



PART THREE

INTERNATIONAL
STRATEGIC
MANAGEMENT

Chapter 8

STRATEGY FORMULATION AND IMPLEMENTATION

All major MNCs formulate and implement strategies that result from a careful analysis of both external and internal environments. In this process, an MNC will identify the market environment for its goods and services and then evaluate its ability and competitive advantage to capture the market. The success of this strategic planning effort will largely depend on accurate forecasting of the external environment and a realistic appraisal of internal company strengths and weaknesses. In recent years, MNCs have relied on their strategic plans to help refocus their efforts by abandoning old domestic markets and entering new global markets. This strategic global planning process has been critical in their drive to gain market share, increase profitability, and, in some cases, survive. Strategies can be formulated from any level of management, but middle management plays a key role in ensuring that decisions are put into subsequent action.

Chapter 5 addressed overall management across cultures. This chapter focuses on strategic management in the international context, and the basic steps by which a strategic plan is formulated and implemented are examined. The specific objectives of this chapter are:

- 1. DISCUSS** the meaning, needs, benefits, and approaches of the strategic planning process for today's MNCs.
- 2. UNDERSTAND** the tension between pressures for global integration and national responsiveness and the four basic options for international strategies.
- 3. IDENTIFY** the basic steps in strategic planning, including environmental scanning, internal resource analysis of the MNC's strengths and weaknesses, and goal formulation.
- 4. DESCRIBE** how an MNC implements the strategic plan, such as how it chooses a site for overseas operations.
- 5. REVIEW** the three major functions of marketing, production, and finance that are used in implementing a strategic plan.
- 6. EXPLAIN** specialized strategies appropriate for emerging markets and international new ventures.

The World of *International Management*

Big Pharma Goes Global

The pharmaceutical industry is getting a facelift. Its fastest growing market is no longer in the developed world—it's in emerging markets. Its main revenue stream is no longer "blockbuster" drugs—patents are expiring (see the accompanying chart). Even the physical makeup of the pharmaceutical industry has changed as major pharmaceutical companies have acquired other firms from related industries, including generics and biotech companies. These changes mean that pharmaceutical executives must craft a new global strategy to adapt to industry trends.

Pharmerging Markets

The Policy and Medicine website IMS Health "reported that the size of the global market for pharmaceuticals is expected to grow nearly \$300 billion over the next five years, reaching \$1.1 trillion in 2014." A majority of this growth, however, will come from emerging markets—what IMS calls "pharmerging markets." Murray Aitken, IMS's senior vice president, Healthcare Insight, states: "Patient demand for pharmaceuticals will remain robust. . . . In developed markets with publicly funded health care plans, pressure by payers to curb drug spending growth will only intensify, but that will be more than offset by the ongoing, rapid expansion of demand in the pharmerging markets." IMS estimates that pharmerging markets will grow at 14–17 percent through 2014, whereas developed markets will grow at 3–6 percent.

The profit margins in the pharmerging market, however, may be limited. Individuals with lower incomes may not be able to afford expensive medicines and many people do not have access to health insurance. Still, as the standard of living rises in emerging economies, pharmaceutical companies see potential in these markets, particularly in India.

Destination India

During 2008–2010, there was significant alliance, merger, and acquisition activity in the global pharma industry. This

included partnerships and alliances among traditional pharmaceutical companies, generic firms, and biotechnology firms.

In India alone, according to the *New York Times*, “GlaxoSmithKline formed a partnership with Dr. Reddy’s Laboratories; Pfizer tied up with Claris Lifesciences; Sanofi-Aventis took control of Shantha Biotechnics, and Bristol-Myers Squibb opened a research center in India with Biocon.” All of these were overshadowed by Abbott Laboratories’ \$3.7 billion deal to acquire Piramal’s Health-care Solutions business, one of India’s top branded generics companies.

The Burrill Report quoted Miles D. White, chairman and CEO of Abbott, who said: “Emerging markets represent one of the greatest opportunities in health care not only in pharmaceuticals but across all of our business segments. Today, emerging markets represent more than 20 percent of Abbott’s total business.” As one of the fastest growing pharmaceutical markets in the world, India “will generate nearly \$8 billion in pharmaceutical annual sales this year, a number that is expected to more than double by 2015.”

Not only is there an Indian market for pharmaceutical products, but India herself is now manufacturing drugs on a large scale and even doing research and development. G.V. Prasad, chief executive of Dr. Reddy’s Laboratories, told the *New York Times* that Indian drug makers have the “ability to handle product development on a massive scale at a low cost.” Dr. Reddy’s diabetes drug has completed Phase 3 clinical trials, the last step before seeking FDA approval.

Yet, the pharmaceutical industry in India is not without its problems. Pfizer and Sanofi-Aventis both had to recall drugs made by their respective acquired firms in India. Also, the protection of intellectual property rights is an issue. According to the *New York Times*: “Trying to change its outlaw image as a maker of illegal knock-offs, India toughened its patent laws in 2005. But dozens of intellectual property suits are still being fought between Indian and foreign firms in courts around the world. And big pharmaceutical companies still find securing protection of their intellectual property in India difficult.”

“Cost is one issue, and yes it is important, but there are two other critical factors: intellectual property and quality and safety issues,” said Panos Kalaritis, the chief

operating officer of Irix Pharmaceuticals, a Florence, S.C., contract research and manufacturing company, which competes with Indian laboratories and factories.

A former executive at GlaxoSmithKline noted that there are large short-term cost-saving gains by outsourcing to India. He asserted, however, that these gains may fall over time. Indian workers’ wages may rise substantially and shipping materials to India may become more expensive as the price of oil increases. A good manager assesses all risks from a long-term perspective; therefore, pharmaceutical executives need to take all these factors into consideration.

Patent Expiration

In addition to market growth shifting to emerging economies, the global pharmaceutical industry is facing another huge paradigm shift: patents are expiring. IMS reported that “Patent expires in the U.S. will peak in 2011 and 2012 when six of today’s ten largest products are expected to face generic competition.”

When companies lose their patent protection, they lose the ability to charge premiums for their products. These premiums are used to fund investments in research and development. At the same time, governments are putting pressure on pharmaceutical companies to cut prices. As a result of these price pressures, many pharmaceutical companies have chosen to reduce research and development and let go thousands of scientists, especially in the U.S. and the U.K.

Most pharmaceutical companies’ strategies have focused on developing and marketing blockbuster drugs targeted at major diseases. During the 1990s, firms profited from their blockbuster drugs, but now they are struggling. As their patents expire, generic competition will decrease their revenues by an estimated \$140 billion over the next five years, according to *Bloomberg BusinessWeek*. Also, their drug pipelines are not promising. *Bloomberg BusinessWeek* reported that only eight new or first-in-class drugs reached the market in 2008, half as many as in 2001.

New Strategies for New Times

Nevertheless, pharmaceutical companies have adopted different strategies which the companies hope will enable them to thrive in spite of the current challenges. Some companies, such as Pfizer, are looking to enter what is

viewed as the cutting edge of biologically derived compounds (versus those that are derived from generally “small” chemical compounds). These companies are moving into the territory in search of heftier margins and better protection from generics. Pfizer, which bought Wyeth in part to acquire biotech experience, is seeking to use biologics to improve aspects of drugs such as Rituxan, a treatment for blood cancers and rheumatoid arthritis, and Enbrel, an arthritis medicine. Roche Holding’s purchase of the entirety of biopharmaceutical company Genentech (it has held a majority stake since 1990) may have been driven by a desire to further integrate management and product development and achieve substantial cost savings. And Genzyme, one of the largest biopharma firms, has most recently entertained overtures from French drug maker Sanofi-Aventis, while GlaxoSmithKline, Johnson & Johnson, and Pfizer have also expressed interest.

Others are reemphasizing their vaccines businesses, which had been viewed as relatively low margin products with little scope for dramatic innovation that could command premium prices. At the same time, these firms are under pressure to provide greater access and cheaper prices for those vaccines, challenging their ability to depend upon these revenues. (See the In-Depth Integrative Case at the end of Part One.)

Some traditional “branded” companies are linking up with generics in order to lower costs and reach broader markets. In addition to the deals in India mentioned above, the most recent wave of integration between traditional pharma companies and generics includes Novartis’s acquisitions of German generics firm Hexal and U.S.-based Eon Labs in 2005, and its more recent purchase of the injectable generic drugs business of Austria’s Ebewe Pharma. Pfizer has expanded its licensing agreement with Indian generics maker Aurobindo and has licensed 15 injectable products from Indian generics firm Claris Lifesciences. Sanofi-Aventis has purchased a

number of South American generics companies and GSK bought a 16 percent share of its South African generics partner, Aspen Pharmacare. And Daiichi Sankyo Co, a Japanese pharma firm, bought a controlling stake in Ranbaxy, India’s largest drug maker by revenue, in 2008. This mixing of premium and low cost products was unheard of just a decade ago.

Others are diversifying into a wider range of health care products to generate more predictable income and avoid the gyrations associated with “winner take all” blockbuster drugs. For example, Merck’s mergers with Schering-Plough may have been motivated, in part, by a desire to balance the volatility of Merck’s drug portfolio with Schering-Plough’s extensive human and animal health care product line.

One company is taking a more focused approach. In 2002, Novartis CEO Daniel L. Vasella declared that “Novartis would investigate only diseases for which new drugs were desperately needed and where the genetics of the target illnesses were well understood,” according to *Bloomberg BusinessWeek*. Vasella reasoned that by concentrating on smaller, well-defined groups of patients, Novartis can develop effective drugs with fewer side effects that regulators will be more likely to approve.

Vasella’s strategy has paid off. *Bloomberg BusinessWeek* indicated that “Today, Novartis has 93 drug candidates in the pipeline, 40 percent more than three years ago, and 80 percent of Novartis’ drugs [in 2008] made it from early testing to late-stage development.” William W. George, professor of management practice at Harvard Business School and the former CEO of Medtronic, told *Bloomberg BusinessWeek* that Vasella “has the mind of a long-term strategist.”

The pharmaceutical industry certainly needs managers who are long-term strategists in order to navigate through the waves of change that it is facing today.

Drug Patent Decimation 2010

According to Prudential Equity Group’s Timothy Anderson, these companies face big losses to generics between 2010 and 2012:

Company	Drug Patents Expiring	Total Company Sales Expiring
Forest Laboratories	Namenda, Lexapro	86%
Pfizer	Aricept, Lipitor, Viagra, Detrol, Geodon	41%
AstraZeneca	Arimidex, Seroquel, Symbicort	38%
Bristol-Myers Squibb	Plavix, Avapro, Abilify	30%
GlaxoSmithKline	Advair, Avandia	23%
Eli Lilly	Zyprexa	22%
Merck	Cozaar/Hyzaar, Singulair	22%
Wyeth	Effexor, Protonix	22%
Novartis	Femara, Diovan	14%
Roche	None	None
Schering-Plough	None	None

Source: Prudential Equity Group; and Mathew Herper, “Big Pharma’s Black Hole,” *Forbes*, January 22, 2007, www.forbes.com.

Strategic management—the formulation and implementation of a strategy—is a critical function in today’s global business environment. The large pharmaceutical companies are increasingly drawn to the international markets because of their growth prospects and potential. At the same time, changes in health care markets in the U.S. and Europe, including the expiration of patents and calls for greater cost containment, are exerting pressures on traditional companies to seek alternative income streams but also to reshape their basic business models. The traditional approach to R&D and drug development, which emphasized massive investments in a few potential “blockbusters,” may be giving way to alternative strategies, including greater emphasis on what used to be considered “low margin” vaccines, which companies increasingly find provide a dependable income stream, and to Novartis’s approach which focuses on diseases for which new drugs are desperately needed and where the genetics are well understood.

This chapter will examine how multinational corporations use strategic management in their global operations. When formulated and implemented wisely, strategic management sets the course for a company’s future. It should answer two simple questions, “Where are we going?” and “How are we going to get there?” Some strategies are consistent across markets, while others must be adapted to regional situations, but in either case, a firm’s global strategy should support decision making in all major operations. In the case of large pharma companies, those questions are still being asked as the industry undergoes a dramatic transformation, much of it associated with globalization and its implications for strategy.

As you read this chapter, think of yourself as a manager in a large pharmaceutical company firm. How might you go about developing a strategic plan to capture greater market share and expand the types of products you are selling? There are some basic steps involved in creating a strategy, but first, let us take a look at what strategic management is and why it is so important.

■ Strategic Management

Strategic management is the process of determining an organization’s basic mission and long-term objectives and then implementing a plan of action for pursuing this mission and attaining these objectives. For most companies, regardless of how decentralized, the top management team is responsible for setting the strategy. Middle management has sometimes been viewed as primarily responsible for the strategic implementation process, but now companies are realizing how imperative all levels of management are to the entire process. For example, Volvo discovered that while managers do inform team members of new strategic plans, the most informed, enthusiastic, and effective managers were those who were involved in the entire process.¹

As companies go international, strategic processes take on added dimensions. A good example is provided by Citibank (a unit of Citicorp), which opened offices in China in 1902 and continued to do business there until 1949, when communists took power. However, in 1984 Citibank quietly returned, and over the last two decades the firm has been slowly increasing its presence in China.² Some ways Citibank has done this include opening new branches, expanding the employee base, and increasing stakes in local companies such as Shanghai Pudon Development Bank Co.³ The Chinese banking environment is closely regulated by the government, and Citibank’s activities are currently restricted to making local currency loans to foreign multinationals and their joint-venture partners. As a result, the bank does only about 20 percent as much business here as it does in South Korea. However, China’s admission into the World Trade Organization (WTO) is changing all of this. Under WTO provisions, local corporations, such as the personal computer maker Legend, electronic goods manufacturer Konda, consumer appliance maker Haier, and telecom service provider China Telecom, will all be able to turn to foreign banks for local currency loans. This will give Citibank a major opportunity to expand operations. Additionally, under WTO rules the bank is allowed to offer consumer

strategic management

The process of determining an organization’s basic mission and long-term objectives, then implementing a plan of action for attaining these goals.

financial services such as credit cards and home mortgages. Citibank believes that there is a large pent-up demand for credit cards, especially among businesspeople and yuppies who now carry around thick wads of currency to pay their bills and make purchases. Another opportunity Citibank sees is in the area of business-to-business (B2B) commerce. As more Chinese firms conduct commerce over the Internet, there will be an increase in Net-related financial services. Citibank has now hooked up with U.S.-based B2B site Commerce One to run its Net-based payment systems, and the bank believes that it can provide this same service for Chinese exporters. Notwithstanding the dramatic losses at Citibank as part of the global financial crisis, and the move to downsize the firm and spin off some units, Citibank remains committed to expansion in Asia. In fact Citibank plans to open 70 new retail branches in Asia and move forward with a brokerage investment in China. “We’re investing more in Asia now than at any time in our history,” said Stephen Bird, co-chief executive officer of Citi Asia Pacific.⁴

While this chapter focuses on the larger picture of strategic planning, it is important to remember that all stages of organizational change incorporate levels of strategy from planning to implementation. This includes innovative ways to improve a product to expanding to international operations.

The Growing Need for Strategic Management

One of the primary reasons that MNCs such as Citibank need strategic management is to keep track of their increasingly diversified operations in a continuously changing international environment. This need is particularly obvious when one considers the amount of foreign direct investment (FDI) that has occurred in recent years. Statistics reveal that FDI has grown three times faster than trade and four times faster than world gross domestic product (GDP).⁵ These developments are resulting in a need to coordinate and integrate diverse operations with a unified and agreed-on focus. There are many examples of firms that are doing just this.

One is Ford Motor, which has reentered the market in Thailand and has built a strong sales force to garner market share. The firm’s strategic plan here is based on offering the right combination of price and financing to a carefully identified market segment. In particular, Ford is working to keep down the monthly payments so that customers can afford a new vehicle. Despite political unrest in 2009 and 2010, Ford restated its commitment to build a \$450 million automotive assembly plant, its first wholly owned one in Thailand.⁶ Ford and its Japanese partner Mazda Motor Corp. invested about \$1.5 billion in pickup truck and passenger-car factories in Thailand. Toyota, Honda Motor Co., and General Motors Co. have also built plants in Thailand, Southeast Asia’s second-biggest economy, lured by tax incentives and demand amid a domestic population of 67 million. Automakers may produce a record 1.6 million vehicles in the country in 2010, 60 percent more than in 2009, according to Kasikorn Research.

Another example reflects the challenge managers face in shedding unprofitable businesses in order to generate capital for expansion into higher growth product and/or geographic markets. For example, several years ago General Electric Co. shed its plastics business, selling it to a Saudi Arabian company for \$11.6 billion, and it has also signaled it wanted to exit its iconic “white goods” (home appliances) business.⁷ In its place, GE is aggressively expanding its infrastructure, health care, and environmental technologies businesses, which it sees as providing better growth opportunities in emerging markets (see Chapter 3’s opening World of International Management feature). More recently, Genzyme, the large biotech company, indicated it was pursuing “strategic alternatives” for its genetic-testing, diagnostics, and pharmaceutical intermediates businesses, with potential options including a sale, spin-out, or management buyout because these businesses did not fit with its longer-term strategy.⁸ This strategy could, in part, be in preparation for an eventual sale to a larger pharmaceutical company, as a number of global firms have expressed interest in acquiring the firm.⁹

Benefits of Strategic Planning

Now that the needs for strategic planning have been explored in our discussion, what are some of the benefits? Many MNCs are convinced that strategic planning is critical to their success, and these efforts are being conducted both at the home office and in the subsidiaries. For example, one study found that 70 percent of the 56 U.S. MNC subsidiaries in Asia and Latin America had comprehensive 5- to 10-year plans.¹⁰ Others found that U.S., European, and Japanese subsidiaries in Brazil were heavily planning-driven¹¹ and that Australian manufacturing companies use planning systems that are very similar to those of U.S. manufacturing firms.¹²

Do these strategic planning efforts really pay off? To date, the evidence is mixed. Certainly, strategic planning helps an MNC to coordinate and monitor its far-flung operations and deal with political risk (see Chapter 10), competition, and currency instability.

Despite some obvious benefits, there is no definitive evidence that strategic planning in the international arena always results in higher profitability, especially when MNCs try to use home strategies across different cultures (see Chapter 6). Most studies that report favorable results were conducted at least a decade ago. Moreover, many of these findings are tempered with contingency-based recommendations. For example, one study found that when decisions were made mainly at the home office and close coordination between the subsidiary and home office was required, return on investment was negatively affected.¹³ Simply put, the home office ends up interfering with the subsidiary, and profitability suffers.

Another study found that planning intensity (the degree to which a firm carries out strategic planning) is an important variable in determining performance.¹⁴ Drawing on results from 22 German MNCs representing 71 percent of Germany's multinational enterprises, the study found that companies with only a few foreign affiliates performed best with medium planning intensity. Those firms with high planning intensity tended to exaggerate the emphasis, and profitability suffered. Companies that earned a high percentage of their total sales in overseas markets, however, did best with a high-intensity planning process and poorly with a low-intensity process. Therefore, although strategic planning usually seems to pay off, as with most other aspects of international management, the specifics of the situation will dictate the success of the process.

Approaches to Formulating and Implementing Strategy

Four common approaches to formulating and implementing strategy are (1) focusing on the economic imperative; (2) addressing the political imperative; (3) emphasizing the quality imperative; and (4) implementing an administrative coordination strategy.

Economic Imperative MNCs that focus on the **economic imperative** employ a worldwide strategy based on cost leadership, differentiation, and segmentation. Middle managers are the key to stimulating profit growth within a company, so expanding those efforts on an international level is a necessary tool to learn for today's new managers.¹⁵ Many of these companies typically sell products for which a large portion of value is added in the upstream activities of the industry's value chain. By the time the product is ready to be sold, much of its value has already been created through research and development, manufacturing, and distribution. Some of the industries in this group include automobiles, chemicals, heavy electrical systems, motorcycles, and steel. Because the product is basically homogeneous and requires no alteration to fit the needs of the specific country, management uses a worldwide strategy that is consistent on a country-to-country basis.

The strategy is also used when the product is regarded as a generic good and therefore does not have to be sold based on name brand or support service. A good example is the European PC market. Initially, this market was dominated by such

economic imperative

A worldwide strategy based on cost leadership, differentiation, and segmentation.

well-known companies as IBM, Apple, and Compaq. However, more recently, clone manufacturers have begun to gain market share. This is because the most influential reasons for buying a PC have changed. A few years ago, the main reasons were brand name, service, and support. Today, price has emerged as a major input into the purchasing decision. Customers now are much more computer literate, and they realize that many PCs offer identical quality performance. Therefore, it does not pay to purchase a high-priced name brand when a lower-priced clone will do the same things. As a result, the economic imperative dominates the strategic plans of computer manufacturers. This process has repeated in many industries as those products become commoditized.

Another economic imperative concept that has gained prominence in recent years is global sourcing, which is proving very useful in formulating and implementing strategy.¹⁶ A good example is provided by the way in which manufacturers are reaching into the supply chain and shortening the buying circle. Li & Fung, Hong Kong's largest export trading company, is one of the world's leading innovators in the development of supply chain management, and the company has managed to use its expertise to whittle costs to the bone. Instead of buying fabric and yarn from one company and letting that firm work on keeping its costs as low as possible, Li & Fung gets actively involved in managing the entire process. How does it keep costs down for orders it receives from The Limited? The chairman of the company explained the firm's economic imperative strategy this way:

We come in and look at the whole supply chain. We know The Limited is going to order 100,000 garments, but we don't know the style or the colors yet. The buyer will tell us that five weeks before delivery. The trust between us and our supply network means that we can reserve undyed yarn from the yarn supplier. I can lock up capacity at the mills for the weaving and dyeing with the promise that they'll get an order of a specified size; five weeks before delivery, we will let them know what colors we want. Then I say the same thing to the factories, "I don't know the product specs yet, but I have organized the colors and the fabric and the trim for you, and they'll be delivered to you on this date and you'll have three weeks to produce so many garments."

I've certainly made life harder for myself now. It would be easier to let the factories worry about securing their own fabric and trim. But then the order would take three months, not five weeks. So to shrink the delivery cycle, I go upstream to organize production. And the shorter production time lets the retailer hold off before having to commit to a fashion trend. It's all about flexibility, response time, small production runs, small minimum-order quantities, and the ability to shift direction as the trends move.¹⁷

political imperative

Strategic formulation and implementation utilizing strategies that are country-responsive and designed to protect local market niches.

Political Imperative MNCs using the **political imperative** approach to strategic planning are country-responsive; their approach is designed to protect local market niches. The nearby International Management in Action, "Point/Counterpoint," demonstrates this political imperative. The products sold by MNCs often have a large portion of their value added in the downstream activities of the value chain. Industries such as insurance and consumer packaged goods are examples—the success of the product or service generally depends heavily on marketing, sales, and service. Typically, these industries use a country-centered or multi-domestic strategy.

A good example of a country-centered strategy is provided by Thums Up, a local drink that Coca-Cola bought from an Indian bottler in 1993. This drink was created back in the 1970s, shortly after Coca-Cola pulled up stakes and left India. In the ensuing two decades the drink, which is similar in taste to Coke, made major inroads in the Indian market. But when Coca-Cola returned and bought the company, it decided to put Thums Up on the back burner and began pushing its own soft drink. However, local buyers were not interested. They continued to buy Thums Up, and Coca-Cola finally relented. Today Thums Up is the firm's biggest seller and fastest-growing brand in India, and the company spends more money on this soft drink than it does on any of its other product offerings, including Coke.¹⁸ As one observer noted, "In India the 'Real Thing' for Coca-Cola is its Thums Up brand." Recently, Coke has encountered challenges in India, as described in the Brief Integrative Case at the end of Part Two, but the acknowledgment that Thums Up was the

Point/Counterpoint: Boeing vs. Airbus

A good example of the political imperative in action is the Boeing-Airbus dispute. The two largest aircraft manufacturers in the world have been engaged in a longstanding dispute over the degree to which government subsidies distort trade and contribute to unfair trade between the U.S. and EU. Specifically, Boeing has alleged that as a result of longstanding government support, Airbus, and its parent, European Aeronautic Defense and Space Company, or EADS, have gained unfair advantage for civilian and military contracts in the U.S. and around the world. The World Trade Organization ruled in June of 2010 that Airbus had received billions of dollars in European government subsidies for its aircraft and the practice must end. The case dates back to 2004, when the U.S. Trade Representative filed a complaint with the WTO alleging Airbus had received \$200 billion worth of launch aid from the governments of France, Germany, the United Kingdom, and Spain. The U.S. alleged the aid allowed Airbus to win more than half the commercial airplane market from Boeing which for years had been the leading manufacturer of passenger jets in the world.

Airbus maintains that the aid it has received from various European governments is much less than Boeing and the U.S. government allege and has all been consistent with international trade rules. It also argues that Boeing has been a large recipient of U.S. federal and state government subsidization: \$16 billion in R&D subsidies, almost \$6 billion in local and state government subsidies, more than \$2 billion in export-related tax subsidies, and even \$2 billion in foreign subsidies in exchange for moving operations and jobs overseas. And the EU has brought its own case before the W.T.O., claiming that Boeing has benefited from more

than \$20 billion in subsidies since the 1980s from its military business and tax breaks.

This dispute has played out in the context of a number of large commercial and defense contracts. In June 2010, Boeing and EADS submitted proposals to supply the Air Force's next-generation aerial-refueling tanker. The service plans to buy 179 modified commercial transports in the first phase of a multi-decade program that eventually will replace all 509 tankers in the aerial-refueling fleet. Nine out of ten tankers in the current fleet are KC-135 jets similar to the old Boeing 707 airliner that were built during the Eisenhower and Kennedy administrations. The tanker program has been tangled in controversy since 2002, when the Pentagon planned to lease a fleet of new tankers from Boeing, a plan that was later revoked. In 2008, the Defense Department awarded a contract to Northrop Grumman and EADS to build the fleet using the Airbus A330 jetliner. Boeing successfully protested that award and the Pentagon restarted the process again in 2009. Boeing officials have said they fear the subsidies could allow EADS to undercut their price in the tanker competition even though the A300-200 is larger than Boeing's plane. Some of Boeing's backers in Congress have called on the Pentagon to add the estimated value of the subsidies to the EADS bid price. Other members of Congress in whose districts EADS now employs thousands of workers objected, saying no such premium is warranted.

Will the U.S. government prevail in its efforts to help Boeing? Will Airbus be able to make further gains in the U.S. market? What role will political intervention play? These questions are yet to be answered. In the meantime, the two firms continue to compete.

best vehicle for expansion appears to have been validated: At the end of 2009, the company's sales volume grew more than 30 percent and it turned a profit for the first time since it returned to the country in 1993 after a 16-year hiatus, partly via a strategy of seeking to penetrate rural consumers, something Thums Up is uniquely qualified to advance.¹⁹

Quality Imperative A **quality imperative** takes two interdependent paths: (1) a change in attitudes and a raising of expectation for service quality and (2) the implementation of management practices that are designed to make quality improvement an ongoing process.²⁰ Commonly called *total quality management*, or simply TQM, the approach takes a wide number of forms, including cross-training personnel to do the jobs of all members in their work group, process re-engineering designed to help identify and eliminate redundant tasks and wasteful effort, and reward systems designed to reinforce quality performance.

TQM covers the full gamut, from strategy formulation to implementation. TQM can be summarized as follows:

1. Quality is operationalized by meeting or exceeding customer expectations. Customers include not only the buyer or external user of the product or service but also the support personnel both inside and outside the organization who are associated with the good or service.

quality imperative

Strategic formulation and implementation utilizing strategies of total quality management to meet or exceed customers' expectations and continuously improve products or services.

2. The quality strategy is formulated at the top management level and is diffused throughout the organization. From top executives to hourly employees, everyone operates under a TQM strategy of delivering quality products or services to internal and external customers. Middle managers will better understand and implement these strategies if they are a part of the process.
3. TQM techniques range from traditional inspection and statistical quality control to cutting-edge human resource management techniques, such as self-managing teams and empowerment.²¹

Many MNCs make quality a major part of their overall strategy, because they have learned that this is the way to increase market share and profitability. Take the game console industry, for example. Nintendo lived in the shadow of Sony's PlayStation success as it fought for market share with the GameCube. Years later, Nintendo proved to have superior game console quality when it introduced the Wii. Now, the tables have turned, and it is Sony which is scrambling after its less than successful launch of the PlayStation 3. In fact, Nintendo is now challenging Sony's market leadership, with Microsoft also entering the market with a competitive product.

The auto industry is also a good point of reference. While the U.S. automakers have dramatically increased their overall quality in recent years to close the gap with Japanese auto quality, Japanese firms continue to have fewer safety recalls. Up until 2010, Toyota and Honda continue to be ranked very high by American consumers, and Nissan and Subaru's recent performance were also strong. In light of the Toyota recalls in 2010 and continued improvements by U.S.-based producers, for the first time in years, North American-based manufacturers topped many Japanese brands in J.D. Power and Associates' 2010 Automotive Performance, Execution and Layout Study. Ford had more standout vehicles than any other manufacturer with five of the 20 models leading their segments. GM also came out well with its four core brands, Chevrolet, Buick, GMC, and Cadillac, all exceeding the industry average. Overall, the domestic brands scored higher than the import brands for the first time since 1997.²²

Apple Inc. has experienced rave quality reviews from customers and electronics analysts for its line of Mac products, iPod, iPhone, and iPad. These devices have demonstrated global appeal as Apple's stock soared. Apple introduced the iPhone 4 concurrently in the U.S., U.K., France, Germany, and Japan and made it available in 88 countries within three months of its launch, a much more aggressive worldwide launch timetable than in the past.²³ Yet, users experienced problems with the initial versions of the iPhone due to inadequate bandwidth provided by Apple's exclusive U.S. carrier, AT&T, generating some negative fallout. Subsequently, users complained about antenna reception on the device and posted videos online demonstrating how the signal dropped out when they covered the bottom-left corner of the phone with their hand. Some analysts believe that Apple's customers were more likely to overlook these setbacks because of their strong enthusiasm for Apple's design aesthetic and commitment to high quality and functionality.²⁴

A growing number of MNCs are finding that they must continually revise their strategies and make renewed commitment to the quality imperative because they are being bested by emerging market forces. Motorola, for example, found that its failure to anticipate the industry's switch to digital cell technology was a costly one.²⁵ In 1998 the company dominated the U.S. handset market, and its StarTAC was popular worldwide. Five years later the firm's share of the then \$160 billion global market for handsets had shrunk from 22 percent to 10 percent and was continuing to fall, while Nokia, Ericsson, and Samsung in particular, with smaller, lighter, and more versatile offerings, were now the dominant players.²⁶ Motorola's wireless network business also suffered, and in 2010, the company announced its plan to sell the unit to arch-rival Nokia-Siemens in a deal worth \$1.2 billion.²⁷ The quality imperative is never-ending, and MNCs such as Motorola must meet this strategic challenge or pay the price.

Administrative Coordination An **administrative coordination** approach to formulation and implementation is one in which the MNC makes strategic decisions based on the merits of the individual situation rather than using a predetermined economic or political strategy. A good example is provided by Walmart, which has expanded rapidly into Latin America in recent years. While many of the ideas that worked well in the North American market served as the basis for operations in the Southern Hemisphere, the company soon realized that it was doing business in a market where local tastes were different and competition was strong.

Walmart is counting on its international operations to grow 25–30 percent annually, and Latin American operations are critical to this objective. Despite this objective, the company has faced losses in several of its Latin American businesses as it strives to adapt to the local markets. The firm is learning, for example, that the timely delivery of merchandise in places such as São Paulo, where there are continual traffic snarls and the company uses contract truckers for delivery, is often far from ideal. Another challenge is finding suppliers who can produce products to Walmart’s specification for easy-to-handle packaging and quality control. A third challenge is learning to adapt to the culture. For example, in Brazil, Walmart brought in stock-handling equipment that did not work with standardized local pallets. It also installed a computerized bookkeeping system that failed to take into account Brazil’s wildly complicated tax system. The In-Depth Integrative Case at the end of Part Two provides more detail on Walmart’s successes and challenges in the international marketplace, including those related to administrative coordination.

Many large MNCs work to combine the economic, political, quality, and administrative approaches to strategic planning. For example, IBM relies on the economic imperative when it has strong market power (especially in less developed countries), the political and quality imperatives when the market requires a calculated response (European countries), and an administrative coordination strategy when rapid, flexible decision making is needed to close the sale. Of the four, however, the first three approaches are much more common because of the firm’s desire to coordinate its strategy both regionally and globally.

Global and Regional Strategies

A fundamental tension in international strategic management is the question of when to pursue global or regional (or local) strategies. This is commonly referred to as the *globalization vs. national responsiveness conflict*. As used here, **global integration** is the production and distribution of products and services of a homogeneous type and quality on a worldwide basis.²⁸ To a growing extent, the customers of MNCs have homogenized tastes, and this has helped to spread international consumerism. For example, throughout North America, the EU, and Japan, there has been a growing acceptance of standardized, yet increasingly personally, customized goods such as automobiles and computers. This goal of efficient economic performance through a globalization and mass customization strategy, however, has left MNCs open to the charge that they are overlooking the need to address national responsiveness through Internet and intranet technology.

National responsiveness is the need to understand the different consumer tastes in segmented regional markets and respond to different national standards and regulations imposed by autonomous governments and agencies.²⁹ For example, in designing and building cars, international manufacturers now carefully tailor their offerings in the American market. Toyota’s “full-size” T100 pickup proved much too small to attract U.S. buyers. So the firm went back to the drawing board and created a full-size Tundra pickup that is powered by a V-8 engine and has a cabin designed to “accommodate a passenger wearing a 10-gallon cowboy hat.” Honda has developed its new Model X SUV with more Americanized features, including enough interior room so that travelers can eat and sleep in the vehicle. Mitsubishi has abandoned its idea of making a global vehicle and has brought out its new Montero Sport SUV in the U.S. market with the features it learned that Americans want: more horsepower, more interior room, more comfort. Meanwhile,

administrative coordination

Strategic formulation and implementation in which the MNC makes strategic decisions based on the merits of the individual situation rather than using a predetermined economically or politically driven strategy.

global integration

The production and distribution of products and services of a homogeneous type and quality on a worldwide basis.

national responsiveness

The need to understand the different consumer tastes in segmented regional markets and respond to different national standards and regulations imposed by autonomous governments and agencies.

Nissan is doing what many foreign carmakers would have thought to be unthinkable just a few years ago. Today, U.S. engineers and product designers are now completely responsible for the development of most Nissan vehicles sold in North America. Among other things, they are asking children between the ages of 8 and 15, in focus-group sessions, for ideas on storage, cup holders, and other refinements that would make a full-size minivan more attractive to them.³⁰

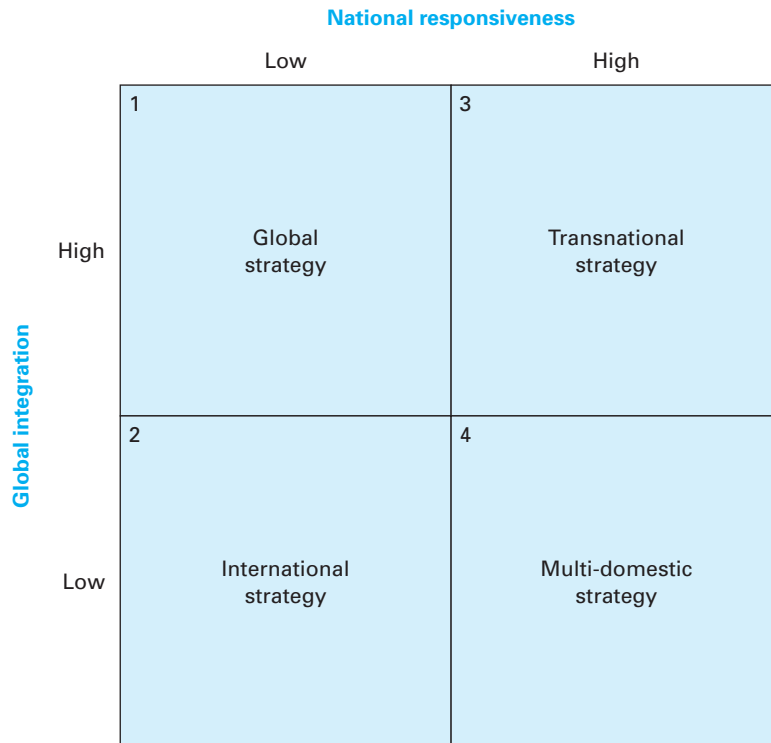
National responsiveness also relates to the need to adapt tools and techniques for managing the local workforce. Sometimes what works well in one country does not work in another, as seen in the following example:

An American computer company introduced pay-for-performance in both the USA and the Middle East. It worked well in the USA and increased sales briefly in the Middle East before a serious slump occurred. Inquiries showed that indeed the winners among salesmen in the Middle East had done better, but the vast majority had done worse. The wish for their fellows to succeed had been seriously eroded by the contest. Overall morale and sales were down. Ill-will was contagious. When the bosses discovered that certain salespeople were earning more than they did, high individual performances also ceased. But the principal reason for eventually abandoning the system was the discovery that customers were being loaded up with products they could not sell. As A tried to beat B to the bonus, the care of customers began to slip, with serious, if delayed, results.³¹

Global Integration vs. National Responsiveness Matrix The issue of global integration versus national responsiveness can be further analyzed conceptually via a two-dimensional matrix. Figure 8–1 provides an example.

The vertical axis in the figure measures the need for global integration. Movement up the axis results in a greater degree of economic integration. Global integration generates economies of scale (takes advantage of large size) and also capitalizes on further lowering unit costs (through experience curve benefits) as a firm moves into worldwide markets selling its products or services. These economies are captured through centralizing specific

Figure 8–1
Global Integration vs. National Responsiveness



Source: Adapted from information in Christopher A. Bartlett and Sumantra Ghoshal, *Managing Across Borders: The Transnational Solution*, 2nd ed. (Boston: Harvard Business School Press, 1998).

activities in the value-added chain. They also occur by reaping the benefits of increased coordination and control of geographically dispersed activities.

The horizontal axis measures the need for multinationals to respond to national responsiveness or differentiation. This suggests that MNCs must address local tastes and government regulations. The result may be a geographic dispersion of activities or a decentralization of coordination and control for individual MNCs.

Figure 8–1 depicts four basic situations in relation to the degrees of global integration versus national responsiveness. Quadrants 1 and 4 are the simplest cases. In quadrant 1, the need for integration is high and awareness of differentiation is low. In terms of economies of scale, this situation leads to **global strategies** based on price competition. A good example of this is Matsushita, which has standardized many aspects of its operations and marketing over the years, including its name. To gain global recognition, Matsushita changed the name of all its products to then have the Panasonic brand. Even before that, Matsushita, along with the Toshiba Corporation, the Victor Company of Japan, and others worked to standardize the digital videocassette recording (VCR) industry. Matsushita's strong global distribution network, companywide mission statements, financial control, and ability to get to the market quickly allowed the company to offer the VCR at an economy of scale and, in turn, gained a sizable portion of the market.³² In this quadrant-1 type of environment, mergers and acquisitions often occur.

The opposite situation is represented by quadrant 4, where the need for differentiation is high but the concern for integration low. This quadrant is referred to as **multi-domestic strategy**. In this case, niche companies adapt products to satisfy the high demands of differentiation and ignore economies of scale because integration is not very important. An example of this is Philips, which provides medical equipment to doctors worldwide. As diagnoses become more complex, Philips has to find new innovative ways to simplify the machines used by doctors so that they can spend more time with patients. Yet the medical systems of each country are so different that products must be adapted and adjusted to the particular medical environment. Philips recently sought out opinions from board members, and even asked for participation of fashion designers, to better understand different strategic methods. By using this multidimensional information pool, Philips is moving toward offering even more differentiated products.³³

Quadrants 2 and 3 reflect more complex environmental situations. Quadrant 2 incorporates those cases in which both the need for integration and awareness of differentiation are low. Both the potential to obtain economies of scale and the benefits of being sensitive to differentiation are of little value. Typical strategies in quadrant 2 are characterized by increased international standardization of products and services. This mixed approach is often referred to as **international strategy**.

This situation can lead to lower needs for centralized quality control and centralized strategic decision making while eliminating requirements to adapt activities to individual countries. This strategy is decreasingly employed as most industries and products face one or both pressures for global integration and local responsiveness. Nonetheless, companies may experience a very temporary phase in this quadrant, but the standards lie in the other three.

In quadrant 3, the needs for integration and differentiation are high. There is a strong need for integration in production along with higher requirements for regional differentiation in marketing. MNCs trying to simultaneously achieve these objectives often refer to them as **transnational strategy**. Quadrant 3 is the most challenging quadrant and the one where successful MNCs seek to operate. The problem for many MNCs, however, is the cultural challenges associated with “localizing” a global focus. One good example of a transnational company is Monsanto. Monsanto offers a very diverse line of hybrid seeds to the agricultural industry. Hybrid seeds are genetically modified seeds which are sterile and must be purchased at the beginning of each season for the specified crop. Monsanto's operations, discussed in Chapter 2, include finding new ways to differentiate its product to best fit the surrounding market. The company offers products

global strategy

Integrated strategy based primarily on price competition.

multi-domestic strategy

Differentiated strategy emphasizing local adaptation.

international strategy

Mixed strategy combining low demand for integration and responsiveness.

transnational strategy

Integrated strategy emphasizing both global integration and local responsiveness.

which can withstand the various environments and climates of its global customers, from herbicide and insect resistant strains to drought tolerance.³⁴

Summary and Implications of the Four Basic Strategies MNCs can be characterized as using one of four basic international strategies: an international strategy, a multi-domestic strategy, a global strategy, and a transnational strategy. The appropriateness of each strategy depends on pressures for cost reduction and local responsiveness in each country served. Firms that pursue an international strategy have valuable core competencies that host-country competitors do not possess and face minimal pressures for local responsiveness and cost reductions. International firms such as McDonald's, Walmart, and Microsoft have been successful using an international strategy. Organizations pursuing a multi-domestic strategy should do so when there is high pressure for local responsiveness and low pressures for cost reductions. Changing offerings on a localized level increases a firm's overall cost structure but increases the likelihood that its products and services will be responsive to local needs and therefore be successful.³⁵

A global strategy is a low-cost strategy. Firms that experience high cost pressures should use a global strategy in an attempt to benefit from scale economies in production, distribution, and marketing. By offering a standardized product worldwide, firms can leverage their experience and use aggressive pricing schemes. This strategy makes most sense where there are high cost pressures and low demand for localized product offerings. A transnational strategy should be pursued when there are high cost pressures and high demands for local responsiveness. However, a transnational strategy is very difficult to pursue effectively. Pressures for cost reduction and local responsiveness put contradictory demands on a company because localized product offerings increase cost. Organizations that can find appropriate synergies in global corporate functions are the ones that can leverage a transnational strategy effectively.³⁶

Recent analyses of the strategies of MNCs confirm these basic approaches. The globalization–national responsiveness model, which was initially developed from nine in-depth case studies, has been corroborated in large-scale empirical settings. Moreover, it appears as if there are positive performance effects from tailoring the strategy to particular industry and country characteristics.³⁷

■ The Basic Steps in Formulating Strategy

The needs, benefits, approaches, and predispositions of strategic planning serve as a point of departure for the basic steps in formulating strategy. In international management, strategic planning can be broken into the following steps: (1) scanning the external environment for opportunities and threats; (2) conducting an internal resource analysis of company strengths and weaknesses; and (3) formulating goals in light of the external scanning and internal analysis. These steps are graphically summarized in Figure 8–2. The following sections discuss each step in detail.

Figure 8–2

Basic Elements of Strategic Planning for International Management



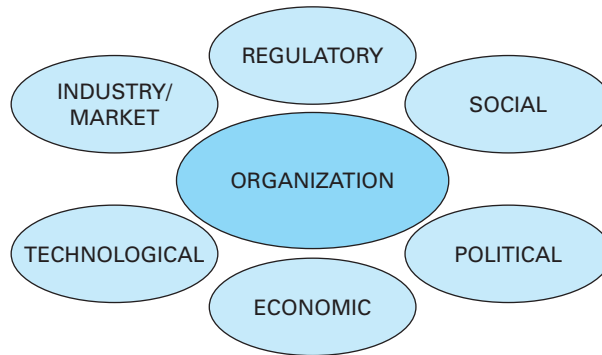


Figure 8–3
Environmental Factors
Affecting Organizations

Source: Kendra S. Albright, "Environmental Scanning: Radar for Success," *Information Management Journal* 38, no. 3 (May/June 2004), p. 42. Reprinted with permission.

Environmental Scanning

Environmental scanning attempts to provide management with accurate forecasts of trends that relate to external changes in geographic areas where the firm is currently doing business or considering setting up operations. These changes relate to environmental factors that can affect the company and include the industry or market, technology, regulatory, economic, social, and political aspects. Figure 8–3 shows how this dynamic is set up.

MNCs observe and evaluate an exorbitant amount of information, and while data are usually collected for all forms of environmental factors, the order in which they approach each factor and the extent to which they are studied depend on the industry and the goals of the MNC.³⁸ One of the most important foci is the industry or the market. This includes the role of all potential competitors and the relationships surrounding those competitors, such as affiliation with one another or the connection between the company and its customers and suppliers. Monitoring changes in technology will also help keep the company modern and innovative. Some technologic options managers may wish to follow are those that influence business efficiencies or changes in production. From a competitor standpoint, it is good to familiarize oneself with the rise of new products or services and the existing infrastructure.

The regulatory environment can also change at any time, shifting laws or regulatory guidelines. Managers should be aware of ownership or property rights within an area and also what kind of employment practices are exhibited in a region. Minimum wage laws and tax rates should also be considered, since they can affect the hiring process and company finances. This is different from the economic environment, which mainly highlights rates, namely, rates of employment, exchange rates, inflation rates, and the level of GNP for a country.

Appropriate observation of the social environment can help the company. Awareness of demographic shifts including age, education, and income, coupled with in-depth knowledge of consumer attitudes, is imperative for a company to assess whether its services would be welcomed or not within a region. Finally, the political environment can impact how a company runs operations. We discussed in Chapter 2 the different political systems that exist across the world, and an understanding of those systems, along with the current state of affairs, can alert MNCs to any warnings that may impede expansion.

After obtaining the information, MNCs then go through an analyzing process which gives rise to the relevant features of the external environment. By performing analyses, the company can discover the risks and opportunities involved in expanding to that region. Typically, managers would communicate the results and then try to formulate the best strategy to take advantage of a ripening market. However, the external environment is not the only aspect to consider, and more information must be reviewed before those steps can be applied.

Environmental scanning is central to discovering if an MNC can survive in a particular region; however, it is only effective if it is done consistently. The environment changes very rapidly, and in order for firms to continually adapt, they must assess the external

environmental scanning

The process of providing management with accurate forecasts of trends related to external changes in geographic areas where the firm currently is doing business or is considering setting up operations.

dynamics that could bolster or hinder future productivity. Each country will have a different perspective as to which factors create the most roadblocks and therefore must be evaluated on a more consistent basis. For example, a recent study showed that while both Malaysian and U.S. managers see competitors and the market as highly important, the U.S. managers considered regulatory issues more relevant than the Malaysians did. In this case, Malaysian MNCs have not been exposed to the sometimes strict directives that U.S. MNCs can face.³⁹

OpenTV Inc. provides an example of how this environmental scanning process works. The firm analyzed the environment in China and concluded that the market in Shanghai was ideal for its software. As a result, it signed a deal with Shanghai Cable Network to provide this company with “middleware.” When this software is installed in a subscriber’s set-top box, it allows the user to interact with the television and do a number of different things—from shopping online to ordering a movie for viewing. Shanghai Cable has over 3 million customers, and one-third of them have broadband cable that lets them access the Internet and interact with television programs in what industry analysts say is one of the world’s most advanced cable systems. By 2010, OpenTV had also launched its middleware solution for Southern Yinshi Network Media Ltd., a subsidiary of Southern Media Corporation, one of China’s leading broadcasting groups. Southern Yinshi is responsible for the digital conversion of 18 municipal and city cable networks of Southern Media Corporation. If OpenTV’s scan of the environment is correct, these arrangements will help provide revenue and profits to help support the firm’s global expansion to India and elsewhere.⁴⁰ Another example is Cisco Systems, the world’s largest maker of networking equipment, which has grown rapidly through acquisitions. From 2000 to 2009, it acquired more start-up companies than any other firm in the world. Cisco’s China strategy has resulted from careful scanning of the broad macro political-economic environment as well as of the competitor landscape. Already the world’s largest Internet and mobile phone market, China is likely to become even more crucial to the network equipment maker’s growth as the country’s burgeoning middle class gains access to new technology. Cisco is pursuing joint ventures and acquisitions to compete against Huawei Technologies Co. Ltd. and ZTE Corp., two large Chinese rivals. By relying on acquisitions and JVs, Cisco would be in a stronger position to work around difficult regulations and government policies, even if overall trade tensions between the United States and China continue. In its first acquisition aimed at China, Cisco bought the set-top box business of Hong Kong’s DVN Ltd., but it has indicated it is poised for more acquisitions in China.⁴¹

Internal Resource Analysis

When formulating strategy, some firms wait until they have completed their environmental scanning before conducting an internal resource analysis, which is a microeconomic aspect of activity. Others perform these two steps simultaneously. Internal resource analysis helps the firm to evaluate its current managerial, technical, material, and financial resources and capabilities to better assess its strengths and weaknesses. This assessment then is used by the MNC to determine its ability to take advantage of international market opportunities. The primary thrust of this analysis is to match external opportunities (gained through the environmental scan) with internal capabilities (gained through the internal resource analysis). In other words, these evaluations should not be viewed as how the environment creates a barrier to entry, but rather how companies can utilize their resources and capabilities to best take advantage of environmental opportunities.

An internal analysis identifies the key factors for success that will dictate how well the firm is likely to do. A **key success factor (KSF)** is a factor that is necessary for a firm to compete effectively in a market niche. For example, a KSF for an international airline is price. An airline that discounts its prices will gain market share vis-à-vis competitors that do not. A second KSF for the airline is safety, and a third is quality of service in terms of on-time departures and arrivals, convenient schedules, and friendly, helpful personnel. In the automobile industry, quality of products has emerged as the number-one KSF in world markets. Japanese firms have been able to invade the U.S.

key success factor (KSF)

A factor necessary for a firm to effectively compete in a market niche.

auto market successfully because they have been able to prove that the quality of their cars is better than that of the average domestically built U.S. car. Toyota and Honda have had a quality edge over the competition in recent years in the eyes of U.S. car buyers. A second KSF is styling. The redesigned Mini-Cooper has been successful, in part, because customers like its unique look.

The key question for the management of an MNC is, Do we have the people and resources that can help us to develop and sustain the necessary KSFs, or can we acquire them? If the answer is yes, the recommendation would be to proceed. If the answer is no, management would begin looking at other markets where it has, or can develop, the necessary KSFs.

The balance between environmental scanning and internal resource analysis can be quite delicate. Managers do not want to spend too much time looking inward; otherwise, they could miss changes in the environment that would alter the company’s strengths and weaknesses based on that market. Conversely, managers do not want to appraise the outward view for too long as they could take time away from improving internal systems and taking advantage of opportunities.

Goal Setting for Strategy Formulation

In practice, goal formulation often precedes the first two steps of environmental scanning and internal resource analysis. As used here, however, the more specific goals for the strategic plan come out of external scanning and internal analysis. MNCs pursue a variety of such goals; Table 8–1 provides a list of the most common ones. These goals typically serve as an umbrella beneath which the subsidiaries and other international groups operate.

Table 8–1 Areas for Formulation of MNC Goals	
Profitability	
Level of profits	
Return on assets, investment, equity, sales	
Yearly profit growth	
Yearly earnings per share growth	
Marketing	
Total sales volume	
Market share—worldwide, region, country	
Growth in sales volume	
Growth in market share	
Integration of country markets for marketing efficiency and effectiveness	
Operations	
Ratio of foreign to domestic production volume	
Economies of scale via international production integration	
Quality and cost control	
Introduction of cost-efficient production methods	
Finance	
Financing of foreign affiliates—retained earnings or local borrowing	
Taxation—minimizing tax burden globally	
Optimum capital structure	
Foreign exchange management—minimizing losses from foreign fluctuations	
Human Resources	
Recruitment and selection	
Development of managers with global orientation	
Management development of host-country nationals	
Compensation and benefits	

Profitability and marketing goals almost always dominate the strategic plans of today's MNCs. Profitability, as shown in Table 8–1, is so important because MNCs generally need higher profitability from their overseas operations than they do from their domestic operations. The reason is quite simple: Setting up overseas operations involves greater risk and effort. In addition, a firm that has done well domestically with a product or service usually has done so because the competition is minimal or ineffective. Firms with this advantage often find additional lucrative opportunities outside their borders. Moreover, the more successful a firm is domestically, the more difficult it is to increase market share without strong competitive response. International markets, however, offer an ideal alternative to the desire for increased growth and profitability.

Another reason that profitability and marketing top the list is that these tend to be more externally environmentally responsive, whereas production, finance, and personnel functions tend to be more internally controlled. Thus, for strategic planning, profitability and marketing goals are given higher importance and warrant closer attention. Ford's European operations offer an example. In recent years the automaker has been losing market share in the EU. GM, Ford, and Chrysler have all been focusing on regaining profitability in light of the global economic crisis and the lower shares in most global markets. In 2010, Ford continued to restructure and streamline its operations in Europe, even as market share declined to 7.8 percent in the European marketplace. After unloading the Land Rover and Jaguar to Tata of India, and its share of Volvo to China's Geely, Ford earned \$2 billion in first quarter profit in 2010 and forecasted profit for all of 2010, the first in three years. In seeking to improve performance in Europe, Ford is shipping more cars from its factory in Thailand, and in so doing, saving on costs and increasing margins.⁴²

Once the strategic goals are set, the MNC will develop specific operational goals and controls, usually through a two-way process at the subsidiary or affiliate level. Home-office management will set certain parameters, and the overseas group will operate within these guidelines. For example, the MNC headquarters may require periodic financial reports, restrict on-site decisions to matters involving less than \$100,000, and require that all client contracts be cleared through the home office. These guidelines are designed to ensure that the overseas group's activities support the goals in the strategic plan and that all units operate in a coordinated effort.

■ Strategy Implementation

strategy implementation
The process of providing goods and services in accord with a plan of action.

Once formulated, the strategic plan next must be implemented. **Strategy implementation** provides goods and services in accord with a plan of action. Quite often, this plan will have an overall philosophy or series of guidelines that direct the process. In the case of Japanese electronic-manufacturing firms entering the U.S. market, Chang has found a common approach:

To reduce the risk of failure, these firms are entering their core businesses and those in which they have stronger competitive advantages over local firms first. The learning from early entry enables firms to launch further entry into areas in which they have the next strongest competitive advantages. As learning accumulates, firms may overcome the disadvantages intrinsic to foreignness. Although primary learning takes place within firms through learning by doing, they may also learn from other firms through the transfer or diffusion of experience. This process is not automatic, however, and it may be enhanced by membership in a corporate network: in firms associated with either horizontal or vertical business, groups were more likely to initiate entries than independent firms. By learning from their own sequential entry experience as well as from other firms in corporate networks, firms build capabilities in foreign entry.⁴³

International management must consider three general areas in strategy implementation. First, the MNC must decide where to locate operations. Second, the MNC must carry out entry and ownership strategies (discussed in Chapter 9). Finally, management must implement functional strategies in areas such as marketing, production, and finance.

Location Considerations for Implementation

In choosing a location, today's MNC has two primary considerations: the country and the specific locale within the chosen country. Quite often, the first choice is easier than the second, because there are many more alternatives from which to choose a specific locale.

The Country Traditionally, MNCs have invested in highly industrialized countries, and research reveals that annual investments have been increasing substantially.

In the case of Japan, multinational banks and investors from around the world have been looking for properties that are being jettisoned by Japanese banks that are trying to unload some of their distressed loans. The Japanese commercial property market collapsed starting in the mid-1990s, creating many opportunities for investors. MNCs are also actively engaged in mergers and acquisitions in Japan. Intuit Inc. of Menlo Park, California, purchased a financial software specialist in Japan for \$52 million in stock and spent \$30 million for the Nihon Mikon Company, which sells small business accounting software. These purchases point to a new trend in Japan—the acquisition of small firms. However, many larger purchases have also been made.

Foreign investors are also pouring into Mexico, although this investment activity has generated some political controversy in the United States.⁴⁴ One reason is that it is a gateway to the American and Canadian markets. A second reason is that Mexico is a very cost-effective place in which to manufacture goods. A third is that the declining value of the peso in the late 1990s hit many Mexican businesses hard and left them vulnerable to mergers and acquisitions—an opportunity not lost on many large multinationals. Britain's B.A.T. Industries PLC took control of Cigarrera La Moderna, Mexico's tobacco giant, in a \$1.5 billion deal. A few days earlier, Philip Morris Cos. increased its stake in the second-largest tobacco company, Cigarros La Tabacalera Mexicana SA, to 50 percent from about 29 percent for \$400 million. In June, Walmart Stores Inc. announced plans to acquire control of Mexico's largest retailer, Cifra SA, in a deal valued at more than \$1 billion. In July, Procter & Gamble Co. acquired a consumer-products concern, Loreto y Pena Pobre, for \$170 million. Bell Atlantic Co. has acquired full control of its cellular-phone partner, Grupo Iusacell SA, with total investments of more than \$1 billion. The list goes on and on and is expected to keep growing.⁴⁵

MNCs often invest in advanced industrialized countries because they offer the largest markets for goods and services. In addition, the established country or geographic locale may have legal restrictions related to imports, encouraging a local presence. Japanese firms, for example, in complying with their voluntary export quotas of cars to the United States as well as responding to dissatisfaction in Washington regarding the continuing trade imbalance with the United States, have established U.S.-based assembly plants. In Europe, because of EU regulations for outsiders, most U.S. and Japanese MNCs have operations in at least one European country, thus ensuring access to the European community at large. In fact, the huge U.S. MNC ITT now operates in each of the original 12 EU countries.

Another consideration in choosing a country is the amount of government control and restrictions on foreign investment. Traditionally, MNCs from around the world resisted anything but very limited business in Eastern European countries with central planning economies. The recent relaxing of the trade rules and move toward free-market economies in the republics of the former Soviet Union and the other Eastern European nations, however, have encouraged MNCs to rethink their positions; more and more are making moves into this largely untapped part of the global market. The same is true in India, although the political climate can be volatile and MNCs must carefully weigh the risks of investing here. Restrictions on foreign investment also play a factor. Countries such as China and India have required that control of the operation be in the hands of local partners. MNCs that are reluctant to accept such conditions will not establish operations there.

In addition to these considerations, MNCs examine the specific benefits offered by host countries, including low tax rates, rent-free land and buildings, low-interest or no-interest loans, subsidized energy and transportation rates, and a well-developed infrastructure that provides many of the services found back home (good roads, communication systems, schools, health care, entertainment, and housing). These benefits will be weighed against any disincentives or performance requirements that must be met by the MNC, such as job-creation quotas, export minimums for generating foreign currency, limits on local market growth, labor regulations, wage and price controls, restrictions on profit repatriation, and controls on the transfer of technology.

Local Issues Once the MNC has selected the country in which to locate, the firm must choose the specific locale. A number of factors influence this choice. Common considerations include access to markets, proximity to competitors, availability of transportation and electric power, and desirability of the location for employees coming in from the outside.

One study found that in selecting U.S. sites, both German and Japanese firms place more importance on accessibility and desirability and less importance on financial considerations.⁴⁶ However, financial matters remain important: Many countries attempt to lure MNCs to specific locales by offering special financial packages.

Another common consideration is the nature of the workforce. MNCs prefer to locate near sources of available labor that can be readily trained to do the work. A complementary consideration that often is unspoken is the presence and strength of organized labor. Japanese firms in particular tend to avoid heavily unionized areas.

Still another consideration is the cost of doing business. Manufacturers often set up operations in rural areas, commonly called “greenfield locations,” which are much less expensive and do not have the problems of urban areas. Conversely, banks often choose metropolitan areas, because they feel they must have a presence in the business district.

Some MNCs opt for locales where the cost of running a small enterprise is significantly lower than that of running a large one. In this way, they spread their risk, setting up many small locations throughout the world rather than one or two large ones. Manufacturing firms are a good example. Some production firms feel that the economies of scale associated with a large-scale plant are more than offset by potential problems that can result should economic or political difficulties develop in the country. These firms’ strategy is to spread the risk by opting for a series of small plants throughout a wide geographic region.⁴⁷ This location strategy can also be beneficial for stockholders. Research has found that MNCs with a presence in developing countries have significantly higher market values than MNCs that operate only in countries that have advanced economies.⁴⁸

Combining Country and Firm-Specific Factors in International Strategy

International management scholars have developed a simple framework that builds upon the integration-responsiveness framework to help managers understand the interaction between the relative attractiveness of different country locations for a given activity and the firm-level attributes or strengths that can be leveraged in that location.⁴⁹ The first set of factors are referred to as CSAs, or country-specific advantages, while the second is called firm-specific advantages. CSAs can be based on natural resource endowments (minerals, energy, forests), the labor force, or on less tangible factors that include education and skills, institutional protections of intellectual property, entrepreneurial dynamism, or other factors unique to a given market. FSAs are unique capabilities proprietary to the organization that may be based on product or process technology, marketing or distributional skills, or managerial know-how.

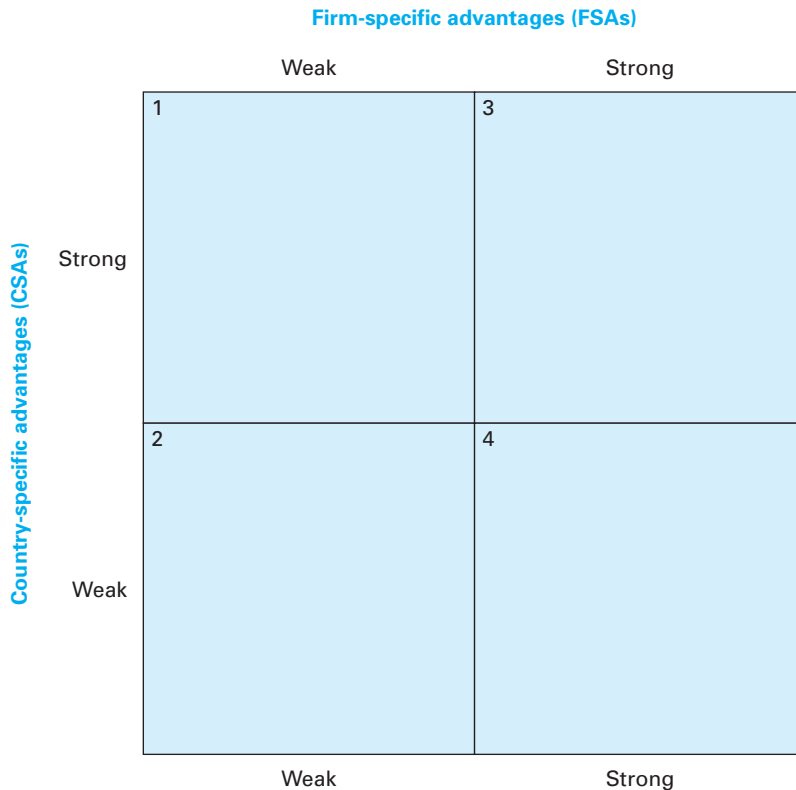


Figure 8-4
The CSA-FSA Matrix

Source: Alan Rugman and Jonathan P. Doh, *Multinationals and Development* (New Haven: Yale University Press, 2008), p. 13.

Managers of MNCs use strategies that build upon the interactions of CSAs and FSAs. Figure 8-4 provides a graphical depiction of this framework. It should be emphasized that the “strength” or “weakness” of FSAs and CSAs is a relative notion that depends on the relevant market and the CSAs and FSAs of potential competitors.

MNCs in quadrants 1, 2, and 3 would be expected to pursue different strategies. Quadrant 1 firms would tend to emphasize cost leadership; they are likely to be resource-based and/or mature, internationally oriented firms producing a commodity-type product. Given these factors, FSAs tend to be less important compared to the CSAs of location and energy costs, which are the main sources of the firm’s competitive advantage.

Quadrant 2 firms represent less efficient firms with few intrinsic CSAs or FSAs. Quadrant 2 could also represent domestically based small and medium-sized firms with little global exposure. Firms in quadrant 4 are generally differentiated firms with strong FSAs in marketing and customization. These firms usually have strong brands. In quadrant 4 the FSAs dominate, so in world markets the home-country CSAs are not essential in the long run. Quadrant 3 firms generally can choose either the cost or differentiation strategies, or perhaps combine them because of the strength of both their CSAs and FSAs.

In terms of business strategy firms in quadrants 2 and 3 can benefit from strategies of both low cost and differentiation. Such a firm is constantly evaluating its production mix. Quadrants 4 and 1 require specific strategies for different types of firms. For instance, a quadrant 4 firm that has strong FSAs in marketing (customization) can operate internationally without reliance on its home-market CSA, or the CSAs of the host nation. For such a firm, in quadrant 4, the CSA is not relevant. In contrast, quadrant 1 has mature multinationals or product divisions determined more by CSAs than by FSAs. By improving potential FSAs in marketing or product innovation and increasing value added through vertical integration, the quadrant 1 firm can move to quadrant 3.

The Role of the Functional Areas in Implementation

To implement strategies, MNCs must tap the primary functional areas of marketing, production, and finance. The following sections examine the roles of these functions in international strategy implementation.

Marketing The implementation of strategy from a marketing perspective must be determined on a country-by-country basis. What works from the standpoint of marketing in one locale may not necessarily succeed in another. In addition, the specific steps of a marketing approach often are dictated by the overall strategic plan, which in turn is based heavily on market analysis.

German auto firms in Japan are a good example of using marketing analysis to meet customer needs. Over the past 15 years, the Germans have spent millions of dollars to build dealer, supplier, and service-support networks in Japan, in addition to adapting their cars to Japanese customers' tastes. Volkswagen Audi Nippon has built a \$320 million import facility on a deepwater port. This operation, which includes an inspection center and parts warehouse, can process 100,000 cars a year. Mercedes and BMW both have introduced lower-priced cars to attract a larger market segment, and BMW now offers a flat-fee, three-year service contract on any new car, including parts. At the same time, German manufacturers work hard to offer first-class service in their dealerships. As a result, German automakers in recent years sell almost three times as many cars in Japan as their U.S. competitors do.

The Japanese also provide an excellent example of how the marketing process works. In many cases, Japanese firms have followed a strategy of first building up their market share at home and driving out imported goods. Then, the firms move into newly developed countries, honing their marketing skills as they go along. Finally, the firms move into fully developed countries, ready to compete with the best available. This pattern of implementing strategy has been used in marketing autos, cameras, consumer electronics, home appliances, petrochemicals, steel, and watches. For some products, however, such as computers, the Japanese have moved from their home market directly into fully developed countries and then on to the newly developing nations. Finally, the Japanese have gone directly to developed countries to market products in some cases, because the market in Japan was too small. Such products include color TVs, videotape recorders, and sewing machines. In general, once a firm agrees on the goods it wants to sell in the international marketplace, then the specific marketing strategy is implemented.

The implementation of marketing strategy in the international arena is built around the well-known "four Ps" of marketing: product, price, promotion, and place. As noted in the example of the Japanese, firms often develop and sell a product in local or peripheral markets before expanding to major overseas targets. If the product is designed specifically to meet an overseas demand, however, the process is more direct. Price largely is a function of market demand.⁵⁰ For example, the Japanese have found that the U.S. microcomputer market is price-sensitive; by introducing lower-priced clones, the Japanese have been able to make headway, especially in the portable laptop market. The last two Ps, promotion and place, are dictated by local conditions and often left in the hands of those running the subsidiary or affiliate. Local management may implement customer sales incentives, for example, or make arrangements with dealers and salespeople who are helping to move the product locally.

Production Although marketing usually dominates strategy implementation, the production function also plays a role. If a company is going to export goods to a foreign market, the production process traditionally has been handled through domestic operations. In recent years, however, MNCs have found that whether they are exporting or producing the goods locally in the host country, consideration of worldwide production is important. For

example, goods may be produced in foreign countries for export to other nations. Sometimes, a plant will specialize in a particular product and export it to all the MNC's markets; other times, a plant will produce goods only for a specific locale, such as Western Europe or South America. Still other facilities will produce one or more components that are shipped to a larger network of assembly plants. That last option has been widely adopted by pharmaceutical firms and automakers such as Volkswagen and Honda.

As mentioned in the first part of the chapter, if the firm operates production plants in different countries but makes no attempt to integrate its overall operations, the company is known as a multi-domestic. A recent trend has been away from this scattered approach and toward global coordination of operations.

Finally, if the product is labor-intensive, as in the case of microcomputers, then the trend is to farm the product out to low-cost sites such as Mexico or Brazil, where the cost of labor is relatively low and the infrastructure (electric power, communications systems, transportation systems) is sufficient to support production. Sometimes, multiple sources of individual components are used; in other cases, one or two sources are sufficient. In any event, careful coordination of the production function is needed when implementing the strategy, and the result is a product that is truly global in nature.

Finance Use of the finance function to implement strategy normally is developed at the home office and carried out by the overseas affiliate or branch. When a firm went international in the past, the overseas operation commonly relied on the local area for funds, but the rise of global financing has ended this practice. MNCs have learned that transferring funds from one place in the world to another, or borrowing funds in the international money markets, often is less expensive than relying on local sources. Unfortunately, there are problems in these transfers.

Such a problem is representative of those faced by MNCs using the finance function to implement their strategies. One of an MNC's biggest recent headaches when implementing strategies in the financial dimension has been the revaluation of currencies. For example, in the late 1990s the U.S. dollar increased in value against the Japanese yen. American overseas subsidiaries that held yen found their profits (in terms of dollars) declining. The same was true for those subsidiaries that held Mexican pesos when that government devalued the currency several years ago. When this happens, a subsidiary's profit will decline. After its initial introduction in 1999, the euro declined against the U.S. dollar, but when the dollar subsequently came under pressure, the euro regained strength. One of the more recent examples of financial issues is the expansive U.S. trade deficit with China, where the potentially undervalued yuan has played a role.

When dealing with the inherent risk of volatile monetary exchange rates, some MNCs have bought currency options that (for a price) guarantee convertibility at a specified rate. Others have developed countertrade strategies, whereby they receive products in exchange for currency. For example, PepsiCo received payment in vodka for its products sold in Russia. Countertrade continues to be a popular form of international business, especially in less developed countries and those with nonconvertible currencies.

■ Specialized Strategies

In addition to the basic steps in strategy formulation, the analysis of which strategies may be appropriate based on the globalization vs. national responsiveness framework, and the specific processes in strategy implementation, there are some circumstances that may require specialized strategies. Two that have received considerable attention in recent years are strategies for developing and emerging markets and strategies for international entrepreneurship and new ventures.

Strategies for Emerging Markets

Emerging economies have assumed an increasingly important role in the global economy and are predicted to compose more than half of global economic output by midcentury. Partly in response to this growth, MNCs are directing increasing attention to those markets. Foreign direct investment (FDI) flows into developing countries—one measure of increased integration and business activity between developed and emerging economies—grew from \$23.7 billion in 1990 to \$620.7 billion in 2008, about three-quarters the level of FDI inflows into developed countries, which drew \$962.3 billion.⁵¹ In particular, the “BRIC” economies have been among the largest recipients of FDI. In 2008, Brazil, Russia, India, and China attracted, respectively, \$45 billion, \$75 billion, \$40 billion, and \$108 billion in FDI.⁵²

At the same time, emerging economies pose exceptional risks due to their political and economic volatility and their relatively underdeveloped institutional systems. These risks show up in corruption, failure to enforce contracts, red tape and bureaucratic costs, and general uncertainty in the legal and political environment.⁵³ MNCs must adjust their strategy to respond to these risks. For example, in these risky markets, it may be wise to engage in arm’s-length or limited equity investments or to maintain greater control of operations by avoiding joint ventures or other shared ownership structures. In other circumstances, it may be wiser to collaborate with a local partner who can help buffer risks through its political connections. Some of the factors relating to these conditions will be discussed in Chapters 9 and 10. However, two unique types of strategies for emerging markets deserve particular attention here.

First-Mover Strategies Recent research has suggested that entry order into developing countries may be particularly important given the transitional nature of these markets. In general, in particular industries and economic environments, significant economies are associated with first-mover or early-entry positioning—being the first or one of the first to enter a market. These include capturing learning effects important for increasing market share, achieving scale economies that accrue from opportunities for capturing that greater share, and development of alliances with the most attractive (or in some cases the only) local partner. In emerging economies that are undergoing rapid changes such as privatization and market liberalization, there may be a narrow window of time within which these opportunities can be best exploited. In these conditions, first-mover strategies allow entrants to preempt competition, establish beachhead positions, and influence the evolving competitive environment in a manner conducive to their long-term interests and market position.

One study analyzed these benefits in the case of China, concluding that early entrants have reaped substantial rewards for their efforts, especially when collaborations with governments provided credible commitments that the deals struck in those early years of liberalization would not later be undone. First-mover advantages in some other transitional markets, such as Russia and Eastern Europe, are not so clear. Moreover, there may be substantial risks to premature entry—that is, entry before the basic legal, institutional, and political frameworks for doing business have been established.⁵⁴

Privatization presents a particularly powerful case supporting the competitive effects of first-mover positioning. First movers who succeed in taking over newly privatized state-owned enterprises, such as telecom and energy firms, possess a significant advantage over later entrants, especially when market liberalization is delayed and the host government provides protection to the newly privatized incumbent firms. This was the case in 1998 when the Mexican government accepted a \$1.757 billion bid for a minority (20.4 percent) but controlling interest in Telefonos de Mexico (Telmex) from an international consortium composed of Grupo Carso, Southwestern Bell, and France Cable et Radio, an affiliate of France Telecom. Although the Mexican market subsequently opened to competition, Telmex and its foreign partners (the first movers) maintained monopoly control over local networks and were able to bundle local and long-

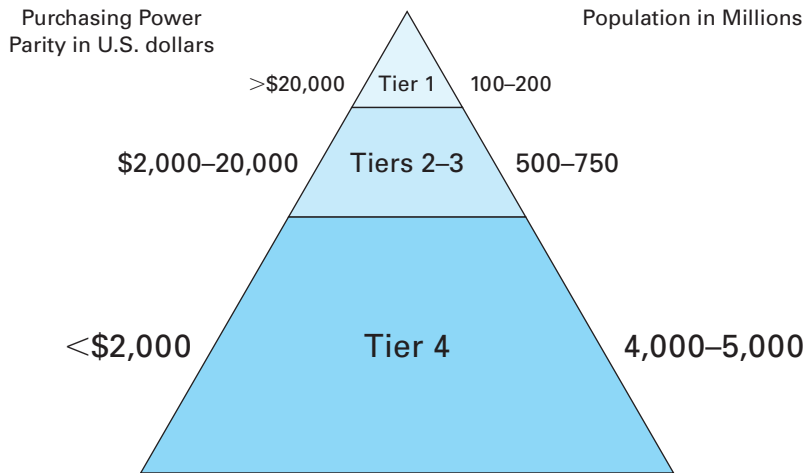


Figure 8–5

The World Population and Income Pyramid

Source: Adapted from C. K. Prahalad and Stuart L. Hart, “The Fortune at the Bottom of the Pyramid,” *Strategy + Business* 26 (2002), pp. 54–67.

distance service, cross-market, and cross-subsidize, giving Telmex a strong advantage. Moreover, the Mexican government was responsive to providing the Telmex consortium protection and financial support for infrastructure investment, and it did so partly by charging new carriers to help Telmex pay for improvements needed for the long-distance network. In addition, Telmex was able to charge relatively high fees to connect to its network, and the long delay between the initial privatization and market opening allowed these advantages to persist.⁵⁵

Strategies for the “Base of the Pyramid” Another area of increasing focus for MNCs is the 5 billion or more potential customers around the world who have heretofore been mostly ignored by international business, even within emerging economies, where most MNCs target only the wealthiest consumers. Although FDI in emerging economies has grown rapidly, most has been directed at the big emerging markets previously mentioned—China, India, and Brazil—and even there, most MNC emerging-market strategies have focused exclusively on the elite and emerging middle-class markets, ignoring the vast majority of people considered too poor to be viable customers.⁵⁶ Because of this focus, MNC strategies aimed at tailoring existing practices and products to better fit the needs of emerging-market customers have not succeeded in making products and services available to the mass markets in the developing world—the 4–5 billion people at the bottom of the economic pyramid who represent fully two-thirds of the world’s population. Figure 8–5 shows the distribution of population and income around the world.

A group of researchers and companies have begun exploring the potentially untapped markets at the base of the pyramid (BOP). They have found that incremental adaptation of existing technologies and products is not effective at the BOP and that the BOP forces MNCs to fundamentally rethink their strategies.⁵⁷ Companies must consider smaller-scale strategies and build relationships with local governments, small entrepreneurs, and nonprofits rather than depend on established partners such as central governments and large local companies. Building relationships directly and at the local level contributes to the reputation and fosters the trust necessary to overcome the lack of formal institutions such as intellectual property rights and the rule of law. The BOP may also be an ideal environment for incubating new, leapfrog technologies, including “disruptive” technologies that reduce environmental impacts and increase social benefit such as renewable energy and wireless telecom. Finally, business models forged successfully at the base of the pyramid have the potential to travel profitably to higher-income markets because adding cost and features to a low-cost model may be easier

base of the pyramid strategy

Strategy targeting low-income customers in developing countries.

than removing cost and features from high-cost models.⁵⁸ This last finding has significant implications for the globalization–national responsiveness framework introduced at the beginning of the chapter and for the potential for MNCs to achieve a truly transnational strategy.⁵⁹

Some researchers have proposed that collaboration and alliances with nonprofit nongovernmental organizations (NGOs) can be a means to jump-start market entry in BOP markets. Dahan, Doh, Oetzel, and Yaziji documented how collaborating with NGOs can contribute complementary capabilities—both intangible assets such as knowledge, reputation, and brand and tangible resources, such as human capital, production capabilities, and market access—along each stage of the value chain, affecting many aspects of the business model. These initiatives enable participating firms to create and deliver value in novel ways, while minimizing costs and risks. They highlight, in particular, the competencies and resources that NGOs can bring to such partnerships, including market expertise (needs identification, knowledge of certain market segments); the value of NGO brands to customers, customer relationships, legitimacy with civil society players and governments; and ownership of—or access to—local distribution systems and local sourcing ability.⁶⁰ Among the cross-sectoral initiatives they profile is Nestlé’s cocoa initiatives in Africa. Together with a dozen other major chocolate manufacturers, Nestlé has partnered with NGOs and local governments in setting up programs to improve labor conditions and promote sustainable farming practices in West Africa. Nestlé is at the forefront of the latter objective, with its sponsorship of “farmers field schools” on the Ivory Coast,⁶¹ which support both the production of higher quality cocoa (thus ensuring Nestlé has access to that labor and production) and the social benefits of that production. Table 8–2 summarizes the findings of this research by presenting how NGOs and MNCs can build a business model that creates both economic and social value.

Danone is another company that has targeted poor consumers through innovative strategy and marketing. It is marketing a single serving yogurt drink in many developing country markets around the world, some living on dollar-a-day food budgets, selling the drinkable yogurts for as little as 10 cents. In 2009, 42 percent of Danone’s sales were from emerging markets—up from just 6 percent 10 years ago. Danone seeks to reach 1 billion customers a month by 2013, up from 700 million today. Other companies are pursuing similar strategies, including adidas, which is experimenting with a one-euro sneaker for barefoot Bangladeshis. L’Oréal is selling sample-sized containers of shampoo and face cream in India for a few pennies each and Unilever developed Cubitos, small cubes of flavoring that cost as little as two cents apiece, for poor markets. Danone says that the yogurt is a good match in Senegal because it is meant as an on-the-go snack—well adapted for Senegalese consumers who have three or four snacks during a day and only one main meal. The first yogurt debuted in Indonesia at the end of 2004 and was an instant hit, selling 10 million bottles in its first three months on the market. It is still one of Danone’s most popular products in Indonesia, where the average per-capita income is about \$11 a day. Danone partnered with Muhammad Yunus, the Bangladeshi who later won the Nobel Peace Prize for pioneering work in microfinance, to set up a joint venture called Grameen Danone Foods Ltd. to sell a seven-cent yogurt product called Shokti Doi—which means “strong yogurt.” Rich with vitamins and minerals, it was to be sold through local women who would peddle it door to door on commission.⁶²

The BOP strategy is challenging to implement. Companies have to offer affordable goods that are highly available in a community that is willing to accept the product. Most importantly, however, is that the company must bring awareness of the product to the general populace. Balancing these is not a simple task, since advertising and efficient distribution networks, for example, cost a significant amount, yet the companies cannot add a high price tag. Furthermore, illiteracy issues, poor infrastructure, corruption, and nonexistent distribution channels often associated with poverty-stricken societies deter companies from wanting to invest. Despite the many barriers, companies can be successful.

Table 8–2
Contributions by Nongovernmental Organizations to
Business Models in Developing Markets

Business Activity and Example	Market Constraint and NGO Contribution	Relation of New Model to Prior Corporate or NGO Business Model	Potential Benefit(s) to Business Model	Distribution of Social and Economic Benefits
Market research: Ashoka/FEC project to provide irrigation to small farmers in Latin America	<i>Market constraint:</i> Lack of knowledge; overcoming information asymmetries <i>NGO contribution:</i> Identifying innovative technologies developed for unique local environment and market conditions; identification and aggregation of customer base	New co-created business model that enabled the provision of irrigation service to farmers resulting in a doubling or tripling of their incomes; enabled private sector firm to reach new customers that would otherwise be inaccessible	Generation of novel business model	Social and economic
R&D: Cemex's Patrimonio Hoy program	<i>Market constraint:</i> Lack of appropriately priced and designed construction materials for self-construction of housing and financing <i>NGO contribution:</i> Market testing of products, incorporation of customer feedback; use of internal microcredit system to facilitate purchase of newly developed materials	New co-created business model that enabled Cemex to expand its market through reconfiguration of its business model and made it possible for Patrimonio Hoy to expand housing opportunities for low income families	Generation of novel business model; Value creation; cost minimization	Social and economic
Procurement and Production: Nestlé's cocoa farming initiatives	<i>Market constraint:</i> Underdeveloped human capital; need access to local networks and supply chains <i>NGO contribution:</i> Established relations with local communities and host-country governments	Extends Nestlé's existing business model (supply chain) and enables local NGOs to increase employment and other social benefits for residents	Value creation; value delivery; cost minimization	Primarily economic
Marketing: P&G/PSI and the Safe Drinking Water Alliance	<i>Market constraint:</i> Lack of knowledge surrounding distribution and use of water in developing countries <i>NGO contribution:</i> Input in product development, co-branding, customer education	Extends P&G's and PSI's existing business models by expanding the market for and the affordable availability of water-purification products (P&G product development; PSI's distribution networks)	Value creation	Social and economic
Distribution: HSBC Amah and Islamic Relief	<i>Market constraint:</i> Access to local networks and supply chains <i>NGO contribution:</i> May take on the provision of some services itself	Extends HSBC Amah's existing business model	Value creation; value delivery; cost minimization	Primarily economic
Comprehensive: AtoZ Mosquito Net Venture	<i>Market constraint:</i> No single organization was able to develop and distribute affordable mosquito nets <i>NGO contribution:</i> Holistic and fundamental rethinking of product/process and construction of new model tailored to specific context	Creation of new product based on shared technology and expertise. WHO participation makes product accessible to many people in Africa. Substantial financial and social value created		Social and economic

Source: Nicolas Dahan, Jonathan P. Doh, Jennifer Oetzel, and Michael Yaziji, "Corporate-NGO Collaboration: Creating New Business Models for Developing Markets," *Long Range Planning* 43, no. 2, pp. 337–338.

Can Internet and Mobile Access Transform Poor Economies at the Base of the Pyramid?

Developed countries have experienced dramatic advances in Information and Communications Technology (ICT), notably, sharp increases in penetration of both Internet and wireless phone networks. Developing countries, especially the poorest countries of South Asia and Africa, have not benefited from these trends. Some entrepreneurs, however, see great potential in reaching these “bottom of the pyramid markets,” although these efforts have, to date, been challenging. Low literacy rates, poor infrastructure, corruption and other political interference, and incomplete business models have all contributed to still-born efforts. Yet, these entrepreneurs have persevered.

In terms of wireless service and Internet services, many view Africa as the next great frontier, despite the fact that more than half the population lives on less than \$2 a day. From 2000 to 2009, Internet penetration in Africa grew 1,809.8 percent, from just over 4 million in 2000 to 86 million in 2009 (see Table 2-2 in Chapter 2). The total number of mobile subscribers in Africa stood at 296 million in 2008 and increased by more than 74 million subscribers, reaching 370 million subscribers as of the fourth quarter of 2008. In the top nine African telecom countries, users are expected to reach 444 million by 2013, with Nigeria alone expected to add more than 58 million mobile subscribers from 2009 to 2013.

The increase in the number of mobile cellular subscriptions over the last five years has defied all predictions and Africa remains the region with the highest mobile growth rate, according to an ITU document, “Information Society Statistical Profiles 2009: Africa.” It says the high ratio of mobile cellular subscriptions to fixed telephone lines and the high mobile cellular growth rate suggest that Africa has taken the lead in the shift from fixed to mobile telephony, a trend that can be observed worldwide. The number of Internet users has also grown faster than in other regions. However, the report notes that despite rapid growth, “Africa’s ICT penetration levels in 2009 are still far behind the rest of the world and very few African countries reach ICT levels comparable to global averages.” Fewer than 5 percent of Africans use the Internet, and fixed and mobile broadband penetration levels are negligible. “Indeed, the digital divide between the African region and the rest of the world is much more pronounced than the divide within the region, with very few countries reaching ICT levels comparable to global averages,” says the ITU document. The research shows that African countries are facing a number of challenges in increasing ICT levels. These include the lack of full liberalization of markets and the limited availability of infrastructure, such as shortage of international Internet bandwidth. “In addition, prices for ICT services remain very high compared to income levels.” On the question of infrastructure, the report says there are practically no cable networks and many countries

face a shortage of international Internet bandwidth. According to the ITU the figures highlight the acceleration of growth in African mobile and Internet markets outside of South Africa in less than a decade. Growth in Nigeria has been very strong. Kenya, Ghana, Tanzania, and Cote d’Ivoire have also accounted for the change in the distribution of mobile connections.

European companies were among the first to aggressively pursue African cellular markets. Ericsson, Alcatel, and Motorola have pushed into the region, and England’s Vodafone Group PLC and France Télécom’s Orange unit have set up operations around the region. But other entrepreneurs have identified mobile service and Internet services as a way to make money and empower individuals.

Terracom, an Internet venture started by Greg Wylar, an American tech entrepreneur, entered Rwanda and was granted a contract to connect 300 schools to the Internet. Later, the company bought 99 percent of the shares in Rwandatel, the country’s national telecommunications company, for \$20 million. Africa’s only connection to the network of computers and fiber optic cables that are the Internet’s backbone is a \$600 million undersea cable running from Portugal down the west coast of Africa. Built in 2002, the cable was supposed to provide cheaper and faster Web access, but didn’t deliver. Adding to the problem is that most of the satellites serving Africa were launched nearly 20 years ago and are aging or going out of commission. A satellite set to go into service last year blew up on the launching pad. Power is also an issue, as intermittent power failures in Rwanda hamper efforts to provide a steady electricity source. Meanwhile, Terracom’s venture has been plagued by repeated setbacks with both sides accusing the other of failing to deliver on its promise. “The bottom line is that he promised many things and didn’t deliver,” said Albert Butare, the country’s telecommunications minister.

Africa Online, another venture, was the first Internet service provider in Kenya (1995) and Cote d’Ivoire (1996). It grew to span eight countries across Africa. The company was founded in 1994 by three Kenyans who met each other while students at MIT and Harvard. The idea began as an online news service for Kenyans, which developed from an online community hosted at MIT called KenyaNet, one of several online communities that were among the most fervent virtual communities in the early pre-Web 1990s. With the commercialization of the Internet, Africa Online moved its focus away from providing news to connecting Africans on the continent to the Internet. In 1995, the company was bought by International Wireless of Boston, which ultimately became Prodigy. During this period, Africa Online expanded rapidly from its original operation in Kenya to Ghana, Cote d’Ivoire, Tanzania, Uganda, Zambia, Zimbabwe, and Swaziland, with the three Kenyans continuing to manage the operation. Africa

Online was the first commercial Internet provider in Kenya and Cote d'Ivoire. In 2007, Africa Online was purchased by South Africa's Telkom.

What makes Africa's mobile and Internet revolution significant is its potential economic impact. The World Bank has been a strong supporter of deploying wireless and Internet communication to improve food production and other development. To some, mobile has become a means to economic empower-

ment. For example, farmers in Senegal now use their one mobile phone to find eggplant buyers in Dakar willing to pay three times the rate offered by local middlemen. These and other examples suggest the information and communication technology revolution may reap benefits for multinational and local companies, as well as others who may improve their economic situation by exploiting these new communication opportunities.

Smart Communications Inc. saw that there was a great opportunity to expand in the Philippines, where about half the population lived in poverty. In 2002, the market forecasted that approximately 30 percent of the population would be using mobile phones by 2008. Smart offered pay-as-you-go phones that could be recharged using a microchip that was already in the cellular phones, making it possible to recharge "over the air." The company then began to offer pricing plans that consisted of extremely small increments, so even the low-income consumer could take advantage of the opportunity. It worked in Smart's favor, as more and more people began using the service daily, and the cellular industry reached a 30 percent margin in 2004, changing forecasts to a shocking 70 percent mobile phone usage rate by 2008. Smart's parent company experienced a more than tenfold increase in profits in 2004 as compared to 2003, due in large part to focusing on the very lucrative market at the base of the pyramid.⁶³ To learn more about how mobile technology is reaching impoverished countries, see the nearby International Management in Action box.

The Danone venture with Grameen also faced setbacks: milk prices soared, factory openings were delayed, and the saleswomen couldn't earn a living selling yogurt alone. The Danone venture shifted strategies and now sells the bulk of Shokti Doi in urban stores, not rural villages. But the knowledge gained through these experiences can be essential for MNCs: Danone maintained the project in Bangladesh, which it says provided useful insights for other parts of its business, and subsequently built a factory in Thailand modeled on the Bangladesh facility.

Entrepreneurial Strategy and New Ventures

In addition to strategies that must be tailored for the particular needs and circumstances in emerging economies, specialized strategies are also required for the international management activities of entrepreneurial and new-venture firms. Most international management activities take place within the context of medium-large MNCs, but, increasingly, small and medium companies, often in the form of new ventures, are getting involved in international management. This has been made possible by advances in telecommunication and Internet technologies and by greater efficiencies and lower costs in shipping, allowing firms that were previously limited to local or national markets to access international customers. These new access channels, however, suggest particular strategies that must be customized and tailored to the unique situations and resource limitations of small, entrepreneurial firms.⁶⁴

International Entrepreneurship International entrepreneurship has been defined as "a combination of innovative, proactive, and risk-seeking behavior that crosses national borders and is intended to create value in organizations."⁶⁵ The internationalization of the marketplace and the increasing number of entrepreneurial firms in the global economy have created new opportunities for small and new-venture firms to accelerate

international entrepreneurship

A combination of innovative, proactive, and risk-seeking behavior that crosses national boundaries and is intended to create value in organizations.

internationalization. This international entrepreneurial activity is being observed in even the smallest and newest organizations. Indeed, one study among 57 privately held Finnish electronics firms during the mid-1990s showed that firms that internationalize after they are established domestically must overcome a number of barriers to that international expansion, such as their domestic orientation, internal domestic political ties, and domestic decision-making inertia. In contrast, firms that internationalize earlier face fewer barriers to learning about the international environment.⁶⁶ Thus, the earlier in its existence that an innovative firm internationalizes, the faster it is likely to grow both overall and in foreign markets.

However, despite this new access, there remain limitations to international entrepreneurial activities. In another study, researchers show that deploying a technological learning advantage internationally is no simple process. They studied more than 300 private independent and corporate new ventures based in the United States. Building on past research about the advantages of large, established multinational enterprises, their results from 12 high-technology industries show that greater diversity of national environments is associated with increased technological learning opportunities even for new ventures, whose internationalization is usually thought to be limited.⁶⁷ In addition, the breadth, depth, and speed of technological learning from varied international environments is significantly enhanced by formal organizational efforts to integrate knowledge throughout a firm such as cross-functional teams and formal analysis of both successful and failed projects. Further, the research shows that venture performance (growth and return on equity) is improved by technological learning gained from international environments.

International New Ventures and “Born-Global” Firms Another dimension of the growth of international entrepreneurial activities is the increasing incidence of international new ventures, or **born-global firms**—firms that engage in significant international activity a short time after being established. Building on an empirical study of small firms in Norway and France, researchers found that more than half of the exporting firms established there since 1990 could be classified as “born globals.”⁶⁸ Examining the differences between newly established firms with high or low export involvement levels revealed that a decision maker’s global orientation and market conditions are important factors.

born-global firms

Firms that engage in significant international activities a short time after being established.

Another study highlighted the critical role of innovative culture, as well as knowledge and capabilities, in this unique breed of international, entrepreneurial firms. An analysis of case studies and surveys revealed key strategies that engender international success among these innovative firms.⁶⁹ Successful born-global firms leverage a distinctive mix of orientations and strategies that allow them to succeed in diverse international markets. Their possession of the foundational capabilities of international entrepreneurial orientation and international marketing orientation engender the development of a specific collection of organizational strategies. The most important business strategies employed by born-global firms are global technological competence, unique-products development, quality focus, and leveraging of foreign distributor competences.⁷⁰

There is a difference between born-global firms and born-international firms, as one study showed. Born-international firms tend to export products close to markets, and revenues from these outside markets contribute 25 percent or less of total revenues. Truly born-global firms, however, tend to distribute goods to distant markets in multiple regions, and revenues from international activities tend to surpass 25 percent. It has been found that truly born-global firms tend to survive longer than other seemingly global companies.⁷¹ However, being born global can simply be seen as accelerated internationalization. Another study compared born-global firms to those which sought out joint ventures or acquisitions (see Chapter 9) as a method to expand internationally. Results showed that while the market responds more positively to joint ventures or “partnerships,” the extent

to which a born-global is successful greatly depends on how developed the area is that the company is moving into. In other words, while the market appreciates already established firms because they are familiar, if a start-up does not have the capital to partner with well-known organizations and the international markets are open, then born-global companies may show slightly lower returns in the beginning, but this is not an indicator of survival or ultimate success.⁷²

One clear example of a born-global firm is California-based Amazon.com. Like most U.S. Internet firms, Amazon.com has been able to distribute its products and services on an international scale from the outset. Although differing levels of cultural similarities and technological sophistication impact Amazon's potential for success internationally, the Internet as a medium has removed certain entry barriers that have historically restricted quick market entry.⁷³ Another example is New York-based online trading and investing services E*Trade. The company was able to bring in revenues from 33 countries in only three years, clearly making it a global brand. Allowing customers to actively participate in their investments while offering multilingual technical and professional customer support allowed E*Trade to integrate its services in many countries. The simplified website does not bombard consumers with extraneous information, and allows each person to trade as much or as little as desired, making it inherently customized. It has not been a success story for its entire existence, however. The company was in danger of being left behind when it could not get out of the red, but in 2005, the company was able to become profitable due to the low cost of Internet business and its extremely diverse customer base. Although it had its ups and downs in the following years, it survived the financial crisis with fewer problems than many "bricks and mortar" brokerages.

The Internet clearly provides one of the easiest and most efficient methods of becoming global quickly, but it is important that awareness is brought to the business, or it too can be lost in the digital maze of the World Wide Web.⁷⁴ Now more than ever, born-global as a corporate strategy is becoming more attractive and less risky. The opening World of International Management feature of Chapter 11 provides a discussion of the globalization of online retail.

■ The World of International Management—Revisited

Recall the World of International Management's discussion of the pharma industry that opened this chapter. It is easy to see why pharmaceutical companies are expanding globally and reshaping their business strategies accordingly. Large, traditional pharmaceutical companies are facing pressures from a range of quarters, including new competition from emerging markets. These firms are attempting to lower costs by collaborating with or merging with generic companies, diversifying their product portfolio to provide more consistent revenue streams, investing in newer higher value-added compounds that require biologic expertise, and leveraging their research and development across products and geographies. This is truly an industry in transition, with globalization itself as a major driver of the transformation.

Drawing on your understanding of the need for and the benefits of strategic management, answer these questions: (1) Which imperative is likely to be relatively most important to MNCs in the coming decade: economic, political, or quality? (2) When MNCs scan the environment, what are two key areas for consideration that they must address? (3) Choose one of the pharma companies mentioned in the chapter's opening World of International Management. How would you characterize its strategy within the globalization–national responsiveness framework? (4) Which FSAs and CSAs does it primarily rely upon? To what extent does the company use a "base-of-pyramid approach"? How would it affect the company if low-income markets turned out to be a bust?

SUMMARY OF KEY POINTS

1. There is a growing need for strategic management among MNCs. Some of the primary reasons include: foreign direct investment is increasing; planning is needed to coordinate and integrate increasingly diverse operations via an overall focus; and emerging international challenges require strategic planning.
2. A strategic plan can take on an economic focus, a political focus, a quality focus, an administrative coordination focus, or some variation of the four. The global integration–national responsiveness framework defines the four basic strategies employed by MNCs: international, global, multi-domestic, and transnational. Although transnational is often the preferred strategy, it is also the most difficult to implement.
3. Strategy formulation consists of several steps. First, the MNC carries out external environmental scanning to identify opportunities and threats. Next, the firm conducts an internal resource analysis of company strengths and weaknesses. Strategic goals then are formulated in light of the results of these external and internal analyses.
4. Strategy implementation is the process of providing goods and services in accord with the predetermined plan of action. This implementation typically involves such considerations as deciding where to locate operations, carrying out an entry and ownership strategy, and using functional strategies to implement the plan. Functional strategies focus on marketing, production, and finance.
5. Strategies for emerging markets and international entrepreneurship/new ventures may require specialized approaches targeted to these unique circumstances.

KEY TERMS

administrative coordination, 277	global strategy, 279	political imperative, 274
base of the pyramid strategy, 291	international entrepreneurship, 295	quality imperative, 275
born-global firms, 296	international strategy, 279	strategic management, 271
economic imperative, 273	key success factor (KSF), 282	strategy implementation, 284
environmental scanning, 281	multi-domestic strategy, 279	transnational strategy, 279
global integration, 277	national responsiveness, 277	

REVIEW AND DISCUSSION QUESTIONS

1. Of the four imperatives discussed in this chapter—economic, political, quality, and administration—which would be most important to IBM in its efforts to make inroads in the Pacific Rim market? Would this emphasis be the same as that in the United States, or would IBM be giving primary attention to one of the other imperatives? Explain.
2. Define *global integration* as used in the context of strategic international management. In what way might globalization be a problem for a successful national organization that is intent on going international? In your answer, provide an example of the problem.
3. Some international management experts contend that globalization and national responsiveness are diametrically opposed forces, and that to accommodate one, a multinational must relax its efforts in the other. In what way is this an accurate statement? In what way is it incomplete or inaccurate?
4. Consider that both a retail chain and a manufacturing company want to expand overseas. What environmental factors would have the most impact on these companies? What ratio of environmental scanning to internal analysis should each employ? What key factors of success differentiate the two?
5. Anheuser-Busch is attempting to expand in India, where beer is not widely consumed and liquor dominates the market. What areas should be targeted for strategic goals? What could be some marketing implications in the Indian market?

6. What particular conditions that MNCs face in emerging markets may require specialized strategies? What strategies might be most appropriate in response? How might a company identify opportunities at the “base of the pyramid” (i.e., low-income markets)?
7. What conditions have allowed some firms to be born global? What are some examples of born-global companies?
8. Mercedes changed its U.S. strategy by announcing that it is developing cars for the \$30,000 to \$45,000 price range (as well as its typical upper-end cars). What might have accounted for this change in strategy? In your answer, include a discussion of the implications from the standpoints of marketing, production, and finance.

INTERNET EXERCISE: FINDING OUT WHAT MAKES FUJITSU TICK

Fujitsu is one of the world’s largest IT service providers. It offers consulting services, goods to doctors and health care systems and grocery store chains, and business and personal office solutions. Go to Fujitsu’s website at www.fujitsu.com to see background of the firm and the products it offers. Then answer these questions: How do you think international strategic management is

reflected in what you see on the website? What major strategic planning steps would Fujitsu need to carry out in order to remain a world leader with such diverse offerings? What potential threat, if it occurred, would prove most disastrous for Fujitsu, and what could the company do to deal with the possibility of this negative development?



Poland

Poland is the sixth-largest country in Europe. It is bordered by Germany, the Czech Republic, and Slovakia in the west and south and by the former Soviet Union republics of Ukraine in the south, Belarus in the east, and Lithuania in the northeast. The northwest section of the country is located on the Baltic Sea. Named after the Polane, a Slavic tribe that lived more than a thousand years ago, Poland has beautiful countryside and rapidly growing cities. Rolling hills and rugged mountains rise in southern Poland.

There are approximately 38 million Poles, and GDP is around \$527 billion. A shift to industry and services has made Poland attractive to MNCs. There are many facets that make Poland attractive, one of which is that the central location to other European countries provides MNCs with easy access to competitive markets nearby. A policy of economic liberalization, which Poland has been pursuing since 1990, has converted the country that had not been known for ranking high in business into a success story among transition economies.

Despite continuing problems, the Poles have made some progress in establishing a viable economy. The country has proven to be very attractive for U.S. investors. There are approximately 350 U.S. firms that have offices, factories, joint ventures, or subsidiaries on Polish ground. A basis for foreign cooperation is the broad consensus across political lines, which welcomes foreign direct investment. Many incentives to attract new firms that can bring capital, technology, and jobs to Poland are offered by the government.

To take advantage of this economic situation, a medium-sized Canadian manufacturing firm has begun thinking about renovating a plant near Warsaw and building small power tools for the expanding Central and Eastern European market. The company's logic is fairly straightforward. There appears to be no competition in this niche, because there has been little demand for power tools in this area. As the postcommunist countries continue to struggle in their transition to a market economy, they will have to increase their productivity if they hope to compete with Western European nations. Small power tools are one of the products they will need to accomplish this goal.

Other than the lack of competition, why would Poland seem so attractive to U.S. and Canadian companies? The people of Poland have a great deal to offer. The highly educated populace includes a great many individuals who are multilingual and are extremely hard working, second only to Korea in hours worked per year. Furthermore, low labor costs in a country where almost 15 percent of the people are still unemployed is a huge incentive. Poland also has a vast modern transportation system including seaports, major airports, railroad systems, and roadways. The government attempts to bring in new companies by offering grants or tax exemptions. While the Canadian firm considers moving the manufacturing of small power tools to Poland, it might be favorably impressed by the vast and successful R&D projects that are in progress in the country, including institutions such as Siemens, Avio, IBM, Intel, Motorola, GlaxoSmithKline, and more.

There likely will be little competition for the Canadian firm for the next couple of years, because small power tools do not carry a very large markup and no other manufacturer is attempting to tap what the Canadian firm views as "an emerging market for the 21st century." However, a final decision on this matter is going to have to wait until the company has made a thorough evaluation of the market and the competitive nature of the industry.

www.poland.pl; www.buyusa.gov.

Questions

1. What are some current issues facing Poland? What is the climate for doing business in Poland today?
2. Is the Canadian manufacturing firm using an economic, political, or quality imperative approach to strategy?
3. How should the firm carry out the environmental scanning process? Would the process be of any practical value?
4. What are two key factors that will be important if this project is to succeed?

Go East, Young People, Go East

Amanda Brendhart, Jose Gutierrez, and Rhoda Schreiber founded and are partners in a small electronics firm, Electronic Visions, that has developed and patented some state-of-the-art computer components. Visions has had moderate success selling these components to large U.S.-based computer manufacturers. The biggest problem is that in recent months, the computer market has begun to turn soft, and many of the manufacturers are offering substantial discounts to generate sales. Therefore, although Visions has found an increasing demand for its product, it now is grossing less money than it was several months ago.

To increase both sales and profit, the partners have decided to expand into Asia. Although this region is known for its low-cost computer production, the group believes that countries such as China, Malaysia, and Thailand soon will become more lucrative markets, because the U.S. government will make these countries open their doors to imports more fully. If trade barriers are removed, the partners are convinced that they can export the goods at very competitive prices. In addition, the partners intend to find a partner in each market so that they have someone to help with the marketing and financing of the product. Of course, if the components can be

produced more cheaply with local labor, the partnership is willing to forgo exporting and have everything produced locally.

At present, the group is trying to answer three questions. First, what is the best entry strategy to use in reaching the Asian markets? Second, what type of marketing strategy will be most effective? Third, if production must be coordinated between the United States and an overseas country, what is the best way to handle this? The partners believe that over the next two months, they will have a very good idea of what is going to happen regarding the opening of Asian markets. In the interim, they intend to work up a preliminary strategic plan that they can use to guide them.

Questions

1. What type of entry and ownership approach would you recommend? Defend your choice.
2. How could the partners use the four Ps of marketing to help implement strategy?
3. If production must be globally coordinated, will Visions have a major problem? Why or why not?