Do You Really Have a Global Strategy?

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The threat of foreign competition preoccupies managers in industries from telecommunications to commercial banking and from machine tools to consumer electronics. Corporate response to the threat is often misdirected and ill timed—in part because many executives don't fully understand what global competition is.

They haven't received much help from the latest analysis of this trend. One argument simply emphasizes the scale and learning effects that transcend national boundaries and provide cost advantages to companies selling to the world market.[1] Another holds that world products offer customers the twin benefits of the low-cost and high-quality incentives for foreign customers to lay aside culture-bound product preferences.[2]

According to both of these arguments, U.S. organizations should "go global" when they can no longer get the minimum volume needed for cost efficiency at home and when international markets permit standardized marketing approaches. If, on the other hand, they can fully exploit scale benefits at home and their international export markets are dissimilar, U.S. executives can safely adopt the traditional, country-by-country, multinational approach. So while Caterpillar views its battle with Komatsu in global terms, CPC International and Unilever may safely consider their foreign operations multidomestic.

After studying the experiences of some of the most successful global competitors, we have become convinced that the current perspective on global competition and the globalization of markets is incomplete and misleading. Analysts are long on exhortation—"go international"—but short on practical guidance. Combine these shortcomings with the prevailing notion that global success demands a national industrial policy, a docile work force, debt-heavy financing, and forbearing investors, and you can easily understand why many executives feel they are

The Japanese competition attacked in the 1970s. U.S. and European companies were caught napping at first, but quickly responded. U.S. auto companies source components, subsystems, and small cars from the low-labor-cost countries like Mexico, South Korea, and Taiwan. Companies are also rationalizing manufacturing operations to meet the new low-cost competitors. Buoyed by these kinds of global strategies, companies firmly believe that they've met the Japanese challenge head on.

They're wrong. According to these authors, the corporate response to Japan's thrust has been half-hearted and without appreciation for its long-term objectives. Many companies have miscalculated both the timing and the workability of their strategies, in part because they don't understand what global strategy really is. So they continually fall behind and lose market share in most of the leading markets of the future. Through a detailed analysis of the tire and television markets, the authors show that only by thinking about strategy in a more analytic light can U.S. companies overtake the competitors.

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only treading water in the rising tide of global competition.

World-scale manufacturing may provide the necessary armament, and government support may be a tactical advantage, but winning the war against global competition requires a broader view of global strategy. We will present a new framework for assessing the nature of the worldwide challenge, use it to analyze one particular industry, and offer our own practical guidelines for success.

THRUST AND PARRY

As a starting point, let's take a look at what drives global competition. It begins with a sequence of competitive action and reaction:

☐ An aggressive competitor decides to use the cash flow generated in its home market to subsidize an attack on markets of domestically oriented foreign competitors.

☐ The defensive competitor then retaliates—not in its home market where the attack was staged—but in foreign markets where the aggressor company is most vulnerable.[3]

As an example, consider the contest between Goodyear and Michelin. By today's definitions, the tire industry is not global. Most tire companies manufacture in and distribute for the local market. Yet Michelin, Goodyear, and Firestone became locked in a fiercely competitive—and very global—battle.

In the early 1970s, Michelin used its strong European profit base to attack Goodyear's American home market. Goodyear could fight back in the United States by reducing prices, increasing advertising, or offering dealers better margins. But because Michelin would expose only a small amount of its worldwide business in the United States, it had little to lose and much to gain. Goodyear, on the other hand, would sacrifice margins in its largest market.

Goodyear ultimately struck back in Europe, throwing a wrench in Michelin's money machine. Goodyear was proposing a hostage trade. Michelin's long-term goals and resources allowed it to push ahead in the United States. But at least Goodyear slowed the pace of Michelin's attack and forced it to recalculate the cost of market share gains in the United States. Goodyear's strategy recognized the international scope of competition and parried Michelin's thrust.

Manufacturers have played out this pattern of cross-subsidization and international retaliation in the chemical, audio, aircraft engine, and computer industries. In each case international cash flows, rather than international product flows, scale economies, or homogeneous markets, finally determined whether competition was global or national. (For a detailed explanation, see the insert "What is cross-subsidization?")

The Goodyear vs. Michelin case helps to distinguish among:

☐ Global competition, which occurs when companies cross-subsidize national market share battles in pursuit of global brand and distribution positions.

☐ Global businesses, in which the minimum volume required for cost efficiency is not available in the company's home market.

☐ Global companies, which have distribution systems in key foreign markets that enable cross-subsidization, international retaliation, and world-scale volume.

Making a distinction between global competition and a global business is important. In traditionally global businesses, protectionism and flexible manufacturing technologies are encouraging a shift back to local manufacturing. Yet competition remains global. Companies must distinguish between the cost effectiveness based on off-shore sourcing and world-scale plants and the competitive effectiveness based on the ability to retaliate in competitors' key markets.

IDENTIFYING THE TARGET

Understanding how the global game is played is only the first step in challenging the foreign competitor. While the pattern of cross-subsidization and retaliation describes the battle, world brand dominance is what the global war is all about. And the Japanese have been winning it.

It took less than 20 years for Canon, Hitachi, Seiko, and Honda to establish worldwide reputations equal to those of Ford, Kodak, and Nestlé. In consumer electronics alone, the Japanese are present in or dominate most product categories.

Like the novice duck hunter who either aims at the wrong kind of bird or shoots behind the prey, many companies have failed to develop a well-targeted response to the new global competition. Those who define international competitiveness as no more than low-cost manufacturing are aiming at the wrong target. Those who fail to identify the strategic intentions of their global competitors cannot anticipate competitive moves and often shoot behind the target.

To help managers respond more effectively to challenges by foreign companies, we have developed a framework that summarizes the various global competitive strategies (see *Exhibit*). The competitive advantages to be gained from location, world-scale volume, or global brand distribution are arrayed against

EXHIBIT
A Global Competitive Framework

	Build global presence	Defend domestic dominance	Overcome national fragmentation
1965	Access volume		
		Response lag	Response lag
1970	Redefine cost-volume relationships		
		Match costs	
1975	Cross-subsidize to win the world		Reduce costs at national subsidiary
		Amortize world-scale investments	
1980	Contiguous segment expansion		Rationalize manufacturing
		Gain retaliatory capability	
1985			Shift locus of strategic responsibility
1990			

the three kinds of strategic intent we have found to be the most prevalent among global competitors: (1) building a global presence, (2) defending a domestic position, and (3) overcoming national fragmentation.

Using this framework to analyze the world television industry, we find Japanese competitors building a global presence; RCA, GE, and Zenith of the United States defending domestic dominance; and Philips of the Netherlands and CSF Thomson of France overcoming national fragmentation. Each one uses a different complement of competitive weapons and pursues its own strategic objectives. As a result, each reaps a different harvest from its international activities.

Loose bricks

By the late 1960s, Japanese television manufacturers had built up a large U.S. volume base by selling private-label TV sets. They had also established brand and distribution positions in small-screen and portable televisions—a market segment ignored by U.S. producers in favor of higher-margin console sets.

In 1967, Japan became the largest producer of black-and-white TVs; by 1970, it had closed the gap in color sets. While the Japanese first used their cost advantages primarily from low labor costs, they then moved quickly to invest in new process technologies, from which came the advantages of scale and quality.

Japanese companies recognized the vulnerability of competitive positions based solely on labor and scale advantages. Labor costs change as economies develop or as exchange rates fluctuate. The world's low-cost manufacturing location is constantly shifting: from Japan to Korea, then to Singapore and Taiwan. Scale-based cost advantages are also vulnerable, particularly to radical changes in manufacturing technology and creeping protectionism in export markets. Throughout the 1970s, Japanese TV makers invested heavily to create the strong distribution positions and brand franchises that would add another layer of competitive advantage.

Making a global distribution investment pay off demands a high level of channel utilization. Japanese companies force-fed distribution channels by rapidly accelerating product life cycles and expanding across contiguous product segments. Predictably, single-line competitors were often blindsided, and sleepy product-development departments were caught short in the face of this onslaught. Global distribution is the new barrier to entry.

By the end of the decade, the Japanese competitive advantage had evolved from low-cost sourcing to world-scale volume and worldwide brand positions across the spectrum of consumer electronic products.

RCA at home

Most American television producers believed the Japanese did well in their market simply because of their low-cost, high-quality manufacturing systems. When they finally responded, U.S. companies drove down costs, began catching up on the technology front, and lobbied heavily for government protection.[4] They thought that was all they had to do.

Some could not even do that; the massive investment needed to regain cost competitiveness proved too much for them, and they left the television industry. Stronger foreign companies purchased others.

Those that remained transferred labor-intensive manufacturing off-shore and rationalized manufacturing at home and abroad. Even with costs under control, these companies (RCA, GE, and Zenith) are still vulnerable because they do not understand the changing nature of Japanese competitive advantage. Even as American producers patted themselves on the back for closing the cost gap, the Japanese were cementing future profit foundations through investment in global brand positions. Having conceived of global competition on a product-by-product basis, U.S. companies could not justify a similar investment.

Having conceded non-U.S. markets, American TV manufacturers were powerless to dislodge the Japanese even from the United States.

While Zenith and RCA dominated the color TV business in the United States, neither had a strong presence elsewhere. With no choice of competitive venue, American companies had to fight every market share battle in the United States. When U.S. companies reduced prices at home, they subjected 100% of their sales volume to margin pressure. Matsushita could force this price action, but only a fraction of it would be similarly exposed.

We do not argue that American TV manufacturers will inevitably succumb to global competition. Trade policy or public opinion may limit foreign penetration. Faced with the threat of more onerous trade sanctions or charges of predatory trade tactics, global competitors may forgo a fight to the finish, especially when the business in question is mature and no longer occupies center stage in the company's product plans. Likewise, domestic manufacturers, despite dwindling margins, may support the threatened business if it has important interdependencies with other businesses (as, for example, in the case of Zenith's TV and data systems business). Or senior management may consider the business important to the company's image (a possible motivation for GE) for continuing television production.

The hope that foreign companies may never take over the U.S. market, however, should hardly console Western companies. TVs were no more than one loose brick in the American consumer electronics market. The Japanese wanted to knock down the whole wall. For example, with margins under pressure in the TV business, no American manufacturer had the stomach to develop its own videocassette recorder. Today, VCRs are the profitability mainstay for many Japanese companies. Companies defending domestic positions are often shortsighted about the strategic intentions of their competitors. They will never understand their own vulnerability until they understand the intentions of their rivals and then reason back to potential tactics. With no appreciation of strategic intent, defensive-minded competitors are doomed to a perpetual game of catch-up.

Loose bricks in Europe, too

Philips of the Netherlands has become well known virtually everywhere in the world. Like other longstanding MNCs, Philips has always benefited from the kind of international distribution system that U.S. companies lack. Yet our evidence suggests that this advantage alone is not enough. Philips has its own set of problems in responding to the Japanese challenge.

Japanese color TV exports to Europe didn't begin until 1970. Under the terms of their licensing arrangements with European set makers, the Japanese could export only small-screen TVs. No such size limitation existed for Japanese companies willing to manufacture in Europe, but no more than half the output could be exported to the rest of Europe. Furthermore, because laws prohibited Japanese producers from supplying finished sets for private-label sale, they supplied picture tubes. So in 1979, although Europe ran a net trade deficit of only 2 million color televisions, the deficit in color tubes was 2.7 million units. By concentrating on such volume-sensitive manufacturing, Japanese manufacturers skirted protectionist sentiment while exploiting economies of scale gained from U.S. and Japanese experience.

Yet just as they had not been content to remain private-label suppliers in the United States, Japanese companies were not content to remain component suppliers in Europe. They wanted to establish their own brand positions. Sony, Matsushita, and Mitsubishi set up local manufacturing operations in the United Kingdom. When, in response, the British began to fear a Japanese takeover of the local industry, Toshiba and Hitachi simply found U.K. partners. In moving assembly from the Far East to Europe, Japanese manufacturers incurred cost and quality penalties. Yet they regarded such penalties as an acceptable price for establishing strong European distribution and brand positions.

If we contrast Japanese entry strategies in the United States and Europe, it is clear that the tactics and timetables differed. Yet the long-term strategic intentions were the same, and the competitive advantage of Japanese producers evolved similarly in both markets. In both Europe and the United States, Japanese companies found a loose brick in the bottom half of the market structure—small-screen portables. And then two other loose bricks were found—the private-label business in the United States and picture tubes in Europe.

From these loose bricks, the Japanese built the sales volume necessary for investment in world-scale manufacturing and state-of-the-art product development; they gained access to local producers, who were an essential source of market knowledge. In Europe, as in the United States, Japanese manufacturers captured a significant share of total industry profitability with a low-risk, low-profile supplier strategy; in so doing, they established a platform from which to launch their drive to global brand dominance.

Regaining cost competitiveness

Philips tried to compete on cost but had more difficulties than RCA and Zenith. First, the European TV industry was more fragmented than that of the United States. When the Japanese entered Europe, twice as many European as American TV makers fought for positions in national markets that were smaller than those in the United States.

Second, European governments frustrated the attempts of companies to use offshore sources or to rationalize production through plant closings, layoffs, and capacity reassignments. European TV makers turned to political solutions to solve competitive difficulties. In theory, the resulting protectionism gave them breathing space as they sought to redress the cost imbalance with Japanese producers. Because they were still confined to marginal, plant-level improvements, however, their cost and quality gap continued to widen. Protectionism reduced the incentive to invest in cost competitiveness; at the same time, the Japanese producers were merging with Europe's smaller manufacturers.

With nearly 3 million units of total European production in 1976, Philips was the only European manufacturer whose volume could fund the automation of manufacturing and the rationalization of product lines and components. Even though its volume was sufficient, however, Philips's tube manufacturing was spread across seven European countries. So it had to demonstrate (country by country, minister by minister, union by union) that the only alternative to protectionism was to support the development of a Pan-European competitor. Philips also had to wrestle with independent subsidiaries not eager to surrender their autonomy over manufacturing, product development, and capital investment. By 1982, it was the world's largest color TV maker and had almost closed the cost gap with Japanese producers. Even so, after 10 years rationalization plans were still incomplete.

What is cross-subsidization?

When a global company uses financial resources accumulated in one part of the world to fight a competitive battle in another, it is pursuing a strategy called cross-subsidization. If a company faces a large competitor in a key foreign market, it may make sense for it to funnel global resources into the local market share battle, especially when the competitor lacks the international reach to strike back.

Money does not always move across borders, though this may happen. For a number of reasons (taxation, foreign exchange risk, regulation) the subsidiary may choose to raise funds locally. Looking to the worldwide strength of the parent, local financial institutions may be willing to provide long-term financing in amounts and at rates that would not be justified on the basis of the subsidiary's short-term prospects.

Cross-subsidization is not dumping. When a company cross-subsidizes it does not sell at less than the domestic market price. Rather than risk trade sanctions, the intelligent global company will squeeze its competitor's margins just enough to dry up its development spending and force corporate officers to reassess their commitment to the business.

With deteriorating margins and no way of retaliating internationally, the company will have little choice but to sell market share. If your competitor uses simple portfolio management techniques, you may even be able to predict how much market share you will have to buy to turn the business into a "dog" and precipitate a sell-off. In one such case a beleaguered business unit manager, facing an aggresive global competitor, lobbied hard for international retaliation. The corporate response: "If you can't make money at home, there's no way we're going to let you go international!" Eventually, the business was sold.

Philips remains vulnerable to global competition because of the difficulties inherent in weaving disparate national subsidiaries into a coherent global competitive team. Low-cost manufacturing and international distribution give Philips two of the critical elements needed for global competition. Still needed is the coordination of national business strategies.

Philips's country managers are jealous of their autonomy in marketing and strategy. With their horizon of competition often limited to a single market, country managers are poorly placed to assess their global vulnerability. They can neither understand nor adequately analyze the strategic intentions and market entry tactics of global competitors. Nor can they estimate the total resources available to foreign competitors for local market share battles.

Under such management pressure, companies like Philips risk responding on a local basis to global competition. The Japanese can "cherry pick" attractive national markets with little fear that their multinational rival will retaliate.

THE STRATEGIC IMPERATIVE

International companies like General Motors and Philips prospered in the fragmented and politicized European market by adopting the "local face" of a good multinational citizen. Today Philips and other MNCs need a global strategic perspective and a corresponding shift in the locus of strategic responsibility away from country organizations. That need conflicts with escalating demands by host governments for national responsiveness. The resulting organizational problems are complex.

Nevertheless, companies must move beyond simplistic organizational views that polarize alternatives between world-product divisions and country-based structures. Headquarters will have to take strategic responsibility in some decision areas; subsidiaries must dominate in others. Managers cannot resolve organizational ambiguity simply by rearranging lines and boxes on the organization chart. They must adopt fundamentally new roles.

National subsidiaries can provide headquarters with more competitive intelligence and learn about world competitors from the experiences of other subsidiaries. They must fight retaliatory battles on behalf of a larger strategy and develop information systems, decision protocols, and performance measurement systems to weave global and local perspectives into tactical decisions. Rather than surrender control over manufacturing, national subsidiaries must interact with the organization in new and complex ways.

Such a realignment of strategic responsibility takes three steps:

1. Analyze precisely the danger of national fragmentation.
2. Create systems to track global competitive developments and to support effective responses.
3. Educate national and headquarters executives in the results of analysis and chosen organization design.

This reorientation may take as long as five years. Managing it is the hardest challenge in the drive to compete successfully.

A new analysis

Managers must cultivate a mind-set based on concepts and tools different from those normally used to assess competitors and competitive advantage.

For example, the television industry case makes clear that the competitive advantage from global distribution is distinct from that due to lower manufacturing costs. Even when they don't have a cost advantage, competitors with a global reach may have the means and motivation for an attack on nationally focused companies. If the global competitor enjoys a high price level at home and suffers no cost disadvantage, it has the means to cross-subsidize the battle for global market share.

Price level differences can exist because of explicit or implicit collusion that limits competitive rivalry, government restrictions barring the entry of new companies to the industry, or differences in the price sensitivity of customers.

The cash flow available to a global competitor is a function of both total costs and realized prices. Cost advantages alone do not indicate whether a company can sustain a global fight. Price level differences, for example, may provide not only the means but also the motivation for cross-subsidization.

If a global competitor sees a more favorable industry growth rate in a foreign market populated by contented and lazy competitors, who are unable or unwilling to fight back, and with customers that are less price sensitive than those at home, it will target that market on its global road. Domestic competitors will be caught unaware.

The implications for these strictly domestic companies are clear. First, they must fight for access to their competitors' market. If such access is unavailable, a fundamental asymmetry results. If no one challenges a global competitor in its home market, the competitor faces a reduced level of rivalry, its profitability rises, and the day when it can attack the home markets of its rivals is hastened. That IBM shares this view is evident from its pitched battle with Fujitsu and Hitachi in Japan.

Global competitors are not battling simply for world volume but also for the cash flow to support new product development, investment in core technologies, and world distribution. Companies that nestle safely in their home beds will be at an increasing resource (if not a cost) disadvantage. They will be unable to marshal the forces required for a defense of the home market.

Not surprisingly, Japanese MNCs have invested massively in newly industrializing countries (NICs). Only there can European and American companies challenge Japanese rivals on a fairly equal footing without sacrificing domestic profitability or facing market entry restrictions. The failure of Western organizations to compete in NICs will give the Japanese another uncontested profit source, leaving U.S. and European companies more vulnerable at home.

Usually, a company's decision whether to compete for a market depends on the potential profitability of a particular level of market share in that country. But the new global competition requires novel ways of valuing market share; for example:

☐ Worldwide cost competitiveness, which refers to the minimum world market share a company must capture to underwrite the appropriate manufacturing-scale and product-development effort.

☐ Retaliation, which refers to the minimum market share the company needs in a particular country to be able to influence the behavior of key global competitors. For example, with only a 2% or 3% share of the foreign market, a company may be too weak to influence the pricing behavior of its foreign rival.

☐ Home country vulnerability, which refers to the competitive risks of national market share leadership if not accompanied by international distribution. Market leadership at home can create a false sense of security. Instead of granting invincibility, high market share may have the opposite effect. To the extent that a company uses its market power to support high price levels, foreign competitors—confident that the local company has little freedom for retaliation—may be encouraged to come in under the price umbrella and compete away the organization's profitability.

Critical national markets

Most MNCs look at foreign markets as strategically important only when they can yield profits in their own right. Yet different markets may offer very different competitive opportunities. As part of its global strategy, an organization must distinguish between objectives of (1) low-cost sourcing, (2) minimum scale, (3) a national profit base, (4) retaliation against a global competitor, and (5) benchmarking products and technology in a state-of-the-art market. At the same time, the company will need to vary the ways in which it measures subsidiary performance, rewards managers, and makes capital appropriations.

Product families

Global competition requires a broader corporate concept of a product line. In redefining a relevant product family—one that is contiguous in distribution channels and shares a global brand franchise—an organization can, for example, scrutinize all products moving through distribution channels in which its products are sold.

In a corollary effort, all competitors in the channels can be mapped against their product offerings. This effort would include a calculation of the extent of a competitor's investment in the distribution channel, including investment in brand awareness, to understand its motivation to move across segments. Such an analysis would reveal the potential for segment expansion by competitors presently outside the company's strategic horizon.

Scope of operations

Where extranational-scale economies exist, the risks in establishing world-scale manufacturing will be very different for the company that sells abroad only under license or through private labels, compared with the company that controls its own worldwide distribution network. Cost advantages are less durable than brand and distribution advantages. An investment in world-scale manufacturing, when not linked to an investment in global distribution, presents untenable risks.

In turn, investments in worldwide distribution and global brand franchises are often economical only if the company has a wide range of products that can benefit from the same distribution and brand investment. Only a company that develops a continuous stream of new products can justify the distribution investment.

A company also needs a broad product portfolio to support investments in key technologies that cut across products and businesses. Competitors with global distribution coverage and wide product lines are best able to justify investments in new core technologies. Witness Honda's leadership in engine technology, a capability it exploits in automobiles, motorcycles, power tillers, snowmobiles, lawnmowers, power generators, and so forth.

Power over distribution channels may depend on a full line. In some cases, even access to a channel (other than on a private-label basis) depends on having a "complete" line of products. A full line may also allow the company to cross-subsidize products in order to displace competitors who are weak in some segments.

Investments in world-scale production and distribution, product-line width, new product development, and core technologies are interrelated. A company's ability to fully exploit an investment made in one area may require support of investments in others.

Resource allocation

Perhaps the most difficult problem a company faces in global competition is how to allocate resources. Typically, large companies allocate capital to strategic business units (SBUs). In that view, an SBU is a self-contained entity encompassing product development, manufacturing, marketing, and technology. Companies as diverse as General Electric, 3M, and

Marriage: an acceptable solution

. . . the White House. . .should investigate a simpler supply side solution to the nation's monetary and fiscal problems—merger between the U.S. and Japan.

. . . the American-Nippon union would vastly increase the supply of saving in the U.S. financial markets.

Marriage has long been an acceptable solution to the micro-economic problems of individuals. . . .

Like all insecure nations, modern Japan has a great propensity to work and save. Like all imperial powers in transition to humbler status, the U.S. has a great compulsion to borrow and spend in order to maintan a lifestyle which it can no longer really afford. . . .

It was once fashionable to argue that capitalist countries had to pursue expansionary foreign policies in order to find new markets. But Japan and the U.S. have turned traditional theories about imperialism upside down.

The U.S. has solved the old problem of underconsumption by creating a welfare state and military industrial complex. It no longer needs a reserve army of consumers, but a reserve army of savers.

In Japan, by contrast, the financial system discourages consumption and the constitution prohibits rearmament. Japan has thus evolved into a natural saver of last resort for the U.S.

Why solemnise this relationship in a formal union when the current dalliance is so satisfactory? . . .

First, the U.S. economic boom is maturing. As inflationary wrinkles appear in 1985, even the Japanese will begin to wonder if they should recycle their dollars as freely as they have so far. . . .

Secondly, ... If the U.S. would eliminate the fiction of having a financial system autonomous from Japan's, dollars interest rates could collapse and alleviate Latin American's [sic] debt servicing problem.

Third, union with Japan will permit the U.S. to continue looking after the defence needs of its older relatives in Europe. . . .

The final argument. . . is that the U.S. Treasury may accidentally destroy the unique trans-Pacific financial equilibrium now sustaining U.S. recovery and rearmament.

From David Hale "A Modest Proposal for Marriage," *Financial Times* October 17, 1984. Reprinted by permission of the publisher.

Hewlett-Packard embrace the concept. They point to clear channels of management accountability, visibility of business results, and innovation as the main benefits of SBU management. But an SBU does not provide an appropriate frame of reference to deal with the new competitive milieu.

In pursuing complex global strategies, a company will find different ways to evaluate the geographic scope of individual business subsystems— manufacturing, distribution, marketing, and so on. The authority for resource allocation, then, needs to reside at particular points in the organization for different subsystems, applying different criteria and time horizons to investments in those subsystems.

Global competition may threaten the integrity of the SBU organization for several reasons. A strong SBU-type organization may not facilitate investments in international distribution. To justify such investments, especially in country markets new to the company, it may have to gain the commitment of several businesses that may not share the same set of international priorities.

Even if individual SBUs have developed their own foreign distribution capability, the strategic independence of the various businesses at the country level may make it difficult to cross-subsidize business segments or undertake joint promotion. The company loses some of the benefits of a shared brand franchise.

Companies may have to separate manufacturing and marketing subsystems to rationalize manufacturing on a local-for-global or local-for-regional basis. Economic and political factors will determine which subsidiaries produce which components for the system. In such a case, a company may coordinate manufacturing globally even though marketing may still be based locally.

Companies might also separate the responsibility for global competitive strategy from that for local marketing strategy. While national organizations may be charged with developing some aspects of the marketing mix, headquarters will take the lead role in determining the strategic mission for the local operation, the timing of new product launches, the targeted level of market share, and the appropriate level of investment or expected cash flow.

Geography-based organizations

For the company organized on a national subsidiary basis, there is a corollary problem. It may be difficult to gain commitment to global business initiatives when resource allocation authority lies with the local subsidiary. In this case, the company must ensure that it makes national investments in support of global competitive positions despite spending limits, strategic myopia, or the veto of individual subsidiaries. Finally, the time limit for investments in global distribution and brand awareness may be quite different from that required for manufacturing-cost take-out investments. Distribution investments usually reflect a long-term commitment and are not susceptible to the same analysis used to justify "brick and mortar" investments.

NEW STRATEGIC THOUGHT

Global competitors must have the capacity to think and act in complex ways. In other words, they may slice the company in one way for distribution investments, in another for technology, and in still another for manufacturing. In addition, global competitors will develop varied criteria and analytical tools to justify these investments.

In our experience, few companies have distinguished between the intermediate tactics and long-run strategic intentions of global competitors. In a world of forward-thinking competitors that change the rules of the game in support of ultimate strategic goals, historical patterns of competition provide little guidance. Executives must anticipate competitive moves by starting from new strategic intentions rather than from precooked generic strategies.

It is more difficult to respond to the new global competition than we often assume. A company must be sensitive to the potential of global competitive interaction even when its manufacturing is not on a global scale. Executives need to understand the way in which competitors use cross-subsidization to undermine seemingly strong domestic market share positions. To build organizations capable of conceiving and executing complex global strategies, top managers must develop the new analytic approaches and organizational arrangements on which our competitive future rests.

1. See Thomas Hout, Michael E. Porter, and Eileen Rudden, "How Global Companies Win Out," *Harvard Business Review* (September–October 1982).

2. See Theodore Levitt, "The Globalization of Markets," *Harvard Business Review* (May–June 1983).

3. See Craig M. Watson, "Counter-Competition Abroad to Protect Home Markets," *Harvard Business Review* (January–February 1982).

4. See John J. Nevin, "Can U.S. Business Survive Our Japanese Trade Policy?" *Harvard Business Review* (September–October 1978).