
CORPORATE STRATEGIES AND ORGANIZATIONAL OPTIONS FOR THE WORLD MARKETPLACE

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INTRODUCTION

Increasingly business strategy is being addressed from a world perspective. This trend is especially evident in the professional and academic communities. In this paper the subject of corporate strategy is discussed within a global parameter.

Corporate strategy formulation involves relating the organization to its external environmental forces which have become progressively international. Because of space limitations, environmental analysis from a global viewpoint is not discussed in this paper. Suffice it to say that environmental forces broadly encompass political-legal, socio-cultural, and economic-technological factors.

STRATEGY FORMULATION

Corporate strategy formulation also addresses a set of dimensions which attempts to coordinate and form a logical fit between the enterprise and the external forces to which the enterprise is subject. These include customer, product, competitive, price, and geographic dimensions. A world perspective has ramifications for all of these.

Customer-Product Mix Dimension

All organizations at least implicitly have an idea of who their customers are and they produce specific outputs to satisfy those customers. The identification of a firm's customer-product mix dimension, however, can better be made within a world context. This is just as applicable to even small, regional concerns. Let us examine the following case:

“Shank Industries, a manufacturer of cutting tools, had been devoting most of its capacity to the production of uniform drills which were sold to industrial wholesalers. This firm had implicitly chosen general local distributors as its customers. Its profitability had turned into losses over the years primarily because of cheap imports.

With a turnover of top management, there was a change in the customer-product mix of the firm. Whereas before the majority of drills were made for general wholesalers, with the new executives plant capacity was devoted to manufacturing specialized, high tolerance drills. The difference in corporate results was a return to profitability. Specialized drills are normally sold directly to the end users who purchase on the basis of customized specifications, reliability, superior performance, and last of all, price.”

If we analyze the customer-product mix dimension of this case from a global parameter, it is readily evident why Shank Industries was positioned toward bankruptcy before its turnaround. Standard drills are demanded not only by the American local and national general distributors, but also by many other world industrial wholesalers. In response to this world demand, giant European and Japanese manufacturers have entered and dominated the general drill business. Because of their large economies of scale, these international manufacturers can offer much lower worldwide prices for standard drills vs. smaller enterprises such as Shank. by dramatically changing its concept of customer-product dimension, compatible with the realities of the world marketplace, Shank was able to avoid bankruptcy and claim profitability.

Competitive Dimension

Customer-product selection can more effectively be undertaken through an examination of generic strategies. Business firms are subject to any of or a combination of three generic strategies which are differentiation, focus, and overall cost leadership. (4, pp. 34-44)

Differentiation — This generic strategy refers to a firm’s branded products and services which are considered unique relative to outputs provided in the industry by the competition. The uniqueness may have actual or perceived, imaginary value to the buyers. Shank’s specialized products are in actuality differentiated from standard drills. Furthermore, Shank Industries may differentiate itself from other specialized drill manufacturers through superior product performance.

Other firms, primarily in the consumer sector, may differentiate on the basis of appealing to the buyer’s perception. Many customers who insist on

a certain brand of beer, for example, may in fact not be able to discriminate for taste if a counter product is served to them. Leading firms in the beer, soft drink, and cosmetic industries, among others, promote differentiation for their products by appealing to the imagination of purchasers.

Enterprises competing through differentiation can no longer seek their uniqueness vis-a-vis domestic competition alone. American cosmetic producers are aware of the inroads made by their famous competitors located in Paris, London, and Dusseldorf. Harley-Davidson's strongest competitors are the producers of unique, high performance motorcycles which are based in England (BSA), Germany (BMW), and Japan (Honda). And American brewers fight the growing import of European beer through the introduction of their own counterproducts positioned to go head on with those branded foreign imports.

Focus — A second generic strategy — focus — concentrates on fulfilling the needs of particular customers in an industry. Focus and differentiation strategies may at times merely represent the two sides of the same coin. For example, discriminating American buyers of beer may request Michelob, perhaps because they desire "the best" in their beer consumption. Michelob is fulfilling the needs of these particular buyers (focus generic strategy), and simultaneously Michelob is within the differentiation generic strategy through unique packaging, pricing, advertising, and perhaps a distinguishing quality of taste.

Ordinarily, however, while differentiation attempts to address a whole industry, the focus strategy concentrates on specific clusters of buyers within an industry. One example of the focus strategy is television networks which provide special transmission for the individuals with impaired hearing.

Although firms competing on the basis of the focus generic strategy tend to be better protected from international competition than those competing on differentiation and cost leadership (discussed subsequently), recently even this strategy has shown its vulnerability. Toyota's introduction of its mini-lift equipment has basically made its products the number one choice in America and Europe for industrial organizations that produce outputs which are made ready for inventory in small groupings such as select can, drill, and hack saw blade manufacturers.

Cost Leadership — Uniform, standardized products such as steel sheets, commodities, general purpose drills, etc. which have global demand naturally lend themselves to the overall cost leadership generic strategy. This strategy emphasizes producing a "world product" at very low per unit costs. The idea is to seek a higher and higher level of "experience" or cumulative volume of production. The geometric experience curve which conceptualizes cumulative volume of production allows lower per unit costs through a combination of substantial economies of scale, capital-labor substitution and an incrementally increasing learning curve (the more labor, staff and line

personnel conduct familiar tasks, the more efficient they gradually become in those tasks through learning.)

As is evident, the cost leadership strategy is only appropriate for those business units which have or will possess sizeable production capacities within their industries. The parameter of industries subject to cost leadership has become global, such as standard drills mentioned before. And in the automobile industry, who are Ford's strongest competitors of its economy, "world car"? They are not found in Detroit. They are located in various cities in Japan. In the steel industry, who are Bethlehem Steel's most awesome competitors? They are Thyssen (Germany) and Mitsubishi Heavy Industries (Japan), and to a much lesser extent, the U.S. Steel Corporation.

Because of substantial capacities and lower per unit costs, cost leader enterprises can dominate their smaller competitors through price cutting potentials. Since the outputs produced are globally standardized, customers everywhere would tend to be drawn to those business organizations offering lower prices.

Pricing Dimension

Pricing decisions should be compatible with product-market and generic strategy choices. Uniform, global products made for the world customer fall under the cost leadership generic strategy which would then suggest charging low prices. Non-standard products fall in the differentiation and/or focus generic strategies that ordinarily require setting higher prices.

Global forces have expanded the parameters of pricing policies. What may have domestically been considered as a low price begins to look less and less reasonable when pitted against new imports. And because technological improvements have become global, numerous cheap imports are high quality and reliable products. On the other hand, some differentiated and focused domestic products begin to look not so expensive when compared with imports. Deluxe foreign cars may have permanently changed the concept of high prices that can be considered for luxury, high performance automobiles. Elsewhere it has been argued that the pricing dilemma within an international context also holds for industrial products. (6, pp. 331-342)

Geographic Dimension

Any firm which does not consider the world as its potential market and source of competition may be jeopardizing its own economic viability. Cost leader firms are strategically forced to have business units across the globe, in order to minimize expenses. And the business units are managed inter-dependently. (5) That is, the business units throughout the world perform complementary production and support functions. One business unit might be a mass producer of components or parts (component or part specialization). Other business units may assume support functions such as sub-

assembly work, warehousing, and distribution on a massive scale.

As an example, RCA's television division has formed production units overseas for TV components. This organization has also created business units abroad for sub-assembly work and packaging. The various business units, which are located in such countries as Taiwan, Mexico, and Canada, are managed interdependently along with other business units of the television manufacturer that are located in the U.S. (3, pp. 842-47) Business units in each one of these countries have stipulated production or support capacities that transcend their national market demand.

Some authors have even suggested that the search for focus and differentiation strategic options only make sense within a global context. Such a global search, accordingly, is necessary "because a market segment in one country is seldom unique; it has close cousins everywhere." (2, p. 94) However, it should be pointed out that firms competing through differentiation and/or focus strategies can position themselves in a single market or in the international market. For example, Anheuser-Busch's products primarily compete in a single market — U.S.A. Procter and Gamble's operations and products, on the other hand, compete in numerous markets which encompass all the five continents.

ORGANIZATIONAL RELATIONSHIPS

Within the context of what has been discussed in the above paragraphs, two broad options are presented for consideration in planning for organizational relationships on a world scale.

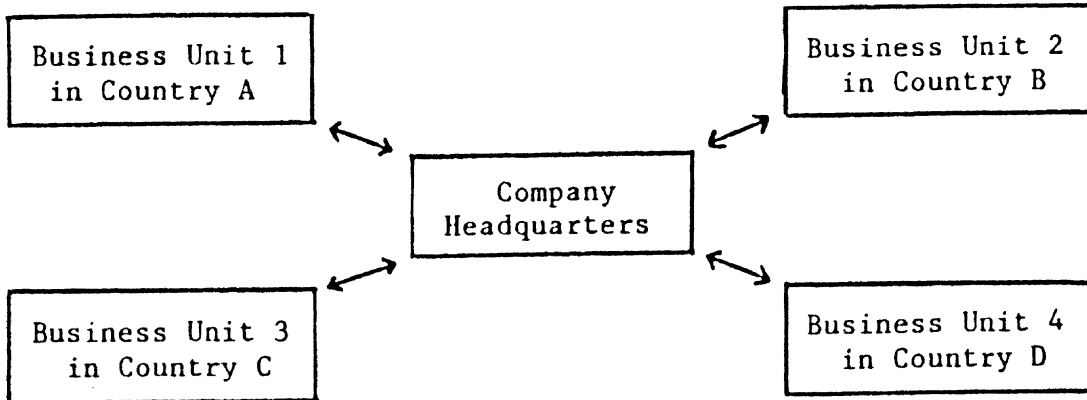
Option One

When product-market choices are to yield outputs that are unique and cater to the special needs of specific buyers, then planning for the firm's international involvement will necessitate structuring independent relationships among its various world business units. That is, business units are created which function independently of each other on a market by market basis. Each independent business unit's market may have diverse product requirements, growth rates, competitive forces, and political risks. The top managers allow the local managers to do whatever is necessary to succeed as long as return on investment remains acceptable. Hence, each business unit has a bilateral relationship with company headquarters. Figure 1 depicts this type of relationship.

Option Two

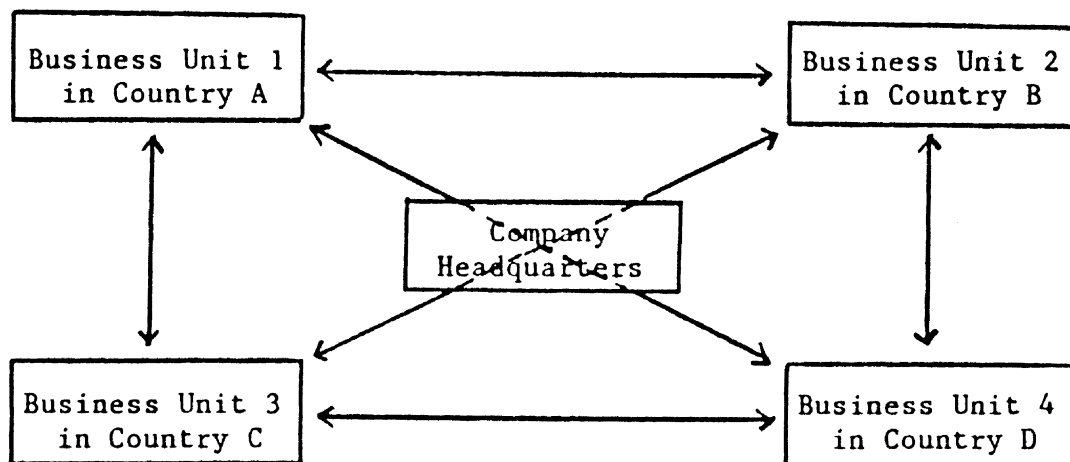
As was suggested under the geographic dimension, when product-

FIGURE 1



market choices are to yield outputs which are standardized for the world marketplace, then planning for the firm's global involvement requires structuring multilateral relationships among its various world business units. Figure 2 depicts such a relationship.

FIGURE 2



Whereas in the Option One organizational relationship a company's top executives manage their business units across the world independently of each other, in Option Two, the business units are managed inter-

dependently. Coordination becomes crucial to success. (1, p. 107) The objective is to strive for the efficiency of the firm's overall global system as a totality. In such a system, business units are globally placed in order to complement each other and to take advantage of low cost inputs (labor, energy, freight), economies of scale, capital-labor substitution and learning curve possibilities.

CONCLUSION

This essay has briefly dealt with corporate strategies and organizational options of firms with potentials for the world marketplace. Strategic and organizational considerations are iterative processes for the top executives, because their firms are confronted with dynamic external and internal resources. Hence, current strategies and organizational designs should be periodically appraised for their consistency and fit with changing conditions.

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