

International Business
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Lecture - 02
Importance, Nature and Scope

Welcome friends, to the session of International Business. So, in the last lecture we discussed about what international business is; and I gave you a task. I hope you must have done your task; you must have identified the logos which I had given you. So let us continue with the same right!! So, in the 2nd lecture today I will be continuing with the introduction right!!

So, we said what is international business? and why international business has you know started growing right!! Today we will be discussing some of the importance of international business.

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Importance of International Business

- **Earn foreign exchange:** Through the exports of goods and services all over the world it helps to earn valuable foreign exchange.
- **Get benefits from Government:** It gets many financial and tax benefits from the government *for example* The Hyundai unit at Sriperumbudur, Tamil Nadu in India.
- **Optimum utilization of resources:** produces goods on a very large scale and helps in the efficient utilization of resources.
- **To increase market share:** Kellogg's in India





So, the first importance that we have mentioned here is **earn foreign exchange**. So, through the exports of goods and services all over the world it helps to earn you know valuable foreign exchange. Today if you do not have enough foreign exchange; then even importing or exporting you know doing any business becomes a very challenging task; you cannot do it. So, the major role of international business is to earn foreign

exchange right!! So, that the countries today hold foreign exchange and they can use it for some other benefit right!!

Second is international business the importance is that it helps to **get governmental support and benefits**. For example, I have taken if you can see the Hyundai unit at Sriperumbudur which was done in Tamil Nadu, it help the company to get several tax relaxations tax brackets you know tax benefits; so, that they would set up the plant.

So, the government in wanted to attract them and start their Hyundai plant and they offered them special you know benefits. So, this is some of the benefits that companies get when they come into a new country through such kind of for example, provision of easy land, rebates, right! etc.

The third importance is the **optimum utilisation of resources**. Now for example, when you are producing when a company is producing in a domestic market for example, let us take the very popular case of Reliance. So, when Vimal started and Reliance you know started it is business in textiles. The domestic market was already in a coming to a saturation. But the new plant which Reliance set up it was good enough to produce a in a large capacity. So, this large capacity helped to reduce the cost of production. But since the market was already becoming more or less saturated. So, they looked you know option to go international.

And this rather helped the company to not only utilise it's resources proper, but because of this they could achieve scales of economy and get into new markets and do better right!! So, they started earning better for in foreign exchange right!! Another example why it is so important international business is so important. Is the case of I have given to increase market share.

So, I have given the example of Kellogg's in India. When Kellogg's came to India already it was a known brand, but then they were getting you know not getting enough sales in the other markets. So, to realise after realising this; they thought India would be one of the potential markets because the population size of India is extremely huge right!!

So, if this market can be tapped and because and one more thing is the product that Kellogg's makes right! corn flakes. It is largely unavailable in India right! at that time

when Kellogg's came. So, Kellogg's was the first to enter into the market and thought they could increase that foothold in India and thus increase their market share right!!

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Importance of International Business(cont...)

- **Increase competitive capacity:** International business produces high-quality goods at low cost by using superior technology, management techniques, marketing techniques, etc. and spends a lot of money on advertising all over the world. So, it can fight competition from foreign companies.
- Eg., Digital payment, use of AI, Six Sigma, digital marketing etc.

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Increase the competitive capacity; now what does it mean? International business produces high quality goods at low cost by using superior technology, new management techniques, marketing techniques and spends a lot of money on advertising all over the world. So, it can fight competition from foreign companies ok.

So, international business is not only spreading your products to other parts, but also spreading high quality producing high quality goods because of your efficient techniques, efficient mechanisms and providing it to the consumers across the world right!!

So, the consumers also do gain because of the expansion of business around the world. You see for example, digital payment, use of AI like techniques, Six Sigma like techniques you know processes, digital marketing etc. has made things much simpler right!! This is only a few which I have mentioned.

So, there are umpteen number of techniques which the management gurus have taught and we are today using for the production, the companies are using for their efficient utilisation of resources and manpower right!!

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Another importance of the international business is that international business can **expand and diversify its activities** right!! For example, you see India is a key battleground for e-commerce expansion. So, any company for example, you talk about Amazon, you talk about Alibaba right!!

So, these companies are now trying to see that India is a potential market. So, Amazon which is one of the largest company in the world today right!! What it is doing? It is only nothing, but an e-commerce platform right! largely e-commerce apart from that it has several other businesses, but it is largely ecommerce platform.

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Importance of International Business(cont...)

- **To spread business risks:** a loss in one country can be balanced by a profit in another country.
For example- Nestle failed in China



Don't Wait Too Long Before You Wean the Baby

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So, companies are thinking of expanding their and diversifying the activities. **To spread business risk** right! another importance of international business. How international business helps the you know business firms also. The business firms are able to spread the risk; a loss in one country can be balanced by a profit in another country right!!

So, what example I have given is the Nestle case which Nestle one of the products that ice creams failed in China and some of the units were closed right!! Nestle took a long time to penetrate into the Chinese market right!!

Similarly IBM took a long time to penetrate into the Indian market, Coca Cola took a long time to penetrate into the Indian market. Coca Cola was plenty you know heavily successful in other countries, but when it came to India it was comparatively less successful as compared to the other countries right!!

You see for example, this is a case which I have given. Nestle suffered through a problem. Nestle was boycotted in many countries because they promoted their, you know milk powder against the mother's milk. So, this case was in relation to that when nestle once had promoted. And said that Nestle milk or the product is better than even mother's milk; it was heavily criticised and this criticism led to a dump in the sales.

For example one more case I remember is Maggi sales in India fell drastically, but had Maggi not been an international company and not been working in you know in other

countries. Then maybe, then it would have been very very difficult to manage themselves because for few years the dent was so large that Maggi sales suffered miserably right!!

So, these things have happened in almost all companies. Cadbury's once suffered because of some problem right!! They were found some kind of content which was not desirable. So, all these problems are always more or less happening. So, if there is a loss in one there has to be a balance out in some other country right!!

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Nature of International Business

- **Involvement of commercial activity:** economic or monetary activities like trade, transportation, insurance, Warehousing, Banking and finance, Advertising and publicity etc.



- **Surrounded with political risk:** trade barriers, taxes, political instability, etc for example- Double taxation avoidance agreement (DTAA) between India and China, National emergency in India

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Now, what are the nature of international business? So, first is here we say what is the nature means what it involves. For example, the involvement of commercial activity economic or monetary activities like trade, transportation, insurance, warehousing, banking and finance, advertising and publicity it involves all of these activities right!!

So, international business is involved with such kind of commercial activities you know. One has to understand if they do not understand it well then it can have a you know adverse effect on them. They are surrounded with political risk trade barriers today there is a problem with two countries.

So, let us say U.S. and Iran and there is a sanction there might be some trade barriers right!! So, taxes some kind of taxes imposed; for example, India imposed heavy taxes on the vehicles that were coming from Japan and China. So, in order to save the domestic players they did it.


Political instability like for example, double taxation avoidance agreement between India and China and there was a national emergency in India during the 70 and 80 right!! So, and political risk is there everywhere today you talk about Libya you talk about the you know oil countries and the tension between U.S. and Iran.

So, there is a political risk all the time, India and Pakistan right!! India and China, so U.S. and China the trade war at the moment when I am standing. The trade war between you know U.S. and China has escalated to such a level that you can see it, the result is visible through the stock markets across the world. So, the stock markets are crumbling down right!!

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Nature of International Business

- ***Differs from domestic business:*** International business is engaged in economic transaction with several countries in the world.
for example- Free Trade Agreements (NAFTA, SAARC, ASEAN)
- ***Large scale operations:*** cost per unit of output decreases with large scale of production.
- ***Sensitive nature:*** Any changes in the economic policies, technology, political environment, etc. has a huge impact on it. (PESTEL Analysis, SWOT Analysis)



The diagram illustrates the PESTEL framework, a central blue circle labeled 'PESTEL' is surrounded by six blue rectangular boxes, each representing a different external factor: Economic (top), Social (top-right), Technological (bottom-right), Environmental (bottom), Legal (bottom-left), and Political (top-left). Arrows point from each of these boxes towards the central 'PESTEL' circle, indicating their collective influence on international business.

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Then international business differs largely from domestic business right!! Since it is engaged in economic transaction with several countries for example, for that there are free trade agreements for example, like NAFTA, SAARC and ASEAN you must have heard about this. So, international business has to be more dynamic, has to handle complexity in a larger way. So, that because it is an integral part of it right!!

Large scale operations as I said the cost per unit of output decreases with large scale of production. In the last session also we have discussed about it right!! Then the sensitive nature of international business any changes in the economic policy the technology the political environment. For example, the PESTEL analysis which we say right! has a huge impact.

So, the government changes its policy, the people, you know that there is a change in culture, there is a behavioural change, there is a local culture which is affecting so all these things makes it very sensitive. For example, when MacD (macdonald) came to India and they provided initially beef cow is like treated like a mother in India we all know. So, there was a huge uproar right! and MacD had to apologise for that right!!

So, there are several things in some countries there are some things some food habits which are prohibited, in some other countries they are acceptable. For example, beef is acceptable around the world, but in India it is even in Asian countries, but in India it is a no no right!! So, several things are there right! in terms of our behaviour and tradition right!!

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Scope of International Business

- **International Marketing:** The International Marketing is the application of marketing principles to satisfy the varied needs and wants of different people residing across the national borders.
For Example- KFC offer veg and non-veg meals in India.
- **International Finance and Investment:** International finance is a section of financial economics that deals with the monetary interactions that occur between two or more countries Like IMF and IBRD.

The slide includes logos for the International Monetary Fund, The World Bank, and KFC. At the bottom, it mentions 'IT ROOKIE' and 'NPTEL ONLINE CERTIFICATION COURSE'.

From here we move into the scope; scope of international business. So, what does international provide us right!! First international business helps us in international marketing right!! So, it says the international marketing what how is it different also we let us see that. The international marketing is the application of marketing principles to satisfy the varied needs and wants of different people residing across the national borders.

You see I have an example of KFC: Kentucky Fried Chicken offers veg and non veg meals in India, but you hardly hear Kentucky Fried Chicken KFC giving providing non veg meals. So, in the last example of so, I had said how MacD's suffered in India. And

one interesting example is I will talk about it is a Kellogg's case the Kellogg when it came to India they suffered through a very typical problem.

The typical problem was the habit of the people; Kellogg's when they offered the corn flakes to Indians the Indians had a habit of using the corn flakes in drinking hot milk. But corn flakes is advised to be taken in a cold milk.

So, this small difference in the habit of people resulted in a fall of you know Kellogg's in India. And Kellogg's had to take back it's products and first educate the customers and educate them and let them and tell them if this product is suitable to be taken it should not be taken in a cold milk, with cold milk.

So, international marketing which is one of the scope of international business; it tells us that it helps to identify these needs and wants of the customer. Siemens similarly when they came to India they wanted to expand in India. They found a very typical problem that the electrical regulations, the guidelines were not matching.

These products which they were making their home country, when they directly brought it to India they found it was not working because the Indian climate was different, Indian electrical conditions were different. So, they had to redesign that products right!!

Second is international finance and investment another scope of international business. So, international finance is a section of financial economics that deals with the monetary interactions that occur between two or more countries. So, IMF and IBRD are two organisations involved right!!

So, it talks about; what monetary interactions happen? How it should happen? And what are the policies and guidelines to be taken care of; all these things.

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Scope of International Business

- **Foreign Exchange:** Foreign Exchange is the trading of one currency for another. For example, one can swap the U.S. dollar for the euro.



- **Global HR:** It is an umbrella term that includes all aspects of an organization's HR, payroll and talent management processes operating on a global scale. for example- Salaries and Compensation Packages, Training and Development, Employee and Labor Relations

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The third scope is the earning of the foreign exchange. So, foreign exchange as I have already explained it is the trading of one currency for another right!! So, for example, ones can swap the U.S. dollar for the euro right!! Now business there is the bullion market for example, going on there are currency market.

So, now there is every time every moment there is a exchange of currency and the buyers and sellers are constantly buying and selling these currencies right!! for their benefits across. So, this is one of the scopes of international business.

Another important scope is the global HR; human resource. So, it is an umbrella term that includes all aspects of an organizations HR payroll and talent management process operating on a global scale. There have been cases where companies have failed just because of a poor HR policy. Or even not a poor HR policy just because they did not understand the human resource requirements right!!

So, this case I am talking about is a case of Daimler and Chrysler right!; Daimler being the German counterpart and Chrysler being the U.S. counterpart. So these two companies merged to form a large entity. But in some time they failed the major reason for the failure was not technology was neither you know any other reason finance or anything.

But, it was only because the cultural differences of these two countries the people of these two countries persisted and it became so high that the Germans were not able to

work with the Americans and the Americans were not able to work with German employees right!!

So, this case shows us that during international business it is very very important to deal with the global HR conditions and the policies right!! For example, I have said salaries and compensation packages, training and development, employee and labour relations all these are so sensitive because it is connected with the human.

It is so sensitive and what you might think is you might you may take it casually in one country may become a serious factor for another country. And, that impact largely the company's success right! ok.

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So, after the scope now we move into the modes of entry, when you are doing international business how do you enter into different countries right!! So, for example, I am an Indian company for example, Tata and now Tata wants to get into Britain or Tata has gone into Germany right!!

So, how do Tata's get into? Is it so is it very simple that you just go into another country and you set up your business? Obviously not, we all know. As a student you also know and as a faculty I also know it is not that simple right!!

So, how do you what are the modes of entry into international business we need to understand that. This is a brief diagram which talks about there are three ways majorly

trade related. So, we divided into trade related, contractual and investment entry right!!
So, we will see all of these, but let us take one by one right!!

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So, the modes of entry is through this is a simple diagram. So, what it says? Extent of investment and risk in the 'y' axis and the degree of ownership and control in the 'x' axis. So, when it is low and high this is low and high. So, what are the different measures of modes of entry? For example; exporting, licensing, franchising, strategic alliance, joint venture and a wholly owned subsidiary.

What you can do is I will request you to take a break and look at this diagram closely. And try to understand why am I saying that the degree of ownership is low in one case and the extent of investment and risk is also low right! in for example, exporting. Why it is very high why the degree of ownership is very high in the wholly owned subsidiary and why the extent of investment risk is also very high. Kindly, look into it and try to understand how they are different right!!

So, let us start with the first part the export right!! So, from here if you can look at this the trade related we are talking about so exporting.

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So, what is direct export? Direct export means the organisation produces that product in their home market and sells them to customer's overseas right!! So, this is simply I am producing in my home market in India maybe and selling it to in Bangladesh, selling it to Philippines, Mexico anywhere right!!

So, example I have given is Tata Steel exports a large number of steel products to the countries like USA, European Union, Jordan, Qatar, Vietnam, Iraq, Afghanistan, and Korea so producers selling directly to the importer right!!

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Direct export has several advantages; what are the advantages? First a good control over the foreign markets. It gives you straight information from the target market. So, because you are directly doing it so you get a ground you know information from the ground level about what the people are thinking, what they want, what they do not want, everything right!! Better protection of trademarks, patents, goodwill and other intangible property right!! So, these are some of the advantages of when you are directly exporting.

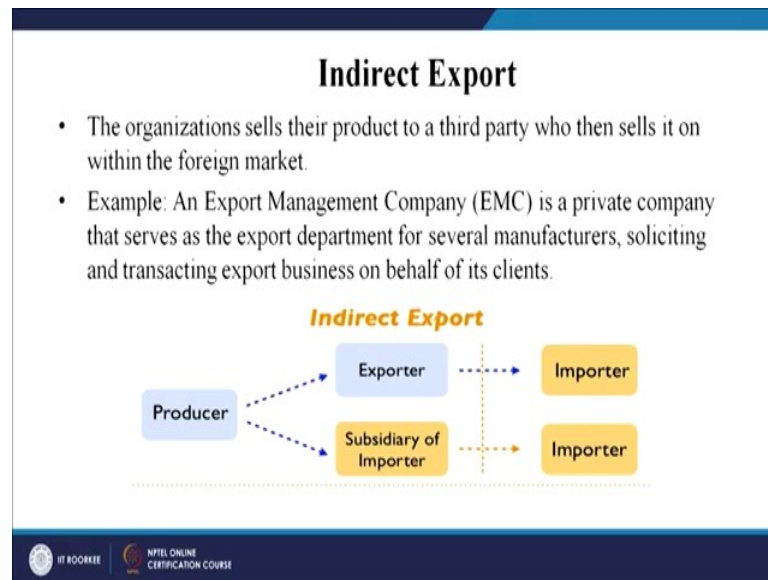
Potentially greater sales you can sell more if you would have done it indirectly right!, but every time it does not only have advantages it has some disadvantages also. So, what are the disadvantages? The start up cost is the initial setup and the start up cost is very high right!!

Because you want to directly export you have to set up the entire channel right! maybe. Greater information requirements; you cannot just barge into any country any nation right!! So, you need to understand the complete the PESTEL analysis you have to do the PESTEL analysis.

You have to do the SWOT analysis, you have to understand what is the political climate? What is the economic climate? What is the technological climate social climate? Everything right!! And then only you have to you can get into and these things demand a lot of investment a lot of you know you have to be very accurate.

If you are not accurate then it is again trouble. So, you spend a lot of money and then maybe if you are not accurate then it is dangerous right!! It is highly time consuming right!! So, these are some of the direct export advantages and disadvantages.

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What is indirect export? Now I am not doing it directly right!! So, the organisations sell their products to a third party who then sells it on their behalf right!! So that means, I sell it to 'A' and 'A' sells it to some other country for me right!!

Example: an EMC is a private company that serves as the export department for several manufacturers. So, there is an EMC which is a private company that serves as the export department for several manufacturers; may be of the same product right! similar product. Soliciting and transacting export business on behalf of it's clients.

So, you see there is a producer who direct is selling you know given to the exporter or subsidiary of the importer right!! So, there is an importer, there are two importers here. So, one I am giving to the exporter and this exporter is given to the important right!! Or there is a subsidiary of the importer in my country maybe right!! And this importer purchase it from me and sells it to it is parent company right! in the parent/home the country right!!

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Indirect Export(cont...)

Advantages

- Fast market access
- Concentration of resources for production
- Little or no financial commitment.
- No direct handle of export processes.

Disadvantages

- Higher risk than with direct exporting
- Little or no control over distribution, sales, marketing, etc.
- Inability to operate overseas

At the bottom of the slide, there are two logos: 'IIT ROORKEE' and 'NPTEL ONLINE CERTIFICATION COURSE'.

So, again this also has its advantages and disadvantages now let us look at the advantages and disadvantages. The first advantage is that fast market access because I do not need to consume time I do not need to waste time in learning the habits and everything. So, this exporter or the you know subsidiary of the importer is an expert in that so he knows everything. So, there is a fast market access. So, you are very flexible and you take less time ok.

Second point is the concentration of resources for production. So, because I am not doing anything I am just giving it to somebody and he is you know doing it for me. So, the resources for production I can concentrate on that and use it wisely.

Very little financial commitment right!! And, I do not need to handle the processes. See there are two types of major barriers in trade tariffs and non tariff barriers. So, when we talk about tariffs and non-tariff barriers. So, one of the non tariff barriers sometimes are more difficult because they include some of the things like the you know documentation and policies and all. So, since and they are very cumbersome, very critical, very difficult the policies for one country is very different for the policies another country.

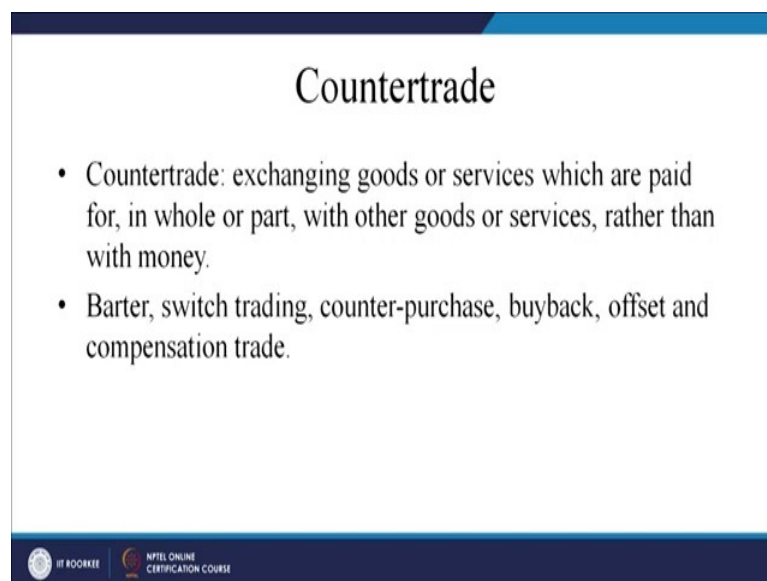
So, since I do not need to handle this and somebody is doing it and he is taking of you know some kind of a fee or remuneration from me. So, this is an advantage on my part that; I do not have to put my head, into invest my time and energy into it.

But, the disadvantages are it has higher risk sometimes, in the risk sometimes because why I am saying it is there are agency who is taking your product, if he is not seriously is not committed to your product then you do not know what is happening in behind right!! So, that is the risk you hold right!!

Little or no control you do not have any control of the distribution. So, when you do not have the control of the distribution sales and marketing; how would you get the raw information from the ground, the ground level information. And, if you do not know understand the information how would you make a change in your product design if suppose you want to/ you have to make it.

So, all these things are very important and you sometimes you miss out on them. And inability to operate overseas you are not able to do it overseas directly. So, as I said earlier you might not get some of the benefits that earlier you could have got had you done it direct export right!! So, these are some of the advantages and disadvantages.

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Countertrade

- Countertrade: exchanging goods or services which are paid for, in whole or part, with other goods or services, rather than with money.
- Barter, switch trading, counter-purchase, buyback, offset and compensation trade.

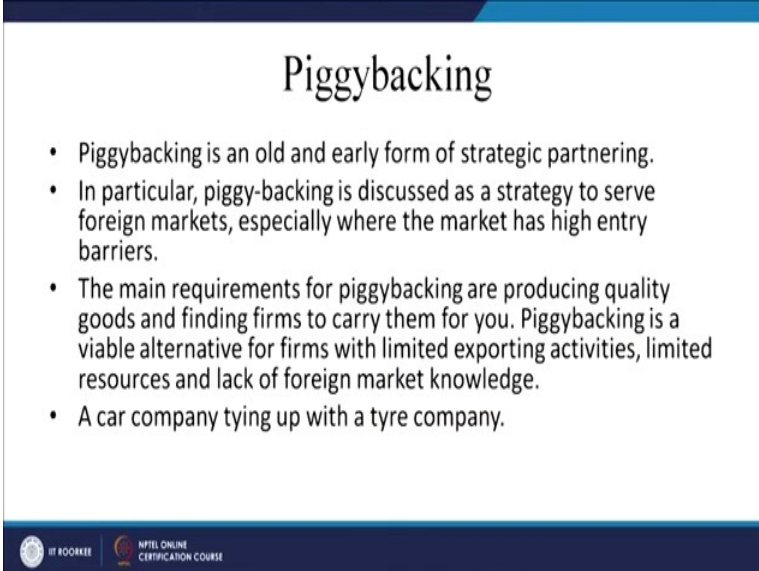
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Another feature that comes into play when I am talking about trade is the countertrade. Now what is counter trade? Exchanging goods or services right! which are paid for in whole or part with other goods or services. Sometimes, in fact, it happened with Russia in shortage of money what happened was they wanted to exchange goods like a barter right!; so barter is one way of it.

So, exchanging goods which are paid with other goods or services right!! So, some of the counter trade mechanisms are ways are which I will be explaining in my next to next class just understand. So, barter, switch trading, counter purchase, buyback, offset and compensation trade.

So, there are six different types of countertrade. And what they are I will explain one by one. So, but just understand today that countertrade means where you are exchanging against goods and services right! ok.

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The slide is titled "Piggybacking" in a large, bold, black font. Below the title, there are four bullet points. The first bullet point states that piggybacking is an old and early form of strategic partnering. The second bullet point explains that piggybacking is discussed as a strategy to serve foreign markets, especially where the market has high entry barriers. The third bullet point lists the main requirements for piggybacking: producing quality goods and finding firms to carry them for you. It also states that piggybacking is a viable alternative for firms with limited exporting activities, limited resources, and lack of foreign market knowledge. The fourth bullet point provides an example: a car company tying up with a tyre company. At the bottom of the slide, there are two logos: the IIT Kharagpur logo on the left and the NPTEL Online Certification Course logo on the right.

Piggybacking

- Piggybacking is an old and early form of strategic partnering.
- In particular, piggy-backing is discussed as a strategy to serve foreign markets, especially where the market has high entry barriers.
- The main requirements for piggybacking are producing quality goods and finding firms to carry them for you. Piggybacking is a viable alternative for firms with limited exporting activities, limited resources and lack of foreign market knowledge.
- A car company tying up with a tyre company.

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Piggybacking; now what is piggybacking? It is an old and early form of strategic partnering; two different firms tie up or have a strategic partnership because to get advantage. Now what it says, it is discussed as a strategy to serve foreign markets especially where the market has high entry barriers.


So, I cannot do everything so what I am doing is the main requirements for piggybacking are producing quality goods, and finding firms to carry them for you. So, I am producing a good and somebody is I am not depending on some exporter, but some other company he has some know how. So, I am depending on him to carry my products. So, it is a viable alternative for firms with limited exporting activities right! and limited resources and lack of foreign market knowledge.

A car company tying up with a tire company or a car company tying up with some other you know producer who is in a similar field right!! So, and it helps you to take your product and sell it in some other overseas market. So, this is called piggyback; piggyback means to jump over somebody's back and ride through some way right!!


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Licensing


- It is an agreement between the licensor and the licensee over a period of time for the use of brand name, marketing, know-how, copyright, work method and trade mark by paying a license fee.
- For example, British American Tobacco Company has given licenses in many countries for the manufacture of their brand of cigarettes "555". In India, ITC is the licensed producer of "555".



ITC Limited



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Now, another mode is licensing. Now what is licensing it is an agreement between the licensor and the licensee over a period of time for the use of; brand name, marketing, know how, copyright, work method, and trademark by paying a license fee.

So, you can enter into this so it is a very important mode of entry. So, you are entering into another nation or another country. So, this international business organisers or organisations they do it largely; that they take a license and they produce a product right!!

For example BAT has given licenses in many countries including India where ITC is the licensed producer of the cigarettes right! for particular brand I am saying is 555 right!! So, license means you give me a license and once I get the license I can produce it for you right!! So, this licensing is also a very important way which companies have adopted to enter into the new markets ok!.

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Licensing(cont...)

Advantages of licensing

- Obtain extra income for technical know-how and services
- Reach new markets not accessible by export from existing facilities
- Quickly expand without much risk and large capital investment
- Pave the way for future investments in the market

Disadvantages of Licensing

- It increases opportunities for intellectual properties and products theft.
- Inconsistent product quality may effect product image negatively
- Firms can lose control over the competitive advantage of their technological know-how

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So, what is the advantage of licensing? It helps you obtain extra income for technical knowhow. Suppose you provide license so you obtain extra income right!! So, you have given the license to somebody and on basis of that you earn some income which the markets were earlier you were not able to access right!!

Quickly expand without much risk and large capital investment. So, if bat would have directly wanted to enter India it would have been may be tough. But now through ITC they are into India right! pave the way for future investments in the market.

So, it helps to understand the you know which sectors would be more attractive and you know maybe related areas. So, the company can understand through these partners right! licensing partners and maybe in the future they can enter into these new areas, but there are also disadvantages.

First it increases opportunities for intellectual properties and products theft. So, there is a fear that you give a license to somebody and tomorrow that company may take your entire you know technology, it may steal your technology your know how and may do it on it is own right!! So, this is a fear of intellectual property mishandling of the intellectual property right!!

And inconsistent product quality may affect the brand image, product image negatively. So, I have given a license to somebody to produce, but the company which is producing

for me maybe they do not maintain the right! quality you know levels. So, it is my job to check obviously, but then every time I cannot check I have to have some trust on my business partners also.


So, in such a condition if they do not produce and some of the products are bad or inferior and they have reached the market then it has a huge negative impact on my image right!! And firms can lose control of the competitive advantage which is connected with the first point itself right! in disadvantages.

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Franchising

- Franchising is another form of licensing.
- Arrangement where one party (the franchiser) grants another party (the franchisee) the right to use its trademark or trade-name as well as certain business systems and processes, to produce and market a good or service according to certain specifications.
- For Example- **McDonalds** is a popular example of a Franchising option for expanding in international markets.





Now, another mode of entry is franchising you must have you know when I deliberately have given this McDonalds because this word franchising is connected several companies adopt franchising techniques, but McDonalds is very popular in India and we know about it.

So, arrangement where one party what it says it is an arrangement where one party the franchiser grants another party the franchisee the right to use it's trademark or trade name as well as certain business systems and processes to produce and market a good or service according to certain specifications.

So, the specifications are decided by the franchiser right! McDonalds is a popular example of a franchising option for expanding in international markets.

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Franchising (cont...)

Advantages:

- Low political risk
- Well selected partners bring financial investment as well as managerial capabilities to the operation.

Disadvantages:

- Franchisees may turn into future competitors
- A wrong franchisee may ruin the company's name and reputation in the market


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So, what is the advantage again? So, there is a low political risk, well selected partners bring financial investment. They also do bring financial investment as well as new managerial capabilities to the operation. But again the similar disadvantage is like licensing it because it is also a type of licensing. Franchises may turn into future competitors and wrong franchisee may ruin the company's name and reputation in the market right!!

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Contract Manufacturing

- It is the strategy of identifying a manufacturing unit to produce items at a competitive price in any part of the world.
- Nike is procuring its athletic footwear in a number of factories in South East Asia. Mega Toys is sourcing from China.



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So, these are some of the problems which we are facing. So, the one more is another mode of entry is contract manufacturing. So, nowadays many large companies for Nike, Adidas, Puma Reebok they all are getting into especially the shoes companies I am saying they get into contract manufacturing.

So, they are finding offshore markets where production you know manufacturing is very cheap right! cheap and inexpensive for example. It is the strategy for identifying a manufacturing unit to produce items at a competitive price in any part of the world. Nike you would not believe Nike procures 100 percent of it's you know products from different nations.

For example, they are made in India they are made up Nike shoes are made in the Philippines and other places right!! So, Nike is procuring it's athletic footwear in a number of factories in Southeast Asia India being one of them. Mega Toys is sourcing from China right! So, this is a contract manufacturing.

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Contract Manufacturing(cont..)

- Contract manufacturing with a dimension in the service sector offer ample opportunities for Indian companies in the form of BUSINESS PROCESS OUTSOURCING (BPO) and KNOWLEDGE PROCESS OUTSOURCING (KPO). All the developed nations are becoming end user of outsourced products and services of developing nations.
- BPO refers to the outsourcing of peripheral activities of the organization to an external organization to minimize cost and increase efficiency. KPO is described as the functions related to knowledge and information are outsourced to third party service providers

The slide features a comparison between BPO and KPO. On the left, a purple square contains a white icon of a person in a suit and the text 'BPO'. In the center, a pink circle contains the text 'VS'. On the right, a yellow square contains a white icon of a person in a suit and the text 'KPO'.

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So, contract manufacturing with the dimension in the service sector offer ample opportunities for Indian companies in the form of BPO (business process outsourcing) and KPO (knowledge process outsourcing). All the developed nations are becoming end user of outsource products and services of the developing nations.

So, what a contract manufacturing helps or what it does basically? It helps to identify the inexpensive places with good talent. And then it helps them to procure the material from those places. So, this is what international business is all about.

So, today we discussed about international business scope right! We have discussed its importance its challenges, why international business is slowly becoming is growing up right! every time. And it is, but it is very complex as I said it is not that easy because of reasons like cultural dimensions, political dimensions and all.

But and then we discussed about the modes of entry; how do you enter into a new nation a new country. It is not that simple; so you may enter directly you may enter it indirectly. But then what precautions you have to take. So, there are certain, so many things we have discussed.

And in the future classes maybe we will take it one by one a little more deeply. And we will study what parameters do impact international business, and what factors do you should you keep in mind when you talk about international business right!

So, I wish you luck. Thank you so much, we will meet in the next session.

Thank you so much.