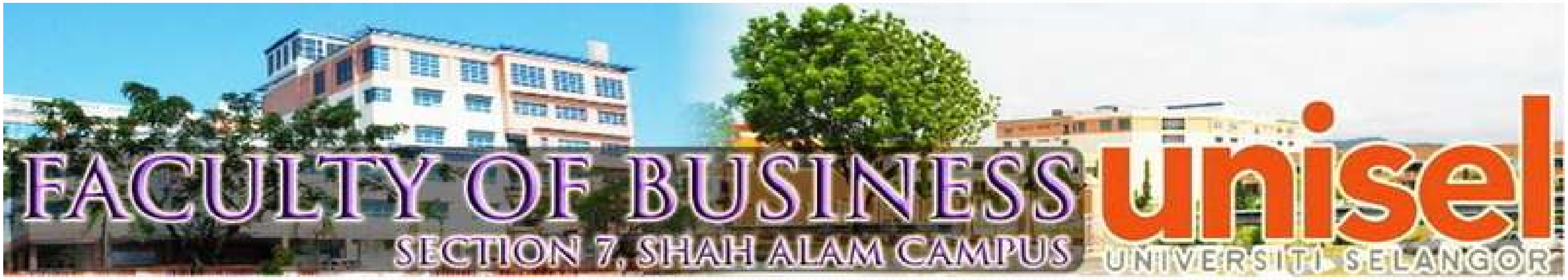

Strategic Management

GLOBAL STRATEGY

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GLOBAL vs. INTERNATIONAL STRATEGY

“'Global Strategy' is a shortened term that covers three areas: *global, multinational and international strategies*.

Essentially, these three areas refer to those strategies designed to enable an organization to achieve its objective of international expansion.”

HELPS A COMPANY PREPARE FOR THE FUTURE!

International Strategy

A dairy company might sell some of its excess milk and cheese supplies outside its home country. But its main strategic focus is still directed to the home market.

- Global?
- Multinational
- International?
- International strategy
  - Sells home country's product internationally
    - Dutch Lady
    - Kellogs

Multinational Strategy

- As international activities have expanded at a company, it may have entered a number of different markets, each of which needs a strategy adapted to each market.
- A car company might have one strategy for the USA - specialist cars, higher prices - with another for European markets - smaller cars, fuel efficient - and yet another for developing countries - simple, low priced cars.
- Together, these strategies form a **multinational** strategy.

- Ford
- GM
- Honda

Global Strategy

For some companies, their international activities have developed to such an extent that they essentially treat the world as one market with very limited variations for each country or world region.

- sells essentially the same products in every country.
  - Gucchi

International, Multinational, Global Strategy

International strategy: the organisation's objectives relate primarily to the home market. However, we have some objectives with regard to overseas activity and therefore need an international strategy. Importantly, the competitive advantage - important in strategy development - is developed mainly for the *home* market.

Multinational strategy: the organisation is involved in a number of markets beyond its home country. But it needs distinctive strategies for each of these markets because customer demand and, perhaps competition, are different in each country. Importantly, competitive advantage is determined *separately for each country*.

Global strategy: the organisation treats the world as largely one market and one source of supply with little local variation. Importantly, competitive advantage is developed largely on a global basis.

Why is global strategy important?

From a company perspective, international expansion provides the opportunity for new sales and profits. In some cases, it may even be the situation that profitability is so poor in the home market that international expansion may be the only opportunity for profits.

- new sales opportunity
- to secure resources - ***resource seeking***
- to take advantage of low labor costs in some countries - ***efficiency seeking***
- to enhance their market position versus competitors - ***strategic asset seeking***.

Why is global strategy?

From a customer perspective, international trade should - in theory at least - lead to lower prices for goods and services because of the economies of scale and scope that will derive from a larger global base.

- Nike sources its sports shoes from low labor cost countries like the Philippines and Vietnam.
- some customers like to purchase products and services that have a global image.
    - Disney cartoon characters
    - Manchester United branded soccer shirts.

Why is global strategy?

From the perspective of international governmental organizations - like the World Bank

- the recent dominant thinking has been to bring down barriers to world trade while giving some degree of protection to some countries and industries.
- Thus global strategy is an important aspect of such international negotiations.

Why is global strategy?

From the perspective of some international non-governmental organisations like Oxfam and Medicin sans Frontières.

- the global strategies of some - but not necessarily all - multinational companies are regarded with some suspicion.
- Such companies have been accused of exploiting developing countries - for example in terms of their natural mineral resources - in ways that are detrimental to those countries.

Economy of scope: McDonald used same color transparency in Prague

and Budapest

Benefits of a global strategy and the costs?

Economies of scope: the cost savings developed by a group when it shares activities or transfers capabilities and competencies from one part of the group to another - for example, a biotechnology sales team sells more than one product from the total range.

***Economies of scale*:** the extra cost savings that occur when higher volume production allows unit costs to be reduced - for example, an Arcelor Mittal steel mill that delivers lower steel costs per unit as the size of the mill is increased.

***Global brand recognition*:** the benefit that derives from having a brand that is recognized throughout the world - for example, Disney..

Benefits of a global strategy and the costs?

Global customer satisfaction: multinational customers who demand the same product, service and quality at various locations around the world - for example, customers of the Sheraton Hotel chain expect and receive the same level of service at all its hotels around the world.

Lowest labour and other input costs: these arise by choosing and switching manufacturers with low(er) labour costs - for example, computer assembly from imported parts in Thailand and Malaysia where labour wages are lower than in countries making some sophisticated computer parts (such as high-end computer chips) in countries like the USA.

Benefits of a global strategy and the costs?

Recovery of research and development (R&D) costs and other development costs across the maximm number of countries

- new models, new drugs and other forms of research often amounting to billions of US dollars. The more countries of the world where the goods can be sold means the greater number of countries that can contribute to such costs. For example, the Airbus Jumbo A380 launched in 2008 where development costs have exceeded US$ 10 billion.

Emergence of new markets: means greater sales from essentially the same products.

Costs of a global strategy.

- ***Lack of sensitivity to local demand****:* Leavitt argued that people would be prepared to compromise on their individual tastes if the product was cheap enough deriving from economies of scale and scope. Is this really correct? Other writers argued that there could be costs in adapting products to match local tastes, local conditions like the climate and other local factors like special laws on environmental issues.
- ***Transport and logistics costs*****:** if manufacturing takes place in one country, then it will be necessary to transport the finished products to other countries. The costs for some heavy products, like steel bars, may be greater than the economies of scale from centralized production in one country.

Costs of a global strategy….

- ***Economies of scale benefits may be difficult to obtain in practice:*** plant takes time to commission, local competitors still using old plant and cheap labour may still be competitive. For an example, see the Tate & Lyle Case in Chapter 19 of Lynch.

- ***Communications costs will be higher*:** standardization of products and services needs to be communicated to every country. In virtually every case, it will also be necessary to monitor and control the result. All this is time consuming, expensive and at the mercy of local managers who may have their own agendas and interests.

Costs of a global strategy….

- ***Management coordination costs***: in practice, managers and workers in different countries often need to be consulted, issues need to be explored and discussed, local variations in tax and legal issues need to be addressed. This means that senior managers operating a global strategy need to spend time visiting countries. It cannot all be done on the telephone and worldwide web. This takes a tremendous toll of people personally.

- ***Barriers to trade***: taxes and other restrictions on goods and services set by national governments as the goods cross their national borders.

- ***Other costs imposed by national governments to protect their home industries*** - like special taxes or restrictions on share holdings.

TEST 2

Some parties argued that competition is always bad for organization. Explain about the statement by taking into consideration Porter's five forces model as to how businesses can deal with the competition. Include Porter's model in your explanation.

Ends of Discussion