Two Key Decisions

Global Trade Practices
Chapter 7

Traditional Path
Direct Export with NO product modification

The Risk
Market Potential stymied
Competitors may overtake efforts by product modification or reconfiguration

Direct or Indirect??????
- Identify strengths
- Determine priorities
- Balance risk and rewards
- Most cost effective approach
- Learning needed
Benefits of Indirect Exporting
- No international experience is required
- Management not distracted
- Quicker market entry
- Minimal financial requirement
- Risk minimized

Disadvantages of Indirect Exporting
- Loss of control
- Choosing the wrong distributor or the wrong market
- Market feedback insufficient
- Sales not to potential
- Risk derived from other listed factors

DIRECT Exporting

**Benefits**
- Direct control
- Feedback controlled
- Potentially better sales

**Challenges**
- Greater investment
- Time-to-market increased
- Higher risk

Higher risk
Product Modification

**Standardize or Adaptation**

Localization Pressures
- Adaptation due to:
  - Technical standards
  - Variation in consumer behavior
  - Needs
  - Ability to purchase
  - Government standards and restrictions

Standardized Products
- Theodore Levitt
  - 1925 to 2006
  - Provocative view on markets and product standardization
Standardization pressures

- Cost
- Experience Curve

Experience Curve

- Learning effects:
  - Cost savings that come from "learning by doing."
  - More significant in complex tasks.
  - Decline then cease after two years.
  - Decline after this point comes from economies of scale

- Economies of Scale:
  - Reduction in unit cost achieved through volume production.
  - Sources:
    - Spread fixed costs over volume.
    - Employing specialized equipment or personnel.

The Experience Curve

Strategic Significance
Moving down the curve reduces the cost of creating value.
Pressures for Cost Reduction and Local Responsiveness

- **High**
- **Low**
- **Delegate marketing to local companies**

Cost pressures

<table>
<thead>
<tr>
<th>High</th>
<th>Low</th>
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<tbody>
<tr>
<td>Company A</td>
<td>Company B</td>
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Generally reflects the position of most companies

<table>
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Local Responsiveness

- **Delegate production and marketing to national subsidiaries**
- **Manufacture locally**
- **Taste and preference**
- **Host government**
- **Delegate manufacturing and production to foreign subsidiaries**

Local responsiveness

- Arise from:
  - Differences in consumer taste and preferences
  - Differences in infrastructure and traditional practices
  - Differences in distribution channels
  - Host government demands

Company

Cost

Cost Reduction

- Mass producing a standardized product at an optimal location
  - Intense in commodity industries
  - Where competitors are in low cost locations
  - Where there is persistent excess capacity
  - Where there are low switching costs
  - Because of greater international competition
Strategic Choices

- **International**: Create value by transferring skills to local markets where skills are not present.

- **Global**: Increase profitability through cost reductions from experience curve effects and location economies.

- **Multinationals**: Oriented toward achieving maximum local responsiveness.

- **Transnational**: Exploit experienced based cost and location economies, transfer core competencies within the firm, and pay attention to local responsiveness needs.