

INTERNATIONAL BUSINESS

BUS 305



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- Which foreign markets to enter:
 - Political system
 - Economic System
 - Legal system
 - Culture

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- Which entry mode to use?
 - Exporting
 - Licensing
 - Franchising
 - Joint Venture
 - new wholly owned subsidiary
 - Acquiring an established enterprise

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- **COMPETING EFFECTIVELY IN THE GLOBAL MARKET PLACE:**

- For I. B. to compete more effectively, managers must undertake appropriate strategies

- **Strategy:**

- the actions that managers take to attain the goals of the firm

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- Goal of the firm: maximize profit for its shareholders
- Profitability: the rate of return that the firm makes on its invested capital

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- Profit growth: percentage increase in net profits overtime
- $\text{Profits} = \text{Price per unit sold} - \text{Cost per unit}$
- Firms can only increase profits by:
 1. Raising prices charged per unit
 2. Minimizing cost

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1. Raising prices charged per unit

-pursuing strategies that **add value** to the firm's product

- Value Creation:

A company creates value by making its product more attractive through superior product design, styling, functionality, features, reliability, after-sales service. etc

-Customers place a greater value on it and are willing to pay more.

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- The Firm as a Value Chain:

The operations of a firm can be thought of as a value chain composed of distinct value creation activities.

These value creation activities can be categorized into 2:

- Primary activities and –Support activities

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- Primary Activities:

Have to do with the design, creation, delivery of the product; and after sales service.

- The Primary activities of a firm are divided into 4 functions:

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1. Research and Development (R&D):

Is concerned with the design of the product.

- Through superior product design, R&D can increase the functionality of products, making them more attractive to consumers.

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2. Production:

Is concerned with the creation of a good or a service.

- For physical goods, production mean manufacturing
- For services such as banking and health, production occurs when service is delivered to the customer

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- Production activities of a firm creates value by ensuring that a higher-quality product is produced thus resulting in higher value.

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3. Marketing and Sales:

Through brand positioning and advertising, the marketing and sales function increase the value that customers perceive in a firm's product.

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4. Customer Service:

They provide after-sale service and support.

- This function creates a perception of superior value in the minds of customers by solving customer problems and supporting customers after they have purchased the product.

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- **Support Activities:**

The support activities of the value chain provides a platform that allows the primary activities to occur.

4 categories:

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1. Information Systems:

The electronic system for managing inventory, tracking sales, pricing products, selling products, dealing with customer enquiry, etc.

- Information Systems affect the efficiency and effectiveness with which a firm manages its other value creation activities.

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2. Logistics:

Controls the transaction of physical materials through the value chain, from procurement through production and into distribution.

- The efficiency with which this is carried out can create value.

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3. Human Resource:

Creates value by ensuring the company has the right mix of skilled people to perform its value creation activities effectively.

- The HR function also ensures that people are adequately trained and motivated to carry out their value creation tasks.

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4. Infrastructure:

Refers to the context within which all the other value creation activities occur. The infrastructure includes; organizational structure, control systems, and the culture of the firm.

- This function affects the performance of all other value creation activities.

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- **Minimizing Cost:**
 - Location economies
 - Experience Curve

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-Location economies:

dispersing production activities to those locations around the globe where they can be performed most efficiently.

- It can lower production cost when firms shift production activities from a high cost location to a low cost location.

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-Experience effects:

reduction in production cost by;

1. Learning effects
2. Economies of scale

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1. Learning effects:

Refers to cost savings that come from learning by doing.

- Labour productivity increases over time as individuals learn the most efficient ways of performing a particular task, which in turn reduces production cost.

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2. Economies of scale:

The reduction in unit cost achieved by producing a large volume of a product

- Firms are able to spread fixed cost over a large volume

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- Managers can increase the profitability of the firm by pursuing strategies that:

1. Lower cost
2. Add value to the firm's product (raise prices)

- Most firms undertake:

1. Low-cost strategy
2. Differentiation strategy

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1. Low-cost strategy:

- a strategy that focuses on lowering production cost

1. Differentiation strategy:

- a strategy that focuses on increasing the attractiveness of a product (adding Value)

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- CHOSING A STRATEGY:

- Firms normally chose among **four main strategies** when competing internationally:

1. Global standardization strategy
2. Localisation strategy
3. Transnational strategy
4. International strategy

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- GLOBAL STANDARDIZATION STRATEGY:
 - low-cost strategy
 - A standardized product is sold worldwide, to take advantage of economies of scale and location economies

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- LOCALISATION STRATEGY:
 - differentiation strategy (raise prices)
 - customising the firm's goods and services to match taste and preferences in different national markets

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- TRANSNATIONAL STRATEGY:
 - Simultaneously pursue both a:
 1. Low-cost strategy
 2. Differentiation strategy (no economies of scale)

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INTERNATIONAL STRATEGY

Sell a standardized product, but they do not face significant competitors. Charge a higher price

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- The appropriate strategy depends on pressures for:
 - Cost reduction
 - Local responsiveness
- Pressures for Cost Reduction:
 - Firms producing products that serve universal needs
 - where product differentiation is difficult
 - price is the only competitive weapon.

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- Responding to pressures of cost reduction:
 - requires a firm to minimize its unit cost (economies of scale, experience effects)
- Pressures for local responsiveness:
 - arise from national differences in consumer taste and preferences

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- customer taste and preferences differ significantly from country to country because of deeply embedded cultural reasons
- Responding to pressures to be locally responsive:
 - a firm must differentiate (customize) its products from country to country

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- Global Standardization Strategy
 - USED WHEN:
 - there are strong pressures for cost reduction
 - demands for local responsiveness are minimal

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- Localisation Strategy:

-USED WHEN:

-cost pressures are not too intense

-demands for local responsiveness are high

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- Transnational Strategy:

USED WHEN:

-firms simultaneously face:

1. Strong cost pressures
2. Strong pressures for local responsiveness

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- INTERNATIONAL STRATEGY

USED WHEN:

1. low cost pressures
2. low pressures for local responsiveness

MID-TRIM REPORT

- FORMAT:

- Introduction

- Body

- Conclusion

- Recommendation

- DEADLINE:

- 10th December, 2012

MID-TRIM REPORT

- Font: Times New Roma (12)
Headings (14)
- Justify
- Double spacing
- Number your pages