

International entrepreneurship opportunities

MODULE 6

ASSIGNMENT

- ▶ Barriers to international trade
- ▶ Tariff barriers
- ▶ International v/s domestic entrepreneurship

International entrepreneurs

- ▶ Process of discovering and creatively exploiting opportunities that exists outside one's own country with the competitive advantage wherein important discovery and exploitation of opportunities is
- ▶ It is a combination of innovative proactive and opportunistic behaviour that crosses national borders and is intended to create new organisations.
- ▶ This deals with general aspects of being global and identifying global opportunities.
- ▶ Issues covered are importance of internationalisation, globalisation and the international environment, international venture, aspects of global business etc

Nature of international entrepreneurship

- ▶ Integration of economies
- ▶ International competition
- ▶ Mutually acceptable currency
- ▶ Different national policies and intervention:
- ▶ Proactive or reactive based on opportunities/threats

Importance of int buss to th

- ▶ Superior technological know-how
- ▶ Larger size and economies of scale
- ▶ Lower input costs due to large size
- ▶ Ability to access raw materials oversea
- ▶ Ability to shift production overseas
- ▶ Economies of scale in shipment/distrib
- ▶ Brand image and goodwill advantage
- ▶ Access to low cost financing
- ▶ Information advantage
- ▶ Managerial expertise and experience
- ▶ Diversification of risks

Rostow's model of stages of economic development

- ▶ According to Rostow, 1960 countries pass through stages of development
 - ▶ 1. Traditional society – subsistence, barter, Agriculture, limited capital, traditional methods of production
 - ▶ 2. transitional stage – specialisation leading to modernisation, transport infrastructure develops, income/savings develop, entrepreneurship develops, external trade opens up
 - ▶ 3. Take-off – Industrialisation develops, works shift from agriculture to manufacturing sector, growth concentrated in a few regions, reaches 10% of GNP
- new political and social institutions develop, modernisation investments

Rostow's model

- ▶ 4. Drive to maturity – diversification to new areas, producing wide range and less reliance to imports
- ▶ 5. high mass consumption – mass consumption, consumer goods flourish, service sector becomes dominant

According to Rostow development requires substantial investment given in stage 3 after reaching stage 2 leads to maturity

Limitations of the model:

Based on western culture and not India

Too generalised

doesn't detail preconditions for growth

Difficult to identify stages as they are merged

Just a growth model highlighting need for investment of development

Entry modes to international business

- ▶ Method of entry into an international market depends on the entrepreneur and the company's strengths and weaknesses
- ▶ Entry modes can be broadly categorized into 3 categories
 - exporting as an entry strategy
 - manufacturing strategies without FDI
 - manufacturing strategies with FDI

Exporting

- ▶ Strategy to enter a foreign market with least commitment if the company is not large enough to set up own manufacturing plant. It is manufactured to derive economies of scale and cost advantage and quality advantage. However, managers in foreign market have to be responsive to customer needs.
- ▶ Forms of exporting: includes indirect exporting and direct exporting.
- ▶ Indirect exporting is exporting through others; resellers or agents who have limited resources. Objective is to sell products overseas with minimum expenses and inconvenience. They can withdraw when their home country sales improve, but control is also low on how when and where the products are sold. Sometimes they are not even aware of their export activities.
- ▶ There are 4 methods of indirect exporting.
- ▶ 1. Domestic purchase: some companies are content with selling to domestic companies who purchase at factory gate and export to foreign markets. Local subcontractors and OEMs fall in this category. They have limited knowledge and access to the company.

Exporting

- ▶ Export houses: export houses or export marketing specialist companies setup to act as export department companies. They can facilitate small and medium companies in their international trade. They also provide indirect information and contacts.
- ▶ Piggybacking: an established international distributor or manufacturer is used to carry the products of another manufacturer. The second manufacturer rides on the back of reputation and administration of the carrier with no direct involvement or commission, or he buys the products and distributes them.
- ▶ Trading companies: trading companies from the East play an important role in indirect exports. African trading companies and sogo shoshas of Japan are classical examples.

Exporting

- ▶ Direct exporting:
- ▶ for long term interest in international company needs to proactively export. Requires commitment and resource into a number of supporting activities, a huge financial burden on the company, hence timing becomes critical. So a gradual transition is important.

Manufacturing without FDI

- ▶ Strategy involving manufacturing and service supply from huge costs and risks manufacture can be without direct
- ▶ - licensing: under a licensing agreement a company (licensor) grants the right to use industrial property to another company (licensee) for a specified period. The licensee pays a royalty to the licensor. Rights may be exclusive or non-exclusive.
- ▶ Most common for the use of patents, trademarks, copyrights. Licensor does not risk tangible assets like plant and machinery. Licensee has to develop intangible asset on their own.
- ▶ It permits a foreign company to use industrial property in one country or in other countries
- ▶ Multinational companies commonly license their own subsidiaries the legal ownership of industrial property, to facilitate repatriation of profits to home and host governments. Many Indian companies have licensed their technology to other countries eg Ranbaxy in Indonesia and Jordan

Manufacturing without FDI

- ▶ Franchising:
- ▶ Means of marketing goods and services grants the legal rights to use branding trade and method of operation is transferred - in return for a fee. The franchiser provides and help with sourcing and exercises sign the franchisee's method of operation.
- ▶ Franchisee invests in capital but is considered. Franchiser has the advantage of greater without having to invest in capital
- ▶ Chan identifies 2 types of franchise. Viz product and business format franchise.

- ▶ Product/trade franchise is like car dealerships, service station, soft drinks bottlers where franchisees are granted right to distribute manufacturer's product in a specified territory
- ▶ Business format franchise includes many businesses like restaurants, convenience stores, hotels, this includes licensing of trade name, system of operating the business and choice of the location
- ▶ One has to decide to what extent the business format must take into account local demands and expectations. McDonad, Pizzahut and others have catered to local tastes in different countries

- ▶ Contract manufacturing:
- ▶ Firm engaged in international business manufacturers to produce the product under contract. Nike and Gap use contract manufacturing to take advantage of low-cost economies. The advantage is that they can concentrate on sales and marketing. As a result, a minimum withdrawal becomes easy.
- ▶ It helps to overcome trade barriers
- ▶ Sometimes it is the only way where local employment
- ▶ During political uncertainty it is better to have production capacity.

- ▶ Turnkey projects:
- ▶ Turnkey projects are common in industries such as oil refineries, steel plants, cement plants,; construction projects as well as turnkey agreements.
- ▶ It is a contract under which a firm designs, constructs and equips a manufacturing/business/service facility and turns the project over to the purchaser who operates it for remuneration. Form includes fixed price, or on a cost plus basis.

- ▶ Management contracts:
- ▶ Companies with low level technology management expertise may go for management contract with a foreign specified period for a monetary cost
- ▶ Compensation can be in the form of percentage of sales or performance
- ▶ Some Indian companies like Tata Tea, Malayalam have contract to run

Manufacturing with FDI

- ▶ FDI is the process where residents of a country acquire ownership of assets in a host country for controlling production distribution and sales
- ▶ FDI in which wholly owned manufacturing plants are established and considered by global firms in order to
 - ▶ - acquire raw materials
 - ▶ - operate at lower manufacturing costs
 - ▶ - for avoiding tariff barriers
 - ▶ - satisfy local content requirements
 - ▶ - for penetrating local market

Manufacturing strategy with FDI includes

Manufacturing with FDI

- ▶ Joint ventures:
- ▶ Joint venture is any kind of cooperative arrangement between two or more independent companies with the establishment of a third entity organisation controlled by the parent companies. Each company has a stake in the venture. Stake may be as low as 10% but control is shared in decision making.
- ▶ Indian pharma companies have made joint ventures with foreign companies like Ranbaxy Lupin and F&B.
- ▶ In many cases joint ventures have helped foreign companies in local market stabilise.

Manufacturing with FDI

- ▶ Mergers:
- ▶ Merger (amalgamation, consolidation, interlocking) is a combination of two or more organisations in which one organisation acquires the assets and liabilities of the other in exchange for shares. After the merger, both the organisations are dissolved and the new entity is combined and new stock is issued.
- ▶ It is a combination of equals and the board of directors is formed by either company.
- ▶ Asian paints, Essel packaging have merged to gain foothold in international market.

Manufacturing with FDI

- ▶ Acquisitions
- ▶ Acquisition is purchasing an existing venture. Easy
- ▶ One must be careful about payments so as not
- ▶ Notion that acquisition is a faster way than organ
It may take considerable time to search and even
and integrate.
- ▶ It is a transaction in which a firm buys a controlling
an intention of making it a subsidiary business or i
business.
- ▶ Some firms adopt acquisition as a one time strat
particular market but for some other it is a strateg
acquisition strategy ensures firm's growth.

Manufacturing with FDI

- ▶ Wholly-owned subsidiary
- ▶ It is the most expensive way of entering foreign market. It requires the greatest commitment in terms of time resources and capital when the market is assured. It helps companies maintain full control and ownership on foreign operations.
- ▶ Wholly owned subsidiary means a 100% owned company by the parent company. The subsidiary has a different legal identity and operates under the control of the holding company.
- ▶ Location in a different country is one of the main reasons why companies are not absorbed but run as a subsidiary. Cultural, regulatory and financial factors are the other reasons.

ASSIGNMENT

► Strategic alliances:

► Assembly operations: