Choosing an Internationalization Strategy

Motivate: ① Do capital flows complement/substitute trade flows?
② Why is FDI driven by MNCs?

1. Ownership advantages in cost, price
    - intangible assets
    - mgmt and human resource experience
    - organizational + mkting systems

2. Industry, mkt structure
    - number, size of firms and their behavior
    - EOS in prodn (for the firm, for the industry)
    - differentiated products and ability to control price
    - EOS in mkting (distribution)
    - economies of scope

3. Incentives through horizontal integration/coordination (HI/HC)
    - integration thru affiliates (IFT - intra-firm trade)
    - cost advantages in pooling resources
    - weak mkting institutions
        HI/HC keeps control over process
        ↓ info problems
        ↓ search/negotiation/transactions costs
    - means to control intangible assets
        facilitates 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 relationship
        P-discovery process: centralized or decentralized
        close relationship ⇒ able to adjust to Δ mkt
        ↑ control over quality of raw mats (food, spices)
    - forward linkages
        food manufacturer - wholesale/distn/retail relations
        close relationship ⇒ able to adjust to Δ mkt
        impt EOS in areas other than manu

5. Location-specific variables
    - transport cost of raw mats vs final product
    - communications costs; mkt specific info
    - impt of location to raw mats, inputs, resources
    - impt of location to final user/consumer
    - FDI is a means of circumventing tariff or other barrier
    - support services (distribution) might be important factor

6. Other strategic factors
    - pricing strategies: cross-subsidization, loss-leadership, discounts for volume
    - speed, innovation and S-side responses
    - speed, innovation, culture, preferences and D-side responses

Internationalization Strategies: Exports vs FDI

Suppose you are a consultant to an agribusiness firm (e.g., agricultural commodities, food and beverage products) that is interested in expanding into a foreign market(s). Consider how an internationalization strategy (exports or FDI) would be related to the type of market, type of industry, type of product, the price discovery process, supply-side factors, demand-side factors, locational factors, horizontal or vertical market considerations, and marketing factors.

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

	Foreign country-specific factors require a low or high response strategy by the firm	
	Demand-side factors are not very different	Demand-side factors are very different
Export	Scenario 1	Scenario 2
FDI	Scenario 3	Scenario 4