Near East University

INTERNATIONAL MARKETING

MARK 402

Understanding the Theoritical Foundations

CHAPTER 2

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Source:Malhotra and Birks, et al. Chp 2

Outline

- The Strategic role of Competitive Advantages
- Country- vs Firm-specific advantages
- The sources of Country-specific advantages
- The sources of Firm-specific advantages
- Resource-based vs Market-based Strategies
- Competitive strategies.
- Takeaways.

Country and Firm Specific Advantages

•When doing competitive analysis in the global context it is important to identify whether a company's strength is firm-specific or country-specific

Level	Synonym
COUNTRY (CSA's)	Comparative advantages; Location-specific advantages
FIRM (FSA's)	Differential advantages; ownership-specific advantages

Country Specific Advantages (CSAs)

- Comparative and Absolute Advantages
  - **Provides the fundamental rationale for the existence of international trade**
  - **Free trade between two countries yields economic payoffs to the countries (in terms of higher welfare)**
    - **provided the countries have different COMPARATIVE advantages**
  - **It is not important if one country is better than another in producing all kinds of products, i.e. has an ABSOLUTE advantage.**
  - **It is necessary that trade be free**
    - **In the absence of free trade, each country has to be more self-sufficient, and less specialization is possible**

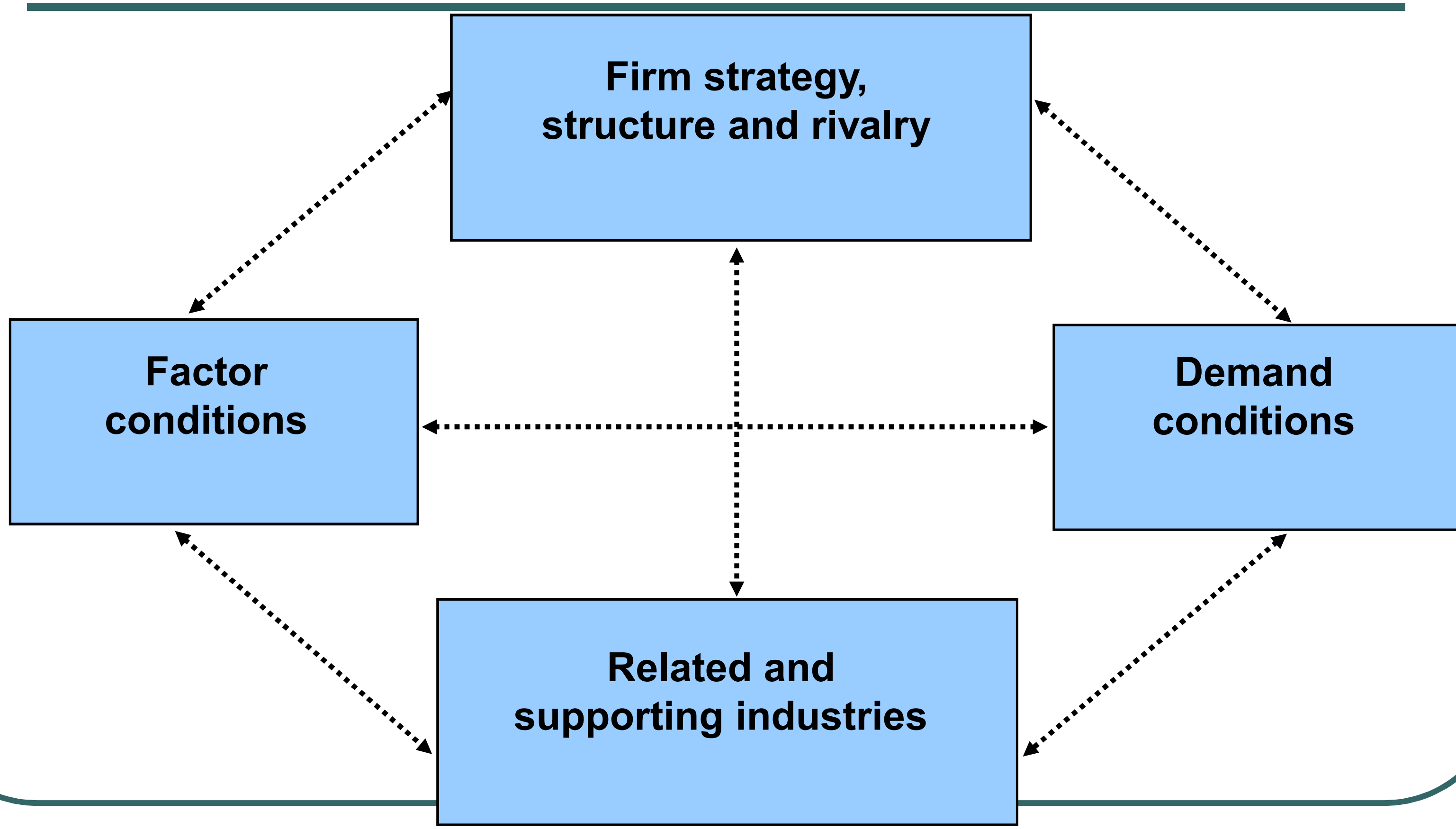
CSAs: The International Product Cycle

- The CSAs change over time:
  - The IPC demonstrates how the manufacturing of new products has shifted over time to new locations overseas
  - The IPC Stages
    - Stage 1 – the innovator produces and markets the product at home
    - Stage 2 –the firm exports and markets to other developed countries
    - Stage 3 – the firm exports from these countries to third-world markets
    - Stage 4 – the third-world markets develop their own manufacturing capability
    - Stage 5 – third-world market exports back to the original country's market

CSAs: Porter's National Advantages

- Four factors determine the competitive advantage of a country
  - Factor Conditions
    - The nation's position in factors of production, such as skilled labor or infrastructure, necessary to compete
  - Demand Conditions
    - The nature of the home demand for the industry's product or service
  - Related and Supporting Industries
    - The presence or absence in the nation of supplier industries and related industries that are internationally competitive
  - Firm Strategy, Structure, and Rivalry
    - The conditions governing how companies are created, organized, and managed, and the nature of domestic rivalry

Porter's National Diamond



CSAs: Country-of-Origin

- Country-of-Origin Effects
  - The effect refers to the impact on customers of a product's "made-in" label or the home country of a brand.
  - Products or services from countries with a positive image tend to be favorably evaluated
  - Products from less positively perceived countries tend to be downgraded

Firm-Specific Advantages (FSAs)

- Firm-specific advantages refer to those competitive advantages which are controlled by the individual firm alone.

- Firm-specific advantages may be of several kinds
  - Examples include a patent, trademark, or brand name or the control of raw materials required for the manufacturing of the product.
  - From a marketing perspective
    - It is important to recognize that the source of a firm-specific advantage can depend on specific market know-how

FSAs in Marketing

1. **BRAND – Coca Cola, Mercedes Benz, Sony**
2. **TECHNOLOGY – Ericsson, BMW, Canon**
3. **ADVERTISING – Marlboro, Unilever, Absolut Vodka**
4. **DISTRIBUTION – Kodak, Panasonic, Gillette**
5. **VALUE – Toyota, IKEA, Compaq**

FSAs and Marketing Strategy

- A clear understanding of the FSAs is a key to the formulation of a successful marketing strategy in a country
- Differing levels of market acceptance of the firm-specific advantages limits the degree to which a company can be successful abroad
  - **The level of acceptance also limits the degree to which the marketing effort can be standardized**
- Not all FSAs can be transferred to foreign markets.

FSAs and CSAs Across Markets

- It is important to recognize that the competitive advantages the firm has will play differently in each market.
- Example: To offer the advantage of online ordering (an FSA) will not mean much for markets where computer literacy is low and Internet connection rare.
- Example: To have an American brand (a CSA) can be a positive in Poland and a negative in Germany.
- Still: FSAs and CSAs can and will change over time.

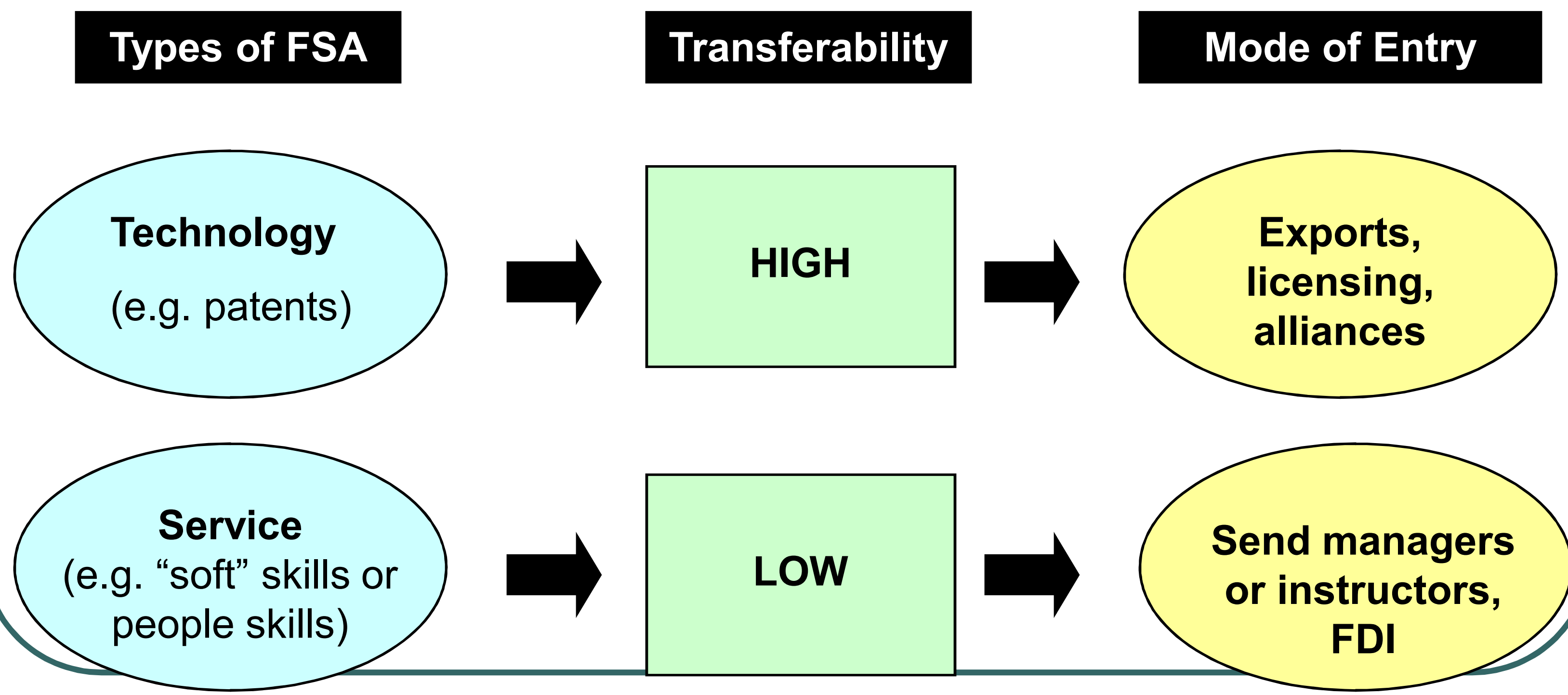
FSAs and Mode of Entry

There are several ways in which a company can enter a given country market:

- Straight exporting
  - The product is exported to a distributor in the market country
- Licensing and Alliances
  - Ownership advantages are transferred via a contractual agreement to an enterprise in the market country
- Foreign Direct Investment (FDI)
  - The company invests money and people in subsidiary operations.

- The basic question of choice of entry mode is how the company can get a reasonable payoff or return on its firm-specific advantages

Transferability and Mode of Entry



FSAs: Internalization

- A company that internalizes its FSAs decides to exploit the advantages under its own control.
- In global marketing, this typically means either a wholly owned subsidiary abroad, or exporting of the finished product.
- Licensing and alliances involve “externalizing,” that is, an independent contractor in the foreign country agrees to carry out some of the value added activities.
- There is always a risk of “dissipation” of the FSAs in externalizing, since the foreign firm needs to be shown a blueprint of how to perform the activities.

FSAs and Resource-based Strategy

- Resource-Based Strategy vs Market-based strategy
  - **A resource-based strategy** defines the firm not in terms of the products or services it markets, or in terms of the needs it seeks to satisfy, but in terms of what it is capable of.
  - **A market-based strategy** focuses on competitive advantages in the marketplace, the resources perspective fosters a view of the company as a leveraging force for its resources.
  - **Knowledge-Based FSAs**
    - Knowledge is today recognized as one of the key resources of the firm.

Competitive strategy: Extending the "Five Forces" Model

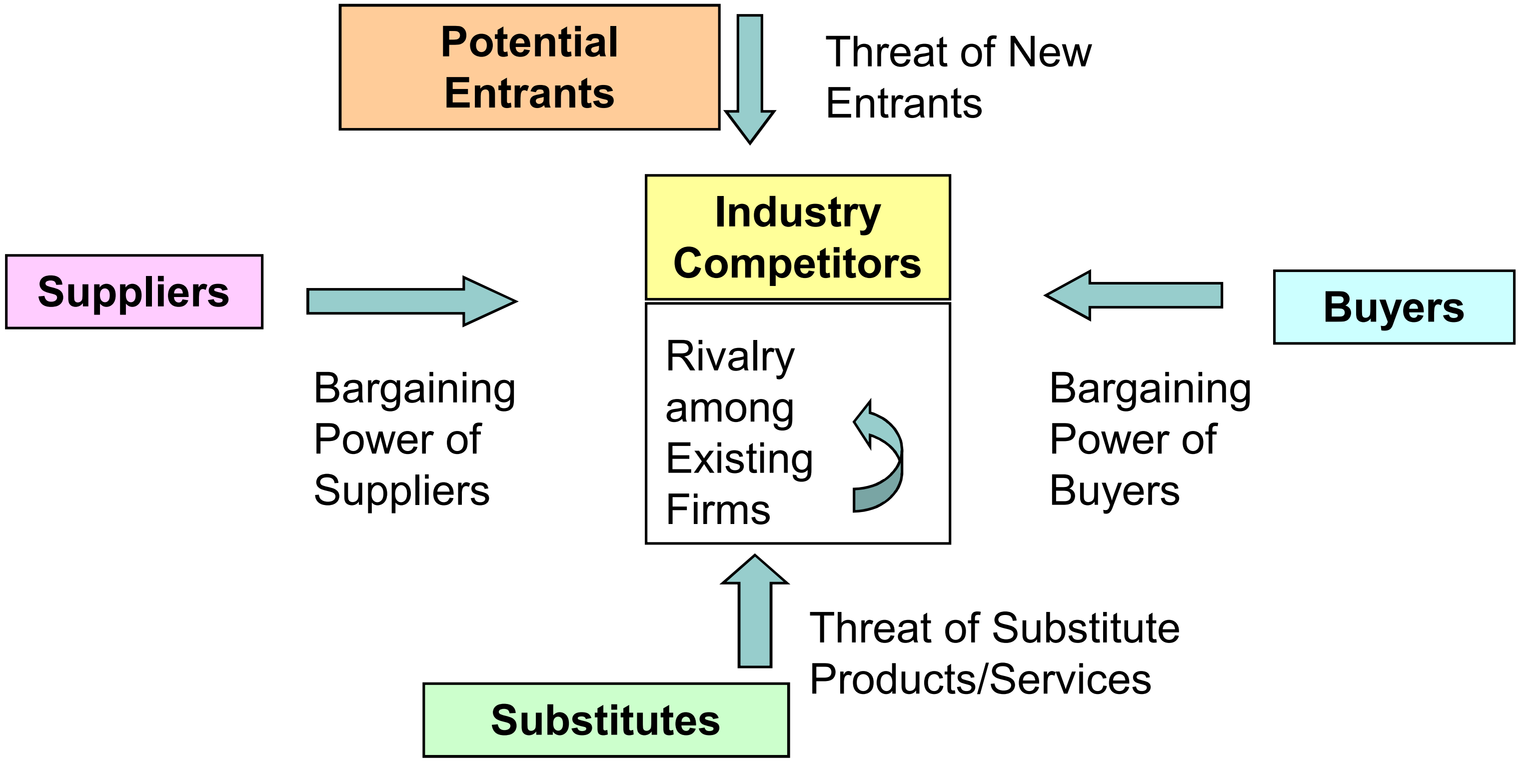
Porter has identified five sources of competitive pressures on the firm:

- Rivalry
  - Intensity of rivalry between firms competing directly in a country market
  - In global marketing the rivalry is particularly strong with other global competitors.
- New Entrants
  - Threat of new entrants applies to potential entrants in a foreign market

Extending Porter's "Five Forces" Model

- Substitutes
  - In new markets where conditions are very different from the home market and consumer preferences differ the product or service can face new varieties of substitutes
- Buyer Power
  - Where buyers are strong they have the power to counter a seller's attempts to raise prices
- Supplier Power
  - If suppliers are large or there are few supply alternative the seller will be forced to pay higher prices for inputs than otherwise, squeezing profit margins

Porter's "Five Forces" Model



Rivalry Between Global Competitors

- Global Rivalry
  - The increased strength and widened repertoire of the global competitor
    - Means that the scope of marketing competition is enlarged
      - **Global competitors can elect in which markets to battle a competitor**

Takeaway

Combine a:

Marketing-oriented perspective

with a:

Resource-based perspective

when developing a global marketing strategy.

Takeaway

Separate a firm's:

Country Specific advantages

from its:

Firm Specific advantages

when formulating a competitive marketing strategy.

Takeaway

A firm must make sure that its competitive advantages are TRANSFERABLE to the new country market.

Country Specific advantages are usually non-transferable, and are usually not under the firm's control.