

Problèmes managériaux Contemporains

Licence 1 – S.BEZ

CHAP 4. Where to compete?
Geographical area



Agenda

- ☒ Introduction
- ☒ Chap 1 – What is behind the term « company »?
- ☒ Chap 2 – Why and How does a company need to grow?
- ☒ Chap 3 – Where should a company compete (vertical integration and diversification)?
- ☐ Chap 4 - Where should a company compete (geographical scope)?
- ☐ Chap 5 – Why and How innovation?
- ☐ Chap 6 – Why and How does a company pursue its CSR?
- ☐ Chap 7 – Why and how deal with the ethical issues?
- ☐ Conclusion

PLAN du cours

Chap 4. Where to compete?

1. Globalization
2. Motivations: Why?
3. Deciding and taking into account disadvantages
4. Implementing

Qui a un t-shirt ?



1. Globalisation

Illustrations: the case of the t-shirt



Source : Rivoli P. (2007), *Les aventures d'un T-Shirt dans l'économie globalisée*, Fayard; Cours N.Balas (2013)

1. Globalisation

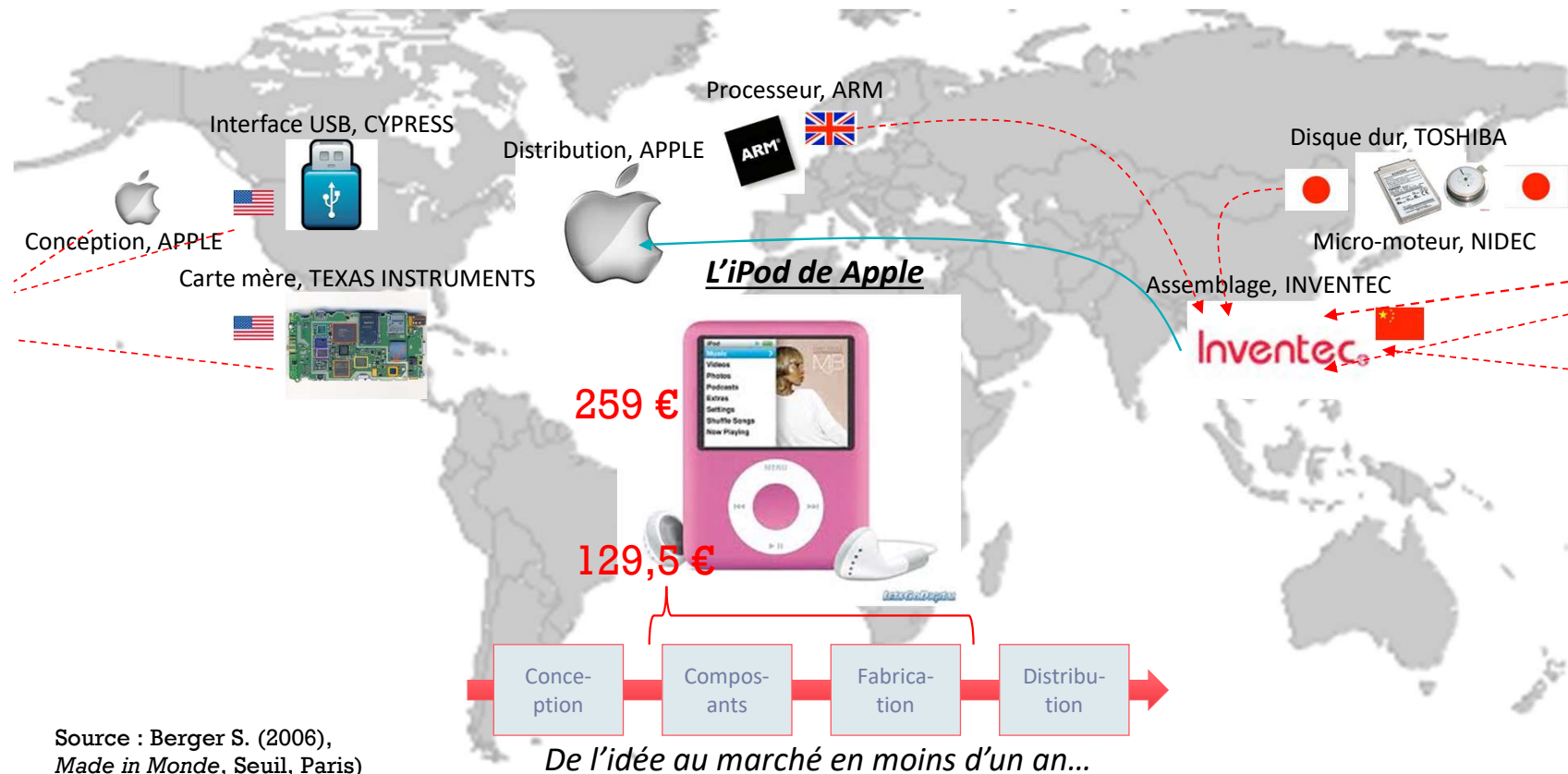
Illustrations: the case of the t-shirt



Source : Rivoli P. (2007), *Les aventures d'un T-Shirt dans l'économie globalisée*, Fayard; Cours N.Balas (2013)

1. Globalisation

Illustrations: the case of the iPod



Source : Berger S. (2006),
Made in Monde, Seuil, Paris)
Cours N.Balas (2013)

1. Globalisation

Illustrations : le cas de l'iPod



Source : Berger S. (2006),
Made in Monde, Seuil, Paris)
Cours N.Balas (2013)

1. Globalisation

Definitions

- Definition of globalization :
 - Process more and more intense of integration and exchange between different countries and persons in the world
 - Process of flows of goods, capitals, services, people, technics and information

Good to know:

Anglophones have only one word, "globalization," to refer to what we call "globalization." Globalization refers to the advent of the World, as a space, as a society, and as a relevant scale of analysis in many areas. Its history merges with that of the emergence of exchanges and human circulations. Globalization is also a narrative of the linking of the places of the world, through the influence of metropolises, the global generalization of neoliberalism, the financialization of the economy-world, and the instant connection of the actors of capitalism

1. Globalisation

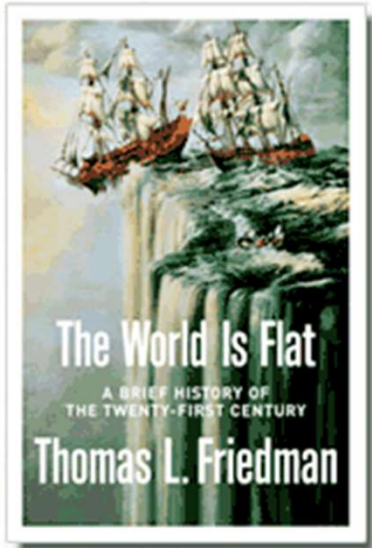
Definitions

- Company is called "global", if gain or support a competitive advantage through using foreign companies around the world (produce or distribute abroad)
- A global company adopting “Internationalization” :
 - ✓ Distribute goods and services with consumers in other countries
 - ✓ And/or using managerial and technical talents from employees from other countries
 - ✓ And/or using resources of foreign origin

Note: "financial globalization" when financial resource

1. Globalisation

Drivers



Assumption behind globalization "THE WORLD IS FLAT"

Countries, firms and individuals must maintain their competitive advantage in the context of a global market in which historical and geographical divisions are becoming less and less relevant



Nandan Nilekani - Infosys

GLOBAL STRATEGY: a strategy that enables a company to gain or sustain a competitive advantage when competing with foreign or local companies around the world

1. Globalisation

Drivers

Acceleration of the convergence processes of national economies that tend to unify markets

Recent phenomenon or Second globalization?

By 1914, there was hardly a village or town anywhere on the globe whose prices were not influenced by distant foreign markets, whose infrastructure was not financed by foreign capital, whose engineering, manufacturing, and even business skills were not imported from abroad, or whose labour markets were not influenced by the absence of those who had emigrated or by the presence of strangers who had immigrated. The economic connections were intimate.

Source : Dicken (2006 : 32)

1. Globalisation

Drivers

- Possible by reducing barriers to exchange

- Advances in telecommunications
- Lower transportation costs
- World Trade Organization (WTO): sets the rules for trade between countries (164 members including China)

=> Increased competition

(but who is the egg or the chicken?)

1. Globalisation

A paradox

- A paradox:

If more than 50% of companies are global companies

- Conversely: Tendency toward nationalism

2% of calls are international

9% of investment in the economy is from a foreign company

15% of patents are filed with at least one foreign inventor

18% of Internet traffic leaves national borders

WTO negotiations are increasingly becoming binational negotiations

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Why? *Motivations*

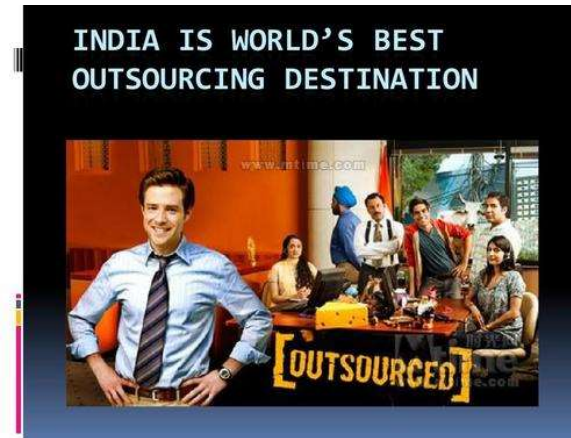
- The decision to expand internationally:
- Basic motivations of managers:(1) to reduce costs, (2) to increase sales (3) to differentiate : knowledge and technology access, (4) regulation optimization

Why?

100

- [illegible]

Why? *Motivations*



- Let's go further into Motivation 1c: Reduce costs of skilled employees

How much does a Chinese skilled worker cost compared to an American worker?

20 times less=> Purdue University engineer costs 1 quarter of a Native American's salary

Reduce costs but be careful not only unskilled workers
(ALSO skilled workers)

Note: Accenture has a consulting group specializing in offshoring and IT in Bangalore, India

Why? *Motivations*

- Motivation 2: sell abroad:

Why? For the market to become wider; Domestic market is too small to achieve significant economies of scale

Companies concerned: companies with economies of scale

Note: Local competitors may be in trouble.



ZARA

- What do we have in common?
- Why is their origin?

Etendre son marché


1. Globalisation

Illustrations : le cas du t-shirt

✚ Chap 4 - 01/10/2021 - Où rivaliser (choix géographique)? Where should a company compete (geographical scope)? ✎

✚  Cours 4 - PMC - optionnelle facile - Entreprise et globalisation - fabriquer en Chine article à lire ✎

[Modifier](#)



«French consumers do not realize this because the evolution has been at a sn's throw, but, for ten years, China has been the leading investor in textile machinery. It therefore has the most modern material in the world for spinning, dyeing and knitting. Its sewing machines are also very efficient, which ensures a quality of both the assembly and the seams or details. "The machine is not everything," says Nathalie Ruelle, "but it still plays a lot on the quality of the fabric. If a Western brand provides precise specifications and recommendations, it will get very beautiful clothes there..»

Why?

Motivations

Motivation 3: Knowledge

- **Why?** Access or learn unique Knowledge
- **Companies concerned:** companies with a differentiation strategy
- Other examples :
 - AstraZeneca, a Swiss pharmaceutical company, locates its research in Cambridge to be part of a Boston cluster specializing in biotech
=> is looking for a learning community
 - Microsoft, one of its key research centers in India (Bangalore)
=> seeks knowledge and engineers
 - Unilever, a center to test its new products in Shanghai
=> search for volunteers to test the products

Reap benefits by locating specific parts of their value chain
in an optimal geographical area

Why?

Motivations

Motivation 3 : Gain skills

Change:

A one-sided flow of innovation from the West

To a **polycentric strategy of innovation** :innovation comes from several innovation center in the world

Food for thought



■ Sundar Pichai :
CEO de Google



■ Satya Nadella :
CEO de Microsoft

Why?

Motivations

- Motivation 4: Regulatory

Regulatory Benefits: Circumventing Export Quotas

Ex: AIRBUS Jet: produces the JET in the US

Ex: Starbucks: taxes advantage



Takeaways

1. Motivation to locate in a foreign country
2. Part of the value chain concerned by global strategy
3. Polycentric innovation

PLAN du cours

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Walmart in Germany, a good decision?

A photograph of a Walmart store's exterior. The building has a blue facade with the word "Walmart" in large white letters. Below the letters, there are glass entrance doors and several red vending machines on the left side. The sky is blue with some light clouds. A large, semi-transparent orange triangle is overlaid on the right side of the image, containing a bulleted list.

Walmart

- Walmart an American success based on "low-cost leader"
- 1998 the US market is considered saturated
- Walmart is already present in 6 foreign countries with 500 stores.
- Germany was at the time the 3rd largest economy in the world
- Is it strategic to go abroad once again (to Germany)?

Walmart A MODEL TO FOLLOW?

- Acquires 21 stores of the Wertkauf chain and 74 hypermarkets of the German Spar Handels AG
- And a desire to replicate Walmart's secret recipe
- EXCEPT THAT: German employees refused American values
- 1st boss did not speak German and decided that the language spoken in the store would be English

Walmart A MODEL TO FOLLOW?

- Failed to keep prices low ("average price")
 - No longer benefited from U.S. economy and distribution centers
 - Regulation of German employees increases costs
- Strong local competition:
 - Aldi and Lidl
 - Metro: decides to engage in a price war with Walmart

Walmart UN MODÈLE A SUIVRE ?

The image shows the exterior of a Walmart store. The blue facade features the large white 'Walmart' logo. Below the logo, there are glass entrance doors flanked by blue pillars. To the left of the entrance, there are several vending machines, including Coca-Cola and Dasani. A large red semi-transparent graphic is overlaid on the right side of the image, containing a list of bullet points.

Walmart

- After billions invested, Walmart withdraws from Germany
- Conversely, :
 - Aldi (1970) and Lidl (2007) come to the American market then an innovative offer

3. Disadvantages

➤ Sometimes the cost can be greater than the benefits:

- Responsibility/ Control
- Loss of reputation
- Loss of intellectual property

3. Disadvantages

CRCC - SIEMENS

Initial deal

- ✓ Sell 60 trains : \$669 millions
- ✓ IP technology : \$80 millions



Expectation

- ❖ Chinese market :
Selling other 3000 trains



- ❖ World market :
Homemarket protected



3. Disadvantages

CRCC - SIEMENS

Originally licensed
from Siemens



2003-2008



Chinese's copy



2008-2016



Chinese's improvement



3. Disadvantages

CRCC - SIEMENS

Initial deal

- ✓ Sell 60 trains : \$669 millions
- ✓ IP technology : \$80 millions

Reality

- ❖ Chinese market :
Selling other 3000 trains
- ❖ World market :
Homemarket protected
- ❖ World market :
Created a competitor
 - ✓ cheaper
 - ✓ better

PLAN du cours

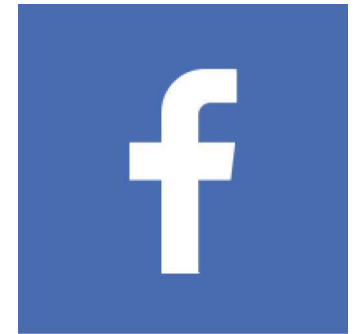
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4. Implementation Where and how?



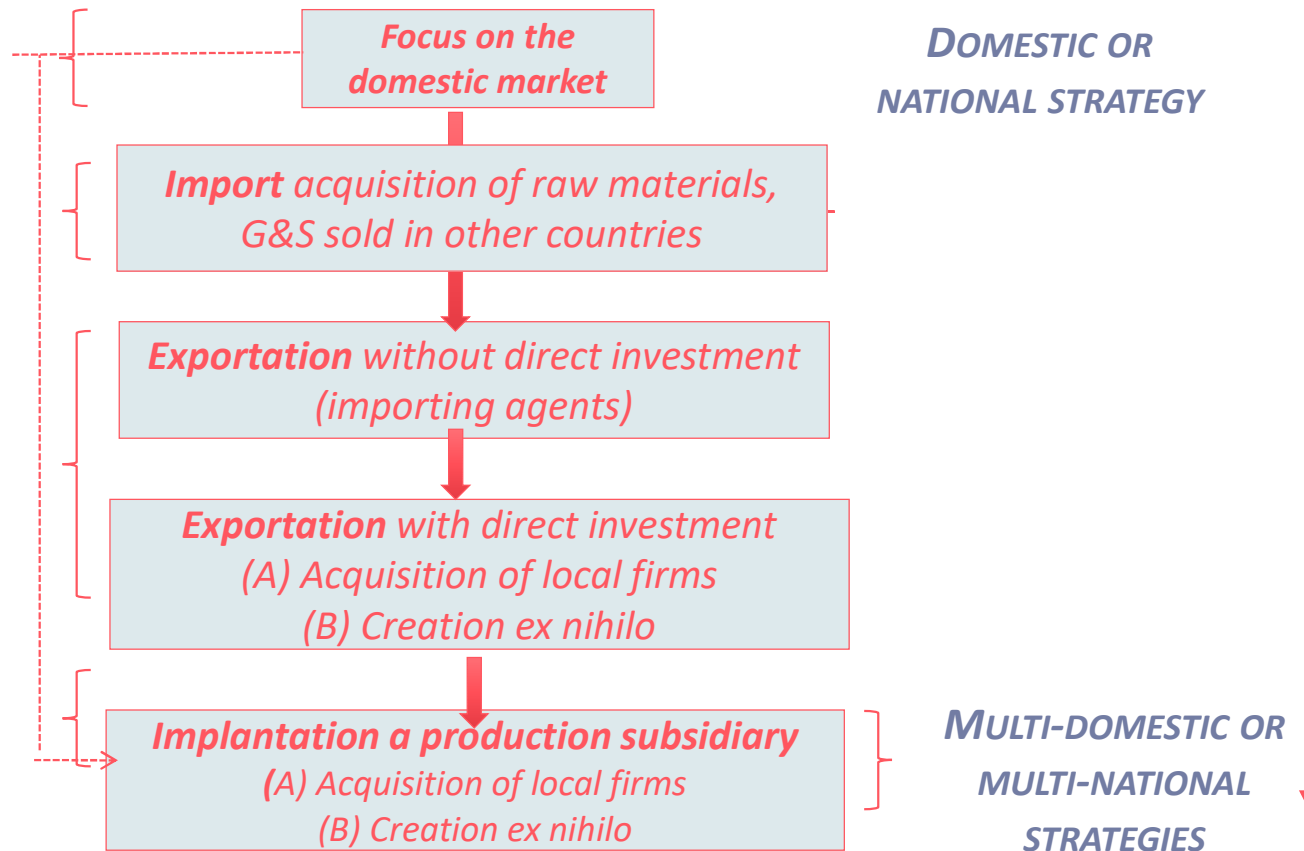
- CAGE distance Framework: analytical framework to justify the decision to implement it based on 4 distances between the country of origin and the target country
 - **Cultural:** social norms, beliefs and values
 - **Geographical:** distance between them but also size, time zones, separate by sea or land
 - **Administrative and Political:** lack of shared currency and political organization, presence of political hostility, weakness of financial or legal institutions
 - **Economic:** average income or average wealth, per capita,



4. Implementation How?

Ex: 95% of French
companies

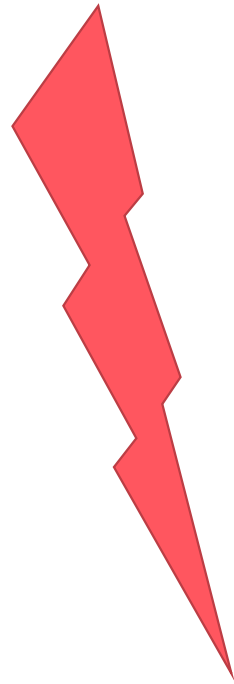
**STRATEGIES
OF EXPORT**



**Investissement
et Control**

4. Implementation How?

Cost reduction:
Standardized product

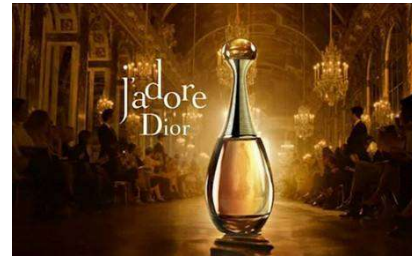


Local adaptation:
Differentiation



Hypothesis behind globalization

Consumer needs and preferences around the world converge and become homogeneous



4. Implementation How?

- Should standardized products be distributed on world markets?
→ *Ex : Zara, Levi's... marketing global*
- Should we adapt marketing products and policies on a case-by-case basis, market by market?
→ *Ex : Carrefour... different store surfaces and types of references*
- Should we adopt an intermediate approach, consisting in standardizing production while ensuring local adaptation of products?
→ *Ex : McDonald's... standardization of marketing and local adaptations of menus*



Fish and chicken in India



kimchi refrigerators,
children's play air size

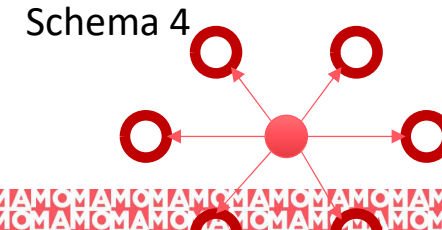
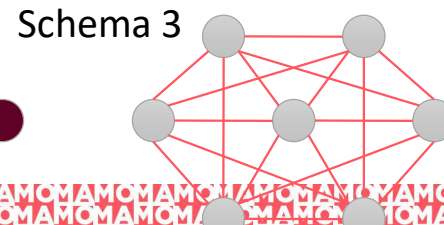
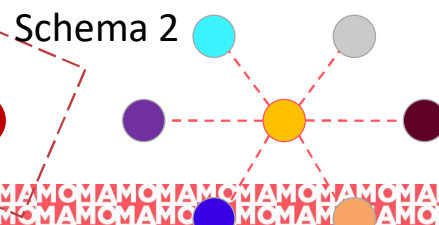
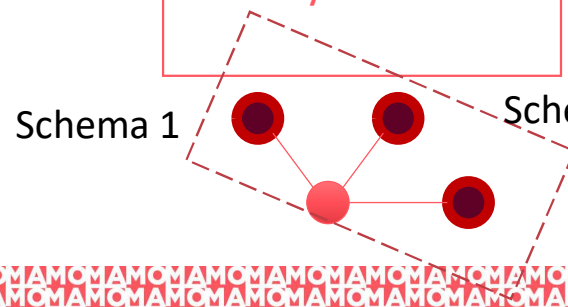


<https://www.forbes.com/sites/bernardmarr/2017/09/18/the-amazing-ways-coca-cola-uses-artificial-intelligence-ai-and-big-data-to-drive-success/#309cbe6578d2>

De not possess
Centralized
Decentralized

4. Implementation How?

Export Strategy	Global Strategy	Multi-national Strategy	Integrated network Strategy
Export	Production offshore	Local adaptation	Externalisation
Dependency of subsidiaries	Dependency of subsidiaries	Autonomy of subsidiaries	<u>Legal autonomy</u> of the partners
Formal control systems	Formal control systems	Informal control systems	Formal/informal systems





Takeaways

- ☐ What is the paradox with globalized companies?
- ☐ Define a global company?
- ☐ What is globalization (difference with multinational company)?
- ☐ Why globalization? The hypothesis impacting companies resulting from globalization?
- ☐ « World is flat »? Quand?
- ☐ Egg and the chicken between competition and international?
- ☐ When is the decision to internationalize strategic? Is it still strategic?
- ☐ What are the motivations for becoming an international company?
- ☐ What is the polycentric innovation strategy?
- ☐ Is the sale of patents a strategic decision
- ☐ What is the CAGE Analysis Framework?
- ☐ What is the tension (or trade-off) when a company engages in an internationalization strategy?
- ☐ Domestic strategy versus the 4 internationalization strategies?

**To go
further**

**Industrial reshoring picking up pace in
France**

<https://lafrench-fab.com/news/industrial-reshoring-picking-up-pace-in-france/>