

Global Venture

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## Global Venture

This outline will discuss the introduction of a Jeep plant into the Czech Republic. The team will conduct a regional and country analysis, addressing several issues including regional alliances, political environment and stability, economic conditions, finance options, social, health and environmental conditions, terrorism threats, and the many cultural considerations; all of which were taken into account in the decision-making process. Over the last ten years, the Czech economy has grown significantly. Although the growth as of late has been slower than in previous years, and industrial output is “considerably slower” according to [czechconomy.blogspot.com](http://czechconomy.blogspot.com), the opinion is that by deciding to locate it’s a manufacturing plant in the Czech Republic, the advantages Jeep will amass will outweigh the disadvantages.

### Region Analysis

Czech is part of the Visegrad (V4) which includes Czech Republic, Slovakia, Hungary, and Poland to maintain a peaceful and cohesive relationship in where all four countries strive to strengthen the Central European region in terms of culture, economics, and religion. The V4 stresses that the alliance between the Central European nations should always remain secondary to the European Union and in no way be an attempt to signify independence from the EU (Visegrad, 2009).

#### *A. Regional Alliances and Economic Integration*

1. Slovakia, Poland, and Hungary, known as the Visegrad or V4.
2. Member of the EU consisting of 27 countries.

#### *B. Physical Environment and its Effect on Trade*

1. Consists of 13 regions, excluding Prague, and is approximately the size of South Carolina, with rolling hills, plains, plateaus, and low-lying mountains.

2. Surrounded by 4 other countries and contains the Moravian Gate which is a pass that is used between the North European Plain and the Danube River in central Europe (CIA World Fact Book, 2009). Its central location is a major benefit with regards to distribution throughout the region.

### ***C. Political Stability***

1. Parliament, which is similar to the United States Congress, is elected by popular vote which in turn votes the President into office.
2. The President appoints a Prime Minister who is the representative of the government, and appoints the Supreme Court Judges as well.
3. Currently politically stable.

### ***D. Economic Conditions***

1. “The EU economy will shrink nearly 2 percent this year as one of the worst recessions on record drives unemployment and government deficits to levels not seen for years” (European Commission, 2009); GDP growth is expected to decline by 1.8% in 2009.
2. New car sales for 2008 were the weakest Europe has seen in 15 years.

### ***E. Finance Options Available***

1. European Investment Bank – Loans.
2. European Commission – Grants.

### ***F. Social, Health, and Environmental Conditions***

1. Europe currently faces issues with a declining youth population (21%) due to a low birth rate (1.5 children per woman).
2. Health concerns over elderly population.

3. Life expectancy is 76.

4. European Environment Agency and Microsoft are working together to create a global environmental online observatory. This will enable EEA to extend their message on air, ozone, and water quality information to the citizens of Europe.

### ***G. Terrorism Threats***

1. The Council of Europe meets to discuss strategies to intercept terrorism and create counter-terrorism strategies.

### **Country Analysis**

It is shown that the country is in for an economic slow down, reflected by its main trading partner, according to [Czecheconomy.blogspot.com](http://Czecheconomy.blogspot.com). Although the economy seems as if it will be unfavorably affected, recent research shows an overall growth in the country's GDP (Gross Domestic Product) or the total market values of goods and services produced, hence the decision to invest.

#### ***A. Political Stability***

1. Conservative-run government does not have a vision for the country's future.
2. It is believed that everyone should be responsible for his or her own good.
3. Third time in power since 1989 and the third time headed towards a recession, very much like the United States.
4. Advantage in that the countries are allies.

#### ***B. Economic Conditions***

1. Affected by the global recession.
2. Choosing to locate a plant in the Czech Republic is a good idea.
3. Country's GDP shows an overall growth.

4. Country is a major manufacturer of automotive parts according to the CIA World Fact Book (2009).
5. Czech Republic is said to be one of the most stable and prosperous economic states in Central and Eastern Europe.

### ***C. Finance Options Available***

1. Czech National Bank (CNB).
2. Directly from Jeep.

### ***D. Physical Environment and its Effect on Trade***

1. Czech Republic offers a beautiful variety and a physical environment.
2. Brno, the capital city of Moravia, is noted for its engineering industries.
3. Important site for trade fairs.
4. Pilsen is another alluring location for industry.

### ***E. Social, Health, and Environmental Conditions.***

1. Gender segregation is matched by a substantial wage gap: “men with university degrees receive more money than women with the equivalent degree” (Lawson, 2005, p. 118).
2. Women receive around three quarters of male pay.
3. Air and water pollution in areas of northwest Bohemia and in northern Moravia around Ostrava present health risks.
  - a. Acid rain damaging forests; efforts to bring industry up to EU code should improve domestic pollution.
4. Bohemia in the west is an excellent choice to drive a Jeep because it consists of rolling plains, hills, and plateaus surrounded by low mountains; Moravia in the east is a very hilly country. Czech Republic climate has cool summers and cold, cloudy, humid winters.

***F. Cultural Considerations***

1. The population consists of: Czech 90.4 percent, Moravian 3.7 percent, Slovak 1.9 percent, other 4 percent (CIAfactbook.com).
2. Religious affiliation in Czech Republic is 26.8 percent Roman Catholic.
3. Culture considerations are difficulties arising from different values, perceptions and cultures, language, and communication.
4. Well known for its distinguished culture commemorated with many traditions and red-letter days.
5. Traditions are mostly maintained in villages, especially in the Moravia-Silesian region, where they remain as a sign of the cultural taste of specific areas” (Ministry of Foreign Affairs, n.d.).

**Organization and Product or Service Analysis*****Description of the Organization***

1. Jeep is a brand name under the Chrysler LLC, headquartered in Auburn Hills, Michigan
2. Nearly 4,000 dealers in the network
3. 6,000 supplier locations, 14 assembly plants, 11 power-train plants

***Product “Needs Assessment” of the Target Country***

1. Terrain and climate require AT capability
2. Social economics require affordability and quality
3. Practical and sensible approach to old and new culture concerns

***Description of Product to Meet the Need***

1. All terrain, 4WD vehicles
2. Tow package as standard equipment

3. High center of gravity
4. Three different engine power-plants available; bio-diesel, solar/electric and gas

### Budget

The company is to be set up in Pilsen, given its inviting location for the industry. The budget for the global venture can be provided as follows:

| Particulars             |  | CZK     |           |
|-------------------------|--|---------|-----------|
|                         |  | USD     | Koruna    |
| Raw Materials           |  | 80,000  | 1520000   |
| Equipments              |  | 50,000  | 950000    |
| Wages                   |  | 30,000  | 570000    |
| License                 |  | 10,000  | 190000    |
| Administrative Expenses |  | 40,000  | 760000    |
| Machinery               |  | 30,000  | 570000    |
| Recruitment             |  | 5,000   | 95000     |
| Traveling Expenses      |  | 60,000  | 1140000   |
| Electricity             |  | 4,000   | 76000     |
| Labor                   |  | 40,000  | 760000    |
| Duties                  |  | 40,000  | 760000    |
| Total                   |  | 389,000 | 7,391,000 |

*1 USD= 19 Koruna (Czech Republic Currency, n.d.)*

The foreign exchange risk management is important, given the present condition of the economy in the world. The business dealing with the export and the imports are variably affected. In the case of Jeep, most of the sales will take the form of exports. Therefore, it

becomes imperative for the management to take control of the situation in the case of foreign exchange risk.

The company has a dedicated financial department which looks into the matter of forecasting the conditions of the economy of the state. The management would analyze each transaction in the excess of \$10,000. The management hedges the funds to ensure that not much is lost due to the changes in the movement of the global economy. By hedging, the management will create contracts with the contractors in the country that would help them in the course of adverse changes in the currency movements. The operations in the country will be looked over by a person from the stables of the company, who will also report to the top level management. The management benchmarks the standards to be maintained in the case of the operations. This will help in the appraisal of the operations in the country and will help in analyzing the risks associated. However, the most important part in the operation is forecasting and this is done by the top level of the management. The success of the foreign exchange risk management of the company depends on the forecasting technique of the management (Foreign Exchange Risk Management Guidelines, n.d.).

The money needed for the project is huge and there are some possible sources from which the money can be gathered. The money for the operations will be taken as loan. The Czech National Bank (CNB) is one of the sources that can supply the money for the project. The loans provided to the economy, including the national and the international companies, amount to 213437 Koruna, with the help of time series indicator as of 2005 (Data Selection, n.d.). The amount needed by Jeep is much more than that amount, and it cannot be financed by CNB alone. The CNB makes the payment available through the banks in the system. The loan to be taken from the system is 391,000. The remaining amount is to be taken from the European Investment

Bank (EIB). The EIB gives loan to long term projects that are feasible. It depends on the project of Jeep on which the loan will be provided. Given the feasibility of the project, the EIB will provide the loans for the facility in Czech Republic (Products and Services, n.d.).

Given the conditions of the global venture, the project is feasible. The economic conditions in Czech Republic are one of the most stable in Central Europe. The political conditions are similar in the USA. The economy might be in recession because of the global turmoil, but it offers the company an opportunity to unearth valuable resources in the form of workers and other materials; the loans will be available. In the case of the sales of the car, the geographical conditions of the region offer a suitable backdrop for the cars. The hilly terrain of the region is good for the products. Setting up the facility in Czech Republic opens up the market of the Balkans and Central Europe to the company. The geographical conditions in the area are suitable for Jeep and this will help in the increase of sales for the company. Therefore, the project is feasible.

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