
Expanding Abroad: Issues and Challenges

Why Expand Across National Borders?

➤ Benefits; Opportunities

- New markets; pent up demand
- Scale in production
- Access inputs or a cluster
- Large, high growth, or high income markets

➤ Costs; Risks

- Higher admin costs to go abroad
- Macro or policy risks

Advantages Come in Two Forms

➤ Scale on a key activity

- R&D - Airframes
- Production - Chemicals, steel
- Distribution - Magazines, satellite TV
- Sourcing - Oil, copper

➤ Intangible assets

- Brand - Coca Cola
- Patent - Pharmaceuticals
- Other know-how - Consulting, education

Where to Expand? -- Benefits

- Size of the market
 - Phones and personal care in China & India
- Income levels
 - Luxury goods and private banking in Luxembourg
- Value to be created
 - Private equity in Central Europe, India
 - Houses for Africa in Zimbabwe
 - Intergen in the Philippines

Where to Expand? -- Concerns

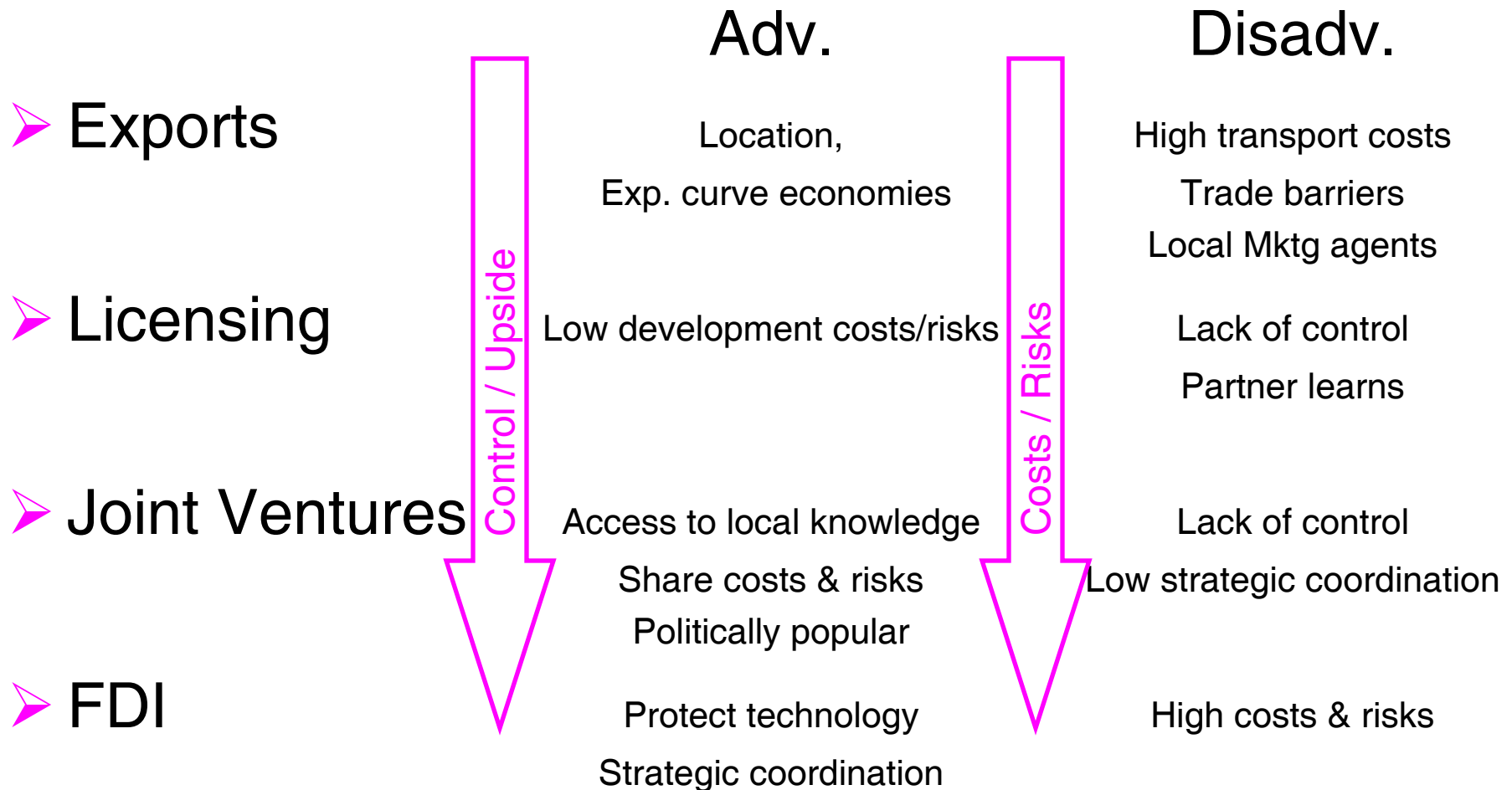
- Economic
 - Macro instability
 - Local rivalry
 - Income inequality

- Political
 - Degree of policy consensus
 - Regime rigidity
 - Neighborhood

How to Expand

- Entry mode
- Timing
- Scale of Entry

Entry mode



Foreign Participation: General Tendencies

		Intangible Assets	
		High	Low
Production	Centralized	Centralized production and trade	
	Dispersed	FDI and local production	Little MNE role

Boeing-Airbus Update and Summary

Update (1)

➤ 1992

- US and EU reached agreement to limit “launch aid” to 33% of project costs
- Continual arguments over agreement. Taken to GATT/WTO

➤ Mid-1990s

- More and more “Embassy aid”
 - Saudi Arabia, China, others

➤ 1996

- Boeing buys MD
- Signs exclusive LT deals with American and Delta
- EU launches antitrust action.

Update (2)

➤ 2000s

- 2001: Airbus passes Boeing in orders
- 2003: Airbus passes Boeing in deliveries (by #)

➤ 2003

- Airbus launches development of A380 superjumbo
 - ~100 orders, behind schedule with potential penalties

➤ 2004

- Tight race on orders
- Boeing has momentum with 55% of value, two hot planes.

Key Ideas

- Industry structure determines nature of competition
- Some industries naturally more global than others
 - High development costs
 - High economies of scale in production
 - Intangible assets (brands, know-how, patents)

Jollibee Update and Summary

Update

- Changed international strategy to focus on two key markets:
 - Hong Kong
 - Strong expatriate community,
 - Distinctive positioning,
 - Potential for scale and expansion
 - California
 - Appear unique. Market large enough for niche
 - Large enough expatriate community
- Phase out other, non-profitable operations

Update (2)

- By 2000, both HK and CA running above expectations
- Expansion into the PRC in 2001
- Expansion to 50+ stores in CA by 2004

Key Ideas

- Expanding abroad is costly, both organizationally and financially
- To succeed, a firm must have some advantage to overcome these costs:
 - Scale in some key activity
 - A valuable intangible asset (brand, patent, etc.)
 - Some specific knowledge

Strategy

- Must build on some specific competency or positioning advantage
 - Can't reinvent to go abroad
- Ongoing tension between efficiency and pressures for customization