CHAPTER 7

Business Marketing Strategies for Global Markets

Business marketing firms that restrict their attention to the domestic market are overlooking enormous international market opportunities and a challenging field of competitors. After reading this chapter, you will understand:

1. **how to capture the sources of global advantage in rapidly developing economies such as China and India.**
2. **the spectrum of international market-entry options and the strategic significance of different forms of global market participation.**
3. **the distinctive types of international strategy.**
4. **the essential components of a global strategy.**

A recent *Business Week* article focused on the significant increase in global competition large U.S. industrial corporations face. Huge but relatively unknown firms from emerging markets are challenging Western firms in almost every global setting.

> From India's Infosys Technologies (IT services) to Brazil's Embraer (light jets), and from Taiwan's Acer (computers) to Mexico's Cemex (building materials), a new class of formidable competitors is rising. There are 25 world-class emerging multinationals today and within 15 years, there will be at least 100 of them. The biggest challenge posed by these up-and-coming rivals will not be in Western markets, but within developing nations. That's the arena of fastest global growth—and home to 80 percent of the world's 6 billion consumers, hundreds of millions of whom have moved into the middle class. . . . The rise of these new multinationals will force American business marketers to rethink strategies for Third World product development, marketing, and links with local companies.[1]

Truly, business-to-business marketing is worldwide in scope, and the very existence of many business marketing firms will hinge on their ability to act decisively, compete aggressively, and seize market opportunities in rapidly expanding global economies. Numerous business marketing firms—such as GE, IBM, Intel, Boeing, and Caterpillar—currently derive much of their profit from global markets. They have realigned operations and developed a host of new strategies to strengthen market positions and compete effectively against the new breed of strong global rivals.

This chapter will examine the need for, and the formulation of, global business marketing strategies. The discussion is divided into four parts. First, attention centers on rapidly developing economies, like China, and the sources of global advantage they can represent for business marketing firms. Second, international market-entry options are isolated and described. Third, "multidomestic" and "global" strategies are compared, and prescriptions provided for where they are most effectively applied. Fourth, the critical requirements for a successful global strategy are explored.

Capturing Global Advantage in Rapidly Developing Economies[2]

A set of rapidly developing economies (RDEs) is reshaping the playing field and forcing business marketing executives to rethink their strategies and the scope of their operations. Key RDEs include, of course, China and India, as well as Mexico, Brazil, central and eastern Europe, and Southeast Asia. Let's put the growth of these economies in perspective. Whereas the United States, western Europe, and Japan are projected to grow by roughly $3 trillion in collective gross domestic product (GDP)

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[1] Jeffrey E. Garten, "A New Threat to America, Inc.," *Business Week*, July 25, 2005, p. 114. For a review of the top-100 international challengers, see Harold L. Sirkin, James W. Hemerling, and Arindam K. Bhattacharya, *Globality: Competing with Everyone from Everywhere for Everything* (New York: Business Plus, 2008).

[2] This section is based on Arindam Bhattacharya, Thomas Bradtke, Jim Hemerling, Jean Lebreton, Xavier Mosquet, Immo Rupf, Harold L. Sirkin, and Dave Young, "Capturing Global Advantage: How Leading Industrial Companies Are Transforming Their Industries by Sourcing and Selling in China, India, and Other Low-Cost Countries," The Boston Consulting Group, Inc., April 2004, accessed at http://www.bcg.com.

from 2004 to 2010, the key RDEs will grow by more than $2 trillion. Specifically, China's GDP is expected to increase by $750 billion, central and eastern Europe's by $450 billion, Southeast Asia's by $350 billion, India's by $300 billion, Mexico's by $250 billion, and Brazil's by $200 billion. During this period, as highly developed economies like the United States and Japan experience annual GDP growth slightly above 2 percent, China will grow four times as fast, and India, Southeast Asia, and Mexico three times as fast. For example, Vietnam has become an extremely attractive investment opportunity for many business-to-business firms. Vietnam was admitted to the World Trade Organization in 2007, and the country enjoys a solid base of well-educated workers and a government determined to transform the country into a powerful economic entity. It is one of the fastest-growing economies, with a growth in GDP in 2007 of over 8 percent. Not only does Vietnam offer an excellent base for manufacturing operations, it has also become a very attractive market for business-to-business marketers. With a government willing to transform the country into private industrial operations, it is a country that cannot be ignored by firms looking for lower-cost manufacturing opportunities and large markets.

While representing a potentially attractive market opportunity, RDEs also present a formidable competitive challenge to firms in many industries. The migration of sourcing, manufacturing, and service operations from high-cost countries (for example, the United States and western Europe) to low-cost countries (for example, China, Mexico, and India) is well under way and accelerating. In the United States alone, the value of offshore arrangements has increased steadily: The cumulative value of outsourcing contracts rose from $50 billion in 2002 to more than $225 billion in 2007.[3] In turn, imports from these rapidly developing economies are making substantial inroads into core industrial product categories that were historically thought to be protected from such competition. However, leading firms like GE, Microsoft, Cisco, Apple, and Siemens are seizing opportunities by capturing sources of global advantage. In industry after industry, firms are under enormous pressure to make the move to global operations.

Mapping Sources of Global Advantage[4]

A firm can globalize its cost structure through the migration of sourcing, manufacturing, R&D, and service operations from a high-cost country to an RDE. In creating advantaged global operations, companies might conduct R&D in the United States, manufacture some product lines in the United States and others in China and Mexico, and locate customer service in India and Ireland. "Significant portions of manufacturing are expected to remain advantaged in their current locations. Reasons for staying in higher-cost locations might include the need to safeguard intellectual property content, the importance of collocation with customers, or the requirement to use local content."[5]

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[3] David Jacoby and Bruna Fiqueiredo, "The Art of High-Cost Country Sourcing," *Supply Chain Management Review* 12 (May/June 2008): p. 33.

[4] Unless otherwise noted, this section draws on Jim Hemerling, Dave Young, and Thomas Bradtke, "Navigating the Five Currents of Globalization: How Leading Companies Are Capturing Global Advantage," *BCG Focus* (April 2005), The Boston Consulting Group, Inc., accessed at http://www.bcg.com.

[5] Battacharya et al., "Capturing Global Advantage," p. 7.

Firms that quickly and intelligently seize global opportunities can secure three forms of competitive advantage: (1) a cost advantage, (2) a market access advantage, and (3) a capabilities advantage.

The Cost Advantage

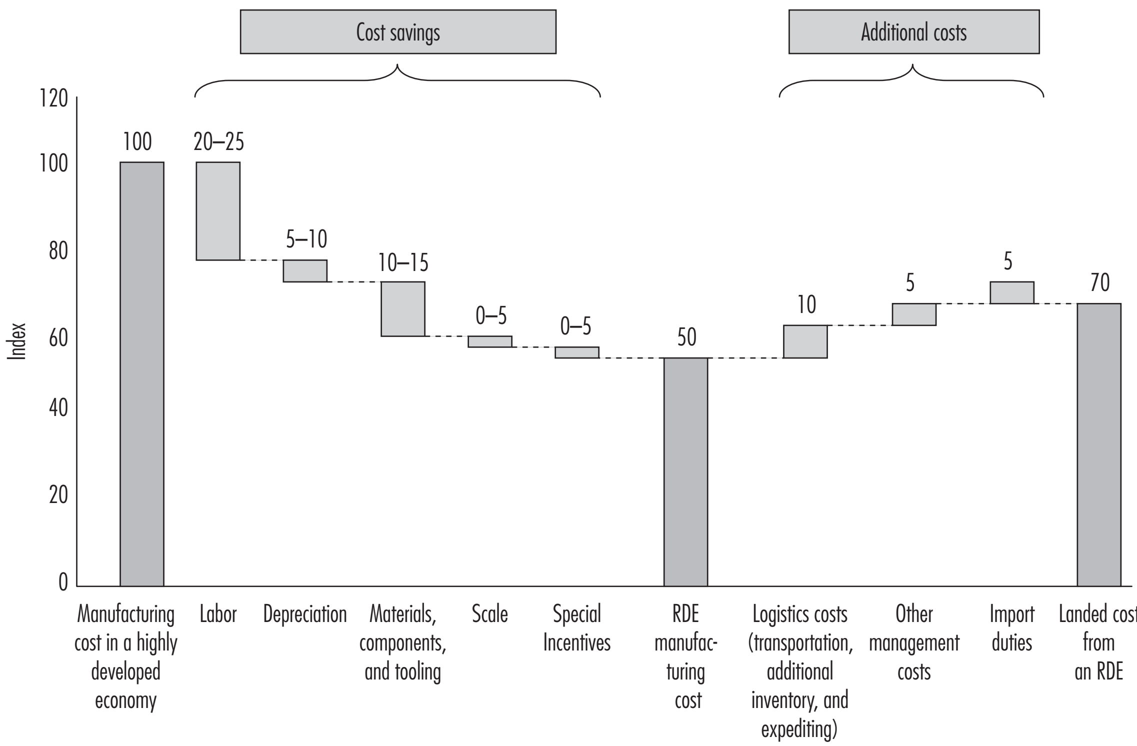
The major driver for a move to RDE sourcing remains very large—and sustainable—cost advantages from two primary sources: lower operating costs and lower capital investment requirements. The savings are striking. Jim Hemerling and his colleagues at the Boston Consulting Group assert that companies that globalize their cost structures by including RDEs can realize savings of 20 to 40 percent in the landed costs of their products. The **landed cost** reflects the realized net savings after logistics costs, other management costs, and import duties involved in moving the product from the RDE (for example, China) to the market destination (for example, the United States). In addition, the capital needed to create a manufacturing facility in an RDE is 20 to 40 percent lower than in a highly developed economy. In addition to the cost and investment advantages, another driver of lower costs has emerged in recent years: government subsidies. Subsidies in the form of direct payment to companies may allow them to price their products below competitive prices and enjoy distinct advantages in other global markets.

Lower Operating Costs The difference in labor costs is a major component of the RDE cost advantage. Depending on the industry, the factory location, and the nature of employee benefits, a factory worker in the United States or Europe costs $15 to $30 or more per hour. By contrast, a factory worker in China earns $1 per hour, whereas in Mexico and in central and eastern Europe, workers earn $2 to $8 per hour. Figure 7.1 displays the realized cost savings (that is, 30 percent) for industrial products such as electric motors, transformers, and compressors that are manufactured in a RDE. Observe that companies operating in a RDE save not only directly on labor costs but also indirectly on domestic materials and components.

Business Process Outsourcing When the focus shifts from products to highly labor-intensive sectors, such as services, the cost advantage of outsourcing to a RDE is up to 60 percent. India now represents the global market leader in offshore business-process outsourcing. Included here are not only transactional processes like call centers but also core industrial processes such as R&D and supply chain management. A strong telecommunications infrastructure, coupled with large numbers of highly educated English-speaking managers, engineers, and workers, constitute key advantages for India. By outsourcing call centers to India, General Electric's consumer finance business saved 30 to 35 percent and American Express had savings of more than 50 percent.

Will the Cost Gap Persist? Experts suggest that the differential in labor rates between RDEs and developed countries will remain substantial for the foreseeable future, even if they grow at dramatically different rates. Wage growth in China and India will be limited by the large number of underemployed people in both countries. Likewise, companies that operate in RDEs have been able consistently to lower purchasing costs over time, achieving cost savings that significantly exceed those that are normally found in the West.

FIGURE 7.1 | **RDEs Offer a Substantial Cost Advantage over Highly Developed Economies**

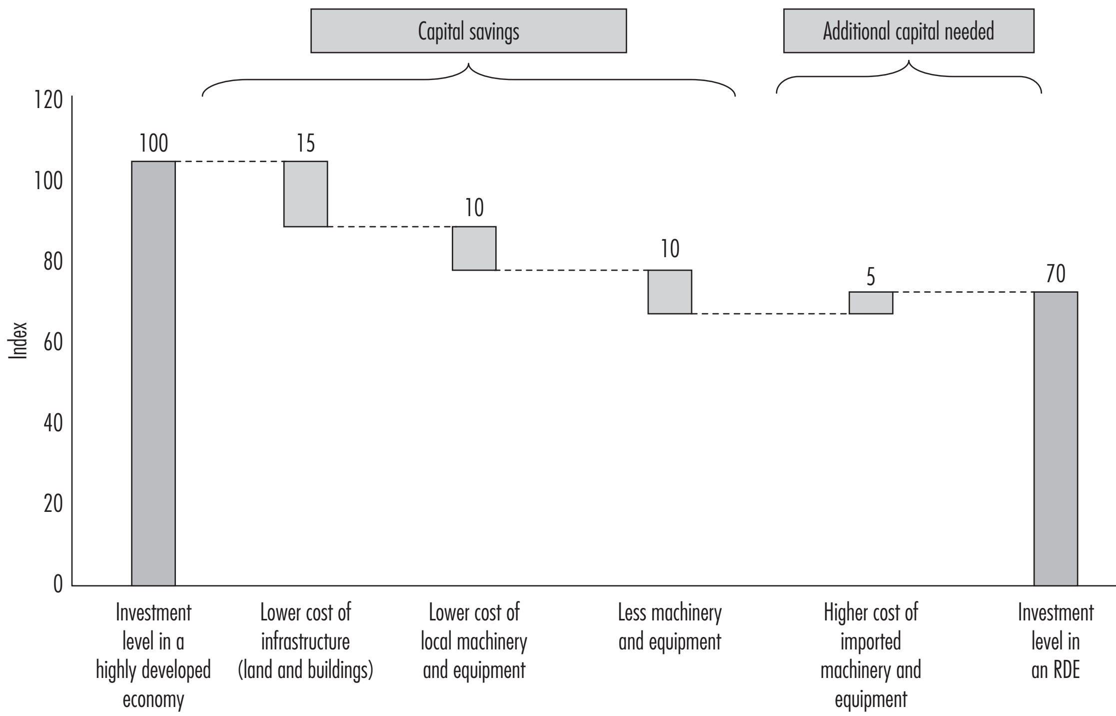


SOURCE: Jim Hemerling, Dave Young, and Thomas Bradtke, "Navigating the Five Currents of Globalization: How Leading Companies Are Capturing Global Advantage," *BCG Focus*, January 2005, The Boston Consulting Group, Inc., accessed at http://www.bcg.com.

Lower Capital Investment Requirements Another important—and sometimes overlooked—source of the RDE cost advantage is lower capital investment requirements for plants and equipment. While lower operating costs benefit a firm's profit and loss (P&L) statement, lower capital investment requirements also represent significant savings on the balance sheet. The combination of lower product costs and lower capital investment requirements can boost the total return on investment. Figure 7.2 shows the typical cost differential for an industrial installation (for example, factory) in a RDE versus one in a highly developed economy. Observe that a factory in a RDE can be built for just 70 percent of the investment level needed in a highly developed economy. These capital savings result from the lower cost of infrastructure (15 percent savings), the lower cost of local machinery and equipment (10 percent), and the opportunity to substitute labor for costly technology (10 percent). After accounting for the higher costs (5 percent) of imported machinery, the net capital savings are 30 percent in the RDE (see Figure 7.2).

Subsidies Many assume that China's cost advantage in manufacturing comes from cheap labor. But in China's burgeoning steel industry, research suggests that massive government energy subsidies, not other factors, keep prices down. These subsidies have broad implications for how companies compete and collaborate with Chinese

FIGURE 7.2 | **RDEs Offer a Significant Capital Advantage over Highly Developed Economies**



SOURCE: Jim Hemerling, Dave Young, and Thomas Bradtke, "Navigating the Five Currents of Globalization: How Leading Companies Are Capturing Global Advantage," *BCG Focus*, January 2005, The Boston Consulting Group, Inc., accessed at http://www.bcg.com. Copyright © The Boston Consulting Group, Inc. 2005. All rights reserved. Reprinted by permission.

businesses.[6] The country has now become the world's largest steel exporter by volume and it remains the world's largest consumer and producer of steel, with 40 percent of global production. How did China make these astonishing gains so quickly and manage to sell steel for about 19 percent less than steel from U.S. and European companies? Labor accounts for less than 10 percent of the costs of producing Chinese steel, and Chinese steel does not appear to rely on scale economies, supply chain proximities, or technological efficiencies to lower its costs. The answer was a $27 billion energy subsidy (for coal) from the Chinese government. Since energy represents a much larger cost than labor in steel production, the subsidy provides a huge global cost advantage for the Chinese steel industry.

The Hidden Cost of RDE Operations The cost advantages gained through operations in a RDE can be eroded by additional costs if companies fail to recognize them and aggressively control them. Among these hidden costs are[7]

> One-time setup costs that include the typical costs of establishing a new business, such as identifying and qualifying suppliers, creating a reliable logistics chain, and training employees;

[6] C. V. Usha and George T. Haley, "Subsidies and the China Price," *Harvard Business Review*, 86 (June, 2008): p. 25.

[7] Battacharya et al., "Capturing Global Advantage," pp. 20–21.

Ongoing RDE risk management costs related to monitoring the quality of suppliers, managing inventory in a longer-than-usual logistics chain, and hedging exchange rate fluctuations;

Exit costs related to closing high-cost production or service facilities, including asset write-offs and related restructuring costs, as well as "bad will" costs (for example, damaged relations with unions) in the home country.

A good example of some of the hidden costs in RDE operations is the experience of Intel in China. Intel built a large factory in the central region of China in an effort to accommodate Chinese government pressure to develop the interior of the country. Intel did enjoy the advantage of very low cost labor and lower investment cost, but the huge cost of transportation was not recognized until after the factory was operating. Intel was unable to use large jumbo jets to ship finished computer chips due to the lack of a suitable airport to accommodate Boeing 747s. Moving chips by truck was also challenging because the specialized "air-ride" trucks required for shipping fragile computer chips were not abundant in China. In fact, only 15 air-ride trucks could be found in the entire country! It took many months until more air-ride trucks became available and a new airport could be built. This obvious setback was a costly lesson in dealing with the lack of infrastructure in RDEs. In the truck construction industry, some firms believe that to be able to source in China, they must have a "piece price" savings of at least 20 percent in order to offset the associated costs and risks.[8]

In most cases, business-to-business firms do not exit their home-country operations entirely. They prefer instead to maintain the best home-country operations while moving only the least efficient to RDEs to remain competitive and to secure market access.

The Market Access Advantage

Although companies traditionally relocated manufacturing operations to RDEs to gain cost advantages, once they are established in these countries, they are ideally positioned to serve fast-growing local markets. The striking results that GE Healthcare achieved in China illustrate the market access advantage.

GE Healthcare entered the market by transferring technology to local Chinese R&D centers, which then developed "Chinese" versions of GE medical equipment that offered roughly 80 percent of the performance of Western systems at just 50 percent of the price. Because these products met local needs, GE Healthcare became the market leader in China. Furthermore, the China-developed products also appealed to customers in some Western countries where certain market segments found compelling value in the unique trade-off between the products' price and functionality.

China's Growing Role For many industrial product categories, China is already the world's largest market. China is the largest market for machine tools, the second largest for power transmissions and distribution equipment, and the second largest

[8] Rick Weber, "SC Goes Global," *Body Builders*, 48 (March, 2007): p. 52

for energy consumption. On the consumer product side, China is the world's largest market for cell phones, air conditioners, and refrigerators and represents a large and rapidly growing market for personal computers, automobiles, and consumer electronics products. Other RDEs, like India, are also growing explosively. For Cummins Inc., the diesel engine maker, China and India each represent a lucrative market today. But by 2010, Cummins projects revenues of $2 billion from India and $3 billion from China.[9]

Following Key Customers to RDEs Many small and mid-sized companies are following their customers to RDEs. For example, Phoenix Electric Manufacturing Company, a Chicago-based producer of electric motors for power tools, kitchen appliances, and other products, added a factory in China.[10] The move enabled Phoenix Electric to retain its largest customers—GE and Emerson Electric—which have shifted most of their consumer-electronics production to the area. Similarly, Hiwasse Manufacturing, an Arkansas-based manufacturer of steel products used in the control panels of refrigerators, ovens, and other appliances, added a facility in Mexico near a GE appliance manufacturing facility.[11]

A Twofold Strategy As major industrial sectors relocate manufacturing operations to RDEs, business-to-business firms that supply these sectors must take decisive action. Jim Hemerling and his associates at the Boston Consulting Group provide this advice:

> Most companies need to develop a twofold strategic plan: to fill market gaps at home, and to follow selected customers to their new locations. In our experience, it is rarely feasible to pursue only one or the other.[12]

For example, gaps can be filled at home by pursuing new lines of business or new product or service opportunities where the home country advantage can be defended. In turn, when moving to a RDE, suppliers must adjust their operating models to fully capture the cost advantages.

The Capabilities Advantage

To reinforce the cost advantage of operating in RDEs, top-performing global companies capture second-order benefits by tapping into the rapidly developing base of human talent in these countries. China and India each add over 350,000 science and engineering graduates to their talent pool each year. In 2008, at least 5.59 million students will graduate from colleges in China, 13 percent more than last year, according to the Chinese Ministry of Education.[13] In fact, there are so many Chinese students attending college, that 700,000 of the 2007 college graduates were unable to find a job after they graduated, reinforcing the magnitude of the pool of educated talent available to firms locating in China. Many global companies, like GE, Microsoft, Motorola,

[9] Pete Engardio and Michael Arndt, "How Cummins Does It," *Business Week*, August 22–29, 2005, pp. 82–83.

[10] Dexter Roberts and Michael Arndt, "It's Getting Hotter in the East," *Business Week*, August 22–29, 2005, pp. 78–81.

[11] Louis Uchitelle, "If You Can Make It Here . . . ," *New York Times*, September 4, 2005, p. B-5.

[12] Hemerling, Young, and Bradtke, "Navigating the Five Currents of Globalization," pp. 9–10.

[13] "Getting a Job May Be Tougher for Graduates," *China Daily*, July 11, 2008, p. 11.

Inside Business Marketing

How Offshore Outsourcing Affects Customer Satisfaction—and a Company's Stock Price!

Recent research suggests that sending customer service abroad negatively affects customer satisfaction. Jonathan Whitaker and his research colleagues analyzed the outsourcing activities of 150 North American companies and business units. As a group, those firms that outsourced saw a drop in their score on the American Consumer Satisfaction Index. Importantly, the declines in consumer satisfaction scores were roughly the same whether companies outsourced customer service domestically or overseas.

Customer satisfaction scores tend to move in the same direction as companies' stock prices. Based on this historical relationship, the average decline in consumer satisfaction found at companies outsourcing customer service is associated with a roughly 1 to 5 percent decline in a company's market capitalization, depending on the industry in which the company operates. That's a steep price! By the way, market capitalization is a measure of the value of a firm (that is, total outstanding shares × stock price).

To improve the quality of outsourced customer service, special attention should be given to insuring that the provider has all the information required to help the customer and is fully empowered to do so. Interestingly, the researchers found that "back-office offshoring had no effect on overall customer satisfaction. So the savings a company garners this way are not offset by dissatisfaction among customers."

SOURCE: Jonathan Whitaker, M.S. Krishnan, and Claes Fornell, "Customer Service: How Offshore Outsourcing Affects Customer Satisfaction," *The Wall Street Journal*, July 7, 2008, p. R4.

and Siemens, have created R&D centers in both India and China. For example, Motorola employs several thousand engineers in China and operates a large R&D center in Beijing.

Leading companies can make use of this capabilities advantage to accomplish the following:

- *Improve research and development:* The much lower cost of engineers and skilled technicians in RDEs allows companies to increase dramatically the amount of R&D they do for a given budget level.
- *Address unmet customer needs:* The opportunity to make greater use of skilled labor in place of machines allows companies to manufacture customized products less expensively than would be feasible in a more automated setting.
- *Tailor products and services to the burgeoning local markets in RDEs:* To illustrate, Motorola's Beijing R&D center develops cell phones for the local market—the largest handset market in the world.[14]

Unique RDE Risks In a remote area of India, a group of gun-wielding commandos emerged from the dense forest in India's Chhattisgarh state. The guerrillas descended on an iron ore processing plant owned by Essar Steel, one of India's biggest companies. There the attackers torched the heavy machinery on the site, plus 53 buses and trucks. The guerrillas left a note that basically said, "Stop shipping local resources out

[14] Roberts and Arndt, "It's Getting Hotter in the East," pp. 78–81.

TABLE 7.1 | **DETERMINING WHICH PRODUCTS TO OUTSOURCE TO RAPIDLY DEVELOPING ECONOMIES (RDEs) AND WHICH TO KEEP AT HOME**

Selected Criteria	Maintain Home-Based Manufacturing	Relocate to RDEs
Labor Contract	Low	High
Growth of Demand in Home Market	Low	High
Size of RDE Market	Low	High
Degree of Standardization	Low	High
Intellectual Property Content	High	Low
Logistical Requirements	High	Low

SOURCE: Adapted from Arindam Bhattacharya et al., "Capturing Global Advantage: How Leading Industrial Companies Are Transforming Their Industries by Sourcing and Selling in China, India, and Other Low-Cost Countries," The Boston Consulting Group, Inc., April 2004, pp. 26–30, accessed at http://www.bcg.com.

of the state—or else." The assault on the Essar facility was the work of Naxalites—Maoist insurgents who seek the violent overthrow of the state and who despise India's landowning and business classes. The Naxalites may be a major threat to India's economic power, potentially more damaging to Indian companies, foreign investors, and the state than pollution, crumbling infrastructure, or political gridlock.[15] This is an example of the serious risks that can appear in RDEs.

The Outsourcing Decision[16]

The decision to relocate manufacturing, R&D, or customer service to RDEs is a strategic decision involving a host of economic, competitive, and environmental considerations. Clearly, some products and services are better candidates for outsourcing than others.

What Should Go? The criteria that favor relocation to RDEs include products or services with high labor content, high growth potential, large RDE markets, and standardized manufacturing or service delivery processes (Table 7.1). These criteria reflect each of the sources of global advantage we have explored. For services, the processes most easily relocated are those that have well-defined process maps or those that are rule-based (for example, the established protocol a customer service call center uses).

What Should Not Go? Products and services that should remain at home include "those for which protection of intellectual property is critical, those with extreme logistical requirements, those with very high technology content or performance requirements, and those for which customers are highly sensitive to the location of production" (for example, certain military contracts).[17] Concerns about intellectual

[15] "In India, Death to Global Business," *Business Week*; May 19, 2008, pp. 44–47.

[16] Battacharya et al., "Capturing Global Advantage," pp. 26–30.

[17] Ibid., p. 29.

FIGURE 7.3 | SPECTRUM OF INVOLVEMENT IN GLOBAL MARKETING

Low Commitment					High Commitment
Exporting	Contracting	Strategic Alliance	Joint Venture	Multidomestic Strategy	Global Strategy
Low Complexity					High Complexity

property (IP) theft is a major issue in most RDEs, particularly in China. Experts suggest that some multinational companies in China are losing the battle to protect their IP, largely because they emphasize legal tactics rather than including IP directly into their strategic and operational decisions. By carefully analyzing and selecting which products and technologies to sell in China, the best companies reduce the chance that competitors will steal their IP.

Global Market Entry Options[18]

To develop effective global marketing strategy, managers must evaluate the alternative ways that a firm can participate in international markets. The particular mode of entry should consider the level of a firm's experience overseas and the stage in the evolution of its international involvement. Figure 7.3 illustrates a spectrum of options for participating in global markets. They range from low-commitment choices, such as exporting, to highly complex levels of participation, such as global strategies. Each is examined in this section.

Exporting

An industrial firm's first encounter with an overseas market usually involves **exporting** because it requires the least commitment and risk. Goods are produced at one or two home plants, and sales are made through distributors or importing agencies in each country. Exporting is a workable entry strategy when the firm lacks the resources to make a significant commitment to the market, wants to minimize political and economic risk, or is unfamiliar with the country's market requirements and cultural norms. Exporting is the most popular global market entry option among small and medium-sized firms.[19]

Many companies begin export activities haphazardly, without carefully screening markets or options for market entry. These companies may or may not have a measure of success, and they might overlook better export opportunities. If early export

[18] The following discussion is based on Franklin R. Root, *Entry Strategy for International Markets* (Lexington, MA: D. C. Heath, 1987); and Michael R. Czinkota and Ilka A. Ronkainen, *International Marketing*, 2d ed. (Hinsdale, IL: Dryden Press, 1990).

[19] Jery Whitelock and Damd Jobber, "An Evaluation of External Factors in the Decision of UK Industrial Firms to Enter a New Non-Domestic Market: An Exploratory Study," *European Journal of Marketing* 38 (11/12, 2004): p. 1440.

efforts are unsuccessful because of poor planning, the company may be misled into abandoning exporting altogether. Formulating an export strategy based on good information and proper assessment increases the chances that the best options will be chosen, that resources will be used effectively, and that efforts will consequently be carried through to success.

The Commercial Service of the Department of Commerce has developed and maintains a network of international trade specialists in the United States to help American companies export their products and conduct business abroad. Trade specialists operate offices known as Export Assistance Centers (EACs) located in almost 100 cities in the United States and Puerto Rico that assist small and medium-sized companies. EACs are known as "one-stop shops" because they combine the trade and marketing expertise and resources of the Commercial Service along with the finance expertise and resources of the Small Business Administration (SBA) and the Export-Import Bank. Thus they provide companies with a wide array of services in one location, and they also maximize resources by working closely with state and local government as well as with private partners to offer companies a full range of expertise in international trade, marketing, and finance.[20]

Although it preserves flexibility and reduces risk, exporting may limit the future prospects for growth in the country. First, exporting involves giving up direct control of the marketing program, which makes it difficult to coordinate activities, implement strategies, and resolve conflicts with customers and channel members. George Day explains why customers may sense a lack of exporter commitment:

> In many global markets customers are loath to form long-run relationships with a company through its agents because they are unsure whether the business will continue to service the market, or will withdraw at the first sign of adversity. This problem has bedeviled U.S. firms in many countries, and only now are they living down a reputation for opportunistically participating in many countries and then withdrawing abruptly to protect short-run profits.[21]

Contracting

A somewhat more involved and complex form of international market entry is **contracting**. Included among contractual entry modes are (1) licensing and (2) management contracts.

Licensing Under a **licensing** agreement, one firm permits another to use its intellectual property in exchange for royalties or some other form of payment. The property might include trademarks, patents, technology, know-how, or company name. In short, licensing involves exporting intangible assets.

As an entry strategy, licensing requires neither capital investment nor marketing strength in foreign markets. This lets a firm test foreign markets without a major commitment of management time or capital. Because the licensee is typically a local

[20] *A Basic Guide to Exporting*, the U.S. Department of Commerce with the assistance of Unz & Co., Inc. http://www.export.gov/exportbasics/index.asp, accessed on July 18, 2008.

[21] George S. Day, *Market Driven Strategy: Processes for Creating Value* (New York: The Free Press, 1990), p. 272.

company that can serve as a buffer against government action, licensing also reduces the risk of exposure to such action. With increasing host-country regulation, licensing may enable the business marketer to enter a foreign market that is closed to either imports or direct foreign investment.

Licensing agreements do pose some limitations. First, some companies are hesitant to enter into license agreements because the licensee may become an important competitor in the future. Second, licensing agreements typically include a time limit. Although terms may be extended once after the initial agreement, many foreign governments do not readily permit additional extensions. Third, a firm has less control over a licensee than over its own exporting or manufacturing abroad.

Management Contracts To expand their overseas operations, many firms have turned to management contracts. In a **management contract** the industrial firm assembles a package of skills that provide an integrated service to the client. When equity participation, either full ownership or a joint venture, is not feasible or is not permitted by a foreign government, a management contract provides a way to participate in a venture. Management contracts have been used effectively in the service sector in such areas as computer services, hotel management, and food services. Michael Czinkota and Ilka Ronkainen point out that management contracts can "provide organizational skills not available locally, expertise that is immediately available rather than built up, and management assistance in the form of support services that would be difficult and costly to replicate locally."[22]

One specialized form of a management contract is a turnkey operation. This arrangement permits a client to acquire a complete operational system, together with the skills needed to maintain and operate the system without assistance. Once the package agreement is online, the client owns, controls, and operates the system. Management contracts allow firms to commercialize their superior skills (know-how) by participating in the international market.

Other contractual modes of entry have grown in prominence in recent years. **Contract manufacturing** involves sourcing a product from a producer located in a foreign country for sale there or in other countries. Here assistance might be required to ensure that the product meets the desired quality standards. Contract manufacturing is most appropriate when the local market lacks sufficient potential to justify a direct investment, export entry is blocked, and a quality licensee is not available.

Strategic Global Alliances (SGA)

A **strategic global alliance** (SGA) is a business relationship established by two or more companies to cooperate out of mutual need and to share risk in achieving a common objective. This strategy works well for market entry or to shore up existing weaknesses and increase competitive strengths. A U.S. firm with a reliable supply base might partner with a Japanese importer that has the established distribution channels and customer base in Japan to form a strong entry into the Japanese market.[23] Alliances

[22] Czinkota and Ronkainen, *International Marketing*, p. 493.

[23] Laura Delaney, "Expanding Your Business Globally," *MultiLingual*, 19 (April, 2008): pp. 10–11.

offer a number of benefits, such as access to markets or technology, economies of scale in manufacturing and marketing, and the sharing of risk among partners (see Chapter 4).

Although offering potential, global strategic alliances pose a special management challenge. Among the stumbling blocks are these:[24]

- Partners are organized quite differently for making marketing and product design decisions, creating *problems in coordination and trust*.
- Partners that combine the best set of skills in one country may be poorly equipped to support each other in other countries, leading to *problems in implementing alliances on a global scale*.
- The quick pace of technological change often guarantees that the most attractive partner today may not be the most attractive partner tomorrow, leading to *problems in maintaining alliances over time*.

Jeffrey Dyer and his colleagues conducted an in-depth study of 200 corporations and their 1,572 alliances and found that, on average, the top 500 global companies each participate in 60 major strategic alliances.[25] Fraught with risk, almost half of these alliances fail. Recall from Chapter 4 that firms that excel at generating value from alliances have a dedicated *strategic-alliance function*. A dedicated function acts as a focal point for learning and for leveraging feedback from prior and ongoing alliances. The alliance function ensures that metrics are created and applied to monitor the performance of all of their alliances, domestic and global.

Joint Ventures

In pursuing international entry options, a corporation confronts a wide variety of ownership choices, ranging from 100 percent ownership to a minority interest. Frequently, full ownership may be a desirable, but not essential, prerequisite for success. Thus a joint venture becomes feasible. The **joint venture** involves a joint-ownership arrangement (between, for example, a U.S. firm and one in the host country) to produce and/or market goods in a foreign market. In contrast to a strategic alliance, a joint venture creates a new firm. Some joint ventures are structured so that each partner holds an equal share; in others, one partner has a majority stake. The contributions of partners can also vary widely and may include financial resources, technology, sales organizations, know-how, or plant and equipment. Representing a successful relationship is the 50-50 joint venture between Xerox Corporation and Tokyo-based Fuji Photo Film Company. Through the joint venture, Xerox gained a presence in the Japanese market, learned valuable quality management skills that improved its products, and developed a keen understanding of important Japanese

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[24] Thomas J. Kosnik, "Stumbling Blocks to Global Strategic Alliances," *Systems Integration Age*, October 1988, pp. 31–39. See also Eric Rule and Shawn Keon, "Competencies of High-Performing Strategic Alliances," *Strategy & Leadership*, 27 (September–October 1998): pp. 36–37.

[25] Jeffrey Dyer, Prashant Kale, and Harbir Singh, "*How To Make Strategic Alliances Work*," *MIT Sloan Management Review* 42 (2001): pp. 37–43.

Ethical Business Marketing

The Bribery Dilemma in Global Markets

Global marketing managers often face a dilemma when home-country regulations clash with foreign business practices. A good case in point is the aerospace industry. U.S. government policies about bribery by private companies have affected aircraft sales in some countries. The U.S. Foreign Corrupt Practices Act (FCPA) of 1977 prohibits payments by U.S. companies and individuals, including exporters of aircraft, to obtain or retain business and has had a major effect on how U.S. companies conduct global business. Until 1999, European laws on transnational bribery were *nonexistent*. Accordingly, some European aerospace manufacturers were widely alleged to have bribed foreign public officials to win sales at the expense of their U.S. competitors.

Currently, the U.S. government and the Organization for Economic Cooperation and Development (OECD) Working Group on Bribery are trying to remove the major obstacles to implementation of the OECD's antibribery convention. The U.S. government is also seeking to strengthen OECD and other multilateral and bilateral disciplines related to bribery and corruption of public officials.

Interestingly, recent press reports allege that European aerospace companies are among the business groups pressing their governments to *relax antibribery rules*. To the extent that bribery and anticorruption disciplines and enforcement in Europe remain weaker than under the U.S. Foreign Corrupt Practices Act, European aerospace companies will enjoy a competitive advantage in sales competitions to foreign governments or government-controlled airlines.

SOURCE: Joseph H. Bogosian, "Global Market Factors Affecting U.S. Jet Producers," Federal Document Clearing House Congressional Testimony, Capital Hill Hearing Testimony, House Transportation and Infrastructure, May 25, 2005.

rivals such as Canon, Inc., and Ricoh Company. This joint venture has thrived for more than three decades.[26]

Advantages Joint ventures offer a number of advantages. First, joint ventures may open up market opportunities that neither partner could pursue alone. Kenichi Ohmae explains the logic:

> If you run a pharmaceutical company with a good drug to distribute in Japan but have no sales force to do it, find someone in Japan who also has a good product but no sales force in your country. You get double the profit by putting two strong drugs through your fixed cost sales network, and so does your new ally. Why duplicate such high expenses all down the line? . . . Why not join forces to maximize contribution to each other's fixed costs?[27]

Second, joint ventures may provide for better relationships with local organizations (for example, local authorities) and with customers. By being attuned to the host country's culture and environment, the local partner may enable the joint venture to respond to changing market needs, be more aware of cultural sensitivities, and be less vulnerable to political risk.

[26] David P. Hamilton, "United It Stands—Fuji Xerox Is a Rarity in World Business: A Joint Venture That Works," *The Wall Street Journal*, September 26, 1996, p. R19.

[27] Kenichi Ohmae, "The Global Logic of Strategic Alliances," *Harvard Business Review* 67 (March–April 1989): p. 147.

The Downside Problems can arise in maintaining joint-venture relationships. A study suggests that perhaps more than 50 percent of joint ventures are disbanded or fall short of expectations.[28] The reasons involve problems with disclosing sensitive information, disagreements over how profits are to be shared, clashes over management style, and differing perceptions on strategy. Mihir Desai, Fritz Foley, and James Hines studied more than 3,000 American global companies and report that joint ventures appear to be falling out of favor.[29] Why? Increasing forces of globalization such as fragmented production processes make the decision to *not* collaborate pay off. If a firm is considering a joint venture, Desai, Foley, and Hines suggest that they first isolate the reasons for considering a joint venture and make sure that "they can't buy the required services or that knowledge through an arms-length contract that doesn't require sharing ownership. . . . Second, explicitly lay out expectations for the partners in legal and informal documents prior to the creation of the entity so that it's clear what each party is providing. Third, try out partners without setting up a joint venture by conducting business with them in some way. . . . Finally, specify simple exit provisions at the onset and then don't be afraid to walk and go it alone."

Choosing a Mode of Entry

For an initial move into the global market, the full range of entry modes, presented earlier, may be considered—from exporting, licensing, and contract manufacturing to joint ventures and wholly owned subsidiaries. In high-risk markets, firms can reduce their equity exposure by adopting low-commitment modes such as licensing, contract manufacturing, or joint ventures with a minority share. Although nonequity modes of entry—such as licensing or contract manufacturing—involve minimal risk and commitment, they may not provide the desired level of control or financial performance. Joint ventures and wholly owned subsidiaries provide a greater degree of control over operations and greater potential returns.

Once operations are established in a number of foreign markets, the focus often shifts away from foreign opportunity assessment to local market development in each country. This shift might be prompted by the need to respond to local competitors or the desire to more effectively penetrate the local market. Planning and strategy assume a country-by-country focus.

Multidomestic versus Global Strategies

Business marketing executives are under increasing pressure to develop globally integrated strategies to achieve efficiency and rationalization across their geographically dispersed subsidiaries. As such, the challenge of internationalizing the firm is not in providing a homogeneous offering across markets, but rather in finding the best balance between local adaptation (a multidomestic strategy) and global optimization, where one integrated strategy is applied globally.[30] Multinational firms have traditionally managed

[28] Arvind Parkhe, "Building Trust in International Alliances," *Journal of World Business* 33 (Winter 1998): pp. 417–437.

[29] Mihir A. Desai, C. Fritz Foley, and James Hines, "The Costs of Shared Ownership: Evidence From International Joint Ventures," *Journal of Financial Economics* 73 (2004): pp. 323–374.

[30] G. Tomas M. Hult, S. Tamer Cavusgil, Seyda Deligonul, Tunga Kiyak, and Katarina Lagerström, "What Drives Performance in Globally Focused Marketing Organizations? A Three-Country Study," *Journal of International Marketing* 15 (2007): pp. 58–85.

B2B Top Performers

General Electric Aircraft Engines: Global Strategy Means Help Your Customers

General Electric's (GE's) Aircraft Engine Division must maintain a very large global presence, as it markets jet engines to almost every airline in the world. Although most large airlines purchase their aircraft from either Boeing or Airbus, the individual airline makes the choice as to the jet engine manufacturer. Thus, Singapore Air can choose between Pratt & Whitney, Rolls-Royce, or GE. The stakes are high in the industry, given that a particular airline may purchase hundreds of aircraft over a relatively short period of time. The challenges are significant for the jet engine manufacturers: They must have a solid relationship with aircraft manufacturers like Boeing and Airbus, but just as important, they need to expend considerable effort to woo and then keep the airlines as customers. Making GE's job tougher are the global aspects of these relationships. First, Boeing is an American firm and Airbus is a joint venture of firms from several European Union countries. Several other airframe manufacturers are located in Brazil, Canada, and China—and these manufacturers cater to the smaller, regional airlines that fly 50- to 100-seat jets. Even more daunting is the fact that there are close to 80 airlines located all over the world, only a handful of which are U.S.-based.

A major element in GE's marketing strategy is to offer assistance to global customers in creative ways. For example, one new customer is a Chinese airframe manufacturer that had not yet built its first airplane when GE began interacting with company executives! The firm's first airplane would not roll off the assembly line until 2008, yet GE began building relationship ties with this company in 2003—in a subtle way. Because the Chinese airframe manufacturer is a brand-new company, key managers lacked experience in all the key aspects of business-to-business marketing. GE's response: help educate the airframe manufacturer's sales and marketing personnel in all facets of business-to-business marketing. One element of this approach was to invite the entire marketing and sales team to GE's U.S. headquarters for a two-week seminar on B2B marketing. Follow-up would take place in China at a later date to review assignments and projects given to the participants at the first seminar. GE will also work hand-in-hand with the Chinese sales team as they begin making sales calls on the airlines that are potential buyers of their aircraft. GE's efforts illustrate the challenges of selling in rapidly growing global markets where potential customers are rather inexperienced in many facets of business. The challenges for GE are complex, as it must deal with the cultural and business process issues of its Chinese customer, as well as those of all the airlines around the world to whom the Chinese firm will sell the airplanes.

operations outside their home country with **multidomestic strategies** that permit individual subsidiaries to compete independently in their home-country markets. The multinational headquarters coordinates marketing policies and financial controls and may centralize R&D and some support activities. Each subsidiary, however, resembles a strategic business unit that is expected to contribute earnings and growth to the organization. The firm can manage its international activities like a portfolio. Examples of multidomestic industries include most types of retailing, construction, metal fabrication, and many services.

In contrast, a **global strategy** seeks competitive advantage with strategic choices that are highly integrated across countries. For example, features of a global strategy might include a standardized core product that requires minimal local adaptation and that is targeted on foreign-country markets chosen on the basis of their contribution to globalization benefits. Prominent examples of global industries are automobiles, commercial aircraft, consumer electronics, and many categories of industrial machinery.

Major volume and market-share advantages might be sought by directing attention to the United States, Europe, and Japan, as well as to the rapidly developing economies of China and India.

Source of Advantage: Multidomestic versus Global

When downstream activities (those tied directly to the buyer, such as sales and customer service) are important to competitive advantage, a multidomestic pattern of international competition is common. In **multidomestic industries**, firms pursue separate strategies in each of their foreign markets—competition in each country is essentially independent of competition in other countries (for example, Alcoa in the aluminum industry, Honeywell in the controls industry).

Global competition is more common in industries in which upstream and support activities (such as technology development and operations) are vital to competitive advantage. A **global industry** is one in which a firm's competitive position in one country is significantly influenced by its position in other countries (for example, Intel in the semiconductor industry, Boeing in the commercial aircraft industry).

In his book, *Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter*, Pankaj Ghemawat suggests that most types of economic activity that can be conducted either within or across borders are still quite localized.[31] He argues that firms must be very careful in deciding between a multidomestic or global strategy because the "internationalization of numerous key economic activities, including fixed capital investment, telephone and Internet traffic, tourism, patents, stock investments, etc., remains at around only 10 percent." In his view, national borders are still significant and effective international strategies need to take into account both cross-border similarities and critical differences.[32] In the current global business environment where security is a major issue, intellectual property rights are in question, there are increased threats of economic protectionism, and a number of countries are reasserting national sovereignty, the decision to follow a purely global strategy must be carefully scrutinized.

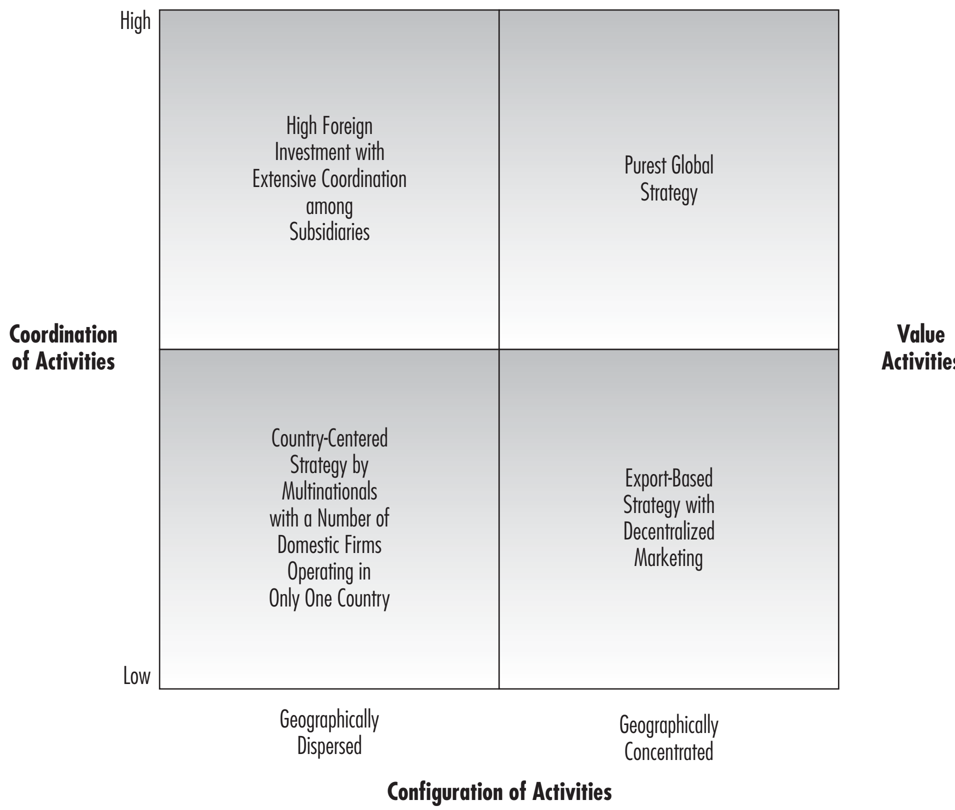
Coordination and Configuration Further insights into international strategy can be gained by examining two dimensions of competition in the global market: configuration and coordination. **Configuration** centers on where each activity is performed, including the number of locations. Options range from concentrated (for example, one production plant serving the world) to dispersed (for example, a plant in each country—each with a complete value chain from operations to marketing, sales, and customer service). By concentrating an activity such as production in a central location, firms can gain economies of scale or speed learning. Alternatively, dispersing activities to a number of locations may minimize transportation and storage costs, tailor activities to local market differences, or facilitate learning about market conditions in a country.

Coordination refers to how similar activities performed in various countries are coordinated or coupled with each other. If, for example, a firm has three plants—one in the United States, one in England, and one in China—how do the activities in

[31] Pankaj Ghemawat, *Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter* (Boston: Harvard Business School Press, 2007), pp. 9–32.

[32] Ibid., p. 22.

FIGURE 7.4 | **TYPES OF INTERNATIONAL STRATEGY**



SOURCE: From "Changing Patterns of International Competition" by Michael Porter. Copyright © 1986, by The Regents of the University of California. Reprinted from the *California Management Review*, Vol. 28, No. 2. By permission of The Regents.

these plants relate to one another? Numerous coordination options exist because of the many possible levels of coordination and the many ways an activity can be performed. For example, a firm operating three plants could, at one extreme, allow each plant to operate autonomously (unique production processes, unique products). At the other extreme, the three plants could be closely coordinated, utilizing a common information system and producing products with identical features. Dow Chemical, for example, uses an enterprise software system that allows it to shift purchasing, manufacturing, and distribution functions worldwide in response to changing patterns of supply and demand.[33]

Types of International Strategy

Figure 7.4 portrays some of the possible variations in international strategy. Observe that the purest global strategy concentrates as many activities as possible in one country,

[33] Thomas H. Davenport, "Putting the Enterprise into the Enterprise System," *Harvard Business Review*, 76 (July–August 1998): pp. 121–131.

serves the world market from this home base, and closely coordinates activities that must be performed near the buyer (for example, service). Caterpillar, for example, views its battle with the formidable Japanese competitor Komatsu in global terms. As well as using advanced manufacturing systems that allow it to fully exploit the economies of scale from its worldwide sales volume, Caterpillar also carefully coordinates activities in its global dealer network. This integrated global strategy gives Caterpillar a competitive advantage in cost and effectiveness.[34] By serving the world market from its home base in the United States and by closely coordinating sales and service with customers around the world, Boeing also aptly illustrates a pure global strategy. Airbus—the European aerospace consortium—is a strong and clever rival that competes aggressively with Boeing for orders at airlines around the world.[35]

A Global Battle for the PC Market Other interesting global face-offs involve Dell, Inc., versus Lenovo Group, Inc. Dell is now pursuing an integrated global strategy and challenging Lenovo, China's largest producer in its home market.[36] Meanwhile, Lenovo gained worldwide reach when it purchased IBM's PC division. In turn, Hewlett-Packard remains a formidable rival for both.

Other Paths Figure 7.4 illustrates other international strategy patterns. Canon, for example, concentrates manufacturing and support activities in Japan but gives local marketing subsidiaries significant latitude in each region of the world. Thus, Canon pursues an export-based strategy. In contrast, Xerox concentrates some activities and disperses others. Coordination, however, is extremely high: The Xerox brand, marketing approach, and servicing strategy are standardized worldwide. Michael Porter notes:

> Global strategy has often been characterized as a choice between worldwide standardization and local tailoring, or as the tension between the economic imperative (large-scale efficient facilities) and the political imperative (local content, local production). . . . A firm's choice of international strategy involves a search for competitive advantage from configuration/coordination throughout the value chain.[37]

A Strategic Framework

Recall that companies may pursue multidomestic strategies or global strategies. The need for a global strategy is determined by the nature of international competition in a particular industry. On the one hand, many industries are *multidomestic*, and competition takes place on a country-by-country basis with few linkages across operating units (for example, construction and many service offerings). Multidomestic industries do not need a global strategy because the focus should be on developing a series of distinct domestic strategies.

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[34] Donald V. Fites, "Make Your Dealers Your Partners," *Harvard Business Review* 74 (March–April 1996): pp. 84–95.

[35] Alex Taylor III, "Blue Skies for Airbus," *Fortune*, August 2, 1999, pp. 102–108.

[36] Evan Ramstad and Gary McWilliams, "For Dell, Success in China Tells Tale of Maturing Market," *The Wall Street Journal*, July 5, 2005, pp. A1, A8.

[37] Michael E. Porter, "Changing Patterns of International Competition," *California Management Review* 28 (Winter 1986): p. 25.

FIGURE 7.5 | A GENERAL FRAMEWORK FOR GLOBAL STRATEGY

SOURCE: Adapted from Michael E. Porter, "Competing across Locations: Enhancing Competitive Advantage through a Global Strategy," in Michael E. Porter, ed., *On Competition* (Boston: Harvard Business School Press, 1998), pp. 309–350.

Multidomestic Strategy[38] Pankjak Ghemawat provocatively argues that the world is not flat but semiglobalized, and that borders still exist and they matter when it comes to designing strategy. However, instead of focusing exclusively on the physical boundaries, he suggests that managers look at differences between countries and regions in terms of a framework that includes the following dimensions:

1. Cultural
2. Administrative/Political
3. Geographic
4. Economic

By analyzing these dimensions, a strategist can illuminate country-to-country differences, understand the liability of "foreignness," identify and evaluate foreign competitors, and discount market sizes by distance. Following this assessment, the business-to-business manager is better equipped to develop a responsive strategy for each country.

Global Strategy For truly global industries, a firm's position in one country significantly affects its position elsewhere, so it needs a *global* strategy. Competing across countries through an integrated global strategy requires a series of choices that are highlighted in Figure 7.5.

[38] Ghemawat, *Redefining Global Strategy*, pp. 19–32.

Global Strategy[39]

Build on a Unique Competitive Position

A business marketing firm should globalize first in those business and product lines where it has unique advantages. To achieve international competitive success, a firm must enjoy a meaningful advantage on either cost or differentiation. To this end, the firm must be able to perform activities at a lower cost than its rivals or perform activities in a unique way that creates customer value and supports a premium price. For example, Denmark's Novo-Nordisk Group (Novo) is the world's leading exporter of insulin and industrial enzymes. By pioneering high-purity insulins and advancing insulin delivery technology, Novo achieved a level of differentiation that gave it a strong competitive position in the health-care market in the United States, Europe, and Japan.

Emphasize a Consistent Positioning Strategy

Rather than modifying the firm's product and service offerings from country to country, "a global strategy requires a patient, long-term campaign to enter every significant foreign market while maintaining and leveraging the company's unique strategic positioning."[40] One of the greatest barriers to the success of firms in smaller countries is the perceived need to serve all customer segments and to offer an expanded product assortment to capture the limited market potential. However, by maintaining a consistent position, a firm reinforces its distinctive strategy and keeps its strategic attention focused on the much larger international opportunity.

Establish a Clear Home Base for Each Distinct Business

Although the location of corporate headquarters is less important and may reflect historical factors, a firm must develop a clear home base for competing in each of its strategically distinct businesses. "The **home base** for a business is the location where strategy is set, core product and process technology is created and maintained, and a critical mass of sophisticated production and service activities reside."[41] For example, Japan, Honda's home base for both motorcycles and automobiles, is where 95 percent of its R&D employees are located and all of its core engine research is conducted. For Hewlett-Packard (H-P), the United States hosts 77 percent of the physical space dedicated to manufacturing, R&D, and administration but only 43 percent of H-P's physical space dedicated to marketing. At H-P's home base, R&D managers with specialized expertise are designated worldwide experts; they transfer their knowledge either electronically or through periodic visits to subsidiaries around the world. Regional subsidiaries take responsibility for some process-oriented R&D activities and for local marketing.

The home base should be located in a country or region with the most favorable access to required resources (inputs) and supporting industries (for example, specialized suppliers). Such a location provides the best environment for capturing productivity and innovation benefits. Honda as well as H-P each benefit from a strong supplier network that supports

[39] This section is based on Michael E. Porter, "Competing across Locations: Enhancing Competitive Advantage through a Global Strategy," in Michael E. Porter, ed., *On Competition* (Boston: Harvard Business School Press, 1998), pp. 309–350. See also Shaoming Zou and S. Tamer Cavusgil, "The GMS: A Broad Conceptualization of Global Marketing Strategy and Its Effect on Firm Performance," *Journal of Marketing* 66 (October 2002): pp. 40–56.

[40] Porter, "Competing Across Locations," p. 331.

[41] Ibid., p. 332.

each of its principal businesses. The home base should also serve as the central integrating point for activities and have clear worldwide responsibility for the business unit.

Leverage Product-Line Home Bases at Different Locations

As a firm's product line broadens and diversifies, different countries may best provide the home bases for some product lines. Responsibility for leading a particular product line should be assigned to the country with the best locational advantages. Each subsidiary, then, specializes in products for which it has the most favorable advantages (for example, specialized suppliers) and serves customers worldwide. For example, H-P locates many product-line home bases outside the United States, such as its line of compact inkjet printers, which is based in Singapore. In turn, Honda has begun to create a product-line home base for Accord station wagons in the United States. The model was conceived, designed, and developed through the joint efforts of Honda's California and Ohio R&D facilities.

Disperse Activities to Extend Home-Base Advantages

Although the home base is where core activities are concentrated, other activities can be dispersed to extend the firm's competitive position. Potential opportunities should be examined in three areas:

- *Capturing competitive advantages in purchasing.* Inputs that are not central to the innovation process, such as raw materials or general-purpose component parts, must be purchased from the most cost-effective location.
- *Securing or improving market access.* By locating selected activities near the market, a firm demonstrates commitment to foreign customers, responds to actual or threatened government mandates, and may be better equipped to tailor offerings to local preferences. For example, Honda has invested more than $2 billion in facilities in the United States. Likewise, a host of firms, like Honeywell, GE, and Intel, have made large investments in China and India.
- *Selectively tapping competitive advantages at other locations.* To improve capabilities in important skills or technologies at home, global competitors can locate selected activities in centers of innovation in other countries. The goal here is to supplement, but not replace, the home base. To illustrate, Honda gains exposure to California's styling expertise and Germany's high-performance design competencies through small, local, company-financed design centers that transfer knowledge back to the Japanese home base.

Coordinate and Integrate Dispersed Activities

Coordination across geographically dispersed locations raises formidable challenges, among them those of language and cultural differences and of aligning the reward systems for individual managers and subsidiaries with the goals of the global enterprise as a whole. However, successful global competitors achieve unified action by

1. Establishing a clear global strategy that is understood by organizational members across countries;

TABLE 7.2 | KEY FACTORS FOR MANAGING RISK IN EMERGING MARKETS

- Understand the individual markets: failing to do so is the fastest route to trouble.
- Use local expertise: there is no substitute for local knowledge.
- Find a partner: strong local relationships are critical.
- Understand the culture: taking a consistent approach in all markets ignores cultural differences with wildly different effects.
- Understand local laws, regulations and ethics: don't assume they are the same as in your home market.
- Be cautious and vigilant; pay attention to details, question, and be skeptical.
- Communicate: open two-way communication is vital, and "gaps" are a crucial cause of misunderstandings.
- Be present: relationships and understanding do not happen remotely.
- Be flexible in response to changing conditions: the pace of change can be dramatic.
- Think long-term: put capacity and resources in place to support the investment over time.

SOURCE: From *Risk Management in Emerging Markets*, p. 6–7. Ernst and Young, 2007.

2. Developing information and accounting systems that are consistent on a worldwide basis, thereby facilitating operational coordination;
3. Encouraging personal relationships and the transfer of learning among subsidiary managers across locations;
4. Relying on carefully designed incentive systems that weigh overall contribution to the entire enterprise in addition to subsidiary performance.

Managing Risk in Emerging Markets

Expansion into new global markets or the establishment of manufacturing activities in low-labor-cost markets is not without risk, and the savvy business marketer will carefully assess the risks associated with working in new, global environments (see Table 7.2). Despite the huge market, low-cost labor, and reduced investment cost, there are still many pitfalls associated with both selling and manufacturing in China. These potential threats include: fragmented markets, limited intellectual property protection, an unstructured legal system, the lack of standardized accounting practices, and heavy investment of government in every facet of business.[42]

Summary

Rapidly developing economies (RDEs), like China and India, present a host of opportunities and a special set of challenges for business-to-business firms. Companies that decisively and intelligently pursue RDE strategies can secure three compelling forms of competitive advantage: significantly lower costs; direct access to the fastest-growing markets; and the capabilities for improving R&D, addressing unmet customer needs,

[42] Chia Chia Lin and Jason Lin, "Capitalism in Contemporary China: Globalization Strategies, Opportunities, Threats, and Cultural Issues," *Journal of Global Business Issues*, 2 (Winter 2008): pp. 31–40

and increasing overall business effectiveness. The migration of sourcing, manufacturing, R&D, and customer service operations from developed economies to RDEs will continue to accelerate in many industry sectors. However, some products and services are better candidates for relocation or outsourcing than others. For example, those with high labor content and large RDE markets represent solid outsourcing candidates, whereas those for which the protection of intellectual property is critical should stay at home.

Once a business marketing firm decides to sell its products in a particular country, it must select an entry strategy. The range of options includes exporting, contractual entry modes (for example, licensing), strategic alliances, and joint ventures. A more elaborate form of participation is represented by multinational firms that use multidomestic strategies. Here a separate strategy might be pursued in each country served. The most advanced level of participation in international markets is provided by firms that use a global strategy. Such firms seek competitive advantage by pursuing strategies that are highly interdependent across countries. Global competition tends to be more common in industries in which primary activities, like R&D and manufacturing, are vital to competitive advantage.

A global strategy must begin with a unique competitive position that offers a clear competitive advantage. Providing the best odds of global competitive success are businesses and product lines where companies have the most unique advantages. The home base for a business is the location where strategy is set, and the home base for some product lines may be best positioned in other countries. Although core activities are located at the home base, other activities can be dispersed to strengthen the company's competitive position. Successful global competitors demonstrate special capabilities in coordinating and integrating dispersed activities. Coordination ensures clear positioning and a well-understood concept of global strategy among subsidiary managers across countries. Successful global marketers understand the key risks associated with operating in the global environment, and they take steps to mitigate these risks through their strategic approach to different global markets. To create effective global strategies and capture important market opportunities, business-to-business firms must develop a deep understanding of local markets and the special competitive and environmental forces that will drive performance.

Discussion Questions

1. Evaluate this statement: Many business-to-business firms need to fill market gaps at home with new products and services and also follow selected customers to their new locations in rapidly developing economies like India or China.
2. Many observers argue the cost advantage that rapidly developing economies enjoy will evaporate in 5 to 10 years. Agree or disagree? Explain.
3. Describe the characteristics of products and services that would represent poor candidates for outsourcing.
4. In addition to cost advantages, describe the other ways that rapidly developing economies can contribute to competitive advantage.
5. The European aerospace consortium Airbus is a strong competitor to Boeing and is climbing toward its long-stated goal of winning 50 percent

of the over-100-seat airline market. What criteria would a customer like UPS or British Airways consider in choosing aircraft? What are the critical factors that shape competitive advantage in the aircraft market?

6. A small Michigan-based firm that produces and sells component parts to General Motors, Ford, and DaimlerChrysler wishes to extend market coverage to Europe and Japan. What type of market entry strategy would provide the best fit?
7. A major U.S. electronics firm decides the best approach to a global business strategy is to employ a multidomestic strategy. It will focus its efforts on China. Discuss some of the key threats the firm faces as it enters this market. How could it mitigate some of the risks associated with these threats?
8. A supplier of copper tubing and wire has adopted a multidomestic strategy to enter the eastern European market. What factors should it assess in these countries in order to formulate its marketing strategy in each one. Explain.
9. Why would Hewlett-Packard assign product-line responsibility to a subsidiary located outside the United States?
10. A global strategy begins with a unique competitive position that offers a clear competitive advantage. What steps can a global competitor take to ensure that the strategy is implemented in a consistent way in countries around the world?

Internet Exercise

1. General Electric (GE) sells over $5 billion worth of goods and services to Chinese customers in the business market. Go to http://www.ge.com and first identify the various GE divisions, like Healthcare, that contribute to sales volume and then identify a few products from each division that likely address important needs or priorities in China.

CASE

Schwinn: Could the Story Have Been Different?[43]

At its peak, Schwinn had more than 2,000 U.S. employees, produced hundreds of thousands of bicycles in five factories, and held 20 percent of the market. Today, however, Schwinn no longer exists as an operating company. The firm, founded in 1895, declared bankruptcy in 1992 and closed its last factory one year later. The Schwinn name is now owned by a Canada-based firm and all of the bikes are manufactured in Asia.

Harold L. Sirkin, a senior vice president at the Boston Consulting Group, argues that Schwinn's story could have been different. He outlines two alternative pathways that might have provided a happier ending to the Schwinn story.

Alternative Reality One: Aim High

Under this scenario, Schwinn decided to center on midrange and premium segments of the market, leaving low-end bicycles for competitors. However, the firm determined that it could substantially reduce costs by turning to low-cost partners in rapidly developing economies for labor-intensive parts. Schwinn interviewed hundreds of potential suppliers and locked the best ones into long-term contracts. Schwinn then reconfigured its operations to perform final assembly and quality inspection in the United States. Still, the changes forced Schwinn to make some painful choices—nearly 30 percent of the workforce was laid off. However, such moves allowed Schwinn to produce bikes at half the previous cost, maintain a significant position in the midrange bicycle market, and leverage its product design capabilities to build a strong position for its brand in the high-end market. As a result, Schwinn is extremely competitive in the U.S. market and is a major exporter of premium bikes to China and Europe. Because of this growth, Schwinn now employs twice as many people in the United States as it did before outsourcing began.

Alternative Reality Two: If You Can't Beat Them, Join Them

Schwinn went on the offensive and moved as quickly as possible to open its own factory in China. By bringing its own manufacturing techniques and by training employees in China, Schwinn was able to achieve high quality and a much lower cost. However, the decision meant that 70 percent of Schwinn's U.S. workers would lose their jobs. But Schwinn kept expanding its China operations and soon started selling bicycles in the Chinese market—not only at the low end but also to the high-end, luxury segment—leveraging its brand name. Schwinn then extended its global operations and reach by adding new facilities in eastern Europe and Brazil. The company has sold over 500,000 bikes in new markets and now has more employees in the United States than it did before deciding to expand into international markets.

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[43] Harold L. Sirkin, "Don't Be a Schwinn," *BCG/Perspectives*, The Boston Consulting Group, Inc., January 2005, accessed at http://www.bcg.com.

Discussion Question

1. By facing fierce competition from low-cost rivals, many business-to-business firms in the United States and Europe face a situation today similar to Schwinn's. What lessons can they draw from the Schwinn story? How can they strengthen their competitive position?