International Business

Introduction to International Business

Business activities done across national borders are International Business. The International business is the purchasing and selling of the goods, commodities and services outside its national borders. Such trade modes might be owned by the state or privately owned organization.

In which, the organization explores trade opportunities outside its domestic national borders to extend their own particular business activities, for example, manufacturing, mining, construction, agriculture, banking, insurance, health, education, transportation, communication and so on.

Nations that were away from each other, because of their geological separations and financial and social contrasts are now connecting with each other. World Trade Organization established by the administration of various nations is one of the major contributory factors to the expanded connections and the business relationship among the countries.

The national economies are dynamically getting borderless and fused into the world economy as it is clear that the world has today come to be known as a 'global village'. Numerous more organization is making passage into a worldwide business which presents them with opportunities for development and tremendous benefits.

India was trading with different nations for quite a while, yet it has quickened its progress of incorporating with the world economy and expanding its foreign trade and investment.

Definition

- According to International Business Journal, "International Business is a commercial enterprise that performs economical activity beyond the bounds of its location, has branches in two or more foreign countries and makes use of economic, cultural, political, legal and other differences between countries."
- According to Grosse and Kojawa, "International business is defined as transactions devised and carried out across international borders to satisfy corporations and individuals"

Meaning

Any business that involves operations in more than one country can be called an international business. International business is related to the trade and investment operations done by entities across national borders.

Firms may assemble, acquire, produce, market, and perform other value-addition-operations on international scale and scope. Business organizations may also engage in collaborations with business partners from different countries.

Apart from individual firms, governments and international agencies may also get involved in international business transactions. Companies and countries may exchange different types of physical and intellectual assets. These assets can be products, services, capital, technology, knowledge, or labor.

Nature of International Business

1. Large scale operations

International businesses are conducted on a very large scale. They perform their operations in different countries globally. Their business activities are very large in size ranging from production, marketing & selling of their products. These businesses serve the demands of local markets also where they are present & also demands of different countries globally. That's why they produce large amount of goods & services to cater to the large demands.

2. Earns foreign exchange

International businesses are served as an important source for earning foreign exchange. Foreign Currencies of different countries are involved in transactions in these businesses. This helps in getting enough foreign exchange reserve for the country.

3. Integrates economies

It integrates the economies of different countries worldwide. It takes advantage of different economies & aims at providing its services economically. It takes labor from one country, technology from one country & finance from another country. Also, it designs, produces, assembles its products not only in one country but in different-different countries. This help in taking advantage of different economies & becoming economical.

4. Large number of middlemen

International businesses are very large in size. Their scale of operations is not limited to one country but performs in different countries globally. There is a large number of middlemen involved in international businesses. These all person renders their services properly for the efficiency of the business. Their services help the business in easy expansion & growth.

5. High risk

The degree of risk associated with international business is very high. These need to carry out trade in different countries at large distances. It requires huge cost & time to carry these goods & services. Also, sometimes different economies face unfavorable conditions which affect the business conditions.

6. Intense competition

International business faces a large number of risks internationally. These businesses invest large amount in advertising their products. There are a large number of competitors in international market. There is tough competition in terms of price, quality, design, packing etc. Business needs to focus on these things to face the tough competition going on.

7. International restrictions

International businesses face large restrictions while carrying out there operations in different countries. Sometimes they are not allowed to inflow & outflow goods, technology & different resources. They are restricted by the government of different countries to not enter into their countries. They face several foreign exchange barriers, trade barriers & trade blocks which are harmful for international business.

8. Highly sensitive nature

International businesses are highly sensitive in nature. A proper market research is very essential for carrying out these businesses effectively. Any unfavorable economic conditions in one country will adversely affect the business. If there is any economic, political or technological change will directly influence the functioning of the business. Therefore, these businesses should change their activities from time to time to survive the change.

9. Market segmentation **based on Geographic segmentation**.

10. International markets have **more potential** than domestic markets.

Scope of International Business

- **Merchandise exports and imports**

Merchandise means goods that are tangible, i.e., those that can be seen and touched. When viewed from this perceptive, it is clear that while merchandise exports mean sending tangible goods abroad, merchandise imports means bringing tangible goods from a foreign country to one's own country.

- **Service exports and imports**

Service exports and imports involve trade in intangibles. It is because of the intangible aspect of services that trade in services is also known as invisible trade.

• **Licensing and franchising**

Permitting another party in a foreign country to produce and sell goods under your trademarks, patents or copyrights in lieu of some fee is another way of entering into international business. It is under the licensing system that Pepsi and Coca Cola are produced and sold all over the world by local bottlers in foreign countries.

• **Foreign investments**

Foreign investment is another important form of international business. Foreign investment involves investments of funds abroad in exchange for financial return. Foreign investment can be of two types: direct and portfolio investments.

• **Monopoly Power**

It might arrive from patent rights, technological advantages, product segregation etc. Another reason for internationalization is limited market information.

• **Portfolio Investment**

Portfolio investments are financial investments made in foreign countries. The investor purchases debt or equity in the expectation of the final return on the investment.

• **Global services**

The international firm also trade in services banking, insurance, consulting, travel and transportation, etc. earn in the form of fees and royalties. The fees are earned through short or long term contractual agreements such as consultancy or management contracts or turnkey projects. Royalties are received from the use of the one's company name , trademark, patent or process by someone else.

• **Global Integration of business**

To help the business in the global integration in fields of trade, investment, factor, technology, and communication.

• **Increased revenues**

One of the top advantages of international business is that you may be capable to enlarge your number of probable clients. Each country you add to your list can open up a new path to business growth and increased revenues.

• **Expand and diversify**

International business can enlarge and expand its activities. This is because it earns very high profits. It also gets financial help from the government.

• **Opportunity to specialize**

International markets can open up avenues for a new line of service or products. It can also give you an opportunity to specialize in a different area to serve that market.

Significance of International Business

Every company is trying to expand its business by entering foreign markets. International business helps in the following ways:-

1. Helps as Growth Strategy- Geographic expansion may be used as a business strategy. Even though companies may expand their business at home.

2. Helps in Managing Product Life Cycle- Every product has to pass through different stages of product life cycle when the product reaches the last stages of life cycle in present market, it may get proper response at other markets.

3. Technology advantages- some companies have outstanding technology advantages through which they enjoy more competencies. This technology helps the company in capturing other markets.

4. New business opportunities- business opportunities in overseas markets help in expansion of many companies. They might have reached a saturation point in domestic market.

5. Proper use of resources- sometimes industrial resources like labor, minerals etc. are available in a country but are not productively utilized.

6. Availability of quality products- when markets are open, better quality goods will be available everywhere. Foreign companies will market latest product at reasonable prices. Good product will be available in the markets.

7. Earning foreign exchange- International business helps in earning foreign exchange which may be used for strategic imports. India needs foreign exchange to import crude oil, deface equipment, raw material and machinery.

8. Helps in mutual growth- countries depend upon each other for meeting their requirements. India depends on gulf countries for its crude oil supplies.

9. Investment in Infrastructure- International business necessitates proper development of infrastructure. A company entering international business must invest in roads.

10. To utilize Installed capacity- If the installed capacity of the firm is much more than the level of demand of the product in the domestic market, it can enter the international market and utilize its un-utilized installed capacity. In this way it can export the surplus production.

Trends in International Business

As the economy grows slowly at home, your business may have to look at selling internationally to remain profitable. Before examining foreign markets, you have to be aware of the major trends in international business so you can take advantage of those that might favor your company. International markets are evolving rapidly, and you can take advantage of the changing environment to create a niche for your company.

1. Growing Emerging Markets

Developing countries will see the highest economic growth as they come closer to the standards of living of the developed world. If you want your business to grow rapidly, consider selling into one of these emerging markets. Language, financial stability, economic system and local cultural factors can influence which markets you should favor.

2. Demographic Shifts

The population of the industrialized world is aging while many developing countries still have very youthful populations. Businesses catering to well-off pensioners can profit from a focus on developed countries, while those targeting young families, mothers and children can look in Latin America, Africa and the Far East for growth.

3. Speed of Innovation

The pace of innovation is increasing as many new companies develop new products and improved versions of traditional items. Western companies no longer can expect to be automatically at the forefront of technical development, and this trend will intensify as more businesses in developing countries acquire the expertise to innovate successfully.

4. More Informed Buyers

More intense and more rapid communications allow customers everywhere to purchase products made anywhere around the globe and to access information about what to buy. As pricing and quality information become available across all markets, businesses will lose pricing power, especially the power to set different prices in different markets.

5. Increased Competition

As more businesses enter international markets, Western companies will see increased competition. Because companies based in developing markets often have lower labor costs, the challenge for Western firms is to keep ahead with faster and more effective innovation as well as a high degree of automation.

6. Slower Growth

The motor of rapid growth has been the Western economies and the largest of the emerging markets, such as China and Brazil. Western economies are stagnating, and emerging market growth has slowed, so economic growth over the next several years will be slower. International businesses must plan for profitability in the face of more slowly growing demand.

7. Clean Technology

Environmental factors are already a major influence in the West and will become more so worldwide. Businesses must take into account the environmental impact of their normal operations. They can try to market environmentally friendly technologies internationally. The advantage of this market is that it is expected to grow more rapidly than the overall economy.