so that they can better serve local demands. Although such customization brings benefits, it also limits the ability of a firm to realize significant scale economies and location economies.

In addition, pressures for local responsiveness imply that it may not be possible to leverage skills and products associated with a firm's distinctive competencies wholesale from one nation to another. Concessions often have to be made to local conditions. Despite being depicted as "poster child" for the proliferation of standardized, global products, even McDonald's has found that it has to customize its product offerings (its menu) in order to account for national differences in tastes and preferences.

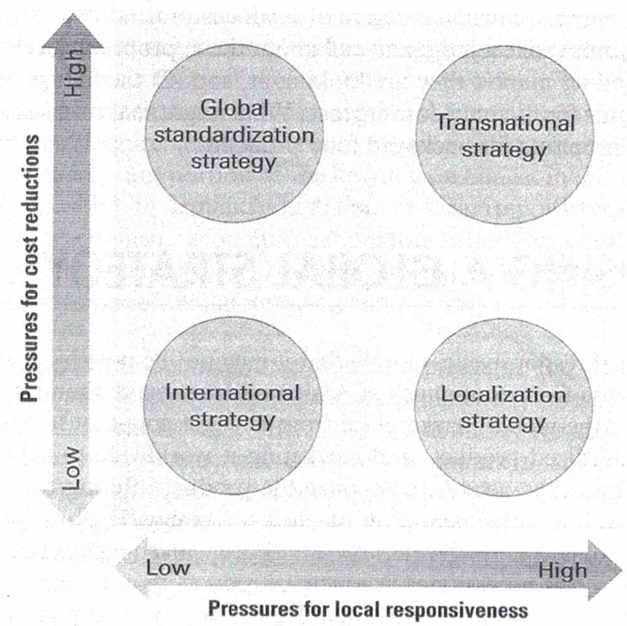
Given the need to balance the cost and differentiation (value) sides of a company's business model, how do differences in the strength of pressures for cost reductions versus those for local responsiveness affect the choice of a company's strategy? Companies typically choose among four main strategic postures when competing internationally: a global standardization strategy, a localization strategy, a transnational strategy, and an international strategy.[17] The appropriateness of each strategy varies with the extent of pressures for cost reductions and local responsiveness. Figure 8.3 illustrates the conditions under which each of these strategies is most appropriate.

Global Standardization Strategy

global standardization strategy
A business model based on pursuing a low-cost strategy on a global scale.

Companies that pursue a **global standardization strategy** focus on increasing profitability by reaping the cost reductions that come from economies of scale and location economies; that is, they pursue a low-cost strategy on a global scale. The production, marketing, and R&D activities of companies pursuing a global strategy are

Figure 8.3 Four Basic Strategies



concentrated in a few favorable locations. These companies try not to customize their product offerings and marketing strategy to local conditions because customization, which involves shorter production runs and the duplication of functions, can raise costs. Instead, they prefer to market a standardized product worldwide so that they can reap the maximum benefits from economies of scale. They also tend to use their cost advantage to support aggressive pricing in world markets.

This strategy makes most sense when there are strong pressures for cost reductions and demand for local responsiveness is minimal. Increasingly, these conditions prevail in many industrial-goods industries, whose products often serve universal needs. In the semiconductor industry, for example, global standards have emerged, creating enormous demands for standardized, global products. Accordingly, companies such as Intel, Texas Instruments, and Motorola all pursue a global strategy.

These conditions are not always found in consumer goods markets, where demands for local responsiveness remain high. However, even some consumer goods companies are moving toward a global standardization strategy in an attempt to drive down their costs.

Localization Strategy

A **localization strategy** focuses on increasing profitability by customizing the company's goods or services so that they provide a favorable match to tastes and preferences in different national or regional markets. Localization is most appropriate when there are substantial differences across nations or regions with regard to consumer tastes and preferences, and where cost pressures are not too intense. By customizing the product offering to local demands, the company increases the value of that product in the local market. On the downside, because it involves some duplication of functions and smaller production runs, customization limits the ability of the company to capture the cost reductions associated with mass-producing a standardized product for global consumption. The strategy may make sense, however, if the added value associated with local customization supports higher pricing, which would enable the company to recoup its higher costs, or if it leads to substantially greater local demand, enabling the company to reduce costs through the attainment of scale economies in the local market.

localization strategy
A strategy focused on increasing profitability by customizing a company's goods or services so that they provide a favorable match to tastes and preferences in different national markets.

MTV is a good example of a company that has had to pursue a localization strategy. If MTV localized its programming to match the demands of viewers in different nations, it would have lost market share to local competitors, its advertising revenues would have fallen, and its profitability would have declined. Thus, even though it raised costs, localization became a strategic imperative at MTV.

At the same time, it is important to realize that companies like MTV still have to closely monitor costs. Companies pursuing a localization strategy still need to be efficient and, whenever possible, capture scale economies from their global reach. As noted earlier, many automobile companies have found that they have to customize some of their product offerings to local market demands—for example, by producing large pickup trucks for U.S. consumers and small, fuel-efficient cars for European and Japanese consumers. At the same time, these companies try to achieve scale economies from their global volume by using common vehicle platforms and components across many different models and by manufacturing those platforms and components at efficiently scaled factories that are optimally located. By designing their products in this way, these companies have localized their product offerings and simultaneously capture some scale economies.