Strategic Management for Competitive Advantage
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Lecture 24
Entry Mode Strategies and Main Approaches for International Business

Welcome to the course Strategic Management for Competitive Advantage, we are continuing the module on international strategy and competitiveness in global markets. Today we will be discussing important modules say entry mode strategies and the main approaches for international business.

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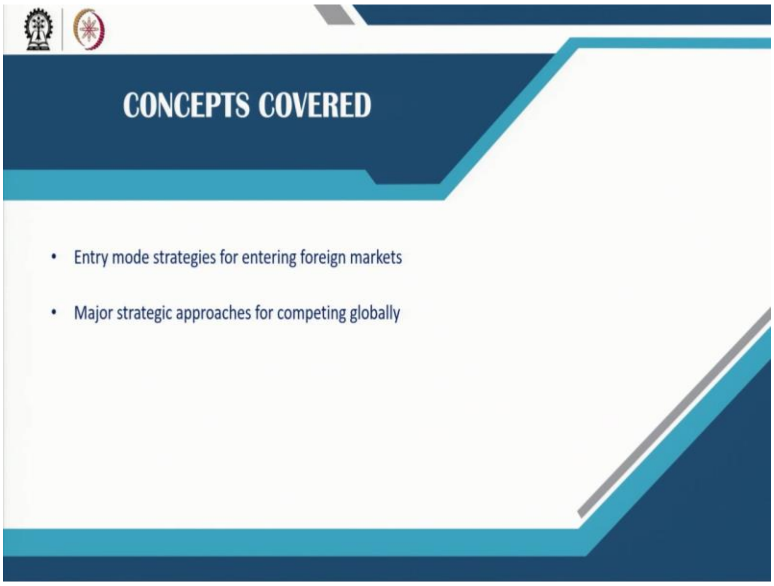

To start with, so the concepts that will be covered in today's lecture are entry mode strategies for entering foreign markets and how the company should go to a foreign market within major strategic approaches for competing in the global market, these are the two important concepts and strategies we will be covering in today's lecture.

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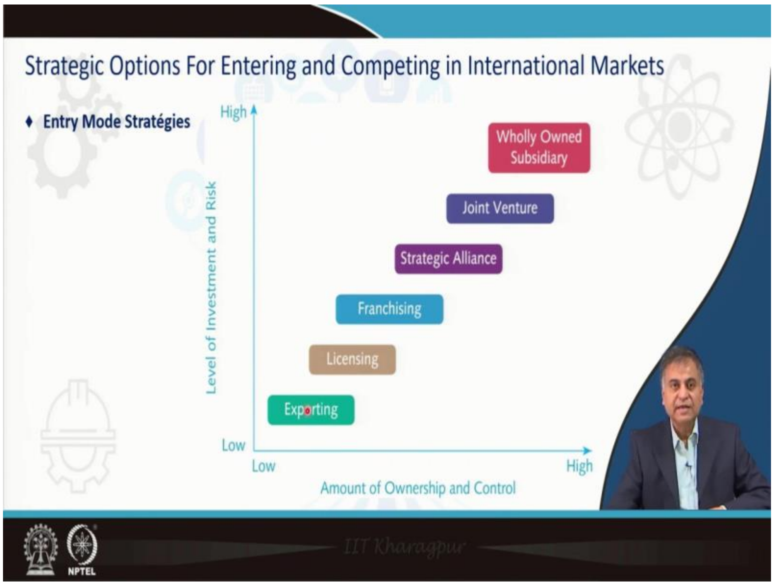

To start with say, these are some strategic options for strategic modes for entering an international market. what are these modes? These modes are as you can see, say in the X axis is the amount of ownership and control and the Y axis denotes the level of investment and the risks involved in this. So, these are some of the strategic options available for organizations.

Say it starts from exporting, licensing, franchising, strategic alliances, joint venture, and wholly owned subsidiary. We will talk about each say exporting. Exporting here as you can see, the risk and investment involved for the kind of company which wants to go to foreign markets are very less, but the number of ownerships and controls are correspondingly low.

So, this exporting strategy is followed mostly by organizations which do not have much capital for investing in the foreign market or do not have the appetite to take that risk or the organization may not have the capabilities not only the resources. Capabilities for handling a foreign market. So, for them, this exporting strategy is very convenient. what is it? you develop your products in your home country and export them to the international markets.

And here what is important is that the home country production cost got to be very low, where do you have a competitive advantage, you have the investment and the input costs for productions are low, lower wages and all. So, the only thing you will be incurring here is transportation costs. You look at it that the transportation cost is not as high which will make the foreign countries' production plants better options. So, you have to look at all these aspects of this exporting strategy.

And here also what you have to do. You have to look for a wholesale or retail distribution network in the foreign countries to whom you may have a contract, and you export it to them for further distribution in the foreign market. It may happen so, in course of time some companies may set up their distributorship or networks and do it by themselves that is another, but you have to always look for the home country's production costs, vice versa is that transportation cost so, that it is a lucrative strategy.

And you will find that Reliance in Jamnagar refinery from there one of the refineries is dedicated for the exporting, they export to the finished products to different countries and these strategies are also followed in China, Italy and many other countries. Next is the licensing, here you do not have that the organizational capability or the investment capability to set up a shop in a foreign country. So, what do you do? You license your technical know-how which means you have to be very advanced in the technical know-how of the product of the equipment and machinery whatever it may be the technology.

So that you license to the foreign partners and they manufacture based on your proprietary technology and know-how they provide it. It is a good thing when we do not have enough resources, but it also has disadvantages, the foreign partners or foreign companies who are taking your licensing would they come to know you're that technological know-how.

There is always a risk that they may not abide by your rules and all so that thing is always there. But it is as long as you get the royalty. Usually, the parent company gets their royalty if that royalty is lucrative and it is a better option for you. Then comes franchising is another mode, what is this franchising? This licensing works in manufacturing goods and products but franchising is generally adopted in service and retail enterprises. These things can be the services, and all things can be imitated very fast, other rivals can take that just copy you.

So, there what do you do? You rapidly capture the market and franchising is a good option for rapidly capturing the different countries. So, you go for franchising here, it is one of the fastest growing modes, but here again, the problem may arise like the different countries have different standards, different ethical standards, different needs, different tastes, and different preferences. So, that there is how much you have to accommodate those changes like saying McDonald's, KFC, Pizza Hut. These are all franchising.

So, this enterprise follows franchising to capture the market and the quality they cannot dilute it. The cost quality, product a brand name that has to be kept intact. So, they change the tastes and preferences of the need of their customer. they set up customers in that country.

Like say, McDonald had to introduce vegetarian sandwiches in India and many other parts of the country, then this is franchising. then strategic alliances and joint ventures this is other modes of strategic alliances. As you go to a foreign company for specific purposes, suppose it may be to strengthen your production, or your marketing or distributorships.

So, in specific areas you have your strategic alliances for a certain objective, it is generally done when the uncertainty is very high, and the risk is more. These strategic alliances are generally you will find where the risks are huge. Say for deep-water oil or deep-water oil drilling those are very risky and uncertain, you do not know whether you discovered oil or not, and those are very costly affairs.

So, no one company takes the risk to spread the risk. They form strategic alliances or consortiums for different companies. So that their risks are minimized, that is strategic alliances. One form of strategic alliance is a joint venture when two or more companies join with a contract, and they have their joint plan, they form a joint identity, joint new company, they form a joint company and with their specific purpose and they own the assets and liability at a predetermined rate. It may be fifty-fifty joint venture, it may be sixty-forty, it may be seventy-thirty whatever it may be. They share the assets, liabilities and profits.

So, these are joint ventures. So, you will find many joint ventures say oil and gas joint ventures may be for specific purposes also they formed a joint venture. It is one of the most popular ways to take control. It becomes very easy like if you want to go to a foreign country, there are maybe many government rules, regulations and bureaucratic hurdles, and you may not know all those.

So, if you have a joint venture with a local partner in that country, they are familiar with all those rules, the distributor shifts, distribution network, the customer's taste, preference and culture. So, you can get the advantage of all these. If you form a joint venture or have strategic alliances and, in some countries, what happened there are foreign investors and all, there are many rules, and they have to obey and comply that becomes easier when you have a joint venture with a local company. you can comply with all those things very relatively easily.

So, another option for entry mode is a wholly owned subsidiary, some of the companies do form a new company(unit) in the foreign country, and that is 100 per cent investment from them, and this company looks after all its operations or activities. mostly are sales distributions, advertisement and every other activity and for that, there are maybe two options.

One option is to take over or buy through acquisitions of a local company fully takeover it and you can that is the fastest way to have a subsidiary-owned subsidiary. And another way is you start internally developing a company which takes time. So, on the basis of your need, objective and timeframe, you will decide whether you will go for acquisitions and have a wholly owned subsidiary.

Like Honeywell, if say industrial products and services and all. Whenever they work in different countries, whenever they go to one country, they have their wholly owned subsidiary through that all transactions and activities are controlled in that country. These are some of the entry modes. And here you see the old ownership and control increase as you go up, but the investment and risk also increase as you go up.

So, this is the riskiest, but you have the highest control. exporting is the least risk and investment involved. But it is also your controls are low. So, these are some of the strategic modes for competing in the international market.

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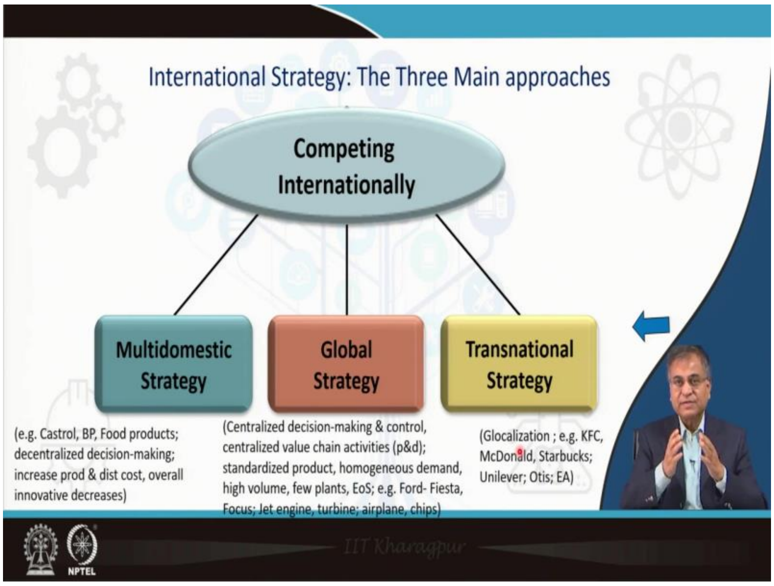

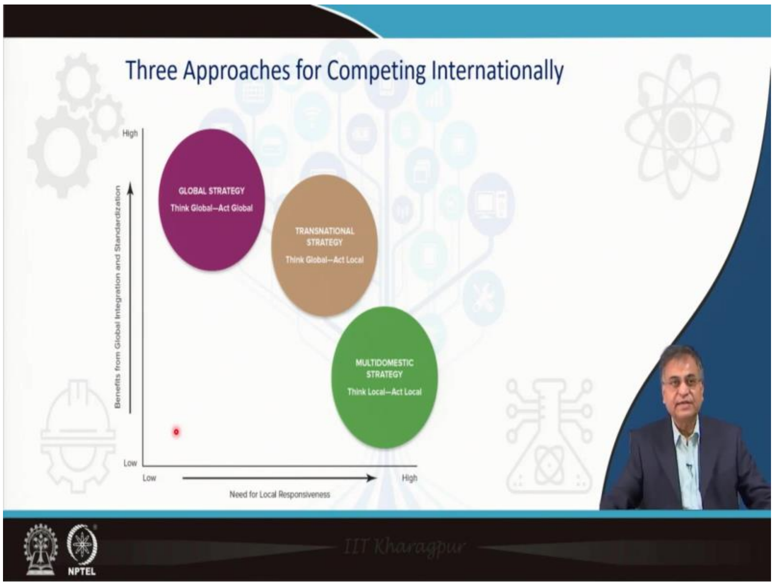

Next, we will be coming to there are three main approaches for competing internationally. The three main approaches are called multi-domestic strategy, global strategy and transnational strategy. we will discuss them one by one.

What is a multi-domestic strategy? Multi domestic strategy is the foreign company, they have their product offerings and follow different competitive approaches from one country to different countries. this is to satisfy the need of the customers and the need of the buyers and also to meet the local market conditions and requirements.

So, they follow a multi-domestic strategy to take the case of saying Castrol, Castrol has three thousand lubricants products. you all know that Castrol oil produces lubricants and all, they have three thousand different types of lubricants, and that can work in different types of climates, it may be the snowbound mountain or the desert or anywhere any climatic conditions that may work in different types of machines, equipment, different types of cars, automobiles.

So, they have created three thousand because this is the requirement for different types and different countries also. The country requires their methanol, the emissions and all have to be different. Similarly, you see British Petroleum, which has many types of petrol and gasoline. they sell to different countries because different countries have different emission norms.

So, that has to comply, and this is a requirement by the regulations of that company. So, they have to change the offerings of the product and competitive approaches. Similarly, you will find some food product industries where the tastes of different buyers and all countries are different.

So, what do they do? In this food products industry, they develop and change the ingredients according to the liking of the buyers of that country, and they put a local brand name and then sell it. So, this is also according to the requirement of the buyer's taste. So, these are called multi-domestic strategies. Here decision-making is decentralized, and you cannot have the decision-making globalized.

Like in one central control, because different countries' products may differ, products have to change. So, you give decentralized control decision making and control of two different countries. there are varieties of production goods which increase your production cost and distribution cost.

Then otherwise, if you had a few products or a single product, you could get the advantage of innovation, research and development. You have done, but here if you have three thousand different items for different countries and all. Here overall innovation efforts and all innovativeness generally decrease in such a strategy.

So, this is called multi-domestic strategy, and this is also called the think local, act local.

If you see this diagram, these three approaches, say this is the need for the local X axis is that need for local responsiveness and Y axis is the benefits for global integration and standardization. See multi-domestic strategy falls here because here your need for local responsiveness is quite high and but you get very few benefits from the global integration. So, here is the multi-domestic strategy, you think local act local.

So, next comes the global strategy, what is global strategy? The global strategy is for the company offers standardized product throughout and follows the same competitive approach in different countries. So, all over the world they have a standardized product and follow a standardized competitive approach. So, when do you follow it, when the product demand is uniform and homogeneous, and the product is standardized?

Then the product requires then you get this global strategy. for example, furniture manufacturer IKEA, its products are the same, and they have the same competitive approach all over the world in different countries. So, it follows a global strategy, and when your brand name is very strong, then it is easier to follow the global strategy. So, you should have a strong brand name.

Even say jet engine turbines are very standard products. The products which require high R & D work you cannot tamper with that. So, whatever the say gas turbine or the thermal power plant turbines and all these specifications are very rigid as per the manufacturers, and those are very standardized and used all over the world. So, here you can follow a global strategy.

Similarly, Aeroplanes manufactured by Boeing and Airbus and that a standardized products than computer chips, these are much more standardized. So, you can follow a global strategy and take advantage of centralized decision-making here you can control. he feels the products are standardized you can take the advantage of centralized decision-making.

So, therefore you can have the advantage of centralized value chain activities like production or the distributions that the product are standardized and you can get the economies of scale by producing high volume. So, you might have few plants instead of many plants in diversified dispersed areas.

So, these are the advantages of global strategy as I told you to get the economies of scale. Say, for example, you know the Ford, the automobile company was sliding for 1990 and also the first decade of 2000 it was coming down. So, they had taken many measures to improve to turn around. So, one of the things they came out with was a global brand design for automobiles.

Say for the cars, they came out in the 2010 Ford Fiesta and also in 2011 Ford Focus. These are a global design, the same car can be adopted in different countries say North America, European countries, Asian countries, Australia, everywhere it can be done. So, it follows a standard product only. One thing that they can change in their product is the emissions which are a very small part because different countries have different emission levels.

So, according to that emission, those exhausts and all that can be changed that was the only things they incorporated. So, they followed a global strategy, which had their centralized decision-making and control. they got the centralized value chain activities advantage, and it turned around very good.

So, these are the global strategy. If you think you see here where the global strategy stands? global strategies' need for local responsiveness is very low, but if you see the benefits for global integrations are very high. So, you can get economies of scale if you have free high volume and fuel plants, this is the global strategy, it is called think global act global. Here you are thinking global and acting global. So this is called global strategy.

Then the third one is called transnational strategy, what is it? It is the middle ground strategy; it consists of both multi-domestic strategy and global strategy. It is also called glocalization means globalization plus localization. So, it is also called glocalization. What you do here like you think global but act local. what is it?

Say example, KFC, then McDonald's, and Starbucks, are all doing this because if you see McDonald's, they have to introduce vegetable sandwiches to India and many other Asian countries. So, then they offer beer to Germany. So, they are even the ingredient tastes and all Different countries Chinese have some prefer different tastes, Philippines had some other tastes, Japanese some, European some other tastes.

So, they change that as for the local responsiveness similarities, that you will find Unilever. Unilever has consumer goods that they have to meet the different countries' local needs, and I will explain all these things further in the future classes or the next lecture, but at the same time, they try to get globalized economies of scale through this off through some functions.

To say this, Otis is the elevator, they used to follow a global strategy previously, but when they went to China, they found the market is huge, but the Chinese people do not like one type of saying elevator that the requirement is differentiated. Different segments of people require different types of elevators. So, they had to adopt that. And after adopting this transnational strategy, their sales or revenue in China increased six times six folds in nine years.

Similarly, electronic cars also follow a transnational strategy. They have two big studios for Vancouver and Los Angeles, but they have three, and many small studios in say London, Tokyo, Orlando all these places and while the major ones focus on those countries. The smaller ones, their themes and all they develop that are country-specific as per the requirement of those is the customer's needs.

So, they follow a transnational strategy, here it is as I told think global and act local. you can find here that the need for local responsiveness is medium-high and the benefit of globalization is also medium-high. So this is called transnational strategy. It is a middle ground, and here you change your products with mass customization so that the need of the customers is satisfied while you follow a standardized approach for the global integration benefit, these are the three approaches as I informed you.

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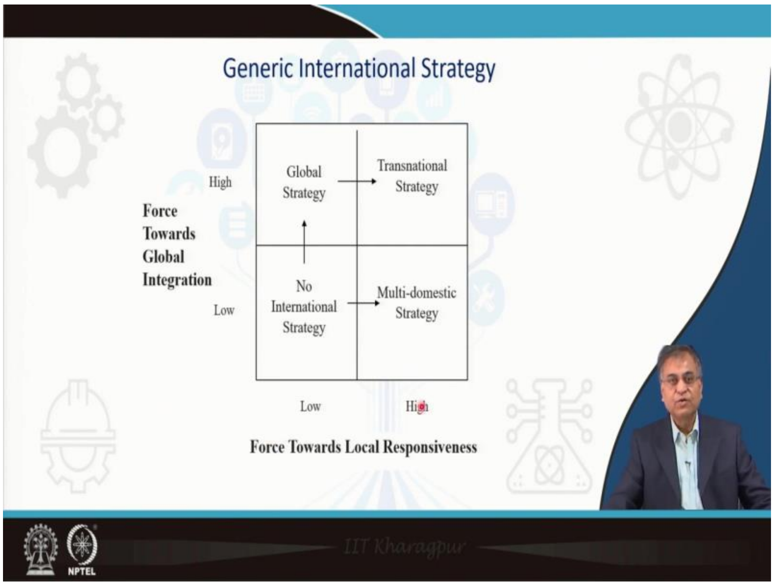

So, this is the same thing you can find in the generic international strategy that diagram here forced towards the local responsiveness and forced towards global integration. So, global strategy as you have seen the low local responsiveness, and high global integration, this is the transnational strategy, this is the multi-domestic strategy. this is the low-low, there is no international strategy required here. what are the products or services in this? we will be seeing in the next diagram.

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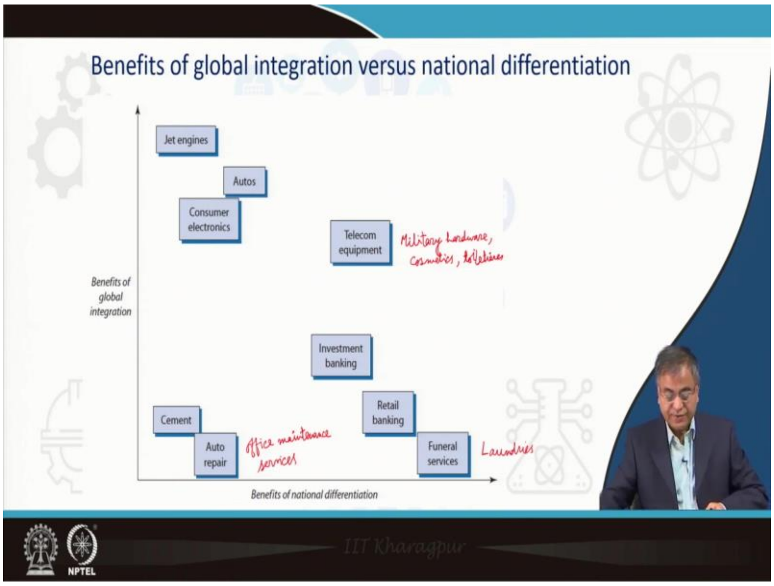

Say here as you find these are the benefits of global integration versus national differentiations. So, anything that you do is it trade-off between the national differentiation that is the local responsiveness and the benefits of global integration. As you find these are the global strategies like jet engines, automobiles, automobiles are the global strategy it can follow selective automobiles.

Customer electronics follow that global strategy. here you can take the advantage of economies of scale with the volumes and all because your products are standardized here. Now, you see where there are no international strategies are required, these are cement, auto repair and also what it can be some other things you can mention it is the also be office, office maintenance services,

Similarly, if you find here this is the high benefits for national differentiations and the low benefits of global integration. funeral services or laundry services, retail banking, the investment banking. here you will not find any low foreign investments and all.

Then this one is the what transnational strategies like benefits of national differences, medium-high benefits of global integrations are high. This is telecommunication equipment and military hardware, maybe cosmetics and toiletries. These are the same you can get it this. So, you have a fairly good idea now, what are these three approaches?

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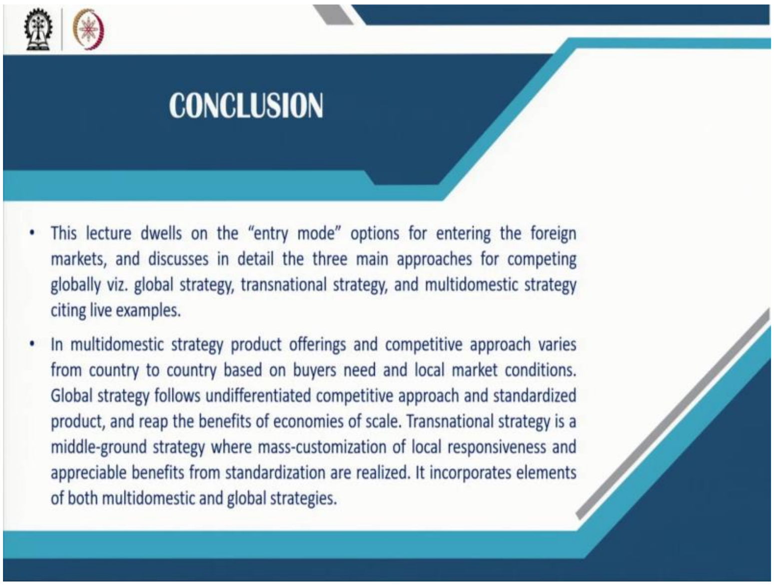

Now I will summarize today's what we have done in this, in this lecture, we have talked about the entry mode options for entering the foreign market. And we discussed in detail the three main approaches for competing globally those are global strategy, transnational strategy and multi-domestic strategy. And we have cited many live examples of this.

In multi in nutshell, we can say the multi-domestic strategy product offerings and competitive approaches vary from country to country based on buyers' needs and local market conditions. The global strategy follows an undifferentiated competitive approach and standardized products and reaps the benefits of economies of scale. Whereas, in transnational strategy is a middle ground strategy where mass customization of local responsiveness and appreciable benefits from standardization are realized. It incorporates elements of both multi-domestic and global strategies.

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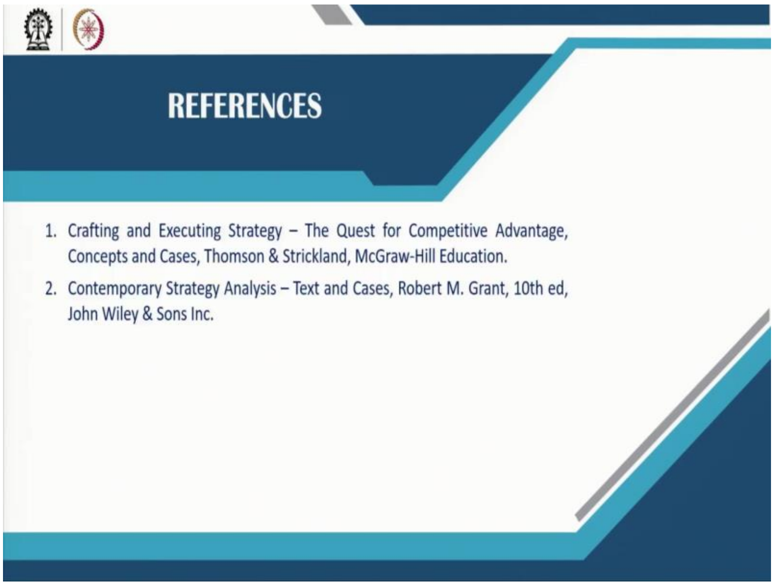

So, the next these are some of the references you can go through and enrich further on these topics. So, thank you very much for attending.