NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF COMMERCE
DEPARTMENT OF BUSINESS MANAGEMENT
INTERNATIONAL MARKETING MANAGEMENT - CBU 4104
FINAL EXAMINATION - JANUARY 2008
TIME ALLOWED: 3 HOURS 30 MINUTES

INSTRUCTIONS TO CANDIDATES

- *Answer Section A and any three questions from Section B.*
- *Questions may be answered in any order.*
- ***As much as possible, use relevant examples.***

SECTION A

Question 1

Case Study: Seneca Cold-drawn Steel, Inc.: Doing Business in the People's Republic of China.

Jim Hoffmann, President of Seneca Cold-Drawn Steel, Inc is considering possible ways to overcome the severe difficulty that his company has encountered in its domestic market. Seneca is a small cold-drawn precision-steel factory located in western New York. The company was founded in 1974 when a nearby large steel mill closed down its production line as part of a strategic contraction plan resulting from the oil crisis. Hoffmann seized the opportunity and set up Seneca three miles away from the larger mill.

In its first five years, Seneca's business involved buying hot-rolled steel bars from the large steel mill and "cold-drawing" them according to customers' required specifications, such as round, square, flat, or hexagonal bars. The cold-drawing process begins with the receipt of the 'hot-rolled steel' in the form of bars or coils. The material is then short-blasted to remove dirt, scale, and rust. Next, it is coated with a lime solution to prevent future rust and improve lubrication when it is drawn through the dies used for cutting and shaping. The steel is then drawn through the dies, which size it to customer specifications. The steel bar is then straightened and cut to desired length. Whereas hot-rolled steel is usually dirty, rusty, and inconsistent in size, cold-drawn steel is sized within precise tolerances, stronger, and finished to a clean, semi polished surface. Finished cold drawn products are then supplied to industrial users, mainly in the automobile and machinery industries.

Seneca operated profitably in its first five years, primarily because of its ability to meet customers' fluctuating delivery and specification requirements. And because of its small scale, local market demand was sufficient to keep Seneca operating at full capacity. After 1980, however, increasing competition

from Japanese automobiles and machinery-products, manufacturers in Pacific Rim countries (principally Japan, Korea, and Taiwan) drove many of Seneca's customers out of business. Moreover, the supplier providing Seneca with raw steel was forced to reduce its production. In turn, this development forced Seneca to buy most of its raw steel from mills located more than 500 miles away, greatly increasing raw-material costs and reducing Seneca's ability to meet its customers' rapidly fluctuating requirements. Given these changing customer and supplier markets, Seneca faced an important turning point.

However, at the same time that Seneca encountered severe difficulties in its domestic market, man opportunities were developing in international markets. For example, China, a vast market and a land of great resources, was opening its long-closed doors and attempting to play a role in the global economy. Recently, China had greatly increased its international trade. Since 1979 – the year China implemented a new Open Door policy that allowed Western companies to establish joint ventures with Chinese investors – the Chinese government has encouraged direct foreign participation in order to develop its economy. Since that time, the Chinese gross national product has grown at least 10 percent annually, and international trade has grown at an annual rate of 17 percent. By 1987, some 140 wholly foreign-owned enterprises were operating in China. There were also numerous other cooperative undertakings, including nearly 8,000 joint venture companies - 300 of them American. Today American-owned enterprises or Chinese-American joint ventures include both large, well-known companies (Xerox, Union Carbide, IBM, Occidental Chemical) and smaller, lesser known companies (such as Mundi Westport Corp., Rochester Instruments, Pretolite Electric and Kamsky Associates).

The Chinese government encourages such enterprises in order to secure the technology, financial resources, and management systems needed in such strategically important industries as communication and transportation, machinery, iron and steel, biochemicals, food production and processing. As a member of an industry now being courted by the Chinese government, Seneca may face a great new opportunity. With a population of over one billion people and geographic territory exceeding that of the United States, China is a potential market, that few companies can ignore. To tap this market, however, Seneca must be willing to and able to transfer its production technology to China in a way that will enhance the Chinese steel industry.

In July 1988, Jim Hoffmann had received a letter from an international management consulting firm asking that Seneca host a delegation of Chinese steel entrepreneurs. The Chinese delegation, known as the "China Entrepreneurs of Medium-Small Steel Plants Training and Studying Mission USA," consisted of plant managers or directors of 45 medium-to-small steel plants located in 26 major Chinese steel-industry cities. Hoffmann had decided to participate in the program.

During the delegation's visit in October of 1988, Seneca provided a tour of its plant and arranged visits to two large

steel mills. In a series of open discussions with the Chinese plant managers and directors, Hoffmann identified several business opportunities:

1 *A compensation-trading opportunity*: Because of the availability of less labor-intensive equipment, some production lines used to make small-sized products at Seneca's plant are obsolete in the United States. Seneca could sell these production lines to interested Chinese firms. With easy access to suitable raw materials and lower labor costs, the Chinese may be in a better position to produce such small-sized products. With easy access to suitable raw materials and lower labor costs, the Chinese may be in a better position to produce such small-sized products. Seneca could then buy back the finished products and resell them to its current customers.

2 *A processing-and-assembling trade opportunity*: Seneca could acquire raw materials from Pacific Rim countries, send them to Chinese partners for cold-drawing, and then resell the finished products to its own U.S. customers.

3 *A joint-venture opportunity*: Seneca could enter a joint venture, using a Chinese partner's existing facilities to supply hot-rolled bars for its own U.S. plant. In addition, the joint-venture steel factory could further process hot-rolled bars into cold-drawn bars to serve the Chinese market.

4 *A wholly foreign-owned-enterprise opportunity*: Seneca could set up a wholly-owned factory in China, taking advantage of the availability and lower price of Chinese raw materials and the huge potential market for cold-drawn bars in China.

After the Chinese delegation had left, Hoffman faced an important decision regarding which opportunity, if any, to pursue. To help with the decision, he hired a consulting company that specialized in U.S.-China trade. The consultants suggested that Seneca consider several factors before making a decision:

1. *Foreign Exchange*: Foreign exchange is perhaps the most important factor in any China-development decision. Foreign exchange woes are common in developing countries that have not yet created an industrial base capable of producing exportable goods. This is particularly important in China, a regulated market and a country trying to balance its foreign exchange. Because Chinese currency, called "IBM," has no value on international currency markets, companies doing business in China insist on payments in a major international currency. The Chinese government, however, tightly controls the availability of foreign currency, ensuring that what little international currency it does possess is channeled to the payment of important strategic products. Such policies can result in great inefficiencies and hamper the growth of key enterprises. Thus, foreign companies must often develop

counter-trade arrangements and negotiate guarantees for payment in their own currencies. These arrangements can be very complicated – the issue of foreign exchange should therefore be addressed early in contract negotiations.

2. *Labor Practices*: Although China has abundant labor resources, the government is still wary of the foreign use of domestic labor, mainly because of memories of colonial exploitation. Foreign firms doing business in China do not pay workers directly: The money is paid to local governments that, in turn, pay the members of a particular "work unit." Thus, the Chinese labor force is neither cheap nor efficient. Although there have been recent signs of change toward more flexibility in hiring and firing practices, firms like Seneca must negotiate contracts that provide as much control over labor issues as possible.
3. *Legal Considerations*: China has no history of an international-style legal system. Its laws are vague and arbitrary and there is always the concept of *neibu* - bureaucrats are not sure if they should give information about laws to foreigners and so will not openly discuss many rules and regulations. Foreign firms must thus negotiate patiently and adhere to their own basic principles and goals. The Chinese political system also continues to be highly "personalistic" in nature – there is often no commonly agreed-upon legal system, and government officials seldom interpret rules consistently. Thus, it would be important for Seneca to develop key contacts and become active on the Chinese banquet circuit.

However, with recent refinements, in business law and the popularization of legal study among some of China's top leaders, the legal situation is slowly changing. Chinese leadership has traditionally been determined to maintain control over the political system, but this attitude has softened because of the remarkable recent turnover of leadership at all levels. Many younger, better educated, professionally qualified leaders have reduced the bureaucracy that has for years been a major obstacle to foreign investment.

4. *Relationship with Chinese the Counter-Party*: The contractual relationship formed with a company's Chinese counter-party can be summarized as follows:

Everything is negotiable. In general, the importance of *guaxi* – the building up of good favors – is perhaps the best strategy for negotiating. The negotiation process does not *end* with the signing of a contract – it simply *begins* there. In addition, it is important to consider carefully what *type* of Chinese counter-party is best for a given business: Firms should seek counter-parties with strong political affiliations – if indeed such affiliations can be determined.

5. Selecting a Business Location: Each area of China is unique. China is not homogeneous: Cities differ, provinces differ, and languages differ. Foreign firms are encouraged to locate in special economic zones where banking, transportation, and utility services are readily available. Some companies, for example, have made mistakes by trying to locate in areas where the cost of labor and materials were lower but the services necessary for doing business not sufficiently developed. A company entering China should carefully investigate the rules, regulations, and idiosyncrasies of different areas.

Armed with this advice from his consultants, Hoffmann planned a business trip to visit several potential counter-parties in China. On his return, he would make a decision about Seneca's first step into China.

Source: This case was written by Mr. Ben Liu, Research Assistant at the China Trade Centre, School of Management, State University of New York at Buffalo. Although the case is based on an actual business situation, all names have been disguised to protect the interests of the company.

Requirements

(a) Describe the marketing environment facing foreign firms in the People's Republic of China. **[20 marks]**

(b) What criteria should be used to decide whether or not to pursue a business opportunity in China? **[20 marks]**

Section B

*Answer any **three** questions from this Section*

Question 2

Using examples, discuss the various types of controls put by governments on various aspects of marketing communications.

[20 marks]

Question 3

Discuss the inner workings and the role of the World Bank and its sister institutions in the promotion of world trade.

[20 marks]

Question 4

Zimbabwean firms have lost their competitiveness in international markets in recent years. What do you think accounts for this loss of competitiveness?

[20 marks]

Question 5

Why have African Regional Economic Groups been less successful than their Western and Eastern counterparts?

[20 marks]

Question 6

Identify and discuss five political-legal factors and five economic factors that act as a deterrent to international investors wishing to invest in Zimbabwe.

[20 marks]

Question 7

As a business consultant consulting with prospective investors into Zimbabwe, which aspects of the "Zimbabwean culture" would you advise your clients to be aware of and why?

[20 marks]

GOOD LUCK