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International Business Strategies for Multinational Corporations due to Declining Globalization

To adapt to a world of declining globalization and remain successful, multinational corporations should adopt a localization strategy. This strategy focuses on having several smaller production centers, short-distance distribution and products customized to local tastes (Hill 2021). Local consumers place more value on locally-customized products and are often willing to pay more for them. This can increase a corporation's market share within the country, allowing it to reach localized scale economies. Many automobile companies, for instance, have customized their vehicles to be small and fuel-efficient for European and Japanese markets while producing large pickup trucks for U.S. consumers (Hill 2021). Corporations can maintain their international reach with this strategy as long as they supply, produce and distribute their products locally in several countries. This strategy is ideal in situations where corporations face low cost pressures but high demand for local responsiveness (Hill 2021). Since centralized production and exports are becoming more expensive, this strategy will also save costs despite the additional costs associated with having multiple smaller production facilities. Fixed costs are greater when a corporation establishes multiple production centers because they have more infrastructure and have to manage the start-up costs of multiple facilities rather than few, large centralized facilities. Corporations are increasingly finding, however, that the cost savings of centralized facilities are not enough to overcome the additional costs of long-distance distribution. Due to the limitations placed on data flow and anti-globalist policies such as tariffs that are becoming more prominent (Will Covid 2020), long-distance distribution between nations is becoming more challenging and costly. Locally distributed products will be cheaper than international products and consumer demand will be focused on them. Fixed production costs will increase if corporations focus on producing locally, but distribution costs will reduce enough to lower prices and gain market share from local consumers. Corporations can recoup some of these production costs in the design department if they use the same base parts and manufacturing methods for parts that need no location-based customization (Hill 2021). Overhead cost will also decrease with a shorter, simpler distribution chain, while corporations will increasingly have to choose local suppliers due to rising import costs and complication. The pandemic has put a lot of strain on the supply chain, including supplier facilities and distribution chains (Will Covid 2020). Several production facilities were shut down during the pandemic, particularly in China, and it has been difficult to find employees once they reopened. Corporations are more likely to avoid these problems with a shortened distribution chain and smaller, local suppliers.

Some corporations may be able to adopt a transnational strategy. This strategy addresses both high cost pressures from competition and the need to localize (Hill 2021). Globalization may be declining, but we have built global industries robust enough to survive (Will Covid 2020) even if they downsize in favor of local industries. It will always be possible to operate globally and have centralized production even if it becomes more costly. For this reason, some corporations might find it more profitable to adopt this transnational strategy if locals in their primary locations do not value customized products and the fixed costs associated with several locations exceeds the cost to centralize their production and export products. While most corporations may be more successful with a localization strategy, corporations that have existing large-scale production facilities and economies of scale might fare better using this strategy in the wake of our de-globalizing world. These corporations may be in competition with other internationally-spanning companies and face high cost pressures, which a transnational strategy can address. Corporations can achieve a good balance of both local and global economies of scale based on what is most cost effective. For some corporations with complex products, production of base components can be centralized, where these components are then shipped to local production and assembly facilities that complete the product when it becomes less costly to produce locally rather than export or when they must cater to local tastes. Caterpillar, for instance, redesigned its products to use many identical components and invested in a few large-scale component manufacturing facilities, sited at favorable locations, to fill the global demand and realize scale economies. At the same time, the company augments the centralized manufacturing of components with assembly plants in each of its major global markets (Hill 2021). While the localization of some of the production process will raise costs, it will also reduce costs in distribution and raise the value of products due to local customization. The transnational strategy is the best approach for corporations that are already international with large centralized production facilities because they can adapt their current facilities to the current de-globalizing world rather than dealing with the immense cost of the complete re-organization that the localization strategy would demand. Corporations who follow the transnational strategy can continue to produce at their centralized facilities while switching to local suppliers, opening small local production facilities in addition to the centralized ones, and using their local facilities to reduce distribution costs and add local product customization.

Works Cited

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