International business strategies

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**Introduction**

Currently, the world economies are very much influenced by the forces of globalization in the form of reduced tariffs, increased mobility of capital and enhancement of communications. This has helped companies around the world to be able to form a connection with the global financial markets and provide them with the ability of expanding their business internationally. In order to successfully expand internationally it has become sort of compulsory for companies to adopt such strategies that have the maximum alignment with their wants and resources. This is because in international business different stakeholders are involved (Norwich University Online, 2019). These could include foreign stakeholders, consumers, government, and employees. Therefore, consideration of different factors in decision making is important for managers in order to make the expansion become successful. Factors such as competition, pricing strategy and the supply chain management are some of the factors that are important to consider. In order to successfully increase the market share and therefore, increase the profitability due to their international expansion, necessary time and resources need to be used by companies. This will help companies in understanding the opportunities that the global market presents them with and so they could choose the best strategies for international business. This report focuses on the theories, change drivers of international business strategies, while focusing on profitability in global expansion, factors that influence strategic choice, global competition strategies and pros and cons of those strategies.

**Theories for International Business**

There are numerous theories currently present that detail the need for business internalization. These theories are of wide variety and deal with the different aspects of the business. These theories are known as Dunning’s Eclectic Paradigm, Kruger’s First Mover Advantage Theory, and Venoms Product Lifecycle Theory.

**Dunning’s Eclectic Paradigm**

This was the result of further research in the economics of internationalization theory. Under this theory it is important to understand the factors that influence the decisions regarding the growth or expansion of international companies. Under this paradigm the assumption is that the benefits that can be derived from foreign direct investments can be best explained using three factors. These factors are location, ownership and internalization (Dunning, 2015). This paradigm describes these three factors in such a way as ownership is about who holds the production, location refers to where it will be produced and internalization refers to choosing Foreign direct investment over selling licenses of proprietary assets to foreign firms. This theory suggest that competitive advantage should be derived from these three critical factors.

**Kruger’s First Mover Advantage Theory**

Kruger’s first mover advantage theory is the ability of an organization to best its competitors in such a way that it becomes the first to enter a certain new market. Through this theory the advantage is derived from establishing business investments through being the primary investor in a new market. On the other hand there is also an idea which suggest that being the first is not always advantageous (Castellões,2019). This is because first mover advantage is thought of to be durable and there for a small period. Durable first mover advantage is only experienced by a firm if there is a chance that firm might experience profitability and market share in the long term. Whereas, short lived first mover advantage are only experienced in the period during early entry.

**Vernon’s Product Lifecycle Theory**

This theory is the brainchild of Raymond Vernon in 1996, an economist by profession. Vernon focused his theory on the different aspects of a product that have a direct influence on the decision making process regarding business dealings internationally. Under this theory, the product characteristics, outcome of introduction into foreign markets, and the results that might emerge from the introduction of products into foreign markets, all these must be whole heartedly considered (Cantwell & Salmon, 2016). This theory states that the primary reason for introducing a certain product into an international market is based on the success of the product in said market and its level of profitability in that market. Furthermore, under this theory, Vernon classified different products on the basis of their stay in the market such as the standard products, mature and new.

**Change Drivers**

International business expansion is a product of different events occurring in the current business environment. Competition has increased so much overall that companies and organizations are looking for new markets to enter. In this sense there are several change drivers that push the notion for international business expansion. Primarily, developing markets are ripe for business expansion, these markets have huge opportunities for different products. Furthermore, these have increased opportunities regarding profitability and higher number of sales (Grünig & Morschett, 2017). This is more probable if the product or service can clearly differentiate itself from the other products within that market. Moreover, there is also a cost perspective as a change driver to international driver. Cost of production and manufacturing is very low in developing countries, so many MNC’s are moving their production requirements over to these economies.

Furthermore, due to low wage requirements in such countries, these MNC’s are again setting up subsidiaries to get the benefit of this low cost. Moreover, more and more trading blocks are being constructed between different countries. These trade blocks are a way of promoting international business among these fellow group countries. These trade blocks make it easier for international business expansion by reducing any trade barriers between the different countries. With the removal of more and more trade barriers, cross border business movement has increased exponentially(Grünig & Morschett, 2017). This is helping organizations to take advantage of new markets and introduce products into that market that were completely different from the ones that are predominant in that market. Also, due to increased internalization, which is triggered by international bodies such as World Trade Organization, have led to increase in business expansion internationally. Firms have used this initiative to look for resources for production internationally as well. This makes resource seeking another change driver.

**Profitability in expanding globally**

Most businesses when they start succeeding in their domestic market, the next logical step for them becomes to expand internally. This is true for companies based in Unites States of America, United Kingdom and Australia. These are well developed countries with increased competition among the domestic market and top companies within these markets are always looking forward to expand globally (Kim, et al, 2015). The reason for this that through international business expansion it is expected that the net sales and net revenue will increase exponentially. There is huge world out there with a variety of different people with different tastes and preferences.

If a company, rather than just focusing on the domestic market, focuses its attention on something beyond its borders, there is a huge upside potential. Furthermore, with a unique product or technological advantage that international competitors do not have access to, this will allow for major benefit for the business and further increase its market share internationally (Bamiatzi, 2016). This will also positively affect the profit earned as well as more and more customers are retained. Furthermore, as price pressures are far less in other markets, products can be sold at a higher margin in the markets that the product is exported to.

**Factors influencing strategic choice**

Factors such as cost reduction and local responsiveness are the dominant factors behind strategic choice. These factors put demands that are conflicting in nature on organizations. The way that these factors can affect the strategic choice of organizations is as follows.

**Cost Reduction**

In the international business environment, businesses feel pressurized to reduce the costs associated with the production of any product or service, while keeping the profits high. They respond to these pressures by trying to lower the cost associated with value creation. This can be done by outsourcing the operations or even certain functions to suppliers who are low cost in nature (Pearce, 2016). This way they might be able to reduce the cost of production. An example would be Apple and Walmart that has pushed their production overseas into third world countries such as India and China in order to reduce their cost of production.

**Local Responsiveness**

The reason for the rise in pressure associated with local responsiveness is mostly associated with the difference in taste between two different countries and regions. These difference can be further classified as differences in infrastructure consumer tastes, preferences, accepted business practices, demands from host governments and distribution channels (Meyer & Su, 2015). In order to be responsive to local demands such as these firms have to work on differentiating their product and the marketing strategy. Furthermore, these two aspects have to characterize specifically for each and every international country that the business wishes to operate in. All these action further increase the cost structure.

**Strategies for competing globally**

Currently there are four important strategies for competing globally. These are known as Global Standardization Strategy, Localization Strategy, and Transnational Strategy. These are denoted as follows.

**Global Standardization Strategy**

Companies using the global standardization theory, mostly focus on the profitability aspect of a business. This is done by focusing on the cost reduction paradigm of developing markets and the cost reduction that they are able to acquire through the use of economies of scale (Dimitrova & Rosenbloom, 2015). Furthermore, they focus on pursuing a strategy related to low cost on an international level. Most of their activities are focused on certain locations that are favorable to their operations. This strategy is most useful when there is high pressure regarding reducing costs and low pressure towards local responsiveness regarding a certain product. These conditions are mostly favorable for industries prevalent with industrial goods.

**Localization Strategy**

This strategy also focuses on increasing profitability by customizing the product or service in such a way that it aligns with the different tastes and preferences of consumers within international markets. Furthermore, a strategy such as this is mostly applicable in countries where there is a high difference between the tastes and preferences and the intensity regarding reducing cost pressure is very low (Abdelsalam, 2016). Once the product is tweaked in order to accommodate the tastes and preferences of the international market its value also certainly increases. But through all this organizations will also have to focus on the cost aspect as it needs to be efficient enough to capture the economies of scale.

**Transnational Strategy**

Organizations trying to use the transnational strategy are doing three things in the same time. That means that they are trying to reduce the costs by using location economies, learning effects and economies of scale (Pruthi, 2018). This way they are able to increase differentiation among their products in different countries while also accounting for the difference in taste and preferences and keeping a multi directional flow between the different subsidiaries within a global framework of operations.

**Conclusion**

This report states the importance of international business expansion and the strategies associated with the expansion of businesses. Furthermore, it focuses on the different theories of international business, while also looking at the change drivers behind the international business strategies. Moreover, it states the motive of profitability as a reason for international expansion and also focusing on other factors that influence the international business strategies. Finally, strategies such as Global Standardization Strategy, Localization Strategy, and Transnational Strategy are some of the strategies that are prominently used as international business strategies.

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**Appendices**

**Questions**

1. How would the market share split in the context of imports and exports?
2. What are the assumed challenges of services and products?
3. What are the assumed logistic challenges?
4. Will there be some cultural issues in target market?