

International Management



CHAPTER 6

FORMULATING STRATEGY

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Learning Objectives

6.1 To understand the reasons companies engage in international business

6.2 To become familiar with the strategic formulation process

6.3 To learn the steps in global strategic planning, including assessing entry strategies for different markets

6.4 To understand the need for strategic planning for emerging markets

Opening Profile: Why Ford Is Stalling in China While Toyota Succeeds

- ❖ Ford is one of several carmakers **cutting production** in China, the world's largest car market.
- ❖ Passenger vehicle sales fell 4 percent to 23m last year, their first annual decline in almost three decades.
- ❖ Sales at Toyota's joint venture with Guangzhou Automobile surged nearly 35 percent last year, while BMW's venture with Brilliance Auto saw a 20 percent sales rise.
- ❖ Their differing fates show that factors — from investment in new models, **competitive exposure to local brands, dealer relations, after sales service, and quality perceptions**— determine a brand's success or failure in China.

Strategic Planning and Strategy



Strategic Planning

- More complex than domestic strategic planning because of more complex variables

Strategy

- The basic means by which the firm competes

Learning Objective 6.1



To understand the reasons companies engage in international business

Reasons for Going International

Reactive/Defensive

- Globalization of competitors
- Trade barriers
- Regulations and restrictions
- Customer demands

Proactive/Aggressive

- Economies of scale
- Growth opportunities
- Resource access and cost savings
- Incentives

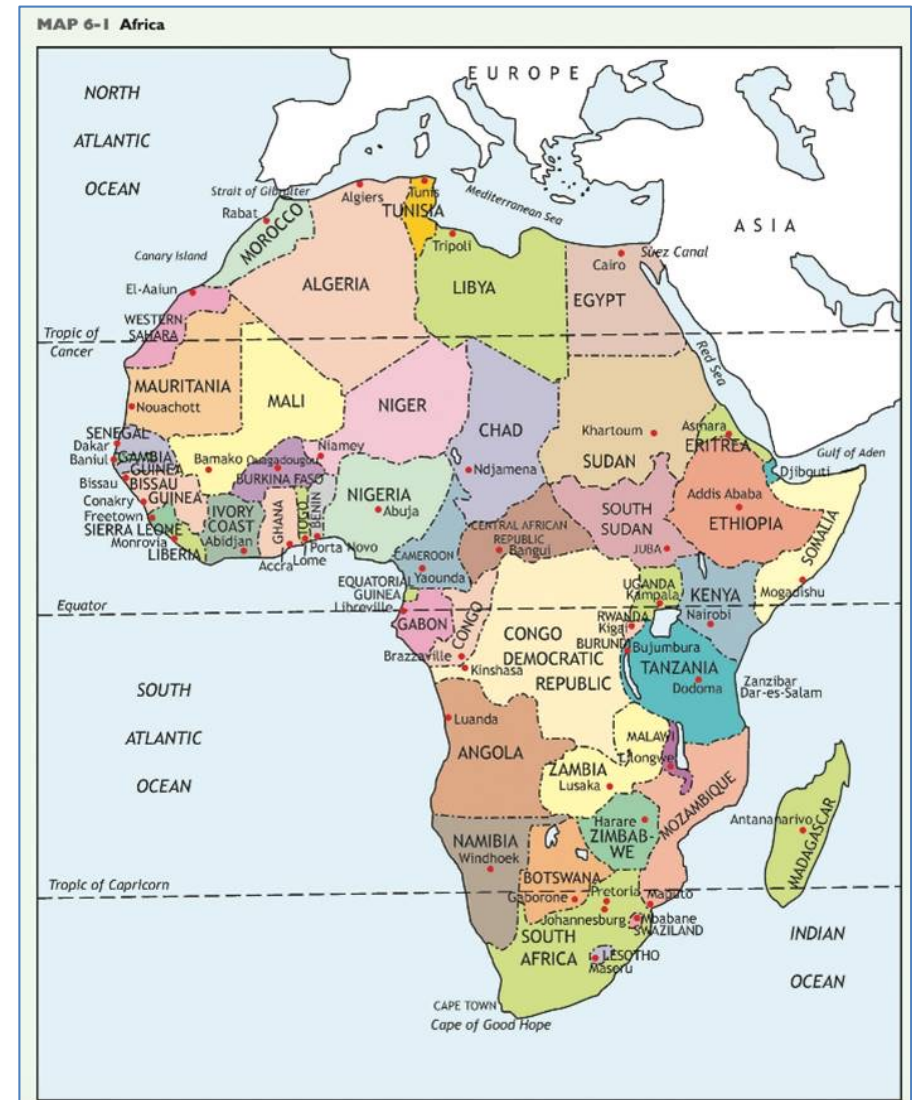
Comparative Management in Focus: Global Companies Take Advantage of Opportunities in Africa

Opportunities in Africa have spurred business because of:

- ❖ Decline in armed conflicts
- ❖ New educational opportunities
- ❖ Mobile phone technology

Firms dealt with environmental challenges by:

- ❖ Investing in themselves and partners
- ❖ Investing in training programs
- ❖ Using mobile and social computing, and big data analysis



Learning Objective 6.2



To become familiar with the strategic formulation process

Overview of Strategic Management Process

Planning/Formulating & Implementation

EXHIBIT 6-1 The Strategic Management Process

Chapter 6



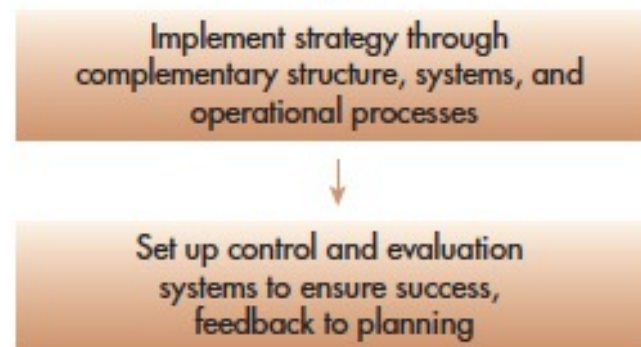
Strategic Planning Process



Chapter 7



Implementation Process



Learning Objective 6.3



To learn the steps in global strategic planning, including assessing entry strategies for different markets

Steps in Developing International and Global Strategies

To establish Mission and Objectives

To assess Environmental
Assessment and Scanning

To assess Internal and Competitive
Analysis

To evaluate Global Integrative and
Entry Strategy Alternatives

To evaluate Strategic Choice,
Implementation, Feedback, and
Control

Step 1: Establish Mission and Objectives (1 of 2)

Objectives that flow from the 'mission':

Marketing

- ❖ Worldwide, regional, national market share

Production

- ❖ Production volume
- ❖ Economies of scale

Finance

- ❖ Tax burden
- ❖ Capital structure

R&D

- ❖ New products with global patents
- ❖ Proprietary production techniques
- ❖ Worldwide R&D labs

Step 1: Establish Mission and Objectives

(2 of 2)

Profitability

- ❖ Long-term profit growth
- ❖ Return on Investment, equity, and assets
- ❖ Annual rate of profit growth
 - ❖ **ROA:** The **return on assets (ROA)** shows the percentage of how profitable a company's assets are in generating revenue.
 - ❖ $ROA = \text{Net Income} / \text{Average Total Assets}$
 - ❖ ROAs over 5% are generally considered good!
 - ❖ **ROE = Net Income/Shareholder Equity**
 - ❖ **15-20%**
 - ❖ **ROI = (Net profit / Investment) × 100** (For a single-period review)

Research & Development

- ❖ Develop new products and global patents
- ❖ Develop proprietary technologies
- ❖ Worldwide research and development labs

Step 2: Assess External Environment (1 of 2)

Global Risks

- ❖ Political Turmoil/Wars
- ❖ Economic and Financial Risk
- ❖ Energy Availability and prices
- ❖ Shifting Production & Consumption
- ❖ Currency Wars
- ❖ Varying Fiscal Strategies

Step 2: Assess External Environment (2 of 2)

Regional Risks

- ❖ Regional Instability
- ❖ Financial & Currency Instability
- ❖ Economic & Fiscal Policies

National Risks

- ❖ Legal Protection
- ❖ Technology Rights
- ❖ Nationalism/Expropriation

Environmental Scanning Variables



Institutional Effects on International Competition

Attractiveness of Overseas Markets

- The extent to which countries have institutions to promote the rule of law to outside investors

Entry Barriers and Industry Attractiveness

- Creating barriers to entry in certain industries and making those industries more attractive (profitable) for incumbent firms

Institutional Effects on International Competition

❖ **Attractiveness of Overseas Markets**

- ❖ The extent to which countries have institutions to promote the rule of law to outside investors

❖ **Entry Barriers and Industry Attractiveness**

- ❖ Creating barriers to entry in certain industries and making those industries more attractive (profitable) for incumbent firms

❖ **Antidumping as an Entry Barrier**

- ❖ The current U.S. antidumping laws place a foreign entrant at a disadvantage if accused of “dumping”.

One Example of Institutional Effects on International Competition

Antidumping as an Entry Barrier

- “A company is dumping if it is exporting a product to the EU at prices lower than the normal value of the product (the domestic prices of the product or the cost of production) on its own domestic market” (EU Commission, 17. Nov.2014)
- The current U.S. and EU antidumping laws place a foreign entrant at a disadvantage if accused of “dumping”.



Sources of Environmental Information

- ❖ Business information services
- ❖ Clipping services
- ❖ Field personnel
- ❖ Internal sources of information

Competitive Analysis

Compared to competitors, a *competitive analysis* shows:

- ❖ the firm's capabilities
- ❖ key success factors
- ❖ current competitors—global and local—for the proposed market

Porter's Five Forces Industry-Based Model

- ❖ The level of global and local competition in the industry
 - ❖ Alibaba in China vs. Amazon, Ebay, Paypal, etc.
- ❖ The level of threat of new competitors— ease of entry
 - ❖ EV market in China (94+ brands and 300 manufactures in Chinese markets alone) vs. EU:
 - ❖ Foreign Supermarkets in India
- ❖ The power of buyers
 - ❖ Supplier > demand – Price war
 - ❖ Walmart, ALDI, Lidl driving the whole sales prices down
- ❖ The bargaining power of suppliers
 - ❖ **Semiconductor industry:** TSMC 's Chip needs silicon wafers, special chemicals, and machines
- ❖ The level of threat of substitute products or services
 - ❖ Kodak bankrupted in 2012, out of the market as the result of digital photography. YET, Kodak was the inventor of it!

Can you give more examples?



Step 3: Analyze Internal Factors

Internal Analysis

- **Key Success Factors:**
 - Technological capability:
Google
 - Distribution channels:
Wal-Mart
 - Promotion capabilities:
Disney

Competitive Analysis

- Distinctive competencies
- SWOT analysis
- Comparative advantage
- E-Business

Step 3: Analyze Internal Factors

EXHIBIT 6-5 Global Competitor Analysis

A. U.S. Firm Compared with Its International Competitors in Malaysian Market

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	–

Key:

+ = Firm is better relative to competition.

0 = Firm is same as competition.

– = Firm is poorer relative to competition.

Source: Diane J. Garsombke, "International Competitor Analysis," *Planning Review* 17, no. 3 (1989): 42–47, used with permission of Emerald Insight.

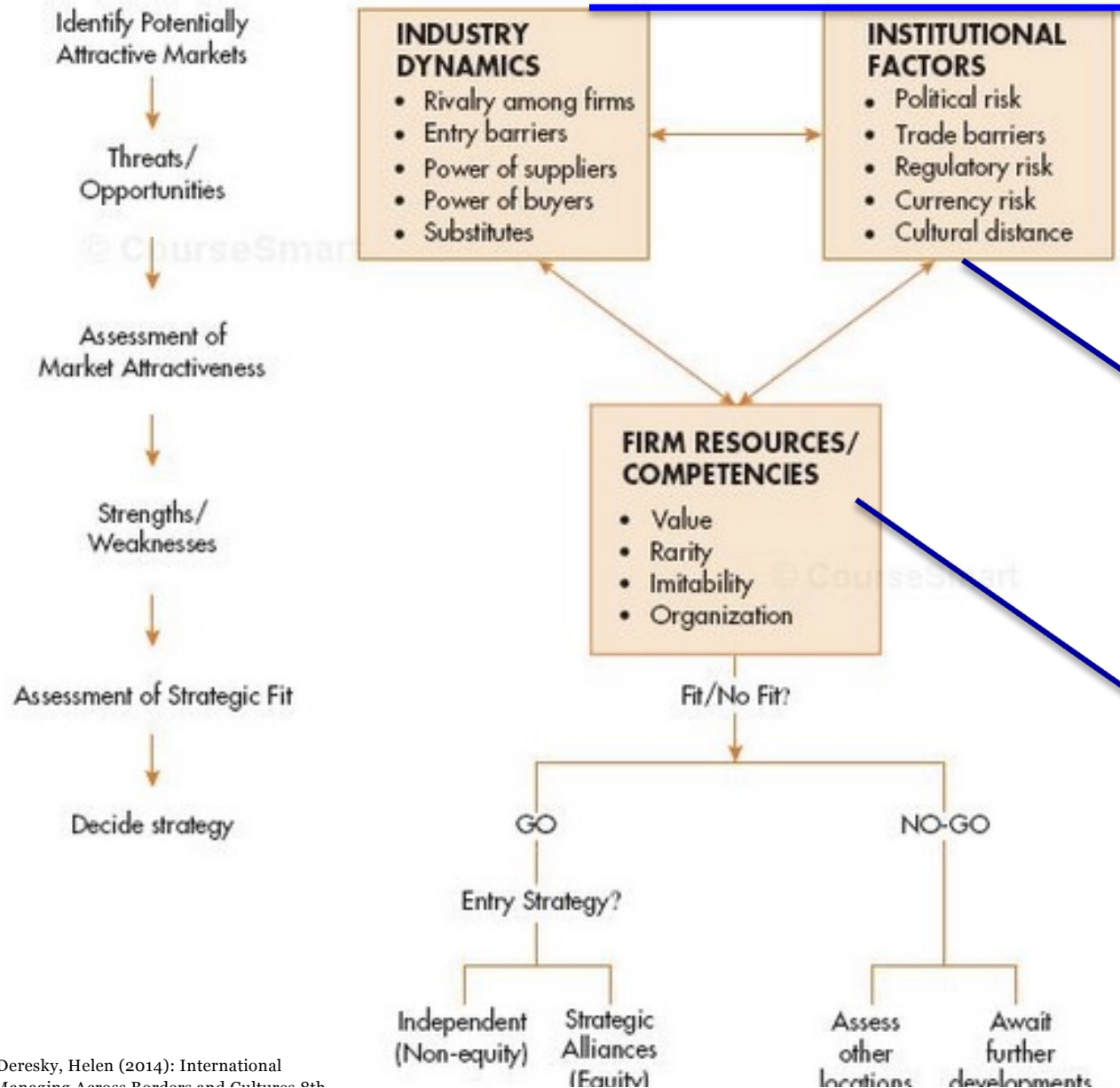


Chapter 6

A Review of Business Strategy Modules

Strategic Decision-Making Models

EXHIBIT 6-6 A Hierarchical Model of Strategic Decision Making



Industry based theory - Porter's industry-based five-forces model

Institution based theory

Resource based Theory (USPs of products and services)

Porter's Five Forces Industry-Based Model

- ❖ The level of global and local competition in the industry
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Can you give more examples?



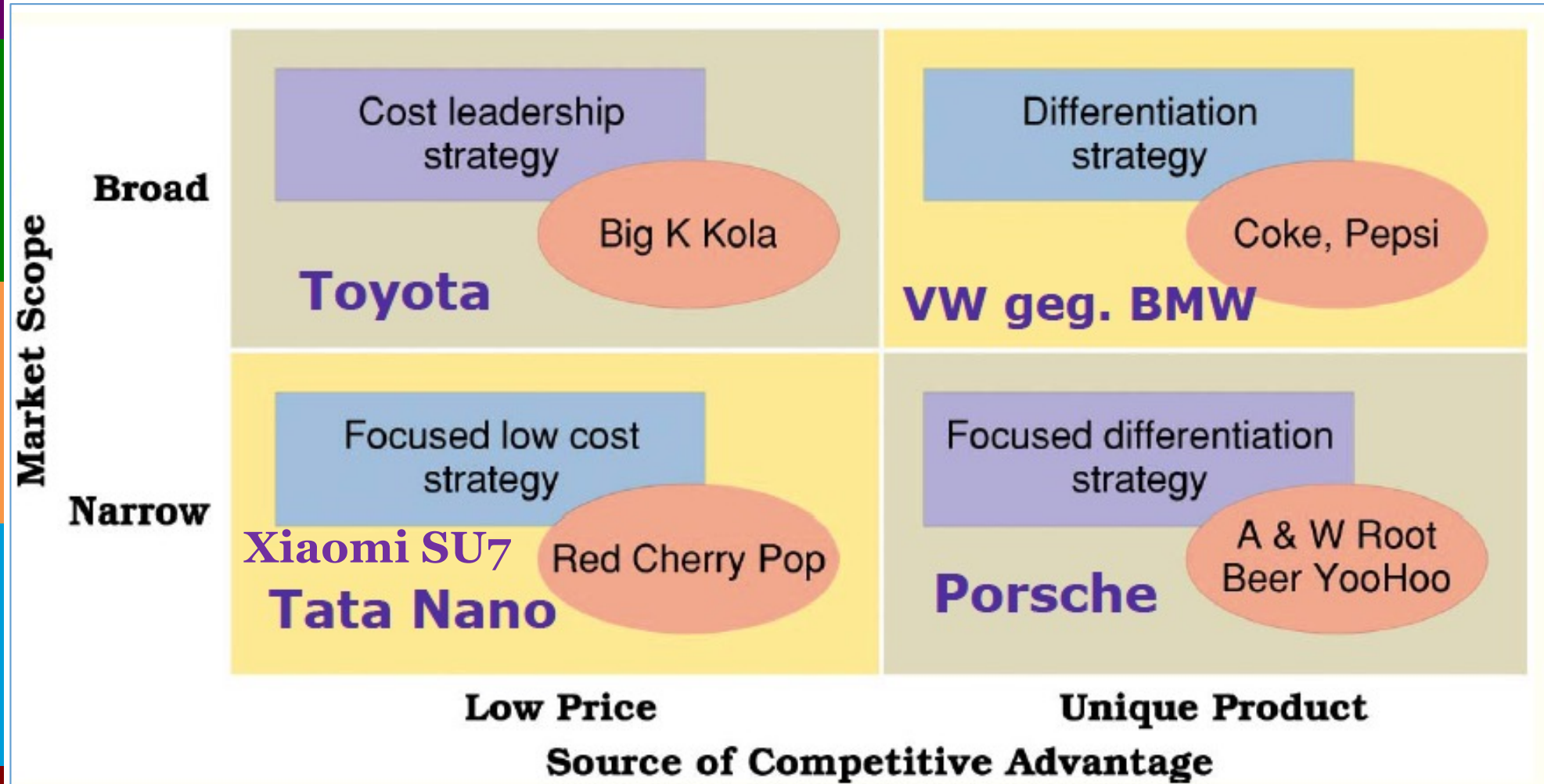
Business Strategy Module

- Porter's generic strategies model -

- ❖ Market scope and source of competitive advantage combine to generate four generic strategies.
- ❖ Business-level strategic decisions are driven by
 - ❖ Market scope
 - ❖ Source of competitive advantage
- ❖ **Four distinctive Strategies:**
 - ❖ Differentiation strategy
 - ❖ Cost leadership strategy
 - ❖ Focused differentiation strategy
 - ❖ Focused cost leadership strategy

Example

Porter's generic strategies for gaining competitive advantage:



Tata Nano – Narrow Market + Low cost



XIAOMI SU7 (a copycat of Porsche?)

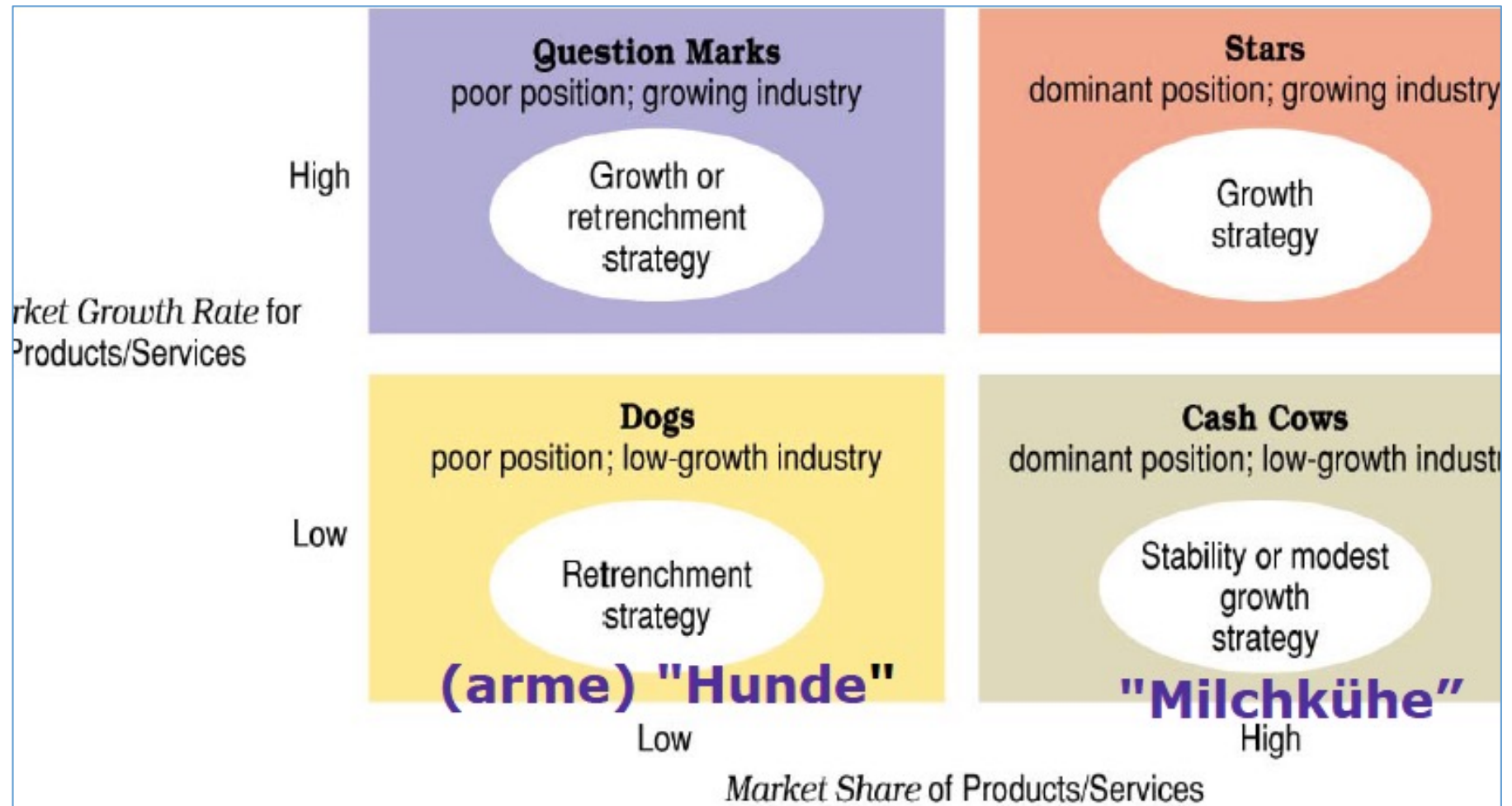


Ties strategy formulation to analysis of business opportunities according to:

- ❖ Industry or market growth rate
 - ❖ Low versus high

- ❖ Market share
 - ❖ Low versus high

BCG Matrix – Boston Consulting Group Matrix



BCG matrix — business conditions and related strategies

❖ Stars :

- ❖ High share/high growth businesses.
- ❖ Preferred strategy — growth.

❖ Cash cows

- ❖ High share/low growth businesses.
- ❖ Preferred strategy — stability or modest growth.

❖ Question marks

- ❖ Low share/high growth businesses.
- ❖ Preferred strategy — growth for promising question marks and restructuring or divestiture for others.

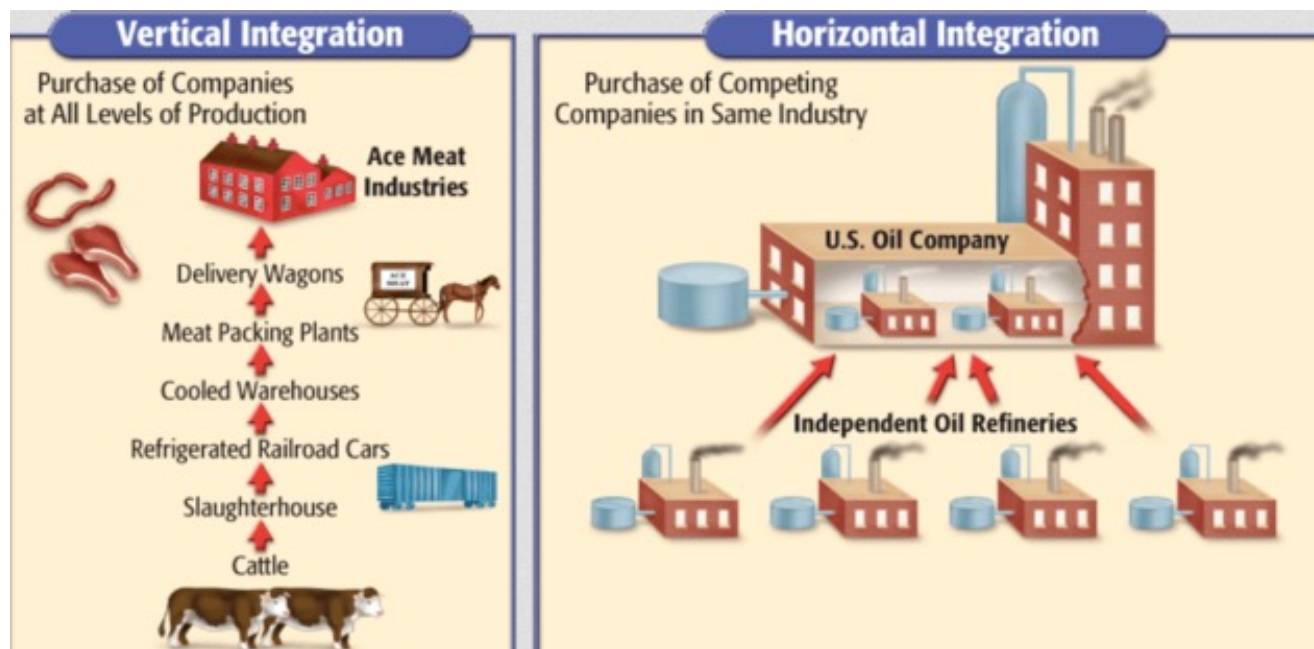
❖ Dogs

- ❖ Low share/low growth businesses.
- ❖ Preferred strategy — retrenchment by divestiture

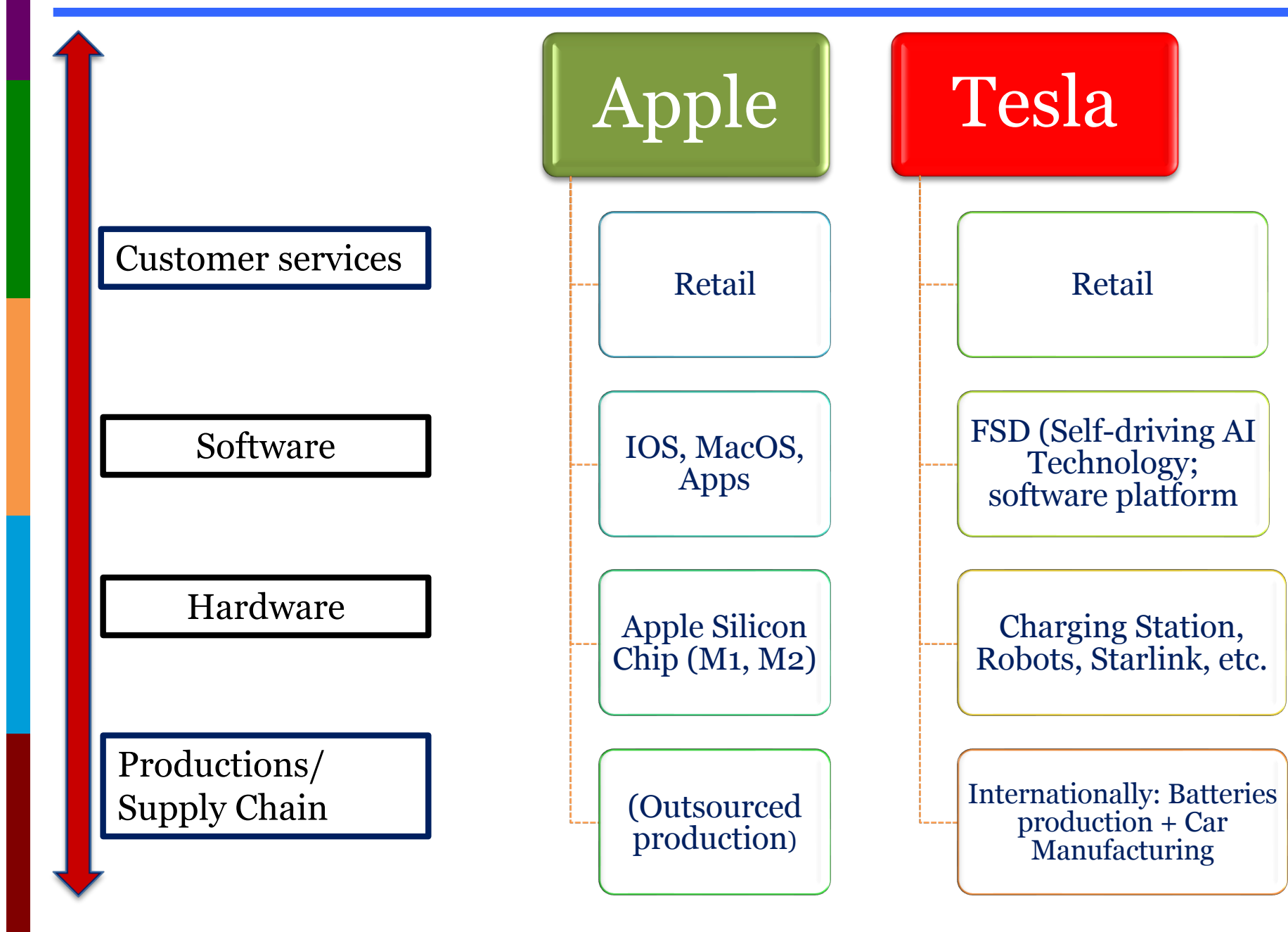
Can you apply this to analyze the MNC international markets?

Global Integrative Strategies

- ❖ Full vertical and horizontal integration
- ❖ Example of horizontal integration: Meta /Facebook (Facebook, WhatsApp, Instagram)
- ❖ Example of Horizontal integration: ??



Cases of Vertical Integration





Now Back to the Topic of Formulating International Strategy

Step 4: Evaluate Global and International Strategic Alternatives

Alternative Strategies

❖ Global

- ❖ Global integrative: Global standardization and efficiency, minimum local customization (e.g. Moët & Chandon -> LVMH, Nike, Microsoft, Paypal, etc.)

❖ Localization/Regionalization

❖ Transnational

- ❖ Balancing global efficiency with local adaptation local responsiveness (e.g. Nestlé)



Step 4: Evaluate Global and International Strategic Alternatives

CAGE Distances Between Countries

The fundamental base for all international strategies:

- ❖ Cultural Distance
- ❖ *Administrative Distance*
- ❖ Geographical Distance
- ❖ Economic Distance

Forces to Globalize

- ❖ Treating the world as an undifferentiated worldwide marketplace
 - ❖ Increasing competitive clout resulting from regional trading blocs
 - ❖ Declining tariffs (e.g. regional trading blocs)
 - ❖ Information Technology explosion

Examples of a Global Strategy

- ❖ Coca-cola: “To put a Coke within ‘arm’s reach’ of every consumer in the world”



- ❖ PepsiCo.: “to be the world’s premier consumer products company focused on convenient foods and beverages”

One Core Target Segment from Coca-Cola's



Regionalization/Localization/Multi-domestic Strategy

- Local markets are linked together within a region, allowing local responsiveness.
- The impetus/momentum/moving force:
 - *Unique **consumer preferences***
 - *Domestic subsidies*
 - *New production technologies*(...fast in developing modular, region-specific brands to boost revenue)
- *Glocal: between global and regional/local*



Airbnb or Aldi or H&M...

Transnational Strategies

- ❖ Achieving low cost through global efficiency
- ❖ Providing differentiated products/service offerings
- ❖ Accounting for local customer differences in geographic markets
- ❖ Using e-business for global expansion—born global firms
 - ❖ Google, Costco, Unilever



Global Integrative Strategy vs. Transnational Strategy

Key Differences

1. Strategic Orientation:

1. **Global Integrative Strategy:** More focused on achieving synergy through integration and leveraging best practices globally, with a balanced approach to standardization and adaptation.
2. **Transnational Strategy:** More focused on balancing dual objectives of global efficiency and local responsiveness, often involving more complex and dynamic coordination.

2. Decision-Making and Control:

1. **Global Integrative Strategy:** Decentralized decision-making with strong global coordination, emphasizing cross-border collaboration and shared services.
2. **Transnational Strategy:** Decentralized authority with an integrated network structure, emphasizing local autonomy within a coordinated global framework.

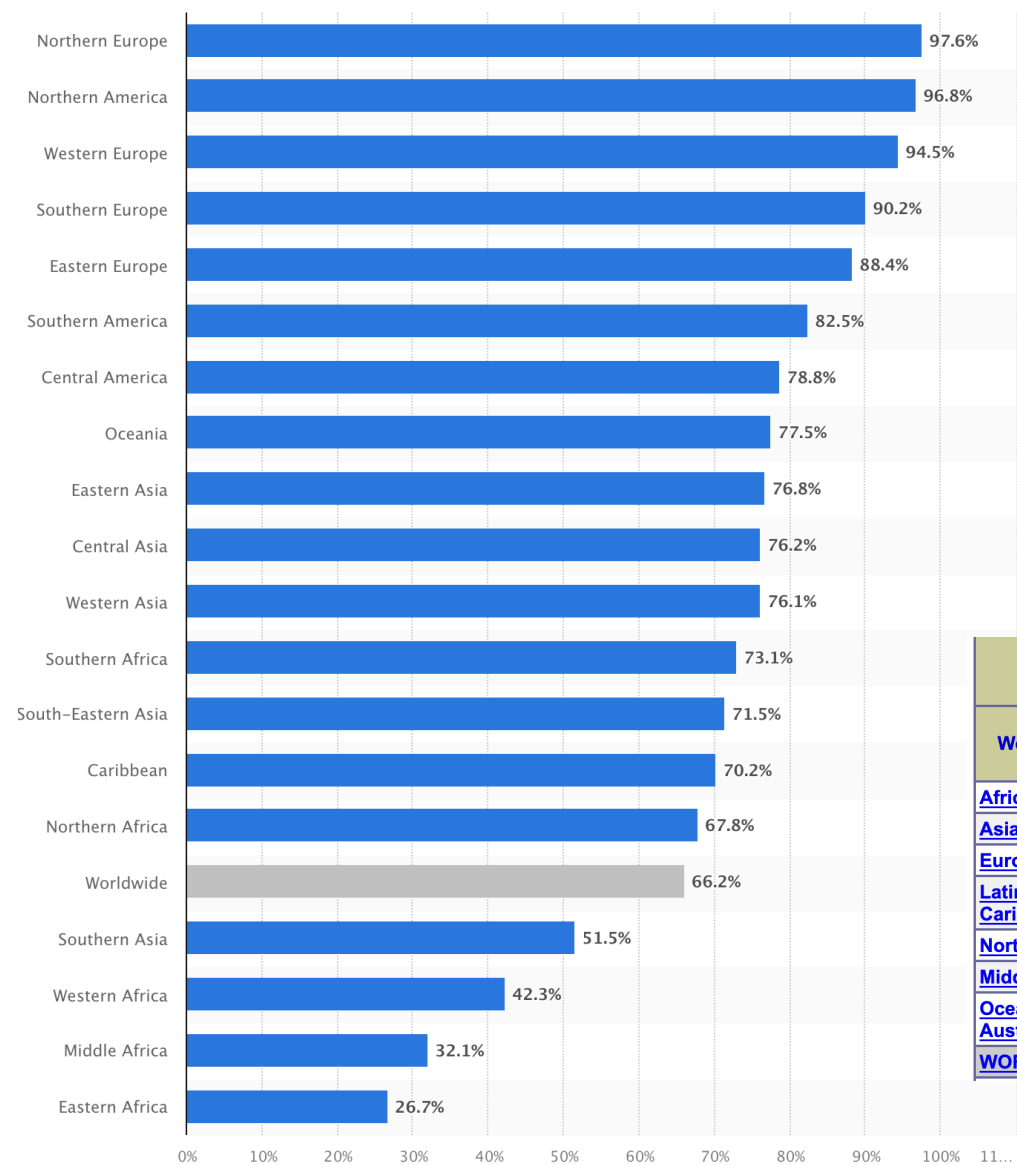
3. Operational Focus:

1. **Global Integrative Strategy:** Integrated value chain with a focus on global standardization and local resonance.
2. **Transnational Strategy:** Cross-border value chain management with a focus on dynamic capabilities and local innovation.

4. Implementation:

1. **Global Integrative Strategy:** Implements shared services, global centres of excellence, and integrated supply chain management to support global and local operations.
2. **Transnational Strategy:** Develops dual reporting structures, fosters local innovation, and manages a distributed value chain to optimize both global and local performance.

E-Business for Global Expansion

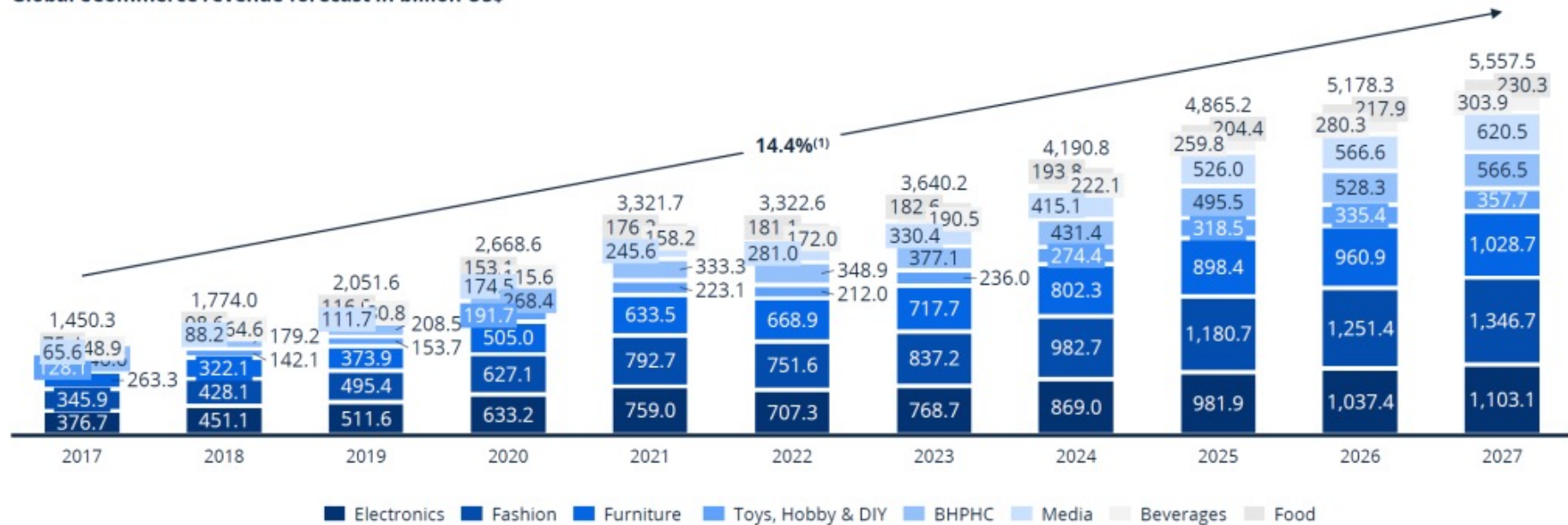


Global internet penetration rate as of January 2024, by region (Statista, 2024)

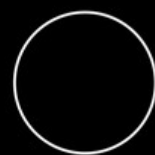
WORLD INTERNET USAGE AND POPULATION STATISTICS 2023 Year Estimates						
World Regions	Population (2022 Est.)	Population % of World	Internet Users 31 Dec 2021	Penetration Rate (% Pop.)	Growth 2000-2023	Internet World %
Africa	1,394,588,547	17.6 %	601,940,784	43.2 %	13,233 %	11.2 %
Asia	4,352,169,960	54.9 %	2,916,890,209	67.0 %	2,452 %	54.2 %
Europe	837,472,045	10.6 %	747,214,734	89.2 %	611 %	13.9 %
Latin America / Carib.	664,099,841	8.4 %	534,526,057	80.5 %	2,858 %	9.9 %
North America	372,555,585	4.7 %	347,916,694	93.4 %	222 %	6.5 %
Middle East	268,302,801	3.4 %	206,760,743	77.1 %	6,194 %	3.8 %
Oceania / Australia	43,602,955	0.5 %	30,549,185	70.1 %	301 %	0.6 %
WORLD TOTAL	7,932,791,734	100.0 %	5,385,798,406	67.9 %	1,392 %	100.0 %

Global e-Commerce

Global eCommerce revenue forecast in billion US\$



Worldwide ecommerce revenue B2C vs B2B



\$2.8T

B2C ecommerce

\$10.6T

B2B ecommerce

Data via Statista

Technological Trends Plays a key Role in Transforming Global Supply Chain: e.g. autonomous robots & Augmented Reality

(Finances online, 2023, Deloitte, 2018)

3 Key Supply Chain Trends You Should Know

 **FinancesOnline**
REVIEWS FOR BUSINESS

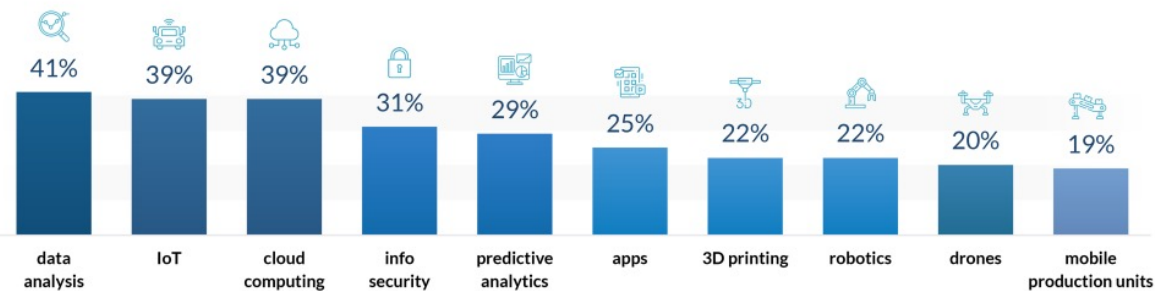
1 Supply chain areas with highest outsourcing

Source: SupplyChainDigest



2 Technologies that are becoming a priority in the supply chain industry

Source: GEODIS



3 Extent of supply chain visibility among organizations

Source: GEODIS



Manufacturing Robots



E-Global or E-Local?

E-Global When:

- Trade is global in scope.
- Business does not involve delivering orders.
- When the business model can be easily hijacked by local competitors.
- Which industries may go e-global?

E-Local When:

- Production and consumption are regional in scope.
- Customer behavior and market structures differ across regions, but are similar within a region.
- Supply-chain management is very important to success.
- Which industries may go e-local?

Step 5: Evaluate Entry Strategy Alternatives



Strategy	Advantages	Critical Success Factors
Exporting	Low risk No long-term assets Easy market access and exit	Choice of distributor Transportation costs Tariffs and quotas
Licensing	No asset ownership risk Fast market access Avoids regulations and tariffs	Quality and trustworthiness of licensee Appropriability of intellectual property Host-country royalty limits
Franchising	Little investment or risk Fast market access Small business expansion	Quality control of franchisee and franchise operations
Contract manufacturing/Offshoring	Limited cost and risk Short-term commitment	Reliability and quality of local contractor Operational control and human rights issues
Service-sector outsourcing	Lower employment costs	Quality control
Turnkey operations	Access to high skills and markets Revenue from skills and technology where FDI restricted	Domestic client acceptance Reliable infrastructure Sufficient local supplies and labor Repatriability of profits Reliability of any government partner
Management contracts	Low-risk access to further strategies	Opportunity to gain longer-term position
Joint ventures	Insider access to markets Share costs and risk Leverage partner's skill base, technology, local contacts	Strategic fit and complementarity of partner, markets, products Ability to protect technology Competitive advantage Ability to share control Cultural adaptability of partners
Wholly owned subsidiaries	Realize all revenues and control Global economies of scale Strategic coordination Protect technology and skill base	Ability to assess and control economic, political, and currency risk Ability to get local acceptance Repatriability of profits
E-Business	Rapid entry into (or exit from) new markets (often through alliance or purchase of local websites); relatively low-risk	Differences in business models, culture, language, and laws regarding intellectual property, consumer protection, and taxes.

Learning Objective 6.4



To understand the need for strategic planning for emerging markets

Management in Action: Strategic Planning for Emerging Markets (1 of 2)

- ❖ Increasing business opportunities for companies to set up operations in or export to emerging markets
- ❖ Different countries are at different levels of development and have different risk/return profiles
- ❖ Usually entails higher risk

Management in Action: Strategic Planning for Emerging Markets (2 of 2)

- ❖ One size **does not fit all**: different infrastructure, socio-economic and regulatory challenges, different environmental and geographic constraints, and cultural differences
- ❖ Marketing potential for innovation, not just exiting customers, but also new customers (e.g. semi-conductor and electronic devices manufacturing in China; or IT services in India, or labor intense industries in Vietnam or Thailand)

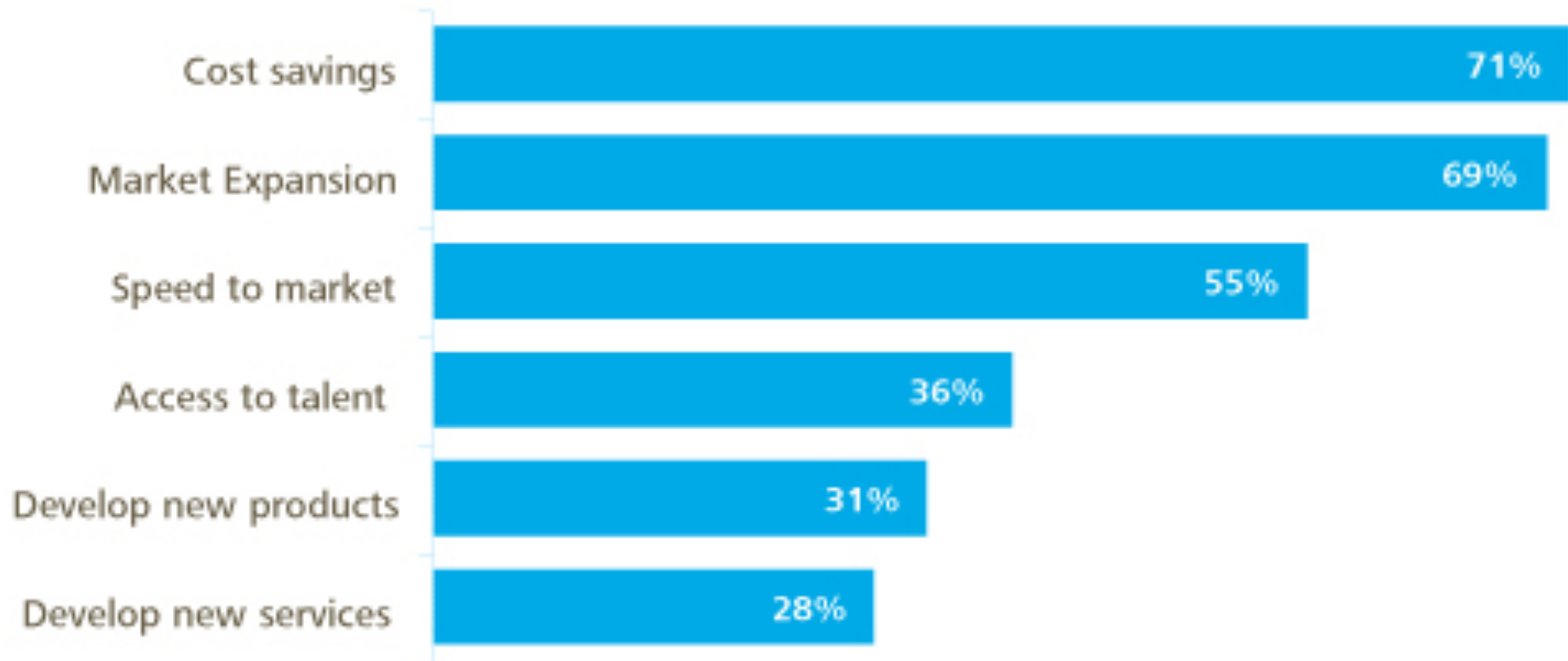
Step 6: Decide on Strategy

The strategic choice of one or more of the entry strategies depends on:

- ❖ a careful evaluation of the advantages and disadvantages of each in relation to the firm's **capabilities and resources**
- ❖ critical environmental factors
- ❖ the contribution that each choice would make to the over- all mission and objectives of the company

Top Three Strategic Objectives

Figure 1: Top three strategic objectives for establishing functions in emerging markets



Comparative Management in Focus: Strategic Planning for Emerging Markets

The New Ways to Win in Emerging Markets

Three critical capabilities for learning global growth

1

Operational efficiency

- Develop more short-term and flexible business strategies
- Build efficient supply chains through technology and local partnerships
- Optimize footprint by reevaluating manufacturing presence

2

Innovation

- Find new ways to reach untapped markets
- Adopt a continuous, step-wise approach to innovation
- Design localized products for the emerging market consumer

3

Go-to-market excellence

- Enable presence across multiple channels and price points
- Build an ecosystem of partners to navigate the complex environment
- Develop a strong local organization; cross-share global best practices

Investing in foreign Market

Hints for Foreign-Investment-Friendly Climate and Investment Sectors

- ❖ “To focus on countries and *“governments within some emerging markets continue to exhibit a strong implementation of macroprudential policies”* (such as control on inflation, reducing fiscal deficit, and maintaining floating exchange rates (e.g. Vietnam, the Philippines, Colombia government’ policies after COVID),
- ❖ To address gaps in critical infrastructure and provide options for a green future in emerging markets (e.g. fast train systems, fiber optics, renewable energy, etc.)
- ❖ To follow examples of countries which *“continuing investing abroad without ideology and preconditions”, such as Japan and Australian investors*

Deal to procure 24 bullet trains from Japan to be concluded by month-end

Dipak K Dash / TNN / Updated: Mar 7, 2024, 11:09 IST

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Representative image

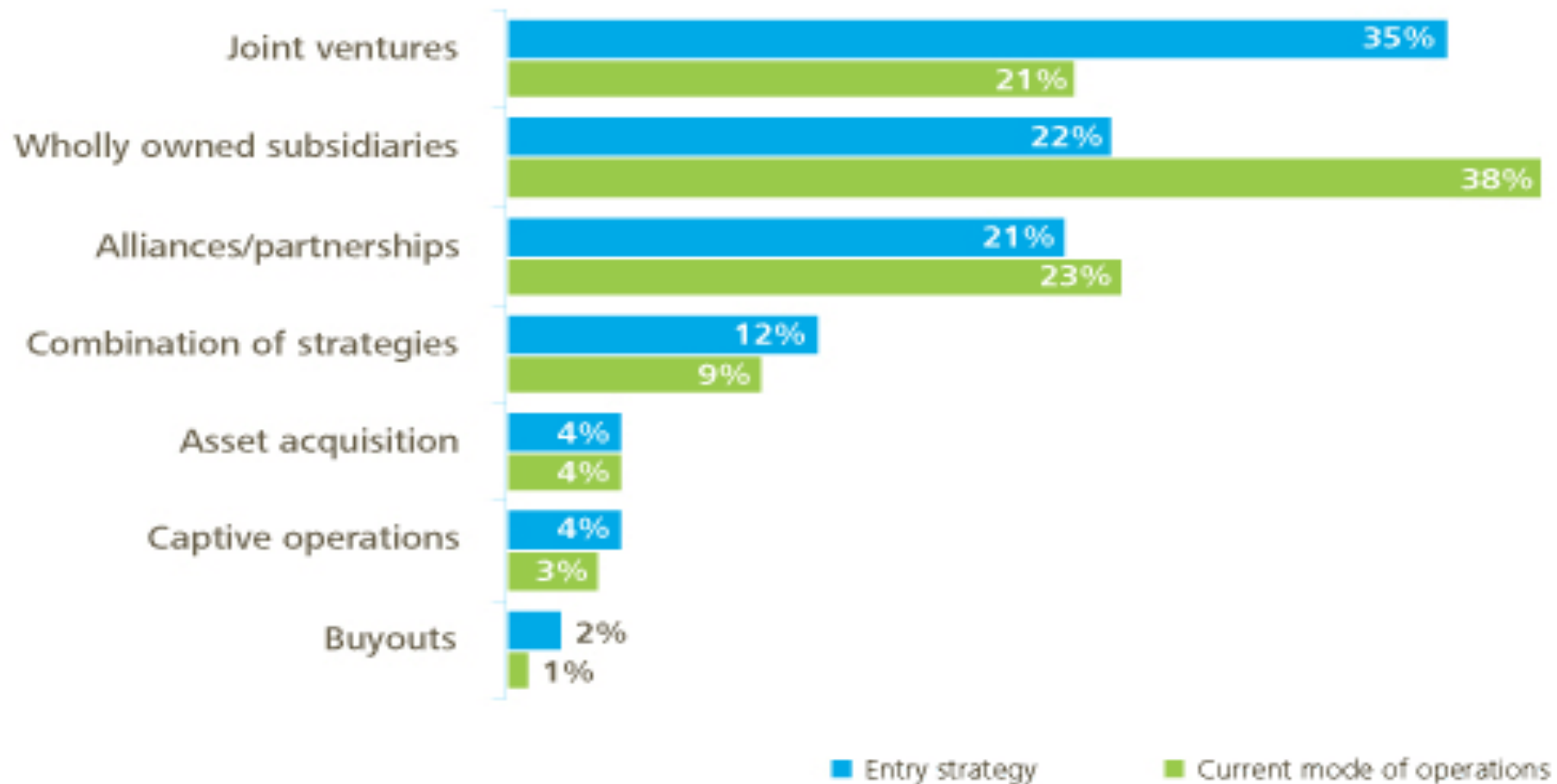
NEW DELHI: India will seal the deal for procuring 24 E5 Series Shinkansen

Japanese Shinkansen (Japanese Bullet Train System)



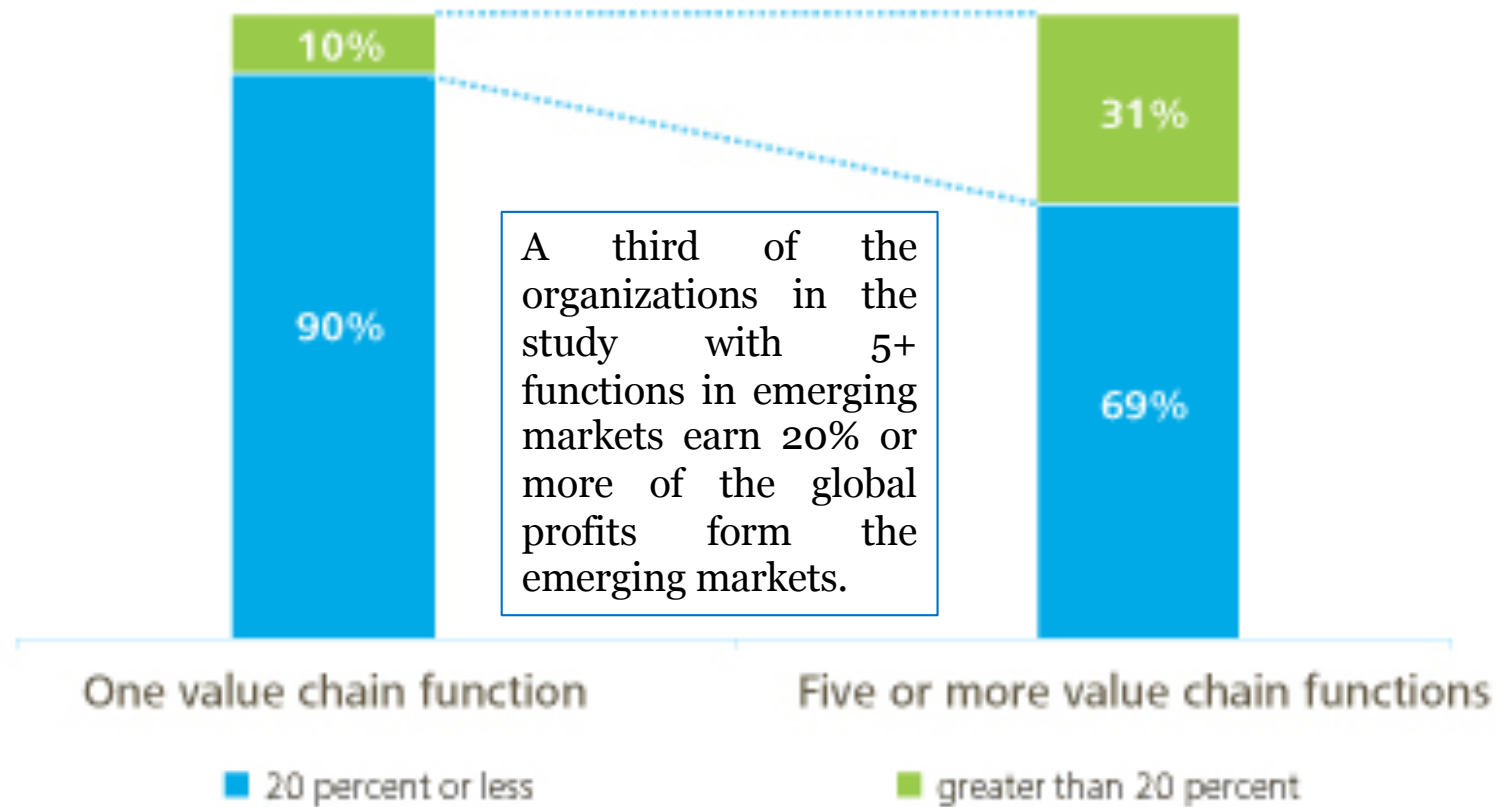
Operating Model for Emerging Markets

Figure 4: Operating model



Number of Functions

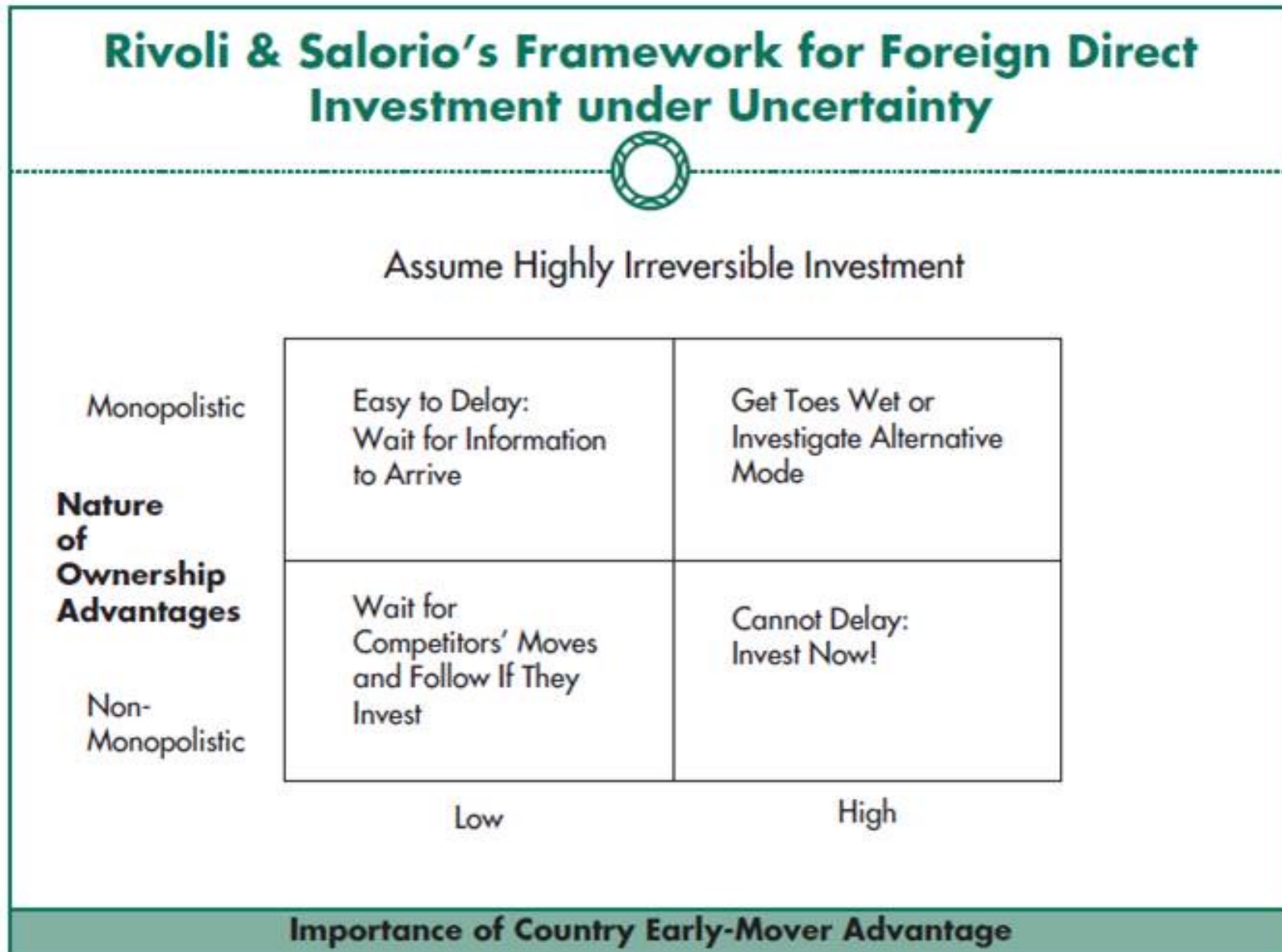
Figure 2: Number of functions in emerging markets vs. percentage of global profits from emerging markets



The Influence of Culture on Strategic Choices

- ❖ China and Japan have longer-term time horizons than the United States
- ❖ High uncertainty avoidance cultures (e.g., Latin American, African countries) prefer non-equity modes of entry
- ❖ High power distance cultures (e.g., Japan and Arab countries) tend to use more equity modes of entry abroad

Foreign Direct Investment under Uncertainty



Summary

- ❖ Proactive and reactive reasons for going international
- ❖ Rational planning; mission and objectives; threats and opportunities; internal strengths and weaknesses; competitive analysis;
- ❖ Globalization vs. regionalization vs Glocal/Integrative strategies
- ❖ E-global or E-local
- ❖ Entry strategies/operational Models
- ❖ Insights of strategic planning for emerging markets