International Management I

BBS
Lecture Notes
Class 1

Why International Management?

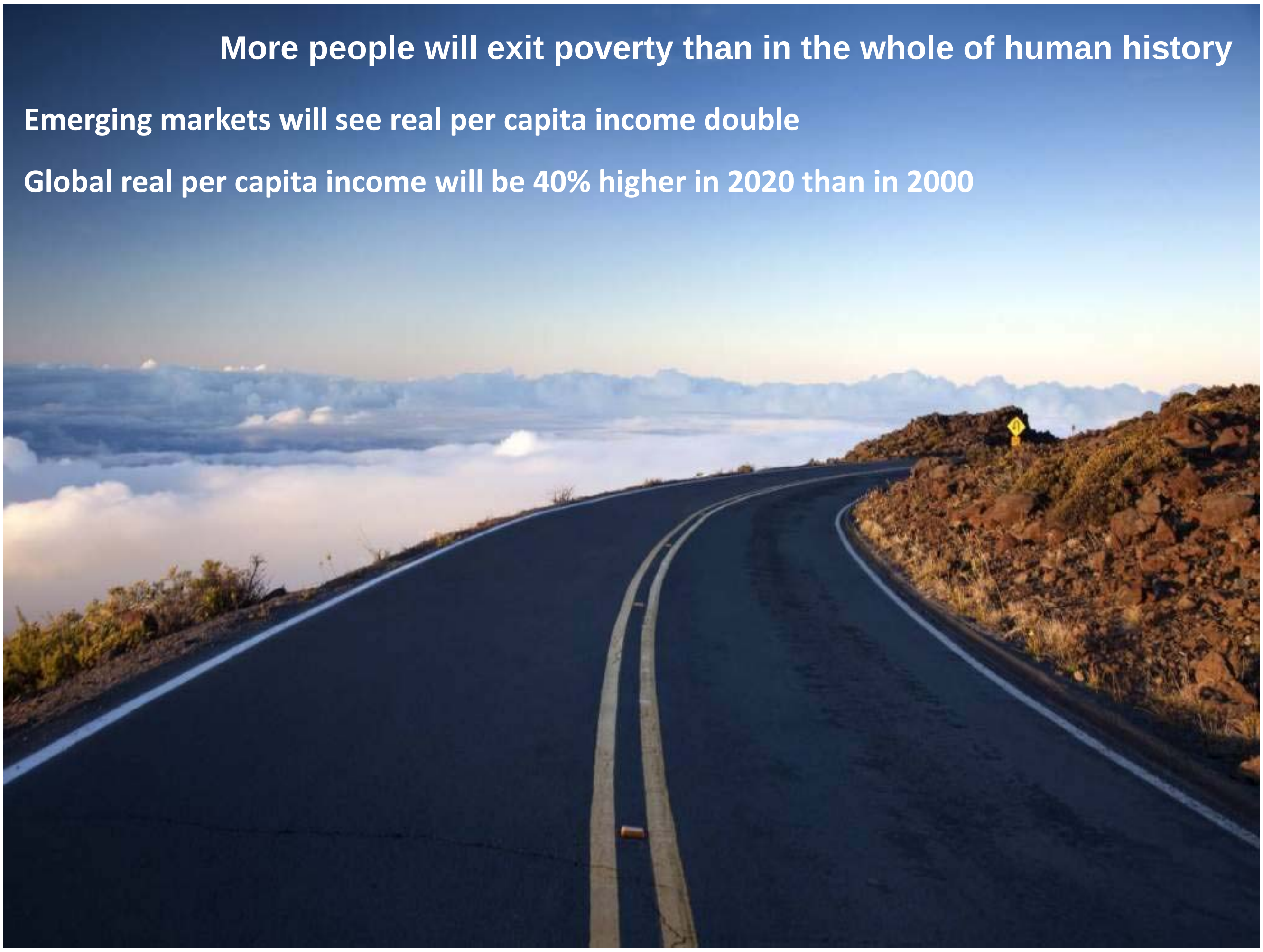
Quick round of introduction, and…

Why did you choose International Management as major?

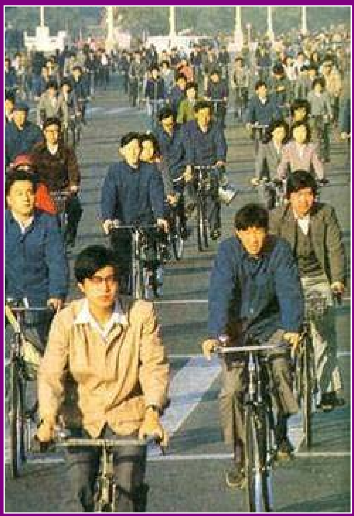
Why International Management?

Fact	About **1 in three** jobs in Germany is directly linked to export
Fact	The **export quota of Germany** currantly stands at **42 percent** – for the IHK region **Mittlerer Niederrhein** at an **astonishing 51 percent**
Fact	The **centers of economic activity are shifting**
Fact	**China has replaced the USA** as single most important export market for Germany outside the EU
Fact	World trade has been growing **faster than the combined GDP** of all world economies for years

Ever increasing demand for experts and managerial talent with expertise and ability to plan, initiate and execute **international business and foreign direct investment**

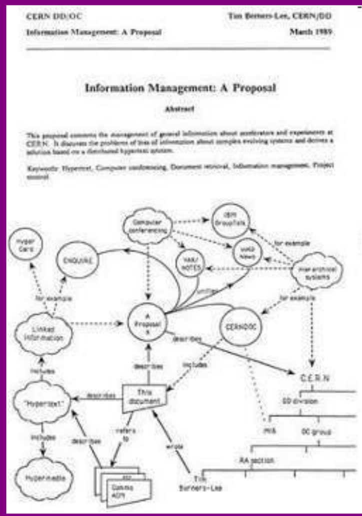


Twenty years ago …



China

G7



World Wide Web

… who would have imagined?

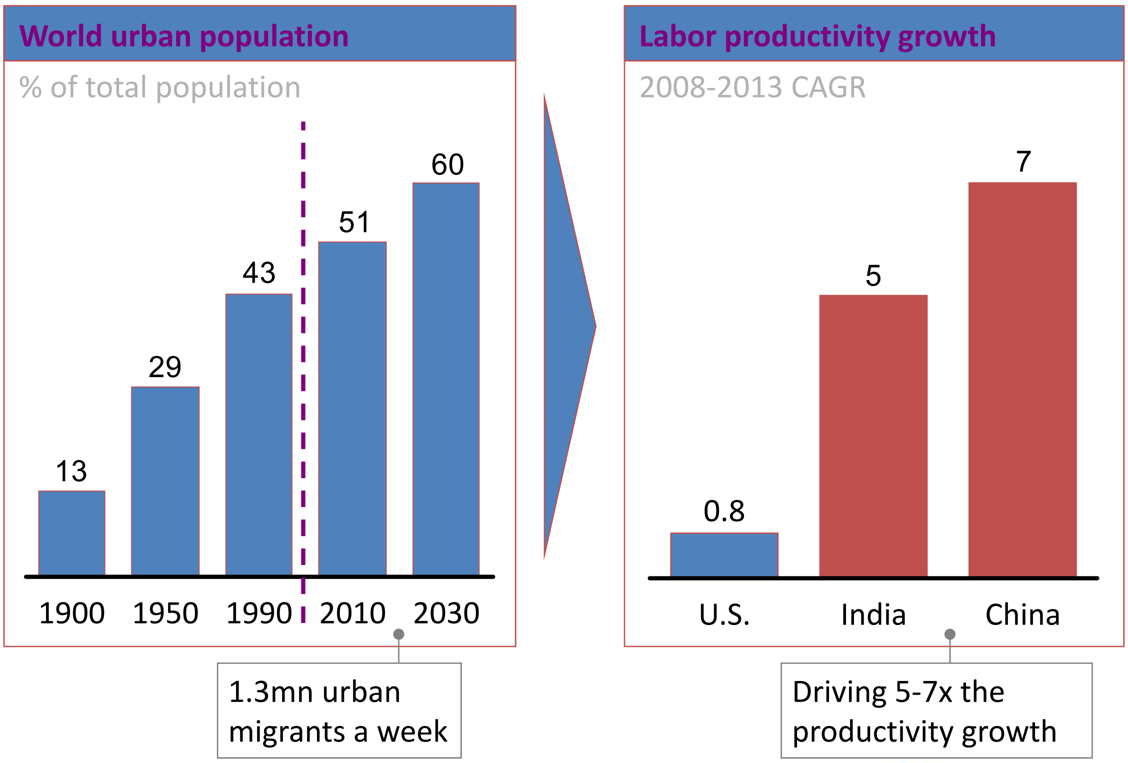
China

G20

Mobile Web

Future GDP growth will come from outside the developed world …

… and the demographics of emerging markets are shifting, creating prosperity and productivity growth



This will have a profound effect on the future of emerging markets …

China's urbanization in 2025

350mn
will be added to China's urban population by 2025 – more than the population of today's U.S.

1bn
people who will live in China's cities by 2030

221
Chinese cities will have 1mn-plus people living in them – Europe has 35 today

5bn
square meters of roads will be paved

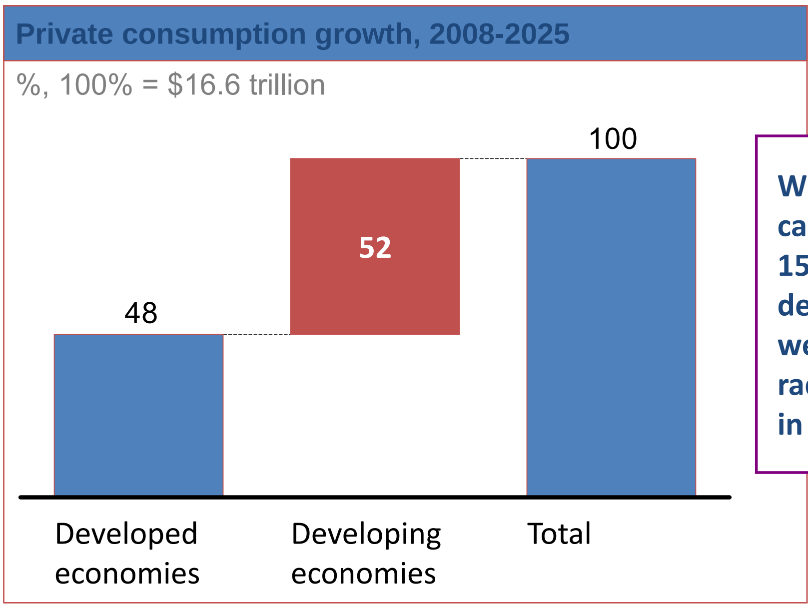
170
mass-transit systems could be built

40bn
square meters of floor space will be built – in 5mn buildings

50,000
of these buildings could be skyscrapers – the equivalent to constructing up to 10 New York Cities

5 times
the number by which GDP will have multiplied from 2005 to 2025

… and will create a potential tidal wave of consumption, driven by an emerging middle class



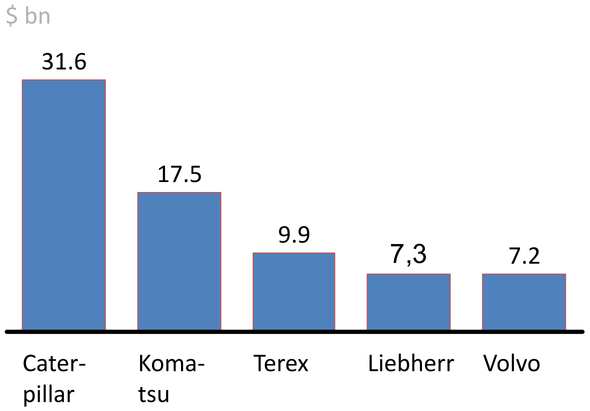
With an average per capita spend of just 15% of that of developed nations, we can expect to see radical innovations in business models

Markets that once were not attractive to multinational players …

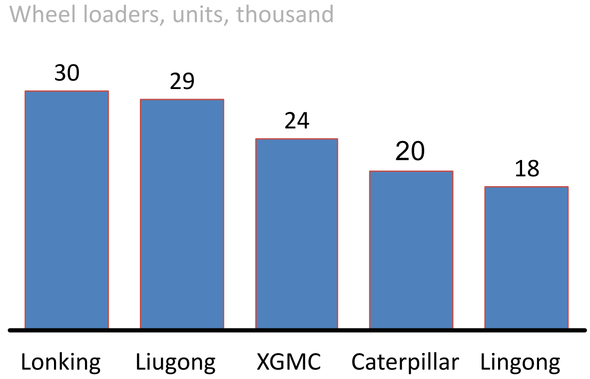
… are now key to global growth

Major value-volume disconnects are emerging, as emerging market players capture the growth in their home markets …

Top five construction equipment manufacturers by revenue, 2008



Top five volume producers of high selling construction equipment SKU



Chinese manufacturers supply more than one-third of emerging market demand

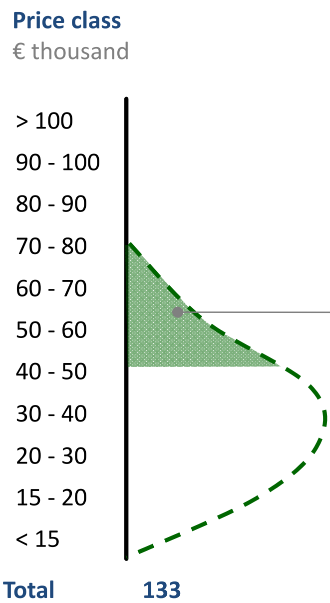
… often because local players have demonstrated a better understanding of the needs of local markets

INDIA EXAMPLE

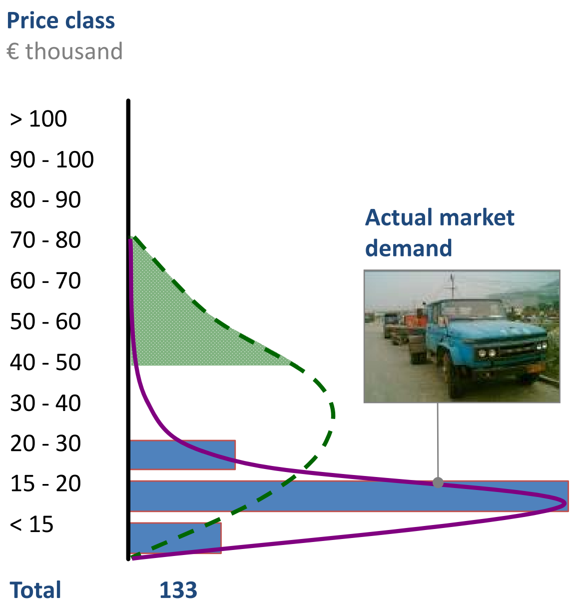
Sales of new heavy trucks[1] in India, 2007, thousand trucks

- - Market assessment based on linear forecast
— Actual market demand

Distribution of sales in India



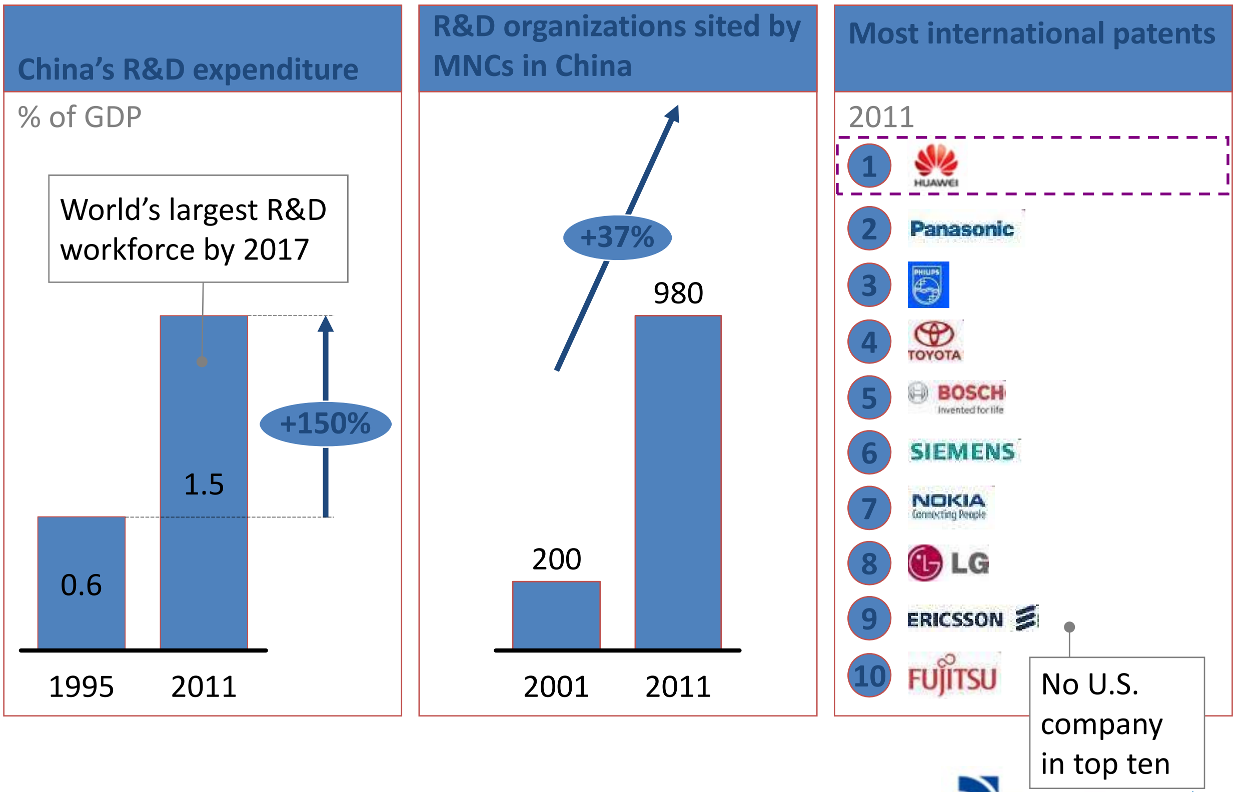
Product offering based on forecast



Actual market demand

1 Gross vehicle weight >15t

Local players are capitalizing on their success to develop new centers of innovation



Low cost is not enough – companies must fundamentally rethink their business models

In addition to being low cost …

- $69 vs. $129 for a comparable size
- Uses <50% of the energy of other refrigerators

… the Chotukool was designed, as a product and business model, to integrate into rural India

- ***Built for use in areas with limited (or inconsistent) electricity***
  - High-end insulation to stay cool for hours
  - Option to run on batteries
  - 20 parts compared to 200 in a standard refrigerator
- ***Nondisruptive to village life***
  - Portable – for family gatherings
  - Quiet (no compressor; runs on a cooling chip)
- ***Locally marketed***
  - Locally designed, manufactured, and sold
  - Local microfinance group leveraged for sales
  - Villagers sell at a commission of $3/fridge

Market upstarts do not necessarily have to trade margin for growth

Example: Bharti Airtel

bharti

"World's No. 3 single-country mobile operator"

Airtel

Pursued an unconventional growth strategy in India in the early 2000s

- Outsourced network infrastructure to Nokia-Siemens and Ericsson
- Partnered with IBM for IT services
- Strategic investments form SingTel and Vodafone

Earns revenues per user that are 10% of developed world telcos – with as good or better margins

Future plans

- Moving into other emerging markets in mobile operations by making a bid for Zain (extending its reach to more than 20 countries in S. Asia and Africa)
- Partner with Wal-Mart to roll out retail operations across India
- Partner with Axa to provide financial services

Local players have combined a deep local knowledge with an entrepreneurial approach to delivering to true customer requirements

Shanzhai

Widely known as "copycat design" but in reality is also the foundation for creativity through adaptation

Jugaard

"Frugal engineering" combined with perseverance, creativity, and imagination

Learnings from these market realities are critical for western companies attempting to innovate successfully

Many innovations will blow-back to disrupt developed markets
Example: Chongqing motorcycles

Context and approach

- Network of companies in Chongqing that specialize in motorcycle manufacturing
- "Localized modularization" – a loosely controlled, supplier-driven approach that speeds up a company's time to market, cuts its costs, and enhances the quality of its products
- "Process networks" that mobilize specialized companies

Impact

- China now accounts for over 50% of all motorcycle production
- Average export price of a Chinese motorcycle has dropped from $700 in 1990 to $200 in 2002, to under $200 today

Though encountering early pitfalls, many global players are winning now after learning 'what it takes'

Initial challenges in entering BRIC markets ...

- Post acquisition, Coke tried to **discontinue local Indian brand,** intending to promote Coke instead
- Medical device/PharmaCo players were struggling with **high price point compared to generic products**
- Pepsi only used its **own market distribution infrastructure in India, also for Frito-lay chips,** leading to low reach at high distribution costs and limited servicing to retailers

- Electrolux **missing insight on Indian consumers** – over $200mn write-offs, e.g.:
  - Discontinued successful Allwyn (low price)
  - Co-branded Kelvinator as Electrolux-Kelvinator, leading to reduction in volumes
  - Product add-ons face low perceived value

... were overcome by bold changes

- Revised strategy: **pushed both brands**
- Even today, Thums Up share is 22%, and Coke's share is 13%

- GSK **created regulatory barriers for Advair powder inhaler (trusted product) in India**, by filing a petition that a generic product must get two quality approvals before launch

- Shift to multiple **entrepreneurial distribution** partners achieving lower cost and improved reach (share grew from 25% ('93) to 40% ('06) in India)
- **High-end segment focused re-entry** in built-in kitchen appliances market, and with Indianized products

What is International Management?

The scientist's perspective

"Die Frage, was unter internationalem Management zu verstehen sei und unter welchen Bedingungen dieses in der Unternehmenspraxis vorzufinden ist, wird in der Literatur bis heute nicht übereinstimmend beantwortet. So bleibt z.B. umstritten, ob bei einem gelegentlich in geografisch nahe Auslandsmärkte exportierenden Unternehmen bereits von einem internationalen Management gesprochen werden kann, oder ob eine kritische Schwelle bei Auslandsmarktaktivitäten überschritten sein müsste, bei der mindestens 25 Prozent des Gesamtumsatzes durch ausländische Unternehmenseinheiten erwirtschaftet werden. Jenseits derartiger Fragen nach einem Mindest-Internationalisierungsniveau der Geschäftsaktivitäten besteht allerdings insoweit Einigkeit, dass beim internationalen Management die Konstitution des Unternehmens und die nationalen Führungskonzepte durch das wachsende Auslandsmarktengagement nicht mehr beibehalten werden können. Vereinfacht formuliert beginnt der Übergang vom nationalen zum internationalen Management folglich dort, wo die Besonderheiten der Auslandsmarktbetätigung eine Neudefinition der Unternehmensstrategien, -strukturen, -systeme und -kulturen erzwingen.

Wissenschaftssystematisch betrachtet liegt die Begründung für internationales Management als einer eigenständigen Teildisziplin der Betriebswirtschaftslehre in ihrem Erfahrungsobjekt. Gemeint sind damit die Eigentümlichkeiten internationaler Unternehmen gegenüber nationalen Unternehmen und die daraus sich ergebenden Konsequenzen für deren Management. Darunter werden üblicherweise zwei Aspekte thematisiert: Die institutionelle Seite des Managements, die auf die organisatorische Ausgestaltung zur Wahrnehmung von Führungsfunktionen und die Einflussnahme von Interessengruppen auf das Unternehmen abstellt (internationale Unternehmensverfassung, Corporate Governance), sowie auf Managerkompetenzen und -rollen und die Werthaltungen von Managern. Die funktionale Seite umfasst ein Bündel von Planungs-, Organisations-, Durchsetzungs- und Kontrollaufgaben, die auf die erfolgversprechende Abstimmung zwischen dem Unternehmen und seiner Umwelt gerichtet sind (sachbezogene, prozessuale, auf den Leistungserstellungsprozess gerichtete Seite).

An eben dieser Unternehmens-Umwelt-Beziehung und der sich daraus ergebenden Konfigurations-/Koordinations-Problematik können die Unterschiede zwischen dem nationalen und dem internationalen Management verdeutlicht werden: Die Geschäftsaktivitäten (Im-/Exporte, Lizenzverkehr, Gemeinschaftsunternehmen etc.) bzw. der damit zusammenhängende Wertschöpfungsprozess sind geografisch über Ländergrenzen und zumeist auch über Zeitzonen hinweg gestreut (Konfiguration). Internationale Unternehmen agieren insofern simultan in mehreren Länder(märkte)n mit unterschiedlich ausgeprägten ökonomischen, politisch-rechtlichen, technologischen und sozio-kulturellen Segmenten. Die Ausgangsbasis für das internationale Managementhandeln fußt somit auf einer Vervielfachung von anders-, teils fremdartigen Umwelten, welche jedoch unter Erfolgsgesichtspunkten integrativ zusammengeführt werden müssen (Koordination, globale Rationalisierung).

Die Fremdartigkeit als subjektive Komponente des Erlebens von Arbeitsbedingungen vor Ort im Ausland lässt sich am eingängigsten am Umweltsegment „(Länder-)Kultur" illustrieren: In Anlehnung an das Konzept von E. Schein soll unter Kultur die auf unterschiedlichen Wirkungsebenen angesiedelte Gesamtheit von Grundannahmen, Werten und Normen sowie Artefakten verstanden werden. Diese Kulturelemente werden in Sozialisationsprozessen tradiert. Sie sind damit Lern- und Verlernprozessen zugänglich und deshalb veränderbar, gleichwohl in ihrer Systemhaftigkeit relativ zeitstabil. Unterschiede in der kulturellen Prägung von Unternehmensangehörigen, wie sie etwa G. Hofstede in seinem Universalienkonzept aufzuzeigen versucht hat, erfordern daher in interkulturellen Überschneidungssituationen (z.B. Verhandlungen oder bei der Mitarbeiterführung im Ausland) eine Anpassung an die kulturspezifischen Ausgangsbedingungen. So dürfte z.B. die stark auf individualistische Aushandlungsprozesse bauende Führungstechnik Management by Objectives bei den in das Kastenwesen eingebundenen Mitarbeitern einer amerikanischen Tochtergesellschaft in Indien kaum anwendbar sein. Mit der Wahl von ausländischen Zielmärkten sowie deren Anzahl und geografischer und kultureller Entfernung wird insofern auch über das Ausmaß an Umweltkomplexität entschieden, welches unternehmensintern über das Strategiespektrum in den Bereichen Präsenz, Eigentum, Anpassung und Timing zu internalisieren ist.

Die unternehmensinterne Handhabung von länderspezifischer Pluralität, Unterschiedlichkeit und Fremdheit erfordert folglich Koordinationsaktivitäten auf Funktionsbereichs- und Gesamtunternehmensebene. So erfordern Geschäftsaktivitäten in mehreren Währungsgebieten strategische und operative Hedgingmaßnahmen, um das Umtausch- und Umrechnungs- sowie das ökonomische Risiko im Gefolge nicht erwarteter Veränderungen der Wechselkursrelationen zu minimieren. Eine solche Zusammenführung unterschiedlicher Währungen erfolgt auch bei der Konsolidierung der Jahresabschlüsse der rechtlich selbstständigen Unternehmenseinheiten entsprechend Umrechnungsprinzipien von HGB, US-GAAP oder IFRS.

Auf Gesamtunternehmensebene steht die Optimierung von Verbundwirkungen der in unterschiedlichen Ländern domizilierenden Unternehmenseinheiten im Mittelpunkt des Managementhandelns. Durch Arbeitsteilung, Vernetzung und Abstimmung sollen Vorteile aus den Unterschieden zwischen den Ländermärkten hinsichtlich ihrer Produktionsfaktorausstattung, deren Kosten und Risiken, synergetisch über die Verrechnungspreisgestaltung etc. auf eine Weise zusammengeführt werden, die internationalen Unternehmen zu einer Überlegenheit gegenüber rein national agierenden Unternehmen verhilft. Wie im Konzept der operationellen Flexibilität von B. Kogut ausgeführt, bieten sich hierfür die Hebelwirkung der im Vergleich größeren Markt- und Verhandlungsmacht (Leverage) sowie Arbitragestrategien zur Ausschöpfung der Differenzen bei Rohstoff-, Arbeits-, Steuer- und Umweltschutzkosten an. V.a. das Instrument der Moralarbitrage verweist allerdings darauf, dass auch dem Gestaltungsspielraum des Managements internationaler Unternehmen Grenzen gesetzt sind, die über bloße Haftungsansprüche von Geschädigten weit hinausreichen. Zwar gibt es für das Management global agierender Unternehmen bislang keinen universell anerkannten Weltethos als Legitimationsbasis; der Weg hierzu ist allerdings über die wachsende Fülle von Codes of Conduct, internationale Standards und Labels etc. vorgezeichnet"

SOURCE: Gabler Wirtschaftslexikon; J. Engelhard

What is International Management?

The businessman's perspective

"Unsere starke Stellung auf den Weltmärkten wird uns trotz des fordernden Umfelds helfen, die Entwicklung des Gesamtmarktes zu übertreffen. Die breite globale Aufstellung und die Mehrmarkenstrategie sind die Wettbewerbsvorteile des Konzerns

(…)

Das Gravitationszentrum verschiebt sich dabei in Richtung der BRIC-Staaten.

In Indien wird sich das Marktvolumen verdoppeln. In Russland laufen im Werk Kaluga bereits bis zu 150.000 Fahrzeuge jährlich vom Band

(…)

In China zahlt sich immer mehr aus, dass wir dort seit über einem Vierteljahrhundert zu Hause sind"

Martin Winterkorn

International Management encompasses all managerial and business activities necessary to successfully engage in economic activities with parties abroad

SOURCE: Manager Magazin, May 2011; Reuters

International Management – Content

International Management 1 – “Understanding Foreign Trade”

- Relevance and basic concepts of internationalization
- Introduction to foreign trade
- Institutions of foreign trade and conflict settlement
- Basic theories of foreign trade and practical relevance
- Export, import and special forms of foreign trade
- Legal frameworks and contracting in foreign trade
- Foreign trade risk and risk mitigation
- Compliance issues in foreign trade

International Management 2 – “International Enterprises”

- Calculation in foreign trade
- Financial management in foreign trade
- International organization
- Understanding the principles of growth
- Trends shaping the future global competitive landscape
- International collaboration and alliances
- Talent management in the international context
- Understanding cultural differences

- Seminar style lecture→ joint discussion and work on all topics; active participation encouraged and expected
- Multiple real life examples and case studies
- Language: German (as for this session), materials and documentation mostly in English

International Management – material and literature

- Participants will be handed a script at the beginning of each class, containing all relevant content and cases, as well as exercises to be discussed during the class; in addition, they will be handed a preparation pack for the next class ; the distributed material will be- together with the reults from class discussions – the basis for the final exam

- Scripts will be supplemented by additional material from institutions such as ICC and BfAI

- Exam will be a final after IM 1 and IM 2

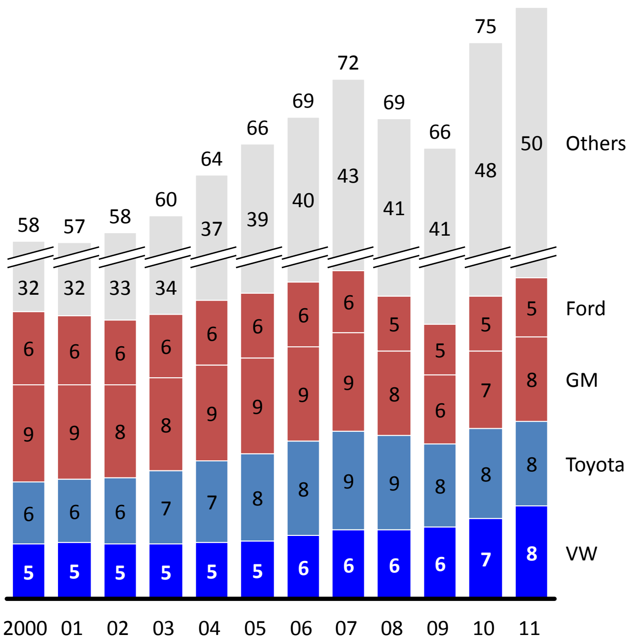
- Selected literature (not mandatory, however recommended for further reading – please ask the instructore for further advice on selection):
  - Kutschker, M., Schmid, S.: Internationales Management, 7. Auflage, Oldenbourg, 2010
  - Deresky, H.: International Management. Managing Across Borders and Cultures. Text and Cases, 7th edition, Prentice Hall, 2010
  - Büter, C.: Außenhandel. Grundlagen globaler und innergemeinschaftlicher Handelsbeziehungen, 2. Auflage, Springer, 2010
  - Jahrmann, F.-U.: Kompakt-Training Außenhandel, 3. Auflage, Kiehl Verlag, 2010
  - Krugman, P., Obstfeld, M., Melitz, M.: International Economics, 9th edition, Prentice Hall, 2011
  - Salvatore, D.: Introduction to International Economics, 2nd edition, John Wiley & Sons, 2009

Speaking of Volkswagen: Let's have a deeper look at Volkswagen's international success

- What are the main elements of Volkswagen's success? Think about, e.g.
  - International product strategy and adaptation to markets
  - Production network
  - Risk management
  - Quality management
- What differentiates Volkswagen from its main competitors? Are there any other successful strategies to be seen?
- Which international management practices did Volkswagen apply?

VW continuously outperformed the industry in the past decade, especially during 2007–2011 global financial crisis

Global vehicle sales by OEM, 2000-2011
Million units



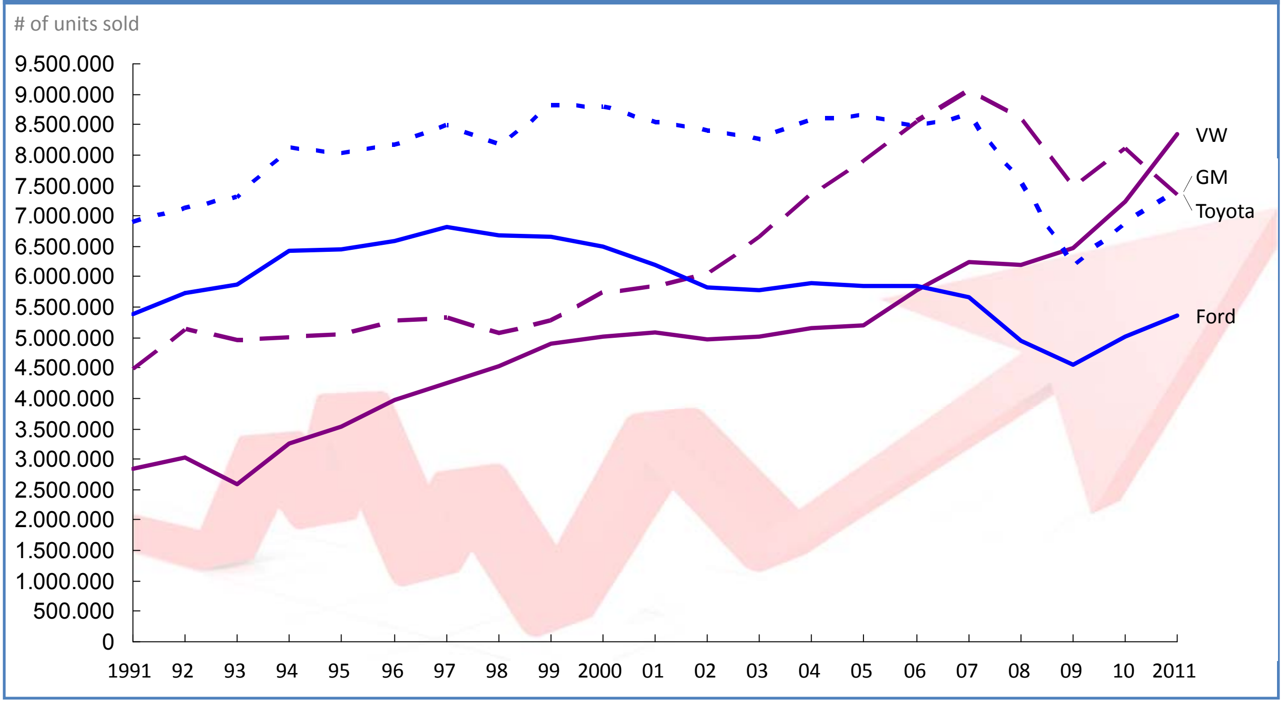
CAGR
%

	00-07	07-09	09-11	
Industry	3.3	(4.4)	9.2	
Others	4.3	(1.6)	9.7	Steady growth above market average
Ford	(1.9)	(10.3)	8.4	Underperform the market before 2010, strong rebound recently
GM	0.0	(15.9)	10.5	
Toyota	7.0	(8.4)	1.5	Fast growth before the crisis, slow rebound after that
VW	3.2	1.9	13.4	Continuously growth even in the crisis

SOURCE: IHS Global Insight

VW overtook Toyota and GM by continuously strong growth especially during the 2007–2011 global financial crisis period

VW Sales Vs its main competitors (GM, Toyota, Ford), 1991 to 2011

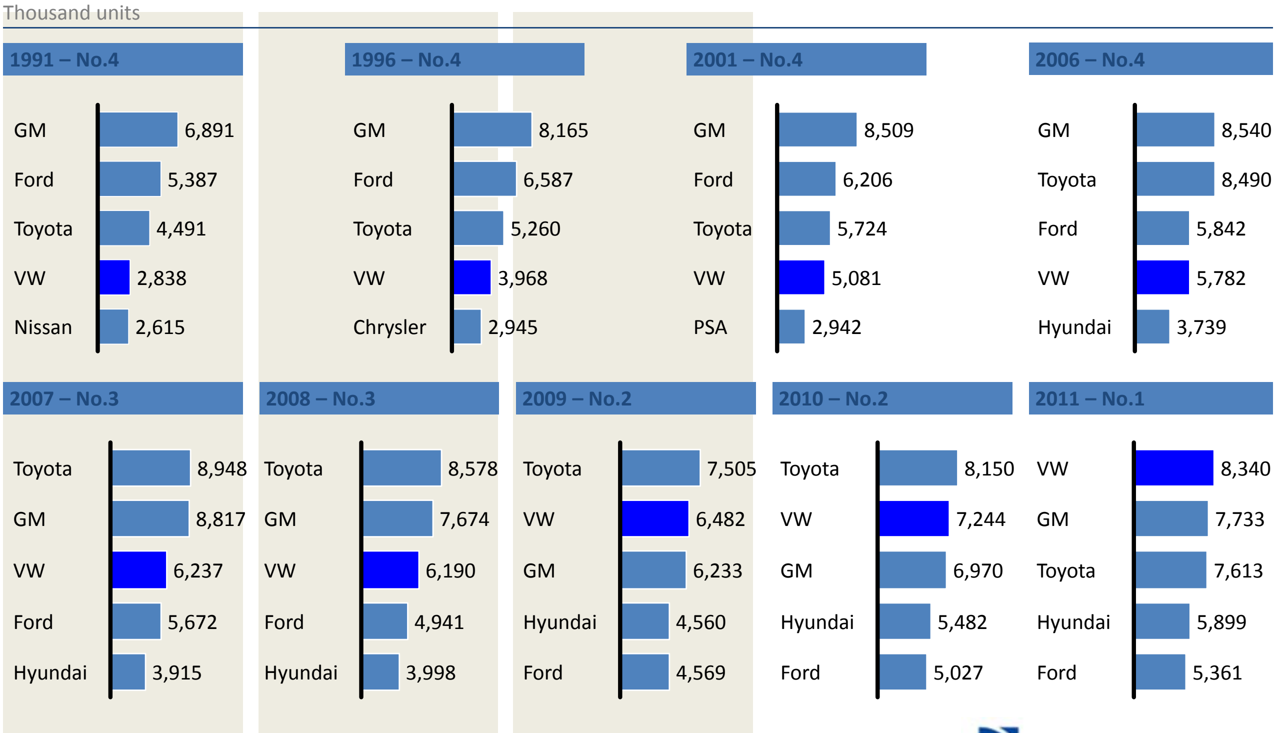


SOURCE: IHS Global Insight

VW took over its main competitors one by one since 2007 and finally became the top auto maker in 2011

VW
Other automakers

Sales volume of global top 5 automakers, 1991-2011
Thousand units



SOURCE: IHS Global Insight

Profiles for main models launched since 1991: VW Brand(1/2)

BORA
MSRP [1](Euro):
19,800-25,950(Germany)
13,450-18,000[2](China)

Target Market: Mainly China, other s include Germany, Mexico, Argentina, UK, etc.

SOS:1998

Sales History: Among 1,627,000 units sold globally by 2011, 54% sold in China.

TOURAN
MSRP (Euro):
25,800-33,600

Target Market: Mainly Germany & France, others include China, Italy, UK, etc..

SOS:2003

Sales History: Among 1,431,300 units sold globally by 2011, 42% sold in Germany, 12% sold in France.

T5
MSRP (Euro):
23,180-36,185

Target Market: Mainly Germany, others include UK, Turkey, Netherlands, etc.

SOS:2002

Sales History: Among 1,233,400 units sold Globally by 2011, 41% sold in Germany.

NEW BEETLE
MSRP (Euro):
16,950-27,100

Target Market: Mainly US, others include Germany, Japan, UK, Canada, etc.

SOS:1998

Sales History: Among 1,044,800 units sold globally by 2011, 46% sold in US.

CADDY III
MSRP (Euro):
17,120-27,680

Target Market: Mainly Germany, others include Turkey, UK, Netherlands, etc.

SOS:1998

Sales History: Among 1,013,000 units sold globally by 2011, 34% sold in Germany

TIGUAN
MSRP (Euro):
24,175-34,225

Target Market: Mainly China & Germany, Others include US, France, Italy, etc.

SOS:2007

Sales History: Among 853, 050 units sold globally by 2011, 26% sold in China, 20% sold in Germany.

1 MSRP = The manufacturer's suggested retail price, excluding 19% VAT.
2 1 Euro = 1.29 USD = 8.15 RMB

SOURCE: IHS Global Insight, mobilverzeichnis.de

Profiles for main models launched since 1991: VW Brand(2/2)

GOLF PLUS
MSRP (Euro):
20,575-30,000

Target Market: Mainly for Germany, others include Italy, US, France, etc.

SOS:2004

Sales History: Among 730, 600 units sold globally by 2011, 59% sold in Germany.

LAVIDA
MSRP (Euro)[1]:
13,840-19,360

Target Market: Exclusively for China.

SOS:2008

Sales History: 692,496 units sold since launched in 2008, exclusively for Chinese market.

SHARAN
MSRP (Euro):
33,850-39,750

Target Market: Mainly for Germany, others include UK, Austria, Belgium, etc.

SOS:1995

Sales History: Among 665,036 units sold globaly by 2011, 48% sold in Germany.

POINTER
MSRP (Euro):
N/A

Target Market: Mainly for Mexico, others include Brazil, Argentina.

SOS:1994

Sales History: Among 539,588 units sold globally by 2011, 88% sold in Mexico, other 11% sold in Brazil and Argentina.

TOUAREG
MSRP (Euro):
48,750-78,700(Germany
33,620-45,420(US)

Target Market: Mainly for Germany & US, others include Russia, China, etc.

SOS:2002

Sales History: Among 529,132 units sold globally by 2011, 20% sold in Germany, 20% sold in US .

LUPO
MSRP (Euro):
Euro 11.700-15.175

Target Market: Mainly for Germany & Italy, others include Ukraine, France, etc.

SOS:1998

Sales History: Among 510,789 units sold globally by 2011, 50% sold in Germany, 14% sold in Italy.

2 1 Euro = 1.29 USD = 8.15 RMB

SOURCE: IHS Global Insight, mobilverzeichnis.de

Profiles for main models launched since 1991: Audi brand

A6
MSRP (Euro):
32,352-45,336

Target Market: Mainly for Germany & China, others include Italy, UK, etc..

SOS:1994

Sales History: Among 2,868,883 units sold globally by 2011, 32% sold in Germany, 27% sold in China.

A3
MSRP (Euro):
17,731-34,453

Target Market: Mainly for Europe (Germany, UK, Italy, Spain, France)

SOS:1996

Sales History: Among 2,660,716 units sold globally by 2011, 35% sold in Germany, 12% in UK, 8.5% in Italy, Spain & France.

TT
MSRP (Euro):
25,378-33,235

Target Market: Mainly in developed countries like Germany, UK, US, Japan.

SOS:1998

Sales History: Among 443,678 units sold globally by 2011, 29% in Germany, 21% in UK, 16% in US.

Q5
MSRP (Euro):
31,428-45,126

Target Market: Mainly for China, Germany and US.

SOS:2007

Sales History: Among 412,084 units sold globally by 2011, 22% sold in China, 17% in Germany, 15% in US.

Q7
MSRP (Euro):
43.865-113,529

Target Market: Mainly for US, Germany and China, others include UK, Italy, etc.

SOS:2005

Sales History: Among 315,292 units sold globally by 2011, 22%, 15%, 14% sold in US, Germany, China respectively.

A5 COUPE
MSRP (Euro):
28,739-41,008

Target Market: Mainly for Germany, US, UK, others include Italy, Spain, etc.

SOS:2007

Sales History: Among 219,629 units sold globally by 2011, 21%, 16%, 13% sold in Germany, US, UK respectively.

SOURCE: IHS Global Insight, mobilverzeichnis.de

Profiles for main models launched since 1991: Porsche Brand

CAYENNE
MSRP (Euro):
49,180-102,505

Target Market: Mainly for US, Germany, China, others include UK, Italy, etc.

SOS:2002

Sales History: Among 357,711 units sold globally by 2011, 30%, 13%, 12% sold in US, Germany, China.

BOXSTER
MSRP (Euro):
40,580-49,680

Target Market: Mainly for US, Germany and UK.

SOS:1993

Sales History: Among 238,776 units sold globally by 2011, 42%, 21%, 14% were sold in US, Germany and UK.

CAYMAN
MSRP (Euro):
42,680-58,680

Target Market: Mainly for US, Germany and UK, others include Japan, Italy, China, etc.

SOS:2005

Sales History: Among 59,996 units sold globally by 2011, 36%, 14%, 13% were sold in US, Germany and UK respectively.

PANAMERA
MSRP (Euro):
65,090-142,005

Target Market: Mainly for US, China and Germany, others include UK, Japan, etc.

SOS:2008

Sales History: Among 52,071 units sold globally by 2011, 30%, 22%, 13% were sold in US, China and Germany respectively.

SOURCE: IHS Global Insight, mobilverzeichnis.de

Profiles for main models launched since 1991: Seat Brand

LEON
MSRP (Euro):
12,765-26,460

Target Market: Mainly for developed countries especially Spain, Germany.

SOS:1999

Sales History: Among 1,118,592 units sold globally by 2011, 37%, 14%, 11% sold in Spain, Germany, UK respectively.

CORDOBA
MSRP (Euro):
11,084-14,361

Target Market: Mainly for developed countries, especially Spain.

SOS:1993

Sales History: Among 1,005,340 units sold globally by 2011, 34% , 9% sold in Spain, Germany respectively.

ALTEA
MSRP (Euro):
13, 015-22,010

Target Market: Mainly for developed European countries like Spain, Germany.

SOS:2003

Sales History: Among 426,085 units sold globally by 2011, 30% sold in Spain, 18% sold in Germany, 9% sold in Italy.

ALHAMBRA
MSRP (Euro):
23,865-30,670

Target Market: Mainly for developed European countries like Germany, UK.

SOS:1996

Sales History: Among 278,490 units sold globally by 2011, 26%, 13%, 11% sold in Germany, UK, Spain respectively.

AROSA
MSRP (Euro):
7,400 – 12,200

Target Market: Mainly for developed European countries like Germany, Italy, Spain UK.

SOS:1997

Sales History: Among 222,588 units sold globally by 2011, 36%, 15%, 15% sold in Germany, Italy, Spain respectively.

EXEO
MSRP (Euro):
18,865-27,385

Target Market: Mainly for developed European countries like Spain, Germany.

SOS:2008

Sales History: Among 62,076 units sold globally by 2011, 34%, 23%, 10%, 9% sold in Spain, Germany, UK, France respectively .

SOURCE: IHS Global Insight, mobilverzeichnis.de

Profiles for main models launched since 1991: Skoda Brand

OCTAVIA
MSRP (Euro):
16,640-32,240

Target Market: Mainly for Germany, China, Czech Republic, others include UK, Russia, Poland, etc.

SOS:1996

Sales History: Among 3,216,000 units sold since launched, 19%, 13%, 10% sold in Germany, China, and Czech Republic.

FABIA
MSRP (Euro):
11,480-19,530

Target Market: Mainly for Germany, Czech Republic, others include Poland, UK, etc.

SOS:1999

Sales History: Among 2,851,952 units sold globally by 2011, 21%, 14% were sold in Germany and Czech Republic.

FELICIA
MSRP (Euro):
N/A

Target Market: Mainly for Czech Republic, others include Poland, Slovakia Germany, etc.

SOS:1993

Sales History: Among 1,159,243 units sold globally by 2011, 33% were sold in Czech, 11%, 10% were sold in Poland and Slovakia.

SUPERB
MSRP (Euro):
23,630-41,420

Target Market: Mainly for China and Germany, others include Czech, UK. etc.

SOS:2001

Sales History: Among 414,946 units sold globally by 2011, 26%, 16% sold in China and Germany, 7% sold in Czech.

ROOMSTER
MSRP (Euro):
13,370-20,120

Target Market: Mainly for Germany, others include Czech, Poland, UK, etc.

SOS:2006

Sales History: Among 228,605 units sold globally by 2011, 36% sold in Germany, 8% sold in Czech.

YETI
MSRP (Euro):
18,390-31,390

Target Market: Mainly for European countries (Germany, UK, Czech, Italy)

SOS:2009

Sales History: Among 124,139 units sold globally by 2011, 27%, 8%, 8%, 6% were sold in Germany, UK, Czech and Italy.

SOURCE: IHS Global Insight, mobilverzeichnis.de

Profiles for main models launched since 1991: BENTLEY Brand

BENTLEY

Continental GT
MSRP (Euro):
151,200-172,900

Target Market: Mainly for developed countries like US, UK and Germany

SOS:2003

Sales History: Among 34,392 units sold globally by 2011, 39%, 27%, 7% were sold in US, UK and Germany.

Continental FS[1]
MSRP (Euro):
149,700-169,800

Target Market: Mainly for US and UK, others include China, UAE, Japan, etc.

SOS:2005

Sales History: Among 15,376 units sold globally by 2011, 41%, 15% sold in US&UK, 10%, 6%, 5% sold in China, UAE and Japan.

MULSANNE
MSRP (Euro):
N/A

Target Market: Mainly for US, UK, China, others include India, etc.

SOS:2010

Sales History: Among 975 units sold globally by 2011, 33%, 20%, 18% were sold in US, UK and China.

1 “Continental FS” denotes “Continental Flying Spur”

SOURCE: IHS Global Insight, mobilverzeichnis.de

Profiles for main models launched since 1991: LAMBORGHINI Brand

LAMBORGHINI

GALLARDO
MSRP (Euro):
MSRP:141,500

Target Market: Mainly for US, others include Germany, Italy, UK.

SOS:2003

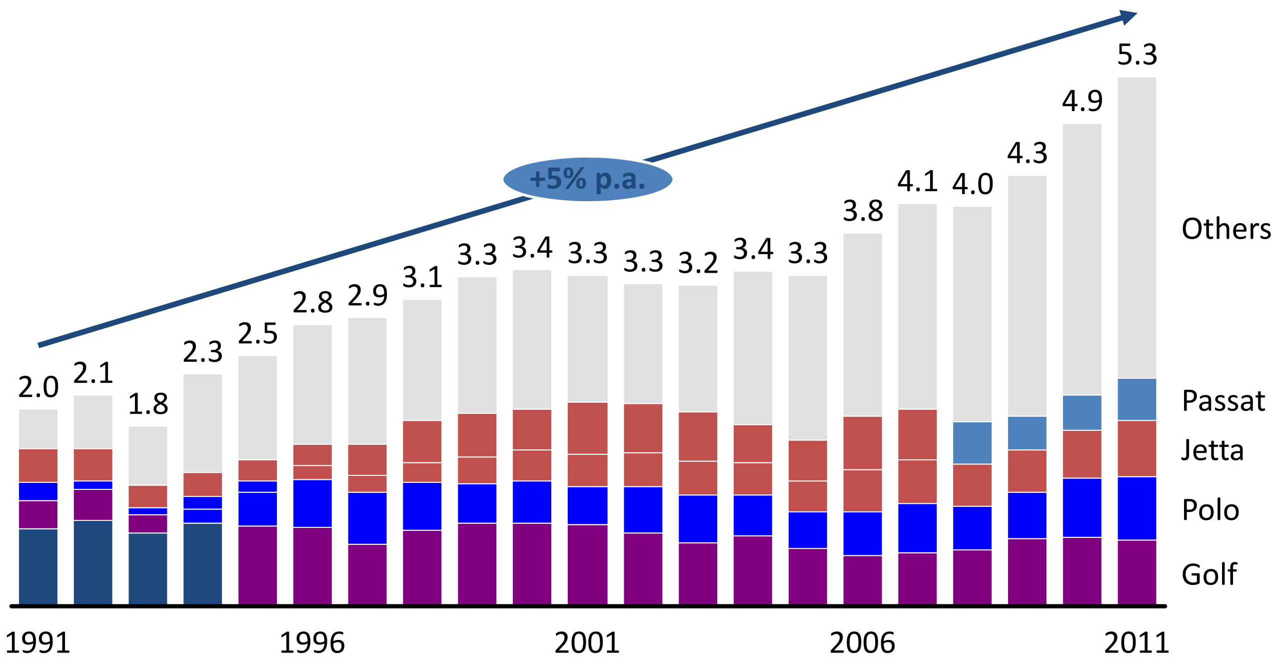
Sales History: Among 9,600 units sold globally by 2011, 33% sold in US, 10%, 10% sold in Germany and Italy respectively.

SOURCE: IHS Global Insight, mobilverzeichnis.de

As the steady decline of VW's best selling model "Golf", Polo and other models became the key drivers for VW's continuous growth

Sales volume of VW brand by model, 1991-2011

Million units

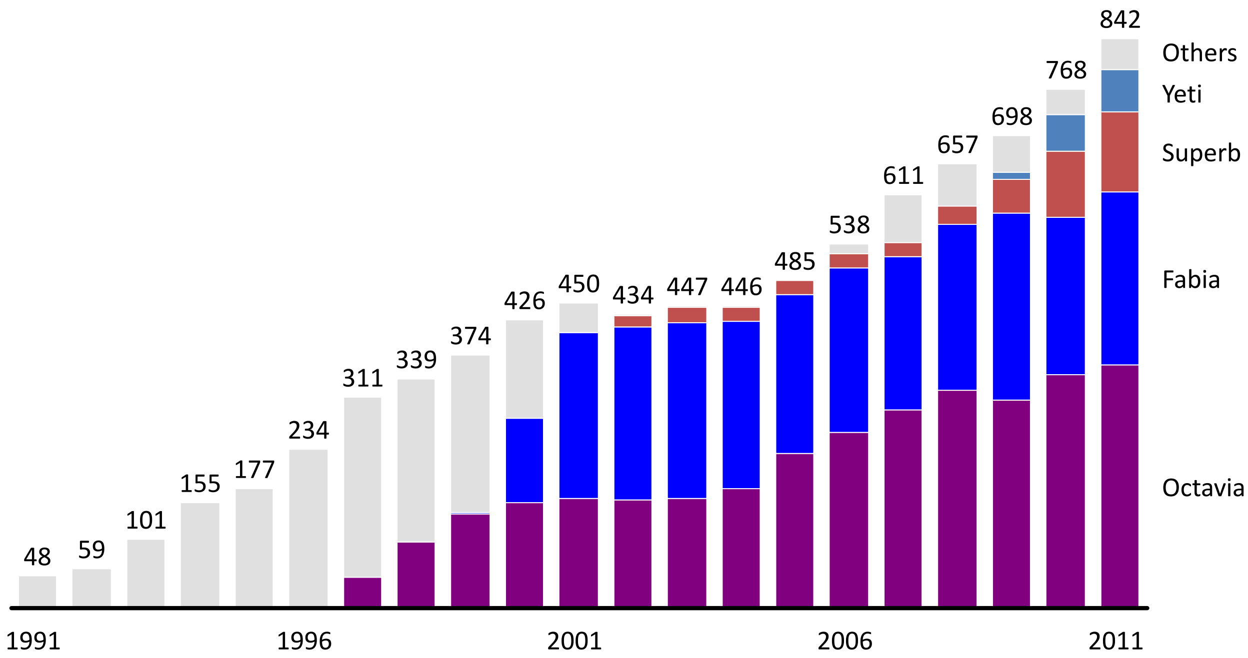


SOURCE: IHS Global Insight

Skoda's sales growth was heavily driven by its best selling models Octaivia, Superb and Yeti during past 20 years

Sales volume of Skoda brand by model, 1991-2011

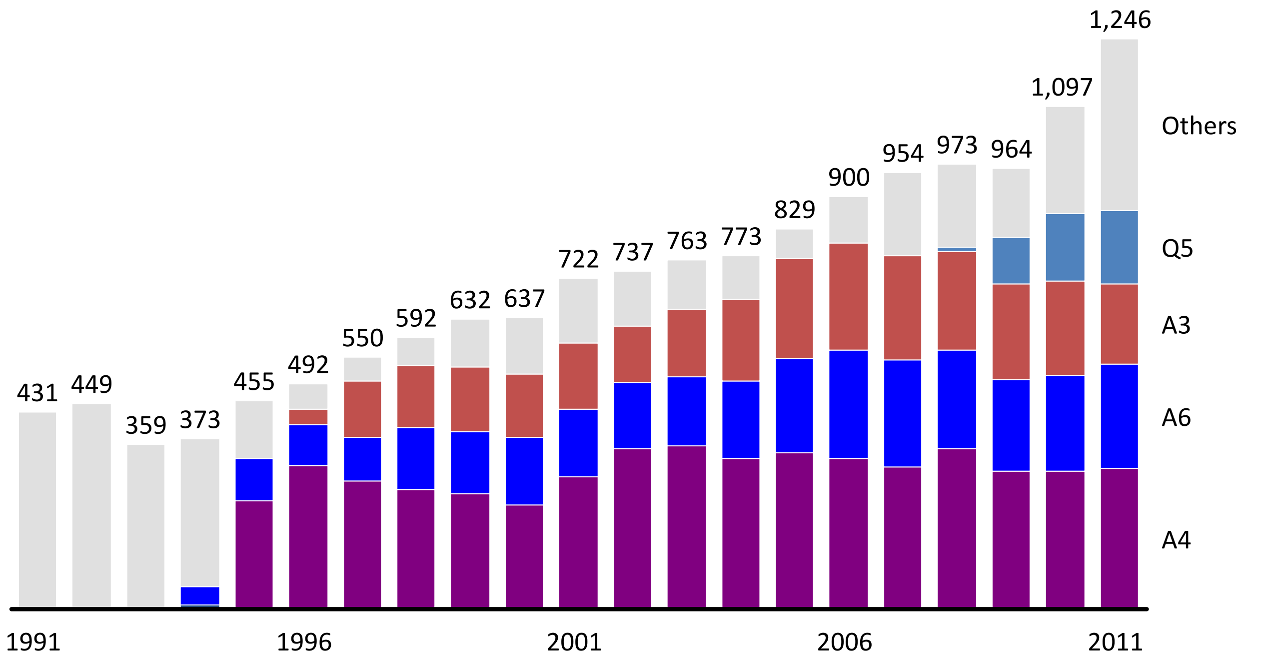
Thousand units



SOURCE: IHS Global Insight

As a new growth point, Q5 was expected to drive the sales growth of Audi brand along with best selling models "A4", "A6" and "A3"

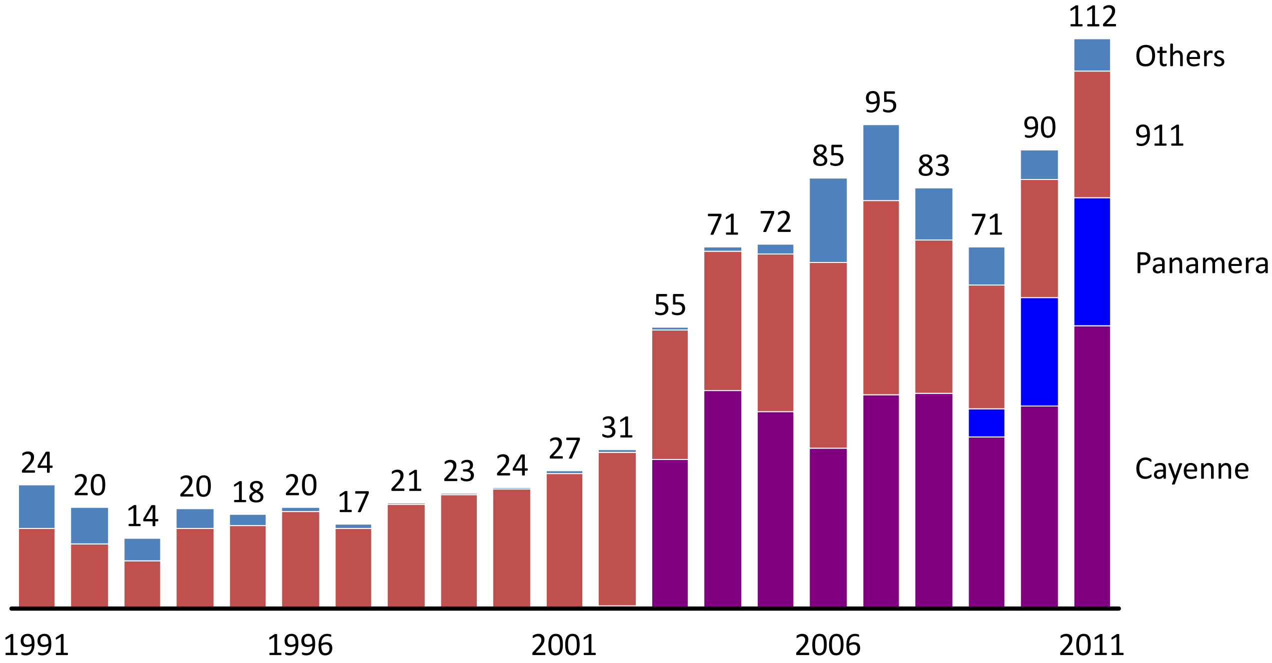
Sales volume of Audi brand by model, 1991-2011
Thousand units



SOURCE: IHS Global Insight

Before its mature model "911" declining, Porsche continuously launched Cayenne and Panamera as its new growth points

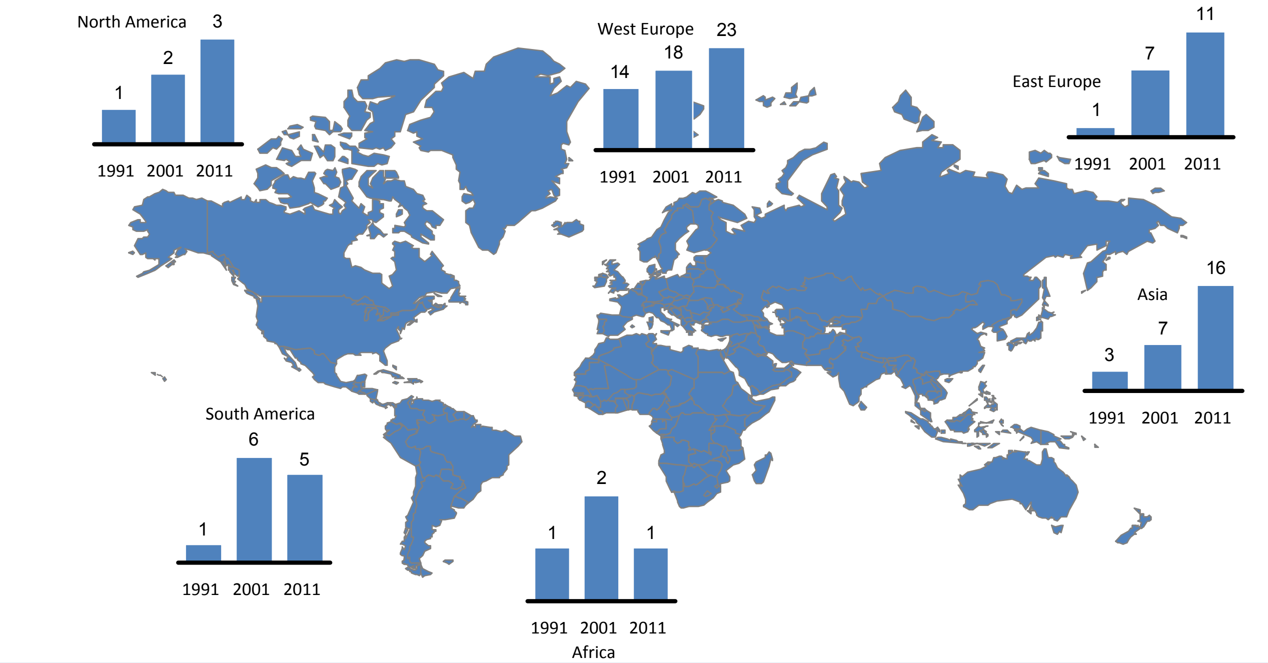
Sales volume of Porsche brand by model, 1991-2011
Thousand units



SOURCE: IHS Global Insight

The increasing numbers of VW plants were heavily driven by Asia, East Europe and West Europe during past 20 years

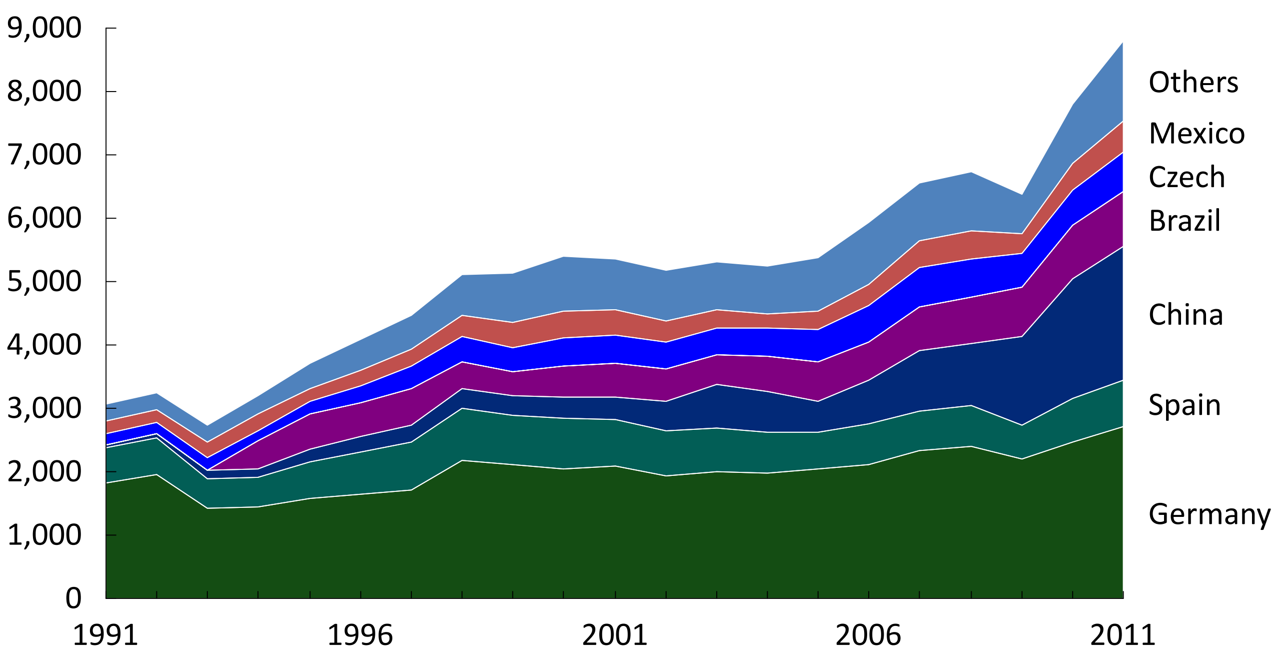
Manufacturing / assembly plants footprint of VW Group, 1991 to 2011
# of plants owned in each country



SOURCE: IHS Global Insight

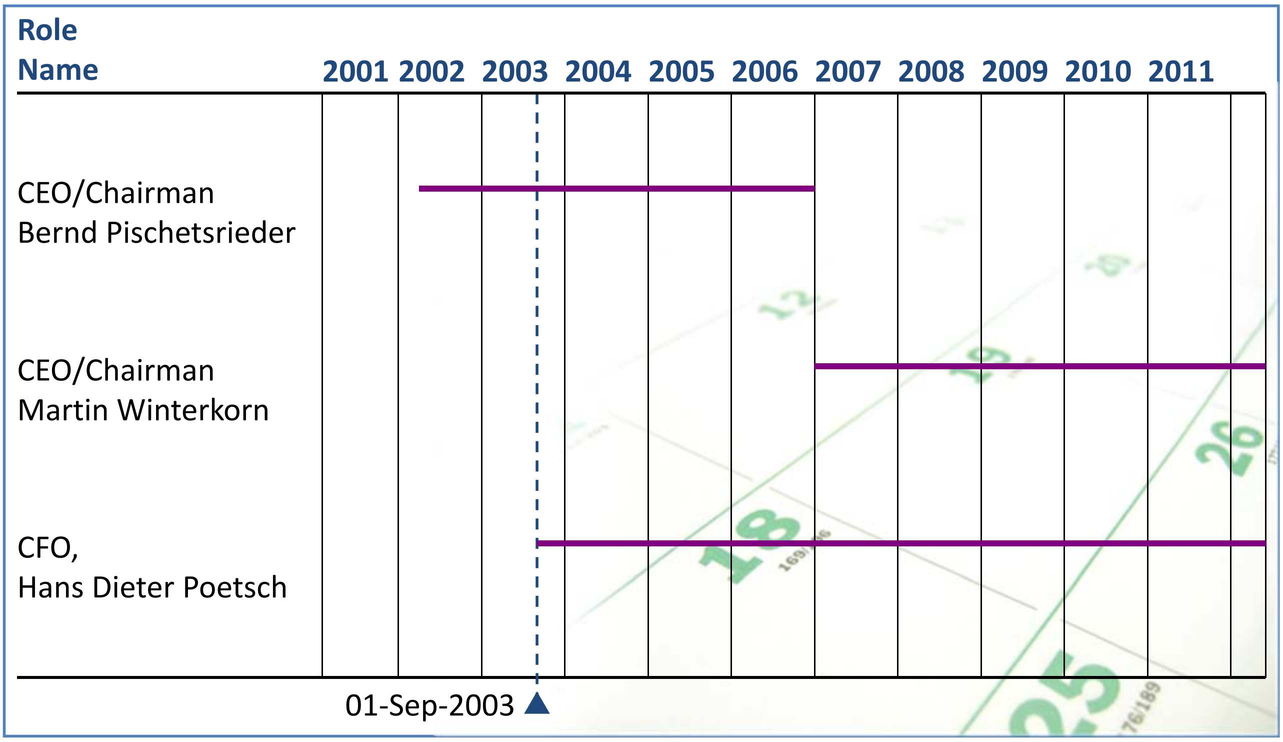
The increasing production of VW group were heavily driven by China, Germany, and Brazil during past 20 years

Annual production volume of VW, 1991 2011
Thousand units



SOURCE: IHS Global Insight

The changes of top management positions in VW Group during past 10 years



SOURCE: Company publications

M&A activities3 1998-2010: major acquisition target included Suzuki, Porsche, Scania, Man, Skoda, Bugatti, Lamborghini, and Rolls-Royce

Completion Date	Deal Status	Deal Value $ (m)	Acquiror	Acquiror Parent	Target
23-Jun-10	Completed	69.896	VW[1]	Porsche[2]	Suzuki Motor Corp (0.65%)
1-Mar-11	Completed	4,581.742	VW[1]	Porsche[2]	Porsche Holding GmbH
15-Jan-10	Completed	2,505.230	VW[1]	Porsche[2]	Suzuki Motor Corp (19.9%)
7-Dec-09	Completed	5,539.379	VW[1]	Porsche[2]	Dr Ing hcF Porsche AG (49.9%)
31-Mar-09	Completed	509.047	VW[1]	Porsche[2]	Scania AB (7.93%)
17-Jul-08	Completed	4,369.117	VW[1]	Porsche[2]	Scania AB (16.8%)
27-Oct-06	Completed	643.748	VW[1]	Porsche[2]	MAN AG (5%)
27-Feb-07	Completed	1,644.969	VW[1]	Porsche[2]	MAN AG (9.9%)
3-Oct-06	Completed	2,072.564	VW[1]	Porsche[2]	MAN AG (15%)
22-May-00	Completed	324.046	VW[1]	Porsche[2]	Skoda Auto AS (30%)
27-Mar-00	Completed	1,622.176	VW[1]	Porsche[2]	Scania AB (18.7%)
25-Aug-98	Completed	50.000	VW[1]	Porsche[2]	Bugatti Internatonal SA (Bugatti Trademark)
23-Jul-98	Completed		VW[1]	Porsche[2]	Automobili Lamborghini SpA
4-Jul-98	Completed	1,025.529	VW[1]	Porsche[2]	Rolls-Royce Motor Cars Ltd (Bid No 1)

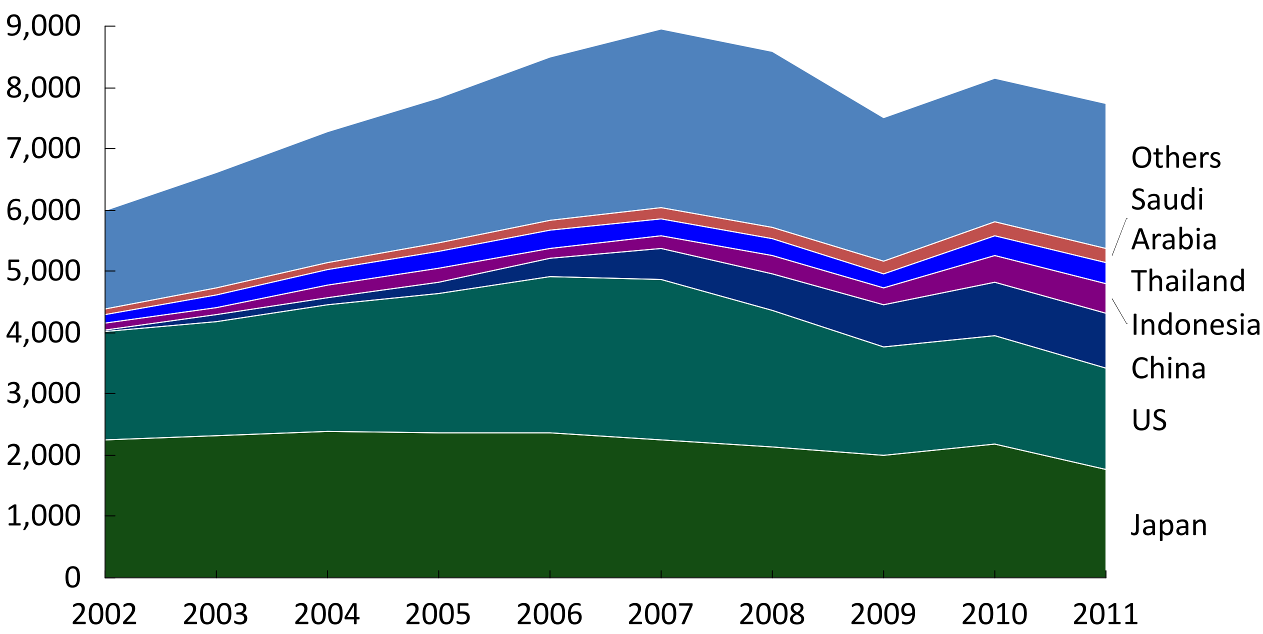
1 VW denotes "Volkswagen AG"
2 Porsche denotes "Porsche Automobil Holding SE"
3 M&A also included acquiring/increasing share of its JV subsidiaries and local distributors

SOURCE: Dealogic

Toyota sales heavily depended on overseas market, especially on US

Annual sales volume of Toyota, 2002-2011

Thousand units

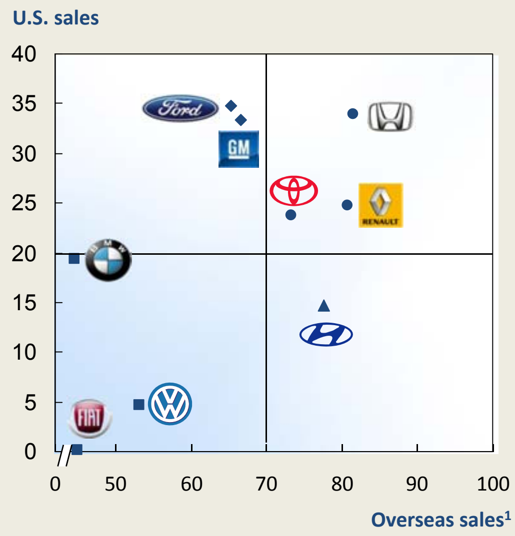


SOURCE: IHS Global Insight

Higher dependency on the overseas market, especially on the U.S., makes Japanese OEMs vulnerable to FX rates

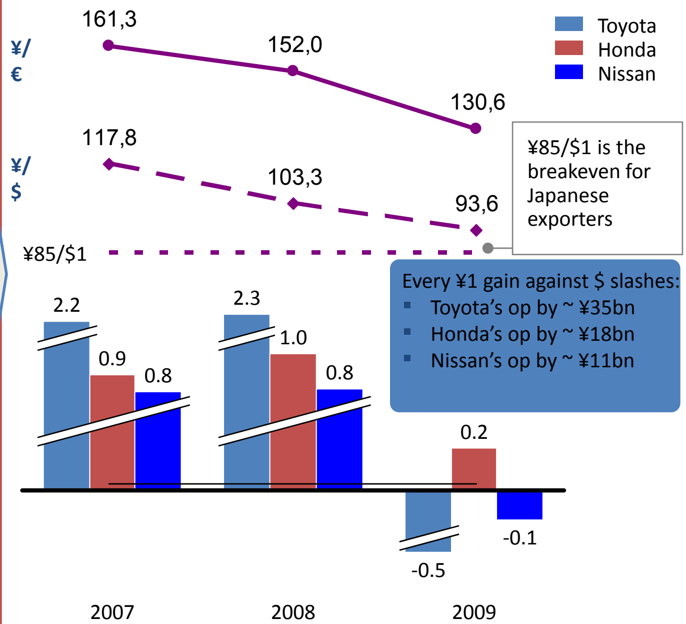
U.S. and overseas sales ratio by OEM, 2009

%



FX rates and operating profits of Japanese big three

¥; ¥bn



1 Sales outside Western Europe for European OEMs

SOURCE: IHS Global Insight; Korea Automotive Research Institute; press search

More than 8 M vehicles were recalled under the Toyota and Lexus brands for two different malfunctioning parts

	Sticking A ccelerator Pedal Recall/Stop Sale	Floor Mat Pedal Entrapment Recall
Vehicle Models	▪ Certain 09-10 RAV4 ▪ Certain 09-10 Corolla ▪ 09-10 Matrix ▪ 05-10 Avalon ▪ Certain 07-10 Camry ▪ Certain 10 Highlander ▪ 07-10 Tundra ▪ 08-10 Sequoia	▪ 07-10 Camry ▪ 05-10 Avalon ▪ 04-09 Prius ▪ 05-10 Tacoma ▪ 07-10 Tundra ▪ 08-10 Highlander ▪ 09-10 Corolla ▪ 09-10 Venza ▪ 09-10 Matrix ▪ 06-10 Lexus IS 250 ▪ 06-10 Lexus IS 350 ▪ 07-10 Lexus ES 350
Reason for Recall	▪ Due to materials used, wear and environmental conditions, surfaces on the “shoe” of the pedal (which allows for braking friction and stability) might stick and release or cause leave throttle partially open	▪ Potential for unsecured driver’s floor mat to interfere with accelerator pedal
When will repairs take place	▪ Feb. 1, 2010 ▪ Repair will take 30 minutes	▪ Rolled out through 2010 ▪ Repair will reconfigure shape of accelerator pedal and will replace old floor mats ▪ As precaution, will also install brake override system
Cost	▪ Toyota will cover all costs	▪ Toyota will cover all costs

SOURCE: Toyota Company Website

Toyota recalls have increased from 20-33% of total unintended acceleration complaints since 2004, however impactful action was only taken in Q1 2010

Toyota’s recall timeline

2000-2008 → 2009 -2010 →

2000
- Launched program with the aim of cutting costs of 180 key car parts by 30 percent, saving nearly $10 billion by 2005

2004
- Recalled Lexus IS 200 models in the U.K. to prevent floor mats from interfering with gas pedals
- **Toyota vehicles accounted for about 20 percent of all uninten-ded accel-eration complaints filed with NHTSA in 2004, up from 4 percent in 2000**

2005
- NHTSA begins a review of concerns about the electronic throttle and uncontroll-able acce-leration on 2002-05 MY Camry, Solara and Lexus ES models
  - Investiga-tion is closed in January 2006 without a defect finding

2006
- Following a surge in global recalls, Toyota head Katsuaki Watanabe apologizes for “quality glitches.”
- Toyota delays some new models by up to half a year

2007
- NHTSA determines floor mat entrapment as the cause of fatal crash and tells Toyota a recall is required
- **Toyota accounted for 23 percent of all uninten-ded accel-eration complaints filed with NHTSA in 2007**

2008
- NHTSA opens investigation of unwanted acceleration due to a trim panel interference on the 2004 MY Sienna minivan. In January 2009, Toyota recalls 26,501 Sienna minivans to replace floor carpet.

2009
- Toyota recalls 3.8 million vehicles in the United States to address the risk that floor mats could trap the accelerator pedal in an open position (~5 million vehicles)
- NHTSA meet Toyota execs seeking prompt action on safety issues
- **Toyota accounted for 33 percent of all unintended acceleration complaints filed with NHTSA in 2009**

Q1 2010
- Toyota informs NHTSA that accelerator pedals made by supplier CTS Corp may have a dangerous “sticking” defect
- Toyota issues a recall
- Toyota halts U.S. sales of eight models and will halt production for the first week of February
- Toyota meets with NHTSA to review its pedal fix
- Toyota says it is examines braking complaints about its 2010 model Prius hybrid
- President Akio Toyoda appears at a news conference to apologize for safety problems.
- Toyota considers a recall for Prius braking issue
- Toyota announces recall of nearly 500,000 new Prius and Lexus-brand hybrid cars globally for braking problems

“While Toyota is taking responsible action now, it unfortunately took an enormous effort to get to this point.”
~ Secretary Ray LaHod

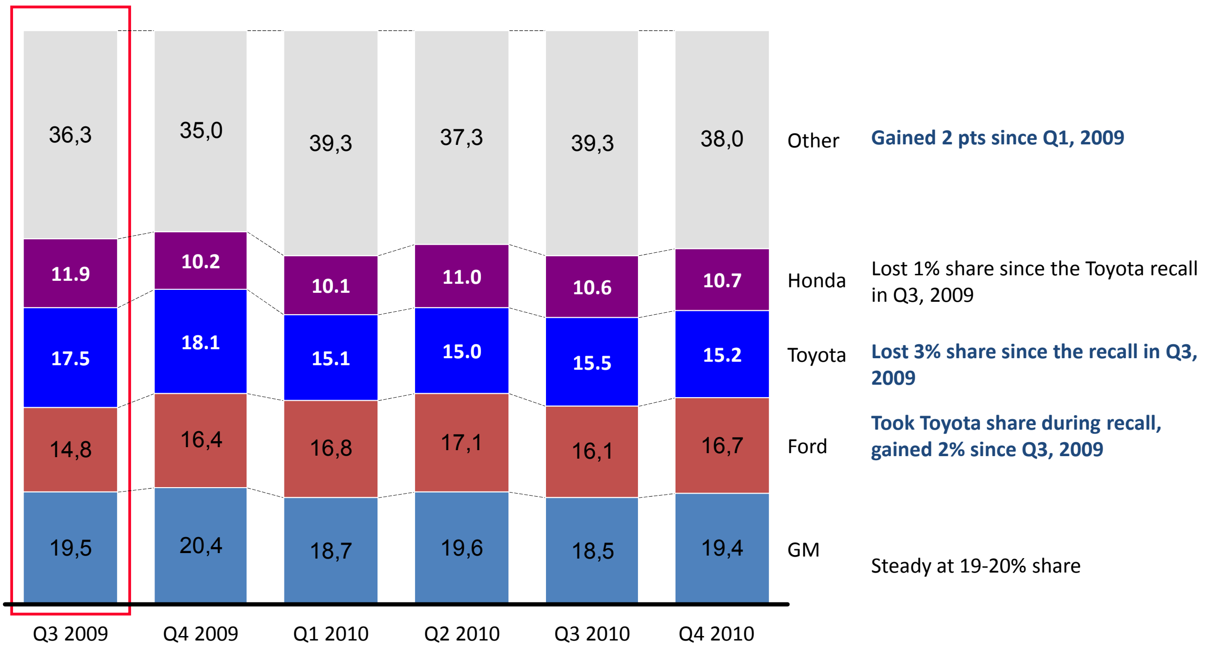
SOURCE: Press clippings

Toyota lost 3% to Ford and other small players since its recall in Q3, 2009 in US market

When recalled 3.8 million Toyota and Lexus vehicles in US

U.S. light vehicle market share, quarterly 2009-10

Percent; 100% = M units

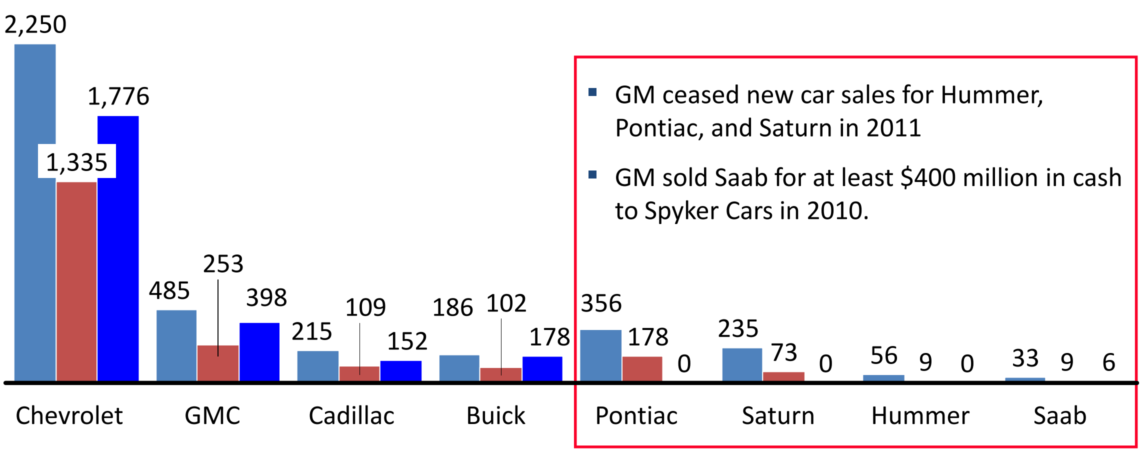


SOURCE: Global Insight (June 2012)

GM downsized brand family in U.S. for more effective sales

GM sales by brand in U.S.

000 unit



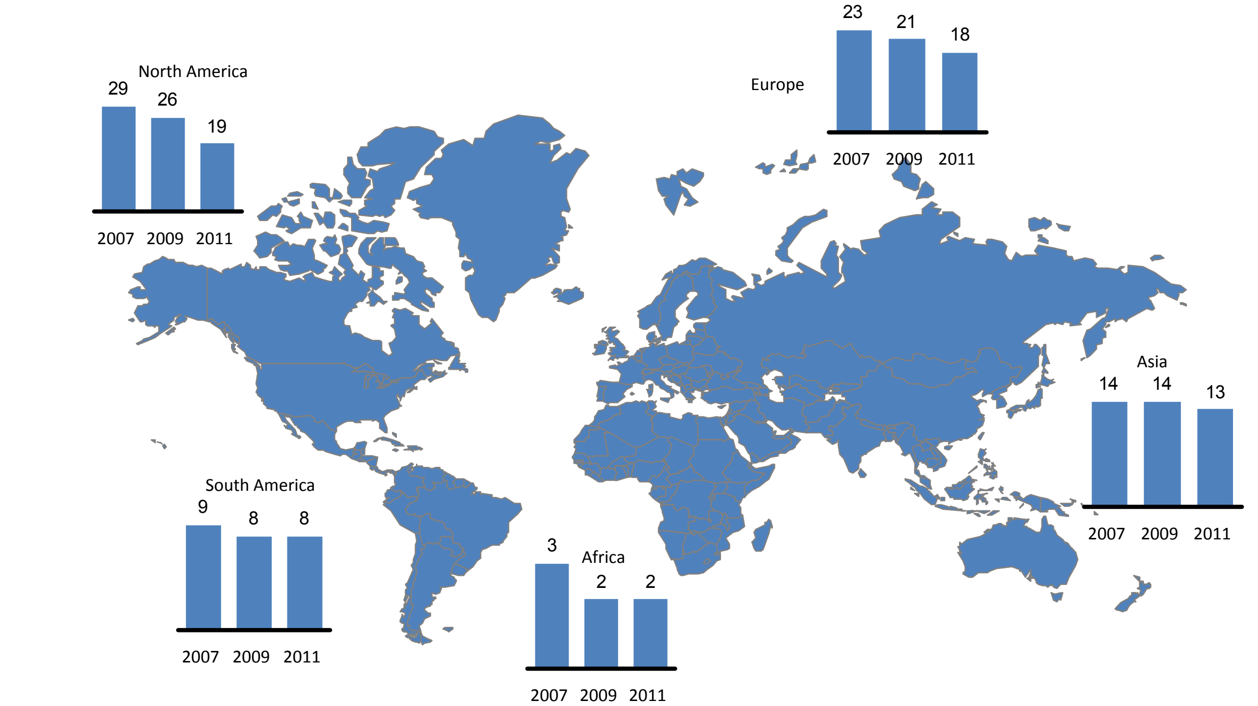
- GM ceased new car sales for Hummer, Pontiac, and Saturn in 2011
- GM sold Saab for at least $400 million in cash to Spyker Cars in 2010.

The 4 core brands Buick, Cadilac, Chevrolet and GMC counted for 19.6% market share in U.S. 2011, almost the same as the 19.7% market share in 2009 achieved by all 8 brands, indicating a much more effective sales.

SOURCE: Global Insights, press, company publications

GM shut down pants globally, especially in NA, to slash cost and bring production in line with sales in past 5 years

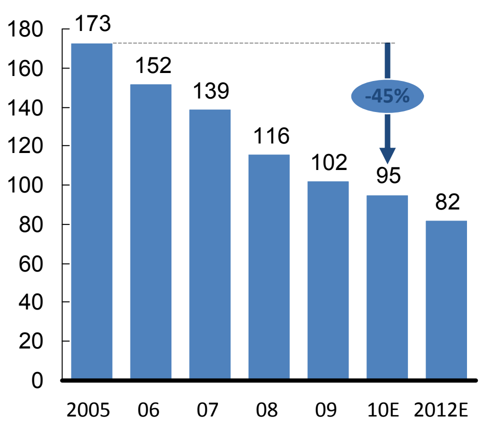
Manufacturing / assembly plants footprint of GM, 2007 to 2011
# of plants owned in each country



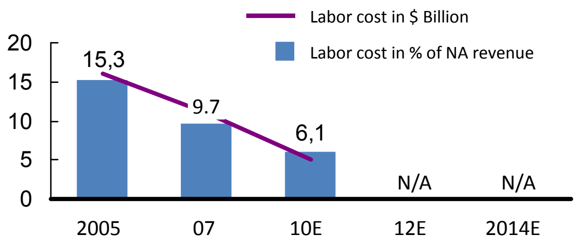
SOURCE: IHS Global Insight

GM cut 45% its headcounts in North America during past 5 years, considerably reduce the labor cost and improved its capacity utilization

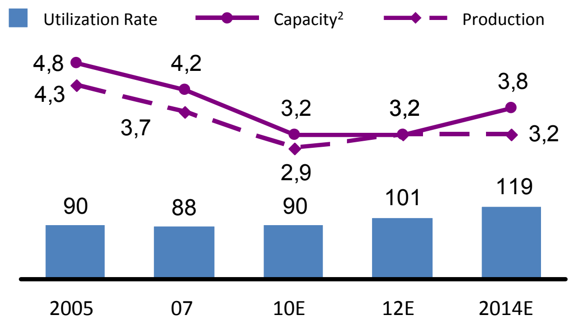
Total number of FTEs in GM NA, 2005 to 2014
'000



GM-NA labor cost[1], 2005 to 2014
$ Billion, %



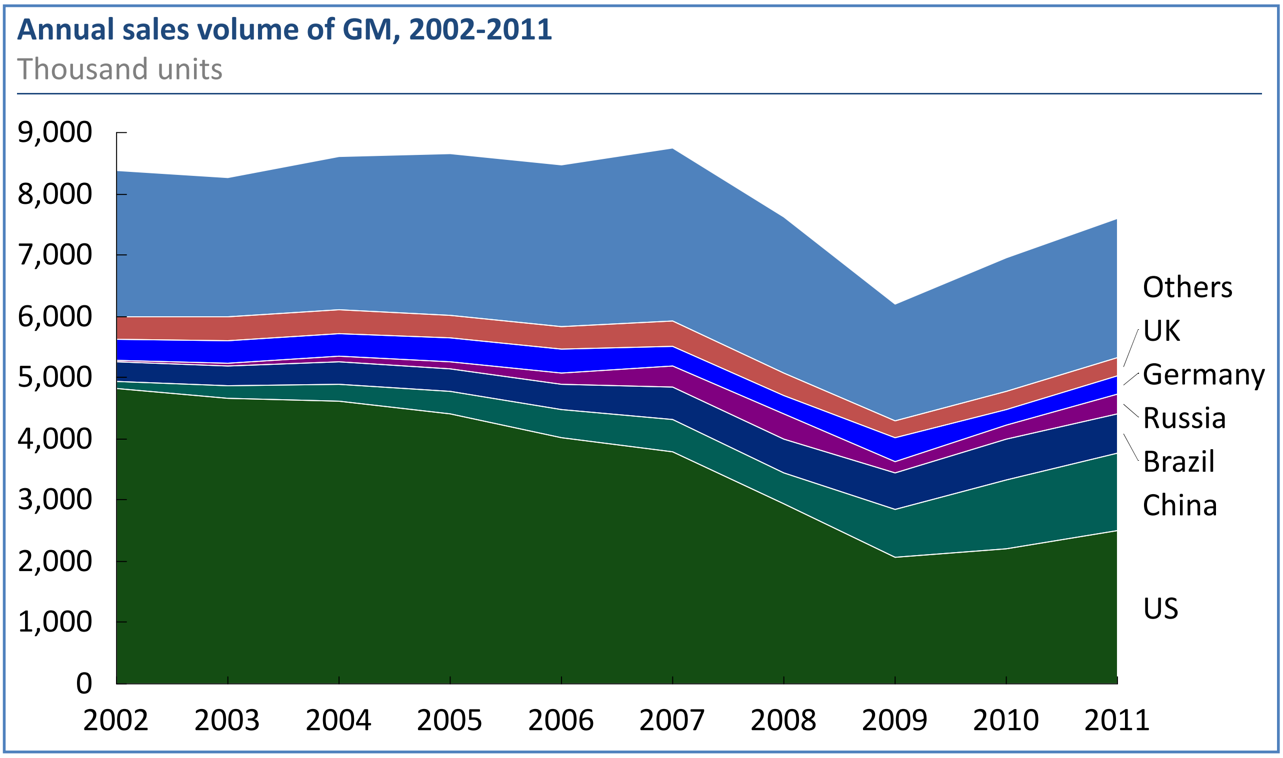
GM NA capacity, and utilization rate, 2005-2014
Million units, %



1 The 2005 and 2007 data include $4B and $3B of retiree healthcare costs
2 Capacity under 2 shifts

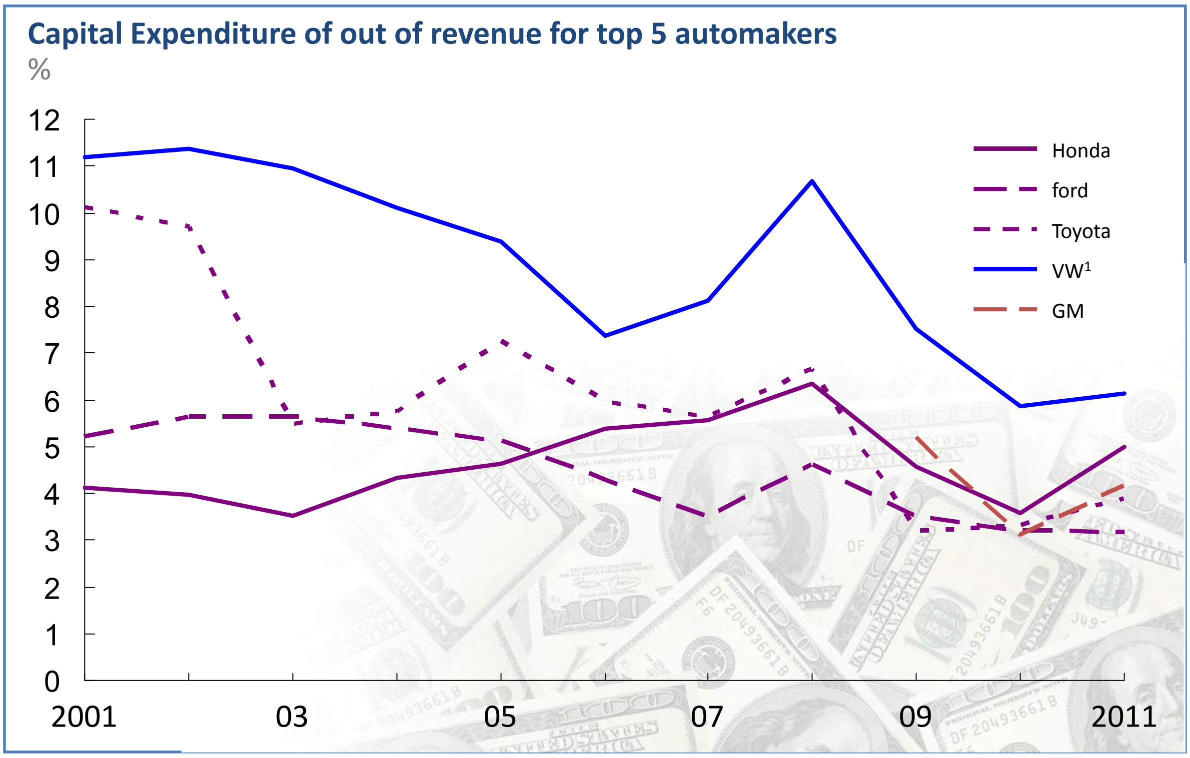
SOURCE: GM company report, J.P. Morgan., McKinsey Analysis, Press Search

Strong sales in China is a key propulsion element for GM's turnaround



SOURCE: IHS Global Insight

VW led the investment in CAPEX as % of revenue, indicating its aggressive production capacity expansion in the past decade

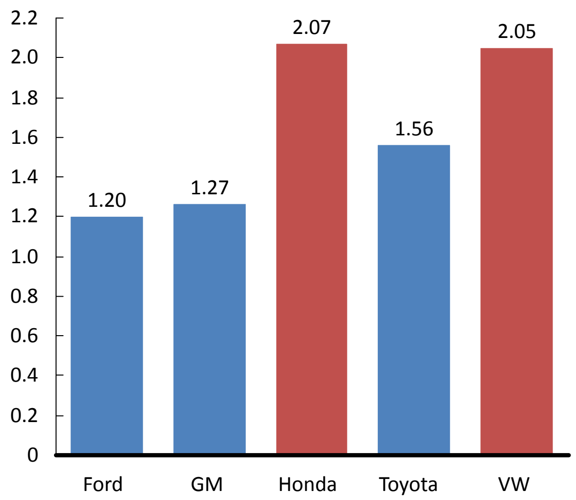


1 50~80% of VW's capital expenditure goes into investment for plant, equipment, and property etc.

SOURCE: Company publications

VW and Honda led in platform utilization in terms of total sales per platform

Total sales per platform, 2000-2011
Million unit



Case example: MQB Toolkit Start on 2012
Driving forward significant economies of scale in unit cost and investment

- **Capabilities:**
  - Flexibility in wheelbase, length, height, width
  - Significant economies of scale
  - Regional variations
  - Opportunity for low volume niche models
  - Alternative powertrain concepts
- **Efficiency gains:**
  - Reduction of unit costs
  - Lower one-off expenditure
  - Less engineered hours per vehicle
  - Significant weight and emission reduction

SOURCE: VW group, Global Insights

VW announced various targets and plans concerning supplier management

1 Drive supplier performance
- Present “Volkswagen Group Award” to the Volkswagen Group’s top suppliers
- Launched Quality Initiative with suppliers

2 Globalization
- New procure market: Russia, India, China, Eastern Europe
- New locations of the group: Russia and India (suppliers might be attracted to establish factories nearby)

3 Common sourcing process in China (SVW (JV), FAW-VW (JV), and VW AG)
- Bundling of purchasing volume (China)
- Reducing investment for tolling
- Enhance competition
- Generating economies of scale & scope due to high volume
- Increasing volume and depth of local content

4 Except from “Purchasing strategy 2015”
- Optimal integration of suppliers in the business process
- Using the advantages of each region
- Co-manage the risks of raw materials with suppliers

5 Sustainability in supplier relations
- Environmental protection
- Rights of employees
- Anti-corruption

SOURCE: VW group publications

Volkswagen case – wrap up frame

	VW	Toyota	GM
Market mix			
Product and brand strategy			
Location/ production strategy			
Management practices			

International trade is not particularly a new phenomenon

2000 B.C.
- Assyrian cities start building trade posts

200 B.C.
- Greece and Roman Empire trade along the mediter-ranean Sea

1200
- Trade along the Silk road (travel of Marco Polo)
- Emerging of the Hanse

1600
- British colonies and East India Company

1800
- Industriali-zation with massive foreign direct in-vestment from British companies

Case study “The British East India Company” (1/6)

The East India Company

The Company that ruled the waves

A POPULAR parlour game among historians is debating when the modern world began. Was it when Johannes Gutenberg invented the printing press, in 1440? Or when Christopher Columbus discovered America, in 1492? Or when Martin Luther published his 95 theses, in 1517? All popular choices. But there is a strong case to be made for a less conventional answer: the modern world began on a freezing New Year's Eve, in 1600, when Elizabeth I granted a company of 218 merchants a monopoly of trade to the east of the Cape of Good Hope.

The East India Company foreshadowed the modern world in all sorts of striking ways. It was one of the first companies to offer limited liability to its shareholders. It laid the foundations of the British empire. It spawned Company Man. And—particularly relevant at the moment—it was the first state-backed company to make its mark on the world.

Twenty years ago, as the state abandoned the commanding heights of the economy in the name of privatisation and deregulation, it looked as if these public-private hybrids were doomed. Today they are flourishing in the emerging world's dynamic economies and striding out onto the global stage.

State-controlled companies account for 80% of the market capitalisation of the Chinese stockmarket, more than 60% of Russia's, and 35% of Brazil's. They make up 19 of the world's 100 biggest multinational companies and 28 of the top 100 among emerging markets. World-class state companies can be found in almost every industry. China Mobile serves 600m customers. Saudi Arabia's SABIC is one of the world's most profitable chemical companies. Emirates airlines is growing at 20% a year. Thirteen of the world's biggest oil companies are state-controlled. So is the world's biggest natural-gas company, Gazprom.

(…)

The parallels between the East India Company and today's state-owned firms are not exact, to be sure. The East India Company controlled a standing army of some 200,000 men, more than most European states. None of today's state-owned companies has yet gone this far, though the China National Offshore Oil Corporation (CNOOC) has employed former People's Liberation Army troops to protect oil wells in Sudan. The British government did not own shares in the Company (though prominent courtiers and politicians certainly did). Today's state-capitalist governments hold huge blocks of shares in their favourite companies.

Otherwise the similarities are striking. Both the Company and its modern descendants serve two masters, keeping one eye on their share price and the other on their political patrons. Many of today's state-owned companies are monopolies or quasi-monopolies: Brazil's Petrobras, China Mobile, China State Construction Engineering Corporation and Mexico's Federal Electricity Commission, to name but a few of the mongrel giants that bestride the business world these days. Many are enthusiastic globalisers, venturing abroad partly as moneymaking organisations and partly as quasi-official agents of their home governments. Many are keen not only on getting their government to provide them with soft loans and diplomatic muscle but also on building infrastructure—roads, hospitals and schools—in return for guaranteed access to raw materials. Although the East India Company flourished a very long time ago, in a very different world, its growth, longevity and demise have lessons for those who run today's state companies and debate their future, lessons about the benefits of linking a company's interests to a nation's and the dangers of doing so.

SOURCE: Excerpts from The Economist, Dec 17, 2011

Case study “The British East India Company” (2/6)

The gifts of government

One of the benefits the Company derived from its relations with the state was limited liability. Before the rise of state-backed companies, businesses had imposed unlimited liability on their investors. If things went wrong, creditors could come after them for everything they possessed, down to their cufflinks, and have them imprisoned if they failed to pay. Some firms had already been granted limited liability, and the Company's officers persuaded Queen Elizabeth that it should be given this handy status too.

A second benefit of state backing was monopoly. In the 17th century, round-the-world voyages were rather like space missions today. They involved huge upfront costs and huge risks. Monopoly provided at least a modicum of security. The third benefit was military might. The Company's Dutch and Portuguese competitors could all call on the power of their respective navies. The English needed to do likewise in order to unlock investors' purses.

Still, getting into bed with the government was risky for the Company. It meant getting close to courtiers who wanted to extract revenue from it and exposing itself to politicians who wanted to rewrite its charter. The Whig revolutionaries who deposed James II in 1688 briefly promoted a competing outfit that the Company first fought and eventually absorbed. Rival merchants lobbied courtiers to undermine its monopoly. But for the most part it dealt with these political problems brilliantly. Indeed its most valuable skill—its “core competence” in the phrase beloved of management theorists—was less its ability to arrange long-distance voyages to India and beyond than its ability to manage the politicians back home.

The Company created a powerful East India lobby in Parliament, a caucus of MPs who had either directly or indirectly profited from its business and who constituted, in Edmund Burke's opinion, one of the most united and formidable forces in British politics. It also made regular gifts to the Court: “All who could help or hurt at Court,” wrote Lord Macaulay, “ministers, mistresses, priests, were kept in good humour by presents of shawls and silks, birds' nests and attar of roses, bulses of diamonds and bags of guineas.” It also made timely gifts to the Treasury whenever the state faced bankruptcy. In short, it acted as what George Dempster, a stockholder, called a “great money engine of state”.

The Company was just as adept at playing politics abroad. It distributed bribes liberally: the merchants offered to provide an English virgin for the Sultan of Achin's harem, for example, before James I intervened. And where it could not bribe it bullied, using soldiers paid for by Indian taxes to duff up recalcitrant rulers. Yet it recognised that its most powerful bargaining chip, both home and abroad, was its ability to provide temporarily embarrassed rulers with the money they needed to pay their bills. In an era when governments lacked the resources of the modern tax-and-spend state, the state-backed company was a backstop against bankruptcy.

(…)

The Company's success in preserving its animal spirits owed more to necessity than to cunning. In a world in which letters could take two years to travel to and fro and in which the minions knew infinitely more about what was going on than did their masters, efforts at micromanagement were largely futile.

Adam Smith denounced the Company as a bloodstained monopoly: “burdensome”, “useless” and responsible for grotesque massacres in Bengal

The Company improvised a version of what Tom Peters, a management guru, has dubbed “tight-loose management”. It forced its employees to post a large bond in case they went off the rails, and bombarded them with detailed instructions about things like the precise stiffness of packaging. But it also leavened control with freedom. Employees were allowed not only to choose how to fulfil their orders, but also to trade on their own account. This ensured that the Company was not one but two organisations: a hierarchy with its centre of gravity in London and a franchise of independent entrepreneurs with innumerable centres of gravity scattered across the east. Many Company men did extremely well out of this “tight-loose” arrangement, turning themselves into nabobs, as the new rich of the era were called, and scattering McMansions across rural England.

SOURCE: Excerpts from The Economist, Dec 17, 2011

Case study “The British East India Company” (3/6)

Money and meritocracy

The Company repaid the state not just in taxes and tariffs, but also in ideas. It was one of the 18th and 19th centuries' great innovators in the art of governing—more innovative by some way than the British government, not to mention its continental rivals, and outgunned only by the former colonies of America. The Company pioneered the art of government by writing and government by record, to paraphrase Burke. Its dispatches to and from India for the 15 years after 1814 fill 12,414 leather-bound volumes. It created Britain's largest cadre of civil servants, a term it invented.

(…)

The Company also established a feeder college—Haileybury—so that it could recruit bright schoolboys and train them to flourish in, and run, India. These high-minded civil servants both prolonged the Company's life when Victorian opinion was turning ever more strongly against it and also provided a model for the Indian and domestic civil service. The Company liked to think of itself as having the best of both private and public worlds—the excitement and rewards of commercial life, on the one hand, and the dignity and security of an arm of the state on the other. But the best of both worlds can easily turn into the worst.

The perils of imperialisation

In the end, it was not rapacious politicians who killed the Company, but the greed and power of its managers and shareholders. In 1757 Sir Robert Clive won the battle of Plassey and delivered the government of Bengal to the Company. This produced a guaranteed income from Bengal's taxpayers, but it also dragged the Company ever deeper into the business of government. The Company continued to flourish as a commercial enterprise in China and the Far East. But its overall character was increasingly determined by its administrative obligations in India. Revenue replaced commerce as the Company's first concern. Tax rolls replaced business ledgers. Arsenals replaced warehouses. C.N. Parkinson summarised how far it had strayed, by 1800, from its commercial purpose: “How was the East India Company controlled? By the government. What was its object? To collect taxes. How was its object attained? By means of a standing army. What were its employees? Soldiers, mostly; the rest, Civil Servants.”

The Company's growing involvement in politics infuriated its mighty army of critics still further. How could it justify having a monopoly of trade as well as the right to tax the citizens of India? And how could a commercial organisation justify ruling 90m Indians, controlling 70m acres (243,000 square kilometres) of land, issuing its own coins, complete with the Company crest, and supporting an army of 200,000 men, all of which the East India Company did by 1800? Adam Smith denounced the Company as a bloodstained monopoly: “burdensome”, “useless” and responsible for grotesque massacres in Bengal. Anti-Company opinion hardened further in 1770 when a famine wiped out a third of the population of Bengal, reducing local productivity, depressing the Company's business and eventually forcing it to go cap in hand to the British government to avoid bankruptcy.

The government subjected the Company to ever-tighter supervision, partly because it resented bailing it out, partly because it was troubled by the argument that a company had no business in running a continent. Supervision inexorably led to regulation and regulation to nationalisation (or imperialisation). In 1784 the government established a board to direct the Company's directors. In 1813 it removed its monopoly of trade with India. In 1833 it removed its monopoly of trade with China and banned it from trading in India entirely. In 1858, the year after the Indian mutiny vindicated the Company's critics, the government took over all administrative duties in India. The Company's headquarters in London, East India House, was demolished in 1862. It paid its last dividend in 1873 and was finally put out of its misery in 1874. Thus an organisation that had been given life by the state was eventually extinguished by it.

(…)

SOURCE: Excerpts from The Economist, Dec 17, 2011

Case study “The British East India Company” (4/6)

The East India Company and the United States

American and British schoolchildren are taught about the infamous Tea Act of 1773, which led to the rebellious Boston Tea Party. But exactly why the Boston colonists threw thousands of pounds of tea into Boston Harbor may be less clear. It's actually due to collusion between the government and the East India Company.

The Tea Act was designed by Parliament specifically to help the EIC unload the millions of pounds of unsold tea in its English warehouses. The Americas were the designated recipients (like it or not) of the surplus tea. The act was meant to enforce the EIC's monopoly on tea in the colonies. It would be like the United States government forcing all of today's Americans to purchase Apple computers only. Ultimately, the Tea Act allowed the EIC to drive its competition out of business. Colonists deemed this an unfair practice -- government was supporting one business's interests at the expense of the liberty -- and it gave rise to the famous slogan "no taxation without representation".

SOURCE: Excerpts from J. Clark, "How did the East India Company change the world?"

Case study “The British East India Company” (5/6)

The East India Company and India

Thanks to factories (colonies or settlements), the East India Company was able to subjugate India and its tribal rulers. The company built forts in India to house its private army. The EIC also raised soldiers from within the native populations. With the establishment of martial rule (the government set up in a land occupied by military) profits could be garnered easily. Perhaps the most profitable export for the company's India operations was opium.

By 1750, the EIC had established control over India's most prolific sites of opium cultivation. The British exported the opium to China, which eventually resulted in two opium wars between the countries over the drug's importation. By 1793, Britain had a monopoly on opium, and no Indian grower was allowed to sell his crops to any other company.

The British colonialism carried out through the EIC was pretty brutal. It included the forceful seizure of land and deposing of rulers. Tribute, taxes and loyalty were extracted from average citizens through methods up to and including torture. Ultimately, the British presence proved to be unacceptable for some Indians. A number of sepoys (native Indians who joined the EIC's militia) revolted against the EIC's rule during the Sepoy Rebellion of 1857. Some historians consider this India's first war for independence, even though it was quelled by the British army. Afterward, Great Britain officially occupied the country. India would remain an English colony until 1947, when it became a constitutional republic.

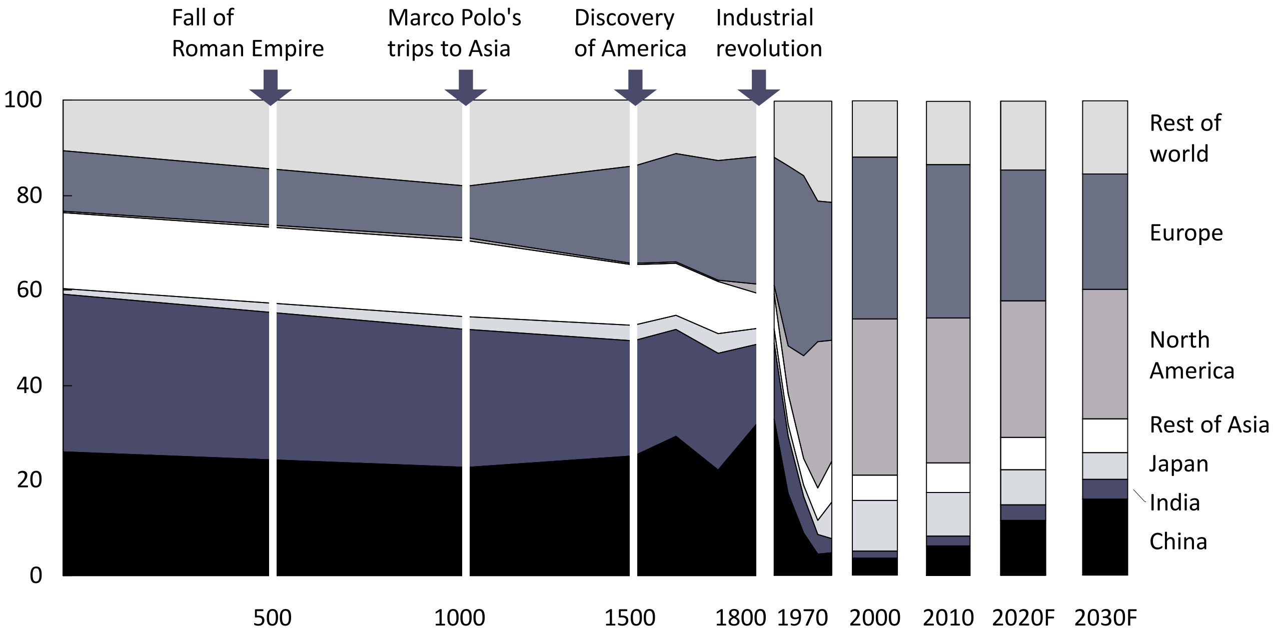
SOURCE: Excerpts from J. Clark, "How did the East India Company change the world?"

Case study “The British East India Company” (6/6)

- What were the key factors of success for the EIC, e.g.
  - How did they open-up new markets?
  - How did they manage talent?
  - How did they organize?
  - How did they manage risk?
- What questionable business practices did the EIC apply?
- How did the EIC profit from protectionism?
- Do you know comparable examples from today’s world – at least in some tiny parts?

Asia was the center of the global economy until the Industrial Revolution – and its economic renaissance is well under way

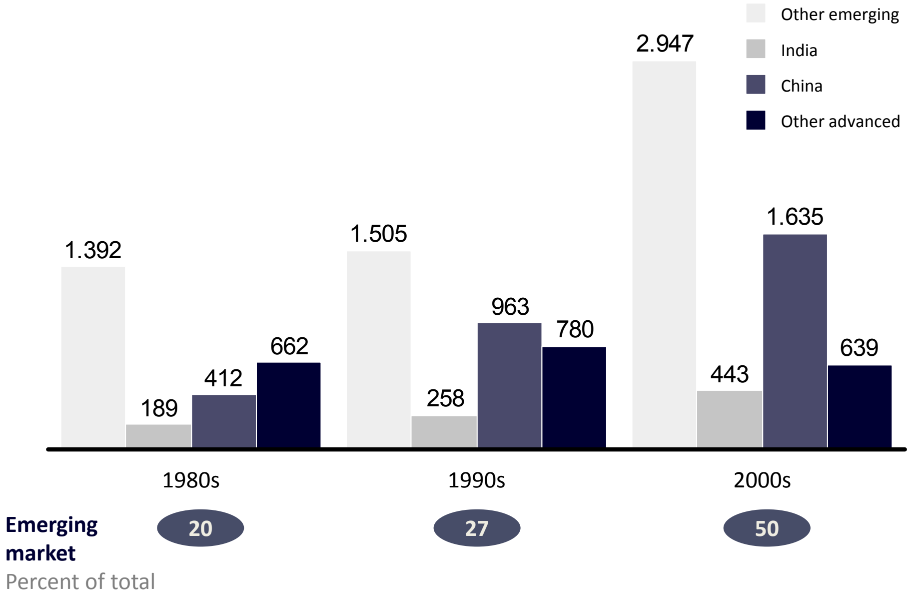
Share of world GDP
Percent



SOURCE: Angus Maddison, Historical Statistics for the World Economy: 1-2003 AD; Global Insight

The pattern of growth in the last decade was a striking contrast to the last two decades of the 20th Century

Regional contributions to global growth, 1980-2008
Percent, USD billions 2005



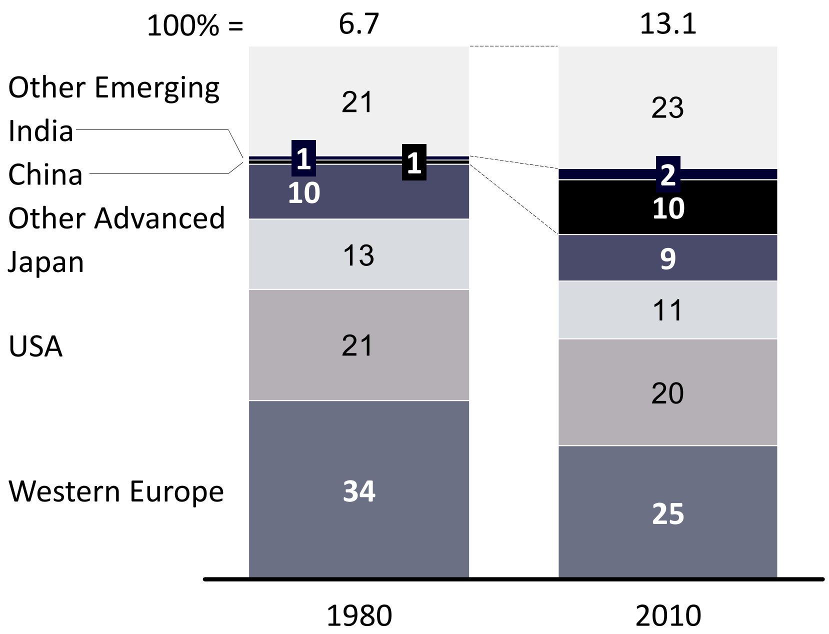
- **Emerging markets grew three times (2.9x) faster** than advanced economies in the last decade
- **Growth is distributed** – no single emerging market (apart from China and India) was more than 4 percent of the total
- **Growth is regional** – 57 percent of other emerging market growth was accounted for by other emerging regions outside the G-20

SOURCE: McKinsey

Led by China, emerging markets' share of global industrial production grew from 23 to 35 percent between 1980 and 2010

Global industrial sector GDP, 1980-2010

Percent, USD trillions 2010



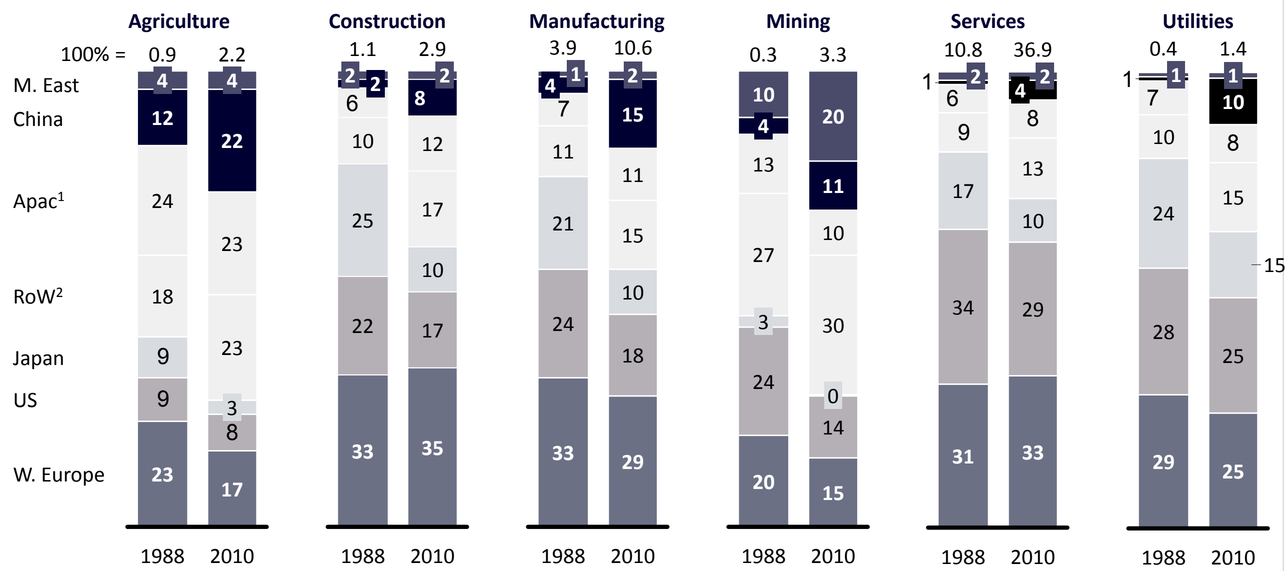
- China & India have increased their share 8x since 1980
- U.S. retained its share – unlike other advanced economies
- Western Europe experienced the greatest decline

SOURCE: McKinsey

The shift towards emerging markets occurred in all major industries

Percent of industry value add from region

USD Trillions, 1988–2010



1 Excluding China and Japan

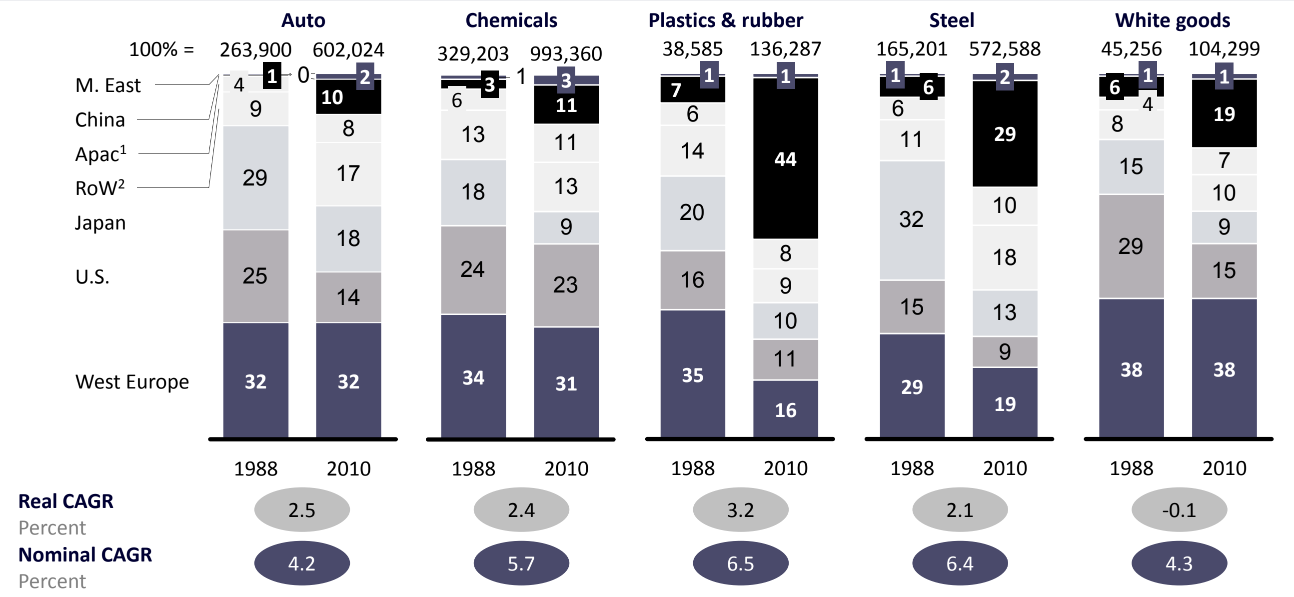
2 Rest of World includes several western-countries (e.g., Canada)

SOURCE: IMF

The shift in manufacturing production from developed to emerging economies – especially to China – is profound

Percent of industry value add from region

USD Millions, 1988–2010



1 Excluding China and Japan

2 Rest of World includes several western-countries (e.g., Canada)

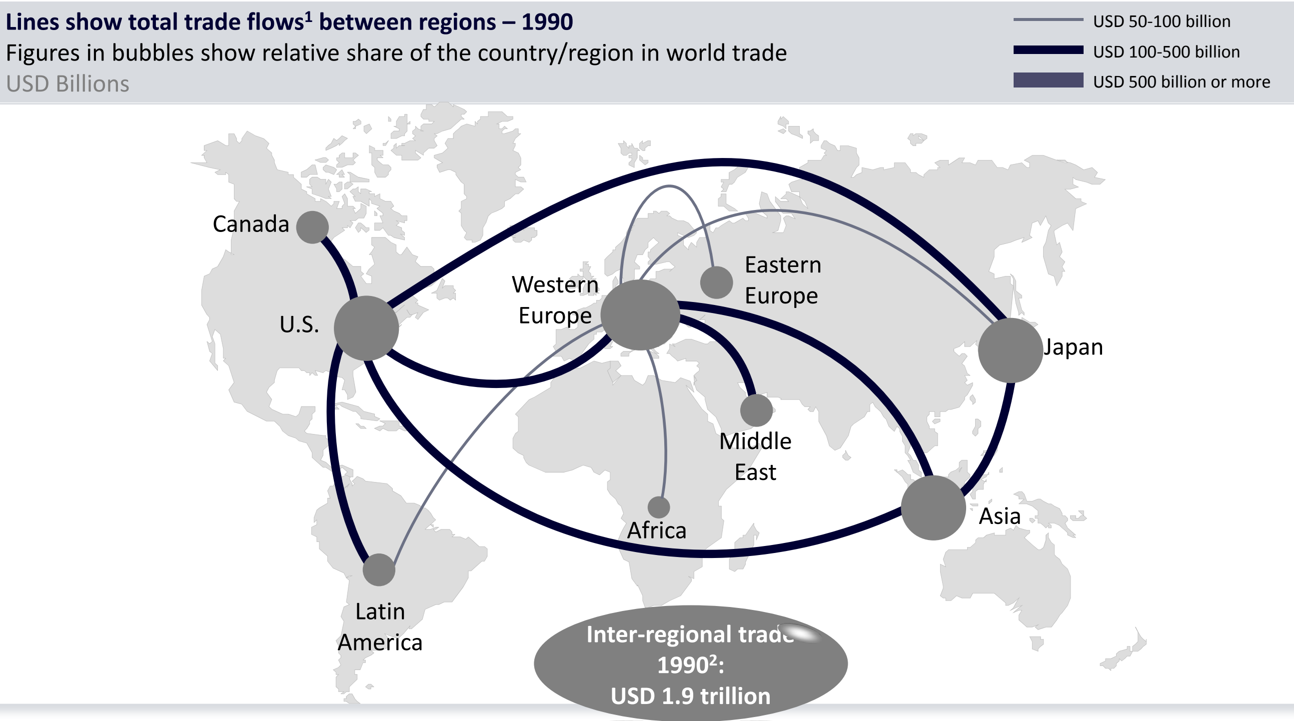
SOURCE: IMF

In 1990, the U.S. and Western Europe were the main hubs for trade flows

Lines show total trade flows[1] between regions – 1990

Figures in bubbles show relative share of the country/region in world trade

USD Billions



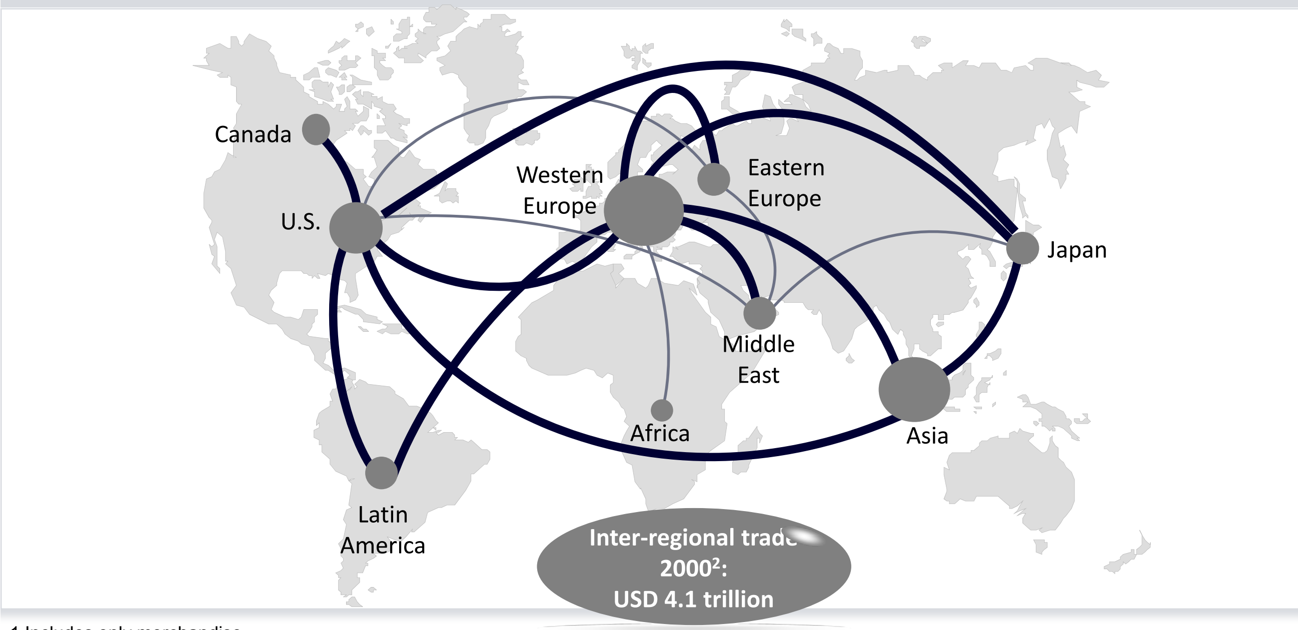
1 Includes only merchandise

2 This value does not include the trade flows between countries in a region. If intra region trade flows are included the total trade for 1990 is $3.2 trillions

SOURCE: Direction of Trade – IMF

By 2000, trade among regions intensified and the Middle East became more active in world trade

Lines show total trade flows[1] between regions – 2000
Figures in bubbles show relative share of the country/region in world trade
USD Billions

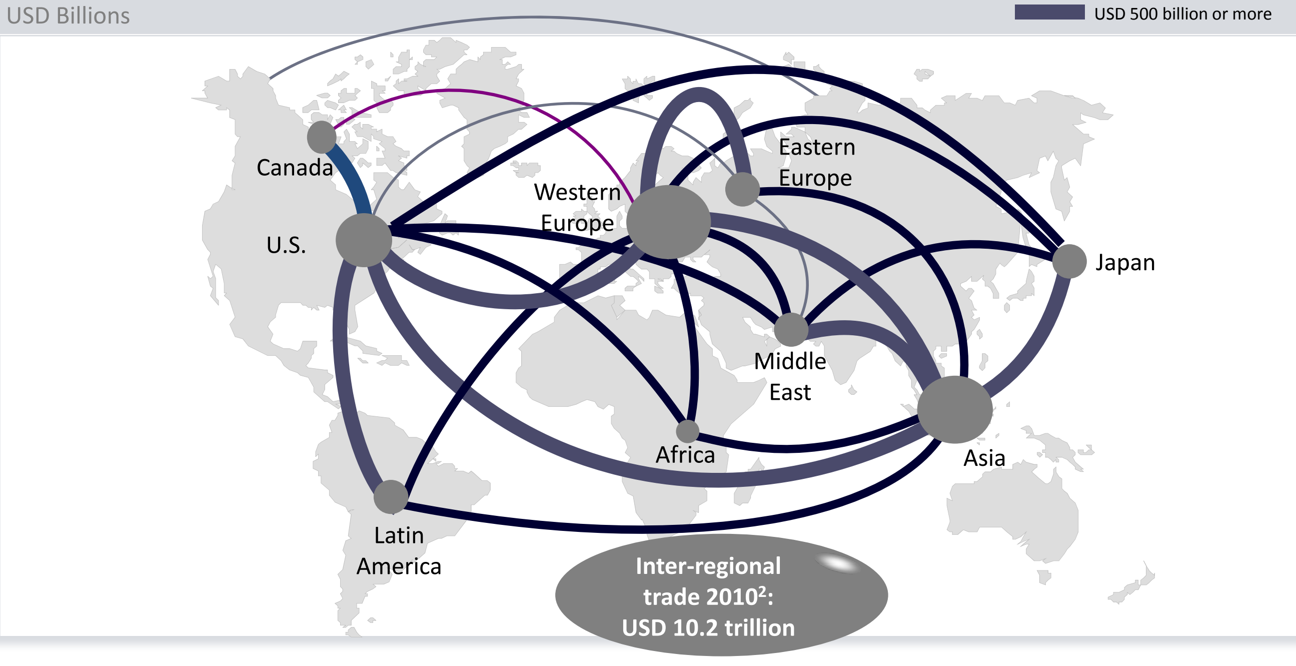


1 Includes only merchandise
2 This value does not include the trade flows between countries in a region. If intra region trade flows are included the total trade for 2008 is $6.2 trillions

SOURCE: Direction of Trade – IMF

By 2010, trade had become an elaborate web with Asia increasingly a major hub

Lines show total trade flows[1] between regions – 2010
Figures in bubbles show relative share of the country/region in world trade
USD Billions

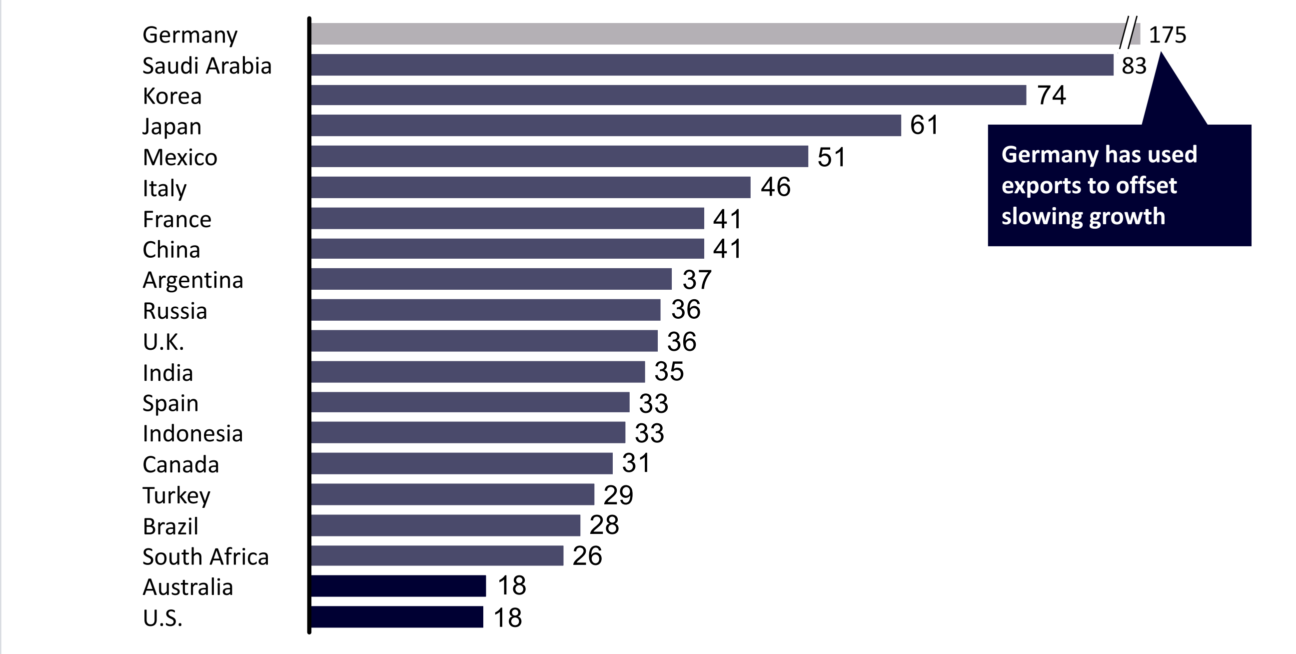


1 Includes only merchandise.
2 This value does not include the trade flows between countries in a region. If intra region trade flows are included the total trade for 2010is $16.0 trillions

SOURCE: Direction of Trade – IMF

The U.S. and Australia have lagged the G-20 in pursuing export-led growth

Real export growth as a share of real GDP, 1998-2010
Percent

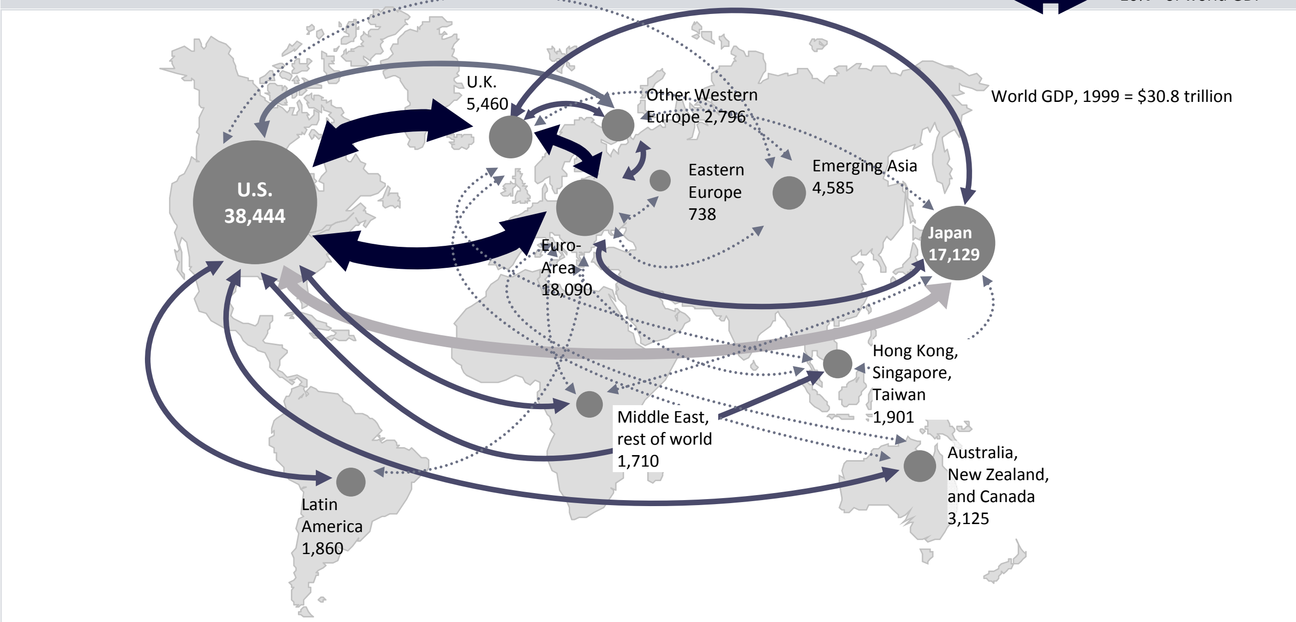


SOURCE: IMF

International financial flows that were dominated by Japan and the U.S. in the late 1990s …

Lines show total value of cross-border investments between regions[1]
Figures in bubbles show value of domestic financial assets
USD Billions

0.5-1% of world GDP
1-5% of world GDP
5-10% of world GDP
10%+ of world GDP

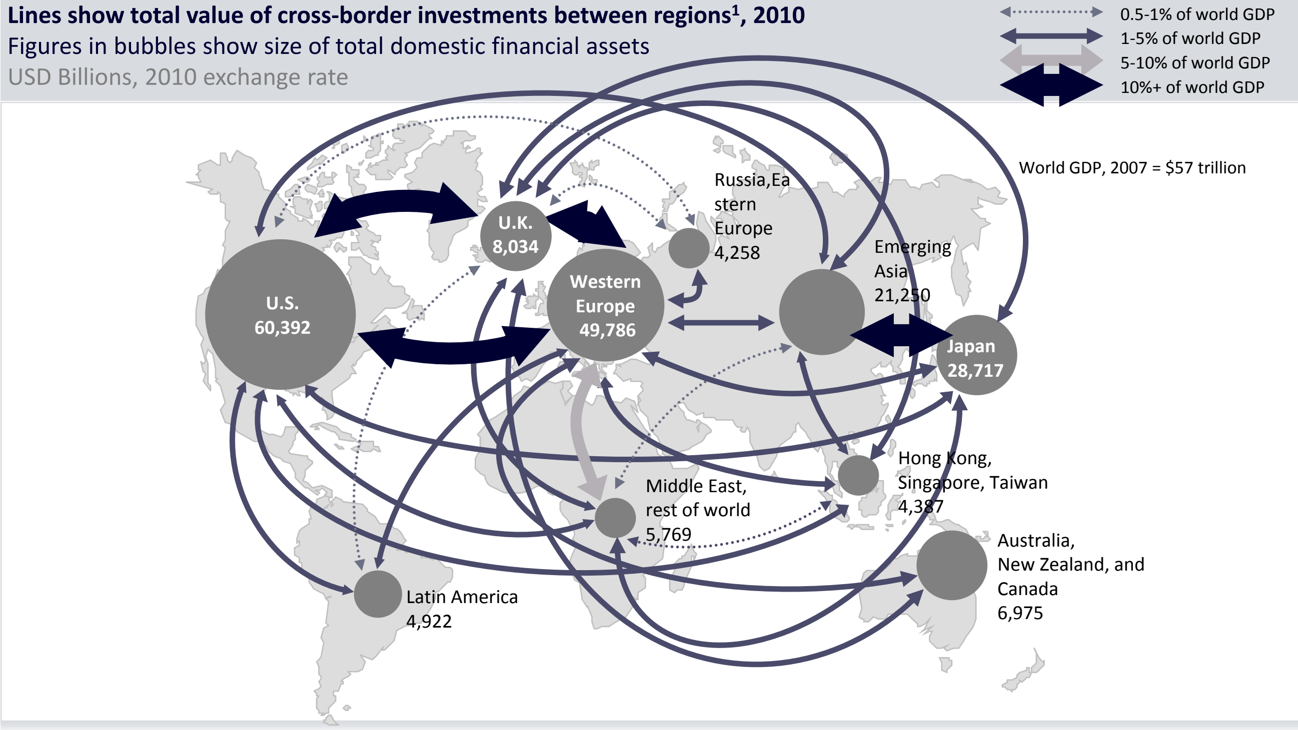


1 Includes total value of cross-border investments in equity and debt securities, lending and deposits, and foreign direct investment

SOURCE: McKinsey Global Institute

… became much more diversified before the onset of the crisis

Lines show total value of cross-border investments between regions[1], 2010
Figures in bubbles show size of total domestic financial assets
USD Billions, 2010 exchange rate

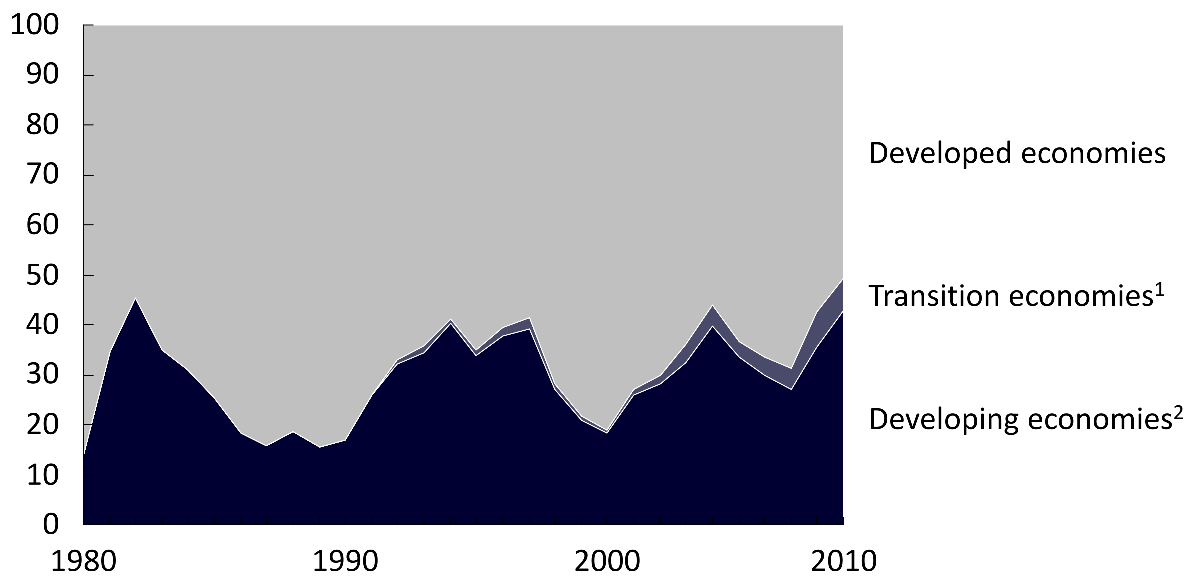


1 Includes total value of cross-border investments in equity and debt securities, lending and deposits, and foreign direct investment

SOURCE: McKinsey Global Institute

Developing economies are receiving a growing share of direct investment flows

Share of foreign direct investment, 1980-2010
Inward flow, percent



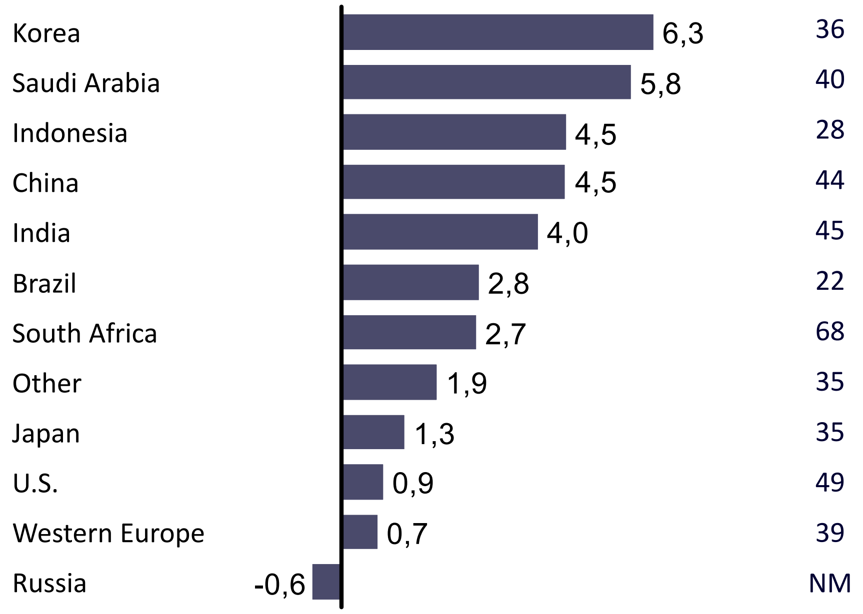
1 As defined by the UN; generally countries making the transition from centrally-planned to market based
2 As defined by the UN; generally countries with low levels of per capita income and lesser developed market economies

SOURCE: United Nations Conference on Trade and Development, World Investment Prospects Survey 2009–2011

Rising production led to increased energy demand – and varying degrees of energy efficiency

Global growth in energy demand, 1980-2008 CAGR

Distribution and transformation Share of growth

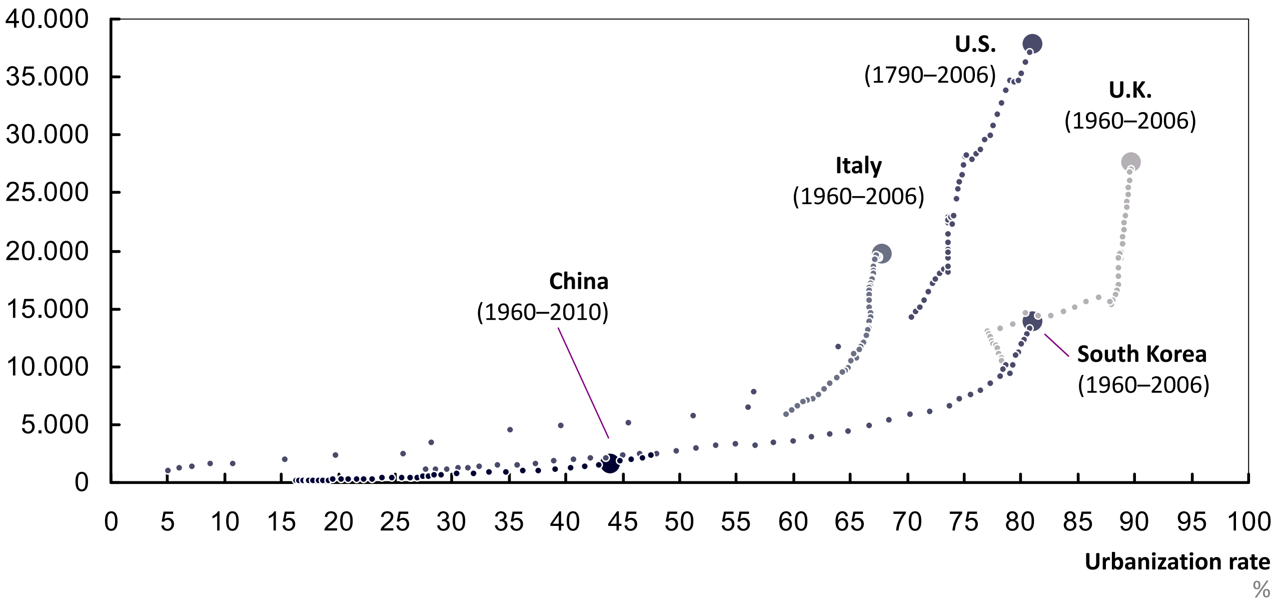


- For every new unit of energy demanded, South Africa has had to devote 2.1 units to distribution and transmission losses
- The U.S. needs nearly 1, China only 0.8, and Indonesia 0.4 units

SOURCE: IMF

Historically, growth accelerates after a country is mostly urban

Per capita GDP, 2001
USD

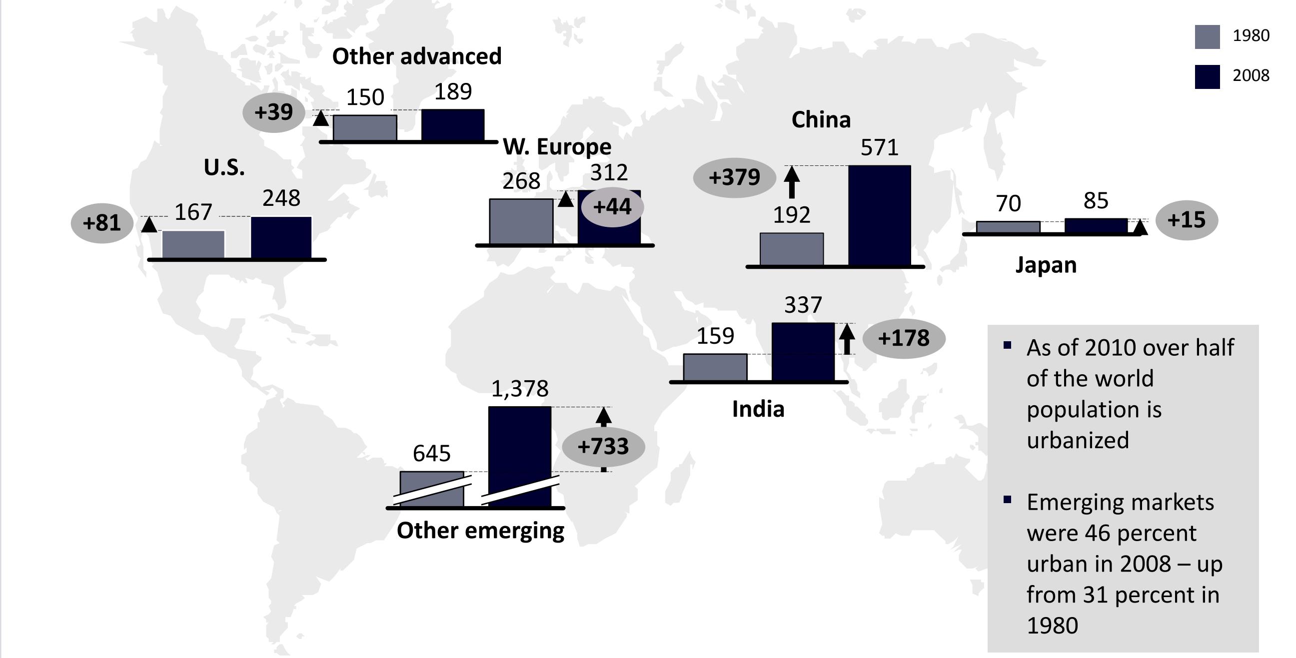


Note: Definitions of urbanization states differ across countries

SOURCE: EU KLEMS database; McKinsey Global Institute

Since 1980, increasing urbanization in emerging markets has helped drive productivity as well as impose new costs

Urban population, 1980-2010
Millions



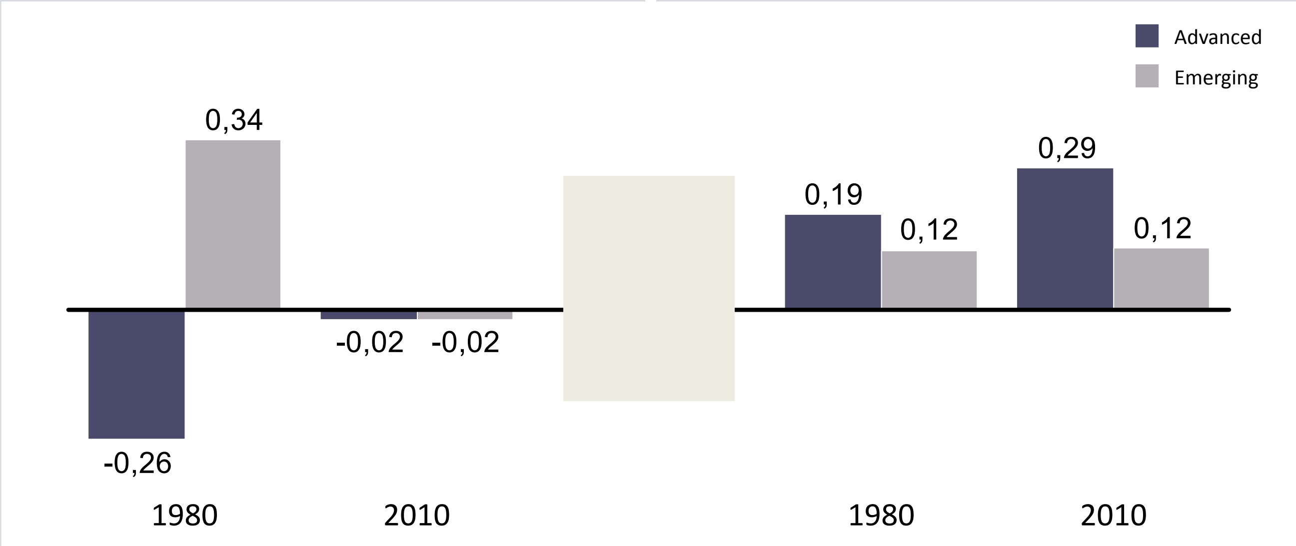
- As of 2010 over half of the world population is urbanized
- Emerging markets were 46 percent urban in 2008 – up from 31 percent in 1980

SOURCE: UN Population Fund

Emerging markets have benefited from a relatively young population, but that advantage is ebbing

Annual increase in under 14 population
Percent of total population

Annual increase in over 65 population
Percent of total population

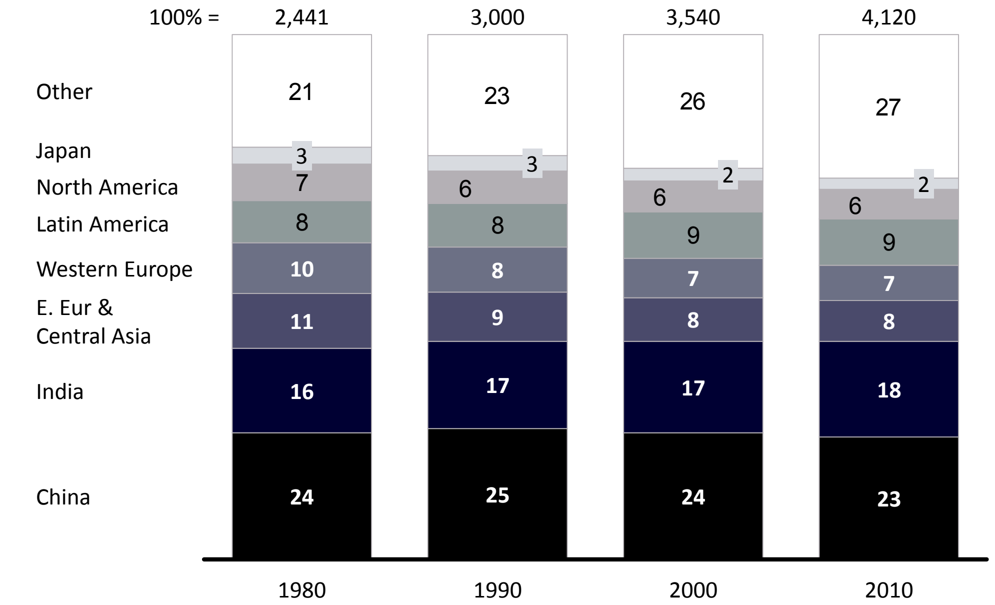


SOURCE: IMF; McKinsey

The greatest shifts in working age population have been outside of the major economies

Working age population (15 to 64), 1980-2010

Millions, percent



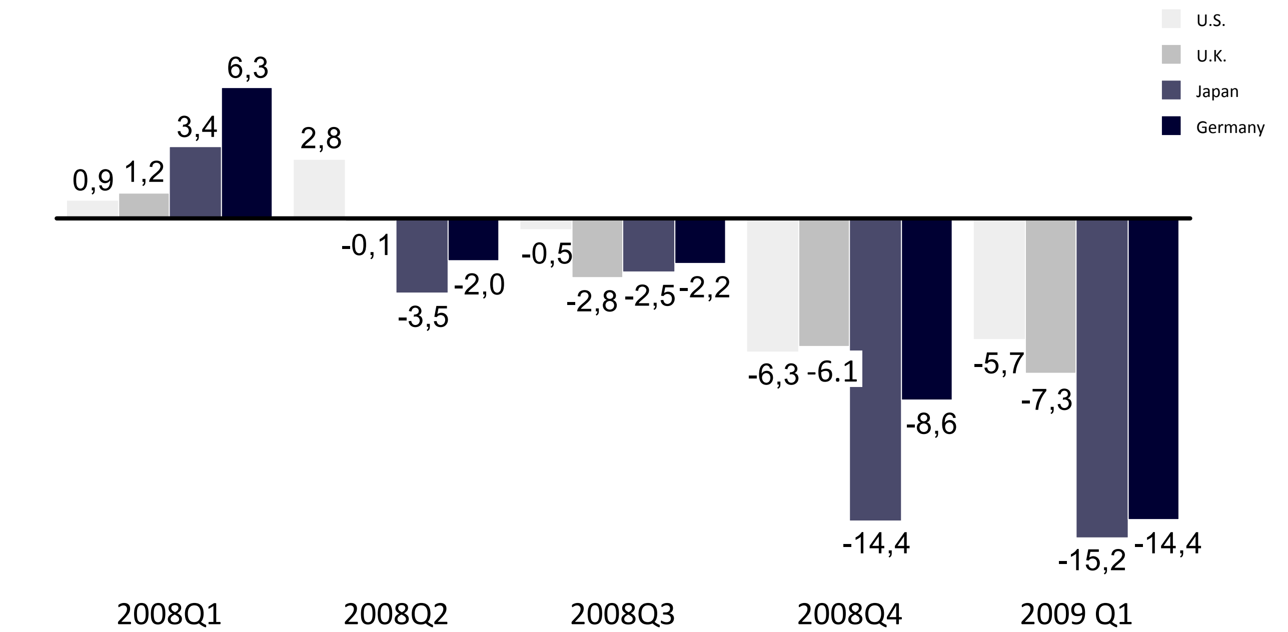
- India & China account for virtually the same share of the global workforce as they did 30 years ago
- The greatest gains have been in Africa, Middle East and in other South Asia

SOURCE: IMF; McKinsey

The credit crisis induced a rapid and deep downturn in major advanced economies…

Real GDP growth rates

Percent change at annual rate

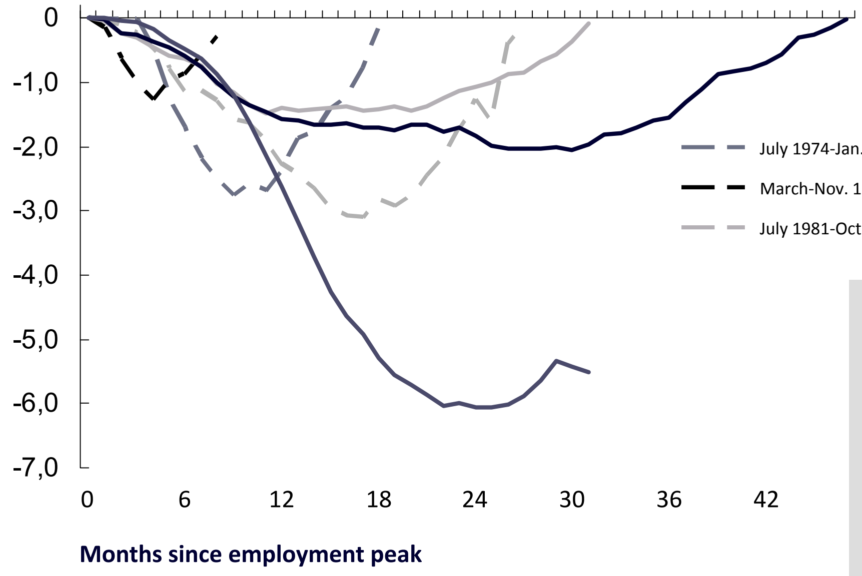


SOURCE: IMF

…leading to an unprecedented decline in U.S. employment

Decline from peak U.S. employment[1]

Percentage from peak month prior to recession



- 8.4 million jobs lost from peak-to-trough (Dec 2007 to Dec 2009)
- 0.9 million net job gains since the start of 2010 (Jan 2010 through August 2010)
- U.S. employment today (August 2010) is 6.8 million jobs below peak of December 2007

1 Total non-farm employment, seasonally adjusted
2 June and July 2010 values are preliminary numbers and subject to change

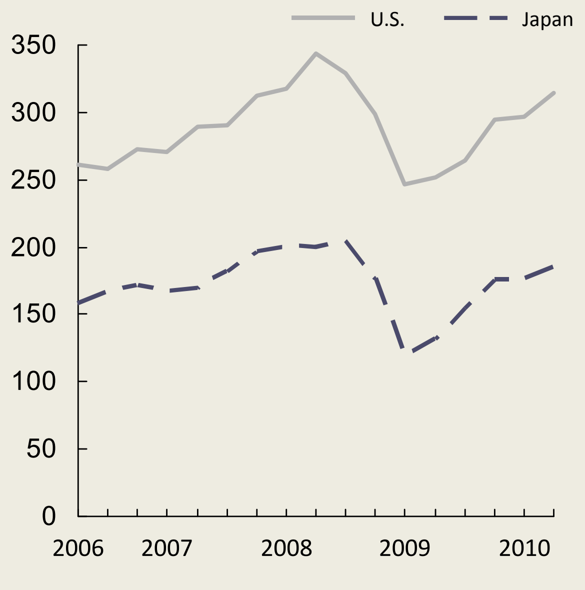
SOURCE: U.S. Bureau of Labor Statistics

The initial phases of the crisis threatened to unravel the global web of trade …

Exports fell by 28 and 40 percent in the U.S. and Japan during the crisis …

U.S. and Japan quarterly exports

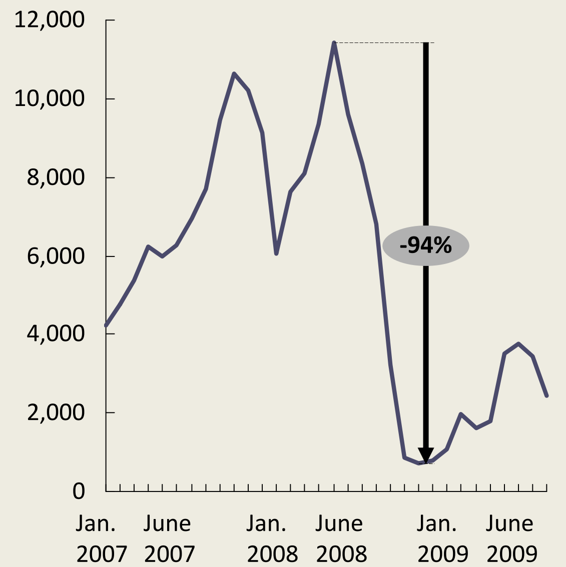
Million



… and record shipping prices fell over 90% from their peak

Baltic Dry Index, 2007-2009

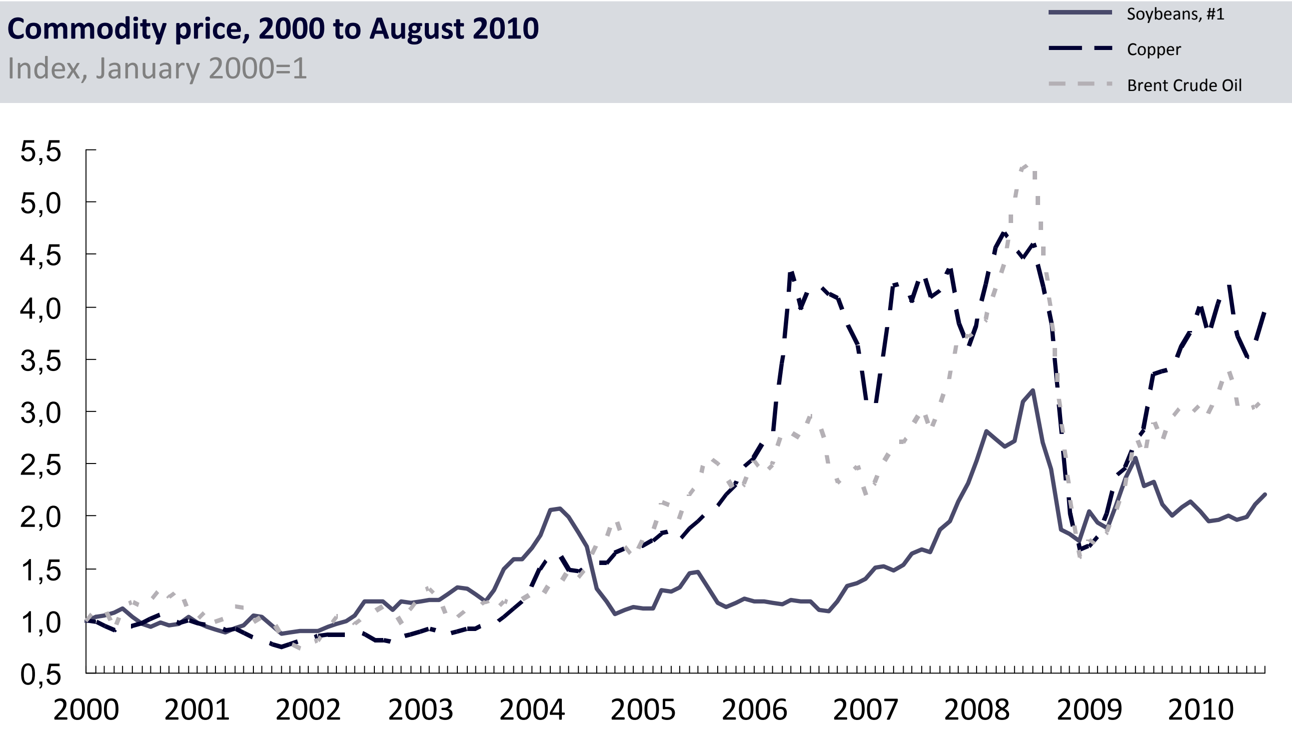
Index



SOURCE: Bloomberg, IATA, ITC

…but temporarily eased the pressure from rising commodity prices

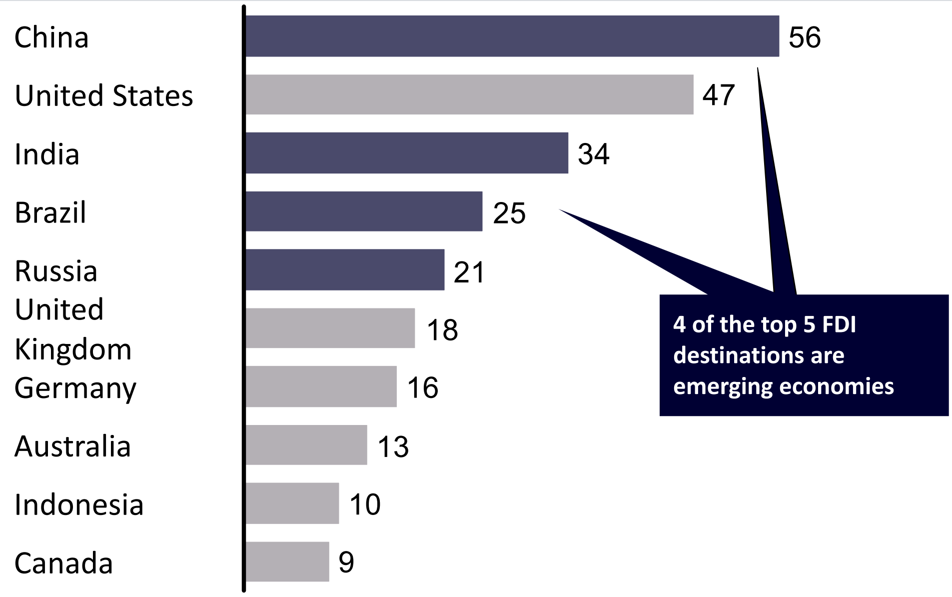
Commodity price, 2000 to August 2010
Index, January 2000=1



SOURCE: Haver Analytics

Shift in FDI away from advanced economies is expected to continue

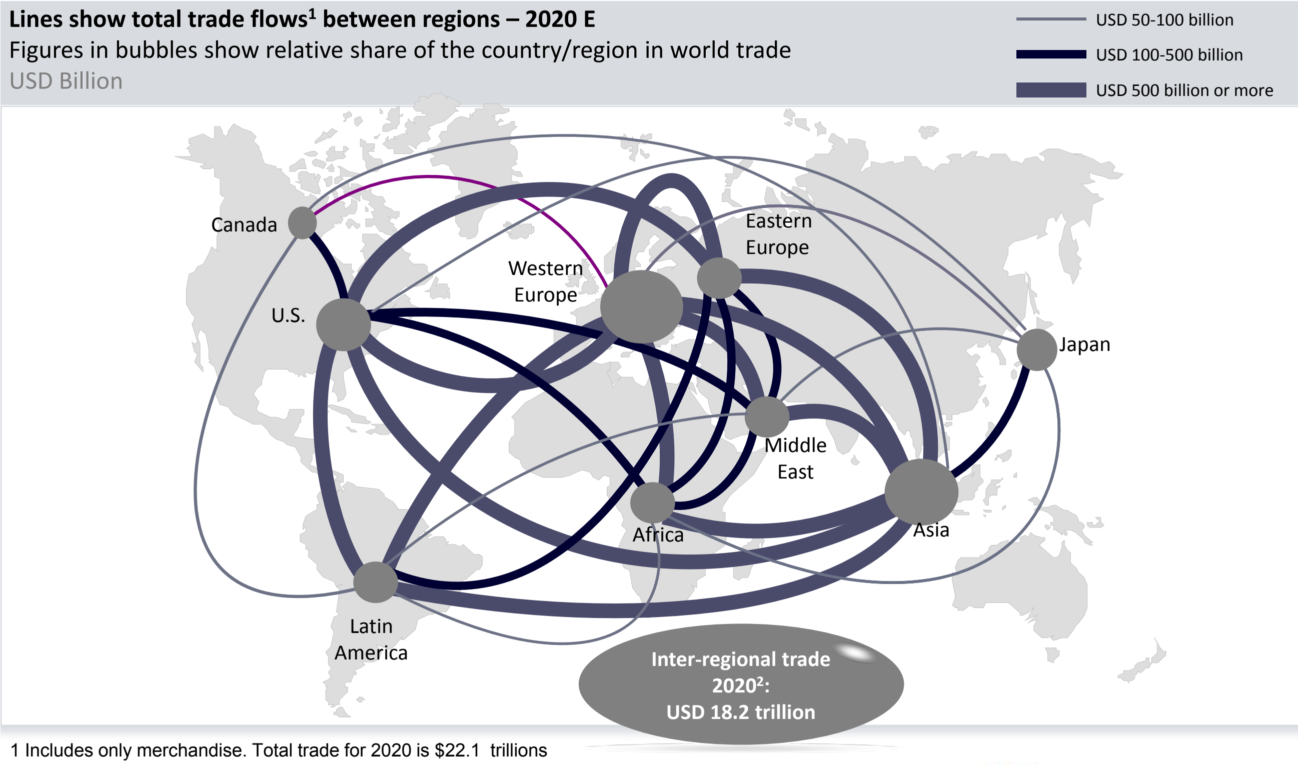
Top 10 most attractive economies for location of FDI, 2009–11
Percent of respondents



SOURCE: United Nations Conference on Trade and Development, World Investment Prospects Survey 2009–2011

The web of trade ties are still expected to deepen over the next decade

Lines show total trade flows[1] between regions – 2020 E
Figures in bubbles show relative share of the country/region in world trade
USD Billion



1 Includes only merchandise. Total trade for 2020 is $22.1 trillions

SOURCE: Queri International