

Topic: Exchange Rate Strategy and Pricing Strategy

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What is the major difference between globalization and international business?

The answer is...



What is Globalization?

- Globalization is the process of growing **interdependence** among countries.
- This implies that we need each other. We can't live without each other. Our economic growth depends on each other.

What is International Business?

- International Business is all commercial transactions between two or more countries.
- Example: Thai **exports** rice to Singapore.

PEST analysis

- P = Political analysis
- E = Economic analysis
- S = Social analysis
- T = Technological analysis

Why does global business differ from domestic business?

- Four Factors:
- 1. Political and Legal Policies differences and level of openness
- E.g. Some countries are political friendly and high level of openness such as USA, Japan, Singapore
- E.g. Some countries are political unfriendly or hostile and low level of openness such as some Middle East countries, North Korea.

Four Factors

- 1. Political and Legal Policies differences
- Each country has its own laws.
- E.g. USA has a sale tax of 10 %
- E.g. Thailand has no sale tax.
- E.g. In USA, Foreigner can buy and own land and house.
- E.g. In Thailand, Foreigner can not buy and own land and house.

How are you going to offer a low price?

- 1. You must have a low cost product.
- 2. To get a low cost product, you must produce in a large quantity to gain **economy of scale**.
- 3. Your processing units must be very efficiency or no waste.
- 4. You must be able to accept low profit margin by selling large volume.
- 5.....

Four Factors

- 2. Economic Forces
- The difference in income, cost of living, inflation.
- E.g. The average income for undergraduate in Thailand is 12,000 – 15,000 baht.
- E.g. In Singapore, the average income for undergraduate is 45,000 – 65,000 baht.
- E.g. The average lunch in Thailand costs 50 baht.
- E.g. The average lunch in Singapore costs 250 baht.

Four Factors

- 2. Economic Forces
- The difference in unemployment rate and its meanings
- Thailand seems to have a normal unemployment rate but high underemployment.
- E.g. Many newly graduates do not enter the job market matching with their degree but work lower jobs such as sell mobile phone, selling online, motor bike taxi and etc.
- In the past, many middle east countries have subsidized their employment by hiring unnecessary jobs with the using of oil revenues. It may seems like their unemployment rate is controllable but at the expenses of government.

Four Factors

- 3. Social Behavior and Culture differences
 - E.g. In USA, woman can be the president.
 - E.g. In Middle East, woman can not be a manager, director, leader.
 - E.g. Thai consumers prefer luxury goods.
 - E.g. Vietnamese consumers prefer practical goods.

Four Factors

- 3. Social Behavior and Cultural Difference
- The trend of senior population is increasing in Thailand and many other countries.
- The trend of obesity population is increasing in US and many rich countries.
- E.g. the need for health care and senior care.

Four Factors

- 4. Technological difference
- Innovation rate
- Automation system
- Technological change and resistance
- E.g. USA has a high innovation rate and low resistance to change

Four Factors

- 4. Technological Difference
- Research and Development
- E.g. South Korea promotes the investment in research and development and leading in innovation rate in Asia.



WHY DOES A FIRM WANT TO ENGAGE IN GLOBAL BUSINESS?

...

Why does a firm want to engage in global business?

- 1. To expand sales or to increase market share. Global market is now more open than any point of time in the history.
- To expand sales means to increase the output and gain economy of scale (low cost per unit)
- E.g. Coca-Cola wants to expand sales in all big cities of China.

Why does a firm want to engage in global business?

- 2. To acquire resources or to buy cheap raw materials and cheap labors. More logistics and supply chain management result in increasing speed but decreasing costs.
- E.g. USA chooses to buy cheap rice from Vietnam instead of Thailand.

Why does a firm want to engage in global business?

- 3. To minimize risk or don't want to depend on solely on domestic market.
- E.g. If Thai economy is in recession, then surplus of rice can be exported to China, EU, and USA.

Why does a firm want to engage in global business?

- 4. Suggest your opinions and comments

What is Exchange Rate?

The answer is ...



What is exchange rate?

- 1. It is the price of one currency in terms of another currency.
- 2. it is the number of units of one currency that buy one unit of another currency.
- E.g. US \$ 1 = 30 baht.

What is the difference between hard currency and soft currency?

- **Hard Currency:** the currency that is fully convertible and generally accepted such as U.S. dollar, Japanese Yen, Euro €.

What is the difference between hard currency and soft currency?

- **Soft Currency:** The currency that is not fully convertible or not generally accepted such as Mexican Peso, Myanmar dollar, Laos, Cambodia.

Case 1

Year	U.S. Dollar	Thai Baht
2020	\$1	35 baht
2021	\$1	30 baht

Case 1.1: weak dollar Analysis

1. The U.S. dollar is weak or depreciated in 2021.
2. Why?
3. Because one dollar gets less baht in 2021.
4. Then, the U.S. tourists will find that everything is expensive in Thailand in 2021 due to the weak dollar. As a result, there will be less U.S. tourists in 2021.

Case 1.2: Strong Baht Analysis

- 1. Thai baht is strong or appreciated in 2021.
- Why?
- Because it takes less baht to get one dollar.
- Then, the strong baht will make Thai export such as rice becomes very expensive. As a result, export of rice will decrease.

Case 2

Year	U.S. Dollar	Thai Baht
2020	\$1	35 baht
2021	\$1	40 baht

Case 2.1: Strong Dollar

- 1. The U.S. dollar is strong or appreciated in 2021.
- Why?
- Because one dollar gets more baht.
- Then, the U.S. tourists will find everything is cheap in Thailand during 2021. As a result, there will be more U.S. tourists in Thailand in 2021.

Case 2.2: Weak Baht

- The Thai baht is weak or depreciated in 2021.
- Why?
- Because it takes more baht to get one U.S. dollar.
- Then, weak baht will make Thai export very cheap. As a result, Thai export will increase.

Strong Currency

- Appreciation (strong):
- E.g. The Thai baht is appreciated means it increases in the value, compared with other currencies.

Weak Currency

- Depreciation (Weak):
- E.g. The Thai baht is depreciated means it decreases in value, compared with other currencies.

In a nutshell

	Weak Baht	Strong Baht
Thai Export	↑ Increase	↓ Decrease
Thai Import	↓ Decrease	↑ Increase

In a nutshell

- 1. **Weak baht** makes exports cheaper and imports expensive. Therefore, export increases but import decreases.
- 2. **Strong baht** makes export expensive and imports cheap. Therefore, export decreases but import increases.

Exchange Rate Strategy

- If Thailand aims to increase its exportation as much as possible in the global market, what should be the exchange rate strategy?
- Answer: **Weak baht (currency) strategy**
- Why?
- A weak currency helps Thailand's export gain market share when its goods are less expensive compared to goods priced in stronger currencies.

Pricing Strategy

- 1. Low Price Strategy
- 2. High Price Strategy

How are you going to offer a high price?

- 1. Your product must be a necessity such as gasoline, no substitute.
- 2. Your product must be unique and hard to copy such as Intel Microchip.
- 3. Your product must have been differentiated or a brand image such as fashion cloth
- 4. Customers must perceive the uniqueness and be willing to pay a high price such as Rolex, Benz.
- 5.....

Assignment # 7

- 1. What is the major difference between globalization and international business?
- 2. Explain the four factors, by using PEST analysis, that make global market differs from domestic market with one of your own example for each factor.
- 3. Why does a firm want to engage in global business? Explain at least four reasons with your own example for each factor.

Assignment # 7

- 4. What is the difference between hard currencies and soft currencies. Explain with example. Is the Thai baht a hard or soft currency? Why?
- 5. What is two basic pricing strategies? Which strategy provide you with a higher profit margin? Why?
- 6. Analysis the weak or strong currency.

Case 1.

Year	Euro	Thai Baht
2020	€ 1	40 baht
2021	€ 1	35 baht

Case 1.

- 1.1 Do the weak euro analysis.
- 1.2 Do the strong baht analysis.