

Chapter 5

Functional Areas of International Business

Global Production and Manufacturing

- It is concerned with the choice of location of production.
- IB managers should consider following factors:
 - a. Country factors
 - b. Technological factors
 - c. Product factors

Global manufacturing strategy depends upon four key factors i.e. 4 –C

[Compatibility, Configuration, Coordination, and Control.](#)

Outsourcing

➤ A function to outsource a firm's production and operations activities from foreign countries.

Benefits

- a. Cost efficiency
- b. Higher tech products
- c. Better product quality
- d. Better delivery service

Risk

- a. Over reliance
- b. Erosion of commitment
- c. Weak legal environment (red tapism, poor IP rights)
- d. Low skilled workers

Logistics

- It is the part of the supply chain process that plans, implements, and controls the efficient, effective flow and storage of goods, services and information from the point of origin to the point of consumption to meet customer's needs.

Managing Global Supply Chain

- Supply chain management involves a series of value adding activities that connect a company's supply side with the demand side. It is the management of suppliers and customer relation too. It includes the consideration of;
 - a. Customer service requirement
 - b. Manufacturing and distribution network design
 - c. Inventory management
 - d. Information system
 - e. Outsourcing and third party logistics relationship

Global Marketing Strategy

- It is to identify global market opportunities and market potential through marketing research, specifying country and developing appropriating marketing mix consisting of four areas.
 - Product strategy
 - Pricing strategy
 - Promotion strategy
 - Place/ Distribution strategy

Global marketing strategy is the broad action plan concern with the decision making regarding.

- a. How to position itself and its offerings?
- b. Which customer segments to target?
- c. How to adapt marketing program elements?

1. Global Branding

- It is the worldwide brand fame and have access the world's mega markets. It is perceived the same brand by the customers.
- They are standardized and in some cases product may be slightly modified to adapt the local condition.
- It provides sense of trust and confidence in the purchase decision.
- The strength of global brand is measured by its brand equity i.e. the market value of brand.
- **There are few considerations for developing global branding strategies:**
 - a. Choosing between global brand and localized brand in foreign market.
 - b. Cultural meaning of brand names
 - c. Protection of brand against piracy.
 - d. Government regulations and practices on brands and trademarks.

2. New Product Development

- It is the process of developing new product for the new foreign market. It includes innovation, some modification or changes for developing noticeably different product.
- This process includes:
 - a. Idea Generation
 - b. Idea Screening
 - c. Concept development and testing
 - d. Marketing strategy development
 - e. Business analysis
 - f. Product development and testing
 - g. Test marketing
 - h. Commercialization

3. Pricing

- It is usually complex; it is even more difficult in international business, because there are multiple currencies, trade barriers, additional cost considerations, potential government regulation, and typically longer distribution channels.
- International prices are determined by factors both internal and external to the firm that often cause prices to inflate in some foreign markets.
- **Fair prices:** is either low or high as long as it reflects the perceived value of the product. Too high price discourage buyers. Too low price incurs loss to the marketing firm.
- **Price discrimination:** consumers in different countries are charged different prices for the same product or service. IB firms may use this to maximize their profits.

4. Marketing Communications

- Also known as marketing promotion.
- Companies use marketing communications to provide information to, and communicate with, existing and potential customers, with the ultimate aim of creating demand.
- Communicating with customers in foreign markets is more important in international marketing because geographical and psychological distance separate a firm from its intermediaries and customers.
- International communication strategy concentrates more particularly on Advertising, since personal selling is not much possible in international markets.
- However, there is some room for conducting direct marketing and sales promotion tools.

5. Distribution

- Effective distribution, as one of the 4-Ps of marketing mix, adds utility or value through distribution channels.
- Distribution assumes more a crucial place when the business goes international.
- International distribution system and channels link manufacturers and final international consumers.
- Internationally, distribution channels vary greatly from one region to another; and from one market to another.
- A typical international distribution system consists of a channel that includes a wholesaler and a retailer.

GLOBAL E-MARKETING STRATEGY

- Global E-marketing strategy involves practicing global marketing with the use of electronic media, especially internet.
- When internet is used to perform marketing activities across the globe, i.e. assess the global customers' wants, market segmentation & targeting, product, pricing, promotion, and distribution in various countries, it is global e-marketing strategy.
- Global e-marketing strategy has transformed the concept of physical market place into **virtual market space**, i.e. where buyers and sellers can interact online.

Global e-marketing Strategies

1. Strategies on e-Business model
2. Strategies on E-Documentation of Trade
3. Alternative E-Business Strategies

1. Strategies on e-Business model

a. B2B

- Marketing activities between business organizations between 2 or more countries. Most global e-marketing takes place under this model.

b. B2C

- Business organizations marketing to consumers across the globe. 2nd largest global e-marketing takes place under this model.

c. C2B

- many service professionals offer their services to business organizations through online portals. Individuals offer their services or products to business organization through online portals.

d. C2C

- Chat rooms and social media (face book or Twitter) are used for this purpose
- **eBay** is providing electronic auctions for online-real time bidding.

e. B2G

- Business organizations approaching government agencies to offer their services, products, etc. e.g. for public procurement, E-tenders

f. G2B

- If the government takes the marketing initiative, it is the case of G2B.

2. Strategies on E-Documentation of Trade

- **Electronic data interchange (EDI)** between the marketer and the customer will save cost and time in marketing, i.e. order placement, order-processing, distribution, and promotion activities.

3. Alternative E-Business Strategies

a. Brick and mortar model

- traditional model
- company's website is meant for only providing information and promotion purpose not for selling. The customer has to **physically visit the shop** to purchase the product.

b. Brick and click model

- the customer can buy **either visiting the physical shop** or has the option of **buying through online** order placement.

c. Pure click model

- The customer can buy the product **only through online** order placement, i.e. he cannot visit the physical store.

Financial management

- Financial management refers the proper allocation and effective utilization of financial resources. It deals with two major functions;
 - A. Acquisition of financial resources.
 - B. Allocation of financial resources at different activities of org.

International financial mgmt involves six key functions.

- A. Deciding on capital structure (debt or equity)
- B. Raising fund (debt financing or equity financing or intra-corporate financing)
- C. Management of working capital and cash flow
- D. Capital Budgeting for international operation
- E. Management of Currency Risk (protecting from exchange loss)
- F. Management of international accounting and tax practice

Source of funds for international operations

- **Global equity financing:** It is selling shares to investors, as a percentage of ownership in the firm as well as dividend payments. Advantage-getting fund without debt. Disadvantage- Whenever ownership is sold to new one, risk of losing control.
- **Global debt market:** Borrowing money from bank or other financial intermediaries. Two sources: loan from financial institutions or the sale of corporate bonds to individuals and institutions. Advantage- Firm does not sacrifice any ownership to obtain needed capital. Disadvantage- Too much debt can force companies into financial crisis.

Investment Decisions

- (I.e. Capital Budgeting)
- Investment decisions should maximize the **corporate financial value**, i.e. total **financial values of corporate portfolios** across the globe.
- The purpose of **capital budgeting** is to help managers decide which international projects provide the best **financial return**.
- The decision depends on the project's **initial investment** requirement, its **cost of capital**, and the **incremental cash flow** and **ultimate cash flow to the subsidiary** and **to the parent company headquarter**, or **other advantages** it can provide.

Net present value (NPV) analysis of capital investment projects

- NPV is the difference between the present value of a project's incremental cash inflows and its initial investment requirement (outflows).
- The investment abroad is justifiable if it has a positive NPV.
- **4 complicated issues:** Cash flows in foreign currency, different tax rule in foreign location, foreign government's restriction of transfer of funds/inflows, foreign country risk (e.g. government intervention, high inflation, adverse exchange rate.)

Tax Practices

- Government across the world have the authority to impose tax on the business firms in their country, or within their jurisdiction.
- Internationally, firms seek to minimize taxes, which consist of direct taxes, indirect taxes, sales taxes, and value-added taxes.

Tax Types

1. **Direct Taxes** are calculated on actual income, either individual or firm income. Direct taxes are typically imposed on income from profits, capital gains, intra-corporate transactions, royalties, interest and dividends.
2. **Indirect Taxes**, such as sales taxes, tariffs, and value-added taxes, are applied to the purchase prices, material costs, quantities of natural resources mined, and so forth.

Eliminating Multiple Taxations

a. Tax Treaties

- Every country has a sovereign right to levy taxes on all income generated within its borders. However, MNCs run into a problem when their income is taxed in the foreign country as well as in the parent country; it results into double taxation. To avoid such double taxation, countries sign double tax avoidance treaties or agreements with one another.

b. Foreign Tax Credits

- Are an automatic reduction in domestic tax liability when the firm can prove it has already paid income tax abroad, when these two countries have a tax treaty. Or the firm may be liable to pay tax in each country, but the amount is 'prorated' so the total is no more than the maximum tax in either country.

CURRENCY RISK MANAGEMENT

➤ IB manager face risk of adverse foreign currency while receiving or making payment in international business, e.g. a Japanese stock might gain 15 percent in value, but if the yen falls 15 percent, the stock gain is zero.

➤ In international transactions, either the buyer or the seller incurs currency risk.

➤ Three Types of Currency Exposure

1. Transaction exposure

➤ is currency risk firms face when outstanding accounts receivable or payable are denominated in foreign currencies, e.g. If US firm purchase from India (to pay in Indian currency) for 3 month credit purchase, the rate then \$1=Rs. 100, but after 3 month while making payment if the rate is \$1=Rs. 90; US firm loses Rs. 10.

➤ Such gains or losses are **real gains or real losses**. They affect the firm's value directly by affecting its cash flows and profit.

2. Translation exposure

- results when an MNE translates financial statements denominated in a foreign currency into the functional currency of the parent firm, as part of consolidating international financial results.
- When translated into dollars, the quarterly net income of the Japanese subsidiary of a U.S. MNE may drop if the Japanese yen depreciates against the dollar during the quarter. Note that gains or losses in translation exposure are “**paper**” or “**virtual**” **gains or losses** and do not affect cash flows directly.
- This contrasts with transaction exposure, in which gains and losses are real .

3. Economic exposure

- (Also known as **operating exposure**) results from **exchange-rate fluctuations** that affect the **pricing of products, inputs**, and the **value of foreign investments**.
- Exchange rate fluctuations help or hurt sales by making the firm’s products relatively more or less expensive for foreign buyers.

Currency risk management

- **Using single currency:** Such problems help explain why many countries in Europe use a single currency, the euro. With a single medium of exchange, currency risk is eliminated in trade among the countries using the euro.
- For international firms operating outside the euro zone, however, currency risk is still a significant problem.
- Using **hedging instruments** like **forward contract**/forward exchange & forward rate, **futures contract**, **currency options**, **currency swaps** to manage currency fluctuation risk. **Hedgers are** currency traders who seek to minimize their risk of exchange rate fluctuations, often by entering into forward contracts or similar financial instruments. They are not necessarily interested in profiting from currency trading. **Speculators** are currency traders who seek profits by investing in currencies with the expectation their value will change in the future. **Arbitragers** are currency traders who buy and sell the same currency in two or more foreign-exchange markets to profit from differences in the currency's exchange rate.
- **Exchange Rate Forecasting:** in house forecasting, using outsourced analysts, business news, World Bank, European Central Bank, etc. are other mean of currency risk management.
- **Putting eggs in different baskets:** The firm operates in numerous markets, each with varying degrees of currency, economic, and political stability, e.g. Dell outsources parts and components from various countries and can quickly shift sourcing from one country or supplier to another, depending on the favorability of exchange rates and other factors.

International human resource management-staffing policies

- Consideration of international workers and managers at global dimension.
- Acquiring, developing, motivating and maintaining an effective team of HR who come from diverse background.
- Big challenge to the most MNCs.

Staffing Policies (EPRG)

- Is concerned with selecting employees who have the knowledge, abilities, skills and attitude (KASA) required for performing particular jobs.
 - 1. Ethnocentric Approach** (filling mgmt position with home country nationals)
 - 2. Polycentric Approach** (Staffing host country nationals to fill up the mgmt position)
 - 3. Regio-centric Approach** (giving priority to the people where the home country is located)
 - 4. Geocentric Approach** (hiring best people from the across the world)

Diversity Management

- Diversity of many dimensions such as attitude, culture and religion, race/ethnicity, language, educational background etc.
- **Some of the guideline for the effective diversity mgmt includes:**
 - a. Equality and social justice to women workers
 - b. Careful selection of members
 - c. Identification of group's goal and values.
 - d. Cultural harmonization efforts and training for employees.
 - e. Delivering positive feedback on performance.
 - f. Managing people through the best mix of ERRG orientation (refer early slide)

Labor relations

- It is basically tripartite i.e. workers, employers and government/ society.
- Aims at improving the labor or employment situation in the country, as labor relations influence productivity, efficiency, industrial peace and harmony, and organizational stability substantially.

Major LR issues

- Unionization of labor:** The workers' right to organize unions and bargain collectively with employers has been well established in almost all countries around the world. Trade union has become a global issue.
- LR dimensions:** Employee relations (ERs) are relations between all employees and their employer. The industrial relation (IRs) are relations between the employer and the labor in the industrial sector. The labor relations are much more involved, complicated and roundabout these days than they ever were.
- Collective bargaining practices:** is the process used to make agreements between management and labor union in a firm.
- ILO's role and influence:** ILO prescribes international labor standards which are binding to the member countries. ILO has adopted codes of conduct for multinational firms to follow in labor relations.
- Cost, quality and productivity of labor:** Worker wage, quality and productivity greatly vary worldwide.

Preparing Employees for Repatriation

- Repatriation is the act of returning home from a foreign assignment after completing foreign assignment.
- It gives mixed feelings to the employees/expatriate managers.
- Even in two years, dramatic changes may have occurred not only at home but also in the way the individual and the family perceive the foreign environment.
- Repatriation tends to cause difficulties in many areas, most notably: Financial, Work and Social.
- In preparing employees for repatriation and reducing repatriation problems, a number of plans techniques may be advised:
 - 1. Counselling:** on the types of problems employees face upon returning home.
 - 2. Monitoring compensation and career path:** firm can monitor and adjust the compensation and ensure the expatriate has a career position equal to, or better than, the one held before going abroad.
 - 3. Interim financial support:** the firm can provide bridge loans and other interim financial assistance