

PART 1

FOUNDATION CONCEPTS

CHAPTER 1

INTRODUCTION: WHAT IS INTERNATIONAL BUSINESS? Instructor's Manual by Marta Szabo White and Gary Knight

I. LECTURE STARTER/LAUNCHER

■ Consider having everyone in class introduce themselves. One way to initiate introductions is distribute random pages torn from business magazines, in which each person receives one page. Next each student circles words on the page that describe him/her. In groups of two or three, each student shares the rationale behind each word that he/she circled. Finally, one of the group members introduces another group member to the class. This process enables students to immediately know at least one other student in the class. The circled words and explanations are often humorous, which serve as icebreakers during your first classroom encounter.

■ **globalEDGE™** (globaledge.msu.edu) assembles a collection of tools and games that will allow you to compare countries on a variety of statistical indicators, rank countries based on these indicators, and test your knowledge of country capitals from around the world.

Get Insights By Country:

<http://globaledge.msu.edu/Global-Insights/By/country>

Currency Converter:

<http://www.xe.com/>

Country Comparator:

<http://globaledge.msu.edu/comparator>

Ranking Countries:

<http://globaledge.msu.edu/global-resources/resource/5128>

Country Tools and Data:

<http://globaledge.msu.edu/tools-and-data>

Global Resource Directory:

<http://globaledge.msu.edu/global-resources/>

■ Under Country Insights click on a region, then select a country, Zimbabwe for example.

<http://globaledge.msu.edu/Countries/Zimbabwe>

Everyone in the class should be assigned a different country. Each student is then responsible for becoming an expert on that country. Twice during the term, each student could report on their country, and summarize a newspaper article published in their country, i.e. an International Newspaper Memorandum assignment.

[1] An exciting way to introduce your students to International Business is the *CIA Maps*, from the CIA World Factbook, which provides an interactive and fun tool to introduce to international business:

<https://www.cia.gov/library/publications/the-world-factbook/>

[2] Another great way to introduce student to the world of international business is to direct them to the BBC website:

http://news.bbc.co.uk/1/hi/country_profiles/default.stm

[3] Comic relief- Humorous (possibly offensive) introduction to IB 2:09 minutes

Catherine Tate- Translator:

<http://www.youtube.com/watch?v=ma8Vwkpx5y8>

INTERNATIONALIZATION AT HARLEY-DAVIDSON [CLOSING CASE]

■ Harley Davidson is the chapter Closing Case. These questions serve as hooks for students to familiarize themselves with the chapter concepts

■ **1908-** Harley Davidson sold the first Harley police motorcycle to which police department?

ANSWER: Detroit; Nearly every large U.S. police department employed Harley motorcycles

■ **1988-** Harley Davidson opened up its first foreign production facility in what country?

ANSWER: Brazil (Manaus)... Why is Brazil an important foray into the international arena? It represents a key emerging market country.

■ There have been recent updates to the situation of Harley Davidson regarding its performance and international activities. In particular, Harley management has sought to move more of the firm's production and marketing activities abroad, in light of higher manufacturing costs in the United States and the fact that the market for Harley sales is increasingly saturated in the US and Millennials and other younger consumers are less interested in buying large motorcycles. These trends have been reported in numerous accounts in the news media.

II. LEARNING OBJECTIVES AND THE OPENING CASE

LEARNING OBJECTIVES

After studying this chapter, students should be able to:

1.1 Describe the key concepts in international business

1.2 Understand how international business differs from domestic business

1.3 Identify major participants in international business

1.4 Describe why firms internationalize

1.5 Appreciate why you should study international business

1.6 Learn the CKR Intangible Soft Skills™ and the CKR Tangible Process Tools™ to improve your employability and success in the workplace.

Key Themes

- In this chapter, there are five themes:

- [1] **Key concepts in international business**
- [2] **How international business differs from domestic business**
- [3] **Who participates in international business**
- [4] **Why firms internationalize**
- [5] **Why you should study international business**

■ This chapter is the introduction to the text, as well as to the foundation concepts. The first part of this text (chapters 1 -8) explores globalization from a macro, environmental level, while the second part (chapters 9 -17) examines international business from a more micro, organizational level. The fundamental concepts introduced in Chapter 1 are central to both macro and micro perspectives for understanding international business. Thus, these basic concepts permeate the entire text, and students should be well-acquainted them.

■ In this chapter, use a macro lens to introduce students to some of the fundamental international business concepts.

■ Cross-border trading has been around for centuries; contemporary international business has gained considerable momentum/complexity over the past four decades.

■ **International business** refers to the trade and investment activities by companies across national borders. **Globalization of markets** refers to ongoing economic integration and growing interdependency of countries worldwide. Stress the dramatic growth in world trade, which now exceeds some \$18 trillion annually.

■ There are two ways to invest internationally- passively (**portfolio investment** -financial assets) or actively (**foreign direct investment**- capital, technology, labor, land, plant and equipment).

■ Also important are **importing** (global sourcing)-buying products/services from abroad and bringing them back to the home country. *Exporting*- manufacturing a product or service in one country and selling it to another.

■ Address the broader questions of:

- **Why firms go international?** - Primarily to increase sales and profits!

- **What is the difference between internationalization and globalization?**
Former- Expansion of international business activities vs, Latter- Integration, interdependency & interconnectedness of internationalization (the 4 I's) Example: Increasing exports vs. Sourcing value-chain activities strategically around the globe to leverage factor efficiencies

- **How international business is different from domestic business:**
Complexity and Risks (4)

- **Who participates in international business-**

 - Multinational Enterprise (MNE)**

 - Small and Medium-sized Enterprise (SME)**

 - Born Global** - entrepreneurial firm that is international from almost inception

- **Why you should study international business-** Competitive advantage- for you and your firm!

■ Note that international business is **both** a cause and a result of increasing national prosperity.

Teaching Tips

■ In this chapter, use a broad brush approach in generating excitement about the importance of international business activity. Ask students to examine their clothing, watches, iPhones, iPods and report where in the world each item was manufactured. This discussion underscores the profound and pervasive impact that globalization has had on all of us.

■ Next, ask students what they would like to do professionally, after they graduate. Once they respond, ask if they can accomplish that successfully without understanding international business, and the impact of global trends on their industry and business? The answer is, of course, a resounding NO!!!

Commentary on the Opening Vignette: CHINA GLOBALIZES LONDON'S BLACK CABS

• Key message

In the past, internationalization tended to refer to corporations in developed western states buying into markets in developing or emerging economies. As the manufacturing balance has shifted towards the emerging economies, internationalization has become increasingly concerned with corporations in emerging markets making inroads into developed western economies.

• Uniqueness of the situation described

- Cash-rich manufacturers in emerging markets such as China are looking for investment opportunities in developed economies.
- This is enabling them to acquire the expertise, technology, and entry requirements into these markets much faster than they would have achieved through gradual growth.
- The Chinese government firmly supports this transition from China-based subcontracting manufacturers for developed-country corporations to owners of these corporations in their home markets.
- This allows privately owned Chinese businesses to diversify very quickly and bring more advanced products and manufacturing back to China.

• Classroom discussion

- This example reflects the ongoing process of economic integration and growing interdependency of countries worldwide, but in reverse of the preconceived notion of the process.
- The internationalization of many Chinese businesses is an example of the determination of private businesses to systematically increase the international dimension of their business activities.
- This allows Chinese manufacturers to become part of the widespread diffusion of products, technology, and knowledge worldwide.
- The case illustrates how globalization both compels and facilitates companies to expand abroad—international expansion is easier due to market and product globalization.

- Access to markets has made cross-border activities more appealing to all types of firms.

- Use this vignette to engage the class – this is a prime example of long-term implications of the reliance on emerging countries such as China for manufacturing. It makes the corporations cash-rich and eager to invest in new ventures to diversify and grow.

Divide the class into small groups and work on the following questions, with each group providing a brief presentation of their answers.

QUESTIONS

1-1. What might be the underlying motivations of emerging markets MNCs like Geely?

(LO 1.4; AACSB: Reflective Thinking)

- Mergers and acquisitions are common in international business as a strategy for market expansion, resource acquisition, and exploitation of available opportunities.

- The acquisition of Western brands by MNCs originating from emerging markets is a fairly new phenomenon. The case study evidences the brand and technology acquisition by a Chinese firm.

- The motivations for such an acquisition can be varied. However, merger and acquisition (M&A) and FDI researchers found that access to technology, research and development facilities, brand-new markets, a favorable taxation system, a skilled workforce, and geographical advantages are some of the pressing motivations for acquisitions.

- Besides competition and market forces, there are institutional motivations as well. In many cases, policies and regulations influence the decision.

- After reflecting on the case study, it appears that Geely acquired LTC to own an iconic brand with international appeal and advanced manufacturing technologies.

- Creating a presence and recognition in the global market may have been another underlying motive for this particular acquisition. Also see P. Deng 'Why do Chinese Firms Tend to Acquire Strategic Assets in International Expansion?' *Journal of World Business* 44 (2009); 74–84.

1-2. How does cooperation in international business offer competitiveness?

(LO 1.1; AACSB: Application of knowledge)

- In ever-changing global markets, firms do not only compete—they collaborate and cooperate too.

- Objectives for international cooperation among firms also vary as, the case of merger and acquisitions mentioned earlier demonstrates [A list of motives can be found from E. Todeva and D. Knoke 'Strategic Alliances and Models of Collaboration' *Management Decision* 46, no. 5 (2005): 725–742].

- Geely was in a partnership with LTC before fully acquiring it.
- The collaboration between Geely and LTC was mutually beneficial, with Geely supplying much-needed cash to run LTC and LTC sharing technological know-how and operational knowledge in return.
- By looking at Geely's past internationalization record, you can find Geely's acquisition of Volvo in the aftermath of the 2008 financial recession.
- In addressing increased competitiveness from cooperation, we can say that the Geely-LTC partnership helped LTC survive and a vital cash injection ensured a continuation in the production of the iconic taxi. This perhaps saved the iconic brand from vanishing from the market like many big brands in the past.
- On the other hand, Geely, from seemingly humble and unknown beginnings, established itself among global auto manufacturers with an increasing recognition of its strength of cooperating/acquiring big brands. From the point of view of tangible and intangible competitive advantages, this cooperation has served to increase the international capabilities of both companies.

1-3. What role can the government play in promoting internationalization?

(LO 1.3; AACSB: Application of knowledge)

- Governments can influence internationalization through policy changes, regulation, and diplomatic relations across the world. Business-friendly governments create an environment conducive to businesses thriving and expanding in international markets.
- Preferential trade agreements, free trade agreements, monetary policies, and ownership and capital repatriation are some of the examples of policy decisions and regulatory tools which governments can employ and play a significant role in shaping firms' internationalization behavior.
- A stable government with a well-functioning institutional structure attracts comparatively higher FDIs.
- In this case, the Chinese government and state-run banks supported Geely's acquisition moves with policy-based and financial support.

III. DETAILED CHAPTER OUTLINE

INTRODUCTION: WHAT IS INTERNATIONAL BUSINESS?

- **International business (cross-border business)** refers to cross-border trade and investment activities by firms.
- Primarily, individual firms engage in international business, yet, governments and international agencies may also conduct international business activities.

■ Exhibit 1.1- Elements of International Business (Six)

- 1] Globalization of markets
- 2] International trade
- 3] International investment
- 4] International business risks

- 5] Participants: Firms, distribution channel intermediaries, facilitators and governments.
6] International entry strategies, including exporting and direct investment

- **Globalization of markets** (or the globalization of economies) refers to ongoing economic integration and growing interdependency of countries worldwide.
- Online platforms- Amazon, Alibaba, Facebook and Instagram underscore this integration and are central to globalization.
- **Internationalization** refers to the tendency of firms to systematically increase the international dimension of their business activities.
- This has resulted in the widespread diffusion of products, technology, and knowledge worldwide.
- **Macro perspective (trend)** - globalization of markets means intense economic interconnectedness between/among countries.

Market globalization is characterized by several related trends:

- **Cross-border transactions**- unprecedented growth rates - from \$300 billion per year in 1960 to current numbers of \$16 trillion annually
- **Trade** = Substantial international flows of capital, technology, and knowledge
- **Development of highly sophisticated global financial systems and mechanisms** to facilitate cross-border flows of products, money, technology, knowledge, and data.
- **Greater collaboration among nations** through multilateral regulatory agencies such as the World Trade Organization (WTO: www.wto.org) and the International Monetary Fund (IMF: www.imf.org)

- **Micro perspective (focus)**- firm level, activity- **Value-Chain Perspective**- Firms conduct value-adding activities on a *global* scale, i.e. organize, source, manufacture, market, sell, and employ market entry strategies such as exporting, strategic alliances, and direct investment.

- The text focuses primarily on the international business activities of the individual firm.
- Globalization both *compels* and *facilitates* companies to expand abroad- international expansion is easier due to market and product globalization.
- A “level playing field” has made cross-border activities appealing to all types of firms- large and small; manufacturing and service sectors (e.g. banking, engineering, insurance, and retailing).
- Globalization impacts everyone, as evidenced by the global financial crisis (2008). The economic contagion, or interconnectedness was underscored as the crisis began in the U.S. and rapidly spread to U.S. trade partners, eventually impacting Canada, Mexico, Japan, China and the world. This manifestation illustrates the integration and interdependency of national economies throughout the world.

WHAT ARE THE KEY CONCEPTS IN INTERNATIONAL BUSINESS?

- International trade and investment are the most conventional forms of international business transactions.

International Trade

- Cross-border exchange of products (merchandise) and services (intangibles) typically through exporting and importing.
- **Exporting** (outbound activity) - entry strategy involving the sale of products/ services to customers located abroad.
- **Importing (global sourcing;** inbound activity) - the procurement of products/services from foreign suppliers for consumption in the home country or a third country
- Exporting and importing may include both intermediate (raw materials and components) and finished products.

International Investment

- Cross-border investment is the transfer of assets to another country or the acquisition of assets in that country.
- The **factors of production** (assets) include capital, technology, managerial talent, and manufacturing infrastructure.
- **Trade** = products and services cross national borders.
- **Cross-border investment**= the firm itself crosses national borders.

Two Types of International Investment:

- **International portfolio investment** (typically short-term) is the passive ownership of foreign securities such as stocks and bonds for the purpose of generating financial returns.
- **Foreign direct investment (FDI)** (typically long-term) is a foreign-market entry strategy that gives investors partial or full ownership of a productive enterprise. The firm establishes a physical presence abroad through acquisition of productive assets such as capital, technology, labor, land, plant, and equipment.

The Nature of International Trade

- **Macro-International Trade:** Aggregate export and import flows of products and services between nations.
- **Micro-International Business:** Cross-border transactions of an *individual* business enterprise.
- Gross domestic product (GDP) is the total value of products and services produced in a country during a year.
- **Exhibit 1.2** contrasts the growth of total world exports to the growth of total world *gross domestic product (GDP)* since 1980.
- Due to the global recession, world trade declined in 2009, ending a 27-year boom period.
- Trade revived and returned to normal levels in 2012.
- Remarkable- since 2008, annual rate of growth in **world exports** surpassed **world GDP** by almost 2x (5.3% versus 2.8%).

Trade Growth > GDP Growth:

[1] Significant rise of emerging markets during the past three decades, which are home to growing middle class households equipped with substantial disposable incomes.

[2] Advanced (or developed) economies such as the U.S. and the European Union are now sourcing many of the products from low-cost manufacturing locations such as China, India, and Mexico.

[3] Advances in information and transportation technologies, decline of trade barriers, and liberalization of markets fuel the rapid growth of trade.

- **Exhibit 1.3** identifies the leading nations in merchandise exports (not including services).

- During the recent global recession, China surpassed the U.S. as the world's leading exporter in total dollar terms, trade accounts for about **31%** of its GDP (in the U.S., trade is 19% of its GDP).

- For other economies, merchandise trade is a much larger component of economic activity: e.g. Netherlands (125%), Mexico (68%), and South Korea (68%).

- **Exhibit 1.4** identifies the top 25 countries in international merchandise trade (not including services). The 25 countries shown account for the vast majority of world merchandise trade.

- **Entrepôt economies** (*intermediate depot*; exports = imports): Singapore, Hong Kong and Malaysia export more than 100% of their respective GDPs.

- Such countries import a large volume of products, some of which they process into higher value-added products and some they simply re-export to other destinations.

The Nature of International Investment

- **Foreign Direct Investment** (FDI) - (asset ownership and long time frame) is the ultimate commitment-level of internationalization, and thus this text focuses primarily on FDI (most common mode of entry strategy) as opposed to International Portfolio investment.

- New legal business entity, recognized by the host country and subject to its regulations.

- Motivations for firm FDI: (Note how these fit into the value chain)

- (1) **Primary** Activity: Set up manufacturing/assembly facilities to produce products/services;

- (2) **Primary** Activity: Open a sales/representative office to conduct marketing or distribution activities; or

- (3) **Support** Activity: Establish a regional headquarters

■ FDI and Competitive Advantage:

Large, resourceful companies with substantial international operations are better able to leverage FDI to:

(1) Manufacture/assemble products in low-cost labor countries (or for other resources), i.e. China, India, Russia, Brazil, and Mexico:

■ **Example-**

- Ford invested some \$3 billion to build a new car factory in **Mexico** to manufacture Fiesta automobiles.

(2) Global challengers originating in rapidly developing economies invest in western markets:

■ **Examples-**

- **Chinese** company Haier purchased General Electric's appliance division for \$5.4 billion, in 2016.
- **Turkey** in 2014- Yildiz paid over three billion dollars to acquire British based cookie and snack maker, United Biscuits.
- **India's** Mittal Steel Co. acquired the Belgium-based Arcelor SA in August 2006, creating a \$38 billion conglomerate -- the world's largest steel company.
- **Russian** oil and gas firm Lukos established thousands of service stations in the U.S. and Europe.

■ **Exhibit 1.5** shows the dramatic growth of FDI since the 1980s.

■ September 11, **2001** interrupted FDI inflows with the worldwide panic that ensued following the terrorist attacks in the U.S.; then interrupted again in **2008** by the global recession. Stability in world economy is key.

■ **Developed (Advanced) economies** = Japan, Australia, Canada, the U.S., and most countries in Western Europe. Dollar volume of FDI has grown immensely since the 1980s, in developed economies.

■ **Developing economies** = Parts of Africa, Asia, and Latin America.

■ Significant- is the growth of FDI into developing economies (surpassing advanced economy inflows in 2010) despite widespread poverty, lower incomes, less-developed industrial bases, and less investment capital than advanced economies, and represent the need for modern industrial infrastructure.

Services as Well as Products

■ Key international players: Tangible merchandise (products) and intangibles (services- e.g. banks, consulting firms, hotels, construction companies, retailers, airlines, etc.).

■ International trade in services accounts for about **one-quarter** of all global trade and is growing faster than products, however the value of merchandise trade is still much greater than the value of services trade.

■ Challenges unique to services:

- Not all services can be exported.
- Physical presence in host country is a prerequisite for many services.

■ More than \$2 trillion worth of services are sold abroad every year.

■ **Exhibit 1.6** identifies the leading countries in total international services trade.

■ Larger, developed economies account for the greatest proportion of services- as services typically comprise more than 2/3 of the GDPs of these countries.

- eBay- the giant Internet retailer earned \$9 billion in 2017, of which more than 50% came from international sales.
- eBay expanded to India, China, Korea, and Europe in anticipation of most of its future revenue growth coming from abroad.
- When developing its business in India, eBay acquired the Mumbai-based e-retailer Baazee.
- **Exhibit 1.7** (great chart) illustrates the diversity of service sectors that are internationalizing.

The International Financial Services Sector

- **Banking and financial services are the most active** cross-border services.
- Explosive growth of global capital markets is attributed to:
 - (1) **Internationalization Banks/Financial institutions** → increased amount of cheap, local investment capital, stimulating local financial markets and encouraging savings
 - (2) **International Flow of Money** → into pension funds and portfolio investments
- Developing economies- banks/financial institutions have fostered economic activity by increasing the availability of local investment capital, which stimulates the development of financial markets and encourages savings.
- International banking is primarily conducted by very large banks.
- Governments worldwide imposed many new regulations in the banking industry following the global financial crisis that arose in 2007–2008.
- Consumers and local businesses generally prefer to deal with local banks, obtaining financial services from homegrown “brick-and-mortar” branches and personnel who understand local conditions.
- China is now home to three of the world’s five largest banks, specifically ICBC, China Construction Bank, and the Agricultural Bank of China.
- London long has been the banking hub of Europe, but the status may be threatened if the United Kingdom ends its membership in the European Union (EU) under the Brexit arrangement.

HOW DOES INTERNATIONAL BUSINESS DIFFER FROM DOMESTIC BUSINESS?

- **Complexity**- Macro forces differ from country to country- economic conditions, national culture, legal and political systems- vary by country.
- **Risk**- Uncontrollable variables- the firm has little or no control over these.
- Foreign environments involve new risks that firms must manage.
- **Instagram** (opening case)- exemplifies how distinctive conditions in each country lead businesses and consumers to utilize services differently, from country to country.

The Four Risks of Internationalization

The Four Risks of International Business

■ **Exhibit 1.8** summarizes the four major risks: cross-cultural risk, country risk, currency risk, and commercial risk.

Cross-Cultural Risk

- Situation where a cultural misunderstanding places some human value at risk.
- Differences in language, lifestyles, mind-sets, customs, and religion.
- Cross-cultural literacy - critical to embrace culturally-valued mind-set and/or work style.
- Cultural blunders- hinder the effectiveness of foreign managers.
- Language- critical dimension of culture- a window to value systems.
- Language challenges impede effective communication.
- Cultural differences may lead to inappropriate business strategies and ineffective customer relations.

Country Risk or Political Risk

- Differences in host country political, legal and economic environments may adversely impact firm profitability.
- Government intervention: restricts market access; imposes bureaucratic procedures hindering business transactions; and limits the amount of income that firms may repatriate from foreign operations- varies by country.
- Economic freedom differs among nations- The Index of Economic Freedom from the Heritage Foundation ranks countries according to a myriad of economic freedom variables.
- Hong Kong, Singapore and Australia typically occupy the top three countries in terms of having the highest levels of economic freedom, see (<http://www.heritage.org>). Ireland also ranks high in terms of a liberal economic environment; whereas China and Russia are the opposite- governments regularly intervene in business.
- Critical Legal Dimensions: Laws and regulations, e.g. intellectual property protection, product liability, taxation policies, inflation, national debt, and unbalanced international trade, may encumber firm operations and performance.

Currency or Financial Risk

- Risk of adverse fluctuations in exchange rates.
(**Exchange rates**- the value of one currency in terms of another).
- Inflation and other harmful economic conditions create uncertainty of returns due to the growing interconnectedness of national economies.
- When international transactions are conducted in more than one national currency → currency risk.
- The value of a firm's earnings may be substantially reduced when currencies fluctuate significantly.
- **Examples- 2015-16** Rising value of U.S. dollar relative to most currencies cut into revenues of U.S. multinational firms, e.g. Apple, Caterpillar, and Pfizer. Procter and Gamble's Duracell battery business experienced a 31% decline in profits due to weaker currencies in its foreign markets

Commercial Risk

- Poor development/execution of business strategies, tactics or procedures, resulting on firm loss, e.g. partnering selections, market entry timing, pricing, product features, and promotional themes
- Failures in international markets are far more costly than domestic business blunders.
- Firm reputation and profitability may also be at risk from marketing harmful products, failing customer expectations, or providing inadequate customer service.
- Commercial risk is often affected by currency risk, because fluctuating exchange rates can affect various types of business deals.

Two new types of risk — cyber risk and social media risk — have emerged in international business. Both are the result of vulnerabilities in affected organizations. — *Cyber risk* results from attacks on, or breaches of, the firm's information systems. Recent data breaches have afflicted eBay, Uber, Tesco Bank, and Sony Playstation Network.

— *Social media risk* refers to rapid and widespread circulation of unfavorable “buzz” about the firm. Such negative news is accelerated and amplified by social media. In 2015, for example, regulators announced that Volkswagen had installed software in its vehicles aimed at evading environmental regulations intended to reduce engine pollutants. When the scandal went viral on Twitter, Facebook, and other sites, Volkswagen's brand image was damaged. By late 2015, Volkswagen's buzz score had descended to its lowest point in several years.

Risks: Always Present but Manageable

- These types of risks are omnipresent in international business.
- Managers need to understand their implications, anticipate them, and employ proactive measures to reduce their adverse effects.
- **Example** from 2015: the Greek debt crisis has lingered for several years and affects not only the European Union but creditors elsewhere.

WHO PARTICIPATES IN INTERNATIONAL BUSINESS? (Four categories)

[1] **Focal firm**- The initiator of an international business transaction, which conceives, designs, and produces offerings intended for consumption by customers worldwide. Focal firms are primarily MNEs and SMEs.

[2] **Distribution channel intermediary**- A specialist firm that provides various logistics and marketing services for focal firms as part of international supply chains, both in the home country and abroad.

[3] **Facilitator**- A firm or an individual with special expertise in banking, legal advice, customs clearance, or related support services that assists focal firms in the performance of international business transactions.

- **Freight forwarder**- A specialized logistics service provider that arranges international shipping on behalf of exporting firms.

[4] Governments- (public sector) act as suppliers, buyers, and regulators.

- **Russia, China, and Brazil** - State-owned enterprises account for a substantial portion of economic value added, even in these rapidly liberalizing emerging markets.

- **France, Australia, and Sweden**- Governments in these advanced economies have significant ownership of companies in telecommunications, banking, and natural resources.

- The recent global financial crisis led governments to step up their involvement in business, especially as regulators.

Focal Firms in International Business [Most prominent players]

Three Types: MNE and SME and Born Global

Multinational Enterprise (MNE)

Also known as Multinational Corporation (MNC)

- MNE owns a worldwide network of subsidiaries and affiliates located in multiple countries; large firm with a home office and substantial resources.

- Multinational enterprises have historically been the most important type of focal firm; adding value in multiple countries, through subsidiary affiliates, leveraging R&D, procurement, manufacturing, and marketing activities, to exploit economic advantages.

- **FDI** (Foreign Direct Investment) - Key entry strategy.

Examples-

- **Alcon**- Swiss pharmaceutical firm that established major R&D facilities in the U.S., leveraging local talent in the chemicals sector

- **Verizon Wireless**- located much of its technical support operations in India, taking advantage of high-quality, low-cost customer support personnel

- **Royal Dutch Shell** - owns several oil refineries and nearly 2,000 gasoline stations in Canada.

- **Affiliates**- Network of subsidiaries that MNEs collaborate with.

- **Typical MNEs** - Nestlé, Sony, Citibank, Unilever, Nokia, Ford, Barclays, DHL, Four Seasons Hotels, and Shell Oil.

- Recently, the largest MNEs have been firms in the oil industry (such as Exxon-Mobil and Royal Dutch Shell) and the automotive industry (General Motors and Honda), as well as retailing (Walmart).

- **MNEs** – For many, more than 50% of total sales/profits comes from international operations, e.g. Exxon, Honda, and Coca-Cola.

- 1970- fewer than **7,500** MNEs worldwide; today at least **75,000**.

- **Exhibit 1.9** (great chart) provides a geographic distribution of the world's leading MNEs, drawn from *Fortune's* Global 500 list- concentrated in mostly advanced economies.

- The **U.S.** is home to 132 of the top 500 MNEs, a number that has declined over time as other countries' firms increase in size.

■ **China** has the second-most MNEs (110 firms) and rising. **Europe** is home to many top MNEs: **Germany** (29 firms), **France** (20 firms), and the **United Kingdom** (19 firms).

■ **Global Challengers from Emerging Market Countries: New Contenders-** Large MNEs have begun to appear in emerging market countries, such as China, Mexico, and Russia- leveraging home-country natural resources and low-cost labor, posing legitimate competitive challenges for advanced economy- incumbents in world markets.

■ **Examples-**

- The Mexican firm **Cemex** is one the world's largest cement producers.
- Russia's **Lukoil** has big ambitions in the global energy sector.
- In China, **Mobile** dominates the cell phone industry in Asia.
- **China-** Most top firms are state-owned enterprises; owned by the Chinese government, which provides them substantial advantages.

Small and Medium-Sized Enterprises (SME)

- SME is a company with 500 or fewer employees (in Canada and the U.S.).
- SME- 250 or fewer employees in the EU and elsewhere.
- Small firms comprise 90% - 95% of all firms in most economies.
- Even MNEs start small.

■ SMEs Strategies for Success:

- (1) SMEs are more innovative, entrepreneurial, flexible, adaptable, and have quicker response times.
- (2) SMEs are less bureaucratic.
- (3) SMEs are better able to serve niche markets.
- (4) Due to limited financial and human resources, SMEs tend to minimize fixed investments costs and outsource, e.g. FedEx and DHL.

SMEs OVERALL

- **Exporting-** Primary foreign market entry strategy as FDI is more expensive.
- **Niche markets-** Target specialized products too small to interest large MNEs.
- **Success** – Enabled by foreign intermediaries, facilitators, and global logistics specialists such as FedEx and DHL.
- **Proficiencies-** Information and communications technologies enable SMEs to identify global market niches and efficiently serve specialized buyer needs.
- International business complexities are considerably more challenging for SMEs than MNEs- requiring specialized knowledge, commitment of resources, and considerable time to develop foreign business partnerships.
- **SMEs** are gaining equal footing with MNEs in marketing sophisticated products around the world.

■ Born Global Firms

Young, entrepreneurial SMEs that initiate international business close to inception (within 3 years), and are found in both advanced economies, e.g. Australia and Japan, as well as emerging markets such as China and India.

- Export to 20 or more countries, generating over 25% of their sales from abroad.

- **Example- Logitech** (www.logitech.com), a born global firm based in Switzerland specializing in accessories for mobile phones and personal computers, especially mice and keyboards. Within a few years of founding, Logitech expanded its sales to countries around Asia, Europe, and North America.

- In its first 5 years, the firm expanded its sales to 60 countries, exporting about 70% of its total production.

- Biggest markets: France, Germany, Italy, Spain, and the Americas, recently opening a subsidiary in North America.

■ **Born Globals Strategies for Success:**

(1) Born globals account for a substantial proportion of national exports in countries like Australia, Denmark, Ireland, and the U.S.

(2) Born globals offer leading-edge products with strong potential to generate international sales.

(3) They leverage the Internet and communications technologies to facilitate early and efficient international operations.

(4) Born globals emergence is linked with *international entrepreneurship*, where innovative, smaller firms pursue business opportunities regardless of national borders.

(5) Entrepreneurs are creative, proactive, adaptable and risk-takers.

(6) Born globals leverage communications and transportation technologies, falling trade barriers, and niche markets to compete globally.

- The widespread emergence of born globals means that any firm, regardless of size or experience, can succeed in international business.

Governments and Nongovernmental Organizations (NGOs)

- Governments are central participants in international trade and investment. **State-owned enterprises (SOEs)** account for a substantial portion of economic value added in many countries, even rapidly liberalizing emerging markets such as Russia, China, and Brazil. Governments in advanced economies such as France, Australia, and Sweden have significant ownership of companies in telecommunications, banking, and natural resources.

- *Non-profit* international organizations include charitable groups and *non-governmental organizations* (NGOs).

- Non-profits serve special causes- education, research, health care, human development, and the natural environment.

■ **Examples:** (Nonprofit Organizations)

- Bill and Melinda Gates Foundation.
- British Wellcome Trust- supports health and education.
- CARE- dedicated to reducing poverty.

■ **Examples:** (MNE- operating charitable foundations)

- GlaxoSmithKline (GSK) -
 - Canada, France, Italy, Romania, Spain & U.S.

ADDITIONAL TOPICS OF CONVERSATION-

GSK Global Partnership with Save the Children:

- Barretstown, Ireland and L'Envol, France for seriously ill children
- Slovakia- Promote healthy eating/exercise for children
- Spain- Healthcare for homeless children
- Russia- Children with disabilities
- Ethiopia- Reduction of preventable children's diseases
- Vietnam- Birthing support

■ IN-CLASS EXERCISE

In small groups, ask students to research GlaxoSmithKline (GSK) and their flagship employee volunteer programs: PULSE and Orange Day. Then research any MNE, SME or Born Global and the charitable work that they engage in. Finally, ask students for a brief compare/contrast report on the firm of their choice vs. GSK. With limited class time, the research portion may be assigned outside of class.

WHY DO FIRMS INTERNATIONALIZE?

Firms internationalize seeking growth and profit opportunities, enhancing their competitive advantage.

■ **Strategic (Proactive)** motive - tap foreign market opportunities and/or acquire new knowledge.

■ **Reactive** motive- serve a key customer that has expanded abroad.

Nine specific motives:

1. Seek growth opportunities through market diversification.
2. Earn higher margins and profits.
3. Gain new ideas about products, services, and business methods.
4. Serve key customers better that have relocated abroad.
5. Locate closer to supply sources, benefit from global sourcing advantages, or gain flexibility in product sourcing.
6. Gain access to lower-cost or better-value factors of production.
7. Develop economies of scale in sourcing, production, marketing, and R&D.
8. Confront international competitors more effectively or thwart the growth of competition in the home market.
9. Invest in a potentially rewarding relationship with a foreign partner.

★ **MyLab Management:** Watch It!

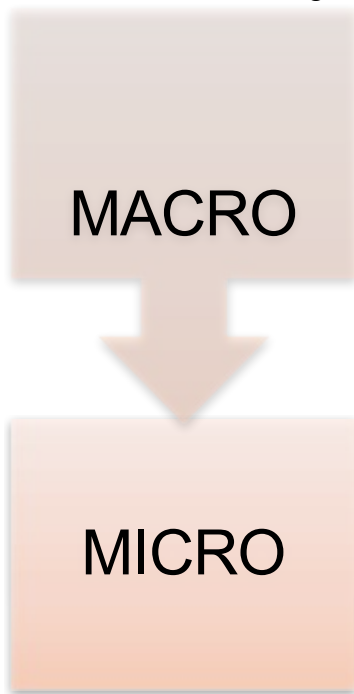
MINI: Globalization

Apply what you have learned in this chapter.

Go to **MyLab Management**, www.pearson.com/mylab/management, click your course, and choose multimedia library.

WHY STUDY INTERNATIONAL BUSINESS?

This may be considered from various perspectives: global economy, national economy, the firm, and the manager.



- **Global Economy**

Dimensions in the world that influence all nations.

- **National Economy**

Set of factors that influence all firms competing in a single country.

- **Firm**

Focuses on each company and its competitors.

- **Manager**

Individual variables: Ambiguity tolerance, Interpersonal skills, Self-confidence, Goal commitment, etc.

Facilitator of the Global Economy and Interconnectedness

- Since the General Agreement on Tariffs and Trade (GATT) (1947), following World War II, international business has transformed the world with unprecedented growth in trade and investment.

- **1980s**: Political/Economic transformations of **Emerging Markets** (some 30 countries) have given new impetus to worldwide economic interconnectedness.

- Fast-growth developing economies- Brazil, Russia, India, and China [**BRICs**] - have registered substantial market liberalization, privatization, and industrialization, fueling global economic transformation.

- **Emerging markets-**

- Located on every continent.

- Home to the largest proportion of the world population.

- Increasingly immersed in foreign trade.

- Facebook- numerous emerging markets, including China, India, and Poland.

- **Two MEGATRENDS** underlying the changing business landscape- globalization and technology

- **Globalization-** accelerates the development of the latest technologies.

- **Technology-** facilitates globalization to progress more rapidly.

- The Internet/e-commerce and production/process technologies make international business a viable, cost-efficient and increasingly imperative mandate for firms of all sizes and resource levels.

- Technological advances **both** accelerate, and are accelerated by, globalization.

Contributor to National Economic Well-Being

- International business promotes economic prosperity through efficient resource allocation, increased consumer options and world interconnectedness.
- Governments have increasingly opened their borders to foreign trade and investment.
- International trade is a pivotal engine for job creation.
 - It is estimated that every \$1 billion increase in exports creates more than 20,000 new jobs.
 - Cross-border trade directly supports at least 11 million U.S. jobs.
 - One of every seven dollars of U.S. sales is made abroad.
 - One of every three U.S. farm acres, and one of every six U.S. jobs, is producing for export markets.
 - On average, exporting firms create jobs faster and provide better pay, than non-exporting firms.

■ International business is both a **CAUSE** and a **RESULT** of increasing national prosperity.

A Competitive Advantage for the Firm

- To sustain a competitive advantage in the global economy, firms must participate in cross-border business and acquire the necessary skills, knowledge, and competence.
- **Examples-**
 - **Procter & Gamble** sells shampoo, disposable diapers, and other consumer products in more than 150 countries.
 - **MTV** broadcasts its programming in some 140 countries.
 - **Nestlé** sells its food and beverage products worldwide, obtaining nearly all its revenue from foreign operations.

- **Global Sourcing-** Firms secure cost-effective factor inputs by establishing manufacturing in emerging markets like Malaysia, Mexico, and Poland, or sourcing from foreign suppliers.

■ Examples-

- **Microsoft** cuts the costs of its operations by having much of its software written in India.
- **Renault** achieves efficiency by assembling cars at low-cost factories in Romania.

A Competitive Advantage for You

- Every day we are impacted by a variety of international business transactions.
- Traveling abroad leads to exciting challenges and learning experiences.
- Global managers of the world's leading corporations fashioned their managerial skills in international business.
- In this text you will learn about the merits of gaining international business proficiency, through the experiences of people like you, in a special feature called *You Can Do It: Recent Grad in IB*.

An Opportunity to Support Sustainability and Corporate Citizenship

- With trade barriers declining and global power increasing, environments are increasingly characterized by limited resources, vulnerable human conditions, and stakeholder consciousness.
- Corporate citizenship dictates that companies consider stakeholders in decision-making and develop sustainable, socially responsible policies and practices.
- This means employing both economic and social goals; transcending legal requirements by proactively implementing ethical standards.

■ Proactive development and implementation of Corporate Social Responsibility (CSR) –

Examples:

- **Starbucks** will only sell coffee from Rain Forest Alliance certified growers (www.rainforest-alliance.org),
- **Philips**, **Unilever**, and **Walmart** follow business practices that promote sustainable development.
- **McDonald's** purchases beef from farmers certified for animal welfare and environmental standards.
- **McDonald's** sells only organic milk in Austria, Germany, Sweden, and the United Kingdom.

ADDITIONAL TOPICS OF CONVERSATION-

- Large corporations like **Walmart**, **Unilever**, and **Sony** have annual revenues larger than the GDPs of many of the nations in which they do business.
- The globalization of thousands of firms negatively impacts the natural environment, e.g. pollution (BP oil spill in the Gulf of Mexico; Royal Dutch Shell's oil refining operations in Nigeria).
- Large banks and international investment brokers have disrupted the economies of nations with aggressive currency trading or stock markets manipulations, e.g. MNEs abruptly withdrawing invested capital.
- Human Rights violations- Some MNEs ignore human rights and basic labor standards by establishing factories in countries that pay low wages with substandard working conditions, e.g. Nike in Asia.
- Building factories abroad often leads to job losses in the home country.
- National governments and international institutions such as the *World Trade Organization* are working to improve environmental, financial and labor standards around the world.
- **CSR is global and strategic.** It must be embedded into global firms at their strategic levels, as well as their processes/practices if international corporate citizenship is to be achieved and sustained. Chapter 4 is devoted this important topic.

You Can Do It: Recent Grad in IB: Mary Lyles

International Sourcing Specialist

- Mary's international experience was an impressive asset to prospective employers in the U.S.
- Success factors in working internationally were networking and setting clear goals.

CKR Career Preparation Kit: Tangible Process Tools and Travel Abroad Preparation Checklist

Traveling internationally requires thorough, early preparation and entails numerous requirements not needed for domestic travel.

- Comply with requirements regarding do
- Success factors in working internationally were networking and setting clear goals.

IV. CLOSING CASE INTERNATIONALIZATION AT VODAFONE

• Summary [Identifying key issues]

■ The fundamental concepts introduced in Chapter 1 are central to both macro (chapters 1–8) and micro (chapters 9–17) perspectives for understanding international business. In this introductory chapter, the Vodafone case illustrates why firms pursue international strategies and how international and domestic businesses differ. With new technologies and deregulation in telecommunications in the United Kingdom and Continental Europe, coupled with falling trade barriers and growing consumer appeal worldwide for mobility, the first major independent UK wireless telephony operator must expand globally to survive.

The following Learning Objectives are emphasized:

1-1 Learn the key concepts in international business.

1-2 Understand how international business differs from domestic business.

1-4 Describe why firms internationalize.

OVERVIEW

- From a small-size manufacturer of military communications equipment founded in 1982, Racal Electronics entered the emerging civil cellular sector as Racal Vodafone in 1985, under the leadership of Gerry When and Chris Gent.
- Today, Vodafone services around 444 million customers in 26 countries and in partnership with networks in over 55 others. With \$53.3 billion in sales, it yields an EBIDTA of \$16.8 billion.
- Vodafone earns only \$6.96 billion of its total sales in its home market, the UK. The bulk of its revenues is generated by its international business units.

KEY SEGMENTS IN THE TELECOMMUNICATIONS INDUSTRY

The telecommunications market is still growing and global mobile data traffic is expected to grow from 7 exabytes per month to 49 exabytes per month in the five years up to 2021. Wireless subscriptions hit 7.7 billion in June 2017. This figure is likely to be excess of 9 billion by 2022 (in the US the rate is already 114 per 100 people).

Insight Research estimated that the telecommunications service market will collectively grow from \$2.2 trillion in 2015 to \$2.4 trillion in 2019.

COMPETITORS

- Mobile telephony is a highly competitive industry. There are three to four mobile network operators (MNOs) per country. In Europe alone, there are more than 100 MNOs.
- In addition, there are scores of Mobile Virtual Network Operators (MVNOs)—companies which resell cellular services under their own brand without the burden of running a network, thus making their services cheaper for users.

Worldwide, the leading brands are AT&T, Verizon, China Mobile, Xfinity, Vodafone, and Deutsche Telekom. AT&T has an estimated worth of \$115 billion and Verizon \$89 billion. Vodafone has an estimated brand value of \$18.74 billion.

ICONIC BRANDING

- **Vodafone Live!** was the brand name of the multimedia portal of Vodafone, launched in 2002, with spectacular publicity that featured football and entertainment stars such as David Beckham and Robbie Williams.
- Vodafone Live! was a strong marketing tool which attracted young and trendy users. It required special mobile handsets which featured color screens and embedded cameras, and also integrated the usual functions of a mobile phone, including SMS and MMS. Its R&D and content procurement were centralized in London, enabling economies of scale.
- Vodafone Live! was initially conceived by Japanese operator J-Phone, which Vodafone acquired in 2001.
- In October 2017, Vodafone launched its largest advertising campaign in its 33-year history. The TV commercial was a 60-second film focusing on human interactions (<https://www.youtube.com/watch?v=1TqaxX5K8yg&feature=youtu.be>).

THREAT OF FOREIGN COMPETITORS

- The advent of the Global System for Mobiles (GSM), the first harmonized digital standard developed in Europe, and the abolition of state monopolies in EU mobile telephony, stimulated speculative investors to get into the industry. By 1998, there were three MNOs per country on average. The more ambitious ones saw opportunities for expansion in the Continent and Britain. Vodafone came under attack on its own turf by alliances built by competitors.
- **Myopic** – So far, Vodafone had paid little attention to international competition, focusing new operations on markets with which British companies had traditionally been familiar: former colonies.
- **Predators' potential target** – Aggressive conglomerates were joining forces to raid MNOs with operating know-how in markets with high potential. By 1998, Vivendi of France, Hutchinson Whampoa of Hong Kong, and Mannesmann of Germany had earmarked some promising acquisition targets. Vodafone was one of them.
- **Looking away from Europe** – In June 1999, while the raiders were circling around Vodafone's headquarters looking for a deal, Gerry When and Chris Gent were discreetly completing the acquisition of a 45 percent stake in AirTouch Cellular, a Californian MNO,

which was renamed Verizon a year later. The strategic perspective of this move has been questioned, as the investment did not offer any substantive opportunities for synergies. AirTouch/Verizon used a different technical standard, AMPS, and different frequencies from Vodafone, thus precluding the possibility of roaming for the UK operator's customers.

FROM DEFENSE TO ATTACK

■ **Confidence** – Whether strategically sound or not, the acquisition of AirTouch instilled self-confidence in Vodafone's management that the company was now ready to take on its European rivals directly.

■ **German resistance** – By 1999, it was obvious that the largest national market for mobile communications in Europe was Germany. It was dominated by two MNOs: impregnable state-controlled Deutsche Telekom, and D2, the second mobile operator of the country, owned by the Mannesmann Group. The German conglomerate was already in talks with Vivendi and Hutchinson Whampoa to form a partnership between one of them and D2, but its CEO and Board believed that their mobile operator would be better-off on its own, and walked out of the negotiations.

■ **On the offensive** – Vodafone's management thought that the coast was now clear for them to bid for D2. However, Mannesmann turned down the British proposal. Vodafone swiftly made a direct and hostile takeover offer to the German company's shareholders. There was a strong reaction by Germany's general public and government.

■ **Cash-less purchase** – Following corridor diplomacy involving the heads of the governments at Berlin and London and the presidency of the European Commission, Vodafone succeeded in striking a friendly merger in February 2000, paying \$180.95 billion for a 50.5 percent stake in the new company. This transaction, the largest cross-border merger ever, did not involve any cash; Mannesmann's shareholders received Vodafone shares in lieu of payment.

INTERNATIONAL EXPANSION

■ Global markets demonstrate significant growth opportunities.

■ This is particularly true when expansion is sought by leaders in new technology standards.

■ **Europe** – It represents 75 percent of the Vodafone Group's 2018 total revenues. The countries with the highest contribution are Germany (\$11.78 billion), the United Kingdom (\$6.96 billion), Italy (\$6.06 billion), and Spain (\$5.26 billion).

■ **AMAP** (Africa, Middle East, Asia-Pacific) represents only 23% of 2018 global revenues but has the highest actual and potential growth rates of users. Vodafone services 223 million customers in India and 50.1 million in South Africa.

Europe	AMAP
In 2018, European revenues were flat (due to increased competition, technology investments and regulation changes). Vodafone is the leading or co-leading mobile operator in 14 out of 20 markets in Europe and	In AMAP, the revenue growth is better, largely due to the adoption of smartphones. In April 2018, Vodafone announced the merger of Indus Towers with Bharti Infratel. This is now the largest Indian mobile phone tower company.

has the largest NGN footprint with 107 million households. Data traffic across the European network increased by 61% 2017-18. Smartphone usage in Europe grew to 2.6GB per month in 2018. In Europe, smartphone penetration is 73%. During 2017-2018, 1.3 million broadband customers were added. In Europe, organic service revenue increased by 0.9%	Data traffic across the AMAP network increased by 66% in 2017-18. Smartphone usage in AMAP grew to 2.2GB per month in 2018 and to 3.5GB in India. In AMAP, smartphone penetration is 43%. In AMAP, organic service revenue increased by 7.7%.
--	---

EMERGING MARKETS

- Vodafone's emerging markets are India, South Africa, Turkey, Egypt, Ghana, Kenya, Qatar, Tanzania, and several other southern African countries. Fast growing emerging markets include South Africa, Turkey, and Egypt, which make up 17% of Enterprise service revenues.
- The company holds either the number one or number two position among MNOs in these countries.
- Vodafone's mobile market share in 2018 in South Africa was 50.1%.
- Customer and revenue growth are driven by emerging markets' rising populations, strong economic growth, lower mobile penetration, and a lack of alternative fixed-line infrastructure.

Only 25% of Japanese internet users access the web via mobile (for the UK, the USA, and Australia, it is around 33%). For South Korea, it is around 40%. In comparison, the emerging markets have significantly higher percentages of mobile-based Internet access. For India it is 80%, for Indonesia and South Africa it stands at around 65%, and in China it is 50%.

CHINA

- Home to 1,4 billion people, with 1.56 billion phones registered (2018).
- Income levels are growing rapidly, although average wages are low.
- However, penetration of smartphones and advanced handsets is still in an early phase.
- Vodafone has not been successful in forming a partnership to operate locally.
- In 2002, it acquired a 3.2 percent stake in China Mobile. It sold its shares in 2010 for US\$ 6.5 bn.

INDIA

Vodafone India's service revenue has contracted, but they have taken the following steps to recover the situation:

- selling of Vodafone India and Idea's standalone tower assets for \$1.14 billion.
- the Vodafone Group matching Idea's equity raise of \$0.9 billion.
- injecting capital into India of up to \$1.14 billion.

JAPAN

■ Vodafone made two attempts to establish itself in Japan in the early 2000s, through the acquisition of fixed-line operator Telecom Japan and the MNO J-Phone.

■ By mid-2006, Vodafone had sold its stake in both companies, as they could not find any strategic fit or synergy.

AUSTRALIA & NEW ZEALAND

■ Australia - Vodafone Hutchinson Australia is a 50-50 JV and the third largest national operator with 7 million customers and 27 percent market share.

■ New Zealand -Vodafone operates a local subsidiary with 42 percent market share and 2.5 million customers. In 2010 and 2012, it acquired BellSouth and Telstra Clear, respectively.

USA

■ The U.S. was the first major destination in Vodafone's internationalization.

■ In 1999, Vodafone acquired a 45 percent stake in AirTouch Cellular, later renamed Verizon.

■ Verizon became a successful U.S. MNO, but it did not have any operational synergies with Vodafone's international network.

■ In 2015, Vodafone sold its shares in Verizon for US\$ 130bn., thus exiting the U.S. market. Vodafone retains some 300 employees in the US (primarily corporate clients).

ENVIRONMENTAL SUSTAINABILITY AND SECURITY CHALLENGES

■ **Electromagnetic pollution** – the transmission standards for operating 3G, 4G and 5G networks require many more base stations than the initial GSM technologies did.

■ Scientists and regulators are still debating the long-term effects of wireless communication on humans.

■ **Network security** – a cyber-attack on a mobile network will result in a disruption of service to customers, causing revenue loss, financial penalties, and serious damage to Vodafone's reputation.

■ **Customer data misuse or leakage** – failure to protect or correctly use such data by the MNO could adversely affect its reputation and lead to legal action by users or the authorities.

THE FUTURE

■ The global recession hurt Vodafone in Europe, but it has not affected its AMAP business negatively.

■ **Positioning** – Given the high global penetration of mobile telephony, how best can Vodafone position itself?

■ Key to sustainable growth is global expansion, driven by:

- [1] Heightened focus on emerging markets.
- [2] Meeting user expectations in terms of better voice quality, and in packaging high-speed mobile and fixed data services.
- [3] Development of expertise in new mobile data applications such as Machine-to-Machine communications and mobile banking.
- [4] Constant innovation in customization of services for user groups.
- [5] Strategic selection of new partners and ventures in the emerging markets.

- Global markets demonstrate significant growth opportunities, while the European mobile communications industry is saturated.
- Through enhanced distribution networks and a multi-domestic international strategy that underscores local market preferences, Vodafone delivers culturally-responsive experiences both in Europe and AMAP.
- Revenue stream diversification reduces risk. To reduce its dependence on voice communications sales, Vodafone strives to increase its mobile data and fixed network business.
- A potential obstacle to Vodafone's further international expansion through acquisitions or partnerships is the appetite of the company's shareholders for cashing annual dividends.

• SUGGESTED SOLUTIONS TO CASE QUESTIONS

1-4. What is the nature of the international business environments Vodafone faces? What types of risk does the firm face?

(LO 1.2; AACSB: Application of knowledge)

- The domestic and international environments are complex and risky
- All FOUR types of risks in international business are present:

1) Cross-cultural Risk

- From the moment Vodafone decided to enter the Continental European market, it experienced the challenges of taking control of a successful business in a very different culture—namely Mannesmann, a traditional German enterprise enjoying a high reputation in its own country.
- **Translation of VodafoneLive!** The service was developed in Japan. It took a while for Vodafone's staff to adapt it first to the UK market, and then to the taste of the customers of the other Vodafone networks.
- Adapting to differences in language, lifestyles, mindsets, and customs are success factors in mobile communications.
- Vodafone experienced resistance in imposing its name and logo on newly acquired MNOs. In Germany, Italy, and Turkey, for instance, it had to use a hybrid logo for two years—a logo that combined Vodafone's and the local company's logo.

2) Country Risk (also known as *political risk*)

- Chinese Market – Vodafone did not succeed in convincing any of the local operators to enter into a partnership. Both the government and the public were against letting a foreign firm become a big player in a politically sensitive sector like communications.
- India – the national government has been investigating the company for tax irregularities which have occurred in the past. Vodafone may have to pay a hefty fine with retroactive effect.
- Laws, regulations, and indigenous factors, such as property rights, intellectual-property protection, and taxation policies may encumber the firm's operations and performance.
- Government intervention imposes bureaucratic procedures hindering business transactions, limiting the amount of earned income that firms may repatriate from foreign operations.
- Vodafone operates in several emerging markets known for restrictions on economic freedom.

3) Currency or Financial Risk

- International Risk from Global Economic Contagion – The severity of the world economic recession significantly impacted discretionary purchases such as smartphones. This is exacerbated by a maturing industry, which has resulted in a stronger price-focused competition.
- Strong UK Pound – Vodafone's revenues in the UK roughly represent 15 percent of its global revenues, the remaining being generated in other currencies.
- When currencies fluctuate significantly, the value of the firm's assets, liabilities and/or operating income may be substantially reduced.

4) Commercial Risk

With Vodafone's global expansion, the following acquisition/ joint venture/ distribution strategies would be subject to commercial risk:

- India – the government issued six new MNO licenses a year after Vodafone acquired 67 percent of Hutchinson Essar, forcing the new venture to lose market share.
- Egypt and Turkey – domestic economic weakening due to regional instability made receivables collection more difficult. The IMF has warned that many companies in the emerging markets may have to file for bankruptcy in 2015-2017.
- International/Domestic Business Risk- New EU Regulations on Roaming – In 2015, the European Commission was developing a new legislation which would limit the charges applied by MNOs to roaming services, thus reducing the profit margins of these companies.
- Market Penetration – Consolidation in the mobile telecommunications industry is slowly happening. Vodafone may benefit from this trend or become a target for acquisition.
- Failures in international markets are far more costly than domestic business blunders.

1-5. How has Vodafone benefited from expanding abroad? What types of advantages has the company obtained from its international expansion? What advantages acquired overseas can help Vodafone maintain its leadership in Europe?

(LO 1.5; AACSB: Diverse and multicultural work environments)

- Vodafone had initially focused on small English-speaking markets. The expansion to the U.S. gave it the knowledge of managing larger and more complex operations in an effective way.
- However, the acquisition of Mannesmann was more crucial to Vodafone's transformation into a global player, as it had to learn how to manage a large and sophisticated mobile operator in a totally foreign culture.
- Through successive acquisitions in the Continent, Vodafone became a truly European company. The availability of multinational competent managers within the firm created economies of scope that were used beneficially in further expansion.

1-6. What is the underlying rationale for Vodafone's expansion strategy to invest in the number two operator of a target country instead of the incumbent number one?

(LO 1.5; AACSB: Application of knowledge)

- The telecommunications industry has, for over 100 years, been the domain of state monopolies in all European countries. Liberalization began in the 1980s. The incumbent operator in each country was a state-owned or recently liberalized company.
- Vodafone deemed that converting a former monopoly to a free enterprise was counterproductive. Acquiring the challenger in that market, however, provided scope for innovative marketing.
- The number one operator would have to continuously fight to keep its leading position. Conversely, the number two player would be under less pressure and might eventually rise to the top.

1-7. Why did Vodafone expand first in the United States through the acquisition of 45 percent of AirTouch's share, although there was no technology compatibility between North America and Europe, making roaming and other synergies between the UK and U.S. networks impossible? What competences did the company have that it could use in this venture?

(LO 1.4; AACSB: Analytical thinking)

- Upto 1999, Vodafone had expanded towards countries familiar with Anglophone culture. Cultural proximity made Vodafone comfortable.
- AirTouch combined the cultural comfort zone requirement with business success as it was a growing MNO in a dynamic market. The acquisition served to signal to European competitors that Vodafone contemplated ambitious expansion.
- In its early days, Vodafone had focused on B2C communications and was the pioneer in roaming and the SMS. It was able to bring a new industry culture to the U.S., where MNOs were limited to geographical territories confined by their licenses, making roaming problematic.

1-8. Why did the German government and public resist the acquisition of Mannesmann by Vodafone in late 1999? Are there any similarities with the lack of success of the company to acquire a local Chinese operator or a stake in China Mobile in more recent years?

(LO 1.4; AACSB: Reflective Thinking)

- D2 was Germany's second largest mobile operator and a subsidiary of the country's most powerful industrial conglomerate.
- The offer by Vodafone to buy D2 was perceived as aggressive—a British raider attempting to take away one of the jewels of German industry.
- Recent history between the two countries should not be overlooked. Nationalism in such context is tacit, but does exist.
- The resistance of the Chinese government and of a large part of Chinese society to Vodafone taking control of one of the incumbent MNOs can probably also be attributed to nationalistic feelings, combined with concerns of national security.

INTERNATIONALIZATION AT VODAFONE [CLOSING CASE]

- Vodafone is the chapter Closing Case. These questions serve as hooks for students to familiarize themselves with the chapter concepts.

■ In 1982, Vodafone began its activities as Racal Electronics. What was the nature of the business?

ANSWER: Racal was a manufacturer of military communications equipment.

■ In 1998, Vodafone was under severe threat from competitors. In most markets, how many significant competitors were there?

ANSWER: Three.

■ In which country did Vodafone buy the second largest mobile phone operator Mannesmann?

ANSWER: Germany.

Acknowledgements: With many thanks to **Casey Long**, Business Liaison Librarian at Georgia State University for her proficiency and research assistance.

V. END OF CHAPTER QUESTIONS

• TEST YOUR COMPREHENSION

1-9. Distinguish between international business and globalization of markets.

(LO 1.2; AACSB: Analytical Thinking)

- International business represents the performance of trade and investment activities by firms across national borders. It is specifically a company-level phenomenon.
- By contrast, the globalization of markets refers to ongoing economic integration and growing interdependency of countries worldwide. It is a country-level phenomenon.
- In a sense, both international business and globalization refer to internationalization – the tendency of business and economic activity to be performed increasingly across national borders, or to be integrated across national borders. However, international business is a firm-level phenomenon, while globalization is a country or world-level phenomenon. To a large extent, it is the international business activities of countless firms that are driving the globalization of markets.

1-10. What is the difference between exporting and foreign direct investment?

(LO 1.1; AACSB: Application of knowledge)

Level of commitment

- Exporting is the sale of products/services to customers located abroad.
- *Foreign direct investment* (typically long-term) gives investors partial or full ownership of a company or productive assets such as capital, technology, labor, land, plant and equipment.

1-11. What makes international business different from domestic business?

(LO 1.2; AACSB: Application of knowledge)

International firms are constantly exposed to four major categories of risk that must be managed. Cross-cultural risk refers to a situation or event when some human value has been put at stake due to a cultural misunderstanding. Country risk refers to the potentially adverse effects on company operations and profitability caused by developments in the political, legal, and economic environment in a foreign country. Currency risk refers to the risk of adverse fluctuations in exchange rates. Commercial risk arises from the possibility of a firm's loss or failure from poorly developed or executed business strategies, tactics, or procedures. The risks are ever-present in international business, and firms take proactive steps to reduce their effects.

1-12. What are the various types of risks that firms face when they conduct international business?

(LO 1.2; AACSB: Reflective thinking)

Cross-cultural risk

- Differences in language, lifestyles, attitudes, customs, and religion, where a cultural miscommunication jeopardizes a culturally-valued mindset or behavior.

- Cultural blunders- hinder the effectiveness of foreign managers.
- Language- critical dimension of culture- a window to people's values
- Language differences impede effective communication.
- Cultural differences may lead to suboptimal business strategies.

Country risk (also known as political risk)

- Differences in host country political, legal and economic regimes may adversely impact firm profitability.
- Also, laws, regulations and indigenous factors e.g. property rights, intellectual-property protection, product liability, taxation policies, inflation, national debt, and unbalanced international trade, may encumber firm operations and performance.
- Government intervention: restricts market access; imposes bureaucratic procedures hindering business transactions; and limits the amount of earned income that firms may repatriate from foreign operations.
- Economic freedom differs among nations- Hong Kong, Singapore and Ireland are known as having the highest levels of economic freedom, see: (<http://www.heritage.org>).

Currency or financial risk

- Risk of adverse exchange rate fluctuations, inflation and other harmful economic conditions create uncertainty of returns.
- When currencies fluctuate significantly, the value of the firm's assets, liabilities and/or operating income may be substantially reduced

Commercial risk

- Less than optimal formulation and/or implementation of strategies, tactics or procedures, e.g. partnering selections, market entry timing, pricing, product features, and promotional themes
- Failures in international markets are far more costly than domestic business blunders.

Risks: Always present but manageable

- The four types of risks in international business are omnipresent.

1-13. Who are the major participants in international business?

(LO 1.3; AACSB: Application of knowledge)

A key participant in international business is the multinational enterprise (MNE), a large company with many resources whose business activities are performed by a network of subsidiaries located in multiple countries. Also active in international business are small- and medium-sized enterprises (SMEs), companies with 500 or fewer employees. Born global firms are entrepreneurial firms that initiate international business from or near their founding. Nongovernmental organizations (NGOs) are nonprofit organizations that pursue special causes and serve as an advocate for the arts, education, politics, religion, and research.

WHO PARTICIPATES IN INTERNATIONAL BUSINESS? (Four categories)

[1] **Focal firm**- The initiator of an international business transaction, which conceives, designs, and produces offerings intended for consumption by customers worldwide. Focal firms are primarily MNEs and SMEs.

[2] **Distribution channel intermediary**- A specialist firm that provides various logistics and marketing services for focal firms as part of international supply chains, both in the home country and abroad.

[3] **Facilitator**- A firm or an individual with special expertise in banking, legal advice, customs clearance, or related support services that assists focal firms in the performance of international business transactions.

- **Freight forwarder**- A specialized logistics service provider that arranges international shipping on behalf of exporting firms.

[4] **Governments**- (public sector) act as suppliers, buyers, and regulators.

- **Russia, China, and Brazil** - State-owned enterprises account for a substantial portion of economic value added, even in these rapidly liberalizing emerging markets.

- **France, Australia, and Sweden**- Governments in these advanced economies have significant ownership of companies in telecommunications, banking, and natural resources.

- The recent global financial crisis led governments to step up their involvement in business, especially as regulators.

1-14. What is the difference between a multi-national enterprise (MNE) and a small and medium-sized enterprise (SME)?

(LO 1.3; AACSB: Application of knowledge)

Multinational Enterprise (MNE):

- Multinational enterprises are the most important type of focal firm; add value in multiple countries, through a network of subsidiaries, leveraging manufacturing, R&D, procurement, and marketing activities, to yield the most economic sense.

- In addition to a home office, an MNE owns a worldwide network of subsidiaries.

- **Exhibit 1.9** provides a geographic distribution of the world's leading MNEs. The size of each circle represents total MNE revenues per country.

Small and Medium-sized Enterprise (SME):

- SME is a company with 500 or fewer employees.

- Small firms comprise 90% - 95% of all firms in most economies.

- Increasingly more SMEs participate in exporting, licensing, and global sourcing.

- Small firms:

- Are the drivers for innovation.

- Account for one-third of exports from Asia; a quarter of the exports from the affluent countries in Europe and North America

- Contribute more than 50% of total national exports in Italy, South Korea, and China.

- **Born-global firms**- young, entrepreneurial SMEs that initiate international business from inception, and are found in both advanced economies as well as emerging markets such as China and India.

- International business complexities are considerably more challenging for SMEs than MNEs.

- SME Strategies for success:

- (1) SMEs are often more innovative, adaptable, and have quicker.

- (2) SMEs are better able to serve niche markets.

- (3) Smaller firms can better leverage the Internet.

- (4) Due to limited resources, SMEs tend to minimize fixed costs and outsource.

- (5) Smaller firms tend to flourish on private knowledge that they cultivate through their knowledge networks and international social capital.

1-15. What are some of the key motivations for firms to engage in international business?

(LO 1.4; AACSB: Reflective thinking)

Firms internationalize seeking growth and profit opportunities to enhance competitive advantage. Specifically:

A. Increase sales by seeking new markets and market diversification.

B. Earn higher margins and profits.

C. Better serve key markets or customers who have relocated abroad.

D. Get access to lower-cost or better-value factors of production.

E. Locate closer to supply sources, benefit from global sourcing advantages, or gain flexibility in the sourcing of products.

F. Develop economies of scale in production, marketing, and other activities.

G. Confront global competitors more effectively and/or thwart the growth of domestic competition.

H. Invest in a potentially rewarding relationship with a foreign partner.

I. Gain new ideas about products, services, and business approaches.

1-16. Why should you care about international business?

(LO 1.5; AACSB: Reflective thinking)

A Competitive Advantage

- We are touched everyday by a variety of global business transactions.

- Consider a career in international business because of its importance and growing role in the world.

- Working across national cultures exposes managers to a range of enlightening experiences, new knowledge, novel ways of seeing the world, and unusual challenges.

- Managers with extensive international experience are more self-confident, cosmopolitan, and have positioned themselves for unique professional development opportunities.

● APPLY YOUR UNDERSTANDING

1-17. One of your clients is convinced that there is no immediate advantage in investing in domestic businesses or markets and wants to invest abroad instead. He wants advice regarding the transfer of his substantial assets to make a series of international investments in promising emerging markets. He wants you to explain the key elements and differences between international portfolio investment and foreign direct investment. In your view, which is the safer option?

(LO 1.2; AACSB: Analytical Thinking)

- Portfolios are passive investments in stocks and securities abroad.
- International portfolios are designed to allow investors to diversify their assets from domestic-based investments. The portfolio approach is risky in the sense that there may be economic instability in emerging markets. On the other hand, some emerging markets are fairly industrialized and have become more stable.
- Foreign direct investment is more hands-on as it involves the acquisition of a business, assets, production facilities, labor, land, or equipment in order to have a physical presence overseas. Compared to the first option, it requires much more day-to-day management.
- As far as the risk factor in both types of investments are concerned, both have their disadvantages, so students have to justify with other reasons which they find less risky than the other.

1-18. Your CEO has long been frustrated by poor communication, reliability, and quality from overseas suppliers. She is convinced that the acquisition of assets in the supply chain will make it more efficient, reliable, and responsive to the needs of the corporation. She has asked you to outline the contents of a presentation she intends to make to the stock holders to gain their backing and some additional investment to make it happen.

(LO 1.4; AACSB: Analytical Thinking)

There are many advantages in getting involved in overseas markets, particularly if it means gaining greater control over the supply chain that the corporation relies on for its main activities. The key points are:

- Growth through diversification—the corporation will be involved in a different area of operations and growth opportunities may arise out of the acquisitions.
- Higher margins and profits—since the products or services will be produced, shipped, processed, or otherwise dealt with directly by the corporation and not an independent business seeking its own margins, the costs can be driven down, margins increased, and profits improved.
- Gaining new ideas—the corporation will not only buy assets but also know-how. This could prove valuable in terms of generating new opportunities.
- Serving key customers better—to control the supply chain means that there is greater reliability, customers will see an improvement in service from the corporation, and not suffer from poor service as a result of external organizations causing problems or delays.

- Proximity to supply sources—there are greater guarantees regarding the essential materials needed by the corporation. They can be shipped immediately or as and when needed. From the outset, the corporation has ownership of the materials.
- Access to alternative production—the corporation can choose the time and place of production. They can determine whether production takes place in the domestic market or abroad.
- Confronting international competitors—controlling sources means that competitors no longer have access to those sources. It can destabilize competitors and make them consider changing their operations.

1-19. You have become the president of the International Business Club at your school. You are trying to recruit new members and find that many students do not recognize the importance of international business or the career opportunities available to them. You decide to give a presentation on this theme. Prepare an outline of a presentation in which you explain what types of companies participate in international business, why students should study international business, and what career opportunities they might find.

(LO 1.5; AACSB: Analytical Thinking)

Your presentation should include:

Who Participates in International Business?

- *Focal firm*- firms that initiate and implement international business activities.
- *Distribution channel intermediary*- [Ch.3] distributors and retailers that provide distribution services in international markets.
- *Facilitator or support firm*- [Ch.3] freight forwarders and banks that assist the focal firms with specialized needs.

Multinational Enterprise (MNE)

- Multinational enterprises are the most important type of focal firm; add value in multiple countries, through a network of subsidiaries, leveraging manufacturing, R&D, procurement, and marketing activities, to yield the most economic sense.
- In addition to a home office, an MNE owns a worldwide network of subsidiaries.
- **Exhibit 1.9** provides a geographic distribution of the world's leading MNEs.

Small and Medium-sized Enterprise (SME)

- SME is a company with 500 or fewer employees.
- Small firms comprise 90% - 95% of all firms in most economies.
- Increasingly more SMEs participate in exporting, licensing, and global sourcing.
- Small firms:
 - Are the drivers for innovation.
 - Account for one-third of exports from Asia; a quarter of the exports from the affluent countries in Europe and North America
 - Contribute more than 50% of total national exports in Italy, South Korea, and China.

■ *Born-global firms*- young, entrepreneurial SMEs that initiate international business from inception, and are found in both advanced economies as well as emerging markets such as China and India.

■ International business complexities are considerably more challenging for SMEs than MNEs.

■ SME Strategies for success:

(1) SMEs are often more innovative, adaptable, and have quicker.

(2) SMEs are better able to serve niche markets.

(3) Smaller firms can better leverage the Internet.

(4) Due to limited resources, SMEs tend to minimize fixed costs and outsource.

(5) Smaller firms tend to flourish on private knowledge that they cultivate through their knowledge networks and international social capital.

Why Study International Business?

A Competitive Advantage

■ The role of international business grows in importance and impact, daily.

■ Cross-national experiences expose managers to diversity, new knowledge, novel ways of seeing the world, and unusual challenges.

■ Managers with extensive international experience are typically more self-confident, cosmopolitan, are positioned for unique professional development opportunities, and essentially have a competitive advantage over others.

● **GlobalEDGE™ INTERNET EXERCISES** <http://globaledge.msu.edu>

1-20. You can gain valuable insights into international business by examining how countries compare to each other. Various research groups and international agencies systematically examine economic, political, and other features of nations. Visit [GlobalEDGE™](http://globaledge.msu.edu) Tools and Data, scroll down and click Interactive Rankings. Select Countries. You will find dozens of criteria ranking countries based on GDP per capita; Education—literacy rate; People—population total; People—population density; Health—mortality rate; Energy—electricity production; Infrastructure—mobile cellular subscriptions; Infrastructure—roads, total network; Trade and Investment—foreign direct investment net inflows; and many other factors. Choose the ranking criteria that interest you most and then examine the following three countries: Germany, India, and South Africa. Based on your analysis, explain why they rank where they do. Do their relative positions make sense to you? Does each country seem like a good place to do business? Why or why not? *Hint:* Evaluate countries on a per-capita basis by dividing each criterion by the country's population.

(LO 1.4; AACSB: Analytical Thinking)

The question can be answered in various ways. A hypothetical answer is given below, using country rankings based on data from the CIA World Factbook. Germany, India and South Africa are compared based on the following:

Country	GDP (ppp) US\$ million	GDP real growth rate (%)	GDP per capita (ppp) US\$/person	Industrial production growth rate	Inflation Rate (%)
Germany	3,058,600	3.7	37,400	8.0	1.1
India	4,421,000	6.8	3,700	4.8	8.9
South Africa	528,200	2.8	10,500	2.5	4.3

■ India and South Africa are emerging markets. Germany is an advanced economy. Thus, **Germany** is ranked first in GDP per capita and industrial production growth rate; second in both GDP and GDP real growth rate after India; and had the lowest inflation rate. **India** is ranked first in GDP and GDP real growth rate; second in industrial production growth rate; last in GDP per capita and highest on inflation rate. South Africa ranks last in GDP, GDP real growth rate, and industrial production growth rate, but it had the second highest inflation rate and the second highest GDP per capita.

■ As an advanced economy, it stands to reason that Germany would have the highest GDP and GDP per capita relative to India and South Africa. But it does not. India has a higher GDP than Germany. However, when population is taken into account, note that India has the second highest population in the world after China; this is reflected in its GDP per capita- roughly one-tenth of Germany's.

■ With a well-developed infrastructure (transportation, information and communication, power, etc.), **Germany** is poised to accentuate its information and communications technologies position relative to other advanced economies. However, there is 'less room' for growth in its economy, which is partly explained by its low real growth rate in GDP and high industrial production rate. The country's inflation rate of 1.1% compares favorably among the three countries. Moreover, each German euro bought more goods and services with such a low inflation rate relative to the purchasing power of the rupee and the rand in the respective countries.

■ **India's** emerging economy experienced a hefty real growth rate in GDP and GDP real growth rate compared to Germany. India is a large emerging economy both in population (about 1.22 billion) and GDP. On the other hand, its low per capita GDP indicates relatively low economic wealth among its citizens, which is partly explained by the low industrial production. While the country's per capita GDP, for the relevant period, may be lowest among the three countries; it is poised to increase as the economy grows.

■ **South Africa's** inflation was the second highest among the three countries compared; it is still low for an emerging economy. With GDP at US\$528.2 billion, it is small in comparison to Germany's developed economy, but it compares favorably with that of India when GDP per capita is considered.

1-21. In this chapter, we reviewed the four major risks that firms face in international business: cross-cultural risk, country risk, currency risk, and commercial risk. Identify one or more countries that interest you and then visit

globalEDGE™ and research the countries to uncover examples of each of the four types of risks. For example, China is characterized by various cultural differences and a national government that tends to intervene in business. Research by entering the country name in the search engine. Visit Global Insights and Market Potential Index. Illustrate each risk with examples.

(LO 1.2; AACSB: Analytical Thinking)

This can be answered in various ways. One example is the Czech Republic.

■ **Cross-cultural risk:** One of the main business cultural differences between U.S. businesspeople, for example, and those in the Czech Republic is the ‘urgency’ of making a sale. While the typical American “let’s get down to business” approach is effective domestically, Czechs are more reserved and will have reservation about this way of doing business. They prefer to get to know a potential U.S. business partner’s background and company and will be offended by too much emphasis on an immediate sales pitch.

■ **Country risk:** Although the Czech Republic has made various improvements, its tax, labor, environment, health and safety laws are considered to discourage inward foreign investment. Research reveals that domestic and foreign investors perceive that government bureaucracy and unnecessary red tape remain a source of frustration. Moreover, it is not uncommon for investors to experience delays and potentially corruption, especially in the company registration process and in changes to corporate structure.

■ **Currency risk:** Inflation in the Czech Republic has been running at about 2%. Although low by most standards, volatility in this rate directly affects the value of the koruna (crown) (CZK) against the US dollar and the euro. U.S. and Euro zone companies that do business with Czech Republic firms will experience higher or lower cost as the CZK rises or falls in value relative to dollar and the euro.

■ **Commercial risk:** Agents and distributors in the Czech Republic expect exclusivity in representing a foreign company’s product or service according published reports. Research reveals that many Czech Republic agents and distributors are undercapitalized and understaffed, but still represent a wide diversity of foreign products. Thus, foreign exporters and manufacturers should be careful to avoid weak partners by negotiating an agreement that ties exclusivity to performance via a time limitation on the agent/distributor agreement or an escape clause to terminate the partnership for nonperformance.

1-22. You have recently been hired by a smaller firm that is beginning to expand internationally. When first starting out, most firms choose exporting as their main foreign market entry strategy. However, no one in your firm knows how to conduct exporting. Therefore, your boss has given you an assignment: Prepare a presentation for your coworkers on how to engage in exporting. Using globalEDGE™, find and review Guide to Exporting, which you can use to create your presentation.

(LO 1.4; AACSB: Analytical Thinking)

A presentation on how to export would include some or all of the following topics:

■ **Understanding Exporting**

- Assess and develop export knowledge in the firm; evaluate the importance of exporting, its pros and cons as well as the firm's strengths and weaknesses
- Explain the role that trade-related data will play in the company's export decision

■ **Ensure the Basics of Exporting are met prior to Execution**

- Do a preliminary screening and select a country or region
- Conduct an industry market potential analysis
- Select a foreign partner and structure the relationship
- Conduct a company sales potential analysis

■ **Evaluate our Company's Ability to Export**

- Understand how Assessment of Company Readiness to Export (CORE) software can assist with assessing our export capability
- Prepare for defensive competition
- Assess top management's commitment to the company's export capability
- Assess the significance of company and product readiness as they influence our export capability

■ **Preparing a Budget for Exporting**

- Assess the effects of foreign exchange rates on the company's export budgeting
- Understand how to control the export budget
- Explore the areas where standard cost can be applied

■ **Assessing Export Cost**

- Compose a list of export cost elements
- Perform a cost-volume-profit analysis with different tools
- Assess the important factors involved in costing a product for an overseas market(s)

■ **Understanding Export Documentation**

- Identify and understand the mandatory documents for exporting
- Understand documents such as a bill of lading, commercial invoice and packing list
- Understand significant financial exchange documents such as the bill of exchange, sight draft and time draft
- Assess the pros and cons of the letter of credit's value in the exporting process

■ **Export Financing**

- Assess the effective use of methods of payments and insurance
- Evaluate the details of international countertrade
- Assess the details of private and non-private financing

■ **Export Marketing and Logistics**

- Explain the necessity of an export marketing plan, information required to prepare it
- Assess movement and storage options for exporting the company's products that includes understanding warehouse location and inventory levels
- Assess the requirements for effective export pricing

MyLab Management

Go to **MyLab Management.com** for Auto-graded writing questions as well as the following Assisted-graded writing questions:

- ★ 1-23. **What role do distribution channel intermediaries fulfill?**
- ★ 1-24. **What risks do companies typically engage in with international business?**
- ★ 1-25. **MyLab Management Only– comprehensive writing assignment for this chapter.**

Visit [MyLab Management](http://www.pearson.com/mylab/management) for suggested answers,
www.pearson.com/mylab/management.