

Note: This is the text-only version of this week's lecture.

All media (i.e. videos, flash presentations, and PowerPoints) and learning activities (i.e. assigned readings, assignments, and discussions) are accessible only through the online course.

Week 2: Market Assessment and Entry Modes

Week 2 Overview

Log in to the course to view video and alternative version.

Click the link below to access a transcript of the video.

[Video Transcript](#)

Week 2 Overview

Week 2 covers concepts associated with assessing international markets for potential firm entry distinguishing between equity and non-equity entry modes.

- First, you will learn how to screen and assess international markets to identify desirable markets for firm entry. The process reviews the forces in succession and involves the elimination of countries or markets at each step that do not offer acceptable ROI potential or the opportunity for a firm to exploit its competitive advantage in that market. The screening sequence starts with broad assessments working toward market specifics.
- Then we will explore market entry methods. The reasons a firm goes abroad are linked to the desire to increase profit and sales or for other competitive reasons, such as to attack a competitor in the competitor's home market or to protect existing markets. Some companies begin their foreign entry by first exporting, then setting up foreign sales companies and finally, when sales volume warrants, establishing foreign manufacturing. This incremental approach is proactive yet cautious, requiring additional resources as the firm increases its level of commitment.
- Finally, you will also learn that exporting is an important facet of international business for both large and small firms. No company can afford to have local production facilities in every one of its overseas markets. Some markets must be supplied by exporting from either the home plant or from a foreign subsidiary. In spite of the fact that exporting can be profitable, only a small percentage of the U.S. GDP is exported. The major hurdles for non-exporters to entering the export market are (1) finding markets, (2) payment and financing procedures, and (3) export procedures.

Week 2 consists of three lessons:

Lesson 1: Assessing International Markets

Lesson 2: Entry Modes

Lesson 3: Export and Import Practices

Week 2 Learning Activities

Learning Activity	Description	Due Date	Points
Lesson 1	Assessing International Markets		~
Week 2 Reading 1	Read Chapter 12 of your textbook	Complete by end of Day 1	~
Week 2 Activity 1	Research Activity: Develop MPI	Complete by end of Day 6 (Suggested end of Day 2)	20
Lesson 2	Entry Modes		~
Week 2 Reading 2	Read Chapter 13 of your textbook	Complete by end of Day 3	~
Week 2 Activity 2	Research Activity: Commercial Guide	Complete by end of Day 6 (Suggested end of Day 4)	10
Lesson 3	Export and Import Practices		~
Week 2 Reading 3	Read Chapter 14 of your textbook	Complete by end of Day 5	~
Week 2 Discussion 1	The Foley Company end-of-chapter case	Post by end of Day 3 Respond by end of Day 5	30
Week 2 Assignment 1	Case 1 Brief: "Sterling Marking Products"	Submit by end of Day 7	100
Total			160

Note: All assignments are to be submitted through the **Assignments** area of the course. Similarly, class discussions can be accessed in the **Discussions** area. Groups may use both the **Groups** area and their own Live Session located in the **Live Sessions** area.

Please note that there are several practice activities and practice questions in each

lesson. Please make sure to complete each item.

A Note on Research Activities

The purpose of the research activities this week is to get you acquainted with more resources that you will need for successful completion of the course group project. The goal for this week is to screen a large number of countries for potential market entry using the Market Potential Index (MPI) and select a manageable set of fewer countries for further investigation. Please see detailed instructions in your course Syllabus or in Week 5.

While the details of each research activity are presented in the following pages, I would like to provide you with a short summary:

- In the first research activity you are asked to replicate the MPI for another year in the dataset while you are provided with detailed calculation for 2009.
 - Thinking ahead about your project: maybe you can combine some of the measures used in the construction of this index with additional indicators of environmental forces that will be introduced in the following weeks.
- In the second activity you are presented with the task of examining market entry mode in Brazil through the use of US Commercial Guide.
 - Thinking ahead about your project: maybe here you can evaluate the proposed market entry mode, explicitly accounting for advantages and disadvantages of each mode in the particular environment of the selected country or countries. The US Commercial Guide provides useful information for entry mode and in particular a guide for product-specific choice of entry mode. However, not all products are available; sometimes only the ones worth investigating further.

Each research activity is an individual assignment and no collaboration is allowed among students. Further, you are provided with detailed hints in each research activity and you will receive full points for each submitted assignment (Turnitin). As such, you will not receive feedback by your instructor, unless you explicitly request it. However, cheating of any form or plagiarism will result in receiving zero for the corresponding assignment and you must address to the best of your abilities what the research task is asking for. If you submit something irrelevant to the assignment you will receive zero. Quality of your report will be assessed by your instructor.

Lesson 1: Assessing International Markets

Learning Objectives

As a result of participating in this lesson, you will be able to:

- Understand environmental analysis and two types of market screening.
- Utilize market indicators and market factors.
- Comprehend some statistical techniques for estimating market demand and grouping similar markets.
- Appreciate the value to businesspeople of trade missions and trade fairs.
- Recognize some of the problems market researchers encounter in foreign markets.
- Describe some of the options for conducting survey-based research.
- Recognize the difference between country screening and segment screening.

Week 2 Reading 1

Textbook: *International Business: The Challenge of Global Competition*, 13th Edition, by Ball, D. A., Geringer, J. M., McNett, J. M., Minor, M. S., 2012, New York, N.Y.: McGraw-Hill Irwin. ISBN-10: 0077606124, ISBN-13: 978-0077606121.

- Chapter 12, "Assessing International Markets"

Important!

Before you proceed, read Chapter 12 of our textbook. Please do not continue until you have done so.

Lesson 1 Practice: Country Screening

Log in to the course to access interactive course content and alternative version.

Click the link below to access the Alternate Version of this activity.

[Alternate Version](#)

Lesson 1: Concept Check

The following multiple choice questions will further examine your knowledge of some major concepts examined in chapter 12 of your textbook.

Lesson 1: Practice Question: Screen Countries using the Market Potential Index

Lesson 1: A note on GDP, GNI and PPP

While these concepts will be introduced next week, it is best if we understand what these measures stand for, given their use in the MPI. Below are several definitions obtained directly from World Bank (various sources may calculate some of these measures differently):

- **Purchasing power parity (PPP)** is the number of units of a country's currency required to buy the same amounts of goods and services in the domestic market as U.S. dollar would buy in the United States.
- **GNI per capita using PPP** is gross national income (GNI) converted to international dollars using purchasing power parity rates. An international dollar has the same purchasing power over GNI as a U.S. dollar has in the United States. GNI is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad. Data are in *current international dollars*.
- **PPP conversion factor (GDP) to market exchange rate ratio** is the ratio of PPP over the market exchange rate. It makes possible to compare the cost of the bundle of goods that make up gross domestic product (GDP) across countries. That is, it tells how many dollars are needed to buy a dollar's worth of goods in the country as compared to the United States.
- **Real GDP Growth Rate** is the annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on *constant 2000 U.S. dollars*. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.
- **Inflation (GDP deflator)** is measured by the annual growth rate of the GDP implicit deflator and shows the rate of price change in the economy as a whole. The GDP implicit deflator is the ratio of GDP in current local currency to GDP in constant local currency.

Apart from the cross-sectional dimension in meaningful comparisons of GDP across countries (e.g., we need to convert GDP in the same currency either using an exchange rate or through PPP), the above definitions add a time dimension in the examination of aggregate economic measures, such as GDP, namely *nominal versus real*.

Nominal GDP is the value of the aggregate final output of a country at current market prices, while real GDP is the value of GDP valued at prices prevailing during some **base year**. For instance, if national accounts statisticians have chosen 2000 as the base year (referenced as 2000=100), then real GDP for 2005 is calculated by taking the physical quantities of goods and services produced in 2005 and multiplying them by their prices in 2000. The resulting real GDP in 2005 is also called 2005 real GDP on constant 2000 US dollars.

So why the distinction?

Nominal GDP can change from time to time because of changes in the volume of output and/or in the prices of the output. If we want to compare a country's level of output over time and evaluate whether the change is due to an actual change in productivity then nominal GDP is not a good candidate. This is because changes in nominal GDP may be caused by changes in the in the prices of the output.

What we must use to compare GDP over time, caused by changes in the physical volume of output is real GDP, which is defined as $(\text{nominal GDP})/(\text{GDP deflator})$. That is, the GDP deflator removes changes in the price level of the output (inflation). Therefore, nominal GDP values can be converted to real GDP values (in base-period dollars) using the expression.

Real GDP = Nominal GDP/GDP deflator

Week 2 Activity 1: Research Activity: Develop MPI

(Submit by end of Day 6, suggested by Day 2)

Value: 20 Points

One of the shortcomings of the MPI presented at the website of MSU-CIBER is that it is not product specific. A company might for instance want to identify the potential of markets across the world in regards to their product. Your textbook gives an example of such a case and how the MPI can be constructed. In the following example, a more general example is given with explicit steps on how to construct such an index and its advantages/disadvantages in assessing markets for firm entry. Your assignment is to replicate the MPI 2009 worksheet for any other year in the period 2004-2008. **For this particular research task, your report should be a Word or PDF document that has the final MPI table (e.g., Step 4 table in the excel file below). Make sure that you sort the final MPI table by Overall Ranking. You may find it easier to report the top 10 countries in your first page along with a short paragraph describing your findings and copy/paste the full table in the following pages of your document.**

Step 1:

The first step in constructing such an index is to select the variables that measure the various markets' potential and the sample of countries that you want to include.

In regards to the sample of countries, the more countries we include in the analysis the more representative the sample is and the more options to choose from. Therefore, a sample with more countries is preferred even if we want to focus on emerging markets since we can always isolate the emerging markets after the analysis is performed.

In regards to variables that measure the various markets' potential, it sometimes is product-specific (e.g., a pharmaceutical company might want to include some different measures in the calculation of MPI than a retail company) but most of the measures will be the same, especially the institutional measures (economic and political freedom, country risk rating). In this example, we have selected the following variables for the year 2009:

Dimension	Weight	Measures Used
Market Size	6/25	<ul style="list-style-type: none"> Urban population (1000s) -2009¹ Electricity production (million kwh) - 2009¹
Market Growth Rate	4/25	<ul style="list-style-type: none"> Growth rate of primary energy use (%) - between years 2005-2009¹ Real GDP growth rate (Annual %) - 2009¹
Market Intensity	3/25	<ul style="list-style-type: none"> GDP per capita using PPP (current US Dollars) - 2009¹ Urban population (% of total) - 2009¹
Commercial Infrastructure / Access to Consumer	3/25	<ul style="list-style-type: none"> Main Telephone lines - 2009¹ Cellular mobile subscribers (per 100 people) - 2009¹ Paved road density (km per million people) - 2009¹ Secure Internet servers (per million people) - 2009¹
Market Receptivity	3/25	<ul style="list-style-type: none"> Trade as a percentage of GDP (%) - 2009¹ Per capita imports from US (US Dollars per capita) - 2009²
Free Market Structure	3/25	<ul style="list-style-type: none"> Economic Freedom Index - 2009³ Political Freedom Index - 2009⁴
Country Risk	3/25	<ul style="list-style-type: none"> Country risk rating - March 2011⁵

1 Source: World Bank, [World Development Indicators](#)

2 Source: U.S. Census Bureau Foreign Trade Division, [Country Trade Data](#) - 2009

3 Source: Heritage Foundation, [The Index of Economic Freedom](#) - 2009

4 Source: Freedom House, [Survey of Freedom in the World](#) - 2009

5 Source: Euromoney, [Country Risk Survey](#) - March 2011 (earlier data were not freely available)

Step 2:

After the collection of the data, each measure needs to be standardized in order to be comparable with the rest of the measures. A common formula is called the Z score and is calculated in the following way:

$$Z = \frac{X - (\text{Average of X over all countries})}{\text{Standard deviation of X}}$$

Where X denotes a particular measure (e.g., urban population) and its values represent the value for each country in the sample.

Step 3:

After each measure has been standardized, we find the average of all standardized measures within each dimension for each country. That is, for dimension Market Size, its first value will be the average of the standardized urban population and standardized electricity production for country A. Therefore, after this step we have a column of data for each of the seven dimensions of the MPI index.

Step 4:

The resulting scores need to be converted to a scale of 1-100 and for this we use the following formula:

$$Y_{ij}^s = \left[\frac{Y_{ij} - \min_i}{\max_i - \min_i} \cdot 99 \right] + 1$$

Where Y_{ij}^s is the scaled final value of country j for the dimension i ($i=1, \dots, 7$); Y_{ij} is the average score of country j on dimension i ; \min_i and \max_i are the minimum and maximum values for dimension i , respectively. Finally, we find the weighted average of all dimensions using the weights presented in the previous table (based on input from managers).

Now if all the above sounds really confusing, the following Excel file demonstrates the steps in the construction of the Market Potential Index. In the worksheet "Raw Data" you will find the data that are used in the construction of the MPI for the years 2004 to 2009. In the worksheet "MPI 2009" the steps required for the construction of the MPI are demonstrated (see formulas in the first row cells of each table).

[Excel file](#)

What are some potential advantages and disadvantages of the index?

Advantages

1. It's construction is straightforward and it requires only freely available data.
2. It provides an initial screening for attractiveness of the foreign market and can be easily modified to account for product-specific factors using different variables from the World Development Indicators or other sources.

Disadvantages

1. Looking at the 2009 MPI, Luxembourg is in the third position owing to ratings in all dimensions of the index apart from Market Size. However, market size is an important determinant in assessing entry. Therefore, while the overall index helps us to split good vs. bad choices, we also need to look at the individual components of the index.
2. It cannot predict potential future economic or financial distress of the foreign market, especially if it is calculated for a particular year. For instance, Ireland is in the 21st place but it recently received a bailout from IMF. Therefore, for more complete picture several years of observation are needed but more importantly measures that more accurately capture deterioration of the economy and financial situation of each country are needed. We will cover these in more detail in later chapters.

What if we don't have any input from managers to calculate Weights?

If we don't have any information about appropriate weights to use in the calculation of MPI, then we can follow the textbook's paradigm and find the average MPI. In other words, in step 4 of the above example, instead of weighted average we calculate the ordinary average.

Submit your completed research task through the Turnitin drop box located within the Assignments area by no later than end of Day 6.

Please note that the Turnitin drop box will be available on Day 1 at 12:00 a.m. E.T.

Week 2 Research Activity Instructor Video

Log in to the course to view video and alternative version.

[Alternative Version](#)

Accessing Grademark Commentary for Individual Turnitin Assignments

- Select the **View/Complete** link in the assignment drop box, or select your grade in the **My Grades** area.
- Next, select the title of the assignment in the Turnitin Assignment and Portfolio Inbox.
- Once the document view loads, select the **GradeMark** button, located at the top left of the screen.
- To view individual comments, hover the mouse over the blue comment bubbles.

Lesson 2: Entry Modes

Learning Objectives

After completing this lesson, you should be able to:

- Describe the role of location, topography, climate and natural resources as factor conditions in Porter's Diamond model.
- Explain the impact of surface features on economic, cultural, political and social differences among nations.
- Explain the purpose of economic analysis.
- Recognize the economic dimensions of an economy and the indicators used to assess these dimensions.

Week 2 Reading 2

Textbook: *International Business: The Challenge of Global Competition*, 13th Edition, by Ball, D. A., Geringer, J. M., McNett, J. M., Minor, M. S., 2012, New York, N.Y.: McGraw-Hill Irwin. ISBN-10: 0077606124, ISBN-13: 978-0077606121.

- Chapter 13, "Entry Modes"

Important!

Before you proceed, read Chapter 13 of our textbook. Please do not continue until you have done so.

Lesson 2 Practice Activity: Nonequity Modes of Market Entry

Log in to the course to access interactive course content and alternative version.

Click the link below to access the Alternate Version of this activity.

[Alternate Version](#)

Lesson 2: Practice Questions: Equity-Based Entry Modes

Week 2 Activity 2: Research Activity: Commercial Guide

(Submit by end of Day 6, Suggested Day 4)

Value: 10 Points

The U.S. Commercial Service prepares a series of reports titled the "Country Commercial Guide" for each country of interest to U.S. investors. Utilize this guide to gather information on Brazil. Imagine that your company produces electronic security equipment and is considering entering this country. Select the most appropriate entry method, supporting your decision with the information collected from the commercial guide and submit a short report. **Your report should be a maximum of 1 page, double-spaced, Word or PDF document. However, you can have unlimited number of exhibits that should be put in an Appendix in the same file.**

Hint:

Go to <http://globaledge.msu.edu> and search for "commercial guide". Follow the links to the US Commercial Service. Select Brazil for Country and Country Commercial Guides for Report Type and press Go. Note: this site provide market research reports (e.g., product or industry specific analyses of foreign markets but you must register – it is free).

From Brazil's commercial guide read especially the chapter on Leading Sectors for U.S. Export and Investment.

Submit your completed research task through the Turnitin drop box located within the Assignments area by no later than end of Day 6.

Please note that the Turnitin drop box will be available on Day 1 at 12:00 a.m. E.T.

Accessing Gradermark Commentary for Individual Turnitin Assignments

- Select the **View/Complete** link in the assignment drop box, or select your grade in the **My Grades** area.
- Next, select the title of the assignment in the Turnitin Assignment and Portfolio Inbox.
- Once the document view loads, select the **GradeMark** button, located at the top left of the screen.
- To view individual comments, hover the mouse over the blue comment bubbles.

Lesson 3: Export and Import Practices

Learning Objectives

As a result of participating in this lesson, you will be able to:

- Identify the sources of export counseling and support.
- Discuss the meaning of the various terms of sale known as Incoterms.
- Identify some sources of export financing.
- Describe the activities of a foreign freight forwarder.
- Outline the export documents required.
- Identify import sources.

Week 2 Reading 3

Textbook: *International Business: The Challenge of Global Competition*, 13th Edition, by Ball, D. A., Geringer, J. M., McNett, J. M., Minor, M. S., 2012, New York, N.Y.: McGraw-Hill Irwin. ISBN-10: 0077606124, ISBN-13: 978-0077606121.

- Chapter 14, "Export and Import Practices"

Important!

Before you proceed, read Chapter 14 of our textbook. Please do not continue until you have done so.

Lesson 3 Practice Activity: Export Issues

Log in to the course to access interactive course content and alternative version.

Click the link below to access the Alternate Version of this activity.

[Alternate Version](#)

Lesson 3 Practice Activity: Export Terms

Log in to the course to access interactive course content and alternative version.

Click the link below to access the Alternate Version of this activity.

[Alternate Version](#)

Lesson 3 Practice Question: State Manufacturing Export Sales Price

Week 2 Discussion 1: The Foley Company

(Initial post by end of Day 3; Respond to a classmate's post by end of Day 5)

Value: 30 points

Read the Foley Company minicase at the end of Chapter 13 and answer question 1 and one of questions 2 and 3. Post one original contribution and one response/comment on someone else's contribution.

For convenience the case questions are listed below:

1. Assume you are Joanne Poe. Prepare a list of all the options available to Foley, and give the advantages and disadvantages of each.
2. Which of the options would you recommend? Why?
3. Assuming that the president's calculations are correct and that a factory to produce locally the number of machines that Foley now exports to Brazil will offer a satisfactory return on investment, what special information about Brazil, will you want to gather?

[Click here to review how and where to post notes to the discussion area.](#)

Click the link below for the discussion rubric.

[Discussion Rubric](#)

Week 2 Assignment 1: Case 1 Brief

(Submit by the end of Day 7)

Value: 100 points

Read the following case to prepare for the case brief:

"Sterling Marking Products Inc." (Course Pack)

Suggested Guidance Questions for Brief Analysis

1. As Jan D'Ailly, what would you recommend to your company? Why?
2. Are you satisfied with how things are going in the United States? Why is it appropriate to move at the speed you are proposing? Of the eight other countries which have approached you to date, which will you deal with first? Will you use the same mode for other countries as you are suggesting for the United Kingdom? Why?
3. To support your answers in the above questions, you should address the following:
 - What criteria would you use for ranking foreign market attractiveness?
 - What are some conditions supporting rapid expansion into foreign markets?
 - What are the criteria for deciding between modes of involvement?
 - What is the cost of establishing a branch in the UK?
 - Can you provide a comparison of costs and revenues for the Canadian, US, and UK using different modes of entry (e.g., export, JV, subsidiary)?

To decide between modes of involvement use the following Microsoft Word file, [click here](#).

Guidelines for case briefs:

1. Briefs should not exceed 500 words. In addition, you can append your own explanatory exhibits that summarize your own analysis to support your position. Each exhibit you decide to include must be referred to in your brief with a clear explanation of the exhibit's contribution. Although you **must** answer all questions provided with the case, your brief should NOT be written as a homework assignment (e.g. Question 1 then Answer, and so on). Rather you should start with an introductory paragraph where you identify the key issue(s) explaining why this (these) is (are) the key issue(s); then you provide clear recommendations or solutions to the key issue(s) supported by robust analysis. Remember to show alternatives you considered and why you may have rejected these. Case questions might be the key issue(s) or at minimum they direct you to the key issues(s). Use these case questions to help you in identifying the key issue(s) or at minimum they direct you to the key issue(s). Use these case questions to help you in identifying the key issue(s) and support your arguments.
2. An excellent brief will:
 - Identify key issues that help you answer specific case questions posted with the case and, if you choose, identified by you.
 - Explain and support your stated positions and the case facts by using concepts/theories learned from your readings, from the lectures, or from your own research. This is very important: Cite all sources you use to support your ideas.
 - Focus on clear answers supported with facts from the case. Make, articulate, and support assumptions as necessary. Don't summarize the case and/or provide case details that do not pertain specifically to your answers. A case is unlikely to be focused entirely on the material covered in the chapters of the specific week in which it is assigned. Hence, you should broaden your theoretical lens to include all lessons studied up to this point.
 - Evaluate the financial implications of your recommendations (when appropriate to the case).
 - Be well organized. Remember that the substance of your brief should be made clear by its form.

Write and submit your individual case brief using the Turnitin drop box located in the Assignments area by the end of Day 7.

Accessing Grademark Commentary for Individual Turnitin Assignments

- Select the **View/Complete** link in the assignment drop box, or select your grade in the **My Grades** area.
- Next, select the title of the assignment in the Turnitin Assignment and Portfolio Inbox.
- Once the document view loads, select the **GradeMark** button, located at the top left of the screen.
- To view individual comments, hover the mouse over the blue comment bubbles.