

Business Policy and Strategy

CHAPTER 7

Strategies for Competing in International Markets

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WHY COMPANIES DECIDE TO ENTER FOREIGN MARKETS



To gain access to new customers and meet current customer needs

To further exploit core competencies

To achieve lower costs through economies of scale, experience, and increased purchasing power

To gain access to resources and capabilities located in foreign markets

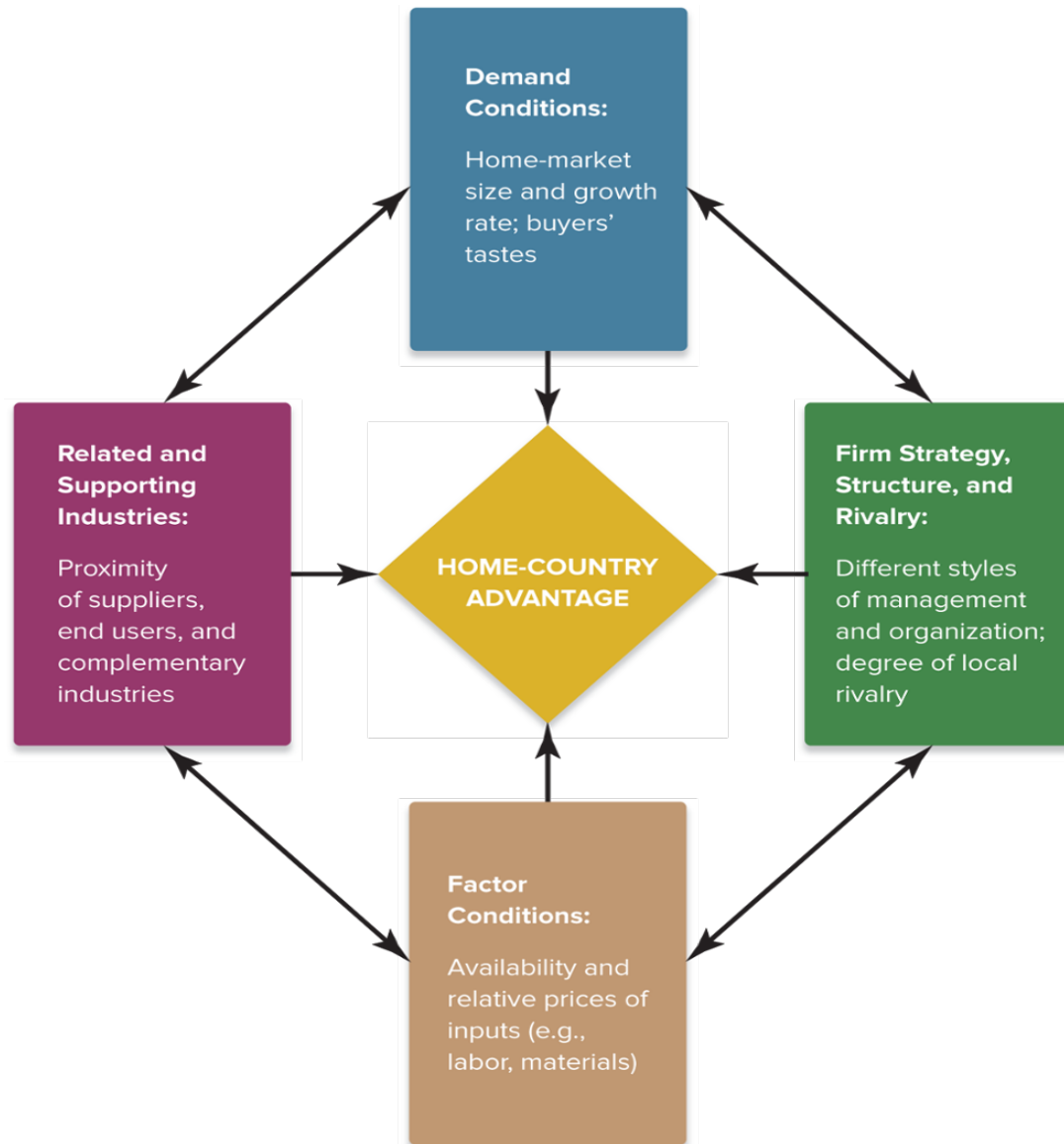
To gain access to lower-cost inputs of production

LEARNING OBJECTIVES

THIS CHAPTER WILL HELP YOU UNDERSTAND:

1. How and why differing market conditions across countries influence a company's strategy choices in international markets
2. The five major strategic options for entering foreign markets
3. The three main strategic approaches for competing internationally
4. How companies are able to use international operations to improve overall competitiveness
5. The unique characteristics of competing in developing-country markets

The Diamond of National Advantage



Demand Conditions

- ◆ The demand conditions in an industry's home market include the relative size of the market, its growth potential, and the nature of domestic buyers' needs and wants.
- ◆ Demanding domestic buyers for an industry's products spur greater innovativeness and improvements in quality. Such conditions foster the development of stronger industries, with firms that are capable of translating a home-market advantage into a competitive advantage in the international arena.

Factor Conditions

- ◆ Factor conditions describe the availability, quality, and cost of raw materials and other inputs (called *factors of production*) that firms in an industry require to produce their products and services.
- ◆ Competitively strong industries and firms develop where relevant factor conditions are favorable.

Related and Supporting Industries

- ◆ Robust industries often develop as part of a cluster of related industries, including suppliers of components and capital equipment, end users, and the makers of complementary products, including those that are technologically related.

Firm Strategy, Structure, and Rivalry

- ◆ Different country environments foster the development of different styles of management, organization, and strategy.
- ◆ Fierce rivalry in home markets tends to hone domestic firms' competitive capabilities and ready them for competing internationally.

Home-Country Industry Advantages

- ◆ For an industry in a particular country to become competitively strong, all four factors must be favorable for that industry.

CROSS-COUNTRY DIFFERENCES IN DEMOGRAPHIC, CULTURAL, AND MARKET CONDITIONS

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graph LR; A([Key Strategic Considerations]) --- B[Whether to customize offerings in each country market to match the tastes and the preferences of local buyers]; A --- C[Whether to pursue a strategy of offering a mostly standardized product worldwide];
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Key Strategic Considerations

Whether to customize offerings in each country market to match the tastes and the preferences of local buyers

Whether to pursue a strategy of offering a mostly standardized product worldwide

STRATEGIC OPTIONS FOR ENTERING AND COMPETING IN INTERNATIONAL MARKETS

- ◆ Maintain a home country production base and export goods to foreign markets.
- ◆ License foreign firms to produce and distribute the firm's products abroad.
- ◆ Employ a franchising strategy in foreign markets.
- ◆ Establish a subsidiary in a foreign market via acquisition or internal development.
- ◆ Rely on strategic alliances or joint ventures with foreign companies.

INTERNATIONAL STRATEGY: THE THREE MAIN APPROACHES



CORE CONCEPTS

A **multidomestic strategy** is one in which a firm varies its product offering and competitive approach from country to country in an effort to be responsive to differing buyer preferences and market conditions.

It is a think-local, act-local type of international strategy, facilitated by decision making decentralized to the local level.

CORE CONCEPTS

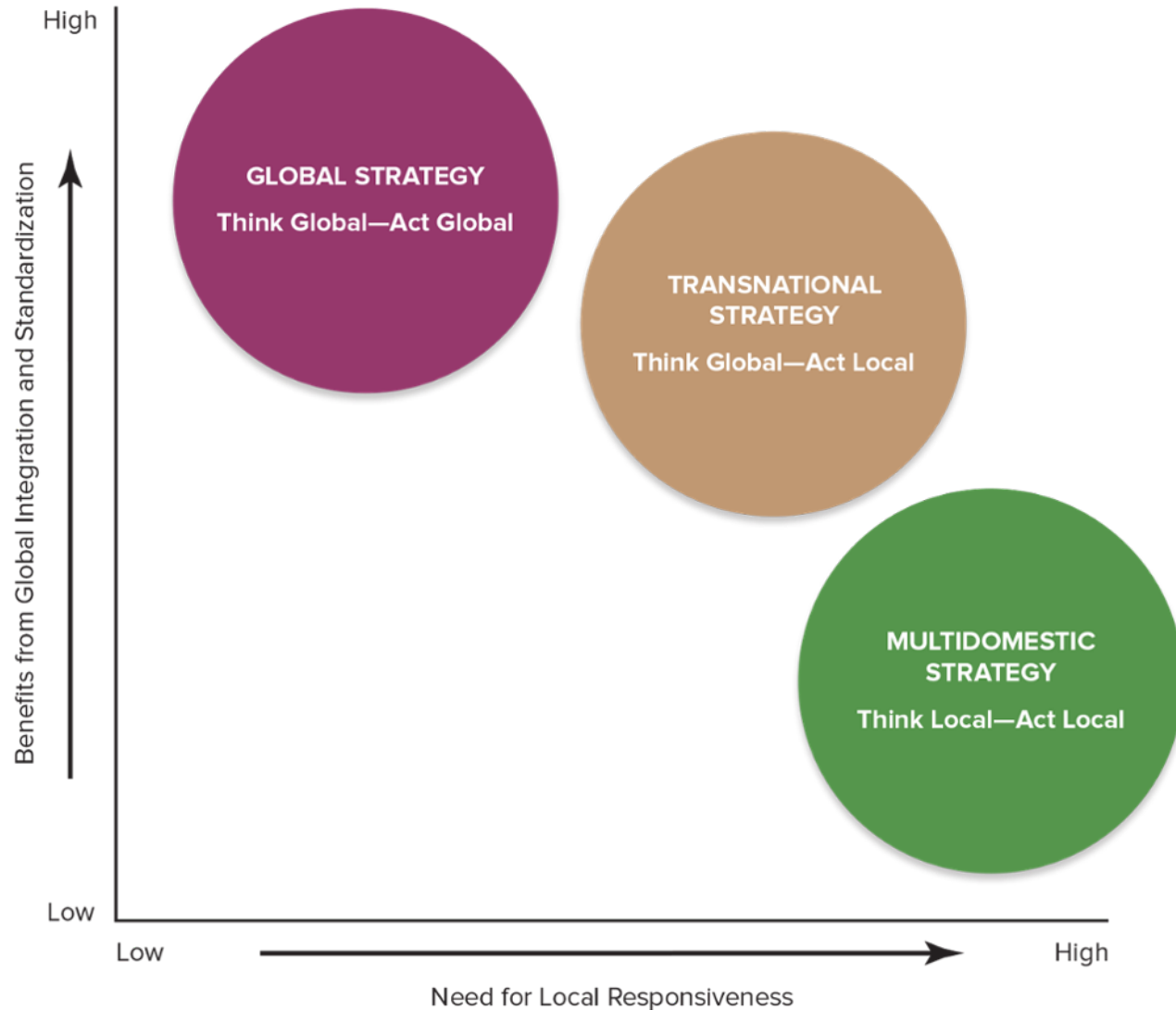
A **global strategy** is one in which a firm employs the same basic competitive approach in all countries where it operates, sells much the same products everywhere, strives to build global brands, and coordinates its actions worldwide with strong headquarters control.

It represents a think-global, act-global approach.

CORE CONCEPTS

A **transnational strategy** is a think-global, act-local approach that incorporates elements of both multidomestic and global strategies.

FIGURE 7.2 Three Approaches for Competing Internationally



[Jump to Appendix 4 long image description](#)

INTERNATIONAL OPERATIONS AND THE QUEST FOR COMPETITIVE ADVANTAGE



TABLE 7.1 Advantages and Disadvantages of a Multidomestic Strategy

Multidomestic (think local, act local)

Advantages

- Can meet the specific needs of each market more precisely
- Can respond more swiftly to localized changes in demand
- Can target reactions to the moves of local rivals
- Can respond more quickly to local opportunities and threats

Disadvantages

- Hinders resource and capability sharing or cross-market transfers
- Has higher production and distribution costs
- Is not conducive to a worldwide competitive advantage

TABLE 7.1 Advantages and Disadvantages of a Global Strategy

Global (think global, act global)	
Advantages	Disadvantages
• Has lower costs due to scale and scope economies	• Cannot address local needs precisely
• Can lead to greater efficiencies due to the ability to transfer best practices across markets	• Is less responsive to changes in local market conditions
• Increases innovation from knowledge sharing and capability transfer	• Involves higher transportation costs and tariffs
• Offers the benefit of a global brand and reputation	• Has higher coordination and integration costs

TABLE 7.1 Advantages and Disadvantages of Transnational Strategy

Transnational (think global, act local)	
Advantages	Disadvantages
• Offers the benefits of both local responsiveness and global integration	• Is more complex and harder to implement
• Enables the transfer and sharing of resources and capabilities across borders	• Entails conflicting goals, which may be difficult to reconcile and require trade-offs
• Provides the benefits of flexible coordination	• Involves more costly and time-consuming implementation

USING LOCATION TO BUILD COMPETITIVE ADVANTAGE

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graph LR; A([Key Location Issues]) --- B[To customize offerings in each country market to match tastes and preferences of local buyers]; A --- C[To pursue a strategy of offering a mostly standardized product worldwide];
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Key Location Issues

To customize offerings in each country market to match tastes and preferences of local buyers

To pursue a strategy of offering a mostly standardized product worldwide

STRATEGIC MANAGEMENT PRINCIPLE

Companies that compete internationally can pursue competitive advantage in world markets by locating their value chain activities in whatever nations prove most advantageous.

REASONS FOR LOCATING VALUE CHAIN ACTIVITIES ADVANTAGEOUSLY

- ◆ Lower wage rates
- ◆ Higher worker productivity
- ◆ Lower energy costs
- ◆ Fewer environmental regulations
- ◆ Lower tax rates
- ◆ Lower inflation rates
- ◆ Proximity to suppliers and technologically related industries
- ◆ Proximity to customers
- ◆ Lower distribution costs
- ◆ Available or unique natural resources

STRATEGY OPTIONS FOR COMPETING IN THE MARKETS OF DEVELOPING COUNTRIES

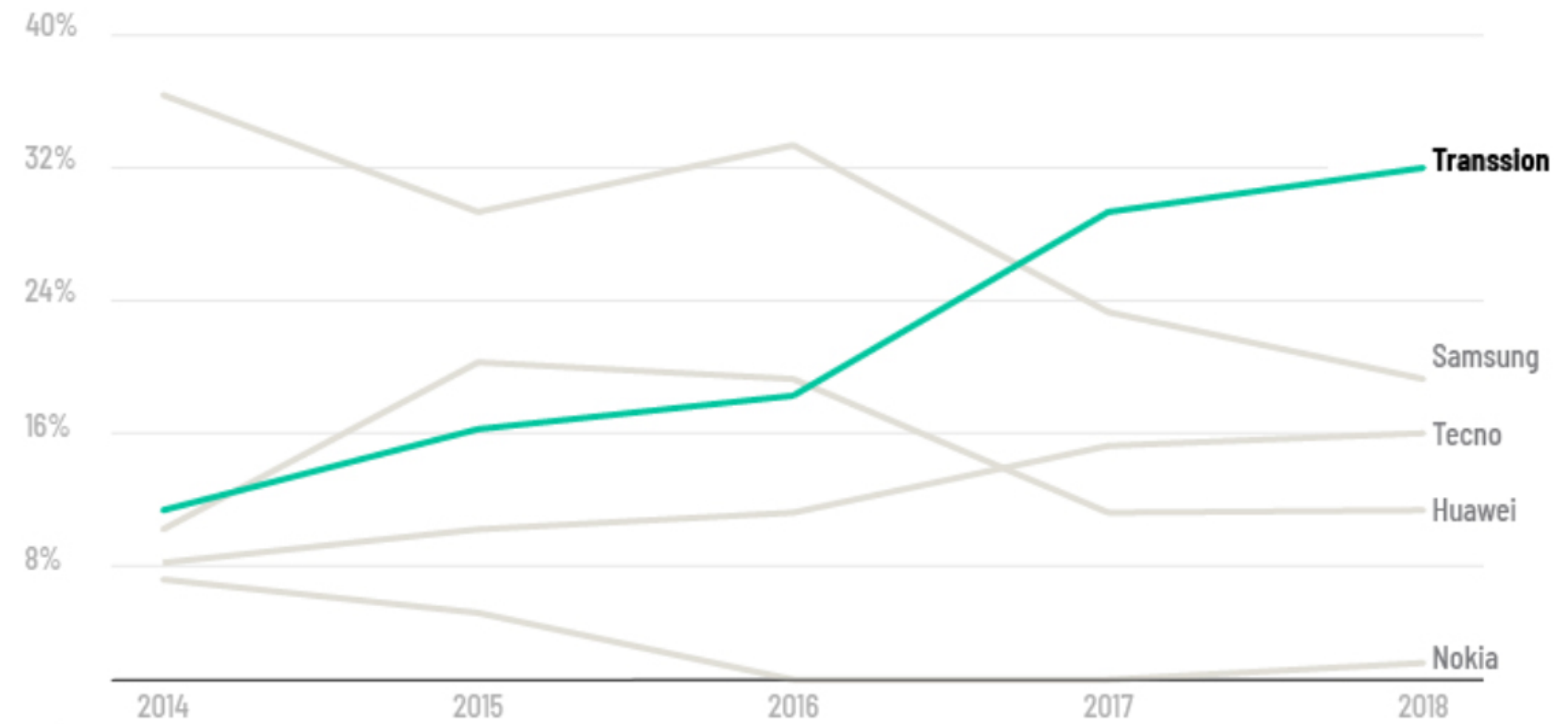
- ◆ Prepare to compete on the basis of low price.
- ◆ Prepare to modify the firm's business model or strategy to accommodate local circumstances.
- ◆ Try to change the local market to better match the way the firm does business elsewhere.
- ◆ Stay away from developing markets where it is impractical or uneconomical to modify the company's business model to accommodate local circumstances.

Discussion

- ◆ Assume you are in charge of developing the strategy for a multinational company selling products in Africa and your company's product is mobile phones, which of these strategies do you think it would make better strategic sense to employ? Why?

Case Study

Smartphone market share in Africa



Case Study

- ◆ <https://www.cnn.com/2018/10/10/tech/tecno-phones-africa/index.html>



Case Study

- ◆ TECNO
- ◆ <https://www.youtube.com/watch?v=NQ8rQ9xKpm8>

Case Study

- ◆ **The Perfect Selfie**
- ◆ Tecno cameras have been optimized for African complexions



Case Study

◆ Dual SIM

◆ people had multiple SIM cards in their wallet



Case Study

◆ Longer Battery Life



Case Study

- ◆ Priced between \$15 and \$200.
- ◆ a total of 10,000 local employees in Africa, and 6,000 in China.



Case Study

- ◆ In its marketing, Transsion plays down its Chinese roots. "In Africa, we say that we are African."
- ◆ Tecno ranked as the 7th most admired brand in Africa.

DEFENDING AGAINST GLOBAL GIANTS: STRATEGIES FOR LOCAL COMPANIES IN DEVELOPING COUNTRIES

1. Develop a business model that exploits shortcomings in local distribution networks or infrastructure.
2. Utilize knowledge of local customer needs and preferences to create customized products or services.
3. Take advantage of aspects of the local workforce with which large multinational firms may be unfamiliar.
4. Use acquisition and rapid-growth strategies to defend against expansion-minded internationals.
5. Transfer company expertise to cross-border markets and initiate actions to contend on an international level.

STRATEGIC MANAGEMENT PRINCIPLE

Profitability in developing markets rarely comes quickly or easily—new entrants have to adapt their business models to local conditions and be patient in earning a profit.

Summary: The Diamond of National Advantage

The four factors that influence each other and a company's home-country advantage are:

1. Demand conditions: home-market size and growth rate; buyers' tastes
2. First strategy, structure, and rivalry: different styles of management and organization; degree of local rivalry
3. Factor conditions: availability and relative prices of inputs (e.g. labor, materials)
4. Related and supporting industries: proximity of suppliers, end users, and complementary industries