

7.1: The Five Stages of Going Global

In the first stage (market entry), companies tend to enter new countries using business models that are very similar to the ones they deploy in their home markets. To gain access to local customers, however, they often need to establish a production presence, either because of the nature of their businesses (as in service industries like food retail or banking) or because of local countries' regulatory restrictions (as in the auto industry).

In the second stage (product specialization), companies transfer the full production process of a particular product to a single, low-cost location and export the goods to various consumer markets. Under this scenario, different locations begin to specialize in different products or components and trade in finished goods.

The third stage (value chain disaggregation) represents the next step in the company's globalization of the supply-chain infrastructure. In this stage, companies start to disaggregate the production process and focus each activity in the most advantageous location. Individual components of a single product might be manufactured in several different locations and assembled into final products elsewhere. Examples include the PC industry market and the decision by companies to offshore some of their business processes and information technology services.

In the fourth stage (value chain reengineering) companies seek to further increase their cost savings by reengineering their processes to suit local market conditions, notably by substituting lower-cost labor for capital. General Electric's (GE) medical equipment division, for example, has tailored its manufacturing processes abroad to take advantage of low labor costs. Not only does it use more labor-intensive production processes—it also designs and builds the capital equipment for its plants locally.

Finally, in the fifth stage (the creation of new markets), the focus is on market expansion. The McKinsey Global Institute estimates that the third and fourth stages together have the potential to reduce costs by more than 50% in many industries, which gives companies the opportunity to substantially lower their sticker prices in both old and new markets and to expand demand. Significantly, the value of new revenues generated in this last stage is often greater than the value of cost savings in the other stages.

It should be noted that the five stages described above do not define a rigid sequence that all industries follow. As the McKinsey study notes, companies can skip or combine steps. For example, in consumer electronics, product specialization and value chain disaggregation (the second and third stages) occurred together as different locations started to specialize in producing different components (Taiwanese manufacturers focused on semiconductors, while Chinese companies focused on computer keyboards and other components).

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