

A SAGE  
White Paper

# **Building a global business strategy in order to increase competitiveness and secure sustainability**

## **INTERNATIONAL BUSINESS**

## Going Global as a Business Strategy

Many executives are convinced that going global is an imperative in today's business environment. More firms are pursuing global operations to take advantage of national differences in the cost and quality of labor, talent, energy, facilities, and capital. All these resources are combined to increase the productivity of the multinational enterprise (MNE). Thus, it is becoming less and less meaningful to talk of "American products," "Italian products," or "Japanese products."

The seven most common reasons that a domestic business – be it a manufacturer or service provider – decides to enter into some form of international operation are as follows:

- 1 Reduce costs.
- 2 Reduce risks.
- 3 Improve the supply chain.
- 4 Provide better goods and services.
- 5 Attract new markets.
- 6 Attract, retain and deploy global knowledge.
- 7 Attract and retain global talent.

The catalyst for global business operations typically come from one of two sources: either the domestic or local company *chooses to compete* in markets abroad due to some realization of a competitive advantage vis-à-vis their global competitors or *global competition is forced* upon a company with the market entry of foreign competitors to the domestic companies' local customer base.

The following section provides a review of a number of ways to build a global strategy in order to increase competitiveness and secure sustainability of MNEs.

## MNE's Orientation and Strategy

While there are many issues that determine the nature of the strategic plan, the one overwhelming issue is the MNE's orientation. An MNE with a *polycentric predisposition* tailors its strategic plan to meet the needs of the local culture. If the firm is doing business in more than one culture, the overall plan is adapted to reflect these individual location needs. The basic mission of a polycentric MNE is to be accepted by the local culture and to blend into the country. Each local subsidiary decides on the objectives it pursues, based on local needs. Profits will be put back into the country in the form of expansion and growth.

An MNE with a polycentric predisposition is interested in obtaining both profit and public acceptance and uses a strategy that allows it to address both local and regional needs. The company is less focused on a particular country than on a geographic region. For example, an MNE doing business in the European Union (EU) will be interested in all the member nations of the EU as they are all in the European region.

An MNE with a geocentric predisposition views operations on a global basis. The large international corporations often use this approach. They produce global products with local variations and staff their offices with the best people they can find, regardless of country or origin. Multinationals, in the true meaning of the word, have a geocentric predisposition.

However, it is sometimes possible for an MNE to have a polycentric or geocentric predisposition if the company is moderately small or limits operations to specific cultures or geographic regions. The predisposition of an MNE greatly influences not only the nature of the strategic plan but also its strategic planning process. For example, some MNEs, as they are developing a comprehensive corporate strategy, may be more interested in large-scale manufacturing that will allow them to exploit economies of scale and compete on a price basis across the country or region, and less interested in developing a high degree of responsiveness to local demand and tailoring a product to specific market niches. Other MNEs may prefer to sell in countries where the cultures are similar to their own so that the same basic marketing orientation can be used in several countries or regions. Thus, the MNEs' predispositions are reflected in the strategic planning process and greatly influence their strategies.

#### Strategy Formulation

Strategy formulation is the process that involves evaluating the MNE's external environment and its internal environment. The process begins with consideration of the external environment, since the MNE is first and foremost interested in opportunities that can be exploited and seeks to hedge against identified threats. The process continues with an assessment of the internal environment and the resources the organization has available, or can develop, to take advantage of these opportunities. At the same time the organization might like to identify its weaknesses and plan accordingly.

#### ***External environmental assessment***

The analysis of the external environment entails two activities: information gathering and information assessment. These steps help to answer two key questions: What is going on in the external environment? How will these external developments affect the MNE? One of the most common ways in which this is done is through *competitive intelligence*: namely, the use of systematic techniques for obtaining and analyzing public information about the MNE's competitors. This data is particularly useful in keeping MNEs alert to likely moves by their competition.

#### ***Information gathering and environmental assessment***

Information gathering is an important phase of international strategic planning.

There are four ways that MNEs conduct environmental information gathering and then forecast the future:

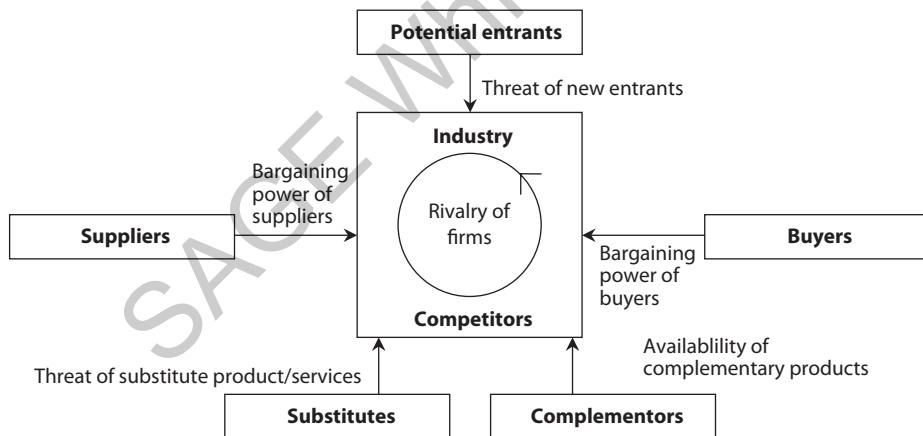
- asking industry experts to discuss industry trends and to make projections into the future
- using historical industry trends to forecast future developments
- asking knowledgeable executives to write scenarios describing what they foresee for the industry over the next two to three years
- using computers to simulate the industry environment and to generate likely future developments.

Of these methods, the first option, expert opinion, is the most commonly used. Large Japanese trading firms require their branch managers to send back information on market developments and changing consumer behavior. These data are then analyzed and used to help formulate future strategies for the firms. Sometimes the same information is gathered by independent agents.

This information helps MNEs to identify competitor strengths and weakness and to target new and required initiatives. Careful and detailed information gathering is particularly important when a company is delivering a product or service for many market niches around the world that are too small to be individually profitable. In such situations, the MNE has to identify a series of different niches and attempt to market successfully in each of these geographic areas, balancing business risks and profits. A careful information gathering is also critical to those firms that might be impacted by unexpected local or regional events such as a global economic crisis or the breakout of a major epidemic such as the Swine Flu pandemic that affected countries around the globe in 2009. For example, during the global financial crisis of 2009–10 many MNEs were suddenly unable to finance ongoing operations through credit instruments, as the amounts of credit provided by the banks shrunk significantly, or stopped all together. These changes affected various markets, countries, and regions in different ways, as each adopted various strategies to cope with the crisis, including changes in budget allocations, operations, risk policies, and personnel.

### *Information assessment*

After the information on the companies and the industry is gathered, MNEs evaluate the data. One of the most common approaches is to make an overall assessment based on the six forces that determine industry competitiveness – buyers, suppliers, potential new entrants to the industry, the availability of substitute goods and services, rivalry among the competitors, and availability of complementing products and services. Figure 9.1 shows the relationship among these forces.



**FIGURE 9.1** The six forces of industry competitiveness

### *Bargaining power of buyers*

MNEs examine the power of their buyers because they want to predict the likelihood of maintaining these customers. If the firm believes buyers may be moving their business to competitors, the MNE will want to formulate a strategy for countering this move. For example, the company may offer a lower price or increase the amount of service it provides.

### *Bargaining power of suppliers*

An MNE looks at the power of the industry's suppliers to see if it can gain a competitive advantage here. For example, if there are a number of suppliers in the industry, the MNE may attempt to play them off against each other in an effort to get a lower price. As an alternative, MNEs may move to eliminate any threat from the suppliers by acquiring one of them, and thus guaranteeing itself a ready source of inputs.

### *New entrants*

An MNE examines the likelihood of new firms entering the industry and tries to determine the impact they might have on itself. Two typical ways that international MNEs attempt to reduce the threat of new entrants are by (1) keeping costs low and consumer loyalty high and (2) encouraging the government to limit foreign business activity through regulations such as duties, tariffs, quotas, and other protective measures.

### *Threat of substitutes*

MNEs look at the availability of substitute goods and services and try to anticipate when such offerings may reach the market. There are a number of steps that the company may take to offset this competitive force, including (1) lowering prices, (2) offering similar products, and (3) increasing services to the customer.

### *Rivalry*

An MNE examines the rivalry that exists between itself and the competition and seeks to anticipate future changes in these rivalries. Common strategies for maintaining and/or increasing market strength include (1) offering new goods and services, (2) increasing productivity and thus reducing overall costs, (3) accentuating differentiation between current goods and services from those of the competition,(4) increasing the overall quality of goods and services, and (5) targeting specific niches with a well-designed market strategy.

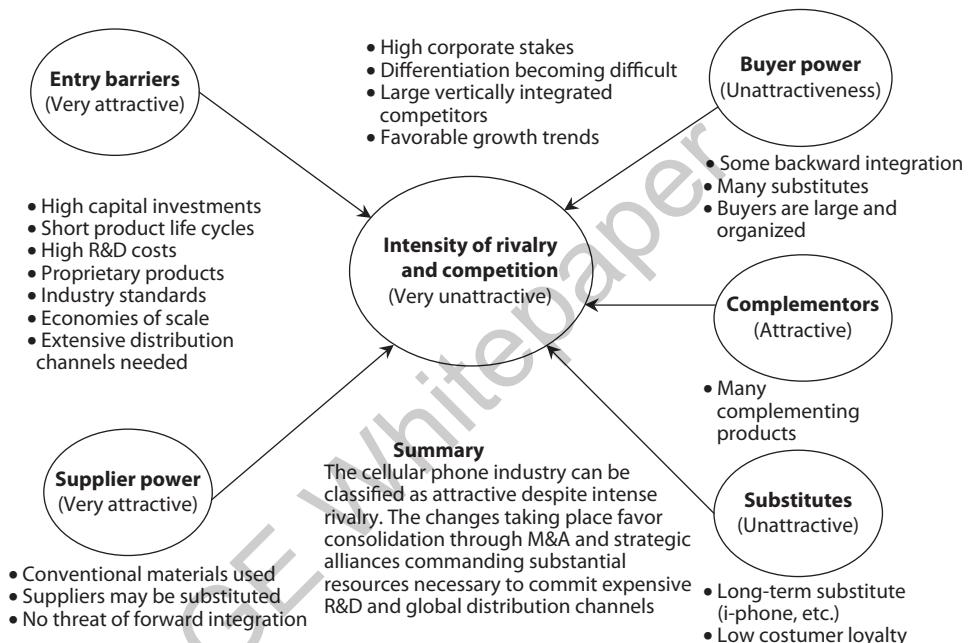
### *Complementing products*

Any accessories or additional services that are created around a base product can increase barriers for competitors. For example, Apple has successfully developed an entire ecosystem around the iPod mp3 player with hundreds of lifestyle accessories (e.g. headphones, cases) and the iTunes music store service, making it hard for competing mp3 players that lack such rich complementing products.

As MNEs examine each of these six forces, they decide on the attractiveness and unattractiveness of each of them. This helps the MNE decide how and where to make strategic changes. Figure 9.2 shows the six forces model applied to the cellular phone (cell phone or mobile phone) industry.

The suppliers noted in the cellular phone industry (in Figure 9.2) were not very powerful, which is an attractive force for the cellular phone manufacturers. Buyers have many substitute products from which to choose, and there was some backward integration. Overall, the attractiveness of buyer power was low.

The third force, entry barriers, was quite attractive because of the high costs of getting into the industry and the short product life cycles that existed there. It is very difficult for a company to enter this market. The fourth force, substitutes, was unattractive because new products were being developed continually and customer loyalty was somewhat low. The fifth force, industry rivalry, was also unattractive because of the high cost of doing business, the cyclical nature of sales, and the difficulty of differentiating one's products from those of the competition. The sixth force of complementing products was attractive, as many hardware and software producers caused increasing demands for more options and features, thus justifying consumer upgrades and investment in research and development (R&D).



On an overall basis, however, the industry was classified as attractive. It also appeared that the industry would see more consolidation of firms that would have greater resources to commit to R&D.

MNEs operating in the cellular phone industry may use this analysis to help them increase the attractiveness of those forces that currently are not highly attractive: for example, they could work to develop a state-of-the-art cellular phone that might be substituted for the competition's products. In summary, environmental assessment, such as that provided by an analysis of competitive forces, is used to determine MNE opportunities and threats in an industry or region and to help identify strategies for improving market position and profitability.

## About the Authors

**Ehud Menipaz**, currently a visiting scholar at the Leonard N. Stern School of Business, New York University, is the Solomon & Abraham Krok Chaired Professor of Entrepreneurial Management and the Founding Chair of the Ira Center for Business, Technology & Society at Ben Gurion University, Israel. He is a former senior partner with Ernst & Young International, engaged with assignments in the private and public sectors. Menipaz specializes in international business management and functional derivatives. He holds a BSc in industrial engineering and management, an MSc in operations research, an MBA in finance, and a PhD in management. His articles have appeared in *The European Journal of Operations Research*, *International Journal of Production Research*, *International Institute of Electrical and Electronic Engineers Transactions*, *Journal of Productivity and Quality*, *International Journal of Computers and Simulation*, *Management Decisions*, *Journal of Global Marketing*, and *International Journal of Business Performance Management*. His interest in operational systems has led to several manuscripts in that area, including *Essentials of Production and Operations Management*, published concurrently in the USA, England, Japan, New Zealand, and Singapore. He has addressed students, faculty, and executives in the USA, Canada, the Far East, Europe, South America, and Africa. He has been involved in conceiving, and has been a member of the organizing committee and the chairman of several international scientific conferences, including “The First Regional Conference on Forging Regional Cooperation in the Mediterranean Basin” and “The International Conference of Innovation and Logistics,” all resulting in published proceedings. He serves as a referee and an associate editor for a number of international scientific journals, including the *International Journal of Corporate Governance*, and he is a national team leader of the Global Entrepreneurship Monitor (GEM) research program. He is a member of the Strategic Management Society, the Academy of Management, and the Association of International Business. Combining scientific work with community involvement, Menipaz sponsors entrepreneurship education programs associated with the Junior Achievement Award worldwide and has served as a director and CEO of several organizations. He is married, has three children and four grandchildren, and enjoys piano playing, downhill skiing, and tennis.

**Amit Menipaz**, currently Vice President, Structured Data, eBay, has spent over 20 years as an Entrepreneur, Consultant, Strategy & Product Manager, Country Manager, and Corporate Executive for technology companies across North America, Western Europe, China, and Israel in the fields of web content management, telecommunications, consumer electronics, eCommerce, and big data. At eBay he led innovations in social commerce, mobile selling, online stores, and big data analytics. Menipaz currently leads eBay's structured data vision, strategy and teams, builds the world's most comprehensive inventory graph of everything that can be bought or sold globally and its relative value. In addition, he serves on the GS1 Board of Governors, in both the US and Global Board, and has lectured at several academic institutions including Stanford, Berkeley, and New York University on product strategy and innovation. A graduate of the University of Toronto, Canada, in industrial engineering and management,

he holds an MBA from European Institute of Business Administration (INSEAD), Fontainebleau, France. As a management consultant he has worked for both Deloitte Touche and A.T. Kearney in North America and Western Europe. In this capacity he worked with multinational enterprises on benchmarking, reengineering, knowledge management, systems selection, and merger and acquisition planning across North America. He oversaw the launch of a number of hi-tech and telecommunication start-ups across Western Europe during the Internet boom at the turn of the century. For six years Menipaz ran a partnership with Hutchison Whampoa of Hong Kong, leveraging Israeli technologies together with European designers and Chinese manufacturers to develop innovative consumer electronics and telecommunications products for markets in Europe and the USA. Having worked at both the headquarters and overseas subsidiaries of multinational enterprises, managing the opening and closing of regional and country headquarters, and launching both consumer and Internet products in various geographic markets—he brings a unique blend of experience, practical insights, and contemporary examples that help link business theories with the hands-on practice of managing day-to-day international business. Menipaz is married, has two children, and enjoys traveling, learning new languages, music, reading, tennis, skiing, and Latin dancing.

**Shiv S Tripathi**, is working as an Assistant Professor in the area of Strategic Management at Management Development Institute, Gurgaon, where he teaches international business, an innovation strategy in emerging markets. He holds a Masters degree in business administration from Deen Dayal Upadhyay (DDU) Gorakhpur University and PhD degree in the area of innovation in large organizations from Indian Institute of Technology at Kharagpur. He has a total of more than 13 years of work experience in the industry and academia. He has worked for Exide Industries Limited and Century Plyboards India Limited in the area of sales and marketing. He has provided consultancy to various start-ups on how to be a born global company; helped several small and medium enterprises go international; provided post-merger integration training, exploring the product scope and market potential for companies including companies in the Fortune 500, and has been advising various large Indian organizations to open themselves up for the world using innovation as a growth strategy. Through his consulting and research assignments he has an exposure of international steel business, hand-made paper, organic cotton apparels and toys where he has helped small to large firms establish their business outside India. His objective of research is to bridge the gap between industry and academia. He has also advised companies on how to follow global standards in financial reporting, risk management, corporate social responsibility, and sustainability. The cases written by him cover various aspects of internationalization including the entry of companies such as Micromax in foreign countries, Air France in India, Tata's acquisition of Corus and the survival conflict of ISW Guns due to FDI. He has researched on topics such as "role of internationalization on board diversity and openness" and "innovation as a tool for internationalisation," and market scoping studies for MNCs. His research has appeared in journals such as Technology Innovation Management Review as well conference "Proceedings of International Society for Professional Innovation Management," UK; "Strategic Management Society," USA to name a few. He regularly conducts management development programs in the area of international business and innovation and has trained the executives of many organizations, for example, Indian Railway Personnel Service, Indian Oil Corporation Limited, Hindustan Copper Limited, Life Insurance Corporation of India, Border Security Force, Bharat Electronics Limited, Reserve Bank of India, Central Reserve Police Force, Directorate General Resettlement, Calcutta Electricity Supply Corporation, etc. Tripathi is married, has a son and enjoys travelling and wildlife photography. He is also an aero-philatelist and aero-numismatist and believes in learning by hands-on experience.