

Entrepreneurship 09/25/2012

Print/Turn In your official proposal for your business plan project.

You will have your first test on Monday, October 1st over all material covered in class.

Warm-up: Read today's article from the website. Write a journal on your thoughts to turn in.

Learning Objectives for 09/25/2012

- ❑ I CAN explain the nature, labor issues, and impact of cultural and social environments of global trade.
- ❑ I CAN determinants of exchange rates and their effects on the domestic economy.
- ❑ I CAN identify strategies for entering international markets.

What Is Globalization?

- An interconnected and interdependent world economy
 - **Globalization of markets:** Not a local or national market, but the whole world
 - **Globalization of production:** Moving production to locations to take advantage of lower costs or better quality
 - **Offshore outsourcing (offshoring):** Movement of production away from a domestic production site to a foreign location

Nature of Global Trade

- What is Global Trade and why should it matter to you?
- Check some of the following items to see where they were made:
 - Shoes
 - Shirt
 - Pants
 - Purse or backpack
 - Cell Phone

Nature of Global Trade

- Global Trade is Accelerating at a rapid rate. Two main factors:
 1. Decline in trade and investment barriers
 2. Technological innovations
 - Communications
 - Transportation
 - Information technology

The Global Business Environment

GEOGRAPHY

- location
- climate
- terrain
- waterways
- natural resources

ECONOMICS

- technology
- education
- inflation
- exchange rate
- Infrastructure

CULTURE

- language
- family
- religion
- customs
- traditions
- Food

POLITICAL–LEGAL FACTORS

- government system
- political stability
- trade barriers

Global Trade

Exchange Rates

International Markets

Sociocultural Challenges of Global Trade

- What is culture?
 - Cross-cultural awareness
 - Ethnocentrism
- Aesthetics
- Attitudes toward time and work
- Religion
- Language (verbal and non-verbal)

Political Challenges of Global Trade

- ❑ Not always a free market
- ❑ Not always stable, democratic governments
- ❑ Possible market failure
- ❑ Possible government failure

Failures of Markets and Government Interventions

Market Failures	Government Intervention
Growth of monopoly power	Government enforces anti-trust laws.
Undesirable and desirable social side effects from production and consumption	Government curtails the production and consumption of undesirable goods and promotes desirable products.
Lack of public goods and services	Government provides them.
Unfair distribution of income	Government redistributes income.
Macroeconomic instability	Government uses fiscal and monetary policies to stabilize the business cycle.

Legal Challenges of Global Trade

- ❑ Laws
- ❑ Regulatory standards
- ❑ Access to unbiased judicial system
- ❑ No universal laws, regulatory standards, or global court exist to settle disputes in the global economy

Ethical Challenges of Global Trade

- Unique differences in economic conditions and cultural values give rise to many ethical dilemmas surrounding global business

For example, should a firm conform to its home country's environmental, workplace, and product safety standards—even though it's not legally required to do so—while operating in another country?

Nature of Global Trade

- The U.S. and other nations are increasingly
 - **Importing:** Buying products from other countries
 - **Exporting:** Selling domestically produced products to other countries

The Role of Exchange Rates

- The rates at which currencies are converted into another currency
- Foreign exchange markets decide exchange rates
- A currency is weak when it devalues against currencies of major trading partner
 - Exporters typically prefer a weak dollar because their products are more affordable to foreigners
- A currency is strong when its value improves compared to trading partners' currencies
 - Importers prefer a strong dollar because the cost of importing foreign goods is less

How Exchange Rates Effect Int'l Trade

- ❑ Currency appreciation
- ❑ Currency depreciation
- ❑ Trade deficit
- ❑ Trade surplus
- ❑ Fixed exchange rate
- ❑ Freely floating exchange rate
- ❑ Nonconvertible currency
- ❑ Countertrade

International Trade & Competition

- ❑ Comparative advantage
- ❑ Absolute advantage
- ❑ National competitiveness
 - How can a country foster national competitiveness?

Can a business or a country create a competitive or comparative advantage?

Benefits & Costs of Int'l Trade

□ Benefits

- Higher standard of living
 - Greater quantity and variety of higher-quality product
 - Lower-priced products

□ Costs

- Threat to domestic businesses and their workers

□ Benefits vs. costs

- Depends on timing and the extent of both benefits and costs
- Benefits spread across many members of a society, so they are difficult to see

Entering Foreign Markets

- Companies may
 - Export their product
 - Implement a turnkey project
 - Undertake franchising
 - Enter into a licensing agreement, a joint venture, or a strategic alliance
 - Undertake contract manufacturing
 - Set up a wholly-owned subsidiary

Entry Mode Considerations

Advantages and Disadvantages of the Various Entry Modes

	Advantages	Disadvantages
Exporting	<ul style="list-style-type: none"> • Speed of entry • Production site in lowest-cost location 	<ul style="list-style-type: none"> • High transport costs • Threat of trade barriers such as tariffs • Lack of access to local information
Turnkey project	<ul style="list-style-type: none"> • Increased profits for high-tech firms 	<ul style="list-style-type: none"> • Loss of technical know-how to potential competitors
Franchising	<ul style="list-style-type: none"> • Costs and risks of opening the foreign market fall on the franchisee 	<ul style="list-style-type: none"> • Difficulty in maintaining quality control over distant franchises
Licensing	<ul style="list-style-type: none"> • Speed of entry 	<ul style="list-style-type: none"> • Licensee may become competitor • Loss of knowledge to potential competitor
Joint venture	<ul style="list-style-type: none"> • High potential for learning • Benefit of combined resources 	<ul style="list-style-type: none"> • Shared control of business • Risk of losing specialized technology to partner
Strategic alliance	<ul style="list-style-type: none"> • Pooled talents and expertise • Shared costs and risks 	<ul style="list-style-type: none"> • Risk of losing specialized technology to partner • Difficulty in finding a compatible partner
Contract manufacturing	<ul style="list-style-type: none"> • Speed of entry • Low test-marketing costs 	<ul style="list-style-type: none"> • Lack of quality control over distant subcontractor
Wholly-owned subsidiary	<ul style="list-style-type: none"> • Total control over all operations • Preservation of proprietary technology 	<ul style="list-style-type: none"> • Risks and costs of entering a foreign market

Global Trade

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Three Strategies of Int'l Business

- Global
 - Standardized product
 - Competing on price
- Multi-domestic
 - Custom products to meet unique local needs
 - Price considerations are secondary
- Transnational
 - Customized product
 - Lowest price possible

Challenges of Int'l Markets

- Growth and development
- Government policies and the economic environment
- Socioeconomic factors

So CAN YOU?

- ❑ I CAN explain the nature, labor issues, and impact of cultural and social environments of global trade.
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Group Assignment

- ❑ Get into groups of 3 (people that you've not worked with)
- ❑ Global Trade depends on being able to work with cultural differences
- ❑ Pick a Country & Visit: **executiveplanet.com**
- ❑ Create a poster (make it aesthetically pleasing) that outlines the Geography, Economics, Cultural Differences & Political-Legal factors that might affect Global Trade from a US Perspective