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Global Competitive Strategy

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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