Strategic Global Management

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From the idea of Michael E. Porter, Professor from Harvard University,

- Strategy is the set of long term choices that an organization makes to distinguish itself from competitors.
- Therefore,
- Strategy defines a company distinctive approach to competing and the competitive advantages on which it will be based.

Errors in Creating Successful Strategy in Global Business

- 1. To create strategy to compete with rivals on the same dimension in global business.
- Why?
- The basic idea of strategy should help to distinguish the firm from rivals based on its own level of competitive advantages.

Errors in Creating Successful Strategy in Global Business

- 2. To create strategy to compete on a local business level instead of on a global level.
- Why?
- The basic idea of strategy should help for the overall company in multiple business and multiple locations around the world.

Errors in Creating Successful Strategy in Global Business

- 3. To create strategy that do not align with vision, mission, goals of the company.
- Why?
- The basic idea of global strategy should allow the company to make a choice of action, activities, and plan to utilize resources to achieve the vision, mission and goals of the company, which are the basic element of creating strategy.

Errors in Creating Successful Strategy in Global Business

- 4. To create strategy that focus on one particular action such as to merge.
- Why?
- The basic idea of global strategy should have a full detailed of actions, activities, and plans to distinguish the company from rivals in a specific time period.

Errors in Creating Successful Strategy in Global Business

- 4. To create strategy that do not honestly acknowledge the challenges being faced.
- Why?
- The basic idea of global strategy must have an approach to overcoming challenges and problems openly and allow the flow of information to better understanding and better decision making of the challenges and problems.

Errors in Creating Successful Strategy in Global Business

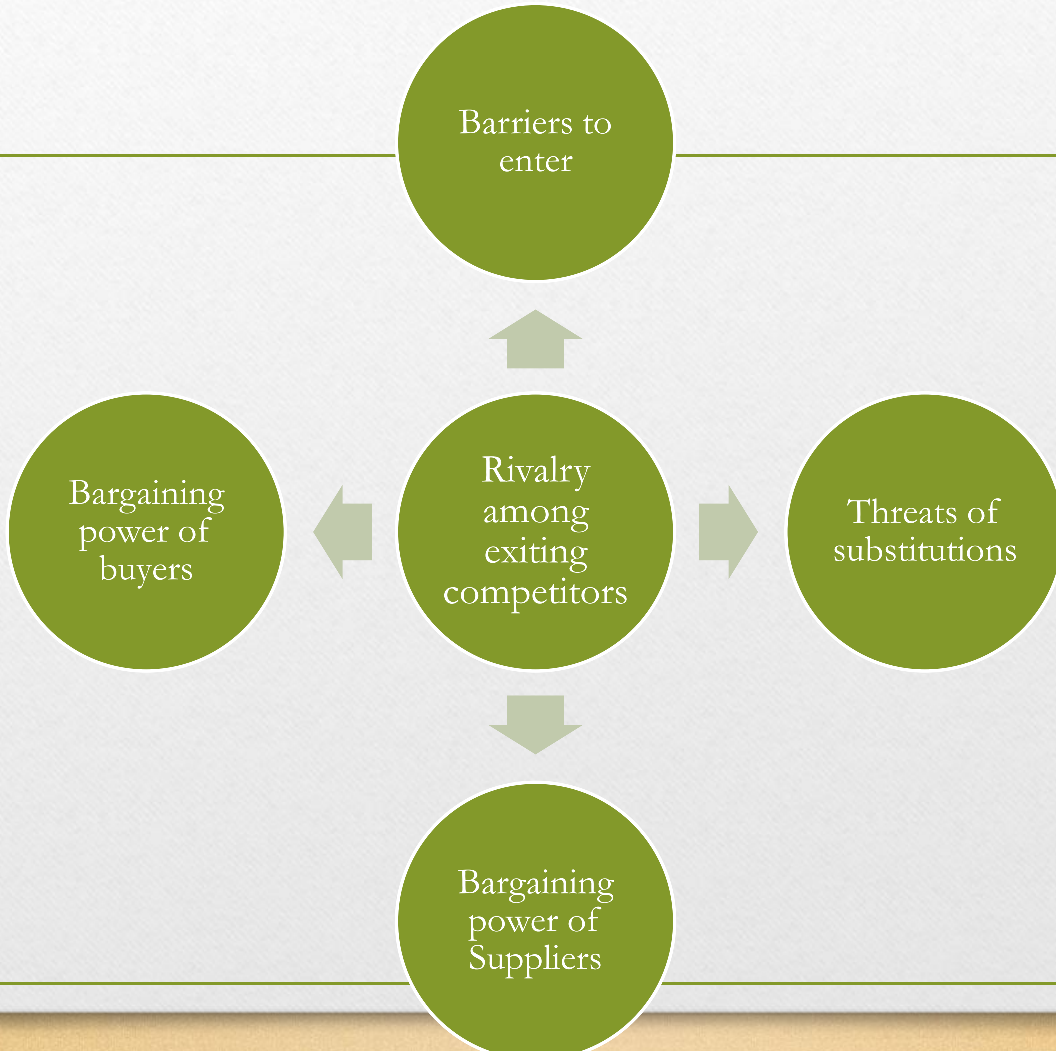
- 5. To create strategy under deep internal conflicts and rivalries.
- Why?
- The basic idea of global strategy must have a internal consensus of agreement, amicable support, and full cooperation from each department.

Michael E. Porter's Strategic Management Theory,…

… is that power leads to profit.

By using his five forces model, he resonated his signature sustainable competitive advantage framework.

Five Forces Model



Five Forces Model

- The force of rivalry of exiting competitors depend the numbers of competitors as well as on four other forces. When there are many competitors in the industry and from global competitors, each firm has to compete aggressively for market share and profit decline.

Other forces are…

- \- Barriers to entry
- \- Threats of substitutions
- \- Number of suppliers
- \- Number of buyers

Strategic Global Management: Five forces model

- 1. **Barriers to entry**
- It is an incumbent competitive advantage to the protection of barriers to entry.
- Why?
- The strong and rigid barriers to entry protect the market from new competitors coming in from all over the world. Therefore, you as a big company will enjoy the market shares as long as there are new competitors can enter your market.

1. Barriers to entry

- How to increase barriers to entry?

- \- Create brand loyalty of our customers
- \- Use government policy such as tax, tariff, quota to protect from foreign competitors
- \- Provide pre and post services that customers need
- \- Use advanced and unique technology that other don’ have
- -……………….(your suggestions)

Strategic Global Management: Five forces model

- 2. **Threats of substitute products**
- It is an incumbent competitive advantage to have as less as of substitute products
- Why?
- The less number of substitute products or no substitute products means our customers will have no choices or no other way to substitute their needs but to buy the products from us only.

2. Threats of substitute products

- How to reduce the threats of substitute products?
- - Make it difficult for customers to replace with substitute
- - Increase switching costs for our customers
- - Reduce your costs to offer lower prices
- - Provide pre and post services that customers need
- -……………….(your suggestions)

Strategic Global Management: Five forces model

- 3. **Bargaining power of suppliers**
- It is an incumbent competitive advantage to have as many suppliers as possible .
- Why?
- The large number of suppliers implies that your companies has ability to negotiate the lowest prices of raw materials and outsourcing. Therefore, your company will make more profit due to low costs.

3. Bargaining power of suppliers

- How to reduce the bargaining power of suppliers?
- - Buying from many suppliers with low prices
- - Buying in a large quantity to get low prices
- - Outsourcing from all over the world
- - Do not rely on a few suppliers from a few countries.
- -……………….(your suggestions)

Strategic Global Management: Five forces model

- 4. **Bargaining Power of Buyers**
- It is an incumbent competitive advantage to have as many as buyers possible.
- Why?
- The large number of buyers in global market implies that buyers have less power to negotiate. Therefore, our company tends to enjoy the power to set up a higher prices.

4. **Bargaining Power of Buyers**

- How to reduce the bargaining power of buyers?
- - Adding values to your products
- - Differentiated your products, make it unique
- - Focus on each target group differently
- - Do not rely on a few buyers from a few countries.
- -……………….(your suggestions)

How to compete in Globalization?

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Globalization and Changes

- Major Changes from Globalization
- 1. Because of the effects of WTO and AFTA (Free Trade), we have to compete with all international competitors in our domestic market and global market.

- The barriers to enter the market has been reduced.

Globalization and Changes

- Major Changes from Globalization
- 2. Big firms have a tendency to do backward and forward integration.

Globalization and Changes

- **Backward Integration**
- Example: Toyota stops buying tires from the suppliers and produces its own tires company. Toyota becomes a competitor with its old tire suppliers.

Globalization and Changes

- **Forward Integration**
- CP farms in the old time sold only fresh and frozen chicken to retailers.
- Nowadays, CP sells both fresh chicken and cooked chicken and other foods. CP becomes a supplier as well as a competitor with retailers.

Globalization and Changes

- Major Changes from Globalization
- **3.** Diversification - Big firm expands into unrelated business.
- Example: CP expands into 7Eleven (retailer) and expands into True Vision (Cable TV , cell phone, and internet)

Globalization and Changes

- Major Changes from Globalization
- 4. An over-supply of products for consumer to choose from. The problem of over-supply often leads to low price and low profit margin for most of the firms.

The main difference between efficiency and effectiveness

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Efficiency

- To produce the goods and services with no waste of time, labor, raw material, and resources.
- In other words, to produce with less input (labor, time, energy, material) and get the same or more output or make your cost per unit lower.

Effectiveness

- To produce goods and services and get the results as it was intended.
- Our goal is to produce 500 tons of grade A rice with in 4 months and we accomplished this goal on time.

Low Profit Margin Problems

- Low profit margin is the number one problem resulting from highly competitive market.
- What can the firm do to offset low profit margin?
- The firm has to offset the low profit by expanding their market shares as much as possible.

Strategies for low profit margin.

- 1. Use Geographic Expansion
- Example: Big C, Central, Lotus, 7Eleven are trying to expand to all over Thailand.
- If your profit margin is low, you need to have high total sale quantity to offset low profit margin.

Strategies for low profit margin.

- 2. Create Strategic Partner
- When you expand to other area, to guarantee a success you must have your partners go with you such as MK, Banks, Bookstores, Coffee shops and etc.

- Example: PTT and 7Eleven go together all over Thailand.

Strategies for low profit margin.

- 3. Flexibility of services
- This means increasing the time to serve customers such as 24 hours banking, or gas station, or convenience stores.

What is the difference between Market Share and Opportunity Share?

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Market Share

- The today customers who consume the exiting products and services.
- Firm often competes each other by offering low price and high quality to gain as much market share as possible.
- It often ends up with high market share and no or less profit.

Opportunity share

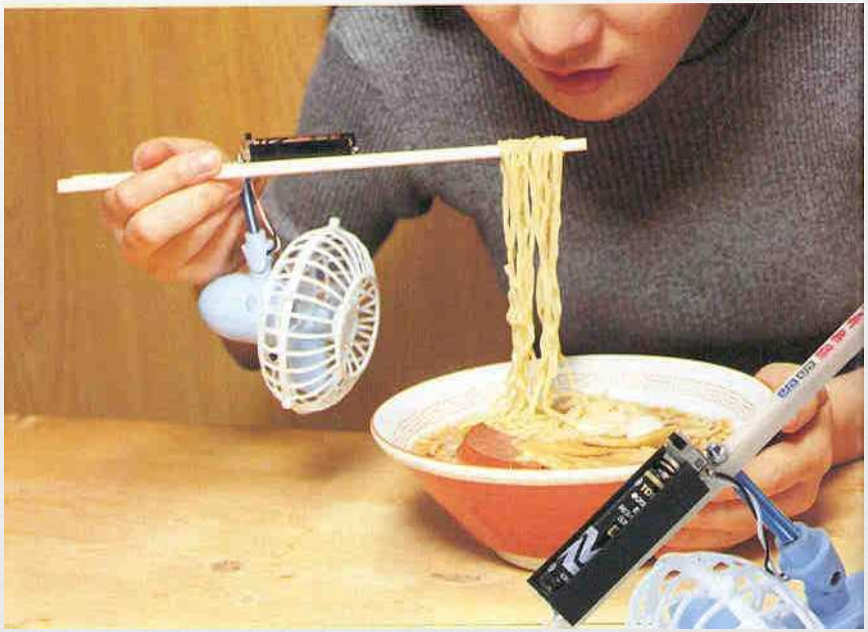
- The unseen or unsatisfied needs of customers. What the firm has to do is coming up with <u>innovation:</u> new products or service such as I-pod, I-phone and be the only one or the first one in new market with no competitors at least for a few years.

Innovation

- 1. New idea
- 2. Creative idea
- 3. Useful purpose
- 4. Practical purpose
- 5. Solve the problem
- 6. Widely accepted - Marketable
- 7. Increase value to customers
- 8. Make profit

Innovation or invention

Innovation or invention



Innovation or invention

Innovation or invention

Assignment # 8

- 1. Distinguish the difference between market share and opportunity share.
- 2. Provide an example of a firm's failure to add value properly in each stage.
- 3. Distinguish the difference between efficiency and effectiveness with your own example.
- 4. What are the three big changes in globalization?
- 5. list and explain the three main strategies for low profit margin. In your opinion, which strategy is the most important one? Why?