

NOTES AND SUGGESTIONS ON SELF-STUDY QUESTIONS

Chapter 14. Global Strategies and the Multinational Corporation

1. *With reference to Figure 14.1, identify a “sheltered industry” (i.e. one that has been subject to little penetration either by imports or foreign direct investment). Explain why the industry has escaped internationalization. Explore whether there are opportunities for profitable internationalization within the industry and, if so, the strategy that would offer the best chance of success.*

In addition to the examples provided (railroads, laundries, hairdressing, and milk production and distribution), other industries include funeral services, medical services, residential construction, theaters, bakeries, janitorial and office maintenance services, gardening products. These industries are mostly service industries and are characterized by one or more of the following characteristics:

- Lack of scale economies,
- Strong national or local preferences,
- National regulatory barriers.

Opportunities exist where national differentiation is not deeply entrenched, where customers are willing to try new offerings, and where the industry in some overseas countries is less efficient, less advanced, or has inferior products to our own.

Thus, Starbucks took Italian concepts of coffee, introduced them into the US – where standards of coffee making were very low – then exported its system to other countries.

In the case of dental services, US dentistry is probably the best in the world – certainly more advanced than in the UK. Is there scope for a US dental group to set up shop in the UK offering private dental treatment – possibly even bidding for some National Health Service contracts?

In the case of residential construction, US house-building processes are faster and lower cost than those in Britain. Is there the opportunity for US house-builders to transfer their systems and processes to residential construction in the UK? Much depends on the willingness of British home buyers to let go of their traditional preferences.

2. *With reference to Table 14.1, what characteristics of national resources explain the different patterns of comparative advantage for the US and Japan?*

US strength in food, drink, and tobacco, and raw materials (e.g. minerals and forest products) may be related to US natural resources in terms of land and also technical and managerial capabilities in these sectors (e.g. the US has one of the world’s most productive agricultural sectors). In the case of processed food, drink, and tobacco products (Kellogg’s breakfast cereals, Coca-Cola concentrate, and Marlboro cigarettes), US comparative advantage reflects the strength of US consumer marketing capabilities.

In machinery and transport equipment, US strengths relate primarily to selected products where the US has particularly strong technological capabilities (e.g. aerospace and semiconductors).

In chemicals (including pharmaceuticals), US strength is the result of capabilities in chemistry – strengths in basic chemistry, chemical engineering, and, increasingly, biotechnology.

Conversely, the massive disadvantage in “other manufacturing” points to the US’s declining competitiveness across a broad range of manufactured products (including clothing and footwear, consumer electronics, furniture) as a result of labor cost disadvantages.

In the case of Japan, the pattern is fairly straightforward. In food, drink, and tobacco, raw materials, oil, and chemicals, Japan’s lack of competitiveness is the result of limited land and natural resources. In machinery and transportation equipment and other manufacturing, Japan’s competitive advantage reflects its remarkable strengths in operational capabilities (including total quality management), product design, and also Japan’s brilliance in electronics and integrating multiple technologies into innovative products.

Conversely, Japan is weak in basic research – especially chemical research, which may also explain its very weak position in the chemical sector.

3. *According to Michael Porter’s Competitive Advantage of Nations, some of the industries where British companies have an international advantage are: advertising, auction trading of antiques and artwork, distilled alcoholic beverages, hand tools, and chemical preparations for gardening and horticulture.*

Some of the industries where US companies have an international competitive advantage are: photo film, aircraft and helicopters, computer hardware and software, oilfield services, management consulting, cinema films and TV programs, healthcare products and services, and financial services.

For either the UK or the US, use Porter’s national diamond framework (Figure 14.3) to explain the observed pattern of international competitive advantage.

UK

Several of the sectors where UK firms show international competitive advantage are those where domestic demand is strong and sophisticated. Antiques and gardening are traditional passions of the British. In the case of distilled beverages (Scotch whisky in particular), a sophisticated home demand links with key factor conditions: Scotland’s rainfall and peaty soils, and the impact of the British empire on the international diffusion of British drinking habits.

US

The strength and sophistication of home demand has also played a key role in the international competitiveness of several US industries. The strength of aerospace reflects the size of the US home market and the sophistication of military demand. The development of oilfield services (based primarily in Houston) reflects the position of the US as the world’s dominant oil producer during the first half of the twentieth century. The international dominance of US-based financial services and entertainment companies reflects US passions for entertainment and personal wealth, and also the fact that the US was the world’s first country where affluence and leisure became mass-market phenomena. In the computer and computer software industry, the role of related and supporting industries is especially evident: in California’s Silicon Valley, semiconductors (Intel, National Semiconductor, AMD), computers (HP, Apple, Sun), software (Oracle, Google), and telecommunications (Cisco, Qualcomm) form a powerful cluster.

4. *When Porsche decided to enter the SUV market with its luxury Cayenne model, it surprised the auto industry by locating its new assembly plant in Leipzig in eastern Germany. Many observers believed that Porsche should have located the plant either in central or eastern Europe, where labor costs were*

very low, or (like Mercedes and BMW) in the US, where it would be close to its major market. Using the criteria outlined in Figure 14.4, can you explain Porsche's decision?

Cost and availability of inputs: While Germany's labor costs are among the highest in the world, in Germany, labor skills, productivity, and overall engineering expertise are among the best. A critical resource for Porsche is country-of-origin reputation. Made-in-Germany fits closely with Porsche's image of quality and advanced engineering. (This may be especially important when most of the components for the Cayenne are bought in from other companies – VW in particular.)

Company's internal resources and capabilities in particular locations: Porsche's principal operations are at Stuttgart – nearly 500 kilometers from Leipzig. However, the Leipzig location offers proximity to Germany's network of automotive suppliers and is close to the VW's operations hub at Wolfsburg.

Porsche's business strategy: The critical issue driving the Leipzig plant decision appears to be the primacy of Porsche's differentiation strategy based on quality, craftsmanship, and engineering excellence. With a base price of around \$125,000, compared with \$34,000 for a Ford Explorer, maintaining image is much more important than saving on labor costs – especially when assembly costs are a fairly small proportion of overall vehicle costs.

5. *British expatriates living in the US frequently ask friends and relatives visiting from the UK to bring with them bars of Cadbury's chocolate on the basis that the Cadbury's chocolate available in the US (manufactured under license by Hershey's) is inferior to "the real thing." Should Cadbury-Schweppes PLC maintain its licensing agreement with Hershey or should it seek to supply the US market itself, either by export from the UK or by establishing manufacturing facilities in the US?*

The discussion of foreign entry strategies (pp. 373–6) identifies the following criteria for determining the optimal entry mode:

- *Is the firm's competitive advantage based on country-specific or firm-specific resources?* Cadbury's competitive advantage is based primarily on its products and its brand name. Neither suggests a need to manufacture in the UK.
- *Is the product tradable and what are the barriers to trade?* Chocolate imports into the US face an import tariff of around 6%. More significant trade barriers are the risks to quality associated with transatlantic shipping.
- *Does the firm possess the resources and capabilities required for establishing competitive advantage in the overseas market?* National sales of chocolate confectionery require a strong marketing presence, market knowledge, and an extensive distribution network. Cadbury lacks these within the US and creating them would probably prove cost ineffective given Cadbury's US market potential.
- *Can the firm directly appropriate the returns to its resources?* We do not know what royalty Cadbury receives from Hershey for using its brands and recipes. However, we can assume that Cadbury receives reasonable remuneration for the use of its trademarks and trade secrets.
- *What transaction costs are involved?* It does not appear that the licensing arrangement with Hershey involves any significant risks to Cadbury's reputation or its intellectual property; nor does it appear to require significant monitoring or control.

On the basis of these considerations, it would seem that the licensing offers a modest but reasonable return to Cadbury on US chocolate sales for a negligible investment. The critical issue is whether establishing a US sales subsidiary (with products sourced from the UK) or a fully integrated US

subsidiary would offer Cadbury the potential to greatly expand its US presence and make substantially more profit.

6. *Has McDonald's got the balance right between global standardization and national differentiation (see Strategy Capsule 14.2)? Should it offer its franchisees in overseas countries greater initiative in introducing products that meet national preferences? Should it also allow greater flexibility for its overseas franchisees to adapt store layout, operating practices, and marketing? What aspects of the McDonald's system should McDonald's top management insist on keeping globally standardized?*

All international companies need to achieve a balance between the benefits of global scale economies and those of national differentiation. McDonald's has often been identified as an exemplar of global strategy in terms of the economies of replicating a single business model. Yet, the mere fact that McDonald's has grown primarily through franchising indicates recognition of the need for adapting to local condition. But does the McDonald's business model allow a partitioning of global uniformity and local adaptation? It might be argued that franchising allows McDonald's to locate all globalized activities within McDonald's Corporation – the products, the business system, training, marketing, and brand development – while allowing local franchisees to undertake adaptation to local conditions.

In recent years, this allocation of globalized, standardized activities to the franchisor and local adaptation to the franchisee has become increasingly untenable. Menus, marketing, and external relations have all needed to adapt more closely to distinctive needs of different national markets.

Increased potential for national differentiation has also assisted adaptation to the forces of global change. Decentralization has facilitated innovative responses to pressures for social and environmental responsibility, and healthier diets. Local innovations have then been picked up by corporate McDonald's and transferred internationally (e.g. gourmet coffee).

Ultimately, however, the effectiveness of McDonald's as a global corporation depends on the global standardization of the fundamental elements of its business system. The cost and differentiation advantages of McDonald's derive from the replication of this system. These include: the brand and its identity (including its family orientation and sense of fun); market positioning in terms of low/moderate pricing, high volume, and broad market appeal; systematized operating system; certain key products (e.g. burgers, fries, milkshakes); and its management and franchisee training systems.