

**MUNI
ECON**

International Management

Formulating Strategy

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

- Acer Africa
- Alcatel
- General Electric
- Unilever

Reasons for Going International

- 1. Why companies go international? Write one reason.**
- 2. Why companies go international? Write one reason.**
- 3. Why companies go international? Write one reason.**
- 4. Why companies go international? Write one reason.**
- 5. Why companies go international? Write one reason.**
- 6. Why companies go international? Write one reason.**

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 demand



[Qatar Airways to expand in South Africa](#)

Reasons for Going International

Proactive reasons include:

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



AVON

Key terms

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

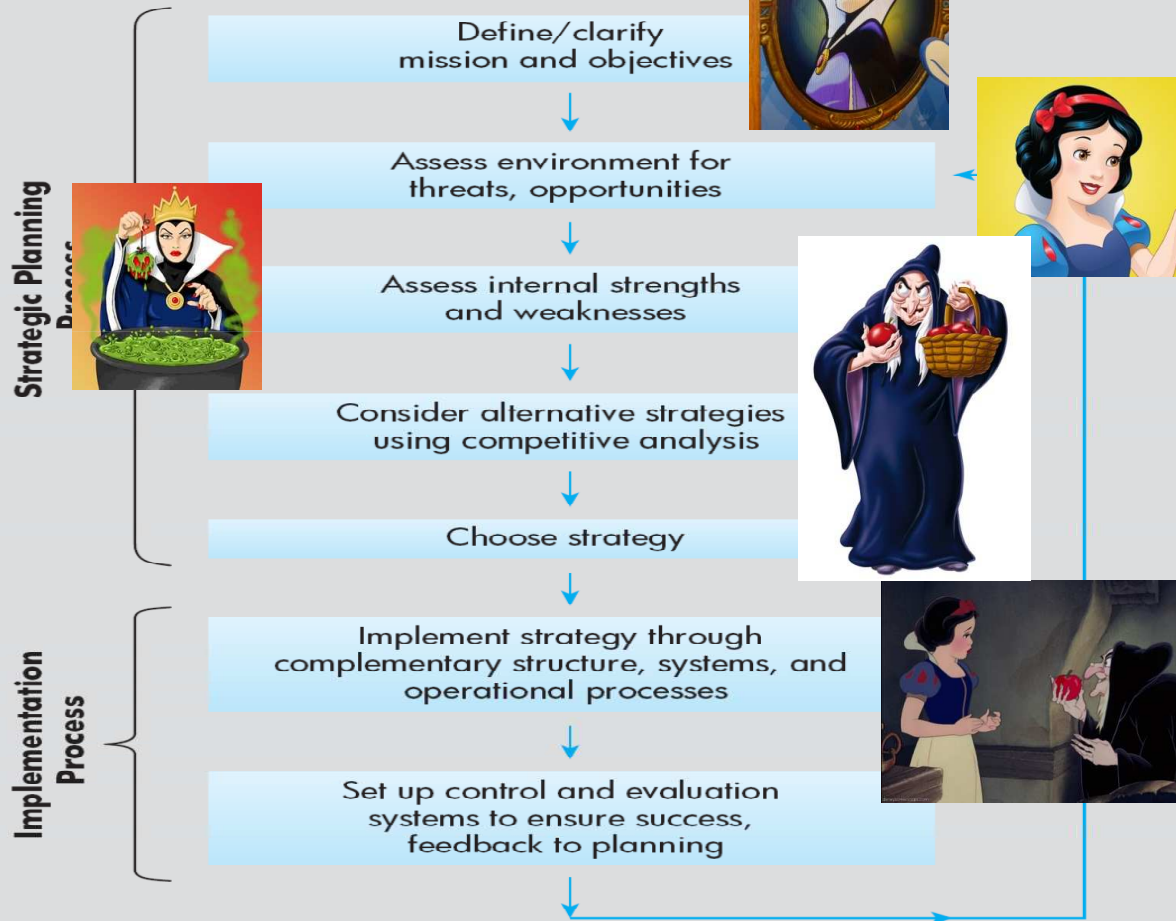
The basic means by which the firm competes

Strategic Formulation Process

Global strategic planning is more complex than domestic strategic planning

- the planning phase
- the implementation phase

The Strategic Management Process



Mission and Objectives

The following questions must be answered to determine the firm's basic mission:

- What is the firm's business?
- What is the reason for its existence?

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.

Mission and Objectives

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

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

Environmental Assessment

The first major step in weighing international strategic options

- **Information gathering/ Sources of information** (data can be tampered with by government officials – e.g. South Korea – conflicting official figures)
- **Environmental scanning** - process of forecasting relevant trends, competitive actions, and circumstances that will affect operations in geographic areas of potential interest

Environmental Assessment

The most common methods for conducting an environmental scan are as follows:

- Asking experts in the industry to discuss industry trends and to make projections about the future.
- Using historical industry trends to forecast future developments.
- Asking knowledgeable managers to write scenarios describing what they foresee for the industry over the next two to three years.
- Using computers to simulate the industry environment and to generate likely future developments.

Porter's five forces that determine industry competitiveness:

- buyers
- suppliers
- potential new entrants to the industry
- the availability of substitute goods and services
- rivalry among the competitors.

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
- Identifying resources and competencies, value chain analysis
- Identification of key success factors

Technological capability: **Microsoft**

Distribution channels: **Wal-Mart**

Promotion capabilities: **Disney**

Online sales (know how): **Tesco**

Competitive analysis and generic strategies

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

Generic strategies

Cost strategy: a strategy that relies on low price through the pursuit of cost reductions

Differentiation strategy: a strategy directed toward creating something that is perceived as being unique

Focus strategy: a strategy that concentrates on a particular buyer group and segments

Global and International Strategy alternatives

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

Lenovo – shift to global strategy (bought IBM divisions), meeting virtually, management meeting rotate around the world

Local markets are linked together within a region, allowing local responsiveness.

The impetus:

Unique consumer preferences

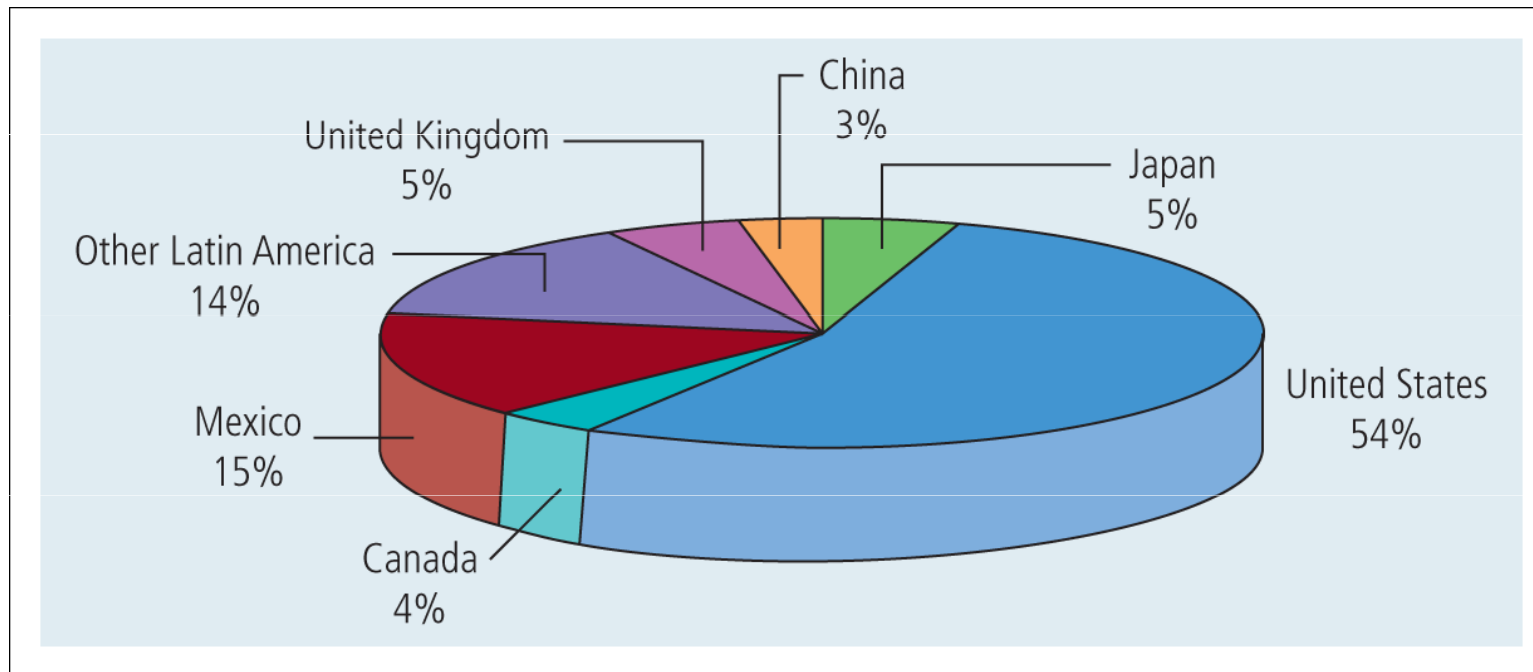
Domestic subsidies

New production technologies

Google – problems with one-size-fits-all-countries strategy in Russia – cultural (language), administrative (censorship), geographic (offices), economic (payment infrastructure) distance

Toyota, Honda, Nissan

Global and International Strategy alternatives



Wal-Mart's globalization: regional distribution of stores

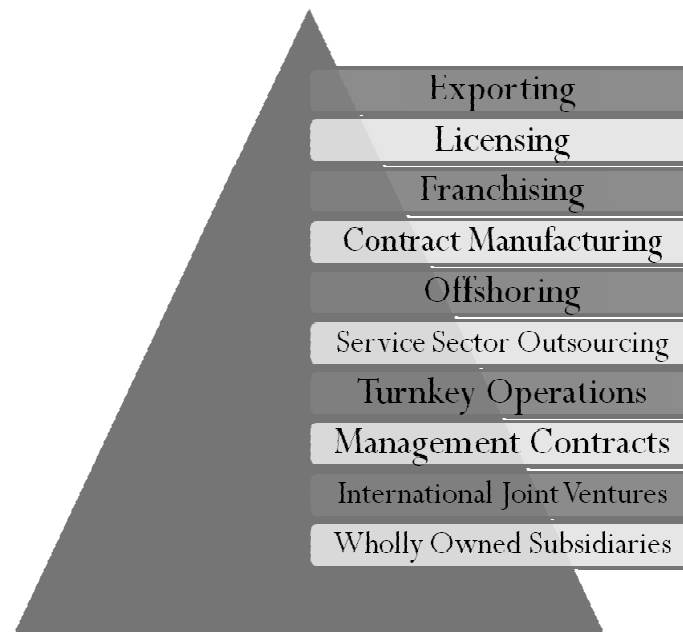
Source: Wal Mart Stores, Annual Reports, 2009

BUT!

- International expansion does not necessarily mean “global” expansion
- Wal-Mart has 94.5% of its sales in North America

Entry Strategy Alternatives

- determine the specific entry strategy 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



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



Entry Strategic Alternatives

Contract Manufacturing

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



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

Entry strategic alternatives

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

Determinants of foreign entry choice

- **transaction costs theory (TCT)** - a firm should internalize its foreign transaction if the costs of internalization are less than those of entering through the market

Determinants of foreign entry choice

- **the resource-based view (RBV)** - Similar to TCT, RBV proposes that a high degree of tacit firm knowledge, being transferred across borders, will lead the market to fail as a knowledge conductor; As the ratio of tacit to generic knowledge increases, the preference for internalization becomes greater than for cooperation

Determinants of foreign entry choice

- **the eclectic framework (OLI)** - Integrating both international trade theory, RBV and TCT, the eclectic framework predicts the choice of entry mode from the following three key determinants: ownership, locational and internalization advantages (Dunning, 1980, 1988).

Do you remember? 😊

1. Name a reactive reason to go abroad.
2. Why did many MNEs go to South Africa?
3. Name a proactive reason to go abroad.
4. What are the two phases of strategic formulation process?
5. What are the pros and cons of exporting?

Your task no 1

Visit **LandsEnd.com**, **LandsEnd.de**, and **LandsEnd.co.jp**. Based on an analysis of the three Websites, assess the type of strategy used by Lands End:

- Is it a regionalization strategy or a globalization strategy?
- Why or Why not?
- Has Lands End successfully globalized itself?

Your task no 2

YouTube LLC: Going Global by Acting Local

- Do a SWOT analysis of YouTube in India
- Assess YouTube's growth through alliances and partnerships.
- Assess the company's localizing strategy. Do you recommend that YouTube "localize" when entering other countries?
- What are the problems YouTube is facing in India?