

Chapter 12

Student: _____

1. According to the opening case, before General Electric discovered joint ventures, it entered a foreign market in what way?
 - A. exporting
 - B. importing
 - C. franchising
 - D. licensing.
 - E. Greenfield subsidiary
2. The choice of what foreign market to enter should, according to the textbook, be driven by an assessment of:
 - A. relative long-run growth and profit potential.
 - B. geographic proximity and friendliness of host government.
 - C. climate and economic stability of host government.
 - D. friendliness of host government and profit potential.
 - E. relative long-run profit and the risk of losses
3. The advantages frequently associated with entering a market early are commonly known as:
 - A. inaugural advantages.
 - B. first-mover advantages.
 - C. initial-entrant premiums.
 - D. proactive-mover benefits.
 - E. primary entrant advantages
4. Once attractive markets have been identified, it is important to consider the:
 - A. timing of entry.
 - B. competition.
 - C. costs involved.
 - D. insurance needed in the event of failure.
 - E. All of these answers are correct
5. Which of the following is not a first-mover advantage?
 - A. The ability to increase a firm's chances of survival by entering a foreign market before industrial rivals
 - B. The ability to build sales volume in a country and ride down the experience curve ahead of rivals
 - C. The ability to create switching costs that tie customers to a company's products or services
 - D. The ability to pre-empt rivals
 - E. The ability to capture demand by establishing a strong brand name
6. What are the disadvantages associated with entering a market early commonly known as?
 - A. First-mover disadvantages
 - B. Inaugural disadvantages
 - C. Initial-entrant disadvantages
 - D. Proactive-mover losses
 - E. Primary entrant advantages
7. Which of the following are costs that an early entrant has to bear that a later entrant can avoid?
 - A. Experimental costs
 - B. Untried costs
 - C. Introductory costs
 - D. Pioneering costs
 - E. Early adoption costs

8. _____ costs arise when the business system in a foreign country is so different from that in a firm's home market that the enterprise has to devote considerable effort, time, and expense to learning the rules of the game.
- A. Pioneering
 - B. Early entry
 - C. Introductory costs
 - D. Inaugural costs
 - E. Primary entrant
9. All of the following are pioneering costs except the costs of:
- A. business failure.
 - B. educating consumers.
 - C. promoting and establishing a product offering.
 - D. regulatory change
 - E. learning costs from the mistakes of early entrants.
10. A decision that has a long-term impact and is difficult to reverse a(n):
- A. operational pledge.
 - B. functional assurance.
 - C. tactical covenant.
 - D. strategic commitment.
 - E. core investment
11. Entering a large market such as China before other similar industries will be associated with what?
- A. exporting
 - B. licensing
 - C. franchising
 - D. late mover advantages
 - E. a high level of risk
12. Sonic Jets, an international business, is considering entering a new market in Germany. What does Sonic Jets need to consider?
- A. Its scale of entry
 - B. Its role as a social entity
 - C. Its home-country employees
 - D. Its top managements' desire to move to Germany
 - E. Its product benefits
13. According to the text, _____ tend to change the competitive playing field and unleash a number of changes, some desirable and some undesirable.
- A. economies of scale
 - B. loan commitments
 - C. significant strategic commitments
 - D. technological development
 - E. pioneering costs
14. What type of entry allows a firm to learn about a foreign market while limiting the firm's exposure to that market?
- A. Minimal-commitment
 - B. Small-scale
 - C. Reduced-commitment
 - D. Minimal-scale
 - E. exporting

15. The _____ entrant is more likely than the _____ entrant to be able to capture the first-mover advantages associated with demand pre-emption, scale economies, and switching costs.
- A. small scale; large scale
 - B. small scale; moderate scale
 - C. large scale; moderate scale
 - D. there is no relationship between scale of entrant and the ability to capture first-mover advantages
 - E. large scale; small scale
16. The market entry mode which may help a firm achieve experience curve and location economics is what?
- A. exporting
 - B. importing
 - C. joint ventures
 - D. green field acquisition
 - E. wholly owned subsidiaries
17. Most manufacturing firms begin their global expansion through _____.
- A. establishing a joint venture with a host country firm
 - B. licensing
 - C. turnkey projects
 - D. exporting
 - E. franchising
18. In a recent article, Bartlett and Ghoshal pointed out the ability that businesses based in developing nations have to enter foreign markets and become:
- A. global players.
 - B. top sellers.
 - C. first-movers.
 - D. late-entrants.
 - E. international businesses
19. Which of the following is not a mode to enter foreign markets?
- A. Turnkey projects
 - B. Establish joint ventures with another home country firm
 - C. Set up a new wholly owned subsidiary in the host country
 - D. Franchising
 - E. Licensing
20. Which of the following are the two distinct advantages of exporting?
- A. Getting rid of excess inventory and reducing risk
 - B. Access to local partner's knowledge; and politically acceptable
 - C. Ability to earn returns from process technology skills in countries where FDI is restricted; and politically acceptable
 - D. Access to a local partner's knowledge and it may help a firm achieve experience curve; and location economies
 - E. It avoids the often-substantial cost of establishing manufacturing operations in the host country; and it may help a firm achieve experience curve and location economies
21. All of the following are disadvantages of exporting except?
- A. It may help a firm achieve experience curve economies
 - B. High transportation costs can make exporting uneconomical
 - C. Tariff barriers can make exporting uneconomical
 - D. Exporting from a firm's home bases may not be appropriate if there are lower-cost locations for manufacturing the product abroad
 - E. Marketing is the responsibility of local agents

22. Consider the following scenario: Ballard Manufacturing wants to sell its products overseas, but only if it can act on its own and manufacture its product in a central location. Based on these objectives, the appropriate foreign entry mode for Ballard is:
- A. wholly owned subsidiary.
 - B. franchising.
 - C. exporting.
 - D. licensing.
 - E. turnkey project
23. The contractor agrees to handle every detail of the project for a foreign client, including the training of operating personnel in a(n) _____ project.
- A. beginning to end
 - B. A to Z
 - C. front-to-back
 - D. turnkey
 - E. business completion
24. Turnkey projects are a means of exporting _____ to other countries.
- A. commodities
 - B. the manufacturing of goods
 - C. process technology
 - D. the provision of services
 - E. the production of automobiles
25. Suppose Exxon, a U.S. company, was contracted by a Saudi Arabian company to build an oil refinery in Saudi Arabia, and the contract specified that Mobil would handle every aspect of the construction of the refinery, including the training of the operating personnel. This type of project is referred to as a(n)
- A. turnkey project.
 - B. beginning to end.
 - C. A to Z.
 - D. front to back.
 - E. petro project
26. Turnkey projects are most common in the following industries:
- A. chemical, pharmaceutical, petroleum refining, and metal refining.
 - B. textiles, shoes, leather products, and linens.
 - C. cars, trucks, construction equipment, and farm implements.
 - D. lumber, furniture, paper, and pulp.
 - E. automobile, pulp and paper, metal mining, oilfield production
27. _____ takes advantage of a firm's competency in the area of assembling and running technologically complex projects.
- A. Licensing
 - B. Exporting
 - C. Turnkey projects
 - D. Franchising
 - E. Green field investments
28. Creating efficient competitors and lack of long-term market presence are disadvantages of _____.
- A. turnkey projects
 - B. licensing
 - C. franchising
 - D. exporting
 - E. joint ventures

29. Which foreign market entry strategy has the following disadvantages: lack of long-term market presence, may inadvertently create a competitor, risk selling a firm's competitive advantage?
- A. Wholly owned subsidiary
 - B. Turnkey project
 - C. Exporting
 - D. Franchising
 - E. Joint venture
30. An arrangement whereby a firm grants the rights to intangible property to another entity for a specified time period in exchange for royalties is a(n) _____ agreement.
- A. franchising
 - B. turnkey
 - C. licensing
 - D. exporting
 - E. joint venture
31. Suppose Apple Computer granted a France company the rights to manufacture keyboards in France in exchange for a royalty fee. This type of arrangement is referred to as a:
- A. franchising agreement.
 - B. turnkey project.
 - C. licensing agreement.
 - D. wholly owned subsidiary.
 - E. joint venture
32. Examples of _____ property include patents, inventions, formulas, processes, designs, copyrights, and trademarks.
- A. intangible
 - B. discernable
 - C. tangible
 - D. nondescript
 - E. proprietary
33. Which of the following is not an argument in favour of licensing as a means of foreign market entry?
- A. The firm does not have to have capital to open markets overseas
 - B. A firm wants to participate in a foreign market, but is prohibited from doing so by barriers to investment
 - C. The firm possesses some intangible property that might have business applications and does not want to develop that technology or those applications itself
 - D. The firm does not have to bear the development costs and risks associated with opening a foreign market
 - E. The firm wants to maintain tight control over the marketing
34. All of the following are disadvantages of licensing except:
- A. high costs and risks.
 - B. lack of control over technology.
 - C. inability to realize location and experience curve economies.
 - D. inability to engage in global strategic coordination.
 - E. all of these answers are correct
35. Under a(n) _____ agreement, a firm might license some valuable intangible property to a foreign partner, but in addition to a royalty payment, the firm might also request that the foreign partner license some of its valuable know-how to the firm.
- A. inter-licensing
 - B. reciprocal-licensing
 - C. cross-licensing
 - D. parity-licensing
 - E. protected-licensing

36. What type of agreements enable firms to hold each other hostage, which reduces the probability that they will behave opportunistically toward each other?
- A. Cross-licensing
 - B. Franchise
 - C. Joint venture
 - D. Exporting
 - E. Mergers
37. _____ is basically a specialized form of licensing in which the franchiser not only sells intangible property to the franchisee, but also insists that the franchisee agree to abide by strict rules as to how it does business.
- A. Franchising
 - B. Chartering
 - C. Exporting
 - D. Leasing
 - E. Cross-licensing
38. Other than licensing, the form of foreign market entry that results in a firm in the host country paying a royalty to the firm that has the rights to a product or service is called _____.
- A. joint venture
 - B. exporting
 - C. franchising
 - D. wholly owned subsidiary
 - E. merger
39. Distinct advantages of _____ are low development costs and risks.
- A. wholly owned subsidiaries and exporting
 - B. exporting and turnkey projects
 - C. joint ventures and wholly owned subsidiaries
 - D. franchising and licensing
 - E. mergers and acquisitions
40. Lack of control over quality and the inability to engage in global strategic coordination are distinct disadvantages of _____.
- A. franchising
 - B. exporting
 - C. wholly owned subsidiaries
 - D. turnkey projects
 - E. joint ventures
41. Whereas primarily _____ firms pursue licensing, primarily _____ firms pursue franchising.
- A. manufacturing; service
 - B. agricultural; manufacturing
 - C. service; mining
 - D. mining; service
 - E. banking; manufacturing
42. The foundation of franchising arrangements is that the firm's _____ conveys a message to consumers about the quality of the firm's product.
- A. market
 - B. brand name
 - C. employees
 - D. competitors
 - E. products

43. A _____ entails establishment of a firm that is jointly owned by two or more otherwise independent firms.
- A. licensing agreement
 - B. wholly owned subsidiary
 - C. franchise
 - D. joint venture
 - E. merger
44. If Pepsi and a Turkish firm established a jointly owned entity for the purpose of bottling soft drinks in Turkey, that would be an example of a:
- A. turnkey project.
 - B. wholly owned subsidiary.
 - C. joint venture.
 - D. franchise.
 - E. merger
45. If Gateway and Compaq established a jointly owned entity for the purpose of building computers to export to Asia, that would be an example of a _____ form of foreign market entry.
- A. wholly owned subsidiary
 - B. joint venture
 - C. turnkey project
 - D. franchise
 - E. merger
46. _____ has the following advantages: firms benefit from a local partner's knowledge of the host country's competitive conditions, a firm shares development costs with a local partner, and in many countries political considerations necessitate this form of entry.
- A. Wholly owned subsidiary
 - B. Franchising
 - C. Exporting
 - D. Joint venture
 - E. Acquisition
47. The most typical joint venture is:
- A. 80/20, in which there are two partners and one partner holds a substantial majority share.
 - B. 50/50, in which there are two partners and each partner holds an equal share.
 - C. 25/25/25/25, in which there are four partners and each partner hold an equal share.
 - D. 51/49, in which there are two partners and one partner holds a slight majority share.
 - E. 60/40, in which there are two partners and one holds a majority share
48. Which of the following is a disadvantage of joint ventures?
- A. It gives a firm the tight control over subsidiaries that it might not need to realize experience curve or location economies.
 - B. A firm that enters a joint venture risks giving control of its technology to its competitors.
 - C. The shared ownership arrangement can lead to conflicts and battles for control between the investing firms if their goals and objectives change or if they take different views as to what the strategy should be.
 - D. When the development costs and/or risks of opening foreign markets are low, a firm might gain by sharing these costs and/or risks with a foreign partner.
 - E. A firm does not gain any local expertise
49. In a _____, the firm owns 100 percent of the stock.
- A. joint venture
 - B. turnkey operation
 - C. wholly owned subsidiary
 - D. strategic alliance
 - E. acquisition

50. _____ is the preferred mode of foreign market entry for a high-tech firms that wants to (1) minimize the risk of losing control over its technological competence; and (2) maintain tight control over its operations.
- A. Licensing
 - B. Franchising
 - C. Wholly owned subsidiary
 - D. Turnkey operation
 - E. Acquisition
51. Suppose Boeing decided to build an assembly plant in Iceland and, in an effort to maintain maximum control, decided to operate the plant completely on its own. This is an approach to foreign market entry referred to as:
- A. joint venture.
 - B. turnkey operation.
 - C. exporting.
 - D. wholly owned subsidiary.
 - E. green field venture
52. Protection of technology, the ability to engage in global strategic coordination and the ability to realize location and experience economies are distinct advantages of _____.
- A. franchising
 - B. wholly owned subsidiary
 - C. exporting
 - D. licensing
 - E. acquisitions
53. Establishing a wholly owned subsidiary in a foreign country can be done:
- A. through a turnkey operation or through a licensing agreement.
 - B. through a joint venture or through acquiring an established firm to promote its products.
 - C. through setting up a new operation in a foreign country or through acquiring an established firm to promote its products.
 - D. through licensing agreements or through setting up a new operation in the foreign country.
 - E. through master franchising agreements
54. What is the most costly form of foreign market entry?
- A. Exporting
 - B. Licensing
 - C. Franchising
 - D. Wholly owned subsidiary
 - E. Joint venture
55. If a firm's competitive advantage is based on control over proprietary technological know how, which of the following foreign entry modes should be avoided?
- A. Exporting and joint ventures
 - B. Turnkey projects and franchising
 - C. Wholly owned subsidiaries and franchising
 - D. Joint ventures and licensing
 - E. Acquisitions
56. The most advantageous entry mode is _____, if a high-tech firm sets up operations in a foreign country to profit from a core competency in technological know-how.
- A. exporting
 - B. turnkey operation
 - C. franchising
 - D. licensing
 - E. wholly owned subsidiary

57. Many service firms favour a combination of franchising and _____ to control the franchises within a particular country or regions.
- A. strategic alliances
 - B. subsidiaries
 - C. turnkey project partners
 - D. licensing agreements
 - E. joint ventures
58. The greater the pressures for cost reductions are, the most likely a firm will want to pursue some combination of:
- A. licensing and joint venture.
 - B. exporting and wholly owned subsidiaries.
 - C. franchising and exporting.
 - D. joint ventures and wholly owned subsidiaries.
 - E. exporting and licensing
59. _____ is preferred to joint venture arrangements and to using foreign market agents.
- A. Franchising
 - B. Exporting
 - C. Wholly owned subsidiary
 - D. Turnkey project
 - E. Merger
60. Daimler-Benz used _____ to establish a bigger presence in the North American market.
- A. licensing
 - B. franchising
 - C. a merger
 - D. turnkey projects
 - E. an acquisition
61. Why are wholly owned subsidiaries preferred by firms pursuing global or transnational strategies?
- A. They are more challenging
 - B. They are less costly than other modes
 - C. They allow the use of profits generated in one market and improve the competitive position in another
 - D. They allow for easier management and transitions
 - E. they increase the value of the firm more
62. An advantage of acquisitions is _____?
- A. low cost
 - B. more risk than green field ventures
 - C. the ability to pre-empt competitors
 - D. faster to implement than exporting
 - E. faster to implement than importing
63. Ted E. Bear, Inc, a Canadian company, has chosen to establish a wholly owned subsidiary in Mexico. It has the choice of acquiring an established company in Mexico or
- A. create a joint venture.
 - B. buy a franchise.
 - C. license the manufacturing techniques to a Mexican corporation.
 - D. build a green-field venture.
 - E. a merger
64. Which of the following is not an advantage of acquisitions?
- A. They pre-empt the competition
 - B. They are quick to execute
 - C. They allow a firm to rapidly build its presence in a new market
 - D. They are less risky than green-field ventures
 - E. They are the least expensive form of expansion

65. The need for pre-emption is particularly great in markets that are
- A. rapidly globalizing.
 - B. dynamic.
 - C. stable.
 - D. deregulated.
 - E. fast growing
66. When a firm makes an acquisition in a foreign market, it acquires all of the following except:
- A. a local brand name.
 - B. customers.
 - C. logistics systems.
 - D. managers' knowledge of the business environment in that nation.
 - E. the intellectual property
67. The Mercer Study concluded that _____ percent of the 150 acquisitions studied ended up eroded or substantially shareholder value.
- A. 90
 - B. 70
 - C. 50
 - D. 30
 - E. 25
68. Ravenscraft and Scherer concluded in their study that many good companies were acquired between January 1990 and July 1995, and on average, their profits and market shares _____ following the acquisition.
- A. declined
 - B. skyrocketed
 - C. doubled
 - D. remained the same
 - E. followed the market value
69. Which of the following is not a reason why acquisitions fail?
- A. The cultures of the acquiring and acquired firms clash
 - B. Attempts to realize synergies by integrating the operations of the acquiring firm and host-country government often run into roadblocks and take longer than forecasted.
 - C. Inadequate pre-acquisition screening
 - D. Overpayment for assets of the acquired firm
 - E. Underpayment for assets of the acquired firm
70. What term refers to the management of the acquired firm being too optimistic about the value than can be created via an acquisition and is thus willing to pay a significant premium over a target firm's market capitalization?
- A. The optimistic hypothesis
 - B. Managerial thinking
 - C. The hubris hypothesis
 - D. Managerial potential
 - E. Managerial optimism
71. Differences in _____ can slow the integration of operations in acquisitions.
- A. culture
 - B. cost structure
 - C. customer expectations
 - D. profitability
 - E. country sizes

72. The big advantage of establishing a(n) _____ in a foreign country is that it gives the firm a much greater ability to build the kind of subsidiary company that it wants.
- A. franchise
 - B. joint venture
 - C. turnkey project
 - D. green-field venture
 - E. takeover strategy
73. Which of the following statements is true?
- A. Green-field ventures are risky.
 - B. Green-field venture are more risky than acquisitions.
 - C. There is a possibility of a green-field venture being pre-empted by more aggressive global competitors.
 - D. Green-field ventures are slow to establish.
 - E. Green-field ventures are more profitable
74. If a firm is entering a market where there is already well-established incumbent enterprises, and where global competitors are also interested in establishing a presence, it may pay the firm to enter via a(n):
- A. acquisition.
 - B. government subsidy.
 - C. green-field venture.
 - D. franchise.
 - E. joint venture
75. Suzi's Sleds, Inc. is considering entering Japan, where there are no other incumbent competitors to acquire. Suzi's would do best in Japan with a(n):
- A. franchise.
 - B. turnkey project.
 - C. joint venture.
 - D. green-field venture.
 - E. acquisition
76. China prefers that foreign firms enter through a joint venture because
- A. the foreign firm's investment will ensure that it is around for the long-run
 - B. this gives an opportunity for foreign firms to protect their technology and intellectual property
 - C. corporate taxes are higher on joint ventures
 - D. foreign firms would be forced to serve the Chinese domestic market
 - E. foreign firms would invest capital in China
77. Many Canadian companies are leery of forming equity joint ventures with China because of
- A. changing regulations
 - B. issues around currency convertibility
 - C. lack of skilled labour
 - D. poor quality raw materials
 - E. all of the answers are correct
78. Joint ventures have proven to be very profitable to General Electric.
True False
79. The choice of what foreign markets to enter should be driven by an assessment of relative long-run growth and profit potential.
True False
80. Pre-emptive advantages are the advantages frequently associated with entering a market early.
True False
81. Pioneering costs are costs that an early entrant has to bear that a later entrant can avoid.
True False

82. A decision that is short-term in nature and is fairly easy to reverse is referred to as a strategic commitment.
True False
83. Strategic commitments tend to change the competitive playing field.
True False
84. Most manufacturing firms start their global expansion by serving a foreign market before exporting.
True False
85. One advantage to exporting is that it avoids the costs of establishing manufacturing operations in the host country.
True False
86. The contractor agrees to handle every detail of the project for a foreign client, including the training of operating personnel in a turnkey project.
True False
87. Licensing gives a firm tight control over the manufacturing, marketing, and strategy that is required for realizing experience curve and location economies.
True False
88. Franchising is employed primarily by service firms, whereas licensing is pursued primarily by manufacturing firms.
True False
89. A primary advantage of franchising is low development costs and risks.
True False
90. Quality control is one of the most significant disadvantages of franchising.
True False
91. A joint venture entails establishment of a firm that is jointly owned by two or more otherwise independent companies.
True False
92. The sharing of development costs and risks is a primary advantage of joint ventures.
True False
93. Research suggests that joint ventures with local partners face a high risk of being subject to nationalization or other forms of government interference.
True False
94. One of the primary advantages of a wholly owned subsidiary is that it gives the firm tight control over operations in different countries that are necessary for engaging in global strategic coordination.
True False
95. Generally, the most inexpensive method of serving a foreign market is establishing a wholly owned subsidiary.
True False
96. If a firm's competitive advantage is based on control over proprietary technological know-how, licensing and joint venture arrangements are preferred methods of foreign market entry.
True False
97. By licensing its technology to competitors, the firm may deter them from developing their own, possibly superior technology.
True False
98. Management know-how is what most industrial firms base competitive advantage upon.
True False

99. Firms pursuing global or transnational strategies tend to prefer establishing joint ventures.
True False
100. Acquisitions are quick to execute.
True False
101. Acquisitions often produce disappointing results, despite the argument for making them.
True False
102. Overpayment for assets of an acquired firm is one reason acquisitions fail.
True False
103. The managerial hypothesis suggests that top managers typically overestimate their ability to create value from an acquisition, primarily because rising to the top of a corporation has given them an exaggerated sense of the own capabilities.
True False
104. Greenfield ventures are slower to establish than acquisition, but they are less risky.
True False
105. What is meant by the term, "first-mover advantage?" Describe several first-mover advantages.
106. What are pioneering costs? When do these costs arise?
107. What are the six different ways for a firm to enter a foreign market? Provide a brief description of each of these foreign market entry strategies.
108. From the perspective of a domestic firm, what are the advantages and disadvantages of licensing the rights to the company's production process and trademark to a firm in a foreign country? What are some of the ways that a firm can reduce the risk of losing its proprietary know-how to foreign companies through licensing agreements?

109. What is meant by the term "wholly owned subsidiary?" Under what circumstances is the establishment of a wholly owned subsidiary an appropriate foreign entry strategy?
110. Thunder rock is a small microbrewery on the outskirts of Toronto. Sales have grown rapidly in the last two years mainly through word of mouth. Thunder rock has a small brewery that is producing at full capacity at the moment. Thunder rock has been written up in many business publications as an example of a well run small business. As a result of the publicity they have received a lot of attention from venture capitalists and companies that want to buy them out. Thunder rock wants to grow their business but is unsure which direction they want to take. They could expand in the Canadian market, but it is saturated with many microbreweries already. China is a huge untapped market that does not have a lot of foreign beers yet. There are a couple of large Chinese breweries like Tsingtao, that dominate the market but there are many foreigners now living in China that have a different taste for beer than Tsingtao. a. Describe in detail what would be your recommendation for how they should enter the Chinese market. b. Explain the reasons why you chose this entry strategy and the advantages and disadvantages compared to other possible methods a business might enter a country.
111. Veloped Inc. is small motorcycle company that builds small sleek looking motorcycles that are geared to urban life. These motorcycles are much smaller than traditional motorcycles, they only fit one person, there is no room for a passenger like on traditional motorcycles. They are ideal for navigating traffic and small streets. The owners of Veloped think that their motorcycles would be perfect for the crowded streets of Chinese cities. a. Describe in detail what would be your recommendation for how they should enter the Chinese market. b. Explain the reasons why you chose this entry strategy and the advantages and disadvantages compared to other possible methods a business might enter a country.
112. China is a society where a large percent of the population smoke, especially the men. With 1.3 billion people that is a lot of smokers. Most people smoke the local Chinese brand but as people start making more money they also want everything Western. China does not have restrictions on smoking in offices, buses or in public places like here in Canada. A Canadian cigarette company named Black Cat wants to start selling their cigarettes in China. a. Describe in detail what would be your recommendation for how they should enter the Chinese market. b. Explain the reasons why you chose this entry strategy and the advantages and disadvantages compared to other possible methods a business might enter a country.

113. Many Chinese people wear glasses. As more Chinese acquire money they are choosing to have cosmetic surgery. One of the most popular is to have laser eye surgery to correct their vision. Lasik 20/20 is a Canadian company that has been doing very well in Canada with high-profile athletes and celebrities having their vision corrected with Lasik 20/20. They are looking to enter the Chinese market but do not know the best way to go about it. a. Describe in detail what would be your recommendation for how they should enter the Chinese market. b. Explain the reasons why you chose this entry strategy and the advantages and disadvantages compared to other possible methods a business might enter a country.
114. Harvey's the Canadian hamburger chain is looking to expand internationally. They feel that China is a huge untapped market with lots of potential for their products. McDonalds and KFC have a large presence in China already. What would be the best approach for Harvey's to take if they were to enter China. a. Describe in detail what would be your recommendation for how they should enter the Chinese market. b. Explain the reasons why you chose this entry strategy and the advantages and disadvantages compared to other possible methods a business might enter a country.
115. You have been recently hired by the Canadian manufacturer of a branded line of fashion accessories. They are designed and manufactured in Canada and sold in the US and parts of the EU. This firm is known for being consistently ahead of the curve in the fashion market that appeals to women between the ages of 21 to 29. They have recently been approached by an Indonesian manufacturer and distributor of fashion accessories. Indonesia is not a priority for the company and they are not prepared to invest the resources to establish a marketing office in Indonesia. The Indonesian company has suggested licensing their line for manufacturing and sale in Indonesia. As a consultant you have been asked to evaluate this proposal and suggest steps the company could take to minimize risks associated with licensing.

116. A Canadian developer of software for computerized mining equipment has been approached by a Chinese mining conglomerate with an offer to cooperate on adapting the software to the Chinese market. If the Canadian company agreed to work with the Chinese company, they would have to reveal the software's source code (the source code is an important security feature for software and is used to protect proprietary technology). The sales department is strongly in favour of entering into an agreement, but the CEO is afraid that the company will lose control of its technology. The potential revenue from this project would be in the hundreds of millions of dollars. Prepare a recommendation for the CEO with the pros and cons of the joint venture.

117. In what situation would you choose licensing over exporting?

118. In what situation would you choose exporting over wholly owned subsidiary?

Chapter 12 Key

1. (p. 398) E
2. (p. 402, 403) A
3. (p. 403) B
4. (p. 403) A
5. (p. 403) A
6. (p. 403) A
7. (p. 403, 404) D
8. (p. 403) A
9. (p. 403, 404) E
10. (p. 404) D
11. (p. 406) E
12. (p. 404) A
13. (p. 404-406) C
14. (p. 406) B
15. (p. 404-406) E
16. (p. 407) A
17. (p. 407) D
18. (p. 406) A
19. (p. 407) B
20. (p. 407) E
21. (p. 407) A
22. (p. 407) C
23. (p. 408) D
24. (p. 408) C
25. (p. 408) A
26. (p. 408) A
27. (p. 408) C
28. (p. 408) A
29. (p. 408) B
30. (p. 408) C
31. (p. 408) C
32. (p. 408) A
33. (p. 409, 410) E
34. (p. 409, 410) A
35. (p. 410) C
36. (p. 410) A

37. (p. 410) A
38. (p. 410) C
39. (p. 411) D
40. (p. 411) A
41. (p. 410) A
42. (p. 411) B
43. (p. 411) D
44. (p. 411) C
45. (p. 411) B
46. (p. 412) D
47. (p. 411) B
48. (p. 412) C
49. (p. 413) C
50. (p. 413) C
51. (p. 413) D
52. (p. 413, 414) B
53. (p. 413) C
54. (p. 413) D
55. (p. 415) D
56. (p. 415) E
57. (p. 414, 415) B
58. (p. 415, 416) B
59. (p. 416) C
60. (p. 416) E
61. (p. 416) C
62. (p. 416) C
63. (p. 416) D
64. (p. 416, 417) E
65. (p. 416) A
66. (p. 416) B
67. (p. 418) C
68. (p. 418) A
69. (p. 418) B
70. (p. 418) C
71. (p. 419) A
72. (p. 419) D
73. (p. 419, 420) B
74. (p. 420) A

75. (p. 420) D

76. (p. 421) E

77. (p. 422) E

78. (p. 400) TRUE

79. (p. 402) TRUE

80. (p. 403) FALSE

81. (p. 403) TRUE

82. (p. 404) FALSE

83. (p. 404) TRUE

84. (p. 407) FALSE

85. (p. 407) TRUE

86. (p. 408) TRUE

87. (p. 408, 409) FALSE

88. (p. 410) TRUE

89. (p. 411) TRUE

90. (p. 411) TRUE

91. (p. 411) TRUE

92. (p. 412) TRUE

93. (p. 412) FALSE

94. (p. 413) TRUE

95. (p. 413) FALSE

96. (p. 415) FALSE

97. (p. 415) TRUE

98. (p. 415) FALSE

99. (p. 414) FALSE

100. (p. 416) TRUE

101. (p. 418) TRUE

102. (p. 418) TRUE

103. (p. 418) FALSE

104. (p. 420) FALSE

105. (p. 403) The advantages frequently associated with entering a market early are commonly known as first-mover advantages. One first-mover advantage is the ability to pre-empt rivals and capture demand by establishing a strong brand name. A second advantage is the ability to build sales volume in that country and ride down the experience curve ahead of rivals, giving the early entrant a cost advantage over later entrants. A third advantage is the ability of early entrants to create switching costs that tie customers into their products or services. Such switching costs make it difficult for later entrants to win business.

106. (p. 403) Pioneering costs are costs that an early entrant has to bear that a later entrant can avoid. Pioneering costs arise when the business system in a foreign country is too different from that in a firm's home market that the enterprise has to devote considerable effort, time, and expense to learning the rules of the game.

- F. Wholly Owned Subsidiary-this form of foreign market entry entails setting up a new operation (or acquiring an existing company) in a foreign country.
- E. Joint Ventures-entails establishing a firm that is jointly owned by two or more otherwise independent firms.
- D. Franchising-is a specialized form of licensing in which the franchiser sells intangible property (normally processes and trademarks) to a franchisee, but also insists that the franchisee agree to abide by strict rules as to how it does business. The McDonalds Corporation, for example, has been very successful in selling franchises to both domestic and foreign franchisees.
- C. Licensing-in a licensing agreement, a company from one country grants the rights to intangible property (such as patents, processes, and trademarks) to a company in another country in exchange for a royalty fee.
- B. Turnkey projects-in a turnkey project, a contractor from one country handles every detail of the design, construction, and start-up of a facility in a foreign country, and then hands the foreign client the key to a facility that is ready for operation.
- A. Exporting-involves manufacturing a product in a central location and shipping it to foreign markets for sale.
107. (p. 407-414) The six different ways for a firm to enter a foreign market include:

A licensor can reduce the risk of losing proprietary know-how to a foreign partner by entering into a cross-licensing agreement. Under a cross-license agreement, a firm licenses some valuable intangible property (such as a production process) to a foreign partner, but in addition to royalty payments, the firm also requires the foreign partner to license some of its valuable know-how to the firm. Cross-licensing agreements enable firms to hold each other "hostage," thereby reducing the risk they will behave in an opportunistic manner toward each other.

There are three main drawbacks to licensing. First, if a firm licenses any of its proprietary know-how (such as its production processes) to another company, it risks losing control over this knowledge by permitting access to it by another firm. According to the textbook, many firms have made the mistake of thinking they could maintain control over their know-how within the framework of a licensing agreement. Second, licensing is not an effective way of realizing experience curve and location economies by manufacturing a product in a centralized location. If these attributes are important to a firm, licensing may be a poor choice. Finally, competing in a global market may require a firm to coordinate strategic moves across countries by using profits from one country to support competitive attacks in another. Licensing severely limits a firm's ability to do this. A licensee is unlikely to allow a multinational firm to use its profits (beyond the royalty payments) to support a different licensee operating in another country.

108. (p. 408-410) The primary advantage of licensing is that the firm does not have to bear the development costs and risks associated with opening a foreign market. As a result, licensing is a very attractive option for firms that lack the capital or risk bearing ability to open overseas markets. Licensing is also an attractive option when a firm is interested in pursuing a foreign market but does not want to commit substantial resources to an unfamiliar or potentially volatile foreign market. Licensing is also used when a firm wishes to participate in a foreign market, but is prohibited from doing so by barriers to investment. Finally, licensing is used when a firm possesses some intangible property (like its trademark) but does not want to pursue a potential application itself. For example, Coca-Cola has licensed its familiar trademark to clothing manufacturers, which have incorporated the design into their clothing.

Establishing a wholly owned subsidiary may be appropriate for two additional reasons. First, expanding via the wholly owned subsidiary route gives a firm tight control over its operations in various countries. This strategy maximizes a firm's potential to engage in global strategic coordination (i.e., using profits from one country to support competitive attacks in another). Second, a wholly owned subsidiary strategy may be required if a firm is trying to realize location and experience curve economies.

Establishing a wholly owned subsidiary as a entry strategy into a foreign market is appropriate when a firm's competitive advantage is based on technological competence. By establishing a wholly owned subsidiary, a firm reduces the risk of losing control over that competence. This is a particularly important concern for firms that have important proprietary technology. Other forms of foreign market entry, such as licensing and joint venture, do a poorer job of protecting a firm's proprietary technology.

109. (p. 413) A wholly owned subsidiary is a company that is completely owned by another company. One choice that a firm has for entering a foreign market is to setup a new operation in that market or purchase an existing firm. In either case, if the original company owns 100% of the new operation, it is "wholly owned subsidiary" of the original firm.

110. (p. 414 Table 12.1) They have three choices. First, establish a brewery (wholly owned subsidiary) in China and manufacture there and develop their own sales and distribution channels. This choice is particularly risky because it requires a large investment, and they are a small brewery. The second choice they have is to export, but the ratio of value to weight in beer is relatively low. There may also be tariff issues and licensing requirements. (Licensing requirements are the norm with alcoholic drinks). The third choice is to license the manufacture of the beer at a local Chinese brewery, however most of the brewers in China are fairly large and may not be interested in a small niche brand like Thunder rock. Of the three choices exporting through a suitable representative seems to offer the best option. Despite the relatively high cost of transportation there is a mitigating factor, a large majority of the containers returning to China are returning empty so transportation costs may be lower than normal. Furthermore exporting will give the company a chance to build the business, which will allow them at some point once volume and sales increase sufficiently to build a plant in China.

111. (p. 414 Table 12.1) They have the following choices: exporting through a representative; establishing a sales and marketing/parts and maintenance subsidiary in China, and licensing the manufacture of these motorcycles. A part of their decision must depend on what they define as their core competency. If it is their technology, licensing may not be the best choice, because of the danger of losing control of their technology. Exporting may also not be the best choice, because motorcycles require spare parts and maintenance. The establishment of a subsidiary seems to be the best choice.
112. (p. 414 Table 12.1) Tobacco products as do alcoholic drinks often have restrictions and excise taxes placed on them. The choice in this case would be to find a licensed importer and seller of tobacco products and export them. Cigarettes have a high value to weight ratio, which means that transportation costs will remain low.
113. (p. 414 Table 12.1) This product demands a high degree of expertise and technical knowledge. Furthermore the Chinese authorities may require only specially licensed health practitioners to do this. The best choice in this case would probably be a wholly owned subsidiary with medical supervision from Canada. This would also allow Lasik to control quality and service.
114. (p. 414 Table 12.1) The clear choice in this case would be a franchise entry strategy. Harvey's should establish a Chinese subsidiary that will maintain close supervision of its Chinese franchise holders and guarantee that service levels will be the same as in Canada. They must also make sure that the same quality of food products will be used. A Chinese subsidiary may mean that there is a higher risk, but when balanced off of control issues it is a must.
115. (p. 414, 415) First, licensing may result in a firm's giving away its know-how to a potential foreign competitor. There are many documented cases of where licensees learned how to produce a product from its licensor, and quickly exited the licensing agreement and started producing a similar product on its own. Second, licensing does not give a firm the tight control over manufacturing, marketing, and strategy in a foreign country that may be required to profitably exploit its advantage in know-how. With licensing, control over production, marketing, and strategy is granted to a licensee in return for a royalty fee. However, for both strategic and operational reasons, a firm may want to retain control over these functions. Third, a firm's know-how may not be amenable to licensing. This is particularly true of management and marketing know-how.
116. (p. 414, 415) The source code is the key to pirating the program. The question is a difficult one, which balances the potential for losing control of the firm's key technology against the prospects of a large and growing market.
117. (p. 414 Table 12.1) When there are trade barriers, high transportation costs and problems with local marketing agents. Licensing is inappropriate if there is a danger of losing control over technology. Licensing offers low development costs and risks.
118. (p. 414 Table 12.1) When the investment required to establish a wholly owned subsidiary is just too large to justify. In that case exporting can be seen as a transition step needed to build up the market so that the ultimate decision can be made later.

Chapter 12 Summary

<u>Category</u>	<u># of Questions</u>
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