

Chapter 6:

Formulating Strategy

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Chapter Learning Goals

1. Understand why companies engage in international business.
2. Learn the steps in global strategic planning and the models available to direct the analysis and decision making involved.
3. Appreciate the techniques of environmental assessment, internal and competitive analysis, and how those results can be used to judge the relative opportunities and threats to be considered in international strategic plans.



Chapter Learning Goals

- 4. Profile the types of strategies available to international managers—both on a global level and on the level of specific entry strategies for different markets.**
- 5. Gain insight into the issues managers face when strategic planning for the EU market.**



Opening Profile: Global Companies Take Advantage of Opportunities in South Africa

- **Acer Africa**



- **Alcatel**



- **General Electric**



Strategic Planning and Strategy



Strategic Planning

- The process by which a firm's managers evaluate the future prospects of the firm and decide on appropriate strategies to achieve long-term objectives

Strategy

- The basic means by which the firm competes

Reasons for Going International

Reactive/Defensive

- Globalization of competitors
- Trade barriers
- Regulations and restrictions
- Customer demands

Proactive/Aggressive

- Economies of scale
- Growth opportunities
- Resource access and cost savings
- Incentives



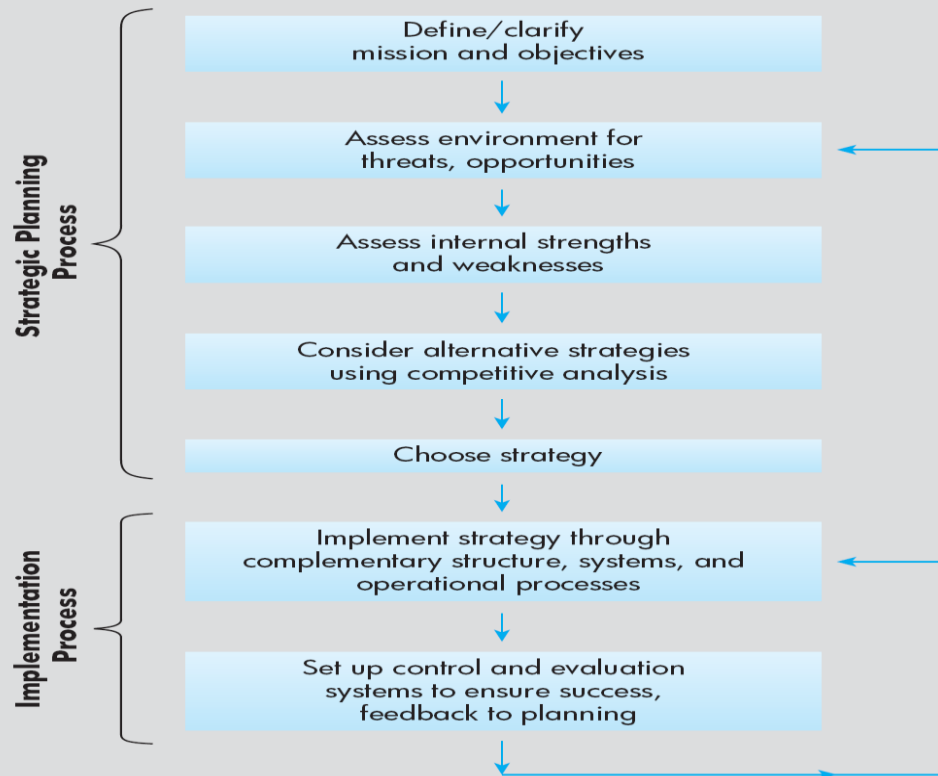
Management Focus: Mexico's Cemex

- Is aggressively growing via worldwide acquisitions
- Bid \$12.8 billion in 2006 for the Rinker Group of Australia
- Has operations on five continents with 2005 sales of \$15.3 billion



Strategic Formulation Process

EXHIBIT 6-1 The Strategic Management Process



Steps in Developing International and Global Strategies

Mission and Objectives



Environmental Assessment and Scanning



Internal and Competitive Analysis



Global Integrative and Entry Strategy alternatives



Strategic Choice, Implementation, Feedback, and Control



Mission and Objectives

Marketing

- **Worldwide, regional, national market share**

Production

- **Production volume**
- **Economies of scale**

Finance

- **Tax burden**
- **Capital structure**



Mission and Objectives

Profitability

- ROA
- ROE
- ROI

R & D

- Global patents



Environmental Assessment

The process of gathering information and forecasting trends, competitive actions, and circumstances that will affect operations

Environmental Scanning

Global Level

National Level

Regional Level



Environmental Scanning Variables



Institutional Effects on International Competition

Attractiveness of Overseas Markets

- The extent to which countries have institutions to promote the rule of law to outside investors

Entry Barriers and Industry Attractiveness

- Creating barriers to entry in certain industries and making those industries more attractive (profitable) for incumbent firms



Institutional Effects on International Competition

Competitiveness of Other Firms

- Liberalization of the economy and legal and regulatory reforms would create a more open and competitive atmosphere.



Antidumping as an Entry Barrier

- The current U.S. antidumping laws place a foreign entrant at a disadvantage if accused of “dumping”.

Sources of Environmental Information

Internal Analysis

- **Key Success Factors:**
 - **Technological capability:**
Microsoft

Microsoft
 - **Distribution channels:**
Wal-Mart

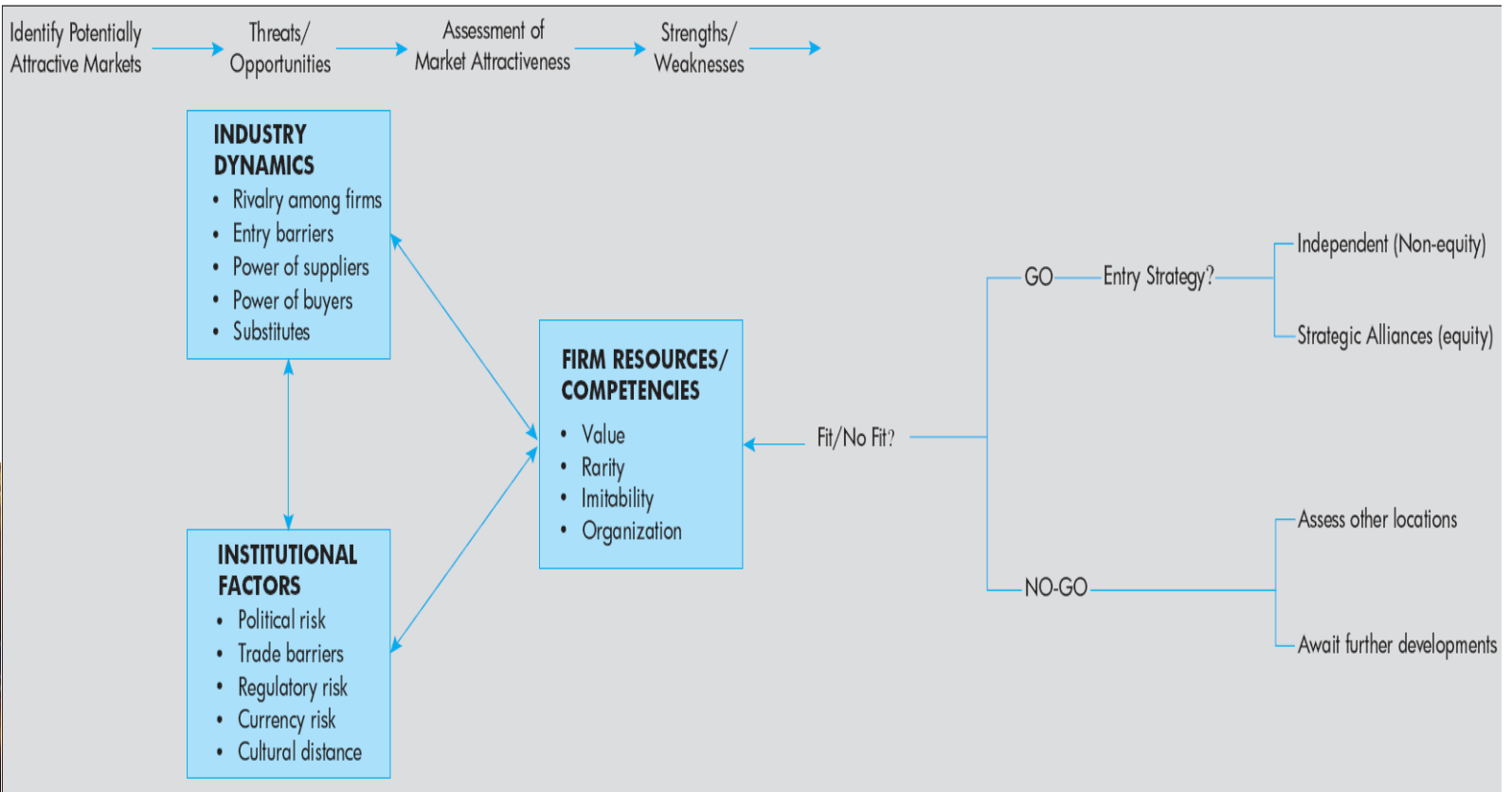
Save money. Live better.
 - **Promotion capabilities:**
Disney


Competitive Analysis

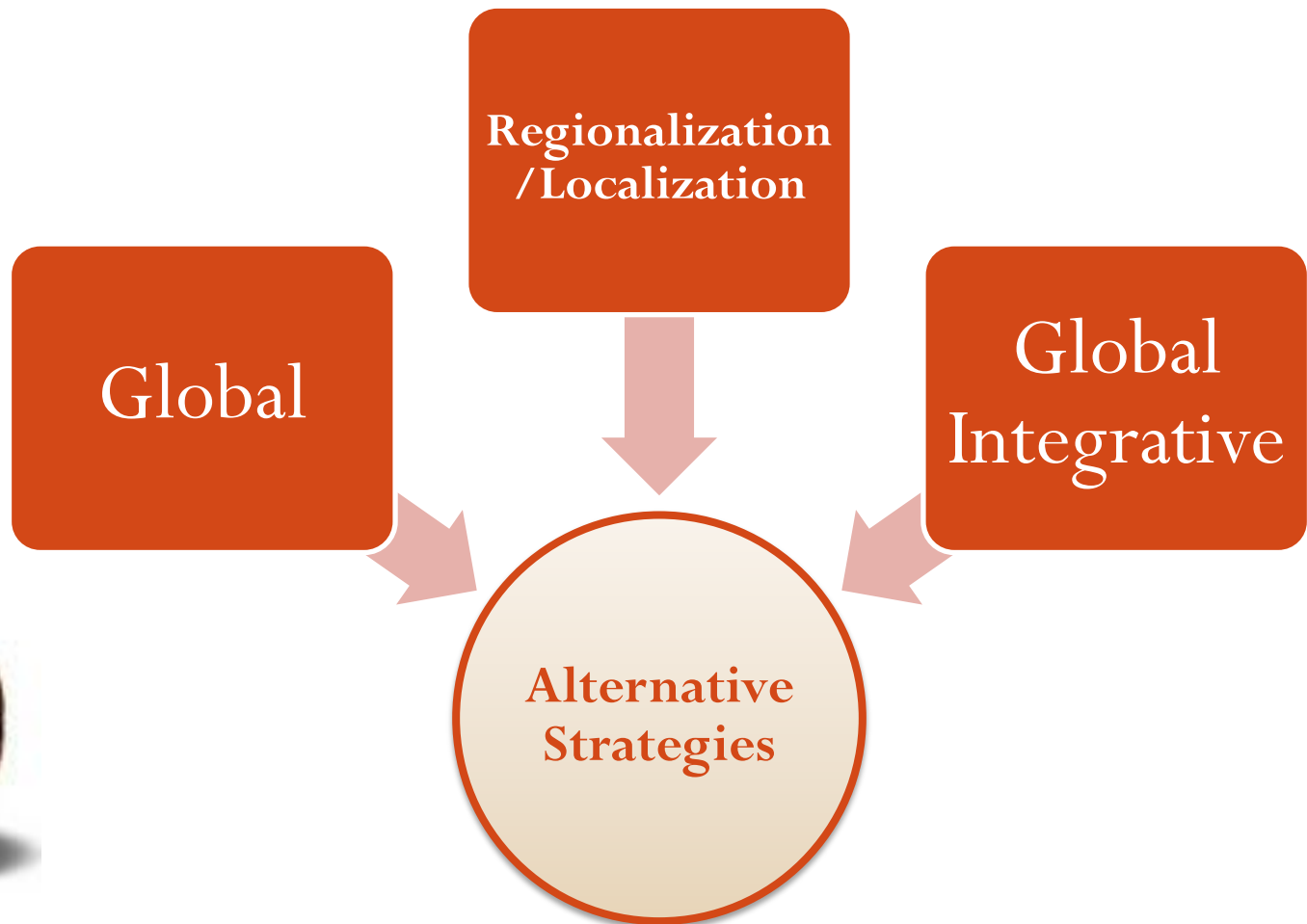
- **Distinctive competencies**
- **SWOT analysis**
- **Comparative advantage**

Strategic Decision-Making Models

EXHIBIT 6-5 A Hierarchical Model of Strategic Decision Making



Global and International Strategic Alternatives



Global Strategy

- **Treating the world as an undifferentiated worldwide marketplace**
- **The impetus:**
 - Regional trading blocks
 - Declining tariffs
 - Information technology explosion



Regionalization/Localization

- Local markets are linked together within a region, allowing local responsiveness.
- The impetus:
 - Unique consumer preferences
 - Domestic subsidies
 - New production technologies



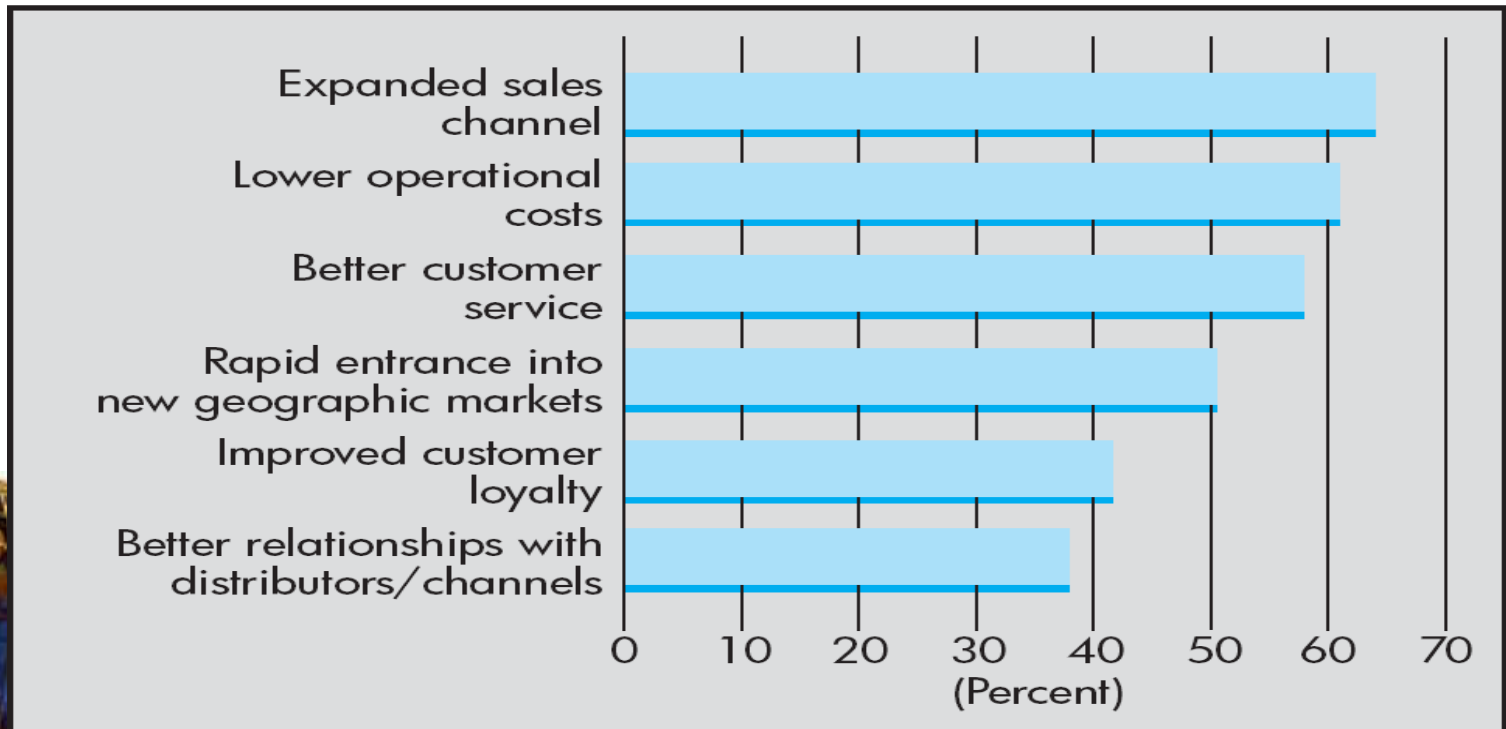
Global Integrative Strategies

- **Full vertical and horizontal integration**
- **Example: Dell**
 - **Factories in Ireland, Brazil, China, and so on**
 - **Assembly and delivery system from 47 locations around the world**
 - **Little inventory, ability to change operations quickly**



E-Business for Global Expansion

EXHIBIT 6-6 Benefits of B2B



SOURCE: Data from IDC Internet executive Advisory Council Surveys, 2001.

E-Global or E-Local?

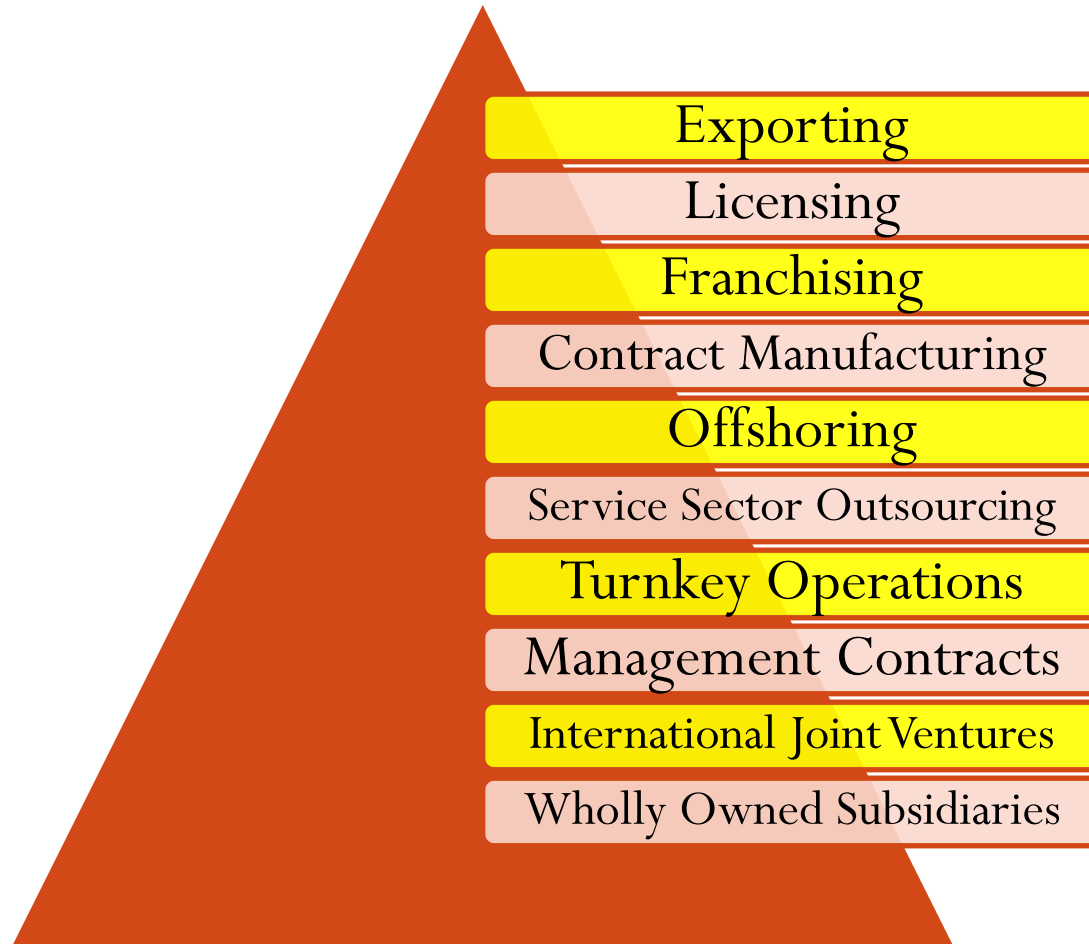
E-Global When:

- Trade is global in scope.
- Business does not involve delivering orders.
- When the business model can be easily hijacked by local competitors.

E-Local When:

- Production and consumption are regional in scope.
- Customer behavior and market structures differ across regions, but are similar within a region.
- Supply-chain management is very important to success.

Entry Strategy Alternatives



Comparative Management in Focus: Strategic Planning for the EU Market

- The European countries dominate in 2009–2010 Global Competitiveness Index (GCI) rankings of the World Economic Forum
- EU include:
 - 27-nation unified market
 - 400 million people
 - Great business opportunities



2009-2010 Global Competitiveness Index Score

(7 is the highest score)

Rank	Country	Score
1.	Switzerland	5.60
2.	United States	5.59
3.	Singapore	5.55
4.	Sweden	5.51
5.	Denmark	5.46
6.	Finland	5.43
7.	Germany	5.37
8.	Japan	5.37
9.	Canada	5.33
10.	Netherlands	5.32



Comparative Management in Focus: Strategic Planning for the EU Market

- In 2004 and 2007 the EU added 12 new countries.
- The euro eliminates currency risk, but cultures and tastes remain varied.
 - UPS in Europe



Comparative Management in Focus: Strategic Planning for the EU Market

- Some believe the EU will adversely affect U.S. organizations by limiting access and/or demanding reciprocal access to the United States.
- Others feel the EU provides considerable opportunity and many U.S. companies are well-established in Europe.



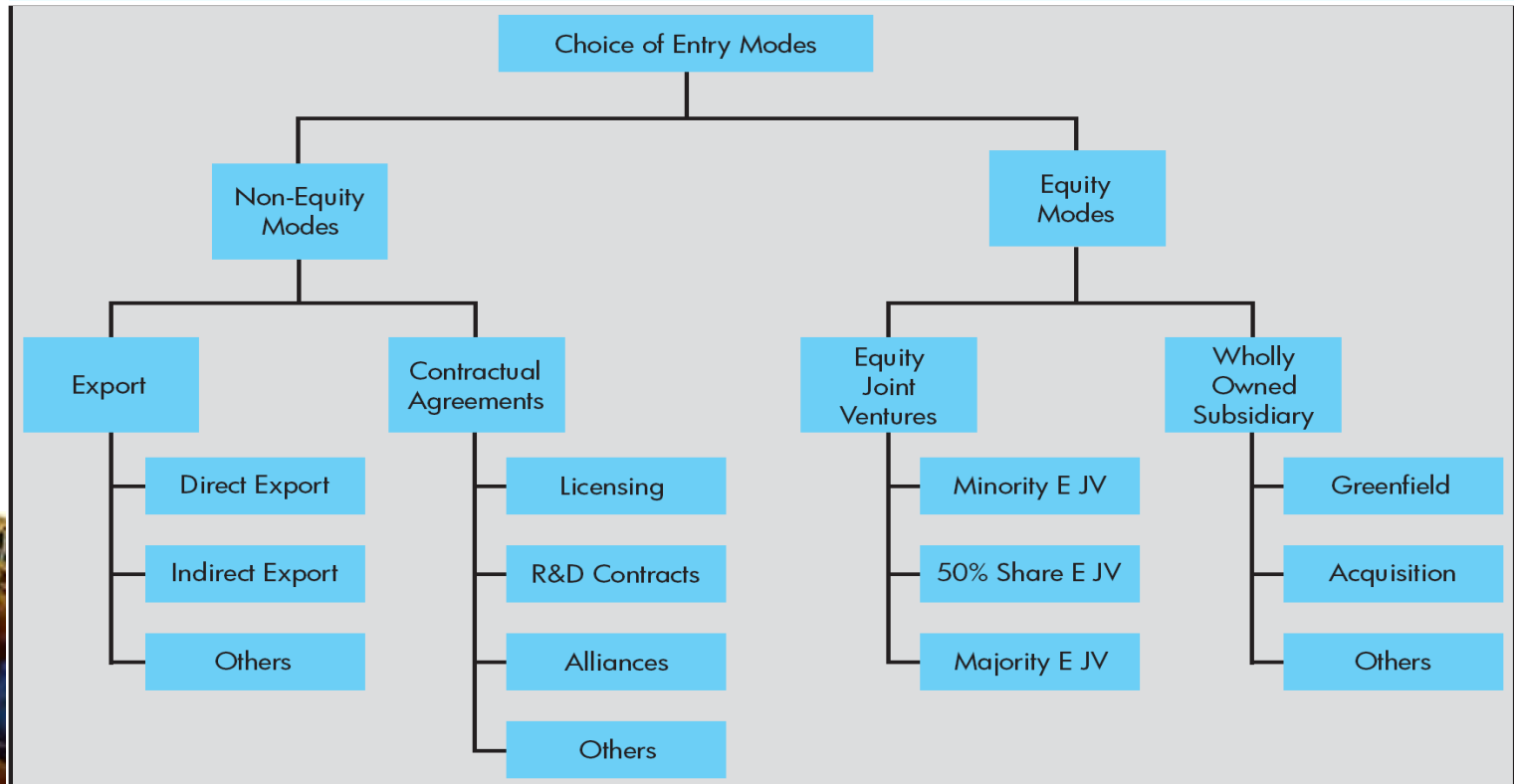
Comparative Management in Focus: Strategic Planning for the EU Market

- **Many companies use joint ventures to deal with the EU strategic dilemma.**
- **Nonetheless, operating in Western Europe can be cost prohibitive.**



Strategic Choice

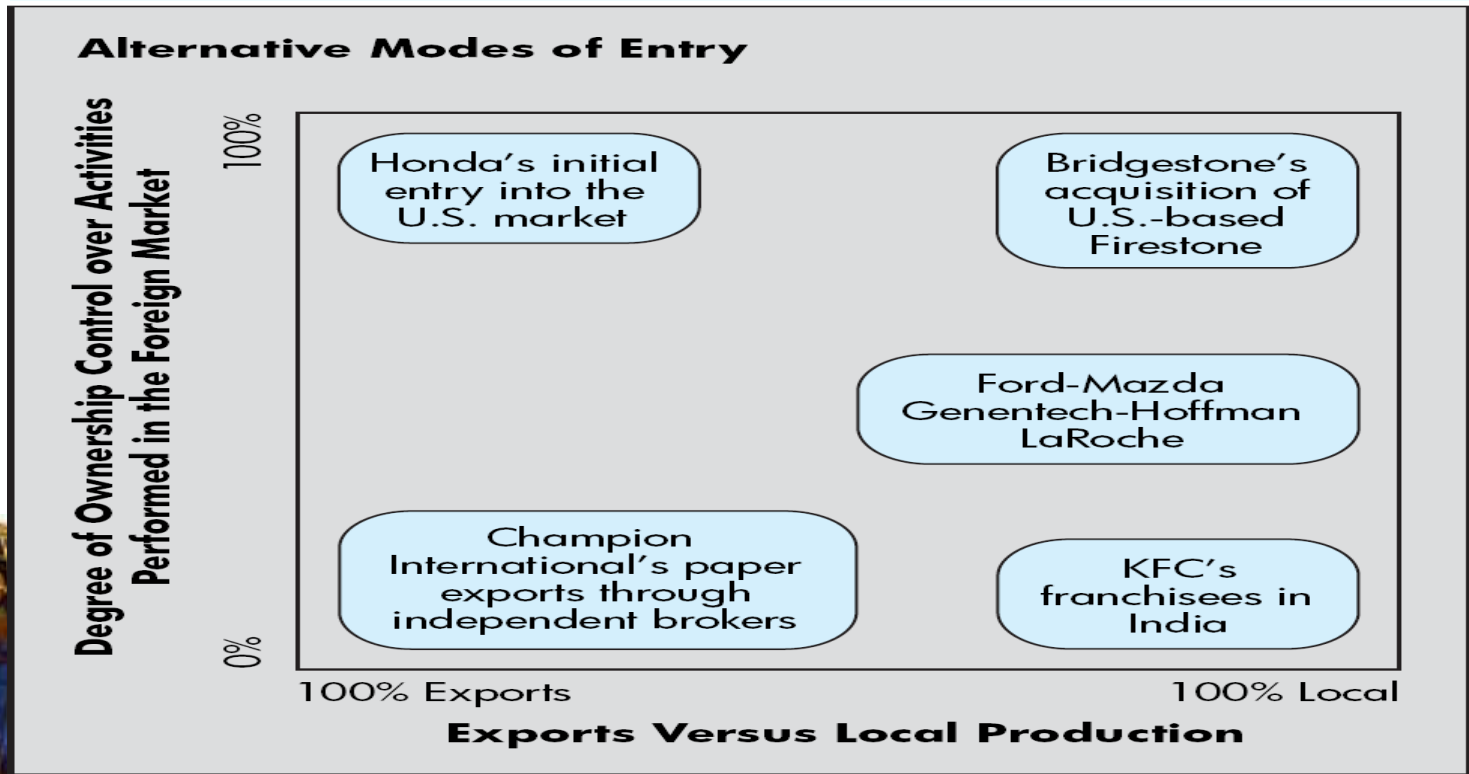
EXHIBIT 6-9 A Hierarchical Model of Choice of Entry



SOURCE: Yigang Pan and David K. Tse, "The Hierarchical Model of Market Entry Modes," *Journal of International Business Studies*, 31, no. 4 (4th Quarter 2000): 535–554.

Strategic Choice

EXHIBIT 6-10 Alternative Modes of Entry



SOURCE: Anil K. Gupta and Vijay Gorindarajan, "Managing Global Expansion: A Conceptual Framework," *Business Horizons*, March/April 2000, pp. 45–54.

The Influence of Culture on Strategic Choice and Timing Entry

- China and Japan have longer-term time horizons than the United States.
- High uncertainty avoidance cultures (e.g., Latin American, African countries) prefer non-equity modes of entry.
- High power distance cultures (e.g., Arab countries and Japan) tend to use more equity modes of entry abroad.

