

Entrepreneurial Management

Chapter 12

Global Opportunities for Small Businesses

Lecturer: Dr. Michaella DeLeon Castillo
Philippines

*After studying this chapter,
you should be able to...*



1. Describe the potential of small firms as global enterprises.
2. Identify the basic forces prompting small firms to engage in global expansion.
3. Understand and compare strategy options for global businesses.
4. Explain the challenges that global enterprises face.
5. Recognize the sources of assistance available to support international business efforts.

Small Businesses as Global Enterprises

- Globalization

- The expansion of international business:

- ❖ Converging market preferences
 - ❖ Falling trade barriers
 - ❖ Integration of national economies.

Small Businesses as Global Enterprises

- **Born-Global Firms**
 - **Small companies launched with cross-border business activities in mind**
 - ❖ Size does not necessarily limit a firm's international activity—small companies can build upon their unique resources to become global competitors.

Questions Before Going Global

- What are management's objectives?
 - Reasons, commitment, expected payoff
- How prepared is management to go global?
 - Expertise, responsibility for and time allocated to international operations, organizational structure
- Is there sufficient production capacity?
 - Present capacity, effect of international operations on local production
- Is there enough financial capacity?
 - Capital available for marketing, expansion, payback

Where in the World Are Entrepreneurial Companies Doing Business?



Questions to Consider Before Going Global

Management Objectives

- What are the company's reasons for going global?
- How committed is top management to going global?
- How quickly does management expect its international operations to pay off?

Management Experience and Resources

- What in-house international expertise does the firm have (international sales experience, language skills, etc.)?
- Who will be responsible for the company's international operations?
- How much senior management time should be allocated to the company's global efforts?
- What organizational structure is required to ensure success abroad?

Questions to Consider Before Going Global

Production Capacity

- How is the present capacity being used?
- Will international sales hurt domestic sales?
- What will be the cost of additional production at home and abroad?
- What product designs and packaging options are required for international markets?

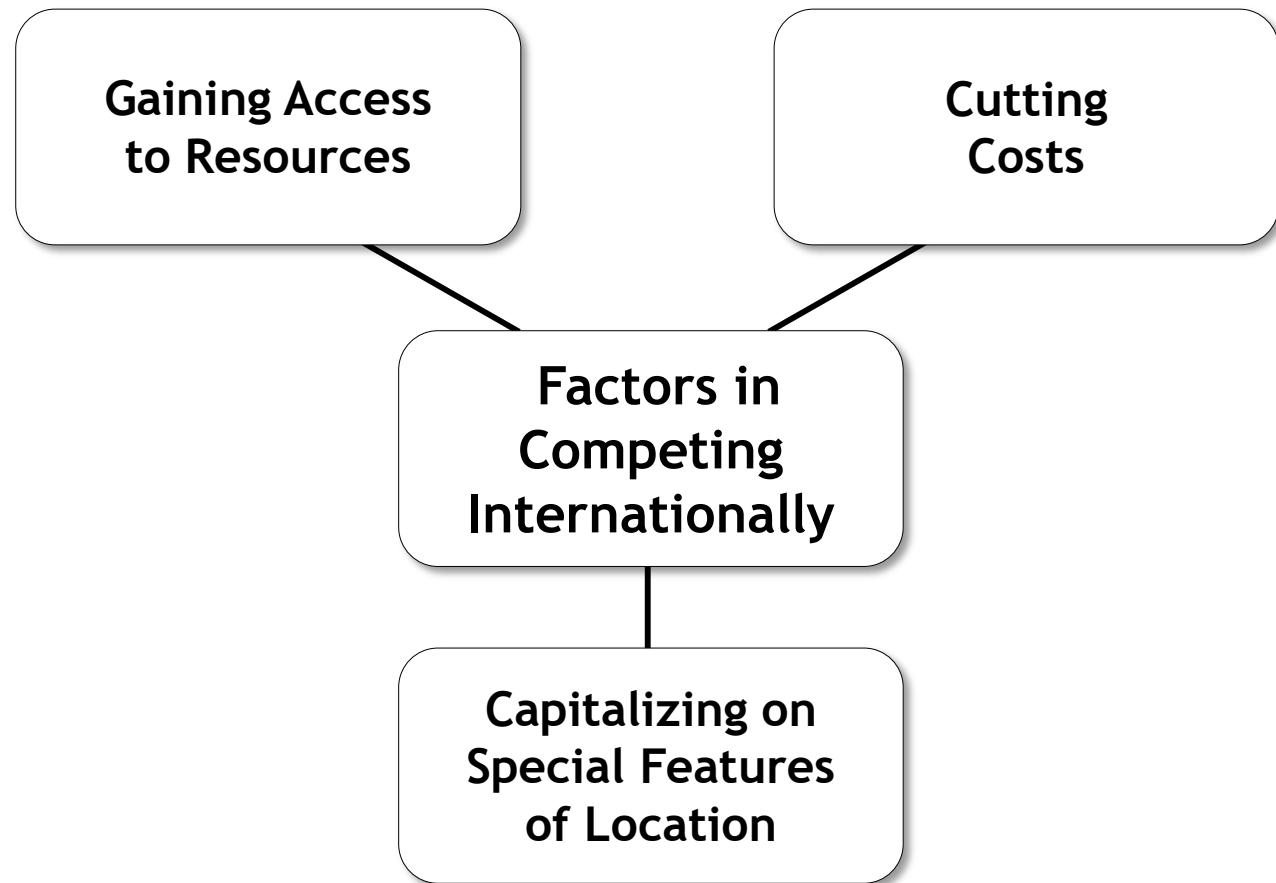
Financial Capacity

- How much capital can be committed to international production and marketing?
- How are the initial expenses of going global to be covered?
- What other financial demands might compete with plans to internationalize?
- By what date must the global effort pay for itself?

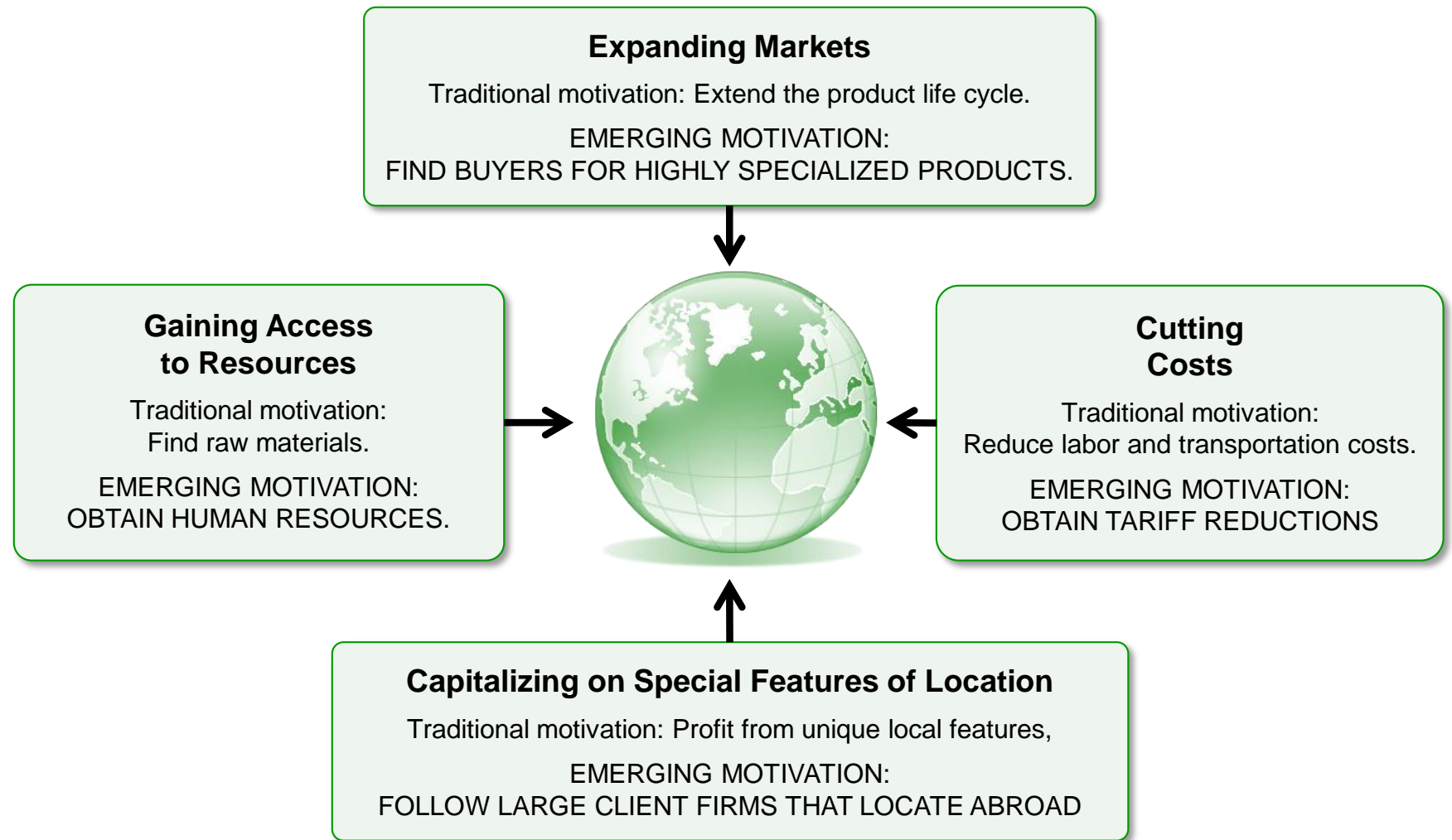
Before Going Global

- Decide if firm is up to the task of globalization.
- Study the social, technological, economic, and political forces in foreign markets.
 - North American Free Trade Agreement (NAFTA)
 - European Union (EU)
- Prepare to modify products to meet design specifications that may vary from country to country.

Expanding into International Markets



The Forces Driving Global Businesses



BRIC Markets

Country	2011 Population (in millions)	2011 Wealth (GNI per capital)*	2011 Economic Growth (GDP growth, %)**
Brazil	196.7	10,720	2.7
China	1,334.1	4,940	9.3
India	1,241.5	1,410	6.9
Russia	141.9	10,400	4.3
World	6,973.7	9,491	2.7

*GNI = Gross National Income

**GDP = Gross Domestic Product

Expanding into International Markets: Making the Most of Experience

- Experience Curve Efficiencies
 - Per-unit savings gained from the repeated production of the same good.
- Learning Effects
 - Insights gained from experience, that lead to improved work performance.
- Economies of Scale
 - Efficiencies that result from the expansion of production.

Cutting Costs

- International Outsourcing
 - A strategy that involves accessing foreign business operations through contracts with independent providers.
- Offshoring
 - A strategy that involves relocating operations abroad.

Strategy Options for Global Firms



Strategy Options for Global Firms

- Exporting

- Selling products produced in the home country to customers in another country.

- ❖ Low-cost way to expand into international markets

- ❖ Ease of selling on the Web has fueled export activity.

Strategy Options for Global Firms

- Exporting Challenges
 - Communicating in a foreign language
 - International shipping
 - Product modification
 - Governmental regulations and relations
 - Currency exchange rates and payment methods

Strategy Options for Global Firms (cont'd)

- **Importing**
 - Selling goods produced in another country to buyers in the home country.
 - Success requires finding a good product vendor.
- **Global Sourcing Strategy**
 - Connecting with overseas suppliers that can provide products or services a firm needs to operate successfully.

Strategy Options for Global Firms (cont'd)

- Foreign Licensing

- Allowing a firm in another country to purchase the right to manufacture and sell a firm's products in international markets.

- ❖ Licensee—the company buying the licensing rights
- ❖ Licensor—the company selling the licensing rights

- Royalties

- ❖ Fees paid by the licensee to the licensor for each unit produced under a licensing contract

- Counterfeit activity

Strategy Options for Global Firms (cont'd)

- International Franchising
 - Selling a standard package of products, systems, and management services to a firm in another country.
- International Strategic Alliances
 - A combination of efforts and/or assets of firm in different countries for the sake of pooling resources and sharing the risks of an enterprise.

Strategy Options for Global Firms (cont'd)

- Locating Facilities Abroad

- Cross-border acquisition

- ❖ The purchase by a business in one country of a company located in another country

- Greenfield venture

- ❖ A wholly owned subsidiary formed “from scratch” in another country

Challenges to Global Business

- **Political Risk**

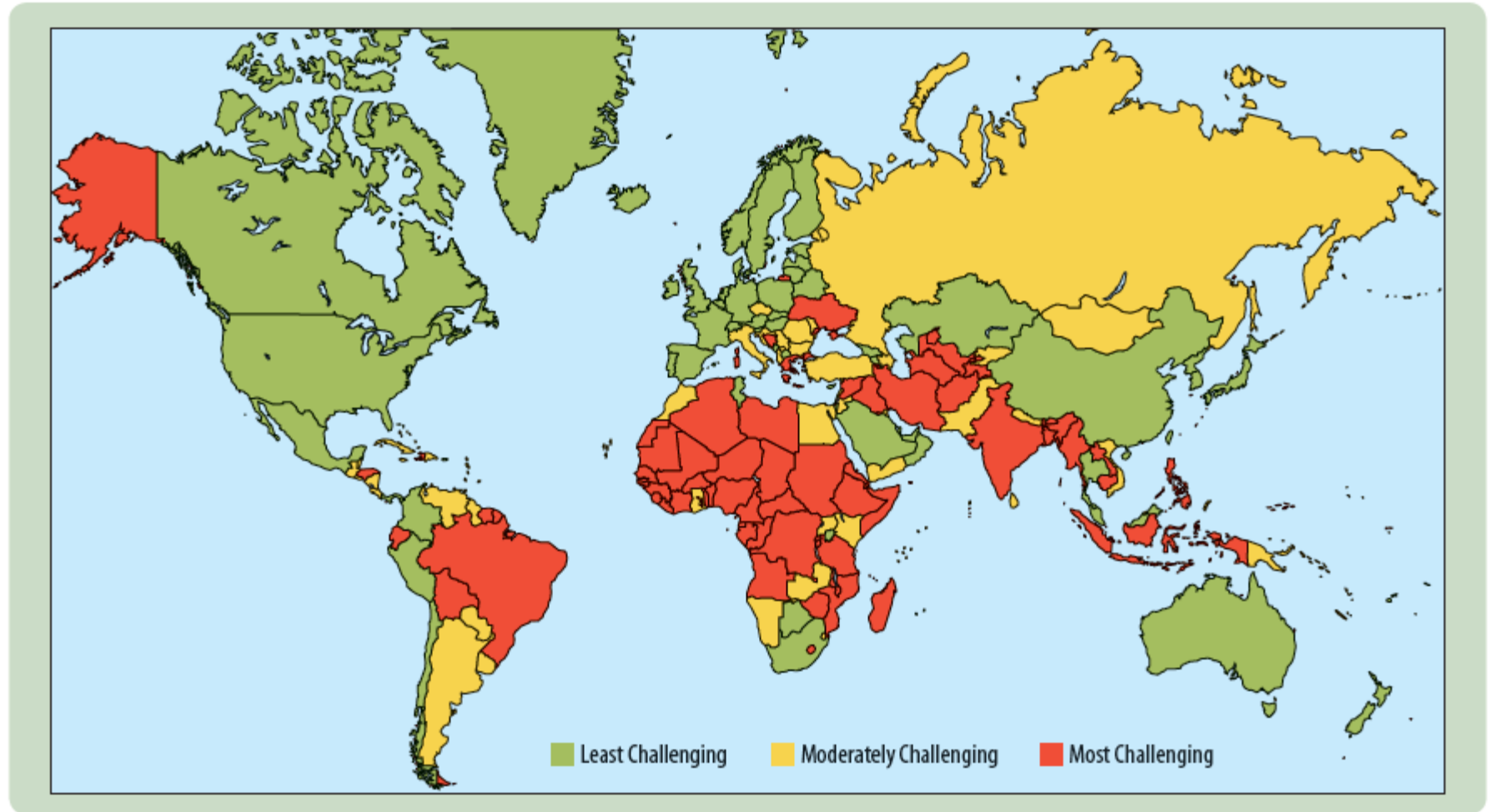
- The potential for political forces in a country to negatively affect the performance of businesses operating within.

Challenges to Global Business

- **Economic Risk**

- The probability government mismanagement of the economy changes the business environment in ways that hinder the performance of firms operating there.
 - ❖ Exchange rate—the value of one country's currency relative to that of another country. Variations in currency values affects the profitability of international trade deals.

Ease of Doing Business



Challenges to Global Business (cont'd)

- Managerial Limitations
 - Product planning
 - Marketing
 - Finance
 - Management
 - Accounting
 - Legal issues

Assistance for Global Enterprises

- Analyzing Markets and Planning Strategies
 - Small Business Administration resources
 - ❖ U.S. Export Assistance Centers (USEACs)
 - ❖ Publications: SBA's *Breaking into the Trade Game: A Small Business Guide to Exporting*
 - ❖ Department of Commerce
 - ❖ International Trade Administration
 - Speak to a recent returnee
 - Visit the foreign country

Assistance for Global Enterprises (cont'd)

- Connections With International Customers
 - Trade leads
 - Trade missions
 - Trade intermediaries

Trade Intermediaries Most Suited for Small Business

Confirming House (Buying Agent)	<ul style="list-style-type: none">• Works for foreign firms that are interested in buying U.S. products.• “Shops” for lowest possible price for requested items.• Is paid a commission for its services.• Is sometimes a foreign government agency or quasi-governmental firm.
Export Management Company (EMC)	<ul style="list-style-type: none">• Acts as the export department for one or several producers of products or services.• Solicits and transacts business in the names of the producers it represents or in its own name, in exchange for a commission, salary, or retainer plus commission.• May provide immediate payment for the products or services by arranging financing or directly purchasing products for resale.• Usually has well-established networks of foreign distributors already in place.

Trade Intermediaries Most Suited for Small Business

Export Trading Company (ETC)	<ul style="list-style-type: none">• Acts as the export department for producers or takes title to the product and exports it under its own name.• May be set up and operated by producers.• Can be organized along multiple- or single-industry lines.• Can represent producers of competing products.
Export Agent, Merchant, or Remarketer	<ul style="list-style-type: none">• Purchase products directly from the manufacturer, packing and marking the product according to its own specifications.• Sells the products overseas under its own name through contacts and assumes all risks.• Requires the producer to give up control of the marketing and promotion of its product.
Piggyback Marketer	<ul style="list-style-type: none">• Is a manufacturer or service firm.• Distributes another firm's product or service.

Financing Assistance for Global Enterprises

- Private Banks

- Letter of credit

- ❖ An agreement issued by a bank to honor a draft or other demand for payment when specified conditions are met.

- Bill of lading

- ❖ A document indicating that a product has been shipped and the title to that product has been transferred.

- Small Business Administration

- Financial assistance programs

- ❖ <http://www.sba.gov/content/financing-your-small-business-exports-foreign-investments-or-projects>.

Key Terms

bill of lading

born-global firms

counterfeit activity

cross-border acquisition

economic risk

economies of scale

exchange rate

experience curve efficiencies

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greenfield venture

importing

international franchising

international outsourcing

international strategic alliance

learning effects

letter of credit

licensee

licensor

offshoring

political risk

royalties

trade intermediary

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