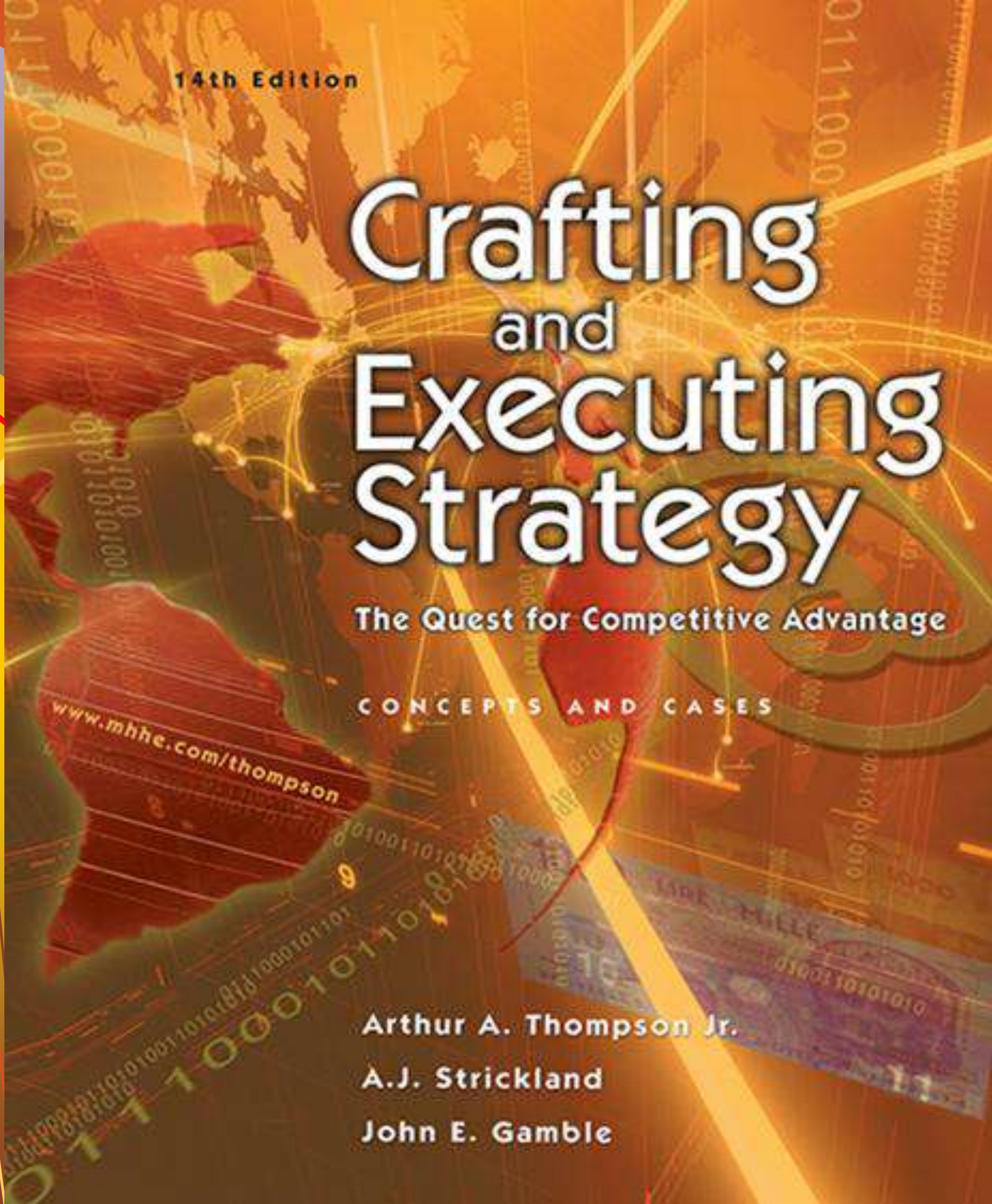
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Chapter

7

Competing in Foreign Markets

Screen graphics created by:
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"You have no choice but to operate in a world shaped by globalization and information revolution. There are two options: Adapt or die."

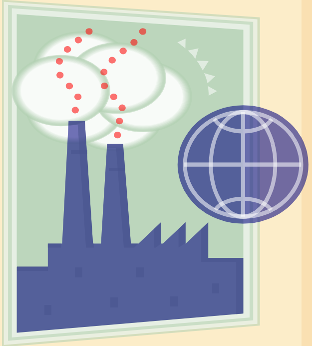
Andrew S. Grove

Chapter Roadmap

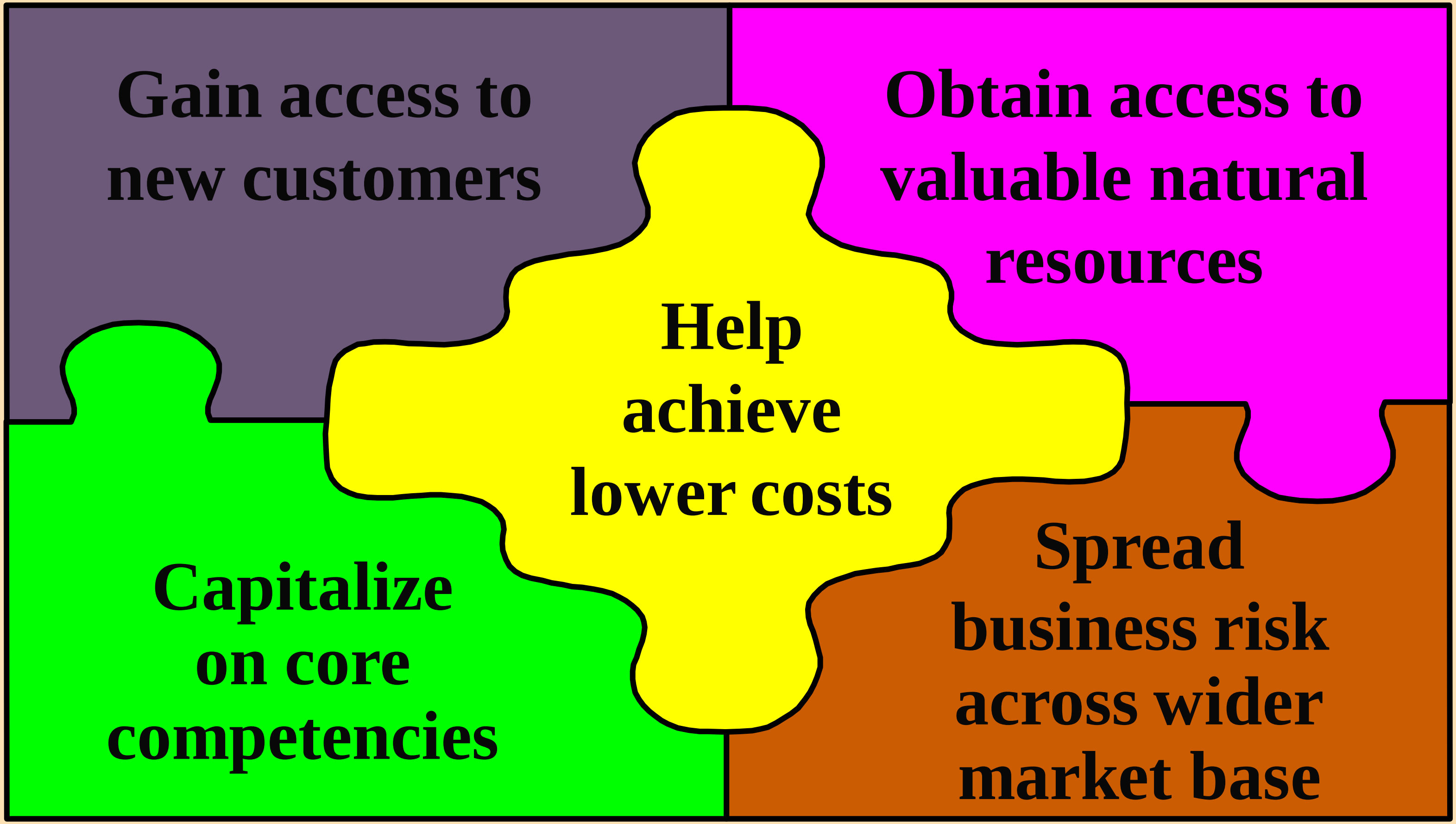
- Why Companies Expand into Foreign Markets
- Cross-Country Differences in Cultural, Demographic, and Market Conditions
- The Concepts of Multi-country Competition and Global Competition
- Strategy Options for Entering and Competing in Foreign Markets
- The Quest for Competitive Advantage in Foreign Markets
- Profit Sanctuaries, Cross-Market Subsidization, and Global Strategic Offensives
- Strategic Alliances and Joint Ventures with Foreign Partners
- Competing in Emerging Foreign Markets

The Four Big Strategic Issues in Competing Multinationally

- Whether to ***customize*** a company's offerings in each different country market to match preferences of local buyers or offer a mostly ***standardized*** product worldwide
- Whether to employ essentially the same basic ***competitive strategy*** in all countries or modify the strategy country by country
- Where to ***locate*** a company's production facilities, distribution centers, and customer service operations to realize the greatest locational advantages
- Whether and how to efficiently transfer a company's ***resource strengths*** and ***capabilities*** from one country to another to secure competitive advantage



What Is the Motivation for Competing Internationally?



International vs. Global Competition

International Competitor

Company operates in a select few foreign countries, with modest ambitions to expand further

Global Competitor

Company markets products in 50 to 100 countries and is expanding operations into additional country markets annually

Cross-Country Differences in Cultural, Demographic, and Market Conditions

- Cultures and lifestyles differ among countries
- Differences in market demographics
- Variations in manufacturing and distribution costs
- Fluctuating exchange rates
- Differences in host government economic and political demands

How Markets Differ from Country to Country

- Consumer tastes and preferences
- Consumer buying habits
- Market size and growth potential
- Distribution channels
- Driving forces
- Competitive pressures

One of the biggest concerns of companies competing in foreign markets is whether to *customize* their *product offerings* in each different country market to match the tastes and preferences of local buyers or whether to *offer* a mostly *standardized product* worldwide.

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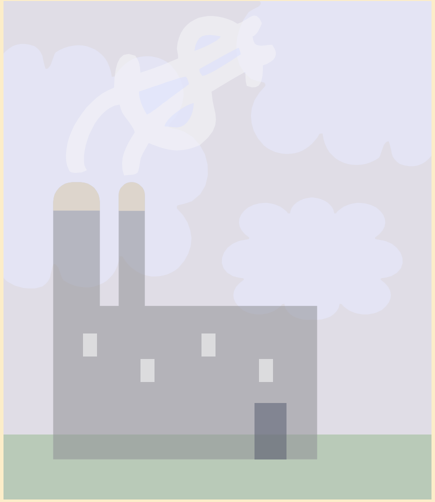
Different Countries Have Different Locational Appeal

- Manufacturing costs vary from country to country based on
  - Wage rates
  - Worker productivity
  - Natural resource availability
  - Inflation rates
  - Energy costs
  - Tax rates



- Quality of the business environment varies from country to country
- Suppliers, trade associations, and makers of complementary products often find it advantageous to cluster their operations in the same general location

Fluctuating Exchange Rates Affect a Company's Competitiveness

- Currency ***exchange rates*** are ***unpredictable***

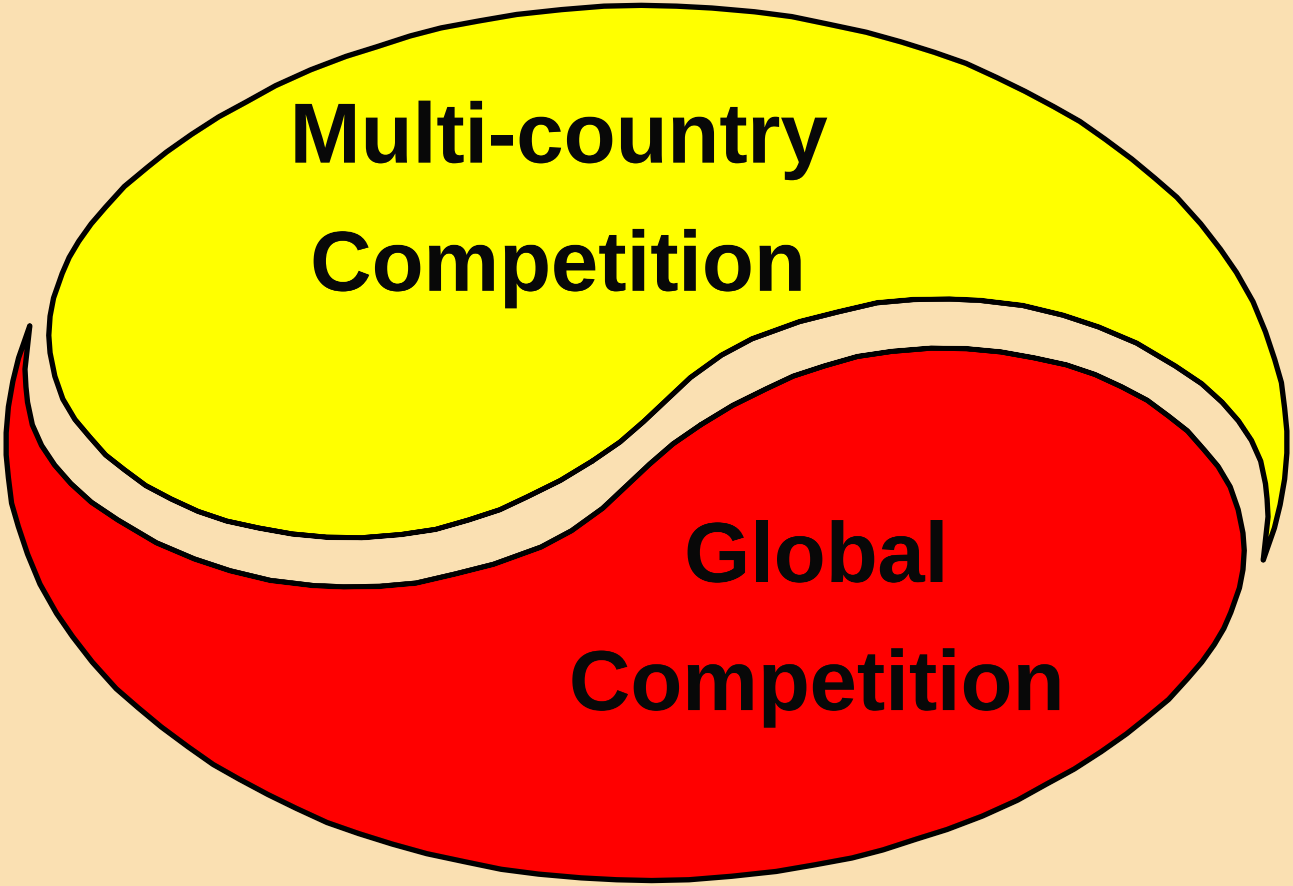
  - ➔ Competitiveness of a company's operations partly depends on whether exchange rate changes affect costs favorably or unfavorably
- ***Lessons*** of ***fluctuating exchange rates***
  - ➔ Exporters always gain in competitiveness when the currency of the country where goods are manufactured grows weaker

  - ➔ Exporters are disadvantaged when the currency of the country where goods are manufactured grows stronger

Differences in Host Government Trade Policies

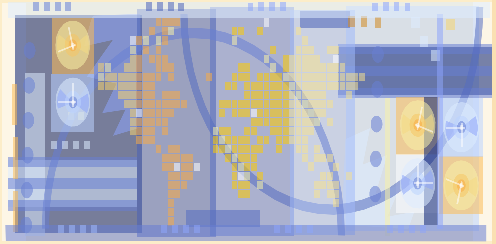
- Local content requirements
- Restrictions on exports
- Regulations on prices of imports
- Import tariffs or quotas
- Other regulations
  - Technical standards
  - Product certification
  - Prior approval of capital spending projects
  - Withdrawal of funds from country
  - Ownership (minority or majority) by local citizens

Two Primary Patterns of International Competition



Characteristics of Multi-Country Competition

- Market contest among rivals in one country not closely connected to market contests in other countries
- Buyers in different countries are attracted to different product attributes

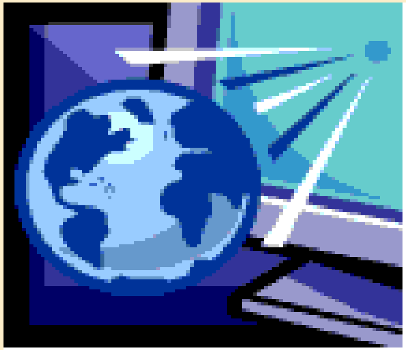


- Sellers vary from country to country
- Industry conditions and competitive forces in each national market differ in important respects

Rival firms battle for *national championships* – winning in one country does not necessarily signal the ability to fare well in other countries!

Characteristics of Global Competition

- Competitive conditions across country markets are strongly linked
  - Many of same rivals compete in many of the same country markets
  - A true international market exists



- A firm's competitive position in one country is affected by its position in other countries
- Competitive advantage is based on a firm's world-wide operations and overall global standing

Rival firms in globally competitive industries vie for *worldwide leadership!*

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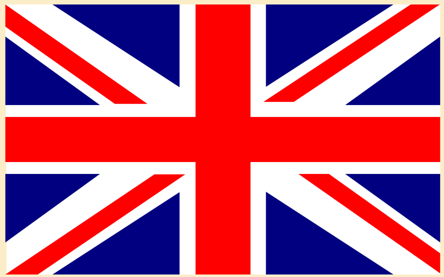
Strategy Options for Competing in Foreign Markets

- Exporting
- Licensing

- Franchising strategy
- Multi-country strategy
- Global strategy



- Strategic alliances or joint ventures

Export Strategies

- Involve ***using domestic plants*** as a ***production base*** for ***exporting*** to foreign markets
- ***Excellent initial strategy*** to pursue international sales
- ***Advantages***
  - Conservative way to test international waters
  - Minimizes both risk and capital requirements
  - Minimizes direct investments in foreign countries
- An ***export strategy*** is ***vulnerable*** when
  - Manufacturing costs in home country are higher than in foreign countries where rivals have plants
  - High shipping costs are involved
  - Adverse fluctuations in currency exchange rates

Licensing Strategies

- ***Licensing*** makes sense when a firm
  - Has valuable technical know-how or a patented product but does not have international capabilities to enter foreign markets
  - Desires to avoid risks of committing resources to markets which are
    - Unfamiliar
    - Politically volatile
    - Economically unstable

- ***Disadvantage***
  - Risk of providing valuable technical know-how to foreign firms and losing some control over its use

Franchising Strategies

- Often is ***better suited*** to ***global expansion efforts*** of ***service and retailing enterprises***

- ***Advantages***
  - Franchisee bears most of costs and risks of establishing foreign locations
  - Franchisor has to expend only the resources to recruit, train, and support franchisees
- ***Disadvantage***
  - Maintaining cross-country quality control

Multi-Country Strategy

- ***Strategy*** is ***matched*** to ***local market needs***
- ***Different country strategies*** are ***called for when***
  - ➔ Significant country-to-country differences in customers' needs exist
  - ➔ Buyers in one country want a product different from buyers in another country
  - ➔ Host government regulations preclude uniform global approach
- ***Two drawbacks***
  1. Poses problems of transferring competencies across borders
  2. Works against building a unified competitive advantage

Global Strategy

- ***Strategy*** for competing is ***similar*** in ***all country markets***
- ***Involves***
  - ➔ Coordinating strategic moves globally
  - ➔ Selling in many, if not all, nations where a significant market exists
- ***Works best when*** products and buyer requirements are similar from country to country

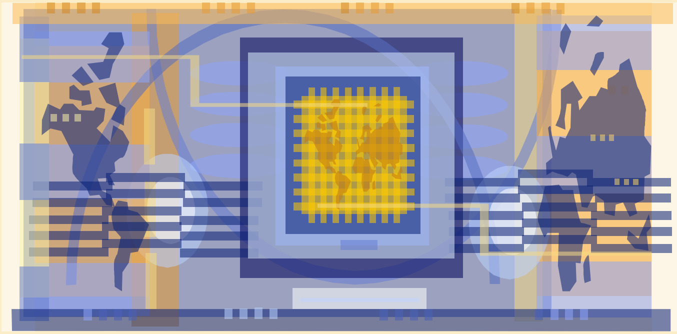
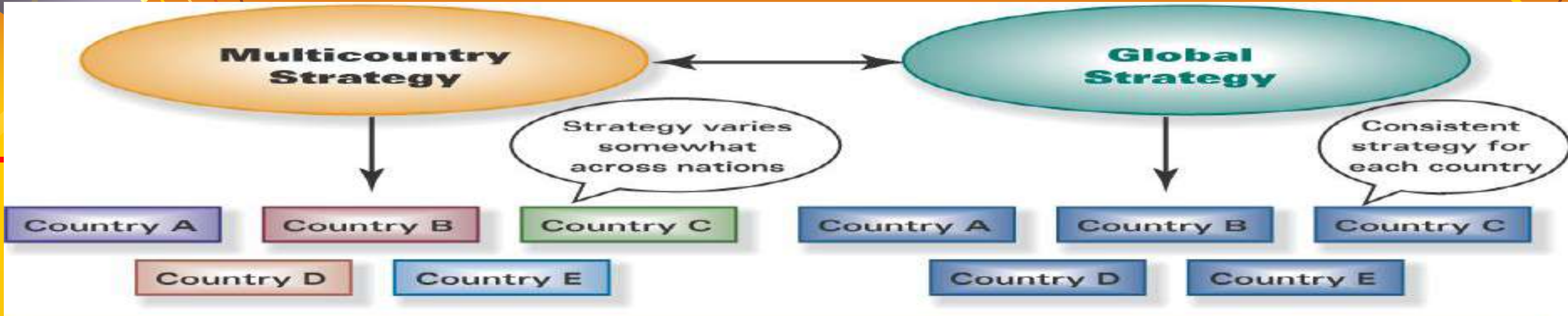


Fig. 7.1: How a Multicountry Strategy Differs from a Global Strategy



Multicountry Strategy	Global Strategy
■ Customize the company's competitive approach as needed to fit market and business circumstances in each host country—strong responsiveness to local conditions.	■ Pursue same basic competitive strategy worldwide (low-cost, differentiation, best-cost, focused low-cost, focused differentiation) —with minimal responsiveness to local conditions.
■ Sell different product versions in different countries under different brand names—adapt product attributes to fit buyer tastes and preferences country by country.	■ Sell same products under same brand name worldwide.
■ Scatter plants across many host countries, each producing product versions for local markets.	■ Locate plants on basis of maximum locational advantage, usually in countries where production costs are lowest; but plants may be scattered if shipping costs are high or other locational advantages dominate.
■ Preferably use local suppliers (some local sources may be required by host government).	■ Use best suppliers from anywhere in the world.
■ Adapt marketing and distribution to local customs and cultures.	■ Coordinate marketing and distribution worldwide; make minor adaptations to local countries where needed.
■ Transfer some competencies and capabilities from country to country where feasible.	■ Compete on basis of same technologies, competencies, and capabilities worldwide; stress rapid transfer of new ideas, products, and capabilities to other countries.
■ Give country managers fairly wide strategy-making latitude and autonomy.	■ Coordinate major strategic decisions worldwide; expect local managers to stick close to global strategy.

The Quest for Competitive Advantage in Foreign Markets

- ***Three ways*** to ***gain competitive advantage***

1. ***Locating activities*** among nations in ways that lower costs or achieve greater product differentiation

2. ***Efficient/effective transfer*** of competitively valuable ***competencies and capabilities*** from company operations in one country to company operations in another country

3. ***Coordinating dispersed activities*** in ways a domestic-only competitor cannot

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Locating Activities to Build a Global Competitive Advantage

- ***Two issues***
  - Whether to
    - Concentrate each activity in a few countries ***or***
    - Disperse activities to many different nations
  - Where to locate activities
    - Which country is best location for which activity?

Concentrating Activities to Build a Global Competitive Advantage

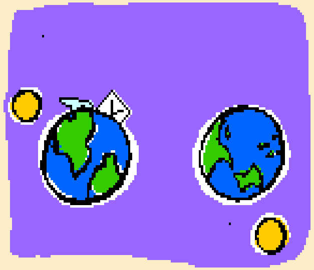
- ***Activities*** should be ***concentrated when***
  - Costs of manufacturing or other value chain activities are meaningfully lower in certain locations than in others
  - There are sizable scale economies in performing the activity
  - There is a steep learning curve associated with performing an activity in a single location
  - Certain locations have
    - Superior resources
    - Allow better coordination of related activities ***or***
    - Offer other valuable advantages

Dispersing Activities to Build a Global Competitive Advantage

- ***Activities*** should be ***dispersed when***
  - ➔ They need to be performed close to buyers
  - ➔ Transportation costs, scale diseconomies, or trade barriers make centralization expensive
  - ➔ Buffers for fluctuating exchange rates, supply interruptions, and adverse politics are needed

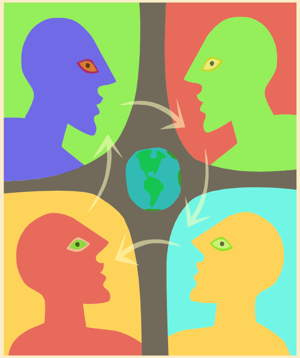
Transferring Valuable Competencies to Build a Global Competitive Advantage

- ***Transferring*** competencies, capabilities, and resource strengths across borders ***contributes to***
  - Development of broader competencies and capabilities
  - Achievement of dominating depth in some competitively valuable area
- Dominating depth in a competitively valuable capability is a strong basis for ***sustainable competitive advantage*** over
  - Other multinational or global competitors ***and***
  - Small domestic competitors in host countries



Coordinating Cross-Border Activities to Build a Global Competitive Advantage

- ***Aligning activities*** located in different countries ***contributes*** to ***competitive advantage*** in several ways
  - Choose where and how to challenge rivals
  - Shift production from one location to another to take advantage of most favorable cost or trade conditions or exchange rates
  - Use Internet technology to collect ideas for new or improved products and to determine which products should be standardized or customized
  - Enhance brand reputation by incorporating same differentiating attributes in its products in all markets where it competes



What Are Profit Sanctuaries?

- Profit sanctuaries are country markets where a firm
  - ➔ Has a strong, protected market position ***and***
  - ➔ Derives substantial profits

- Generally, a firm's most strategically crucial profit sanctuary is its home market

Profit sanctuaries are a valuable competitive asset in global industries!

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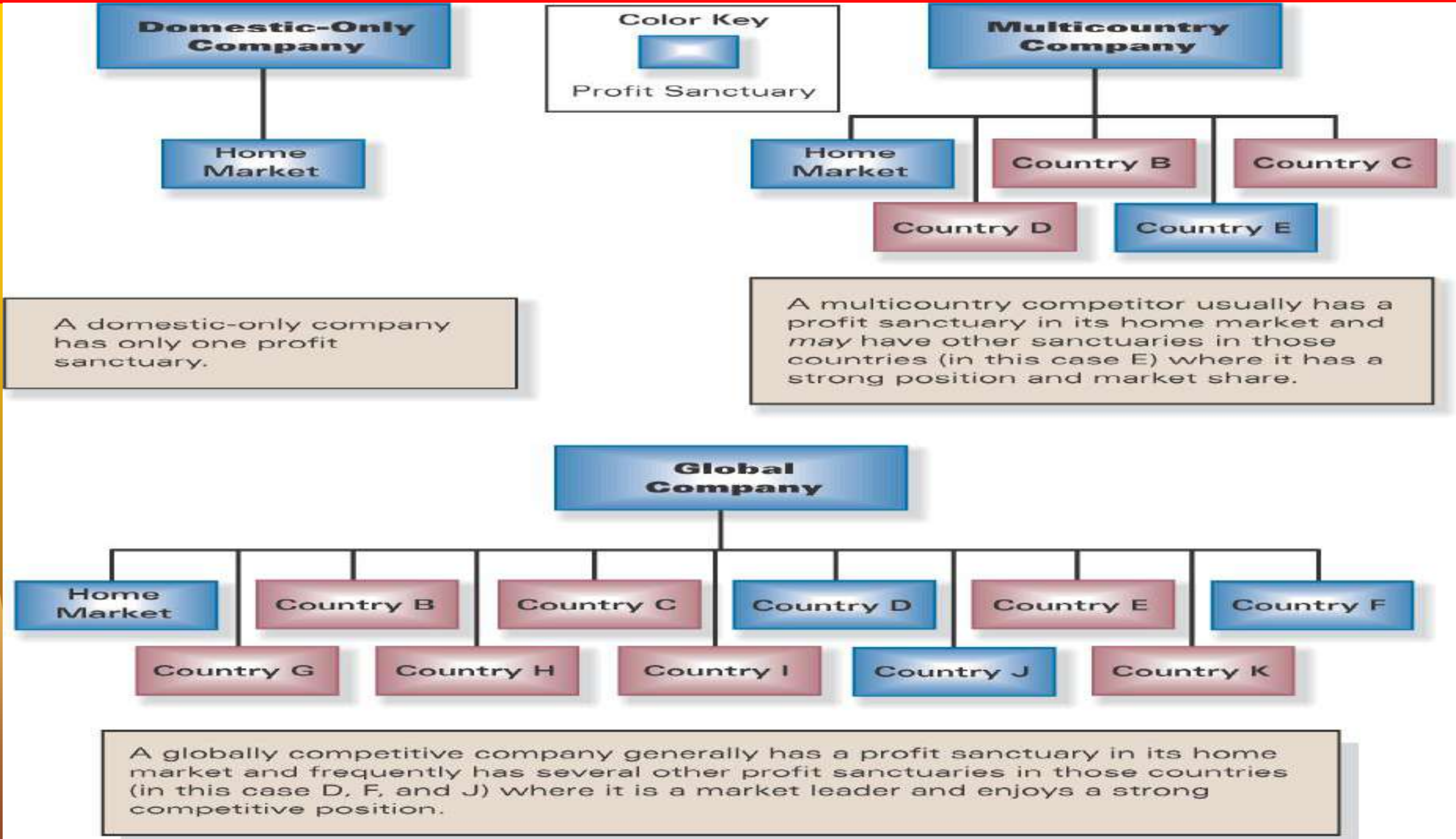
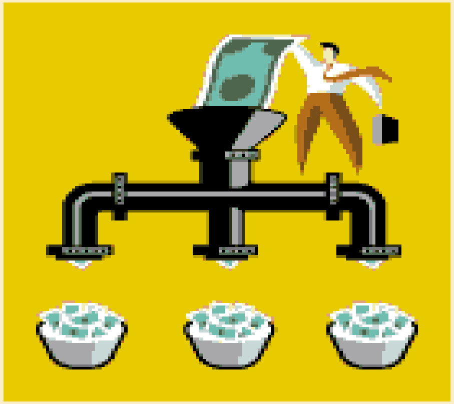
Fig. 5.2: Profit Sanctuary Potential of Various Competitive Approaches



What Is Cross-Market Subsidization?

- Involves supporting competitive offensives in one market with resources/profits diverted from operations in other markets
- Competitive power of cross-market subsidization results from a global firm's ability to
  - Draw upon its resources and profits in other country markets to mount an attack on single-market or one-country rivals ***and***
  - Try to lure away their customers with
    - Lower prices
    - Discount promotions
    - Heavy advertising
    - Other offensive tactics



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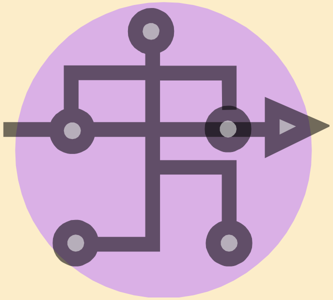
Global Strategic Offensives

Three Options

1. ***Direct onslaught***
   - Objective – Capture a major slice of market share, forcing rival to retreat
   - Involves
     - Price cutting
     - Heavy expenditures on marketing, advertising, and promotion
     - Efforts to gain upper hand in one or more distribution channels
2. ***Contest***
   - More subtle and focused than an onslaught
   - Focuses on a particular market segment unsuited to defender's capabilities and in which attacker has a new next-generation product



3. ***Feint***
   - Move designed to divert the defender's attention away from attacker's main target

Achieving Global Competitiveness via Cooperation

- Cooperative agreements / strategic alliances with foreign companies are a means to
  - Enter a foreign market or
  - Strengthen a firm's competitiveness in world markets
- Purpose of alliances
  - Joint research efforts
  - Technology-sharing
  - Joint use of production or distribution facilities
  - Marketing / promoting one another's products

Benefits of Strategic Alliances

- Gain scale economies in production and/or marketing
- Fill gaps in technical expertise or knowledge of local markets
- Share distribution facilities and dealer networks
- Direct combined competitive energies toward defeating mutual rivals
- Take advantage of partner’s local market knowledge and working relationships with key government officials in host country
- Useful way to gain agreement on important technical standards

Pitfalls of Strategic Alliances

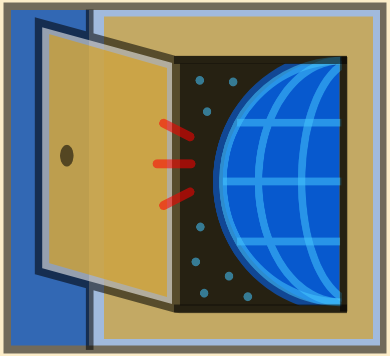
- Different motives and conflicting objectives
- Time consuming; slows decision-making
- Language and cultural barriers
- Mistrust when collaborating in competitively sensitive areas
- Clash of egos and company cultures
- Becoming too dependent on another firm for essential expertise over the long-term

Guidelines in Forming Strategic Alliances

- Pick a good partner, one that shares a common vision
- Be sensitive to cultural differences
- Recognize alliance must benefit both sides
- Ensure both parties deliver on their commitments in agreement
- Structure decision-making process so actions can be taken swiftly when needed
- Manage the learning process, adjusting the alliance agreement over time to fit new circumstances

Characteristics of Competing in Emerging Foreign Markets

- Tailoring products for big, emerging markets often involves
  - Making more than minor product changes ***and***
  - Becoming more familiar with local cultures
- Companies have to attract buyers wit bargain prices as well as better products
- Specially designed and/or specially packaged products may be needed to accommodate local market circumstances
- Management team must usually consist of a mix of expatriate and local managers



Strategies for Local Companies in Emerging Markets

- ***Optimal strategic approach*** hinges on
  - ➔ Whether a firm's competitive assets are suitable only for the home market or can be transferred abroad
  - ➔ Whether industry pressures to move toward global competition are strong or weak

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Fig. 5.3: Strategy Options for Local Companies in Competing Against Global Challengers