Global Strategy

Professor Richard Lynch

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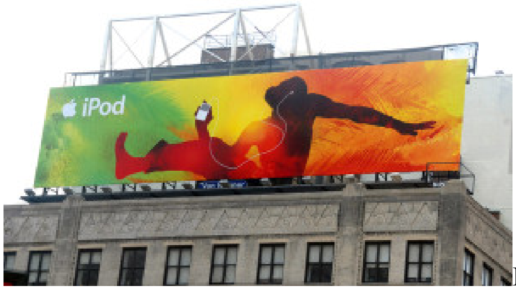
What is global strategy? And why is it important?

'Global Strategy' is a shortened term that covers three areas: global, multinational and international strategies. Essentially, these three areas refer to those strategies designed to enable an organisation to achieve its objective of international expansion.

In developing 'global strategy', it is useful to distinguish between three forms of international expansion that arise from a company's resources, capabilities and current international position. If the company is still mainly focused on its home markets, then its strategies outside its home markets can be seen as **international**. For example, a dairy company might sell some of its excess milk and cheese supplies outside its home country. But its main strategic focus is still directed to the home market.

In South Korea, international and global soft drinks strategy will involve mixing both the global brands like *Coke* and *Sprite* with the local brands like *Pocara* Sweat (and, no, I don't know what the brand tastes like!)



However, the Apple iPod was essentially following the same strategy everywhere in the world: in this case, the advertising billboard was in North America but it could have been anywhere.

One of the basic decisions in global strategy begins by considering just how much local variation, if any, there might be for a brand.

Another more basic decision might be whether to undertake any branding at all. Branding is expensive. It might be better to manufacture products for other companies that then undertake the expensive branding. Apple iPods are made in China with the Chinese company manufacturing to the Apple specification. The Chinese company then avoids the expense of building a brand. But faces the strategic problem that Apple could fail to renew its contract with the Chinese company, which might then be in serious financial difficulty.

As international activities have expanded at a company, it may have entered a number of different markets, each of which needs a strategy adapted to each market. Together, these strategies form a multinational strategy. For example, a car company might have one strategy for the USA – specialist cars, higher prices – with another for European markets – smaller cars, fuel efficient – and yet another for developing countries – simple, low priced cars.
For some companies, their international activities have developed to such an extent that they essentially treat the world as one market with very limited variations for each country or world region. This is called a global strategy. For example, the luxury goods company Gucchi sells essentially the same products in every country.

Importantly, global strategy on this website is a shorthand for all three strategies above.

Implications of the three definitions within global strategy:

- **International strategy**: the organisation's objectives relate primarily to the home market. However, we have some objectives with regard to overseas activity and therefore need an international strategy. Importantly, the competitive advantage – important in strategy development – is developed mainly for the *home* market.
- **Multinational strategy**: the organisation is involved in a number of markets beyond its home country. But it needs distinctive strategies for each of these markets because customer demand and, perhaps competition, are different in each country. Importantly, competitive advantage is determined *separately for each country*.
- **Global strategy**: the organisation treats the world as largely one market and one source of supply with little local variation. Importantly, competitive advantage is developed largely on a global basis.

Are there any other forms of global strategy?

In various books and research papers, you may see reference to other forms of 'global strategy.' For example, you will see 'multi-domestic strategies'. These are useful and can be explored in their context. However, the three strategies outlined above cover the main possibilities.

Do we really have (or even want) a 'global' strategy?

Companies talk about 'going global' when what they really mean is that they are moving internationally, outside their home countries. It is important to clarify precisely what is meant by such wording because the strategic implications are completely different.

The business resources needed to sell internationally might typically include a sales team, brochures of products in various languages and an office team to handle sales orders back in the home country.

The business resources in going global are much greater. Typically, companies need manufacturing plant in various low labour cost countries, global branding and advertising, sales teams in every major country, expensive patent and intellectual property registration in many countries, etc.

So, why 'go global' if the required resources are much greater and, incidentally, more complex to manage? Because the business rewards are supposed to be much greater for a global strategy. And so are the risks!

Hence, many companies do not have a 'global strategy' in the way that it is defined in international business literature. Even some major multinationals do not have a true global strategy in the sense of completely integrated production, no localized brands, etc.

For example, the highly successful multinational company PepsiCo dominates savoury snack products around the world. However, it still has local brands like Walkers Crisps in the UK. It does not use its Lays brand name in the UK, but employs Lays in much of the rest of the world. Why? Historical reasons that began with the PepsiCo acquisition of Walkers, which was already UK market leader.

Even if companies have a global strategy, this takes years to develop and requires substantial resources. It needs many millions of US$ and substantial management time and expertise. For example, Coca Cola took many years to develop its current position in the world soft drinks market.

For most companies, including many smaller companies, it is more realistic to develop an international or multinational strategy.

Why is global strategy important?

There are at least four answers to this question depending on the context:

From a company perspective, international expansion provides the opportunity for new sales and profits. In some cases, it may even be the situation that profitability is so poor in the home market that international expansion may be the only opportunity for profits.

For example, poor profitability in the Chinese domestic market was one of the reasons that the Chinese consumer electronics company, TCL decided on a strategy of international expansion. It has then pursued this with new overseas offices, new factories and acquisitions to develop its market position in the two main consumer electronics markets, the USA and the European Union.

In addition to new sales opportunities, there may be other reasons for expansion beyond the home market. For example, oil companies expand in order to secure resources – called ***resource seeking***. Clothing companies expand in order to take advantage of low labour costs in some countries – called ***efficiency seeking***. Some companies acquire foreign companies to enhance their market position versus competitors – called ***strategic asset seeking***. These issues are identified in the film that you will shortly be able to see on the page 'How do you build a global strategy?'

From a customer perspective, international trade should – in theory at least – lead to lower prices for goods and services because of the economies of scale and scope that will derive from a larger global base. For example, Nike sources its sports shoes from low labour cost countries like the Philippines and Vietnam. In addition, some customers like to purchase products and services that have a global image. For example, Disney cartoon characters or 'Manchester United' branded soccer shirts.

From the perspective of international governmental organisations – like the World Bank - the recent dominant thinking has been to bring down barriers to world trade while giving some degree of protection to some countries and industries. Thus global strategy is an important aspect of such international negotiations.

From the perspective of some international non-governmental organisations like Oxfam and Medicin sans Frontières, the global strategies of some – but not necessarily all – multinational companies are regarded with some suspicion. Such companies have been accused of exploiting developing countries – for example in terms of their natural mineral resources – in ways that are detrimental to those countries. This important aspect of global strategy is explored in the separate web section on *Globalization*.

Economy of scope: McDonalds used the same colour transparency for its restaurants in Prague (above) and Budapest (below)

What are the benefits of a global strategy? And what are the costs?

Benefits of a global strategy

The business case for achieving a global strategy is based on one or more of the factors set out below – *see* academic research by Theodore Leavitt, Sumanthra Ghoshal, Kenichi Ohmae, George Yip and others. For the full, detailed references, go to the end of Chapter 19 in either of my books, *Corporate Strategy* or *Strategic Management*

1. *Economies of scope*: the cost savings developed by a group when it shares activities or transfers capabilities and competencies from one part of the group to another – for example, a biotechnology sales team sells more than one product from the total range.
2. *Economies of scale*:the extra cost savings that occur when higher volume production allows unit costs to be reduced – for example, an Arcelor Mittal steel mill that delivers lower steel costs per unit as the size of the mill is increased.
3. *Global brand recognition*: the benefit that derives from having a brand that is recognized throughout the world – for example, Disney..
4. *Global customer satisfaction*: mulitnational customers who demand the same product, service and quality at various locations around the world – for example, customers of the Sheraton Hotel chain expect and receive the same level of service at all its hotels around the world.
5. *Lowest labour and other input costs*: these arise by choosing and switching manufacturers with low(er) labour costs – for example, computer assembly from imported parts in Thailand and Malaysia where labour wages are lower than in countries making some sophisticated computer parts (such as high-end computer chips) in countries like the USA
6. *Recovery of research and development (R&D) costs and other development costs across the maximm number of countries* – new models, new drugs and other forms of research often amounting to billions of US dollars. The more countries of the world where the goods can be sold means the greater number of countries that can contribute to such costs. For example, the Airbus Jumbo A380 launched in 2008 where development costs have exceeded US$ 10 billion.
7. Emergence of new markets: means greater sales from essentially the same products.

Note that Professor George Yip argues that the business case for globalization is strengthened by competitive pressures: the fear of some companies that they will be left behind other companies if they fail to globalize.

The Japanese car company, Toyota, has built itself into the world's largest car company. It has developed this through a global strategy that includes economies of scale and scope, branding, customer recognition and the recovery of its extensive research and development costs in many markets around the world. Yet it has also been cautious in its global strategy.

For example, its strategy in the People's Republic of China has been through joint ventures with the local car companies FAW and Guangzhou Auto. Whereas, its main strategies in Europe have been partly through wholly-owned ventures and partly through co-operation with other European car companies on some joint production.

For other models like the Lexus, Toyota still exports directly from its major production plant in Japan. The reason is that it is able to gain the economies of scale for theup-market low-volume Lexus brand that wouldnot be present if it was to produce in smaller quantities in each world region, like the USA and European Union.

Costs of a global strategy

The costs of operating a global strategy may be greater than the benefits – see academic research from Douglas and Wind, Rugman and Verbaeke, Ghemawat and others. For the full details, go to the end of my chapter 19 in either *Corporate Stategy* or *Strategic Management* 5th edition.

Set against these benefits, there are at least six economic costs of international and global strategies:

1. *Lack of sensitivity to local demand:* Leavitt argued that people would be prepared to compromise on their individual tastes if the product was cheap enough deriving from economies of scale and scope. Is this really correct? Other writers argued that there could be costs in adapting products to match local tastes, local conditions like the climate and other local factors like special laws on environmental issues.
2. *Transport and logistics costs*: if manufacturing takes place in one country, then it will be necessary to transport the finished products to other countries. The costs for some heavy products, like steel bars, may be greater than the economies of scale from centralised production in one country.
3. *Economies of scale benefits may be difficult to obtain in practice:* plant takes time to commission, local competitors still using old plant and cheap labour may still be competitive. For an example, see the Tate & Lyle Case in Chapter 19 of Lynch.
4. *Communications costs will be higher*: standardisation of products and services needs to be communicated to every country. In virtually every case, it will also be necessary to monitor and control the result. All this is time consuming, expensive and at the mercy of local managers who may have their own agendas and interests.
5. *Management coordination costs*: in practice, managers and workers in different countries often need to be consulted, issues need to be explored and discussed, local variations in tax and legal issues need to be addressed. This means that senior managers operating a global strategy need to spend time visiting countries. It cannot all be done on the telephone and worldwide web. This takes a tremendous toll of people personally.
6. *Barriers to trade*: taxes and other restrictions on goods and services set by national governments as the goods cross their national borders.
7. *Other costs imposed by national governments to protect their home industries* - like special taxes or restrictions on share holdings.

In practice, the business case for a global strategy will vary with the product category. The real issue for many companies is what decisions are treated globally and what locally. This is explored in the separate section on this website: 'How do you balance global and local?'

Related Items

Pages

- *How do you build a global strategy?*