

# Free strategy and location: importance in international business essay example

[Business](#), [Company](#)



## **Introduction**

In these modern times, businesses are poised to go global and international as competition becomes fiercer in the market. Regardless of the industry one is engaged in, the likelihood of having the rival company already planning and actually opening their own satellite offices in another location is present. If a company does not even consider it as an option, then the company already loses its opportunity for growth, expansion, and marketability. Usually, companies recognize that the domestic or local market is too small considering that the audience and users for products and services is limited. This very fact is what pushes companies to internationalize. Although emerging as small startup companies at first, once a company has saturated the market, the thought of exploring new boundaries and location becomes inviting.

As the challenge to produce better products and services becomes the focus in order to attract international audience as customers, companies reflect back on strategies that would help them penetrate the international market faster. This includes identifying constraints and innovations the company has prior to putting up an office or manufacturing firm in another country. To achieve success in foreign markets, companies have to offer highly specialized products, services, or technologies that are unique and one that leverages on the innovativeness, knowledge, and skills of the people. However, what works for one country may not necessarily work for another location, which means apart from understanding the various aspects of opening up companies internationally, business owners must also consider their location strategies in the planning. Business success in one geographic

location does not guarantee success in another setting, thus, taking a long-term strategic view on business location is crucial because it is resource intensive and a wrong business decision can lead to a company losing its focus and drive in its goals.

## **Reasons for Going International**

Gerdeman (2012) points out that companies making good business in their own countries are often tempted plagued by thoughts to expand in new locations, but do not consider planning and strategizing about the location as a huge factor in a company's success. This is often attributed to the fact that globalization considerations are often due to wrong reasons such as availability of market or reduction of costs because of cheaper labor considerations. While these reasons appear to help a company gain more financial advantage, cheaper labor may not necessarily provide the company the competitive advantage it needs. He further asserts that when considering growth and development on its geographic scope, it should also consider "access to a fresh market and to additional resources" (Gerdeman 2012) as a vital consideration. Alcacer (as cited in Gerdeman 2012) claimed that the strength of the decision to expand depends on "the strength of available resources, such as nearby supporting industries; the company's ability to seek and retrieve knowledge in this setting; and its capability to do something better than competitors". Thinking about short-term location strategies is the bane of expansion because cheaper labor does not equate to quality products and services. What companies must include in the equation is what other competitors in the area are also doing and if they can

have a piece of the resources and the market. Companies must also consider the time elements such as the perfect timing to move to the new location or stop operations.

## **Understanding the Importance of Location**

Strategists also suggest that following where rival companies set up their expansion businesses is not a good decision. For instance, those companies that opened offices in China are now regretting the decision as they realized that they are not prepared for what the China market was to offer. Instead of profiting from the decision, these companies decided to close shop and relocate back to their own countries (Alcacer as cited in Gerdeman 2012).

Experts advise to find their own niche and build a name there, such as the case of Pixar, an animation studio, which opened their own office in San Francisco, instead of in Los Angeles where the movie industry was located. This was because Pixar executives did not want to be affected by the culture of the movie industry, thus, by choosing a different location, they were able to establish their own niche and creatively work on their projects (Gerdeman 2012).

On the other hand, applying the same strategy may not necessarily play a good decision for those in the information technology or bio technology industry if they do decide to move to international shores. Gerdeman (2012) emphasizes that operating near universities or an information technology hub can prove to be beneficial to companies as they have more access to a pool of talent and resources that could help them expand the business globally. Furthermore, by establishing strong linkages with top-notch

universities and industry leaders can help push the company at the forefront of the industry it wants to target.

## **Considerations for Location Strategy and Site Selection**

A company's location has a considerable impact on its ability to control its costs and expenses as well as generate income and maximize its performance. Therefore, understanding where to relocate internationally is a crucial decision the company has to make. This is important because companies must consider its interaction with various market forces including location and industry when coming up with its movement strategies (Stearns et al., 1995, p. 28). Following are some of the considerations that companies must take into account when deciding to open offices abroad.

## **Objective for setting up international business**

Companies must first have a clear understanding about its business policies, including the “ type and size of store desired, merchandise mix, merchandising appeals, and customer services provided” (Applebaum 1966, p. 43). This aspect requires that companies know what improvements must be undertaken in order to develop and build their facilities abroad, ascertain the level of acceptance of the would-be customers, and create at least a 5-year plan regarding the expansion. This should also include the length of time required to complete the evaluation and market study.

## **Examine the Economic Base**

This is a very important aspect of international business expansion as the company has to make a clear study on the economic activities present in the

target country, employment rates and characteristic of the market, past market and industry history, and prospects about the country (Applebaum 1966, p. 43). With this method, the company can identify and access new markets for services and products, including possible sources of income within the target country in case a tie up with a local company comes up.

## **Population Attributes and Characteristics**

Understanding the population of the target country, their attributes and personalities, including the country's culture, tradition, and work ethics, is important because they are the potential clients of the company when they begin to set up their offshore office in the country. Therefore, prior to the actual office set up, the company has to complete its study of the socioeconomic status of the people, their lifestyle choices, age, and mobility to determine whether movement to the area is a good decision or not (Applebaum 1966, p. 43).

## **Inventory of Competition**

As Alcacer pointed out, understanding competition is important because competition exists everywhere, especially in countries that are being targeted as the “ new” business hub or international trade center.

Considering the changing face of competition, including the dynamics occurring within the companies and management positions, having a good view about the physical location of rival companies in the target country would be very helpful. Therefore, preparing physical maps is a good idea as it will give companies a view of the best area for relocation or to set up their office. Physically locating the company near rival companies, also known as

clustering, could be a good decision considering that access to manpower, technology, salary ranges, and information about the trends in employment will be much easier. This means the company has to consider moving in close proximity with the target markets, suppliers, and competition itself (Goerzon et al., 2013) in order to determine if the type of service they offer are at par with other companies in the area. Those companies adopting this strategy sometimes do not focus much on the price of their products or services as they rely heavily more on the distinctiveness of the products they offer to the market and the quality service they provide to customers (Stearns et al., 1995, p. 31). On the other hand, there are also companies who leverage on technology value they offer by ensuring that their prices are competitive enough for the market. Their strategy now depends on the quality of products.

Inventory should also include knowing about the types of services a rival company offers and its market share, as well as the quality of customer support it provides its customers (Applebaum 1966, p. 44). Another thing that a company must focus on is the possibility of the rival company to move to another location and the possible reasons why it would move. Would the move allow the rival company further access to suppliers? Will it result to bigger expansion plans for the rival company?

With this plan, the company can also ensure that they attract and retain top talent as the company will be able to hit the appropriate labor markets to ensure a maximum and quality-level supply of talent and expertise related to the business. In addition, this will also help in reducing the company's costs

in terms of variability in labor and operations expenses when resources are located near the business site.

## **Consumer Attitudes**

Making a consumer attitude survey is another consideration that a company must invest time in. The purpose of this survey is to determine the client temperature when it comes to acceptance of other suppliers or new companies offering the same quality of service. This will help the company determine whether it has to change its company image in order to fit in to the target country's culture, norms, and work ethics so that more consumers regard them as an alternative business choice. The purpose of such survey is to determine the tastes and attitudes of consumers and clients, including information on the various preferences of consumers coming from different socioeconomic backgrounds (Applebaum 1966, p. 44).

## **Government Considerations**

Apart from dealing with the market itself, a major consideration when it comes to strategies and location is the target country's government rules and attitudes when it comes to investors. Therefore, companies planning to invest must also consider economic and political risks prior to setting up international business. Economic risk refers to the target country's capacity to pay back its international loans. Those countries with "stable finances and a stronger economy should provide more reliable investments than a country with a weaker finances or an unsound economy" (Investopedia 2013). If a country has a weak economic system, a company must think twice first before investing in the country as it also speaks volumes about



the market quality, the superiority of talents, and the availability of suppliers. In addition, a company must also take into account the country's political condition and its temperament towards foreign investors. This also pertains to the country's welcoming attitude towards investors. Thus, if a country remains friendly towards its investors, then it is safer to invest in that country than a location that has a powerful economy and yet, remains hostile or changes its temperament towards investors after the transaction (Investopedia 2013).

## **Where to Invest**

Companies must consider the types of markets located in the target country prior to making a decision to invest. These are called market types, which may or may not be present in target countries. Thus, understanding these markets can help companies whether to invest in the new location or not.

## **Developed Markets**

This is the market type where the largest and most advanced economies are located. Investing in countries considered as developed markets guarantee the safest investment decision of all since the “ economic systems are well developed, they are politically stable and the rule of law is well entrenched” (Investopedia 2013). This means access to quality manpower, high technology gadgets, and excellent suppliers are high. Examples of these countries include Australia, Japan, Canada, and the United States.

## **Emerging Markets**

These are countries that have high levels of economic growth and activity, yet have not reached the full potential similar to developed markets.

However, their economic growth shows high levels of investment returns for investors. Sometimes, investment returns are even higher than those in developed markets. The risk here is on the unstable political and economic situation that the target countries underwent. Therefore, investors are highly advised to take note of the political and economic conditions of a country for the last couple of years prior to investing. Countries considered as emerging markets include China, Brazil, and India (Investopedia 2013).

## **Frontier Markets**

Finally, there is also what is called the “ next wave of investment destinations” (Investopedia 2013). Typically, these are smaller than emerging markets and have very strict regulations when it comes to foreign investors. They are riskier than the other types of markets, but they also offer huge potentials for the investors in terms of market profitability. These are countries that may also have experienced political turmoil in the past, thus, investors are warned to study the political geography of the country prior to making a decision. Countries considered as frontier markets are Nigeria, Botswana, and Kuwait (Investopedia 2013).

## **Conclusion**

For businesses to experience its full potential, they must ensure to consider doing international business to reach a wider audience and market. This opens up a lot of opportunities for the company as they become exposed to

various talents in the industry that may not be present in their own countries. However, when considering going global, companies must always include location when strategizing because even if their businesses are doing well in their own countries and show growth potential in another country, success measures may be different due to availability of resources, market preferences, customer attitudes and norms, and government treatment and acceptance of foreign investors.

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