

Marketing: An Introduction, 13e (Armstrong)
Chapter 15 The Global Marketplace

- 1) Which of the following is most likely true of a global firm?
- A) A global firm typically operates from one country.
 - B) A global firm engages in joint partnerships overseas.
 - C) A global firm sees the world as many different markets.
 - D) A global firm maximizes the importance of national boundaries.
 - E) A global firm manufactures and markets goods wherever it can do the best job.

Answer: E

Diff: 1

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

- 2) A tax on an imported product designed to raise revenue or protect domestic firms is referred to as a(n) _____.
- A) exchange
 - B) excise
 - C) fine
 - D) quota
 - E) tariff

Answer: E

Diff: 1

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

- 3) A country may place a limit on the volume of imported citrus fruit that is allowed. This is an example of a(n) _____.
- A) quota
 - B) tariff
 - C) customs duty
 - D) fine
 - E) excise duty

Answer: A

Diff: 2

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

AACSB: Analytical thinking

4) Which of the following is an example of a nontariff trade barrier?

- A) a sales tax
- B) customs duty
- C) a host-country regulation
- D) excise duty
- E) an import quota

Answer: C

Diff: 2

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

5) Walmart's decision to suspend its planned expansion into India's huge but fragmented retail market due to obstacles put in place by the host nation to protect its mom-and-pop retailers is an example of _____.

- A) tariffs
- B) excise duties
- C) quotas
- D) nontariff trade barriers
- E) exchange controls

Answer: D

Diff: 2

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

AACSB: Analytical thinking

6) Which of the following is true of the World Trade Organization (WTO)?

- A) It was replaced by the GATT in 1995.
- B) It increases tariffs and other international trade barriers.
- C) It lacks the power to impose international trade sanctions.
- D) It restricts the maximum number of member nations to 100.
- E) It mediates global trade disputes.

Answer: E

Diff: 2

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

7) Which of the following is true of the Uruguay Round of the WTO?

- A) It promoted short-term global trade growth.
- B) It increased the world's merchandise tariffs by 50 percent.
- C) It reduced the influence of the WTO in agriculture.
- D) It toughened the international protection of intellectual property.
- E) It consisted of discussions that lasted for two years.

Answer: D

Diff: 2

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

- 8) Which of the following is true of economic communities?
- A) They are groups of nations organized to work toward common goals.
 - B) They were formed to increase trade barriers between member nations.
 - C) They were formed to mediate global trade disputes.
 - D) They require member countries to establish one currency.
 - E) They tend to improve imports and hinder exports.

Answer: A

Diff: 1

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

AACSB: Analytical thinking

- 9) The _____ established a free trade zone among the United States, Mexico, and Canada.

- A) Union of South American Nations
- B) European Union
- C) North American Free Trade Agreement
- D) Central American Free Trade Agreement
- E) Latin American Free Trade Association

Answer: C

Diff: 1

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

- 10) A country's _____ shapes its product and service needs, income levels, and employment levels.

- A) quotas
- B) tariffs
- C) raw material export economy
- D) subsistence economy
- E) industrial structure

Answer: E

Diff: 1

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

- 11) Which type of economy consumes most of its output and barter the rest for simple goods and services?

- A) industrial economy
- B) developed economy
- C) subsistence economy
- D) emerging economy
- E) raw material exporting economy

Answer: C

Diff: 2

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

12) Which of the following is true of raw material exporting economies?

- A) These economies are major exporters of agricultural products.
- B) These economies are poor markets for large equipment and trucks.
- C) These economies are major exporters of manufactured goods, services, and investment funds.
- D) These economies are rich in one or more natural resources but poor in other ways.
- E) These economies consume most of their output and barter the rest.

Answer: D

Diff: 2

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

AACSB: Analytical thinking

13) A country in South America has large reserves of copper and tin. Mining forms the pillar of its economy. A major part of its revenue is generated from exporting these resources. This country is poor in many other ways. It is a good market for large equipment, tools, supplies, and trucks. Since there are many foreign residents in this country and a wealthy upper class, it is also a market for luxury goods. This country most likely has a(n) _____ economy.

- A) subsistence
- B) raw material exporting
- C) emerging
- D) developed
- E) industrial

Answer: B

Diff: 3

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

AACSB: Analytical thinking

14) An emerging economy is one which _____.

- A) imports large amounts of finished textiles and automobiles
- B) offers few market opportunities for imported goods
- C) consumes all or most of its output
- D) needs few imports of raw textile materials and steel
- E) has a rapid growth in manufacturing

Answer: E

Diff: 2

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

15) _____ economies are major exporters of manufactured goods, services, and investment funds.

- A) Industrializing
- B) Industrial
- C) Subsistence
- D) Raw material exporting
- E) Emerging

Answer: B

Diff: 1

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

16) Japan is a major exporter of manufactured goods, services, and investment funds. Japan also exports its goods to other types of economies for raw materials and semi-finished goods. This is an example of a(n) _____ economy.

- A) agricultural
- B) emerging
- C) industrial
- D) raw material exporting
- E) subsistence

Answer: C

Diff: 2

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

AACSB: Analytical thinking

17) Which of the following statements is true of industrial economies?

- A) They export their goods to other types of economies for raw materials.
- B) They have a declining middle class population.
- C) They depend on agriculture as the primary revenue generator.
- D) They do not trade goods amongst themselves.
- E) They consume most of their output and barter the rest for simple goods and services.

Answer: A

Diff: 2

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

18) Which type of economy consists mostly of households with very low family incomes?

- A) post-industrial
- B) developed
- C) emerging
- D) industrial
- E) subsistence

Answer: E

Diff: 1

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

19) Tariffs and duties are often used to force favorable trade behaviors from other nations.

Answer: TRUE

Diff: 2

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

20) A multinational company may face nontariff trade barriers that include biases against its bids, restrictive product standards, or excessive host-country regulations.

Answer: TRUE

Diff: 1

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

21) The European Union restricts trade opportunities to European firms.

Answer: FALSE

Diff: 2

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

22) The two economic factors that reflect a country's attractiveness as a market are its industrial structure and import/export ratio.

Answer: FALSE

Diff: 2

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

23) As the weakened global economy has slowed, many companies are shifting their sights to include a new target — the so-called "bottom of the economic pyramid."

Answer: TRUE

Diff: 2

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

24) A blocked currency is one whose removal from the country is restricted by the buyer's government.

Answer: TRUE

Diff: 1

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

25) Barter involves the direct exchange of goods and services.

Answer: TRUE

Diff: 1

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

26) Give an account of the functions of the World Trade Organization (WTO) and the formation of the WTO from GATT.

Answer: The General Agreement on Tariffs and Trade (GATT), established in 1947 and modified in 1994, was designed to promote world trade by reducing tariffs and other international trade barriers. It established the World Trade Organization (WTO), which replaced GATT in 1995 and now oversees the original GATT provisions. WTO and GATT member nations have met in eight rounds of negotiations to reassess trade barriers and establish new rules for international trade. The WTO also imposes international trade sanctions and mediates global trade disputes. Its actions have been productive. The first seven rounds of negotiations reduced the average worldwide tariffs on manufactured goods from 45 percent to just 5 percent.

Diff: 2

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

AACSB: Analytical thinking

27) What are regional free trade zones? Explain the advantages and disadvantages of the European Union (EU).

Answer: Certain countries have formed free trade zones or economic communities. These are groups of nations organized to work toward common goals in the regulation of international trade. One such community is the European Union (EU). Formed in 1957, the EU set out to create a single European market by reducing barriers to the free flow of products, services, finances, and labor among member countries and developing policies on trade with nonmember nations. Today, the EU represents one of the world's largest single markets. Currently, it has 28 member countries containing more than half a billion consumers and accounts for almost 16 percent of the world's imports and exports. The EU offers tremendous trade opportunities for U.S. and other non-European firms. Over the past decade and a half, 19 EU member nations have taken a significant step toward unification by adopting the euro as a common currency. Widespread adoption of the euro has decreased much of the currency risk associated with doing business in Europe, making member countries with previously weak currencies more attractive markets. However, the adoption of a common currency has also caused problems as European economic powers such as Germany and France have had to step in recently to prop up weaker economies such as those of Greece, Portugal, and Cyprus. This recent ongoing "euro crisis" has led some analysts to predict the possible break-up of the euro zone as it is now set up.

Diff: 3

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

AACSB: Analytical thinking

28) What is the North American Free Trade Agreement (NAFTA)?

Answer: In 1994, the North American Free Trade Agreement (NAFTA) established a free trade zone among the United States, Mexico, and Canada. The agreement created a single market of 474 million people who produce and consume \$20.5 trillion worth of goods and services annually. Over the past 20 years, NAFTA has eliminated trade barriers and investment restrictions among the three countries. Total trade among the NAFTA countries nearly tripled from \$288 billion in 1993 to \$1.1 trillion a year.

Diff: 2

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

AACSB: Analytical thinking

29) Differentiate between industrializing economies and industrial economies. Give a few examples of each.

Answer: Industrializing economies are also known as emerging economies. In an emerging economy, fast growth in manufacturing results in rapid overall economic growth. Examples include the BRIC countries — Brazil, Russia, India, and China. As manufacturing increases, the country needs more imports of raw textile materials, steel, and heavy machinery, and fewer imports of finished textiles, paper products, and automobiles. Industrialization typically creates a new rich class and a growing middle class, both demanding new types of imported goods.

Industrial economies, on the other hand, are major exporters of manufactured goods, services, and investment funds. They trade goods among themselves and also export them to other types of economies for raw materials and semi-finished goods. The varied manufacturing activities of these industrial nations and their large middle class make them rich markets for all sorts of goods. Examples include the United States, Japan, and Norway.

Diff: 2

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

AACSB: Analytical thinking

30) Explain with examples how the political-legal environment of a country affects a global firm.
Answer: Nations differ greatly in their political-legal environments. In considering whether to do business in a country, a company should consider factors such as the country's attitudes toward international buying, government bureaucracy, political stability, and monetary regulations. Some nations are very receptive to foreign firms; others are less accommodating. For example, India has import quotas, currency restrictions, and other limitations that make operating there a challenge. In contrast, Singapore and Thailand court foreign investors and shower them with incentives and favorable operating conditions. Political and regulatory stability is another issue. For example, Russia is consumed by corruption and governmental red tape, which the government finds difficult to control, increasing the risk of doing business there. The country's recent geopolitical conflicts with Europe, the United States, and other countries have made doing business in Russia difficult and risky. Companies must also consider a country's monetary regulations. Sellers want to take their profits in a currency of value to them. Ideally, the buyer can pay in the seller's currency or in other world currencies. Short of this, sellers might accept a blocked currency — one whose removal from the country is restricted by the buyer's government — if they can buy other goods in that country that they need or can sell elsewhere for a needed currency. In addition to currency limits, a changing exchange rate also creates high risks for the seller. Most international trade involves cash transactions. Yet many nations have too little hard currency to pay for their purchases from other countries. They may want to pay with other items instead of cash. *Barter* involves the direct exchange of goods or services. For example, Venezuela regularly barter oil, which it produces in surplus quantities, for food on the international market — rice from Guyana; coffee from El Salvador; sugar, coffee, meat, and more from Nicaragua; and beans and pasta from the Dominican Republic. Venezuela has even struck a deal to supply oil to Cuba in exchange for Cuban doctors and medical care for Venezuelans.

Diff: 3

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

AACSB: Analytical thinking

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31) What are the factors that a company should consider when deciding which markets to enter?
Answer: Before going abroad, a company should try to define its international marketing objectives and policies. It should decide what volume of foreign sales it wants. Most companies start small when they go abroad. Some plan to stay small, seeing international sales as a small part of their business. Other companies have bigger plans, however, seeing international business as equal to — or even more important — than their domestic business. The company also needs to choose in how many countries it wants to market. Companies must be careful not to spread themselves too thin or expand beyond their capabilities by operating in too many countries too soon. Next, the company needs to decide on the types of countries to enter. A country's attractiveness depends on the product, geographical factors, income and population, political climate, and other considerations. In recent years, many major new markets have emerged, offering both substantial opportunities and daunting challenges. After listing possible international markets, the company must carefully evaluate each one. Possible global markets should be ranked on several factors, including market size, market growth, the cost of doing business, competitive advantage, and risk level. The goal is to determine the potential of each market. Then the marketer must decide which markets offer the greatest long-run return on investment.

Diff: 3

LO: 15-1: Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

AACSB: Analytical thinking

32) The simplest way to enter a foreign market is through taha.

A) joint ownership

B) exporting

C) direct investment

D) licensing

E) contract manufacturing

Answer: B

Diff: 1

LO: 15-2: Describe three key approaches to entering international markets.

33) Which of the following is true of exporting?

A) It is the most complex way to enter a foreign market.

B) It involves the association of companies with host country partners.

C) It typically requires products to be extensively modified for the foreign market.

D) It involves the least change in a company's product lines.

E) It involves a huge investment if done through independent international distributors.

Answer: D

Diff: 2

LO: 15-2: Describe three key approaches to entering international markets.

AACSB: Analytical thinking

34) Asiana, a fragrance manufacturer located in France, markets its products to the North American and Asian countries through independent distributors. In this case, Asiana has entered into international markets through _____.

- A) joint ownership
- B) joint venturing
- C) indirect exporting
- D) direct investment
- E) franchising

Answer: C

Diff: 3

LO: 15-2: Describe three key approaches to entering international markets.

AACSB: Analytical thinking

35) The difference between direct and indirect exporting is that indirect exporting involves _____.

- A) higher risks
- B) self-handling of exports
- C) greater returns
- D) more product alterations
- E) less investment

Answer: E

Diff: 2

LO: 15-2: Describe three key approaches to entering international markets.

AACSB: Analytical thinking

36) _____ is a method of entering a foreign market by associating with foreign companies to produce or market products or services.

- A) Joint venturing
- B) Indirect exporting
- C) Direct investment
- D) Importing
- E) Direct exporting

Answer: A

Diff: 1

LO: 15-2: Describe three key approaches to entering international markets.

37) Which of the following is true about joint venturing?

- A) Management contracting is highly risky for the domestic firm.
- B) Contract manufacturing gives significant control to the domestic firm.
- C) Licensing is a highly complex method for entering global markets.
- D) A host country partner is necessary for selling or marketing products.
- E) Companies are required to invest in the construction of foreign-based facilities.

Answer: D

Diff: 2

LO: 15-2: Describe three key approaches to entering international markets.

AACSB: Analytical thinking

38) Which of the following is a type of joint venture?

- A) direct exporting
- B) contract manufacturing
- C) direct investment
- D) retailing
- E) wholesaling

Answer: B

Diff: 1

LO: 15-2: Describe three key approaches to entering international markets.

39) Providing a host-country partner the right to use a company's manufacturing process, trademark, patent, trade secret, or other item of value is referred to as _____.

- A) joint ownership
- B) direct exporting
- C) direct investment
- D) management contracting
- E) licensing

Answer: E

Diff: 1

LO: 15-2: Describe three key approaches to entering international markets.

40) Which of the following is an advantage of licensing?

- A) The licensee is not required to invest money in the business.
- B) The licensor has more control over the licensee than it does in its own operations.
- C) The licensee gains recognition without having to develop a product from scratch.
- D) The licensor earns profits without having to share its intellectual property with anyone.
- E) The licensor faces no threats of competition from the licensee after the contract ends.

Answer: C

Diff: 2

LO: 15-2: Describe three key approaches to entering international markets.

AACSB: Analytical thinking

41) The Bread Company promotes its brand in new international markets by providing rights to local bakeries and bistros to use its recipes and brand name. In this case, The Bread Company's market-entry strategy is referred to as _____.

- A) licensing
- B) exporting
- C) joint ownership
- D) contract manufacturing
- E) management contracting

Answer: A

Diff: 3

LO: 15-2: Describe three key approaches to entering international markets.

AACSB: Analytical thinking

42) Which of the following is a disadvantage of licensing?

- A) The licensing company gains entry into a foreign market at a high risk.
- B) It takes a lot of time for the licensee to gain production expertise and name.
- C) Licensing is a complex way for a manufacturer to enter international marketing.
- D) The licensor potentially creates a competitor in the form of the licensee.
- E) The licensee is restricted from gaining knowledge about the licensor's intellectual property.

Answer: D

Diff: 2

LO: 15-2: Describe three key approaches to entering international markets.

AACSB: Analytical thinking

43) _____ is a method of going global in which a company makes agreements with producers in the foreign market to produce its product or provide its service.

- A) Contract manufacturing
- B) Direct investment
- C) Acquisition
- D) Exporting
- E) Management contracting

Answer: A

Diff: 1

LO: 15-2: Describe three key approaches to entering international markets.

44) Which of the following is most likely a drawback of contract manufacturing?

- A) There are low chances of quickly starting the process.
- B) There is decreased control over the manufacturing process.
- C) There are significant political and economic risks involved.
- D) There is little opportunity of later forming a partnership.
- E) There is no possibility of buying out the local manufacturer.

Answer: B

Diff: 2

LO: 15-2: Describe three key approaches to entering international markets.

AACSB: Analytical thinking

45) PharmaCom serves millions of customers across several Asian countries with the assistance of several pharmaceutical manufacturing sites in China, Japan, and Korea. This is an example of _____.

- A) licensing
- B) exporting
- C) joint ownership
- D) contract manufacturing
- E) management contracting

Answer: C

Diff: 2

LO: 15-2: Describe three key approaches to entering international markets.

AACSB: Analytical thinking

46) Under management contracting, a domestic firm _____.

- A) adopts management know-how from a foreign company
- B) manufactures the products of a foreign company
- C) exports its products to a foreign company
- D) provides financial capital to a foreign company
- E) exports management services to a foreign company

Answer: E

Diff: 2

LO: 15-2: Describe three key approaches to entering international markets.

47) The Dance Company, a renowned dance studio in Manhattan, enters into an agreement with La Danza in Spain to operate several dance studios. La Danza will provide capital for running the dance studios and The Dance Company will contribute its world-renowned expertise about the art of dance. In this case, The Dance Company enters a foreign market through _____.

- A) contract manufacturing
- B) management contracting
- C) licensing
- D) joint ownership
- E) direct investment

Answer: B

Diff: 3

LO: 15-2: Describe three key approaches to entering international markets.

AACSB: Analytical thinking

48) Which of the following is an advantage of management contracting?

- A) It involves the fewest changes in a company's product lines.
- B) It allows a contracting firm to set up its own operations at the beginning of the contract.
- C) It is the simplest way to enter a foreign market.
- D) It yields income from the beginning of the contract.
- E) It gives a contracting firm an option to buy shares in the managed company immediately.

Answer: D

Diff: 2

LO: 15-2: Describe three key approaches to entering international markets.

AACSB: Analytical thinking

49) Which of the following is a drawback of management contracting?

- A) It prevents a company from setting up its own operations for a period of time.
- B) It is a high-risk method of getting into a foreign market.
- C) It yields income to the contracting firm only much later in the process.
- D) It does not provide the option of buying shares in the managed company later on.
- E) It requires a domestic firm to export its products to a foreign company.

Answer: A

Diff: 2

LO: 15-2: Describe three key approaches to entering international markets.

AACSB: Analytical thinking

50) _____ ventures consist of one company collaborating with foreign investors to create a local business in which they share possession and control.

- A) Licensing
- B) Direct investment
- C) Contract manufacturing
- D) Management contracting
- E) Joint ownership

Answer: E

Diff: 1

LO: 15-2: Describe three key approaches to entering international markets.

51) Companies often form _____ ventures to merge their complementary strengths in developing a global marketing opportunity.

- A) licensing
- B) direct investment
- C) joint ownership
- D) management contracting
- E) contract manufacturing

Answer: C

Diff: 1

LO: 15-2: Describe three key approaches to entering international markets.

52) Kimlee, a food manufacturer based in China, recognizes the immense demand for noodles in the Australian market. Kimlee forms a new business venture to manufacture instant noodles and decides to share possession and control of the new business with a local food processing company. In this case, Kimlee has entered a foreign market through _____.

- A) licensing
- B) contract manufacturing
- C) direct investment
- D) joint ownership
- E) management contracting

Answer: D

Diff: 3

LO: 15-2: Describe three key approaches to entering international markets.

AACSB: Analytical thinking

53) Which of the following is most likely a benefit of joint ownership?

- A) It allows a firm to gain the financial and managerial resources that it may otherwise lack.
- B) It is the simplest way for a domestic company to enter a foreign market.
- C) It minimizes the need to build a new manufacturing facility in the foreign market.
- D) It allows one firm to acquire complete ownership of the other firm in the venture.
- E) It provides significant economies of scale for both the local firm and the foreign investor.

Answer: A

Diff: 2

LO: 15-2: Describe three key approaches to entering international markets.

AACSB: Analytical thinking

54) In addition to joint ownership ventures in China, Intel has made substantial outlays in its own manufacturing and research facilities there. This is an example of _____.

- A) exporting
- B) direct investment
- C) licensing
- D) indirect exporting
- E) management contracting

Answer: B

Diff: 2

LO: 15-2: Describe three key approaches to entering international markets.

AACSB: Analytical thinking

55) Which of the following is an advantage of direct investment?

- A) Direct investment involves fewer risks than joint ownership.
- B) Direct investment ensures that a firm is shielded from market changes.
- C) Direct investment allows a firm to keep full control over the investment.
- D) Direct investment involves minimal financial or time expenditures.
- E) Direct investment protects the firm from currency devaluation.

Answer: C

Diff: 2

LO: 15-2: Describe three key approaches to entering international markets.

AACSB: Analytical thinking

56) What is the most likely disadvantage of direct investment for an investing company?

- A) weak relationships with local distributors
- B) minimal investment control
- C) product standardization requirements
- D) devalued currency risks
- E) excessive freight charges

Answer: D

Diff: 2

LO: 15-2: Describe three key approaches to entering international markets.

AACSB: Analytical thinking

57) A joint venture involves a company entering foreign markets by partnering with foreign companies to produce or market a product or service.

Answer: TRUE

Diff: 2

LO: 15-2: Describe three key approaches to entering international markets.

58) Management contracting is an unwise choice if a domestic firm can make greater profits by undertaking a whole venture.

Answer: TRUE

Diff: 1

LO: 15-2: Describe three key approaches to entering international markets.

AACSB: Analytical thinking

59) Often, companies form joint ownership ventures to merge their complementary strengths in developing a global marketing opportunity.

Answer: TRUE

Diff: 1

LO: 15-2: Describe three key approaches to entering international markets.

60) Foreign-based production facilities offer many advantages to an investing company if the foreign market is small.

Answer: FALSE

Diff: 1

LO: 15-2: Describe three key approaches to entering international markets.

61) Management contracting consists of one company joining forces with foreign investors to create a local business in which they share possession and control.

Answer: FALSE

Diff: 2

LO: 15-2: Describe three key approaches to entering international markets.

62) Explain management contracting with an example. What are its advantages and disadvantages?

Answer: Management contracting is a type of joint venture. In short, the domestic firm provides the management know-how to a foreign company that supplies the capital. So the domestic firm exports management services rather than products. Hilton uses this arrangement in managing hotels around the world. For example, the hotel chain operates DoubleTree by Hilton hotels in countries ranging from the United Kingdom and Italy to Peru and Costa Rica, to China, Russia, and Tanzania. The properties are locally owned, but Hilton manages the hotel with its world-renowned hospitality expertise. Management contracting is a low-risk method of getting into a foreign market, and it yields income from the beginning. The arrangement is even more attractive if the contracting firm has an option to buy some share in the managed company later on. The arrangement is not sensible, however, if the company can put its scarce management talent to better uses or if it can make greater profits by undertaking the whole venture. Management contracting also prevents the company from setting up its own operations for a period of time.

Diff: 3

LO: 15-2: Describe three key approaches to entering international markets.

AACSB: Analytical thinking

63) Explain joint ownership with an example. What are its advantages and disadvantages?

Answer: Joint ownership is a type of joint venture. Joint ownership ventures consist of one company joining forces with foreign investors to create a local business in which they share possession and control. A company may buy an interest in a local firm, or the two parties may form a new business venture. Joint ownership may be needed for economic or political reasons. For example, the firm may lack the financial, physical, or managerial resources to undertake the venture alone. Alternatively, a foreign government may require joint ownership as a condition for entry. Often, companies form joint ownership ventures to merge their complementary strengths in developing a global marketing opportunity. For example, to increase its presence and local influence in China's mobile phone and tablets markets, chipmaker Intel recently paid \$1.5 billion for 20 percent ownership in China's state-run Tsinghua Unigroup, which controls two domestic mobile chipmakers. The joint ownership investment will help Intel to better understand Chinese consumers. It may also help to earn more favorable treatment from Chinese regulators. So far, Intel has gone untouched by China's recent crackdown on foreign technology companies such as competitor Qualcomm and software makers Microsoft and Symantec. Joint ownership has certain drawbacks. The partners may disagree over investment, marketing, or other policies. Whereas many U.S. firms like to reinvest earnings for growth, local firms often prefer to take out these earnings; whereas U.S. firms emphasize the role of marketing, local investors may rely on selling.

Diff: 3

LO: 15-2: Describe three key approaches to entering international markets.

AACSB: Analytical thinking

64) Briefly explain the three basic market entry strategies of entering a foreign market.

Answer: Once a company has decided to sell in a foreign country, it must determine the best mode of entry. Its choices are exporting, joint venturing, and direct investment. The simplest way to enter a foreign market is through exporting. The company may passively export its surpluses from time to time, or it may make an active commitment to expand exports to a particular market. In either case, the company produces all its goods in its home country. It may or may not modify them for the export market. Exporting involves the least change in the company's product lines, organization, investments, or mission. A second method of entering a foreign market is by joint venturing — joining with foreign companies to produce or market products or services. Joint venturing differs from exporting in that the company joins with a host country partner to sell or market abroad. It differs from direct investment in that an association is formed with someone in the foreign country. The biggest involvement in a foreign market comes through direct investment — the development of foreign-based assembly or manufacturing facilities. If a company has gained experience in exporting and if the foreign market is large enough, foreign production facilities offer many advantages. The firm may have lower costs in the form of cheaper labor or raw materials, foreign government investment incentives, and freight savings. The firm may also improve its image in the host country because it creates jobs.

Diff: 2

LO: 15-2: Describe three key approaches to entering international markets.

AACSB: Analytical thinking

65) Chips of Joy, a leading chocolate chip cookie manufacturer, has decided to use the same marketing strategy approaches and marketing mix worldwide for all of its brands. The only change that will be made is language translation on the various packaging. Chips of Joy is using a(n) _____ marketing strategy.

- A) collective global
- B) standardized global
- C) adapted global
- D) joint global
- E) direct global

Answer: B

Diff: 3

LO: 15-3: Explain how companies adapt their marketing strategies and mixes for international markets.

AACSB: Analytical thinking

66) Compared to adapted global marketing, standardized global marketing _____.

- A) adjusts promotional efforts to address cultural differences in target markets
- B) results in additional marketing and manufacturing costs
- C) relies on social media to develop customer relationships
- D) usually results in diluted brand power over time
- E) uses the same marketing mix worldwide

Answer: E

Diff: 1

LO: 15-3: Explain how companies adapt their marketing strategies and mixes for international markets.

AACSB: Analytical thinking

67) Compared to standardized global marketing, adapted global marketing _____.

- A) uses the same marketing mix elements in all target markets
- B) lowers marketing costs by using home country sales teams
- C) modifies marketing strategies to meet local needs
- D) maintains uniformity across all markets
- E) results in greater brand power

Answer: C

Diff: 2

LO: 15-3: Explain how companies adapt their marketing strategies and mixes for international markets.

AACSB: Analytical thinking

68) _____ means marketing a product in a foreign market without making any changes to the product.

- A) Product adaptation
- B) Straight product extension
- C) Communication extension
- D) Product invention
- E) Communication adaptation

Answer: B

Diff: 1

LO: 15-3: Explain how companies adapt their marketing strategies and mixes for international markets.

69) Which of the following is a disadvantage of straight product extension?

- A) It involves additional product development costs.
- B) It involves changing the product to meet local requirements.
- C) It requires planning a new promotional strategy to promote the product.
- D) It can be costly in the long run if products fail to satisfy consumers in specific global markets.
- E) It requires making changes in the manufacturing process.

Answer: D

Diff: 2

LO: 15-3: Explain how companies adapt their marketing strategies and mixes for international markets.

AACSB: Analytical thinking Mohammed taha

70) Veggie Delight, a leading manufacturer of frozen vegetarian burgers, has recently entered the Middle East markets. Based on its research, consumers in the Middle East prefer spicier burgers than in the United States and other countries. So the company alters the ingredients in its burgers to meet the local preferences. In this scenario, Veggie Delight is using a(n) _____ strategy to market its product.

- A) communication adaptation
- B) undifferentiated marketing
- C) straight product extension
- D) product invention
- E) product adaptation

Answer: E

Diff: 3

LO: 15-3: Explain how companies adapt their marketing strategies and mixes for international markets.

AACSB: Analytical thinking

71) _____ consists of creating something new to meet the needs of consumers in a given country.

- A) Product adaptation
- B) Straight product extension
- C) Undifferentiated marketing
- D) Product invention
- E) Standardized manufacturing

Answer: D

Diff: 1

LO: 15-3: Explain how companies adapt their marketing strategies and mixes for international markets.

72) When adapting advertising messages, media may also need to be adapted internationally because media availability and regulations vary from country to country. This illustrates _____.

- A) communication extension
- B) product invention
- C) communication adaptation
- D) straight product extension
- E) product adaptation

Answer: C

Diff: 2

LO: 15-3: Explain how companies adapt their marketing strategies and mixes for international markets.

73) To overcome this problem when selling to less-affluent consumers in developing countries, many companies make simpler or smaller versions of their products that can be sold at lower prices. Others have introduced new, more affordable brands for global markets. This is known as a(n) _____ problem.

- A) price escalation
- B) demand escalation
- C) inflation
- D) skimming price
- E) deflation

Answer: A

Diff: 2

LO: 15-3: Explain how companies adapt their marketing strategies and mixes for international markets.

74) In a global value delivery network, the first link, _____, moves company products from points of production to the borders of countries within which they are sold.

- A) distribution centers
- B) wholesalers
- C) channels within nations
- D) retailers
- E) channels between nations

Answer: E

Diff: 2

LO: 15-3: Explain how companies adapt their marketing strategies and mixes for international markets.

AACSB: Analytical thinking

75) Similar consumer needs around the world suggest that a strategy of adapted global marketing is appropriate for most international firms.

Answer: FALSE

Diff: 2

LO: 15-3: Explain how companies adapt their marketing strategies and mixes for international markets.

AACSB: Analytical thinking

76) Global branding and standardization result in reduced costs from economies of scale.

Answer: TRUE

Diff: 1

LO: 15-3: Explain how companies adapt their marketing strategies and mixes for international markets.

AACSB: Analytical thinking

77) Most international companies strive to adapt global brands to local needs.

Answer: TRUE

Diff: 2

LO: 15-3: Explain how companies adapt their marketing strategies and mixes for international markets.

78) Straight product extension into international markets is often successful.

Answer: FALSE

Diff: 2

LO: 15-3: Explain how companies adapt their marketing strategies and mixes for international markets.

79) To overcome the problem of price escalation when selling to less-affluent consumers in developing countries, many companies make simpler or smaller versions of their products that can be sold at lower prices.

Answer: TRUE

Diff: 1

LO: 15-3: Explain how companies adapt their marketing strategies and mixes for international markets.

80) Regardless of how companies go about pricing their products, their foreign prices will most likely be higher than their domestic prices for comparable products.

Answer: TRUE

Diff: 1

LO: 15-3: Explain how companies adapt their marketing strategies and mixes for international markets.

81) Price escalation is caused by transportation costs, tariffs, importer margin, wholesaler margin, and retailer margin. As a result, foreign prices are typically lower than domestic prices for comparable products.

Answer: FALSE

Diff: 1

LO: 15-3: Explain how companies adapt their marketing strategies and mixes for international markets.

82) The Internet is forcing companies toward more standardized international pricing.

Answer: TRUE

Diff: 2

LO: 15-3: Explain how companies adapt their marketing strategies and mixes for international markets.

AACSB: Information technology

83) In the global value delivery network, the second link between the sellers and the final buyers moves products from points of production to the borders of countries within which they are sold.

Answer: FALSE

Diff: 2

LO: 15-3: Explain how companies adapt their marketing strategies and mixes for international markets.

84) Retailing practices among countries can vary widely.

Answer: TRUE

Diff: 1

LO: 15-3: Explain how companies adapt their marketing strategies and mixes for international markets.

85) Most of the retailing in the United States is done by small, independent retailers.

Answer: FALSE

Diff: 2

LO: 15-3: Explain how companies adapt their marketing strategies and mixes for international markets.

86) Differentiate between standardized global marketing and adapted global marketing. Describe the advantages and disadvantages of each strategy.

Answer: Companies that operate in one or more foreign markets must decide how much, if at all, to adapt their marketing strategies and programs to local conditions. At one extreme are global companies that use standardized global marketing, essentially using the same marketing strategy approaches and marketing mix worldwide. At the other extreme is adapted global marketing. In this case, the producer adjusts the marketing strategy and mix elements to each target market, resulting in more costs but hopefully producing a larger market share and return. Some global marketers believe that technology is making the world a smaller place, and consumer needs around the world are becoming more similar. This paves the way for global brands and standardized global marketing. Global branding and standardization, in turn, result in greater brand power and reduced costs from economies of scale. The question of whether to adapt or standardize the marketing strategy and program has been much debated over the years. On the one hand, some global marketers believe that technology is making the world a smaller place, and consumer needs around the world are becoming more similar. This paves the way for global brands and standardized global marketing. Global branding and standardization, in turn, result in greater brand power and reduced costs from economies of scale. On the other hand, the marketing concept holds that marketing programs will be more engaging if tailored to the unique needs of each targeted customer group. If this concept applies within a country, it should apply even more across international markets. Despite global convergence, consumers in different countries still have widely varied cultural backgrounds. They still differ significantly in their needs and wants, spending power, product preferences, and shopping patterns. Because these differences are hard to change, most marketers today adapt their products, prices, channels, and promotions to fit consumer desires in each country.

Diff: 3

LO: 15-3: Explain how companies adapt their marketing strategies and mixes for international markets.

AACSB: Analytical thinking

87) Differentiate between straight product extension and product adaptation. Give a few examples of each.

Answer: Straight product extension means marketing a product in a foreign market without making any changes to the product. Top management tells its marketing people to take the product as is and find customers for it. The first step, however, should be to find out whether foreign consumers use that product and what form they prefer. Straight extension has been successful in some cases and disastrous in others. Apple iPads, Gillette razors, Black & Decker tools, and 7-11 Slurpees are all sold successfully in about the same form around the world. But when General Foods introduced its standard powdered JELL-O in the British market, it discovered that British consumers prefer a solid wafer or cake form. Straight extension involves no additional product development costs, manufacturing changes, or new promotion. But it can be costly in the long run if products fail to satisfy consumers in specific global markets.

Product adaptation involves changing the product to meet local requirements, conditions, or wants. For example, McDonald's operates in more than 100 countries, with sometimes widely varying local food preferences. So although you'll find its signature burgers and fries in most locations around the world, the chain has added menu items that meet the unique taste buds of customers in local markets. McDonald's serves salmon burgers in Norway, mashed-potato burgers in China, shrimp burgers in Japan, a Samurai Pork Burger in Thailand, chicken porridge in Malaysia, and Spam and eggs in Hawaii. In a German McDonald's, you'll find the Nürnburger (three large bratwurst on a soft roll with lots of mustard, of course); in Israel, there's the McFalafel (chickpea fritters, tomatoes, cucumber, and cheese topped with tahini and wrapped in lafa). And menus in Turkey feature a chocolate orange fried pie (Brazil adds banana, Egypt taro, and Hawaii pineapple).

Diff: 3

LO: 15-3: Explain how companies adapt their marketing strategies and mixes for international markets.

AACSB: Analytical thinking

88) Explain product invention with the help of suitable examples.

Answer: Product invention consists of creating something new to meet the needs of consumers in a given country. As markets have gone global, companies ranging from appliance manufacturers and carmakers to candy and soft drink producers have developed products that meet the special purchasing needs of low-income consumers in developing economies. For example, Chinese appliance producer Haier developed sturdier washing machines for rural users in emerging markets, where it found that lighter-duty machines often became clogged with mud when farmers used them to clean vegetables as well as clothes. And solar lighting manufacturer d.light Solar has developed affordable solar-powered home lighting systems for the hundreds of millions of people in the developing world who don't have access to reliable power. d.light's hanging lamps and portable lanterns require no energy source other than the sun and can last up to 15 hours on one charge. The company has already reached 49 million users, is adding 1 million users per month, and plans to reach 100 million users by 2020.

Diff: 2

LO: 15-3: Explain how companies adapt their marketing strategies and mixes for international markets.

AACSB: Analytical thinking

89) Jazz is a costume jewelry manufacturing company based in the United States. The company decides to sell its products abroad, but it faces the major problem of price escalation. What is price escalation? How can Jazz overcome this problem?

Answer: Companies face many considerations in setting their international prices. Regardless of how Jazz goes about pricing its products, its foreign prices probably will be higher than its domestic prices for comparable products. Jazz must add the cost of transportation, tariffs, importer margin, wholesaler margin, and retailer margin to its factory price. Depending on these added costs, the product may have to sell two to five times as much in another country to make the same profit. This is called price escalation. To overcome this problem when selling to less-affluent consumers in developing countries, Jazz can make simpler or smaller versions of its products that can be sold at lower prices. Jazz can also introduce new, more affordable brands in emerging markets.

Diff: 3

LO: 15-3: Explain how companies adapt their marketing strategies and mixes for international markets.

AACSB: Application of knowledge

90) Explain the whole-channel view of the distribution process.

Answer: An international company must take a whole-channel view of the problem of distributing products to final consumers. There are two major links between the seller and the final buyer. The first link, channels between nations, moves company products from points of production to the borders of countries within which they are sold. The second link, channels within nations, moves products from their market entry points to the final consumers. The whole-channel view takes into account the entire global supply chain and marketing channel. It recognizes that to compete well internationally, the company must effectively design and manage an entire global value delivery network. Channels of distribution within countries vary greatly from nation to nation. There are large differences in the numbers and types of intermediaries serving each country market and in the transportation infrastructure serving these intermediaries.

Diff: 3

LO: 15-3: Explain how companies adapt their marketing strategies and mixes for international markets.

AACSB: Analytical thinking

91) In managing their international marketing activities, most companies first _____.

- A) organize an import department
- B) create an international division
- C) initiate foreign direct investment
- D) form a domestic subsidiary
- E) organize an export department

Answer: E

Diff: 1

LO: 15-4: Identify the three major forms of international marketing organization.

92) It is common that a multinational company eventually creates _____ or subsidiaries to handle all of its international activity.

- A) export departments
- B) international divisions
- C) geographical organizations
- D) world product groups
- E) global organizations

Answer: B

Diff: 2

LO: 15-4: Identify the three major forms of international marketing organization.

93) Lemon N' Honey is a juice manufacturing company in the United States. It exports its products to Australia, licenses to China, has a joint ownership venture in France, and owns a subsidiary in Brazil. The firm will most likely need to create a(n) _____ to handle all its worldwide activities.

- A) international division
- B) domestic market
- C) value delivery network
- D) export department
- E) domestic division

Answer: A

Diff: 3

LO: 15-4: Identify the three major forms of international marketing organization.

AACSB: Analytical thinking

94) Which of the following is true of international divisions that are structured as geographical organizations?

- A) Geographical organizations are operating units under the export department.
- B) Geographical organizations are usually formed to implement whole-channel supply chains.
- C) Geographical organizations are managed by product managers, each responsible for different product groups.
- D) Geographical organizations are inadequate if the firm moves into joint ventures or direct investments.
- E) Geographical organizations are managed by country managers responsible for salespeople, distributors, and licensees in their respective countries.

Answer: E

Diff: 2

LO: 15-4: Identify the three major forms of international marketing organization.

AACSB: Analytical thinking

95) Which of the following is an international division organized based on different merchandise categories?

- A) global organization
- B) world product group
- C) geographical organization
- D) export department
- E) international subsidiary

Answer: B

Diff: 1

LO: 15-4: Identify the three major forms of international marketing organization.

96) Many organizations no longer have a clearly defined home market. Nor do they have home-office staffs. Instead, multicultural managers operate out of facilities located all around the world, bringing diverse cultural perspectives to their brands and operations. They are truly _____.

- A) world product groups
- B) geographical organizations
- C) international subsidiaries
- D) global organizations
- E) export departments

Answer: D

Diff: 1

LO: 15-4: Identify the three major forms of international marketing organization.

97) Which of the following is most likely true about a global organization?

- A) Worldwide policies are planned by top corporate management.
- B) Global operating units report to international division chiefs.
- C) Executive training is restricted to domestic operations.
- D) Employees are recruited exclusively from the home country.
- E) It considers itself a national marketer that sells abroad.

Answer: A

Diff: 2

LO: 15-4: Identify the three major forms of international marketing organization.

AACSB: Analytical thinking

98) Companies that export goods to one country cannot have a subsidiary in another country because of international trade agreements.

Answer: FALSE

Diff: 1

LO: 15-4: Identify the three major forms of international marketing organization.

99) Global companies recruit management from many countries, buy components and supplies where they cost the least, and invest where the expected returns are greatest.

Answer: TRUE

Diff: 2

LO: 15-4: Identify the three major forms of international marketing organization.

100) Strawberry Fizz is a renowned bottled juice manufacturer in the United States. It exports its products to Mexico, has a joint venture in Hong Kong, and owns a subsidiary in South Africa. The company has organized an export department to manage its international marketing activities. Do you think it has made the right decision? Justify your answer.

Answer: Organizing an export department is not the correct decision in this scenario. An export department is established when a firm has expanded its international sales by shipping out its products. If the firm moves into joint ventures or direct investment, the export department will no longer be adequate. Strawberry Fizz should create international divisions or subsidiaries to handle all its international activities. International divisions are organized in a variety of ways. An international division's corporate staff consists of marketing, manufacturing, research, finance, planning, and personnel specialists. It plans for and provides services to various operating units, which can be organized in one of three ways. They can be geographical organizations, with country managers who are responsible for salespeople, sales branches, distributors, and licensees in their respective countries. Or the operating units can be world product groups, each responsible for worldwide sales of different product groups. Finally, operating units can be international subsidiaries, each responsible for their own sales and profits.

Diff: 3

LO: 15-4: Identify the three major forms of international marketing organization.

AACSB: Application of knowledge

Mohammed taha

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