

Growing Business internationally

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How Companies Succeed in International Markets

- Around the world, companies that have achieved international leadership employ strategies that differ from each other in every respect.
- Some innovations create competitive advantage by perceiving an entirely new market opportunity or by serving a market segment that others have ignored.
- Companies achieve competitive advantage through acts of innovation. They approach innovation in its broadest sense, including both new technologies and new ways of doing things.

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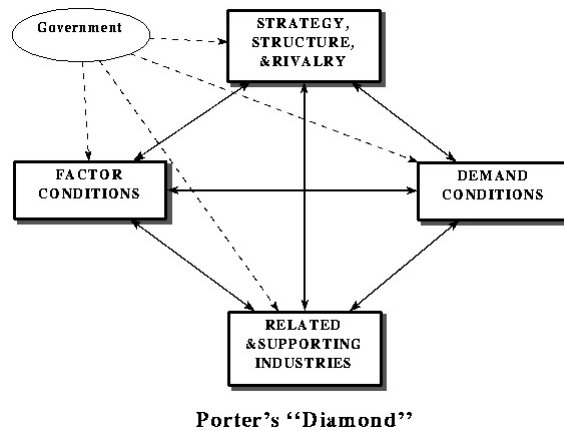
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- Some innovations create competitive advantage by perceiving an entirely new market opportunity or by serving a market segment that others have ignored.
- In international markets, innovations that yield competitive advantage anticipate both domestic and foreign needs.

The Diamond of National Advantage

- Why are certain companies based in certain nations capable of consistent innovation?
- Why do they ruthlessly pursue improvements, seeking an ever more sophisticated source of competitive advantage?
- Why are they able to overcome the substantial barriers to change and innovation that so often accompany success?

The Porter Diamond Model – Analysis of national competitiveness



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- The Porter Diamond model offers an effective way for analysing the national competitiveness. Based on the characteristics of the home country, it is possible to assess the international success of the firm.
- Businesses within clusters usually stimulate each other to increase productivity, foster innovation and improve business results.
- In addition, they have the advantage that they can move very well on the international market and that they can maintain their presence and handle international competition.

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International advantage

- The Porter Diamond Model suggests that the national home base of an organization plays an important role in the creation of advantages on a global scale.
- This home base provides basic factors that support an organization, including government support but they can also hinder it from building advantages in global competition.

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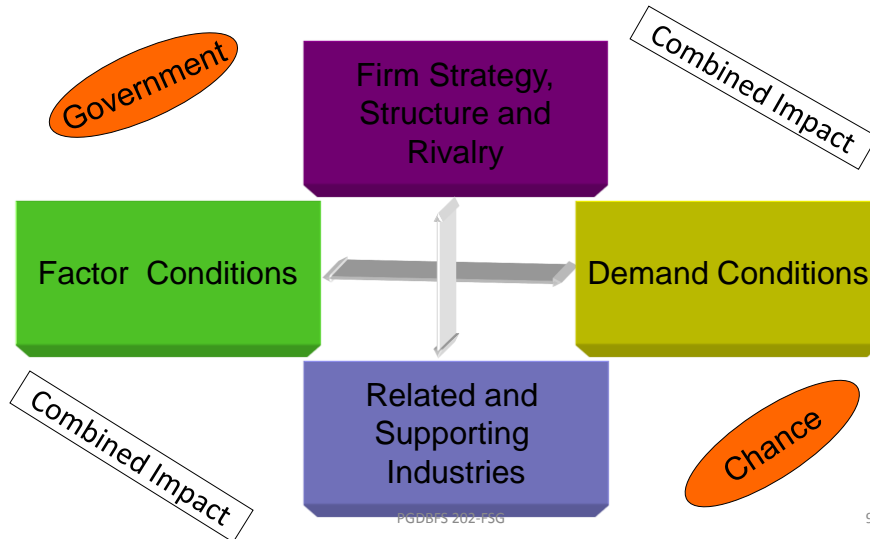
- Michael Porter describes four keys to a nation's competitive advantage in relation to other countries
 - Factor Conditions
 - Demand conditions
 - Related and supporting industries
 - Firm Strategy, Structure and Rivalry.

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Porter's Diamond

Determinants of National Competitive Advantage



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Factor Conditions:

- **BASIC FACTORS** – Natural resources, climate, location and demographics
 - **ADVANCE FACTORS** – Communication Infrastructure, skilled labour, Research facilities and so on.
 - Basic factors can provide only an initial advantage
 - They must be supported by advanced factors to maintain success.
- E.g.
- Switzerland was the First country to experience labour shortages. They abandoned labour-intensive watches and concentrated on innovative/high-end watches.
 - Japan has high priced land and so its factory space is at a premium. This led to just-in-time inventory techniques.
 - Sweden has a short building season and high construction costs. These two things combined created a need for pre-fabricated houses.

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Demand Conditions:

- **Home country Demand plays an important role in producing competitiveness.**
- **Enables better understand the needs and desires of the customers**
- **It shapes the attributes of domestically made products and creates pressure for innovation and quality.**

E.g. 1

- Italian ceramic Industry after the world war II
- There was a postwar housing BOOM !!
- Consumers wanted cool floors because of Hot climatic conditions

E.g. 2

- Japan's knowledgeable buyers of cameras made that industry to innovate and grow tremendously

E.g. 3

- The French wine industry. The French are sophisticated wine consumers. These consumers force and help French wineries to produce high quality wines.

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Related and Supporting Industries:

- **Benefits of investment in advanced factors by Suppliers and related industries is significant**
- **Creates clusters of supporting industries, thereby achieving a strong competitive position internationally.**

E.g.1

- The enamel production unit was available.
- The glazes production was also favorable.
- These two were the main composition of producing tiles.
- This reduces the Transportation cost.

E.g. 2

- Switzerland success in pharmaceutical industry is closely related to its international success in technical dye industry.

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Firm Strategy, Structure & Rivalry:

- **Long term corporate vision (Strategy) is a determinant of success**
- **The way in which companies are established, set goals and are managed is critical to success on international markets**
- **Presence of domestic rivalry improves a company's competitiveness**
- i.e BMW, Mercedes-Benz and Audi would not be such successful brands if they did not have to compete against each other.

E.g.

- Low entry barriers to market in the tile industry
- Rivalry became very intense
- Breakthroughs in both product and process technologies

E.g. 2

- Japan has high priced land and so its factory space is at a premium
- This led to just-in-time inventory techniques
- They innovated traditional inventory techniques.

The role of Government

- The government can have strong influence on the international competitiveness of a firm.
- The government of a country can either promote or hinder export.
- It can influence the supply conditions of key production factors.
- It can shape the demand conditions in the home market, as well as the competition between firms.
- These interventions can occur at local, regional, national, or even supranational level.

Chance

- Chance refers to random events that are beyond the control of the company
- It starts with the question of who comes up with a major new idea first, which may very much be the result of a random event.

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How IKEA used diamond model for national competitive advantage

- IKEA, is a multinational group, headquartered in the Netherlands, that designs and sells ready-to-assemble furniture, kitchen appliances and home accessories. It has been the world's largest furniture retailer since at least 2008.
- IKEA owns and operates 392 stores in 48 countries.
- year 2016, €36.4 billion worth of goods were sold
- There were over 2.1 billion visitors to IKEA's websites in the year

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Factor Conditions

- HR, Knowledge & Infrastructure, still are vital factors of production to the IKEA.
- Employees need to know Scandinavian culture & values , Further they should speak Swedish
- The values of simplicity & humbleness have turned out to be significant advantage



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Demand Conditions

- Enthusiasm & loyalty of its Swedish customer lay the foundation IKEA need for expansion.
- Use Domestic customer feed back very actively for their product innovations



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Firm Strategy, Structure & Rivalry:

- IKEA has very distinct Scandinavian mgt style.
- Uses its core values actively in everyday life & easy problem solving
- Non hierarchic organization which better suited for retail industry to customer treatment than formal organization with formal rules.
- Entrepreneurial spirit & strong shop keeping behavior which can found in Sweden with the founder of IKEA “Ingvar Kamrad”

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Related and Supporting Industries:

- Due to impaired cartel activities in the Sweden, IKEA forced to go for international find suppliers & manufactures.
- They have long term contracts mainly in Europe & Asia

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