

INTERNATIONAL STRATEGY

Global Business Environment

International strategy: The theory of how to gain competitive advantage by operating across national borders.

Globalization: The worldwide trend of economic integration across borders. Improvements in technology and elimination of trade barriers have resulted in an increase in globalization.

World Trade Organization (WTO): An international organization that provides a structure for negotiations to reduce trade barriers and settle trade disputes between countries.

Regional trade agreements are formed across nations to lower tariffs and develop similar economic and technological standards.

CAGE Distance

CAGE distance framework: Identifies differences (“distances”) between a firm and foreign markets that can impact entry strategy either positively or negatively.

Cultural distance: Differences in religion, race, social norms, or language.

Administrative/Political distance: Political and historical associations.

Geographic distance: Physical distance, climate difference, and number of communicative/transportation links.

Economic distance: Cost or price differences between markets.

AAA Framework

AAA framework: Presents three possible strategies a firm can use to manage global differences.

Adaptation: Modifying business models to improve the local responsiveness of foreign markets.

Aggregation: Focusing on similarities between regions to scale up production and decrease costs across a standardized organization, generating economies of scale or scope.

Arbitrage: Exploiting differences between markets to gain a competitive advantage through outsourcing or **offshoring**—performing specific business processes overseas.

European Union (EU): An economic and political union between 27 European countries.

North American Free Trade Agreement (NAFTA): A trade agreement that aims to eliminate trade barriers between the US, Canada, and Mexico.

Asia-Pacific Economic Cooperation (APEC): A forum for 21 nations bordering the Pacific Ocean that promotes free trade.



Risks that impact entry strategy:

operation	technological
consumer-related	financial
market-related	social

Failing to adapt effectively can be a result of using the **self-reference criterion**—unconsciously basing decisions on one’s own cultural values.

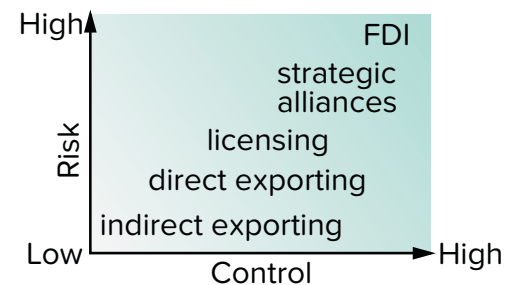
Economies of scale: Increasing production to lower per-unit costs.

Economies of scope: Producing related products with shared costs and inputs.

Entry Mode Strategies

Entry mode strategies: The options a firm has for entering foreign markets. When choosing entry-mode strategies, firms must decide how important it is to oversee and control foreign operations. Strategies that expand control usually also involve greater risk.

There are four types of entry mode strategies:



Exporting: A strategy in which goods produced in one country are sent to be sold in another country.

Piggyback exporting: When a firm that already exports to a foreign market (the “carrier”) sells both its own products and those of another, usually smaller firm (the “rider”).

Indirect exporting: Intermediaries provide the firm with the knowledge and contacts necessary to sell in foreign markets.

Direct exporting: Firms directly contact companies in foreign markets in order to export goods.

One type of intermediary for indirect exporting

Export management company (EMC): Specializes by product and/or region, with established foreign distributors.

International licensing: A contractual agreement in which a licensor permits a foreign licensee to use its intellectual property and/or manufacture its products.

International franchising: A foreign licensee agrees to a comprehensive licensing agreement to use the licensor’s business model, including patents, trademarks, and training.

Contract manufacturing: A licensor contracts with a foreign licensee to manufacture its products under the licensor’s brand.

Technology licensing: Licensor allows the licensee to use, modify, and/or resell technological intellectual property under the licensee’s brand in exchange for compensation.

International strategic alliances: Agreements between two or more entities from different countries to develop, manufacture, or sell services or products together.

International cooperative alliances (ICAs) require contracts specifying each party’s expected contribution.

Turnkey projects: A firm makes a project fully operational before handing it over to the foreign firm who will own it.

International joint ventures (IJV): Collaborating firms from different countries establish a legally independent company.

Foreign direct investment (FDI): When a firm owns part or all of an operation in a foreign country.

Companies can acquire existing firms or make a **greenfield investment**—creating a subsidiary from scratch in another country.