



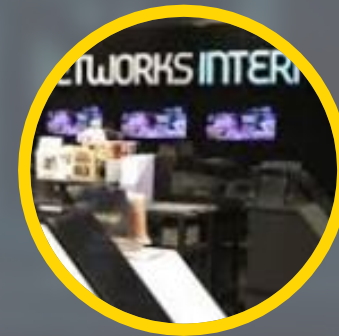
INTERNATIONAL BUSINESS

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CHAPTER 12: THE STRATEGY OF INTERNATIONAL BUSINESS



WHAT IS STRATEGY?

A firm's **strategy** refers to the actions that managers take to attain the goals of the firm

Firms need to pursue strategies that increase **profitability** and **profit growth**

- **Profitability**: the rate of return the firm makes on its invested capital
- **Profit growth**: the percentage increase in net profits over time

How to increase?



lower costs



sell more in existing markets

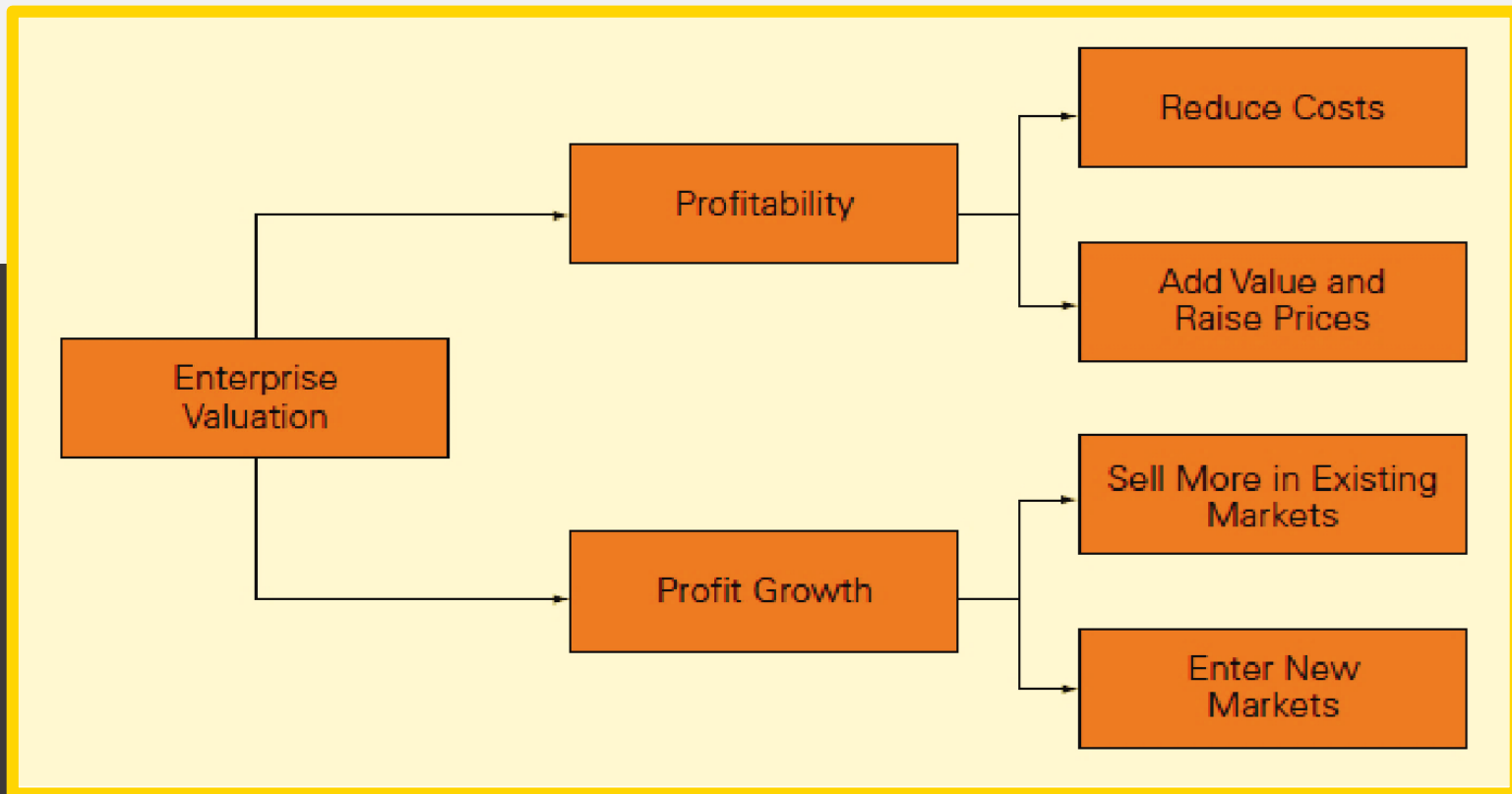


add value



expand internationally

WHAT IS STRATEGY?





How Is Value Created?

The firm's **value creation** is the difference between V (the price that the firm can charge for that product given competitive pressures) and C (the costs of producing that product)

Profits can be increased by :



1. Using a **differentiation strategy**

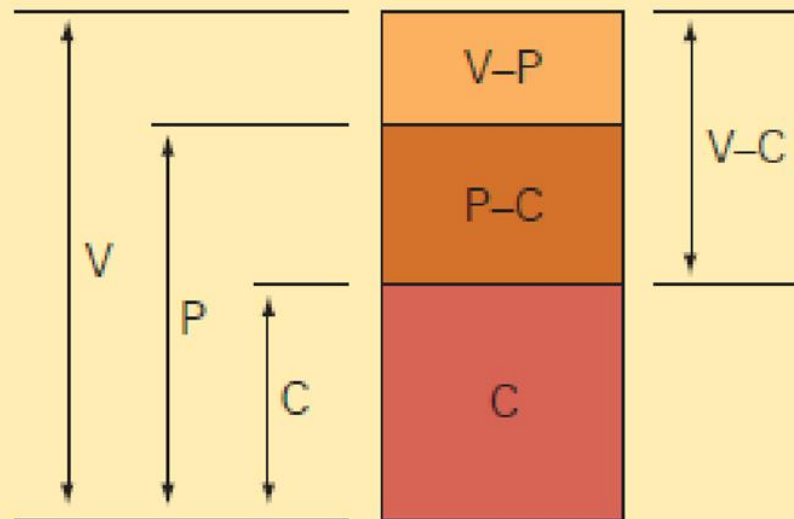
- adding value to a product so that customers are willing to pay more for it

the higher the value customers place on a firm's products, the higher the price the firm can charge for those products



2. Using a **low cost strategy** - lowering costs

HOW IS VALUE CREATED?



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

WHY IS STRATEGIC POSITIONING IMPORTANT?

Michael Porter argues that firms need to choose either differentiation or low cost, and then configure internal operations to support the choice



So, to **maximize long run return on invested capital**, firms must:

1

pick a viable position on the efficiency frontier

2

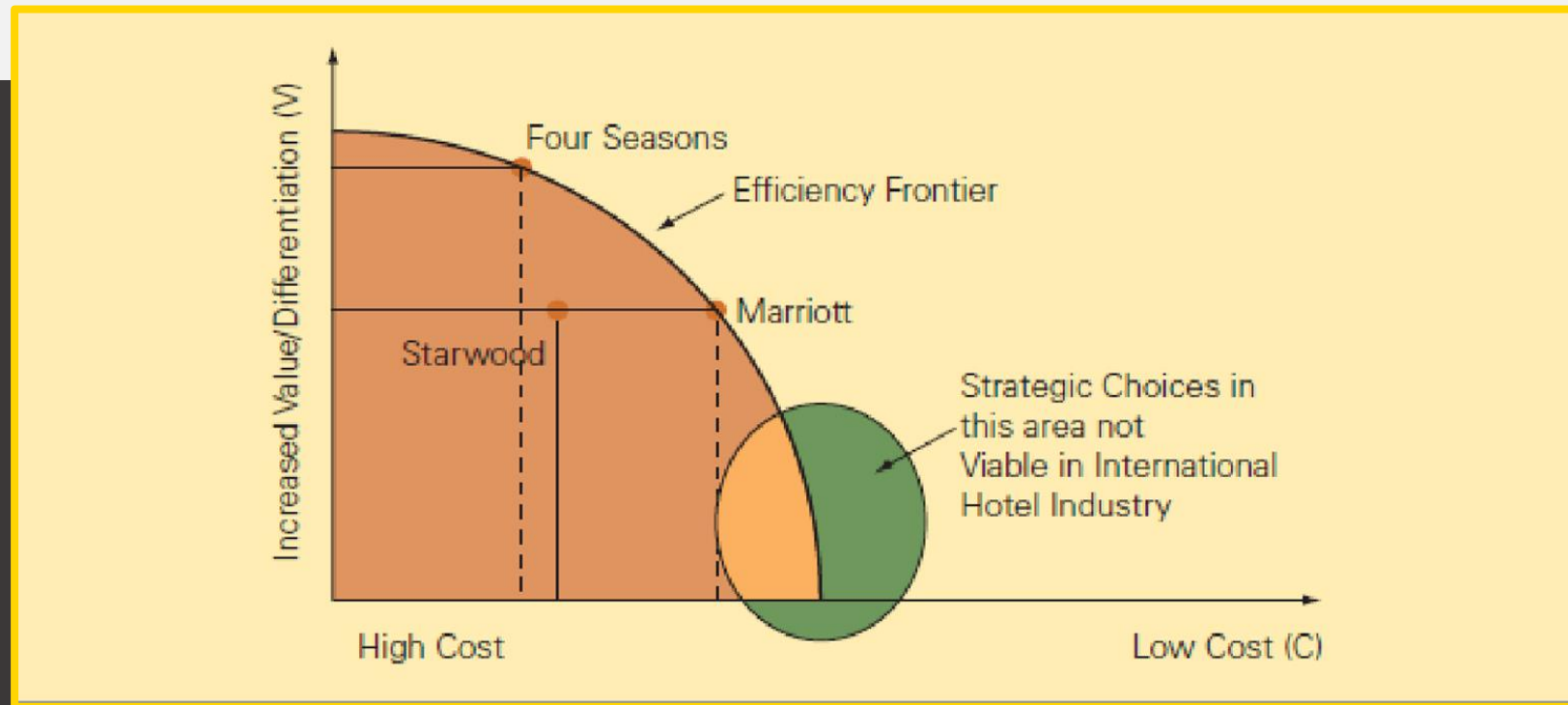
configure internal operations to support that position

3

have the right organization structure in place to execute the strategy

WHY IS STRATEGIC POSITIONING IMPORTANT?

Strategic Choice in the International Hotel Industry



HOW ARE A FIRM'S OPERATIONS CONFIGURED?

A firm's **operations** can be thought of a value chain composed of a series of distinct value creation activities including production, marketing, materials management, R&D, human resources, information systems, and the firm infrastructure

Value creation activities can be categorized as


Primary Activities

R&D, production, marketing and sales, customer service



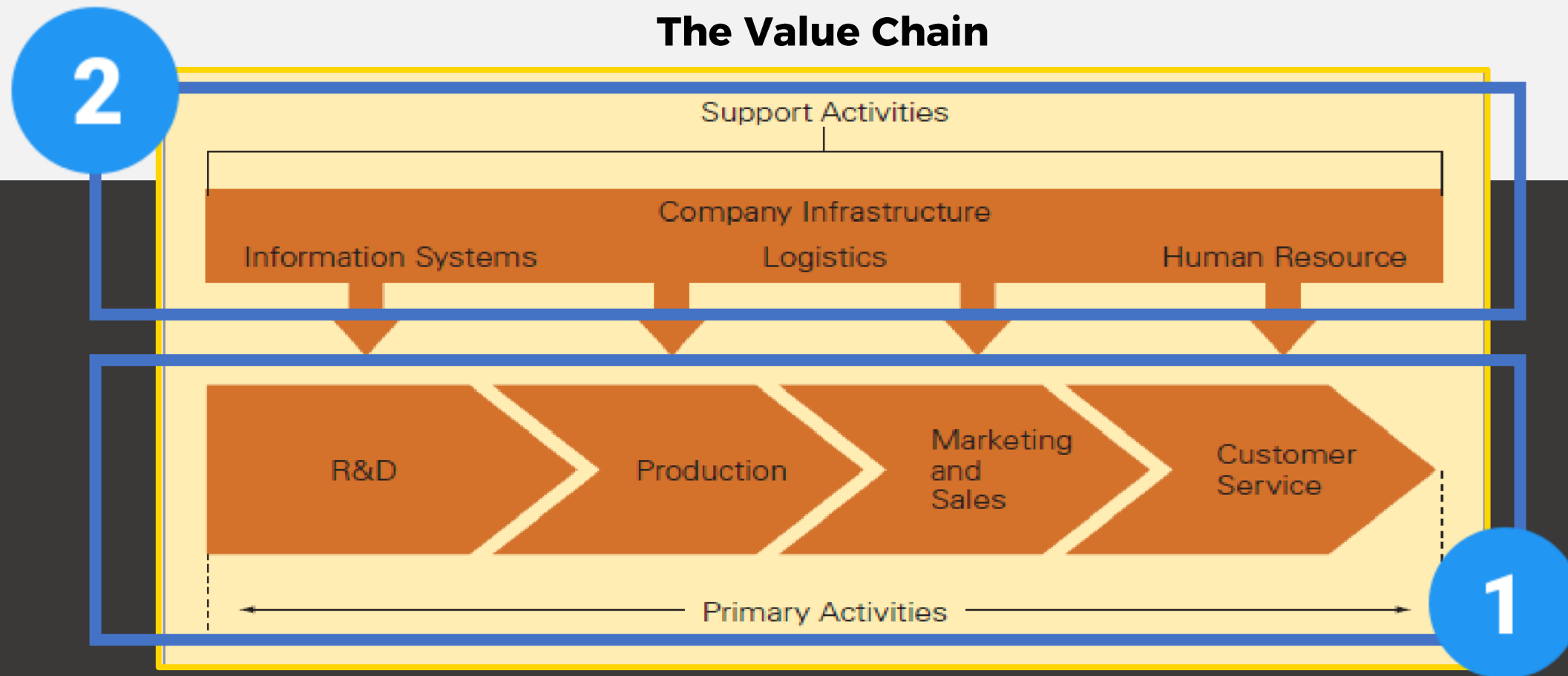
Support Activities

information systems, logistics
human resources



HOW ARE A FIRM'S OPERATIONS CONFIGURED?

The Value Chain



HOW ARE A FIRM'S OPERATIONS CONFIGURED?

1

PRIMARY ACTIVITIES



HOW ARE A FIRM'S OPERATIONS CONFIGURED?

2

SUPPORT ACTIVITIES

INFORMATION SYSTEM

IT based Logistics Function
 Transmitted information via internet
 Customer Order
 Send to supplier
 Production Schedule
 Assembly Plant

ORGANIZATION INFRASTRUCTURE

Organizational Structure
 Control System
 Culture



HUMAN RESOURCES



R & D

PRODUCTION

MARKETING

CUSTOMER SERVICE

HOW CAN FIRMS INCREASE PROFITS THROUGH INTERNATIONAL EXPANSION?



1. Expand their market

Sell in International Market



2. Realize location Economies

disperse value creation activities to locations where they can be performed most efficiently and effectively



3. Realize greater cost economies from experience effects

serve an expanded global market from a central location



4. Earn a greater return

leverage skills developed in foreign operations and transfer them elsewhere in the firm

HOW CAN FIRMS INCREASE PROFITS THROUGH INTERNATIONAL EXPANSION?



1. Expand their market

How Can Firms Leverage Their Products And Competencies

The success of firms that expand internationally depends on :

- the goods or services they sell
- their **core competencies:**

skills within the firm that competitors cannot easily match or imitate



HOW CAN FIRMS INCREASE PROFITS THROUGH INTERNATIONAL EXPANSION?



2. Realize location Economies

By achieving location economies, firms can:

- Lower the costs of value creation and achieve a low cost position
- Differentiate their product offering
- Different stages of the value chain are dispersed to locations where perceived value is maximized or where the costs of value creation are minimized

HOW CAN FIRMS INCREASE PROFITS THROUGH INTERNATIONAL EXPANSION?



2. Realize location Economies

Case of Lenovo:

USA → Basic Design Work

South Korea → Display Screen & LCD

Thailand → Casing, Keyboard, Hard Drive

Malaysia → Wireless

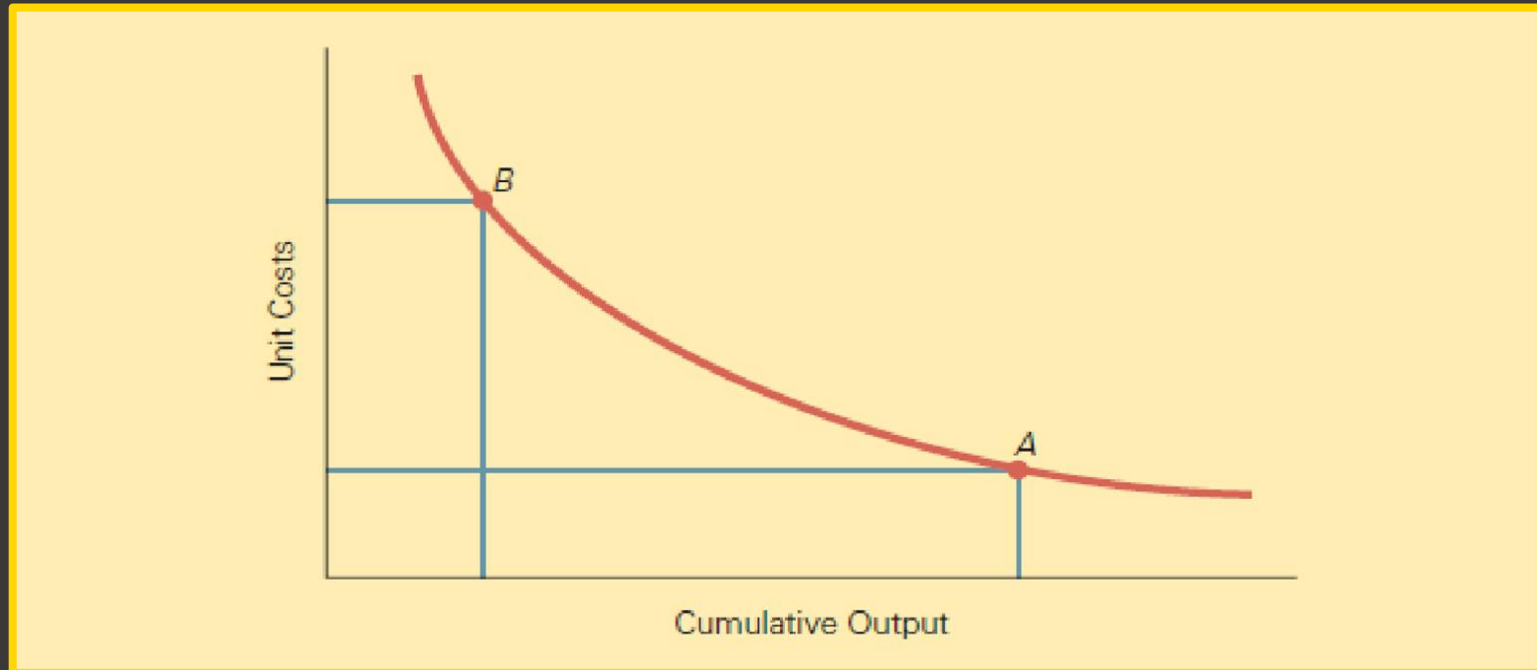
Mexico → Assembling



HOW CAN FIRMS INCREASE PROFITS THROUGH INTERNATIONAL EXPANSION?



3. Realize greater cost economies from experience effects



HOW CAN FIRMS INCREASE PROFITS THROUGH INTERNATIONAL EXPANSION?

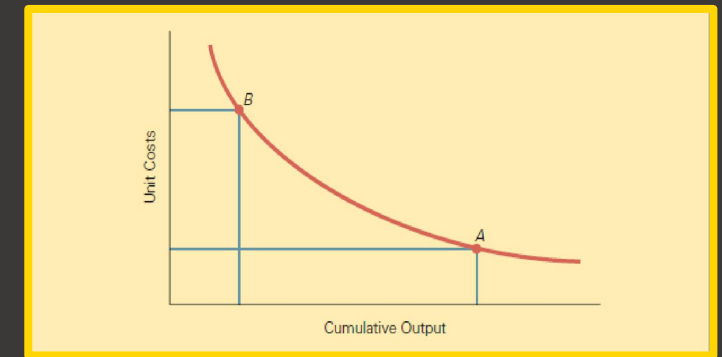


3. Realize greater cost economies from experience effects

THE EXPERIENCE CURVE

The systematic reductions in production costs that occur over the life of a product

- by moving down the experience curve, firms reduce the cost of creating value
- to get down the experience curve quickly, firms can use a single plant to serve global markets



HOW CAN FIRMS INCREASE PROFITS THROUGH INTERNATIONAL EXPANSION?

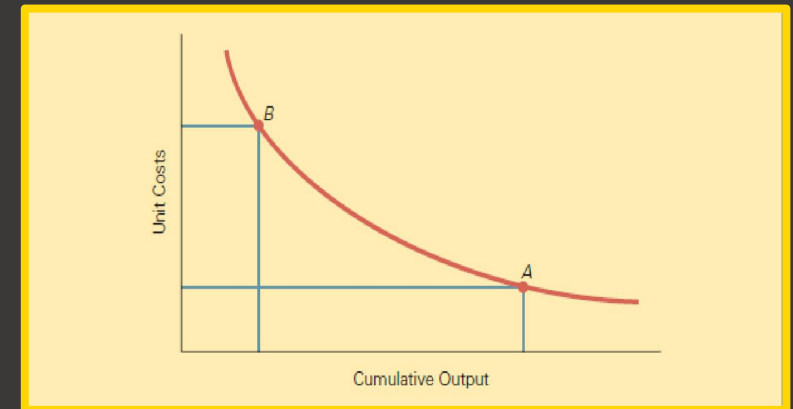


3. Realize greater cost economies from experience effects

LEARNING EFFECTS

Cost savings that come from learning by doing

- When labor productivity increases individuals learn the most efficient ways to perform particular tasks
- managers learn how to manage the new operation more efficiently



HOW CAN FIRMS INCREASE PROFITS THROUGH INTERNATIONAL EXPANSION?

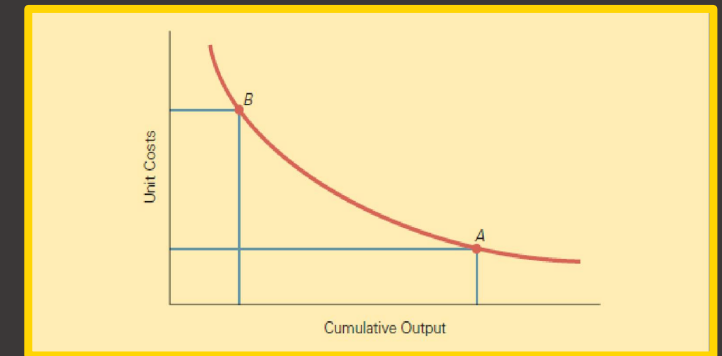


3. Realize greater cost economies from experience effects

ECONOMIES OF SCALE

the reductions in unit cost achieved by producing a large volume of a product

- Sources of economies of scale include spreading fixed costs over a large volume
- utilizing production facilities more intensively
- increasing bargaining power with suppliers



HOW CAN FIRMS INCREASE PROFITS THROUGH INTERNATIONAL EXPANSION?



4. Earn a greater return

How Can Managers Leverage Subsidiary Skills?

Managers should

- Recognize that valuable skills FOR global network - not just at the corporate center
- Establish an incentive system that encourages local employees to acquire new skills
- Have a process for identifying when valuable new skills have been created in a subsidiary
- Act as facilitators to help transfer skills within the firm





GLOBAL EXPANSION ISSUES

WHAT TYPES OF COMPETITIVE PRESSURES EXIST IN THE GLOBAL MARKETPLACE?

Firms that compete in the global marketplace face two conflicting types of competitive pressures



realize location economies



leverage products



experience effects



transfer skills within the firm

WHAT TYPES OF COMPETITIVE PRESSURES EXIST IN THE GLOBAL MARKETPLACE?

Firms that compete in the global marketplace face **two conflicting types of competitive pressures**

1. Pressures for cost reductions



force the firm to lower unit costs

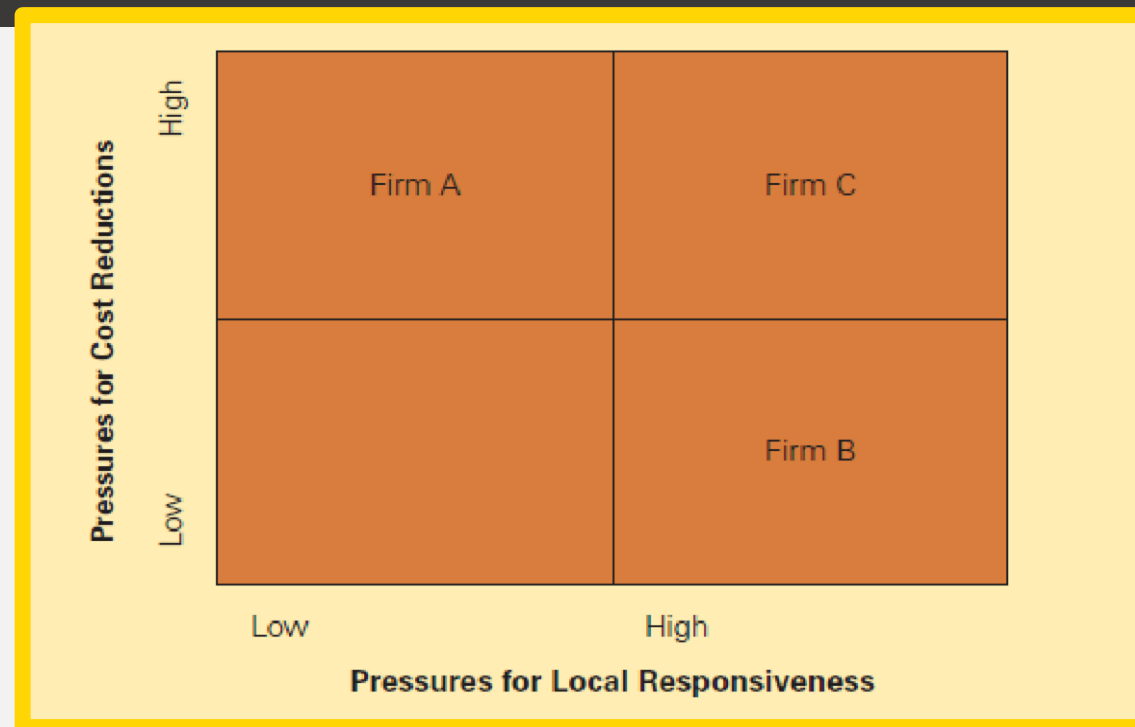
2. Pressures to be locally responsive



- require the firm to adapt its product to meet local demands in each market
- a strategy that raises costs

WHAT TYPES OF COMPETITIVE PRESSURES EXIST IN THE GLOBAL MARKETPLACE?

Firms that compete in the global marketplace face two conflicting types of competitive pressures



WHAT TYPES OF COMPETITIVE PRESSURES EXIST IN THE GLOBAL MARKETPLACE?

When Are Pressures For Cost Reductions Greatest?

- 1 In industries producing commodity type products that fill **UNIVERSAL NEEDS** (needs that exist when the tastes and preferences of consumers in different nations are similar if not identical) where price is the main competitive weapon



Eg: Chemical, Steel, Petroleum, Sugar

WHAT TYPES OF COMPETITIVE PRESSURES EXIST IN THE GLOBAL MARKETPLACE?

When Are Pressures For Cost Reductions Greatest?

2 When major competitors are based in low cost locations



3 Where there is persistent excess capacity



4 Where consumers are powerful and face low switching costs



WHAT TYPES OF COMPETITIVE PRESSURES EXIST IN THE GLOBAL MARKETPLACE?

When Are Pressures For **Local Responsiveness** Greatest?

1

Differences in consumer tastes and preferences

strong pressure emerges between countries



WHAT TYPES OF COMPETITIVE PRESSURES EXIST IN THE GLOBAL MARKETPLACE?

When Are Pressures For **Local Responsiveness** Greatest?

2 Differences in traditional practices and infrastructure

strong pressure emerges when there are significant differences in infrastructure and/or traditional practices between countries



WHAT TYPES OF COMPETITIVE PRESSURES EXIST IN THE GLOBAL MARKETPLACE?

When Are Pressures For **Local Responsiveness** Greatest?

3 Differences in distribution channels

need to be responsive to differences in distribution channels between countries



WHAT TYPES OF COMPETITIVE PRESSURES EXIST IN THE GLOBAL MARKETPLACE?

When Are Pressures For **Local Responsiveness** Greatest?

4 Host Government Demands

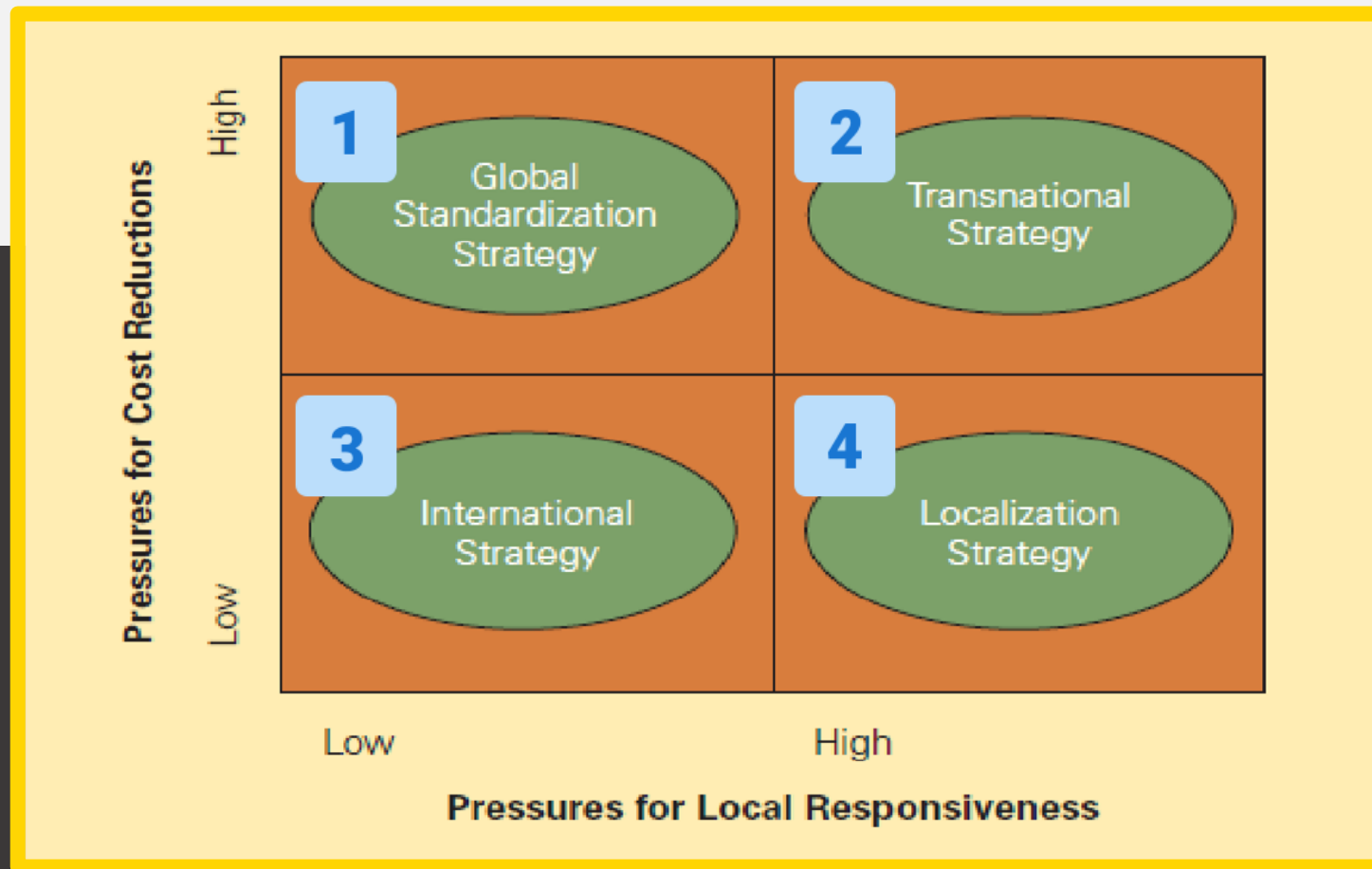
- Economic and political demands imposed by host country
- Governments may require local responsiveness
- Protectionalism
- Nationalism
- Local Content Rules



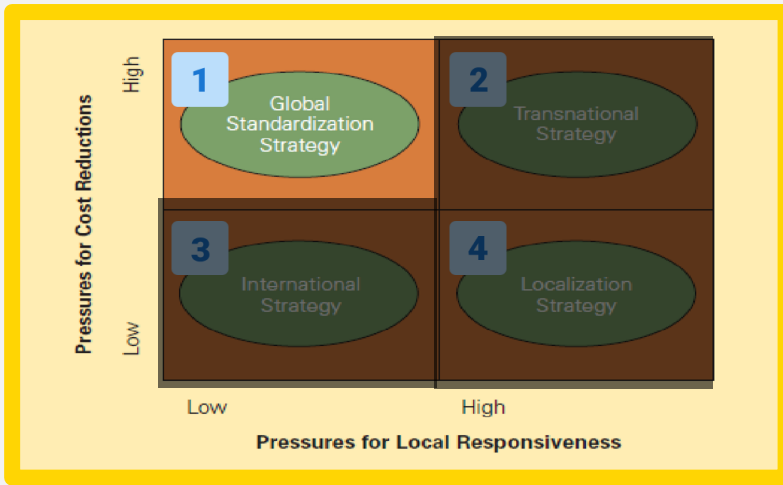


WHICH STRATEGY SHOULD A FIRM CHOOSE?

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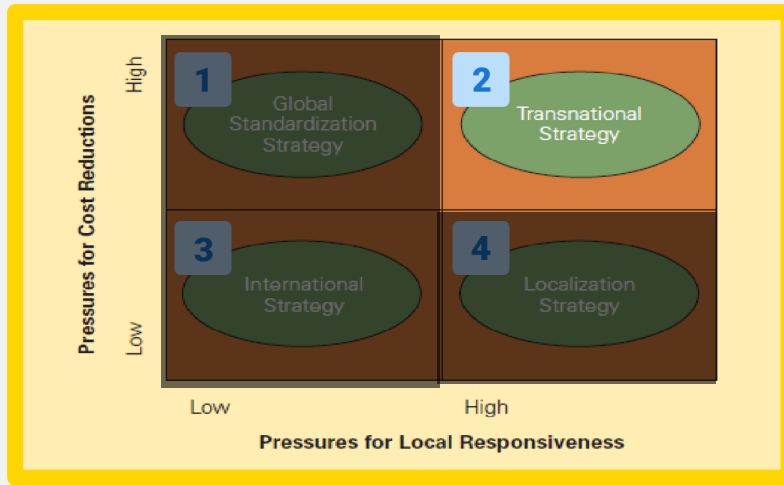


1. GLOBAL STANDARDIZATION

- Increase profitability and profit growth by reaping the cost reductions from economies of scale, learning effects, and location economies
- Goal is to pursue a **low-cost strategy** on global scale
- Make sense when there are strong pressures for cost reductions and **demands for local responsiveness are minimal**



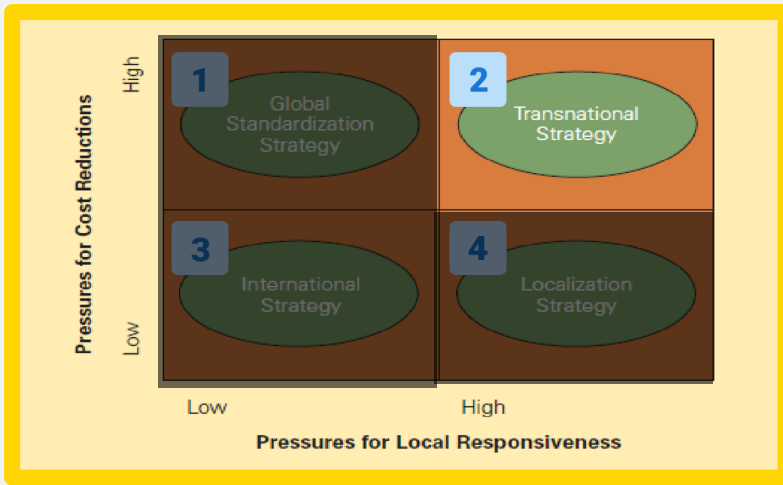
WHICH STRATEGY SHOULD A FIRM CHOOSE?



2. TRANSNATIONAL STRATEGY

- Tries 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, and foster a **multidirectional flow of skills** between different subsidiaries in the firm's global network of operations
- Makes sense when **cost pressures are intense** and pressures for **local responsiveness** are intense

WHICH STRATEGY SHOULD A FIRM CHOOSE?

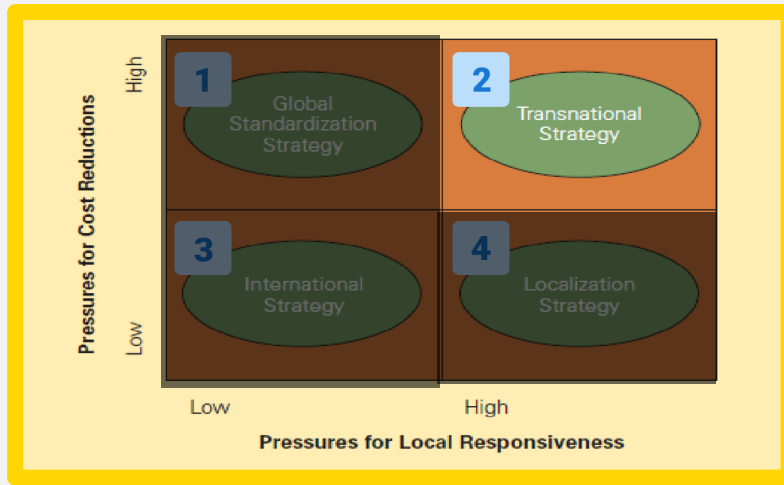


2. TRANSNATIONAL STRATEGY



- Multidirectional flow of skills between subsidiary
 - Variations on construction practices and government regulation
 - Invested large-scale component manufacturing facilities
 - Sited in favorable location
- Tailoring the finished product to local needs

WHICH STRATEGY SHOULD A FIRM CHOOSE?

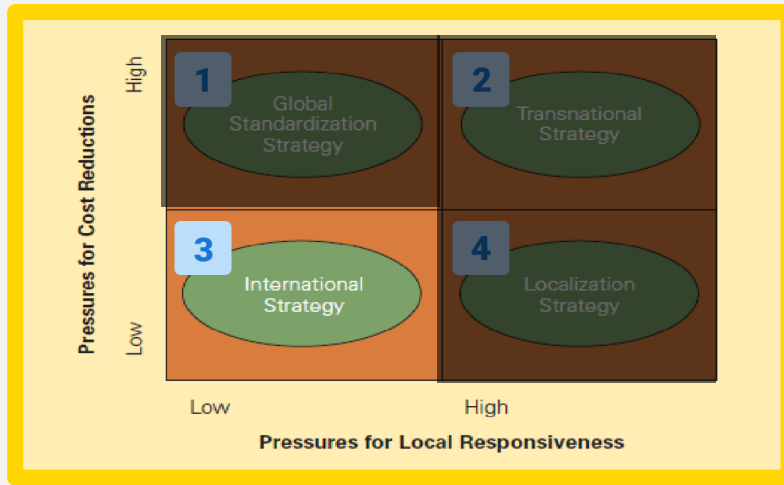


2. TRANSNATIONAL STRATEGY



Japan Centric Global Strategy

WHICH STRATEGY SHOULD A FIRM CHOOSE?

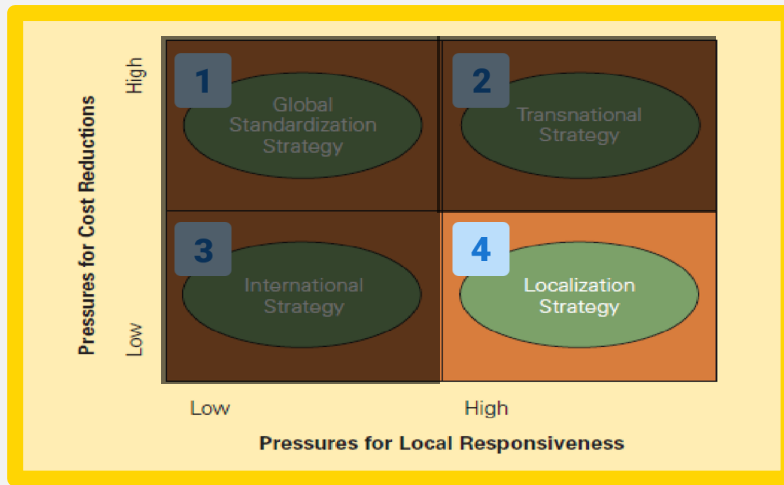


3. INTERNATIONAL STRATEGY

Take products first produced for the domestic market and sell them internationally with only minimal local customization

makes sense when there are low cost pressures and low pressures for local responsiveness

WHICH STRATEGY SHOULD A FIRM CHOOSE?



4. LOCALIZATION STRATEGY

Increase profitability by customizing goods or services so that they match tastes and preferences in different national markets

Makes sense when there are substantial differences across nations with regard to consumer tastes and preferences and when cost pressures are not too intense

1

An international strategy may not be viable in the long term

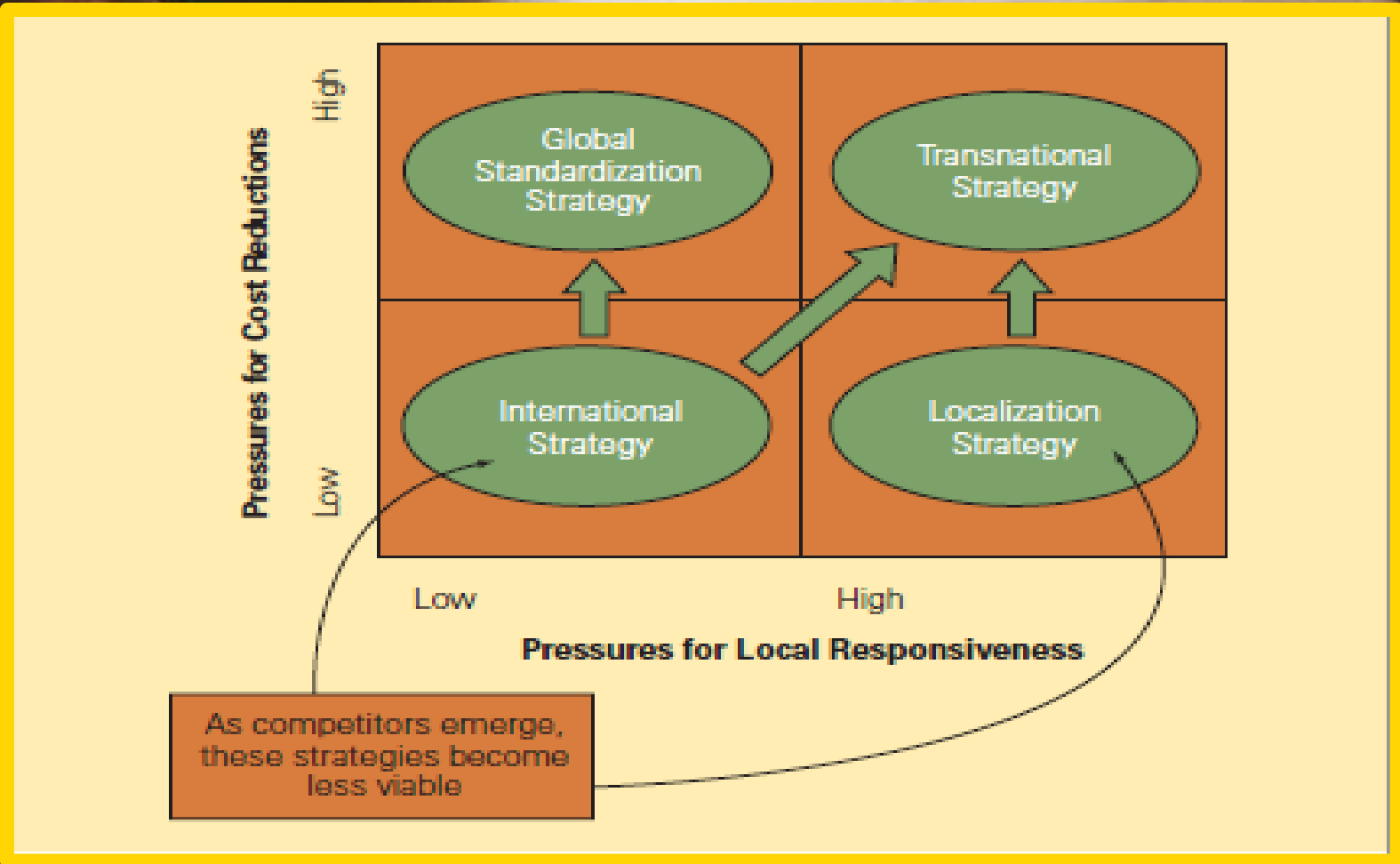
to survive, firms may need to shift to a global standardization strategy or a transnational strategy in advance of competitors

would require a shift toward a transnational strategy

2

Localization may give a firm a competitive edge, but if the firm is simultaneously facing aggressive competitors, the company will also have to reduce its cost structures

HOW DOES STRATEGY EVOLVE?





Please check your understanding by answering the chapter's quiz ! ●



SOURCE



Chapter 12

- Hill, Charles W.L, Wee, Chow-Hou & Udayasankar, Krishna. International Business: An Asian Perspective.