Modes of operation in international business

- Exporting and Importing
- Turnkey projects
- Licensing and Franchising
- Joint ventures
- Wholly owned subsidiaries
- **Exports**: goods and services flowing out of a country
- **Exporting**: the sale and delivery of goods and services by a firm based in one country to customers residing in a different country
- **Imports**: goods and services flowing into a country
- **Importing**: the purchase of goods and services by a firm based in one country from sellers that reside in a different country
Export Strategy

- The decision to export must take into account global concentration, global synergies, and global strategic motivations.

- Strategic factors affecting the choice of exporting as a mode of entry include:
  - the ownership advantages of the firm [specific assets, international experience and the firm’s ability to differentiate its products]
  - the location advantages of the market [sales opportunities and investment risk]
  - the internalization advantages [benefits of retaining a core competency within the company rather than license, outsource or sell it]
Evaluation of export option

- What do we want to gain from exporting?
- Is exporting consistent with our goals?
- Will exporting put undue demands on our resources? If so, how do we meet them?
- Does exporting leverage our core competency?
- Does exporting fit the current configuration of our value chain?
- Do our coordination systems support the needs posed by exporting?
- Are projected benefits of exporting worth the costs?
- Would our resources be better used to develop new domestic business?
Strategic Advantages of Exports

- Avoids substantial costs of establishing manufacturing operations in the host country
- Increase revenues and profitability
- Achieve economies of scale in production and research
- Alleviate excess capacity in domestic operations
- Minimize risk (as compared to licensing and foreign direct investment)
- Diversify markets

*Exporting requires expertise in dealing with government institutions, particularly customs agencies, as well as the documentation process.*
Characteristics of Exporters

Research has shown that:

(i) the probability of exporting increases with the size of company revenues

(ii) export intensity, i.e., the percent of total revenues generate by exports, is not positively correlated with company size but is influenced by factors such as management interest, production skills, foreign market awareness

While large companies are the biggest exporters, small companies expand their export capacity to:

- increase market share overseas
- fortify their domestic competitiveness

The risk profile of management and the nature of industry competition are just as relevant as firm size in influencing export decisions.
Pitfalls of Exporting

Problems, delays, and pitfalls associated with the export process may include:

- the failure to obtain qualified export counseling and/or marketing intermediaries
- the insufficient commitment of top management
- the underestimation of total transaction costs
- the poor selection of overseas agents or distributors
- the favoring of domestic markets at the expense of international distributors and customers
- an unwillingness to make necessary modifications
- the failure to adequately prepare for international dispute resolution
Designing an Export Strategy

To design an effective export strategy, management must:

- assess the company’s export potential [examine market opportunities and firm resources]
- obtain expert counseling on exporting [get government assistance regarding information, specialized financial assistance and hiring of agents such as freight forwarders or master shippers to simplify the export procedure and paperwork]
- select target markets [passively or proactively pursue market opportunities]
- formulate and implement an effective strategy [define objectives and tactics and establish schedules and deadlines]
Strategic Advantages of Imports

- Decrease costs and increase competitiveness and profitability in order to compete in a global market
- Secure higher quality products, supplies, materials, and/or components
- Minimize risk and investment
- Diversify suppliers to reduce operating risk
- Local unavailability due to geographic, political or developmental reasons
Types of Industrial Importers

The three basic types of *industrial importers* are:

- those that opportunistically look for any product around the world that will generate a positive cash flow
- those that look to foreign sourcing as a means to minimize product costs
- those that use foreign sourcing as part of their *global supply chain* strategy

An *import / customs broker* is a certified specialist who provides access to suppliers, helps price negotiations, arranges transport and insurance, oversees logistics, deals with damaged and rejected goods and most importantly assists importers to navigate trade regulations by obtaining required government permissions and other clearances before forwarding the necessary documents to the carrier(s) of the goods.
The Export Process

Direct exports: goods and services sold directly to an independent party (foreign customer) outside of the exporter’s home country

Indirect exports: goods and services sold to or via an intermediary in the domestic market, who in turn sells them to a foreign customer

Third-party intermediaries: independent, i.e., unrelated, firms that facilitate international trade transactions by assisting both importers and exporters
Indirect Selling/Exporting

*Indirect selling/exporting:* selling products to or through an independent (third-party) intermediary

- Export intermediaries may perform any or all of the following functions:
  - stimulate sales, obtain orders, and conduct market research
  - perform credit investigations and payment-collection activities
  - handle foreign traffic arrangements and shipping details
  - provide support for a client’s sales, distribution, and promotion staff

While services are more likely to be exported on a direct basis, goods are exported via both avenues.
Indirect Selling: Export Management Companies

Export management company (EMC): a firm that either acts as a manufacturer’s agent or buys merchandise from manufacturers for international distribution.

EMCs generally operate on a contractual basis, provide exclusive representation in a well-defined foreign territory, and act as the export arm of a manufacturer.

Although many EMCs are small, they often specialize according to product, function, and/or market area.

EMCs may not be the perfect solution if they may have too few resources, give too little attention, and/or take too much control.
Direct Selling

*Direct selling*: exporting through sales representatives to distributors, foreign retailers, or final end users

- *Direct selling*:
  - gives exporters greater control over the marketing function
  - offers exporters the potential to earn higher profits

- a *sales representative*: a company representative, who usually operates on a commission basis within an exclusive territory

- a *distributor*: a merchant who purchases goods from a manufacturer and stocks, services, and resells them to retailers at a profit
• A firm that has sufficient financial and managerial resources to export directly may adopt a variety of organizational structures ranging from a separate international division to a fully integrated matrix structure.

• Direct selling demands a separate international sales force because foreign markets demand different types of expertise.

• Internet marketing allows firms both large and small to quickly, easily, and inexpensively engage in direct marketing.
Implications/Conclusions

- Exporting and importing are necessary functions for the implementation of firms’ international business strategies.

- The specialization of labor makes exporting to and importing from countries around the world more efficient than manufacturing every product in every country.

- “Born global” companies tend to make exporting a primary goal from the time of their inception.

- The import process involves strategic and procedural issues that largely mirror those of the export process.