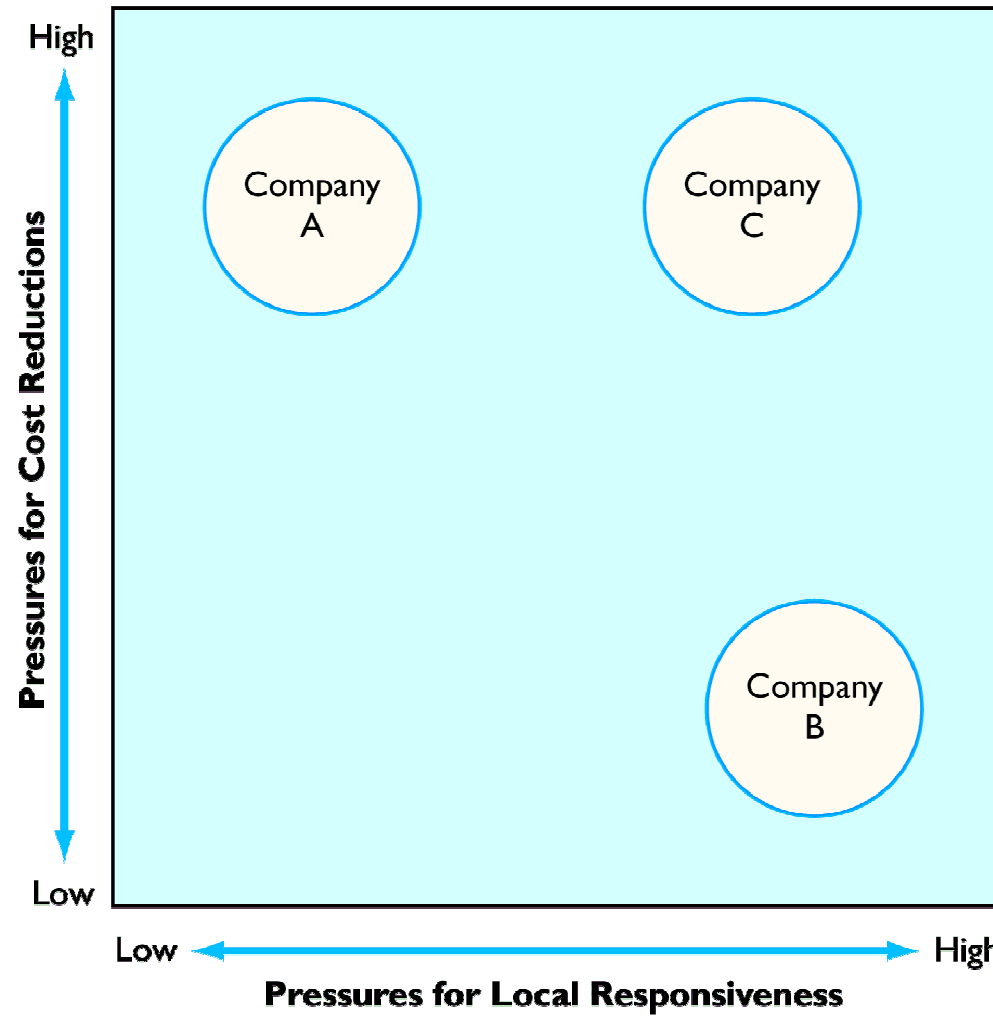


FIGURE 8.1

Strategic Choice

- International strategy
 - Create value by transferring skills and products abroad.
- Multidomestic strategy
 - Maximize local responsiveness by customizing products and marketing strategy for local markets.
- Global strategy
 - Pursue low-cost status, offer standardized global products.
- Transnational strategy
 - Use global learning to achieve low-cost status, differentiation, and local responsiveness simultaneously.

Four Basic Strategies

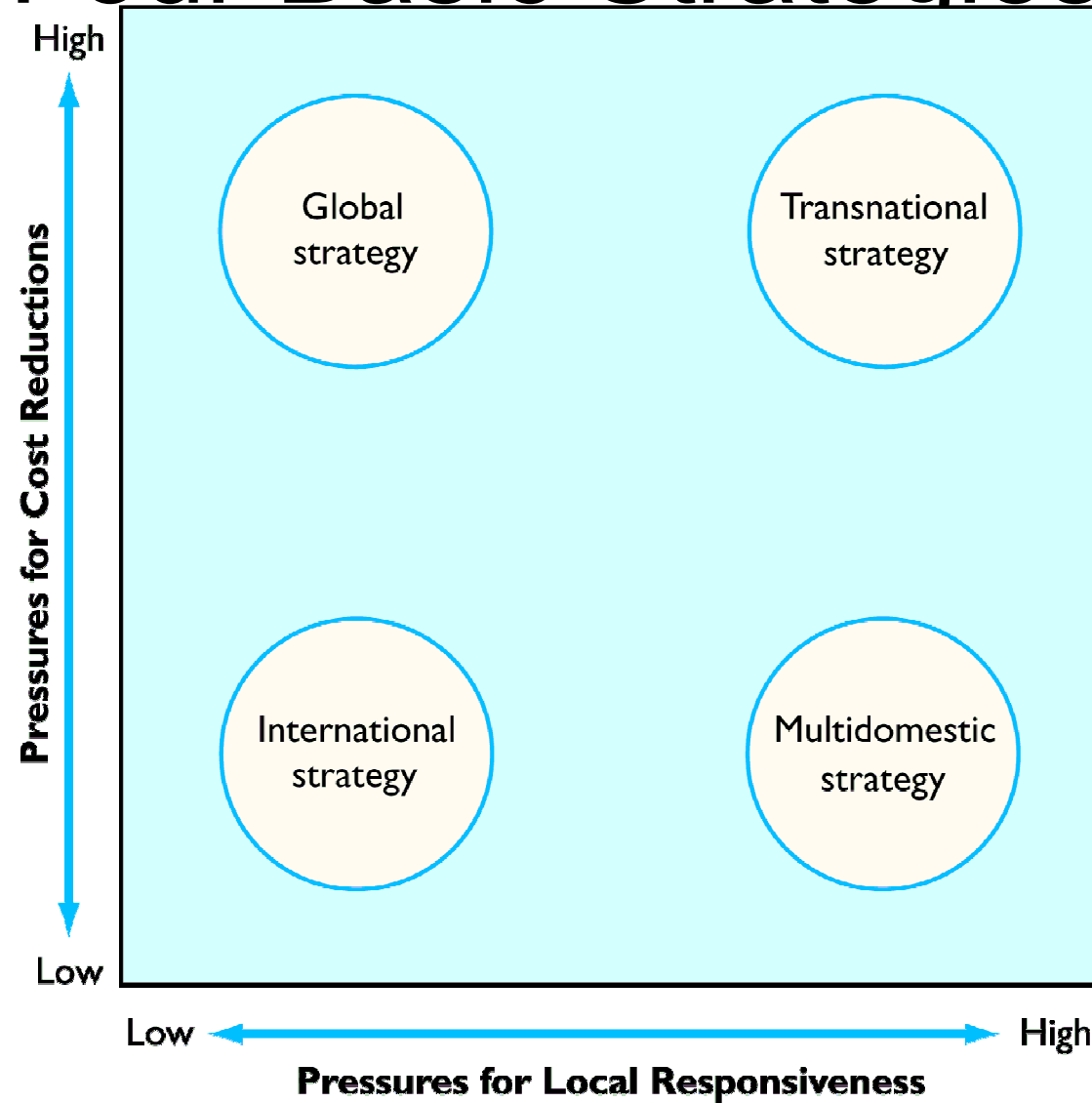


FIGURE 8.2

Cost Pressures and Pressures for Local Responsiveness Facing Caterpillar

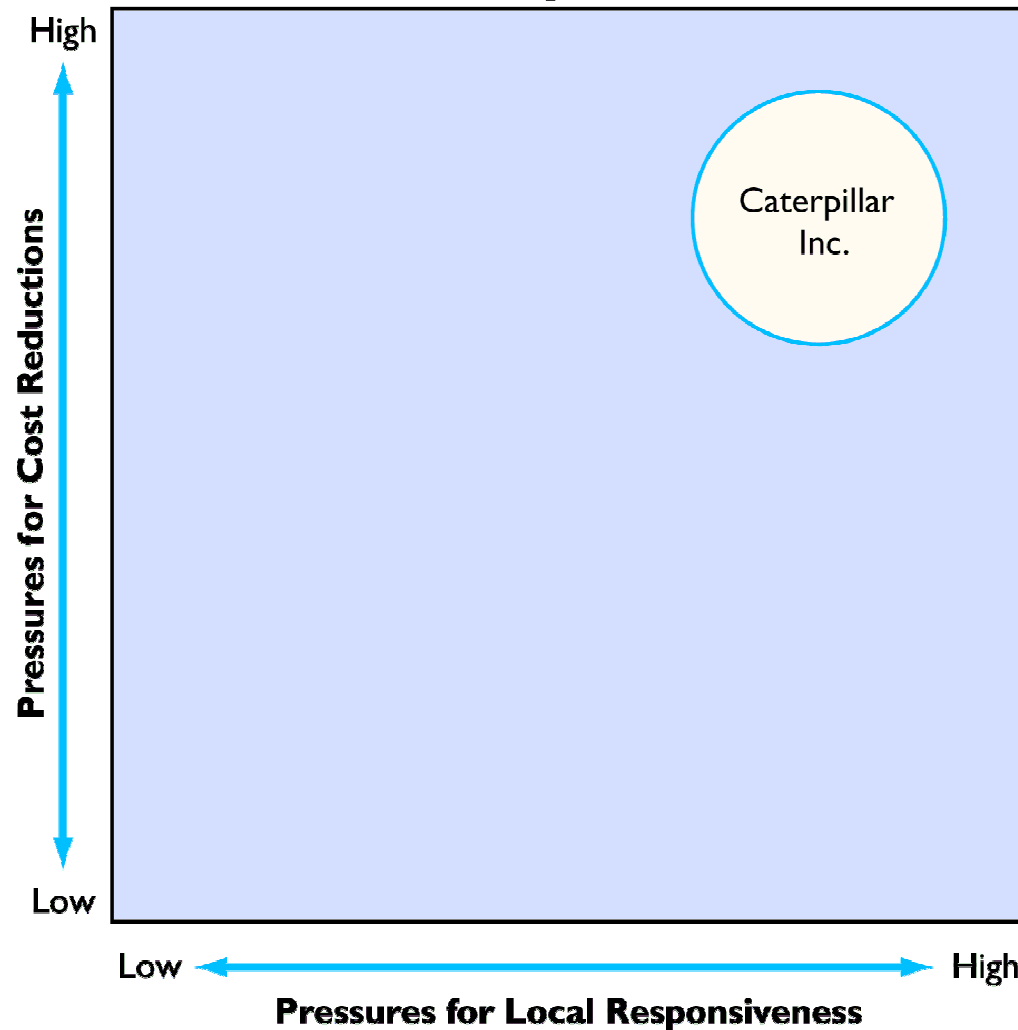


FIGURE 8.3

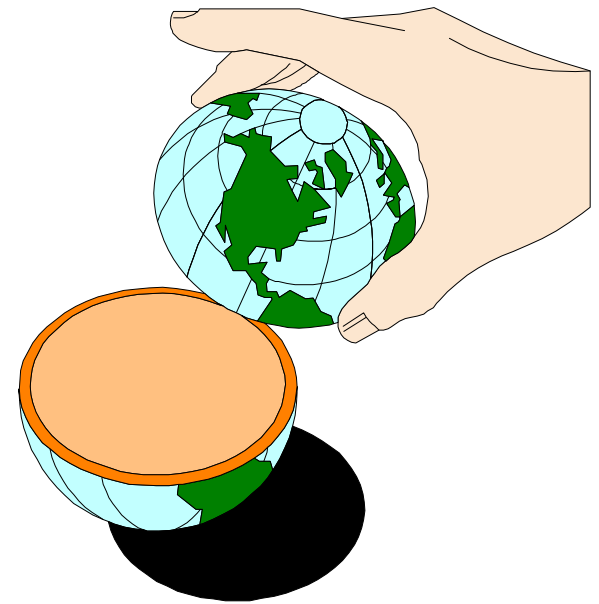
The Advantages and Disadvantages of Different Strategies for Competing Globally

Strategy	Advantages	Disadvantages
International	<ul style="list-style-type: none"> • Transfer of distinctive competencies to foreign markets 	<ul style="list-style-type: none"> • Lack of local responsiveness • Inability to realize location economies • Failure to exploit experience-curve effects
Multidomestic	<ul style="list-style-type: none"> • Ability to customize product offerings and marketing in accordance with local responsiveness 	<ul style="list-style-type: none"> • Inability to realize location economies • Failure to exploit experience-curve effects • Failure to transfer distinctive competencies to foreign markets
Global	<ul style="list-style-type: none"> • Ability to exploit experience-curve effects • Ability to exploit location economies 	<ul style="list-style-type: none"> • Lack of local responsiveness
Transnational	<ul style="list-style-type: none"> • Ability to exploit experience-curve effects • Ability to exploit location economies • Ability to customize product offerings and marketing in accordance with local responsiveness • Reaping benefits of global learning 	<ul style="list-style-type: none"> • Difficulties in implementation because of organizational problems

TABLE 8.1

Basic Entry Decisions

- Which foreign markets?
 - Politically and financially stable
 - Developed and developing nations
 - Free market systems
- Timing of entry
 - Pioneering costs versus first-mover advantages.
- Scale of entry and strategic commitments
 - Scale of entry affects the nature of competition in the national market. Implications of risks and benefits must be weighed carefully.



The Choice of Entry Mode



- Exporting
- Licensing
- Franchising
- Joint Ventures
- Wholly Owned Subsidiaries
- Distinctive Competencies and Entry Mode
 - Pressures for Cost Reduction and Entry Mode

The Advantages and Disadvantages of Different Entry Modes

Entry Mode	Advantages	Disadvantages
Exporting	<ul style="list-style-type: none"> • Ability to realize location and experience-curve economies 	<ul style="list-style-type: none"> • High transport costs • Trade barriers • Problems with local marketing agents
Licensing	<ul style="list-style-type: none"> • Low development costs and risks 	<ul style="list-style-type: none"> • Inability to realize location and experience-curve economies • Inability to engage in global strategic coordination • Lack of control over technology
Franchising	<ul style="list-style-type: none"> • Low development costs and risks 	<ul style="list-style-type: none"> • Inability to engage in global strategic coordination • Lack of control over quality
Joint ventures	<ul style="list-style-type: none"> • Access to local partner's knowledge • Shared development costs and risks • Political dependency 	<ul style="list-style-type: none"> • Inability to engage in global strategic coordination • Inability to realize location and experience-curve economies • Lack of control over technology
Wholly owned subsidiaries	<ul style="list-style-type: none"> • Protection of technology • Ability to engage in global strategic coordination • Ability to realize location and experience-curve economies 	<ul style="list-style-type: none"> • High costs and risks

Global Strategic Alliances

- Advantages

- Facilitate entry into foreign markets.
- Enable partners to share fixed costs and risks associated with new products and processes.
- Facilitate transfer of complementary skills between companies.
- Help establish technological standards.

- Disadvantages

- Risk of giving away technological know-how.
- Risk of opening local market access to foreign alliance partner.
- Risk of not getting anything in return.

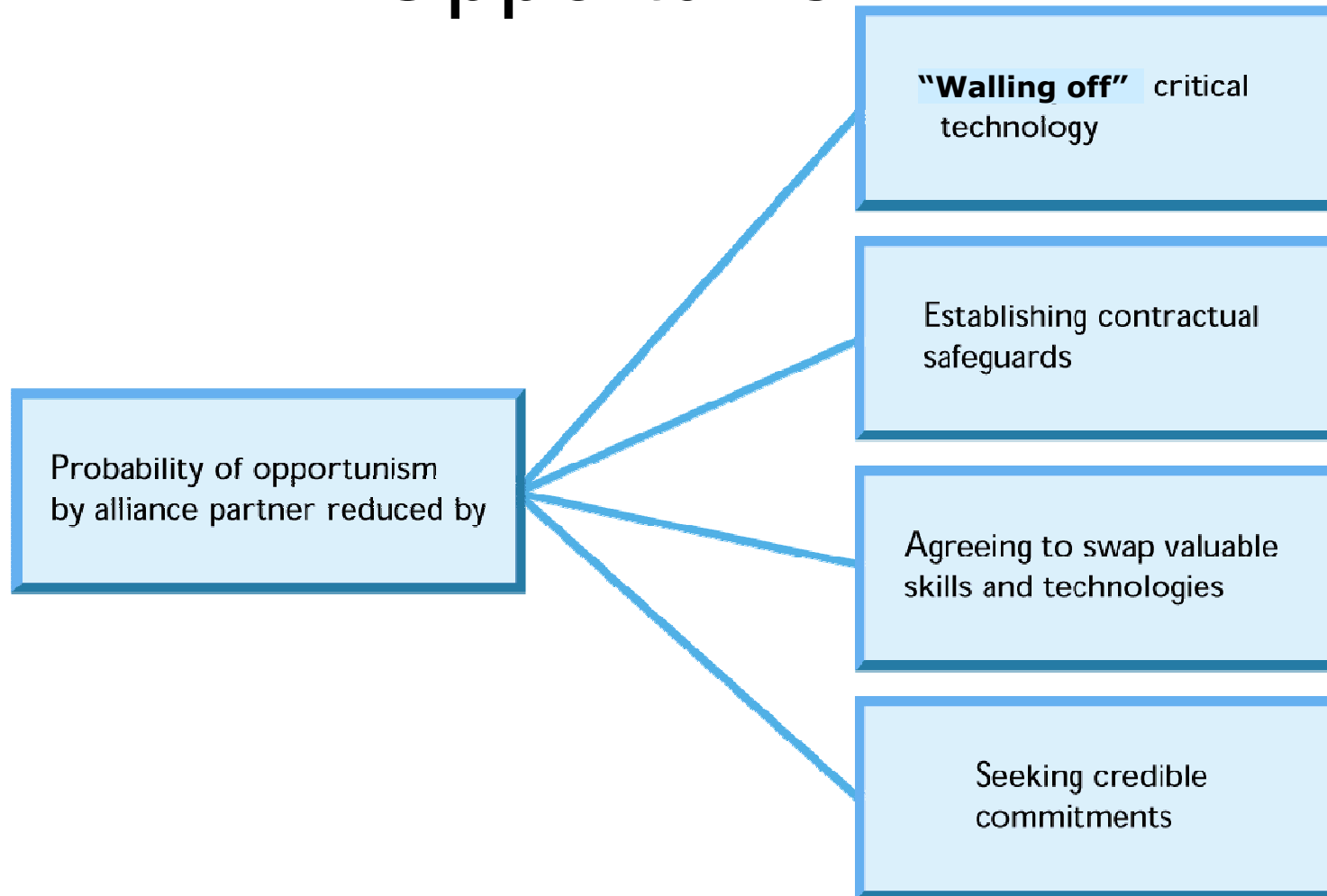
Making Strategic Alliances Work

- Partner selection when done well:

- Helps the firm achieve its strategic goals.
- Results in a commonly shared vision for the alliance
- Reduces opportunistic behaviors by the partners.



Structuring Alliances to Reduce Opportunism



Managing the Alliance

- Maximizing the benefits of an alliance:
 - Develop a sensitivity to cultural differences.
 - Build interpersonal relationships and networks among managers from different companies.
 - Learn from alliance partners and put the knowledge to use in the organization.



Operations Strategy in a Global Environment

Competitive advantage at Dell

- Dells business model based on direct selling of customized product at low prices
- Location advantages (Brazil, Ireland, Malaysia, China & US)
- Close to markets
 - Low shipping costs
 - Speed of delivery
- Global supply base
- Dell manages global supply chain to minimize inventory and customize PCs in three days

Strategic Management Tasks

- Form a Strategic Vision
- Convert to Measurable Objectives
- Craft a Strategic Plan
- Implement the Plan
- Evaluate the Results

Crafting a Strategy

- Proactive and Reactive
- Strategy and Entrepreneurship
- Evolution
- Strategy and Planning
- Implementation and Execution

Strategy Making Tasks:

Vision and Mission

- What is the Business?
 - Customer Needs
 - Customer Groups
 - Technologies and Functions
 - Broad vs. Narrow Definition
- Communicate the Vision
- Decide When to Change

Strategy Making Tasks:

Setting Objectives

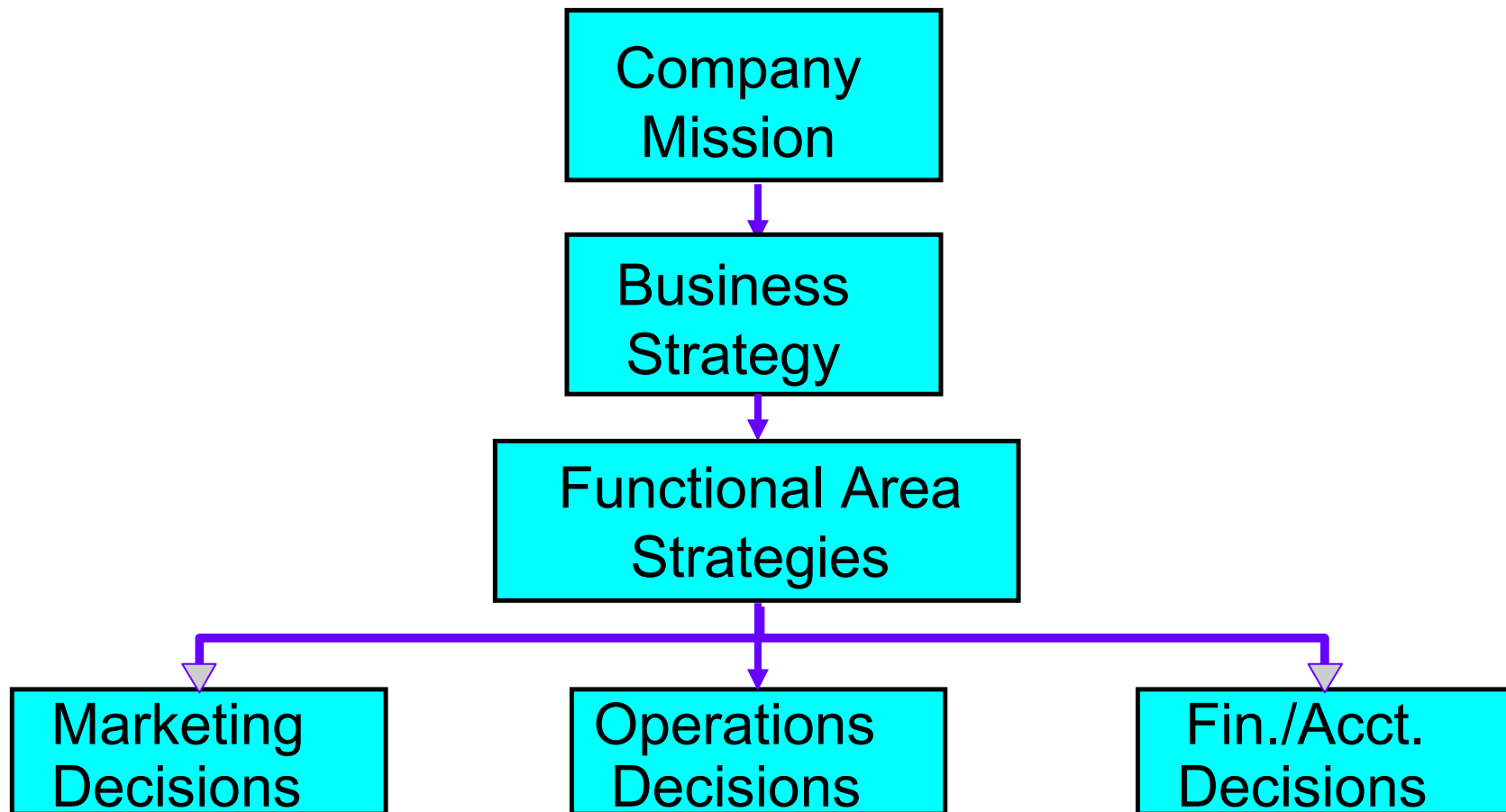
- Strategic vs. Financial
- Long-range vs. Short-term
- Challenging but Achievable Test
 - What Will Conditions Allow?
 - What Results Indicate Success?
 - What Is the Capability with a Push?
- Objectives at All Management Levels

Strategy Making Tasks:

Crafting a Strategy

- Corporate Strategy
- Business Strategy
- Functional Strategy
- Operating Strategy
- Uniting the Strategy Making Effort:
 - Completeness
 - Internal consistency
 - Develop synergies

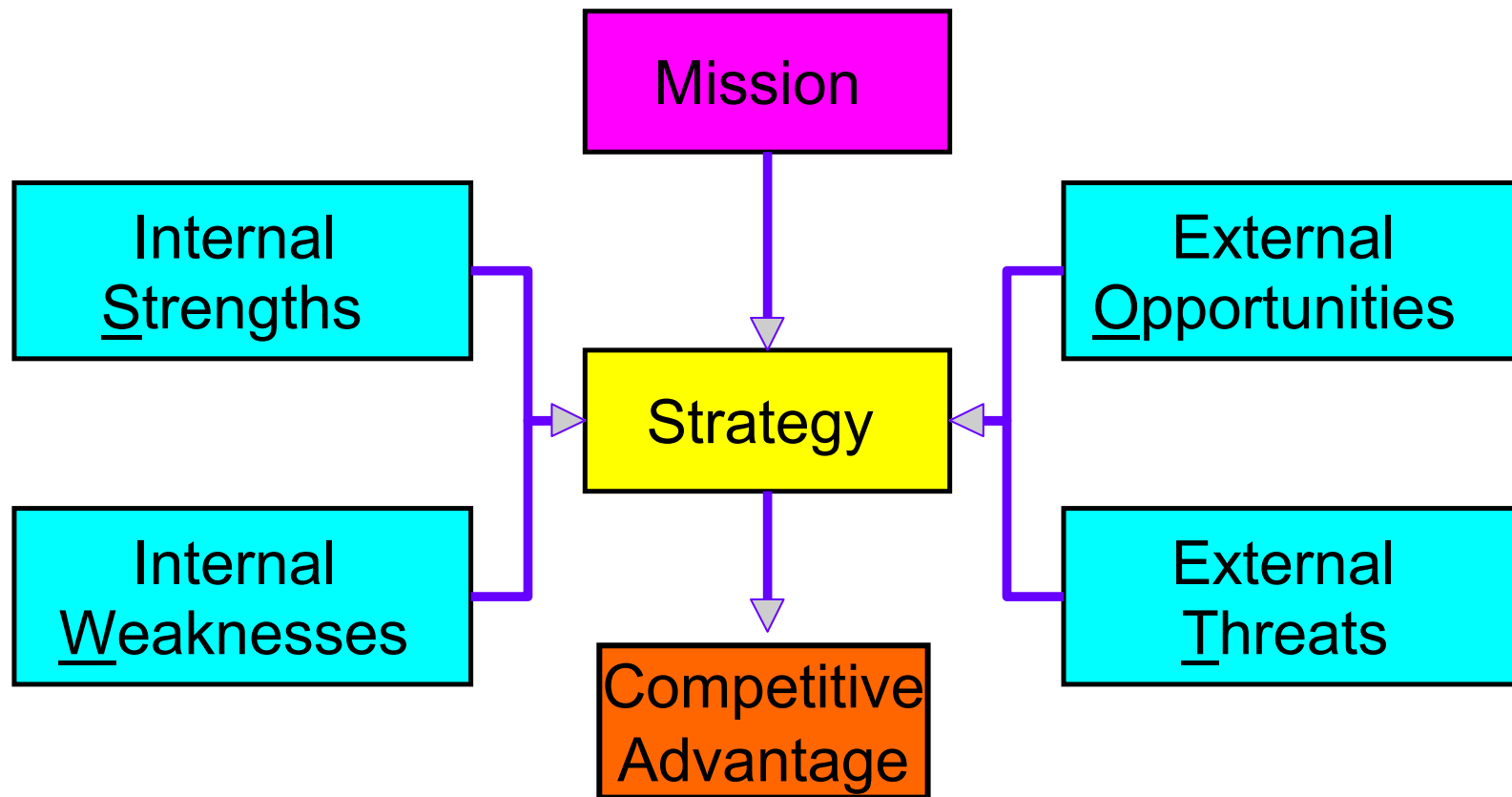
Strategy Process



Factors that Influence Strategy

- Industry Attractiveness
- SWOT
- Beliefs and Ambitions of Managers
- Company Culture
- Societal and Political Influences
- Regulatory and Legislative Actions

SWOT Analysis to Strategy Formulation



Strategy Making Approaches

- Approaches
 - Chief Architect
 - Delegation
 - Collaborative
 - Corporate Intrapreneur
- Comparing Approaches
- Board of Directors

Tests of a Winning Strategy

- Goodness of Fit
- Competitive Advantage
- Performance

The 3 Generic Strategies

- Low-cost leadership
- Market niche
 - High end
 - Low end
 - Geographic
 - Special needs buyers
 - Other
- Differentiation based on:
 - Quality
 - Service
 - Technological superiority
 - Breadth of product line
 - Image and reputation
 - Value
 - Other attributes

Competing on Response

- Flexibility
- Reliability
- Timeliness

Requires the institutionalization within the firm of the ability to respond, change, and to adapt

Building Competitive Advantage

- Company competence
 - Product of experience and learning
 - Real proficiency
 - Consciously built and developed
- Competitive capability
 - Valuable and beneficial to customers
 - Differentiate company from competitors
 - Enhances competitiveness

Building Competitive Advantage

- Core competence
 - Internal activities performed well
 - Central to competitiveness and profitability
 - Resides in people, not assets
- Distinctive competence
 - Activities performed well compared to competitors
 - Basis for competitive advantage

Distinctive Competence and Strategy

- Importance
 - Competitive capability provided
 - Cornerstone of strategy
- Sustainable competitive advantage
 - Resource is hard to copy
 - Longevity of resource
 - Resource is competitively superior
 - Not easily trumped

Strategic Options Managers Use to Gain Competitive Advantage

- 28% - Operations Management
- 18% - Marketing/distribution
- 17% - Momentum/name recognition
- 16% - Quality/service
- 14% - Good management
- 4% - Financial resources
- 3% - Other

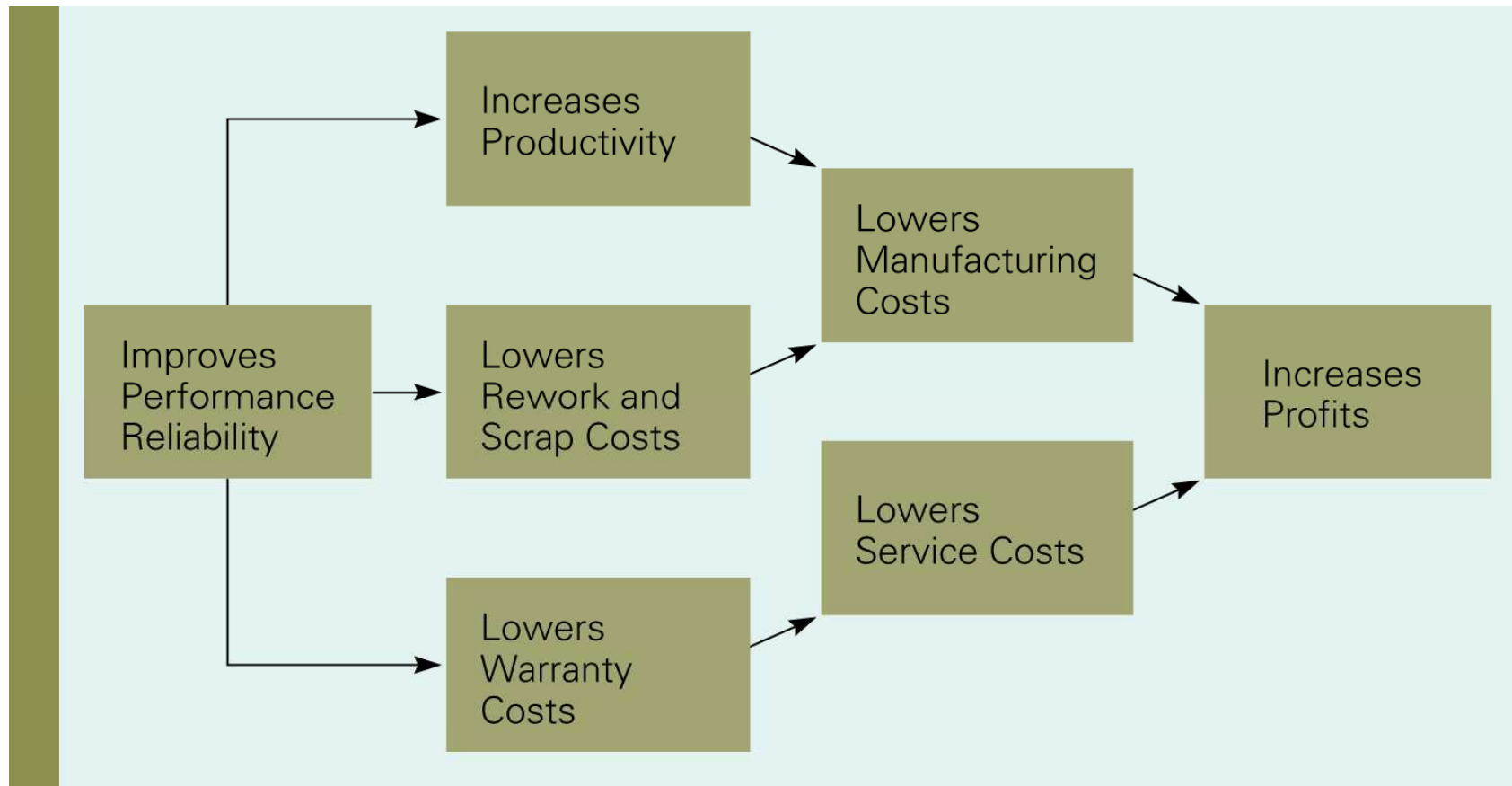
Strategic Options Managers Use to Gain Competitive Advantage

- 28% Operations Management
 - Low-cost product
 - Product-line breadth
 - Technical superiority
 - Product characteristics/differentiation
 - Continuing product innovation
 - Low-price/high-value offerings
 - Efficient, flexible operations adaptable to consumers
 - Engineering research development
 - Location
 - Scheduling

POM Strategic objectives

- Lower costs
 - Disperse manufacturing activities to efficient global locations
- Increase productivity
 - Total Quality Management
- Accommodate demands for local responsiveness
 - Decentralize production
- Respond quickly to shifts on customer demand
 - Time-based competition extremely important

Relationship Between Quality & Cost



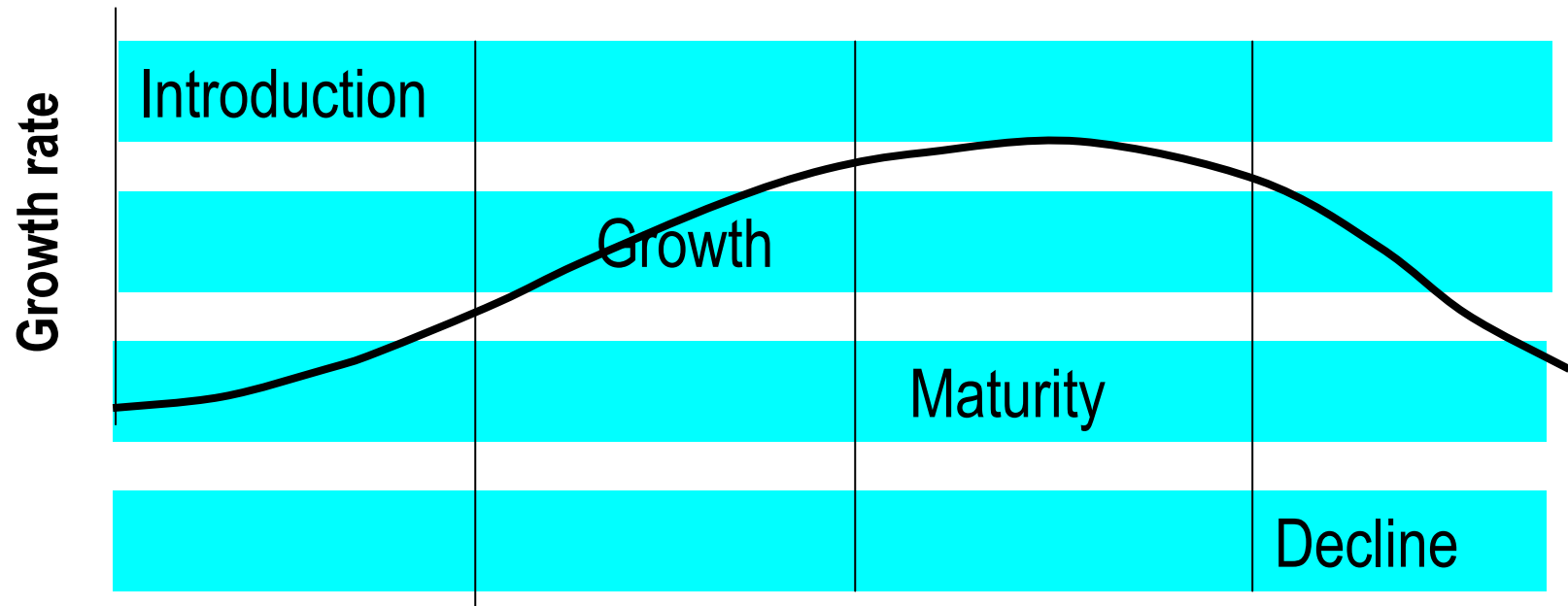
POM Strategy Considerations

- A successful POM strategy is consistent with:
 - Corporate and business strategies
 - Environmental demands
 - Competitive demands
 - Social, legislative, regulatory and political demands
 - The product life cycle

POM Strategy Considerations

- Therefore, a successful POM strategy:
 - Identifies and organizes the POM tasks
 - Identifies resources available within the firm and the POM function
 - Makes the necessary choices within the POM function
 - Integrates the POM strategy with the company strategy and with other functions
 - Identifies and develops a sustainable competitive advantage

Stages in the Product Life Cycle



POM Issues During Product Life

Introduction

- Company Strategy & Issues

Best period to increase market share
R&D engineering are critical

- POM Strategy & Issues

Product design and development are critical
Frequent product and process design changes
Over-capacity
Short production runs
High skilled-labor content
High production costs
Limited number of models
Utmost attentions to quality
Quick elimination of market-revealed design defects

POM Issues During Product Life

Growth

Company
Strategy
& Issues

Practical to change prices or quality image
Marketing is critical
Strengthen niche

POM Strategy
& Issues

Forecasting is critical
Product and process reliability
Competitive product improvements and
options
Shift toward product oriented
Enhance distribution

POM Issues During Product Life

Maturity

Company Strategy & Issues

Poor time to increase market share
Competitive costs become critical
Poor time to change price, image, or quality
Defend position via fresh promotional and distribution approaches

POM Strategy & Issues

Standardization
Less rapid product changes and more minor annual model changes
Optimum capacity; long production runs
Increasing stability of manufacturing process
Lower labor skills
Attention to product improvement and cost cutting

POM Issues During Product Life

Decline

Company
Strategy
& Issues

Cost control critical to market share

POM Strategy
& Issues

Little product differentiation

Cost minimization

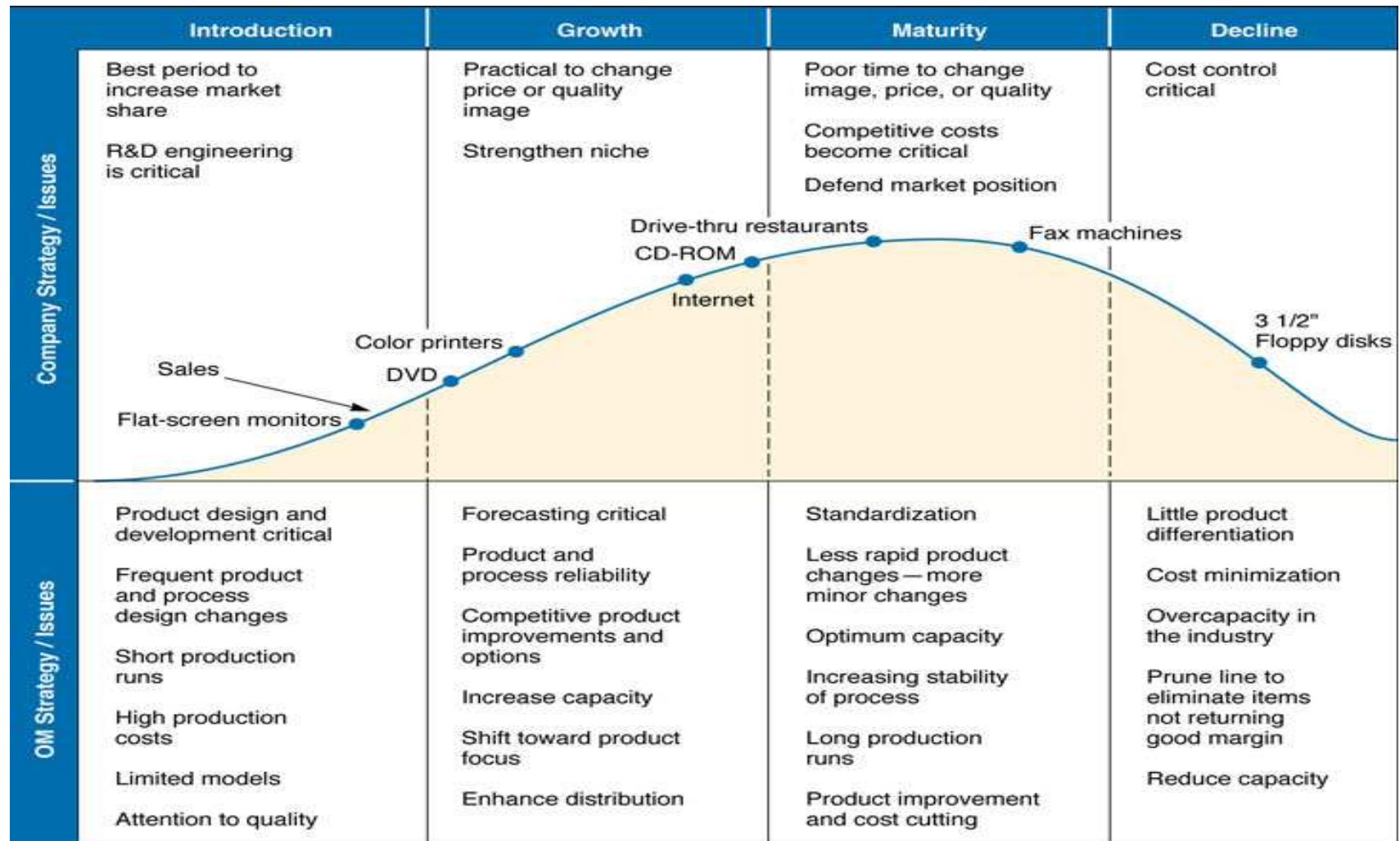
Overcapacity in the industry

Prune line to eliminate items not
returning

Good margin

Reduce capacity

Strategy and Issues During a Product's Life



International Strategies:

Advantages

- Gain access to:
 - Markets
 - Capital
 - Raw materials
 - Skills and expertise
- Exploit economies of scale
- Capitalize on core competencies
- Spread risks across a broader base

International Strategies:

Advantages

- Reduce costs:
 - Labor
 - Taxes
 - Tariffs
- Improve the supply chain
- Provide better goods and services
- Learn to improve operations
- Attract and retain global talent

International Strategies:

Political Environment

- Political risk
 - Domestic instability
 - Foreign conflict
 - Political climate
 - Economic climate

International Strategies:

Political Environment

- Political mechanisms

- Protectionism

- Tariff
 - Quota
 - Subsidy
 - Cartel

- Under the table

- Bribery
 - Extortion
 - Grease payments

International Strategies:

Cultural Environment

- Language
- Symbols
- Values and beliefs
- Individual differences
 - Social orientation
 - Power orientation
 - Uncertainty orientation
 - Goal orientation
 - Time orientation

International Strategies:

Economic Environment

- Economic system
 - Market
 - High growth/high potential
 - Other
- Natural resources
- Infrastructure
- FX exposure

International Strategies:

Entering International Markets

- Importing and exporting
- Licensing
- Franchising
- Strategic alliances
- Direct investment
 - Greenfield
 - Acquisition

International Strategies:

Direct Investment

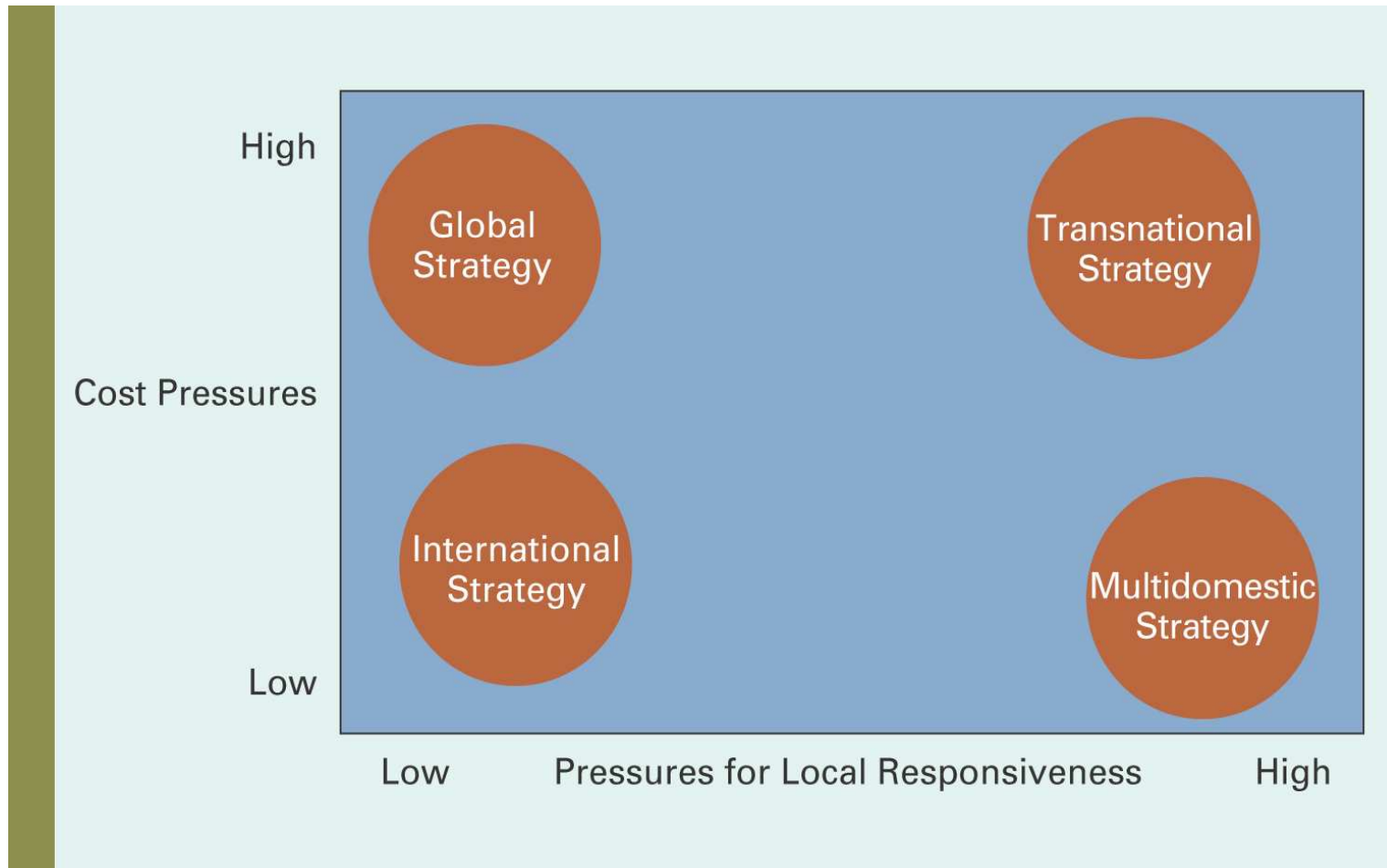
- Profit sanctuaries
 - Countries where a firm derives significant profits
 - Strong market position
- Cross-market subsidization
 - Subsidize price through margins gained in other markets
 - Many consider unfair

Product Factors & Location Strategies

- Two product features affect location decisions:
 - Value to weight ratio.
 - Product serves universal needs
- Two basic strategies:
 - Concentrating in a centralized location and serving the world market
 - Decentralizing them in various regional or national locations close to major markets when opposite conditions exist

International Strategies:

The 4 Generic Strategies



International Strategy

- Global markets are penetrated using exports and licenses
- Create value by transferring valuable core competencies to foreign markets that indigenous competitors lack
- Centralize product development functions at home
- Establish manufacturing and marketing functions in local country but head office exercises tight control over it
- Limit customization of product offering and market strategy
- Strategy effective if firm faces weak pressures for local responsive and cost reductions

Multidomestic Strategy

- Main aim is maximum local responsiveness
- Customize product offering, market strategy including production, and R&D according to national conditions
- Generally unable to realize value from experience curve effects and location economies
- Possess high cost structure

Global Strategy

- Focus is on achieving a low cost strategy by reaping cost reductions that come from experience curve effects and location economies
- Production, marketing, and R&D concentrated in few favorable functions
- Market standardized product to keep cost's low
- Effective where strong pressures for cost reductions and low demand for local responsiveness
 - Semiconductor industry

Transnational Strategy

- To meet competition firms aim to reduce costs, transfer core competencies while paying attention to pressures for local responsiveness
- Global learning
 - Valuable skills can develop in any of the firm's world wide operations
 - Transfer of knowledge from foreign subsidiary to home country and/or to other foreign subsidiaries
- Transnational strategy difficult task due to contradictory demands placed on the organization
 - Example: Caterpillar

4 International Operations Strategies

