

Strategies That Go the Distance in Africa

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Strategy and Value Creation

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How is it defined?
as a long-term plan,
a set of actions, and/or,
as an integrated set of commitments.

"A set of courses of action to help the organization attain its goals" (Slater, 1984)

"The creation of a competitive position, involving a different set of activities, making trade-offs in competing, creating fit among a company's activities" Porter (1985)

"An integrated and coordinated set of decisions and actions designed to help a company achieve its long-term objectives" Mintzberg and McHughen (2002)

Long-term strategy vs. planning

short and mid-term goals

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AIMS OF THE CHAPTER:

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- Introduce the nature of strategy, value, how it is created, and the value chain of a firm.
- Establish the major economies firms try to gain internationally from location, experience curve effects and scale.
- Identify the major frameworks for conducting an environmental analysis.
- Establish basic international strategies and how firms can evolve and grow through adopting these strategies at different times.

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Introduction

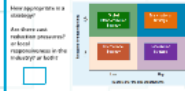
In order to go international firms must:

1. Develop a strategy
2. Identify how to create more value (foreign/domestic markets)
3. Design the firm value chain of primary and support activities
4. Make sure key processes and activities are included.
5. Understand the economics of international enterprise (economies of location, scale and experience).
6. Carry out and environmental analysis.
7. Choose a strategy and see how it evolves (detailing AAA).

Ghemawat's AAA Model for Strategy Development

- This framework helps to deal with the international environments and characteristics, and answers to the differences uncovered by CAGE and PESTEL Analysis.
- It aims to provide the right balance between **Adaptation, Aggregation and Arbitrage**.
- It is key to look at the trade offs between the AAA's for Successful global competitiveness.

Choosing a Strategy for International Business



Cemex Case

Using the CAGE distance framework assess how Cemex analysed the international environment and fitted its strategy to the circumstances prevailing.

GOING INTERNATIONAL - economies from location, scale and experience.

- 1. Competitive positioning analysis: goods or services they sell.
- 2. Core competencies - skills within the company that compete for their work.
- 3. Core strategies.
- 4. Economies of scale.
- 5. Location economies.
- 6. Experience curve effects.

Analysis of the International Environment



Value creation and the value chain

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Firms try to find the most profitable balance between keeping its own costs low by seeking different locations that allows to increase prices maintaining the demand.

Profitability = (Revenue - Costs) / Revenue

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The firm as a Value Chain



The PESTEL Framework

This model provides a comprehensive list of influences on the possible success or failure of a strategy.

Political, Economic, Social, Technological, Environmental, Legal

Political, Economic, Social, Technological, Environmental, Legal

Political, Economic, Social, Technological, Environmental, Legal

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Political, Economic, Social, Technological, Environmental, Legal

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The CAGE Distance Framework

This analysis provides a richer understanding of "Distance".

| CAGE Distance Framework | Contiguity | Accessability | Geography | Similarity | History |
|-------------------------|------------|---------------|-----------|------------|---------|
| Contiguity | 1 | 2 | 3 | 4 | 5 |
| Accessability | 1 | 2 | 3 | 4 | 5 |
| Geography | 1 | 2 | 3 | 4 | 5 |
| Similarity | 1 | 2 | 3 | 4 | 5 |
| History | 1 | 2 | 3 | 4 | 5 |

SWOT Framework

- What are the firm's strengths?
- What are the firm's weaknesses?
- What are the firm's opportunities?
- What are the firm's threats?

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- **Establish basic international strategies and how firms can evolve and grow through adopting these strategies at different times.**

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Strategy and Value Creation

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How is it defined?

as a Long-Term plan,
a set of actions, and/or,
as an integrated set of commitments.

"A set of concrete plans to help the organization accomplish its goal" Oster, 1994

"The determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals" Chandler, 1962



"The creation of a unique valuable position, involving a different set of activities... making trade-offs in competing... creating fit among a company's activities" Porter, 1996

"An integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage" Hitt, Ireland and Hoskisson, 2003

Long-term strategy vs. planning short and mid-term goals

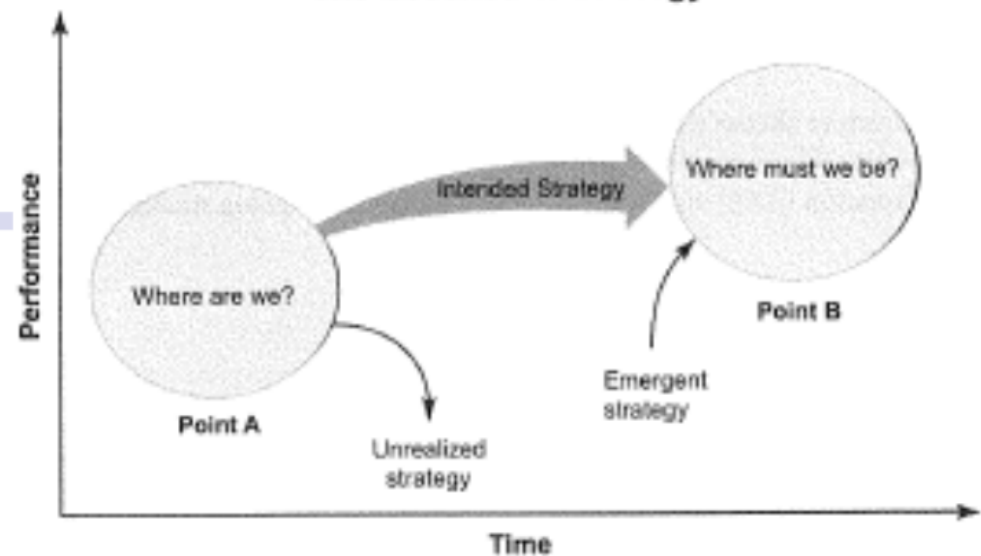
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Strategy Q&A:

- Where are we now?
- Where do we want to be/must we be?
- How do we get there?

Figure 4.1
The Essence of Strategy



Value creation and the value chain

Pursuing strategies that increase profitability and profit growth

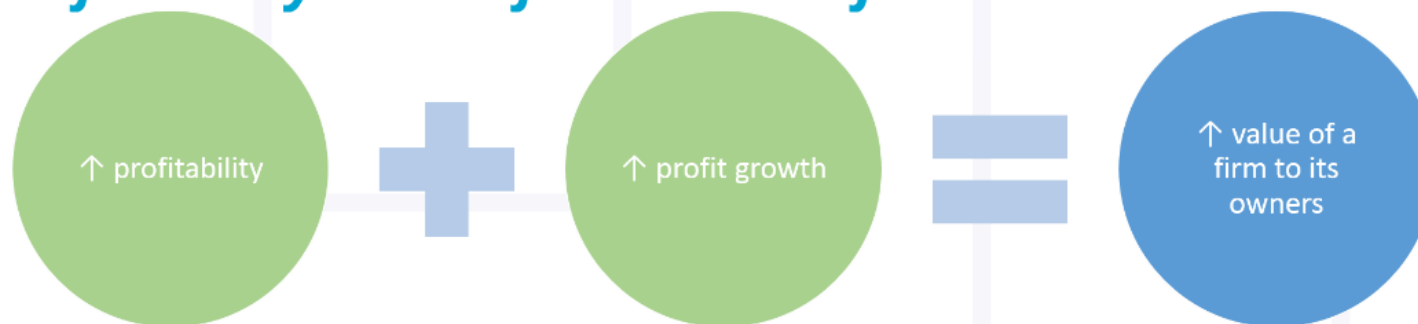
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Firms try to find the most profitable balance between:

- a) keeping its own costs low
- b) seeking differentiation that allows to increase prices maintaining the demand.

Profit growth: percentage increase in its net profits over time.

Profitability: rate of return the firm makes on its invested capital.





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The trick is to **identify the market segment**, that is the group of customers, to whom your **product/service and price is more attractive** than those offered by the competition.



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