Strategy of international business pressures

The strategy of international business involves analysing the progression of globalization in the world's economy and how a company responds and what measures it takes, strategy-wise to compete effectively beyond national borders. It involves business transactions crossing national borders at any stage of the transaction; it also involves dealing with many different cultures and extensive field experience.

2. 1 GLOBAL EXPANSION

There are many advantages for firms who expand globally which include increasing their profitability and higher growth of profits. Most basically it creates a larger market size. It allows firms to reduce their costs through differentiation. Global expansion helps realize location economies, recognize higher cost economies and earn a higher return by exploiting any valuable skills from foreign actions.

2. 2 COMPETITIVE PRESSURES.

The competition in the market place is not easy for the firms. Firms in the market place usually face two types of pressures.

2. 2. 1 PRESSURES FROM COST REDUCTION.

One type of pressure is the one they receive due to pressures for cost reductions. In response to this companies try to lower the costs of their value production. Ways a firm may do this could include mass producing standardized products in a location where it is most optimal to do so and realize economies of scale and location and/or outsourcing certain functions of the job to foreign suppliers that cost less so as to reduce costs. Most companies face difficulties distinguishing commodities since differentiating non-price factors is complex.

2. 2. 2 PRESSURES FROM LOCAL RESPONSIVENESS.

The second pressure they face is that from local responsiveness. Such pressures arise from varying differences in traditional practices, infrastructure and customer's preferences and tastes. To respond to this, firms need to differentiate their products in each country to take into account all these factors.

2. 3 CHOOSING A STRATEGY.

Differences in the strength of pressures for cost reductions versus those for local responsiveness affect the firm's choice of strategy. Firms typical choose among four main strategic positions when competing internationally. These can be characterized as a global standardization strategy, a localization strategy, a transnational strategy, and an international strategy. The appropriateness of each strategy varies given the extent of pressures for cost reductions and local responsiveness.

2. 4 PROCTER & GAMBLE.

Procter & Gamble was founded in 1837. It is one of the world's most international companies. P&G sells over 300 brands including tide pampers, Crisco and IAM pet food.

Nowadays P&G is a large global consumer product business that has sales of over $50 billion. Most of these sales are generated outside the United States in Canada, Britain, Western Europe, Japan and other Asian nations. These expansions led to growth opportunities, created value by transferring its business model to foreign countries and preempted other retailers that were also starting to expand globally. However the company started facing some issues and had to rethink their strategies of expanding globally.

4. 0 P&G REORGANIZATION.

Procter & Gamble, as observed were initially following an international strategy, which was possible since they had low pressures to reducing costs and low pressures on local responsiveness. However their costs were rising and in 1993, in response to the increase of costs, they initiated a major reorganization. During this they closed down thirty manufacturing plants worldwide and fired about 13000 employees. In addition to this they focused their production on lesser plants so that they could reach regional markets and achieve better economies of scale. It is apparent that P&G are moving towards a global standardization strategy from their previous international strategy.

4. 1 GLOBAL STANDARDIZATION STRATEGY.

This strategy is appropriate if the cost reduction pressures are high but the pressure on local responsiveness stays low. Under this strategy the products are standardized worldwide. They undertake a low cost approach on an international basis. They rarely try to differentiate their product offering because often their costs increase when customization is undertaken. As a result of this strategy, P&G reduced their costs by about $600 million but it still was not enough. Their profits were still not favorable and sales were slow as ever.

4. 2 ORGANIZATION 2005.

In 1998, P&G tried yet again to control these increased pressures and embarked on its second reorganization. They named it Organization 2005. The company hoped to change the ways in which their products were being innovated, manufactured and marketed. The strategy consisted of modifying the structure of the organization, culture and work processes comprehensively. It including laying off 17000 employees within the next 3 years and it changed its organization's structure by breaking up their four geographic business units and focusing it on 7 global business units (GBU's). These units were derived according to product categories ranging from food products to baby care. Each unit was completely in charge for generating profits from their products and also their own marketing, production and product development. Their focus shifted to only few large plants, trying to build global brands where possible so as to remove differences in marketing among countries. It also intended to speed up the developing and launching of new products. It is evident that P&G is now moving towards a transnational strategy because they are faced with high pressures to cost reduction as well as high pressures to local responsiveness. The international and global standardization strategies failed to be effective since P&G didn't take into account the falling barriers to trade and customers abilities to trade internationally and therefore increase in demand for variety of goods.

4. 3 TRANSNATIONAL STRATEGY.

A transnational strategy is one where companies try to keep their costs low while simultaneously differentiating the products they offer across national borders and fostering a flow of skills across different subsidiaries in their operations network worldwide. This strategy is difficult and involves the company in balancing the local market's demands for consumer products whilst concurrently aiming to save their costs. P&G's seven units are called global business units, but function on a very decentralized way. They develop their strategies locally or regionally and implement them. In other words their product development, delivery and marketing are conducted locally whereas the background functions of finance, payroll and human resource management is carried out on a worldwide basis.

4. 3. 1 BENEFITS AND RISKS.

There are many benefits for pursuing a transnational strategy. It enables firms to gain scale economies as well as location due to the increase in sales in global volume. It also helps transfer distinguishing competences and skills. The home country may hold many different competences and it is only right to share it with other countries as well. In addition it simultaneously lowers pressures on local responsiveness. However one risk they face is trying to differentiate the product to respond to local demands in different geographic markets raises costs, which run counter to the goal of reducing costs.