Practical Class #05

International Management

Spring 2025

March, 6/7

Internationalisation pressures

- **Pursue growth**
  - Determined by population growth and product replacement
    - E.g.: Household appliances

- **Pursue efficiency**
  - Larger revenues, larger asset base
  - Economies of scale or economies of scope
    - E.g.: Coca-Cola

- **Pursue knowledge**
  - Faster product and process innovation and lower cost of innovation
  - Reduced risk of competitive preemption
    - E.g.: Tide development by P&G

Slides elaborated based on https://2012books.lardbucket.org/books/global-strategy/s03-03-globalization-pressures-on-com.html

Internationalisation pressures

- **Customer needs and preferences**
  - Follow and adapt to globalizing customers
    - E.g.: Pestana Hotels

- **Competition/Strategy**
  - First-mover advantage
  - Respond to a competitor

- **External pressures**
  - To satisfy investors growth expectations

Slides elaborated based on https://2012books.lardbucket.org/books/global-strategy/s03-03-globalization-pressures-on-com.html

Internationalisation pressures

- **Technological advancements**
  - Allow to operate globally 24/7

- **Deregulation**
  - When an industry becomes deregulated (e.g.: telecommunications or utilities), they face pressure to expand globally to exploit new strategic freedoms.

Slides elaborated based on https://2012books.lardbucket.org/books/global-strategy/s03-03-globalization-pressures-on-com.html

Ghemawat (2007) – Triple A Framework

NOVA SCHOOL OF BUSINESS & ECONOMICS

❖ Aggregation

- Integrate activities around the world to develop global economies of scale and scope.

❖ Arbitrage

- Integrate activities to take advantage of national differences in knowledge or cost.

❖ Adaptation

- Firms adapt to local rules, markets and customers.

Adaptation example

NOVA SCHOOL OF BUSINESS & ECONOMICS

❖ McDonald's in India

- <u>Missteps:</u>
  - non-beef dry burger
  - soggy French fries
  - salad sandwiches
  - Protests for use of meat

- <u>Successful steps:</u>
  - division of the vast geographical region into manageable areas
  - JVs with local entrepreneurs
  - development of the local supply chain
  - local R&D development
  - division of vegetarian and non-vegetarian areas

Slides elaborated based on https://2012books.lardbucket.org/books/global-strategy/s05-01-ghemawat-s-aaa-global-strategy.html

Aggregation example

- Whirlpool CORPORATION
  - Market presence in every major country in world
  - 1989 – acquisition of the European operation base of Philips
  - Appliance joint-venture in Mexico
  - Manufacturing and marketing base in Asia
  - Created common system and global processes, like cross-regional exports
  - Several functions became global: procurement, technology and product development, branding

Slides elaborated based on https://2012books.lardbucket.org/books/global-strategy/s05-01-ghemawat-s-aaa-global-strategy.html

Arbitrage example

❖ amazon

- Strategically utilises geographical differences in costs, taxes, and market conditions to optimize its global operations
- Establishes its operations, such as distribution centres and offices, in locations with favourable tax conditions. **E.g.:** Luxembourg
- Locates its fulfilment centres and warehouses to optimise logistics and take advantage of cost differentials in transportation and storage

❖ **Indian companies** invest in Latin America

- Lock up supplies of energy and minerals, oil and natural gas
- Outsourcing technological facilities
- High level of investment in the local economy, opposite to China

Slides elaborated based on https://2012books.lardbucket.org/books/global-strategy/s05-01-ghemawat-s-aaa-global-strategy.html

The dark side of internationalisation

- The pressures that push firms to go global can lead to **significant mistakes when companies fail to properly assess the complexities and risks associated with international expansion.**

Reasons for failure

- **Integration Difficulties**
  - Integrating operations and cultures across borders can be extremely challenging.
- **Management Skills**
  - Companies often lack the necessary management skills to realise the theoretical benefits of globalization.
- **Cost vs. Benefit**
  - The costs of managing international operations can outweigh the benefits, leading to financial losses.
- **Local Differences**
  - Customer expectations, operating environments, and management practices can vary greatly by location, complicating global strategies.

Failure examples

- **ABN Amro**
  - Acquired banks in numerous countries but **failed to integrate them effectively**, leading to its dismemberment.
- **AES**
  - **Struggled to show value beyond the sum of its individual geographic units**, leading to share price trading at a discount.
- **Daimler-Benz and Chrysler**
  - Merged to create a global corporation but **failed to achieve the expected market power and synergies.**
- **BenQ and Siemens**
  - **Cultural and process incompatibilities** led to the bankruptcy of BenQ's German unit.

Consequences of failure

- **Pressure for Breakups**
- **Financial Losses**
  - Increased debt and instability
- **Management Changes**
  - Senior management teams responsible for failed strategies are often replaced.
- **Operational Inefficiency & Distraction from Core Oper.**
  - Failed globalisation efforts can result in increased complexity when managing international operations.
- **Market Exit**
  - Companies may be forced to sell off international units.
- **Customer Loss and Loyalty Erosion**

International Market Due Diligence

❖ Analysis of the potential market's:

- Size
- Accessibility
- Cost of operations
- Buyer needs and practices

❖ Elements:

- Regional differences
- Understanding local consumers
- Differentiation and capability, corporate fit
- Industry dynamics

Slides elaborated based on https://saylordotorg.github.io/text_international-business/s12-international-expansion-and-gl.html

Exercise

1. Think about the motivations your company has for going abroad. Which approach of the AAA framework would you consider to be the most suitable?
2. What kind of risks could your company consider when going abroad? Name 2.