Sentron blinds Mexico: The challenge in expanding internationally

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ABSTRACT

This descriptive case study reflects a real-life situation in which one of the authors was personally involved. The name of the organization and those of the principals involved have been disguised; the original organization is no longer in business. Sentron Window Corporation grew from a small entrepreneurial, family-owned venetian blind manufacturer into a highly successful importer and manufacturer of hard window treatments with a dominant share of the United States market. It had annual sales growth of 25% per year for over a decade, and distribution for its varied window products was found in every major retailer in the United States including Walmart, JC Penney, Sears, Home Depot, K Mart, FW Woolworth and numerous regional mass merchants. The firm had annual sales exceeding $130 million a year. However, Sentron's decision to expand into international manufacturing by building a greenfield manufacturing plant in Reynosa, Mexico proved not only challenging, but in the end, also risky to the profitability and very survival of the firm itself.

KEY WORDS

International business, entry modes into international business, challenges to international expansion, multinational enterprises, NAFTA, Mexican maquiladoras

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LEARNING OUTCOMES

After reading this case study and completing this assignment, students should be able to:

1. Identify and categorize the challenges faced by firms as they endeavor to expand their operations into a foreign country.
2. Evaluate the pros and cons of greenfield ventures as one of the several modes of entry into the international market.
3. Assess the role that NAFTA played in an American firm's management decision to build a manufacturing plant in Mexico.

APPLICATION

The case study is appropriate for use in undergraduate courses such as International Business, Fundamentals of Marketing, Small Business Management and Entrepreneurship, International Strategic Management, International Economics and Trade, International Marketing and Management.

INTRODUCTION

Encouraged by the excitement generated by the North American Free Trade Agreement (NAFTA) and the opportunity to lower production and transportation costs, Sentron Windows Corporation's management team made the strategic decision to construct a new manufacturing plant in Mexico and to take advantage of lower production costs, tariffs, and transportation costs. Ultimately, what was a well-measured and thought-out investment that generated optimism among the firm's owners would be undone. Several unanticipated political, economic, and socio-cultural environmental factors conspired against Sentron's Mexican venture and posed a risk to the firm's very survival.

On January 1, 1994, NAFTA became effective among the signatory partners of the United States, Canada, and Mexico. The agreement encompassed a population of 450 million and a gross domestic product (GDP) approximating $17 trillion (Amadeo, 2020). In addition to the agreement's commitment to eliminate tariffs and non-tariff barriers among the partners over a 15-year period was the provision to encourage and protect foreign direct investment into the free trade area. United States and Canadian firms, along with many Asian and European companies, began investing in Mexico and building manufacturing and assembly plants along the United States - Mexican border to take advantage of lower cost labor, time, and transportation savings to the important U.S. marketplace.

HISTORY

Over 75 years ago, brothers Dick and Joe Lee founded the Sentron Windows Corporation to manufacture venetian blinds. Ultimately, Sentron became both a manufacturer of blinds and a fabricator for the Levolor Company, which catered to special order hard window treatments. In 1954, the Lee brothers decided to branch out from strictly manufacturing and began importing bamboo roll-up blinds from Japan. Selling the new import products to the emerging hardware and home center markets proved profitable; soon, other products, such as shelving, and café doors, were added to the venetian blinds and roll-ups. Throughout the 1960s, 1970s, and 1980s,

Sentron Windows remained a small entrepreneurial firm with annual sales of approximately $25 million. Yet, the Lee brothers had established themselves as strong importers in the nascent industry and began to search out additional products and resources in both Europe and Asia. Soon, additional products were being imported from Taiwan in the form of the new matchstick bamboo roll-up and vinyl folding doors. By the late 80s, spurred by the success of their overseas product sourcing and importing, the Lee brothers decided to cease manufacturing and concentrate strictly on becoming an importer and distributor of blinds and related products.

The growth of the home center industry firms such as Grossman's, Pergament, Hechingers, Standard Brands, and Channel Stores enabled Sentron to grow both its market and product lines. Window shades, a wide variety of roll-up blinds, some wood, and even vinyl blinds were marketed. Throughout the latter part of the twentieth century, the firm remained a relatively small importer of hard window products with a small sourcing office located in Osaka, Japan. The decade of the 1980s, however, would change the firm dramatically and move it to the forefront of the hard window treatment business.

The 1980s witnessed two crucial events in Sentron's history. Joe Lee passed away, and his brother Dick retired, leaving the firm ultimately in the hands of Joe's sons, Ron and Jack Lee. Secondly, American consumers became enamored with a new version of the very traditional venetian blind, the one-inch vinyl mini blind. Ron and Jack took a bold position on the new product, expanded their sourcing activities in Asia, and opened a second office in Taipei, Taiwan to facilitate sourcing and the importation of the one-inch vinyl mini blind. This new product would allow Sentron to pursue additional markets, particularly in the department stores and emerging mass merchants.

By the 1990s Sentron Window Corporation USA had become the largest importer of vinyl mini blinds in the United States with distribution in a wide variety of trade classes, including such national chains as Home Depot, FW Woolworth, Montgomery Wards, K-Mart, and the fastest growing mass merchants such as Wal-Mart, Caldor's, Ames, Jamesway and Zayres.

Funding for the firm's imports was provided by letters of credit drawn on the Chase Manhattan Bank and the Israeli Discount Bank of New York. Annual sales had grown to over $60 million and were showing 25% growth per year. Market share exceeded 40%. Competition came from several firms such as JoAnna, Lewis Hyman, Kenney, Window Concepts, Achim, Clopay, and smaller importers such as Lotus, Universal, and Kingdom.

The continued growth of home centers such as Home Depot, Lowes, Pergament, and Channel Stores and the expansion of the mass merchants, especially Wal-Mart, enabled Sentron to expand its markets profitably and to implement additional product line extensions. The most successful extensions proved to be packaged fabric and vinyl stock verticals for sliding patio doors. These stock verticals soon found acceptance in all trade classes, i.e., department stores, home centers, and mass merchants. They became an integral part of the hard window treatment departments alongside the window shades, 1" mini blinds, and roll-up blinds.

GROWTH PAINS

While Sentron and the mini blind market were experiencing almost phenomenal growth in the 1980s, a number of difficulties began to intrude on continued growth. Delivery from Taiwan was problematic at times. Even communication with the staff of the Taipei office could be frustrating and the shortage of inputs needed to produce the blinds, particularly resins, led to

delays and price increases. Then in addition, the imported fabric verticals were subject to United States governmental quota restrictions that occasionally delayed receipt when monthly fabric quotas from Asia had been met.

Of even more concern to the firm's management was the relocation of several Taiwanese blind factories to the People's Republic of China via joint ventures with the CPR government. In addition to longer delivery time due to the greater distances involved, lack of direct supervision of quality provided by the Taipei office and more costly transportation costs (the products would have to ship from inland factories to Hong Kong or Shanghai and then to Taiwan), there were political and economic risks to doing business with the CPR. Human rights violations, use of prison labor and child labor, etc., could result in presidential sanctions or even the revocation of the most favored nation treatment. Retailers such as Wal-Mart had embarked upon human rights campaigns of their own and required signed vendor agreements forbidding the use of prison or child labor in their imported products. Violations of these agreements would mean loss of the account.

By the decade of the 1990's, Sentron's annual sales exceeded $130 million, profits remained strong, and the firm dominated the mini blind and hard window treatment industry in both the home center and mass merchant trade. Yet not all was well. Product from China was of lower quality, retailer pressures for lower cost pricing began to squeeze profits, retailer consolidations were taking place at a fast pace, e.g., Ames bought out Zayres, and stronger competitive pressures necessitated a new strategic direction if Sentron was to continue its dominant industry position.

NEW STRATEGIES

As the twentieth century was ending, Ron and Jack Lee had already begun to adopt a new strategic direction for the firm. Sentron would concentrate all its efforts on becoming the premier firm in hard window treatments. The goal would be accomplished by pruning the firm's product line; roller shades, some roll-up blinds, shelving, café doors, lattice, cork products would all be sold off. Secondly, the firm would aggressively develop new window treatments for an upscale market. The Premier family of blinds was introduced representing a new technology; the Premier blind provided a room darkening effect to the traditional light filtering vinyl blinds and verticals. Thirdly, Sentron decided to outsource product from both China and Taiwan for better quality and improved profits. Lastly, in the early 1990s the organization would re-enter the manufacturing business to produce vinyl and fabric verticals domestically at its McAllen, Texas facility.

Sentron Manufacturing USA, located in McAllen, Texas, experienced the usual start up difficulties, forecasting product needs, acquiring proper parts inventories, meeting production timetables, and achieving economies of production. Yet, the presence of a manufacturing facility enabled the firm's sales and marketing functions to emphasize value marketing and made in the USA themes while implementing a Just-In-Time (JIT) inventory control for major accounts. No longer would retailers have to place container orders 90 days in advance. In four weeks, product could now be delivered to the retail-selling floor; turns and profits would be dramatically improved. Indeed, manufacturing verticals enabled the firm to offer exclusive programs, packaging, and private labels to its accounts.

Emboldened by the success of Sentron Manufacturing, the Lees further revised their strategic plan to include the manufacture of 1" vinyl mini blinds. The decision was reached based on several factors:

- Increased costs of mini blind products from manufacturers in Taiwan-higher labor costs had driven pricing upward;
- Uncertainty of product quality and availability from the People's Republic of China, some 160,000 white mini blinds arrived as violet and underscored production difficulties and learning curve needs in China;
- Need to improve profit margins-costs were increasing from $.10 per sq. foot to $.125 per sq. foot, all of which eroded profit margins since it was difficult to pass along cost increases to the retailers;
- Maturation of the product and increased retail pressures for lower cost pricing-mini blind prices were dropping dramatically from $12.99 per blind to $9.99, and even $7.99, and sales had begun to flatten out.

Sentron's manufacturing facility would complement the firm's direct import of mini blinds while allowing greater flexibility to meet the specific product needs of its customers or unexpected manufacturing delays of product from Asia. Then, in addition, the sales department could promote truckload sales that would boost sales and offer further economies of production.

THE MEXICAN VENTURE

Like many successful domestic firms, Sentron was willing to commit its resources to foreign investment in the wake of NAFTA's approval in 1994. Since Mexico lacked any facilities in the manufacture of blinds, the new blind factory would be a greenfield venture. Like all greenfield ventures the new blind factory would be constructed from the ground up in Mexico just over the border from McAllen, Texas, which already had a Sentron warehouse and vertical manufacturing facility. Indeed, Mexico had become one of the most important new production centers for U.S. firms following NAFTA. Some 3,200 maquiladoras would soon be assembling T.V.'s, stereos, small appliances, apparel, computers, and even automobiles at the Mexican-United States border. (Saghafi, 1995)

The revisions in Mexican law during the 1980s required foreign ownership only via international joint ventures with Mexican partners who held majority ownership. In the 1990s, the Mexican government allowed for majority or even 100% direct foreign ownership. (McDaniel & Agama, 2003) Several other factors, such as cheap energy, proximity to Sentron's existing Texas facilities, reasonable startup costs, cheap labor ($1.17 per hour), and NAFTA, made Reynosa, Mexico, the ideal location for Sentron's new plant. The firm's owners were convinced that the new facility could produce a quality mini blind as cheaply as those produced in China and Taiwan. The distinct advantages resulting from Reynosa production lay in the elimination of the 3.65% duty on vinyl blinds, closer proximity to the firm's principal markets in the United States, improved quality control, and quicker delivery, three weeks vs. 90 days. The Reynosa plant would also allow Sentron Blinds to improve its distribution of product into Mexico, Central, and South America. Packaging labels and instructions would now be printed in English, Spanish, and French to allow a more global marketing outreach.

After nearly one year of negotiations and construction, Sentron Blinds Mexico opened in late 1994. Equipment such as chemical mixers, extruders, and cutting machines were funded internally by the firm and purchased from sources in China; Chinese personnel were brought in to train the newly hired Mexican workers. The enthusiasm at the parent company was high.

THE CHALLENGES OF EXPANDING INTO MEXICO

Sentron Blinds Mexico's future was troubled from the start. Plant managers, U.S. expatriates, many of whom spoke limited or no Spanish, received mixed direction from the parent firm's headquarters. First, the facility would produce 1" light filtering promotional mini blinds. Next, the Parsippany headquarters decision was made to produce Premium room darkening 1" vinyl mini blinds for general distribution and for private label. From the very outset, the Lee's had no clear vision on how the plant was to operate and what products should be produced. Decisions over which products to manufacture seemed to be constantly changing according to the whims of the Lee brothers. Ultimately, plant production would focus on producing 50,000 1" room darkening mini blinds per day with two shifts.

Senior corporate management with no real recent manufacturing experience had committed to a low-cost product strategy, i.e., use large scale manufacturing efficiencies in a cheap labor country to reduce unit and labor costs. Unfortunately, their efforts to control production were frequently misguided and misinformed. Plant managers and supervisors were fired; three plant managers were fired in one year; production and plant efficiencies suffered. The early difficulties emphatically pointed out the truism that plant personnel needed proper background and manufacturing experience to implement production and organizational goals. After nearly four years in operation, Sentron Blinds was poised to finally meet the owner's expectations. Plant personnel had stabilized and were experienced in manufacturing, resource planning for components had improved, the quality of the products had significantly improved with less than 5% scrap (down from nearly 30% earlier), and over 100,000 blinds were being manufactured daily in two shifts.

Anticipating, planning, and understanding the economic, political/administrative, socio-cultural, legal and geographical distance environments in which a firm operates can mean the difference between success or failure of the enterprise (Ghemawat, 2001). Sentron Window Corporation's venture into international manufacturing via its Sentron Blind manufacturing facility pointed out several difficulties that Dick and Jack Lee faced as owners of a multi-national enterprise.

Inventory Control/Sourcing proved problematic from the outset. Sentron Windows sourced literally thousands of components for its blinds and verticals from vendors in Mexico, Taiwan, China, Thailand, and the United States. Purchasing and control were the responsibility of raw material and import managers located in the Parsippany headquarters. Both managers were reliant upon information supplied by plant management in making purchasing decisions, placing orders, and importing components. Reports were not always timely resulting in out-of-stocks and production lag at the plant.

Communications were an ongoing challenge compounded by the geographical distance between the plant and New Jersey headquarters. Naturally, there were frequent misunderstandings due to language differences and nuances between the American and Mexican management teams, which further clouded both oral and written communications. There were additional problems caused by the efforts on the part of the Mexican plant personnel to be cooperative and to please headquarters management. When plant management needed to deliver negative news, it frequently led to miscommunication resulting in missed deadlines, delays in shipments, and out-of-stock products.

Managerial Control posed a challenge**,** further impacted by the geographical distance between the firm's Parsippany headquarters and the Reynosa plant. Plant managers were U.S.

expatriates, but many key supervisors were Mexican or Mexican Americans from the Texas facility with ethnocentric viewpoints. Indeed, as Ghemawat has pointed out firms with managers from the home country are often far more prone to be negatively impacted by cultural differences and nuances than managers who are more global in outlook and perspective (Ghemawat, 2001). There had been no efforts to establish training at corporate headquarters for managers assuming positions in the plant, nor had any real effort to inculcate a sense of corporate culture in the subsidiary's management. Transfers between the parent firm and the subsidiary were virtually non-existent except on an ad hoc project basis. All major decisions regarding production, product quantities, purchasing, and sourcing were made at corporate headquarters by the Lees with very limited input from the Mexican plant management team.

Risk Management planning and anticipating factors such as inflation, exchange rate variables, or potential government intervention were not taken into consideration. The Mexican devaluation of the peso in 1995 negatively impacted the firm's distribution in Mexico and the importation of needed inputs for the plant. Underestimating the need for capital infusion had forced the parent firm to expand its cash reserves to support the plant. The continued need to support the plant with capital generated internally jeopardized the firm's cash flow and weakened its cash reserves significantly.

Productivity proved to be a very real concern as well. The plant frequently experienced absenteeism and high personnel turnover. Many of the Mexican workers were in their late teens or early twenties, and frequently opted to return home to be with family-important in the Mexican culture. The high turnover of more than one third the workforce not only negatively influenced the plant's productivity, but also incurred additional supervision and training costs adding to operational costs.

Sentron was dealt a devastating blow in June when it was announced on national television by the Consumer Products Safety Commission (CPSC) that imported vinyl mini blinds contained lead and posed a lead poisoning threat to young children two years or younger when the blind had been exposed to long sunlight (U.S. Consumer Product Safety Commission, 1996). The announcement caught Sentron's management and the blind industry by total surprise. Although there were two reported cases of suspected lead poisoning alleged to have occurred because of lead dust on older blinds, there was no direct, documented evidence to link the blinds to the lead poisoning in the two children. The CPSC charges and the following media frenzy created havoc for Sentron and the blind industry, but the damage was done. All new vinyl mini blinds had to be reformulated with a thin base rather than lead (used for color fastness and stability), existing materials had to be discarded and new raw materials costing eight percent more purchased. The existing mini blind inventories had been made obsolete and non-saleable overnight by the announcement. Shipment of blinds was canceled or refused by retailers. Retail stores pulled the blinds off their shelves. Sentron's inventories were sold off to international markets at less than one third their value. Reformulation was not only more expensive, but also required more time to produce the extrusions and added one third more time to the manufacturing process.

CONCLUSION

Just as Sentron Window's Mexican venture had apparently turned the corner and was poised to become profitable, events beyond the control of the firm's management team threatened to undo the firm and posed a great risk to its very survival. Faced with such

challenges the Lee brothers needed to act quickly to protect both their Mexican venture and the parent firm itself from the lead crises both faced.

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TEACHING NOTES

CRITICAL OVERVIEW

This descriptive case study reflects a real-life situation in which one of the authors was personally involved. Sentron Window Corporation grew from a small entrepreneurial, family-owned venetian blind manufacturer into a highly successful importer and manufacturer of hard window treatments with a dominant market share of over 50% in the United States market. It had annual sales growth of 25% a year. The distribution of its varied window products was found in every major retailer in the United States, including Walmart, Home Depot, K-Mart, and numerous regional mass merchant chains. At the peak of its success, the firm had annual sales exceeding $130 million. However, Sentron's decision to expand into international manufacturing in Reynosa, Mexico, to take advantage of NAFTA proved not only challenging to the firm's management team but also risky to its profitability and its survival.

RESEARCH METHOD

The challenge of expanding internationally is based upon an actual situation encountered and experienced by one of the authors. The names of all personnel and the name of the actual firm involved in the incident have been disguised; the firm is no longer in business. Additional information used in the case and study questions was obtained from secondary sources.

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LEARNING OUTCOMES

After reading this case study and completing the assignment, students should be able to:
1. Identify and categorize the challenges faced by firms as they endeavor to expand their operations into a foreign country.
2. Evaluate the pros and cons of greenfield ventures as one of the several modes of entry into international markets.
3. Assess the role that NAFTA played in Sentron's management decision to build a manufacturing plant in Mexico.

APPLICATION

This case study is appropriate for use in undergraduate courses such as International Business, Fundamentals of Marketing, Small Business Management and Entrepreneurship, International Strategic Management, International Economics and Trade, International Marketing and International Management

DISCUSSION QUESTIONS

1. How could Sentron Windows have avoided the difficulties facing firms engaged in international business operations? Would a PEST and CAGE analysis have proved to be more beneficial in the Lee's decision to expand into Mexico? (LO 1)

2. You are the Lee Brothers. Evaluate the pros and cons of the type of market entry that Sentron Windows used when it entered into Mexico. What alternate modes of entry could Senton have used? What are the pros and cons of these entry modes? (LO2)
3. What role did NAFTA play, if any, in Sentron management's decision to open a plant in Reynosa, Mexico? (LO 3)

ANSWERS TO DISCUSSION QUESTIONS

1. How could Sentron have avoided the difficulties facing firms engaged in international business operations? Would a PEST and CAGE analysis have proved to be more beneficial in the Lee's decision to expand into Mexico? (LO 1)

Today, global interaction between nations has reached its highest point; many geographical areas have turned into a homogeneous place with goods and services easily exchanged (Ghemawat, 2001). Our world has become so interconnected that running international business operations seems a common practice. Nevertheless, this is one of the most ambitious goals a CEO can make during a company's lifespan. It is a complex and time-consuming process where the leadership team is required to invest an extensive amount of time, effort, and funds. Indeed, prior to making big moves, businesses should have answers to questions related to when, how, and where the company should become multinational. Just like the domestic market, the international market requires thoughtful assessment when it comes to competitors (Ferrell & Hartline, 2005). There is a great chance that other companies also may find a location attractive for investments at the given period. Entering a new geographic market comes with two variables - a hope that all goes well, and a process of overcoming expected and unexpected challenges to make it work. While hope is a vital motivational condition, overcoming challenges is a complex and methodical process.

Firms such as Sentron could rely on sophisticated analytical models like PEST to boldly calculate the pros and cons of their business expanding internationally. PEST is a well-known advanced evaluation tool designed to identify major external risks and stands for political, economic, sociocultural, and technological qualities of the particular business environment. Political factors require understanding host country political platforms, commitment support to foreign and direct investments, labor laws, and property rights. Economic factors reflect the current market's situation, inflation rates, trade cycles, industry conditions, consumers' preferences, and overall economic policies. Sociocultural factors can be referred to as lifestyle and mindset. It includes social structure when it comes to ideology, language, and the preferred way of communication, level of education, religion and traditions. Lastly, evaluation of technological and intellectual infrastructure would identify training platforms and physical infrastructure including access to the Internet (Morris & Oldroyd, 2019). Any given geographical region is only one of its kind; it has a unique combination of government, laws, policies, culture, traditions, language, currency, inflation rate, climate, and time zones. Failure to properly analyze a host country's characteristics may result in an enterprise catastrophe. If a company anticipates operating in multiple regions, the evaluation of prospects will become more complex.

While making their decision to expand into Mexico, the Lee brothers could also evaluate the compatibility of Sentron with the new location by using the GAGE method. In his work "Distance Still Matters" Pankaj Ghemawat introduces CAGE analysis - the approach dedicated

to analyze "the probable impact of distance". The concept of "distance" refers to cultural, geographical, economic, administrative, and political distance between specific countries, and provides evaluation of the degree that countries differ across these dimensions (Ghemawat, 2001). Therefore, it calculates risks when it comes to compatibility of particular business with a particular geographical location. Furthermore, GAGE offers guidance in matching the key attributes underlying the dimension of distance with products and services of a particular industry. By using this analytical tool businesses can identify products or services that are affected the most by the "probable impact of distance" and vice versa.

However, with all the provided knowledge, experience and data, it is impossible to perfectly predict how things will work out in real life; there is always a chance that something, or possibly all, may go wrong at some point. The business's success or failure depends on many factors, including changes in the economic environment. We have witnessed how the most recent pandemic created a dramatic "unexpected" impact on businesses, and even the whole industries. Something that seemed reliable such as supply chain management, turned into a problem over a short period. On the other hand, the same unexpected changes were favorable for others as it happened for Amazon, Inc., an international e-commercial company that reached its highest profit making at the time when others suffered the most.

In Sentron's international expansion, the neighboring location Mexico was a highly favorable solution that seemed to outweigh other possible challenges. For minimal cost, the company regularly transported large quantities of manufactured goods to the U.S. from Mexico. Yet, while cultural differences between two countries had no impact on the demand of products and services, it created a great influence on management style. Unfortunately, the cultural difference risk factor was miscalculated. The American management team was caught in an unexpected scenario with little preparation for monitoring, evaluating, and addressing this obstacle in a timely manner. If the Lees had incorporated both a PEST and CAGE analysis at the very beginning of their consideration to build a manufacturing plant in Reynosa, they would have a stronger opportunity to overcome the challenges that faced Senton Blinds successfully.

2. You are the Lee brothers. Evaluate the pros and cons of the type of market entry strategy that Sentron Windows used when it went into Mexico. What alternate modes of entry could it have used? What are the pros and cons of these alternate entry modes? (LO

Typically, a well-thought-out student response will focus on the five most common forms of international market entry: exporting, licensing/franchising, international joint venture, and foreign direct investment via greenfield and brownfield ventures. Each of these market entry strategies can have significant impact on an organization's sales and profitability. The management team's ultimate entry choice is often a tradeoff between the advantages and disadvantages of each entry mode.

Sentron Windows expansion into Mexico was through a greenfield venture. The Lee brothers were faced with limited entry choices in their market entry strategy. To exercise full control over the production facility and to garner the full profits from the faculty the brothers opted to directly invest in the plant's construction and build from ground up.

Additionally, in the current case study, merger, or acquisition options were not feasible for Sentron since there were no existing blind factories in operation in Mexico. Franchising the brand or licensing the brand under these same circumstances was not options as well. An

international joint venture might have been an option if a suitable investment partner could be found who was willing to take an equity position and learn the business. After weighing the pros and cons of foreign direct investment as an entry mode (see below) the Lee's embraced it enthusiastically.

1. Foreign Direct Investment can be accomplished by establishing a new business in a host country, a greenfield venture, or by acquiring, merging with an existing organization, a brownfield venture. Management's decision to enter a new foreign market via a greenfield venture represents a substantial financial risk in building a facility from the ground up. Unlike other entry modes, a greenfield venture may prove more practical when there are limited opportunities to partner, acquire or merge with an existing organization and the size of the potential market, growth and product demand can justify a large financial investment.

Greenfield Ventures, mergers, and acquisitions are all categorized as foreign direct investments (FDI) and often represent significant capital risks. Several advantages result from these forms of entry:

- A high degree of organizational control.
- A better understanding of the competitive environment and host country sociocultural environments; gain local knowledge.
- Ability to take advantage of low-cost labor and cheaper materials to gain competitive advantage.
- The organization may be able to take advantage of governmental tax breaks and incentives
- The organization reaps 100% of the profits; no sharing with partners. The firm may be ultimately viewed as an insider employing local people (Schellenberg et al., 2017).

FDI also has downsides and there are several noteworthy disadvantages that organizations' management teams need to carefully consider before making such investment decisions:

- The high levels of both economic and political risk factors that may result should the host country government adopt an anti-business posture.
- FDI requires substantial capital investment to enter the market, particularly in a greenfield venture.
- A high degree of the parent company's commitment, capital, technology, and personnel resources is often required.
- For greenfield ventures, slow market entry results due to construction and start up time required. Acquisitions and mergers in addition to high costs of investments often involve serious integration issues with the parent organization.
- Difficulties in repatriating earnings and capital to the parent organization resulting from local country laws and restrictions.
  Students may also point out several other advantages of mergers and acquisitions such as quick market entry, the ability to take immediate advantage of existing market knowledge, use of existing brand names and customer base. Then too, mergers and acquisitions allow for immediate cash flow.

2. Exporting represents the easiest and fastest entry mode into international business markets. In this entry form, the organization's market consists of domestically produced products sold into in a foreign country with no capital investment in a foreign facility. This entry form has several advantages to the exporting organization:

- Represents the lowest form of financial risk with no real capital outlay nor investment required.
- The exporter can test market product acceptance for its products prior to committing to a more expensive distribution method or committing to a brick and mortar investment.
- Allows the organization to maximize its scale of production and use its existing facilities more efficiently.
- Little to no product adaptation is required.
- Adds additional sales and profits to the organization.

While exporting has its advantages, there are also several disadvantages that management must weigh carefully before making a commitment to this form of market entry:

- Host country trade barriers and import tariffs can negatively impact anticipated profits.
- The transportation of products to the market and ultimately consumers may prove to be costly and impractical.
- The product itself may have limited market or consumer appeal.
- Organizations may have difficulty finding a suitable distributor for the product and are often at the mercy of the overseas agents.
- Lack of local market information and control over distribution can further impact the organization's exportation negatively
- Currency exchange rates may also pose a problem to the exporter (Foreign Market Entry Modes).

3. Licensing/Franchising organizations which are desirous of rapid market entry expansion with limited financial risk may well consider a licensing or franchising agreement. Both entry approaches offer minimum financial exposure and investment risk. Licensing allows the licensee organization in the host country to make use of the licensor's property, which generally consists of intangibles such as trademarks, processes, and patents. In return for such usage, the licensee pays a royalty fee for the rights to use the licensor's property.

Franchising is very similar to licensing in that the franchisor grants to the franchisee the use of its technology, processes, use of brand name and supplies needed materials and products for a specific time in return for a franchise fee and royalties.

Licensing and franchising offer organizations seeking to expand into multiple foreign markets several immediate advantages:

- As was the case in exporting, licensing, and franchising minimizes market entry risk and financial investment - no upfront capital investment is required from the licensor or the franchisor.
- The licensee and franchisee both assume most of the risk on behalf of the licensor and franchisor.
- Both entry modes offer additional sources of revenue in the form of royalties for units sold or produced and for franchisors the upfront franchise fee which results in a high return on investment.
- Protects the licensor from the potential pirating of intellectual property.
- Allows rapid and multiple market entries.

- For licensors there may be an opportunity to buy into the licensee's business or take royalty fees in the form of stock in the licensee's organization (Market Entry Strategies).

Among the more frequent disadvantages found in both entry modes include:

- The licensor and franchisor may be unable to exercise complete control over the licensee or franchisee.
- Both the licensee and franchisee can leverage acquired knowledge, processes, suppliers, etc. and become future competitors.
- Poor quality products can tarnish the licensor and franchisor's brand and image in the market.
- Both offer a limited form of participation; the length of the contract agreement, specific products, brands, processes is limited to specific periods and the license or franchise may not be renewed (Schellenberg et al., 2017).

4. International Joint Venture is among the more popular entry modes. This entry model takes the form of a partnership in which two organizations, one local to the host country, establish a jointly owned and operated business venture and share rewards, risks, and business opportunities. Generally, both partners contribute cash equity, resources, marketing, and technical expertise to the joint venture.

International Joint Ventures provide the partner organizations with a multitude of advantages:

- Shared equity risk and costs; each partner puts up capital in the partnership and shares in the financial risk.
- Speed of entry into the market; organizations can collaborate with existing host country businesses.
- Partners benefit from each other's expertise and knowledge
- Joint ventures enable the ready transfer of technology, processes, and intellectual property between partners.
- The foreign partner may benefit from the local host country partner's knowledge of the local business environment and product markets.
- The venture may open the opportunity to take advantage of host country governmental contacts.
- Lastly, an international joint venture may be the only suitable, legal means open to market entry into a host country.

International joint ventures are also subject to a number of disadvantages:

- The two partners represent two very distinctive cultures and culture clash may result due to differing traditions and values. You need to find the right partner.
- Difficulties over control, decision-making, goals, and objectives may come to the fore and create conflict between the partner organizations.
- Mistrust over sharing propriety and intellectual property knowledge.
- Partners may have differing benefits expectations
- Profits must be shared.
- Your partner may become a future competitor.
- Terminating the partnership may become costly, lengthy and a complicated legal process (Schellenberg et al., 2017).

3. What role did NAFTA play, if any, in Sentron management's decision to open a plant in Reynosa, Mexico? (LO 3)

Sentron management returned to manufacturing in the early 1990s with a warehouse and manufacturing facility just over the border from Mexico in McAllen, Texas. This U.S. facility helped the firm to reduce delivery time from 90 days to four weeks. The Lees were still unsatisfied with the quality of the product from China. They were looking for a low-cost alternative distribution from the Reynosa plant into Mexico, Central, and South America.

Mexico offered cheap energy, reasonable startup costs, and cheap labor ($1.17 per hour). Its government had made efforts to attract foreign direct investment in the 1960s when it introduced the In-Bond (Maquila) Program, creating manufacturing plants known as maquiladoras. The program allowed 100% foreign ownership of factories in Mexico and duty-free importation of inputs used in the production or assembly of products. This duty-free status required that the output of the maquiladora be exported from Mexico. In the 1980s, the Mexican government moved away from its import-substitution development strategy and introduced unilateral liberalization of its policies for foreign direct investment. Between 1985 and 1993, the average Mexican ad valorem tariff fell from about 25% to 13% (McDaniel & Agama, L.-A., 2003). In 1992, Canada, Mexico, and the United States signed the North American Free Trade Agreement, NAFTA. This agreement went into effect on January 1, 1994. Under the agreement, the partners committed to eliminating over a period of 15 years the tariffs and non-tariff barriers between them and encouraging and protecting foreign direct investments in the free trade area. NAFTA gave most-favored-nation status to US and Canadian firms. This provision "… ensured that no investor from outside North America would be granted benefits exceeding those available to North American investors." (Cuevas et al., 2005)

The timing of NAFTA going into effect in 1994 made Reynosa, Mexico, the ideal location for Senton's new plant. The Lees believed the Mexican facility could produce a quality mini blind as cheaply as those produced in China and Taiwan. With NAFTA in place, Sentron could move inputs from the US to the facility in Reynosa, Mexico, and finished Sentron blinds into the US and Canada with lower duties and, ultimately, no duty. In addition, NAFTA allowed for greater and cheaper product distribution from the Reynosa plant into Mexico, Central, and South America.

NAFTA made it possible for Sentron to take advantage of Mexico's cheap energy and cheap wages. The Sentron management team also saw the proximity of the Reynosa facility to McAllen as a fix to quality control and delivery problems it had experienced when it had outsourced its manufacturing to China and Taiwan.

EPILOGUE

In the end, the lead blind crisis proved too difficult for Sentron to overcome. The strain of capital outflow to get the Reynosa plant to profitability had diminished the firm's capital reserves significantly. The unanticipated economic loss of existing blind inventories, removal of product from retail shelves, and the cancellation of orders resulted in a huge economic and profit loss for both the industry and Sentron Windows. Efforts to reformulate the vinyl mini blinds were costlier and retail resistance to price increases further led to distribution and economic market loss. In the end, Sentron Window was unable to overcome these challenges and ultimately was forced to enter into Chapter 7 Bankruptcy.

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