

Leadership and Management in a Global Environment: Formulating and Implementing Strategy for International and Global Operations

1. Overview/Goal

By the end of unit 1 students should have learned a general definition of a strategy, how to identify and create one.

By the end of unit 2 students should have learned about international strategic planning process, international strategy planning process, formulation analysis, competitive analysis, and global and international strategic alternatives.

By the end of unit 3 students should have learned about the difference between globalization and regionalization, approaches to world markets, an E-Business.

By the end of unit 4 students should have learned about practical application of knowledge about the cultures cultural profiles.

2. Competencies

Unit 1 - Students should see the advantages and disadvantages of international operations.

Unit 2 - Students should have gained an understanding of the strategic planning process.

Unit 3 - Students should see the advantages and disadvantages of globalization and regionalization, be able to apply cultural knowledge, and be able to create cultural profiles.

Unit 4 - Students should be able to apply cultural knowledge, and be able to create cultural profiles.

Unit 1: Strategic planning for international operations

3.1. Pre-activity discussion / UNIT 1 – Strategic planning for international operations

In the beginning students are given handouts with the article about Blockbuster recognized around the world as a leader in rentable home entertainment. This brand has more than 2,600 stores outside the United States. The teacher may read the case and ask a general question “Why do you think they expanded their operations internationally”? No content of the unit is revealed yet and students brainstorm based on their current knowledge.

ATTACHMENT 1:
Blockbuster Inc. (BBI)

QUESTION:
Why do you think they expanded their operations internationally?

SOURCES:

Article:

<http://finance.yahoo.com/q/pr?s=BBI>

<http://www.blockbuster.com/corporate/internationalOperations>

Image source: <http://www.thesapps.com/Doug/wallet/current/blockbuster.gif>

4.1: Learning activity

(Slide 6): A strategy is the basic mean by which the company competes (Deresky, 2006); it is a long term plan of action designed to achieve a particular goal. (Wikipedia, 2008)

A strategy could be for long or short term, it only depends on the company. Most companies have strategies for 5 years.

SOURCES:

Deresky, H. (2005). *International Management: Management Across Borders and Cultures*. Pearson/Prentice Hall

www.wikipedia.com

(Slide 7): Strategic planning wants to answer these 3 basic questions:

1. Where is the company right now. Is an analysis of the present situation of the company.
2. Where do we want to go? How much do we want to increase/decrease sales, Do we want to add new products/ explore new markets?
3. How are we going to do it? What the strategy is going to be?

SOURCES:

Deresky, H. (2005). *International Management: Management Across Borders and Cultures*. Pearson/Prentice Hall

(Slide 8): The strategic planning is an ongoing process central to strategic management. Strategies are intended to guide the company on how to adapt to present and future market conditions to be successful.

It has 3 main phases or processes all interrelated and interdependent. These three processes do not follow a linear format one after the other in a sequential fashion as shown by the double arrows:

1. Analysis
2. Formulation
3. Implementation and Evaluation

The analysis phase or planning phase as it is often called, starts with an analysis of the vision and mission statement(s). The mission of the company will lead into the objectives. The mission of an organization is its overall reason or the function it performs in society. In these phase strengths and weaknesses of the company are carefully considered as the basis for the next step. Even in the absence of immediate opportunities monitoring the global environment for trends and competition is important for planning. Usually it starts with the analysis of the mission of the company. The mission will lead to the vision which will take the company to its objectives. The objectives of an international company include areas such as sales and marketing, finances.

In the formulation phase, strategies are analyzed considering the facts gathered in the previous phase.

A successful implementation of the strategies requires a good management to make the strategy work. Implementation is considered a very important and hard step when all ideas are put to work. It requires coordination of multiple variables working interconnected for the company. Evaluation is another key process because it is of major importance to receive feedback after implementing a new strategy considering that all locations will not be the same.

SOURCES:

Deresky, H. (2005). *International Management: Management Across Borders and Cultures*. Pearson/Prentice Hall

(Slide 9):

SOURCES:

Deresky, H. (2005). *International Management: Management Across Borders and Cultures*. Pearson/Prentice Hall

Image source: <http://dreamstime.com/business-competition>

(Slide 10): Companies go international for different reasons as an operation strategy. International operations give a business advantages that local markets don't. A global market can signify a bigger availability of products, more selection and/or a bigger market power.

A business has to grow simply because it cannot stay the same size – if a business does not grow, the competitors will grow, and soon it will lose customers to competitors who grew, and had more selection, or made cheaper products. So a business must grow because the nature of the competitive environment will not let it stay the same size.

Competition lower costs and market power available to competitors operating globally may also give them an advantage locally.

Even in the absence of immediate opportunities monitoring the global environment for trends and competition is important for planning.

SOURCES:

Deresky, H. (2005). *International Management: Management Across Borders and Cultures*. Pearson/Prentice Hall

Image source: <http://powerlineup.com/mission.html>

(Slide 11): Policies and regulations imposed by governments can be a good reason why a company should or shouldn't go international. Governments can make trade policies either liberalized or restrictive which can be either beneficial or challenging for companies who operate internationally.

- A business can enjoy an increase of profit by **tax exceptions** or a deduction of taxes depending where it operates. For example, since 2000 Motorola has enjoyed

substantial tax exceptions and subsidiaries given by the Argentinean government for building a center for software in Cordova, Argentina. The company originally wanted to have the center in Buenos Aires but after negotiations they committed to do it in Cordova.

- **Trade barriers** are a way how governments restrict companies who want to go into their markets. They are any government policy or regulation that restricts international trade. They are an added cost a company must pay in order to make business in a specific place. They can make exports to foreign markets too expensive and too impractical to be competitive. For example, The European Union has placed blocks for companies outside the Union in order to protect the insiders.

Tax exceptions, trade agreements and all regulations tend to change current job markets by moving work opportunities to countries with lower wages. For example, NAFTA affected jobs in the textile industry when manufacturers moved their factories from the United States to Mexico. Likewise, NAFTA also affected Mexican corn farmers who lost their jobs to US farmers due to higher corn production efficiency in the US.

SOURCES:

Deresky, H. (2005). *International Management: Management Across Borders and Cultures*. Pearson/Prentice Hall

<http://environment.harvard.edu/religion/disciplines/policy/trends/region.html>

<http://www.wto.org/>

(Slide 12): Reasons to start international operations are:

- Supply access and cost savings. A business can profit of cheaper labor and cheaper materials in foreign countries.
- Expand market sales by expanding operations. Global operations will help a business meet more customer demands and gain new customers
- Availability of technology is another big reason to consider when going international. Accessibility to cheaper, more modern technology in manufacturing, transportation or packaging can make a difference for a company.
- Lowering the per unit cost by taking advantage of cheaper prices of a worldwide operation can let a company afford fixed expenses.

A good example of cheap labor can be seen on the reason why American manufacturers decided to move their manufacturing centers to China. They decided to take advantage of the cheap labor that seemed to be endless. That is why American markets have so many Chinese products at such competitive prices.

5.1. Post-activity discussion / UNIT 1 – Strategic planning for international operations

In the beginning students were given handouts with the article about Blockbuster - is recognized around the world as a leader in rentable home entertainment. This brand has more than 2,600 stores outside the United States. The teacher may read the case and ask questions: What advantages do you find in international operations? Can you see any disadvantages internationally?

ATTACHMENT 1:
Blockbuster Inc. (BBI)

QUESTIONS:
What advantages do you find in international operations?
Can you see any disadvantages internationally?

SOURCES:
Article:
<http://finance.yahoo.com/q/pr?s=BBI>
<http://www.blockbuster.com/corporate/internationalOperations>
Image source: <http://www.thesapps.com/Doug/wallet/current/blockbuster.gif>

Unit 2: International Strategic Planning

3.2. Pre-activity discussion / UNIT 2 – International Strategic Planning

In the beginning students are given handouts with the article about Blockbuster recognized around the world as a leader in rentable home entertainment. This brand has more than 2,600 stores outside the United States. The teacher may read the case and ask a general question “What do you think Blockbuster researched for before they expanded operations”? No content of the unit is revealed yet and students brainstorm based on their current knowledge.

ATTACHMENT 1:
Blockbuster Inc. (BBI)

QUESTION:
What do you think Blockbuster researched for before they expanded operations?

SOURCES:
Article:
<http://finance.yahoo.com/q/pr?s=BBI>
<http://www.blockbuster.com/corporate/internationalOperations>
Image source: <http://www.thesapps.com/Doug/wallet/current/blockbuster.gif>

4.2: Learning activity

(Slide 17): A global strategy is an ongoing process consisting of potential immediate or long term opportunities, therefore markets should be closely watched to keep up with competition.

“The focus of strategic planning is how to adapt”

Before a company starts its international operations, a global strategic planning process should consider:

- Appropriate markets for expansion
- Possible increase in profits

- New projects where the company can make use of its advantages.

SOURCES:

Deresky, H. (2005). *International Management: Management Across Borders and Cultures*. Pearson/Prentice Hall

(Slide 18): These difficulties are factors that introduce a greater level of risk in strategic decisions. Before going international a company should conduct an audit to determine whether to start international or if to develop local operations.

Issues included in the audit should be:

- Gaining accurate and timely information of international markets in many countries can be difficult.
- Diversity of geographic operations
 - Culturally Cross cultural codes of conduct, religion, etc
 - Legally governmental controls
 - Politically Political stability
 - Financially poorly developed financial markets exchange rates

Example:

Toyota has operations in Africa and Asia, what difficulties can you identify?

SOURCES:

Deresky, H. (2005). *International Management: Management Across Borders and Cultures*. Pearson/Prentice Hall

(Slide 19): The external analysis includes:

1. Environmental assessment

The first major step to formulate international strategies is to continuously monitor the international environment in order to be aware of variables around the world that could be become threats or opportunities for the company in the present or future. Firms must be able to adapt to their environment to survive and be competitive.

What opportunities exist for development and growth?

Do these opportunities correspond to the organization's strengths?

What are the critical changes the market faces over the next one, three, and five years?

How well is the organization positioned for the anticipated market changes?

Additional points for debate include the greatest innovation or change that needs to occur for the organization to be successful, and the values that will drive these changes.

2. Environmental scanning

“Is the process of gathering information and forecasting relevant trends, competitive actions, and circumstances that will affect operations in geographic areas of potential interest”.

Managers should pay close attention to the **sources** of international environmental information to assure that their sources and business intelligence are global. Sources may include: databases specific for industries or locations, however first hand information as up to date observation are of more relevance. Occasionally sources can be misleading

The environmental scanning should include:

Political instability - politics can become an uncontrollable threat for a corporation. (Talk about Kenya's recent elections that caused a major political instability which alarmed investors to hold up their investments).

Currency instability - profit can be affected by currency exchange rates which fluctuate with inflation. (talk about current situation of the euro vs. dollars)

Nationalism - governments goals for economic improvement may impose restrictive policies such as import controls, limitations on the repatriation of profits, etc. (South Korea efforts to protect trademarks. On March 18th '08 Korean Intellectual Property Office (KIPO) said the agency will step up efforts to enhance monitoring systems on the production and import of fake goods and discourage consumers from buying pirated products. South Korea is the world's 13th largest economy in terms of the total value of goods and services it produces. But the IPR protection rankings by the International Institute for Management Development (IMD) put the country at 34th among 55 nations in 2007.) The Korean Times

International competition - an international competitors' analysis is one of the most important tasks in the international strategy formulation analysis. It is of importance to know how the market is. Is there room for an additional competitor? What is the supply and demand there? What is the position of our competitors? How are they going to react to our strategies?

Factors affecting strategies

society forces, political and regulatory forces, citizenship considerations, the industry and competitive conditions, opportunities and threats, organizational strengths and weaknesses, ethical considerations, personal managerial ambitions, company culture

SOURCES:

<http://www.economist.com>

(Slide 20): The internal analysis constitutes an evaluation of the company's strengths and weaknesses either in the present or future.

Management should identify key factors inside the company in order to help the company succeed and take advantage of international opportunities.

(Slide 21): During the competitive analysis the company analyzes competitors' strategies to help the firm identify distinctive competencies that will lead the company to a sustainable competitive advantage. Managers should judge current and potential competitors position in market. Distinctive competencies will lead to competitive advantages.

(Slide 22): The competitive analysis helps the firm assess the capabilities and success factors compared to competitors in the present and future conditions. Internal strategies as well as competitors' must be considered in this step.

Using the SWOT analysis, strengths and opportunities are defined. Then the next step is hard to assess since it is hard for managers to identify weaknesses or vulnerabilities. A critical The identification of gaps is often threatening and of very high importance. It is always hard to admit weaknesses; but it could make the difference between success and failure. Everything should be included in this analysis. From products, services, resources, to customers, and employees.

Do the right skills exist in the current staff?
Where are resources allocated? What area needs more investment?
Are the needs of a team technologically well supported?

Using this analysis, current and future market threats are identified. How competitors in relation to the opportunities are identified, and how are they in relation to the company's strengths and weaknesses?

(Slide 23): This step in the strategic planning considers advantages and disadvantages of a company in regards to its competitors. When considering alternative strategies, managers should keep in mind their competitive status and goals.

Levels of strategies:

Global.- MNCs, “determines what overall approach to the global marketplace a firm wishes to take”

Entry.- determine what specific entry strategy is appropriate for each country in which the firm plans to operate.

Levels of strategies:

Corporate game plan for a diversified company

Business game plan for single business

Functional strategy initiatives of one part of a business

Operating initiatives of key operating units

Sources:

Deresky, H. (2005). *International Management: Management Across Borders and Cultures*. Pearson/Prentice Hall

5.2. Post-activity discussion / UNIT 2 – Decision Making in Global World

In the beginning students were given handouts with the article about Blockbuster - is recognized around the world as a leader in rentable home entertainment. This brand has more than 2,600 stores outside the United States. The teacher may read the case and ask students to do a SWOT analysis for this company.

ATTACHMENT 2:

Blockbuster Inc. (BBI)

QUESTION:

Can you do a SWOT analysis for this company?

SOURCES:

Article: <http://finance.yahoo.com/q/pr?s=BBI>

<http://www.blockbuster.com/corporate/internationalOperations>

Image source: <http://www.thesapps.com/Doug/wallet/current/blockbuster.gif>

3.3. Pre-activity discussion / UNIT 3 – Approaches to World Markets

In the beginning students are given handouts with the article about Blockbuster recognized around the world as a leader in rentable home entertainment. This brand has more than 2,600 stores outside the United States. The teacher may read the case and ask a general question “How do you think Blockbuster adapts to foreign markets”? No content of the unit is revealed yet and students brainstorm based on their current knowledge.

ATTACHMENT 1:
Blockbuster Inc. (BBI)

QUESTION:
How do you think Blockbuster adapts to foreign markets?

SOURCES:

Article:

<http://finance.yahoo.com/q/pr?s=BBI>

<http://www.blockbuster.com/corporate/internationalOperations>

Image source: <http://www.thesapps.com/Doug/wallet/current/blockbuster.gif>

4.3: Learning activity

(Slide 28): Regionalization is the growth of networks of interdependence within multinational regions of the world – according to FORE

- Regions in the world are creating strong economic and political ties, they allow more local responsiveness and specialization with a stronger regional focus.
- Regional “blocs” are being developed by governments and societies in an effort to prevent military conflict, to cooperate on joint development and environmental protection projects, and, most notably, to expand free trade. The creation of strong, regional free trade agreements is one of the most notable aspects of regionalization, the 1994 North American Free Trade Agreement (NAFTA) that lowered tariffs and lifted limitations on international investments among Canada, Mexico, and the United States (US).
- Most governments see regional trade as so vital to their economic interests that additional agreements are already being negotiated.
- For political economists, the most notable aspect of regionalization is the growth of three powerful global trading blocs in the Americas, East Asia, and Europe.
- Blocs with less economic power, such as the different regions of Africa, are also forming. Regionalization is therefore creating new geographic patterns of culture, employment, federalism, and potential military conflict.
- If we compare global strategies and regional strategies, usually regional strategies are easier to manage.

(Slide 29): Companies need to adapt to regional demands, customers have unique preferences resulting from cultural or national differences. For example, Nestle varies its sugar quantities in chocolate according to the regions where it will be marketed. Domestic subsidies are given by governments to promote trade within blocks (mentioned in the previous slide)
New production technologies that facilitate product variation for less cost than before.

SOURCES:

<http://www.interpol.int>

<http://people.tribe.net>

(Slide 30): According to the World bank organization, the term globalization is - the growing integration of economies and societies around the world

- Globalization is a term that refers to the establishment of worldwide operations and the development of standardized products and marketing. It is the organizational strategy of a company.
- Competition in a global scale, worldwide economies and international cash flows.
- Strategic alliances are formed as a quick and cheap response to develop a global strategy. Alliances are often formed with rivals, suppliers and customers. Now, virtual alliances are developing as technology advances.
- Global organizations are often more difficult to manage since it requires coordination of different operations through the globe. International economies have their own systems, cultures and values.

GLOBALIZATION HISTORY

Globalization has grown since 1970 when it started with a Dutch company Dutch East India Company, often described as the first multinational corporation. The Dutch East India Company became the first company in the world to share risk and enable joint ownership through the issuing of shares: an important driver for globalization.

In the 19th century called "The First Era of Globalization", a period with rapid growth in international trade and investment, between the European imperial powers, their colonies, and, later, the United States. It was in this period that areas of sub-saharan Africa and the Island Pacific were incorporated into the world system. The "First Era of Globalization" began to break down at the beginning with the first World War, and later collapsed during the gold standard crisis in the late 1920s and early 1930s.

Globalization in the era since World War II was first the result of planning by economists, business interests, and politicians who recognized the costs associated with protectionism and declining international economic integration. Their work led to the Bretton Woods conference and the founding of several international institutions intended to oversee the renewed processes of globalization, promoting growth and managing adverse consequences.

These were the International Bank for Reconstruction and Development (the World Bank) and the International Monetary Fund. It has been facilitated by advances in technology which have reduced the costs of trade, and trade

negotiation rounds, originally under the auspices of GATT, which led to a series of agreements to remove restrictions on free trade.

Since World War II, barriers to international trade have been considerably lowered through international agreements - General Agreement on Tariffs and Trade (GATT). Particular initiatives carried out as a result of GATT and the World Trade Organization (WTO), for which GATT is the foundation, have included:

Promotion of free trade:

- Reduction or elimination of tariffs; construction of free trade zones with small or no tariffs
- Reduced transportation costs, especially from development of containerization for ocean shipping.
- Reduction or elimination of capital controls
- Reduction, elimination, or harmonization of subsidies for local businesses

Restriction of free trade:

- Harmonization of intellectual property laws across the majority of states, with more restrictions.
- Supranational recognition of intellectual property restrictions (e.g. patents granted by China would be recognized in the United States)

The Uruguay round (1984 to 1995) led to a treaty to create the World Trade Organization (WTO), to mediate trade disputes and set up a uniform platform of trading. Other bi- and multilateral trade agreements, including sections of Europe's Maastricht Treaty and the North American Free Trade Agreement (NAFTA) have also been signed in pursuit of the goal of reducing tariffs and barriers to trade.

The use of the term globalization (in the doctrinal sense), in the context of these developments has been analyzed by many including Noam Chomsky who states

“ ... That enhances what's called "globalization," a term of propaganda used conventionally to refer to a certain particular form of international integration that is (not surprisingly) beneficial to its designers: Multinational corporations and the powerful states to which they are closely linked.

SOURCES:

<http://www1.worldbank.org/economicpolicy/globalization/>

(Slide 31):

- Increasing competitive clout resulting from regional trading blocs
- Declining tariffs, which encourage trading across borders and open up new markets
- The information technology explosion, which makes the coordination of far-flung operations easier and also increases the commonality of consumer tastes.

SOURCES:

Image source: <http://asthapamar.spaces.live.com>
www.icseguess.com
www.uweb.ucsb.edu

(Slide 32): Companies have global operations fully integrated including suppliers, contractors, productive facilities, marketing, distribution, etc.

MARATHON

Operating across the globe, Marathon is among the world's leading integrated energy companies - applying innovative technologies to discover and develop valuable energy resources, providing high-quality products to the marketplace and delivering value to all of the Company's stakeholders.

Exploration and Production

Marathon's exploration activities are focused on adding profitable production to existing core areas (United States, Equatorial Guinea, Libya and the North Sea) and developing potential new core areas (Angola and Indonesia).

Marathon's production operations supply crude oil and natural gas to the growing world energy market. Located in seven countries, worldwide production operations are currently focused in the U.S., Africa and Europe. The Company also holds ownership interests in both operated and non-operated oil sands leases in Canada that could be developed using in-situ methods of extraction.

SOURCES:

<http://www.marathon.com>
<http://www.prazapreza2.blogspot.com>

(Slide 33): Perhaps most important, technological advances continue to play an important role in facilitating global integration. For example, dramatic improvements in supply-chain management, made possible by advances in communication and computer technologies, have significantly reduced the costs of coordinating production among globally distributed suppliers.

SOURCES:

<http://blog.madisonwhoswho.com>

(Slide 34): E-business (electronic business), derived from such terms as "e-mail" and "e-commerce," is the conduct of business on the Internet, not only buying and selling but also servicing customers and collaborating with business partners.

Challenges related:

- Cultural differences
- Jurisdiction and responsibility over electronic transactions
- Tax law
- Intellectual property
- Language barriers

SOURCES:

<http://searchcio.techtarget.com>

Image source: <http://www.cdl.com.sg>

(Slide 34): IBM was the first company to start doing E-business and the one that came up with the term. It was Lou Gerstner CEO of IBM on in the early 1990s who embraced the Internet as a business phenomenon to revive the company's culture, having resulted in one of the most remarkable turnarounds in business history. (Wikipedia)

SAMUEL J. PALMISANO
IBM CHAIRMAN AND CHIEF EXECUTIVE OFFICER
FINAL REMARKS
INSEAD GLOBAL LEADER SERIES
INSEAD BUSINESS SCHOOL
FONTAINEBLEAU, FRANCE
OCTOBER 3, 2006

Sources:

http://www-03.ibm.com/innovation/us/pdfs/IEC002_SamINSEAD_121506.pdf

Image sources: <http://ibm.com>

5.3. Post-activity discussion / UNIT 3 – Approaches to World Markets

In the beginning students were given handouts with the article about Blockbuster - is recognized around the world as a leader in rentable home entertainment. This brand has more than 2,600 stores outside the United States. The teacher may read the case and ask students a question “How are Blockbusters strategies different in USA and abroad?”

ATTACHMENT 1:
Blockbuster Inc. (BBI)

SOURCES:

Article: <http://finance.yahoo.com/q/pr?s=BBI>

<http://www.blockbuster.com/corporate/internationalOperations>

Image source: <http://www.thesapps.com/Doug/wallet/current/blockbuster.gif>

Unit 4: Entry Strategy Alternatives

3.4. Pre-activity discussion / UNIT 4 – Entry Strategy Alternatives

In the beginning students are given handouts with the article about Blockbuster recognized around the world as a leader in rentable home entertainment. This brand has more than 2,600 stores outside the United States. The teacher may read the case and ask a general question “What strategy alternative do you think Blockbuster is using”? No content of the unit is revealed yet and students brainstorm based on their current knowledge.

ATTACHMENT 1:
Blockbuster Inc. (BBI)

QUESTION:

What strategy alternative do you think Blockbuster is using?

SOURCES:

Article:

<http://finance.yahoo.com/q/pr?s=BB>

<http://www.blockbuster.com/corporate/internationalOperations>

Image source: <http://www.thesapps.com/Doug/wallet/current/blockbuster.gif>

4.4: Learning activity

(Slide 40): The strategic choice of one or more of the entry strategies will depend on a critical evaluation of the advantages and disadvantages of each in relation to the firm's capabilities, the critical environmental factors, and the contribution that each choice would make to the overall mission and objectives of the company.

The strategic entry of choice requires a long term perspective. They should be considered as part of long term plan.

According to Hofstede's cultural dimensions make a difference when entering a foreign market. A society has a culture where people behave in a way that will influence business decisions. For example, Countries of high uncertainty avoidance tend to prefer non-equity entry modes to minimize exposure to risk. Countries of low uncertainty avoidance are more willing to take risks and will adapt to equity modes. Power distance also plays an important role. Countries with high power distance, where an interpersonal hierarchy is evident, they will prefer to use equity modes of entry abroad.

SOURCES:

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

(Slide 41):

SOURCES:

<http://www.export.gov>

(Slide 42): Licensing is usually a contractual agreement between two business entities: the owner or agent of the property, also known as the licensor and the renter of the rights, and the prospective licensee who is usually a manufacturer. The formal permission to use the owner's property is subject to certain terms and conditions, such as a specific purpose, a defined geographic area, and a finite time period (Raugh, 1995, p. 116).

It is a very low risk strategy with low investment useful in countries with complex market regulations and restrictions. A license avoids tariffs and quotas otherwise imposed on exportations.

Some of the critical points to consider when getting a license are:

- Trademark protection
- Quality of the license
- License's market territory
- Appropriability of intellectual property

SOURCES:

<http://www.licensing.org>

<http://www.g-palm.com>

(Slide 43): A franchise is the agreement or license between two legally independent parties which gives:

- a person or group of people (franchisee) the right to market a product or service using the trademark or trade name of another business (franchisor)
- the franchisee the right to market a product or service
- using the operating methods of the franchisor
- the franchisee the obligation to pay the franchisor fees
- for these rights
- the franchisor the obligation to provide rights and support to franchisees

Some familiar product distribution franchises include:

- Pepsi
- Exxon
- Ford Motor Company
- Mc Donald's
- Blockbuster Video

SOURCES:

Image source: <http://www.mcdonalds.com>

<http://www.blockbuster.com>

<http://www.pepsi.com>

<http://www.greenwichmeantime.com>

(Slide 44): Contract manufacturing involves a firm that manufactures components or products for another "hiring" firm. The hiring firm usually is located overseas. Many industries utilize this process, especially the aerospace, defense, computer, semiconductor, energy, medical, personal care, and automotive fields. Some types of contract manufacturing include CNC machining, complex assembly, aluminum die casting, grinding, broaching, gears, and forging.

Many well-known companies use contract manufacturing as an alternative to operating and maintaining their own factories. Contract manufacturing can be used for anything from single components to a complete product

Other advantages of contract manufacturing include:

- A quick way to enter a foreign market with low investment
- Lower costs
- Flexibility
- Access to external expertise

However there are numerous contract manufacturing relationships that fail because:

- It is difficult to manage across borders (HR)
- Contractors are not as reliable, quality of the products are not good

SOURCES:

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

(Slide 45): Outsourcing became popular in business during the 1980s. The decision to outsource is often made in the interest of lowering firm costs, redirecting or conserving energy directed at the competencies of a particular business, or to make more efficient use of labor, capital, technology and resources. It involves the transfer of the management and/or day-to-day execution of an entire business function to an external service provider. Nowadays, many companies also outsource customer support and call center functions like telemarketing, customer services, market research, manufacturing and engineering.

(Slide 46): A turnkey operation is when a company designs and constructs a facility abroad, trains personnel and then turns the key over to local management.

Critical factors:

- Availability of local suppliers and labor
- Reliable infrastructure
- Acceptable means of repatriating profits.

(Slide 47): Management contracts have been used when foreign government action restricts the entry of a firm. An arrangement is made to operate and control a company to a second party which performs the necessary managerial functions in return for a fee.

Management contracts involve not just selling a method of doing things (as with franchising or licensing) but actually doing them. A management contract can involve a wide range of functions, such as technical operation of a production facility, management of personnel, accounting, marketing services and training.

(Slide 48): International Joint Ventures are agreements by two or more companies to produce a product or service together. They offer an opportunity for each partner to benefit significantly from the comparative advantages of the other. Local partners bring knowledge of the domestic market; familiarity with government bureaucracies and regulations; understanding of local labor markets; and, possibly, existing manufacturing facilities. Foreign partners can offer advanced process and product technologies, management know-how, and access to export markets. For either side, the possibility of joining with another company in the new venture lowers capital requirements relative to going it alone.

International Joint Ventures in Developing Countries, ROBERT MILLER, JACK GLEN, FRED JASPERSEN, AND YANNIS KARMOKOLIAS

Host country laws may require that a certain percentage (often 51 percent or more) of manufacturing or mining operations be owned by nationals of that country, thereby limiting U.S. firms' local participation to minority shares of joint ventures. In addition to such legal requirements, U.S. firms may find it desirable to enter into a joint venture with a foreign firm to help spread the high costs and risks frequently associated with foreign operations.

Having a local partner may also lessen the "foreigner" image of the firm and thus may provide some protection against discrimination or expropriation if conditions change. A major potential drawback of joint ventures, especially in countries that limit foreign companies to minority participation, is the loss of effective managerial control. This can result in reduced profits, increased operating costs, inferior product quality, exposure to product liability, and environmental litigation and fines.

SOURCES:

Image source: <http://corprisk.timberlakepublishing.com>
<http://www.unzco.com/basicguide/c6.html>

(Slide 49): Fully owned subsidiaries are new companies started from scratch in a foreign country, if the host country allows it. Sometimes business buy other firms in the host country to start operations. It is a very risky strategy since it requires a large investment to open a new business. Its products are targeted to local markets or to export.

The bigger risks associated with a full owned subsidiary are related to the environmental factors of the host country. They can be political, economical, cultural, etc.

Ferrari has announced that it has setup Ferrari Japan KK, a fully-owned subsidiary that will become the official importer of new Ferraris in Japan. Ferrari currently markets its vehicles in Japan through a partnership with Cornes & Company Ltd.

5.4. Post-activity discussion / UNIT 4 – Entry Strategy Alternatives

In the beginning students were given handouts with the article about Blockbuster - is recognized around the world as a leader in rentable home entertainment. This brand has more than 2,600 stores outside the United States. The teacher may read the case and ask students a question "What do you think Blockbuster does when they use a different name in Ireland and other countries in Europe? "

ATTACHMENT 1:
Blockbuster Inc. (BBI)

SOURCES:

Article: <http://finance.yahoo.com/q/pr?s=BBI>
<http://www.blockbuster.com/corporate/internationalOperations>
Image source: <http://www.thesapps.com/Doug/wallet/current/blockbuster.gif>

6. Assignment specifications

Analyze the main reasons why BLOCKBUSTER decided to go international according to the material just learned.

7. Post activity discussion

- How are Blockbusters strategies different in USA and abroad?
-

8. Assessment

9. References

Books:

Deresky, H. (2005). *International Management: Management Across Borders and Cultures*.
Pearson/Prentice Hall

Electronic articles and presentations:

Bernanke, B. (2006), What's New and What's Not?

Retrieved March, 2008 from:

<http://www.federalreserve.gov/newsevents/speech/bernanke20060825a.htm>

Websites:

<http://www.wikipedia.com>

<http://finance.yahoo.com/q/pr?s=BBI>

<http://environment.harvard.edu/religion/disciplines/policy/trends/region.html>

<http://wto.org>

<http://www.atimes.com>

<http://www.Toyota.com>

<http://blog.madisonwhoswho.com>

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

<http://www.export.gov>

<http://www.licensing.org>

<http://www.g-palm.com>

<http://www.atkearney.com>

<http://www.sbinfocanada.about.com/cs/startup/g/turnkey.htm>

<http://www.interpol.int>

<http://www.searchcio.techtarget.com>

<http://www.unzco.com/basicguide/c6.html>

Image source:

<http://www.thesapps.com/Doug/wallet/current/blockbuster.gif>

<http://www.blockbuster.com/corporate/internationalOperations>

<http://www.dreamstime.com/business-competition>

<http://www.powerlineup.com/mission.html>

<http://www.Economist.com>

<http://www.ibm.com>

<http://www.mcdonalds.com>

<http://www.blockbuster.com>

<http://www.pepsi.com>

<http://www.greenwichmeantime.com>

<http://www.fmctechnologies.com>

<http://www.people.tribe.net>

<http://www.asthaparmar.spaces.live.com>

<http://www.icseguess.com>

<http://www.uweb.ucsb.edu>

<http://www.cdl.com.sg>

<http://corprisk.timberlakepublishing.com>

Appendix 1

SOURCE:

Blockbuster Inc. (BBI)

<http://finance.yahoo.com/q/pr?s=bbi>

Blockbuster, Inc., together with its subsidiaries, operates and franchises entertainment-related stores in the United States and internationally. It offers pre-recorded videos, as well as video games for in-store rental, sale and trade, and also sells other entertainment-related merchandise. The company also offers rental and retail movie entertainment through the Internet and by mail in the United States. Blockbuster, Inc. operates its stores under the BLOCKBUSTER brand name. The company also operates stores under the XTRA-VISION brand name in the Republic of Ireland and Northern Ireland, as well as operates freestanding and store-in-store game locations under the GAME RUSH brand in Canada, Italy, Mexico, and Denmark. As of January 6, 2008, it operated approximately 7,800 stores in the United States, its territories, and 21 other countries. The company was founded in 1982 and is headquartered in Dallas, Texas.

More information about Blockbuster international operations at:

<http://www.blockbuster.com/corporate/internationalOperations>