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# E-Content
# BCH-601 : Business Policy

**Lecture 39**

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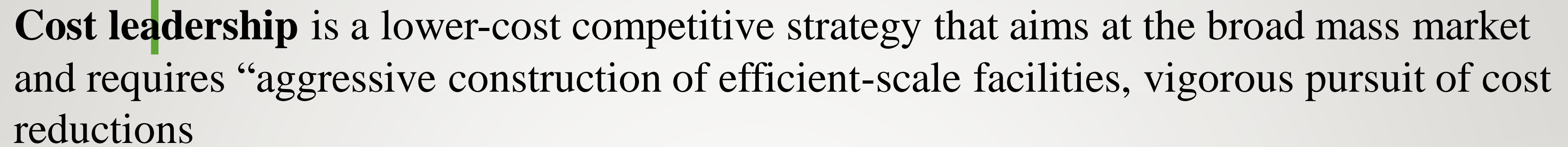
- Stage 4 (Multinational corporation with multidomestic emphasis): Now a full-fledged
- MNC, the company increases its investments in other countries. The company establishes a
- local operating division or company in the host country, such as Ford of Britain, to better serve
- the market. The product line is expanded, and local manufacturing capacity is established.
- Managerial functions (product development, finance, marketing, and so on) are organized
- locally. Over time, the parent company acquires other related businesses, broadening the base
- of the local operating division. As the subsidiary in the host country successfully develops a
- strong regional presence, it achieves greater autonomy and self-sufficiency. The operations in
- each country are, nevertheless, managed separately as if each is a domestic company.

- Stage 5 (MNC with global emphasis): The most successful MNCs move into a fifth stage
- in which they have worldwide human resources, R&D, and financing strategies. Typically
- operating in a global industry, the MNC denationalizes its operations and plans product
- design, manufacturing, and marketing around worldwide considerations. Global considerations
- now dominate organizational design. The global MNC structures itself in a matrix
- form around some combination of geographic areas, product lines, and functions. All
- managers are responsible for dealing with international as well as domestic issues.

# Generic Strategy

- Michael Porter proposes two “generic” competitive strategies for outperforming other
- corporations in a particular industry: lower cost and differentiation.10 These strategies are
- called generic because they can be pursued by any type or size of business firm, even by not for-
- profit organizations:
- _ Lower cost strategy is the ability of a company or a business unit to design, produce, and
- market a comparable product more efficiently than its competitors.
- _ Differentiation strategy is the ability of a company to provide unique and superior value
- to the buyer in terms of product quality, special features, or after-sale service.



**Cost leadership** is a lower-cost competitive strategy that aims at the broad mass market and requires "aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions
from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like R&D, service, sales force, advertising, and so on."[12] Because of its lower costs, the cost leader is able to charge a lower price for its product[s] than its competitors and still make a satisfactory profit. Although it may not necessarily have the lowest costs in the industry, it has lower costs than its competitors. Some companies successfully
following this strategy are Wal-Mart (discount retailing), McDonald's (fast-food restaurants), Dell (computers), Alamo (rental cars), Aldi (grocery stores), Southwest Airlines, and Timex (watches). Having a lower-cost position also gives a company or business unit a defense against rivals. Its lower costs allow it to continue to earn profits during times of heav competition. Its high market share means that it will have high bargaining power relative to it suppliers (because it buys in large quantities). Its low price will also serve as a barrier to entr because few new entrants will be able to match the leader's cost advantage. As a result, cost leaders are likely to earn above-average returns on investment.

**Differentiation** is aimed at the broad mass market and involves the creation of a product or service that is perceived throughout its industry as unique. The company or business unit may then charge a premium for its product. This specialty can be associated with design or brand image,
technology, features, a dealer network, or customer service. Differentiation is a viable strategy for earning above-average returns in a specific business because the resulting brand loyalty lowers customers' sensitivity to price. Increased costs can usually be passed on to the buyers. Buyer loyalty also serves as an entry barrier; new firms must develop their own distinctive competence
to differentiate their products in some way in order to compete successfully. Examples of companies that successfully use a differentiation strategy are Walt Disney Productions (entertainment),
BMW (automobiles), Nike (athletic shoes), Apple Computer (computers and cell phones), and Pacar (trucks). Pacar Inc., for example, charges 10% more for its Kenworth and Peterbilt 10-wheel diesel trucks than does market-leader Chrysler's Freightliner because of its focus on product quality and a superior dealer experience.[13] Research does suggest that a differentiation
strategy is more likely to generate higher profits than does a low-cost strategy because differentiation creates a better entry barrier.Alow-cost strategy is more likely, however, to generate
increases in market share.[14] For an example of a differentiation strategy based upon environmental sustainability, see the Environmental Sustainability Issue feature on Patagonia.