# MODES OF GLOBAL BUSINESS

1. **Exporting-**It is the process of selling goods and services produced in one country to another country. Exporting may be direct or indirect.

Under direct export-a company capitalizing on economies of scale in production concentrated in the home country , establishes a proper system for organizing export functions and procuring foreign sales.

Indirect export involves exporting through domestically based export intermediaries. The exporter has no control over his product in the foreign market.

Advantages-

- It helps in distribution of surplus
- It helps in fast market access
- Under direct export the exporter has control over selection of market.

Disadvantages-

- High start-up cost in case of direct exports
- The exporter has little or no control over distribution of products
- Exporting through export intermediaries increase the cost of product

2. **Joint venture**- It is strategy used by companies to enter a foreign market by joining hands and sharing ownership and management with another company .It is used when two or more companies want to achieve some common objectives and expand international operations. The common objectives are-

- Foreign market entry
- Risk/reward sharing
- Technology sharing
- Joint product development
- Conforming to government regulations

It is useful to meet shortage of financial resources, physical or managerial resources

Advantages-

- Optimum use of resources
- Technological competence
- Partners are able to learn from each other

Disadvantages-

- Conflicts over asymmetric investments
- It may be costly
- Conflicts in management

3. **Outsourcing-** It is a cost effective strategy used by companies to reduce costs by transferring portions of work to outside suppliers rather than completing it internally. It includes both domestic and foreign contracting and also off shoring (relocating a business function to another country).

Advantages-

- Swiftness and expertise in operations
- Reduced costs

Disadvantages-

- Risk of exposing confidential data
- Hidden cost

4. **Franchising**- It is a system in which semi-independent business owners (franchisees) pay fees and royalty to a parent company (franchiser) in return for the right to be identified by its trademark , to sell its products or services, and often to use its business format or system.

Advantages-

- It is less risky
- Advantage of expertise of franchiser

Disadvantages-

- Difficulty in keeping trade secrets
- A wrong franchisee may ruin company's name and goodwill

5. **Turn key project**- it involves the delivery of operating industrial plant to the client without any active participation. A company pays a contractor to design and construct new facilities and train personnel to export its process and technology to another country . Turn key projects may be of various types-

BOD-Build , Owned and Develop

BOLT-Build , Owned , Leased and Transferred

BOOT-Build , Owned , Operate and Transfer

6. **Foreign Direct Investment**- It is a mode of entering foreign market through investment. Investment may be directly or indirectly through Financial Institutions. FDI influences the investment pattern of the economy and helps to increase overall development. The extent to which FDI is allowed in a country is subjected to the government regulations of that country. It can be done by purchasing shares of a company, property and assets.

Advantages-

- Modifications can be made at any point of time
- It is an easy mode of entry

Disadvantages-

- The government policies may mot be helpful
- The return on investment may be low

7. **Mergers and Acquisitions**- A merger is a combination of two or more distinct entities into one , the desired effect being accumulation of assets and liabilities of distinct entities and several other benefits such as ,economies of scale , tax benefits , fast growth , synergy and diversification etc. the merging entities cease to be in existence and merge into a single servicing entity.

Acquisition implies acquisition of controlling interest in a company by another company. It does not lead to dissolution of company whose shares are acquired . it may be a friendly or hostile acquisition or a bail out takeover.

8. **Licensing**- Licensing is a method in which a firm gives permission to a person to use its legally protected product or technology (trademarked or copyrighted) and to do business in a particular manner, for an agreed period of time and within an agreed territory . it is a very easy method to enter foreign market as less control and communication Is involved . the financial risk is transferred to the licensee and there is better utilization of resources.

Advantages-

- Easy appointment
- Less investment is involved

Disadvantages

- This method is time consuming
- Decline in product quality may harm the reputation of licensor

9. **Contract manufacturing**- when a foreign firm hires a local manufacturer to produce their product or a part of their product is known as contract manufacturing. This method utilizes the skills of local manufacturer and helps in reducing cost of production. The marketing and selling of the product is the responsibility of the international firm.

Advantages-

- Low cost of production
- Development of medium and small scale industries

Disadvantages-

- Difficulty in maintaining quality standards
- Local manufacturers in foreign market may loose business

10. **Strategic alliance**- It is a voluntary formal agreement between two companies to pool their resources to achieve a common set of objectives while remaining independent entities. It is mainly used to expand the production capacities and increase market share for a product. Alliances help in developing new technologies and utilizing brand image and market knowledge of both the companies.