

Rudolf Grünig  
Dirk Morschett

# Developing International Strategies

*Second Edition*

 Springer

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Second Edition

 Springer

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## Preface

Internationalization is increasingly becoming a highly relevant strategy for more and more companies. However, developing international strategies is a problem of great complexity. In this book, which is mainly intended for executives but also for students of international strategy, we try to propose applicable procedures which make it possible for large and medium-sized companies to carry out meaningful strategic analyses and to develop adequate international strategies.

The second edition is based on our experience with the application of the proposed procedures of the first edition in strategy planning of companies, in executive teaching, and in teaching university classes. The proposed processes for developing strategies and project plans have been revised and are now explained in a more concise manner. The focus has been shifted to cover not only SME but also larger companies. Also, the purely descriptive parts have been shortened to allow more room for practice-oriented recommendations.

Many of the concepts, approaches, and ideas presented in this book come from the academic teachers of the authors. The authors would like to express their gratitude to professors emeriti Richard Kühn, University of Berne, and Joachim Zentes, Saarland University, for their positive influence and long-lasting support. Other ideas come from practice. We are, therefore, indebted to the many managers who have allowed us to share their strategic work.

In addition, we would like to address our special thanks to three persons. This book could not have been produced without the considerable talents of Anthony Clark and Maude Montani who translated large sections of the book and improved the language of the other parts. Tu Le merits special thanks for her excellent work in typing the text and designing the figures and further editorial work.

Fribourg, Switzerland  
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May 2016

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## 1.1 Internationalization of Society, Economy and Companies

Internationalization or globalization touches every aspect of human society, extending well beyond economic relationships to areas such as social structures, work and leisure patterns, the spread of knowledge, concerns about the natural environment, and the causes and resolution of armed conflicts. In response to these and many other areas in which the world has grown together in complex ways, we now routinely speak of the Global Village.

Even though the world economy represents only one aspect of internationalization, it is of particular importance. When globalization is mentioned, most people first think of its economic impact. Although it would be a gross oversimplification to see economic relations as the sole cause of internationalization within a complex set of various and interdependent elements, the economy undoubtedly has a major influence and is thus responsible to a considerable extent for the phenomenon.

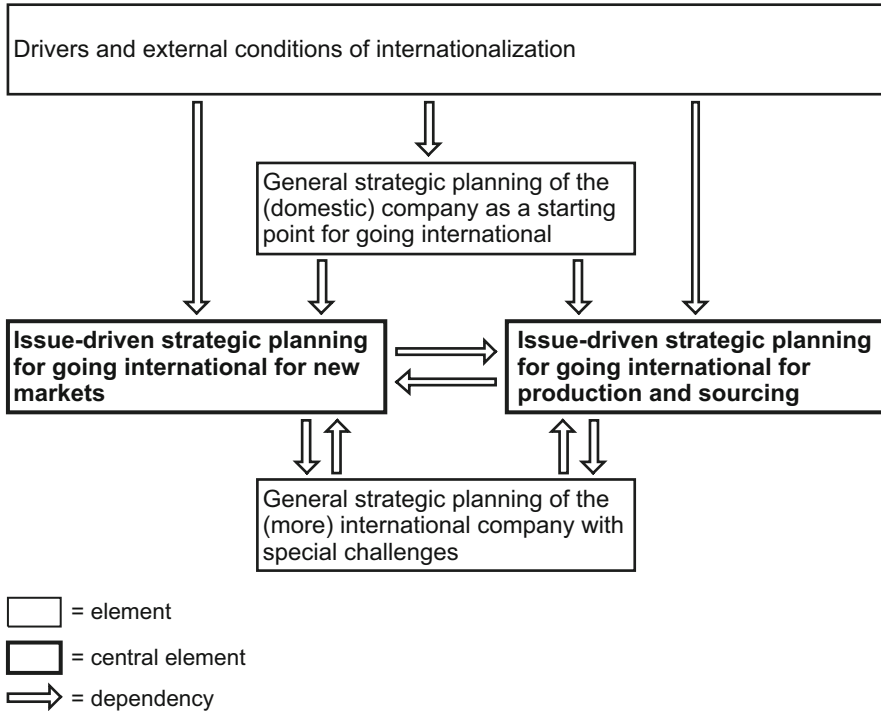
The internationalization of the economy not only presents major challenges for the governments of most countries, it also creates opportunities and threats for the majority of large and medium-sized companies. It pushes managers to analyze in depth the changes in the environment of the company and to derive the right strategies. Only in this way can risks be averted and opportunities seized.

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## 1.2 Framework of the Book

This book is based the framework displayed in Fig. 1.1. The different elements in the framework will now be briefly introduced.

The internationalization of the economy has many causes. They can be roughly divided into two categories:



**Fig. 1.1** Framework for going and being international

- First, the increasingly international activities of large and medium-sized companies are the result of new opportunities and threats. They constitute the drivers of the internationalization of activities.
- Second, external conditions have continually improved in the past decades. Examples include the reduction of tariff barriers and the internet.

The internationalization process begins with general strategic analysis and planning of the company, which is still domestic or is already international. If external analysis reveals that the served markets are growing and that competitive intensity is low, then a company may decide not to enter new country markets. In this situation, it is not necessary for the company to take high risks because there are enough opportunities in the served markets. And if internal analysis shows that the company can produce and source competitively in the existing locations, then further internationalization is not a requirement for the company to perform well in production and sourcing.

However, analysis in the context of general strategic planning often gives a different result. In the served markets, the company may be faced with the erosion of sales and pressure on prices, and this trend appears to be likely to continue. Internal analysis may show increasing competitive weaknesses in the company's

production and sourcing. In addition to high costs, the company may encounter difficulties in accessing important resources, such as qualified personnel.

The stagnation or even erosion of sales and margins means that the company needs to enter new geographical markets in order to access new growth opportunities. This immediately raises a number of difficult questions:

- Which country markets offer the best opportunities? What products and services can be successfully marketed in these countries?
- In which order should the new markets be built up?
- How should the target markets be opened?
- What does it cost to build up these new markets? Is it economically worthwhile to do so?

If the analysis indicates that the company should go international with production and sourcing, other difficult questions arise:

- Which activities have a potential for cost reduction or for quality improvement when shifted to other countries?
- Should the company produce on its own or buy from suppliers?
- In which countries should the activities be relocated?
- In which order should the activities be relocated?
- How should the transfer of activities take place?
- What do the planned relocations cost and what are their economic effects?

There are links between going international for new markets and going international for production and sourcing:

- The newly developed internationalization strategy for new markets may indicate that success is only possible if products can be offered more cheaply. This means that the company must be on the look-out for ways to reduce the cost of production and sourcing.
- The transfer of production and sourcing to new countries may lead to opportunities for new sales. Customer contacts can be developed and sales achieved in these new countries.

The implementation of an internationalization strategy for new markets and/or an internationalization strategy for production and sourcing will result in the company becoming more international. This leads to specific challenges in the next general strategic planning round:

- To what extent should the activities in the various countries be integrated and managed centrally? To what extent is local autonomy necessary to serve customers successfully?
- Can products or services be standardized or is an adaption to local needs necessary?

- How is the value creation process built up? What is produced and what is sourced and where? Which international operation modes should be adopted? Which exceptions should be allowed, and on what grounds?

The general strategic planning of the newly or more international company not only faces new challenges, but it can also show a need for more internationalization. If it becomes clear that increased sales and/or better production and sourcing conditions are necessary for future success, then the internationalization process must continue. But a more positive view is also possible: the analysis can reveal new opportunities that require the development of new strategies for going international.

---

### **1.3 Objectives of the Book**

This book is practice-oriented. The general objective is to propose applicable procedures. They should make it possible for large and medium-sized companies to carry out meaningful analyses and, on this basis, to develop promising international strategies.

The general objective can be divided into five sub-objectives:

- The first sub-objective is to create a framework of internationalization by describing facts, drivers, external conditions and explanatory models in a simple and understandable way.
- The second sub-objective is to show how general strategic planning can lead a company to develop new geographic markets or to internationalize production and sourcing.
- A key sub-objective is to propose an analysis and planning process to enter new geographical markets. It should enable a company to identify attractive markets and to determine a way to serve them successfully. Companies of all sizes and from all industries should be able to use the recommended process. It also targets medium-sized companies, which have focused so far on the domestic market and have no experience in developing new markets.
- The proposal of a process for the internationalization of production and sourcing constitutes the second key sub-objective. It should make it possible for a company to reduce costs and/or increase quality by relocating production and sourcing activities. Here again, the process can also be applied in medium-sized companies whose production and sourcing activities have taken place until now in the domestic market.
- The final sub-objective is to present the strategic challenges faced by an international company and approaches to successfully deal with them.