GEB 3373 Homework 9

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> All uncited quotes are from the textbook

Chapter 12

1. What are the steps in conducting a foreign market analysis?
    1. "Assess alternative markets"
    2. "Evaluate the respective costs, benefits, and risks of entering each"
    3. "Select those that hold the most potential for entry or expansion"
2. What are some of the basic issues a firm must confront when choosing an entry mode for a new foreign market?
    - Market potential
    - Levels of competition
    - Legal and political environment
    - Sociocultural influences
3. What is exporting? Why has it increased so dramatically in recent years?
    - "exporting is the process of sending goods or services from one country to other countries for use or sale there."
4. What are the primary advantages and disadvantages of exporting?
    - Advantages:
        - "Permit gradual market entry
        - Acquire knowledge about local market
        - Avoid restrictions on foreign investment"
    - Disadvantages:
        - "Vulnerability to tariffs and nontariff barriers
        - Logistical complexities
        - Potential conflicts with distributors"
5. What are three forms of exporting?
    - "**Indirect exporting** occurs when a firm sells its product to a domestic customer, which in turn exports the product, in either its original form or a modified form"
    - "**Direct exporting** occurs through sales to customers—either distributors or end-users—located outside the firm's home country."
    - "An **intra- corporate transfer** is the sale of goods by a firm in one country to an affiliated firm in another."

6. What is an export intermediary? What is its role? What are the various types of export intermediaries?
    - "An exporter may also market and distribute its goods in international markets by using one or more **intermediaries** , third parties that specialize in facilitating imports and exports. "
7. What is international licensing? What are its advantages and disadvantages?
    - "Another means of entering a foreign market is **licensing** , in which a firm, called the **licensor** , leases the right to use its intellectual property —technology, work methods, patents, copyrights, brand names, or trademarks—to another firm, called the **licensee** , in return for a fee. "
    - Advantages:
        - "Low financial risks
        - Low-cost way to assess market potential
        - Avoid tariffs, nontariff barriers, restrictions on foreign investment
        - Licensee provides knowledge of local markets"
    - Disadvantages:
        - "Limited market opportunities and profits
        - Dependence on licensee
        - Potential conflicts with licensee
        - Possibility of creating future competitor"
8. What is international franchising? What are its advantages and disadvantages?
    - "Still another popular strategy for internationalizing a business is franchising, a special form of licensing. **Franchising** allows the franchisor more control over the franchisee and provides for more support from the franchisor to the franchisee than is the case in the licensor-licensee relationship. International franchising is among the fastest-growing forms of international business activity today. A franchising agreement allows an independent entrepreneur or organization, called the **franchisee** , to operate a business under the name of another, called the **franchisor** , in return for a fee."
    - Advantages:
        - "Low financial risks
        - Low-cost way to assess market potential
        - Avoid tariffs, nontariff barriers, restrictions on foreign investment
        - Maintain more control than with licensing
        - Franchisee provides knowledge of local market"
    - Disadvantages:
        - "Limits market opportunities and profits
        - Dependence on franchisee
        - Potential conflicts with franchisee
        - May be creating future competitor"
9. What are three specialized entry modes for international business, and how do they work?

    - "**Contract manufacturing** is used by firms, both large and small, that outsource most or all their manufacturing needs to other companies. This strategy reduces the financial and human resources firms need to devote to the physical production of their products. "
    - "A **management contract** is an agreement whereby one firm provides managerial assistance, technical expertise, or specialized services to a second firm for some agreed-on time in return for monetary compensation. For its services the first firm may receive either a flat fee or a percentage of sales. The management contract may also specify performance bonuses based on profitability, sales growth, or quality measures."
    - "A **turnkey project** is a contract under which a firm agrees to fully design, construct, and equip a facility, then turn the project over to the purchaser when it is ready for operation. The turnkey contract may be for a fixed price, in which case the firm makes its profit by keeping its costs below the fixed price. Or the contract may provide for payment on a cost-plus basis, which shifts the risk of cost overruns from the contractor to the purchaser."
10. What is FDI? What are its three basic forms? What are the relative advantages and disadvantages of each?
    - FDI is foreign direct investment
    - "There are three methods for FDI: (1) building new facilities (called the greenfield strategy), (2) buying existing assets in a foreign country (called the **acquisition strategy** or the **brownfield strategy**), and (3) participating in a joint venture."
    - Greenfield Strategy:
        - "The greenfield strategy has several advantages. For one thing, the firm can select the site that best meets its needs and construct modern, up-to- date facilities. Local communities often offer economic development incentives to attract such facilities because they will create new jobs; these incentives lower the firm’s costs. The firm also starts with a clean slate. Managers do not have to deal with existing debts, nurse outmoded equipment, or struggle to modify ancient work rules protected by intransigent labor unions."
        - "However, the greenfield strategy also has some disadvantages. For one thing, successful implementation takes time and patience. For another, land in the desired location may be unavailable or expensive."
    - The acquisition strategy:
        - "A second FDI strategy is acquisition of an existing firm conducting business in the host country. Although the actual transaction may no doubt be complex—requiring bankers, lawyers, regulators, and mergers and acquisitions specialists from several countries—the basic motivation for it is quite simple. By acquiring a going concern, the purchaser quickly obtains control over the acquired firm’s factories, employees, technology, brand names, and distribution networks. The acquired firm can continue to generate revenues as the purchaser integrates it into its overall international strategy. And, unlike the greenfield strategy, the acquisition strategy adds no new capacity to the industry. In times of overcapacity, this is an obvious benefit. As the chapter’s opening case indicated, the acquisition strategy is the approach Bernard Arnault favored in building LVMH."

        - "The acquisition strategy does have some disadvantages, however. The acquiring firm assumes all the liabilities—financial, managerial, and otherwise—of the acquired firm. If the acquired firm has poor labor relations, unfunded pension obligations, or hidden environmental cleanup liabilities, the acquiring firm becomes financially responsible for solving the problem."
    - Joint Ventures:
        - "Because of the growing importance of international intercorporate cooperation, as well as the unique set of challenges it offers international firms, we devote Chapter 13 to this subject."

Chapter 13

1. What are the basic differences between a JV and other types of strategic alliances?
    - "A **joint venture (JV)** is a special type of strategic alliance in which two or more firms join together to create a new business entity that is legally separate and distinct from its parents. JVs are normally established as corporations and are owned by the founding parents in whatever proportions they negotiate. Although unequal ownership is common, many are owned equally by the founding firms. For example, General Motors and China's state-owned SAIC Motors each own 50 percent of their joint venture, Shanghai General Motors Ltd., which is among the leaders in the huge Chinese automobile market."
2. Why have strategic alliances grown in popularity in recent years?
    - They've grown in popularity because it allows companies to expand while minimizing risk.
3. What are the basic benefits partners are likely to gain from their strategic alliance? Briefly explain each.
    - **Ease of entry**: "Partnering with a local firm can often help it navigate around such barriers. In other cases, economies of scale and scope in marketing and distribution confer benefits on firms that aggressively and quickly enter numerous markets.8 Yet the costs of speed and boldness are often high and beyond the capabilities of a single firm. A strategic alliance may allow the firm to achieve the benefits of rapid entry while keeping costs down."
    - **Shared risk**: "Today's major industries are so competitive that no firm has a guarantee of success when it enters a new market or develops a new product. Strategic alliances can be used to either reduce or control individual firms' risks. For example, Boeing established a strategic alliance with several Japanese firms to reduce its financial risk in the development and production of the Boeing 777 jet."
    - **Shared knowledge and expertise**: "Still another common reason for strategic alliances is the potential for the firm to gain knowledge and expertise that it lacks. A firm may want to learn more about how to produce something, how to acquire certain resources, how to deal with local governments' regulations, or how to manage in a different environment—information that a partner often can offer.14 The firm can then use the newly acquired information for other purposes."
    - **Synergy and competitive advantage**: "Firms may also enter into strategic alliances to attain synergy and competitive advantage. These related advantages reflect combinations

of the other advantages discussed in this section: The idea is that through some combination of market entry, risk sharing, and learning potential, each collaborating firm will be able to achieve more and to compete more effectively than if it had attempted to enter a new market or industry alone."

4. What are the basic characteristics of a comprehensive alliance? What form is it likely to take?
   - "**Comprehensive alliances** arise when the participating firms agree to perform together multiple stages of the process by which goods or services are brought to the market: R&D, design, production, marketing, and distribution."
   - Most comprehensive alliances are a joint venture.
5. What are the four common types of functional alliances? Briefly explain each.
   - "A **production alliance** is a functional alliance in which two or more firms each manufacture products or provide services in a shared or common facility. A production alliance may use a facility one partner already owns."
   - "A **marketing alliance** is a functional alliance in which two or more firms share marketing services or expertise. In most cases, one partner introduces its products or services into a market in which the other partner already has a presence."
   - "A **financial alliance** is a functional alliance of firms that want to reduce the financial risks associated with a project. Partners may share equally in contributing financial resources to the project, or one partner may contribute the bulk of the financing while the other partner (or partners) provides special expertise or makes other kinds of contributions to partially offset its lack of financial investment."
   - "In an **R&D alliance** , the partners agree to undertake joint research to develop new products or services. "
6. What is an R&D consortium?
   - "An **R&D consortium** is a confederation of organizations that band together to research and develop new products and processes for world markets. It represents a special case of strategic alliance in that governmental support plays a major role in its formation and continued operation."
7. What factors should be considered in selecting a strategic alliance partner?
   - Compatibility
   - Nature of a Potential Partner's Products or Services
   - The Relative Safeness of the Alliance
   - The Learning Potential of the Alliance
8. What are the three basic ways of managing a strategic alliance?
   - "Under a **shared management agreement** , each partner fully and actively participates in managing the alliance. The partners run the alliance, and their managers regularly pass on instructions and details to the alliance's managers."
   - "Under an **assigned arrangement** , one partner assumes primary responsibility for the operations of the strategic alliance."
   - "Under a **delegated arrangement** , which is reserved for JVs, the partners agree not to get involved in ongoing operations and so delegate management control to the executives of the JV itself."

9. Under what circumstances might public and private partners undertake a strategic alliance?
    - "A firm may pursue a public-private venture if a particular country does not allow wholly owned foreign operations. If the firm cannot locate a suitable local partner, it may invite the government itself to participate in a JV, or the government may request an ownership share."
10. What are the potential pitfalls of strategic alliances?
    - Incompatibility of partners
    - Access to information
    - Distribution of earnings
    - Loss of autonomy
    - Changing circumstances