

Global Competition

1 Internationalisation

Reasons for internationalisation

Businesses are increasingly operating on a global scale. This may be in response to opportunities overseas or to threats in the home market.

Reasons for overseas expansion include the following.

- 🌐 Increased sales and profits by absorbing extra capacity and thus reducing unit costs and spreading economic risks over a wider number of markets.
- 🌐 Competitive advantages by seeking low cost production in locations close to raw materials and/or cheap labour, obtaining wider distribution channels and access to new technologies.
- 🌐 Exploiting overseas markets at an earlier stage in the product lifecycle than in the home country.
- 🌐 Exploitation of cheap local labour or other resources.
- 🌐 Economies of scale, particularly with regard to high-ticket items such as motor cars etc.

The following are some effects of operating in an international environment.

- 🌐 More difficult communications (although technology such as e-mail is reducing this problem).
- 🌐 Restrictions of host governments.
- 🌐 Diverse range of cultures.
- 🌐 Exchange rate exposure.
- 🌐 Difficulty of deciding how much local autonomy to grant.

Competitive advantage of nations

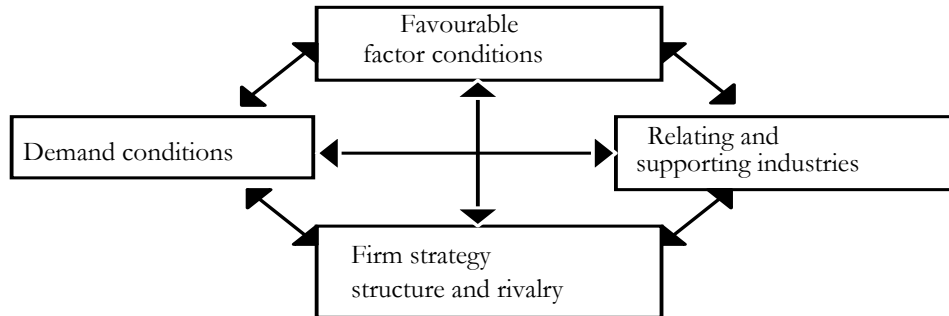
In global industries the competitive advantage in one country is influenced by its position in others.

Some of the advantages of this global approach include:

- 🌐 **Economies of scale** - which arise by offering standard products across many markets.
- 🌐 **Experience** - and resources may be shared across countries giving rise to advantages.
- 🌐 **Location** - the global company can choose the most advantageous eg, produce components in one country, assemble them in another and carry out R&D in a third.
- 🌐 **Differentiation** - allows for organisation on a global scale to service multinational buyers.

Porter's determinants of national competitive advantage

Michael Porter tries to isolate the national attributes that further competitive advantage in an industry. His study argues that, for a country's industry to be successful, it needs to have the attributes and relationships shown in the diagram below. He calls this the 'diamond'.



Political environment

The problem facing strategic planners is how to plan for changes in the political environment. The planner needs to consider what type of political change could affect the enterprise.

- 🚦 Legislation and regulations - this is a complicated area covering the Companies Acts, employment legislation (determining the basic employment rights), health and safety regulations, consumer legislation (credit regulations, etc) and so on.
- 🚦 Single markets and trading blocs - the modern world economy is divided into three distinctive regions - the European Union, the Pacific Rim and the Americas. In most cases, each group tries to reduce trade barriers within the bloc, while erecting barriers to those outside it.

2 The development of the global business

Developments

One of the most significant developments to occur in business over the past quarter of a century has been its increasing internationalisation. This is evidenced by a number of factors.

- 🚦 The standardisation and integration of operations between subsidiaries in different countries.
- 🚦 The growth and power of multinationals - some of the largest economic units in the world.
- 🚦 The interdependence of the world economy.

The characteristics which most multinationals possess include:

- 🚦 overseas subsidiaries that are complete industrial and/or commercial organisations covering research and development, manufacturing, selling and after-sales activities.
- 🚦 involvement in many countries - at different stages of economic and political development.
- 🚦 formulation of a universally accepted and understood corporate policy for the guidance and direction of the overseas subsidiaries in pursuit of declared aims and objectives.

Motives of multinationals

The reasons why MNCs possess this distinctive advantage are reasonably clear.

- ✚ Effectiveness in mobilising, directing and controlling the resources at their disposal.
- ✚ Better opportunities for achieving economies of scale because of their larger production base and market horizons.
- ✚ Able to draw on a wealth of corporate experience in strategic planning, forecasting, market research, finance, production and marketing.
- ✚ Ability to keep in close touch with their overseas subsidiaries by the use of high capacity cable, distributed database systems, satellite communications, and efficient airline systems.

Global competition

It is necessary to distinguish between global competition, global businesses and global companies.

- ✚ Global competition occurs when companies cross-subsidise national market share battles in pursuit of global brand and distribution positions.
- ✚ Global businesses - are those for which the minimum volume required for cost efficiency is not available in the company's home market.
- ✚ Global companies - are those which have distribution systems in key foreign markets that enable cross-subsidisation, international retaliation and world scale volume.

3 Global strategies

Market entry strategies

Choosing the most effective market supply strategy is one of the most complex decisions facing the international firm. The most appropriate strategy will involve trade-offs between objectives. Three different approaches have been applied to the entry and development mode decision:

- ✚ **Economic entry** - emphasises rational behaviour, comparing the costs and benefits of different opportunities.
- ✚ **Stages of development** - emphasises the internationalisation of the firm over time.
- ✚ **Business strategy** - emphasises the pragmatic nature of decision-making in most organisations, which arises from uncertainty and the need for consensus.

The standard range of entry methods includes:

- ✚ Exporting - transfer of goods across national boundaries via direct or indirect methods.
- ✚ Licensing - the licensor provides licensees abroad with access to technologies or know-how in return for financial compensation.
- ✚ Franchising - the franchisor provides the franchisee with a 'package' including not only trade marks and know-how but a range of management and other services in return for a fee.
- ✚ Management contract - control is provided by a separate enterprise in return for a fee.
- ✚ Turnkey contract - a contractor has responsibility for a complete project up to commissioning for a fee.
- ✚ Contract - a company in one country places an order for manufacturing with a firm in another country. Usually limited to production.
- ✚ Joint ventures - contractual arrangements formed for a project of limited duration.
- ✚ Equity joint ventures - involve the sharing of assets, risks and profits and participation in ownership of a particular enterprise or investment product by more than one firm.

The concept of market entry

The firm must develop a set of products, assets, and management activities for the new markets it is entering. The success of the venture depends on how the firm:

- ✚ uses information about opportunities for profitable market entry.
- ✚ accesses productive resources.
- ✚ accesses markets.
- ✚ overcomes market entry barriers.

There are two generic market strategies:

- ✚ a market penetration strategy, concentrating on a few select markets.
- ✚ a market skimming strategy, spreading effort over a large number of markets.

Standardisation versus customisation

A key issue in the development of a global strategy is the extent to which the strategy, particularly the marketing strategy, will be standardised across countries.

Standardisation provides	Customisation provides
Scale economies in the development of advertising, packaging, promotion etc.	Names, associations and advertising that can be: <ul style="list-style-type: none"> ◆ developed locally. ◆ tailored to local market. ◆ selected without the constraints of standardisation.
Exploitation of media overlap exposure to customers who travel.	Reduced risk from 'buy local' sentiments.
Associations of a global presence of the 'home' country.	

4 Managing a global company

Factors determining choice of overseas market

According to Rowe the choice of an overseas market will depend on the preferred method of entry together with an assessment of the following five risk factors.

Political stability	Attitudes regarding foreign investors, cost of social benefits, possibility of repatriation, preferential treatment of nationals.
Monetary considerations	Inflation and devaluation, balance of payments, currency convertibility, exchange rates.
Infrastructure	Possibility of bureaucratic delays, support available in professional services and construction, communication and transportation facilities.
Managerial considerations	Ability to enforce contracts, labour cost and productivity, level of sophistication of equipment, quality of local management talent, availability of skilled labour and raw materials.
Economic & tax considerations	Rate of long term capital and venture capital, tax benefits, economic growth, availability of short term credit.

Stages of multinational development

Perlmutter recognised three stages in the development of multinationals.

- 🚩 **Ethnocentric** - the company carries out its overseas operations for the benefit of the home or source country, and the ways of working in the home culture are imposed on the foreign subsidiaries.
- 🚩 **Polycentric** - operations in the host country are left to local management, who are more affected by the host government and culture, but also absorbing the corporation's culture.
- 🚩 **Geocentric** - positions in the global organisation can be reached by anyone regardless of nationality, according to merit. A corporation culture emerges and managers do not carry any constraints, including national cultural constraints, from one country to another.

Management strategy options

- 🚩 Existing market/present products - to achieve growth, it is usual to try to gain market share.
- 🚩 Existing market/improved products - the strategy for gaining share is to incorporate new product features or to make improvements to the product.
- 🚩 Existing market/new products - this strategy makes use of present distribution channels but adds or replaces products currently sold to customers.
- 🚩 Expanded market/present products - this strategy aims to increase sales market share.
- 🚩 Expanded market/improved products - this strategy differs from the second strategy as it introduces a new product as an addition rather than substituting it for the existing product.
- 🚩 Expanded market/new products - the difference between this strategy and the third strategy is that the new products are intended for new customers.
- 🚩 New market/present products - under this strategy, a company attempts to grow by selling its products in an ever-widening sphere. Foreign sales may be an evolutionary process after the company has expanded from a local to a regional or national market.
- 🚩 New market/improved products - this strategy differs from the preceding one in that a company makes variations of its products in order to sell them in new geographic areas.
- 🚩 New market/new products - companies may stabilise sales and earnings by selling products which move counter-cyclically.