**Chapter 4: Methods of Entry into Foreign Markets**

**TRUE/FALSE**

1. When they first go into international trading, most companies first do so after careful planning and thoughtful strategic planning.

ANS: F DIF: Moderate REF: page 120

1. Most export management corporations are small firms, typically with fewer than fifteen employees.

ANS: T DIF: Easy REF: page 123

1. The company that develops a business product or concept and grants rights to a large number of intellectual property items all bundled in a business package is called a franchisor.

ANS: T DIF: Easy REF: page 138

1. Joint ventures are becoming more and more attractive to foreign investors.

ANS: F DIF: Moderate REF: page 139

1. Parallel imports are sometimes called gray market goods.

ANS: T DIF: Easy REF: page 147

1. If tariffs on a finished product are higher than tariffs on the parts of the product, the product is said to be in an inverted tariff structure.

ANS: F DIF: Hard REF: page 150

1. An export trading company is an intermediary which will purchase goods in the exporting country and will resell them to a customer in a foreign country.

ANS: T DIF: Easy REF: page 121

1. Not only are export trading companies helpful for organizations who are novices at international trade, but as an organization becomes more involved in international trade, the export trading company becomes more of a necessity.

ANS: F DIF: Hard REF: page 123

1. An agent often has several principals and generally sells a group of complementary products rather than products that compete directly with one another.

ANS: T DIF: Moderate REF: page 127

1. When a principal allows an agent is allowed to negotiate directly with the importer, then the agent is considered by a large number of countries’ governments as a binding agent.

ANS: T DIF: Hard REF: page 128

1. When a distributor is involved in international trade, there are two sets of invoices: one set between the exporter and the distributor (who is also the importer), and a set of domestic invoices between the distributor and its customers.

ANS: T DIF: Moderate REF: page 129

1. There are two types of factors included in the entry decision for an exporter: factors that are market-driven and factors that are company- or product-driven.

ANS: T DIF: Moderate REF: page 120

1. The granting of rights to intellectual property owned by a company to another company for a fee is the definition of a licensing agreement between two corporations.

ANS: T DIF: Easy REF: page 137

1. Joint ventures were developed as ways to partner with a politically well-connected company in a foreign country to help prevent things like nationalization of a foreign company by the host government.

ANS: T DIF: Moderate REF: page 142

1. An advantage of gray markets is the increased amount of control that a company has over a product after it has been sold.

ANS: F DIF: Moderate REF: page 148

1. Because of action by the World Trade Organization to lower tariffs in the future, there should be an increase in the importance of foreign trade zones.

ANS: F DIF: Moderate REF: page 150

1. Among all marketing mix decisions, distribution is the part of the mix that is the easiest or most likely to be adjusted.

ANS: F DIF: Hard REF: page 121

1. When a successful exporter involves one of its suppliers—or a company that makes a complementary product—in the markets that this exporter has developed, it results in a form of piggy-backing sometimes called collaborative exporting.

ANS: T DIF: Hard REF: page 126

1. A distributor takes much less risk in its relationship with an exporter than does an agent and experiences much lower costs.

ANS: F DIF: Hard REF: page 129

1. Many governments make a substantive differentiation in the way agents and distributors are considered by their judiciary systems.

ANS: T DIF: Moderate REF: page 131

1. If an exporting firm wants to change from a strategy where it has used agents or distributors to a strategy based upon sales subsidiaries, it is usually easy and painless to make this switch.

ANS: F DIF: Moderate REF: page 134

1. By channeling its export sales through a foreign sales corporation, a U.S. company can reduce its tax rate on profits from export sales from 45 percent to 30 percent.

ANS: T DIF: Hard REF: page 150

1. When an exporter grants access to its foreign distribution channels to a corporation that sells complementary products, the exporter is said to have piggy backed on the complementary-product company.

ANS: F DIF: Moderate REF: page 126

1. Foreign Sales Corporations and IC-DISC are means of methods of entry that eliminate government intermediaries and customs duty.

ANS: F DIF: Hard REF: page 150

1. The Foreign Corrupt Practices Act is enforced by all but a handful of countries.

ANS: F DIF: Hard REF: page 151

**MULTIPLE CHOICE**

1. Unique, powerful Japanese trading companies are called

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| --- | --- | --- | --- |
| a. | Nissans. | d. | exporters. |
| b. | sogo shosha. | e. | nishi kawa. |
| c. | export trading companies. |

ANS: B

Sogo shosha is a specific name for a unique type of trading company used by Japan.

DIF: Moderate REF: page 122

2. As a company grows in exporting sophistication, it should not become involved with an export trading company because

|  |  |  |  |
| --- | --- | --- | --- |
| a. | fixed costs are too high. | d. | customers abroad are customers of the export trading company, not the exporter. |
| b. | variable costs are too high. | e. | it would have to pay a commission on all transactions to the export trading company. |
| c. | it is a violation of international law. |

ANS: D

Fixed and variable costs are not relevant to the exporter since the export trading company takes title to the product. The reference to international law is incorrect. An export trading company can help the novice exporter, but as an exporter becomes more experienced and sophisticated it should want the direct contact with foreign customers it does not have through an export trading company.

DIF: Moderate REF: page 123

3. An export management company earns its revenue through

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| --- | --- | --- | --- |
| a. | sales commissions. | d. | commissions paid by the importing country's customs office. |
| b. | receiving quantity discounts by buying in bulk and reselling products at a higher price. | e. | fees paid by the International Chamber of Commerce. |
| c. | charging fixed fees to exporters. |

ANS: A

An export management company is an agent, therefore it is paid by commission.

DIF: Moderate REF: page 123

4. In its relationship with an agent, an exporter is known as the

|  |  |  |  |
| --- | --- | --- | --- |
| a. | originator. | d. | pre-agent. |
| b. | commissioner. | e. | primary. |
| c. | principal. |

ANS: C

An exporter is known as the principal. The concepts of “originator,” “commissioner,” and “pre-agent” do not exist.

DIF: Easy REF: page 127

5. Because agents tend to be individuals or very small firms, governments in some countries put them under

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| --- | --- | --- | --- |
| a. | high tariffs. | d. | maritime law. |
| b. | labor law. | e. | corporate law. |
| c. | contract law. |

ANS: B

Because agents are small businesses, some governments feel they should be protected from exploitation by large exporters, so they are placed under labor law, which is the code of laws that deals with the relationships between employers and employees. Distributors, on the other hand, because they are larger and are assumed to be more sophisticated, are placed under contract law.

DIF: Moderate REF: page 131

6. An exporter has the most control over its foreign sales through a(n)

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| --- | --- | --- | --- |
| a. | sales or marketing subsidiary. | d. | agent. |
| b. | export trading company. | e. | distributor. |
| c. | export management company. |

ANS: A

An export trading company and a distributor provide the least amount of control over foreign sales since they take title to the goods and resell them themselves; an export management company and an agent provide a bit more control for the exporter since they do not take title of the goods, yet they make the sales aboard. A marketing subsidiary is incorporated into the foreign market by an exporting firm, making foreign sales easier.

DIF: Moderate REF: page 132

7. An intermediary that purchases goods in the exporting country and resells them to a customer in a foreign country is called a(n)

|  |  |  |  |
| --- | --- | --- | --- |
| a. | agent. | d. | contract manufacturer. |
| b. | export management corporation. | e. | export trading company. |
| c. | principal. |

ANS: E

The correct answer is an export trading company. Agents and export management corporations do not take title to the goods, while an export trading company does. A principal is the term for an exporter who deals with an agent. A contract manufacturer is a company with which an exporter forms an agreement to have products manufactured in the foreign market.

DIF: Hard REF: page 121

8. Agents usually sell more than one product and represent more than one company. The products they sell are

|  |  |  |  |
| --- | --- | --- | --- |
| a. | complementary. | d. | inexpensive. |
| b. | competitive. | e. | similar. |
| c. | owned by the agent. |

ANS: A

Products are complementary, rather than competitive. Since an agent does not take title, the goods are not owned by the agent. The price of the goods has no impact.

DIF: Easy REF: page 127

9. Usually, a distributor is located

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| --- | --- | --- | --- |
| a. | near the exporter. | d. | in a neighboring country. |
| b. | in the importing country. | e. | in the economic capital of the importing country. |
| c. | near the capital city of the importing country. |

ANS: B

A distributor is rarely located in a neighboring country; rather, the distributor is in the importing country. A distributor could possibly be “near the exporter,” and “near the capital city of the importing country,” but these answers are incorrect, as a distributor is not “usually” there.

DIF: Moderate REF: page 129

10. When manufacturing costs are lower abroad, when shipping costs are prohibitive, when domestic manufacturing capacity is reached, or when the product has significant intangible content, such as services, a company may consider

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| --- | --- | --- | --- |
| a. | indirect exporting. | d. | production abroad. |
| b. | piggy-backing. | e. | subcontracting. |
| c. | using a foreign trade zone. |

ANS: D

Another alternative to exporting for a company, under these circumstances, is production abroad.

DIF: Moderate REF: page 135

11. The customs status of a *maquiladora* is similar to that of

|  |  |  |  |
| --- | --- | --- | --- |
| a. | a foreign trade zone located only in the United States. | d. | what is outlined in the Foreign Corrupt Practices Act. |
| b. | a foreign trade zone located only in Mexico. | e. | a foreign trade zone located both in the United States and Mexico. |
| c. | a Customs office. |

ANS: E

The customs status of a *maquiladora* is similar to that of a foreign trade zone located both in the United States and Mexico.

DIF: Hard REF: page 150

12. \_\_\_\_\_ is not truly a method of entry into a country for an exporter.

|  |  |  |  |
| --- | --- | --- | --- |
| a. | Active exporting | d. | A wholly-owned subsidiary |
| b. | A marketing subsidiary | e. | Franchising |
| c. | Contract manufacturing |

ANS: C

Contract manufacturing is a way to get the product manufactured in a foreign country, but the marketing and distribution of the product remain to be done, so contract manufacturing is not a true method of entry. The other named methods are definitely methods of entry.

DIF: Hard REF: page 135

13. When a firm realizes that it wants to exploit the possibilities that sales abroad can bring, and decides to become directly involved in its exporting activities, it is said to be involved in

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| --- | --- | --- | --- |
| a. | indirect exporting. | d. | active exporting. |
| b. | parallel imports. | e. | passive exporting. |
| c. | foreign trade zones. |

ANS: D

Only active exporting is correct, as the company becomes involved in export activities.

DIF: Easy REF: page 127

14. What strategy is often followed when access to the market is limited by high tariffs or non-tariff barriers, when shipping costs are prohibitive, or when the exporter is not interested in pursuing the market?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | use of a foreign trade zone | d. | use of a *maquiladora* |
| b. | use of an agent | e. | use of licensing. |
| c. | use of an export management company |

ANS: E

The correct answer is licensing.

DIF: Moderate REF: page 127

15. Attempts to reduce business practices that include corruption and bribery have been made by the

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| --- | --- | --- | --- |
| a. | W.O.F.E. | d. | foreign labor laws that protect agents. |
| b. | sogo shosha. | e. | United Nations. |
| c. | Organisation for Economic Co-operation and Development. |

ANS: C

W.O.F.E. is a wholly-owned foreign enterprise. A sogo shosha is a Japanese trading company. Foreign labor laws are not normally designed to address corruption and bribery in international trade. The Organisation for Economic Co-operation and Development developed an Anti-Bribery Convention.

DIF: Moderate REF: page 151

16. A customer of a firm enters a foreign market by setting up a manufacturing facility. It tells its suppliers that they will need to supply parts for assembly at the manufacturing facility and for customer service. Therefore, the suppliers are engaged in what kind of exporting?

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| --- | --- | --- | --- |
| a. | piggy-backing | d. | a joint venture |
| b. | direct exporting | e. | free loading |
| c. | franchising |

ANS: A

Direct exporting, franchising, and a joint venture would suggest relatively aggressive action by the suppliers to enter the market. In this case, they are entering by default. They are piggy-backing on the strategy of an existing customer.

DIF: Easy REF: page 126

17. When a company has a subsidiary in a foreign country, as far as the foreign country’s government is concerned that subsidiary is

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| --- | --- | --- | --- |
| a. | an agent of the exporter. | d. | the importer of record. |
| b. | an exporter. | e. | a distributor. |
| c. | a foreign trade zone. |

ANS: D

A subsidiary is not an agent and is receiving the goods, so it is not an exporter. Foreign trade zone is incorrect, as a company cannot be a “zone.” The subsidiary is incorporated in the foreign market, so it is the importer of record.

DIF: Moderate REF: page 132

18. A foreign sales corporation is a device used by U.S. exporters to reduce taxes. To qualify, the goods exported must have \_\_\_\_\_ percent U.S. content. This results in a tax reduction of \_\_\_\_\_ percent.

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| --- | --- | --- | --- |
| a. | 75, 10 | d. | 100, 25 |
| b. | 50, 15 | e. | 25, 20 |
| c. | 80, 20 |

ANS: B

If the products have 50 percent U.S. content, then the company is eligible for a reduction in its tax rate of 15 percentage points.

DIF: Hard REF: page 150

19. The fee a licensee pays a licensor for each use of an intellectual property is called a(n)

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| --- | --- | --- | --- |
| a. | tariff. | d. | finder’s fee. |
| b. | excise. | e. | commission. |
| c. | royalty. |

ANS: C

The royalty is the amount of money paid by the licensee to the licensor.

DIF: Easy REF: page 137

20. *Maquiladoras* are located on the border between

|  |  |  |  |
| --- | --- | --- | --- |
| a. | France and Germany. | d. | the United States and Mexico. |
| b. | Spain and Portugal. | e. | Mexico and Guatemala. |
| c. | Quebec and Ontario. |

ANS: D

*Maquiladoras* are companies in Mexico that import goods from the United States to transform them into products to export back to the United States.

DIF: Easy REF: page 150

COMPLETION

1. In a franchising arrangement, the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ pays fees to the company that owns the bundle of intellectual property items.

ANS: franchisee

DIF: Easy REF: page 138

2. In an international environment some companies choose to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ their intellectual property, such as trademarks, copyrights, or designs to foreign firms.

ANS: license

DIF: Moderate REF: page 137

3. United States companies are prohibited from giving bribes in foreign countries by the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Act.

ANS: Foreign Corrupt Practices Act

DIF: Moderate REF: page 151

4. If an American cement company were to make an agreement with a cement producer in a foreign country to produce the American company’s cement, this would be an example of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ manufacturing.

ANS: contract

DIF: Easy REF: page 135

5. A company has a foreign subsidiary (a wholly-owned foreign enterprise, WOFE) for which it builds a brand new facility. This facility is called a(n) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ operation.

ANS: green field

DIF: Hard REF: page 144

6. A form of piggy-backing in which a successful exporter involves one of its suppliers—or a company that makes a complementary product—in the markets that the exporter has developed is sometimes referred to as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ exporting.

ANS: collaborative

DIF: Moderate REF: page 126

7. While agents, because they are small businesses, are in many countries protected by that country’s labor law, distributors, because they tend to be larger and are assumed to be more sophisticated, are covered in most countries by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ law.

ANS: contract

DIF: Moderate REF: page 131

8. An exporter invests in a facility abroad, but finds one or more partners with which to share the costs of the venture and it results in creation of a new corporation in a foreign country. This is an example of a(n) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ venture.

ANS: joint

DIF: Easy REF: page 142

9. The European Union has complained to the World Trade Organization (WTO) that American foreign sales corporations result in a(n) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to exports, which is prohibited by the WTO.

ANS: subsidy

DIF: Hard REF: page 151

10. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is a form of exporting by which a firm can benefit by not having to lay out any capital but is able to generate world-wide income from its intellectual property fairly rapidly.

ANS: Licensing

DIF: Moderate REF: page 137