

## 7.5: Which “A” Strategy Should a Company Use?

A company’s financial statements can be a useful guide for signaling which of the “A” strategies will have the greatest potential to create global value. Firms that heavily rely on branding and that do a lot of advertising, such as food companies, often need to engage in considerable adaptation to local markets. Those that do a lot of R&D—think pharmaceutical firms—may want to aggregate to improve economies of scale, since many R&D outlays are fixed costs. For firms whose operations are labor intensive, such as apparel manufacturers, arbitrage will be of particular concern because labor costs vary greatly from country to country.

Which “A” strategy a company emphasizes also depends on its globalization history. Companies that start on the path of globalization on the supply side of their business model, that is, that seek to lower cost or to access new knowledge, first typically focus on aggregation and arbitrage approaches to creating global value, whereas companies that start their globalization history by taking their value propositions to foreign markets are immediately faced with adaptation challenges. Regardless of their starting point, most companies will need to consider all “A” strategies at different points in their global evolution, sequentially or, sometimes, simultaneously.

Nestlé’s globalization path, for example, started with the company making small, related acquisitions outside its domestic market, and the company therefore had early exposure to adaptation challenges. For most of their history, IBM also pursued an adaptation strategy, serving overseas markets by setting up a mini-IBM in each target country. Every one of these companies operated a largely local business model that allowed it to adapt to local differences as necessary. Inevitably, in the 1980s and 1990s, dissatisfaction with the extent to which country-by-country adaptation curtailed opportunities to gain international scale economies led to the overlay of a regional structure on the mini-IBMs. IBM aggregated the countries into regions in order to improve coordination and thus generate more scale economies at the regional and global levels. More recently, however, IBM has also begun to exploit differences across countries (arbitrage). For example, it has increased its work force in India while reducing its headcount in the United States.

Procter & Gamble’s (P&G) early history parallels that of IBM, with the establishment of mini-P&Gs in local markets, but it has evolved differently. Today, the company’s global business units now sell through market development organizations that are aggregated up to the regional level. P&G has successfully evolved into a company that uses all three “A” strategies in a coordinated manner. It adapts its value proposition to important markets but ultimately competes—through global branding, R&D, and sourcing—on the basis of aggregation. Arbitrage, while important—mostly through outsourcing activities that are invisible to the final consumer—is less important to P&G’s global competitive advantage because of its relentless customer focus.

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