

2 Strategic Objectives of Internationalisation

The logistics strategy is a subsystem of the business strategy and has to ensure the accomplishment of the corporate objectives. Consequently, in the first step of the survey, the strategic objectives that companies follow with their internationalisation activities are determined as the basis of all further analysis. As business objectives may vary for different regions it is determined what companies aim at when entering a particular target region or country.

Not all different objectives can be clearly distinguished as they may be closely related and have complex interdependencies. As illustrated in Fig. 8, it typically is a complete set of objectives that drives a firm to set up shop in a foreign region. The importance of each objective is displayed for German and Chinese companies and also for each specific region or country.

Objectives of foreign market entry. Basically, the two main areas of motivation to enter foreign markets are to tap either growth potentials or cost saving potentials.

Thereby, it is interesting that the growth aspect is valued as much more important than cost reduction. Going global strengthens the companies' market position as they leverage global opportunities. In opposition to frequent statements in public media, global cost pressures that make firms shift their production overseas - causing unemployment in developed economies - play a rather minor role in the current internationalisation behaviour of companies. In the first place, internationalisation means leveraging global expansion opportunities, i.e. it is to the very advantage of the company.

In the past, companies with a clear cost focus used to set up shop mostly in so-called "spe-

cial economic zones" or "free trade zones" in low cost countries to leverage the beneficial cost situation for manufacturing. The merchandise was mainly meant for export. Typically these special zones have direct links to international sea ports and/or airports, and provide services needed for international cargo handling. Hence, logistics is facilitated and the resulting network comparatively simple. Today, as the set of objectives is in many cases more complex and many companies follow the double objective of cost reduction and growth at the same time, the new overseas entities have to cater both, the new market itself and also other regions with exports. Consecutively, complex logistics networks are necessary, with local supply and distribution structures being integrated into a global network.

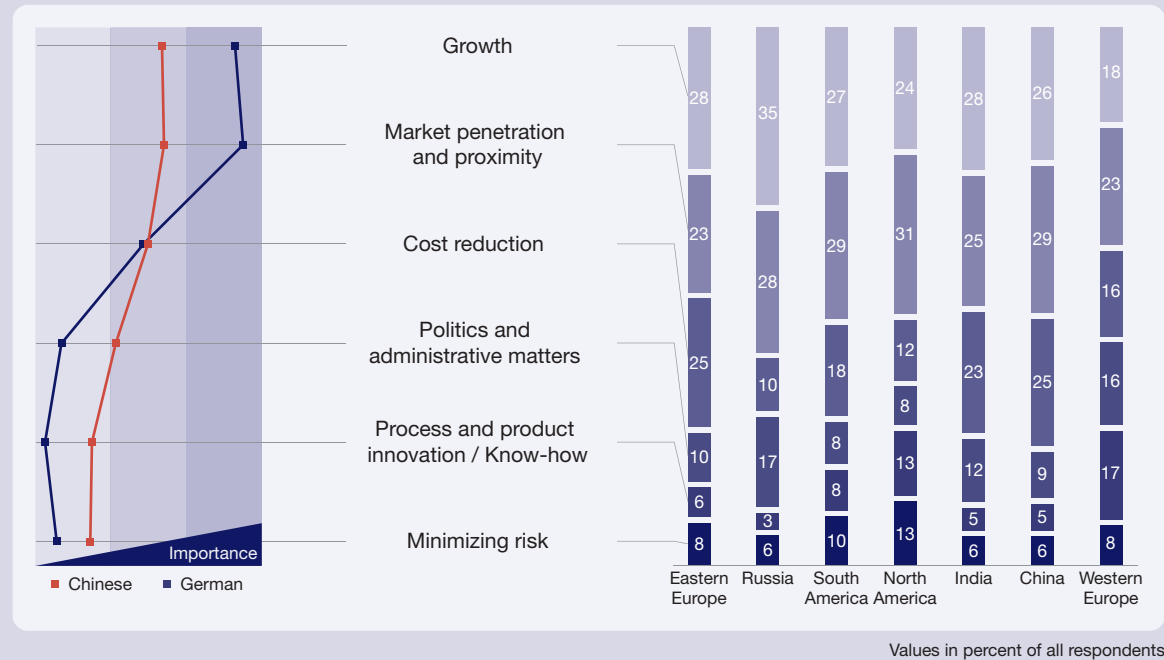
Comparison of German and Chinese sets of objectives. Looking at the patterns of Chinese and German companies' objectives for their internationalisation, one main difference becomes evident: While German companies almost exclusively focus on growth and cost, the valuation of objectives by Chinese respondents is more equally distributed (see the two curves in Fig. 8).

As shown in Chapter 1 developed economies like the German suffer from little growth or stagnation, while the developing nations are booming in rapidly growing purchasing power. Along with the fact that these countries simultaneously offer significant cost advantages, to participate in these dynamic market development is of major importance for German companies.

Chinese companies on the other hand have a broader range of objectives. Besides increasing domestic competition and market opportunities outside China, foreign market entries

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Fig. 8 — Main business objectives for internationalisation



offer further opportunities in gaining access to innovation, know-how and specialised personnel or in balancing risk by a diversification of locations and markets.

Still, for Chinese, as for German companies, the growth aspect is most important, but with a distinct discrepancy: in many cases Chinese companies seek to leverage their cost advantages at home and enter foreign markets with a comparatively higher price level so they can achieve better margins. German companies, on the other hand, coming from a rather saturated market, seek to broaden their customer basis to realise economies of scale. As R&D expenditures per product have been constantly rising in the last years and product life cycles have been shortened, a broadened customer basis ensures an earlier break-even point and higher returns. Therefore, they even accept that the lower price level in developing markets lead to smaller margins.

At first sight, it might be surprising that Chinese respondents value cost reduction as similar important as their German peers, even though the overall cost situation in China seems to be much more favourable. But for

specific products, manufacturing in developed countries may be more cost effective than in China. Especially for knowledge intensive products with high quality requirements the factor endowments of developed countries show specific advantages. The availability of well trained personnel, along with educated and sophisticated processes ensure lower quality costs in terms of waste, rework and reliability, and thereby outweigh the comparatively high labour costs. Thus, for both Chinese and German companies foreign market entries may enhance the overall cost structure.

Another objective to internationalise business activities is to reduce risk. This can be achieved by a deconcentration of manufacturing through the establishment of different locations, thereby securing reliable operations. It can also insure against currency fluctuations, and self-owned off-shore manufacturing can prevent losses of intellectual property, which may result from off-shore outsourcing to low cost countries.

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Differences between regions. China and India attract foreign companies to set up shop by offering a combination of both cost saving potential, and a huge sales market with an ever increasing purchasing power. Hence companies establish structures to cater the local demand as well as for export.

The same is the case for the countries in Eastern Europe. While growth rates are comparatively lower than in China and India, the economic outlook is still very positive and the ongoing accession of more and more countries to the EU keep future expectations high. The labour costs for most parts of Eastern Europe remain low, but in certain areas and fields of industry wages catch up with the Western European level. Liberal tax regulations and factor costs create an overall favourable environment for market entries. A specific advantage of the Eastern European countries is their proximity to wealthy economies in the western part of the continent (EU 15, Switzerland and Norway), which makes them an attractive location for “Near-Shoring”.

Currently, the main motivation to set up shop in South America is to cater to the domestic demand and participate in the positive market development of specific countries, e.g. Argentina or Brazil. Leveraging low cost manufacturing for export is of minor importance.

Russia attracts foreign market entries from manufacturers and retailers mainly with the increasing purchasing power of Russian customers. Unlike the emerging markets in East Asia and India, Russia is not a low cost location for manufacturing for the world market.

West European and North American countries are most interesting due to the high purchasing power of their customers. As mentioned above, cost reduction can only be achieved for specific products with higher levels of sophistication, as process and product innovations and know-how are of comparatively high importance to set up shop here.

In many cases, the final decision to locate an off-shore entity in a specific country depends strongly on politics and administrative matters. This includes subsidies, tax cuts, tariffs and non-tariff trade barriers, such as local content regulations and administrative procedures that hinder a company from catering a specific market with exports. These measures can have significant impact on the profitability of foreign market entries. Politics and administrative matters are perceived to be especially decisive in Russia, India, China, and Eastern and Western Europe.

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