

# Executing Global Strategy - INTB 4202



## Class 17 Agenda

- Look Ahead
- Chapter 10 Global Strategy: Comp Around the World
- CUMI India's Global Strategy

# Look Ahead

You are here!



16.	Tues, Oct 30	<b>Corporate Strategy - External Options</b> Chapter 9 Corp Strategy: Mergers, Acquisitions, & StratAlliances	TNK-BP (Russia)	7
17.	Fri, Nov 2	<b>Innovation &amp; Global Business</b> Chapter 10 Global Strategy: Comp Around the World	CUMI India's Global Strategy	(Note to self: Dump this case)
18.	Tues, Nov 6	<b>Innovation &amp; Global Business</b>	3D Robotics- Disrupting the Drone Market	8
19.	Fri, Nov 9	<b>Innovation &amp; Global Business</b> Working Across Cultures	Health City Cayman Islands	
20.	Tues, Nov 13	<b>Linking Strategy with Effective Implementation</b> Chapter 11 Organizational Design: Structure, Culture, and Control	Intel Locating a New Plant	9
21.	Fri, Nov 16	<b>Linking Strategy with Effective Implementation</b>	Marine Harvest: Leading Salmon Aquaculture	10
22.	Tues, Nov 20	<b>Corporate Governance</b> Chapter 12 Corp Governance, Business Ethics and Strat Leadership	(Case Memo Due) Managing a Global Team: Greg James, Sun Microsystems	
	Fri, Nov 23	<b>No Class, Thanksgiving Recess</b>		
23.	Tues, Nov 27	tbd		
24.	Fri, Nov 30	<b>EXAM 2 (Chapters 7-12)</b>		
25.	Tues, Dec 4	tbd		
	<b>Tues, Dec 9</b>	<b>Due: Semester Project</b>		

# Chapter 10:

## Global Strategy: Competing Around the World



# Chapter Videos

- How to Develop a Global Mindset 3:29  
[https://www.youtube.com/watch?v=ypJQQ6U7\\_bw](https://www.youtube.com/watch?v=ypJQQ6U7_bw)
- Coca-Cola International Business Strategy 5:53  
<https://www.youtube.com/watch?v=QAYJVtEIAtM>
- Top 100 Most Valuable Global Brands 2015 4:41  
<https://www.youtube.com/watch?v=hnHOR6yXull>
- Microsoft's Global Strategy 1:45 <https://www.youtube.com/watch?v=Uu-Ol78lCi0>

*Bob's Favorites:*

*Frugal Innovation* <https://www.youtube.com/watch?v=jj-tTrZPvag>

*Thomas Friedman, "The World is Flat"* <https://www.youtube.com/watch?v=oM2BguxRSyY>

# Globalization

- A process of closer integration and exchange
- Between different countries and peoples worldwide
- Made possible by:
  - Falling trade and investment barriers
  - Advances in telecommunications
  - Reductions in transportation costs

# Globalization Has Led to Increases in Living Standards

- Germany and Japan
  - Export-led growth, despite devastation after WWII
- Brazil, Russia, India, and China
  - 40% of world's population, now produce half the world's economic growth
  - China: the second largest economy worldwide
- Hong Kong, Singapore, South Korea, and Taiwan
  - Are now advanced economies, were previously undeveloped

# Global Strategy

- Part of a firm's corporate strategy
- Goal:
  - To gain and sustain a competitive advantage
  - To compete against other foreign and domestic companies around the world
- Foreign Direct Investment:
  - A firm's investments in value chain activities abroad

# Multinational Enterprises

- A company that deploys resources and capabilities in
  - The procurement, production, and distribution of goods and services
  - At least two countries
- Examples:
  - Boeing, Caterpillar, Coca-Cola, GE, John Deere, Exxon Mobil, IBM, P&G, and Walmart

*MNE's make up less than 1 percent of the number of total U.S. companies, but they:*

- *Account for 11 percent of private-sector employment growth since 1990.*
- *Employ 19 percent of the work force.*
- *Pay 25 percent of the wages.*
- *Provide for 31 percent of the U.S. gross domestic product (GDP).*
- *Make up 74 percent of private sector R&D spending*



# Stages of Globalization

- Globalization 1.0: 1900–1941
  - Sales, operations, and some procurement
  - Strategy flowed from HQ to international sites
- Globalization 2.0: 1945–2000
  - To reconstruct damage from the war
  - Focus on European countries, Japan, and Australia
  - Greater local-responsiveness
  - HQ set goals, international sites influenced tactics
- Globalization 3.0: 21<sup>st</sup> Century
  - Business function locations are based on costs, capabilities, and PESTEL factors
  - Companies can operate 24/7, 365 days a year
  - What's next?



# State of Globalization

- The level of globalization is no more than 10 to 25 percent total.
- Evidence:
  - 2% of all voice-calling minutes are cross-border.
  - 3% of world's population are first-generation immigrants.
  - 9% of all investments are foreign direct investments.
  - 15% of patents list at least one foreign inventor.
  - 18% of Internet traffic crosses national borders.
- The world isn't fully globalized.
  - Only semi-globalized

# Going Global: Why?

# Advantages of Going Global

1. Gain access to a larger market.
2. Gain access to low-cost input factors.
3. Develop new competencies.

Let's review these in detail...

# Gain Access to a Larger Market

- Becoming an MNE provides opportunities for
  - Economies of scale
  - Economies of scope
- Opportunities to participate in a larger market
- Opportunities to outcompete local rivals
- Helps firms in smaller economies
  - Achieve growth
  - To gain and sustain competitive advantage

## ***Strategic highlight:***

***The Gulf Airlines Are Landing in the United States***

# Gain Access to Low-Cost Input Factors

- Helps MNEs that pursue a low-cost leadership strategy
- Examples of low-cost raw materials:
  - Lumber, iron ore, oil, and coal
- Was a key driver of Globalization 1.0 and 2.0
  - During Globalization 3.0, firms benefit from lower labor costs in manufacturing and services

## Example: BPO in India

# Develop New Competencies

- Helps MNEs that pursue a differentiation strategy
- Foreign direct investments provide access to:
  - Communities of learning: often contained in specific geographic regions
  - Location economies: benefits from locating value chain activities in optimal geographies

**Example: AstraZeneca, a Swiss-based pharmaceutical company, relocated its research facility to Cambridge, Massachusetts**

# Disadvantages of Going Global

1. Liability of foreignness
2. Loss of reputation
3. Loss of intellectual property

Let's review these in detail...



# Liability of Foreignness

- Working in an unfamiliar cultural environment
- Working in an unfamiliar economic environment
- Can result in additional costs

# Strategy Highlight 10.2

## Walmart Retreats from Germany

- They lost billions and exited Germany in 2006
- What went wrong?
  - Culturally, Germans didn't want to cheer and smile.
    - Behaved gruffly like at every other retail store
  - They couldn't get costs down = prices weren't low
    - Many other stores were cheaper & more convenient.
  - They had a liability of foreignness.

# Loss of Reputation

- Reputation is one of the most valuable resources that a firm may possess.
  - Innovation reputation
  - Customer service reputation
  - Brand reputation
- Can be due to low wages, long hours, and poor working and living conditions overseas
- Local government may be corrupt.
- Minimum safety standards may not be enforceable

## Example: Apple/Foxconn

# Loss of Intellectual Property

- Particularly in the software, movie, and music industries
- Copyright infringements can occur in foreign markets.
- Intellectual property can be siphoned off or reverse-engineered.

# Going Global: Where And How?

# How Do MNE's Enter Foreign Markets?

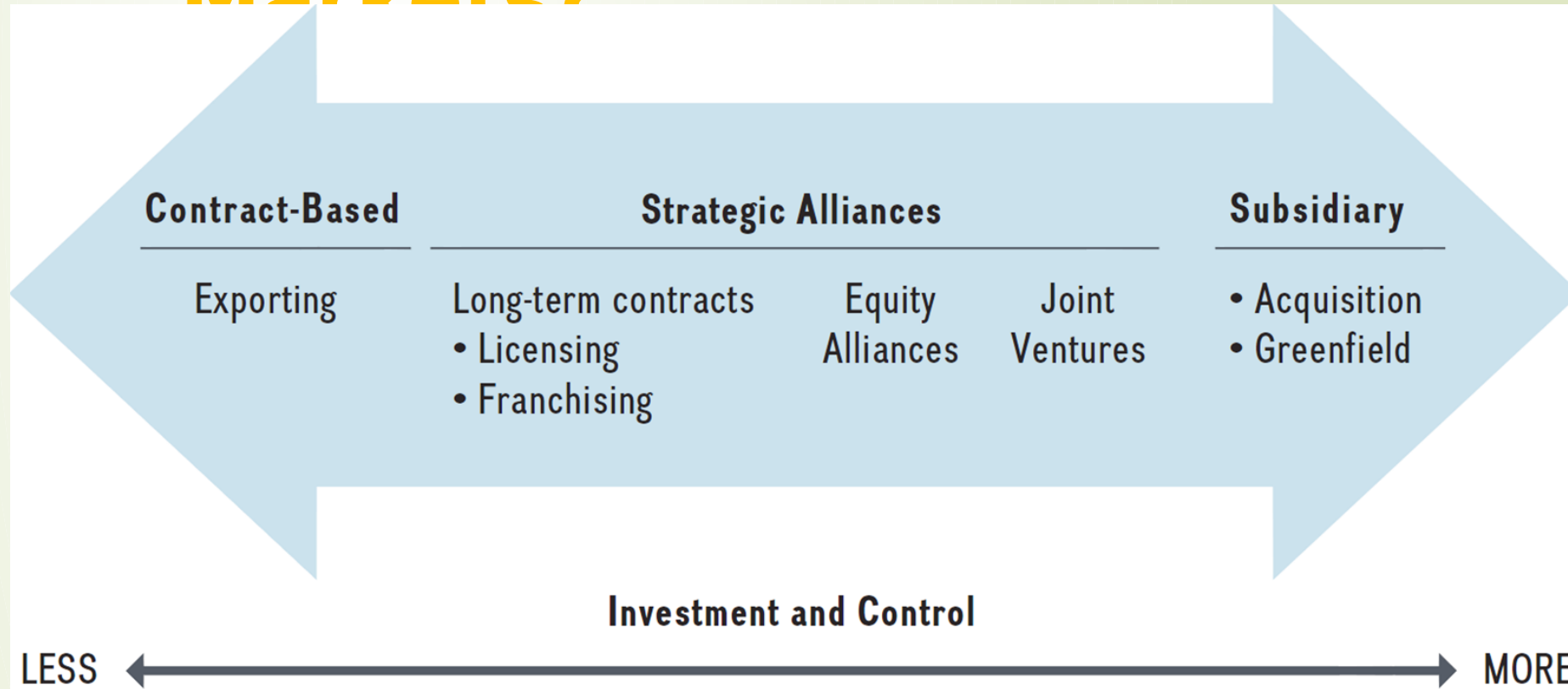


Exhibit 10.5

# Cost Reductions Vs. Local Responsiveness: The Integration-responsiveness Framework

# The Integration Responsiveness Framework

- Deals with the pressures an MNE faces for cost reductions and local responsiveness
  - Local responsiveness: the need to tailor product and service offerings to fit local consumer preferences
- Four different strategies to gain and sustain competitive advantage when competing globally:
  - International strategy
  - Multidomestic strategy
  - Global-standardization strategy
  - Transnational strategy



# Global Strategy Positions and Representative MNEs

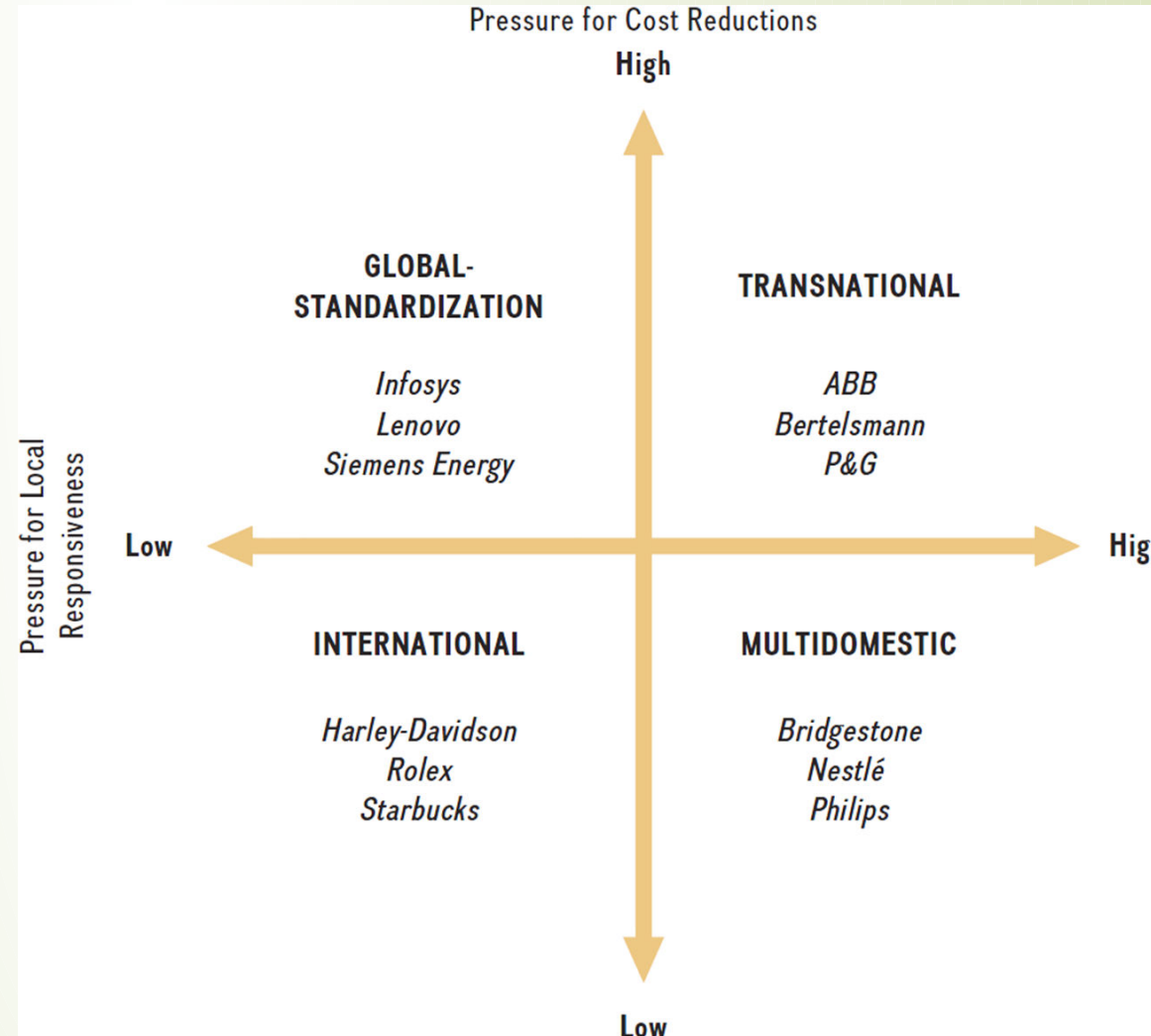
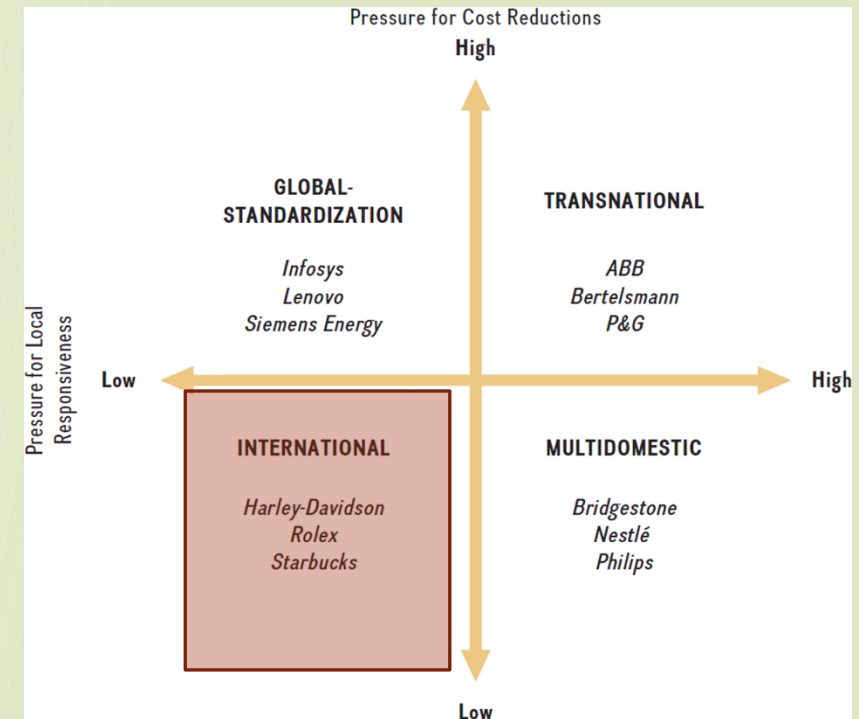


Exhibit 10.6

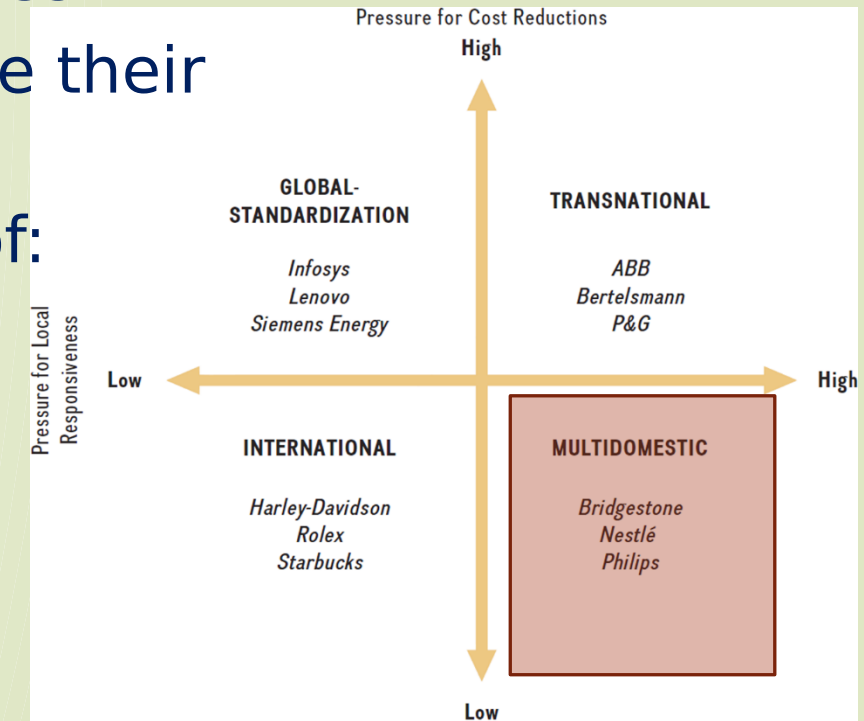
# International Strategy

- Leverages home-based core competencies
- Sells the same products or services in both domestic and foreign markets
- Advantageous when the MNE faces:
  - Low pressures for local responsiveness
  - Low pressures for cost reductions
- Often used successfully by MNEs with:
  - Large domestic markets
  - Strong reputations and brand names
- Limited local responsiveness



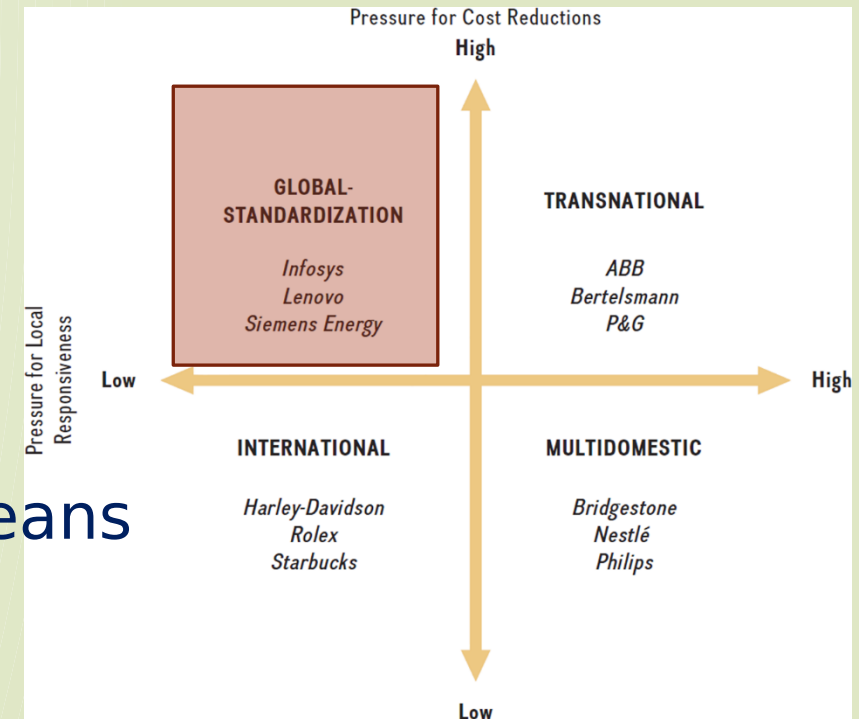
# Multidomestic Strategy

- Used to try and maximize local responsiveness
- MNEs hope that local consumers will perceive their products or services as local ones.
- This strategy arises out of the combination of:
  - High pressure for local responsiveness
  - Low pressure for cost reductions
- Can be costly and inefficient
  - Duplication of business functions across countries



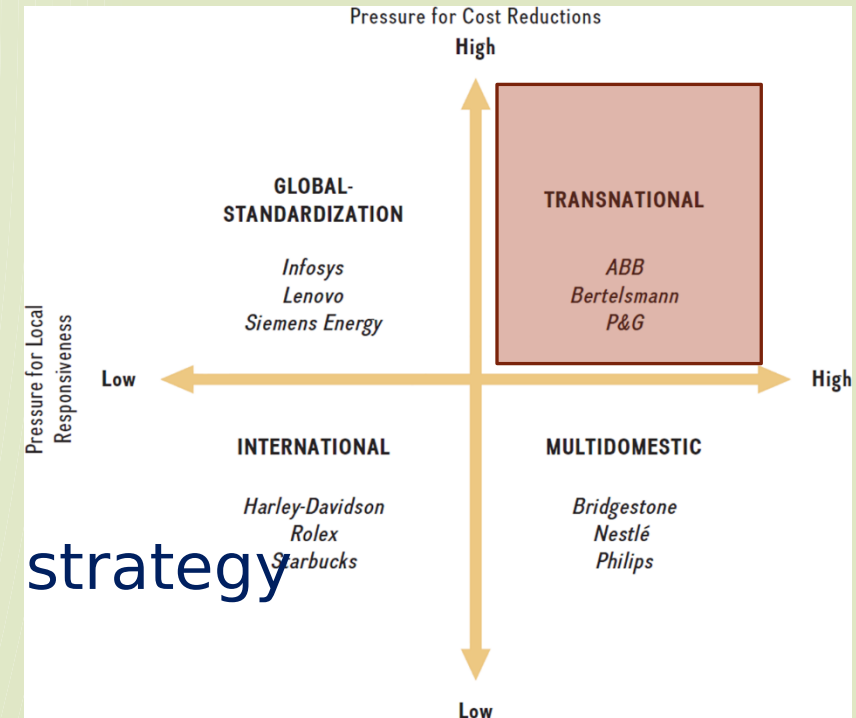
# Global-Standardization Strategy

- Attempts to reap significant:
  - Economies of scale & location economies
  - Through global division of labor where capabilities are at the lowest cost
- Arises out of the combination of:
  - High pressure for cost reductions
  - Low pressure for local responsiveness
- Price becomes the main competitive means



# Transnational Strategy

- Strategy that attempts to combine:
  - Benefits of a localization strategy
    - High local responsiveness
  - With a global-standardization strategy
    - Lowest-cost position attainable
- Arises out of the combination of:
  - High pressure for local responsiveness
  - High pressure for cost reductions
- Used by MNEs that pursue a blue ocean strategy
- Difficult to implement



# Dynamic Strategic Positioning: The MTV Music Channel

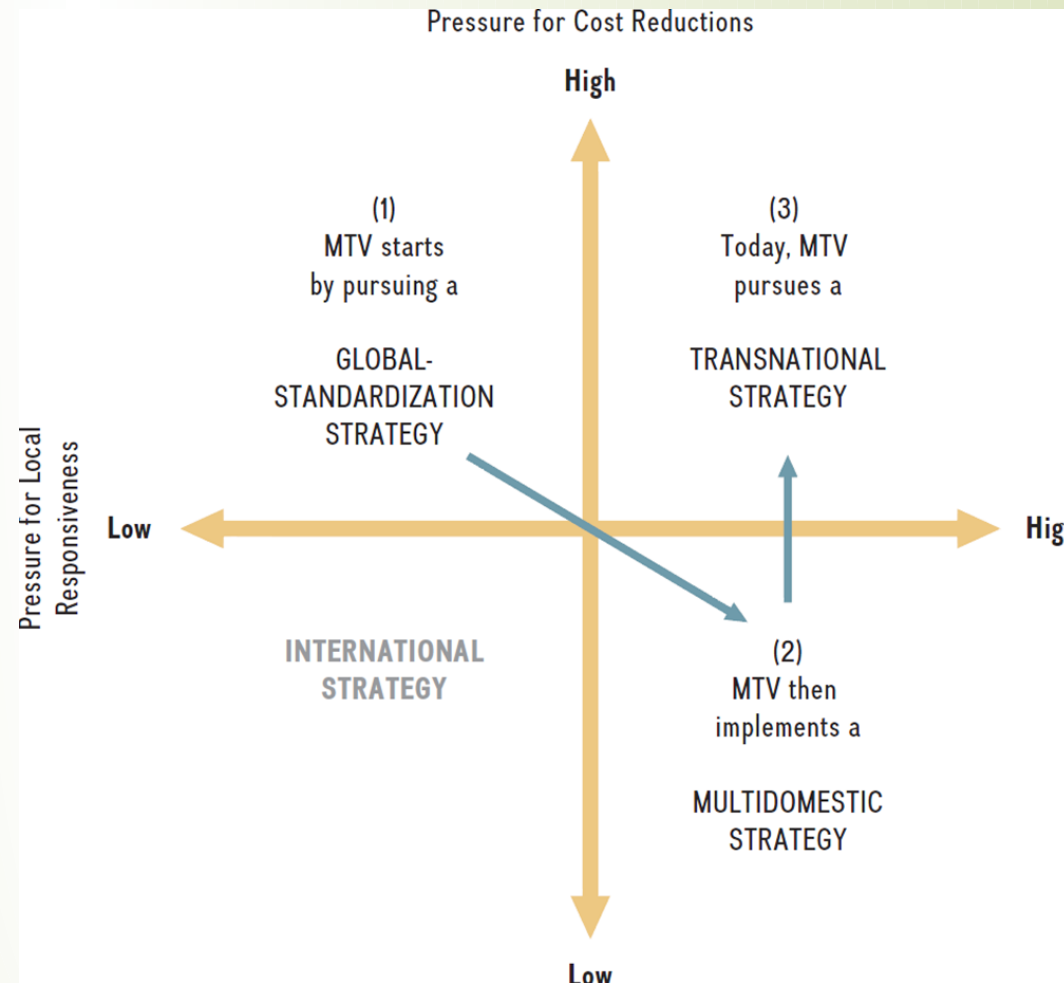


Exhibit 10.7

# Characteristics, Benefits, and Risks of Each Type of Strategy

Strategy	Characteristics	Benefits	Risks
<b>International</b>	<ul style="list-style-type: none"> <li>▪ Often the first step in internationalizing.</li> <li>▪ Used by MNEs with relatively large domestic markets or strong exporters (e.g., MNEs from the United States, Germany, Japan, South Korea).</li> <li>▪ Well-suited for high-end products with high value-to-weight ratios such as machine tools and luxury goods that can be shipped across the globe.</li> <li>▪ Products and services tend to have strong brands.</li> <li>▪ Main business-level strategy tends to be differentiation because exporting, licensing, and franchising add additional costs.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Leveraging core competencies.</li> <li>▪ Economies of scale.</li> <li>▪ Low-cost implementation through:               <ul style="list-style-type: none"> <li>▪ Exporting or licensing (for products)</li> <li>▪ Franchising (for services)</li> <li>▪ Licensing (for trademarks)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• No or limited local responsiveness.</li> <li>• Highly affected by exchange-rate fluctuations.</li> <li>• IP embedded in product or service could be expropriated.</li> </ul>
<b>Multidomestic</b>	<ul style="list-style-type: none"> <li>▪ Used by MNEs to compete in host countries with large and/or lucrative but idiosyncratic domestic markets (e.g., Germany, Japan, Saudi Arabia).</li> <li>▪ Often used in consumer products and food industries.</li> <li>▪ Main business-level strategy is differentiation.</li> <li>▪ MNE wants to be perceived as local company.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Highest-possible local responsiveness.</li> <li>▪ Increased differentiation.</li> <li>▪ Reduced exchange-rate exposure.</li> </ul>	<ul style="list-style-type: none"> <li>• Duplication of key business functions in multiple countries leads to high cost of implementation.</li> <li>• Little or no economies of scale.</li> <li>• Little or no learning across different regions.</li> <li>• Higher risk of IP expropriation.</li> </ul>
<b>Global-Standardization</b>	<ul style="list-style-type: none"> <li>▪ Used by MNEs that are offering standardized products and services (e.g., computer hardware or business process outsourcing).</li> <li>▪ Main business-level strategy is cost leadership.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Location economies: global division of labor based on wherever best-of-class capabilities reside at lowest cost.</li> <li>▪ Economies of scale and standardization.</li> </ul>	<ul style="list-style-type: none"> <li>• No local responsiveness.</li> <li>• Little or no product differentiation.</li> <li>• Some exchange-rate exposure.</li> <li>• “Race to the bottom” as wages increase.</li> <li>• Some risk of IP expropriation.</li> </ul>
<b>Transnational</b>	<ul style="list-style-type: none"> <li>▪ Used by MNEs that pursue a blue ocean strategy at the business level by simultaneously focusing on product differentiation and low cost.</li> <li>▪ Mantra: Think globally, act locally.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Attempts to combine benefits of localization and standardization strategies simultaneously by creating a global matrix structure.</li> <li>▪ Economies of scale, location, experience and learning.</li> </ul>	<ul style="list-style-type: none"> <li>• Global matrix structure is costly and difficult to implement, leading to high failure rate.</li> <li>• Some exchange-rate exposure.</li> <li>• Higher risk of IP expropriation.</li> </ul>

*Case:*  
**CUMI India**



# CUMI India

## Guide Questions:

1. What is driving CUMI's success? Is it sustainable? Which part of it is transferable internationally?
2. What is driving CUMI's internationalization strategy? Specifically analyze the industry level drivers as well as country (India) level drivers?
3. Evaluate CUMI's Russian and South African ventures. What is the level of success in each of these two markets and to what would you attribute the success or failure?
4. Evaluate CUMI's experience in China. What is CUMI's problem in China? Why do you think CUMI is not able to translate its Russian success to China?
5. How important is China to CUMI? Is the management right in thinking about a China-centric strategy?
6. What are CUMI's options in China? What would you recommend to CUMI as China strategy? How would you implement this?

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## CUMI's value chain

- Raw materials
- Design and application technology
- Manufacturing operations
- Marketing, sales and service

## What is the before and after picture?

# CUMI India

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  - ✓ There are strong entry barriers, making it difficult for new players to enter since there is a huge upfront investment involved.
  - Suppliers can exert huge pressure. Silica, which constitutes three-fourths of the raw materials needed, is mostly found in China, and that can create a significant problem.
  - ✓ Buyers do not have much say. Buyers are numerous. At the same time, switching costs are low. One can use branding and relationships to lock in the buyers.
  - ✓ Substitutes are available, but they are not a major concern for now.
  - Competition is intense but not around price. Application engineering becomes an important source of competitive advantage.

**Conclusion: It is very hard to be a player in this industry without global scale, and so access to China is critical.**

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**EXHIBIT TN-5: CUMI'S PERFORMANCE**

<i>All Figures in 10 million Indian Rupees</i>	2007-08	2008-09	2009-10	2010-11
<b>COUNTRY SALES</b>				
Russia	281	319	321	436
South Africa	-	69	80	94
<b>PROFIT AFTER TAX</b>				
Russia	14	25	44	51
South Africa	-	6	3	7

<b>CUMI'S OVERALL PERFORMANCE</b>				
<i>All Figures in 10 million Indian Rupees</i>	2007-08	2008-09	2009-10	2010-11
<b>GROSS SALES</b>	878	1138	1230	1628
<b>NET SALES</b>	802	1078	1183	1601
<b>PAT(Profit after tax)</b>	119	104	102	171

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## CUMI's current problems in China:

- *Profitability*
- *Absence of local leadership*
- *Differences in language and mindset*

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5. How important is China to CUMI? Is the management right in thinking about a China-centric strategy?
  - 50% of the supply of raw materials for the industry



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- (1) starting a centre of excellence in application engineering based in China, which would allow CUMI to gain inroads into the manufacturing base in China;**
- (2) establishing a joint venture to manufacture and market within China, with a more aggressive management, which may involve recruiting Chinese nationals into the organization**
- (3) building a stronger integration of materials movement across the global network, which may require a carefully thought-out supply chain management plan to link its Chinese, Russian South African**