

International Business
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Lecture – 53
Global Firms Success Strategies

Welcome friends, to the class of International Business. In the last lecture we had started discussing about the impact of marketing on international business. That means, we discussed about how global firms create a marketing strategy to enter into different countries and expand their business.

We also discussed how they segment the market and how they target the market, on what basis do they do it right and finally, how do they position themselves, what a product offerings do they give right to the various market and on what factors; what factors decide the different product offerings right. So, there were few things that we are discussed as the part of the marketing related to international business.

So, today we will talk about how Global Firms create Successful Strategies right. Why some firms globally have been so successful and on the contrary others have in the same situation have not been successful right. Let us see some successful strategies that global firms had adopted; so let us start discussing about it.

Some of the points which I thought is very important for global firms like; for example, IBM, A bit, Hindustan, sorry Unilever, Johnson and Johnson, Gillette for example, or Komatsu, Kia motors, whatever you can think of right. So, how did how do these firms Netflix, Amazon Prime, how do these firms become so successful right.

So, the first point that came to my mind is partnering with a local brand with a strong name as a method of entry.

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GLOBAL FIRMS SUCCESS STRATEGIES

- Partnering with a local brand with a strong name as method of entry.
- Adapting a meaningful, easily recognizable local name.
- Hiring local leadership. ✓
- Launching a separate service based locally.
- Giving local operations autonomy to build their own business model and operate independent of headquarters.

• Impact of currency valuation:

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So, it is very important that when firms enter into a new market they would not be accepted on the very first instance so they have to create brand image in the market. And yes luckily nowadays it is an internet world and that to world of television and also people are aware the awareness levels are high; but still, when it when you partner with a local brand it becomes quite simple to understand the local markets culture behaviour and feelings right.

So, partnering with a local brand with a good strong name is a very good method of entry which global firms have been doing it in the recent past. Adapting a meaningful and easily recognizable local name; sometimes there is a lot a lot of you know interesting humor humorous case cases in at least the field of international marketing; where companies have been you know into a fixed or a difficult situation just because their names were not palatable or the names were not easy to pronounce by the local people in a new country.

Hiring local leadership; now that is also a very important thing, so you cannot expect you know outside experts to come and run the local you know business. So, local leadership hiring is also an important part of global successful firms. Then, launching a separate service based locally; now if you see many of the Chinese firms were not successful in India because they did not have a good service facility right.

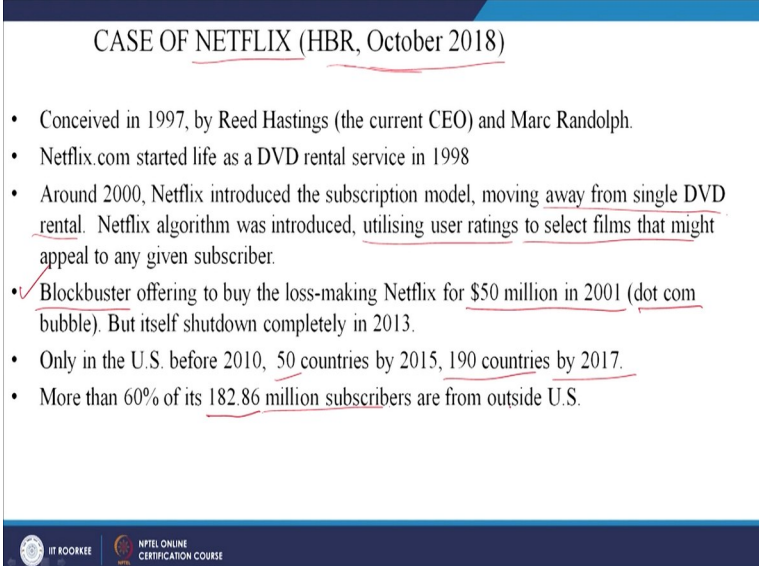
So, now, how what should firms do? Many of the Indian the foreign firms the globally successful firms when they came to India they first looked for a franchisee offering services to the local the customer's right. So, that was the first important thing because if you do not provide a maintenance or a service, then customers might not be very happy and that might affect your business image and brand image.

And finally, good firms successful firms have always you know done one thing that they gave the local operations autonomy to build their own business model and operate it independently and not depend on the headquarters all the time right.

These are some of the strategies and there are many more for example, successful companies have been able to understand the impact of the currency evaluation and transactions right; currency valuation and transactions right. So, these are very important factors that they have been able to understand and impact of culture also.

But if you see global firms successful firms have been able to do something different, but others have not been able to do. So, today what I will do is we will start with discussing a case which is a recently a company which has become very popular and it has achieved tremendous success and the company is; Netflix.

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CASE OF NETFLIX (HBR, October 2018)

- Conceived in 1997, by Reed Hastings (the current CEO) and Marc Randolph.
- Netflix.com started life as a DVD rental service in 1998
- Around 2000, Netflix introduced the subscription model, moving away from single DVD rental. Netflix algorithm was introduced, utilising user ratings to select films that might appeal to any given subscriber.
- Blockbuster offering to buy the loss-making Netflix for \$50 million in 2001 (dot com bubble). But itself shutdown completely in 2013.
- Only in the U.S. before 2010, 50 countries by 2015, 190 countries by 2017.
- More than 60% of its 182.86 million subscribers are from outside U.S.

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I think everybody today is aware of Netflix; either they must be a subscriber or not as a subscriber at least a viewer or at least they must be aware of the brand.

Now, this is a case I have brought from HBR, October 2018 right. Now, conceived in 1997 by Reed Hastings who is the current CEO and Marc Randolph Netflix dot com started life as a DVD rental service in 1998 ok; around 2000 Netflix introduced the subscription model. So, till you know up to 2000 until 2000 Netflix did not have this subscription model which they are doing.

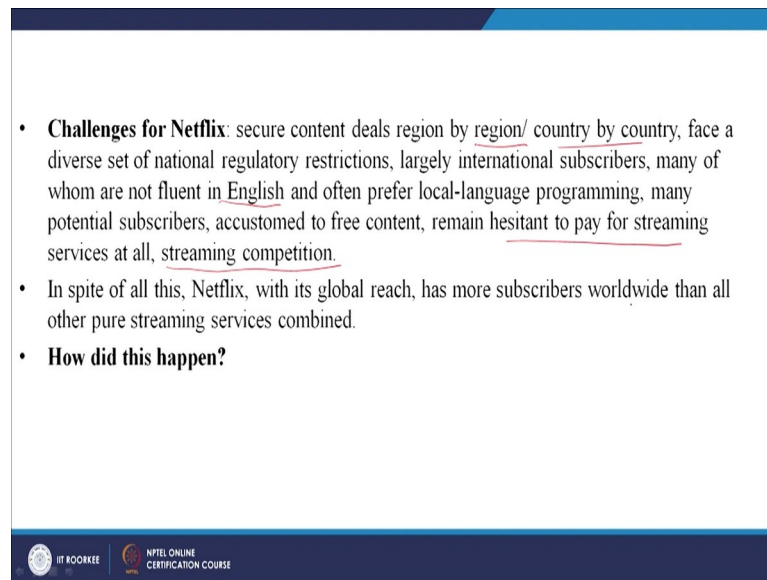
So moving away from a single DVD rental Netflix algorithm was introduced and what did this algorithm do? This algorithm was introduced to find out the utilizers user ratings the users you know used to give ratings right. And they used to utilize these ratings and understand the behaviour of the users; to select films that might appeal to any given subscriber.

Now, Blockbuster offering to buy the Blockbuster is a firm at that time offered you know to buy a Netflix for 50 million dollars in 2001 this is a very interesting case ah. When the dot com bubble happened and Netflix was making losses. So, there was a company called Blockbuster who offered you know 50 million to buy takeover a Netflix, but somehow Netflix did not go for it and the condition was that in 2013 Blockbuster itself shut down completely right.

Today it is only in the US before 2000 you know 2010 it was there in the US, but by 2015 Netflix you know managed to enter into 50 countries. So, you see in a matter of 5 years so they entered into 50 countries. And by 2017 this number went up to 190 countries ok. Interestingly more than 60 percent of it is total 182.86 million subscribers are from outside the US now that is a very interesting figure.

So; that means, almost 100 million subscribers are from outside US; that means, this company which started from US today has become extremely popular everywhere around the world.

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The slide contains a list of bullet points discussing the challenges Netflix faces. The text is as follows:

- **Challenges for Netflix:** secure content deals region by region/ country by country, face a diverse set of national regulatory restrictions, largely international subscribers, many of whom are not fluent in English and often prefer local-language programming, many potential subscribers, accustomed to free content, remain hesitant to pay for streaming services at all, streaming competition.
- In spite of all this, Netflix, with its global reach, has more subscribers worldwide than all other pure streaming services combined.
- **How did this happen?**

At the bottom of the slide, there are two logos: IIT ROORKEE and NPTEL ONLINE CERTIFICATION COURSE.

Number 2, what are the challenges for Netflix, was the journey so, smooth? No, so Netflix had some challenges. For example, secure content deals region by region so the contents have to they had to develop according to the region the countries and they face they had to face a diverse set of national regulatory restrictions. For example; the restrictions depends on the culture of the country.

For in India what you define it as adult or what you would define it for you know universally for everybody is different from for what it is in Europe right. So, the restrictions the you know sensor boards you know effect is much larger. So, regulatory regularly restrictions regulatory restrictions were one thing, largely international subscribers, right. Many of whom are not fluent in English, so Netflix as it started from US.

Obviously, the most important language was English and all the products that they had the movies or serials that they used to make well largely in English, but now they had to change from to a local dialect. So, whichever country they went in they wanted to make a according to the local language, so that was another challenge. And another interesting problem was that many potential subscribers were accustomed to free content.

Now, in India also it was for a very long time and they were hesitant to pay for streaming the services of Netflix right. In addition to all these there was competition right. So, competition was growing in for example, there is Amazon, there is Hotstar there are

many more streaming companies which are coming in. In spite of all these you see Netflix with its global reach has more subscribers worldwide than all other pure streaming services almost right.

How did this happen? What did Netflix do to be successful in its business? So, this is a brilliant case of international business right; how does this company management? Others were in the same condition and there were large players like Amazon, Hotstar and all, but they could not such be so successful as Netflix was. So, what happened? So, a three stage expansion process was taken up by Netflix into new markets.

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STRATEGIES

- A three-stage expansion process into new markets and the ways it worked with those markets.
- **First stage:** It carefully selected its initial adjacent markets in terms of geography and psychic distance. For example, its earliest international expansion, in 2010, was to Canada, which is geographically close to and shares many similarities with the United States. Netflix was thus able to develop its internationalization capabilities in locations where the challenges of “foreignness” were less acute. In doing so, the company learned how to expand and enhance its core capabilities beyond its home market.

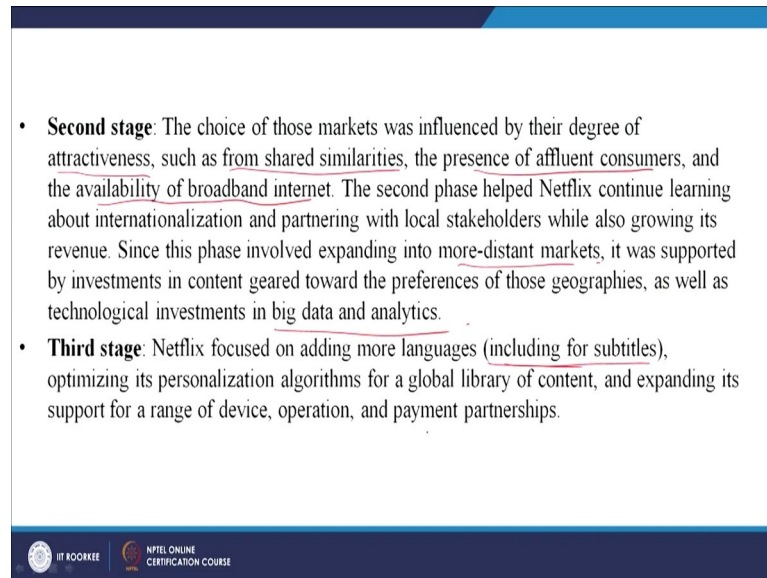
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So, first what was it? In the first stage it carefully selected it is initial adjacent markets in terms of geography and psychic distance; psychic distance means the mental distance. Some people feel that we are close to some countries or the people in some countries rather than the neighbour. So, this is a not as a physical distance, but it is mental distance. For example, it is earliest international expansion in 2010 was to Canada which is geographically close and shares many similarities with the United States.

Now, whatever learning they got from Canada, then they use to move further. So, Netflix was thus able to develop its internationalization capabilities in locations where the challenges of foreignness were less acute. Obviously, because they were getting into the markets which was very adjacent and close to them and people were accepting them.

So, there was no issue of foreignness or not accepting them. In doing so the company learned how to expand and enhance its core capabilities beyond its home market right. Now, what did they do in the second stage?

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The slide contains two bullet points describing the stages of Netflix's internationalization. The first bullet point, labeled 'Second stage', discusses market selection based on attractiveness, shared similarities, affluent consumers, and broadband internet availability. The second bullet point, labeled 'Third stage', describes efforts to add languages, optimize personalization algorithms, and expand device and payment support.

- **Second stage:** The choice of those markets was influenced by their degree of attractiveness, such as from shared similarities, the presence of affluent consumers, and the availability of broadband internet. The second phase helped Netflix continue learning about internationalization and partnering with local stakeholders while also growing its revenue. Since this phase involved expanding into more-distant markets, it was supported by investments in content geared toward the preferences of those geographies, as well as technological investments in big data and analytics.
- **Third stage:** Netflix focused on adding more languages (including for subtitles), optimizing its personalization algorithms for a global library of content, and expanding its support for a range of device, operation, and payment partnerships.

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So, in the second stage the choice of those markets was influenced by the degree of attractiveness such as; from shared similarities the presence of affluent rich consumers and availability of broadband good broadband internet broadband.

In this second phase it helped Netflix to continue learning about internationalization and partnering with the local stakeholders. So, during this stage they started partnering with the local stakeholders while also growing its revenue. So, they help the local stakeholders who could not expand their business and they helped them to you know sell their stuff products in the international market also though they have supported the local stakeholders also.

Since this phase involved expanding into more distant markets it was supported by investments in content geared towards the preferences of those geographies. Now, suppose you they went to let us say Malaysia; so they developed it according to the preferences of the Malaysian people right, they came to India they developed it according the local content that means the content was localized right. As well as technological investments in big data and analytics was highly done to understand the behaviour of the consumer.

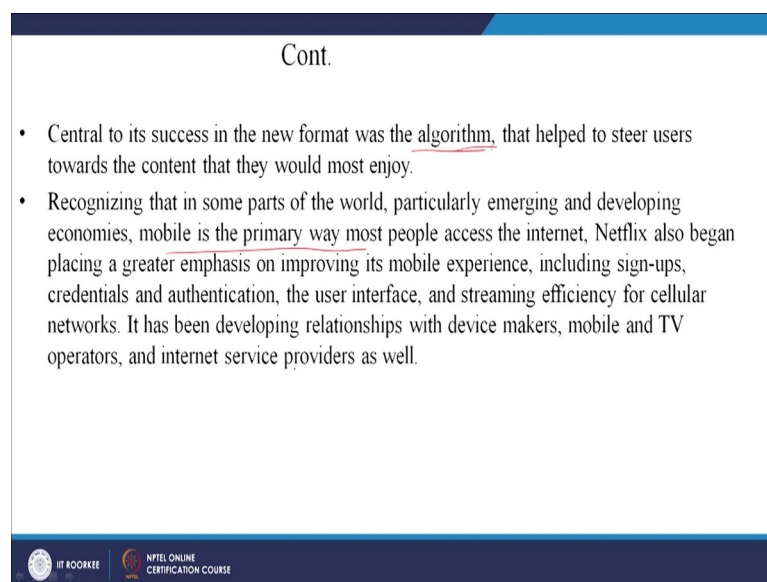
So what was the consumer doing? How what was he largely watching? And what was his pattern? Was it watching full a full complete movie at one time or a documentary or a kind of a kids section or was it more watching it in parts. So, what was he doing? Right.

The third stage Netflix focused on adding more languages; so including subtitles. So, there are many movies and serials which are very famous, but their language might not be in the one which you can understand. So, they added subtitles for almost all of them right.

Optimizing it is personalization algorithms for a global library of content and expanding it support for a range of device; not only you know they added subtitles, but they made it so that it would support for a range of device like. And you know like; mobile, laptops, desktops, you can tablet's anything right. And the operation and payment partnerships also they added that.

So, by doing all these Netflix really got a good hold on the consumer right they were very much satisfied with it.

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- Central to its success in the new format was the algorithm, that helped to steer users towards the content that they would most enjoy.
- Recognizing that in some parts of the world, particularly emerging and developing economies, mobile is the primary way most people access the internet, Netflix also began placing a greater emphasis on improving its mobile experience, including sign-ups, credentials and authentication, the user interface, and streaming efficiency for cellular networks. It has been developing relationships with device makers, mobile and TV operators, and internet service providers as well.

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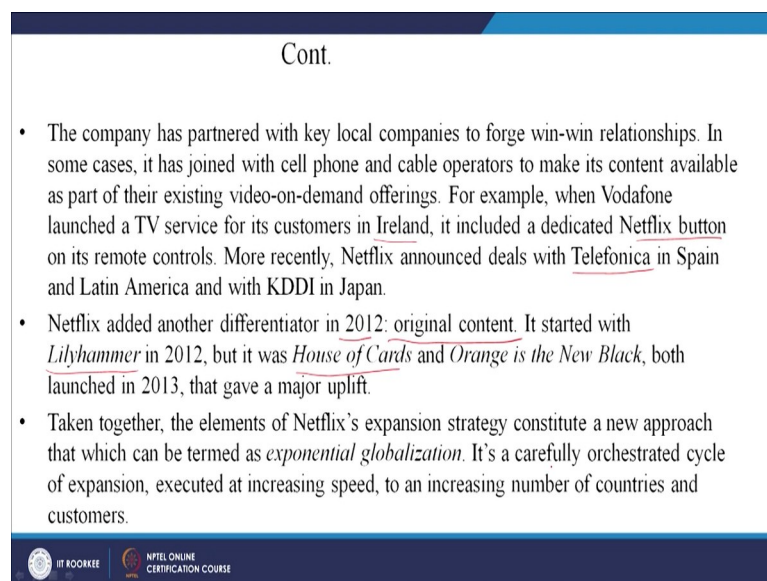
Central to its success in the new format was the algorithm. What was the central you know the main reason for the success? The algorithm which; helped him tracking the behaviour of the user; that helped to steer users towards the content that they would most

enjoy. So, what are the consumers most enjoying; accordingly they would develop the content.

Recognizing that in some parts of the world particularly emerging and developing economies mobile is the primary way of you know accessing the internet. Netflix began placing a greater emphasis on improving its mobile experience; including the signups, credentials and authentication, the user interface and streaming efficiency for cellular networks. It has been developing relationship with device manufacturers mobile and TV operators and internet service providers as well.

In some countries Netflix has come into an agreement with companies of TV manufacturer and device manufacturers that one of the buttons they would keep for Netflix. So, if somebody presses the button; so he can watch a Netflix directly on the you know TV or somewhere. So, that made it very convenient for consumers also to watch Netflix.

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- The company has partnered with key local companies to forge win-win relationships. In some cases, it has joined with cell phone and cable operators to make its content available as part of their existing video-on-demand offerings. For example, when Vodafone launched a TV service for its customers in Ireland, it included a dedicated Netflix button on its remote controls. More recently, Netflix announced deals with Telefonica in Spain and Latin America and with KDDI in Japan.
- Netflix added another differentiator in 2012: original content. It started with *Lilyhammer* in 2012, but it was *House of Cards* and *Orange is the New Black*, both launched in 2013, that gave a major uplift.
- Taken together, the elements of Netflix's expansion strategy constitute a new approach that which can be termed as *exponential globalization*. It's a carefully orchestrated cycle of expansion, executed at increasing speed, to an increasing number of countries and customers.

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Now, all these led to you know huge acceptance of Netflix. The company partnered with key local companies to forge win relationships. In some case it joined with the cell phone and cable operators to make it content available as part of their existing video on demand offerings.

For example when Vodafone launched a TV service for its customers in Ireland. So, this was the case I was talking about it included a dedicated Netflix button on its remote controls. More recently Netflix announced deals with Telefonica in Spain and Latin America and with KDDI in Japan. So, all these by partnering with all kinds of service providers who were some other that were related to the streaming business Netflix made a big entry into the international business in different countries ok.

One more thing Netflix did was another differentiator was in 2012, it brought in original contents. Now, they did not depend on only you know streaming of existing movies they brought their own original content. Now, they started with a you know a web series called Lilyhammer, but which was very popular, but then came you know their own series which was House of Cards I think most of you must be knowing and Orange is the New Black.

Both launched in 2000 that gave a major uplift to Netflix demand and its subscriber base ok. Taken together Netflix expansion strategy constitute a new approach that can be termed exponential globalization. It is a carefully orchestrated style you know cycle of expansion executed at increasing speed to an increasing number of countries and customers.

So, all these that Netflix did was very much well thought and well designed. So, that they understood the you know they not only understood the consumer they also understood the requirements of the already existing local producers what they were making and how they would also benefit out of it. So, understanding all this helped Netflix to become a very successful international player right.

So, if you understand this case you can very clearly understand; when you when somebody when some company wants to go international or becomes a global player, it has to keep in mind several things. So, you know; besides the culture, besides the habits, besides their availability of infrastructure, and all they have to be as original as possible and as close as to the local consumers right. Now, what are the major international strategies do companies adopt? Right.

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INTERNATIONAL STRATEGY

- Global products ✓
 - What products would sell in the local markets? (avon's moisturizer + sunscreen + insect repellent for Brazil, skin lightening creams for Asia, long lasting citrus fragrances in Mediterranean countries etc.)
 - Local R&D division would develop them
- Global branding
 - Uniform global quality image and saves costs by using uniform ingredients and packaging
 - Print language is local or any other, sometimes to take advantage of country of origin factor
 - Environmental concern and socially responsible

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For example, when you talk about international strategies so, companies have to look at the some of the points for example, the global products now what products would sell in the local markets? So, suppose today we are making some product x in country let us say a right; can I sell the same product to another market? No may not be right.

So, what happened let us see this case Avon which is a you know largest one of the largest cosmetic manufacturers in the world made a cream which had a you know which had a property of a moisturizer, sunscreen, plus insect repellent all the three in one for a Brazilian market right. Similarly then made a skin lightening cream for Asia because in Asia it is a very important point because although this is not a right thing to speak, but the point is in Asia there is a pressure on the girl to be more fair right.

Because in Asia it is generally people feel that fairer is more beautiful which is a wrong concept, but it is there right. Long lasting citrus fragrances in the Mediterranean countries. So, all these things the global products was made according to the markets they were getting in.

Now, local R & D division would help them and then either they would develop it locally or they would do it in a centralized the production they would do right. But having putting emphasis or going you know deep into the global products was very very important work is a very important work.

Second thing is understanding the global branding right now as we understand branding means a symbol sign something which people would easily recognize right. Now, how would you brand your product? What would be the method of branding? So, uniform global quality image and saves costs by using uniform ingredients and packaging. So the company had have to if somebody is going international and has to be successful for example, Unilever for example, Coca Cola, Pepsi.

Now, these companies have a uniform image; that means, a bottle of Coca Cola wherever it is it would be considered to be a premium right or a good product right. So, those kind of the ingredients the packaging and the quality that they are using has to be more or less uniform.

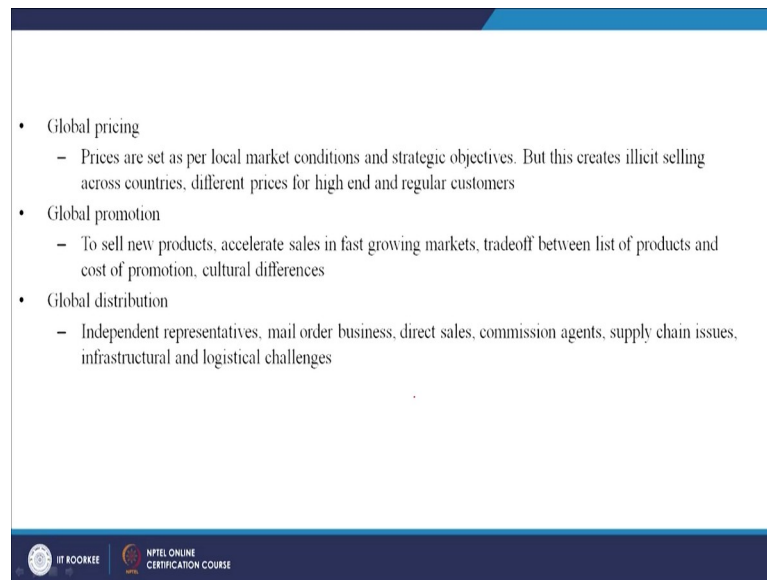
Now, print language is local or any other sometimes to take advantage of the country of origin factor. So, even Avon took this advantage. So, what they did is in some of the countries you know for example, let us say this country of origin factor becomes very important when you come to international business. Now for example, let us see if somebody wants to purchase say engineering equipment. Now; the point is when you talk about engineering equipments or missionaries the first thing that the first country that comes to your mind is Japan or Germany right.

So, what kind of how do you manage this country of origin factor? And the print language which is on the labeling sometimes companies instead of doing it in the local language they deliberately keep it in the language of the country of origin and as well as the at the local language. So, that is done in order to create a good image in the mind of the consumer. And more or less the third point is to improve the brand image companies are showing the environmental concern and social responsibility.

Now, I will give you several examples for example, Procter and Gamble is involved in socially social causes for example, educate a girl child right. And it says 1 rupee of it is a 1 percent or 1 rupee I do not remember, but a small significant portion of its profit goes to the education for a of the girl child's right. So, what is the consent for environment?

So, as I said in one of the classes that apple you know uses a lot of recyclable material. So, that there is not much of pressure on the environment. So, companies are working on it to make to look more you know to create a good brand image and look more concerned from the environment and society right.

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- Global pricing
 - Prices are set as per local market conditions and strategic objectives. But this creates illicit selling across countries, different prices for high end and regular customers
- Global promotion
 - To sell new products, accelerate sales in fast growing markets, tradeoff between list of products and cost of promotion, cultural differences
- Global distribution
 - Independent representatives, mail order business, direct sales, commission agents, supply chain issues, infrastructural and logistical challenges

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The other three factors part of the international business international strategy is the global pricing, promotion, distribution. So, when you talk about global pricing prices are set as per the local market conditions and strategic objectives, but this creates sometimes illicit selling across countries the contraband theory right.

Now, different for example, as per the local market conditions when somebody makes a product suppose a product is priced X in country A and Y in country B and X is little less and Y is more.

Then automatically what will happen is Y in people from you know the marketers from country Y or B will try to get the product from X if they are in the trade of they are making a profit right. So, it could be like a kind a illicit business smuggling kind of activity which might grow right. So, how, do you keep a price balance is also equally important which marketers need to understand in international business.

Again global promotion; it is not simple that you whatever you do you can just dispose it or sell it in the other markets. Even when you talk about promotion the promotion depends promotion is to catch the customers attraction. Now, when you are selling a new product you want to accelerate the sales in the fast growing markets. So, in such a condition you have to look at the cost of promotion and the cultural differences right. And how do you promote them in the international arena?

So, the promotion that you can think of doing it in the way you can do it in Europe, it is not possible that the same would be accepted in maybe the Arabian nation's right or the African countries. So, that varies from people to people again tradition to tradition.

And finally, when you talk about the global distribution strategy; the independent representatives, the mail order business, direct sales, commission agents, supply chain issues infrastructure and logistical challenges. So, there are several issues as a part of the international strategy that a marketer or a firm has to look into to be successful in the international business.

So, today I will wind up here. And we will continue in the next lecture we will continue this in the next lecture right.

So, thank you very much for today.