

# **International Business Strategy**

## **Lecture One**

### **Introduction-Source of Competition**

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#### **Introduction of Lecture 1**

This topic, beyond setting the ground for the course, will look at the preliminary definitions that relate to international business as well as strategy. It will further look at the sources of competition in an international context.

#### **Intended Learning Outcomes**

1. To differentiate different terms used to refer to international business
2. Understand the concept of strategy as used in business
3. Examine possible trigger for competition in an international context

#### **Course Overview**

International business strategy as a unit is more concerned with answering three main questions;

- Where to enter? (foreign markets),
- How to enter? (foreign markets) and
- When to enter? (foreign markets).

The topics handled in this unit will be trying to respond to these three questions. At the end of the unit, you are expected to be able to analyze a market and recommend appropriate strategies and timing for a firm. We start by defining certain terms that are used regularly as if they mean the same though they are not. It is important that we clearly differentiate them as learners of international business.

#### **Definitions**

**International Business:** Any firm that engages in trade, investment or offers products and/or services beyond its home country. Thus, using this definition, if a firm operates in two countries only (home and one more foreign country) it qualifies to be called international business. Therefore, the mere imports or exports of goods and services would qualify a business to be called international business. At the same time, individuals who engage in export or import of goods would be said to be engaged in international business

**Multinational Business:** This denotes a firm that engages in trade, investment or offers products and/or services in other countries. It is worth noting that in this second case the number of countries is more than two. Hence, in this case the countries of operations could be just a couple or several. Their strategic approach to these countries is that of differentiation, where they try as much as possible to respond to the local needs.

**Transnational Business:** This is defined in the same way as multinational business with the difference being that here the firm has a presence in multiple countries. The strategic approach in this case happens to be more of standardization to leverage on economy of scale.

**Global Business:** This is a firm that has its operations spread across multiple countries across the world. The difference with transnational business is that this spreads to continents and not just countries that could be on the same continent.

**Strategy:** This represents the *means* through which a firm seeks to achieve its goal(s). It represents the *vehicle* to take the organization to its desired destination. Strategy answers the question of *how* we will get there. Recall earlier that we said the unit would be answering three questions, one of which is how. The topics succeeding this one will largely handle these questions by providing different options that a firm can resort to. In another topic, we will address aspects of strategy formulation as well as implementation.



Pause and Think:

What do you think is common in all these definitions?

## Sources of Competition

Part of the reasons why businesses look for foreign markets where they can venture into is to escape competition in their home markets or the markets in which they already have operations. It is hard to think about international strategy and ignore competition. International businesses formulate strategies to fight or wade their competitors, grow their market share, and indeed their bottom line. In this section, we will focus on what are the possible sources of competition in international business. In achieving this, we will have six categories.

### 1. Market Forces

2. Industry Forces
3. Globalization and International Trade
4. Technological forces
5. Social-cultural forces
6. Government Regulations

### **Market Forces**

Both the market structure and the forces of market demand are being disrupted, and this is creating unprecedented competition in international business. The rise of ecommerce with giants such as Amazon, Alibaba, eBay, Singapore's sea and Pinduoduo is causing a stir in the traditional retail market globally. This is forcing industry to change how they approach their customers. These dynamics have increased competition, and firms must differentiate themselves to stand out and remain relevant.

### **Industry Forces**

Some industries are facing intense competitive rivalry, driven by factors such as high fixed cost, low differentiation between their services, and heightened threat of new entrants. An example of such industry is Airline, where the pressure leads to alliances among the airlines. The industry's structure is also key in determining or triggering competition, the size, and number of competitors, barriers to entry and market concentration affect the competition. Where we have many big sized multinationals, the competition is intense, similarly where the barriers to entry are low, we expect the competition to be high as firms can join the sector with ease. To try and shield themselves from the latter case, firms are always looking for ways to create barriers to entry through strategies such as locking in their suppliers and customers.

### **Globalization and International Trade**

Globalization being the act of economies opening or what Kelly (2009) refers to as the opposite of protectionism. Kelly (2009) extends this notion and says that globalization denotes the growing interdependency between economies and organizations via international trade and through the fact that now factors of production can move more freely across nations. When we talk about global village, we are clearly saying that the physical distance between the countries has continued to shrink due to advancement of technology

that has transcended transportation and communication. This has in turn eliminated traditional barriers of trade and created more options for consumers. In the present day you can buy an item from a different continent or online and it will be delivered to your doorstep in no time. This has therefore meant even domestic firms must see the wider scope of the competition they need to include in their definition. On the flip side, this has opened huge possibilities for start-ups, their market is not limited to their country's boundaries.

## Technological Forces



Source: Own image

The effect of technological advancement is felt in the tech sector and all other sectors. However, where the industry is characterized by rapid technological changes and innovation, competition will be intense. Technological advancement has the possibility of doing the following;

- *Introduce a substitute to a product:* We all know how technology has replaced physical books with E-books, online streaming has trumped over CDs and DVDs. This has not only heightened the level of competition but seen some industry face out.
- *Hasten changes within the consumers thereby affecting their lifestyle and buying behaviors:* In today's world we are seeing more uptake and acceptance of online learning and a move from traditional physical learning. Due to technological advancement consumer are becoming more conditioned to expect instant gratification such as instant download and same day delivery
- *Create or remove entry barriers to an industry:* In the traditional set up, media houses had control of what we watched, when and how the news was delivered. This is no longer the case; power is in the hands of the citizens. Due to the social media platforms, we can now share information and news in real time.
- *Transforms the cost structure of an industry:* With the current possibilities of cloud computing, supply chain optimization, remote working, automation, data analytics and AI (artificial intelligence) organizations have seen tremendous change in their

cost structure. These changes are not only cutting down on costs but also are becoming the source of competitive advantage by driving efficiencies. The changes are also transforming business models- how business makes money. We now have subscription and platforms as a way of revenue generation as exemplified by Netflix and Airbnb respectively.

### **Social-Cultural Forces.**



Source: Own Image

Macro environment factors such as social values, attitudes, beliefs, demographics and consumer preferences are always changing. This puts pressure on businesses as they try to keep up with the changes. Top trigger here is the changing consumer preferences, global fast-food industries more often must adopt their menu to accommodate different region menu a good example here is the MacDonaldd when they ventured in region such as India, they introduced vegetarian burger. Samsung a South Korean firm has been able to keep up with the likes of Apple due to its ability to adapts to changing consumer needs and preferences.

On the flip side, examples of firms that have had backlash due to cultural insensitivity are there. A Swedish fashion giant H & M in 2021 had a backlash in China as it became the target of Chinese boycott over human rights abuse against Uyghur Muslims in China's Xinjian province (McDonald, 2021). Though the damage to the brand varies from such transgression, its impact is long-lasting. Similar fate has befallen giants such as Nike, Adidas, and Puma.

Consumer preferences are not static; they keep changing sometimes. In this context, Changing Consumer Preferences and Food Consumption Patterns, (n.d.) noted that emphasis on trustworthiness and authenticity of food products has increased. Consumers need greater transparency of what they consume. This has resulted in the need by firms to have traceability aspects of their products, adding a new twist to competition in the global market. In addition, the increased concern for healthier living has tranformed the food industry for good.



Think of changes that have happened in your country in terms of consumer preferences and behaviour.

### **Politics and Government Regulations**

The government of the day has significant influence in determining the competition in any given country. The regulations that come from the government or its agencies have tremendous influence in the form and intensity of competition. Countries which operate under trade blocks or union such as EU-European Union, any changes in regulations will impact competition not just in the region but in other countries given what we talked about the world being a global village, where changes in one country could transcend into other. This is the common occurrence when the oil producing countries unite in increasing the prices and the rest of the countries are left as price takers.

Another component of government that has competition implications is stability or lack of it. When countries are experiencing war or there is hostility there is usually an imbalance in international trade and given the distortion that may happen to the forces of supply and demand, competition may be heightened. The good example would be the war between Russian and Ukraine which has had impact in other countries given that the two countries are heavy producer of energy.

At the same time, political instability in some African countries have made them unattractive as tourist destination, causing a shift to those countries that have had relative peace. This was the case in Kenya, during the 2007 post-election violence, the tourism sector was down on its knees due to sustained political violence that was experienced because of disputed presidential election. The neighboring countries such as Tanzania benefited from this scenario.

### **Recap of the Topic**

In this topic we have looked at the following:

- Course overview
- Definitions of terms as used in international business
- Sources of competition in the context of international business

In the next topic we will look at foreign entry theories where we explore various approaches to understanding **how** firms enter global markets.

### Revision Questions

Differentiate the following terms as used in this course;

1. International business
2. Global business
3. Transnational business
4. Multinational business

What are some triggers of competition in international business and how are different firms coping?

*Changing consumer preferences and food consumption patterns.* (n.d.). [Www.fao.org. https://www.fao.org/3/cb8667en/online/src/html/changing-consumer-preferences-and-food-consumption-patterns.html](https://www.fao.org/3/cb8667en/online/src/html/changing-consumer-preferences-and-food-consumption-patterns.html)

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McDonald, T. (2021, April 25). *Can western brands recover from Consumer Backlash in China?*. BBC News. <https://www.bbc.com/news/business-56598884>