Strategic Management for Competitive Advantage
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Lecture 23
Complexities and Challenges of Competing in Global Markets - II

Welcome to the course Strategic Management for Competitive Advantage. In the last class, we talked about the international strategies for competing in global markets today we will continue that discuss the complexities and challenges of competing in the global market will continue.

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So, the concept that will be covered in today's lecture is the reasons for locating value chain activities advantageously in different locations. We will be discussing this in this class, and then we will also cover the impact of government policies and economic conditions in host countries. These are two important things we will be covering today.

Further, we will also see the risk of adverse exchange rate shifts and differences in buyer tastes and preferences for products and services. All these we will be discussing today.

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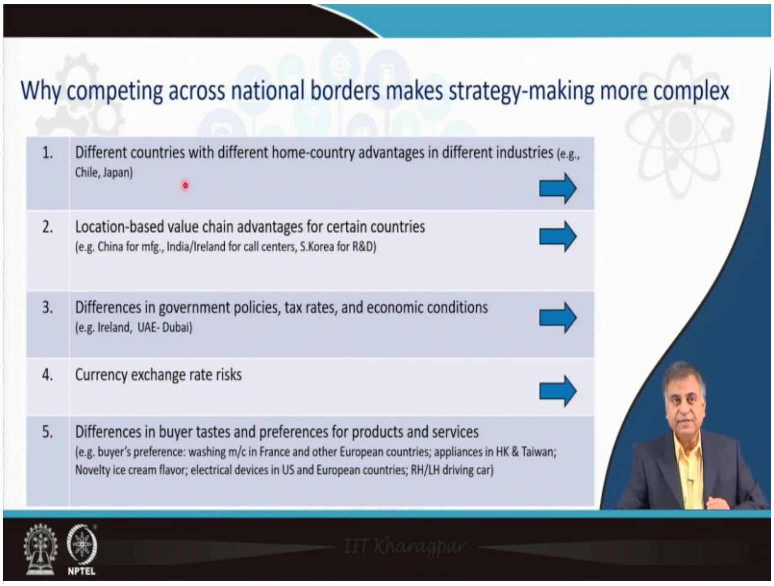

Now, the slides we have seen in the last lecture. So, why companies competing across national borders are more complex? So, we have talked about this first point which is the Nationals diamond model of Michael Porter for competitive advantage. Now, we will start from here rest of the four major reasons for strategic making challenges and conflict complexities involved in it, we will discuss it.

Now, the second point is location-based value chain advantages for certain countries. you know, as I discussed previously that certain countries are having natural resources advantages. So, they get the value chain advantages, they get the location-based advantages, those countries and other reasons are the low wages, the certain countries labour input costs are low.

So, they get the advantages for that say, for example, all of us know, China is the manufacturing hub of the world, why that the labour cost wages are low, there are other input costs, say electricity, the materials, even the infrastructure facilities. Those are less costly than others. So, that is why manufacturing industries are booming in China, and the whole rest of the world is also coming there to open their plans or have some contract for manufacturing.

So similarly, you see, India and Ireland, they are the having more BPOS, call centres and all because we have a good number of people who are educated and English speaking. So, they can take up these jobs, and that is why BPOS call centre prospers in these countries.

Similarly, if you go to South Korea, you will find they have many good institutes, research centres, and universities.

So, those are the research hub of the many advanced countries because you get those professionals at a cheap cost and all. So, now we will be going further on this, what are the factors that add value to these location-based advantages?

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So, what reasons for locating value chain activities advantageously? what are the factors? The factors are as I told you lower wage rate. Wage rates in the developed countries USA Germany, and Norway are much higher Norway it is around per day, per hour labour cost is around sixty-five, sixty-three for something US dollar. Whereas if you see India or China, it has gone now 3.12 dollars, India it is 1.72 some dollars.

So, wage rates and this is why the industries, which are capital intensive or mostly manufacturing industries, which require huge labour costs are the major components for that industry. There they will go for this less developed country where they can get a competitive advantage over this input and labour cost. Then higher worker productivity in some countries and all the China and all productivities of labour are much higher than ours.

Then lower energy costs, some countries give incentives for the giving energy costs are low, but in China, energy costs are low, whether they subsidize or not, there are maybe some reasons and there. So, these are the input costs then fewer environmental regulation like many advanced and developed countries nowadays have very stringent environmental laws. they do not allow that those pollution emissions levels and all and those are very strict and if anybody does not comply that they have to incur a huge penalty. That is why many industries like chemical industries and other polluting industries are discouraged in this company. So, they go for the countries where these regulations for environmental factors are not that stringent.

Then lower tax rate: If you get lower tax rates and all the local government tax and all are less income tax, corporate tax is less that gives an incentive for going the foreign market. Then also lower inflation rates, the inflation rate has to be low and very steady, otherwise, what happened, it eats up your profitability and capital. So, that is also a potential factor to be considered.

Then proximity to suppliers and technologically related industries. what does it mean like your raw material suppliers, supposing for the natural resources, if a rubber for oil and gas, mineral and the lumber these forestry products? If those suppliers are nearby, you get the cost advantage there. So, these are the reasons you go for nearer to the source of your raw material.

Similarly, in proximity to customers, some industries require you to be near your customers like mining industries and all mineral industries, for excavations and all you need is a dumper, shovel, heavy equipment, and those interlinking movements. All those things have to be serviced and to be repaired, and that thing has to be given to them the suppliers at the short notice.

So, you can have to open up workshops, repair shops and distribution centres. So, you have to be in proximity to customers, similarly to many other industries, then lower distribution costs. So, you go to the overseas market so that distribution cost is less. otherwise, if you are a centrally one-owned house and distribute to the different corners of the world then it is very costly.

So, if you have distributed the supply centres it lowers your cost. then available or unique natural resources, I have already talked about it those natural resources and all. I have given you the example, if you are closer to that source, you will be getting a competitive advantage, these are some of the reasons for locating value chain activities advantageously.

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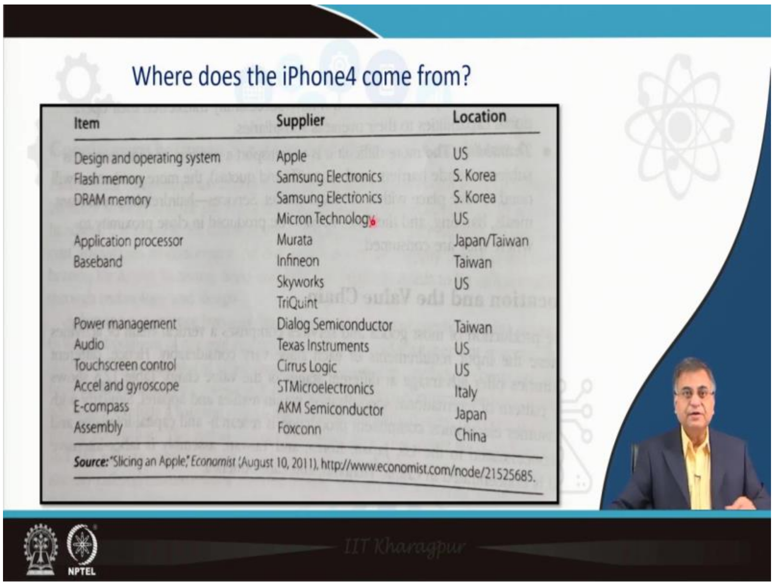

Item	Supplier	Location
Design and operating system	Apple	US
Flash memory	Samsung Electronics	S. Korea
DRAM memory	Samsung Electronics	S. Korea
	Micron Technology	US
Application processor	Murata	Japan/Taiwan
Baseband	Infineon	Taiwan
	Skyworks	US
	TriQuint	
Power management	Dialog Semiconductor	Taiwan
Audio	Texas Instruments	US
Touchscreen control	Cirrus Logic	US
Accel and gyroscope	STMicroelectronics	Italy
E-compass	AKM Semiconductor	Japan
Assembly	Foxconn	China

Source: "Slicing an Apple," Economist (August 10, 2011), http://www.economist.com/node/21525685.

Now, you take the example of this, where does the iPhone come from? The iPhone has different items; their components are different. These components are technologically very advanced parts. So, these are various components, who are the suppliers. Apple Samsung micron, technology, and Murata are the suppliers, and the locations of the suppliers are in different parts of the world, the USA, South Korea, Japan, Taiwan, Italy, and China.

So, the iPhone components come from various companies and various parts of the global centres. So, because of competitive location-based advantages.

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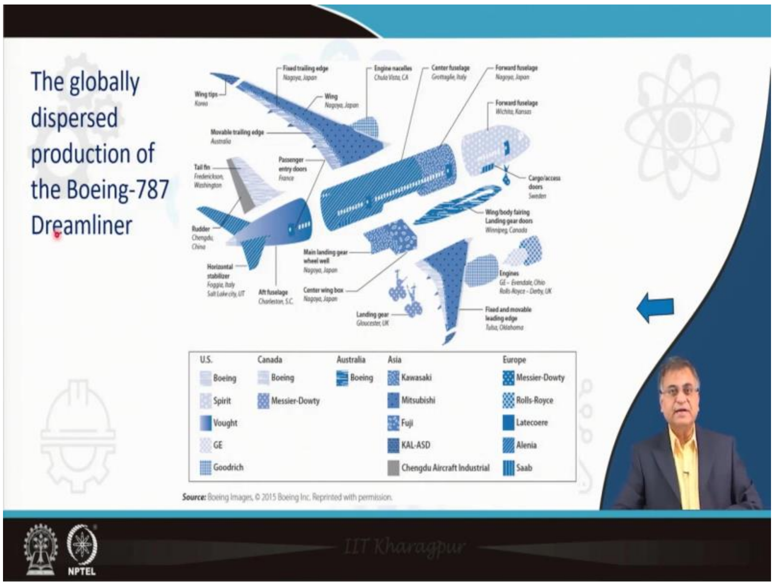

Similarly, if you see the Boeing -787 Dreamliner, the different components of this Boeing are having dispersed production. It comes from different supplier dispersed production; it comes from saying different parts. If you see go through these US Boeing then these are the companies GE, Goodrich, and then Canada, then Australia, then Asia, and Euro these are the different companies they supply it. So, this is why they get the location-based value chain activities advantage. Next, we will be coming to location-based value chain advantages for certain countries.

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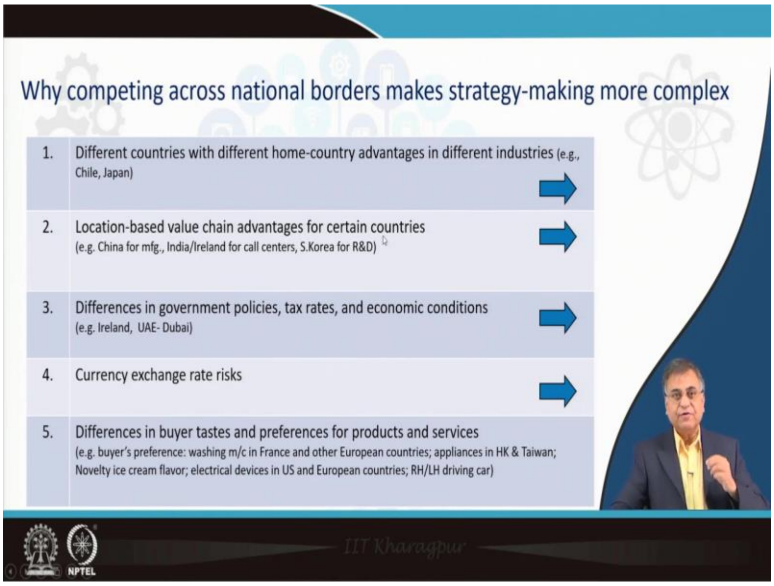

Next are the differences in government policies, tax rates and economic conditions. Government policies can attract attractively, and that can attract FDI (Foreign Direct Investment). Foreign players can come if it is an attractive policy and it can be unattractive policies also that is generally being done to discourage a certain type of industry.

Like take the case of Ireland to get foreign direct investment, they invite the big companies, and then they give the land for a very cheap rate, very attractive tax rates, and they give them the infrastructure. They help them to build the infrastructure, even they develop the worker and local population populace. They develop the workers and give them training so that the foreign companies come and they can readily employ those workers as a skilled worker and all.

Certain training and all the government give it to utilize. These are the say positive government policies, those things help to attract foreign investment and take the case of UAE, Dubai. They have zero tax like they ask for the companies to come and have their offices there or planned. they do not charge any taxes. So, these are the motivations for the companies to come there.

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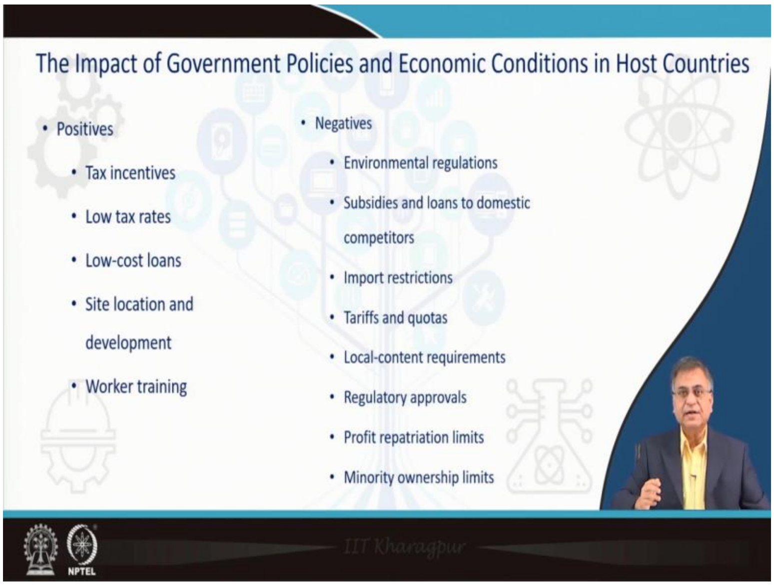

So, now let us see this. What are the factors for this impact of government policies and economic conditions in host countries? If you want to attract them, then what are the government should do? If they should give them tax incentives and tax holidays for some time to lower taxes then they will come. The government then give low tax rate, low cost of the loan and easy term loan. So, these are the attractive proposition.

Then the site locations, they can even develop the site locations and help the companies to do so. The worker training, as I already told you that the training of the local populace for the absorbing in the in those companies, but the government could be negative also. what are these negative things? That the government wants to discourage foreign investment and multinationals from coming in.

So, they can take the negative routes like, they can have stringent environmental regulations regarding pollution as it discourages investment. The government can give subsidies and loans to domestic and local companies so that they can challenge foreign companies. The government can put import restrictions on foreign companies like you have to pay certain parts to the domestic countries or vendors.

So, in this way, they can put some regulations to discourage imports by the MNCs. The government can also put tariffs and quotas so that foreign companies cannot go beyond that certain thing. Then local content requirements where the government can issue some regulations that foreign companies have to buy say 30 per cent or 40 per cent or X per cent of their materials from the local vendors, local companies.

So, these are to discourage foreign companies from participating, and government can also impose many regulatory approvals for getting a piece of equipment and machinery for so. These are discouraging or frustrating the foreign companies, the profit repatriation limits, some countries also have given the profit repatriation limit.

So, they cannot take out more than 50 per cent or 40 per cent of profit from the country as some limit is given. So, it also discourages foreign investment. then minority ownership limits like if you wanted to open a shop here in a foreign country, then government also insist and as a law there you have to tie up with a citizen or national of that country.

So, who will be holding say dormant or the minority ownerships? So, these are enough to discourage a new entrance. So, these are the impact of government positive and negative government policies and economic conditions in host countries.

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Then also two more things are important here, the impact of government policies and economic conditions in host countries. One is the political risk, and the other is the economic risk. First, I talk about the political risk. So, if you go to the foreign market, you must see the political instability, that instability or weakness of the national government is a major hindrance to investment in that country.

And because when you have seen the first two. You have seen in Arab Spring and all, the political risk was very heavy. The governments are most unstable in some countries you will find some dictators are ruling there are possibilities of having a coup. So, this is due to instability no one wants to go and invest because foreign investments and all markets are going for the long term.

So, you must look at this political risk, how stable the government is and also you must look at the hostility to foreign business. Some countries are very hostile to foreign businesses. For example, in Argentina, you know, there YPF was a major oil company, and the major shares were by Repsol. Repsol is a special company, a major oil company.

But in 2012, the Argentinean government nationalized YPF and expropriated the whole assets of the company. Then Repsol was lost there, all their market, assets everything. So, this is another threat. So, hostility to foreign business, and when you talk about the political risk, not only the stability or instability of the government. you also look at the legislation, whether these are conducive for business or these legislations are putting hurdles or hindrances for the business, you have to look at it also.

Then another is the economic risk, what are these economic risks? you also look at it the countries in which the country has stable monetary systems, whether the inflation rates are very high or the fiscal deficit is high, economic and regulatory processes are strictly followed or not. All these things have to be looked into, what are the growth rate, national GDP growth rate and what is the per capita income and economics? these all become part of the economic risks.

And also, another major thing about economic risks, you look at it is whether they lack property rights protections or they are good at property rights protection? In some countries, China you will find the property rights protections are very losing that means you are not a very encouraging thing for investment. So, these are the same political and economic risks, you must look at it.

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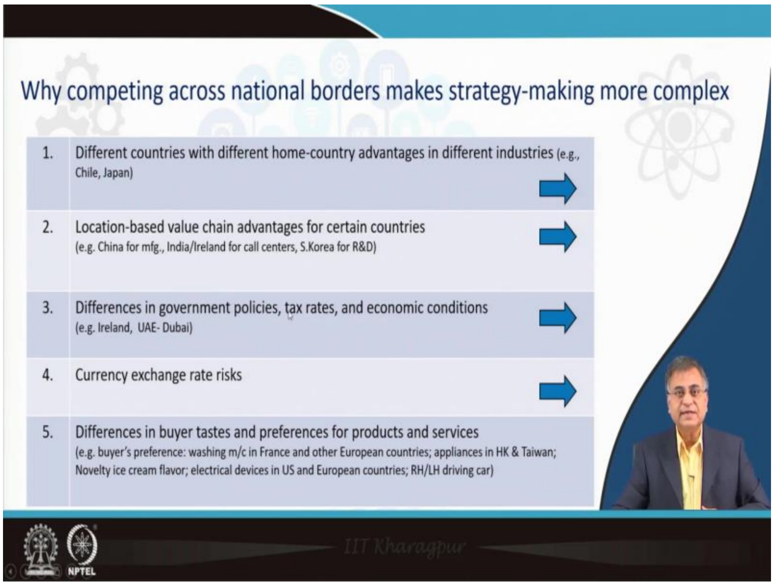

Then comes these are what we have talked about the differences in government policies, tax rates and economic conditions we have talked about.

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Next is another major thing is the currency exchange rate risk. what is this currency exchange because different countries' have distinct currencies and it fluctuates, and currency exchange can wipe out your profitability, if it is not favorable for your unfavorable things can wipe out the profit? So, you must look at it what are the effects of exchange rate shifts.

Now, I will just pose some questions and try to answer that see, what happens to exporters when the home country's currency grows weaker relative to the importing country's currency? Now, these currencies in some countries can go high and depreciate so, what happens to this? So, when the home country's currency grows weaker, the exporters are in an advantageous position because when the home country's currency grows weaker for the exporters, means their product demand will increase. So, there will be more demand.

So, they are in an advantageous position compared to the importing country's currency that is why if they say the dollar in the USA if they are exporting something, the dollar say grows weaker means the demand with that same dollar you can buy more products. So, the demand for the product will increase. So, America will be as far as export is concerned will be in an advantageous position. So, it will help their exporters to earn more because of the rising demand.

Now, what happens to exporters when the home country's currency grows stronger relative to the importing country's currency. What happens when your home country's currency grows stronger? It means your demand falls because you can buy less quantity of products with the same money. So, your demand comes down. So, Exporters in a disadvantageous position that is why you will find out there are some contentious issues between China and USA. It is blamed that China is artificially keeping their currency rate lower which means, if we take lower currency rate against the dollar, that people demand for Chinese goods will be more.

So, the companies may think of opening a shop or a plant in China and then exporting it to the rest of the world or other countries. Then China will be in a better position. So, these are the dynamics generally go as for the exchange rate shapes, this is we have discussed that currency exchange rate risks.

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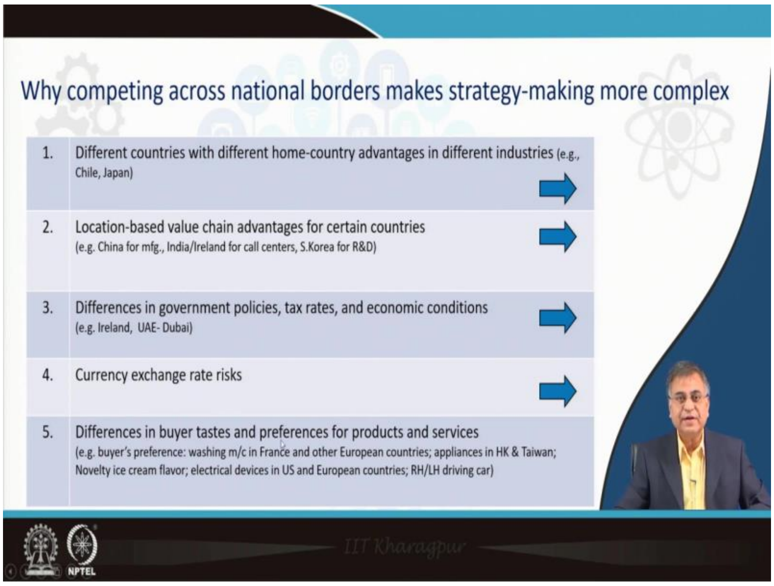

Now lastly, it is the differences in buyer tastes and preferences for products and services. Now, if you see the buyers in different countries have different preferences or tastes. Take the case of the washing machine as a product washing machine in France, French people prefer a top loading washing machine whereas the rest of the European countries prefer a front-loading washing machine. So, if you have to market your product in France, you should not have front-loading machines, you should have top-loading machines.

Similarly, if you go for say take the appliances to home appliances in Hong Kong, they prefer compact appliances whereas, in Taiwan, the people prefer large appliances. So, these are the tastes and preferences of the people for this. Similarly, if you take the novelty ice cream flavour, these ice creams have many types of flavour say shark fin flavour, eel flavour, then it may be the dried shrimp flavour and all these are very popular in East Asian countries, but these are not very popular with the European countries or the Americans and all, they have different flavours.

So, if you go for this flavour of ice cream in European and US countries, then it will not sell. So, you have to look at these differences in tastes of the customers. Then similarly, there are maybe some regulatory standards, like electrical devices, and there are some standards given by the regulatory board of that concerned country.

Say USA electrical appliances and all work with 110-volt DC, but mainly 110 volts AC, but many European countries or India and all we use 240-volt DC. So, these are the regulation by the standard boards. So, your product has to be compatible with that 110-volt AC or 240-volt DC it has to be changed with that.

Similarly, if you see the driving in the US and many countries and all have right-hand driving, but in many European countries or in India and all we have left-hand driving, so your product has to be changed accordingly. So, these are called the major reasons and other differences in buyer taste and preferences for products and services, the company has to look at it. So, these are the five major reasons that make strategic making complex and to take the major decisions for venturing into the overseas market, you must pay attention to all these five factors.

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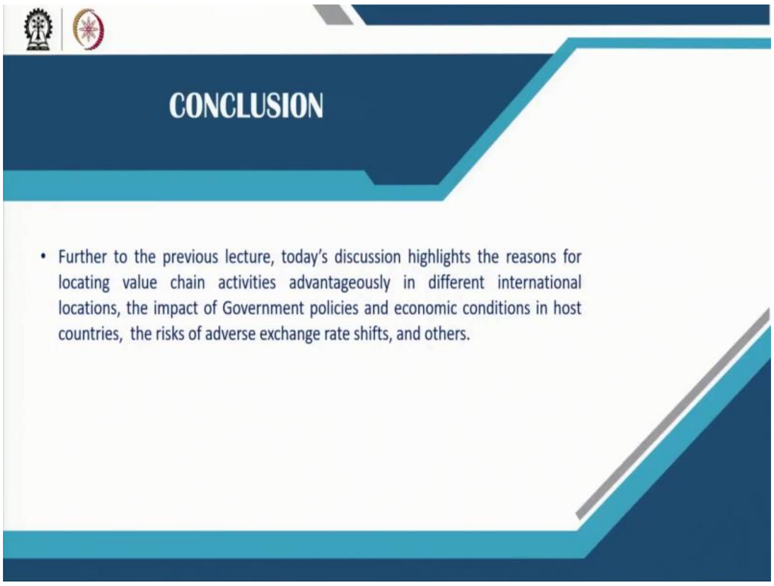

Now, coming to the end, what will be, to summarize today this lecture is that we highlighted here the reasons for locating value chain activities advantageously in different international locations. We also talked about the impact of government policies and economic conditions in host countries the risk and adverse exchange rate shifts and all these in this lecture. So, these are the major reasons for going advantageously with the foreign markets.

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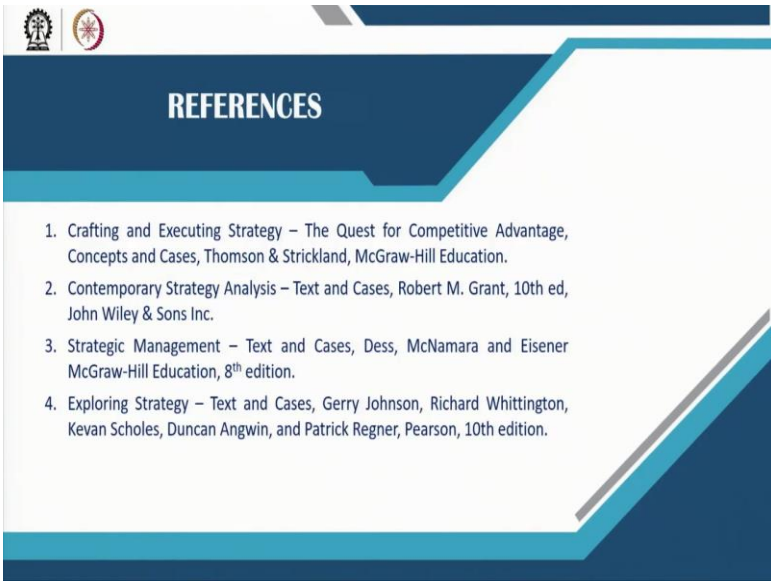

So, these are some of the references you wish can consult to enlarge your knowledge further. So thank you very much for attending.