



Case Study of Internationalization Strategy of Cord Set Industry in Taiwan

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Abstract

The present study mainly investigated the internationalization strategy of case company in Taiwan cord set industry. The characteristics of this industry are low gross profit rate, many competitors, and high customer overlap. Thus, the companies need to have considerable economies of scale and productivity in order to competitive in the global market. Besides, the academic research about the internationalization strategy of this traditional manufacturing industry is lack. The results of present study not only can provide the proper internationalization strategy direction of case company, but also can provide reference to other companies in Taiwan cord set industry. Results showed the internationalization courses of case company are: (1) Joint venture and sole proprietorship are the main types of case company to setup overseas subsidiaries; (2) The purpose of difference areas is different: the subsidiaries of mainland China is followed customer and the Southeast Asia is expansion growth; (3) The internationalization strategy of case company is mainly followed the international leading company and pursuit of growth in current stage; (4) The strategy of cord set industry in Taiwan should be strategic alliance and diversification of products in the future.

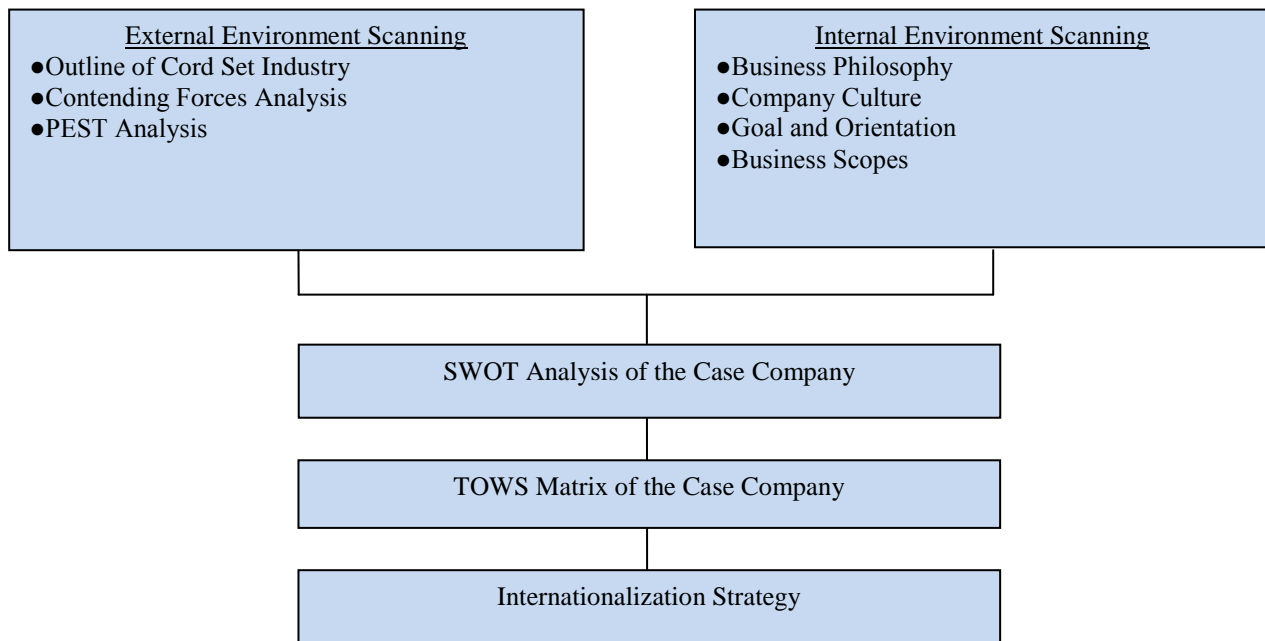
Keywords: Internationalization Strategy, Contending Forces, PEST, SWOT Analysis.

1. INTRODUCTION

The changing of business environment resulted the companies operators faced a greater challenge than ever in Taiwan, especially after the ruling party. Clearly, companies undertake in international operations can get more new opportunities than domestic operations. Moreover, operating worldwide not only enabled the companies to obtain special resources and open new markets, it also stimulated future innovation and product development. However, challenges come from these new opportunities for the organization also become more complex, pluralistic, and uncertainties under international environment. Therefore, how to create competitive advantages in the changing environment and constructed strategic management capabilities will be the most important issue of companies in Taiwan.

The present study firstly investigated the vision of the case company via deep interview with the establisher and chairman. And then analyzed the internal and external business environment of the case company cooperate with SWOT analysis. After that the TOWS matrix was conducted after SWOT analysis. Finally, the internationalization strategy of case company was proposed. Figure 1 shows the research structure of present study.

Figure1: Research Structure



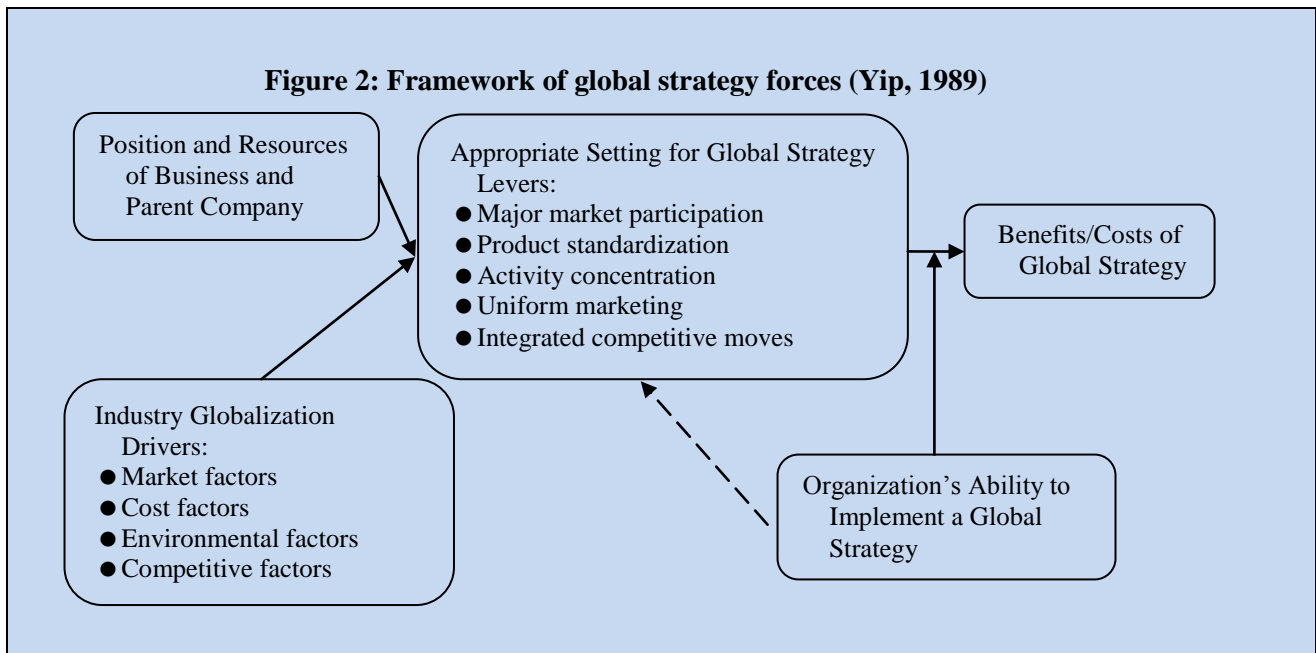
2. LITERATURE REVIEW

Under the severe environment of globalization competition, internationalization has become one of the main strategies for enterprises to open new market and enhance competitiveness. However, enterprises strategy of entering the international market had wide range of variation and affected by the cooperation and competition relationship among companies. When decision maker of an enterprise decided foreign investment strategies, they must address the impact of the internal organization of resources and external environmental factors of business operations. They also must define, analyze, and evaluate the internal strengths and weaknesses, and the external environmental opportunities and threats factors.

Welch & Loustarinen (1988) employed evolution viewpoint to illustrative the concept of internationalization, and reputed the “internationalization” of a business is the phenomenon that the business operations from domestic to international. Furthermore, the internationalization includes internal and external operations. Internal operations are refers to the adjustment of the business carried out by external companies to cope with the international activities of the internal. External operations are refers to the selection and international operations method of foreign markets. Deresky (1994) believes that internationalization is a process of companies in response to international competition, domestic market saturation, and new markets open up when the changes gradually. Initially from export authorization or license manner, and then to a joint venture or owned establishment of overseas service or manufacturing facilities to expand the market gradually or response to the international competition.

Internationalization maybe not necessarily for all companies, however, it may often cope with external factors of the enterprise and encourage enterprises to face international threats and opportunities. Therefore, motivate and drive the internationalization of enterprises.

Porter (1980) indicated that the main motivation of internationalization of a business includes: (1) economies of scale, (2) unique learning curve of market, (3) comparative advantage and (4) coordination of activities, the transfer of comparative advantage (such as brand awareness, etc.). Root (1987) indicated that although there is existing high risk of business internationalization, but business still decided to internationalization. Root (1987) also proposed eight entry strategies for international markets which included: (1) Pursuit of growth, profitability, and response to the domestic market saturation; (2) Followed the domestic industry competitors; (3) Followed customers; (4) Use of existing technology to earn extra reward; (5) Catch the market growth opportunities; (6) Pursuit of economies of scale benefit; (7) Counterwork to foreign companies; and (8) Others. Yip (1989) proposed a framework of global strategy forces to illustrate the motivation of internationalization for companies. Figure 2 shows the Yip’s framework of global strategy forces.



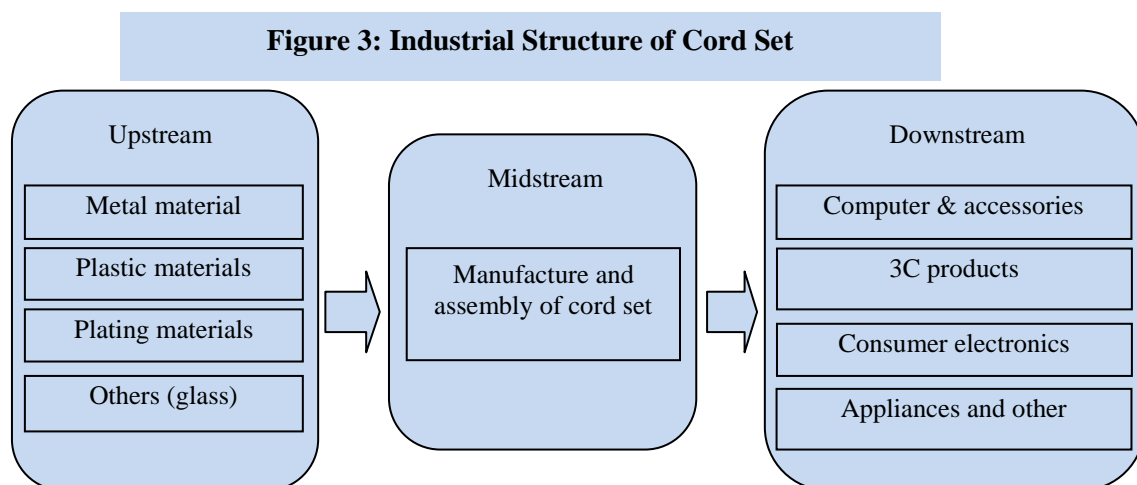
Kefalas (1990) proposed several causes to reveal why the business entering the international market: based on the operational needs, to ensure that the source of raw materials, full use of equipment, to ensure the continued development of technology, disposal of surplus output, strategy demand, ensure the resilience of the enterprises future changes, promoting sustainable growth, and improve profitability.

Daniels & Radebaugh (1998) also indicated that the internationalization motivation of a business which includes: sales expansion, access new resources, decentralized market or source of raw materials, and deduce the risk of competition.

Generally, the models of internationalization include: export, licensing, joint ventures, and sole proprietorship. Barlett & Ghoshal (1987) indicated that the types of internationalization strategy can be divided into four types according to cost down and local response pressures: (1) International strategy: low cost down and local response pressures, business can reduce their costs and the local competitors do not have such skills and products; (2) Multi-domestic strategy: low cost down pressures but high local response pressures, business must respond quickly to the needs of different customers; (3) Global strategy: low local response pressures but high cost down pressures, business treat the market as an integrated world market, the main objective is to reduce the costs; and (4) Transnational strategy: high cost down and local response pressures, business must meet the demand differentiation and low cost requirement to enhance the core competitiveness.

3. OUTLINE OF CORD SET INDUSTRY

Cord set is one of the basic traditional industries and the most widely used connectors which include: wires, plugs, and sockets, etc. Furthermore, the safety standard of cord set is very high due to power interconnection. Therefore, the safety verification increased an investment barrier for new entrants. Figure 3 illustration the industrial structure of cord set.



- 3.1 **Upstream:** The upstream includes: Copper alloy metal, plating material (such as nickel), plastic (such as PVC), and other materials. Total materials cost was about 60% of the manufacturing costs. Therefore, the manufacturers must strengthen the inventory management, to avoid decline in value of inventory caused by the fluctuations of raw material prices.
- 3.2 **Midstream:** Manufacture and assembly of cord set. Production steps including the front-end product design and mold development, stripping the middle, pressing, assembly, plastic injection molding, and after the testing period. The quality requirement includes: (1) Electrical characteristics: voltage, insulation resistance, conduction, polarity, and short-circuit; (2) Physical characteristics: clamping force, terminal strength, bending test, temperature test, heavy lifting, sudden pull test, insertion force, withdrawal force, flame resistance, aging test, and humidity test; (3) Chemical / hazardous materials characteristics: the RoHS directive and governments regulation.
- 3.3 **Downstream:** The downstream customers of cord set mainly are computer & accessories, 3C products, consumer electronics, and appliances. The application of cord set is very wide. But with the 3C product innovation, cord set is moving towards DC power connector conversion (such as Type-C), it is possible to replace the AC power line in the future.

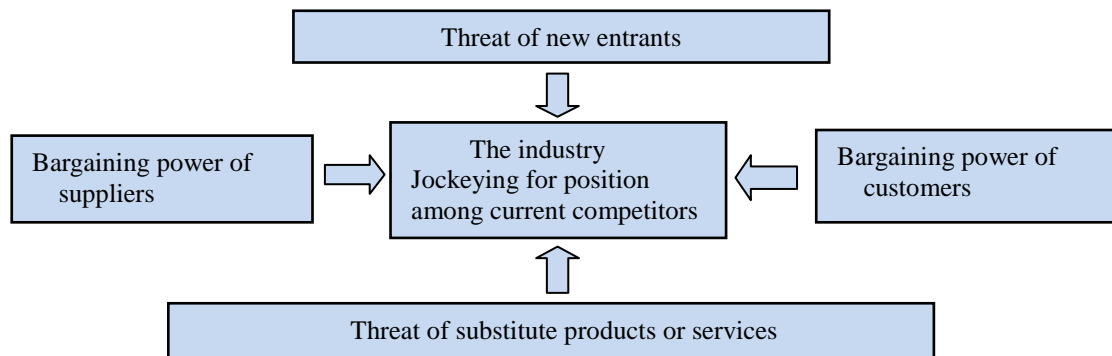
The characteristics of cord set industry mainly include: (1) Power transmission line irreplaceable: though the wireless charging is developing rapidly, but it still limited to short-term use and unable for prolonged use; and (2) Safety verification and economies of scale formed the industry barriers for new entrants.

Future trends of the cord set might include: (2) Vertical integration to reduce costs: high degree of vertical integration can increase advantage for boost orders; (2) Rise of global logistics: covered the manufacturing, design, logistics, and after service with delivery by the commission or cooperation companies around the world; (3) Manage capability become the key to success: because the cord set belongs to mature industry and gross margin compressing due to undercut of the price among competitors around the world. In addition to focusing on the future of the industry to develop new niche products, excellent management capabilities will become the key to success.

4. CONTENDING FORCES ANALYSIS

Porter (1979) proposed the model of forces governing competition in an industry, after that this model became one of the most important thinking that significantly affect strategic planning. Figure 4 shows the contending forces governing competition in an industry.

Figure 4: Forces Governing Competition in an Industry (Porter, 1979)



The contending forces included: threat of new entrants, bargaining power of suppliers, bargaining power of customers, threat of substitute products or services, and jockeying for position among current competitors.

- 4.1 **Threat of New Entry:** New entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources. The seriousness of the threat of entry depends on the barriers present and on the reaction from existing competitor that the entrant can expect. There six major sources of barriers to entry: (1) Economies of scale; (2) Product differentiation; (3) Capital requirements; (4) Cost disadvantages; (5) Access to distribution channels and (6) Government policy.
- 4.2 **Powerful of Suppliers:** Suppliers can exert bargaining power on participants in an industry by raising prices or deducing the quality of purchased goods and services. Powerful suppliers can thereby squeeze profitability out of an industry unable to recover cost increases in its own prices. The power of each important supplier group depends on a number of characteristics of its market situation and on the relative importance of its sales to the industry compare with its overall business. A supplier group is powerful if: (1) It is dominated by a few companies; (2) Its products is unique; (3) It is not obliged to contend with other products for sale to the industry; (4) It poses a credible threat of

integrating forward into the industry's business and (5) The industry is not an important customer of the supplier group.

- 4.3 **Powerful of Buyers:** Customers likewise can force down prices, demand higher quality or more service, and play competitors off against each other- all at the expense of industry gross profit. The power of each important buyer group depends on a number of characteristics of its market situation and on the relative importance of its purchases to the industry compare with its overall business. A buyer group is powerful if: (1) It is concentrated or purchases in large volumes; (2) The products it purchases from the industry are standard or undifferentiated; (3) The products it purchases from the industry form a component of its product and represent a significant fraction of its cost; (4) It earns low gross profit, which create great incentive to lower its purchasing costs; (5) The industry's product is unimportant to the quality of the buyers' products or services; (6) The industry's product does not save the buyer money and (7) The buyers pose a credible threat of integrating backward to make the industry's product.
- 4.4 **Substitute Products or Services:** By placing a ceiling on prices it can charge, substitutes products or services limit the potential of an industry. Manifestly, the more attractive the price-performance trade-off offered by substitute products or services, the firmer the lid placed on the industry's profit potential. Substitutes not only limit profits in normal times, they also reduce the bonanza an industry can reap in boom time. Substitute products or services that deserve the most attention strategically are those that (1) are subject to trends improving their price-performance trade-off with the industry's products or services, or (2) are produced by industries earning high gross profit.
- 4.5 **Jockeying for Position:** Rivalry among existing competitors takes the familiar form of jockeying for position- using tactics like price competition, product introduction, and advertising slugfest. Intense rivalry is related to the presence of a number of factors: (1) Competitors are numerous or are roughly equal in size and power; (2) Industry growth is slow, precipitating fights for market share that involve expansion-minded members; (3) The product or service lacks differentiation or switching costs, which lock in buyers and protect one combatant from raids on its customers by another; (4) Fixed costs are high or the product or service is perishable, creating strong temptation to cut prices; (5) Capacity is normally augmented in large increments; (6) Exit barriers are high; and (7) The rivals are diverse in strategies, origins, and personalities.

5. PEST ANALYSIS

Aguilar (1967) original proposed the political, economic, social, and technological (PEST) factors for scanning the business environment, through analyze the political, economic, social, and technological of business external environment. Decision makers can recognize the affected factors which come from the external environment clearly. The PEST includes four parts: (1) Political: such as tax policy, labor laws, environmental regulations, trade restrictions, tariffs, and political stability; (2) Economic: such as economic growth, interest rates, exchange rates, and inflation rates. Economic factors are the most important factors for a business; (3) Social: such as cultural, the population growth rate, age structure, and safety requirements. Social factor was also significantly affected the internal and external business operations; and (4) Technological: such as R&D activities, production efficiency, automation technology, and technology development speed. Technological factor is the factor that enterprises usually can handle. Through increased technical capabilities within the enterprise, it can improve the core competitiveness of enterprises.

6. OUTLINE OF THE CASE COMPANY

Case company is the leading company in cord set industry in Taiwan. There are more than 15 thousands employees in the world and the annual revenue was about NT\$ 10 billion. The present study investigated and analyzed the internationalization course of case company, aimed to obtain useful and proper internationalization strategy direction for case company, moreover for other companies in Taiwan cord set industry.

The business philosophy, company culture, goal and orientation, and business scopes are the major contents for understand the case company.

- 6.1 **Business Philosophy:** (1) Quality priority: case company pursuit of quality first, "outstanding talent- make the quality control become habits, and excellent product- make the customer always trust and satisfaction" is the quality policy of case company; (2) Positive innovation: continued modify and subversive innovation, improved quality of products and flexible the organizational strategy, and innovative marketing model become the driving force of growing. (3) Employee participation the operation: to build into a jointly owned by all colleagues and to share the business benefits; (4) International sales: carefully planned the coordinate of production and sales, and promoted the company's first-class products to the world; and (5) Supreme of customer: establish a customer-centric concept that think the customers' thinking, anxious the customers' anxious, and meet the needs of customers.
- 6.2 **Company Culture:** The "誠、正、勤、儉、合" are the culture of the case company. The means of the culture are: (1) Honest (誠): always modest and honesty; (2) Upright (正): fair, magnanimous, and selfless; (3) Industrious (勤):

initiative, positive, and execute thoroughly; (4) Frugal (儉): cost control, data clear, and elimination of waste; and (5) Cooperation (合): mutual cooperation to improve team efficiency.

6.3 **Goal and Orientation:** (1) Production high quality products for global marketing; (2) High degree of flexibility of the production and marketing strategy; (3) Complete quality verification, timely detection of problems, promote R&D and innovation, and develop new and better products; and (4) with global sales, the company's products have to obtain certification of UL, CSA, BSMI, CCC, PSE, VDE, ASTA, ..., and other country.

6.4 **Business Scopes:** (1) Cord set and connector of CRT and LCD monitor; (2) Cord set and connector of PC and notebook; (3) Cord set and connector of household appliances and consumer electronics; (4) Various specifications of the power transmission cable; (5) Cord set and connector of digital cameras and video camera; (6) L.A.N cable of UTP and STP; (7) Power strip; (8) Electronic signal and fiber optic cables; and (9) Cable & connector used PVC pellets.

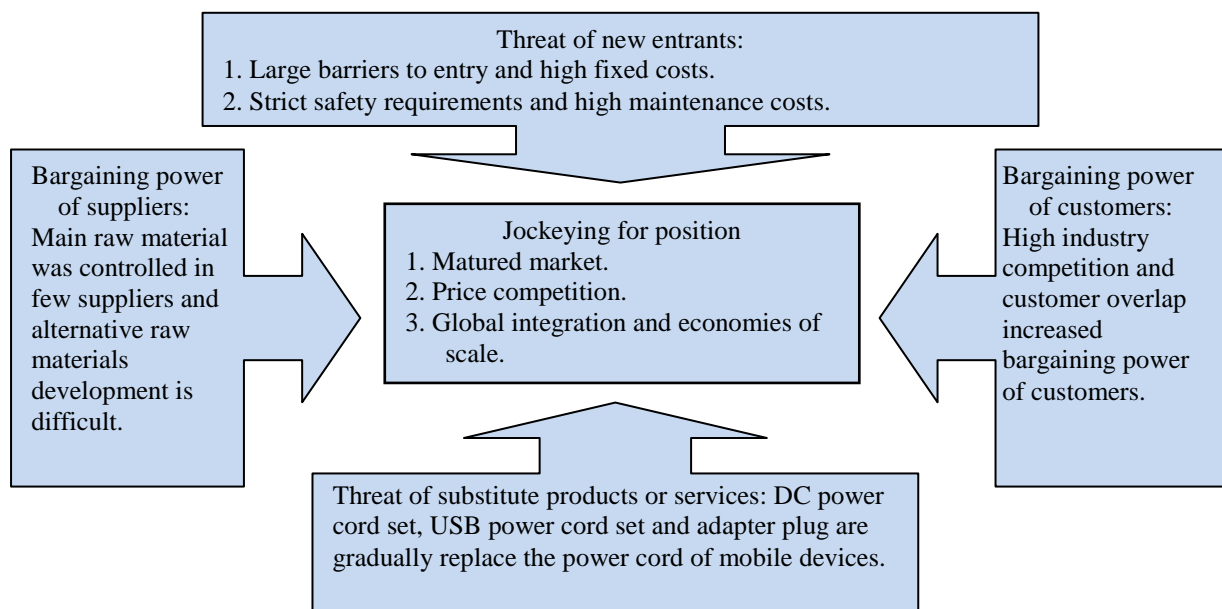
7. EXTERNAL ENVIRONMENT ANALYSIS OF THE CASE COMPANY

Case company is the leading company in cord set industry in Taiwan. There are more than 15 thousands employees in the world and the annual revenue was about NT\$ 10 billion. The present study investigated and analyzed the internationalization course of case company, aimed to obtain useful and proper internationalization strategy direction for case company, moreover for other companies in Taiwan cord set industry.

The business philosophy, company culture, goal and orientation, and business scopes are the major contents for understand the case company.

7.1 **Contending Forces Analysis of the Case Company:** (1) Threat of new entrants: The threat of new entrants is very low due to the low gross profit and high safety verification barriers. (2) Threat of substitute products: The threat of substitute products is very strong due to the DC power cord set, USB power cord set, adapter plug, and wireless charging are gradually replace the power cord of mobile devices. (3) Bargaining power of suppliers: The bargaining power of suppliers is very strong due to the main raw material was controlled in few suppliers and alternative raw materials development is difficult. (4) Bargaining power of customers: The bargaining power of customers is very strong due to the high industry competition and customer overlap increased bargaining power of customers.

Figure 5: Contending Forces Analysis of the Case Company



7.2 **PEST Analysis of the Case Company:** The present study conducted the PEST viewpoint (Aguilar, 1967) to analyze the overall environment of the case company. Table 1 shows the summary of PEST analysis of the case company.

Table 1: PEST Analysis of the Case Company

PEST	Changes or Trends
Political (P)	<ol style="list-style-type: none"> 1. The relationship between Taiwan and China was unclear. 2. Environmental and consumer protection requirements ever stricter. 3. Relative labor laws were favoring to labors both of Taiwan and China. 4. Harsh enterprise income tax law in Taiwan. 5. Gradually reduced the export tax rebate.
Economic (E)	<ol style="list-style-type: none"> 1. The economic growth rate of Taiwan in 2016 was about 1.06%. 2. Exchange rate of NT dollar continued depreciates. 3. Consumption conservative due to low family income growth. 4. Unemployment rate around 4% and inflation rate around 2% in Taiwan. 5. The economic growth rate of China in 2016 was about 6.3%. 6. Basic salary of employees rises gradually. 7. Brexit (British vote to leave European Union) lead the economy uncertainty of European.
Social (S)	<ol style="list-style-type: none"> 1. Industry growth of cord set was gradually slowed. 2. The M type social Trend is gradually forming. 3. The young people grow up under the one-child environment in China, unwilling to accept low-level labor work, leading to the gap in labor age structure. 4. Implementation of the new labor law that overprotection of labor resulted in low loyalty and high turnover rate.
Technology (T)	<ol style="list-style-type: none"> 1. Government encouraged the R&D through reduced tax. 2. Low costs of energy use due to lower oil prices. 3. High-end skill and training of cadres is not easy and easy poached by other companies.

8. SWOT ANALYSIS OF THE CASE COMPANY

The summary of SWOT analysis of the case company is showed in Table 2.

Table 2: SWOT Analysis of the Case Company

SWOT	Contents
Strength (S)	<ol style="list-style-type: none"> 1. Complete product line can meet customer demand for all products. 2. Well brand awareness. 3. Complete safety verification. 4. Home-made products and consistent quality. 5. Economies of scale. 6. Specialization completed vertical integration and low cost. 7. Accumulated considerable wealth of experience and technology.
Weakness (W)	<ol style="list-style-type: none"> 1. The main customers with strong bargaining force. 2. The main raw materials are international bulk goods and the price fluctuations significantly affected the production costs. 3. Automated production equipment progress too slow. 4. R & D capabilities have to improve.

Opportunity (O)	<ol style="list-style-type: none"> 1. Southeast Asian markets are rising. 2. Rapid economic development in China. 3. Make the best use of human resources in mainland China and Southeast Asia, to increase the cost competitiveness.
Threat (T)	<ol style="list-style-type: none"> 1. High degree of standardization of products and intense price competition among peers. 2. Challenges from low price products of China. 3. Products life cycle in the mature and recession stage. 4. The rise of wireless products.

Strength, weakness, opportunity, and threat (SWOT) analysis is a powerful tool to assess the business environment and their owned position (Channom, 1989). For example: the strengths of the business generally includes: (1) Core skills; (2) Excellent financial condition; (3) Good consumer perceptions; (4) High market share; (5) High productivity; (6) High quality of products and services; (7) Low production costs; (8) Excellent R&D capabilities; (9) Highly innovative capabilities; (10) Excellent top management team; (11) Proprietary technologies; (12) Sufficient channel; (13) Good political relations; and (14) Others. When analyzed the SWOT of the environment, the business can clearly defined their faced problems. Therefore, the business can perform variety of elaboration viable strategies.

9. TOWS MATRIX OF THE CASE COMPANY

Wehrich (1982) introduced the TOWS matrix for matching the environmental threats and opportunities with the company's weaknesses and especially its strengths. Wehrich (1982) also proposed four strategies to response the SWOT analysis, which includes: (1) SO strategy: maximize internal strengths and opportunities in the external environment; (2) ST strategy: maximize the internal strengths and minimize threat in the external environment, take internal strengths of organizations to overcome the external threats; (3) WO strategy: minimize internal weakness and maximize opportunities in the external environment; and (4) WT strategy: minimize the internal weakness and threat in the external environment. The TOWS matrix of the case company was showed in Table 3.

Table 3: The TOWS Matrix of the Case Company	
<p>SO Strategies:</p> <ol style="list-style-type: none"> 1. Market consolidation. 2. Penetration. 3. Integrated upstream and downstream. 4. Open up new market. 	<p>ST Strategies:</p> <ol style="list-style-type: none"> 1. New products development. 2. Diversification of products. 3. Open up new market.
<p>WO Strategies:</p> <ol style="list-style-type: none"> 1. Strategic alliance: upstream and downstream alliance. 2. R&D. 3. Low-cost: production and distribution of products more efficient. 4. Diversification of products. 	<p>WT Strategies:</p> <ol style="list-style-type: none"> 1. Strategic alliance: cross industry investment. 2. Review the product position at the low-margin market and the end of the life cycle.

10. INTERNATIONALIZATION STRATEGY OF THE CASE COMPANY

10.1 The Stages of Internationalization: The case company operation over 40 years (setup in 1973), the internationalization stages of the case company can be roughly divided into three stages: namely exports, joint ventures, and sole proprietorship established subsidiaries. It is described as follows: (1) Exports stages (1986-1995): Since inception, the case company is major in domestic market. Since 1986, case company started export their products to Europe, United States, and Japan. (2) Joint venture stages (1996-2000): To reduce manufacturing costs, the case company invest in the China enterprises, but not involved in its management and related operations. (3) Sole proprietorship established subsidiaries stages (2001-2015): To cope with overseas expansion, start sole proprietorship establish the subsidiaries at overseas.



10.2 The Past and Current Strategy: The past internationalization strategy was mainly focus in cost down and followed customer. In current stage, followed customer and pursuit of growth were the main internationalization strategies. The setup model of subsidiaries was from joint venture to sole proprietorship. The main motivations are cost down, followed customer, pursuit of growth and vertical integration to enhance competitiveness. Furthermore, the past and current strategies of the case company can divide into active and passive aspects. (1) Active aspects:

the active aspects included: (i) Cost down of production: pursuit of cheap raw materials, labor, and plant construction cost. (ii) Pursuit of growth: pursuit high market growth. (2) Passive aspects: the passive aspects included: (i) Followed customer: the orders from the international companies occupy great proportion of the cases company. (ii) Followed the downstream companies: reduce the transportation time and costs.

10.3 The Future Strategy: Though the case company had introduced many new products (Table 5), however, the R&D of the wireless products is still lack. Therefore, in addition to the above strategy (Table 4), the strategic alliance and diversification of products are the two major future strategies either of the case company or cord set industry.

Table 4 shows the setup detail of subsidiaries of the case company. Which includes: setup model, propose, motivation year, investment amount, and strategy of subsidiaries.

Table 4: The Setup Model, Propose, Motivation and Strategy of Subsidiaries				
Subsidiary (Area)	Model	Purpose	Motivation	Strategy
I-S Songgang (Shenzhen, China)	Joint venture → Sole proprietorship	Open up market	Cost down Follow customer	Globalization
Minhong (Shenzhen, China)	Sole proprietorship	Supply the power transmission line to Songgang	Pursuit of growth Cost down	Vertical integration Localization
Datong (Dongguan, China)	Joint venture → Sole proprietorship	Supply the plastic pellets to Songgang and Minhong	Cost down	Vertical integration
I-S (Kunshan, China)	Joint venture → Sole proprietorship	Open up market	Follow customer Cost down	Globalization Vertical integration
Maosheng (Dongguan, China)	Sole proprietorship (M&A)	Open up market	Pursuit of growth Cost down	Localization
I-S (Bac Ninh, Vietnam)	Sole proprietorship	The China market	Follow customer Pursuit of growth Cost down	Multinational
I-S (Tokyo, Japan)	Sole proprietorship	Supply the plastic pellets to I-SG	Follow customer	Multinational
I-SG (Shenzhen, China)	Sole proprietorship	Open up market	Cost down	Localization
I-S (Brazil)	Joint venture	Open up market	Cost down Follow customer	Multinational

Table 5: Some of the New Products Were Introduced by Case Company			
Type	C-630	A-12	R-630L
Photo of new products			

11. CONCLUSION

The present study mainly investigated the internationalization strategy of case company of cord set industry in Taiwan. The current status, characteristics, and trends of cord set industry were first investigated. The contending forces and PEST analysis were conducted to analyze the opportunities and threats of external environment; and internal environment scan to reveal the strength and weakness of the case company. Finally, the TWOS matrix was formulated the internationalization strategy of the case company. The results after investigated were as follow:

- i) Joint venture and sole proprietorship are the main types of case company to setup overseas subsidiaries. For example: (1) Setup model of I-S Songgang (Shenzhen) was joint venture become sole proprietorship until 1989. The main motivation is cost down. Because this area is mainly parts, components, and raw materials of cord set industry. (2) Setup model of I-S (Kunshan) was joint venture become sole proprietorship until 2002. The main motivation is followed customer and cost down. Since the 1990 to early 2000s, the Yangtze delta was the main assembly and distribution area of notebook. (3) Setup model of I-S (Bac Ninh) is sole proprietorship. The main motivation is followed customer and pursuit of growth.
- ii) The purpose of difference areas is different: the subsidiaries of mainland China is cost down and followed customer and the Southeast Asia is followed customer and pursuit of growth.
- iii) The internationalization strategy of case company is mainly followed the international leading company and pursuit of growth in current stage.
- iv) The future internationalization strategy of cord set industry in Taiwan should be strategic alliance and diversification of products.

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