GLOBAL COMPETITIVE STRATEGY

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Globalization fundamentally changes the game of business. Strategic frameworks developed for the analysis of purely domestic business necessarily fall short in the international business context. Managers and business students require new approaches to understand and cope with these far-reaching changes. We must learn to think globally in order to succeed. *Global Competitive Strategy* shows how we can do this by providing a unique set of strategic tools for international business. Such tools include the "Star Analysis" that allows strategy makers to integrate geographic information with market information about the global business environment. Also introduced is the "global value connection," that shows managers how to account for the gains and costs of trade. Aimed at MBA students taking courses in international strategy, consultants and managers with responsibility for strategic development, this book offers a comprehensive strategic framework for gaining competitive advantage in the global market place.

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Preface

Globalization promises ever greater competitive challenges to business. Competitors are likely to be radically different than your company, since they may have huge cost advantages and offer customers unexpected product features. Managers must be ready to design competitive strategies that will succeed against global rivals. This book introduces techniques for strategic analysis and strategy making in a global market.

Top managers need to conduct an effective analysis of the global market place. The sheer size and complexity of global markets can be overwhelming, and the business manager seeking global competitive advantage must be able to address both the forces of global scale and the differences between countries. The manager will also require new tools for handling a vast flood of new information. To form a coherent competitive strategy, the manager will need a clear and comprehensive framework. This book presents just such a method of strategic analysis.

This book introduces the "Star Analysis" framework for evaluating the country context of the international business environment. The manager uses country-level data to evaluate country features and the implications for the firm's home base, suppliers, customers, partners, and competitors. Using information revealed by the "Star Analysis," the manager formulates global competitive strategies.

Traditional competitive strategy took place at the level of the industry. The industry still matters, of course, but the business manager must compete in the global market place. Suppliers, customers, partners, and competitors differ across countries. In putting together a global competitive strategy, the business manager must understand the country components that make up the global market place.

Countries matter a great deal in global business because borders are "sticky." Global businesses face high costs of crossing borders, and these costs of trade reinforce the economic differences between countries. The result is a global mosaic with tremendous cross-country variations in income, prices, wages, and innovations.

The global business manager must gather information about these key country differences: the country context includes cultural, social, and historical differences. National economies differ in terms of prices, products, resources, and technologies. Companies face different currencies, laws, regulations, and government policies.

The book gives managers tools for translating such international information into competitive strategy. As business has evolved from domestic to regional to global, it faces a strategic dilemma. The firm must compete in a global industry but, at the same time, it must address the different needs of country-level markets. Handling this dual challenge requires innovative competitive strategies.

To achieve competitive advantage in a worldwide industry, the firm needs to have world-class economies of scale and outstanding product quality. At the same time, however, to achieve competitive advantage in country-level markets, the firm must adjust to the local context in its customer service, supplier procurement, partnership arrangements, and competitive strategies.

The toolkit in this book draws from the economics of international trade and the economics of transaction costs. To structure the best transactions across country borders, the manager must develop an understanding of the gains from trade between national economies. The manager can then create a global value connection between many countries.

In the process, business will, as we have seen, encounter "sticky" borders. This means that the manager must also understand the costs of trade that arise when crossing national borders. Not only are there costs of communication and transportation, there are substantial government costs from tariffs and other barriers to trade. To compete in global markets, the firm creates global added value, and chooses its strategies to maximize net gains from international trade.

The book presents strategies for creating and capturing global added value. The discussion draws on the important concept of gains from trade in international economic analysis. The firm's global added value equals net gains from trade – that is, gains from trade minus the costs of trade. The firm that creates the greatest added value as compared to its competitors achieves global competitive advantage.

The discussion examines five key global competitive strategies, referred to as the "G5 strategies":

- G1 is the Global Platform Strategy, which is a method of achieving economies of scale while offering product variety to international customers.
- G2 is the Global Network Strategy, which is a method of coordinating sup-

plier and buyer networks to achieve competitive advantage.

- G3 is the Global Intermediary Strategy, in which the company provides matchmaking and market making services on a global scale.
- G4 is the Global Entrepreneur Strategy, in which the firm creates new combinations of buyers and sellers that cross international borders.
- The Global Investment Strategy (G5) guides decisions for establishing distribution and manufacturing facilities abroad. The G5 strategy emphasizes the fact that the firm must make the best mix of transactions, contracts, and vertical integration to enter new markets and develop existing ones.

The book also examines the design of the global business organization. The discussion looks at how the manager should determine the divisions of a global business organization to effectively carry out the company's strategy. It considers how the international business organization has evolved over time. The book also examines how to incorporate international geographic divisions in a market-based organization.

The book presents four business cases that provide a diverse set of international situations in which to apply critical parts of the strategic framework. The Lenovo case (chapter 7) examines how China's leading computer company decided to become a global company. The case provides insights into the influence of the features of the company's home country. The Cemex case (chapter 8) looks at the Mexican cement company's role as an international market maker, and provides insights into the globalization of a manufacturing company with particular emphasis on its supplier countries. The Dairy Farm case (chapter 9) studies the regional strategy of an Asian retailer facing global competition, and emphasizes management decisions concerning the choice of customer countries. The case study of Europe's diversified food company Danone (chapter 10) looks at the organizational structure of a growing global business, and considers how managers design the organization to carry out the company's global competitive strategy

This book is intended for MBA courses on International Business Strategy and should also prove highly valuable as a guide for global business executives. The book can be used for Economics courses that introduce students to international economics and business strategy, and can be supplemented by additional case studies that correspond to the content of each chapter.

Geography matters for global competitive advantage: globalization is tearing down barriers between countries but borders will remain "sticky" for a long time to come. Managers can apply the economic insights and international business tools presented here in designing their strategies for global competitive advantage.

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This book draws upon some previously published work:

Daniel F. Spulber, 2005, "Lenovo: The Leading Chinese Computer Company Enters Global Competition," *Journal of Strategic Management Education*, 2(1), Senate Hall Academic Publishing.

Alberto Salvo and Daniel F. Spulber, 2006, "Cemex: International Market Maker," *Journal of Strategic Management Education*, 3(1), Senate Hall Academic Publishing.

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Introduction: the global challenge

The global market place is the World Cup. It definitely is not one big level playing field. Many top teams vie for supremacy, with the best talent scattered around the world. Teams from many countries bring different traditions and diverse playing styles. Every football team brings a different mix of athletic skills and their competitive strategies vary widely. No competitor can count on home-field advantages. Success requires sufficient endurance and versatility to overcome many teams. Winning requires beating multiple challengers from across the globe.

Gaining the World Cup requires world-class competitive advantage – and global competitive advantage is what your company must have to make it in the global market place. This book provides a new method for strategic analysis that accounts for variations in business environments across countries. It explores novel competitive strategies that can help your company to win worldwide. The discussion further considers global investment strategies and the design of the international business organization. The analysis offers managers a comprehensive framework for gaining global competitive advantage.

Global competition

Globalization changes everything! Before globalization, a firm's competitive advantage was likely to be little more than a critical edge – just a subtle distinction between rival firms. In the global market place, companies can have spectacular differences. Firms with a global competitive advantage will overwhelm rivals who are not prepared.

Before globalization, your main competitor likely was located in the same country, the same city, even on the same street! Your company and its competitors fought for the same customers. Your firm and its rivals drew from the same labor force, with similar wage and benefit costs and comparable skills. Managers in your firm and its rivals shared the same outlook and cultural background, often coming from the same business schools, ethnic groups, and perhaps even the same family. Your firm and its rivals often had the same costs of capital, resources, energy, equipment, parts, and technology. Your company and its competitors faced the same legal, regulatory, and public policy constraints.

In this cozy environment, competitive advantage was at best the result of luck, talent, and clever management maneuver. Some firms expected to deter rivals just by outspending them on capital investment. Strategy recommendations were tailored to this environment, urging companies to gain the upper hand through pricing techniques, marketing gimmicks, bundles of product features, or frequent model changes.

Companies could afford complacency. They could go to market with similar products, relying on customer inertia or traditional sales channels. Firms could depend on brand image and marketing messages to drive home a competitive wedge. They could even prosper while offering uninspired designs and planned obsolescence, relying on rebates and end-of-season sales to move merchandise. Companies could dictate styles and trends to their customers and hope for the best. They could tolerate inflated labor costs and workplace inefficiencies, secure in the knowledge that their competitors faced the same problems. Survival was possible even with poor performance, uneven service, bureaucratic organizations, and sluggish responses to market forces.

With rapidly increasing globalization, such safe strategies are no longer sustainable. Managers cannot hope to stay within their comfort zone. The global market place requires managers to go beyond their familiar surroundings. Their companies face intense competitive challenges from around the world.

Managers must think globally to succeed. They need a global strategy framework because of the complexities of the international market place. Those frameworks developed for the analysis of purely domestic business strategy necessarily fall short in the international business context. Suppliers, customers, partners, and competitors likely are located abroad. Competitors have vastly different costs, products, technologies, and strategies. It is only by understanding – and, indeed, harnessing – the forces of globalization, that managers can develop global competitive advantage.

With globalization, competitive advantages become earth-shattering chasms. A competitor's costs may be a tiny fraction of your company's costs because their products are made in low-cost countries. Robert "Steve" Miller, chief executive officer (CEO) of the world's largest auto-parts maker, Delphi, noted that: "Globalization is a fact of life these days."[1] Delphi declared bankruptcy in its US operations where its labor costs were $65 per hour while comparable labor costs in China were only $3 per hour. Miller further observed that:

> Behind all this financial drama are the lives and livelihoods of thousands of our loyal and dedicated workers. These are honest, hard-working human beings who played by the rules and cannot be blamed for pursuing the American dream by taking a job at General Motors Corp. or Delphi. They expected us to live up to our promises, but have been caught by fast-changing global economics.

Looking ahead, your company is more likely to face a competitor with extremely innovative products and world-class brands. US auto makers GM and Ford struggled with considerable effort but experienced declining market share competing against global brands such as Toyota, Honda, BMW, Audi, and MercedesBenz. Brock Yates, the editor at large of *Car and Driver* magazine, worried about the chances for GM's survival, its only hope being in "revamped, reformed, and re-energized design studios and engineering spaces."[2] With Toyota headed for the top slot in world markets, both GM and Ford considered an Alliance with Renault–Nissan.

The classic generic competitive strategies of cost leadership and product differentiation, while useful, offer limited guidance with globalization. New strategies must address the vast differences in costs, capabilities, and products that exist in world markets. Companies need to understand how global competitors devise dazzling business deals that cross international borders. Firms require strategies that create advantage from new international combinations of buyers and sellers.

Before globalization, you often knew your competitors intimately; their strategy and tactics were all too predictable. As globalization unfolds, your competitor is not only coming from half-way around the world, its very identity may be previously unknown to your company. Global competitors may follow innovative and original strategies. Your greatest competitor may turn out to be an aggressive entrepreneurial firm from an emerging market rather than a familiar stodgy conglomerate from a developed economy. The element of surprise heightens the new entrant's competitive advantages.

Before globalization, your target markets were familiar, as well. With increasing globalization, keeping up with competitors means that you must expand your reach to distant countries. Getting close to your customers requires adapting to many distinct national environments. This requires managers and employees that are familiar with local languages, customs, cultures, and business practices.

The global market place is not only a matter of competitive challenges. It also represents an expansion of opportunities. Global firms choose target countries to select from 6.5 billion potential consumers in over 190 countries. Countries with large populations such as China and India offer diverse internal markets. Emerging markets are just that – opportunities to serve new consumers. Emerging markets offer faster growth rates for consumption than in developed economies, as consumers there have not had the best choices of goods and services.

The global market place offers firms vast new labor forces. Many emerging markets suffer from unemployment and underemployment, and there are significant opportunities to increase productivity in such markets through infusions of capital, technology, and training. As the impact of globalization expands, there are opportunities to increase productivity in developed countries, as well. Global competition will require companies in the developed world to streamline organizations and change wasteful work patterns. Companies in developed economies must increase innovation and productive efficiency to stay in the game.

Achieving global competitive advantage cannot be done in a domestic fortress. Lobbying governments to erect barriers to trade has limited value: better or cheaper goods find their way into even the most closed markets. Trade barriers merely postpone the inevitable and provide a false sense of security. Companies cannot resist the forces of globalization for very long: success goes to those companies that actively address the global challenge and seize global opportunities.

Global competitors use the international market place to transcend the limits of their home market – on both the demand side and supply side of the business. Companies seek incremental revenue from targeting customers abroad. Companies also must go global to lower their costs, improve their products, and find innovative suppliers and partners. Innovative business strategies are those that embrace globalization.

What is globalization?

Christopher Columbus was right. The world is round, not flat. In fact, the world is very bumpy! The countries of the world differ greatly, with some at the highest peaks of industrialization and technology, others on the hillsides of economic development, and emerging markets roaring out of the economic valleys. It is this great diversity that provides opportunities for trade.