

The background of the slide is a white rectangular area containing a large number of colorful pills. There are blue pills, red pills, and one prominent green pill in the lower-left corner. The pills are scattered across the white area, with some overlapping. The text is overlaid on this background.

International Management

MPH AIMA

Formulating Strategy

Chapter Learning Goals

- 1. Understand why companies engage in international business.**
- 2. Learn the steps in global strategic planning and the models available to direct the analysis and decision making involved.**
- 3. Appreciate the techniques of environmental assessment, internal and competitive analysis, and how those results can be used to judge the relative opportunities and threats to be considered in international strategic plans.**



Chapter Learning Goals

- 4. Profile the types of strategies available to international managers—both on a global level and on the level of specific entry strategies for different markets.**
- 5. Gain insight into the issues managers face when strategic planning for the EU market.**



Opening Profile: Global Companies Take Advantage of Opportunities in South Africa

- **Acer Africa**



- **Alcatel**



- **General Electric**



Strategic Planning and Strategy

Strategic Planning

- The process by which a firm's managers evaluate the future prospects of the firm and decide on appropriate strategies to achieve long-term objectives

Strategy

- The basic means by which the firm competes



Reasons for Going International

Companies “go international” for different reasons, some reactive (or defensive) and some proactive (or aggressive)

Reactive reasons include

- Global competition
- Trade barriers
- Regulations and restrictions by home country government
- Customer demands

Proactive reasons include:

- Economies of Scale
- Growth Opportunities
- Resource access and Cost savings
- Incentives



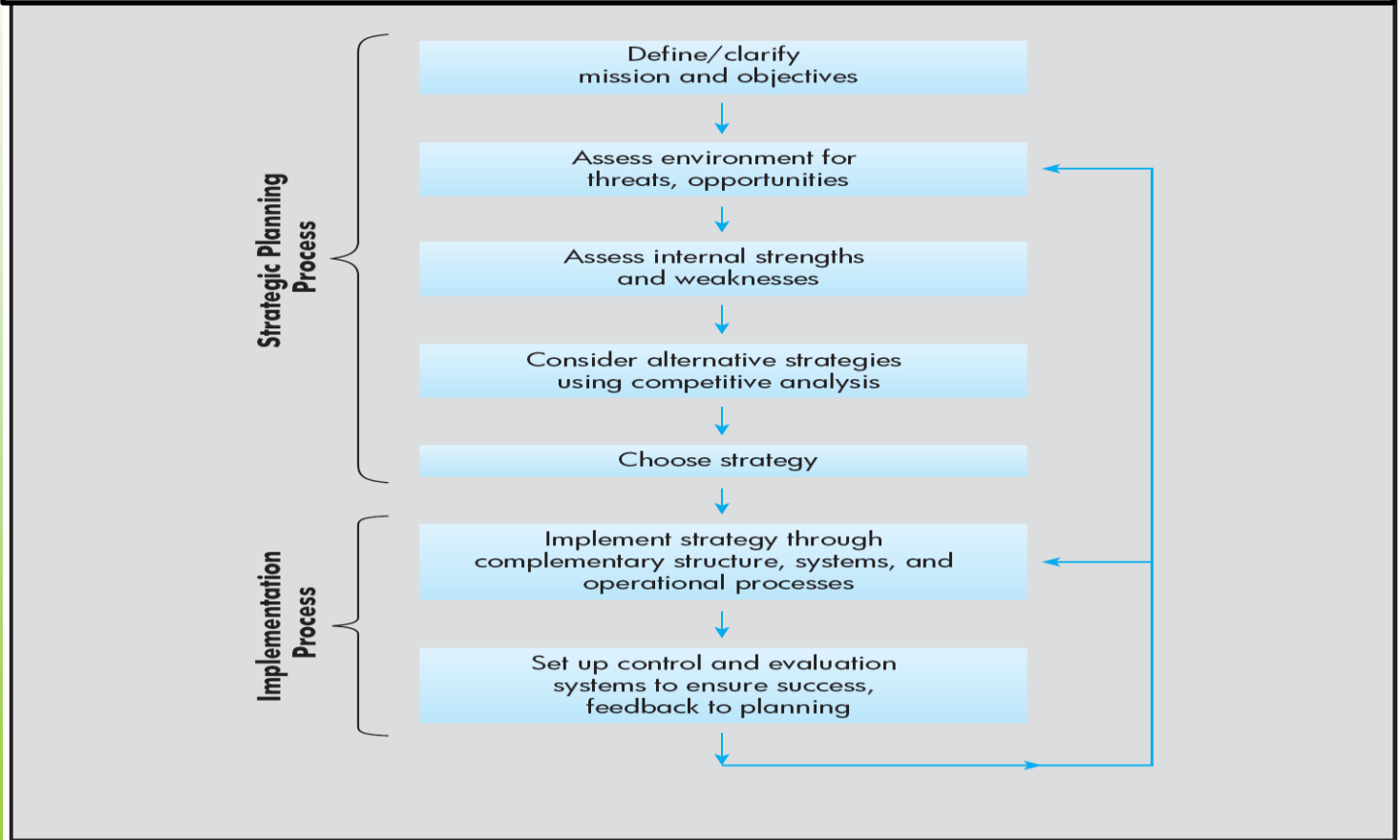
Strategic Formulation Process

Global strategic planning is more complex than domestic strategic planning

- the planning phase
- the implementation phase

Strategic Formulation Process

EXHIBIT 6-1 The Strategic Management Process



Planning Process

1. Mission and Objectives

Sanyo

Corporate philosophy: to make products and services indispensable for people all over the world, offering a more enjoyable life. Digital technology and core competence generate joy, excitement, and impact, a more comfortable life in harmony with the global environment.

Siemens

Success depends on success of our customers. We provide experience and solutions so they can achieve their objectives fast and effectively. We turn our people's imagination and best practices in successful technologies and products. This makes us a premium investment for our shareholders. Our ideas, technologies and activities help create a better world.

Planning Process

1. Mission and Objectives

Marketing

Total company market share—worldwide, regional, national
Annual percentage sales growth
Annual percentage market share growth
Coordination of regional markets for economies of scale

Production

Relative foreign versus domestic production volume
Economies of scale through global production integration
Quality and cost control
Introduction of cost-efficient production methods

Finance

Effective financing of overseas subsidiaries or allies
Taxation—globally minimizing tax burden
Optimum capital structure
Foreign-exchange management

Profitability

Long-term profit growth
Return on investment, equity, and assets
Annual rate of profit growth

Research and Development

Develop new products with global patents
Develop proprietary production technologies
Worldwide research and development labs

A firm's GLOBAL OBJECTIVES flow from its mission, usually fall into the areas of marketing, profitability, finance, production, and research and development.

Planning Process

2. Environmental Assessment

- The first major step in weighing international strategic options
- **Environmental scanning** - process of information-gathering and forecasting relevant trends, competitive actions, and circumstances that will affect operations in geographic areas of potential interest

Planning Process

3. Internal Analysis

- Determines which areas of the firm's operations represent strengths or weaknesses compared to competitors so that the firm may use that information to its strategic advantage.
- Identification of key success factors

Internal Analysis

- **Key Success Factors:**
 - **Technological capability:** **Microsoft**

Microsoft
 - **Distribution channels:** **Wal-Mart**

Save money. Live better.
 - **Promotion capabilities:** **Disney**


Planning Process

4. Competitive analysis

- Firm's managers assess the firm's capabilities and key success factors compared to those of its competitors
- SWOT analysis
- CORE COMPETENCIES

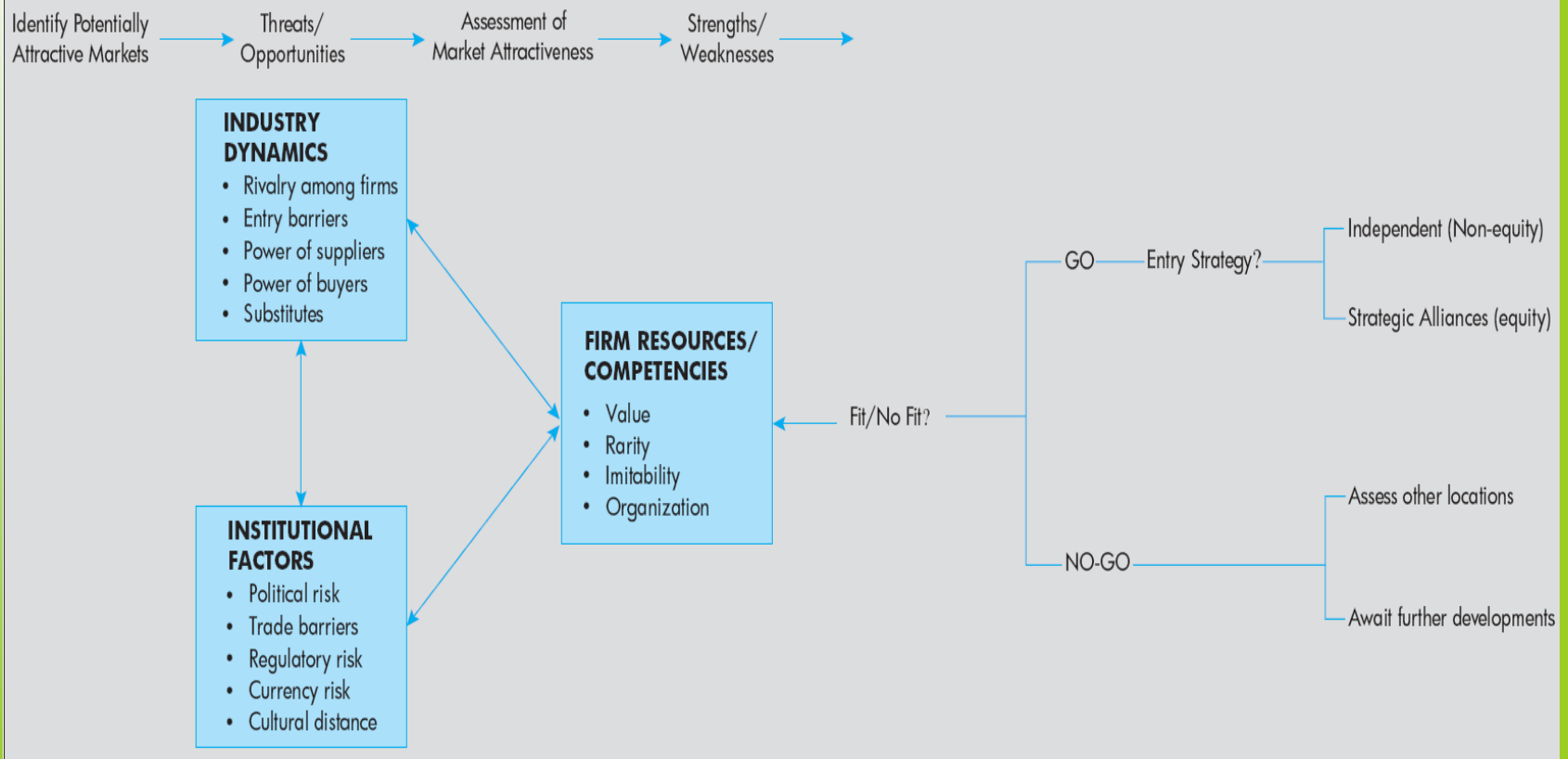
A U.S. Firm Compared with its International Competitors in Malaysian Market⁴⁷

Comparison Criteria	A (U.S. MNC)	B (Korean MNC)	C (Local Malaysian Firm)	D (Japanese MNC)	E (Local Malaysian Firm)
Marketing capability	0	0	0	0	—
Manufacturing capability	0	+	0	0	0
R&D capability	0	0	0	—	0
HRM capability	0	0	0	0	0
Financial capability	+	—	0	0	—
Future growth of resources	+	0	—	0	—
Quickness	—	0	+	—	0
Flexibility/adaptability	0	+	+	0	0
Sustainability	+	0	0	0	—

Planning Process

5. Strategic decision-making models

EXHIBIT 6-6 A Hierarchical Model of Strategic Decision Making



Regionalization/ Localization

- **Global strategic alternatives -**
determining the overall approach to the global marketplace a firm wishes to take

- **Treating the world as an undifferentiated worldwide marketplace**
- **The impetus:**
 - **Regional trading blocks**
 - **Declining tariffs**
 - **Information technology explosion**

- **Local markets are linked together within a region, allowing local responsiveness.**
- **The impetus:**
 - **Unique consumer preferences**
 - **Domestic subsidies**
 - **New production technologies**

Global and International Strategy alternatives

- **Entry strategic alternatives** – determine the specific entry strategy is appropriate for each country in which the firm plans to operate.



Entry strategic alternatives

- **Exporting**
 - relatively low-risk way to begin international expansion
 - an export management company may be retained
- **Licensing**
 - licensing agreements grant rights to a firm in the host country to either produce or sell a product, or both
 - suitable for the mature phases of the product life cycle
 - relatively low-risk strategy
 - it avoids the tariffs and quotas usually imposed on exports
 - lack of control over the licensee's activities. (Kofola)

Kofola

- Czech Republic
- Slovak Republic
- Russia
- Poland



Portfolio



Kofola

- 2000 – HOOP got the license for bottling Kofola
- 2002 – bought the trade mark Kofola and the recipe
- ...
- 2010 – got license for Orangina Schweppes International



Entry strategic alternatives

- **Franchising**
 - relatively little risk
 - the franchiser licenses its trademark, products and services and operating principles for an initial fee and ongoing royalties
 - strategy for small businesses, because outlets require little investment in capital or human resources

Segafredo

- Established 1973 Italy
- Today 27 daughter companies
- Europe, South America, USA, Australia

Group Segafredo Zanetti

- Nossa Senhora da Guia Sociedade Exportadora de Cafe Ltda
- Cofiroasters S.A.
- La San Marco
- Segafredo Espresso Worldwide
 - Franchising





Segafredo

- 16 coffee houses Segafredo Espresso in CZ
- More than milion cups of coffee/year
- The only company in the world that interconnect all phases of coffee manufacturing and preparation
- Turnover more than 1,2 mld \$

Entry strategic alternatives

- **Contract Manufacturing**

- common means of utilizing cheaper labor overseas is to contract for production of finished goods or component parts

KOH-I-NOOR

- Since 1790
- 2004 factory KOH-I-NOOR Nanjing Stationery CO. Ltd. in Nanjing, China – a part of production has been removed from the Czech republic



Entry strategic alternatives

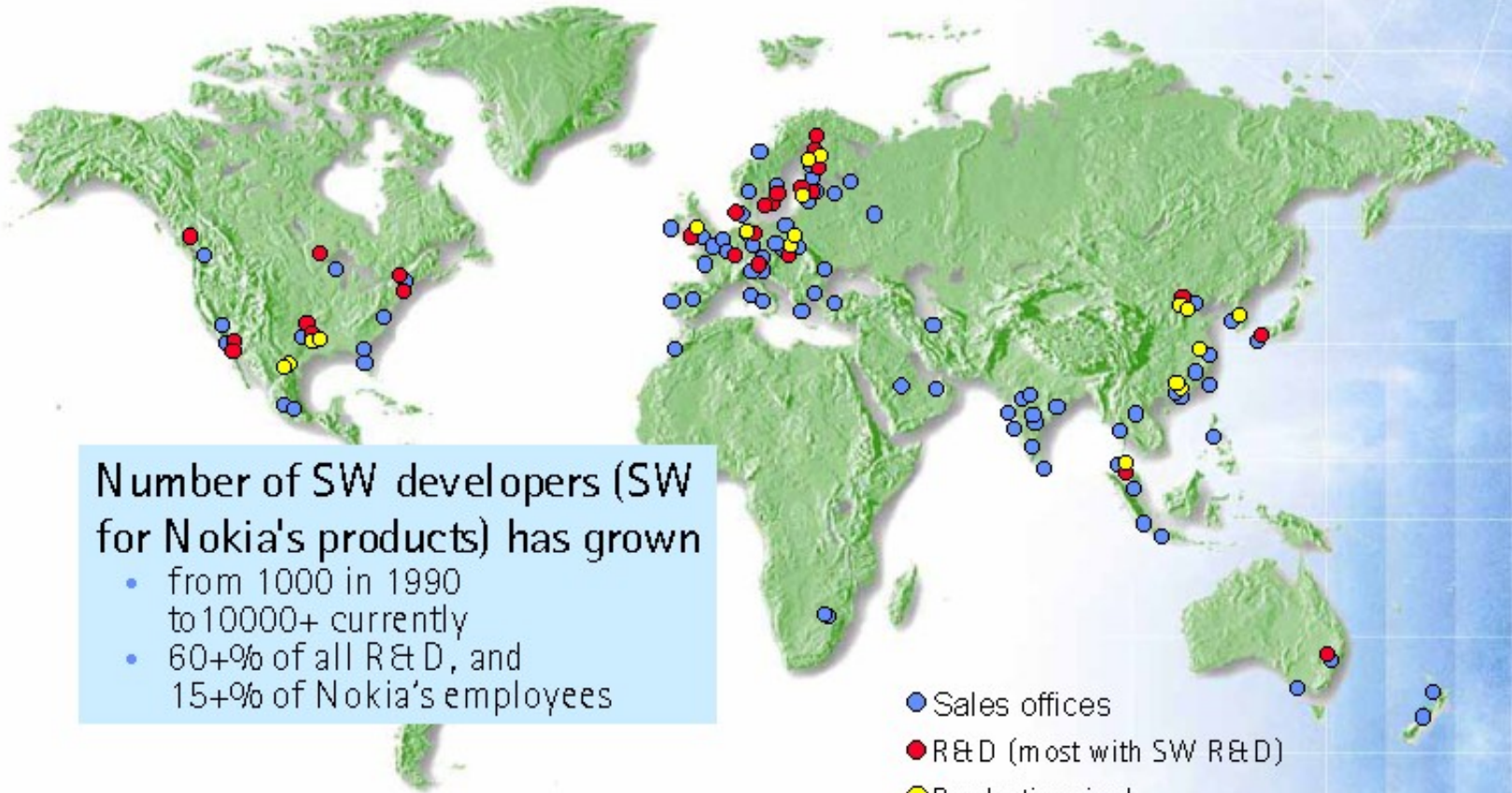
- **Service-Sector Outsourcing**
 - the process of setting up overseas offices, call centers, and research labs to low-wage countries in order to reduce the cost of white-collar employees.
 - GE, Accenture, Oracle
 - “India is the absolute leader in IT services offered on the world market”.

Entry strategic alternatives

- **Turnkey Operations**
 - company designs and constructs a facility abroad, trains local personnel, and then turns the key over to local management for a fee.
- **Management Contracts**
 - give the rights to a foreign company to manage the daily operations of a business, but not to make decisions regarding ownership, financing, or strategic and policy changes
- **International Joint Ventures**
 - involves an agreement by two or more companies to produce a product or service jointly
 - ownership is shared, typically by an MNC and a local partner
 - rapid entry into new markets by means of an already established partner who has local contacts and familiarity with local operations.
- **Fully owned subsidiary**
 - total control of operations, full range of risk
 - Nokia

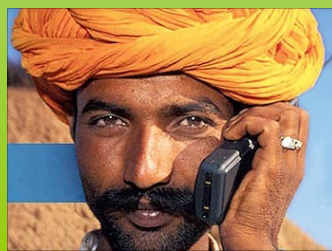
Nokia

Nokia Software (SW) R&D Worldwide



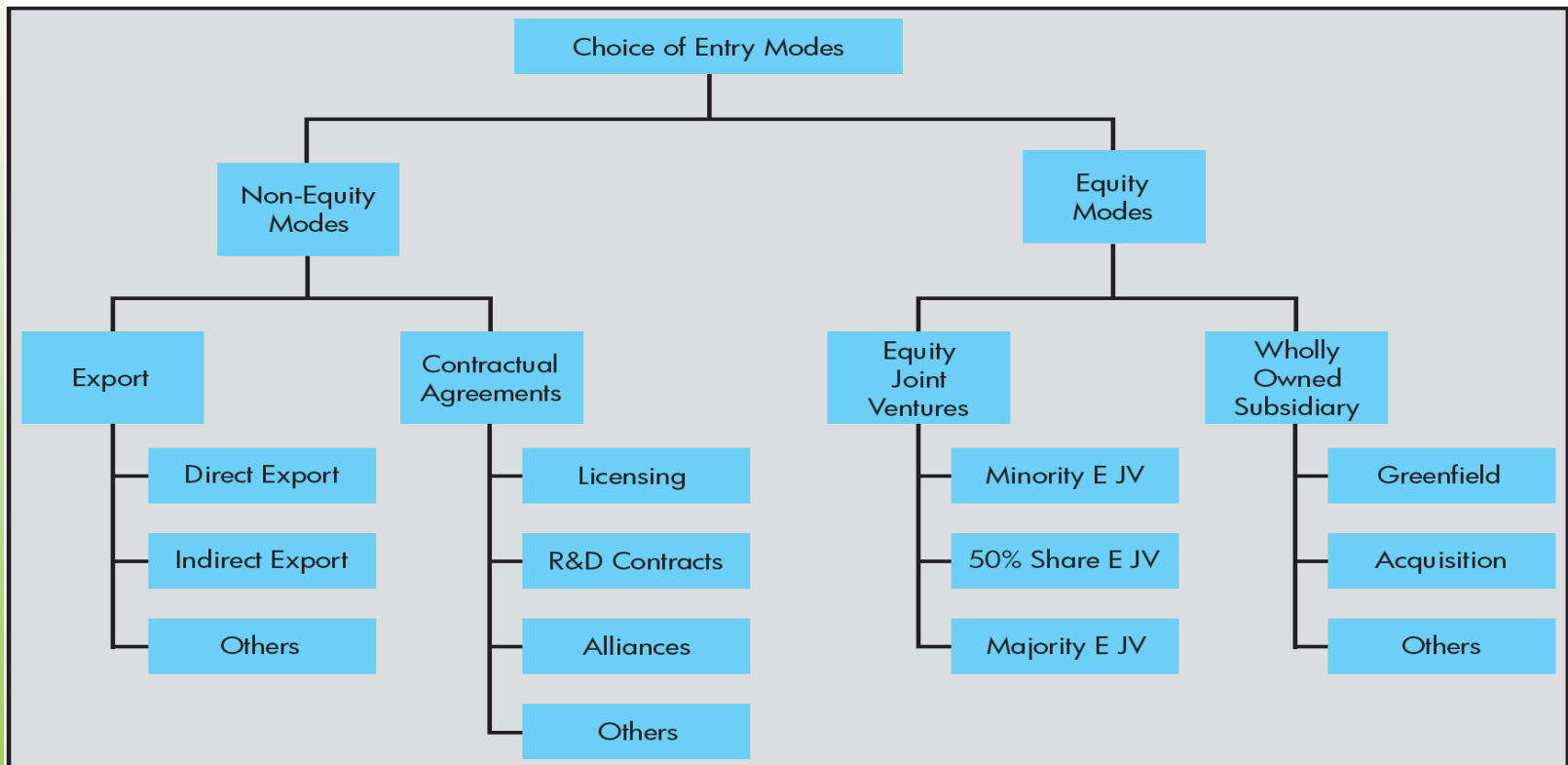
Nokia

- India – entry 2005
- New mobile development according to the local customers needs
- Now – market leader in India



Strategic Choice

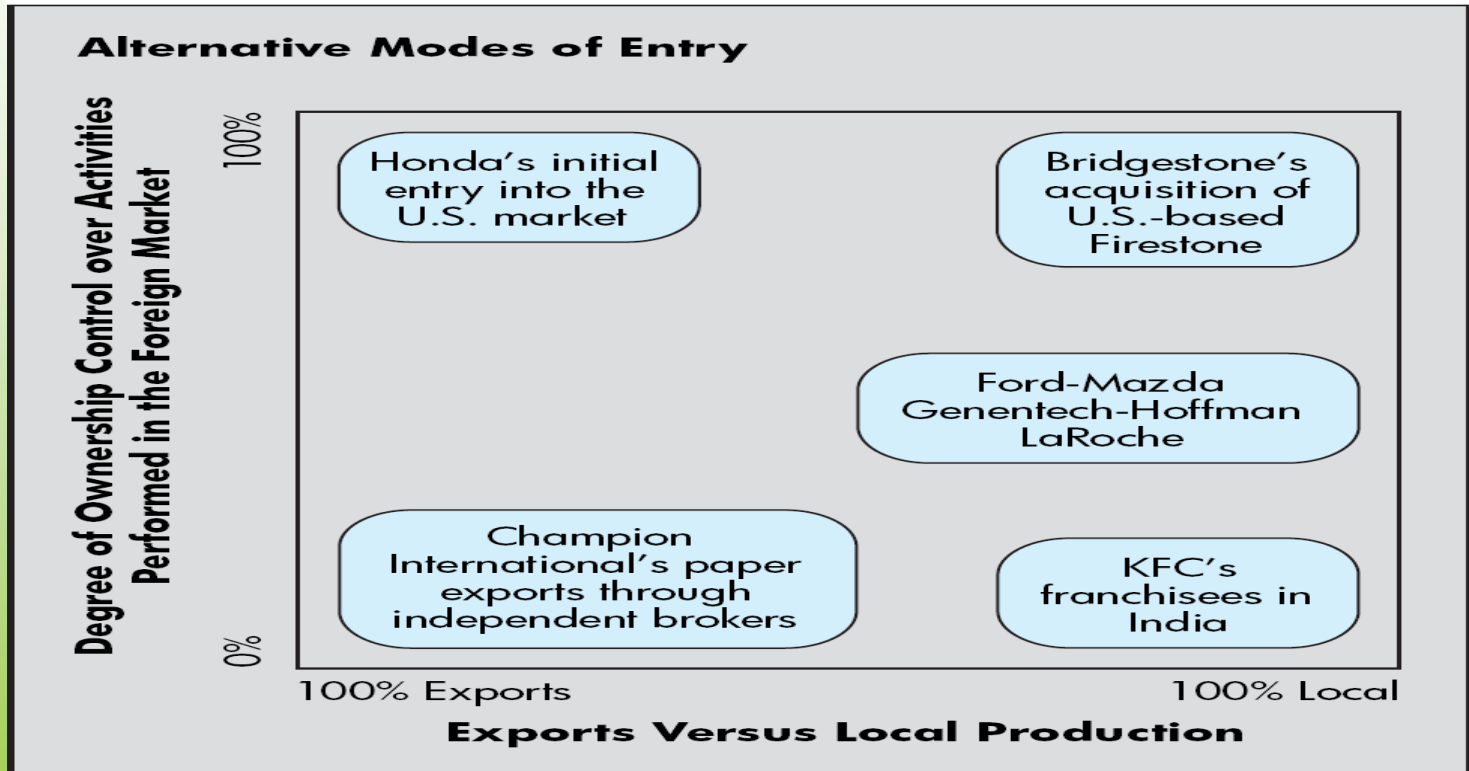
EXHIBIT 6-10 A Hierarchical Model of Choice of Entry Modes



SOURCE: Yigang Pan and David K. Tse, "The Hierarchical Model of Market Entry Modes," *Journal of International Business Studies*, 31, no. 4 (4th Quarter 2000): 535–554.

Strategic Choice

EXHIBIT 6-10 Alternative Modes of Entry



SOURCE: Anil K. Gupta and Vijay Gorindarajan, "Managing Global Expansion: A Conceptual Framework," *Business Horizons*, March/April 2000, pp. 45-54.

Which entry mode to choose?

- all of these modes involve resource commitments , firms' initial choices of a particular mode are difficult to change without considerable loss of time and money [Root 1987].
- factors that influence the choice of an entry mode for a selected target market
- Dunning [1977, 1980, 1988] - the choice of an entry mode for a target market is influenced by three types of determinant factors: **ownership advantages of a firm, location advantages of a market, and internalization advantages of integrating transactions within the firm.**

Which entry mode to choose?

- Extended Dunning's theory
- Not predictive – it does not help to find out how the FDI will evolve in the future, it is rather descriptive – it helps companies to ask the right question about global corporate strategy
- Useful check-list approach
- Focuses on 3 main questions:

Why do companies go abroad? (Ownership advantages)

Where the company wants to operate? (Location advantages)

How the company intends to enter the market?

Which entry mode to choose?

Why do companies go abroad? (Ownership advantages)

- Monopolistic advantages
- Technology, knowledge
- Economies of scale
- Reputation
- Organizational architecture (logistic models,..)

Company has to investigate to what extent those strengths allow the company to differentiate itself from competitors on foreign markets

Which entry mode to choose?

Where the company wants to operate? (Location advantages)

- Factors that determine the location decision:
 - Sources of national comparative advantage
 - Sources of regional comparative advantage
 - The degree to which four freedoms are realized
 - Political, social, cultural aspects

Which entry mode to choose?

How the company intends to enter the market?

- entry mode that minimizes transaction cost
- internalization advantages
- typology of market entry strategies:
 - home based strategies
 - market-seeking strategies
 - value chain strategies



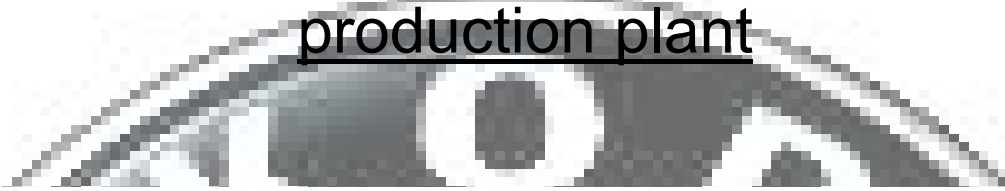
J4



J 4 was established in 1994 and deals with the development and production of cyclothermic tunnel band baking ovens and with delivering complete baking and bakery lines and bakeries. The ovens are not only designed for baking rye, rye-wheat or wheat bread, but also various types of bread and pastries, fancy breads, pies, stuffed cakes, cookies, gingerbread, sponge cake biscuits, salted sticks and numerous other baked products.

During the short time of its existence, the company has become a lead player on European markets, and markets in the Middle East and Far East. At the present the company supplies baking equipment to England, Belarus, Brazil, Croatia, Cyprus, the Czech Republic, Egypt, England, France, Germany, Hungary, Italy, Kuwait, Moldavia, Mongolia, the Netherlands, Romania, Russia, Saudi Arabia, Slovakia, Spain, Sweden and the Ukraine.

Škoda auto a.s. – Russia – market seeking strategy – production plant



- "Opening our first production plant in Russia is a milestone in Škoda Auto's expansion to eastern markets, because the region is growing very dynamically and we look at it with high hopes as far as the future of Škoda Auto is concerned," said Škoda Auto BOD Chairman Reinhard Jung.
- The key factor in selecting the location for the Group's plant was the fact that the biggest portion of the sales volume in the Russian market is in Moscow that is less than 200 km away from Kaluga. Another important thing is the transport infrastructure, because Moscow and Kaluga are linked by both railway and a motorway. On top of that, the technical university in Kaluga is likely to be a source of qualified manpower in the future.



Thank you for your attention.