

INTERNATIONAL BUSINESS

Environments and Operations

NINTH EDITION



JOHN D.

LEE H.

DANIELS • RADEBAUGH

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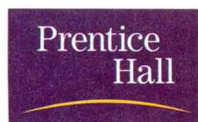


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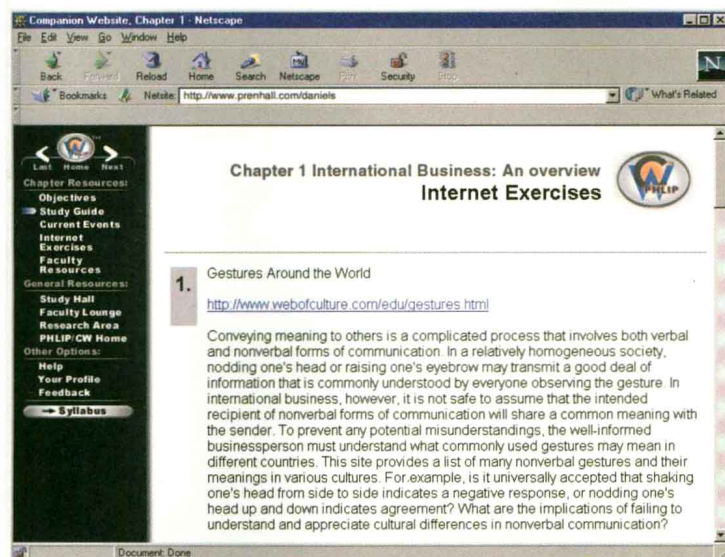
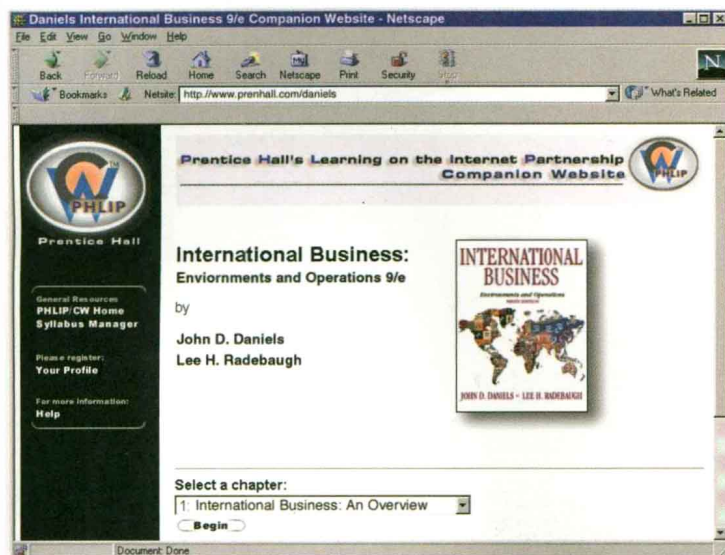
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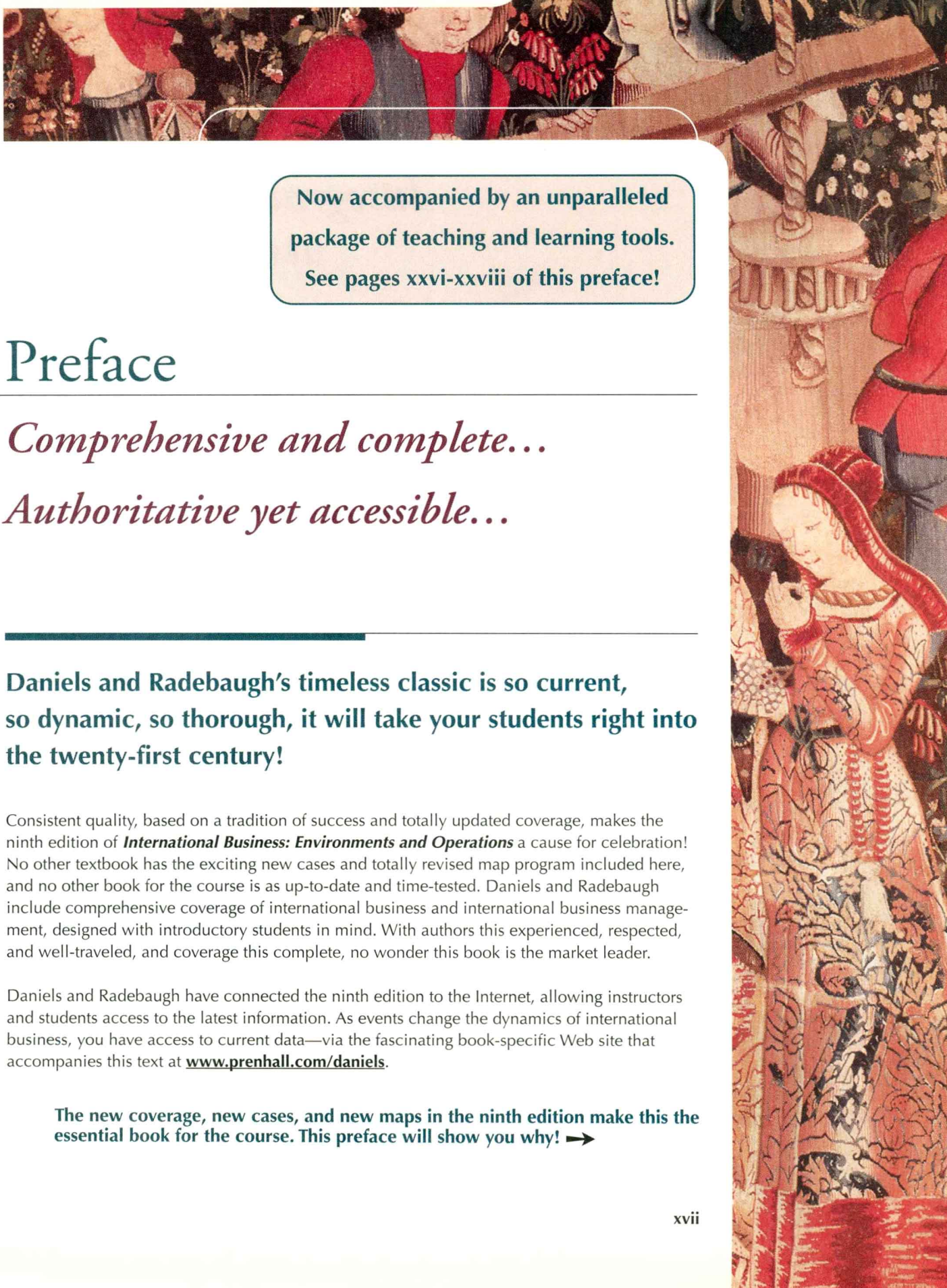
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INTERNATIONAL BUSINESS

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Now accompanied by an unparalleled
package of teaching and learning tools.
See pages xxvi-xxviii of this preface!

Preface

Comprehensive and complete...

Authoritative yet accessible...

**Daniels and Radebaugh's timeless classic is so current,
so dynamic, so thorough, it will take your students right into
the twenty-first century!**

Consistent quality, based on a tradition of success and totally updated coverage, makes the ninth edition of ***International Business: Environments and Operations*** a cause for celebration! No other textbook has the exciting new cases and totally revised map program included here, and no other book for the course is as up-to-date and time-tested. Daniels and Radebaugh include comprehensive coverage of international business and international business management, designed with introductory students in mind. With authors this experienced, respected, and well-traveled, and coverage this complete, no wonder this book is the market leader.

Daniels and Radebaugh have connected the ninth edition to the Internet, allowing instructors and students access to the latest information. As events change the dynamics of international business, you have access to current data—via the fascinating book-specific Web site that accompanies this text at www.prenhall.com/daniels.

The new coverage, new cases, and new maps in the ninth edition make this the essential book for the course. This preface will show you why! ➔

Integrated cases, new new coverage of

Based on their own experience and that of other educators who teach international business, Daniels and Radebaugh's enhancements make the ninth edition the best teaching and learning tool for the course. In addition to its integrated cases and new visuals, the ninth edition has completely updated examples, new tables and figures, and greater use of maps. And, new content on today's technology and its use in international business shows how international managers operate in this information age.



CASE
THE STAR WARS
QUARTET¹

Lucasfilm released *Star Wars: Episode I: The Phantom Menace* in 1999, the first prequel to the original trilogy (*Star Wars: The Empire Strikes Back*, and *Return of the Jedi*). You have probably seen at least one of these—at least once—because the sequence is the most commercially successful ever produced. By late 1999, *Star Wars* ticket sales of \$461 million were second only to those of *Titanic*. When ticket sales are adjusted for inflation, they are second only to those of *Cone with the Wind*. The *Phantom Menace*'s ticket sales for 1999 were \$417 million, which was more than double the ticket sales of any other movie released that year.

The intergalactic aspect of the quartet is obvious. Less obvious, though, are the international dimensions, right here on Planet Earth, that contributed to the films' success.

The deal to produce *Star Wars* was international from the start. George Lucas, the American producer, had written short summaries of two films he wished to make. He took the ideas to every studio in Hollywood, and each one turned him down. In desperation, he used his last \$2,000 to buy a ticket to the Cannes (France) Film Festival, in the hope of gaining some backing. There he made an agreement with a Hollywood studio for production of *American Graffiti* and *Star Wars*. The studio, Twentieth Century Fox, thought that *Star Wars* was too high a risk to warrant giving Lucas its customary signing bonus of about a half million dollars. Instead, the studio gave him all sequence and merchandising rights, which it has regretted ever since.

George Lucas filmed only part of each movie in the *Star Wars* quartet in the United States. For example, he used studios outside of the United States for the filming of *Star Wars*.

Chapter-Opening photos from around the world introduce chapter material. And, each of the book's seven parts features a textile from one of the seven regions of international business—Africa, Asia, East Asia, Europe, North America, Oceania, and South America.



PART ONE: BACKGROUND FOR INTERNATIONAL BUSINESS **LANDS' END AND YAHOO!**

BACKGROUND

This video case shows how two very different companies, Lands' End and Yahoo!, approached the same goal—expansion into international markets. Lands' End is a retail business that sells its products through its print and on-line catalogs. Yahoo! is an Internet search engine that supplies its service to Web surfers worldwide.

A firm may decide to go international for any number of reasons, including the drive to increase sales volume and to access resources in other national markets. Lands' End wanted to increase its sales volume in markets such as Japan, Germany, and the United Kingdom. Yahoo! wanted to dominate the global Internet industry by penetrating markets such as China, Japan, Sweden, Norway, France, and others. This video illustrates how the two companies localized their products and services to meet the needs and preferences of consumers in new markets.

lion, making the company one of the largest apparel brands in the United States.

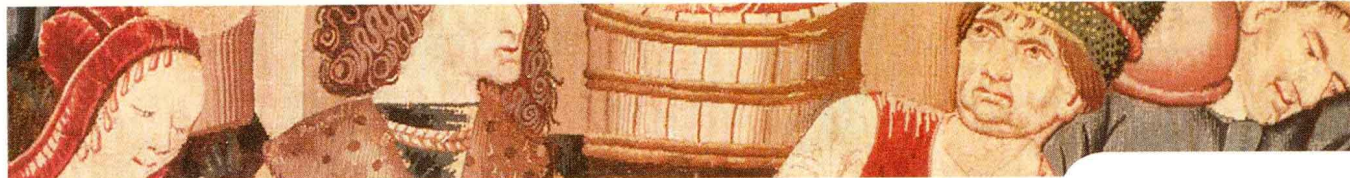
YAHOO! INC.

Yahoo! is an Internet search engine headquartered in Santa Clara, California, that helps people navigate the World Wide Web. The company's principal product is an ad-supported Internet directory that links users to millions of Web pages. The site leads the field in traffic (95 million pages viewed each day) and is second only to Netscape in on-line advertising revenues. Yahoo! has targeted guides for geographic audiences (Yahoo! Finance and Yahoo! News), demographic audiences (see Yahoo!game), a Web guide for children, special-interest audiences (Yahoo! Finance and Yahoo! News), and community services (Yahoo! Chat). The company is moving into the Internet access market through an alliance with AT&T and has agreed to acquire fellow Internet player, GeoCities, Japan's

Each chapter opens with a case on a specific international company. The case is carried through the chapter so readers can see its application.



New part-ending video cases link each part's material to some of today's most exciting international companies, such as Yahoo!, MTV, and Lands' End.



visual content, and communication and technology

- Its current product mix
- Its facilities and equipment
- Its marketing policies
- Its customer profile
- The principles it represents and the importance of the inquiring company to its overall business
- Its promotional strategies¹⁴

A company that has sufficient financial and managerial resources and decides to export directly rather than working through an intermediary must set up a solid organization. This organization may take any number of forms ranging from a separate international division, to a separate international company, to full integration of international and domestic activities. Whatever the form, there commonly is an international sales force separate from the domestic sales force because of the different types of expertise required in dealing in foreign markets.

Exporters can also sell directly to foreign retailers. Usually, these products are limited to consumer lines, but the growth of large retail chains around the world has facilitated the export of products to the large chains, which gives the exporter instant coverage to a wide area. Exporters can also sell directly to end users. This can be done through catalogs or at trade shows, or the sales can be in response to foreign buyers getting a hold of company brochures or responding to advertisements in trade publications.

Internet marketing allows all companies—both large and small—to engage in direct marketing quickly, easily, and cheaply.

DIRECT EXPORTING THROUGH THE INTERNET AND ELECTRONIC COMMERCE

Electronic commerce is an important way for companies to export their products to end users. It is especially important for SMEs (small and medium-size enterprises) that can't afford to establish an elaborate sales network internationally. E-commerce is easy to

You'll also find engaging discussions on the **Internet and electronic commerce**. In Chapter 1, students will learn how this technology has influenced recent international business growth, and in Chapter 13, they will learn how international business managers use the Internet to gather information and help make decisions. Then in Chapter 16, students will see how these technologies affect and enhance international marketing strategies. In Chapter 17, the authors discuss direct exporting through the Internet and electronic commerce, and Chapter 21 covers the increasing use of Net meetings in lieu of international travel. And, the book practices what it preaches. Each chapter ends with a "Web Connection" box that points students to the book's Web site for more international business learning.

Fascinating **new examples** are included throughout the book to illustrate key topics. For example, in Chapter 14, the authors' discussion of international collaborative arrangements is strengthened by examples of Mondavi and Rothchild in winemaking, and Duracell and Gillette in combining sales forces. And **margin notes** reinforce key concepts, summarize text passages, and highlight the managerial aspects to international business.

communications systems. From such an arrangement's inception, different companies (sometimes from different countries) agree to take on the high cost and high risk of developmental work for different components needed in the final product. Then a lead company buys the components from the companies that did parts of the developmental work.

Gain Market Knowledge Many companies pursue collaborative arrangements to learn about a partner's technology, operating methods, or home market so that their own competencies will broaden or deepen, making them more competitive in the future. Recall Chapter 11's case on FDI in China that Chinese governmental authorities allow foreign companies to tap the Chinese market in exchange for their transference of technology. Sometimes each partner can learn from the other, a motive driving joint ventures between U.S. and European wine makers, such as the Opus One Winery owned by Robert Mondavi from the United States and Baron Philippe de Rothschild from France.¹⁰

MOTIVES FOR COLLABORATIVE ARRANGEMENTS: INTERNATIONAL

In this section, we'll continue discussing the reasons why companies enter into collaborative arrangements, covering those reasons that apply only to international operations. Specifically, these reasons are to gain location-specific assets, overcome legal constraints, diversify geographically, and minimize exposure in risky environments.

Gain Location-Specific Assets Cultural, political, competitive, and economic differences among countries create barriers for companies that want to operate abroad. When

The authors also include new information on:

the Asian financial crisis • the economies of Russia and Eastern Europe • NAFTA • the debut and performance of the euro • China's transition to market economies • governmental incentives in where to locate production • the latest in regional integration • environmentally friendly technologies • how FDI is replacing foreign aid as a source of capital in emerging economies • protecting intellectual property rights • country-by-country best practices • global manufacturing and supply chain management • the use of cross-national teams • and much more!

Outstanding, contemporary cases define the ninth edition

In addition to the chapter-opening cases, Daniels and Radebaugh's closing cases pose questions that students must answer based on what they have learned in the chapter. These closing cases contain questions that are answered in the instructor's manual.

CASE

THE DAEWOO GROUP AND THE ASIAN FINANCIAL CRISIS⁴²

In 1999, Daewoo Group (www.daewoo.com), Korea's second largest chaebol, or family-owned business conglomerate, was staggering under \$50 billion in debt and considering whether or not to sell its flagship business, Daewoo Motor Company Ltd., to General Motors. The Asian financial crisis, which had hammered the Korean economy for two years, had finally taken its toll on the expansion-minded Daewoo and forced both Daewoo and the Korean government to decide what would be Daewoo's future.

Kim Woo-Chong started Daewoo in 1967 as a small textile company with only 5 employees and \$10,000 in capital. In just 30 years, Mr. Kim had grown Daewoo into a diversified company with 250,000 employees worldwide, over 30 domestic companies and 300 overseas subsidiaries, generating sales of more than \$100 billion annually. However, some estimated that Daewoo and its subcontractors employ 2.5 million people in Korea. Although Daewoo started in textiles, it quickly moved into other fields, first

- Electronics and Telecommunications
- Finance and Service

However, Daewoo was struggling. Its \$50 billion debt was 40 percent greater than in 1998, equaling 13 percent of Korea's entire GDP. A good share of that, about \$10 billion, was owed to overseas creditors. Its debt-to-equity ratio (total debt divided by shareholder's equity) in 1998 was 5 to 1, which is higher than the 4 to 1 average of other large chaebol, but significantly higher than the U.S. average, which usually is around 1 to 1 but rarely climbs above 2 to 1. Of course, there is no way of knowing the true picture of Daewoo's financial information because of the climate of secrecy in Korean companies. In addition, it is possible that its estimated debt might be greatly underestimated because no one knows whether or not the \$50 billion includes debt of foreign subsidiaries.

How did Daewoo get into such a terrible position, and how much did the nature of the Korean economy and the Asian financial crisis affect Daewoo?

KOREAN ECONOMY

The impact of the Asian financial crisis on Korea was partly a result of the economic system of state intervention adopted by Korea since the mid-1950s. Modeled after the Japanese economic system, the Korean authoritarian government targeted export growth as the key for the country's future. Initially, the

CASE

DENTAL NEWS AND HOTRESPONSE^{*}

In 1987, John Schwartz, an American living in Hong Kong, founded the family-owned *Dental News*, a quarterly magazine circulating to people interested in dental equipment, supplies, and technical developments. Medi Media Pacific, a Hong Kong-based company specializing in medical publications, bought *Dental News* from the Schwartz family in 1993.

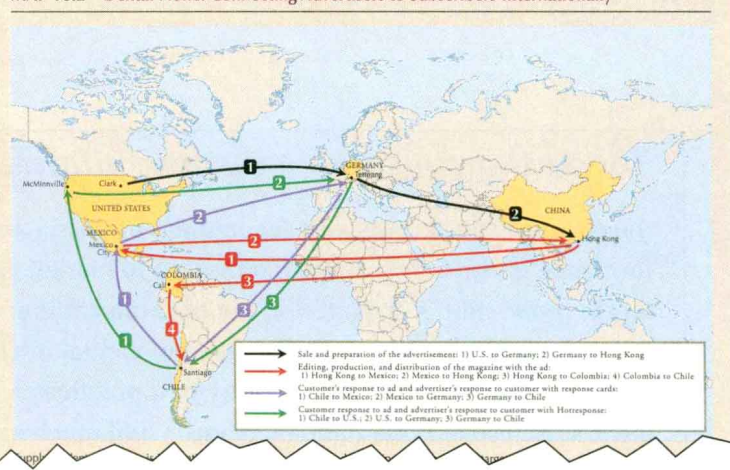
Havas, a French multimedia company, acquired Medi Media Pacific in 1999. Both Medi Media and Havas have contracted Logan Media International to handle all print activity from its headquarters in McMinnville, Oregon (USA). The Schwartz family owns Logan Media International, which is headed by Allen Logan Schwartz, the son of *Dental News*'s founder. Allen, collaborating closely with his brother, John Schwartz, also conceived and developed Hotresponse under another company, Dissemination Inc., which their father had recently established to exploit market synergies between print and the Internet. Hotresponse is an on-line service that connects magazine subscribers with magazine advertisers. The first client for Hotresponse was *Dental News* in 1998. Since then, Dissemination Inc. has obtained other Hotresponse clients, such as *Esquire Magazine*, *Maxim*, *Outside*, and *Penton Publishers*.

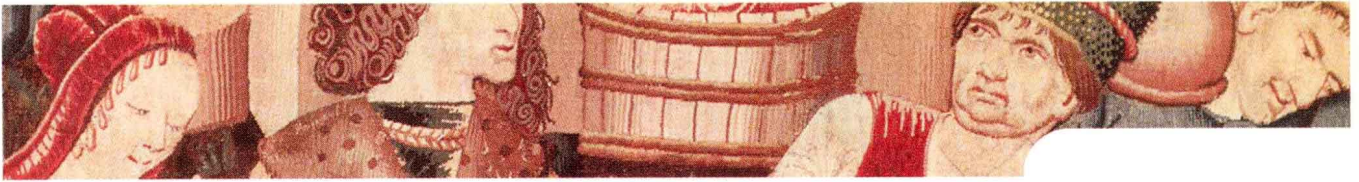
Initially, *Dental News* circulated only to Asia-Pacific countries until its founders envisioned expansion into other emerging markets. In the early 1990s, Charles Buckwalter, president of Corvison International in Miami, Fla. (USA),

products. *Dental News* targets nontriad markets (those outside Western Europe, Japan, and English-speaking North America). The *Dental News* management is convinced and has persuaded advertisers that potential dental product customers (such as dentists, public health officials, lab technicians, dental hygienists, and dental school professors) are inundated with product information in the triad countries. But, potential customers elsewhere have too little access to information and would like more. Still, companies will advertise in *Dental News* only if *Dental News* has a subscription base large enough to reach enough potential dental product customers.

Dental News elicits subscriptions from exhibition booths it places at dental trade shows and dental conferences held all over the world. The largest of the conferences is the annual meeting of the Fédération Dentaire Internationale (FDI). *Dental News* arranges for its magazine to be placed in registration packets at these dental conferences. In exchange, *Dental News* provides advertising for upcoming meetings and lists these meetings in the calendar that appears in each

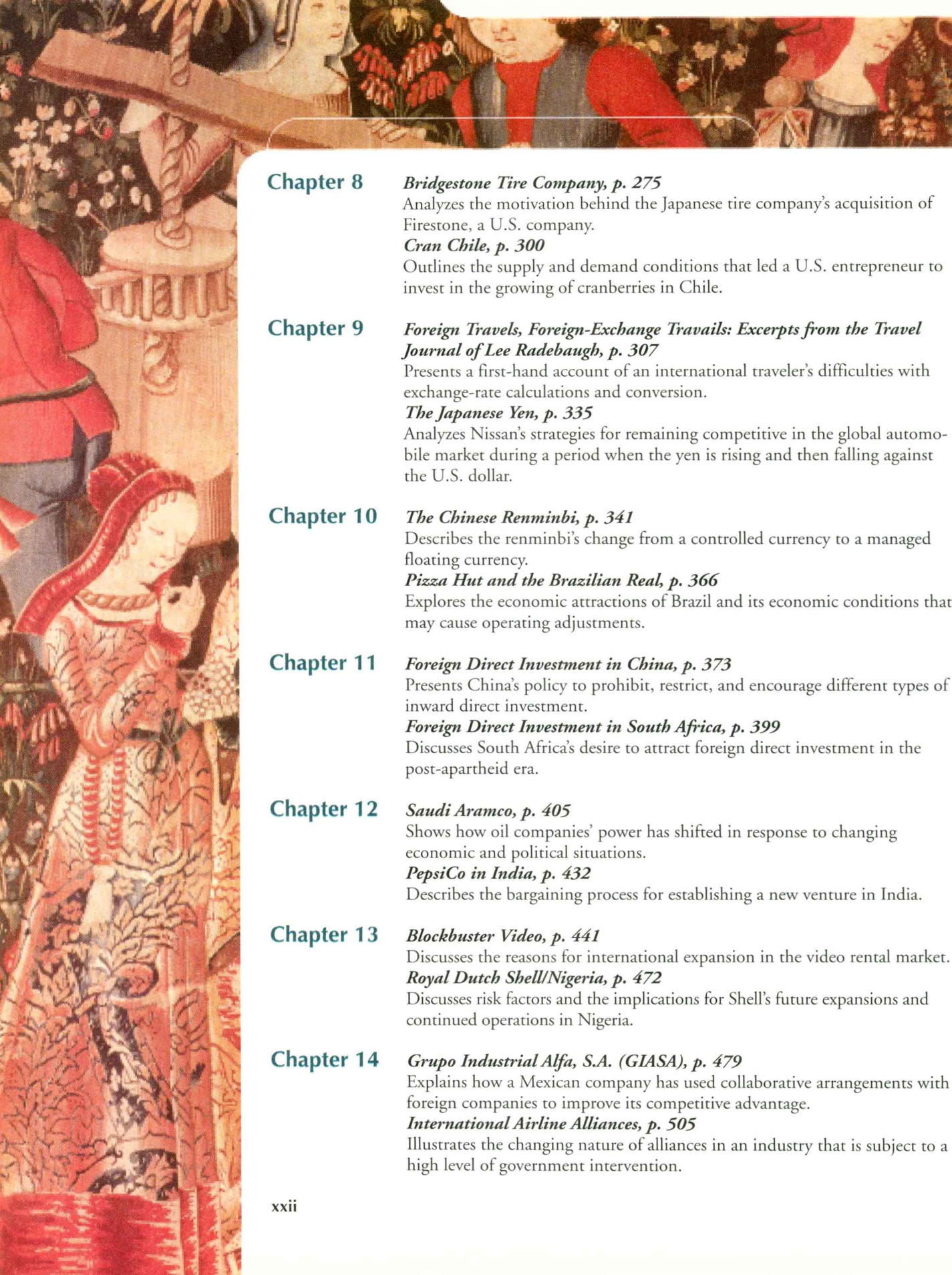
MAP 16.2 *Dental News*: Connecting Advertisers to Subscribers Internationally





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John Higgins, p. 78
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- Chapter 5** *Sri Lankan Trade, p. 157*
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- Chapter 6** *The Banana War, p. 195*
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United States-Cuban Trade, p. 223
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- Chapter 7** *Ford Europe, p. 229*
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Presents the problems of the broom-corn broom industry in the United States as a result of regional trade agreements.



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Analyzes the motivation behind the Japanese tire company's acquisition of Firestone, a U.S. company.

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PepsiCo in India, p. 432

Describes the bargaining process for establishing a new venture in India.

Chapter 13

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Royal Dutch Shell/Nigeria, p. 472

Discusses risk factors and the implications for Shell's future expansions and continued operations in Nigeria.

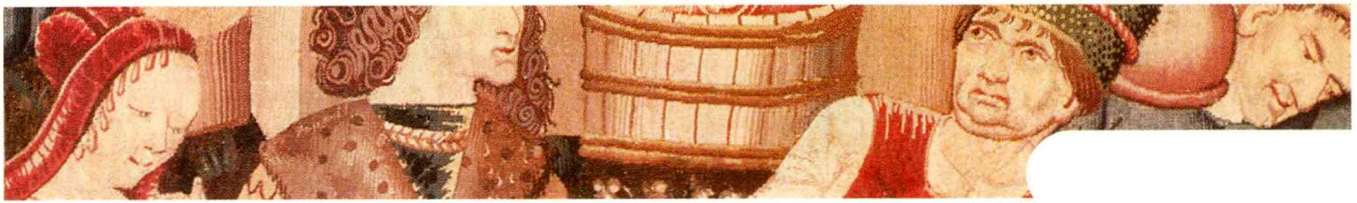
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Coca-Cola and Its Global Challenges, p. 694

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3M and Its Foreign-Exchange Risk-Management Strategy, p. 727

Outlines the approach 3M uses to hedge foreign-exchange risk.

Chapter 21

Dow's International Management Development, p. 733

Illustrates how a company can successfully develop human resources to complement its global objectives.

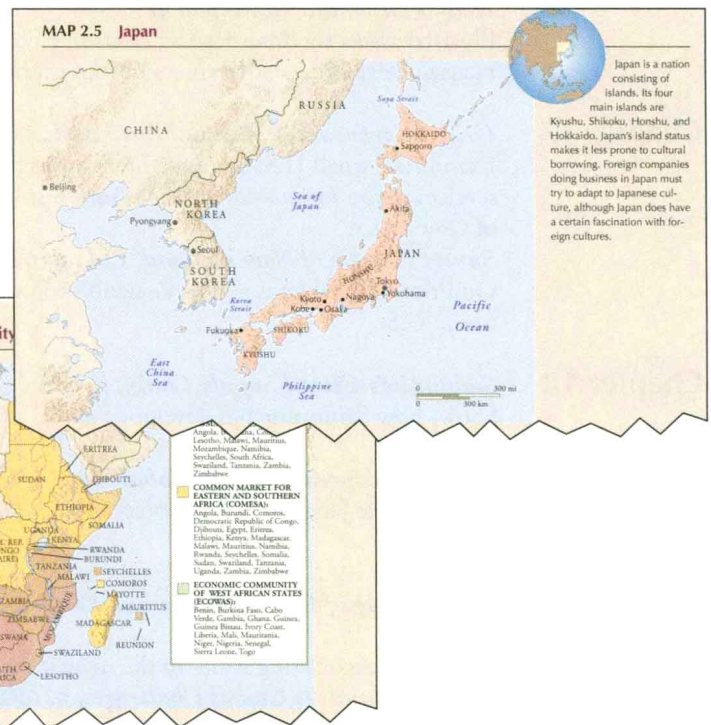
Office Equipment Company (OEC), p. 766

Examines a U.S. company's criteria in evaluating potential managers for its operations in Colombia.

A new dynamic map program

Daniels and Radebaugh are known for their interesting and accurate maps, and the ninth edition carries on that tradition. All the maps for the ninth edition have been re-rendered, updated, and most have locator globes. Designed to help improve students' geographic literacy, the book's many maps (55 in all) add interest and illustrate facts and topics discussed in the text. Many case maps zero in on the case company's home country to give students a close-up look at foreign locales.

A complete atlas with index is available following Chapter 1.



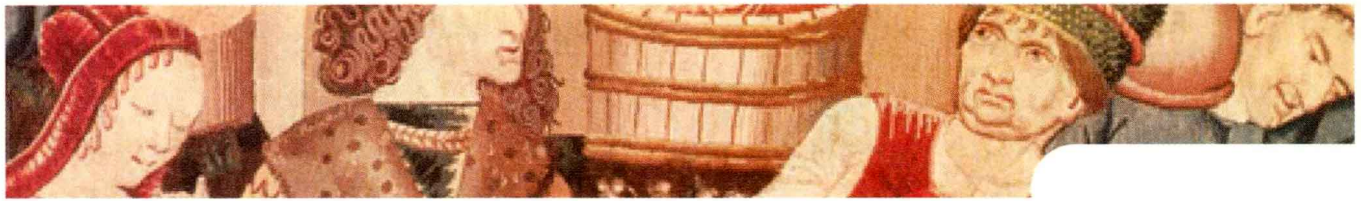
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Teaching and Learning Resources

Instructor's Resource Manual

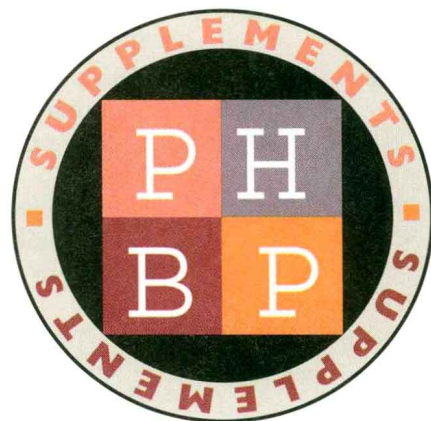
The Instructor's Resource Manual includes detailed chapter outlines with teaching tips, teaching notes for cases, discussion questions and answers, and additional international exercises.

0-13-018428-4

Test Item File

The Test Item File includes 25 true/false, 75 multiple-choice, and 10 essay questions per chapter. Together, the questions cover the content of each chapter in a variety of ways to give instructors flexibility in testing students' knowledge of the text.

0-13-018429-2



Windows/Prentice Hall Test Manager, Version 4.0.

Containing all of the questions in the printed Test Item File, Test Manager is a comprehensive suite of tools for testing and assessment. Test Manager allows educators to easily create and distribute tests for their courses, either by printing and distributing through traditional methods, or by on-line delivery via a Local Area Network (LAN) server.

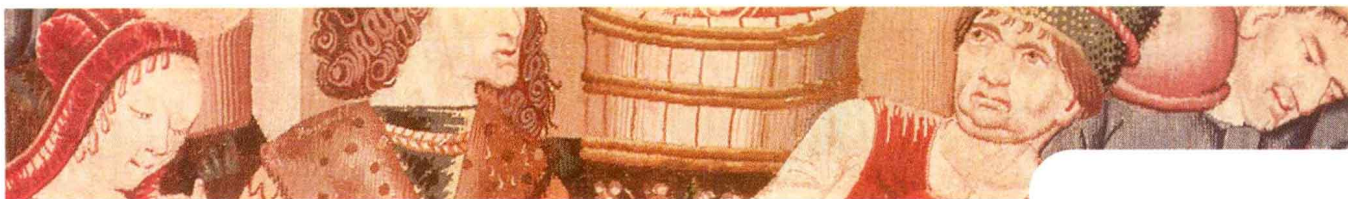
0-13-031123-5



Instructor's Resource CD-ROM

This helpful CD-ROM includes the electronic Instructor's Manual, computerized Test Manager, and PowerPoint electronic transparencies.

0-13-018427-6



On Location! Video

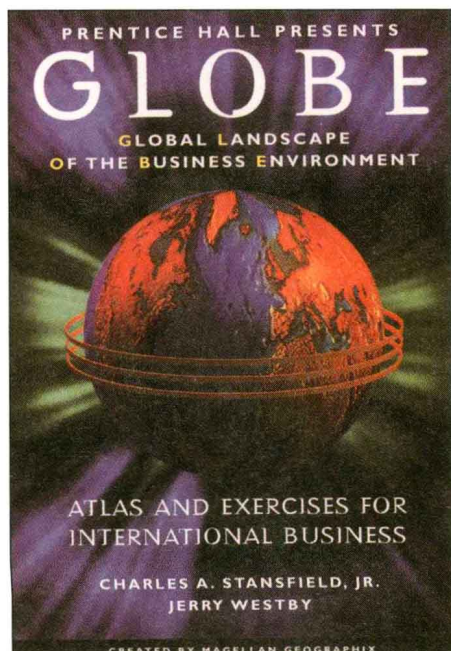
Adopters of this text are entitled to part-ending video clips that correspond with the seven parts in the text. For more information, contact your local sales representative.

0-13-018433-0

Overhead Color Transparencies

Approximately 100 of the most critical PowerPoint Electronic Transparencies are included in this package as full-color acetates and are provided on high quality mylar.

0-13-018420-9



GLOBE (Global Landscape of the Business Environment)

By Charles Stanfield and Jerry Westby, this electronic atlas offers political and physical maps to improve students' geography skills. In addition, regional overviews and statistics combine to offer student exercises that illustrate the impact of cultural and economic geography on business decisions. Available at a deep discount when purchased with the text.

0-13-016285-X