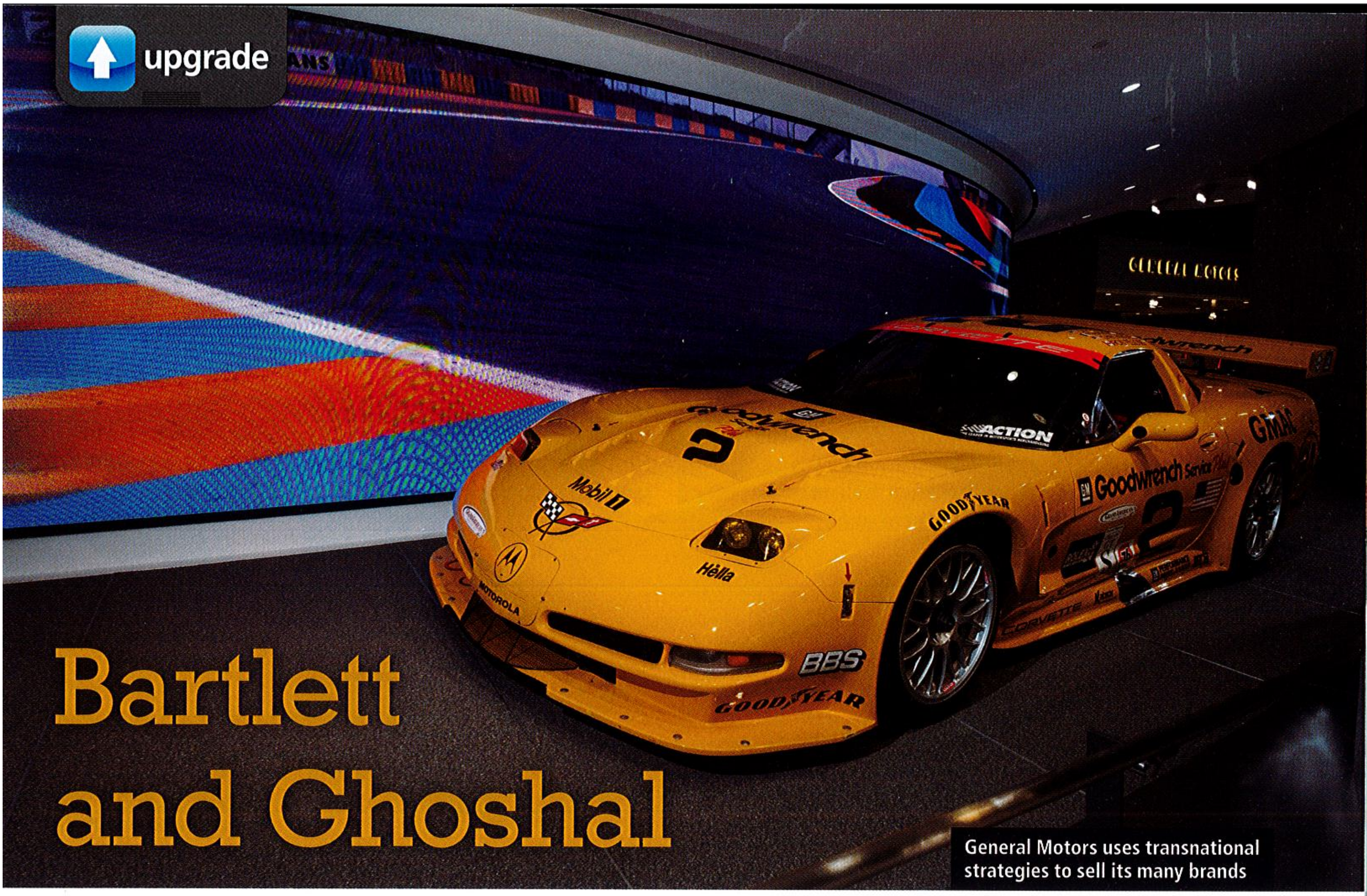


Bartlett and Ghoshal

General Motors uses transnational strategies to sell its many brands

Phil Waterhouse takes you through a key business theory

The theory of Bartlett and Ghoshal is new to the AQA specification and is also an example of a topic that can be applied to other qualifications. As a new addition to the specification, it has been challenging for students to learn the ins and outs of the different strategies, and to come up with relevant examples to understand the key aspects of the framework and how this can be utilised within exam responses.

The aim of this 'Upgrade' is to unpick the crucial elements and show how these shape the international strategies of different firms. Similar to the Ansoff matrix (see pp. 14–15), Bartlett and Ghoshal looks at two key areas:

- the need for firms to respond to local tastes and cultures
- the importance of economies of scale within the industry

Whether these two areas are significant will help guide a business as to which of the four strategies it should adopt. These two areas are competing forces that a firm will need to consider before embarking on an international strategy. Depending on the relative strengths of the forces, it can look to adopt its approach accordingly.

The four strategies that can be adopted are shown in Figure 1.

Transnational strategies

These are relevant when a firm has to show an awareness of local needs, but also utilise and exploit economies of scale to obtain a cost advantage. This is one of the hardest forms of strategy to implement, as it is challenging to match global size with local customisation.

Examples where this is evident are car manufacturing and companies such as Unilever, who are able to produce their products on a large scale and customise them for the local market. General Motors is the third-largest car manufacturer in the world and it sells cars in different markets under different brands, e.g. Holden in the Australian market.

While this can be seen as simply segmenting its markets, it is actually more subtle and nuanced than that. The parent company is able to exploit economies of scale of key components that go into all of its vehicles, but then adapt and change the finished product and tailor it to meet local needs. This strategy relies on clever integration and marketing to understand that the finished product is well suited to the end market.

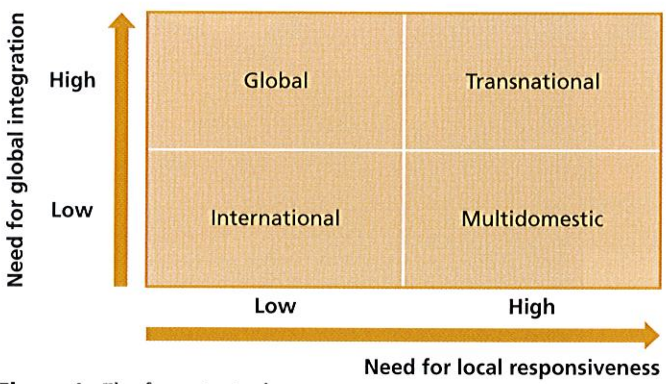


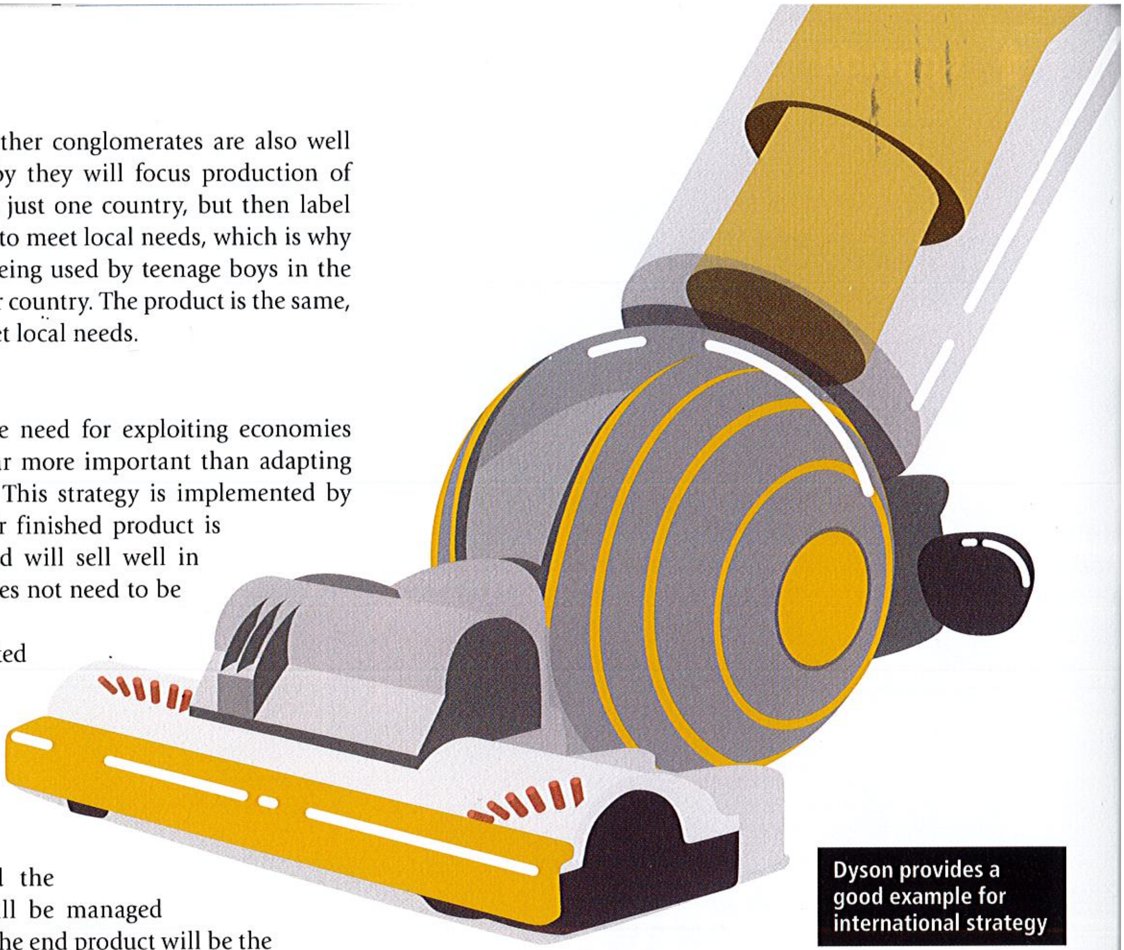
Figure 1 The four strategies

The likes of Unilever and other conglomerates are also well versed in this strategy, whereby they will focus production of products such as deodorant in just one country, but then label and repackage the end product to meet local needs, which is why you will see Lynx bodyspray being used by teenage boys in the UK, but Axe in almost any other country. The product is the same, but the brand is adapted to meet local needs.

Global strategies

This strategy is used when the need for exploiting economies of scale is significant and is far more important than adapting products to meet local needs. This strategy is implemented by firms that appreciate that their finished product is the most important aspect and will sell well in any market, i.e. the product does not need to be differentiated at all.

This strategy has been exploited successfully by major mobile phone manufacturers such as Apple and Samsung, and before them, Nokia. While operations and assembly of the devices might take place in low-cost locations around the world, the central strategy will be managed within the home country, and the end product will be the same regardless of which country it is purchased in.



Dyson provides a good example for international strategy

The benefits of large-scale production, in the form of lower unit costs, will give the firm cost advantages and then while the marketing of the actual product can be tailored slightly to the local markets, the result is a very profitable strategy for the firm. Firms will be keen to adopt global strategies as they are arguably the most profitable option. However, breaking into a market may be difficult, as the economies of scale enjoyed by large competitors act as a substantial barrier to entry for new firms.

International strategies

Tailoring core products to meet local needs is one of the hardest strategies to implement, and it is also difficult to identify businesses that utilise it well.

Apple's global strategy has been highly successful

Some articles like to use McDonald's as an example of a firm that tailors its core products to meet local needs, but does not really benefit from economies of scale. In my opinion, this does not work as an example, as McDonald's clearly benefits from having a centralised ordering process and uniformity of products such as French fries and buns, and the economies of scale that are achieved through these items.

For me, a much better example would be for products that are uniform in their nature and do not need to be adapted, but each country benefits from having their own branch of production. Brompton bikes is a reasonably good example, in that it does not look to exploit large-scale production, as it operates in a relatively niche market. Also, when it sells the finished folding bikes around the world, it does not need to adapt or change them to meet international buyers' needs.

What you are looking for here in terms of examples to use is relatively small, niche products that do have an international presence but are not altered to meet local needs. Companies like Cath Kidston or Dyson that offer the same product but have international production facilities to be closer to their end market are good to use in this situation.

Multidomestic strategies

Multidomestic strategies are used in situations where firms really have to consider the local market they are supplying to. This becomes the dominant factor and is more important than exploiting the cost advantages of a global supply chain.

Decision-making looks to be decentralised as much as possible, with local branches making decisions that suit their markets the best. This is also called **glocalisation** — making your global products suit domestic markets.

For me, McDonald's provides a much better example of multidomestic strategy than international strategy — as any of you who have seen the movie *Pulp Fiction* will know, different products are made available in different regions. Companies such as Coca-Cola and Starbucks look to set up local bottling and distribution centres in many countries so that different amounts of products are available by region. Hence, Fanta Lemon is much more widely available in mainland Europe, and a green tea-flavoured coffee product is distributed almost exclusively within Chinese Starbucks.

This strategy is also prevalent within the grocery sector. While Walmart is a dominant force in the USA, Tesco in the UK and Carrefour in France, these companies have struggled to go fully global, as they need to adapt and amend their product offerings within different markets.

Does McDonald's provide an example of an international strategy or a multidomestic strategy?

Conclusion

As with any piece of business theory, it can be debateable as to which example works best, and there are no hard-and-fast rules. A candidate who argues that McDonald's follows an international strategy and does it convincingly will be rewarded for their arguments, in the same way that a candidate who argues it follows more of a multidomestic strategy. This is also true for theories such as the Boston matrix, where one candidate might identify a product as a cash cow, whereas someone else might argue that it is a star product.

The key to mastering the new pieces of theory is to remember what they are fundamentally based upon. Bartlett and Ghoshal is about identifying that not all firms will adopt the same generic globalisation strategy. Firms will weigh up the relative merits of adapting their products and services to local needs against the cost savings that come from having a centralised, large-scale operation.

Phil Waterhouse is joint editor of Business Review and head of business and economics at Bedford School.