

5.47: International Strategy

Learning Objectives

1. Know the trade-offs being made in terms of local responsiveness and global efficiency in regard to international strategies.
2. Distinguish among multidomestic, global, and transnational strategies.
3. Understand how the local environment can impact a firm's international strategy.

At the corporate level, firms choose to use one of three international strategies: multidomestic, global, or transnational (transnational is a combination of multidomestic and global). These three strategies reflect trade-offs between local responsiveness and global efficiency. For firms to gain a competitive advantage, they have to devise strategies that take best advantage of the firm's core competencies and that are difficult for competitors to copy.

Multidomestic Strategy

Multidomestic strategy maximizes local responsiveness by giving decentralizing decision-making authority to local business units in each country so that they can create products and services optimized to their local markets. A multidomestic strategy would be appropriate, for instance, where Thomas Friedman's flat-world thesis is not applicable. A multidomestic strategy focuses on competition within each country and maximizes local responsiveness. It assumes that the markets differ and, therefore, are segmented by country boundaries. In other words, consumer needs and desires, industry conditions (e.g., the number and type of competitors), political and legal structures, and social norms vary by country. Using a multidomestic strategy, the firm can customize its products to meet the specific preferences and needs of local customers. As a result, the firm can compete more effectively in each local market and increase its local market share.

The disadvantage of a multidomestic strategy, however, is that the firm faces more uncertainty because of the tailored strategies in different countries. In addition, because the firm is pursuing different strategies in different locations, it cannot take advantage of economies of scale that could help decrease costs for the firm overall. The multidomestic strategy has been more commonly used by European multinational firms because of the variety of cultures and markets found in Europe.

As mentioned earlier, Yum! Brands has a strong incentive to compete internationally with its restaurant concepts (i.e., KFC, Pizza Hut, Taco Bell, A&W Restaurants, and Long John Silver's). Yum! pursues a multidomestic strategy by trying to localize as much as possible. The firm doesn't open restaurants using only the US model. Wherever the company has locations, it consistently adapts to local tastes and negotiates well when cultural and political climates change: "In Japan, for instance, KFC sells tempura crispy strips. In northern England, KFC stresses gravy and potatoes, while in Thailand, it offers fresh rice with soy or sweet chili sauce. In Holland, the company makes a potato-and-onion croquette. In France, it sells pastries alongside chicken. And in China, the chicken gets spicier the farther inland you travel. More and more, if it's only an American brand without a regional appeal, it's going to be difficult to market." Brian O'Keefe, "What Do KFC and Pizza Hut Conjure Up Abroad?," *Fortune*, November 26, 2001, 102–10. Recognizing this constraint, Yum! introduces its products in those foreign markets that are the shortest "taste" distance from its traditional home markets. Pankaj Ghemawat, "Distance Still Matters," *Harvard Business Review* 79, no. 8 (2001): 147. So, it sticks to high-population areas in which American culture has some appeal as well.

Global Strategy

In contrast to a multidomestic strategy, a **global strategy** is centralized and controlled by the home office and seeks to maximize global efficiency. Under this strategy, products are much more likely to be standardized rather than tailored to local markets. One way to think about global strategies is that if the world is flat, you can sell the same products and services in the same way in every country on the planet. The strategic business units operating in each country are assumed to be interdependent, and the home office attempts to achieve integration across these businesses. Therefore, a global strategy emphasizes economies of scale and offers greater opportunities to utilize innovations developed at the corporate level or in one country in other markets.

Although pursuing a global strategy decreases risk for the firm, the firm may not be able to gain as high a market share in local markets because the global strategy isn't as responsive to local markets. Another disadvantage of the global strategy is that it is difficult to manage because of the need to coordinate strategies and operating decisions across country borders. Consequently, achieving efficient operations with a global strategy requires the sharing of resources as well as coordination and cooperation across country boundaries, which in turn require centralization and headquarter control. Whether the world is flat or flattening can often depend on the industry. In most cases, the world isn't flat, but in a few industries the market characteristics are fairly

common. The cement and concrete industry is an example of an industry where the flatteners have taken effect. CEMEX, a Mexico-based cement and building materials company founded in 1906, pursued an international business strategy that led to its growth and position as one of the top building materials companies in the world today. “Strategically Positioned,” CEMEX, accessed January 1, 2011, www.cemex.com/tc/tc_gl.asp. CEMEX acquired companies to grow rapidly, took advantage of economies of scale, and used the Internet to lower its cost structure. Perhaps most crucial to its international expansion success was foreseeing the shifts in distribution technologies that would bring previously disparate regional markets closer together. Daniel F. Spulber, *Global Competitive Strategy* (Cambridge, UK: Cambridge University Press, 2007), 217–18.

In 2009, CEMEX CEO Lorenzo H. Zambrano wrote a message to stakeholders regarding sustainable development:

In 2009, as we coped with the worst crisis to hit the global economy, our industry, and our company in 75 years, we took important and decisive steps to strengthen not only our business model, but also our commitment to sustainable development. As a result, we are a stronger company, well positioned to take advantage of the recovery of the global economy. That is testimony to the quality of our employees, to our company’s core values of collaboration, integrity, and leadership, and to the disciplined execution of sound strategies.

We made several difficult decisions during the year to adjust to a rapidly evolving and extraordinarily challenging market environment. For example, we sold assets, most notably our Australian operations, and reorganized our business to improve efficiency and productivity. Together, these measures brought about an unfortunate, but necessary, reduction in our workforce. However, these steps enabled us to weather the crisis and will position our company for long-term success.

Even as the economic crisis unfolded, we deepened our commitment to our stakeholders. We continued our efforts to ensure the safety of our employees, and many of our country operations recorded solid improvements in their safety performance. However, despite our ongoing efforts, I am deeply saddened to report that 33 people—including employees, contractors, and third parties—died in incidents related to our operations during 2009. This is tragic and unacceptable. We are working harder than ever to identify and address the root causes of all fatalities and serious injuries in order to prevent their recurrence. For example, we are expanding and strengthening our efforts in key areas such as safety training for drivers and contractors. Above all, we remain committed to our global long-term goal of zero incidents.

On the environmental front, we continued to reduce our carbon footprint by improving the energy efficiency of our operations and expanding our use of alternative fuels. As a result, in 2009 we increased our use of alternative fuels to 16.4 percent, exceeding our target for 2015 ahead of time. In addition, Eurus, the wind farm project developed by ACCIONA Energía, became fully operational during the year and can supply 25 percent of our plants’ electricity needs in Mexico.

Finally, we engaged the communities in which we operate through open and ongoing dialogue, social initiatives, and volunteer efforts. We continued to find ways to promote access to housing and community infrastructure. For example, we launched our most successful low-income housing solution, Patrimonio Hoy, in the Dominican Republic.

As a global company, we are deeply aware of our responsibility to address complex sustainability challenges. We are committed to further reducing our impact on the environment and recognize that we have many opportunities to improve. We reconfirm our commitment to address climate change and to the development of a low-carbon economy.

We actively engage with our global panel of sustainability experts, who provide important and valuable advice. On a personal note, I thank them for their feedback and for continuously challenging us to make further progress.

We present our 2009 sustainable development report within the framework of our overall sustainability website to better communicate our sustainability performance. We have provided an executive summary that highlights our performance on our key sustainability issues. We hope that you find the report engaging, transparent, and comprehensive, and we welcome your feedback.

Sincerely, Lorenzo H. Zambrano

CEMEX Chairman of the Board and Chief Executive Officer Lorenzo H. Zambrano, “Addressing Complex Sustainability Challenges,” CEMEX, accessed June 7, 2010, www.cemex.com/su/Su_oc_me.aspx.

Transnational Strategy

Transnational strategy seeks to combine the best of multidomestic strategy and a global strategy to get both global efficiency and local responsiveness. For many industries, given the differences across markets and the similarities being fostered by the flatteners, this form of strategy is highly desirable and appropriate. The difficulty is that combining the multidomestic and global strategies is hard to do because it requires fulfilling the dual goals of flexibility and coordination. Firms must balance opposing local and global

goals. On the positive side, firms that effectively implement a transnational strategy often outperform competitors who use either the multidomestic or global corporate-level strategies. John Child and Yanni Yan, “National and Transnational Effects in International Business: Indications from Sino-Foreign Joint Ventures,” *Management International Review* 41, no. 1 (January 2001): 53–75.

The Ford Motor Company and BMW are examples of firms pursuing a transnational strategy. Ford, for example, is focusing on the “world car,” building one core car that will be sold globally. This strategy lowers Ford’s development costs, because rather than developing different cars for different countries or regions, Ford will sell the same car to all markets. The world car strategy, however, poses a major hurdle: how to design a car that appeals to consumers in many different countries. To tackle the issue, Ford took a page from BMW, which uses the concept of “fashion forward” when designing its 3 Series cars for multiple markets. The secret, according to Verena Kloos, president of BMW’s DesignworksUSA studio in California, is to “show consumers what the next big thing is, not reflect what they think now.” As James D. Farley, Ford’s global marketing chief, sees it, the global appeal of the 3 Series rests on trust and aspiration. People worldwide see the same design, which builds trust through ubiquity and familiarity and leads them to aspire to own the car themselves. David Kiley, “Can Ford’s ‘World Car’ Bet Pay Off?,” *BusinessWeek*, accessed June 7, 2010, http://www.businessweek.com/magazine/content/09_24/b4135058974279.htm?campaign_id=rss_innovate.

International Strategy and the Local Environment

Sometimes, firms expanding into new geographic markets find that they must adapt certain components of their strategies to accommodate local environments. In the United States, for instance, Dell is famous for the business model that allows it to skip middlemen and go directly to suppliers and customers. In its early years, Dell experimented with a brick-and-mortar retail strategy but quickly retrenched. As it expanded into international markets, however, Dell has found that it has to suspend its direct model, at least temporarily. Why? Basically because it needs local intermediaries to help develop both a base of business and acceptable levels of customer awareness and sophistication. Such has been the case first in India and then in China, which constitute huge markets for Dell.

Figure 10.5 Dell’s Local Operations in Xiamen, China



Courtesy of Dell, Inc.

While Dell provides a good example of adaptation, most global firms tend to approach corporate strategy from the perspective of their domestic market constraint, which can be problematic. Microsoft is a case in point. The United States and the European Union (EU) have very different traditions and models of competition, which in turn means that strategies must vary across these important markets. Had you not been aware of these differences, you might think that Microsoft followed an ideal resource-based corporate strategy in its diversification into Europe. It bundled its Windows operating system with the Internet Explorer browser and other software to increase the company's perceived value and, therefore, customers' willingness to pay. It also used its extensive experience with home-computer software, operating systems, and applications to better penetrate the server market for software and operating systems, where customers are primarily businesses. Finally, Microsoft tried to lock out competitors by including its Windows Media Player as a standard feature in both its server and home PC operating systems.

The EU, however, has made these Microsoft tactics illegal: the bundling strategy "deters innovation and reduces consumer choice in any technologies which Microsoft could conceivably take an interest in and tie with Windows in the future." "EU Lowers Boom on Microsoft," *Wired*, March 24, 2004, accessed November 10, 2010, <http://www.wired.com/techbiz/media/news/2004/03/62789>. The EU signaled its disapproval by imposing a fine of over \$600 million and giving Microsoft ninety days to release versions of its Windows operating systems for home PCs and servers without the Windows Media Player and to begin providing rivals access to the details of the code underlying its proprietary server systems, used primarily in business settings. This is not the first time such differences in regulatory environments have been ignored or underestimated by global firms. Just a few years earlier, the European Commission's ruling dealt a fatal blow to the all-but-done merger between Honeywell and General Electric (GE), citing that the merger would reduce competition in the aerospace industry. Yusuf Akbar, "Grabbing Victory from the Jaws of Defeat: Can the GE-Honeywell Merger Force International Competition Policy Cooperation?," *World Competition* 25, no. 4 (2002): 26–31.

KEY TAKEAWAYS

- Multidomestic strategy maximizes local responsiveness by giving decentralizing decision-making authority to local business units in each country so that they can create products and services optimized to their local markets. This strategy allows firms to compete more effectively in the local market and increase their share in that market. The disadvantage of a multidomestic strategy, however, is that the firm faces more uncertainty because of the tailored strategies in different countries. In addition, because the firm is pursuing different strategies in different locations, it cannot take advantage of economies of scale that could help decrease costs for the firm overall.
- A global strategy is centralized and controlled by the home office and seeks to maximize global efficiency. Under this strategy, products are much more likely to be standardized rather than tailored to local markets. Although pursuing a global strategy decreases risk for the firm, the firm may not be able to gain as high a market share in local markets because the global strategy isn't as responsive to local markets.
- A transnational strategy offers the advantages of both the multidomestic strategy (efficiency) and global strategy (responsiveness to local conditions) but has the disadvantage that it is difficult to simultaneously execute the dual goals of flexibility and coordination.

EXERCISES

(AACSB: Reflective Thinking, Analytical Skills)

1. When should a firm choose the global strategy rather than a multidomestic strategy?
2. How might a given country's regulatory environment impact a firm's international strategy?
3. How do the international strategies affect the trade-offs managers must make between local responsiveness and global efficiency?

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