Cork Institute of Technology

Bachelor of Business (Honours) in Information Systems - Award

(NFQ - Level 8)

Summer 2006

International Business

(Time: 3 Hours)

% of marks allocated for this exam: 70
Section A: Answer all questions.
Section B: Answer three (3) from five (5) questions.
Please do not write or underline in red pen.

Examiners: Ms. C. O'Reilly
Mr. D. Forde

Section A - Answer All Questions

Case Study "*Quacking up a Storm of Business*"

Three years ago, most Americans never heard of AFLAC, a $10 billion insurance company based in Columbus, Georgia. Thanks to AFLAC's new mascot, this is no longer the case. The company's attention-grabbing advertising campaign, which began in 2000, features a helpful but frustrated duck that fails to get people to acknowledge his presence or the company's name. Nonetheless, the duck's efforts appear to be paying off. In March 2002, the company announced it had signed up its 200,000th corporate customer, doubling its U.S. client base in less than seven years. And the AFLAC duck has done more than simply increase the company's American sales. AFLAC now sells the duck on its Web site and donates the proceeds to a children's cancer centre in Atlanta. More than 47,000 ducks have been sold, raising an estimated $300,000 for the centre.

Despite the duck's efforts, AFLAC is still a small player in the U.S. market. Its $2.2 billion of sales in the United States is dwarfed by such insurers as Prudential and Metropolitan Life. Such is not the case in Japan, where an estimated 25 percent of the populace has purchased AFLAC insurance. AFLAC does more than 75 percent of its business in Japan. Its assets in Japan top 3.6 trillion Yen, or about $30 billion. Thus AFLAC is a rarity among American multinational enterprises – its dominant market is Japan, not the United States.

AFLAC specializes in supplemental insurance – insurance that covers specific types of problems, such as cancer, disability, or accidents. The company was founded on a shoe-string in 1955 as the American Family Life Assurance Company. The three founding brothers – Paul, Bill and John Amos – scraped together $40,000 to launch the enterprise. In its early years, the company struggled through many crises; once the Amos brothers were so short of cash they had to sell off the office furniture.

AFLAC's big break came when John Amos visited the Tokyo World's Fair in 1970. He noticed that many Japanese walked around in surgical masks to protect themselves from air pollution. Amos believed that such health-conscious consumers would be prime candidates for supplemental insurance. Entering the Japanese market was no picnic, however. It took AFLAC four years to receive regulatory clearance to begin marketing its products there.

AFLAC initially focused on selling cancer life insurance in Japan. As its knowledge of the market grew, it added accident, nursing care, medical and other specialty policies to its product line. It has enjoyed double-digit growth every year it has operated in Japan. AFLAC's competitive strength lies in its distribution network. Its products are sold by an army of licensed sales associates, some 52,000 strong, and almost 9,000 independent insurance agencies. Ninety-five percent of the companies listed on the Tokyo Stock exchange offer AFLAC products to their employees through payroll deduction programs.

AFLAC strives to deliver high-quality service to its customers. In 2001, the average claim was settled by AFLAC in only 2.3 business days. The company has also adapted its operating procedures to the needs of the local market. Consider its human resource practices. When the company first ventured into Japan, it copied the lifetime employment and seniority-based pay and promotion policies then current in Japan. In the past several years, many Japanese companies have switched to job-based reward systems, in which salaries are based upon the skill requirements and difficulties of the job. So too has AFLAC.

AFLAC has added some "made in USA" features to its Japanese operations. Nearly half of its Japanese employees have been granted stock options, reinforcing their commitment to the company's future. It has funded AFLAC Parents' House in Tokyo, providing a place to stay for families whose children have been sent to Tokyo to receive medical treatment for paediatric cancer and other life-threatening diseases. AFLAC also funds college scholarships for Japanese high school students who have lost a parent to cancer.

AFLAC now controls 85 percent of the supplemental insurance market in Japan. Its Japanese revenues reached $7.7 billion in 2002. Given the graying of the Japanese market – older folks tend to buy more insurance – and the high profit margins of its product line, AFLAC believes that the profitability of its Japanese operations will continue to grow.

AFLAC does face numerous challenges, of course. For many years, it benefited from the Japanese government's restrictive regulation of the country's financial services sector, which discouraged competition and price-cutting. To combat Japan's decade-long economic slump, the government relaxed its regulation of financial services, a process know as the Regulatory Big Bang. In 2001, the Ministry of Finance allowed additional firms to begin selling supplemental insurance, including domestic giants like Tokio Marine & Fire and Nippon Life. To date, the increased competition hasn't dethroned AFLAC from its market-leading perch. Its operating costs are less than its rivals. To bolster its position, AFLAC entered into a strategic alliance with Dai-ichi Mutual, the second-largest life insurance company in Japan. Dai-ichi Mutual's 50,000 person sales force helps market AFLAC's supplemental policies to retail customers. In the first year of this alliance, Dai-ichi sold over 350,000 AFLAC policies. And in July 2001, AFLAC took another bold step – it brought the duck to Japan! The Japanese translation for "quack" is ga-ga, and AFLAC's managers hope that the Japanese will go "ga-ga" for the duck as quickly as Americans have.

Q1. (a) AFLAC introduced the AFLAC duck in the U.S. market to build brand awareness there. However, AFLAC's brand awareness is very high in Japan. Discuss the benefits and limitations for AFLAC in using the same advertising campaign in Japan as it does in the United States? (5 marks)

(b) Discuss the importance for AFLAC of adapting its business practices to the Japanese way if doing things. In your response outline whether AFLAC should act more Japanese or more American in doing business in Japan. (10 marks)

(c) AFLAC is a rarity among US companies in as much as the Japanese market accounts for more than 75 percent of its business. Detail the special challenges and the unique opportunities that face AFLAC as a result of this reliance on the Japanese market. (10 mark

(d) Discuss the key cultural factors at play which AFLAC should consider when operating internationally. (15 marks)

Section B - Answer three Questions

Q2. (a) Explain the three sources of competitive advantages available to international businesses that are not available to purely domestic businesses. (6 marks)

(b) Discuss the steps in international strategy formulation and comment how the approach might vary among firms. (10 marks)

(c) Detail four strategic alternatives that international firms can utilise when balancing pressures for global integration and local responsiveness. (4 marks)

Q3. 'Formulating trade policies that advance the economic interests of their citizens is an important task facing most national governments.'
Critically analyse the role of government intervention in international trade using examples as appropriate. (20 marks)

Q4. 'Trade in goods and services is one of the means by which countries are linked economically. Authorities in all countries wrestle with the questions of what, how much and with whom their country should import and export.'

(a) Explain why the understanding of international trade theory is useful to managers in international business? (5 marks)

(b) Discuss the differences between absolute advantage and comparative advantage in international trade theory? (5 marks)

(c) Critique the role of 'Theory of country size' and 'Factor proportions Theory.' (10 marks)

Q5. You have been employed by the "Irish Exporting Association" to encourage Irish indigenous firms to expand outside the domestic market and consider the implementation of strategies for competing in overseas markets.

(a) Outline four major reasons why a company might opt to expand their market base. (4 marks)

(b) Critically evaluate the strategies an Irish firm could use to compete in a foreign market. (16 marks)

Q6. ‘Internationalisation is not strategically appropriate for all bricks and mortar business or all web marketers, but all business are exposed to the international internet environment when they go online to do business.’

Discuss the role and importance of international internet marketing for firms in business today using examples to support your answer. (20 Marks)