Two Key Decisions

Global Trade Practices
Chapter 7

Traditional Path

Direct Export with NO product modification

The Risk

Market Potential stymied

Competitors may overtake efforts by product modification or reconfiguration

Direct or Indirect?????

- Identify strengths
- Determine priorities
- Balance risk and rewards
- Most cost effective approach
- Learning needed

Benefits of Indirect Exporting

- No international experience is required
- Management not distracted
- Quicker market entry
- Minimal financial requirement
- Risk minimized

Disadvantages of Indirect Exporting

- Loss of control
- Choosing the wrong distributor or the wrong market
- Market feedback insufficient
- Sales not to potential
- Risk derived from other listed factors

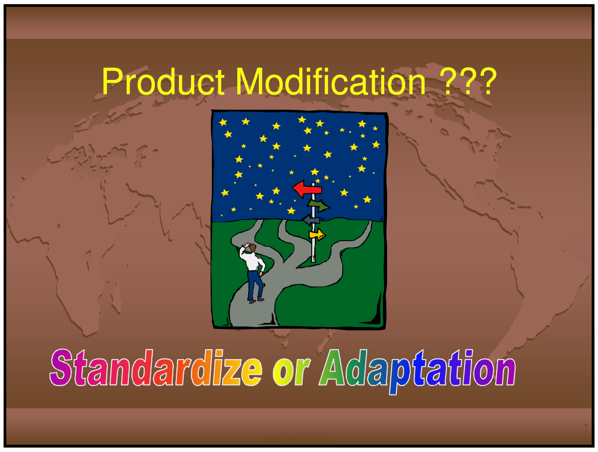
DIRECT Exporting

Benefits

- Direct control
- Feedback controlled
- Potentially better sales

Challenges

- Greater investment
- Time-to-market increased
- Higher risk


Product Modification ???
Standardize or Adaptation


Localization Pressures
Adaptation due to:
Technical standards
Variation in consumer
Behavior
Needs
Ability to purchase
Government standards and restrictions


Standardized Products
Theodore Levitt
1925 to 2006
Provocative view on markets and product standardization

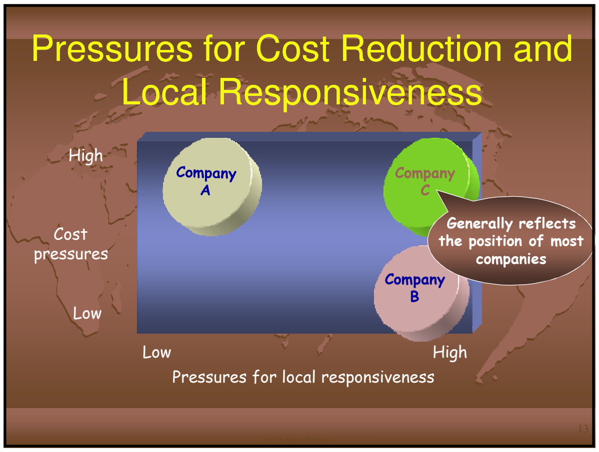
Standardization pressures

- Cost
- Experience Curve

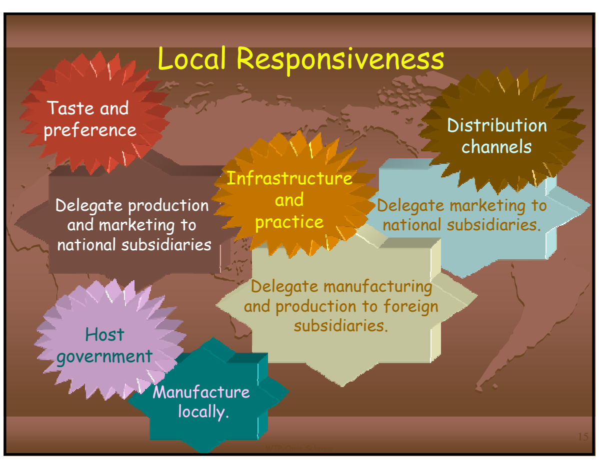
Experience Curve

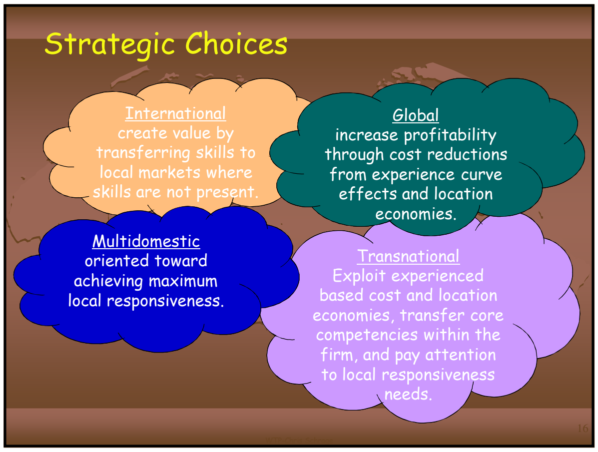
- *Learning effects:*
  - Cost savings that come from "learning by doing."
  - More significant in complex tasks.
  - Decline then cease after two years.
  - Decline after this point comes from economies of scale.
- *Economies of Scale:*
  - Reduction in unit cost achieved through volume production.
  - Sources:
    - Spread fixed costs over volume.
    - Employing specialized equipment or personnel.

The Experience Curve



- Cost Reduction
  - Mass producing a standardized product at an optimal location.
    - Intense:
      - in commodity industries.
      - Where competitors are in low cost locations.
      - Where there is persistent excess capacity.
      - Where there are low switching costs.
      - Because of greater international competition.
- Local responsiveness
  - Arise from:
    - Differences in consumer taste and preferences.
    - Differences in infrastructure and traditional practices.
    - Differences in distribution channels.
    - Host government demands.




Strategic Choices
International
create value by transferring skills to local markets where skills are not present.
Global
increase profitability through cost reductions from experience curve effects and location economies.
Multidomestic
oriented toward achieving maximum local responsiveness.
Transnational
Exploit experienced based cost and location economies, transfer core competencies within the firm, and pay attention to local responsiveness needs.