GEB 3373 Homework 12

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> All uncited quotes are from the textbook

Chapter 17

1. How does a firm’s corporate strategy affect its operations management?
    - "**Operations management** is the set of activities an organization uses to transform different kinds of inputs (materials, labor, and so on) into final goods and services.2 **International operations management** refers to the transformation-related activities of an international firm. Figure 17.1 illustrates the international operations management process. As shown, a firm’s strategic context provides a necessary backdrop against which it develops and then manages its operations functions. Flowing directly from the strategic context is the question of standardized versus customized production."
2. How do production management and service operations management differ?
    - "Although some similarities exist between creating goods and creating services for international markets, there also are major fundamental differences. Operations management decisions, processes, and issues that involve the creation of tangible goods are called **production management** , and those involving the creation of intangible services are called **service operations management** ."
3. What is supply chain management? What is vertical integration?
    - "**Supply chain management** is the set of processes and steps a firm uses to acquire the various resources it needs to create its products (other common terms for this activity include *sourcing* and *procuring*). Supply chain management clearly affects product cost, product quality, and internal demands for capital. Because of these impacts, most international firms approach supply chain management as a strategic issue to be carefully planned and implemented by top management. [...] The first step in developing a supply chain management strategy is to determine the appropriate degree of vertical integration. **Vertical integration** is the extent to which a firm either provides its own resources or obtains them from other sources. At one extreme, firms that practice relatively high levels of vertical integration are engaged in every step of the operations management process as goods are developed, transformed, packaged, and sold to customers."
4. What basic set of factors must a firm consider when selecting a location for a production facility?
    - **Country-Related Issues**: "Several features of countries can influence the decision about where to locate an international facility. Chief among these are resource availability and cost, infrastructure, and country-of-origin marketing effects."
    - **Product-Related Issues**: "Product-related characteristics also may influence the location

decision. Among the more important of these are the product's value-to-weight ratio and the required production technology."
    - **Government Policies**: "Government policies also may play a role in the location decision. Especially important are the stability of the political process, national trade policies, economic development incentives, and the existence of foreign trade zones."
    - **Organizational Issues**: "An international firm's business strategy and its organizational structure also may affect the location decision. Inventory management policies are important considerations as well."
5. What basic factors must be addressed when managing international service operations?
    - **Services are Intangible**: "A consumer who goes to a store and buys an Apple iPad or an Old Navy shirt has a tangible product, one that can be held, manipulated, used, stored, damaged, or returned. A consumer who goes to an accountant to obtain financial advice leaves with intangible knowledge that cannot be held or seen. (The pieces of paper or electronic documents sometimes associated with services—tax statements, insurance policies, and so on— although tangible themselves, are actually just symbols or representations of the service product itself.) Because of this intangibility, assessing a service's value or quality often is more difficult than assessing the value or quality of a good."
    - **Services Generally are not Storable**: "Often they cannot be created ahead of time and inventoried or saved for future usage. A service call to repair a broken washing machine can occur only when the technician is physically transported to the site of the broken appliance —and is wasted if no one is home to unlock the door. [...] **Capacity planning** is deciding how many customers a firm will be able to serve at a given time."
    - **Services often Require Customer Participation**: "International services such as tourism cannot occur without the physical presence of the customer. Because of customer involvement in the delivery of the service, many service providers need to customize the product to meet the purchaser's needs."
    - **Many Services are Tied to the Purchase of other Products**: "Many firms offer **product-support services** —assistance with operating, maintaining, or repairing products for customers. Such services may be critical to the sale of the related product. For example, Swedish appliance maker AB Electrolux manufactures vacuum cleaners, refrigerators, washing machines, and other appliances under such names as Eureka, Frigidaire, Tappan, and Weed Eater."
6. Why is it important for organizations to control productivity?
    - "At its simplest level **productivity** is an economic measure of efficiency that summarizes the value of outputs relative to the value of the inputs used to create the outputs.24 Productivity is important for various reasons. For one thing, it helps determine a firm's overall success and contributes to its long-term survival. For another, productivity contributes directly to the overall standard of living within a particular country. If the firms within a country are especially productive, the country's citizens will have more products and services to consume. Moreover, the firm's goods and services can be exported to other countries, thereby bringing additional revenues back into the country of origin. Each of these factors positively impacts gross domestic product and thus benefits the whole

country."

Chapter 18

1. Who bears the risk when payment in advance is used to settle an international transaction?
    - "**Payment in advance** is the safest method of payment from the exporter's perspective: The exporter receives the importer's money before shipping the goods. Using this method, the exporter reduces its risk and receives payment quickly, which may be important if its working capital balance is low. Exporters prefer payments in advance to be made by wire transfer, which allows for immediate use of the funds."
2. Who bears the risk when an open account is used to settle an international transaction?
    - "From the importer's perspective, the safest form of payment is the **open account** , whereby goods are shipped by the exporter and received by the importer before payment. The exporter then bills the importer for the goods, stipulating the amount, form, and time at which payment is expected. Open accounts also can be used as a marketing tool because they offer potential buyers short-term financing. Use of an open account enables the importer to avoid the fees charged by banks for alternative means of payment such as letters of credit or documentary collection, which will be discussed shortly. An open account has the further advantage of requiring less paperwork than these other forms of payment."
3. What are the different types of letters of credit?
    - "**EXPORT LICENSES** are issued by an agency of the exporter's home government. They may be required for politically sensitive goods, such as nuclear fuels or high-technology goods that may have military uses.
    - **CERTIFICATES OF PRODUCT ORIGIN** confirm that the goods being shipped were produced in the exporting country. They may be required by the importing country so it can assess tariffs and enforce quotas.
    - **INSPECTION CERTIFICATES** may be needed to provide assurance that the products have been inspected and conform to relevant standards. For example, imported foodstuffs often must meet rigorous standards regarding pesticide residues, cleanliness, sanitation, and storage."
4. How do a time draft and a sight draft differ?
    1. "A **sight draft** requires payment upon the transfer of title to the goods from the exporter to the importer. When the bank in the importer's country receives the bill of lading and the sight draft from the exporter's bank, it notifies the importer, which then pays the draft. On payment, the bank gives the bill of lading to the importer, which then can take title to the goods."
    2. "A **time draft** extends credit to the importer by requiring payment at some specified time, such as 30 or 60 days, after the importer receives the goods. (A variant of the time draft, the **date draft** , specifies a particular date on which payment will be made.)"
5. How do a trade acceptance and a banker's acceptance differ?
    - "An accepted time draft is called a **trade acceptance** , which under the laws of most countries is a legally enforceable and negotiable debt instrument. For a fee, the importer's

bank also may accept a time draft, thereby adding its own obligation to pay the draft to the importer's obligation. In this case the time draft becomes a **banker's acceptance** ."

6. How do the various types of countertrade arrangements differ from one another?
    - "The simplest form of countertrade is **barter** , in which each party simultaneously swaps its products for the products of the other. In the late 1990s, for instance, the State Trading Corporation of India agreed to exchange wheat and other grains to Turkmenistan in return for cotton. [...] A more sophisticated form of countertrade is **counterpurchase** , whereby one firm sells its products to another at one point in time and is compensated in the form of the other's products at some future time. Counterpurchase is the most common form of countertrade. [...] Another variant of countertrade involves **buy-back** , or compensation arrangements whereby one firm sells capital goods to a second firm and is compensated in the form of output generated as a result of their use. [...] Another important type of countertrade involves **offset purchases** , whereby part of the cost of an exported good is offset by production in the importing country. Offset arrangements are particularly important in sales to foreign governments of expensive military equipment such as fighter jets or tanks. [...] Sometimes firms enter into countertrade agreements to expand their international sales, without having experience in or desire to engage in countertrade. In this case, countertrade agreements often permit the use of **switching arrangements** , whereby countertrade obligations are transferred from one firm to another"
7. What is translation exposure? What effect does a balance sheet hedge have on translation exposure?
    - "**Translation exposure** is the impact on the firm's consolidated financial statements of fluctuations in exchange rates that change the value of foreign subsidiaries as measured in the parent's currency. If exchange rates were fixed, translation exposure would not exist. (Because translation exposure develops from the need to consolidate financial statements into a common currency, it is often called *accounting exposure*.)"
8. What capital budgeting techniques are available to international businesses?
    - **Net Present Value**: "The net present value approach is based on a basic precept of finance theory that a dollar today is worth more than a dollar in the future. To calculate the net present value of a project, a firm's financial officers estimate the cash flows the project will generate in each time period and then discount them back to the present."
    - **Risk Adjustment**: "Because a foreign project may be riskier than a domestic project, international businesses may adjust either the discount rate upward or the expected cash flows downward to account for a higher level of risk."
    - **Choice of Currency**: "The determination of the currency in which the project should be evaluated depends on the nature of the investment. If the project is an integral part of the business of an overseas subsidiary, the use of the foreign currency is appropriate."
    - **Whose Perspective: Parent's or Project's**: "Another factor is determining whether the cash flows that contribute to the net present value of the capital investment should be evaluated from the perspective of the parent or that of the individual project. In practice, some international businesses analyze the cash flows of the individual project, others focus on the project's impact on the parent, and others do both."

- **Internal Rate of Return**: "A second approach commonly used for evaluating investment projects is to calculate the internal rate of return. With this approach, financial officers first estimate the cash flows generated by each project under consideration in each time period, as in the net present value analysis."
- **Payback Period**: "A third approach for assessing and selecting projects is to calculate a project's **payback period —**the number of years it will take the firm to recover, or pay back, the original cash investment from the project's earnings."

9. What is a transfer price? How do firms determine them?
    - "A **transfer price** is the price paid for goods and services involved in intracorporate transactions between a subsidiary and other branches of the corporate family. [...] The market-based method uses prices determined in the open market to transfer goods between units of the same corporate parent. Suppose Samsung wants to export memory chips from South Korea for use in assembling personal computers at one of its U.S. subsidiaries. It can establish the transfer price for the memory chips between its U.S. and Korean subsidiaries by using the open market price for such chips. [...] Transfer prices also may be established using nonmarket-based methods. Prices may be set by negotiations between the buying and selling units or on the basis of cost-based rules of thumb, such as production costs plus a fixed markup."