

# **Introduction to International Business**

## **1.1. INTERNATIONAL BUSINESS**

### **1.1.1. Meaning and Definition of International Business**

The business and its related transactions taking place beyond national boundaries are termed as international business. International business is an all-inclusive term which includes FDI (foreign direct investment), globalisation, trade policies, multinational companies and their tactics, mergers and acquisitions, export-import, managing international human resource, cross-cultural management, and the effects of dynamic global factors on business.

Presently, international business has become a necessity for every country whether developed or developing. When economic resources like goods, capital, services (i.e., skilled labour, technology, transportation) and international production are exchanged across international borders, international business takes place. This production does not necessarily involve tangible products but it also involves services like finance, banking, construction, etc. International business also encompasses FDI (foreign direct investment).

According to Robock and Simmonds, "International business is defined as a field of management training (that) deals with the special features of business activities that cross national boundaries".

According to Czinkota and Grosse and Kojawa, "International business is defined as transactions devised and carried out across international borders to satisfy corporations and individuals".

**International business = Business transactions crossing national borders at any stage of the transaction**

**International business or global business** can be defined as a set of all the commercial activities such as sales, logistics, investments, transportation, etc., performed by government and private firms across the national borders. Such commercial activities are generally undertaken with different motives by the private and government firms, where private firms focus on profit-making, and the government firms have both profit as well as political motive behind it.

### **1.1.2. Evolution of International Business**

The evolution of international business is an ancient phenomenon that dates back to centuries ago relating to the integration of economies and societies of ancient times. For the purpose of study, the evolution of international business can be divided into the following three phases:

**Phase I – Early Stage:** As the name suggests, this is the most ancient phase of international business. This phase relates to the ancient times when particularly Mesopotamian, Greek and Phoenician merchants carried-out trading activities in various other countries. According to ancient literature, the sea-borne trade was mainly controlled by Phoenicians, who exported Indian spices and textiles to Egypt, Turkey, Greece and Rome mainly through the west coast of India. Apart from Phoenicians, Roman merchants were actively involved in international business. In the Roman Empire, trade was facilitated by the construction of roads, development of the banking system and other infrastructural facilities. The decay of the Roman Empire and the rise of Turks and Arabian merchants brought about a major change in the operations of international business. The major part of international trade was now in the hands of Arabs who controlled strategic ports, overseas trade and markets. They used to purchase goods from India, especially from Sir trading ports and operated mainly in the region of Malaysia, Indonesia and Philippines.



With the passage of time, merchants found new trading avenues and the European revolution led to different trade passages. The discovery of America by Columbus and the arrival of Vasco de Gama at Calicut in 1498 gave a new direction to international business and trade.

Several developments in the field of international business such as new trade instruments, payment methods, credit institutions, banking facilities and infrastructural facilities gave a new direction to international business. By the 16<sup>th</sup> century, Holland developed into an international financial centre and Dutch banks facilitated business throughout Europe. Around the same time, business ties between north African tribes and some parts of the Middle East gave a new direction to international trade. During the pre-World War I period from 1870 to 1914, integration of economies at a rapid pace resulted in a significant flow of trade along with movement of capital and other resources.

**Phase II – Pre-World War II Stage:** Before the Second World War, international capital movements were highly influenced by the industrial revolution, which resulted into a significant effect on international business. The industrial revolution occurred in the United Kingdom and made the production of manufacturing goods convenient and cheaper through mechanisation of the production process. Surplus goods were available for export to other countries. Innovations caused large-scale production of a variety of goods that required more raw materials from other countries. As a result, capital began to flow out, manufactured goods were exported by the European countries and food and raw materials by the less developed countries.

**Phase III – Post-World War II Stage:** After World War II, severe recession plagued the world economy in 1930. It was only after the mid-1940s that international business began to grow rapidly. The international business scenario can be divided into three phases since 1945 or after the Second World War:

- 1) The first phase started from the late 1940s to the early 1960s. In this phase, multinational companies from the U.K. and U.S. dominated the global market with their focus on the extraction of petroleum, minerals and other raw materials.
- 2) In the next phase from 1960s to 1970s, firms from continental Europe and Japan entered into the international trade arena and weakened the dominance of the United States and United Kingdom. After World War II, there was a drive to increase integration among nations for the purpose of facilitation of trade and business. Most developing countries that gained independence from colonial rule in the post-World War II era followed import substitution strategies to achieve steady growth and economic stability. Economic welfare of the society was also a major focus for these countries. Multilateral organisations like World Bank, IMF and GATT were set-up in the post-world war phase to facilitate economic independence. These organisations have contributed significantly to the economic integration of countries towards a global economy.
- 3) The third phase started from 1970s and saw the European players become a significant source of Foreign Direct Investments, which made a significant impact on international trade. Before 1970s, global trade flows were mainly dominated by North America, Western Europe and Asia Pacific. A clear distinction was observed between developed and developing countries as raw materials were flowing north and finished goods were flowing south. From the 1970s, this situation changed as industrial development took place in many developing countries in Latin America (Mexico), Southeast Asia (Malaysia, Thailand, Indonesia) and East Asia (China, South Korea, Taiwan). Many industrial plants that were initially based in developed countries were relocated to new locations offering lower production costs. Consequently, global trade is now characterised by major flows of merchandise from developing to developed countries.

### 1.1.3. Nature and Characteristics of International Business

A detailed view of various characteristics of international business is given below:

- 1) **Includes Commercial Activity:** The transactions taking place across the boundaries in international business are commercial in nature. These include overseas exchange of skilled labour, human resource, copyright, trademarks, patents, commodities, services, capital, insurance, technology, etc., by means of franchising and licensing. Investments in financial and physical assets also come under international business.
- 2) **Prone to Political Risk:** International business is complex and always surrounded by risks of political nature. This is because in overseas markets, managers have to continuously alter their strategies keeping in mind the changes in economy, regulations and political stability. Also, adjustments have to be made in marketing initiatives that are greatly affected by cultural and national factors of that country.



- 3) **Proactive or Reactive:** International business can be done in pre-emptive or responsive manner. If an organisation senses an opportunity and makes full use of it beforehand, it is termed as proactive approach. On the other hand, reactive approach is when organisation waits for competitors' moves and acts or protects itself accordingly.
- 4) **Different from Domestic Business:** As business is carried out beyond international boundaries, international business differs a lot from domestic business. International business takes place beyond domestic boundaries, in different economic conditions, with people of different cultures living in distinct geographical locations. It is also affected by national markets that vary significantly in area and population, and industrial revolution around the world.
- 5) **Large-Scale Operations:** Activities and operation are performed at very large scale in international business. These activities involve producing and marketing of goods at international level. The surplus good is exported to the international market once the goods have been sold in the local market.
- 6) **Amalgamation of Economies:** Finance, labour, infrastructure, raw materials, and other factors of production are procured from distinguished economies. Even the designing, production, assembling, and marketing of the products takes place in different countries. Hence, more than one economy is combined together in international business.
- 7) **Maximum Control Enjoyed by MNCs and Developed Countries:** As the MNCs and developed countries possess huge capital, skilled workforce, latest technology, and efficient R&D (research and development) teams; they are in a better position to produce improved quality of goods at a nominal cost. Also, they tend to retain employees as they can afford to compensate a premium salary to them. All these advantages have led to the dominance of developed countries and MNCs in the international markets.
- 8) **Advantageous for Involved Countries:** Though there is a gap between the proportions of advantages received by developed and developing countries, there are considerable advantages for developing countries as well. Developing countries can widen up their economies through liberal economic policies to gain advantage of latest technology, more capital, employment opportunities, and rapid industrial development.
- 9) **Excessive Competition:** As mentioned earlier, MNCs and developed countries tend to dominate international business due to their massive capital and ability to produce high quality products at low prices. An added advantage is the significant links these countries have in the world market. Hence, the developing countries that possess limited resources have to face a lot of competition and find it difficult to survive in the international market.
- 10) **Significance of Science and Technology:** In ensuring increased output and achieving economies of scale, science and technology play a vital role in the international business scenario. In fact, a major reason for developed countries dominating the international market is that they focus a lot on using advanced technologies. When MNCs and developed countries use advanced technologies in their international business activities, there is a high possibility of these technologies getting transmitted to developing countries as well.
- 11) **Regulations and Limitations:** As international business has to be carried out across boundaries of several countries, it has to go through a lot of laws, regulations, barriers to entry, etc., which vary from country to country. Few countries tend to resist international business and have very stringent rules including trade barriers, constraints on foreign exchange, etc., which is detrimental for international business.
- 12) **Gets Easily Affected:** Due to its sensitive nature, international business is instantly impacted by even a minute change in laws, procedures, policies, political scenarios, technology, etc. Organisations involved in international business need to adjust themselves according to these changes and are advised to indulge into thorough study and market research, to study the patterns of these dynamic factors.

#### 1.1.4. Scope of International Business

International business has a much wider scope including management of international human resource, management of cultural diversity, international strategic management, management of international logistics and production. Apart from this, its scope also includes international marketing, international trade, foreign exchange management, and finance procurement from IMF, IBRD, International Finance Corporation (IFC), International Development Association (IDA) etc.



Two decades ago, the word international business was not so popular. The origin of the word 'international business' is from the term 'international marketing' which, in turn, originated from the term 'international trade'.

### International Trade to International Marketing

Originally, manufacturers sold their goods to neighbouring countries and eventually increased their exports to distant countries. The companies eventually expanded their activities beyond trade.

For example, In early 1900s, India used to be the exporter of raw cotton, raw jute and iron ore. During 1960s, the rapid industrialisation in the country allowed India to become the exporter of jute products, steel, and cotton garments.

During 1980s, India started establishing markets for its product, besides exporting. The aim was to generate the demand for products like leather, textiles, tea, electronic, coffee, etc. Not only India but almost all developed and developing countries of the world adopted this strategy.

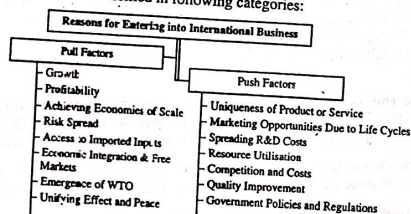
### International Marketing to International Business

The MNC's that used to manufacture goods in their home country and sell them in foreign countries before 1980s, began constructing their facilities in foreign/host countries. Thereafter, these MNC's started manufacturing in one foreign country and marketing in another foreign country.

For example, In India, Hindustan Lever Limited (HLL) is set-up by Unilever as one of its subsidiaries. The products are manufactured by HLL in India and are sold by them in various other countries such as, Bangladesh, Sri Lanka, Nepal, etc. The foreign trade spectrum is therefore extended into international marketing and international marketing is expanded into international business.

### 1.1.5. Factors Affecting/Reasons for Entering into International Business

The factors which persuade companies to opt for international business are known as the drivers or motives of international business. These are classified in following categories:



1) **Pull Factors:** Basically, the pull factors are proactive factors and tend to pull organisations towards international business. Organisations are attracted towards international business due to massive profitability and opportunities to grow. The significant pull factors are as follows:

i) **Growth:** After the saturation of growth opportunities in the domestic markets, organisations look forward to tap the market potential in the international market. Indian domestic market being so huge gives enough growth opportunities to the organisations. Hence, only a few organisations opt for going international in search of growth opportunities.

ii) **Profitability:** Though domestic markets are more profitable, international markets can raise gross profits. This has been proved through numerous cases where organisations have reaped more than 100 per cent gains in the international markets in the event of regular losses in domestic markets. Hence, profitability along with the differences in prices in markets is an important factor inducing organisations to internationalise.

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iii) **Achieving Economies of Scale:** Organisations sell their surplus produce in international markets in case of very large scale production. This helps them in achieving economies of scale. Internationalisation takes place when the organisations have reaped the most out of domestic markets. Most countries motivate industries to go for large-scale production.

iv) **Risk Spread:** When organisations operate in both domestic as well as international markets, their market risk is scattered and they do not have to be dependent on a single market. An organisation is more prone to risks if it operates only in domestic markets.

v) **Access to Imported Inputs:** Advance licensing, export promotion, duty exemption, duty drawback, capital goods scheme, etc., are some of the relaxations and remittances provided by trade laws of different countries which promote the import of inputs or raw materials. These inputs are utilised in designing and upgrading the exported goods. By granting access to imported inputs, countries also help organisation to develop technologically.

vi) **Economic Integration and Free Markets:** As a result of worldwide liberalisation, international markets have opened up and integrated. The import and export between countries has eased up and become smoother. This has led to increased growth opportunities. German chemical organisations going international are a good example of free markets as consumption of chemicals is very less in Germany at the local level.

vii) **Emergence of WTO:** In 1994, World Trade Organisation (WTO) replaced General Agreement on Tariffs and Trade (GATT). It has total of 164 members. The aim of WTO is to develop and promote multilateral trade. It has regulated and helped countries to enter into trade agreements across their national boundaries.

viii) **Unifying Effect and Peace:** Peace as well as prosperity prevails when there is trust and strong relationship between countries and economies. This also promotes economic growth and development.

2) **Push Factors:** Being reactive in nature, push factors are basically the pressures pertaining to domestic markets which influence the organisations to tap foreign markets. Some of the significant push factors are as follows:

i) **Uniqueness of Product or Service:** A unique product or service faces a fairly lesser degree of competition in international markets. It also has more opportunities than any other product. India has added advantage over other nations and hence finds it easier to internationalise. This is because of unique products and services like handicrafts, spices, BPO services, cheaper software development, medicinal and herbal plants, etc.

ii) **Marketing Opportunities Due to Life Cycles:** As the product life cycle of every product is different in every market, organisations can adopt two different strategies to capture the international market, i.e., either by introducing new product in existing market or tapping new market for existing product. This can be done when any of the domestic or overseas market reaches the point of saturation.

iii) **Spreading R&D Costs:** In international business, organisations can quickly and easily recover the costs incurred on research and development by expanding the size of market. This phenomenon holds correct especially for products which involve higher R&D costs and uses price skimming strategy, i.e., pharmaceutical products, microprocessors, and software. Faster recovery of these costs is also possible if an organisation correctly performs market segmentation internationally.

iv) **Resource Utilisation:** There is a huge reduction in transportation costs when an industry is established at a place where resources are available in ample amount and are easily accessible. Mineral based industries are an apt example of this.

v) **Competition and Costs:** After the liberalisation of economy in 1991, there was a rise in competition level among international as well as domestic organisations which changed the entire business scenario in India. Organisations in India have started to internationalise and adopt counter-competition strategy to tackle competition.

Under this strategy, organisations target the home market of an overseas competitor to lessen its competitive advantage.



- vi) **Quality Improvement:** When organisations go global, they earn more profits and expand their markets. These increased profits are invested in improving quality and adopting more qualitative systems. Improvement in quality, equipment, and systems help companies to expand further which in turn increases profits.
- vii) **Government Policies and Regulations:** The trade laws and regulations of governments in different countries are also a big push factor for organisations to internationalise. While few countries promote exports through incentives and flexible laws, others focus on imports and overseas investments.

### 1.1.6. Internationalization Process/ Internationalising Business

It is not necessary that only MNCs conduct international business. As shown in figure 1.1, the last stage of internationalisation is to set-up a wholly-owned subsidiary. Figure 1.1 illustrates the step-by-step procedure for an organisation to enter into the international market. The international markets are considered risky as they are completely new and organisations have to incur huge costs pertaining to export marketing. Organisations can hire or take outside assistance from experts in overseas business and try to internationalise at a slower and watchful pace. This would enable them to cut down on information costs. Gradually, these information costs and risk will start to diminish as the organisation gets settled firmly in the international market.

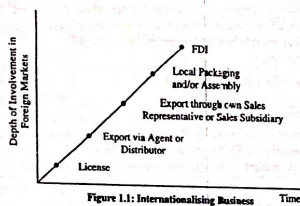


Figure 1.1: Internationalising Business

- License:** Licensing is the first mode which is considered by an organisation as it reduces the risk of internationalising. The licensing agreement is usually due for renewal after five to seven years on the consent of parties attached to it. There are basically two parties in a licensing agreement, i.e., licensor and the licensee. Licensee is the firm to which the licensor gives authority to use few of its technology, trademarks, patents, etc., in lieu of a monetary consideration often called royalty or fee.  
As licensing is a contract, the licensee has to pay a fixed amount called fee upon signing the contract and a royalty thereafter of 2-5 per cent based on the volume of sales. When an organisation plans to go overseas, it is not worried to lose its firm-specific advantages. Licensing proves best when the organisation has a standardised product and the licensee cannot misuse the licensor's technology and patents. In other cases, such as exercising complete control over technology, patents, firm-specific advantages, etc., licensing is not considered the foremost option.
- Export via Agent or Distributor:** The organisation takes the help of a distributor or local agent to export its products eyeing increased sales volume. Using an agent is basically a small opening into the international market and the organisation may not necessarily have very long-term plans to continue using an agent. It is a reactive approach and if the organisation sees itself performing well overseas, it might look forward to establish its own marketing subsidiary or local sales representatives to ensure massive sales through exports.
- Export through own Sales Representative or Sales Subsidiary:** At this stage, the organisations look to expand their capabilities to meet the needs of export market by establishing themselves in the international market through fully owned sales subsidiaries and office for the sales representatives. At this stage, exporting is not merely an opening in the international market to sell the surplus volume. A dedicated export department is set up to regulate international sales. Also, product design and production process is altered in accordance with the export market.

- Local Packaging and/or Assembly:** As stated earlier, the risks of internationalisation tend to diminish when the organisation gets accustomed to the overseas market. At this stage, the organisation may take steps towards production in the overseas market by using the workers from the host country to assemble and package its products. This step could also prove challenging for the organisation as it is exposed to the trade environment of foreign market. It has to manage the wage rates, working hours regulations, cross-cultures, expectations of workforce, etc., in the host country factor market.
- FDI:** FDI or Foreign Direct Investment is the last and final step to enter into the international market. It is undertaken once the organisation is fully familiar with the foreign market and the uncertainties linked with it. Under this step, the organisation starts the whole sole production and selling activity in the foreign market. It might also re-export the products to the home country depending upon the costs involved in different countries.

### 1.1.7. Importance/Advantages/Role of International Business

The advantages of international business are as follows:

- Enhances Standard of Living:** According to the comparative cost theory, nations which enjoy easy availability of labour, raw materials, natural resources, etc., have the ability to manufacture qualitative products at much lower costs. As a result, consumers from various nations can purchase increased quantities of these products with same money. When the purchasing power of people rises and they buy quality products, their standard of living rises.
- Social as well as Economic Welfare:** When a country gets involved in international business, it gets access to consumption of a wide range of products. This turns out to be beneficial for social as well as economic well-being of its people. More foreign companies start selling their products in that country which increases the consumption level. After the economic liberalisation, numerous foreign companies came to India and the people started enjoying new products which further raised the socio-economic level of the country.
- Expands the Market:** The size of the market expands when an organisation taps the overseas market. This also reduces the dependency upon a single market's demand.  
The organisation needs not to worry about the needs and wants of only one market as it can expand into new markets globally. Most of the MNCs have expanded their markets through internationalisation. Some of the examples are Suzuki, PepsiCo, Philips, etc.
- Helps in Avoiding Recession:** When an organisation is running successfully in international market, it has the leverage of moving towards an economy which is developing rapidly from an economy where conditions are recessionary. This is possible because different countries have distinct business cycles and international business helps the organisations in diminishing the effects of business cycles.
- Risk Reduction:** When organisations are spread into several countries, international business acts as a cushion against the political and operational uncertainties. If an organisation is distorted in its home country or the domestic market, it only feels a partial impact because it is doing well in foreign markets.
- Economies of Scale:** The cost of production is reduced as a result of large scale production in several markets. The organisation achieves economies of scale along with qualitative output and technical expertise.
- Helps in Exploring New Markets:** By opting for internationalisation, organisations can explore and target potential markets which have been unexploited since long.  
Unlike the domestic markets, they can also sell their products at premium in these untapped markets. For example, Whirlpool sells refrigerator in USA at \$833 (55000) and in India it costs around 24000.
- Helps as well as Challenges Domestic Organisations to Evolve:** International business assists as well as challenges the domestic players. The domestic organisations are benefited by the know-how, expertise, advanced technology, etc., of MNCs when they opt for amalgamation. For example, Hero Honda, Maruti Suzuki, Kawasaki Bajaj, etc. On the other hand, by giving tough competition and posing threat to the domestic players, MNCs help them to develop and evolve.  
For example, when Samsung started selling its mobile phones in Indian market, domestic producers such as Micromax took up the challenge and surpassed Samsung's market share in Indian market.

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### 1.1.9. Domestic Business vs. International Business

All organisations at domestic and international level whether public or private; aim at effective functioning on their business for longest time possible. However, an additional objective of private organisations is to earn profits. Despite of these similarities between domestic and international business, they differ from each other on the basis of cross-border disparities.

Every country has distinct cultures, legal frameworks, policies, taxes, trade barriers, etc. Just like an individual travelling to a foreign country has to go through fulfilling certain conditions like documentation, communication, converted currency, etc., an organisation deciding to internationalise also has to deal with matters which are way more complicated than domestic business.

| Basis of Difference      | Domestic   | International  |
|--------------------------|--|--|
| 1) Scope                 | Domestic business has a limited scope as it is confined within a country's border along with all the business activities irrespective of being established at numerous locations of the country. | It has a wide scope as it is carried out beyond national boundaries and includes licensing, franchising, export-import, FDI, etc.  |
| 2) Benefits              | Domestic businesses are less beneficial.   | Organisations as well as countries are benefitted from international business.   |
| 3) Market Fluctuations   | Market fluctuations greatly affect domestic organisations resulting in nominal gains and sometimes huge losses as they operate in a single market within the national boundaries.                | Due to the expanded market reach, international business faces less impact from market fluctuations as they can recover the losses from another market and withstand the market fluctuations.                |
| 4) Political Relations   | It does not promote cross-national cooperation and hence does not improve global political relations.  | Global political relations are enhanced through international business which in turn improves national cooperation.  |
| 5) Purvey (Deals In)     | Domestic business is comparatively easier as it does not need to follow trade barriers.  | International organisations face difficulties in form of strict tariffs, customs, and other trade barriers.  |
| 6) Sharing of Technology | Domestic organisations only adopt the new technology and do not share it.  | The latest technology prevailing worldwide is not only adopted but also shared by international organisations.   |
| 7) Trade Restrictions    | The trade restrictions faced are forest land, agricultural area, area development, etc.  | Government laws, licenses, tariffs, etc., are the trade restrictions.  |
| 8) Distance              | Consumes less time in business operations due to short distances.  | Delay in payments and transactions exist due to long distances.  |
| 9) Modes of Entry        | Domestic business has limited modes of entry as compared to international business.  | A wide range of modes of entry are available for a firm opting for international business. These are licensing, franchising, contract manufacturing, ventures, acquisitions, wholly owned subsidiaries, etc. |
| 10) Location             | Domestic business does not enjoy location advantage as it is difficult to shift locations frequently.  | Building plants in locations with cheaper and available resources proves advantageous for international organisations.   |
| 11) Cost Advantage       | They derive cost advantage through new techniques, automation, etc.  | Cost advantage is achieved through economies of scale, i.e., large scale production.   |

### 1.1.10. Changing Scenario of International Business

In the ever-changing world of global business, being one step ahead of the curve is essential for long-term success. The year 2024 is going to witness a plethora of changes and advancements that will affect the course of business. Some of the major trends that can be seen in the business world are as follows:

- 1) **Sustainable Business Practices Take Center Stage:** The year 2024 is following the trend of sustainability initiatives that have been echoing throughout several sectors in recent years. Environmentally responsible corporate practices are being more and more demanded by stakeholders, consumers, and government.

- 9) **Product Specialisation and Division of Labour:** Internationalisation helps an organisation to exploit its area of product specialisation and expand into new markets. For example, India specialises in spices and textile. Also, division of labour takes place in overseas markets allowing the workers to concentrate on small tasks individually.
- 10) **Global Economic Development:** All the above factors including challenges, innovation division of labour, product specialisation, increased consumption levels, high productivity, etc., assist in development of global economy. Many countries like UAE, Singapore, Japan, India, etc., have been benefitted by internationalisation.
- 11) **Efficient and Maximum Utilisation of Resources:** The resources available worldwide are utilised to the optimum in international business. Resources are transported from countries which are extremely rich in certain resources to countries where these resources are scarce. Supply of personnel from India, electronic goods from Japan, and consumer goods from U.K. are a few examples.
- 12) **Cultural Development and Cohesiveness:** Apart from the monetary and expansion advantages of international business, there are advantages of cultural nature as well. Positive cultural traits of countries worldwide are being shared among themselves. Hence, international business leads to cultural integration and transformation.
- 13) **Transforming the World into an Intact Global Village:** Internationalisation or international business is the common thread that binds the worldwide nations, cultures, societies, communities, and economies together. In international business nations develop their trade on the basis of mutual help and understanding.

### 1.1.8. Challenges in International Business

Following are the challenges faced by international business:

- 1) **High Costs:** Setting up infrastructure, recruiting, transportation, technology, travel-overheads, etc., in foreign markets leads to huge costs.
- 2) **Alterations as per different Legislative Frameworks:** Organisations need to adjust themselves in according to different laws prevailing in different countries. Also, altering the production process, product design, and packaging as per new standards leads to extra costs.
- 3) **Affects Cash Flow:** The cash flow of the organisation may be hampered due to postponed and untimely receipt of payments.
- 4) **Complicated Organisational Framework:** As international business demands organisational restructuring, intensive training has to be given to employees to ensure successful re-structuring.
- 5) **Depletion of Natural Resources:** An organisation involved in overseas business especially from an under-developed country has to start exporting raw material at a very early stage which leads to depletion of the natural resources it possesses.
- 6) **Disparities in Cultures:** The organisations have to possess an outward cultural outlook. They should be willing to spread operations in all markets wherever they sense potential irrespective of the cultural differences.
- 7) **Highly Competitive Foreign Markets:** The incompetent and weaker organisations have to wind-up their operations when the competition from big organisations deepens in foreign markets.
- 8) **Barriers to Trade:** Some countries have very stringent trade barriers which restrain foreign countries from entering into their markets. These barriers are either direct or indirect. Direct trade barriers are high custom duties and indirect barriers are quotas, licensing, hectic documentations and certification. Prior to 1991, India had numerous trade barriers which were later lifted during liberalisation.
- 9) **Inadequate Domestic Support:** For smooth and successful functioning of international business, the support of the domestic country is essential. The policies and procedures prescribed by government may sometimes hamper the growth of international business.
- 10) **Extreme Dependence on Imported Products:** Countries have become so dependent on the foreign countries' imported products that their own production stops completely.
- 11) **Disadvantageous to Agro-Based Economies:** Due to the inelastic demand of agricultural products, their demand does not rise even if the prices are lowered. Hence, international business does not benefit agro-based countries.



## 1.2. ANALYSING INTERNATIONAL ENTRY MODES/FOREIGN MARKET ENTRY STRATEGIES

### 1.2.1. Introduction

A small to medium size company aiming to enter foreign market gets acquainted with the necessities and challenges posed by a foreign market with the help of a foreign market entry strategy. This strategy is distinctively positioned to assist an international entrepreneur to take the correct first entry steps. A market research should comprehend the competitive landscape, determine the characteristics of prospective clients and ratify the opportunity to select a favourable market entry strategy.

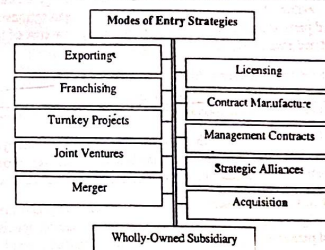
Innovative companies which offers products that can be precisely characterised, positioned and marketed have a fair opportunity to achieve new heights and success in international markets. One of the most significant facets of international marketing management is the selection of international market entry strategies.

According to Frank Bradley and Michael Gannon, "Any injudicious selection of the entry mode may give rise to opportunity costs and in some cases thwart subsequent endeavours in international market".

A wide range of global involvement is covered with the help of different alternative market entry methods from nearly zero, where it ranges from when the company just makes the products available for other players to export without getting involved in the international marketing activities to total involvement where the company may function through wholly-owned subsidiaries in all its important markets.

### 1.2.2. Modes of Entry Strategies

International business comprises of all the functions and activities executed by companies planning to go at international level and exploit foreign markets. A company can make use of different modes for entering the international market. The various means of entering the international market are mentioned as follows:



1) **Exporting:** Exporting is a popular strategy for entering into a foreign market. Domestic businesses can manufacture their products in their local production units and can export them into various international markets. Thus, they can obtain economies of scale by locally manufacturing different products and selling them across the boundaries of the nation. Usually, there are two forms of exporting:

- Indirect Exporting:** When products of the local businesses are indirectly sold to potential foreign customers through local export intermediaries, it is known as indirect exporting. In this form of exporting, products are first sold to intermediaries who further sell them directly to foreign wholesalers or customers. It offers convenience and low costs to local businesses as they do not incur any expense in the process of overseas distribution and logistics, identification of potential foreign markets, etc.
- Direct Exporting:** When products of domestic firms are directly exported and sold to potential foreign customers, it is known as direct exporting. In this form of exporting, business commitment is essential for being directly liable and accountable to manage market research, logistics, shipments, overseas distribution, and collection of payments.

...energy overall, and switching to recyclable or compostable packaging. A trend towards sustainable investing is also evident in the increasing demand from investors for stocks of companies that demonstrate strong ESG standards.

- 2) **The Rise of Digital Transformation Accelerates:** Digital change gained steam during the COVID-19 epidemic and will likely keep going strong well beyond 2024. In today's digital-first world, businesses are embracing technology more and more to improve efficiency, provide better customer service, and maintain a competitive edge.

Modern technology, such as blockchain solutions and AI-powered analytics, is being used by businesses to boost efficiency and innovation. Investments in collaboration tools and cybersecurity measures have become necessary due to the expansion of remote work. These steps are necessary to ensure that operations run smoothly in an environment with a distributed workforce.

- 3) **Evolving Consumer Behavior Reshapes Markets:** The pandemic fundamentally altered consumer behavior, and its effects will reverberate throughout 2024. E-commerce adoption soared during lockdowns, and many consumers have since embraced the convenience and accessibility of online shopping. As a result, retailers are reimagining their omnichannel strategies to provide seamless shopping experiences across physical and digital channels. Personalization, AI-driven recommendations, and immersive technologies are becoming increasingly prevalent as brands seek to engage and retain customers in a crowded marketplace.

- 4) **Geopolitical Uncertainty Impacts Global Business Trends:** Geopolitical tensions and trade disruptions continue to pose challenges for businesses operating on the global stage. Trade wars, tariff disputes, and geopolitical rivalries can introduce volatility and uncertainty into supply chains, impacting organizations' ability to forecast and mitigate risks effectively. Amidst these challenges, companies are diversifying supply chains, exploring alternative manufacturing hubs, and investing in resilient logistics networks to adapt to changing geopolitical dynamics. Moreover, regulatory compliance and geopolitical risk assessments are becoming integral components of business strategies in an interconnected world.

- 5) **Embracing Innovation for Competitive Advantage:** Innovation remains a cornerstone of business success in 2024. Enterprises that prioritize research and development, embrace emerging technologies, and foster a culture of innovation are better positioned to gain a competitive edge in their respective industries. Collaborations with startups, academia, and industry peers can foster a fertile ground for creativity and breakthroughs. Additionally, companies that encourage experimentation and risk-taking are more likely to unearth transformative ideas that drive growth and differentiation in the marketplace.

- 6) **Empowering Workforces in the Digital Age:** It is critical for firms to prioritise talent development and workforce empowerment while they undergo digital transformation. Making ensuring employees have the right skills to succeed in a changing work environment is the goal of upskilling and reskilling programs. In addition, teams may effectively traverse change and create innovation by cultivating a culture of agility, flexibility, and constant learning. Employee engagement and retention are both improved when leaders put an emphasis on diversity, inclusion, and the health and happiness of their staff.

- 7) **Harnessing the Power of Data Analytics:** For companies, data is now a strategic asset that can help them obtain insights, make better decisions, and drive performance. In 2024, businesses are putting more resources into data analytics in order to gain valuable insights and influence company results. Businesses are able to optimise operations, reduce risks, and anticipate client needs with the use of predictive modeling, machine learning algorithms, and advanced analytics technologies. Brands can also personalise consumer experiences and send channel-specific messages using data-driven marketing tactics.

- 8) **Fostering Resilience in Uncertain Times:** Businesses have learned the hard way in recent years how critical it is to be resilient. Any business worth its salt will be resilient enough to ride out storms, whether they be economic downturns, natural calamities, or worldwide pandemics. A comprehensive strategy that includes scenario analysis, business continuity planning, and risk management is necessary to build resilience. Companies may strengthen their defenses against unanticipated threats by analysing their supply chains, finding weak spots, and investing in agility-boosting technology.



- 2) **Licensing:** Licensing agreement is the most common mode adopted by an organisation as it reduces the risk of internationalising. The agreement is due for renewal after five to seven years on the consent of parties attached to it. There are basically two parties in a licensing agreement, i.e., the licensor and the licensee. Licensee is the firm to which the licensor gives authority to use few of its technology, trademarks, patents, etc., in lieu of a monetary consideration often called royalty or fee.

As licensing is a contract, the licensee has to pay a fixed amount called fee upon signing the contract and a royalty thereafter of 2-5 per cent based on the volume of sales. When an organisation plans to go overseas, it is not worried to lose its firm-specific advantages. Licensing proves best when the organisation has a standardised product and the licensee has no right to misuse the licensor's technology and patents. In other cases, such as exercising complete control over technology, patents, firm-specific advantages, etc., licensing is not considered as the foremost option.

- 3) **Franchising:** Local businesses can use international franchising for accessing global markets. When an owner (franchisor) of a brand name, patent, copyright, trademark, business operation, property, process, or system grants legal rights to other business (franchisee) to use that property, process, or system for production of goods and services, in return for a fee, it is known as franchising. The local business can act as a franchisor by distributing its franchises to small foreign businesses and thus, can sell its products in the foreign markets. It will also be beneficial in building foreign market coverage and building brand name in international markets.
- 4) **Contract Manufacturing:** Under contract manufacturing, one organisation (client) enters into a contract with another organisation to manufacture its products or parts. The organisation (client) in this way does not have to arrange for production infrastructure, workforce, raw materials, etc., and can focus entirely on sales and marketing of products. A local producer can be brought into agreement for a firm looking to sell its products in overseas market. Many of the world's leading organisations carry on their manufacturing processes through third party manufacturers in countries having low cost of labour. The advantages include less capital investment and ease of exit in case of product failure.
- 5) **Turnkey Projects:** As the name suggests, turnkey project is when a licensor builds a completely new plant or production infrastructure, which is fully operational, and hand over the key to the licensee. As the licensee receives the keys of a fully functional plant, he can start its operations.
- A turnkey project is a form of project which is constructed and sold to anonymous purchasers as a finished product. These projects are common in international business. Turnkey projects are mostly applicable in constructions of plants such as steel factories, oil refineries, cement and fertilisers plants, etc.
- 6) **Management Contracts:** Local businesses, which lack in technology and managerial skills, can enter into an agreement with a foreign business for seeking managerial assistance, specialised guidance, and technical expertise for a specified period of time in return for a fee or a financial reward.
- This agreement is known as a management contract, and is very useful for a local business to enter into foreign markets. With the acquired management expertise and know-how, a local business can thus sell its products in global markets.
- 7) **Joint Ventures:** When two or more independent businesses are cooperatively joined together to form a new business identity, it is known as a joint venture.
- A local business can form a joint venture with foreign businesses and can easily enter into new foreign markets. Even if one organisation has acquired a low stake in another organisation, they are entitled to the right to have a say in managerial activities of the newly formed venture. It will also be beneficial in the cases, where foreign government policies and laws do not allow foreign control but promote joint ventures and local companies.
- 8) **Strategic Alliances:** A strategic alliance occurs when two or more organisations enter into a contract or come together to perform a specific function and achieve mutually set objectives in the market. These organisations do not merge and remain anonymous. Recently, strategic alliances have become popular and are proven as an effective means to tackle weaknesses and enhance strengths. The main objectives behind setting-up a strategic alliance are market expansion, capital enhancement, access to latest technology, etc.

- 9) **Merger:** An external strategy employed for achieving growth of a company is known as merger. A merger also called as integration, consolidation, or amalgamation means a combination of two or more companies, where one company obtains the assets and liabilities of the other company against cash or shares.

A merger can also mean dissolution of both the companies and the assets and liabilities are integrated and new fresh stock is issued. For the company which is being acquired, it is a merger and for the company which acquires other company, it is an acquisition. In case both the companies dissolve their individual identity to produce a new company, it is known as consolidation.

- 10) **Acquisition:** Buying or acquiring an existing venture is called as acquisition. Acquisition is considered as a simple technique used by many companies to expand their business activities by entering into new product areas or new markets. In order to avoid any financial burden, an entrepreneur should be cautious in structuring the payments. He should design a scope for making payments phase wise which helps the firm to generate funds to pay. Every acquisition strategy is based on a presumption that firms for probable acquisition will be available; however, if the option of firms is finite, the decision can be taken on the basis of proficiency instead of practicality.

- 11) **Wholly-Owned Subsidiaries:** A wholly-owned subsidiary refers to a business, which is entirely owned by another entity. In a wholly-owned subsidiary, all the current-issued common stocks of the company are owned by a single holding business.

With the permission of this holding organisation, subsidiary continues to operate, with or without direct involvement of the controlling entity. Thus, a local business can choose foreign direct investment for gaining entire control alongwith the ownership of international operations and business activities.

However, developing a foreign subsidiary requires a lot of time management and optimum resource utilisation, and is considered as the most costly and difficult method of entering into a new global market. Moreover, there must be an assured demand of the product in the target market for developing a wholly-owned subsidiary.

### 1.2.3. Comparison of Different Modes of Entry

Differentiation between various modes of market entry is given below:

| Modes                   | Advantages   | Disadvantages  |
|-------------------------|--|--|
| 1) Exporting            |  |  |
| i) Indirect Exporting   | a) Advantageous to new entrants in the export fields<br>b) Economical<br>c) Absolved from credit and sales risks.            | a) Absence of scope for product development.<br>b) Availability of exports merchants.<br>c) Producer remains unaware of the operations.  |
| ii) Direct Exporting    | a) Awareness of customer's needs and demands.<br>b) Manufacturer has the decision-making authority.<br>c) Improved goodwill. | a) High risk<br>b) Huge funds necessary<br>c) Degree of risk is involved.  |
| 2) Franchising          | i) Proven market for product or service<br>ii) Less operating capital requirement.   | i) Lack of independence<br>ii) Price of merchandise  |
| 3) Contract Manufacture | i) Cost of manufacturing is decreased.<br>ii) Risk in foreign countries is minimised.  | i) Product or service quality is difficult to maintain<br>ii) Manufacturing may lead to loss of potential benefits.  |
| 4) Management Contracts | i) It facilitates transfer of fees for management services.<br>ii) Technology can be transferred with ease.                  | i) There is a probability of disclosure of technology secrets by the host country.<br>ii) Brand image is badly damaged if the host country's company fails to maintain necessary quality levels. |



|                            |  |  |
|----------------------------|--|--|
| 5) Licensing               | i) Licensor bears low financial risk.<br>ii) Immediate entry available into foreign markets.   | i) Less market opportunities for both the parties involved.<br>ii) Inadequate charge over marketing and production activities. |
| 6) Turnkey Operations      | i) Host country has the chance to coach personnel as per industry standards.<br>ii) Provides potential marker to sell components as well as other intangible assets. | i) Overall high cost.<br>ii) Limited flexibility to incorporate change.  |
| 7) Wholly Owned Subsidiary | i) Parent company controls over subsidiaries.<br>ii) Provides technology protection.<br>iii) Global strategic coordination.  | i) Costs and risks are incurred by the company.<br>ii) Political risk.   |
| 8) Merger                  | i) Mergers may allow greater investment in R&D<br>ii) Provides ability to face international competition   | i) Integration difficulties<br>ii) Inadequate evaluation of target   |
| 9) Acquisitions            | i) Combining Organisation Cultures<br>ii) Accessing Funds or Valuable Assets for New Development   | i) Letter of Intent<br>ii) Duplication   |
| 10) Joint Ventures         | i) Sharing the economic risk with co-venturer<br>ii) Tapping newer methods, technology, and approach   | i) Conflicts and disputes<br>ii) Shared technologies can be used beyond the joint venture.                                     |
| 11) Strategic Alliance     | i) Specialise in competencies<br>ii) Gain location-specific assets   | i) Distribution of Earnings<br>ii) Potential loss of autonomy  |

### 1.2.4. Entry Barriers

Following are the international entry barriers:

- 1) Language Barriers:** It is critical for marketers to take into account the languages spoken in the nations where they plan to expand while conducting business internationally.
- 2) Cultural Differences:** Every nation has its own culture or fusion of cultures, just as every nation has a unique mix of languages. Holidays, arts, customs, cuisines, and social customs observed by a particular group of people comprise a culture. For marketers, becoming familiar with the cultures of the nations in which they will be conducting business is essential and enriching.
- 3) Managing Global Teams:** Managing personnel who are located all over the world is another difficulty faced by multinational corporations. It may be challenging to take into consideration time zones, language difficulties, cultural variations, and various levels of technological availability and dependency while attempting to work as a team.
- 4) Currency Exchange and Inflation Rates:** A dollar's value in one nation may not always be equivalent to the same amount in another country's currency, and its value may not always be equivalent to the same quantity of products and services.
- 5) Nuances of Foreign Politics, Policy, and Relations:** Business is impacted by politics, laws, regulations, and international relations; it does not operate in a vacuum. Because of how complex such connections might be, it is critical for marketers to keep up with current events in the nations where they conduct business.