# COLLEGE OF BUSINESS AND ECONOMICS
# JOHANNESBURG BUSINESS SCHOOL
## DEPARTMENT OF BUSINESS MANAGEMENT

## FINAL WRITTEN SUPPLEMENTARY EXAM

| | |
|---|---|
| **SUBJECT:** | INTERNATIONAL MANAGEMENT (ADVANCED DIPLOMA) |
| | INT01B1 |
| **DATE:** | TBA |
| **TIME ALLOWED:** | 3 HOURS |
| **TIME:** | TBA |
| **TOTAL MARKS:** | 150 |
| **ASSESSOR:** | DR A MAKKA |
| **MODERATOR:** | PROF A AREGBESHOLA |
| **NUMBER OF PAGES:** | **12** |

**INSTRUCTIONS:**

1. This is a closed-book assessment.
2. Question papers must be handed in together with your answer books.
3. Read the questions carefully and answer only what is asked.
4. Answer all the questions.
5. Marks will not be allocated for listing and/or naming.
6. Number your answers clearly.
7. Write neatly and legibly on both sides of the paper in the answer book, starting on the first page.
8. Structure your answers by using appropriate headings and subheadings.
9. No electronic devices are allowed in the assessment venue.
10. The general University of Johannesburg policies, procedures and rules pertaining to written assessments apply to this assessment.

**SECTION A – MULTIPLE CHOICE QUESTIONS [20 MARKS]**

**ANSWER SECTION A ON THE EXAM BOOK PROVIDED**

**QUESTION 1**

A **__________ workforce** helps the firm develop **a global mind-set**, especially critical to firms with global ambitions.

A) multicultural
B) cross-cultural
C) international
D) traditional

**QUESTION 2**

__________ is the firm's efforts to make its marketing program elements **uniform** with a view to **targeting entire regions**, or even the global marketplace, with the same product or service.

A) Standardisation
B) Branding
C) Advertising
D) Adaptation

**QUESTION 3**

Which **ONE** of the following is an **example of licensing?**

A) An American electronics firm has given the right to a new process for manufacturing e-book readers to an electronics manufacturer in Canada.
B) An Indian car manufacturing firm buys engines from a Japanese manufacturer for its environmentally-friendly cars.
C) A South-Korean consumer electronics manufacturer produces the screens for its brand of television and sends orders to a factory in China to manufacture the casing for the television.
D) A U.K-based motorcycle manufacturer, produces limited-edition customisations of the firm's stock models and sells it to customers around the world.

**QUESTION 4**

International **portfolio investment** is characterised by ________.

A) short-term foreign market speculation
B) long-term administration of multinational enterprises shares
C) active control of a foreign business
D) passive ownership of foreign shares and bonds

**QUESTION 5**

Which **ONE** of the following is **most likely a disadvantage** to firms who use exporting as an entry strategy?

A) High cost of foreign market entry
B) Difficulties withdrawing from foreign markets
C) High risk of low sales due to fluctuations in exchange rates
D) High risk due to uncertainty in the political environment of the foreign market

**QUESTION 6**

Which ONE of the following activities would be considered last by a manager while developing strategies?

A) Analysing the particular challenges that confront the firm
B) Deciding how best to contend with competitors
C) Examining the firm's specific strengths and weaknesses
D) Analysing the particular opportunities for the firm

**QUESTION 7**

Which **ONE** of the following is an example of a **global industry?**

A) Beverages
B) Cars
C) Publishing
D) Retailing

**QUESTION 8**

Which **ONE** of the following should an **international manager** keep in mind about the **constantly fluctuating exchange rates?**

A) The prices the firm charges should be quoted in the firm's currency exclusively.
B) The firm and its customers should use the exchange rate as it stands on the date of each transaction, there is no scope for an agreement between them to use any other specific exchange rate.
C) If goods are bought from a supplier whose currency is appreciating against the buyer's currency, the buyer will have to pay a lesser amount of their currency to complete the purchase.
D) The time taken between placement and delivery of an order can at times go up to a few months, fluctuations in the exchange rate during that time can cost or earn the firm money.

**QUESTION 9**

________ refer to **post-industrial countries** characterised by high per-capita income, highly competitive industries, and well-developed commercial infrastructure.

A) Underground economies
B) Emerging markets
C) Advanced economies
D) Transition economies

**QUESTION 10**

Which **ONE** of the following is **characteristic of emerging markets?**

A) Minimal trade barriers
B) High trade volume
C) Low inward FDI
D) Highly developed industry

**QUESTION 11**

A **government policy** that **impedes trade** through means **other than** explicit tariffs is known as a (n) ________.

**A)** investment incentive
**B)** subsidy
**C)** nontariff trade barrier
**D)** maquiladora

**QUESTION 12**

Which **ONE** of the following **best explains** why India was once characterised by **high country risk?**

A) Taxes and financial incentives benefited Indian businesses over foreign firms
B) Indian business leaders distrusted most European corporations
C) Political leaders enacted laws that targeted foreign firms for harassment
D) Indian leaders feared the modern influences of American firms

**QUESTION 13**

________ refers to the **superior features of a country** that provide unique benefits in global competition, typically derived from **either natural endowments or deliberate national policies.**

A) Comparative advantage
B) Competitive advantage
C) Absolute advantage
D) Industrial cluster

**QUESTION 14**

Which **ONE** of the following **comparative advantages** is acquired over time?

A) Innovative capacity
B) Arable land
C) Labour
D) Petroleum reserves

**QUESTION 15**

According to relativists ________.

A) a passive acceptance of others' values is unethical
B) ethical truths differ from group to group
C) firms and individuals should seek to uphold ethical behavioral standards consistently around the world
D) ethical truths are absolute

**QUESTION 16**

Culture is not ________.

A) about beliefs and values of society
B) relative
C) a collective phenomenon
D) inherited

**QUESTION 17**

Over time, the GATT evolved into the ________.

A) World Bank
B) International Monetary Fund
C) World Trade Organisation
D) World Intellectual Property Organisation

**QUESTION 18**

Which **ONE** of the following is a **driver of globalisation?**

A) greater emphasis on proactive internationalisation
B) internationalisation of firm's value chain
C) integration of world financial markets
D) globalisation of services

**QUESTION 19**

Which **ONE** of the following is another term for **importing?**

A) Capital investment
B) Global sourcing
C) Unilateral procurement
D) Supply side development

**QUESTION 20**

________ refers to the **transfer of assets to another country** or the **acquisition of assets** in that country.

A) International investment
B) International trade
C) Importing
D) Exporting

TOTAL 1 X 20 = 20 Marks

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**SECTION B: XIAOMI CASE STUDY (85 MARKS)**

**XIAOMI CHALLENGES GLOBAL SMARTPHONE LEADERS**

In 2014, surprised newspaper readers around the world learned that the most valuable start-up company was a Chinese company that most had never heard of: smartphone maker Xiaomi (valued at $45 billion) overtook the worldwide operating taxi-booking company. Uber (valued at $40 billion within only four years, Xiaomi became number one in China by units sold, ahead of Samsung, A le and Lenovo. In the second quarter of 2014, Xiaomi had overtaken Samsung to become volume market leader with a 14% market share. Worldwide, Xiaomi rose to sixth place in 2014, behind Samsung, Apple, Lenovo, LG and Huawei (Table 1). What explains the phenomenal success of Xiaomi?

The Chinese smartphone market has grown to become the largest in the world, overtaking the USA in 2012, with 31.8 million units sold. The industry was driven by the rapid evolution in smartphone technologies and the availability of Wi-Fi, cheap components, specialised contract manufacturers and a vast domestic market of budget conscious consumers.

Local Chinese companies compete head-on against Apple, Samsung and other major global brands, who still sold about 20% of their global sales in China. Six of the top eight vendors are Chinese firms that compete intensely among themselves: computer maker Lenovo, telecom equipment giants Huawei and ZTE, consumer electronics firms TCI, and Coolpad and start-up Xiaomi. Samsung and Apple target the high-end market with handsets for about €500, while domestic competitors target lower market segments with selling prices set between €100 and €150.

Only a few years ago, the hottest brand in town was HTC. Once a manufacturer of phones for Western brands, HTC started its own branded smartphone in 2007 and became the top Android-based smartphone in the USA in 2010. Driven by a fast innovation culture, HTC aimed to launch a new version every month. Yet with an undifferentiated product and a mid-price positioning, HTC soon found itself squeezed between Apple and Samsung at the high end and Chinese players such as Huawei and ZTE at the low end. HTC's global market share slipped to 2.2% in the third quarter of 2012. In the next two years, HTC launched new high-end phones, but despite awards and rave reviews, sales remained modest.

**Table 1 Estimated world smartphone market share (units sold)**

| | **2011** | **2013** | **2014** |
|---|---|---|---|
| Samsung | 16.8% | 32.5% | 28.0% |
| Apple | 10.2% | 16.6% | 16.4% |
| Lenovo | n/a | 4.9% | 7.9% |
| LG | n/a | 4.3% | 6.0% |
| Huawei | 9.5% | 4.4% | 5.9% |
| Xiaomi | nil | 2.2% | 5.2% |
| Coolpad | n/a | 3.6% | 4.2% |
| ZTE | 6.9% | 3.2% | 3.1% |
| Sony | n/a | 4.1% | 3.9% |
| Nokia | 30.1% | 3.0% | n/a |
| Other | 26.6% | 21.2% | 19.4% |

**Source:** Technavio, Gartner, author’s estimates.

**ENTREPRENEURSHIP, CHINESE STYLE**

One entrepreneur who observed and learned from HTC was Lei Jun. A graduate from Wuhan University, he spent his early years as a software engineer, later a CEO, at Kingsoft, a software company competing with Microsoft in China. His first major success as an entrepreneur was zhuoyue.com, an online book retailer he sold to Amazon in 2004, earning him €10 million. After Kingsoft was listed on the Hong Kong Stock Exchange in 2007, Lei resigned as CEO and started a new career as a venture capitalist, investing in online commerce and social media businesses.

In 2011, Lei Jun founded Xiaomi. At this time, the smartphone industry was rapidly maturing, with specialist providers at different stages of the value chain. Upstream were hardware manufacturers (like Qualcomm for chips) and software providers, for operating systems (such as Android) and software applications (like WeChat and Weibo). In the midstream, companies like Foxconn integrated the hardware and software to manufacturers of the physical products, smartphones. Further downstream, brand owners like Nokia, Apple, Samsung, HTC, Huawei and Lenovo marketed the products and also led product innovation. Smartphones were usually sold via distributors, including telecom operators China Mobile, China Telecom and China Unicom, and retail stores like Gome, Suning, JD.com or Taobao.

With a good dozen established smartphone brands, how could Xiaomi differentiate itself? First, Xiaomi only used the suppliers for Apple and Samsung to establish a reputation as a top-tier brand. For example, Xiaomi"s chip suppliers were Nvidia and Qualcomm, and its manufacturers were Foxconn and Inventec. Second, Xiaomi developed its own operating system, MIUI, based on Google's Android system, yet using creative designs to make it more user-friendly for Chinese consumers.

Third, Lei Jun developed an innovative business model to reach consumers while reducing costs. Xiaomi if spent next to nothing on advertising but sold its phones exclusively through the internet. In this way, it’s not only saved the margin the retailer would earn but dramatically reduced the need to keep inventories. Building on his experiences in e-commerce and social media from his earlier entrepreneurial ventures, Lei Jun designed innovative online marketing and distribution channels. Initially, Xiaomi targeted technology-savvy IT engineers and college students via an online Xiaomi forum. Thus Xiaomi's official website - is its main sales channel, complemented by online malls, such as Taobao. Lei Jun moreover developed a pre-selling model to reduce expenses for inventory. Xiaomi’s cell phones were usually offered with limited supply, and customers had to register online before being able to bid online for a Xiaomi smartphone. As a result, 150 000 units were often sold online within minutes. *A Financial Times* correspondent observed:

*Offering sleek, high-spec kit at low prices, Xiaomi has overtaken more venerable rivals to become the country’s most popular smartphone brand. Its models sell for hundreds of dollars less than the latest 7: Apple or Samsung phones, yet on the streets of Beijing or Shanghai they have become objects of lust.*

However, the true source of Xiaomi’s success may not be the product but the community of fans that: Xiaomi has built. Before launching its products, Xiaomi had already recruited tech enthusiasts to help testing its MIUI operating system. Xiaomi engages directly with its fans both online, for example, through social media communications and early bird offers, and offline, by inviting them to product launches or s parties in nightclubs across China. With intensive online communication, Xiaomi developed a fashionable image beyond online geeks. As CEIBS Professor Jane Wang observed (source 15):

*Everyone around us has the iPhone6 and iPhone6 plus. But Xiaomi stands out as something different. What does this say about its users? It says: I am experimental, I am willing to try new ideas and.*

*I am really leading the trend.*

As the brand matured, it also became popular as a gift young people gave to their grandparents: good value for money and easy to use. This market however was less emphasised by Xiaomi, as it added less to its aspired brand image.

Xiaomi's innovation strategy focuses on fast prototyping with very short 'launch-test-improve' cycles, a strategy found in many Chinese technology start-ups. Thus, products are launched in quick succession, customer feedback is collected via online forums and engineers quickly incorporate new ideas into the next product ideas, especially in software. While every change is small, cumulatively this process generates quite substantive innovations in the operating software, MIUI, and the apps that come with the Xiaomi phone.

This business model enables Xiaomi to offer innovative products while undercutting rivals with rock bottom prices; many Xiaomi models are available online for prices around €100, whereas Samsung's Galaxy smartphones retail for €500 and more. Thus in 2014, Xiaomi sold 61.1 million smartphones (a 227% increase over 2013) and earned sales revenue of almost €10 billion (135% increase). However, some observers expected Xiaomi to drive smartphones to commoditization a process of competition by which differentiated products that command high prices and high margins lose their comparative advantage. Xiaomi focused on building volume and market share and expected profits to come later once market leadership had been consolidated, thus following a strategy common in boom years in Silicon Valley. However, with thin margins, the business model was also sensitive to disruptions, as Xiaomi had little financial buffer to absorb unexpected shocks.

**COMPETITION, CHINESE STYLE**

As Xiaomi became the most popular Android-based smartphone brand, it was recognized as the most 'threatening' competitor for Samsung in China. In the third quarter of 2014, Samsung's market share in China fell to 24.4%, down from 32.1% a year before, and for five consecutive quarters. Samsung reported falling earnings, because it was squeezed by Apple's iPhone6 and Chinese local rivals like Xiaomi.

Moreover, Xiaomi also ate the market share of local players like Huawei and ZTE. In response, Huawei and ZTE launched mobile phones with similar configurations at competitive prices. Thus Xiaomi launched Redmi Note at the price of €110, which was in direct competition with Huawei's Honor 3X, priced at €130. The intense competition between Chinese brands raises the question whether or not Xiaomi has sustainable competitive advantages. Some commentators suggest that the loyal fan base and the associated online platforms are rare and hard to imitate resources. However, CEIBS Strategy professor Sam Park has his doubts (source 15):

*There is nothing that warrants any type of sustained advantage for Xiaomi even in the local market... Given the lack of unique competences, Xiaomi is, and will-continue to be, easily challenged by other local companies. Most of these, including Lenovo and Huawei, already launched a similar business model in part of their operations. For local companies, once competition heats up, and the margins become thin, it becomes difficult to survive.*

Moreover, the lack of patents has become Xiaomi's Achilles Heel. Huawei has built a portfolio of 22 169 patents, one of the largest number, not just in China but worldwide. Likewise, Lenovo has accumulated 14 493 patents, including 2300 patents acquired with the takeover of Motorola Mobility. In contrast, Xiaomi had only seven patents, quite literally a technology dwarf among the giants of the telecom industry.

This lack of patents came to haunt Xiaomi as it challenged the leaders. In November 2014, lawyers for Huawei and ZTE sent letters to Xiaomi about the latter's patent infringements. Yet neither Huawei nor ZTE actually sued Xiaomi in court. The reason was twofold. Xiaomi's hardware supplier Qualcomm owned 80% of the patents for CDMA communications. Qualcomm also signed reverse patent authorizations whenever it worked for a different mobile phone vendor, which meant that Qualcomm was able to integrate all kinds of patents on one smartphone chip. As a result, the Xiaomi chip provided by Qualcomm was safe. On the other hand, due to the IP protection environment in China, even it Huawei or ZTE were to win the lawsuit, the reimbursement fee for each patent was only €10 000, which would hardly dent Xiaomi.

**INTERNATIONAL AMBITIONS**

Focused on the vast and fast-growing Chinese market, Xiaomi sold only 3% of its smartphones outside of China, compared to Lenovo's 16% and Huawei's 41%. Following the example of its Chinese peers, Xiaomi decided to first focus on other emerging economies, starting in India and then Brazil and Russia.

Xiaomi's first major international venture was in India, where its €90-a-piece smartphones undercut key competitors including global players Samsung and Apple, as well as local start-ups Micromax, Karbonn and Spice. However, Xiaomi found India more difficult to penetrate than China. While both are emerging economies, the Chinese experience was only of limited use in India. In particular, the online sales channels have been - so far - less effective: first, Xiaomi does not enjoy the same attention in online tech circles and hence did not gather the same extent of buzz. In part, this was because many Chinese like Xiaomi because it represents the Chinese entrepreneurial spirit, an appreciation that is difficult to replicate abroad. Second, online retailing was still in its infancy in India, mainly because the physical infrastructure to bring online ordered products to consumers is not in place. Thus Xiaomi adapted its business models by collaborating with phone operator Bharti Airtel and electronic s retailer MobileStore to develop more traditional channels ~ but this increases its costs.

A different challenge of internationalization is the possibility as global competitors claiming intellectual property rights (IPR) infringement. IPR disputes are common among smartphone giants; Apple and Sam- sung have been fighting court battles in several countries for years. While the nature of IPR is often disputed, claims of IP infringement have become an effective, if costly, weapon of competition. In China, many IPR that are not specifically registered in China cannot be enforced. Yet once companies operate outside of China and become big enough to be able to pay large fees, they become the targets of IPR lawyers. Thus Xiaomi and other Chinese smartphone makers have armed themselves with Google executive's s and Silicon lawyers seasoned in navigating the perilous waters between war and peace in IPR.

Xiaomi experienced its first foreign IPR conflict in India. In December 2014, Ericsson sued Xiaomi in an Indian court for IPR infringement, and the Delhi High Court ordered Xiaomi to suspend its sales in India. A few days later, the ban was reduced to a specific product with a specific chip made by MediaTek of Taiwan. Yet the ban was reintroduced a few months later when that particular phone was found to still be on sale in India through an online retailer that Xiaomi claimed was not an authorised retailer. While sorting out this specific legal battle, Xiaomi had to prepare itself for bigger battles to be expected when it entered other markets around the world.

Source: International Business, Third Edition. Mike Peng & Klaus Meyer, 2019, Cengage Learning, UK

**ANSWER THE FOLLOWING QUESTIONS BELOW RELATED TO THE XIAOMI CASE STUDY:**

**QUESTION 1** **[30 Marks]**

Discuss the **nine reasons why it would benefit Xiaomi to internationalise**. Provide examples to illustrate your answer.

Use headings to structure your answer. *No marks for listing.*

**QUESTION 2** **[20 Marks]**

Explain **six ways in which Xiaomi can respond to harmful government intervention.** Provide examples to illustrate your answer.

Use headings to structure your answer. *No marks for listing.*

**QUESTION 3** **[20 Marks]**

Evaluate the **six risks and challenges of Xiaomi doing business in emerging markets.** Provide examples to illustrate your answer.

Use headings to structure your answer. *No marks for listing.*

**QUESTION 4** **[15 Marks]**

Differentiate between **the three strategic objectives that Xiaomi should simultaneously seek to achieve** in order to become globally competitive.

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**SECTION C** **(45 MARKS)**

**QUESTION 5** **[30 Marks]**

Discuss the **six tasks of global market opportunity assessment** that managers should perform to define and pursue global market opportunities.

**QUESTION 6** **[15 MARKS]**

List the factors to consider in **selecting foreign direct investment locations** under the following headings:

**A) Infrastructural factors**
**B) Profit retention factors**
**C) Human resource factors**
**D) Market factors**

**END OF ASSESSMENT**