



GREYSTONE COLLEGE
OPENING UP GLOBAL CAREER OPPORTUNITIES

An aerial view of a city skyline at dusk or dawn. The Gherkin building is prominent in the foreground on the right. The city extends to the horizon under a hazy sky.

International Strategy

Unit 4

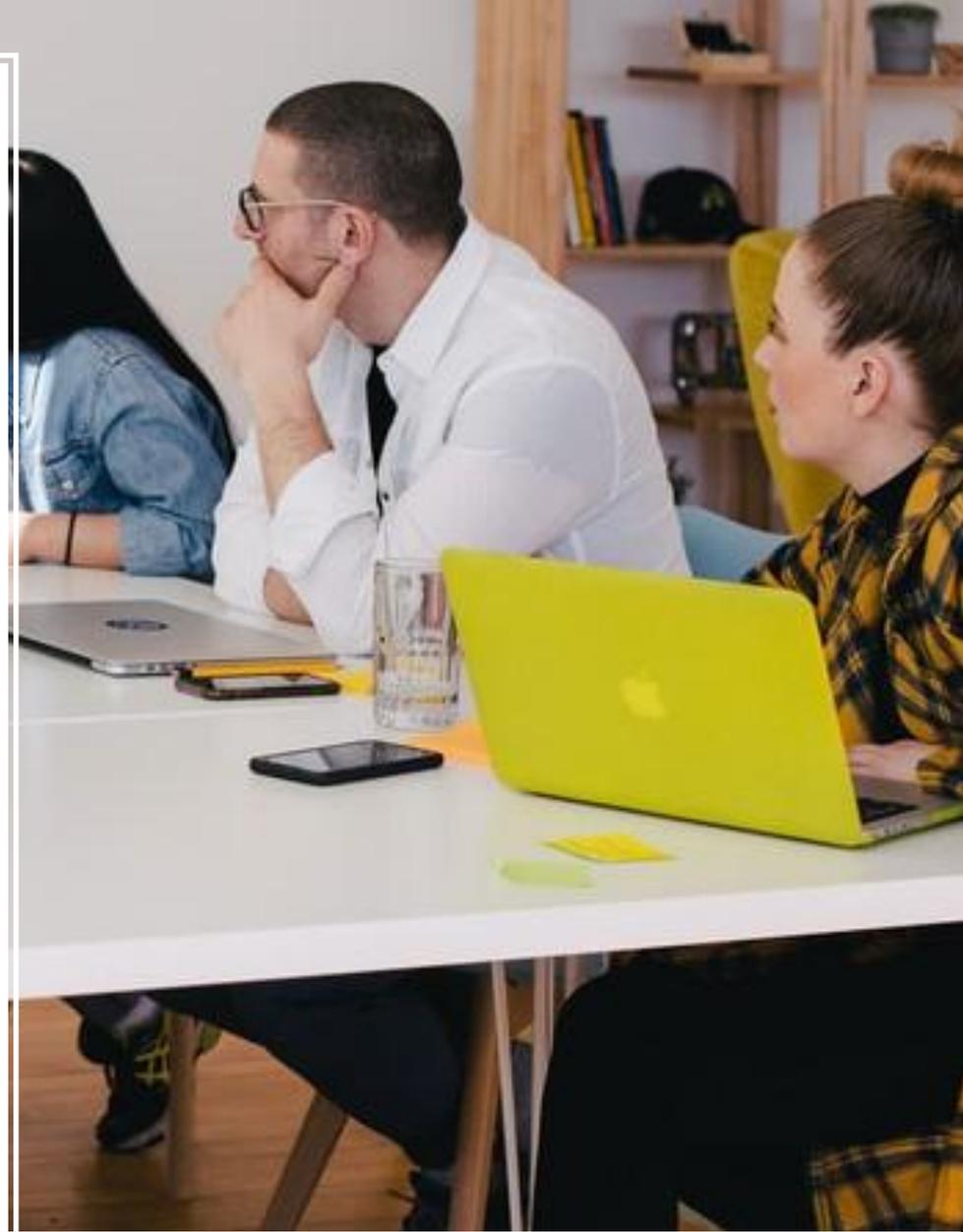
International Business & Logistics

Reference and complementary reading

- Chapter 12 The Strategy of International Business of Global Business Today 12th Edition

Activity: Differences in International Products & Services

- Have you noticed differences between these companies operating in your country vs. in Canada?
 - McDonald's
 - Coca-Cola
 - Burger King
 - Starbucks
- Why do you think that those changes exist?



Considerations for managers when expanding internationally

The benefits of expanding into foreign markets.

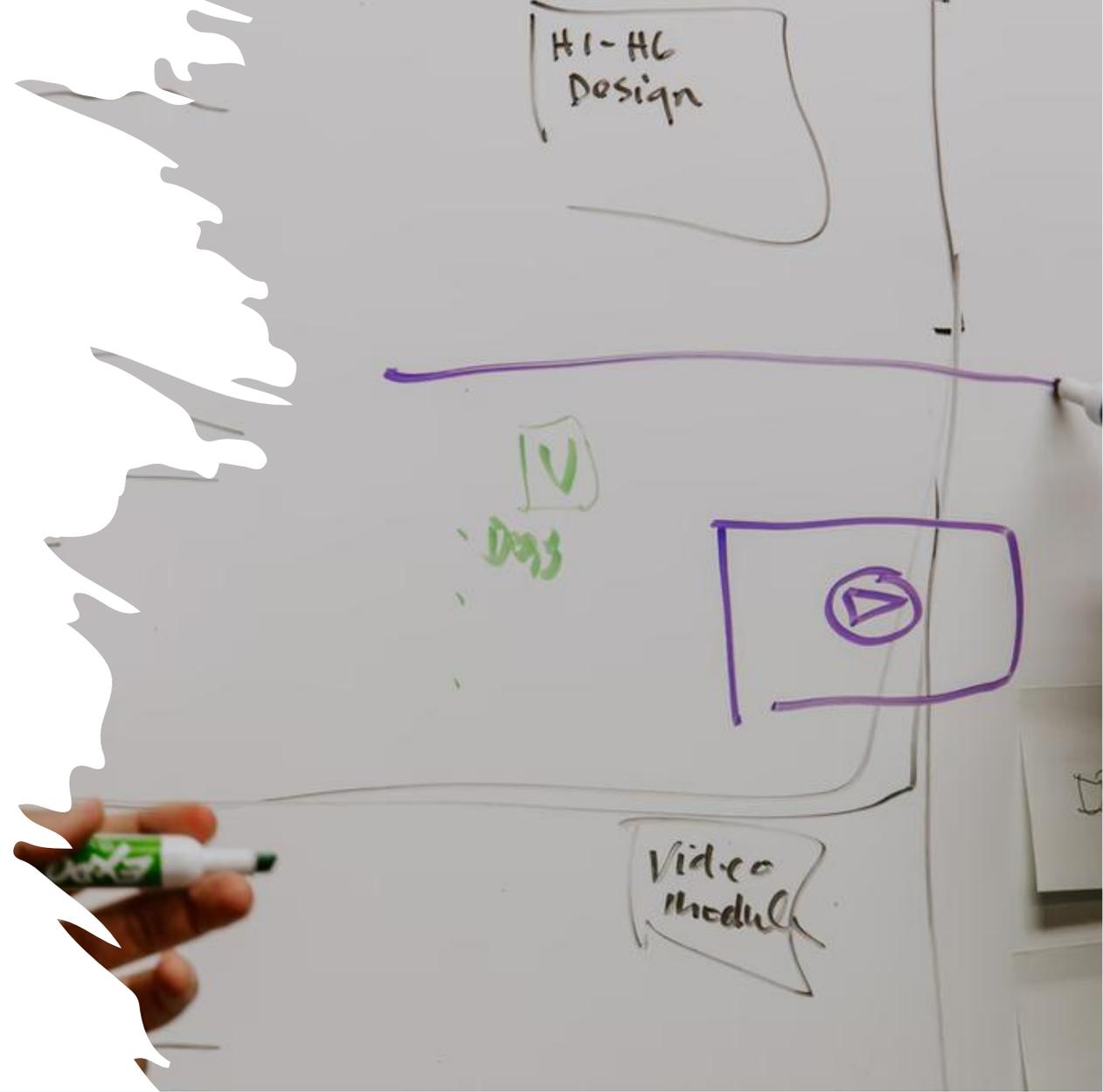
Which strategies to pursue in foreign markets.

The value of collaboration with global competitors.

The benefits, costs, and risks of strategic alliances.

Strategy and the Firm

Fundamentals of Business Strategy

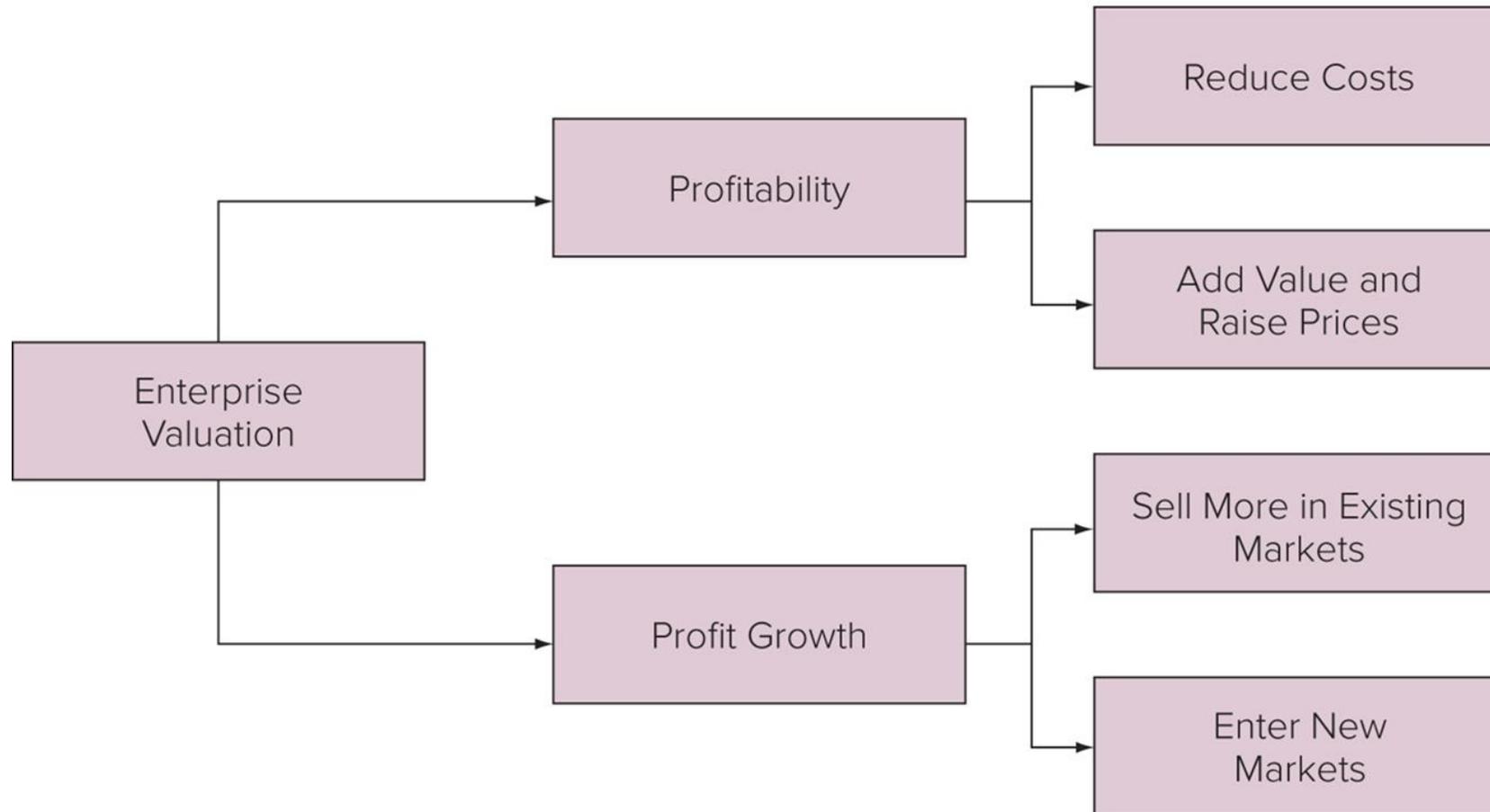


Profit as the Primary Goal

- Managers must pursue **strategies** that increase the profitability of the enterprise and its rate of profit growth over time.
 - **Profitability**: the rate of return the firm makes on its invested capital.
 - **Profit growth**: the percentage increase in net profits over time.

NOTE: Some companies do not have a primary goal of generating profit. Can you think of any?

Maximizing the Valuation of a Company



Value Creation for Customers

- Managers must pursue **value creation** for customers
 - Measured as the difference between V (the value of a product to an average customer) and C (the costs of producing that product).
 - **Example:** If you are willing to buy a winter a warm coat for up to \$150 and the company can manufacture one for \$50, they have created \$100 of value.

***NOTE:** Keep in mind that PRICE and COST are not the same thing...!

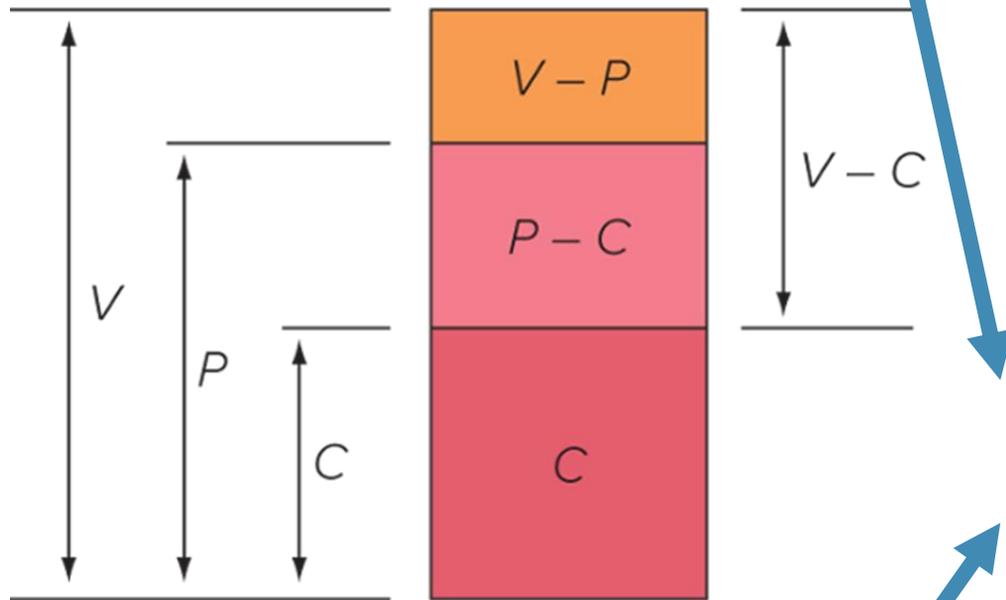
Value Creation

Winter Coat Example

Customer willing to pay \$150

Company sets price of \$100

Manufacturing cost is \$50



Increase this for extremely happy customers
(usually by lowering costs or finding a customer that has a higher concept of value)

V = value of product to an average consumer

P = price per unit

C = cost of production per unit

$V - P$ = consumer surplus per unit

$P - C$ = profit per unit sold

$V - C$ = value created per unit

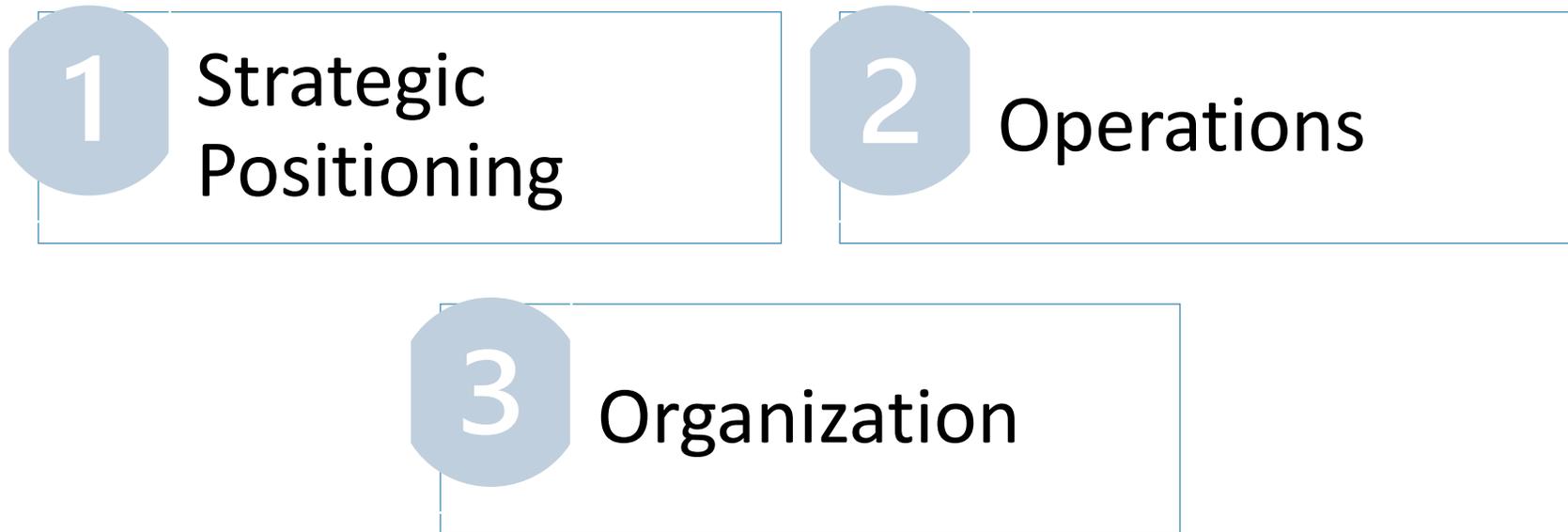
Increase this to make more money
(by lowering the cost or increasing the price)

Value Creation Example

- Pure Cycles Inc. sells its bicycle helmets for \$60. It costs the company \$45 to make the product. The average customer at Pure Cycles is willing to pay \$70. Calculate the:
 - Consumer surplus:
 - Profit:
 - Value Created:



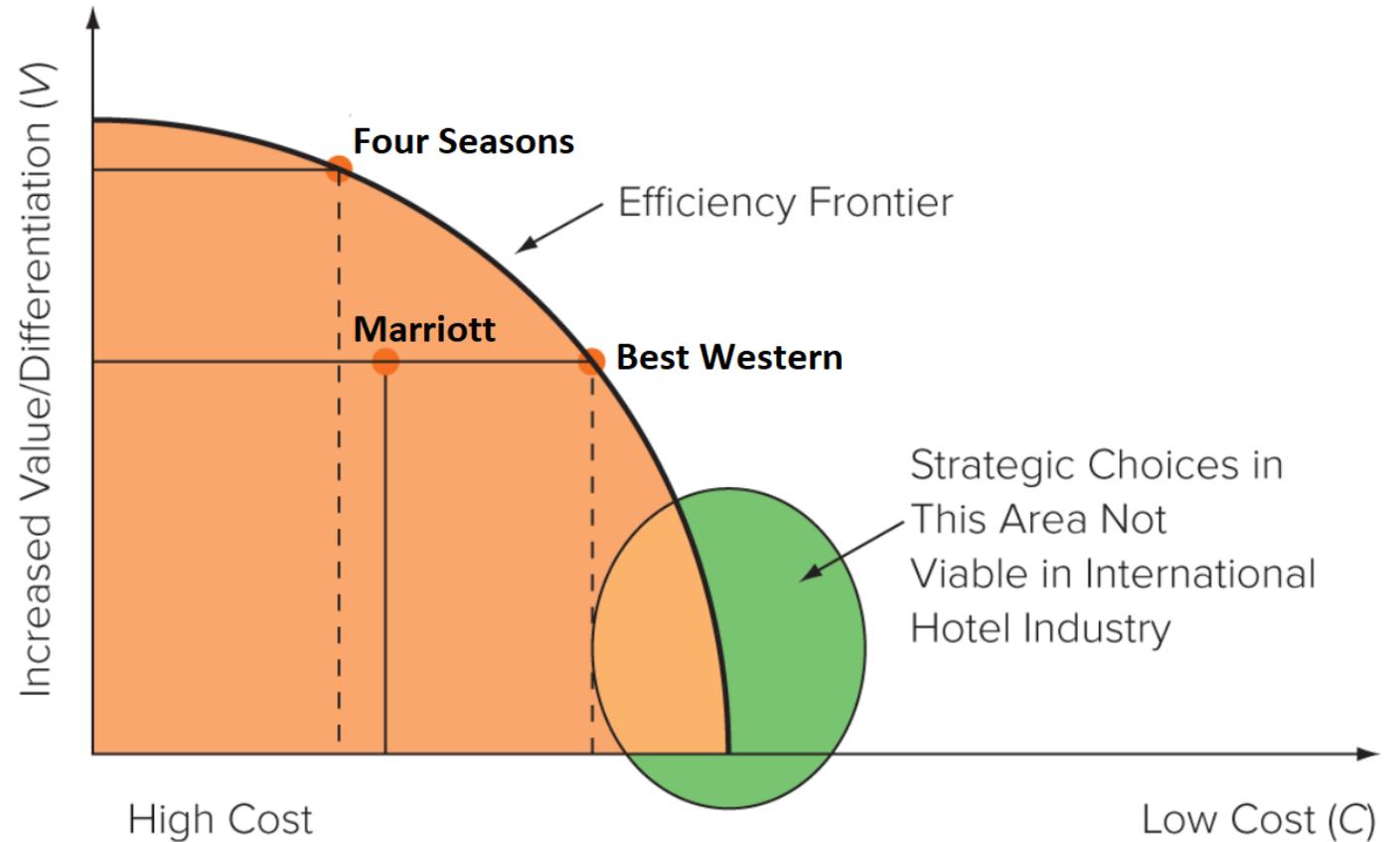
Three Strategic Decisions to Make



The strategy, operations, and organization of the firm must all be consistent with each other if it is to attain a competitive advantage and garner superior profitability

1 Strategic Positioning

- Involves picking a position on the efficiency frontier that is viable—i.e., a space that is different from your competition but for which there is enough demand.



1 Strategic Positioning

- Michael Porter's two basic strategies

Differentiation Strategy: a strategy that focuses primarily on increasing the attractiveness of a product. These companies can create a largest customer surplus and/or create more value.

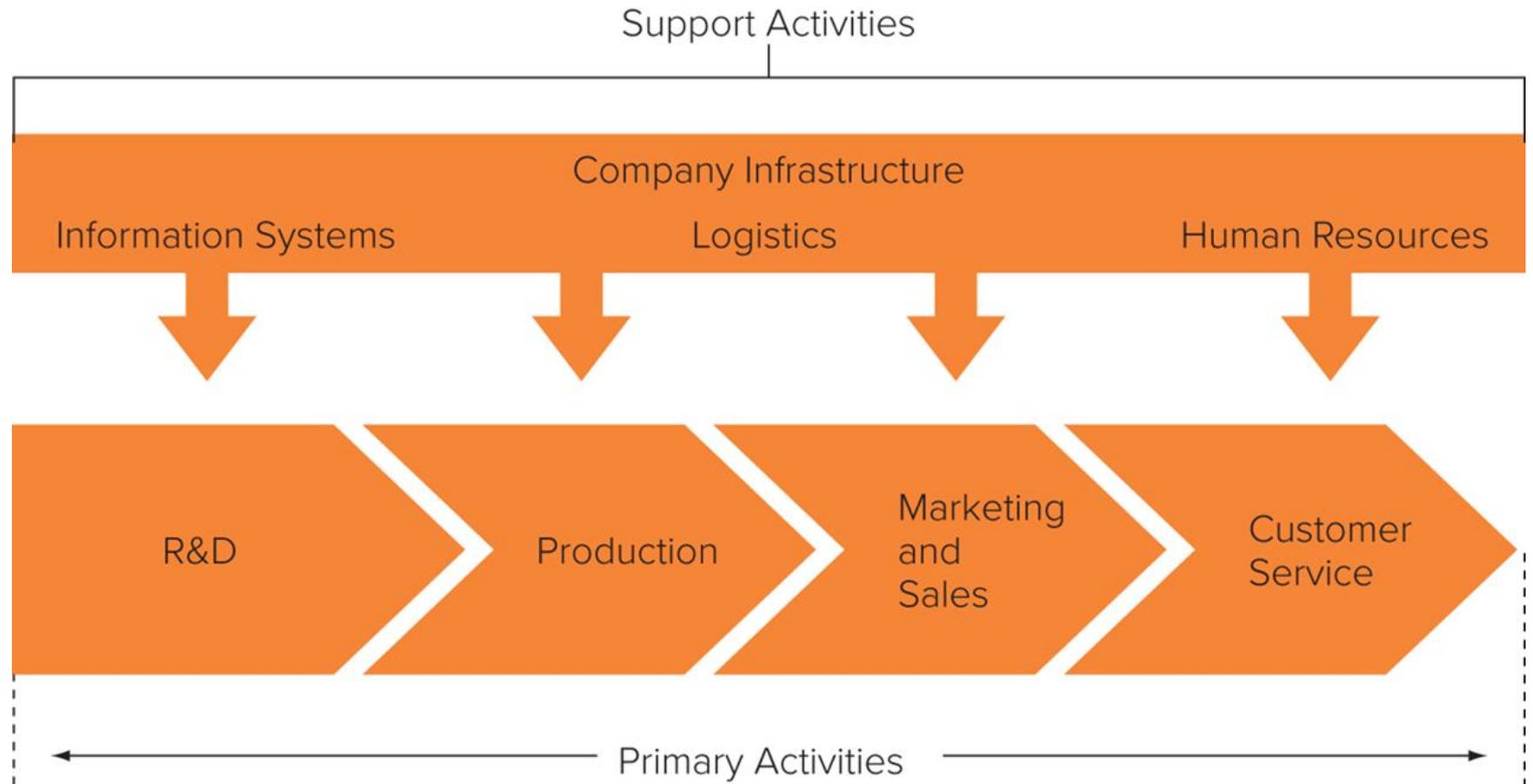
Low-Cost Strategy: a strategy that focuses primarily on lowering production costs. A firm has high profits when it creates more value for its customers and does so at a lower cost.

Can you think of examples for each..?

2

Operations: The Firm as a Value Chain

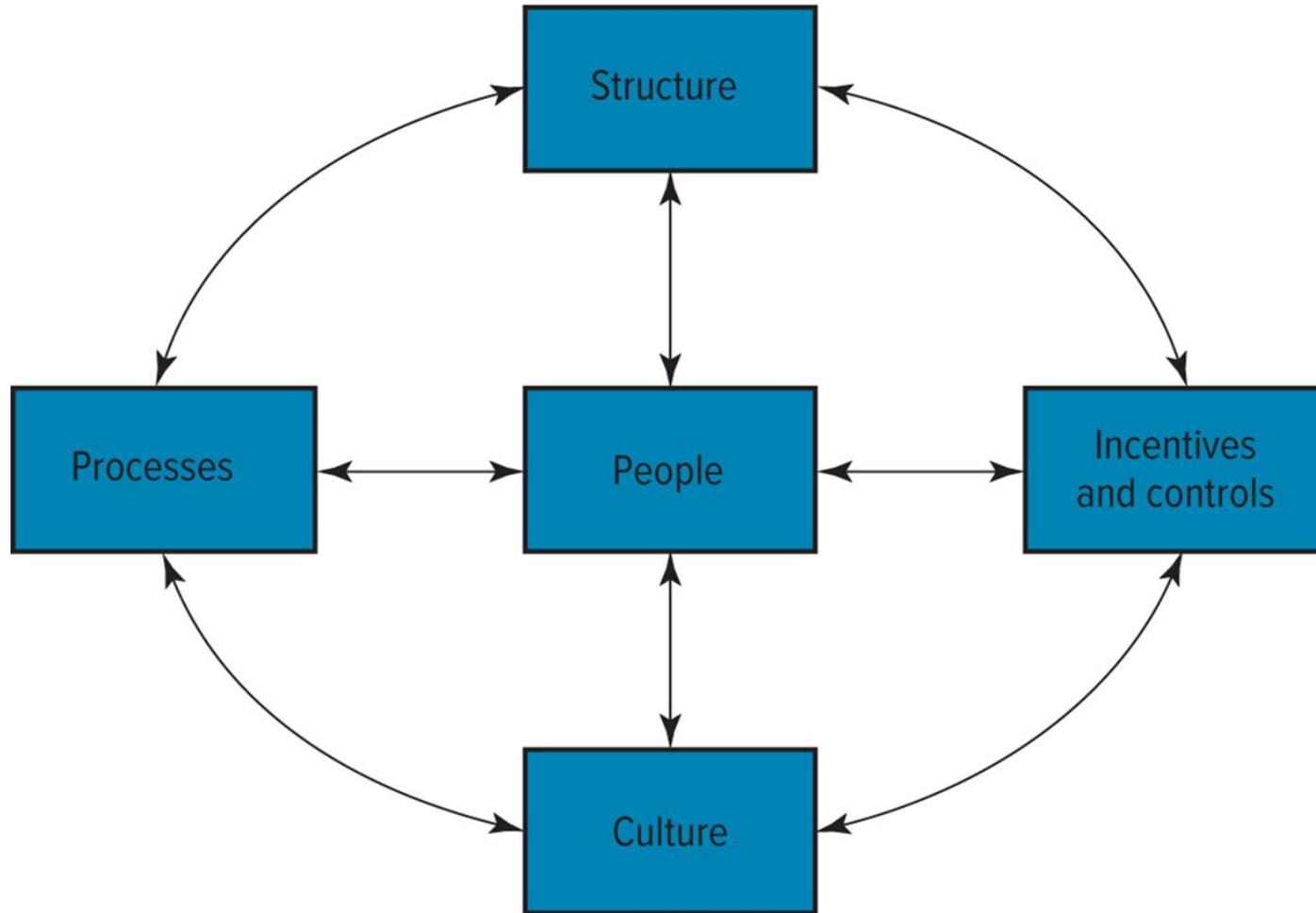
Once a strategic positioning is chosen, the company must set up its internal departments so that they help it to achieve that position since they all work together



3 Organization: Implementing the Strategy

- Managers must make sure the organization supports its strategies and operations
 - **Organization architecture:** the totality of a firm's organization, including the formal organizational structure, control systems and incentives, organizational culture, processes, and people.
 - **Organizational structure:**
 - The formal division of the organization into subunits (departments).
 - The location of decision-making responsibilities within that structure.
 - The establishment of integrating mechanisms to coordinate the activities of subunits including cross-functional teams and or cross-regional committees.

3 Organization Architecture

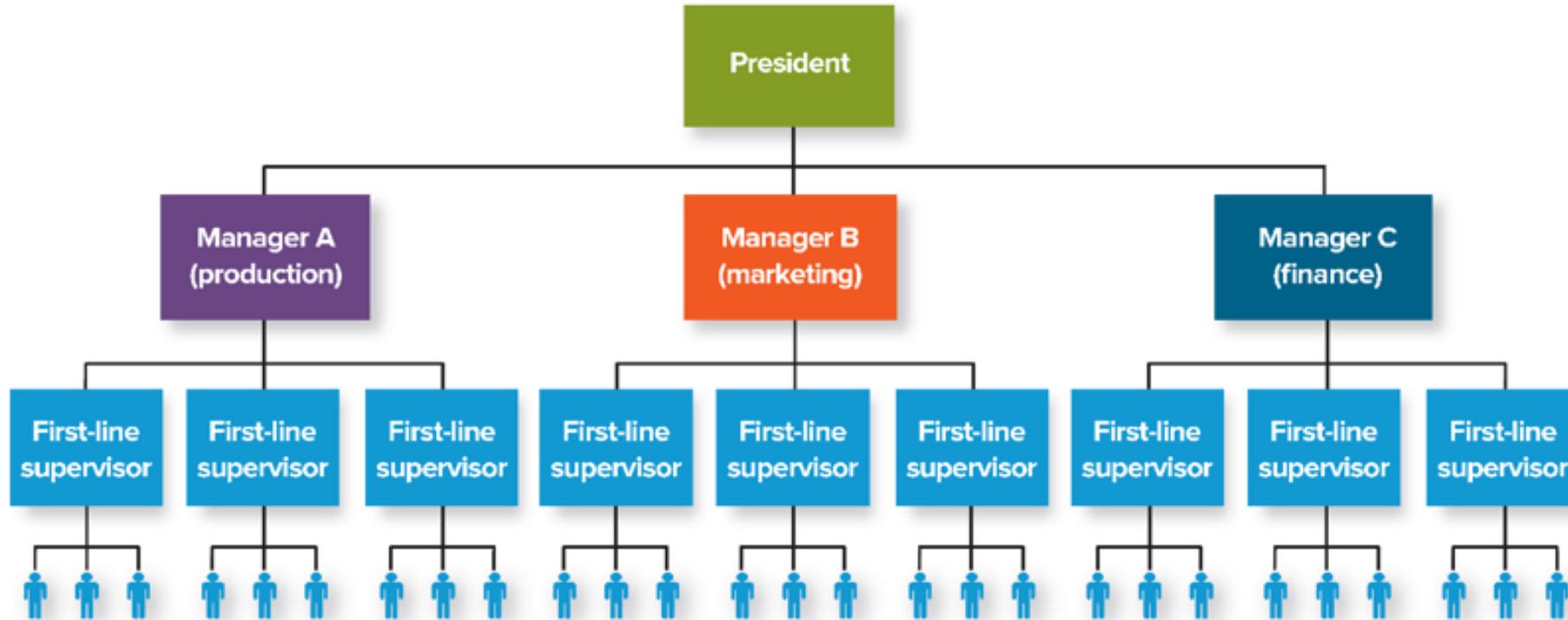


3 Organization Architecture

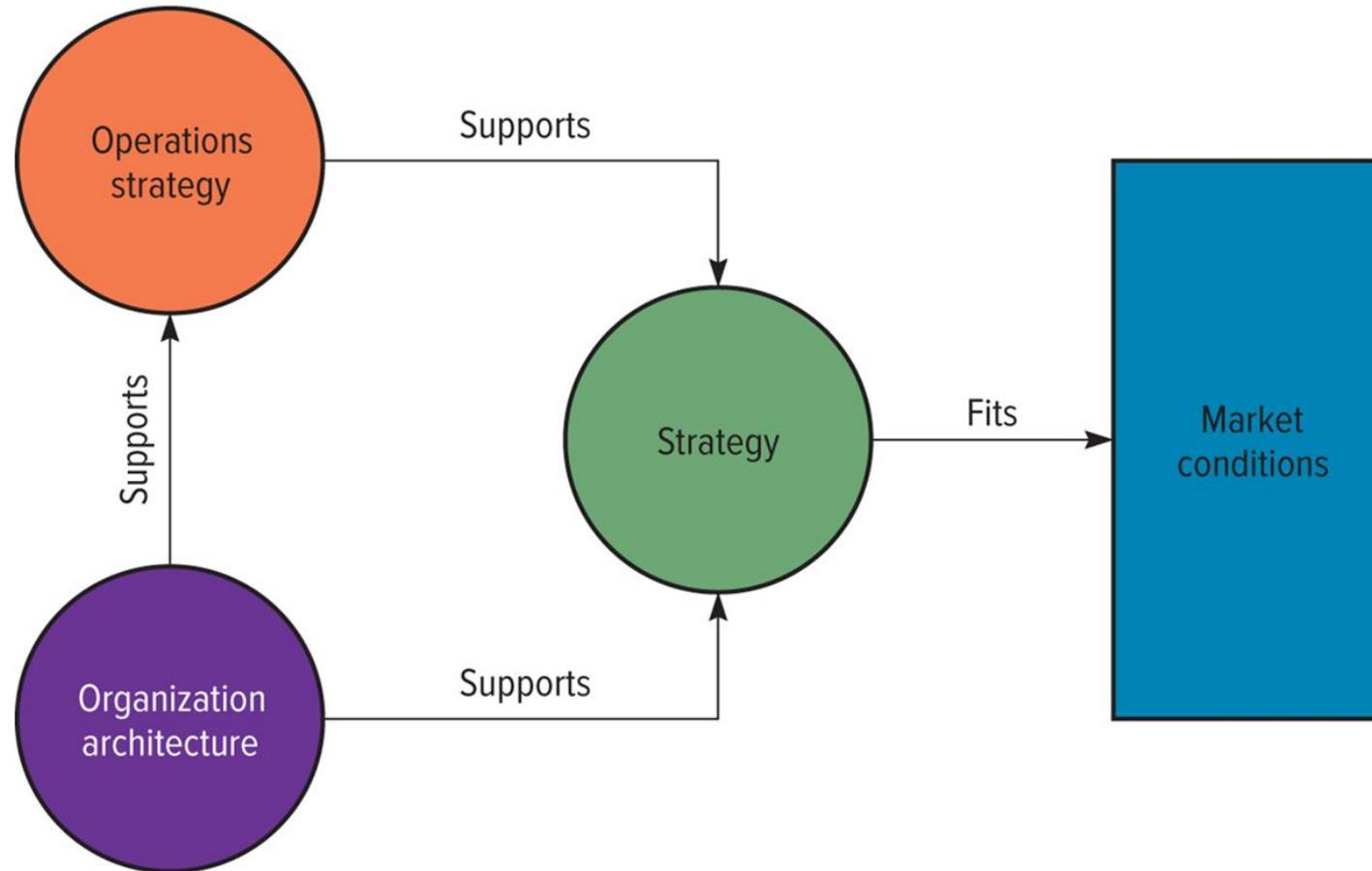
- Implementing strategy requires strong...
 - **Controls:** metrics used to measure the performance of subunits and make judgments about how well the subunits are run.
 - **Incentives:** devices used to reward appropriate managerial behavior.
 - **Processes:** manner in which decisions are made and work is performed.
 - **Organizational culture:** norms and value systems that are shared among the employees.
 - **People:** employees and the strategy used to recruit, compensate, and retain those individuals.

3

Organizational Structure



How the 3 Elements of Strategy Fit Together





Global Expansion, Profitability, and Profit Growth

How firms can increase revenue
and profit by expanding globally

Firms that operate internationally can...

1. **Expand the market** for their domestic product offerings by selling their products in international markets.
2. Realize **location economies** by dispersing individual value creation activities to locations around the globe where they can be performed most efficiently and effectively.
3. Realize greater **cost economies** from experience effects by serving an expanded global market from a central location, reducing the costs of value creation.
4. Earn a greater return by leveraging any **valuable skills** developed in foreign operations and transferring them to other entities within the firm's global network of operations.

1. Expand the market

- Naturally, selling in a foreign market allows the firm to increase sales.
- Success depends on the type of goods and services and the firm's core competency (the skills within the firm that competitors cannot easily match or imitate).



TOYOTA

Toyota has a core competence in the efficient production of high-quality cars.



IKEA has a core competence in designing stylish and affordable furniture that can move easily through their supply chain at a very low cost.



McDonald's has a core competence in efficiently managing fast-food operations.

2. Location Economies

- Firms should locate value creation (production) activities where economic, political, and cultural conditions are most appropriate for the performance of that activity.
 - **Examples:**
 - Japan excels in production of automobiles and consumer electronics
 - The U.S. excels at computer software, pharmaceuticals, and financial services
 - South Korea specializes in semiconductors
 - Bangladesh excels in the low-cost production of clothing
- This results in **location economies**: cost advantages that arise from performing a value creation activity in the optimal location for that activity, often locations where those industries are highly concentrated and efficient.

2. Location Economies

- Locating value creation activities in optimal locations...

Can lower the costs of value creation

Can enable a firm to differentiate its product offering from competitors

- **Creating a Global Web**

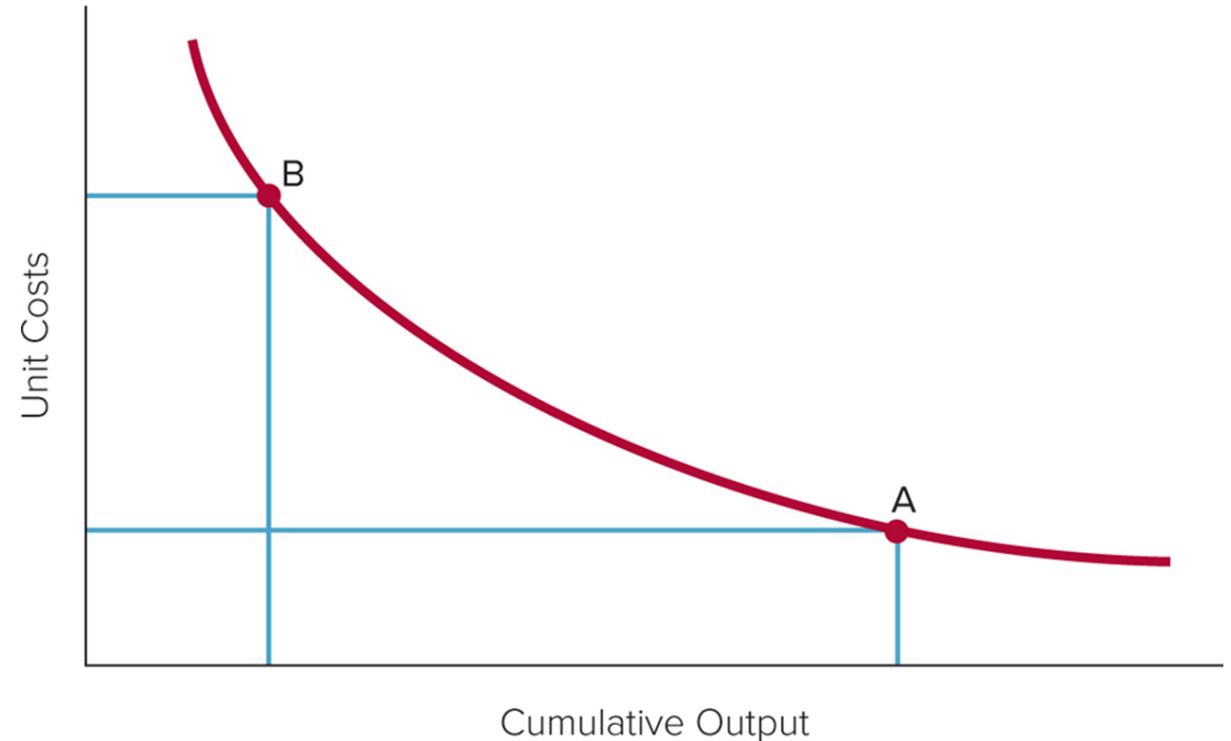
- Multinationals that take advantage of location economies create a **global web** of value creation activities
 - Different stages of the value chain are dispersed to those locations around the globe where perceived value is maximized or where the costs of value creation are minimized

Things to keep in mind when choosing locations

- Producing things in another country may create new transportation costs and trade barriers when exporting/importing it.
- Political and economic risks must be assessed when making location decisions as instability can lead to long-term issues.

3. Experience Effects

- **Experience curve:** systematic reductions in production costs that occur over the life of a product.
 - A product's production costs decline by some quantity about each time cumulative output doubles.
 - Two things explain this:
 - Learning effects
 - Economies of scale



3. Experience Effects - Reasons

Learning Effects

- Cost savings that come from learning by doing.
- Labor productivity increases when individuals learn the most efficient ways to perform particular tasks and management learns how to manage the new operation more efficiently.
- Learning effects typically disappear after two or three years

Economies of Scale

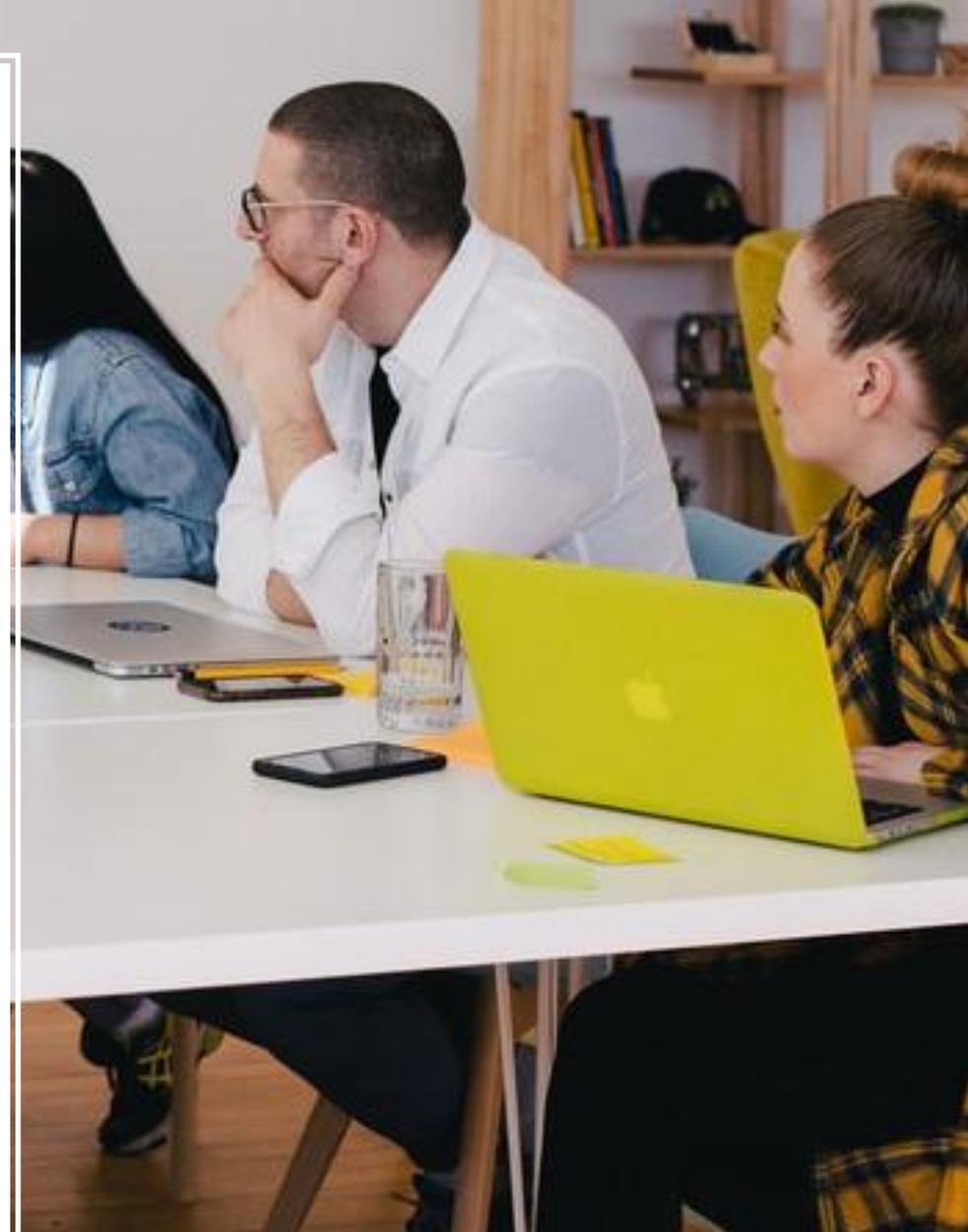
- Reductions in unit cost achieved by producing a large volume of a product.
 - May come from spreading fixed costs (i.e. costs required to set up a production facility, develop a new product, etc.) over a large volume, through international sales
 - May come from reaching an efficient scale of production through serving global markets
 - May come from bargaining power attained through the size of the company (e.g. buying raw materials in bulk)

4. Leveraging Skills and Talent in Other Countries

- Recognize that valuable skills can be developed anywhere within the firm's global network (not just at the corporate center).
- Use incentive systems to encourage local employees to acquire new skills.
- Develop a process to identify when new skills have been created.
- Act as facilitators to transfer valuable skills within the firm.

Activity: Leveraging Talent Across the World

- Watch the following case about how Audi uses its German factory to train Mexican workers for its Latin American operations:
<https://www.wsj.com/video/audi-trains-mexican-auto-workers-in-germany/CB886216-E765-447A-BBF0-2719F3F50E24.html>
- Answer the following questions:
 - Why does Audi send its employees to Germany rather than training them in Mexico?
 - What value does an employee get from being trained in the company's facilities in another country?





Cost Pressures and Pressures for Local Responsiveness

How pressures for cost reductions and local responsiveness influence strategic choice

Pressures for Cost Reductions

- Pressures are strong in industries producing commodity-type products that fill **universal needs**: needs that exist when tastes and preferences of consumers in different nations are similar if not identical.
 - When major competitors are based in low-cost locations.
 - Where there is persistent excess capacity.
 - Where consumers are powerful and face low switching costs.

What types of products fall into this category of meeting universal needs?

Pressures for Local Responsiveness

In different countries, companies may face:

1. Differences in consumer tastes and preferences.
2. Differences in infrastructure and traditional practices.
3. Differences in distribution channels.
4. Host-government demands.
5. The rise of regionalism.

Firms facing these pressures need to differentiate their products and marketing strategies in each country.

Pressures for Local Responsiveness

1

Differences in Consumer Tastes and Preferences

- When consumer tastes and preferences differ significantly between countries, firms face strong pressures for local responsiveness.
 - **Examples:** Cars, outerwear clothing

2

Differences in Infrastructure and Traditional Practices

- When there are differences in infrastructure and/or traditional practices, there is need to customize products.
 - **Examples:** Electronics, computers

Pressures for Local Responsiveness

3

Differences in Distribution Channels

- A firm's marketing strategies may be influenced by differences in distribution channels between countries, which may necessitate delegation of marketing functions to national subsidiaries.
 - **Example:** Pharmacies in Canada and the U.S. vs. Europe, Latin America

4

Host-Government Demands

- Economic and political demands imposed by host-country governments may necessitate a degree of local responsiveness.
 - **Examples:** Trains

Pressures for Local Responsiveness

5

Rise of Regionalism

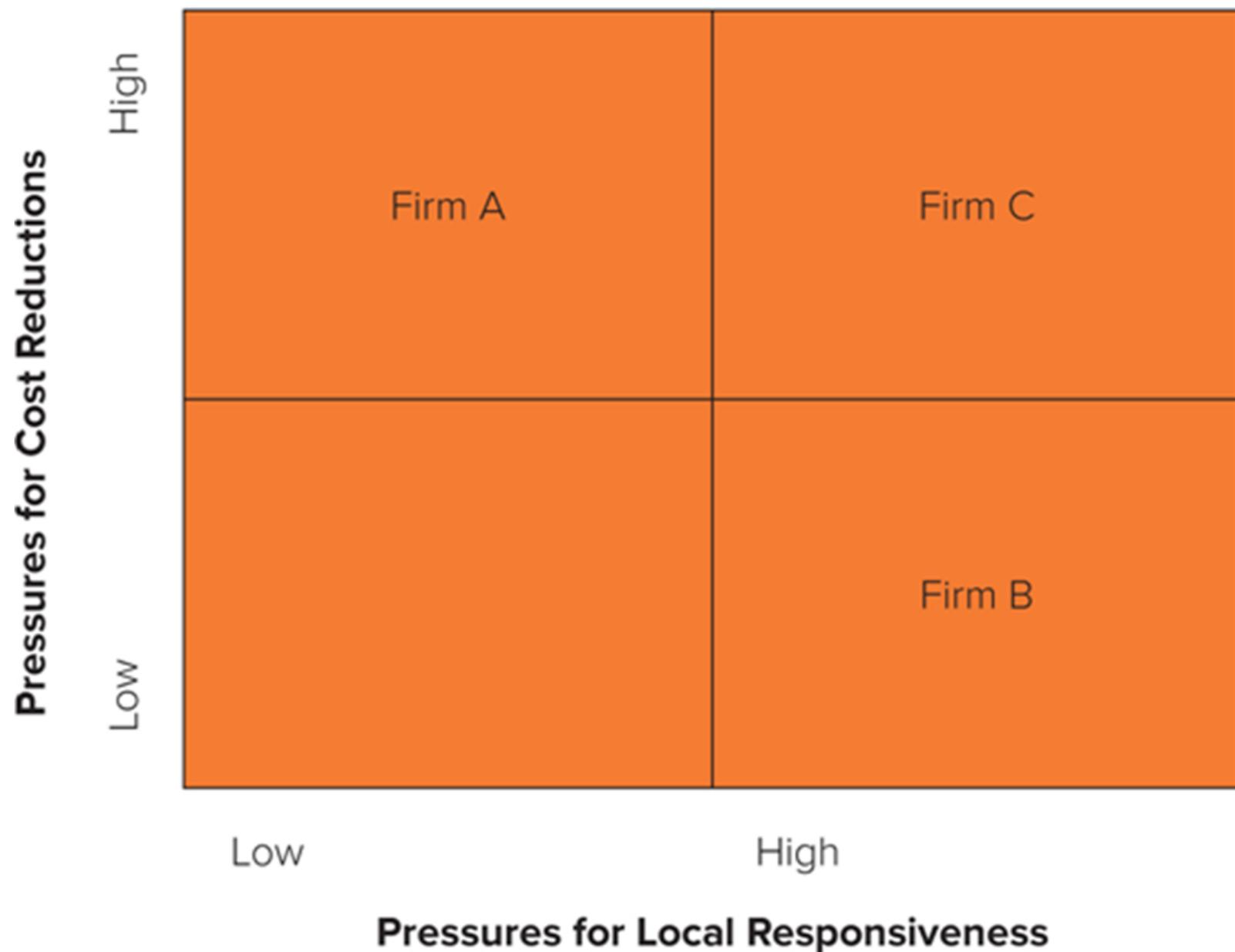
- Regional convergence of tastes and preferences can influence product offerings within a bloc of nations.
- As a result of trade within these regions, consumer preferences tend to become more similar over time as the same product/service offerings become familiar and expected.

Examples

- European Union and the euro zone
- North America
- Latin America
- Greater China, Hong Kong, and Singapore
- Middle East
- Russia and former Soviet states

Pressures for Cost Reductions and Local Responsiveness

The biggest challenge is doing both at the same time (Firm C) ...



Case Study

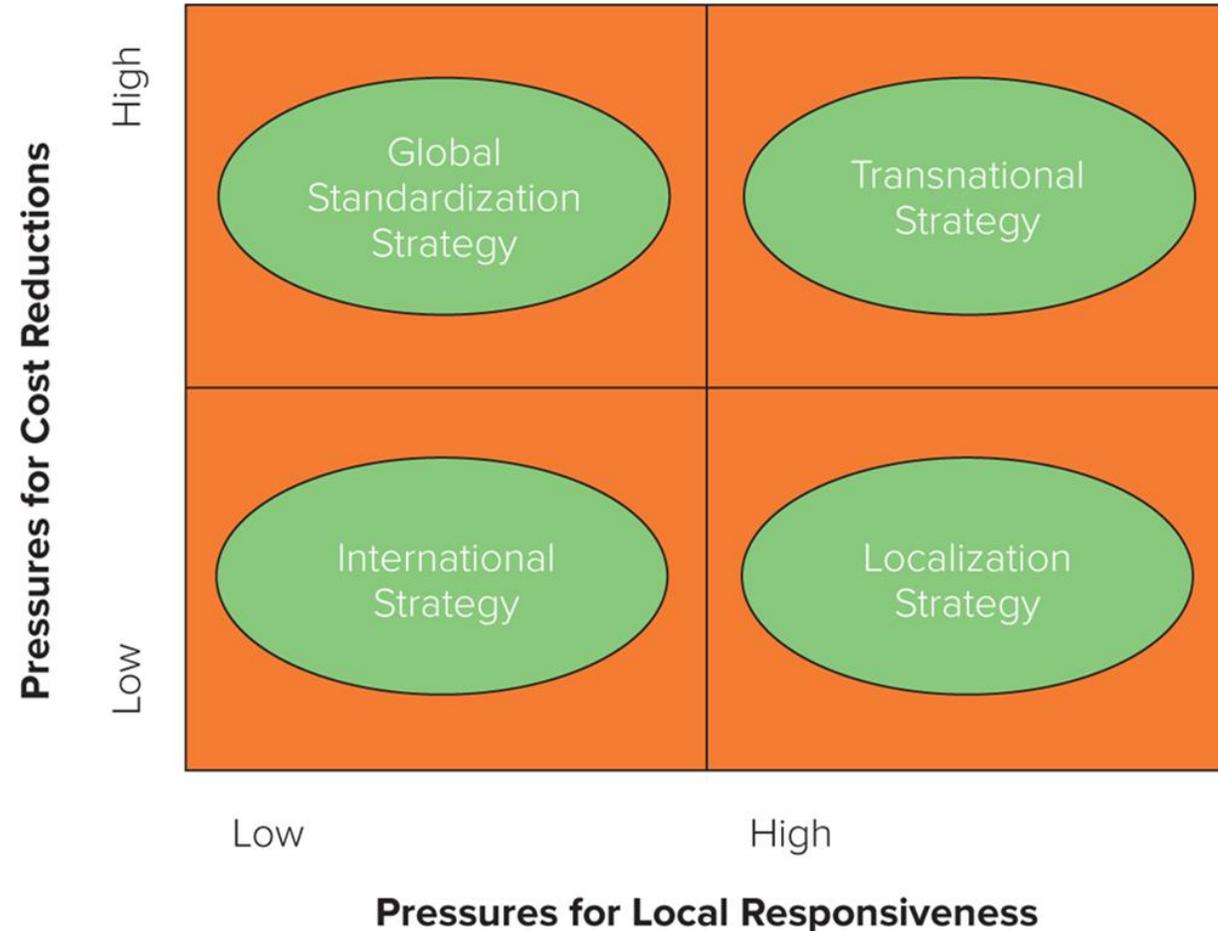
Ikea's Global Strategy

- Read the case on p. 389 and answer the following questions
 - Is it appropriate for IKEA to customize their furniture to each geographic location, for example, differences between U.S. and European furniture? Some companies do not make these changes, but IKEA does; why?
 - IKEA entered the United States in 1985 and China in the 2000s. But the company started in 1958; why did it take so long to move into the United States and China? Why do you think IKEA is not in more countries today (there are almost 200 countries in the world)?



Four Basic Strategies in Global Markets

1. Global standardization strategy
2. Localization strategy
3. Transnational strategy
4. International strategy



1 Global Standardization Strategy

- The same strategy is used all around the world.
- Focuses on increasing profitability and profit growth by reaping the cost reductions that come from economies of scale, learning effects, and location economies.
- Goal is to pursue a low-cost strategy on a global scale.
- Makes sense when there are strong pressures for cost reductions while demands for local responsiveness are minimal.

2 Localization Strategy

- Developing a strategy for each region/country in which the company operates.
- Focuses on increasing profitability by customizing the firm's goods or services to match the tastes and preferences in different national markets.
- Makes sense when there are substantial differences across nations with regard to consumer tastes and preferences, and where cost pressures are not too intense.

3 Transnational Strategy

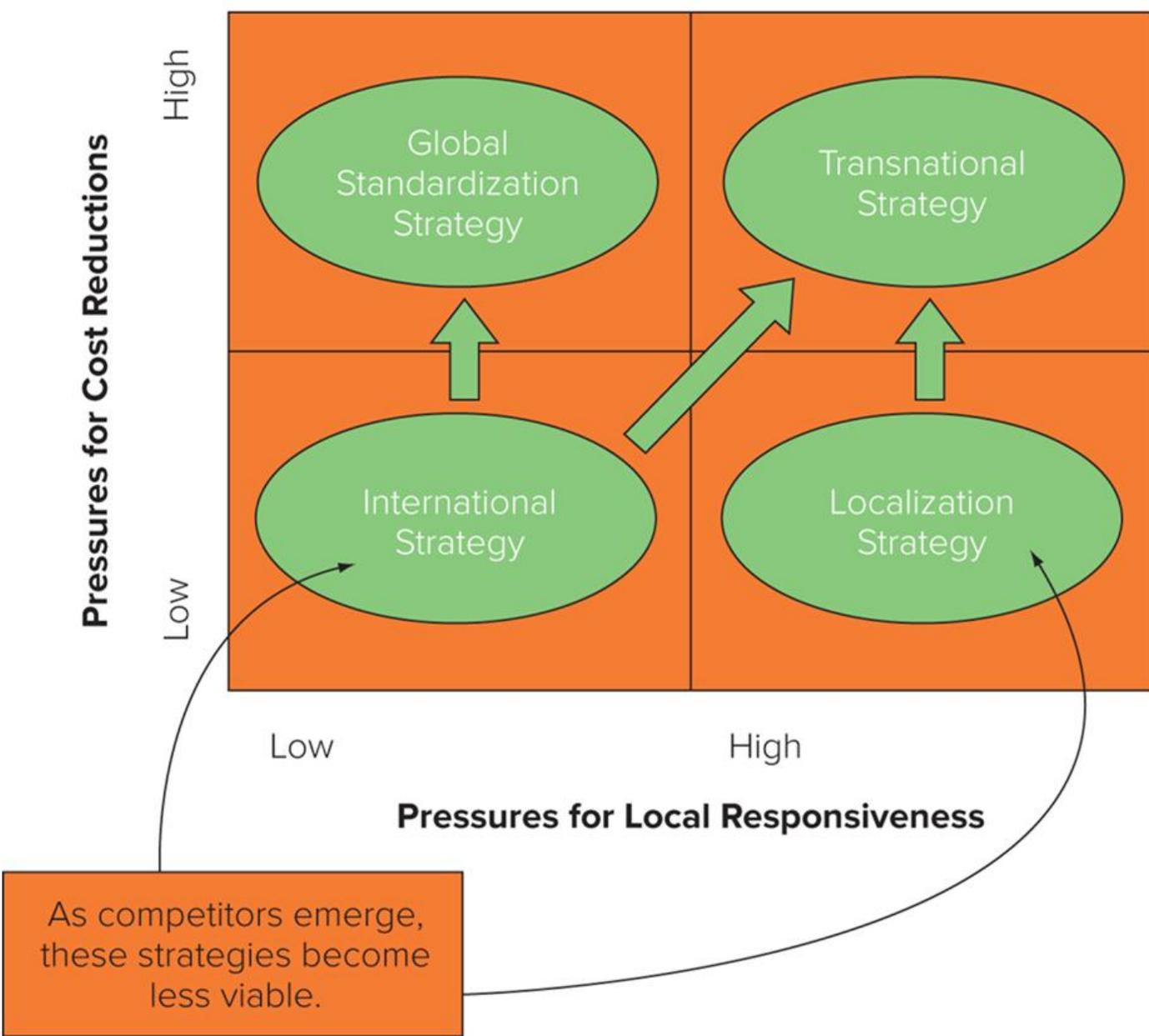
- Firm simultaneously faces **BOTH** strong cost pressures and strong pressures for local responsiveness.
- Attempts to simultaneously:
 - Achieve low costs through location economies, economies of scale, and learning effects.
 - Differentiate the product offering across geographic markets to account for local differences.
 - Creates a multidirectional flow of skills between different subsidiaries.

...Implementing an effective transnational strategy is complex.

4 International Strategy

- Involves taking products first produced for the domestic market and then selling them internationally with only minimal local customization.
- Makes sense when there are low cost pressures and low pressures for local responsiveness.

The Evolution of Strategy





Strategic Alliances

Creating partnerships and collaborating with other firms to achieve international growth

Strategic Alliances

- **Strategic Alliances** are cooperative agreements between potential or actual competitors.
 - *Example:* A public transit agency works with schools to offer reduced fares for students
 - *Example:* Tim Hortons can be found in many cinemas across Canada – Tim Hortons gets additional sales, and the cinemas get an extra food offering for movie-goers
 - *Example:* Airlines often sell tickets for flights run by other airlines
- The number of international strategic alliances has risen significantly in recent decades.

The Advantages and Disadvantages of Strategic Alliances

Advantages

Facilitates entry into a foreign market

Allow firms to share the fixed costs and risks of developing new products or processes

Bring together complementary skills and assets that neither partner could easily develop on its own

Can help establish technological standards for the industry that will benefit the firm.

Can give competitors low-cost routes to new technology and markets (which can in turn make them more competitive against your company in other markets).

A company may be giving away more in a strategic alliance than it receives depending on the nature of the alliance.

Disadvantages

Making Alliances Work

Partner Selection

- Collect as much information as possible.
- Gather data from informed third parties.
- Get to know the potential partner well before committing.
- This is called **due diligence**

Alliance Structure

- Can be designed to make it difficult to transfer technology not meant to be transferred.
- Can write contractual safeguards into alliance agreement to guard against risk of opportunism.
- Both parties can agree in advance to swap skills and technologies that the other covets
- Results in detailed **contract negotiations**



Impact of the Macroenvironment on Strategy

How external factors can impact strategic
decisions

Cross Border Trade

- Change in the rules governing international trade and investment can affect the viability of different strategies.
 - Trend was toward lowering of barriers to cross-border trade and investment.
 - Recent reversal of this trend under Trump administration.
- Trade barriers/trade war between U.S. and China have impacted world economy.
 - If economic nationalism continues to increase, localization strategy may become more viable and necessary.
 - Regionalization may also increase.

External Shock

- War, terrorism, climate change, and emergence of novel disease can easily change trade and investment environment and affect strategic choices.
 - Global supply chains are vulnerable to disruption.
 - Dislocating events increase the attractiveness of location strategies.

Class Discussion

How might the rise of trade barriers, or a serious dislocating event such as war or the emergence of a multiyear global pandemic, change the strategy of companies like Apple or Intel, which have historically pursued a global standardization strategy?





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