Choosing an Internationalization Strategy

1. Ownership advantages in cost, price
   - Organizational + mkting systems
   - Management + human resource experience
   - Intangible assets: trademark (product symbol) or patent (process)
   - Tangible assets: ability to accumulate K
2. Industry, mkt structure and type of product
   - Number, size of firms and their behavior
   - Type of product (differentiated, non-differentiable)
   - EOS in prodn (for firm / industry) which affects barriers to entry/exit
   - Control over price and other strategic variables
3. Incentives through horizontal integration/coordination (HI/HC)
   - Integration through affiliates (IFT - intra-firm trade)
   - Cost advantages in pooling resources
   - Result of weak mkting institutions
     * HI/HC to keep control over process
     * High search and info/negotiation/bargaining/transactions cost
   - Means to control intangible assets
     * Facilitate tech transfer
     * K-flows + tech transfer can substitute for FDI
4. Incentives through vertical integration/coordination (VI/VC)
   - Backward linkages
     * Input supplier - manufacturer relationship
     * Buyer-seller relationships throughout mkting system
     * Closer relationship: ability to adjust to Δ mkt
   - Forward linkages
     * Food manufacture - wholesale/distn/retail relations
     * Close relationship: ability to adjust to Δ mkt
     * EOS are impt in areas other than manu
5. Location-specific variables
   - Transport cost of raw materials vs final product
   - Location: producer to raw mats/input or to end user/consumer
   - Communications costs: mkt specific info
   - Support services (distn) might be more impt factor than prodn
6. Other strategic factors
   - Pricing strategies: X-subsidization, loss-leadership, volume discounts
   - Speed, innovation and S-Side responses
   - Speed, innovation, culture, preferences and D-side responses
   - Supply chain management
7. Policy and regulatory space
   - Means to circumvent tariff or other market access barrier (tech regulation)
   - Means to avoid tax or benefit from tax break/subsidy

Firm's choice of an internationalization strategy: Exports vs FDI

In-class exercise: Suppose you are a consultant to an agribusiness firm (e.g., agricultural commodities, or food and beverage manufacturer or food retailer) that is interested in expanding into a foreign market(s). Consider how the firm's strategy to internationalize (the decision to either export or to invest abroad) would be affected by the market structure, type of industry, type of product, the price discovery process, supply- and demand-side factors, location-related factors (to the input providers or consumers/end users), al and/or vertical market considerations, and marketing factors.

Objective: Think about a type of a natural resource (agricultural, forestry, mining) commodity or food, beverage, or related value-added manufacturing product that is marketable internationally under the four scenarios. The firm will not have to modify significantly the final product (relative to the home country) if the foreign country's demand-side factors are not very different. If demand-side factors do differ, then the firm will be required to modify the final product. Which factors determine whether a more appropriate internationalization strategy is to export or to set up a presence in the overseas market through foreign direct investment?

	National response: Demand-side considerations	
	Demand-side factors are not very different	Demand -side factors are very different
Export	**Scenario 1** <u>Type of firm</u> <u>Type of product</u> <u>Strategic factors</u>	**Scenario 2**
FDI	**Scenario 3**	**Scenario 4**