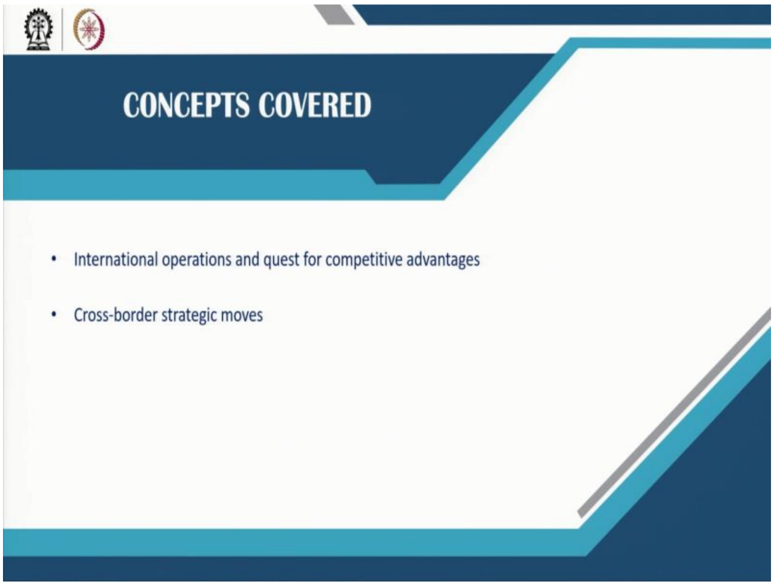
Strategic Management for Competitive Advantage
Professor Sanjib Chowdhury
Vinod Gupta School of Management
Indian Institute of Technology, Kharagpur
Lecture 25
Building Competitive Advantage in International Markets

Welcome to the class Strategic Management for Competitive Advantage. We were continuing on module 7 i.e., international strategies for competing in global markets. The concepts that will be covered today are international operations for competitive advantages, and the ways cross-border strategic moves.

(Refer Slide Time: 0:52)



(Refer Slide Time: 1:07)

If you see this diagram, this is how you build competitive advantage in the international market is very important because you have come out from your home market, and there are multiple players. So, you have to survive, you got to have sustainable competitive advantage, and how do you build it? Generally, you can have three approaches to build sustainable competitive advantage.

First is (say) use international location as a lower cost or differentiated product. So, how do you do this? Using the international location, there are maybe two options, whether you want to concentrate your activities on a few plants or a few locations, or maybe you want to have dispersed activities in different locations and have many plants.

So, these are the two options. Say one is called concentrate, sometimes you want to concentrate your activities in a few plants to get the advantage of economies of scale, when do you go for it? You find that some countries may be endowed with some natural resources, or they may have low wages, so, you can go there and have the advantages of those economies of scale.

So, if a few plants are there, volume is high, naturally, your unit cost of production comes down. So, these are the conditions you look for concentrating your activities in a few locations. And in these what happens that your volume is high, the learning curve effect is also there. So, you get that cost advantage.

For example, athletic footwear, is generally produced in two countries, say China and South Korea. So, because they get these economies of scale. Similarly, for the PC control circuit, PC circuit board, which is generally done in Taiwan, only a few locations, few plants, again in Taiwan the wage rates are low, and they have superior skilled workers.

That is why you can get the overall cost leadership advantage. Then if you take another example, say a digital camera, or LED TV, these are produced mostly produced in Japan, Taiwan and South Korea, because the wages are low, raw material costs are low, and also you have superior skilled workers and also R&D.

R&D, you will find the Silicon Valley because of the high degree of skilled laborers or engineers or software professionals. So, these are the areas you follow a concentrated few locations and to get these advantages. But again, for some activities, you go for dispersed locations, when do you go for dispersed locations? When your buyers-related activities are involved, you got to be close to your customer, you need to be close to your buyers.

You got to have a big distribution network, and also you require after-sales services say, for example, mining industry or the oil drilling equipment manufacturing company, they have to be close to their customers because, for the repairing, you need the workshop, conditioning satisfying after-sale activities you have to be very close to your customers.

Then it is the necessity of that industry. So, here you got to have dispersed locations and also, you will find the international accounting firms have to be close to their clients. So, that is why, you will find they have offices in different cities, and different countries like they may have offices in London, Frankfurt, Shanghai, Mumbai and Delhi.

Similarly, across international law firms also, you will find them in consulting industries. They have different offices in different countries where they have their businesses, and they are nearer to their clients also these dispersed locations are a necessity when your transportation cost and distribution cost is high. If you have only a few plants, your distribution cost of the products may be very high in such cases, you may have a dispersed location.

So that you take advantage of the closer distribution costs, so, you have to find out this cost-benefit analysis and also some time that minimize it if you have different international locations, it also minimizes the exchange rate fluctuation risk.

So, these are some of the conditions to use international location to lower cost or differentiation in product take this is one way. Another way is to share resources and capabilities across borders, this is the way you can also take advantage of the competitive advantage. What is this? This is a differentiation-based competitive advantage. You can take differentiation based, for example, Gucci, Prada, Hermes, these have a very high brand name and these brand name itself sells.

Now, if Gucci or Prada, go to another country to open their retail shops and the brand name differentiates it from the other products or other local products. So, this gives you a competitive advantage. Similarly, another way of sharing resources and capabilities across borders is you transfer technological know-how. If you have the strong technological know-how, you can easily transfer it to your subsidiaries across different countries.

Say take the case of Whirlpool; Whirlpool has seventy production centres and R&D centers in different countries. Now, they are assembling those products that some subsidiary has developed. So, Whirlpool uses online in-house IT platform.

Through those IT platforms, they disseminate that knowledge among all seventy centres in different countries, so, that everybody gets accustomed to it and quickly develops and comes to the efficient level. So, this is nothing but sharing resources and capabilities across borders at the same time, and you get the competitive advantage through this.

Similarly, Disney, Disney have their core competencies in their themes, and thematic ideas, when Disney goes to different countries, the core capabilities, they share across the border. Now different companies have adapted to the culture of that country and redefine those themes according to the local needs. But the core capabilities and core resources are shared by Disney across different countries.

Similarly, if you see you can share cores resource and company capabilities through quality. You have to have good quality that can be shared for a competitive advantage.

Take the case of Honda, which started with the Honda motorcycles seventy years back, so those Honda motorcycles are known for their quality. But quietly, Honda motorcycles have also built a reputation as the supplier of automobiles, then the outdoor power equipment and it is synonym with quality, and they have earned that brand name through improving the quality.

And similarly, if you have quality improvement, you can share your resources and capabilities across the border, but it is not that straightforward, that if you have all these you will get the competitive advantage in a foreign market because there are lot many players in the foreign market and everybody status is different.

Whether someone is deeply entrenched in that foreign market or different foreign markets have different requirements. So, it may not be that if you have a very strong resource base and strong capability does not mean you will succeed in a particular country.

Take the case of Royal Philips electronics. It is a Netherlands company, based in the Netherlands. Its 2015-2016 sales revenue was around twenty-five billion euros, and it operates in more than sixty countries. It has a name for itself, and it has multi-products in consumer electronics i.e., TV, DVD etc.

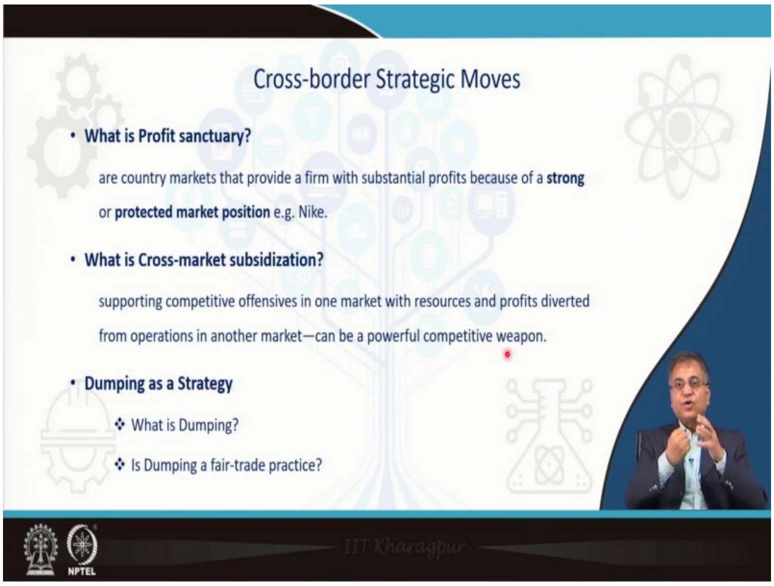
So, when it went to the market of North America, it did not succeed, why did not succeed? It is not that that the product is bad. The North Americans think they have the notion that Royal Philips produce low-end products. That is why they could not get the competitive advantage and could not penetrate much in the North American market. So, despite they are good and they are successful in sixty other countries.

The last one is to gain cross-border coordination benefits so that you can compete and get the competitive advantage in the international market, how do you get it? Say like in the international markets, if you have many sanctuaries or many countries, you can shift production from one plant in one country to another and can take advantage of exchange rate fluctuation, low wages of that country or the low energy cost of that country, or maybe sometimes there are component shortages in one country.

So, you can change, suppose the wage rate goes high in one country. Energy costs go high, and your production costs in that country will be much higher it will not be economic to produce more. So, what do you do? You scale down the production in that country. And if you have some nearby countries, your production plant, where the wage rates and low energy costs are low, you shift the rest of the productions there.

So that you can get the advantage of the unit cost of production, so this way, you can gain cross-border coordination benefits, these are the ways one can build competitive advantage in the international market.

(Refer Slide Time: 17:49)



To further go through it. We will talk about some cross-border strategic moves. You will find the term called profit sanctuary, what is a profit sanctuary? Profit sanctuary is a country that generally is strong mostly in its home country, i.e., the domestic market.

So, country markets provide farms with subsequent profit profitability, because of their strong market share or the protected market positions, which is called profit sanctuary. Usually, the home country is the profit sanctuary, and there may be many other countries that may be profit sanctuary.

Like take the case of Nike, Nike has two profit sanctuaries. One is the USA, where in 2015 its revenue was 13.7 billion dollars, and the next was in China, where it was three point 7.1 billion dollars. So, the country where they make have a substantial market share and make a significant profit and have protected market positions are called profit sanctuaries.

Then there is another thing cross-border strategic movies. Cross market subsidization. What is this cross-market subsidization? Here, you support your competitive offensiveness, with resources and profits diverted from another market that is from profit sanctuaries, you divert your resources to go offensive in another market to capture resources, it can be a very powerful competitive weapon.

So, what do you essentially do? You take your resources from profit sanctuaries, and divert them to some markets, where do you want it to go offensive. This is a cross markets subsidization. Another cross-border strategic move is called dumping, you must know what dumping is, how do you define dumping? These two questions we will be answering are what dumping is and whether dumping is a fair-trade practice.

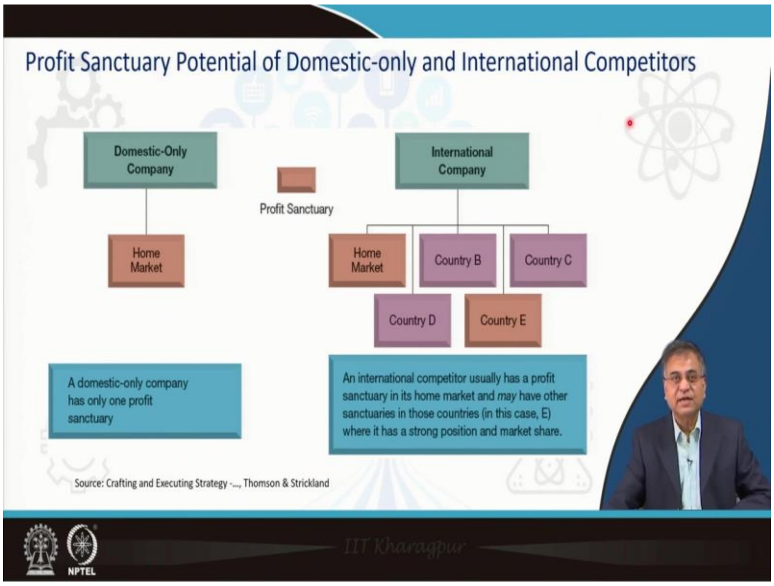
Dumping is when an organization, or a company, goes to a foreign market and sells its product at a price less than its home price or at a price which is less than its full unit cost. China, many a time, has been accused of dumping. So, if they are exporting the products and selling that in another foreign country with a price which is less than their home domestic price in China or the selling price in the foreign country is less than its full unit cost, that is production plus the transportation distribution costs. So, this is called dumping, and this way, if one country or the company tries to get the market share in another company, it is not a fair-trade practice.

Now, WTO (World Trade Organization), many countries are members of WTO they keep a close watch and try to discourage these practices. And also, if some company follows these practices, what happens to the foreign country where they are doing the dumping, they impose a duty or tariff on that country for those products.

Suppose some company in some country is dumping steel products, what the foreign country will do, they will impose a tariff on the steel products from that country. And in fact, the home country's government discourages it, because steel production may be done by a number of companies, not one company, say Steel Authority, Tata iron and steel company, SR steel. So, many private companies are there, if one company does the dumping in a foreign company, they impose the tariff not against one company they impose the tariffs against that country.

So, therefore, for one company, the entire other companies in the industry are getting affected in the home country, which is why the government of the home country also discourages these dumping practices.

(Refer Slide Time: 24:12)

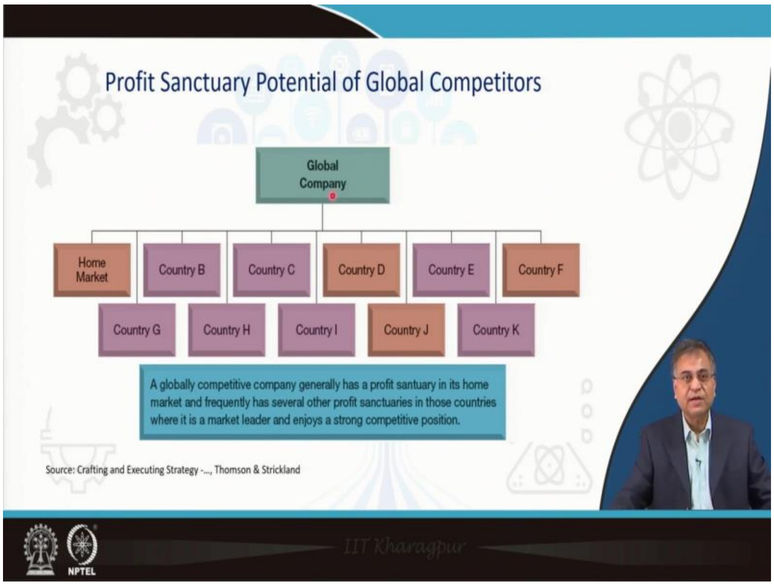


Now, if you see this one, this is we talked about the profit sanctuary potential of domestic only and international competitors. If you see this is a domestic only company, it has only home operations it does not have any foreign operations. So, it has only a home market. Therefore, it is vulnerable if the foreign players come here, they will eat up their market shares.

So, it is a bit vulnerable. So, a domestic only company has only one profit sanctuary whereas an international company which is working in different countries one is the home country market, Country B, Country C, Country D, Country E. Here they have two profit sanctuaries, one is the home market, and another is a Country B, C, D and E.

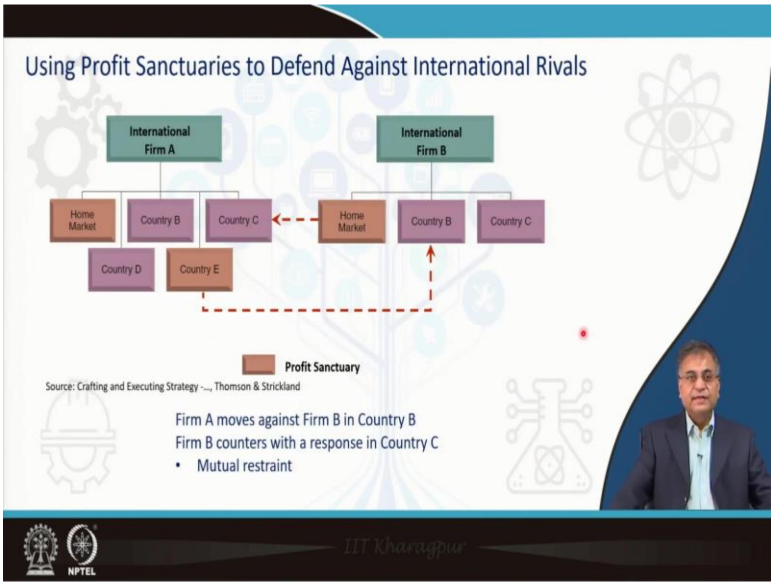
So, as I told you, Nike in USA and China, are the profit sanctuaries, others are there in the growing stage. So, an international competitor usually has a profit sanctuary in its home market and may have other profit sanctuaries in different countries, where it has strong positions and market shares.

(Refer Slide Time: 25:54)



Then you go for the profit sanctuary potential of global competitors. It is a global company which has so many international operations, and you can see that the home country is a profit sanctuary, and the others are country D, Country F, and Country J are profit sanctuaries.

(Refer Slide Time: 26:38)

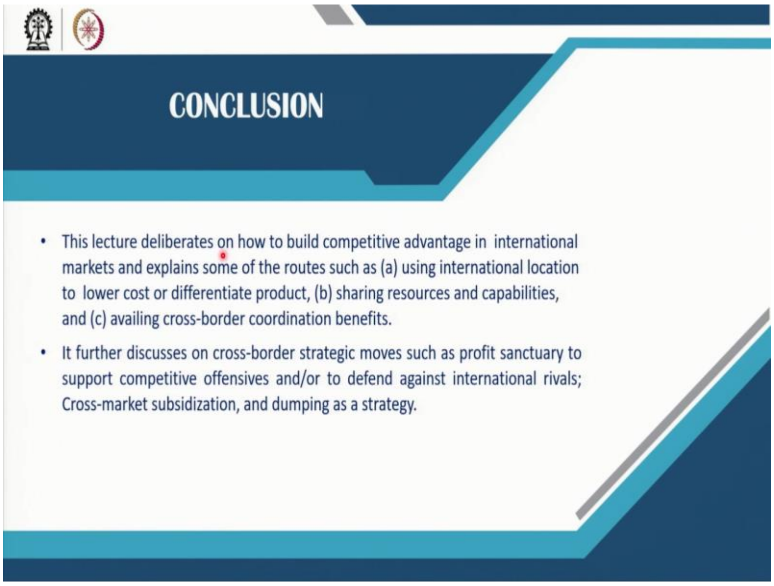


Now, this is very interesting, using profit sanctuaries, you can go offensive to another country, another company or also it acts as a defend against international rivals, see, how does it work. Say international firm A, it has two profit sanctuary say home market and Country B is strong. So, international firm B has the home market and Country B, Country C.

Suppose firm A, attacks firm B where it is not very strong say Country B attacks to get the market share. So, what will firm B do? Firm A will also attack from its home market they will divert its resources and attack a weak position with the country of that company.

Say Country C is weak, so, they will channelize their resources and capabilities to Country C to capture the market. So, if Country A, farm A attacks, then they will also retaliate. So, this itself develops a mutual restraint with each other because they know if I attacked the market of another company, then they will also retaliate. This is how the competition goes on in the international market.

(Refer Slide Time: 28:56)



Now, to sum up, whatever we have discussed in this lecture, we have discussed how to build competitive advantage in the international market. And we have explained some of the routes, such as using international locations to lower costs or differentiate products, then sharing resources and capabilities and availing cross-border coordination benefits.

Then further, we have discussed cross-border strategic moves such as profit sanctuary to support competitive offensive and or to defend against international rivals. Also, we have talked about cross-market subsidization and dumping as a strategy.

(Refer Slide Time: 29:55)

So, now, if you further want to know about this topic you must refer to these books and can enrich yourself. Thank you very much for attending.