



Exam International Business (188080)

Date: April 15, 2010

Time: 13.45h – 17.15h

This exam consists of **8 questions**. Each (sub-)question of this exam will be graded with a maximum of points, as indicated behind each question. In total, on questions 1-8 (including sub-questions) you can score a maximum of **100 points**, which equals the **grade 10**. Attached to this exam the article “**A pioneer in Chinese globalization: An interview with CIMC's president**” (*McKinsey Quarterly, 2008*; the abbreviation CIMC stands for China International Marine Containers) can be found (*see p.3, 4, 5, and 6*). **Carefully read this article** before answering the questions.

You can make use of a dictionary. You may answer both in English and Dutch.

Good luck.

Question 1; introduction in International Business

In chapter 1 of the book by Ball et al. and during the first lecture, several drivers have been discussed (the so called Drivers of globalisation).

Mai Boliang, CEO of CIMC (see article p.3-6) also mentions drivers for the company's success. Can these drivers he describes be related to the ones mentioned by Ball et al.? Explain. **6 points**

Question 2; introduction in International Business (continued)

- 2a. Describe the International Business Model (p.26 of the 12th edition, Ball et al.) **12 points**
- 2b Apply this model to the CIMC company, (see article p. 3-7) by giving examples from the article on CIMC to illustrate the different components of the model. **12 points**

Question 3; International Trade & Foreign direct investments

- 3a. The book by Ball et al. describes 2 main reasons **why** companies enter foreign markets (attention: I do not mean 'how'). Describe these 2 categories briefly and explain if one of these, or perhaps both, is / are applicable to CIMC (the company in the article, p.3-6). **6 points**
- 3b. In my lecture on Investment theories and trade theories, I used an example of the old and the young man stranding on an island to describe the “relative advantage theory”. Give this theory on the basis of my example. Next; indicate if it is applicable to the CIMC company as described in the article (p3-6) **5 points**

Question 4; International institutions

During the 4th lecture, 5 important **policies** of the WTO for business have been discussed. Name 3 of them, describe them briefly and explain which one is the most important for CIMC (see p.3-6), directly and/or indirectly and why (if at all). ATTENTION: the policies are in line with “What the WTO is all about”, but are not the same. **10 points**

Question 5; International monetary systems

Explain the reason why the United States of America are “allowed” to have a tremendous deficit on their Current Account. In your answer, include at least BOP, role of China, role of the OPEC, role of the FED and currency exchange **15 points**

Question 6; Lecture on globalisation by M. Ehrenhard

During lecture 5, Michel Ehrenhard discussed the topic of globalization. He showed that there are quite some differences in e.g. opinions regarding which definition might be used, or the question whether or not if the concept of globalization even exists. He ends his overview with opportunities and threats, concrete for business.

6a. Mention at least 2 opportunities and 3 threats. **5 points**

6b. Are the threats applicable to the case of CIMC? Explain **9 points**

Question 7; forces

In chapter 9, “Intellectual property and other legal forces” are discussed. Within this framework, there are 5 aspects regarding Intellectual property which can be identified.

a. Name these 5 and explain them briefly **5 points**

b. Which one of these is (potentially) of most importance to CIMC? Explain. **5 points**

Question 8; guest lecture

During lecture 7, Mr. Huub Lavooij, attaché for the Dutch embassy in China, mentions 10 success-factors which are critical if you want to start a successful business in China. One of them is “patience and learning curve”. This force consist of 8 aspects. Four of these are: 1. in China it works different; 2. relations; 3. Too late or too early; 4. transparency. Describe the other 4 briefly and explain what you think, out of all 8, is of most importance for a company like Philips, department lightning, if it wants to produce for the local Chinese market to take into account, and why? **10 points**

End of questions

Start of article

McKinsey Quarterly

A pioneer in Chinese globalization: An interview with CIMC's president

A company that has already disrupted the container business is moving into transportation equipment and services.

May 2008 • Martin Joeris and Henry Zhang

About 20 years ago, China International Marine Containers (CIMC) was a small, little-known container manufacturer with just 59 employees. Since then, under the leadership of Mai Boliang, the company has become the industry's global leader. It has succeeded thanks to an aggressive domestic and global M&A program, a successful human-resources approach that stresses the retention of local talent to run its overseas operations, and a relentless push to innovate and to disrupt the status quo.

CIMC is the world's largest manufacturer of dry-cargo and refrigerated containers. The most important sea- and land-based logistics systems in Asia, Europe, and North America use its products, which range from regular containers to shipping equipment for energy, chemicals, and food. In 2007, the company had sales of more than 6.4 billion (45 billion renminbi), owned over 100 domestic and international subsidiaries, and employed nearly 60,000 people.

The Quarterly: What do you consider to be the drivers of CIMC's success?

Mai Boliang: First of all, the reform and opening up of China. This enabled China's economy and foreign trade to take off, and the sustained growth of foreign trade has made it possible for China to become a global container-manufacturing center.

A second reason for CIMC's success was its ability to predict and promptly react to business megatrends. In 1990, I predicted that China would become the global center of container manufacturing, replacing South Korea, the world's number-one dry-cargo-container manufacturer at the time. I based my prediction on how the growth of world trade, and China's role in it, would spur demand for containers, as well as the pricing advantage we would have over any foreign player. I recognized this possibility earlier than my South Korean competitors and preempted them by establishing a manufacturing footprint along China's coastal areas.

The company's ownership structure has also contributed to our success. We have two majority shareholders—COSCO and China Merchants.¹ This is an unusual arrangement among Chinese state-owned enterprises, which usually have just one parent. We have found that the dual-shareholding structure has given us more of an opportunity to pursue medium- to long-term strategies, and we can worry less about short-term performance.

The Quarterly: What was the greatest difficulty at the beginning?

Mai Boliang: We didn't have much money, but we did have a very clear strategy, position, and objective back in 1990—to be the world's leading company in container manufacturing. However, the board and shareholders would not give me funding, so I had to figure out a way to expand without money. I put a lot of effort into doing an initial public offering as soon as possible to raise funds; CIMC was listed in Shenzhen in 1994.

The Quarterly: How did you carry out your expansion strategy when financial resources were insufficient?

Mai Boliang: We signed agreements with other manufacturing companies under which we operated their businesses, paid them lease fees for the opportunity, and pocketed whatever was left over. At the beginning, we focused on building dry-cargo containers—these were low in cost and had low entry barriers, technically speaking, but the business was also extremely competitive and margins were falling all the time. Using this model allowed us to operate with little cash-flow pressure and to build our business organically before beginning to consolidate the other domestic players through mergers and acquisitions.

From 1993, CIMC merged over ten container makers along China's coast, including those in Qingdao, Dalian, Tianjin, Shanghai, Nantong, and Xinhui; there were about 40 domestic makers in China at the height of our domestic merger activity. As a result, we won a more than 20 percent market share in the dry-cargo-container market and disrupted South Korea's dominance in the global industry. Among our advantages were our price per container—a few hundred dollars less than the Koreans charged—and our location, since China had a trade surplus, and shipping clients wanted to buy the containers at the locations where they could ship right away rather than moving the containers around.

The Quarterly: What happened next?

Mai Boliang: We only had a single product line—dry-cargo containers—and low technology. Under these circumstances, no one could say we were number one in the world. So we diversified into refrigerated containers, or “reefers.” The technical barriers were high, and the market was dominated by Japan, which had 95 percent of the reefer market with its aluminum containers. Germany, which produced stainless-steel reefers, had the minority share of the market. In 1995, we did a joint venture with Graaff, of Germany—the first of our international M&A efforts. By working with the Germans and gradually improving on their technology, CIMC made steel reefers the norm for the global market after eight years. That ended Japanese dominance in this field.

Later, we expanded into tank and collapsible containers, gradually becoming the company with the most comprehensive range of goods in the industry.

The Quarterly: Now that the company has secured a dominant position, what comes next for CIMC?

Mai Boliang: When our market share approached 55 percent, I felt that we had reached the ceiling to growth—it is unlikely that our container-manufacturing business will grow as

quickly now. We have to identify new areas for growth. However, given CIMC's own strengths and weaknesses and the highly competitive environment in the industry, we are certain of one thing: we cannot do container shipping or leasing. Moreover, we should especially avoid moving upstream to make steel, the raw material of containers.

We realized that CIMC's core advantages lie in manufacturing in China—that is, in our ability to control manufacturing costs. Therefore, the company was repositioned to supply modern transportation equipment and services. This new positioning has greatly expanded the scope of our business and made it possible for us to produce road transportation vehicles, as well as tanks for use in the energy, chemical, and food industries. With this repositioning, we placed on our agenda the possibility of building trains and ships. In other words, we will look closely at manufacturing a variety of transportation equipment.

The Quarterly: What role has innovation played in CIMC's global strategy?

Mai Boliang: Innovation has been essential to each of CIMC's successes. Our slogan is learn, improve, and disrupt. CIMC is a latecomer in every field in which we are involved. There is only one way for the latecomers to catch up with and outpace the forerunners—to disrupt their practices—and only innovation can make the disruption possible.

Take the production of reefers. Aluminium reefers, a market dominated by the Japanese, used to be the industry standard. CIMC imported sandwich-foaming technology from Germany, improved the reefer production process, reduced capital inputs, and improved capacity and efficiency by leveraging automotive technology. Production volume was expanded 1.5 times with merely 20 percent of the original capital input. Productivity improved to nearly 5 minutes per container from the previous rate of over 20 minutes. Innovation by CIMC in the areas of labor and materials costs, technology, and engineering processes has enabled steel reefers—which are inexpensive to maintain, high strength, and corrosion proof—to completely replace Japanese aluminium reefers and upset the old order.

Let me tell you another story about our operational innovations. Chassis for one type of container used to be produced and supplied in the United States. Later, they were made in South Korea and shipped, partially assembled, to the United States for assembly. We are now producing them 100 percent in China. All spare parts and materials are sourced in China, and all products are completed here before they are finally shipped to the United States. All US factories producing chassis had no choice but to shut down because of the fundamental changes we made in their production. CIMC captured a dominant position in the North American market for this product in three years, with a 60 percent market share. If we had refused to change the operational model, it would have been hard to exploit China's advantages, and CIMC would not enjoy the market position it has now.

The Quarterly: CIMC has acquired quite a few overseas enterprises in recent years. Would you share with us your experience in integrating these companies?

Mai Boliang: Global competition is transforming the world into a single economic community, in which production activities are integrated and all resources are optimized

globally. When we buy a company, we integrate it with this megatrend in mind. We see all our operating units as part of a single CIMC, and we share the same vision across those units. We must have a common understanding and consensus, so when we buy a company, we prefer to use one brand—CIMC.

At the operational level, our teams around the world must align themselves with the corporate business strategy. For example, everyone acknowledges that the Chinese team has a competitive edge in costs and manufacturing, while our overseas teams have a competitive edge in technology, management, and marketing. This common understanding is the basis for our work after we integrate other companies.

The Quarterly: How does CIMC meet the demand for global management talent?

Mai Boliang: We treat our European employees as core CIMC staff. Whatever I can offer is offered to them, including bonuses, stock options, and stocks. We provide the Europeans with as much as—or even more than—what they used to have from their previous, European employers. Of course, I have to tie their compensation to performance measured with key performance indicators.

It has been over four years since CIMC acquired its first foreign company. Every one we acquired has successfully survived the integration and is doing well.

The Quarterly: What are the biggest challenges facing the company?

Mai Boliang: Although we use as much local talent as we can, we still have a talent-development problem. CIMC operates in broader geographies, on a larger scale, and in more diversified fields than it did in the past, and that poses more severe challenges. Talent developed in our conventional Chinese manufacturing setting—just emphasizing the improvement of technical skills—will find it hard to deal with the new situations demanded by our increasingly sophisticated global context. For example, we find that the starting point of Chinese staff members who are developed internally, often from the shop floor, is relatively low and that it takes them longer than better-educated people to reach the point we think is sufficient for work at an international level.

Another challenge is how to capture the mainstream market for semitrailers, which CIMC began to manufacture for the first time in 2002, in Europe and the United States. We built our manufacturing base, added capacity through M&A in China, and later continued to expand our production and service base in the US market. For example, we set up a US subsidiary, Vanguard National Trailer, and later bought HPA Monon, a semitrailer and chassis manufacturer in the state of Indiana. Now CIMC is one of the largest companies in the world in terms of annual sales of all types of semitrailers. Still, the real challenge for me is how this business can gain recognition in mainstream markets and from mainstream customers and how CIMC's design, technology, and engineering processes can shape the standards and the changing trends in this industry globally.