# Open question exam International Business (191880801)

Nikos 11.057

**Date: April 11, 2011 Time: 08.45h – 12.15h**

This exam consists of 6 questions. Each (sub-)question of this exam will be graded with a maximum amount of points, as indicated behind each question. In total, on questions 1-6 (including sub-questions) you can score a maximum of 100 points, which equals the grade 10.

Attached to this exam you can find part of the article "**Making the leap into emerging markets: An interview with Clorox's Beth Springer**" (McKinsey Quarterly, 2010; See p.3 & 4 of this exam). Carefully read this article before answering the questions. When in a question "Clorox" is used, it is referring to this article.

***You can make use of a hardcopy dictionary (no electronic device). You may answer both in English and Dutch. Results will be published on Blackboard within 3 weeks.***

Good luck & lots of success.

**Question 1; introduction to International Business**

1a. Describe the International Business Model (p.26 of the 12th edition, Ball et al.) and than, apply it on Clorox, by giving 1 or 2 examples of the different components of the model (when present). **20 points**

1b. Which component or components of the model is / are most important in your opinion? Explain. **5 points**

1c. Is the importance described in your answer to question 1b reflected in the article? Explain. 3 **points**

**Question 2; trade and investment theories**

During lecture 1, the Dunning eclectic theory has been discussed. Within this theory, 3 basic advantages are described. One advantage describes location advantages, one other advantage describes Internalization advantages.

2a. What is the third component? Describe the essence briefly. **5 points**

2b. Can this third component be found in the case on Clorox? Explain. **5 points**

2c. Is this an example of a trade theory or an investment theory? **2 points**

**Question 3; Globalisation**

During the lecture on globalization, 5 types of globalization are discussed.

3a. Describe them short & explain if these types can be found in the case on Clorox. **15 points**

3b. During the same lecture, the question was asked, if globalization produces Convergence (coming together into 1 point). Does it? Elaborate on this in max $1/4^{th}$ of an A-4 (**5 points)**

**Question 4; guest lecture Huub Lavooij (China in connection to international business)**

During the lecture by Mr. Lavooij (lecture 6), he discussed 10 factors which Small and Medium Enterprises (SME's) should take into account in order to be successful in China. He gave examples of Dutch companies like Norit, KPMG, BoonEdam and Nijhuis, who turned out to be very successful.

4a. One factor in particular (out of the 10 success factors mentioned) made that these companies were successful. Which one? Explain briefly. **5 points**

4b. Could you think of 3 other success factors out of the remaining 9 which could have also made that the companies were successful? Explain briefly. **10 points**

**Question 5; forces**

Tax evasion (part of Intellectual property and other legal forces) by Google was discussed & explained on the basis of a Bloomberg video.

Describe how Google evades income tax in the USA. Within your story, describe the concept of the Dutch sandwich. **10 points**

**Question 6; forces (continued)**

During lecture 5 and lecture 7, financial forces and (socio)economic forces have been discussed. Among these forces, the concepts of GDP/PPP and BOP have been introduced.

For Clorox, what would you consider to be more important to have a look at; the GDP/PPP or the BOP? Explain, and if possible, support your case with information found in the article. **15 points**

**Making the leap into emerging markets: An interview with Clorox's Beth Springer**

Clorox's, and American company, originated in 1913. Originally, it produced a bleach product with chlorine and sodium hydroxide as its main ingredients. Later on, it aggressively expanded into everything from cat litter to salad dressings. Its international presence is currently limited to Australia and Latin America. Yet the incentive to expand geographically is obvious: pretax earnings growth from international markets was 23 percent in fiscal 2010, compared with 7 percent for the core North American cleaning-products business. The executive charged with spearheading Clorox's expansion effort is Beth Springer, who joined the company in 1990 in brand management and is now executive vice president, international. In this interview with McKinsey's Amy Howe, she discusses how the history of Clorox has shaped its decision making and the way it evaluates potential growth markets.

*The Quarterly: Where is Clorox's growth most likely to come from?*

Beth Springer: Well, our intent is certainly to keep growing in North America—our core market and our largest—and we have strong brands and capabilities here. But it's no secret that developing markets have been driving disproportionate growth for us and most of our peers. Our sales in those markets have grown twice as fast as our North American business for much of our recent history, and our outlook is for continued higher growth. So we're sharpening developing-market strategy and plans for how to drive performance.

*The Quarterly: Many multinationals have shied away from emerging markets or only entered them in a limited way. Why?*

Beth Springer: For the kind of consumer goods we sell, markets have remained more local than global in a number of dimensions. It's also more complicated and risky to expand farther from home. We all know stories of companies that have struggled entering emerging markets, especially if they were among the first.
Clorox is almost 100 years old, and for much of that time we were a US bleach company. When we made our first significant international investments, we were later than some of our larger consumer-packaged-goods peers and found out the hard way that we had a lot to learn. Managing the volatility, the country risks, and getting the right talent were difficult. Also, the US market was still growing faster than it is today. So we moved into developing markets more incrementally and primarily via acquisition and partnership.
We chose to concentrate in Latin America, where competition had not yet consolidated our core categories and we could build capabilities and scale. Now that we see the continued outlook for faster growth in developing markets, and so many peers are expanding there, it has become more necessary for us to seek additional opportunities in Latin America and beyond.

*The Quarterly: Are there similarities between emerging-market consumers and your traditional customers?*

Beth Springer: There are numerous universal insights about consumer attitudes and behaviors in our core categories. But there are often meaningful differences based on income, culture, history, and other factors, and it's critical that we identify and respect those. One important way we seek to accomplish that is by retaining strong local brand names that we acquire, hiring local talent, and doing our market research first.
Let me give you an example. In the past, in emerging markets we focused nearly exclusively on meeting the primary functional benefits in a category, with basic products and lower costs. That's still fundamental, but we're also learning that we shouldn't underestimate the aspirations of developing-market consumers. For instance, we assumed that lower-income consumers wouldn't have a high demand for cleaning wipes, so they were deprioritized for

launch in Latin America. We figured most consumers there would prefer regular bottles of cleaner that are less expensive on a per-use basis. Yet we've found pockets of strong demand for wipes among lower-income consumers driven by a desire for fast and easy disinfection. So the real key for us was getting the total price point down rather than the price per use.

*The Quarterly: What about the two factors that seem critical for multinationals to succeed in emerging markets: acting quickly and at scale?*

Beth Springer: One way to get speed, scale, and confidence is to more systematically leverage our experience around the world. We've always done this with acquisitions and partnerships but remained highly decentralized in how we operate, in order to be fast and locally competitive. This year, we took major steps to apply our functional best practices more globally. We are already seeing improved results, most notably from more sophisticated sales approaches with the growing modern trade in developing markets. As most of our competitors have done, we also set up international category-development units to boost both speed and scale.

Our shareholders want us to grow and know that we have to take risks to do so, but they also look for the consumer-packaged-goods sector to deliver predictable and consistent performance. At Clorox, we pride ourselves in being analytical and actually worry that we may be too slow. So we are working on placing calculated bets and on how to keep moving in the face of uncertainty without taking huge losses. We're looking at what we can learn from our past, from our competition, partners, and testing in representative markets.

*The Quarterly: What kind of challenge do local competitors present?*

Beth Springer: They're one of the most challenging differences we face. We really have to understand them and figure out how we win and earn a good return. Typically, this means entering or creating the premium segment of the market and leveraging insights, technology, and know-how that a smaller player might not have. In particular, modern retailers have sophisticated expectations about category advisory services and innovation. We are often better equipped to meet them.

Local market leaders aren't in that position by accident. If they have market share, they're doing something right, and we need to learn what's driving that. Some are also very low-cost and scrappy, and especially effective in the traditional trade and outside urban centers, where multinational corporations tend to enter. We sometimes find that local players look good on the surface but don't deliver what we consider a decent return on investment. These guys can spoil a market, and we won't enter if we can't build a leadership share and earn a good return.