

# International Business Strategy

## Lecture Four

### Strategy Formulation

#### Introduction to Lecture Four

In the previous topic-Lecture Three we looked at how foreign environments are analyzed as the firm seeks to answer **where** questions. In this topic we will be trying to answer the how question. By addressing **how** international businesses formulate their strategies. It will not be possible to talk about strategies without talking about goals and objectives; this topic will show the connection between the three strategies, goals, and objectives.

#### Learning Outcomes

1. Understand the process of strategy formulation
2. Differentiate mission statement from vision statement
3. Differentiate low-cost strategy from differentiation strategy

#### Strategy Formulation

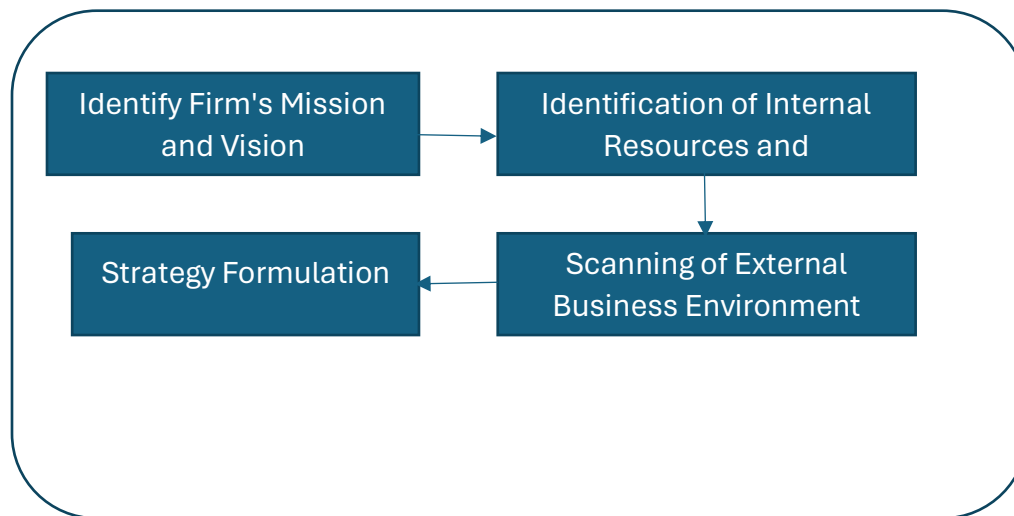
According to Partboteeah and Cullen (2011), strategy formulation is the process by which leadership of a firm select the strategies to be used by their firm. To Wild, Wild, and Han (2010), they noted that the process helps managers to step back from day-to-day activities and get a fresh look at the current and future direction of their firm. Johnson (2021) talks about strategic management as the process of creating, developing and implementing a strategy for the organization. In this topic we will adopt Wild, Wild and Han (2010) process of strategy formulation that has three phases to come up with a four steps process as shown in **figure 1**. The process starts with the firm asking, “why do we exist?” It proceeds to identify firms' capabilities and competencies, scanning business environment, then end up with strategies selection at different levels.

#### 1. Identifying Firm's Mission and Vision

As we noted the starting point of strategy formulation is for the management or the strategy committee to answer the question of “why do we exist?’ In doing so, they are trying to answer the firm's exact mission. Different firms exist to accomplish different missions, but it is important that from the word goes that this is clear. A clear mission statement usually

makes it easy for other decisions to be made within the firm, such as industries to enter or leave and how to compete in the chosen industry Wild, Wild and Han (2010). Largely, a mission statement should show the stakeholders that the firm operations touches and where it may not be possible to speak to all stakeholders, there is need for the firm to those that it is trying to satisfy most. A good mission statement should be clear and resonate with the business that the firm is dealing with. It should also be sensitive to all stakeholders, even those that are not explicitly mentioned.

**Figure 1: Strategy Formulation Process**



Source: Adopted from Wild, Wild and Han (2010)

The mission statement is about **now**, i.e. what the firm is doing to achieve its vision. Here are examples of some well stated mission statements for international brands.

1. **Tesla Mission statement** “To accelerate the world’s transition to sustainable energy”
2. **JetBlue Airline** “To inspire humanity- both in the air and on the ground”
3. **Samsung Mission statement** “We will devote our human resources and technology to create superior products and services, thereby contributing to a better global society.”

Common characteristics with the examples given above are that they are simple, clear, inspiring, and speak of the key stakeholders that the organization values. Therefore, it is important when drafting a mission statement one should stick to such basics.

After the firm is clear on why they exist, they should now determine where they want to go- the vision statement. While the mission was about the current, the vision statement focuses

on the future. According to Johnson and Scholes (2003), a vision is that future desired state by the firm. It talks about where the firm strives to be at in the distant future. A good vision statement must be very vivid and galvanize everyone in the firm to want to get to that desired state. Here are sample vision statements;

1. **Samsung Vision Statement-** “To inspire the world with our innovative technologies, products, and design that enrich people’s lives and contribute to social prosperity by creating a new future.”
2. **Tesla vision Statement-** “To create the most compelling car company of the 21st century by driving the world’s transition to electric vehicles.”

Both the mission and vision statements will then be cascaded down to departments or units, and they will guide the firm in coming up with specific goals and objectives that culminate in targets of performance.

## **2. Identification of Internal Resources and Capabilities**

This stage calls upon the firm or its management to be real in identifying unique abilities and resources it possesses. The process here helps to identify a firm’s competitive advantage or edge. If there are resources and capabilities the firm possesses that others in the industry do not have, they are described as unique, and they can give the firm an edge for some time before the competitors catch up. Framework such as SWOT (Strength, weakness, Opportunities and Threats) analysis can be used in this stage to help managers arrive at those resources and capabilities they possess that are sources of their strength or weakness. The first two strengths and weakness project on the firm internally and try to compare them with its competitors.

The strengths and weaknesses are industry-specific and are more related to key success factors in that industry. This is to say what may be a strength in an airline industry may not be such in a manufacturing industry. On the other hand, the opportunities and threats mirror the external environment much. A firm with rare, unique and difficult to imitate resources and abilities stands a good chance against its competitors and may be able to stay ahead of them for a longer time.

## **3. Scanning External Business Environment**

This step was well covered in detail in our lecture three where we were talking about foreign environment scanning. We noted analyzing environment is important as it not only determines the strategy that a firm will use but also determines where the firm will enter.

## 4. Strategy Formulation

### Global versus Multinational Strategies

After the three steps, the next phase is now selecting the appropriate strategy for the international company. An international firm can pursue either a global strategy or multinational strategy. In a *global strategy*, a firm seeks to offer different markets the same product while applying the same strategies such as marketing strategy. Here the firm tries to maximize on scale and location economies, the production may be done in a few optimal locations across the globe where it makes economic sense in terms of either the raw materials or labor is cheap. The markets are then served by these few locations. Products such as electronics such as Samsung may be better suited to use this strategy.

On the other hand, *multinational strategy* requires the firm to adopt its product and strategies in each market it operates in. This is rather expensive approach but necessary where the pressure to localize the product is high and would have to be achieved through creation of subsidiaries that have bit of autonomy in how they approach their markets. The strategy is appropriate for firms in the food industry such as McDonald and KFC where local preferences play a huge role.

### Corporate Level Strategies

According to Wild, Wild and Han (2010) at corporate level, if a firm is involved in more than one line of business it must make a choice from four key approaches namely;

- **Growth-** These types of strategies are designed to increase the scale or scope of a firm's operations. This could speak to the geographic reach, number of product line, number of employees, number of branches, sales among others. Some of the strategies that apply under this category include; Mergers and acquisitions, strategic alliances, and joint ventures all of which we will look at them in detail in later lectures.
- **Retrenchment-** These are the strategies that go in the opposite direction as the growth strategy. They therefore seek to scale down the firm's operations. Therefore, they could be interested in reducing the number of employees, the branches, the subsidiaries, the divisions among others. It is a strategy common when the business is not doing very well or the environment in which it is operating is not favorable. Strategies such as divestitures are in this category.

- **Stability-** These are more toward maintaining the status quo as much as possible. Common in environments where no serious threat is sensed, nor opportunities and firm are comfortable with its performance.
- **Combination-** Here the firm may mix the three strategies discussed so far across its units or subsidiaries.

## **Business Level Strategies**

After selection of any of the four postures at the corporate level, the next level is to make choices at the Business level. Where the firm has several business lines, at this point the strategies may be many and different. Business units are likely to be competing in different markets and this is what necessitates the need for different strategies at this level. There are two broad decisions that must be made at this level; to either sell *low* priced products or have some *unique* attributes into its products (Johnson and Scholes, 2003).

The two options, commonly referred to as low-cost strategy and differentiation strategy are what Porter referred to as generic strategies that companies can use to gain competitive advantage in their respective markets. The next section we will discuss the strategies;

### **a. Differentiation Strategy**

Here the firm finds ways to provide superior value to its customers. It requires the firm to understand the customers and how it can meet their needs. The firm differentiates itself



shutterstock.com · 417789883

Source: Shutterstock.com

from the rest by providing unique and valuable to customers. The aspects of the product or the service being unique and valuable are what make customers more than willing to pay a premium for it, otherwise if it is a normal product or service there will be no need to pay extra for it. Differentiation requires a lot of creativity to be able to come up with a unique valuable feature that your customers are willing to pay for and they cannot get the same from your competitors (Kelly, 2009). Consumer perception that they are getting something exclusive is what builds loyal customers who are critical for the success of this strategy. Here are the possible ways in which a firm can differentiate its products/service (Kelly, 2009; Partboteeah and Cullen, 2011; Wild, Wild and Han, 2010);

- *Quality*- having a superior quality can set you apart from the rest. Mercedes- Benz differentiation is based on high quality in engineering, craftsmanship, and performance
- *Distinctive brand image*- Armani clothing and Alfa Romeo do not compete in the mass market, rather focus on the small customer base that can afford pricey items.
- *Product design*- Apple Inc with its products rely on this aspect to compete in the industry. TAG Heuer offers class and style.
- *Rapid innovation*- Apple Inc, Nike Inc, and Tesla are using the speed of innovation to be ahead of its competitors
- *Experience*- Starbucks is all about unique experiences

**b. Low-Cost Strategy**

A business unit can decide to exploit economies of scale to have the least cost of production possible compared to the industry. The focus of such companies is efficiency in all areas of operations not just production. One key ingredient of success for this



Source: flickr.com

strategy is a large market share that will allow the firm to enjoy economies of scale that originate from mass production. The strategy is applicable in a market where consumers are price sensitive. The advantage a firm may derive from being low cost may not be sustainable in the long run as competitors can find ways to lower their costs too. The low-cost advantage may come from; cheaper raw materials, cheap labor force, efficient production methods, efficient delivery methods. Here are examples of companies that have been able to exploit this strategy

- **Walmart**- Its vast network of retail stores allows it to get a good price from its suppliers and pass the same to its customers.
- **Dell Computer**- Its success came about by being able to streamline its supply chain where it would only manufacture a computer after an order has been received from customers.
- **Samsung**- It outsource manufacturing to countries such as Vietnam to maintain cost competitiveness.
- **Google**- Outsources staff across multiple roles to manage cost and maintain flexibility
- **Toyota Motor Corporation**- one of the world's largest automakers is known for its emphasis on efficiency and lean manufacturing principles.
- **Ryanair**- An Irish low-cost airline that has been known for long for its no-frills approach to air travel. It charges for in-flight meals, maintains one type of aircraft, and flies to secondary airports.

If a firm, makes the choice between the two approaches, i.e. to either differentiate or pursue low-cost strategies. There will be a need to determine where the strategy will be applied. Will it be on the mass market or a niche market. A mass market means that the firm is hoping to reach out to the wider population with its products or services while a niche market means it will narrow its focus to just a small proportion of the market. It therefore means that we can have focus differentiation or focus low-cost. This is basically the scope or the reach of the two generic strategies we have talked about.

### Topic Recap

Differentiate Vision statement from Mission statement.

Give examples of firms that are pursuing differentiation strategy and comment on their success

Give examples of firms that are pursuing low cost strategy

In what circumstance are the following strategies applicable; a) Growth, b) Retrenchment,

### References

Johnson. G and Scholes. K (2003). *Exploring Corporate Strategy*, 6<sup>th</sup> Edition, Prentice-Hall, New Delhi

Kelly. P. (2009). *International Business and Management*, South-West Cengage Learning, Hampshire

Tesla, [www.tesla.com/about](http://www.tesla.com/about). Accessed 30 Mar. 2024.

“Leadership & Mission: About Us.” *Samsung Us*, 3 May 2023,

[www.samsung.com/us/about-us/leadership-and-mission/](http://www.samsung.com/us/about-us/leadership-and-mission/).

Parboteeah. P, Cullen. J. (2011). *Strategic International Management*, 5<sup>th</sup> Edition South-West Cengage Learning, Canada.

Wild, J., Wild, K., & Han, J. (2010). *International Business* (5th ed.). Pearson Education, Inc.