

International Business

Chapter No. 1

WHAT IS INTERNATIONAL BUSINESS ?

Business activities that involves the transfer of resources, goods, services, knowledge, skills, or information across national boundaries/borders

Resources: Raw materials, capital, and people

Goods: Semi-finished or finished

Services: Accounting, legal, banking, insurance, healthcare, education, tourism, consultancy, etc..

Knowledge and skills: Technology, innovations, various skills, IPRs, brand names, etc.

Information flows: Databases and networks



SCOPE OF IB

1. International Marketing
2. International Finance and Investments
3. Foreign Exchange
4. Global HR



Participants in International Business

Parties involved in International Business

- ***Individuals*** (individual investors, tourists, employees, students, etc.)
- ***Companies*** (private or public)
- ***Government*** (central bank, government institutions, etc.)
- ***International institutions*** (World Bank, IMF, WTO, etc.)

Among these companies are the dominant players in International Business

GLOBALISATION & IB



- Globalization refers to rapid increase in the share of economic activity taking place across national borders.
- It goes **beyond** the international trade includes the way in which goods/ services are produced /created, delivered & sold & movement of capital.



STAGES IN GLOBALISATION-

- Domestic company links with dealer & distributor.
- Company does the activities on its own. Company begins to carryout its own manufacturing , marketing & sales in the foreign markets.
- Company starts **fullfledged operations** including business systems and R&D. At this stage the managers are expected to perform the tasks which they were doing in domestic markets to replicate them in foreign markets.



Conditions for globalization

- Business Freedom-No unnecessary Government restrictions like restriction, restrictions on sourcing of funds and other factors from abroad. Hence the liberalization is the 1st step towards facilitating globalization.
- Facilitators-Infrastructure facilitation available at home country an help entrepreneurs go globally.
- Government support –Government support available in the form of policy & procedure reform encourage globalization



- Resources-Resources is an important factor which decides the ability of a firm to globalize. They include finance, technology, brand image, company's image, managerial expertise etc.
- Competitors- This is an important factor which a company's success in global market bank on. The factors like low costs & price, product quality, product differentiation, technological superiority. After sales service, market strengths etc are few to name.



Reasons For Globalization

Firm **operate internationally** for a number of reasons:

- They may be seeking to secure better sources of raw materials & energy.
- They may want to obtain access to low cost factors of production such as labour.
- They may be attracted to certain countries because of subsidies those countries provide.
- They may be seeking new markets for their products.
- Domestic markets may no longer be able to absorb production at minimum efficient scale.



Trading Overseas / Entry Strategies

- There are a number ways an organization can start to sell their products in international markets.

1. Direct export.

- The organization produces their product in their home market and then sells them to customers overseas.

2. Indirect export

- The organizations sell their product to a third party who then sells it on within the foreign market.



3. Licensing

- Another less risky market entry method is licensing. Here the Licensor will grant an organization in the foreign market a license to produce the product, use the brand name etc in return that they will receive a royalty payment.

4. Franchising

- Franchising is another form of licensing. Here the organization puts together a package of the 'successful' ingredients that made them a success in their home market and then franchise this package to oversea investors. The Franchise holder may help out by providing training and marketing the services or product. McDonalds is a popular example of a Franchising option for expanding in international markets.



5. Contracting

- Another of form on market entry in an overseas market which involves the exchange of ideas is contracting. The manufacturer of the product will contract out the production of the product to another organization to produce the product on their behalf. Clearly contracting out saves the organization exporting to the foreign market.

6. Manufacturing abroad

- The ultimate decision to sell abroad is the decision to establish a manufacturing plant in the host country. The government of the host country may give the organization some form of tax advantage because they wish to attract inward investment to help create employment for their economy.



7. Joint Venture

- To share the risk of market entry into a foreign market, two organizations may come together to form a company to operate in the host country. The two companies may share knowledge and expertise to assist them in the development of company; of course profits will have to be shared out also



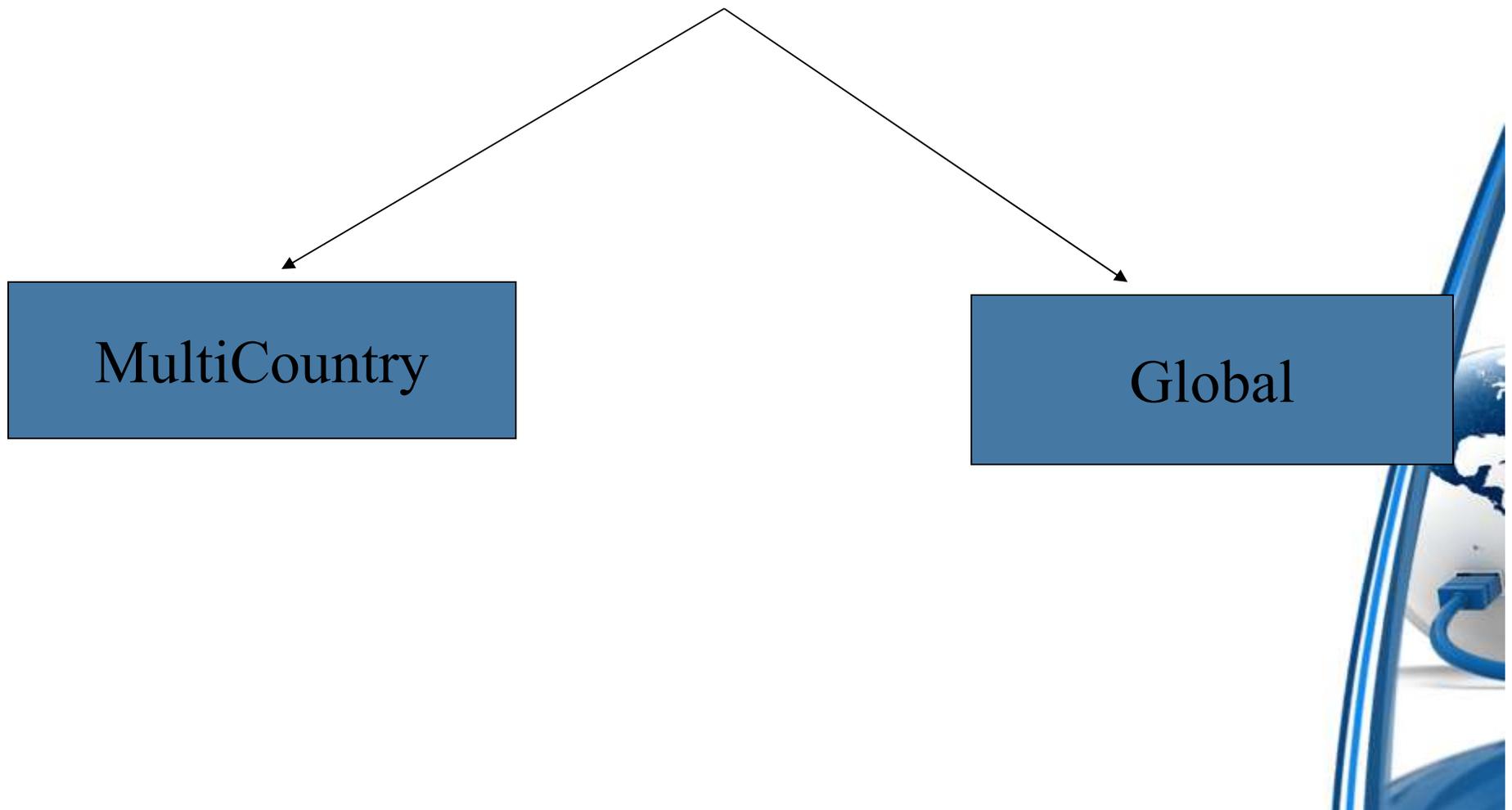
Difference between a global, transnational, international and Multinational company

- Each term is distinct and has a specific meaning which define the scope and degree of interaction with their operations outside of their “home” country.
- **International companies** are importers and exporters, they have no investment outside of their home country.
- **Multinational companies** have investment in other countries, but do not have coordinated product offerings in each country. More focused on adapting their products and service to each individual local market.
- **Global companies** have invested and are present in many countries. They market their products through the use of the same coordinated image/brand in all markets. Generally one corporate office that is responsible for global strategy. Emphasis on volume, cost management and efficiency.
- **Transnational companies** are much more complex organizations. They have invested in foreign operations, have a central corporate facility but give decision-making, R&D and marketing powers to each individual foreign market.
- Andrews’s advice is if in doubt about the right term to use, try the generic term **“international business”**



Types of International strategy

International strategy



Multicountry competition strategy varies somewhat across nations, since –

- Buyers in different countries are attracted to different product attributes.
- Sellers vary from country to country.
- Industry conditions & competitive forces in each national market differ in important aspects.



Multi Country strategy

- Product customized for each market.
- Decentralized control—Local decision making.
- Effective when large difference exists between the countries.
- Advantageous product differentiation, local responsiveness, minimal political risk.

With multicountry competition , rival firms battle for national leadership & winning in one country does not necessarily signals the ability to fare well in other countries.



- Global strategy involves consistent strategy for each country which includes,-
- Integrating & coordinating the company's strategic moves worldwide.
- Selling in many if not all nations where there is significant buyer demand.



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Global strategy

- Product is same in countries.
- Centralized control
- Effective when the difference between the countries is small.
- Advantage cost, coordinated activities, fast in product development.

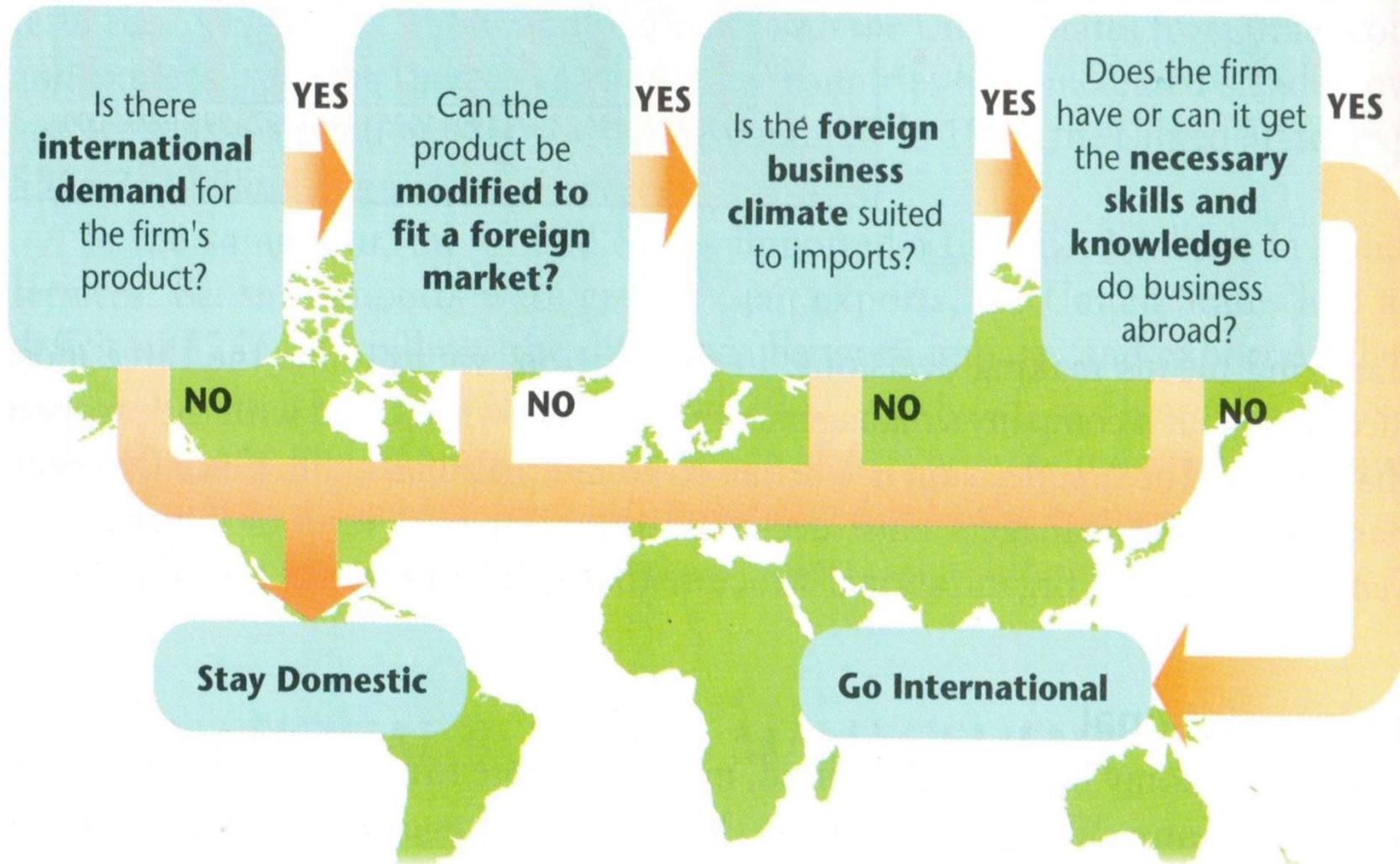


IMPORTANCE OF IB

1. Earn foreign exchange
2. Optimum utilisation of resources
3. Achieve its objectives
4. To spread business risks
5. Improve organization's efficiency
6. Get benefits from Government
7. Expand and diversify
8. Increase competitive capacity



GOING INTERNATIONAL



NEED FOR IB

1. Achieve higher rate of profits
2. Expanding the production capacity beyond the demand of the domestic country
3. Availability of technology and managerial competence
4. Cost of manpower, transportation & Nearness to R/M
5. Market share



PROBLEMS IN IB

1. Political factors
2. High foreign investments and high cost
3. Exchange instability
4. Entry requirements
5. Tariffs, quota etc.
6. Corruption and bureaucracy
7. Technological policy
8. Quality Management



MAIN BARRIERS

1. Cultural and social barriers
2. Legal and political barriers
3. Economic barriers:



ADVANTAGES OF I B

1. Faster growth
2. Access to cheaper inputs
3. Increased quality and efficiency
4. New market opportunities
5. Diversification



DISADVANTAGES OF I B

1. Increased costs
2. Foreign regulations and standards
3. Delays in payments
4. Complex organizational structure



REASONS FOR RECENT GROWTH IN I B

1. Expansion of technology
2. Business is becoming more global because
 - Transportation is quicker
 - Communications enable control from afar
 - Transportation and communications costs are more conducive for international operations
3. Liberalization of cross-border movements
4. Lower Governmental barriers to the movement of goods, services, and resources enable Companies to take better advantage of international opportunities



Factors influencing Globalization are as follows:

- (1) Historical**
- (2) Economy**
- (3) Resources and Markets**
- (4) Production Issues**
- (5) Political**
- (6) Industrial Organization**
- (7) Technologies.**



(1) Historical:

The trade routes were made over the years so that goods from one kingdom or country moved to another. The well known silk-route from east to west is an example of historical factor.

(2) Economy:

The cost of goods and values to the end user determine the movement of goods and value addition. The overall economics of a particular industry or trade is an important factor in globalization.

(3) Resources and Markets:

The natural resources like minerals, coal, oil, gas, human resources, water, etc. make an important contribution in globalization.



(4) Production Issues:

Utilization of built up capacities of production, sluggishness in domestic market and over production makes a manufacturing company look outward and go global. The development of overseas markets and manufacturing plants in autos, four wheelers and two wheelers is a classical example.

(5) Political:

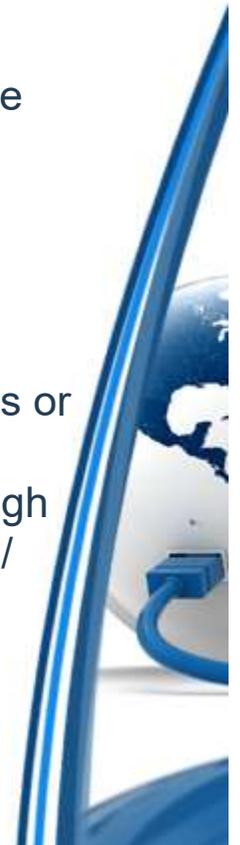
The political issues of a country make globalization channelized as per political bosses. The regional trade understandings or agreements determine the scope of globalization. Trading in European Union and special agreement and SAARC are examples.

(6) Industrial Organization:

The technological development in the areas of production, product mix and firms are helping organizations to expand their operations. The hiring of services and procurement of sub-assemblies and components have a strong influence in the globalization process.

(7) Technologies:

The stage of technology in a particular field gives rise to import or export of products or services from or to the country. European countries like England and Germany exported their chemical, electrical, mechanical plants in 50s and 60s and exports high tech (then) goods to under developed countries. Today India is exporting computer / software related services to advanced countries like UK, USA, etc.



WHY DO COMPANIES EXPAND INTERNATIONALLY?



Expand Markets and Increase Sales

Expanded markets and increased sales mean more profits. Profits mean success for a business.

Controlling Expenses

Every business wants to have low expenses; so some companies will therefore enter the global arena to minimize their costs. Companies will examine the resources they need and where they can get them at the lowest price.

Competitiveness

Many companies expand globally for defensive reasons-to protect themselves from competitors or potential competitors, or to gain advantage over them. In today's business environment, even a small business is competing with international businesses.

Market Diversity

In the same way that individuals prefer to diversify their investment portfolio, businesses should appreciate the chance to [diversify their customer base](#). There may be a slight decline in the demand for your product in the US while your business in Brazil experiences a rapid growth. By tracking consumer demand and trends on a global level.



Drivers of Globalization



1) **Technological drivers**

Technology shaped and set the foundation for modern globalization. Innovations in the transportation technology revolutionized the industry. The most important developments among these are the commercial jet aircraft and the concept of containerization in the late 1970s and 1980s. Inventions in the area of microprocessors and telecommunications enabled highly effective computing and communication at a low-cost level. Finally the rapid growth of the Internet is the latest technological driver that created global e-business and e-commerce.

2) **Political drivers**

Liberalized trading rules and deregulated markets lead to lowered tariffs and allowed foreign direct investments in almost all over the world. The institution of GATT (General Agreement on Tariffs and Trade) 1947 and the WTO (World Trade Organization) 1995 as well as the ongoing opening and privatization in Eastern Europe are only some examples of latest developments.



3) Market drivers

As domestic markets become more and more saturated, the opportunities for growth are limited and global expanding is a way most organizations choose to overcome this situation. Common customer needs and the opportunity to use global marketing channels and transfer marketing to some extent are also incentives to choose internationalization. (Ferrier, 2004)

4) Cost drivers

Sourcing efficiency and costs vary from country to country and global firms can take advantage of this fact. Other cost drivers to globalization are the opportunity to build global scale economies and the high product development costs nowadays. (Ferrier, 2004)

5) Competitive drivers

With the global market, global inter-firm competition increases and organizations are forced to “play” international. Strong interdependences among countries and high two-way trades and FDI actions also support this driver.



International Vs. Domestic Business

- International business is mostly the *outgrowth of domestic business* (eg. Japanese car makers)
- International business is more riskier than domestic business (because countries are different)
 - Differences in environmental dynamics
 - Diversity between countries with respect to economic growth, inflation, interest rates, cultures, social customs, business practices, laws, political systems, technology, etc.
 - Operational nature become more complex
 - Receipts and payments in multiple currencies, different accounting methods, consumers, employees, regulators, and the competitors



International versus Domestic Business

➤ *Differences in environment of their operations*

- ***Economic Environment:***

- Differences in tariff structures and trade promotion schemes
- Differences in currencies (exchange rate), inflation, interest rates, accounting practices, etc.
- GDP growth and purchasing power (Economic stability)

- ***Socio-Cultural Environment:***

- Cultures, social customs, business practices, etc.
- Social and cultural norms and values differ between countries



International Vs. Domestic Business

- ***Political and Legal Environment***
 - Political stability and government policies affects international business
 - Changes in trade policies, fiscal policies and other policies are taken in view of the political priorities of the govt.
 - Foreign exchange regulations and foreign investment policies
 - Well-developed sound legal system may provide unbiased and fair treatment in international business
 - Uniformity in interpretation of laws and clarity of legal procedures



International Vs. Domestic Business

- ***Competition***

- More severe competition in international market than in domestic market because of various similar products from different countries

- ***Infrastructure***

- Financial, institutional and physical infrastructure
- More important is physical infrastructure in the form of roads, telecommunication, ports, etc.

- ***Technology***

- Opportunity for knowing and getting highly cost-effective technologies, especially for developing countries

