



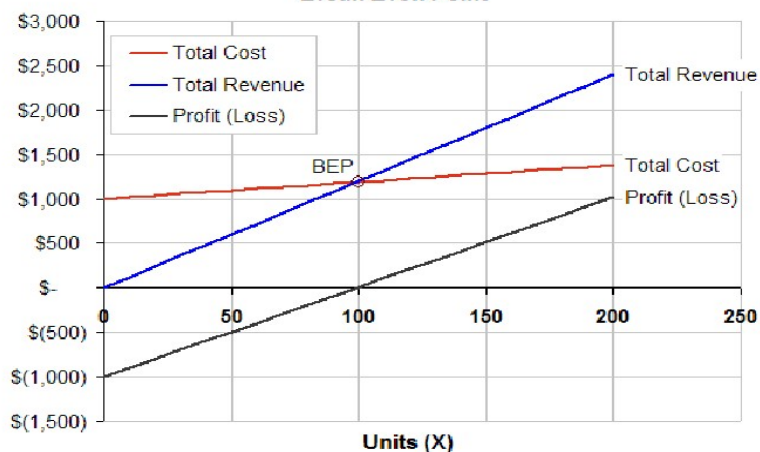
MERGERS AND ACQUISITIONS



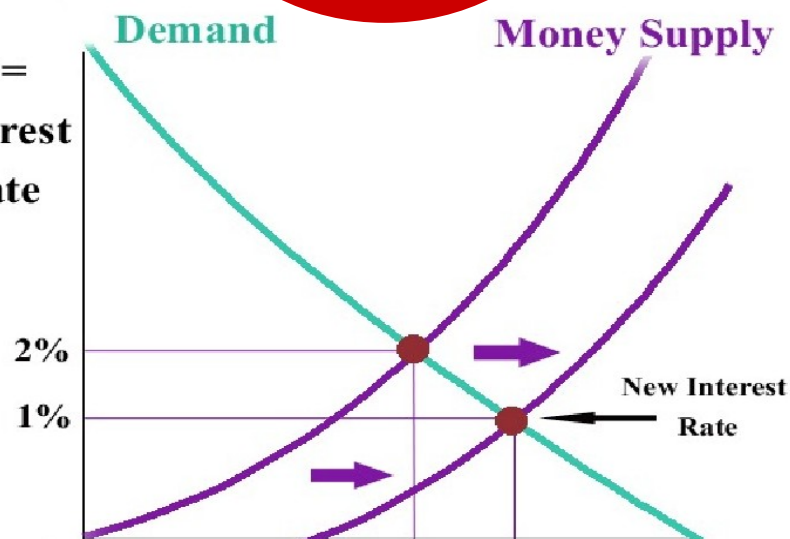
Lecture

04

Break-Even Point

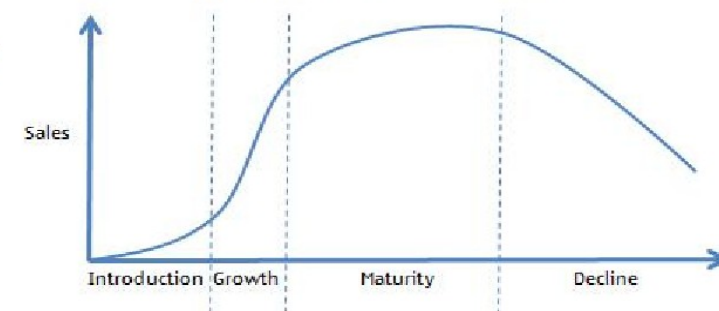


P =
Interest
Rate



Q = Money Borrowed

Product Lifecycle Stages



External / Social Forces

Global /
International
Business

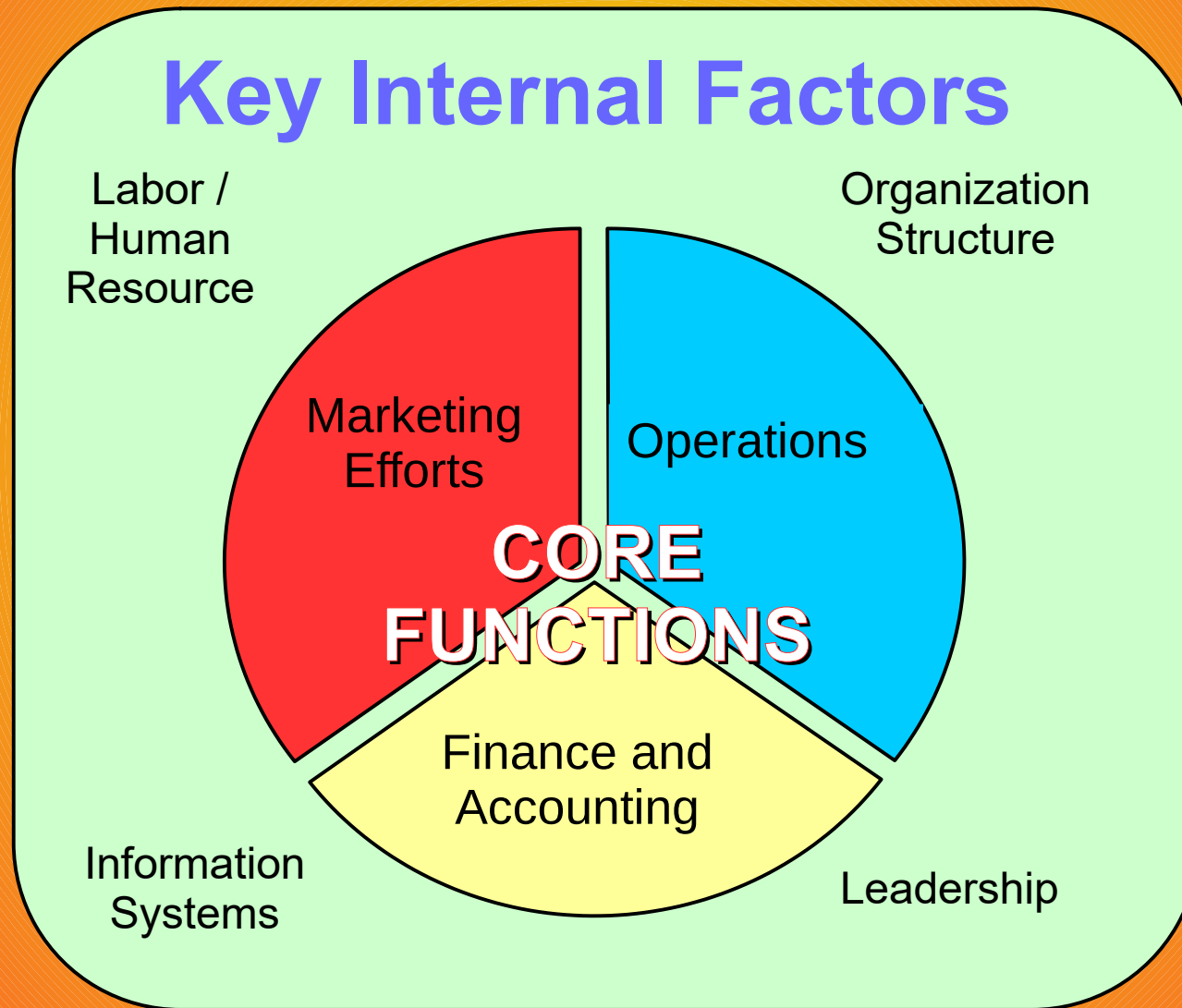
Economic /
Monetary Policy

Competitors &
Stakeholders

Regulations

Demographic
&
Diversity

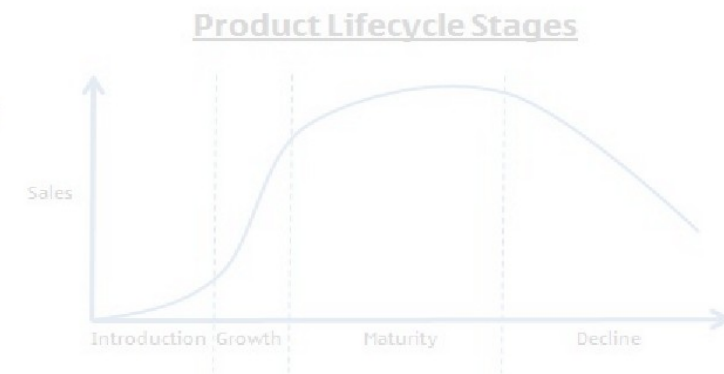
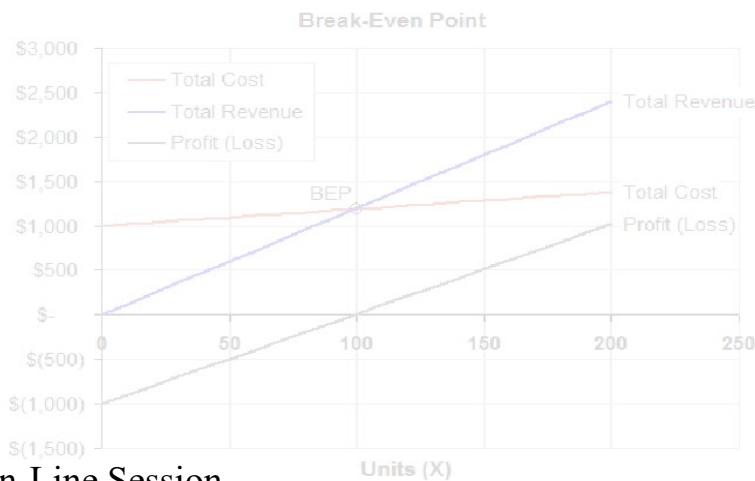
Technology



Q = Money Borrowed

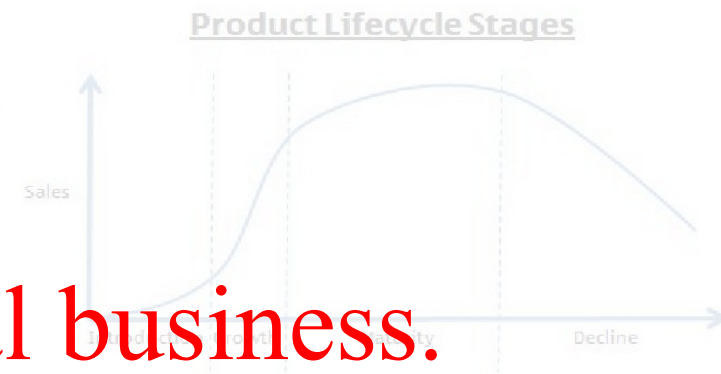
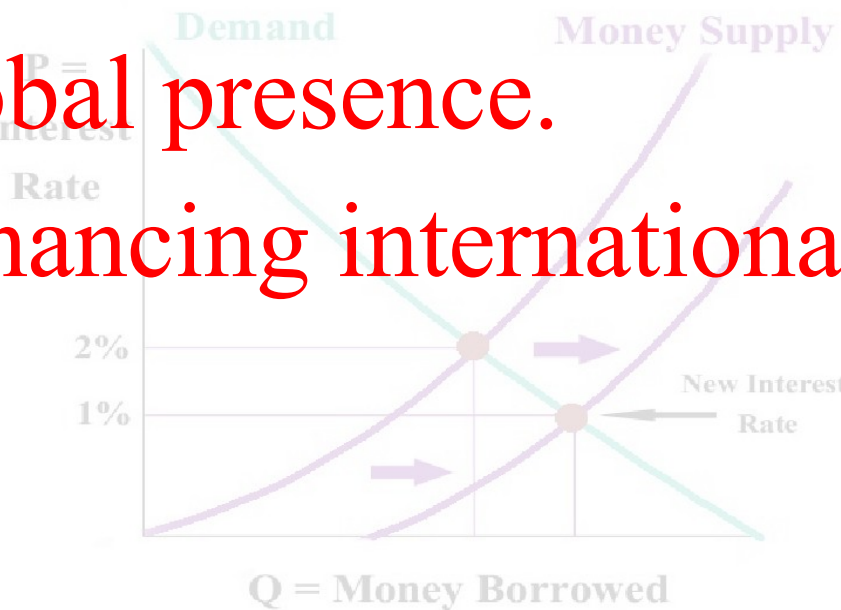
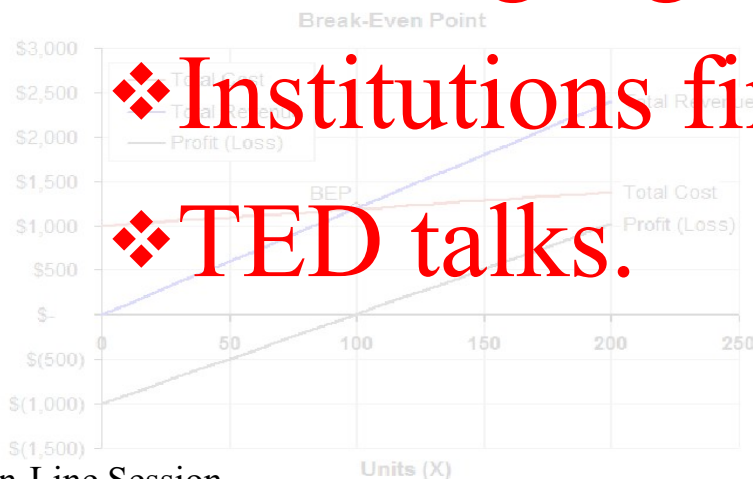
Introduction to Business

Global Market



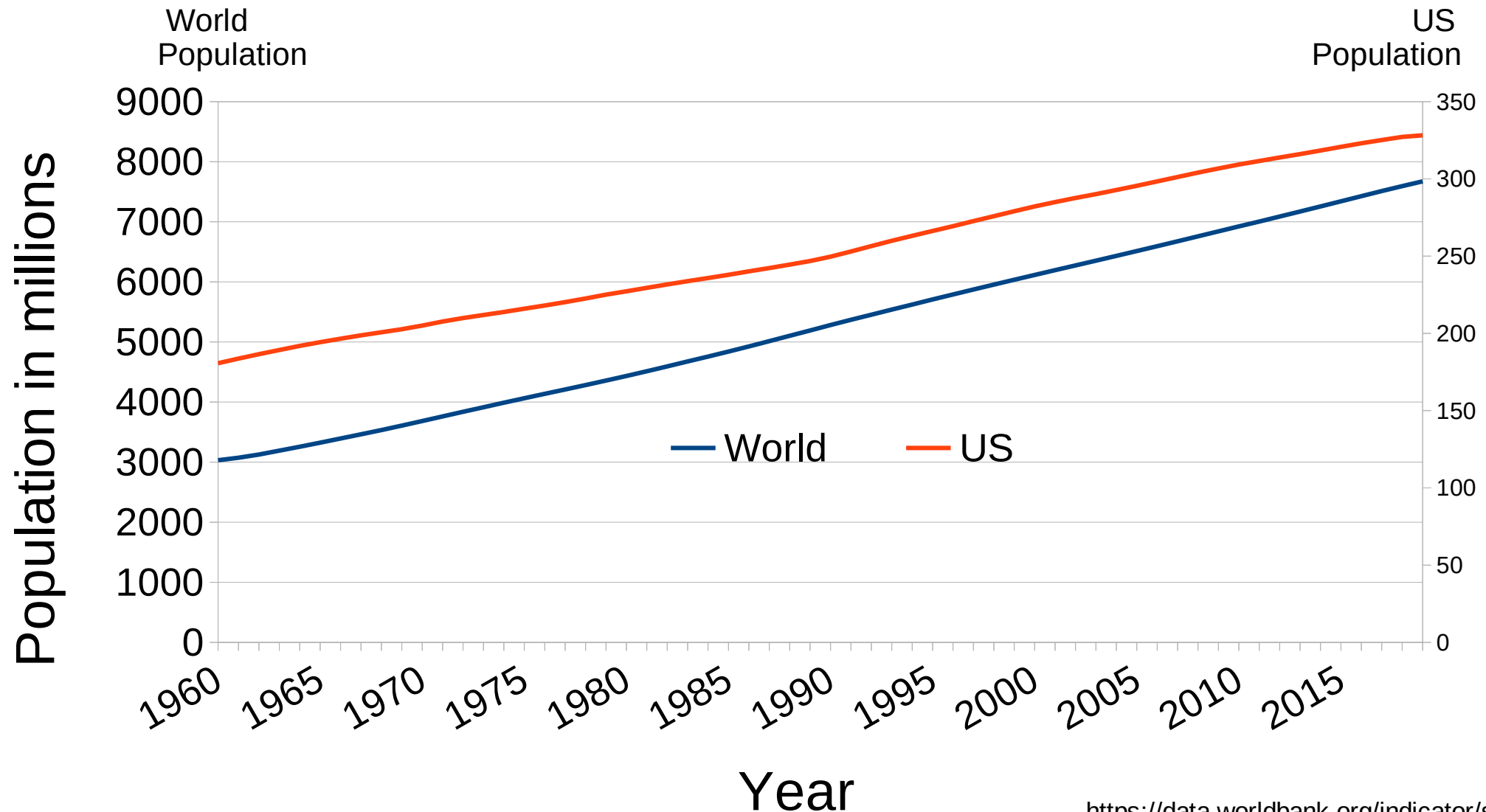
Objectives

- ❖ Why global market?
- ❖ Comparative and absolute advantage?
- ❖ Definitions / Explanations.
- ❖ Forces behind international trade.
- ❖ Creating a global presence.
- ❖ Institutions financing international business.
- ❖ TED talks.



Why global market?

◆ World population growth



<https://data.worldbank.org/indicator/sp.pop.totl>

World economic outlook for trade

Real GDP growth in percent (%)

	2017	2018	2019	2020	2021
World ¹	3.6	3.5	2.7	-4.2	4.2
OECD ¹	2.5	2.3	1.6	-5.5	3.3
United States	2.2	2.9	2.2	-3.7	3.2
Euro Area	2.5	1.9	1.3	-7.5	3.6
China	6.9	6.6	6.1	1.8	8.0
India	6.7	6.8	4.2	-9.9	7.9
Japan	1.7	0.8	0.7	-5.3	2.3

¹ Moving nominal GDP weights, using purchasing power parities.

https://read.oecd-ilibrary.org/economics/oecd-economic-outlook-volume-2018-issue-2_eco_outlook-v2018-2-en#page14

https://read.oecd-ilibrary.org/economics/oecd-economic-outlook-volume-2019-issue-2_9b89401b-en#page13

https://www.oecd-ilibrary.org/economics/oecd-economic-outlook/volume-2020/issue-2_39a88ab1-en

Source: StatLink <http://dx.dio.org/10.1787/888933630487>

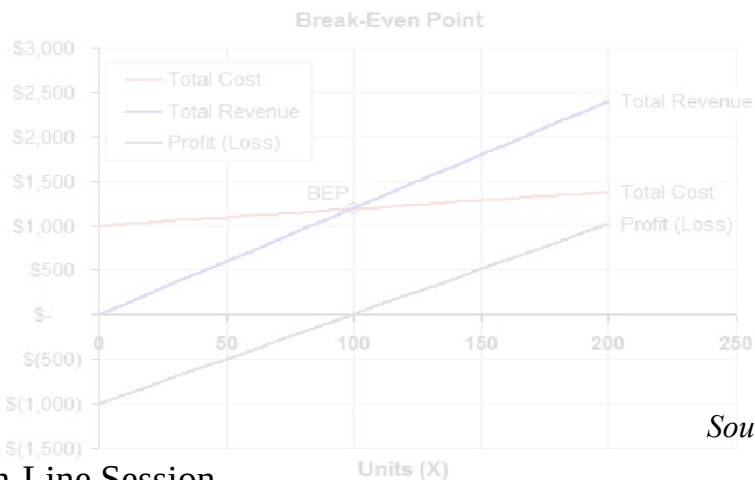
What is BRIICS?

Where to do business?

Best Country for Business (2019)

Rank	Country	GDP per capita
1	United Kingdom	\$39.7K
2	Sweden	\$53.4K
3	Hong Kong	\$46.4K
4	Netherlands	\$48.2K
5	New Zealand	\$42.9K

Source: <https://www.forbes.com/best-countries-for-business/list/#tab:overall> Accessed Aug 2019



Number of Billionaires in (2019)

U.S.	705 billionaires
China	285 billionaires
Germany	146 billionaires
Russia	102 billionaires
U.K.	97 billionaires

Source: <https://www.cnn.com/2019/05/09/the-countries-with-the-largest-number-of-billionaires.html> Accessed Aug 2019

Standard of Living (2019)

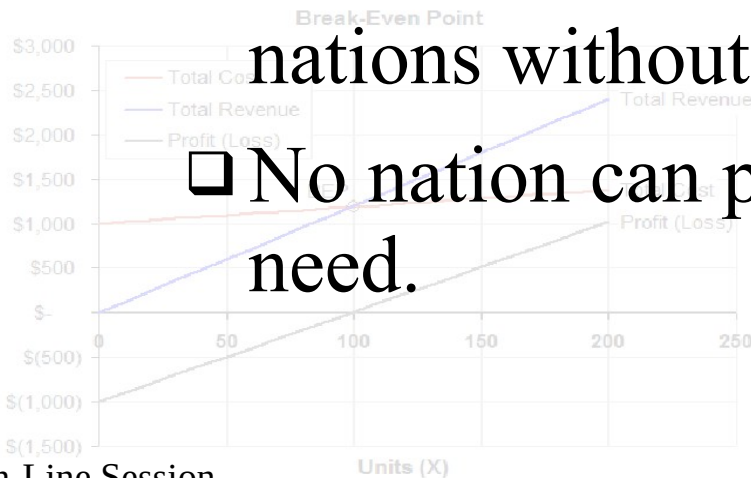
Rank	Country
1	Canada
2	Sweden
3	Denmark
4	Norway
5	Switzerland

Source: <https://www.usnews.com/news/best-countries/quality-of-life-rankings> Accessed Aug 2019



Why trade with other nations?

- Countries with abundant natural resources (like Venezuela or Iraq) need technological resources from other countries (like Japan).
- Global trade allows countries to produce what they make best and buy what they need from others.
 - ❑ Free trade—The movement of goods and services among nations without political or economic barriers.
 - ❑ No nation can produce all the products its people want and need.



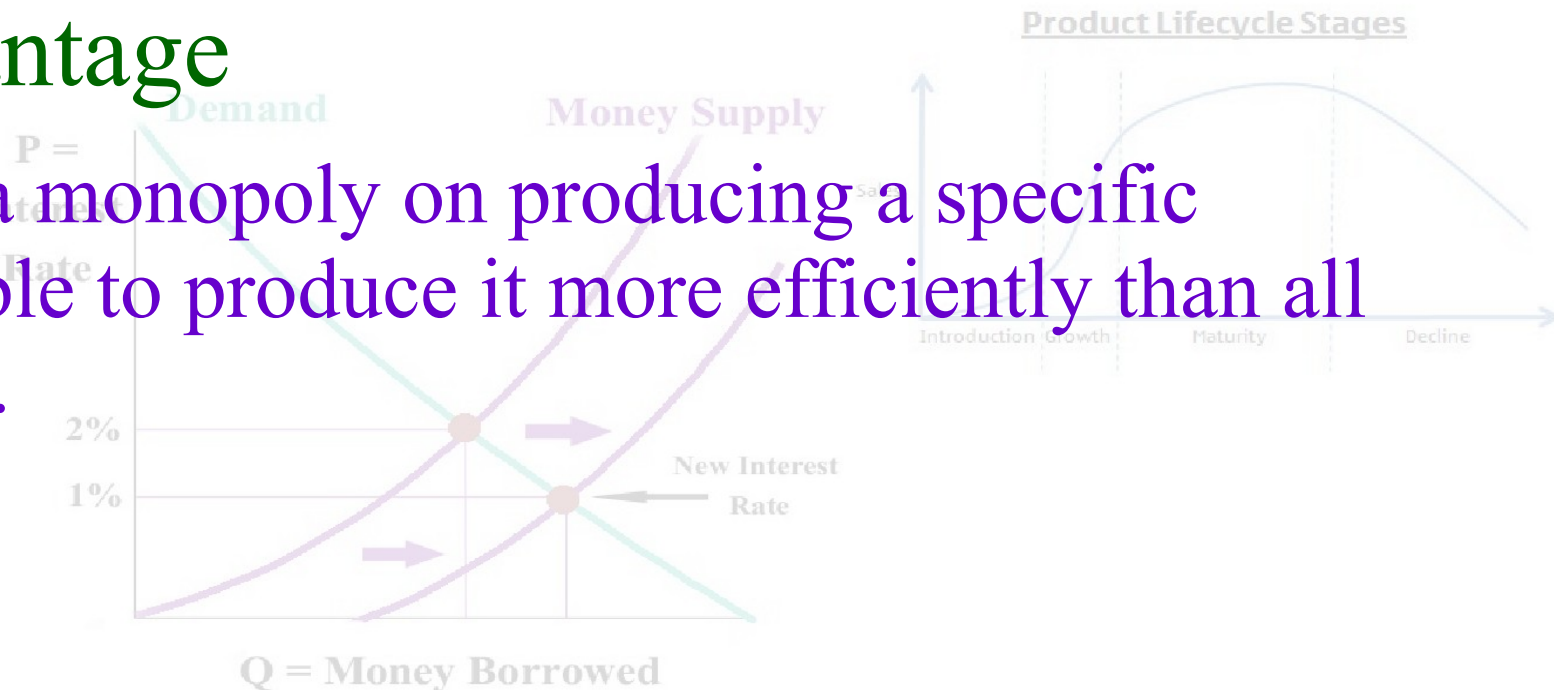
Comparative and absolute advantage

◆ Comparative advantage

A country should sell the products it produces most efficiently and buy from other countries the products it cannot produce as efficiently.

◆ Absolute advantage

A country has a monopoly on producing a specific product or is able to produce it more efficiently than all other countries.



Absolute advantage

Saudi Arabia

South Africa

Australia



The ability to produce a specific product more efficiently than another nation



Comparative advantage

The ability to produce a specific product more efficiently than any other product

Maximum Output	Country A	Country B
Automobiles	30m	45m
Motorcycles	6m	18m

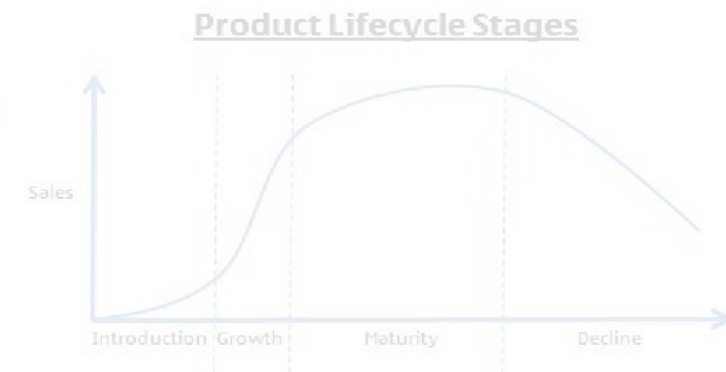
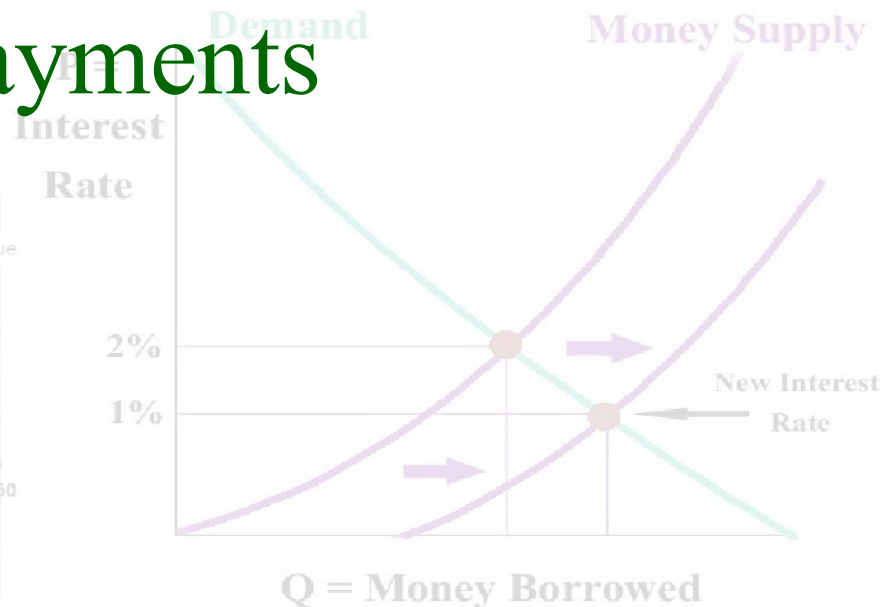
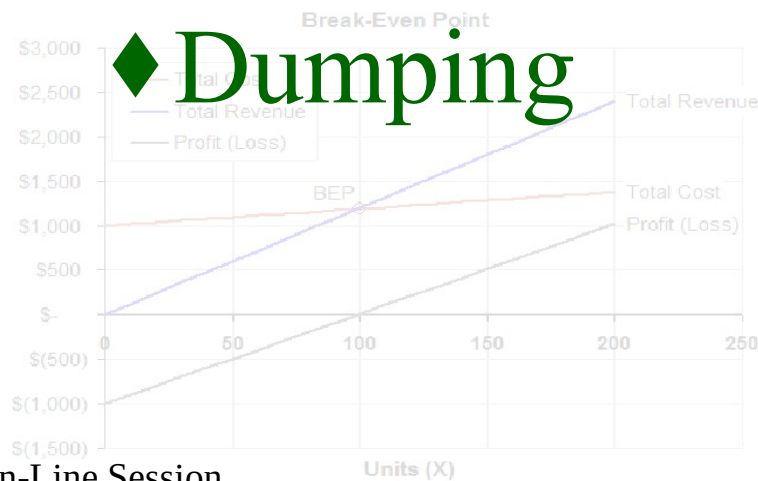
Definitions

- ◆ Import / Export
- ◆ Balance of trade

- Trade Surplus
- Trade Deficit

- ◆ Balance of payments

- ◆ Dumping



Import / Export

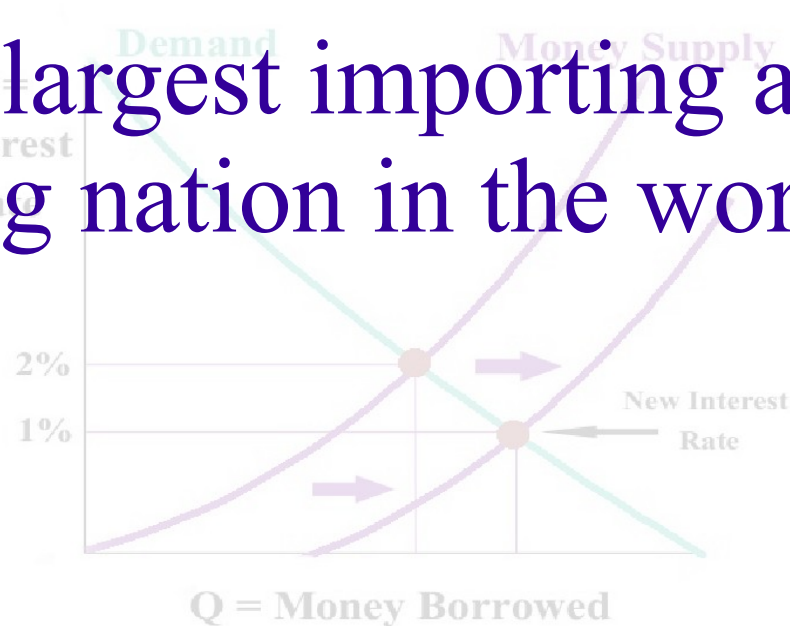
➤ Importing

Buying products from another country.

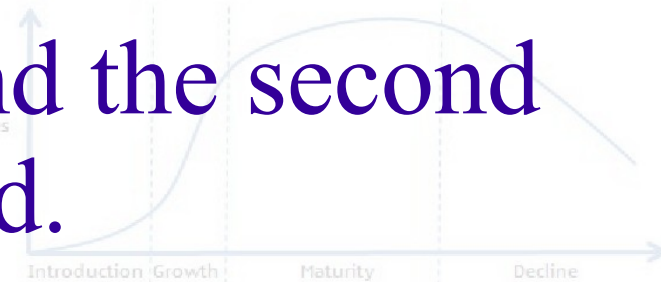
➤ Exporting

Selling products to another country.

➤ The U.S. is the largest importing and the second largest exporting nation in the world.

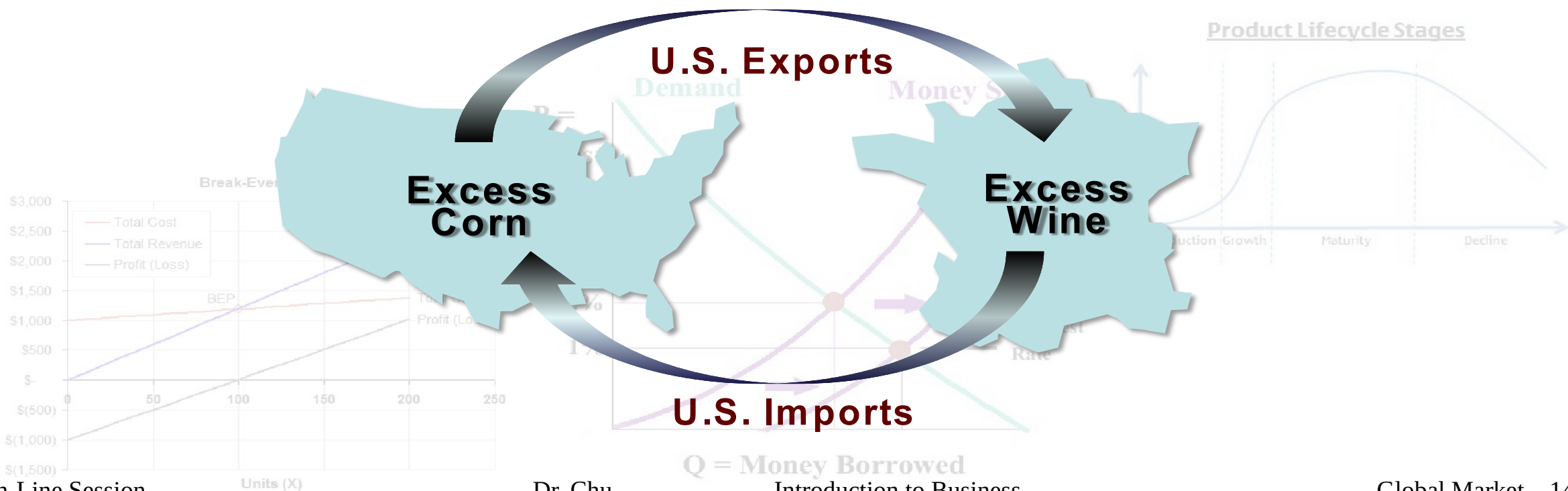


Product Lifecycle Stages



Exporting and importing

Countries trade when they each have a surplus of the product in which they specialize and want a product in which the other country specializes.



Balance of trade

➤ Balance of trade

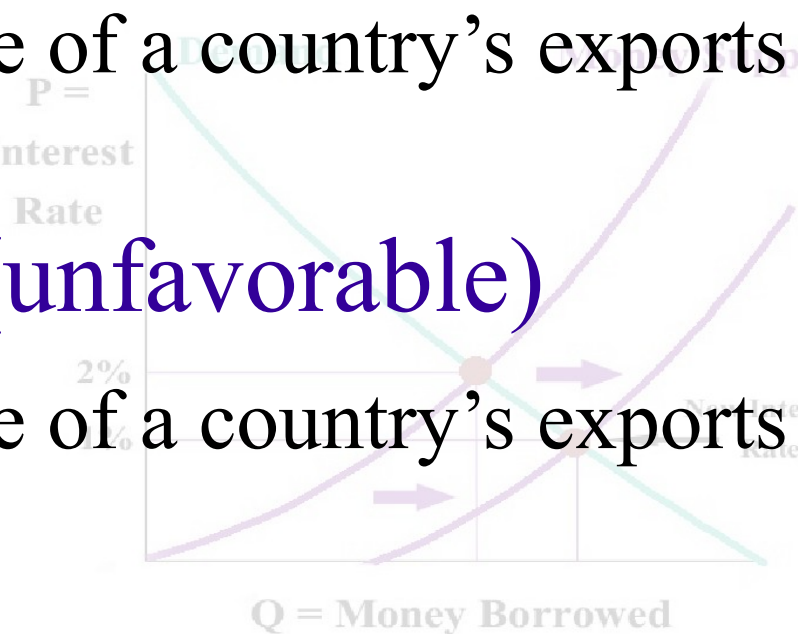
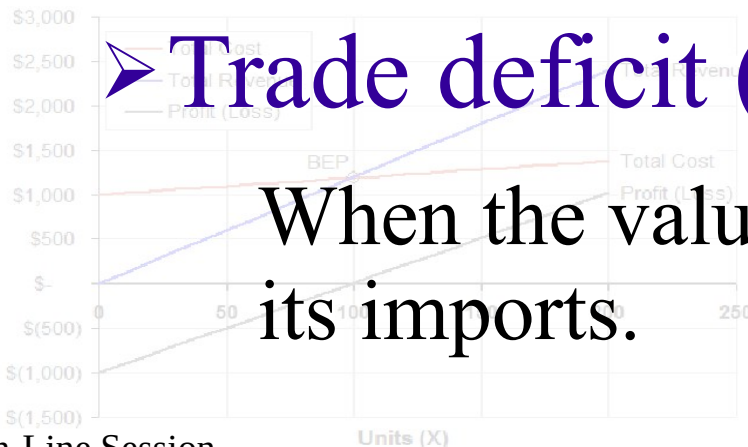
The total value of a nation's exports compared to its imports measured over a particular period.

➤ Trade surplus (favorable)

When the value of a country's exports is more than that of its imports.

➤ Trade deficit (unfavorable)

When the value of a country's exports is less than that of its imports.

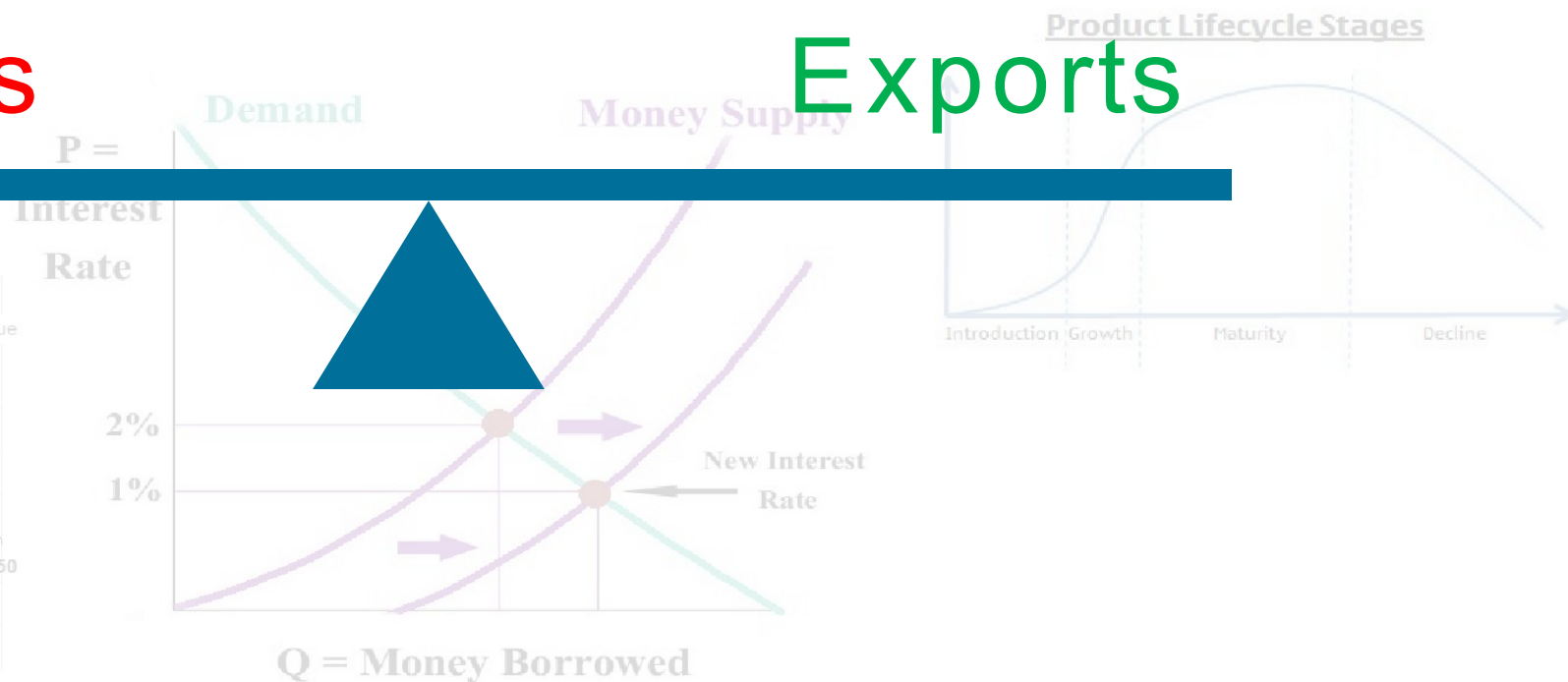
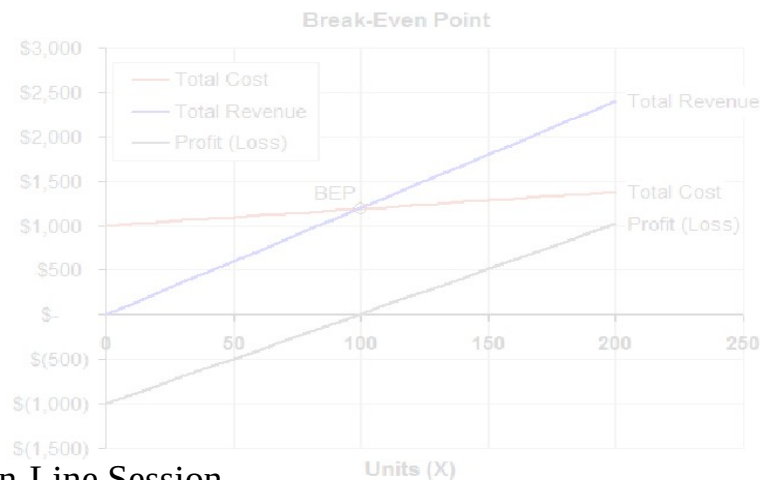


Balance of trade

The total value of a nation's exports minus the total value of its imports over some period of time

Imports

Exports

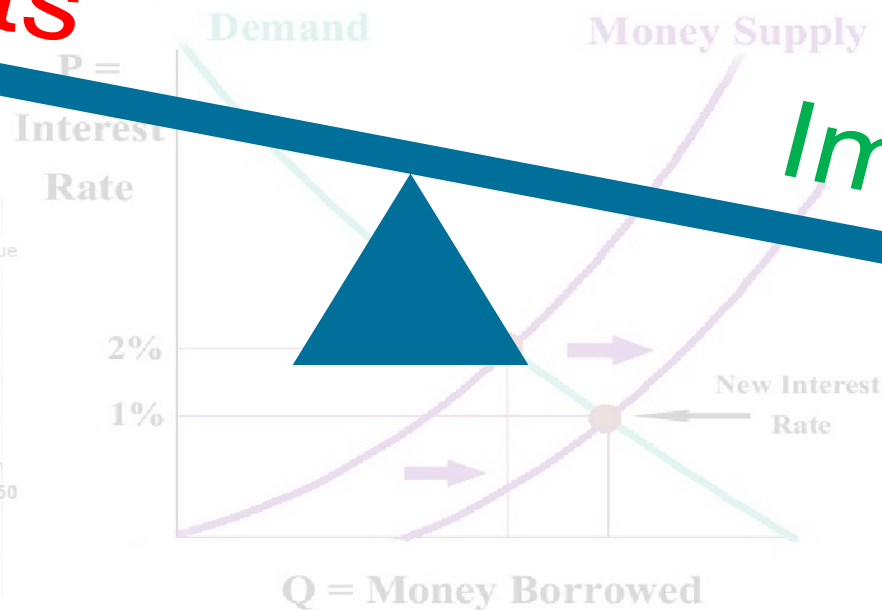
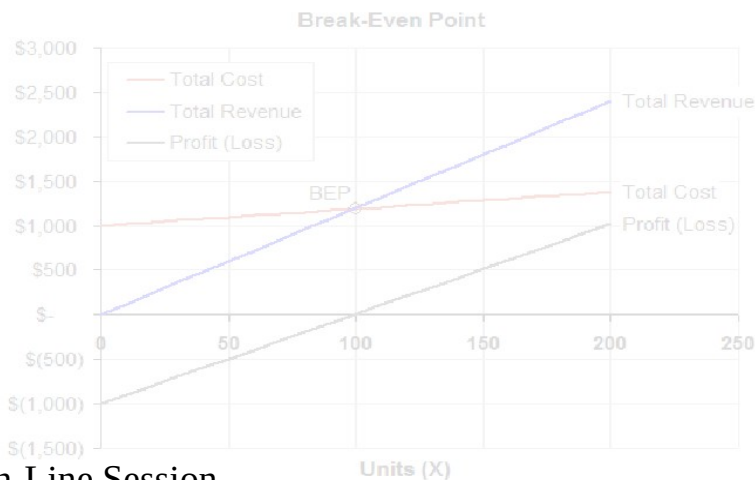


Trade deficit

A negative (unfavorable) balance of trade where imports exceed exports in value

Exports

Imports

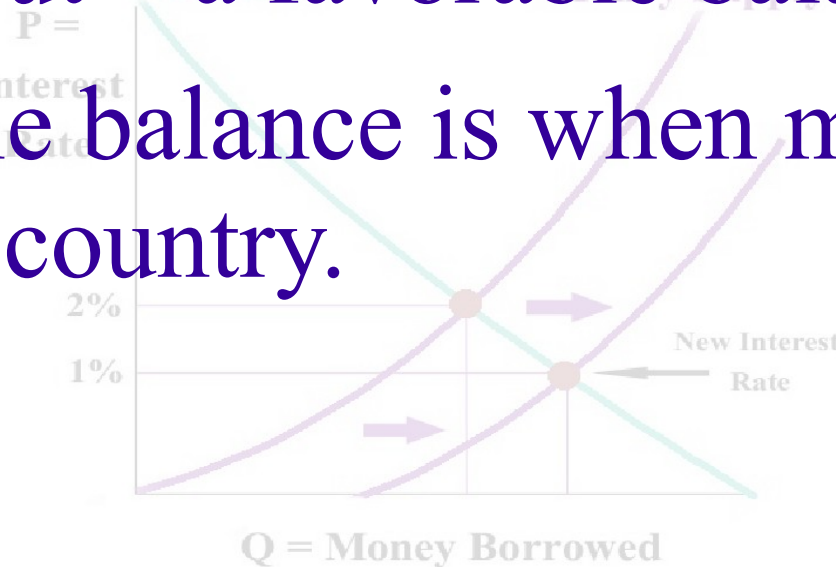
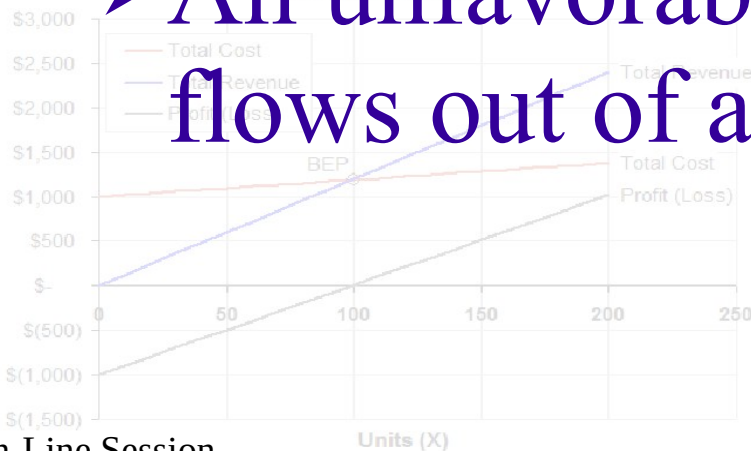


Product Lifecycle Stages



Balance of payments

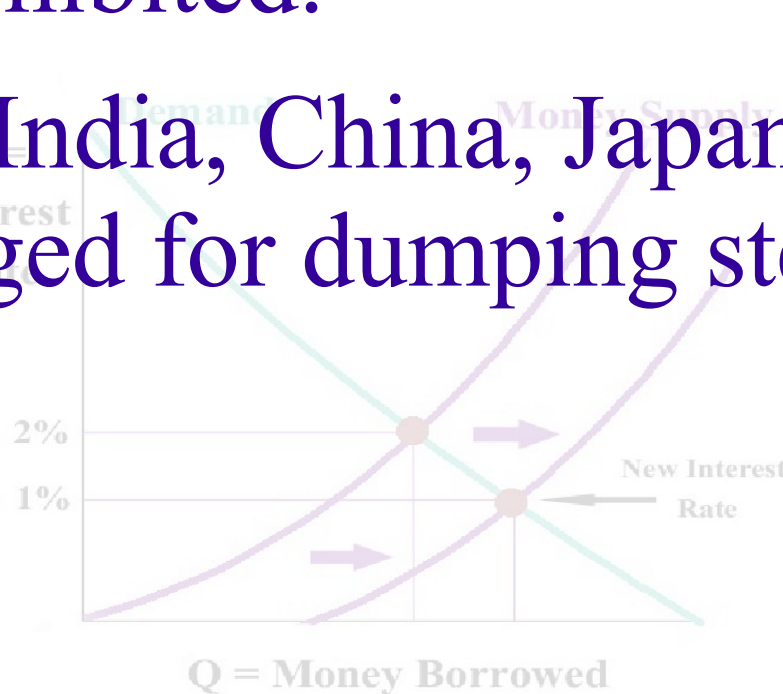
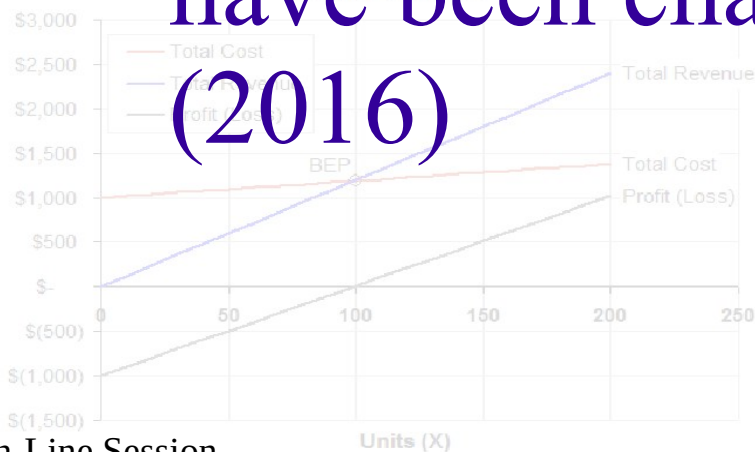
- The difference between money coming into a country (from exports) and money leaving the country (from imports) plus other money flows.
- The goal is to have more money flowing into a country than out — a favorable balance.
- An unfavorable balance is when more money flows out of a country.



Dumping

- Selling products in a foreign country at lower prices than those charged in the producing country.
- Dumping is prohibited.
- Brazil, Russia, India, China, Japan, and Korea have been charged for dumping steel in the U.S.

(2016)

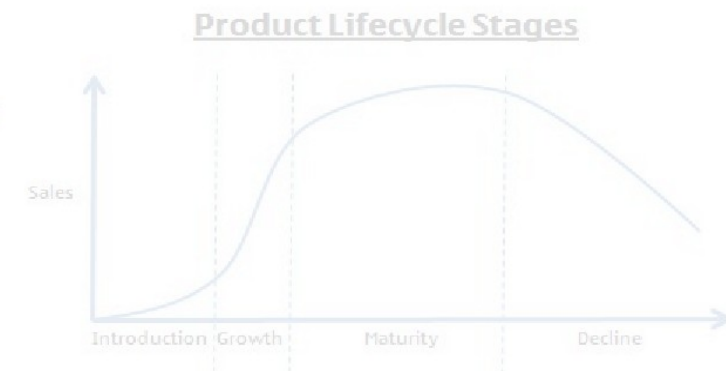
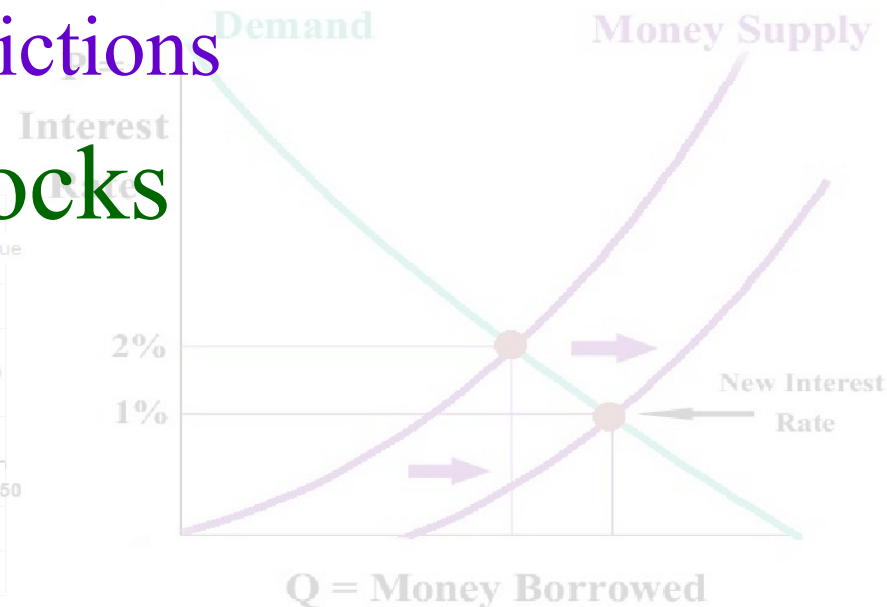


Forces behind international trade

- ◆ International organizations
- ◆ Restrictions on international trade

- For restrictions
- Against restrictions
- Types of restrictions

◆ Economic blocks



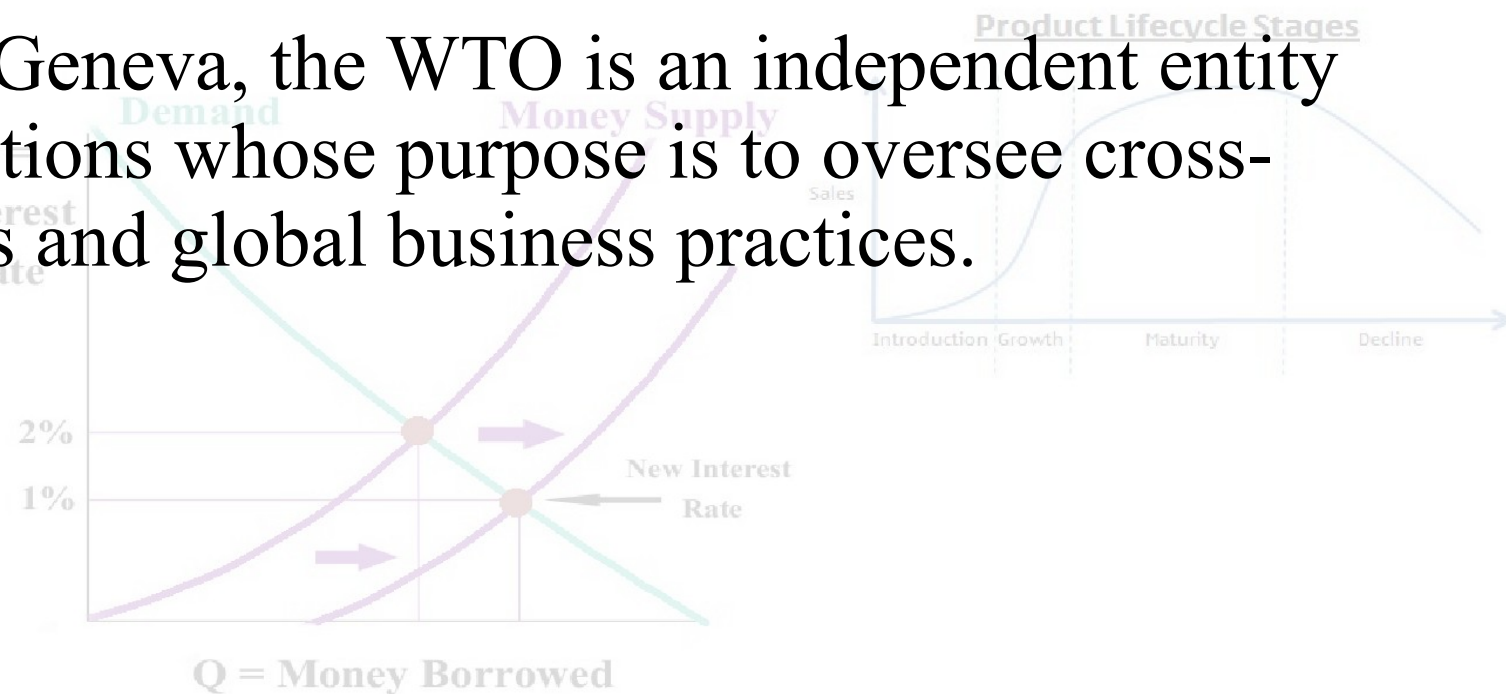
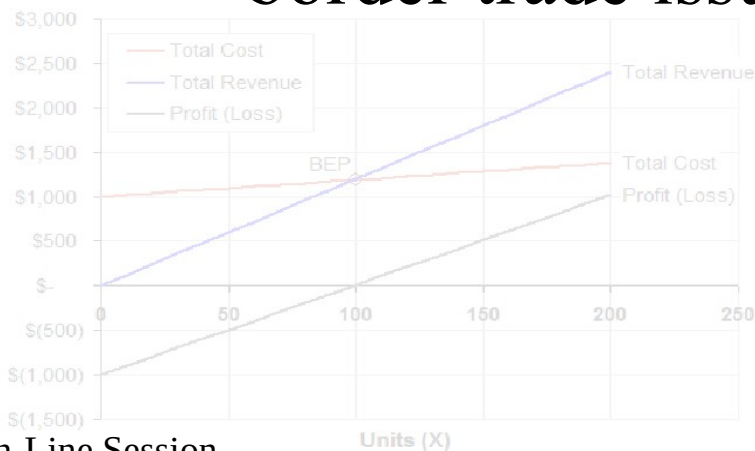
International organizations

➤ General Agreement on Tariffs and Trade (GATT)

A global forum for reducing trade restrictions on goods, services, ideas and cultural problems.

➤ World Trade Organization (WTO)

Headquartered in Geneva, the WTO is an independent entity of 159 member nations whose purpose is to oversee cross-border trade issues and global business practices.



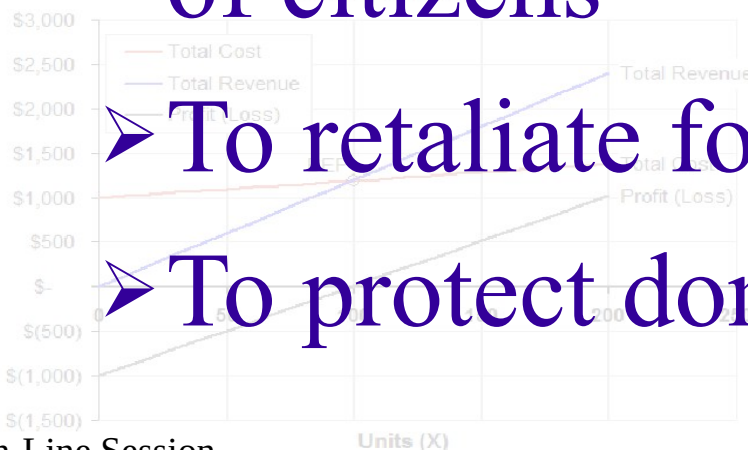
Reasons for trade restrictions

- To protect new or weak industries
- To protect national security
- To protect the health of citizens
- To retaliate for another nation's trade restrictions
- To protect domestic jobs

MERGERS AND ACQUISITIONS



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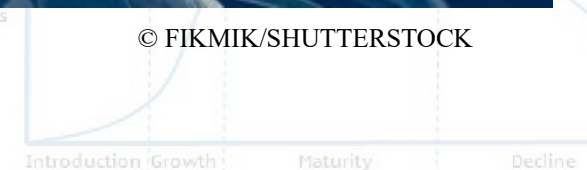


Interest
Rate

1%

Q = Money Borrowed

New Interest
Rate



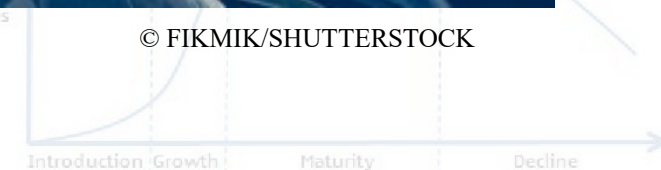
Reasons against trade restrictions

- Higher prices for consumers
- Restriction of consumers' choices
- Miss allocation of international resources
- Loss of jobs

MERGERS AND ACQUISITIONS



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Types of trade restrictions

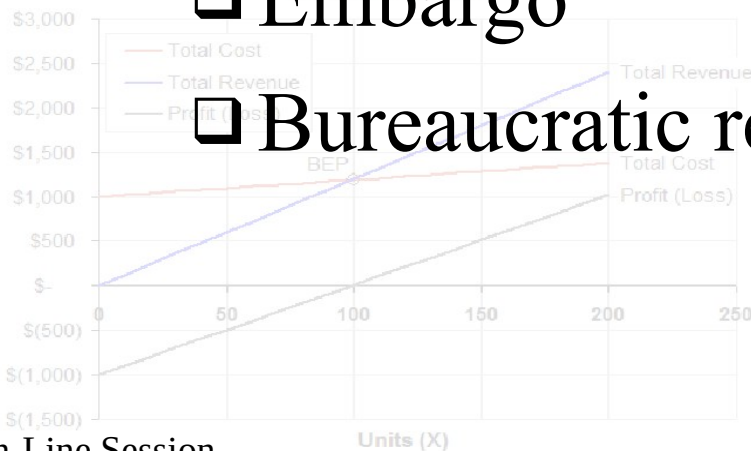
➤ Tariff*

- ❑ Import duty
- ❑ Revenue tariff

- ❑ Protective tariff
- ❑ Anti-dumping

➤ Non-tariff barrier

- ❑ Import quota
- ❑ Embargo
- ❑ Bureaucratic red tape
- ❑ Foreign exchange control
- ❑ Currency devaluation
- ❑ Cultural attitudes



Non-tariff barriers

➤ Currency devaluation *

The reduction of the value of a nation's currency relative to the currencies of other countries.

➤ Bureaucratic red tape

subtly imposes unnecessarily burdensome and complex standards and requirements for imported goods.

➤ Cultural attitudes *

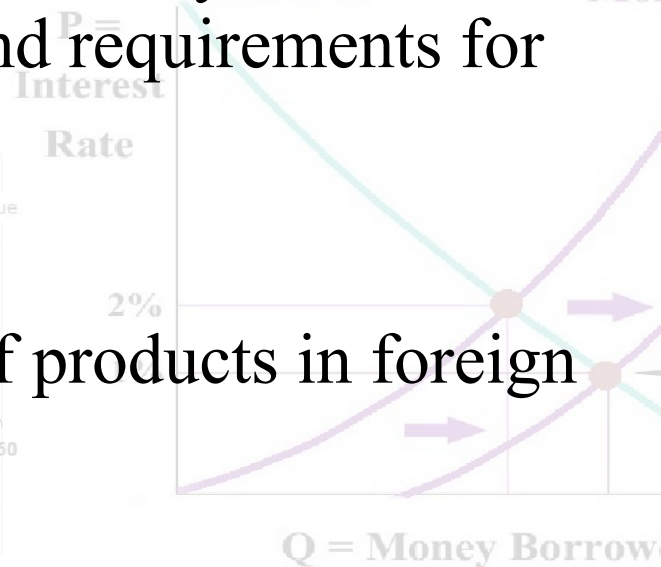
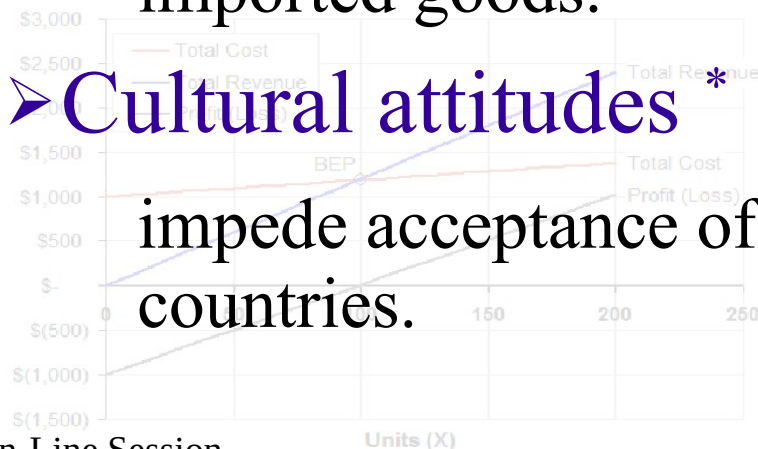
impede acceptance of products in foreign countries.



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Trading blocks

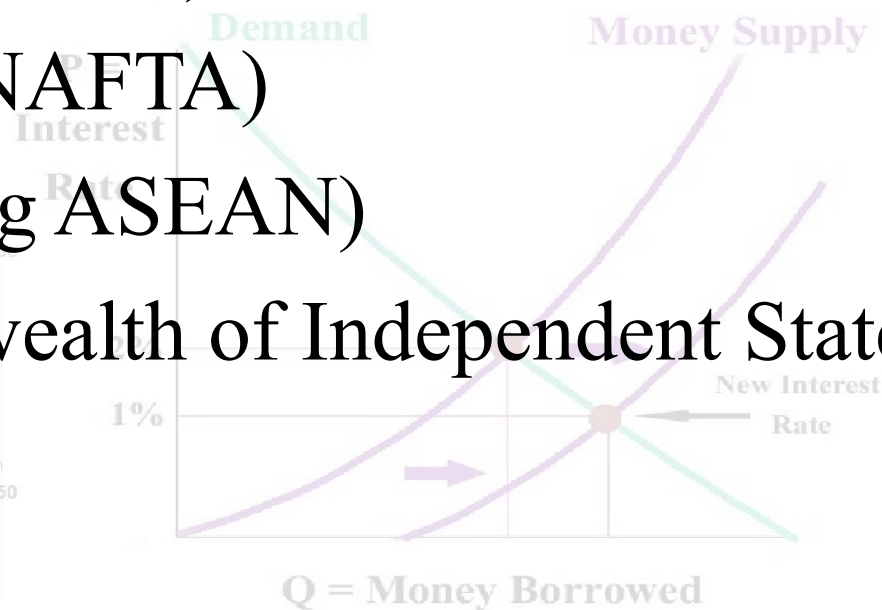
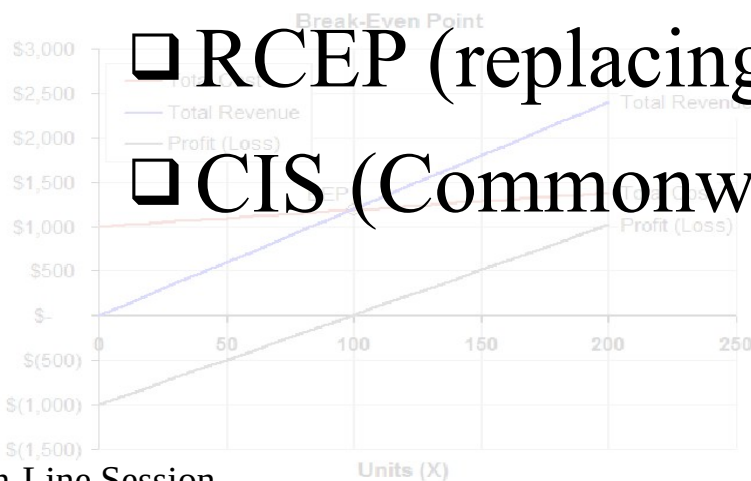
- Rational
- Potential issues
- Examples

❑ EU (European Union)

❑ USMCA (was NAFTA)

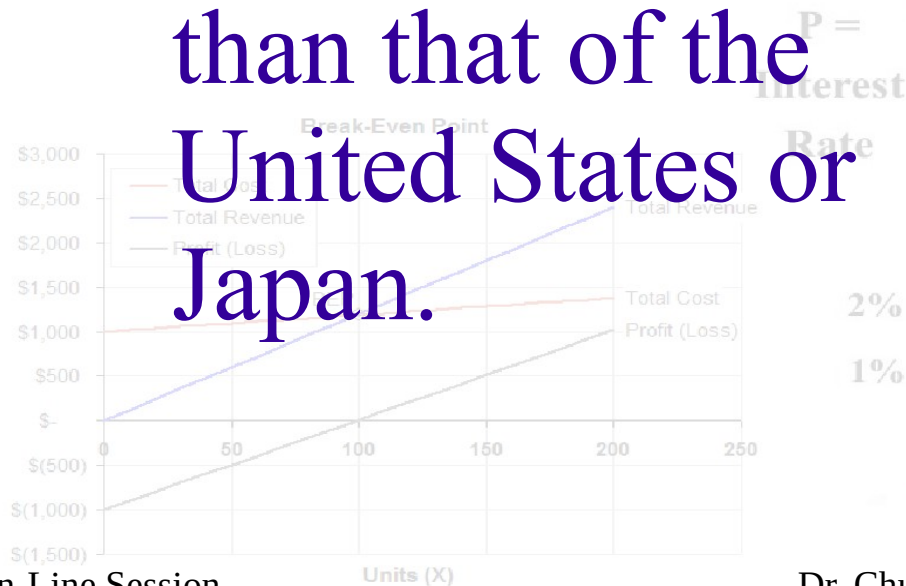
❑ RCEP (replacing ASEAN)

❑ CIS (Commonwealth of Independent States)



European Union

The European Union is now an economic force, with a collective economy larger than that of the United States or Japan.



USMCA (was NAFTA)



The United States



Canada



Mexico

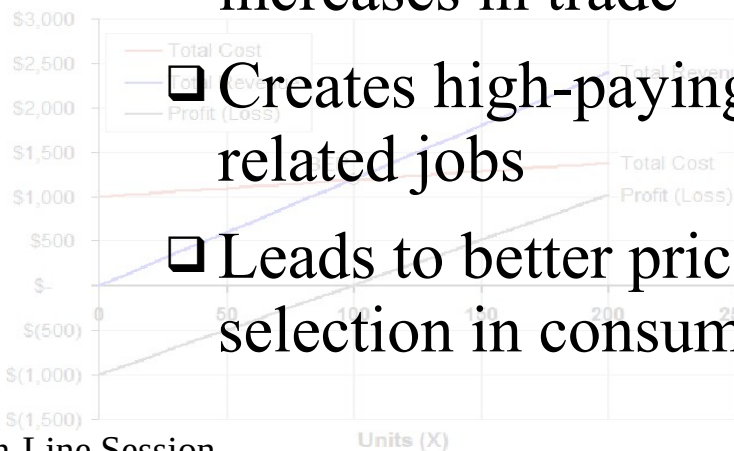


➤ Benefit so far

- ☐ Contributes to significant increases in trade
- ☐ Creates high-paying export-related jobs
- ☐ Leads to better prices and selection in consumer goods

➤ Criticism

- ☐ Has not achieved its goals
- ☐ Resulted in job losses
- ☐ Erodes labor standards and lowers wages
- ☐ Hurts the agricultural sector



$P =$
Interest
Rate

2%

1%

$Q =$ Money Borrowed

ASEAN (new RCEP)



Brunei



Malaysia



Myanmar



Philippines



Cambodia



Singapore



Indonesia



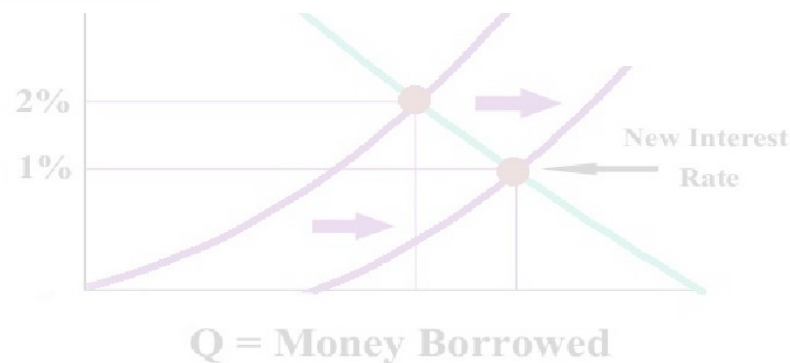
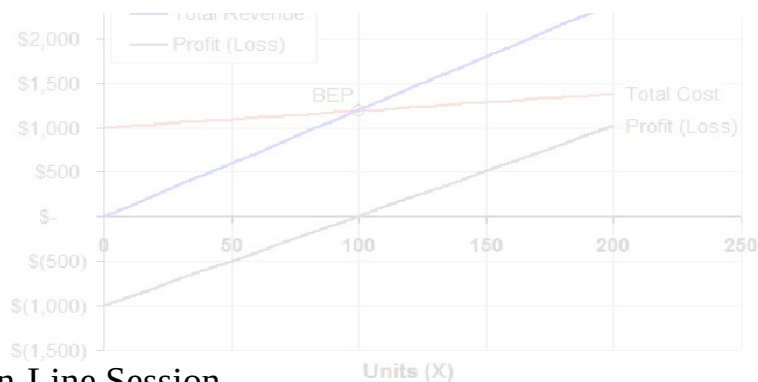
Thailand



Laos



Vietnam

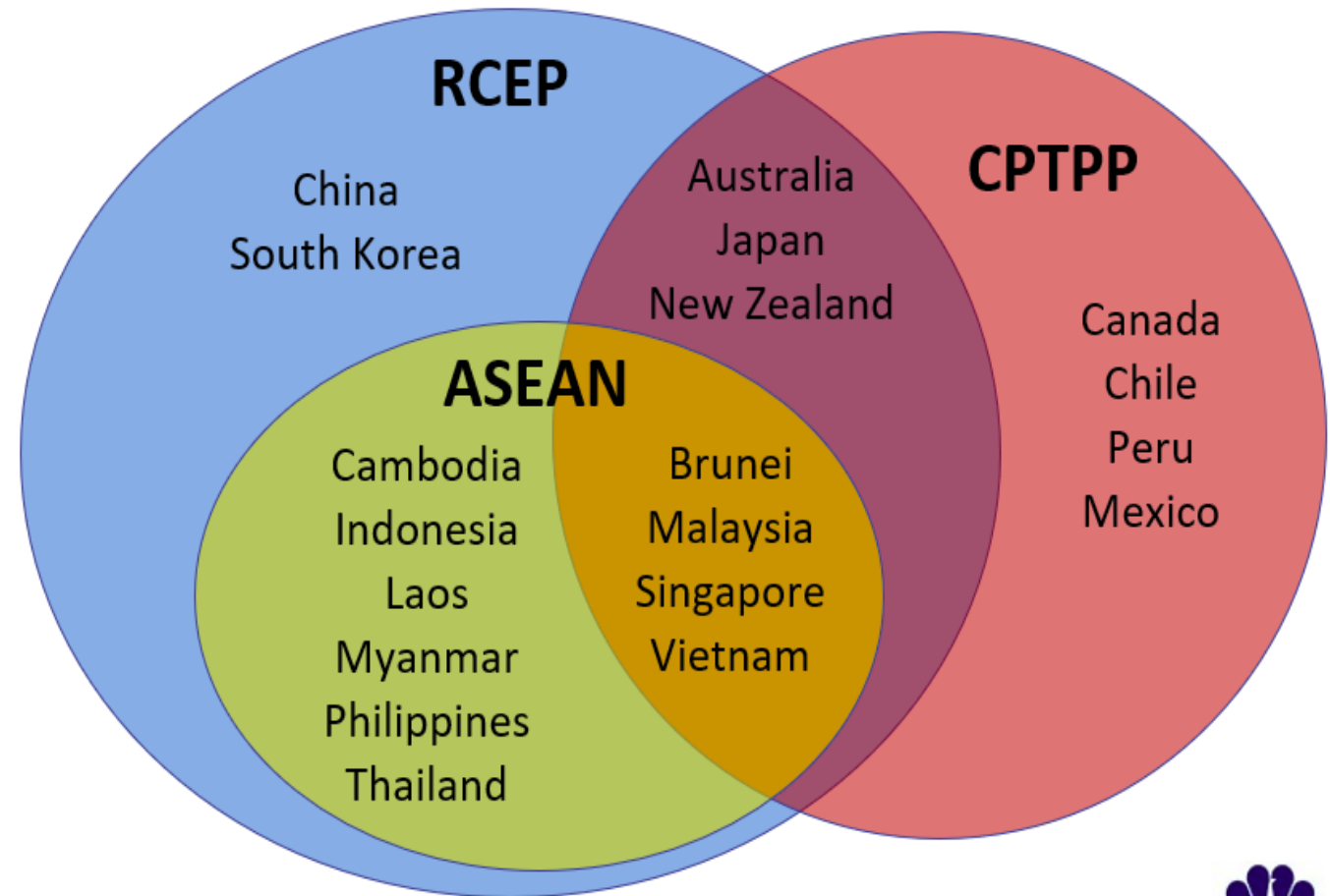


RCEP

- Regional Comprehensive Economic Partnership
- Result of the trade tension between U.S and China in the Trump Administration



Trade groupings involving Asia Pacific nations

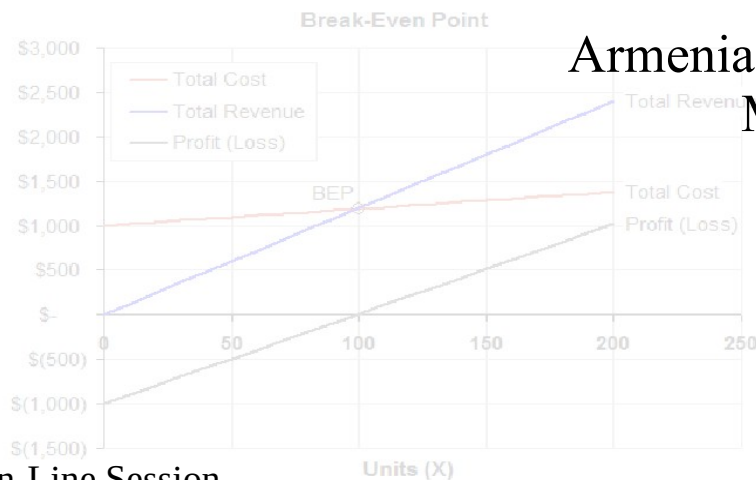


SOURCE: The Economist Intelligence Unit



CIS

- Projected to show growth in 2012 and 2013.
- Trade expanded substantially since the collapse of communism.
- Nations transition to market economies are growing.
- Others have continue to struggle.

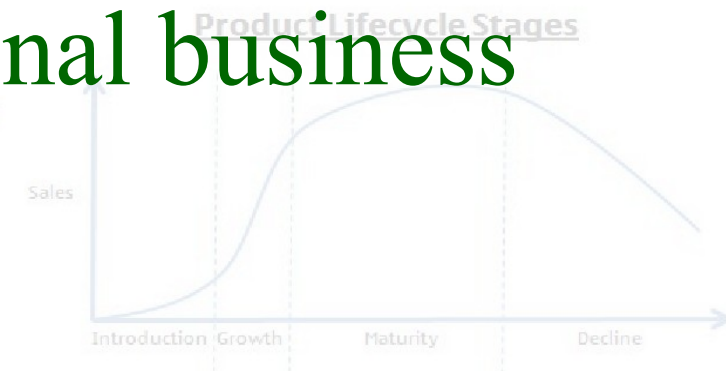
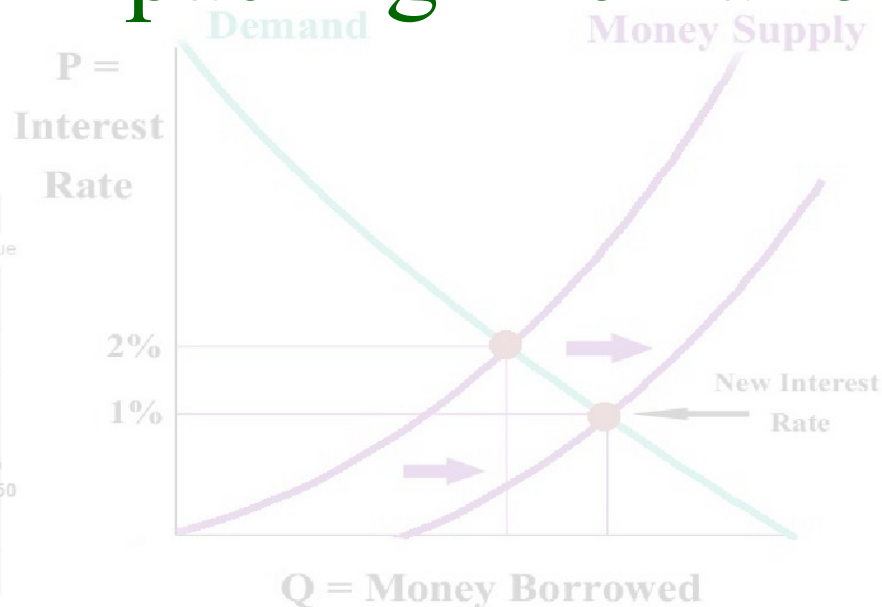


Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Uzbekistan



Creating a global presence

- ◆ Implementation choice
- ◆ Modes of entry
- ◆ Steps in entering international markets
- ◆ Other factors impacting international business



Implementation choices

Pressure for cost reduction

High

Low

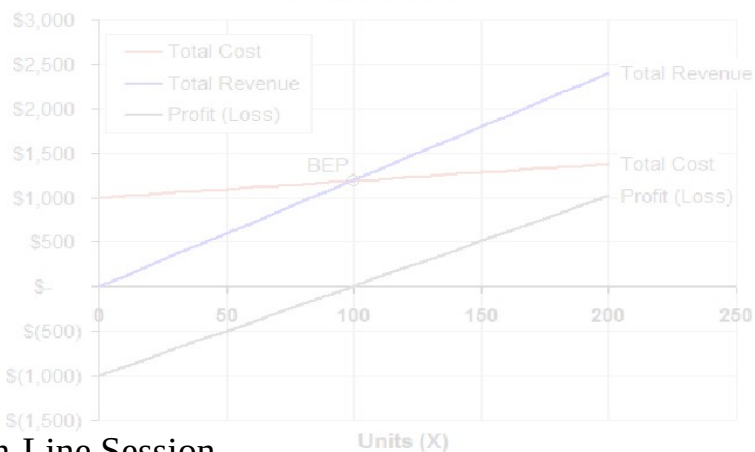
Standardization
strategy

Transnational
strategy

International
strategy

Localization
strategy

Break-Even Point



Modes of entry

Entry Mode	Advantages	Disadvantages
Exporting	<ul style="list-style-type: none"> • Ability to realize location and experience-curve economies 	<ul style="list-style-type: none"> • High transport costs • Trade barriers • Problems with local marketing agents
Licensing	<ul style="list-style-type: none"> • Low development costs and risks 	<ul style="list-style-type: none"> • Inability to realize location and experience-curve economies • Inability to engage in global strategic coordination • Lack of control over technology
Franchising	<ul style="list-style-type: none"> • Low development costs and risks 	<ul style="list-style-type: none"> • Inability to engage in global strategic coordination • Lack of control over quality
Joint ventures	<ul style="list-style-type: none"> • Access to local partner's knowledge • Shared development costs and risks • Political dependency 	<ul style="list-style-type: none"> • Inability to engage in global strategic coordination • Inability to realize location and experience-curve economies • Lack of control over technology
Wholly owned subsidiaries	<ul style="list-style-type: none"> • Protection of technology • Ability to engage in global strategic coordination • Ability to realize location and experience-curve economies 	<ul style="list-style-type: none"> • High costs and risks

Reaching global markets

Exporting

Licensing

Franchising

Contract
manufacturing

International
joint ventures
and
strategic
alliances

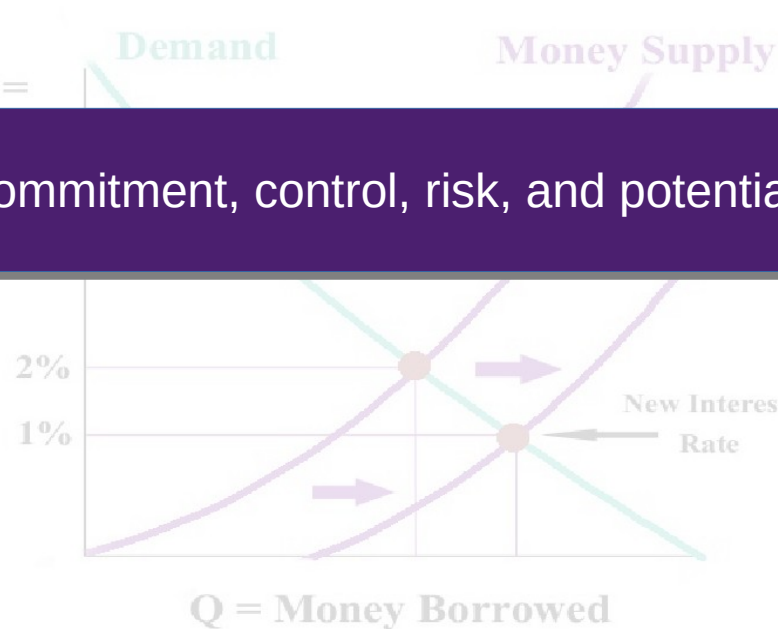
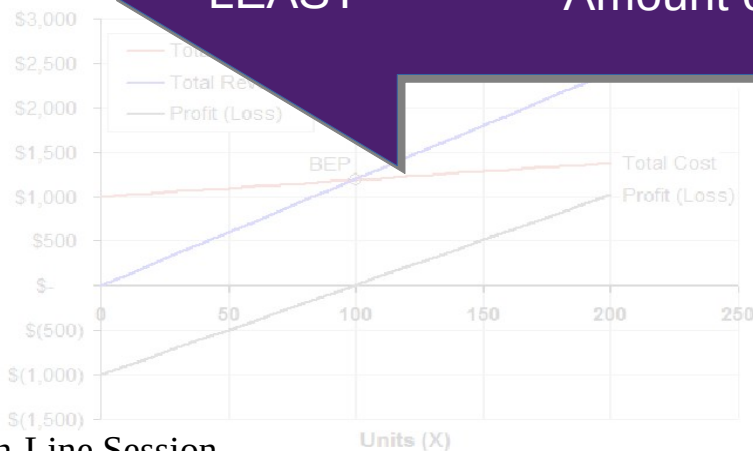
Foreign
direct
Investment
(FDI)

Product Lifecycle Stages

LEAST

Amount of commitment, control, risk, and potential profit

MOST



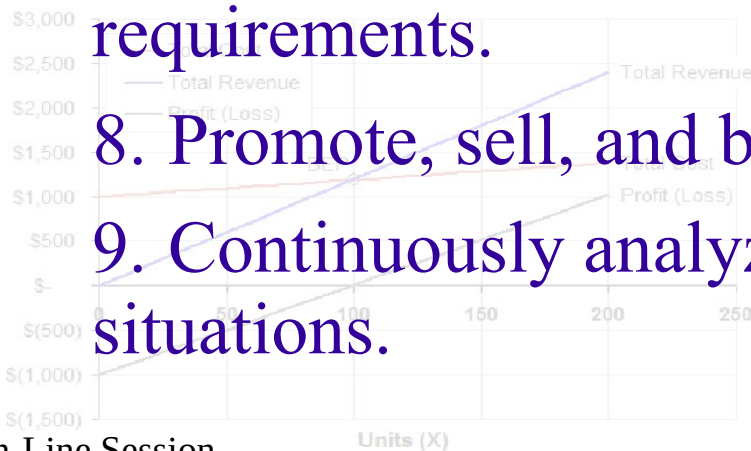
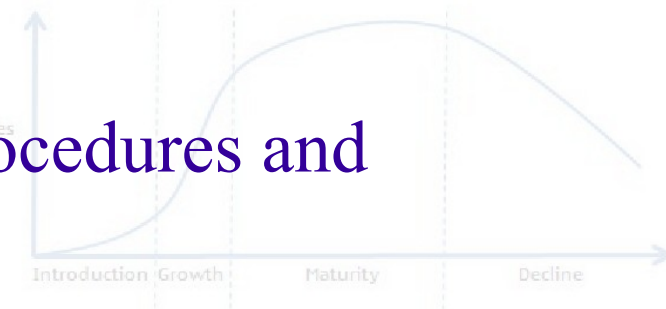
Steps in entering international markets

1. Identify exportable products.
2. Identify key foreign markets for the products.
3. Analyze how to sell in each priority market.
4. Set export prices and payment terms, methods, and techniques.
5. Estimate resource requirements and returns.
6. Establish overseas distribution network.
7. Determine shipping, traffic, and documentation procedures and requirements.
8. Promote, sell, and be paid.
9. Continuously analyze current marketing, economic, and political situations.

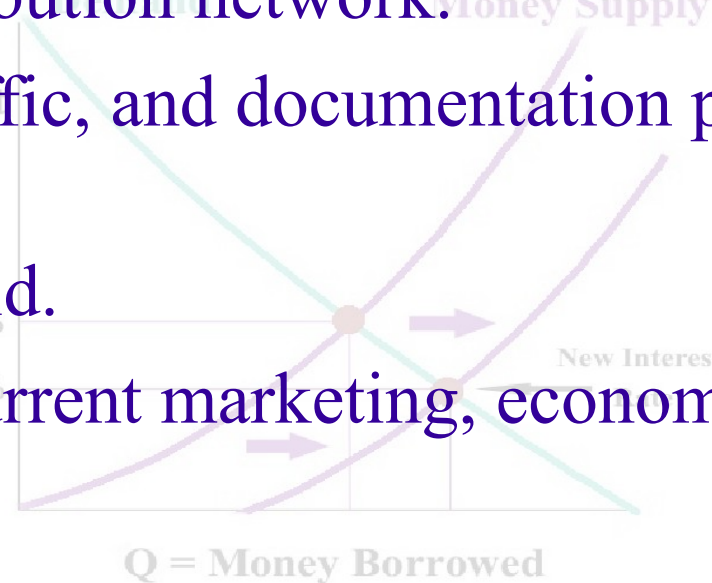
MERGERS AND ACQUISITIONS



Product Lifecycle Stages



P =
Interest
Rate



Macro factors (e.g. Macro forces)

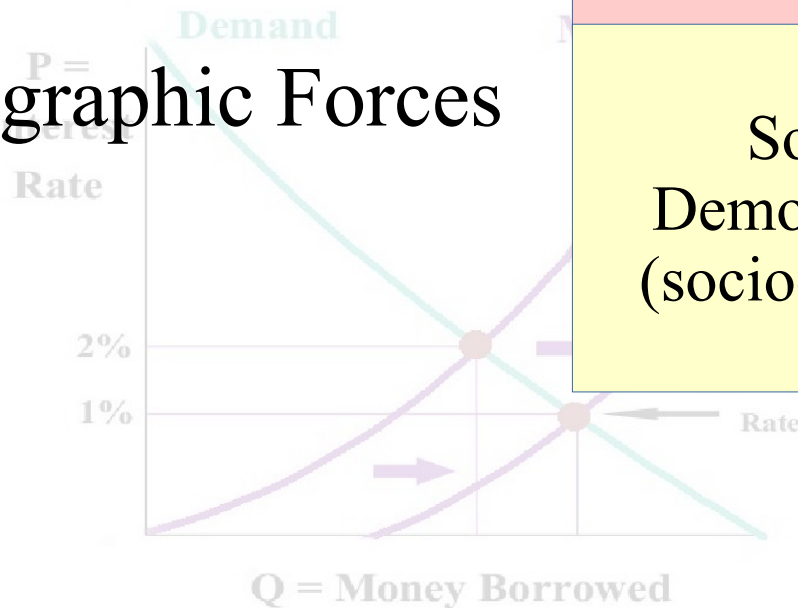
Macroeconomic	Political

Macroeconomic	Political Legal
Social Demographic (sociocultural)	Technological

Macroeconomic	Political Legal
Social Demographic (sociocultural)	Technological

Macroeconomic	Political Legal
Social Demographic (sociocultural)	Technological

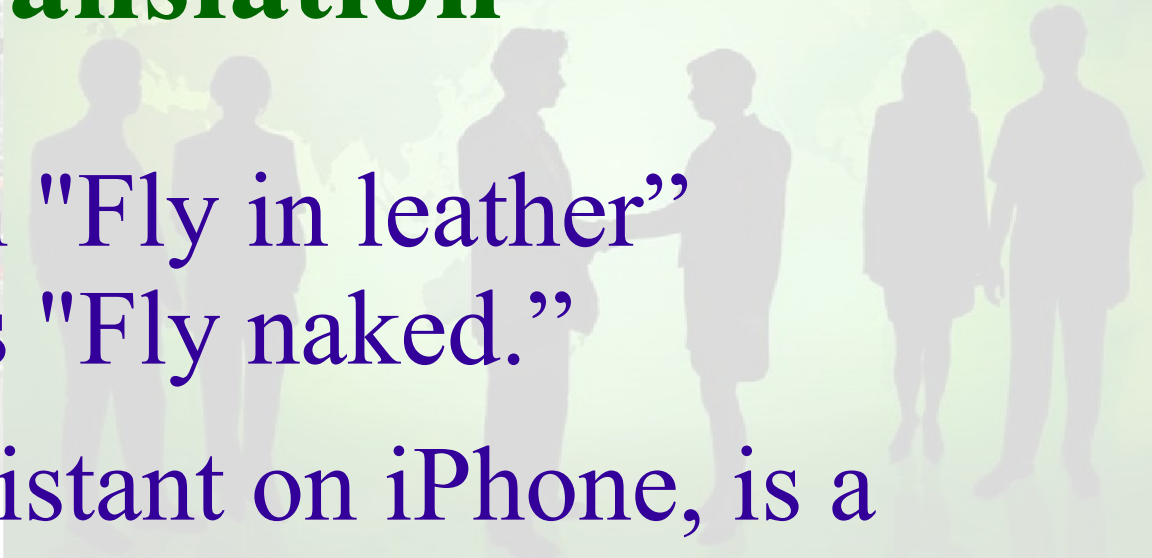
Macroeconomic	Political Legal
Social Demographic (sociocultural)	Technological



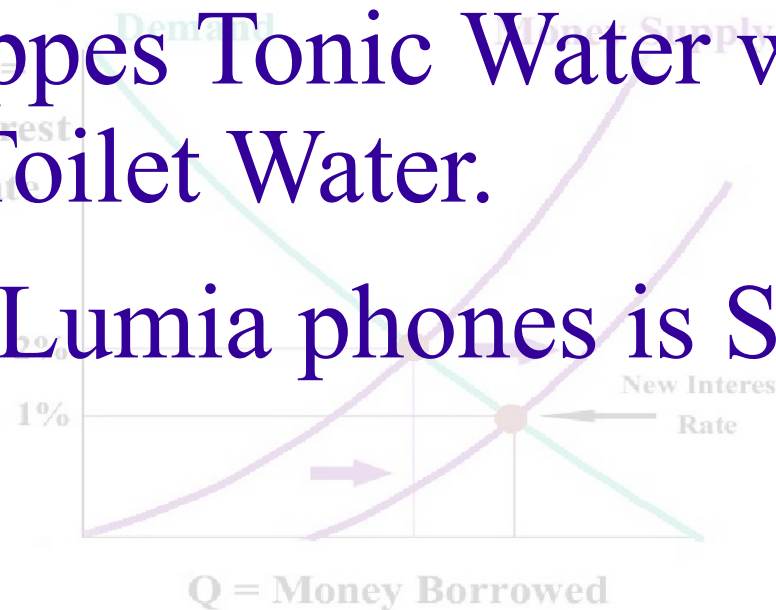
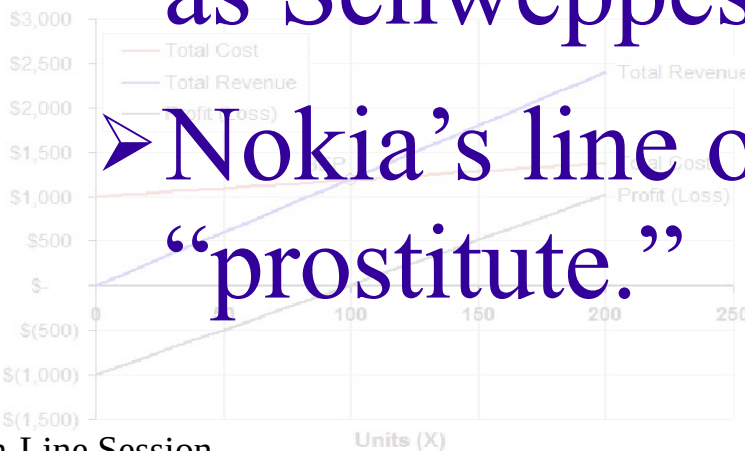
Lost in translation

- Braniff Airlines' slogan "Fly in leather" translated in Spanish as "Fly naked."
- Siri, Apple's digital assistant on iPhone, is a common slang term for "butt" in Japanese.
- In Italy, Schweppes Tonic Water was mistaken as Schweppes Toilet Water.
- Nokia's line of Lumia phones is Spanish for "prostitute."

MERGERS AND ACQUISITIONS



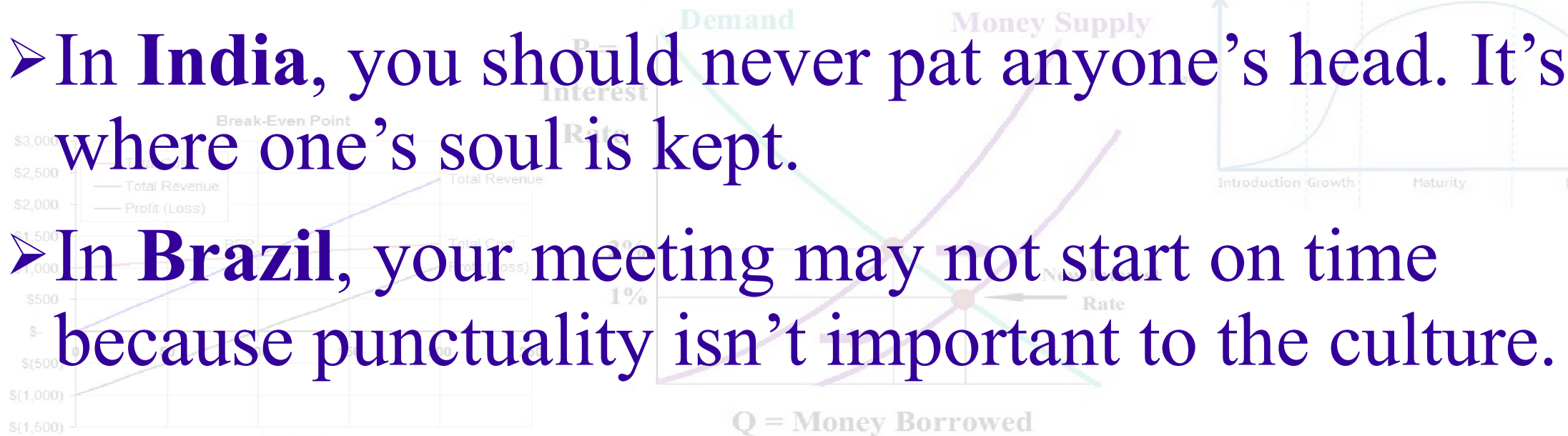
Product Lifecycle Stages



Difference in culture

- In **Turkey**, it's rude to cross your arms while facing someone.
- In many **Middle Eastern** countries, you shouldn't eat or shake hands with the left hand because it is considered unclean.
- In **India**, you should never pat anyone's head. It's where one's soul is kept.
- In **Brazil**, your meeting may not start on time because punctuality isn't important to the culture.

Product Lifecycle Stages



Financing international business

◆ The Export-Import Bank of the United States (Ex-Im Bank)

an independent agency of the U.S. government whose function it is to assist in financing the exports of American firms.

◆ Multilateral Development Bank (MDB)

- an internationally-supported bank that provides loans to developing countries to help them grow.
- World Bank, Inter-American Development Bank (IDB), Asian Development Bank (ADB), African Development Bank (AFDB), European Bank for Reconstruction and Development (EBRD)

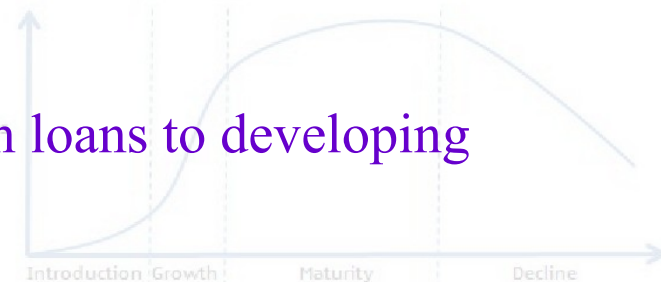
◆ The International Monetary Fund (IMF)

an international bank with 186 member nations that makes short-term loans to developing countries experiencing balance-of-payment deficits.

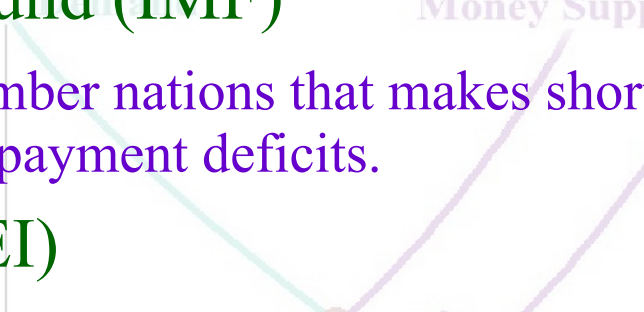
◆ National Export Initiative (NEI)

MERGERS AND ACQUISITIONS

Product Lifecycle Stages



Money Supply



National Export Initiative (NEI)

- Announced August 2010 by President Obama
- Goal: Revitalize U.S. exports
- Means: Federal Agencies assist U.S. firms in developing export-promotion programs to compete in foreign markets and create jobs in the U.S.

Federal Agency

Assistance

International Trade Administration

Domestic and oversea commercial officers provide assistance and information.

Advocacy Center

Facilitates advocacy to assist U.S. firms competing for major projects and procurements world-wide.

National Trade Data Bank

Provides international economic and export-promotion information from more than 20 U.S. agencies.

TED talks

◆ Chrystia Freeland

The rise of the new global super rich

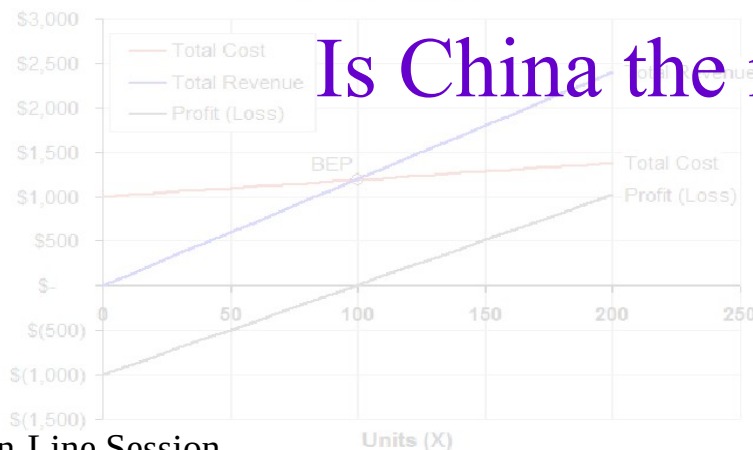
◆ Dilip Ratha

The hidden force in global economics sending money home

◆ Dambisa Moyo

Is China the new idol for emerging economies

Break-Even Point



MERGERS AND ACQUISITIONS



Product Lifecycle Stages

