

Global business essay sample

[Economics](#)



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1. Introduction

Elecdyne is a Japanese SME, based in Tokyo, which started in 1990. Having grown from five workers initially, it now employs 100 staff, producing a range of electronic products using technology licensed from a number of multinationals.

Currently Elecdyne only supplies to the Japanese market and only purchases from local suppliers in and around Tokyo. Elecdyne had initial success in competing on price, however it has failed to grow its sales and is facing its first loss due to its need to pay for licences, its high wage rates and decline in sales.

The reason for the decline due to the global competitive strength of Japanese manufacturers starting to weaken due to an increase in competition and the rising expenses of making products in Japan (www. factsanddetails. com/japan, 2011). “ Japanese companies are finding it hard to compete against lower-priced rivals from Europe and Country 3, and in recent years competition has become so fierce in the electronic industry” (www. factsanddetails. com/japan, 2011). These factors are adding to the reasons behind Elecdyne facing its first loss in profit.

Elecdyne as a company has never had contact with overseas markets. The management team are now contemplating the possibility of internationalisation and their debates over suitable countries to locate / sell in revolve around their three most important requirements: * access to cheap labour

- * new innovations and technologies
- * better markets in which to compete

The three countries that Elecdyne are looking at internationalise into are the Country 1, 2 and 3, as it is believed that the Country 1 will provide better competitive markets, Country 2 will provide new innovations and Country 3 will provide cheap labour.

This report is going to present the information collected on the above issues which will affect Elecdyne and their plans to internationalise the company. The information will then be analyzed and a decision will be made on which country Elecdyne should enter. The best route for entry into the chosen country will be identified and a strategy will be presented.

2. 0Findings

2. 1STEEP

In order to analyse the situation for Elecdyne, a STEEP table has been produced as it is inexpensive and adequate at this preliminary stage. The STEEP table will also assist Elecdyne to detect the trends in the external environment that will affect the competitive environment in which it competes (Henry, 2008: 51).

Social| Social Media “ development of new social networks like Facebook or Twitter , firms should not delay in efforts to take advantage as a great way to boost image and increase effectiveness” (Lesonsky, 2010), Travel and tourism “ creates many new opportunities and increases sales in markets such as GPS gadgets, travel applications” (Wang and Ohngren, 2010)Ageing

population “ triggered boom in specialised businesses” (Wang and Ohngren, 2010).| Technological| Hybrid devices “ mobile phones and net books, are more portable, smaller, smarter and quicker” (Takahashi and Ha, 2010). DVD players “ 3D technology is the new hit in recent years” (Takahashi and Ha, 2010)Tablets “ with boom in touchscreen technology tablets will become more attractive, easier to use and companies will start battle to dominate this new market” (Takahashi and Ha, 2010).

Internet CloudsTouch Screen Technology| Economical| Global Crisis “ has many effects but most of countries are currently in a recovery” (Lesonsky, 2010)Rising Unemployment Rate “ full-time employees may be either forced or willing to work part-time” (King, 2010). Inflation Rising cost of parts | Environmental| Sustainability “ the world is getting smaller and everybody needs to take responsibility for their actions” (Takahashi and Ha, 2010)Envirofuels / Pollution- “ saving the planet, saving the money is the new motto. Firms should act environmentally responsible” (Wang and Ohngren, 2010). Recycling| Political| Government parties “ enlargement of EU has created many opportunities connected with doing business” (European Commission, 2011)Laws Regulations and policiesInstability of foreign governmentsWar | (Groupwork GK, 2011)

2. 2Porters Diamond

In order for Elecdyne to internationalise successfully they will need to gather information on certain factors, the factors are shown below using Porters (1990) Diamond. This analytical framework has been chosen to present the information as it is a widely recognized framework and uses 4 elements to

measure the competitive advantage. (Group work GK, 2011). Porter (1990) states that a “ company’s competitiveness derives from the capacity of its industry to innovate and upgrade, organisations are capable of consistent innovation because of four attributes that exist in their home market”. The elements are: Factor Conditions

Education of the labour force as it will allow Elecdyne to Innovate Labour costs and minimum wages as they need to keep costs down Unemployment rates as they will be able to employ local people. Culture of the countries as this may affect the labour force. Raw materials for Elecdyne to use.

Demand Conditions

Disposable Income will be important to Elecdyne in order for them to sell their products GDP per capita will allow Elecdyne to see growth within the market Population will help Elecdyne to determine amount of products to sell Market size will Elecdyne them to gauge if there is a gap for them in the market. Related and Supporting Industries

Both Innovation and R and D Expenditure will be important as it is a key requirement for Elecdyne’s future creating new products for the market

Firm strategy, structure and rivalry

UAI, Long-term orientation and competition within the industry will be important to Elecdyne to allow them to determine its strategy for internationalisation. As well as considering the four elements shown above, Elecdyne will also need to consider the risk factors within countries which include the risk of war and political stability.

2.3 Internal Analysis

In order to undertake an internal evaluation a SWOT analysis is being used for Elecdyne, this will indicate where the company's internal strengths and weaknesses may reside (Henry, 2008: 117).

| Strengths| Weakness|

Finance| Low cost strategy| Loss in profit| High licence costs| Resources|

Diverse range of products| Equipment required to produce goods| Quality of

Products| Outdated products| Not innovative in designs| No differentiation of

products| Poor R and D| Only one market to compete in| Labour| Management

able to speak English| Experience of Electronic markets for at least 20

years| Experience of manufacturing products| Management team have studied

abroad| No international experience| Not all employees speak English|

The opportunities and threats will be shown in the PEST analysis below.

2.4 External Analysis

The PEST analysis will help to detect and monitor weak signals in the hope that Elecdyne can recognise any key forces for change in the competitive environment (Henry, 2008: 51). PEST will be used instead of PESTLE as the

Legal element will be covered under the political aspect and the

Environmental element will be shown under the social category

The factors in the PEST have been weighted from priority 1 (low) to 10

(High). The information collected for each factor is scored depending upon it

relates to Japan, the country in which Elecdyne is already situated. Japan has

a score of 0 and the three countries are score from -10 (being worse) to +10

(being better) than Japan. The scores will then be multiplied using the priority weighting given to the factor. (Horvath, 2011). The total will be used in a summary table which will assist in the making of the decision as to which country would be best for Elecdyne to internationalise into.

3. Elecdyne's Decision

From the weighting analysis, it has shown that Country 3 will be the best country for Elecdyne to internationalise into, the reasons for this is that Country 3 has scored the highest overall in the analysis.

Country 3 has the lowest wages which for Elecdyne is one of their requirements and as is has the highest number of skilled workers in the manufacturing industry, it would mean less training for its employees and this would keep costs down for Elecdyne. “ Economic development has progressed and approximately 200 million rural labourers and their dependents have relocated to urban areas to find work” (www. cia. gov, 2011).

The low corporation tax will assist with the cost savings for Elecdyne and with its good economic ranking and innovation index Country 3 could provide Elecdyne with its new technologies and innovations. “ Country 3 in 2010 stood as the second-largest economy in the world after the US, having surpassed Japan in 2001 (and during the global economic downturn reduced Country 3 rebounded quickly, outperforming all other major economies in 2010 with GDP growth around 10%” (www. cia. co. Country 1, 2011).

However Country 3 does not have a strong technological background and its R&D expenditure is low, this could be a disadvantage for Elecdyne as they require new innovations and technologies. They also have a low score on the PEST analysis in the Economic – Market section; again this could affect Elecdyne’s entry into new markets and the future growth of the company. The low cost labour and savings that Elecdyne gain within Country 3 will lead to success in the short to medium term, however the management team should consider internationalising again in the future to a country that can provide new technologies.

3. 1Elecdyne’s Strategy

In order for Elecdyne to internationalise into Country 3 it needs to identify factors that could give the company competitive advantage. For this, Dunning’s Eclectic theory (also known as OLI) will be used to show the factors “ that must be met if a firm is to engage in foreign operations” (Rugman and Collinson, 2006: 93) The factors within Country 3 that Elecdyne need to take into account are: Location

MarketElectronics market size, population

Resourceslow cost production, labour costs, expertise

Trade Barriersinterest rates, duties for imported / exported products, taxes,

Limits on trade

Government Policysupport and assistance to new investors, free markets

Competitioncompetitors, strategies, Ownership

Elecdyne can exploit their current advantages which are:

* International managerial experience

- * 20 years experience in the electronics industry
- * Skilled labour force
- * Low cost production and strategy

3. 2Form of FDI

| Joint Venture| Acquisition/Merger| Greenfield|

Advantage| * Speed * Resource sharing * Leveraging of underutilized resources * High profits * Low / no risk * High competitiveness(Elliot, 2006)| * Tax gains * Lower costs * Market share * Increased revenue * High competitiveness * Greater shareholder value(MapXL, 2009) * Industry know-how(Berry, 2011)| * Full control * way to enhance performance * Gain resources e. g. skilled labour(OECD, 2002)| Disadvantage| * Risk of unscrupulous / unprofessional partners * Hurt reputation * Shared profits(Elliot, 2006)| * Legal expenses * Cost of take-over * Potential devaluation of equity * Intangible costs(Berry, 2011)| * High initial costs * risk of failure * Lack of support * Lack of contacts, partners(OECD, 2002)|

The best option for Elecdyne to internationalise is through the method of acquisition and merger into a cluster of SME within Country 3.

Acquisition and mergers will allow Elecdyne to expand and “ generate cost efficiency and gain existing market share” within Country 3 (www. fiance. mapofworld. com, 2009). “ Mergers and acquisitions can prove useful when a business firm wishes to make its presence felt in a new market” (www. fiance. mapofworld. com, 2009), and could also “ generate economies of scale and generate tax gains and increase profits” for Elecdyne (www. fiance. mapofworld. com, 2009).

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By entering into an existing cluster within Country 3 it will allow Elecdyne to have access to an already skilled workforce, new innovations and R and D, and assist with gaining a competitive advantage. “ Clusters allow SME’s to share innovation facilities, ideas and production resources in a closer business network” (Chen and Cao, 2006: 38). Clusters and networking have advantages “ such as cost reduction in transactions and transportation as well as knowledge creation and sharing” (Propriis and Driffield, 2006). “ High tech clusters of SME’s account for 95 per cent” (Chen and Cao, 2006: 39), in Country 3 which could benefit Elecdyne its need to grow and gain new expertise.

In 2010 Country 3 saw 1343 of FDI projects (www. fdiatlas. com, 2010), Elecdyne could use this as a good indicator to show that Country 3 is developing the skills and knowledge that Elecdyne requires in order to get its overall business strategy back on form and to once again be a profitable company.

4. 0Conclusion

This report has “(a) identified the firms basic mission, (b) produced an external and internal environmental analysis (Rugman and Collinson 2006: 57) for not only Elecdyne and its location in Japan but also of three countries, Country 3, COUNTRY 1 and Country 2. It has “(c) formulated objectives and plans” (Rugman and Collinson 2006: 57), by concluding that Elecdyne should look to expand in to Country 3 using the form of acquisition and merger, into an SME cluster area in order to benefit from existing cheap labour skills, new innovations and market share. All that Elecdyne are now required to do is to

“(d) implement these plans, and (e) evaluate and take control of the new operations” (Rugman and Collinson 2006: 57).

In the future Elecdyne may need to consider internationalising again to a country that can provide new technologies and better markets in which to compete.

5. 0References

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