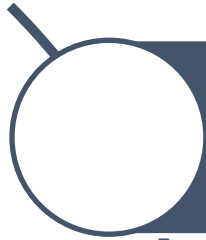
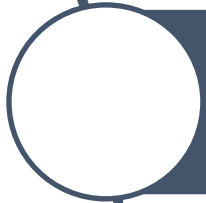


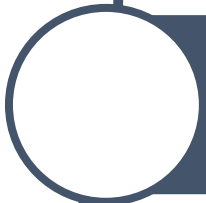
Week 9 Chapters 8 & 9 International Strategy

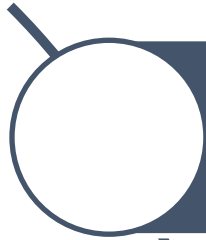


Explain incentives that can influence firms to use an international strategy.

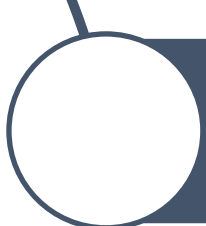


Identify three basic benefits firms achieve by successfully implementing an international strategy.

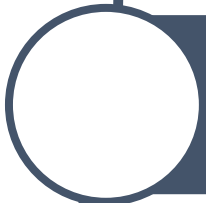




Explain the five modes firms use to enter international markets.



Discuss the two major risks of using international strategies.



DOMESTIC VERSUS GLOBAL MARKETS

DOMESTIC MARKETS

- Relatively stable
- Relatively predictable
- Less complex
- Globalisation is reducing the number of domestic-only markets.

GLOBAL MARKETS

- Unstable
- Unpredictable
- Complex and risky
- Globalisation is enabling global markets.

Figure 8.1 Opportunities and outcomes of international strategy

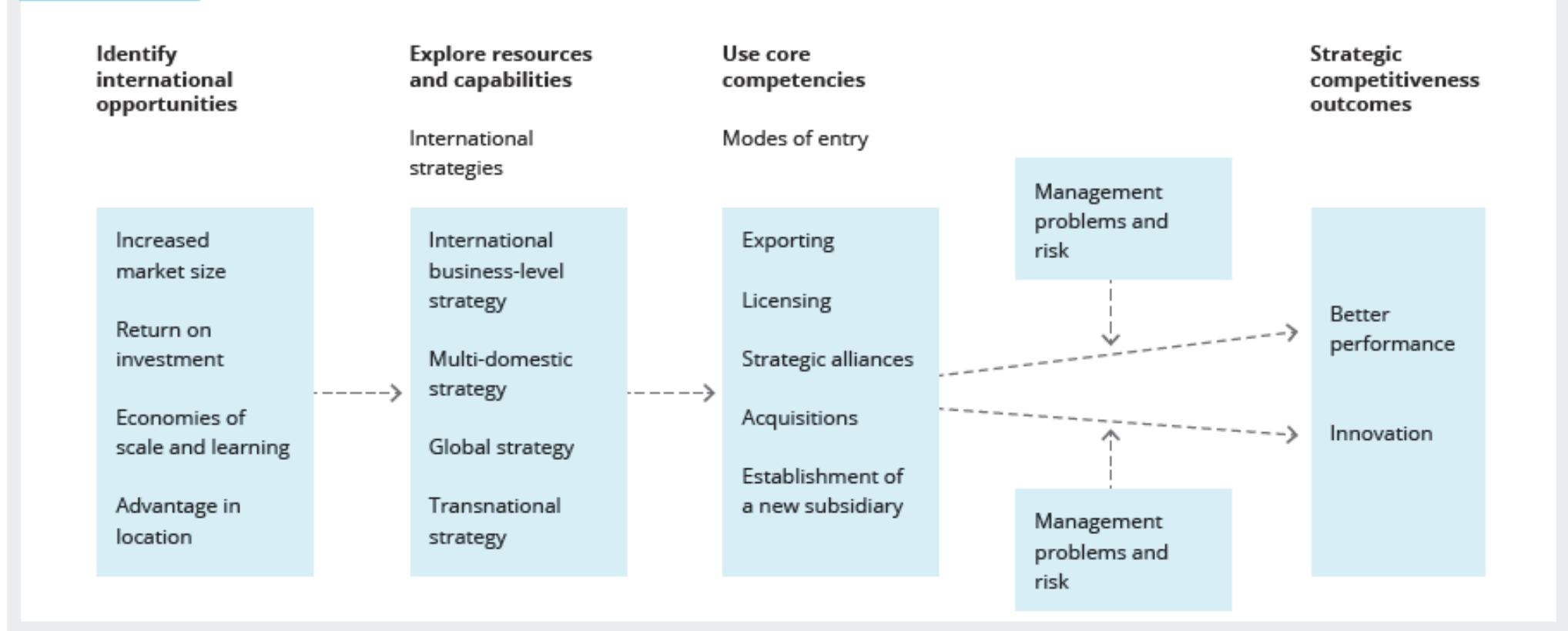
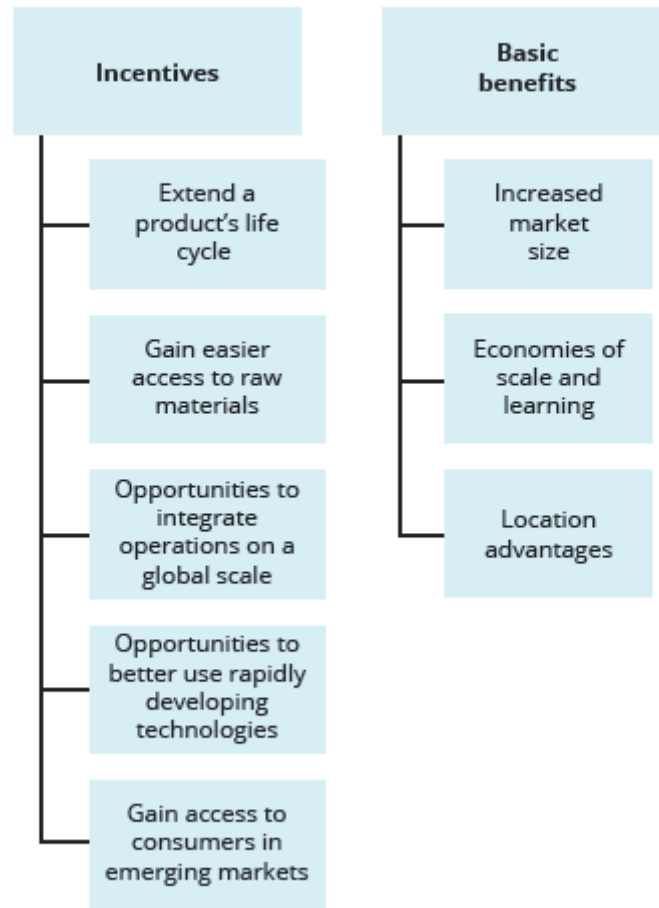


Figure 8.2 Incentives and basic benefits of international strategy



IDENTIFYING INTERNATIONAL OPPORTUNITIES

THREE BASIC BENEFITS OF INTERNATIONAL STRATEGY

1. Increased market size

- The domestic market may lack the size to support efficient scale manufacturing facilities.
- Generally, larger international markets offer higher potential returns and pose less risk for firms than smaller markets.
- The strength of international markets may facilitate efforts to more effectively sell and/or produce products that create value for customers.

IDENTIFYING INTERNATIONAL OPPORTUNITIES

THREE BASIC BENEFITS OF INTERNATIONAL STRATEGY

2. Economies of scale and learning

Expanding size or scope of markets helps achieve economies of scale in manufacturing as well as marketing, R&D or distribution.

- Costs are spread over a larger sales base.
- Profit per unit is increased.

IDENTIFYING INTERNATIONAL OPPORTUNITIES

THREE BASIC BENEFITS OF INTERNATIONAL STRATEGY

2. Economies of scale and learning

- Firms may also be able to exploit core competencies in international markets through resource and knowledge sharing between units and network partners across country borders.
- By sharing resources and knowledge in this manner, firms can learn how to create synergy, which in turn can help each firm learn how to produce higher-quality products at a lower cost.

IDENTIFYING INTERNATIONAL OPPORTUNITIES

THREE BASIC BENEFITS OF INTERNATIONAL STRATEGY

3. Location advantages

- Certain markets may offer superior access to critical resources, such as raw materials, lower-cost labour, energy, suppliers and key customers.
- Cultural influences may be advantageous, as a strong cultural match facilitates international business transactions.
- Physical distances affect cost (e.g. transportation costs) and influence firms' location choices.

INTERNATIONAL STRATEGIES

- Firms choose one or both of two basic types of international strategies:
 - business level
 - corporate level
- International business-level strategies include:
 - cost leadership
 - differentiation
 - focused cost leadership
 - focused differentiation
 - integrated cost leadership/differentiation

INTERNATIONAL STRATEGIES

- International corporate-level strategies include:
 - multi-domestic
 - global
 - transnational (combination of multi-domestic and global strategies).

INTERNATIONAL STRATEGIES: DETERMINANTS OF NATIONAL ADVANTAGE

- **Factors of production** are the inputs necessary to compete in any industry. These include
 - labour
 - land
 - natural resources
 - capital
 - infrastructure
- **Basic factors** include natural and labour resources
- **Advanced factors** include digital communication systems and an educated workforce

INTERNATIONAL STRATEGIES: DETERMINANTS OF NATIONAL ADVANTAGE

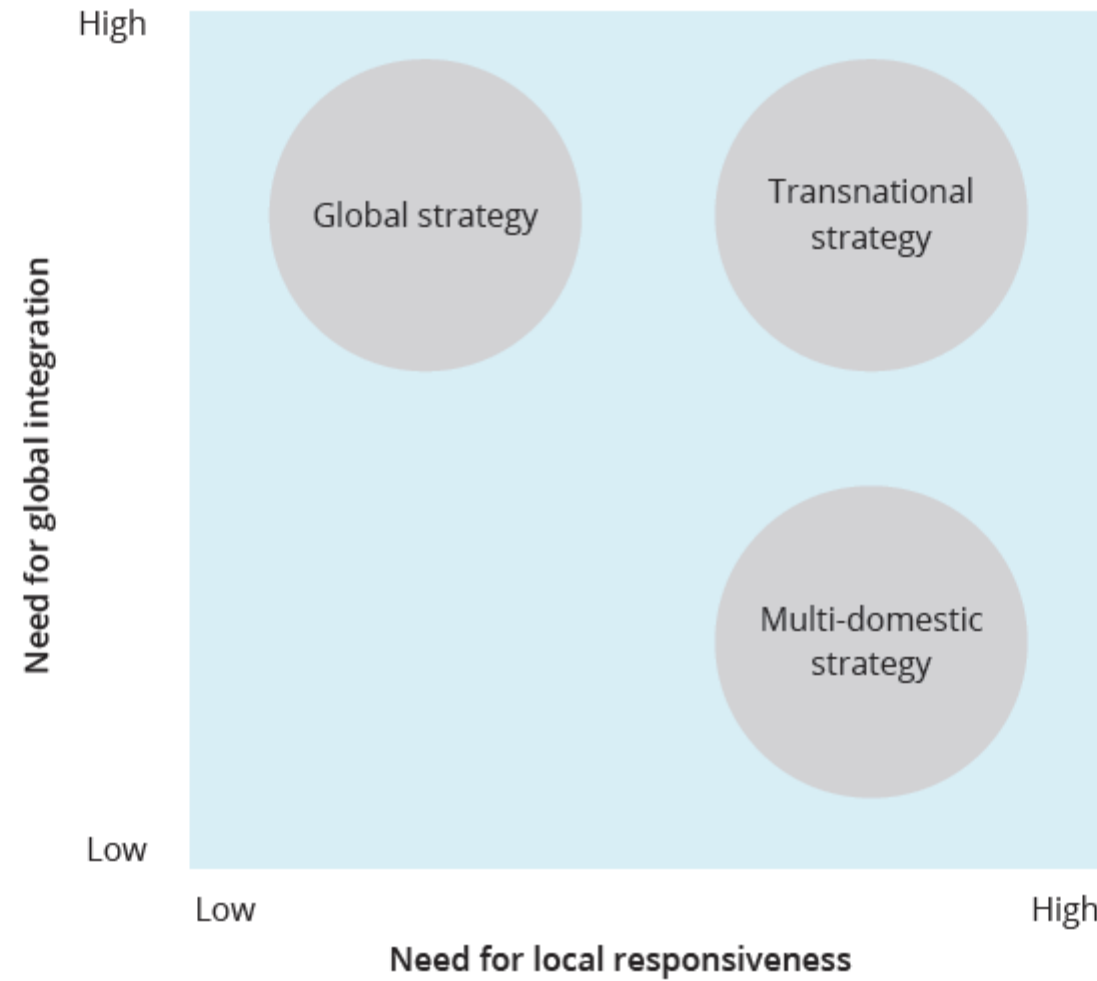
- **The pattern of firm strategy, structure and rivalry** among firms may relate to:
 - common technical training
 - methodological product and process improvement
 - cooperative and competitive systems.

INTERNATIONAL STRATEGIES: INTERNATIONAL CORPORATE-LEVEL STRATEGY

- Strategy focuses on the scope of operations, including:
 - product diversification
 - geographic diversification.
- The strategy is required when the firm operates in:
 - multiple industries
 - multiple countries or regions.
- Headquarters guides the strategy.
 - However, business or country-level managers can have substantial strategic input.

Figure 8.4

International corporate-level strategies



INTERNATIONAL STRATEGIES: INTERNATIONAL CORPORATE-LEVEL STRATEGY

Multi-domestic

Strategy and operating decisions are decentralized to strategic business units (SBU) in each country	Products and services are tailored to local markets.	Business units in each country are independent.	The strategy assumes markets differ by country or regions	The focus is on competition in each market
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INTERNATIONAL STRATEGIES: INTERNATIONAL CORPORATE-LEVEL STRATEGY

Global

Firm offers standardised products across country markets, with the competitive strategy being dictated by the home office	Strategic and operating decisions are centralised at the home office.	This involves interdependent SBUs operating in each country .	The home office attempts to achieve integration across SBUs, adding management complexity	The strategy produces lower risk
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INTERNATIONAL STRATEGIES: INTERNATIONAL CORPORATE-LEVEL STRATEGY

- Global strategy
 - Is facilitated by improved global reporting standards (i.e. accounting and financial)
 - Emphasises economies of scale
 - Is less responsive to local market opportunities
 - Requires resource sharing and coordination across borders (hard to manage)
 - Offers less effective learning processes (pressure to conform and standardise)
 - Is more effective in areas where regional integration is occurring

INTERNATIONAL STRATEGIES: INTERNATIONAL CORPORATE-LEVEL STRATEGY

Transnational

- Transnational strategy
 - The strategy seeks to achieve both global efficiency and local responsiveness, which are competing goals.
 - It requires both:
 - centralisation – global coordination and control
 - decentralisation – local flexibility.
 - The global competitive landscape fosters intense competition, and thus pressures to reduce costs, while at the same time information sharing has intensified the desire for specialised, customised, differentiated products.

ENVIRONMENTAL TRENDS: LIABILITY OF FOREIGNNESS

- The **liability of foreignness** (i.e. the costs associated with entering foreign markets).
- It also involves overcoming and coordinating four types of distances:
 - cultural
 - administrative (unfamiliar operating environments)
 - geographic (challenges of distance coordination)
 - economic.

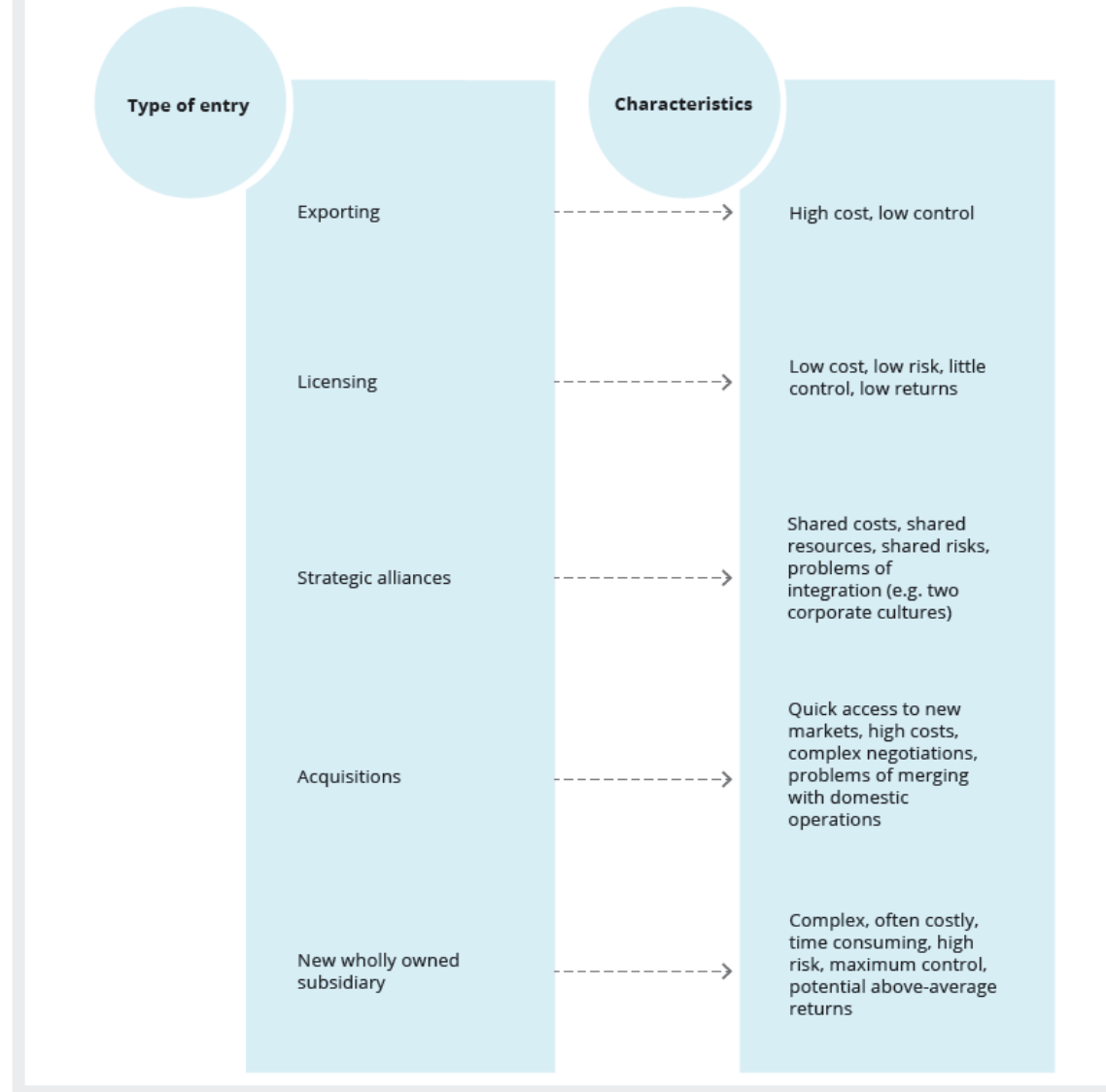
ENVIRONMENTAL TRENDS: REGIONALISATION

- Global strategies are not as prevalent today, as they are difficult to implement even with Internet-based strategies.
- Regional focus allows firms to marshal resources to compete effectively in regional markets.
- Regionalisation helps increase understanding of a market, including cultures, legal and social norms.

ENVIRONMENTAL TRENDS: REGIONALISATION

- Firms achieve some economies through coordination and sharing of resources.
- Trade agreements (e.g. EU, ASEAN) promote trade flows across national boundaries within their respective regions.
- Most firms enter regional markets sequentially, beginning in more familiar markets and introducing their largest and strongest lines of business first.

Figure 8.5 Modes of entry and their characteristics



CHOICE OF INTERNATIONAL ENTRY MODE



CHOICE OF INTERNATIONAL ENTRY MODE: EXPORTING

■ **Exporting**

- occurs when a firm sends products it produces in its domestic market to international markets
 - requires minimal expense to establish operations in the host country
 - often involves contractual agreements
 - involves high transportation costs.
- Tariffs may be imposed
 - There is little control over marketing and distribution.

CHOICE OF INTERNATIONAL ENTRY MODE: LICENSING

- An agreement is formed that allows a foreign company to purchase the right to manufacture and sell a firm's products within a host country's market or a set of markets.
 - Licensee:
 - Pays a **royalty** to the licensor on each unit sold
 - Takes higher risk
 - Invests in manufacturing

CHOICE OF INTERNATIONAL ENTRY MODE: STRATEGIC ALLIANCE

- **A strategic alliance:**
 - is collaboration with a partner firm for international market entry
 - involves shared risks and resources
 - facilitates development of core competencies
 - involves fewer resources and costs required for entry
 - may involve possible incompatibility, conflict or lack of trust with partner
 - is difficult to manage.

CHOICE OF INTERNATIONAL ENTRY MODE: ACQUISITIONS

- In a **cross-border acquisition**, a firm from one country acquires a stake in or purchases a firm located in another country. The acquisition:
 - allows for quick access to market
 - involves possible integration difficulties
 - is costly (debt financing)
 - has complex negotiations and transaction requirements.

CHOICE OF INTERNATIONAL ENTRY MODE: NEW WHOLLY OWNED SUBSIDIARY

- In a **greenfield venture**, a firm invests directly in another country or market by establishing a new wholly owned subsidiary. The venture:
 - is costly
 - involves complex processes
 - allows for maximum control
 - has the highest potential returns
 - carries high risk.

CHOICE OF INTERNATIONAL ENTRY MODE: DYNAMICS OF MODE OF ENTRY

- Wholly owned subsidiary may be preferred if:
 - intellectual property (IP) rights in emerging economy are not well protected
 - the number of firms in the industry is accelerating
 - the need for global integration is high.
- Acquisitions or greenfield ventures are used to secure a stronger presence in international markets.

CHOICE OF INTERNATIONAL ENTRY MODE: EXPORTING – What's the best solution?

SITUATION

A firm has no foreign manufacturing expertise and requires investment only in distribution.

OPTIMAL
SOLUTION

EXPORTING

CHOICE OF INTERNATIONAL ENTRY MODE: EXPORTING - What's the best solution?

SITUATION

A firm needs to facilitate the product improvements necessary to enter foreign markets.

OPTIMAL
SOLUTION

LICENSING

CHOICE OF INTERNATIONAL ENTRY MODE: EXPORTING – What's the best solution?

SITUATION

A firm needs to connect with an experienced partner already in the target market.

OPTIMAL
SOLUTION

STRATEGIC
ALLIANCE

CHOICE OF INTERNATIONAL ENTRY MODE: EXPORTING – What's the best solution?

SITUATION

A firm needs to reduce its risk through the sharing of costs.

OPTIMAL
SOLUTION

STRATEGIC
ALLIANCE

CHOICE OF INTERNATIONAL ENTRY MODE: EXPORTING – What's the best solution?

SITUATION

A firm is facing uncertain situations such as an emerging economy in its target market.

OPTIMAL
SOLUTION

STRATEGIC
ALLIANCE

CHOICE OF INTERNATIONAL ENTRY MODE: EXPORTING – What's the best solution?

SITUATION

A firm must act quickly to gain rapid access to its new market, where corruption is not an issue.

OPTIMAL
SOLUTION

ACQUISITION

CHOICE OF INTERNATIONAL ENTRY MODE: EXPORTING – What's the best solution?

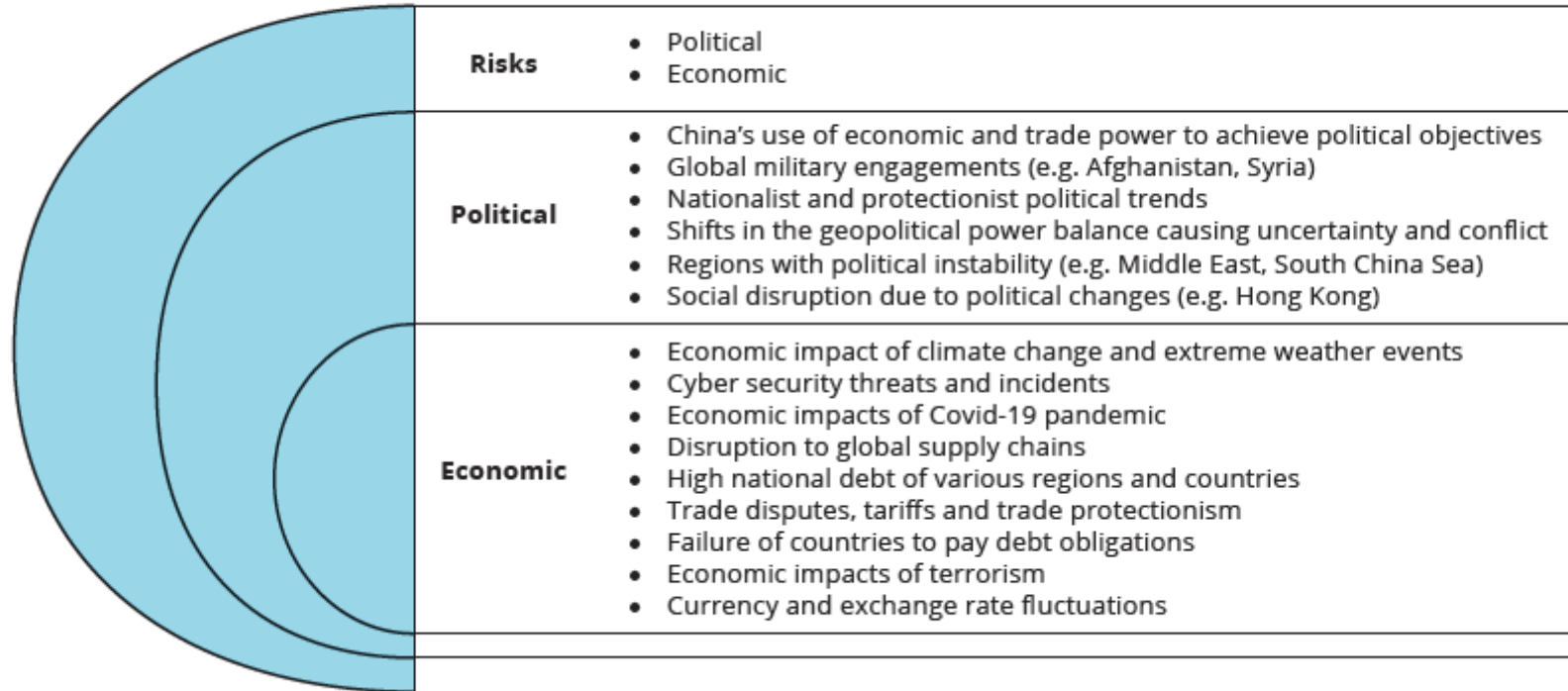
SITUATION

A firm's IP rights in an emerging economy are not well protected, the number of firms in the industry is growing fast and the need for global integration is high.

OPTIMAL
SOLUTION

WHOLLY OWNED
SUBSIDIARY
(Greenfield
venture)

Figure 8.6 Risks in the international environment



RISKS IN AN INTERNATIONAL ENVIRONMENT: ECONOMIC RISKS

- International strategy implementation may be disrupted by the following examples of economic risk:
 - government oversight and control of economic/financial capital
 - weak intellectual property (IP) rights protections
 - investment losses due to political risks
 - terrorism
 - security risk of foreign firms acquiring key natural resources or strategic IP.

STRATEGIC COMPETITIVENESS OUTCOMES: ENHANCED INNOVATION

- Exposure to new products and markets
- Opportunity to integrate new knowledge into operations
- Generation of resources to sustain innovation efforts
- The complex relationship among international geographic diversification, innovation and returns.

STRATEGIC COMPETITIVENESS OUTCOMES: ENHANCED INNOVATION

- Some level of performance is necessary to provide the resources a firm needs to diversify geographically; in turn, geographic diversification provides incentives and resources to invest in R&D.
- Effective R&D should enhance a firm's returns, which then provide more resources for continued geographic diversification and investment in R&D.

THE CHALLENGE OF INTERNATIONAL STRATEGIES: LIMITS TO INTERNATIONAL EXPANSION

- Several reasons explain the limits to the positive effects of the diversification associated with international strategies:
 - geographic dispersion
 - trade barriers
 - logistical costs
 - cultural diversity and barriers
 - complexity of competition
 - relationship between firm and host country
 - other country differences.

Group Discussion: Chapter 8 Experiential Exercises 1 and 2 pp. 445-446