

Lecture Introduction to International Management (WT09/10) - Final Exam

Course No.: 11040; Lecturer: Prof. Dr. Birgitta Wolff

Final Exam

In the Final Exam to this class, you will have one hour to solve the problems with a maximum of 60 points. There are a few pieces of general advice we can offer at this stage:

1. Use the theoretical tools and terminology you have learned in class and from the textbook.
2. Make sure there is a clear structure in your argument. (Use some time to sort your ideas before you start writing the version you want to submit, esp. if you answer B).
3. Use the time you have! If you are ready much earlier than we planned you should wonder if you forgot something.
4. Remember: people have to be able to decipher what you write.
5. Leave a margin for our comments, so we can give you a more detailed feedback than just the number of points.
6. You are welcome to use a dictionary.
- 7.

Here is the set of problems:

You are welcome to use a dictionary and a calculator!

Please solve *either* part A *or* part B (max. 60 points)!

Part A

Answer only 4 of the following 5 questions! (max. 15 points for each question)

1. Explain why an entrepreneurs expectations about his/her business partner's behavior in an international transaction might be more unrealistic than expectations in a non-international deal.
2. Assume you are an exporter located in Germany that sells washing machines to Russia. Name and explain three alternative ways to use third parties to make sure you get paid after the delivery of the goods.
3. Which problems are INCOTERMS supposed to solve? How do they do so? Name and explain five examples.
4. What is opportunistic behavior? Which conditions in international business are likely to foster a business partner's opportunistic behavior? Name at least three types of opportunistic behavior in practice and describe them.
5. Describe the phases of a bargaining process and explain the specifics of cross-cultural business negotiations in this context. Give a stylized example of a negotiation to accompany your findings.

Part B (max. 20 points)

Important issues in international management are "framework effects". How can Target not only consider different institutional frameworks as restrictions but also use them as opportunities for their business activities? Use theoretical concepts and terminology to analyze the problem. (max. 60 Points)

Read the following text carefully before answering the question.

Target says plans to move into Canada are tentative, could take years
 (Source: The Canadian Press January 10th, 2010)

TORONTO — Target Corp. is taking aim at the international market, and the U.S. discount super-chain says its considering opening stores in Canada but shoppers shouldn't get too excited about the famed red bull's-eye brand heading north quite yet. A spokeswoman for the company said it is too early to determine whether Target will actually make Canada its market of choice and that at this point it's only exploring the possibility. "We haven't confirmed that it will be Canada," Hadley Barrows said in an interview. "We're looking at Canada, Mexico and Latin America as options." In other words, don't count on Target heading across the border any time soon. Barrows said it could take three to five years before a firm decision is made.

Some Canadian shoppers might be feeling a sense of déjà vu as Target continues to waffle over whether it wants to cross the border. After all, this isn't the first time that Target has considered testing the waters in Canada. Nearly 20 years ago, the company was part of a rush of American supermarkets who considered moving across the border and possibly buying up the operations of Woolco, Wal-Mart who that bid and Target scrapped its own expansion plans. Then, in 2004, Target was rumoured to be in talks with Hudson's Bay Co. to buy its Zellers stores, which would've launched an aggressive rollout across the country. Nothing ever came of it. Target isn't the only major U.S. retailer to retreat from plans to expand into Canada. Both Bloomingdale's and Nordstrom looked into opportunities before deciding that it wasn't worth the trouble. Other U.S. companies have found huge success here with their own expansions. Hardware giant Lowe's has held its own against both Rona Inc. and the Home Depot, while Bath & Body Works found its niche beside the Body Shop and Lush. Electronics giant Best Buy bought Future Shop and created a unique competitive relationship in the markets it dominates across the country. One of the major deterrents for U.S. retailers is the lack of attractive retail space left at most popular shopping malls and super centres, suggested Wendy Evans, head of retail consultancy Evans and Co. Consultants Inc. U.S. retailers are "very discerning about locations," she said. Without prime locations some retailers fear there would be too much risk in spending the money to invest in a foreign market. Evans believes the economic downturn has cleared out some of the underperforming retailers and created a lot of "location opportunities that would not have been there a few years ago." As a result, landlords have been willing to negotiate lower lease rates for storefronts left empty by failed companies for months or even longer, she said.

Retail analyst John Winter of John Winter and Associates said Target and other U.S. retailers should take notice of the major investment opportunity they're missing in Canada. He said Toronto's metropolitan area, for example, has one of the largest populations in North America, akin to Detroit. "And we have a very high income compared to the Detroit," Winter added. He believes shoppers in Toronto are looking for the type of high quality, yet affordable products that Target has built its name on, while Calgary, Montreal, and Vancouver are other logical markets. In Canada, "there is a gap between Wal-Mart, Sears and the Bay. I think Target would fill that very nicely," Winter said. For now, Target isn't jumping at the chance. This week, the company said it would dramatically rein in its U.S. expansion plans and focus on spending \$1 billion to renovate 340 existing stores this year. It's also looking at opening urban format stores, which are smaller locations centred within big American cities. Canadian supermarket chain Sobeys rolled out a similar plan a few years ago. "At this point our main focus is continuing to grow within the United States," Barrows said. "I'm certain the expansion is going to happen. We just don't know any other specifics."

Good luck!