

McMaster University  
International Business  
INSTRUCTOR: HONGJIN ZHU  
APRIL 8<sup>TH</sup>, 2011

COMM 4SA3 Sections C11, C12, C13, C14  
Winter 2011 Final Examination

DURATION: 2 HOURS

STUDENT NAME: \_\_\_\_\_

STUDENT NO: \_\_\_\_\_

INSTRUCTIONS AND NOTES
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This exam consists of 2 questions and 9 pages. It is your responsibility to ensure that your copy is complete. Please bring any discrepancy to the attention of your invigilator.

**SPECIAL INSTRUCTIONS:**

This is a closed book exam. Pens, paper, pencils and erasers are the only aids allowable. Calculators are not allowed.

**Answer only in the space provided.**

Write on the right hand pages. Use the left hand for any rough work.

Point form is acceptable but must be understandable.

**Only legible exams will be marked**

You must answer all questions.

Please read the information below and answer Question 1.

### **Information about Haier Group, China**

#### **Company Profile**

Haier is a multinational corporation headquartered in Qingdao, Shandong Province, People's Republic of China. Haier manufactures home appliances (e.g. air conditioners, washing machines, refrigerators and televisions) in over 15,100 different specifications under 96 categories. Founded in 1984, the Haier Group has been dedicated to innovation and creating a world famous brand over the past 27 years. Haier products are now sold in over 100 countries around the globe. In white goods, the Haier brand has the largest market share in the world, with a 6.1% share in 2010. It has more than 70,000 employees around the globe and realizes sales of US\$20 billion in 2010. Haier has risen to be the world's No.1 brand of consumer appliances. In addition, it was selected as one of the world's Top 10 innovative companies issued by USA Newsweek's website.

#### **Strategic Goal**

Haier aims to create a world famous brand in the age of the Internet, which features satisfying the personalized needs of users in a short time. What such a business needs is large-scale customization rather than massive production. Taking this opportunity provided by the Internet, Haier addressed this challenge and actively explored and practiced the "Win-win Mode of Individual-Goal Combination".

#### **Technology**

The Haier's patent applications total over 10,000- ranking first among Chinese home appliance firms. By April 2006, the Haier Group has obtained 6,189 patented technology certificates and 589 software intellectual property rights. Haier also takes the lead to make breakthroughs in international standards. It participated in the drafting of 51 international standards, 27 of which have been issued and implemented. This clearly demonstrates Haier's world-class innovation capabilities in product R&D.

#### **Internationalization**

Haier first entered the European market. In 1990, Haier exported 20,000 refrigerators to Germany, marking Haier's entry into the European market. Haier has also established R&D centers in Italy, Holland, Germany, and Denmark, as well as manufacturing facilities in Italy and OEM factories in Romania and Ukraine.

Since 1993, Haier has been selling its products to more than 30 countries in the Middle East, Africa and West Asia, including Saudi Arabia, United Arab Emirates, Jordan, Oman, Turkey, Qatar, Bahrain, Egypt, Algeria, Morocco, Kenya, Tanzania, Sudan, Tunis, Nigeria, South Africa, Angola, etc. In order to meet special requirements suggested by Middle East consumers, Haier developed high-capacity washing machines and refrigerators; air conditioners designed to handle tropical conditions; and Arabic-enabled television.

Haier opened the American Haier Industrial Park in South Carolina on April 30, 1999, marking Haier's entry into the US market. Since then, Haier has established the Haier Holding Company, Haier Real Estate Ltd., and Haier America Trading Company based in New York, R&D centers in Los Angeles, New York and South Carolina.

As of 2010, Haier has established 61 trading companies (19 outside of China), 8 R&D centers (5 outside of China), 29 manufacturing facilities (24 outside of China) and 16 industrial parks (4 outside of China). In addition, the company maintains 58,800 sales outlets in over 160 countries. Table 1 shows Haier's major FDI activities.

**Table 1: Haier's major FDI overseas**

Year	Country	Entry Mode	Name
08/1996	Indonesia	Joint Venture	Haier Sapporo Indonesia
07/1997	Philippines	Joint Venture	LKG Electrical Appliances Ltd.
08/1997	Malaysia	Joint Venture	Haier Industrial (Asia) Ltd.
10/1997	Yugoslavia	Joint Venture	Yugoslavian Haier Air Conditioner Plant
09/1999	Iran	Joint Venture	Haier Mid-East Ltd. and Haier Iran Factory
02/2000	United States	Greenfield Venture	Haier Industrial Park
04/ 2001	Bangladesh	Joint Venture	Hayes and Haier Appliances Company Ltd.
05/2001	Pakistan	Greenfield Venture	Pakistan Haier Industrial Park
06/2001	Italy	Merger&Acquisition	Haier Italian Refrigerator

### **Information about Brazil**

Brazil is the largest country in South America. It is the world's fifth largest country, both by geographical area and by population with over 190 million people. It is the only Portuguese-speaking country in the Americas and the largest lusophone country in the world.

The Brazilian economy is the world's 8th largest economy by nominal GDP and the 7th largest by purchasing power parity. Brazil is one of the world's fastest growing major economies. Investors investing in Brazil stand a great chance to gain significant returns due to the following advantageous reasons:

- Brazil is the fifth largest country in the world, thus it provides a great customer base.
- The country has very pleasant geographical conditions. It has very conducive weather between 25-30 degrees Celsius.
- Brazil has a very good political setup. It is a democratic country and has a stable political system.
- It has a very stable currency which floats freely against foreign currencies.
- The government of Brazil encourages foreign investment in the country in its diverse sectors. The government provides several incentives to the investors and allows the investors to have 100% ownership of land and property.

Like many emerging markets such as China and India, Brazil has a fast-growing middle class. This middle class enjoys increased purchasing power and is hungry for consumer goods and capital goods. These two areas have seen massive hikes in production over the last year in Brazil, particularly household appliances and construction materials. The key manufacturers of household appliances in Brazil include foreign giants such as GE and Whirlpool, and numerous local producers which are generally smaller in size and less developed in technology and managerial skills.

### **References:**

Wikipedia, the free encyclopedia, <http://en.wikipedia.org/wiki/Haier>; <http://en.wikipedia.org/wiki/Brazil>.  
Official website of Haier Group, <http://www.haier.com/index.htm>.

### **Question 1 (50 marks) (There are 5 parts to this question)**

**Part A:** What are the advantages and disadvantages of Haier entering into the Brazilian market? Do you think Haier can be successful there? On what basis do you make this claim? (10 marks)

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The President of Haier has been told by business acquaintances that there are a wide range of strategies for entering foreign markets. Please discuss in detail the strength and weakness of the following entry strategies that Haier could employ. (12 marks)

Answer:

	Strength and weakness
Export	
Joint Venture	
Greenfield Venture	
Acquisition	

**Part C:** What would be the most appropriate entry strategy for Haier to enter the Brazilian market? What are your reasons for selecting that entry strategy? (5 marks)

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**Part D: Strategy, organizational structure, and control system**

To enhance the performance of Haier in Brazil, what strategy of international business (e.g. global strategy, multidomestic strategy, and international strategy) should Haier employ? Given Haier's strategy, what organizational structure and control system would facilitate the implementation of its strategy? Please briefly explain the reasons for your answers. (9 marks)

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**Part E:** Suppose that Haier is short of capital in its expansion into the Brazilian home appliances market. What are the means Haier can use to raise funds in a capital market? What are the benefits it can enjoy if it raises funds in the global capital market rather than the domestic capital market of Brazil? (5 marks)

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**Part E (continued):** Suppose that Haier decides to borrow cash loans made in U.S. dollars from a Chinese bank (i.e. bank loans in euro-dollars). Compared to bank loans in Chinese Yuan (RMB), what is the attraction of bank loans in euro-dollars for Haier? And what are the risks of such loans? Please briefly explain the reasons for the attractions and risks of such loans. (9 marks)

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**Question 2 – Economic Integration (20 marks) (There are 2 parts to this question)**

**Part A:** What are some of the key differences between NAFTA and the European Union? Defining what the acronyms stand for or their geographic location will not garner marks. (6 marks)

NAFTA	European Union

**Part B:** Suppose that you work for a Canadian multinational company and approximately 40% of your sales are to customers of the European Union. What opportunities and threats does your company face as a result of an integrated European market? (8 marks)

Opportunities	Threats

**Part B (continued):** What are your suggestions for dealing with the threats faced by your company? (6 marks)

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**The End**

Best Wishes for your future!