

INTERNATIONAL ENTRY AND EXPANSION OF BUSINESS

Raj Kumar Bhattarai
Faculty of Management
Tribhuvan University
Kathmandu

LECTURE OBJECTIVES

- Determine the modes and strategies of going abroad
- Assess the corporate concerns/motivation for international development and expansion

MOTIVATION TO GO ABROAD

Proactive motivations

- Profit advantage
- Unique products
- Technological advantage
- Exclusive information
- Tax benefit
- Economies of scale

Reactive motivations

- Competitive pressures
- Overproduction
- Stagnant or declining domestic sales
- Excess capacity
- Saturated domestic markets
- Proximity to customers and ports

ENTRY AND DEVELOPMENT STRATEGIES

EXPORTING AND IMPORTING

- **Indirect involvement:** Participation by a firm in international business through an intermediary, in which the firm does not deal with foreign customers or firms.
- **Direct involvement:** Participation by a firm in international business in which the firm works with foreign customers or markets to establish a relationship.

INTERNATIONAL INTERMEDIARIES

- **Export management companies:** Domestic firms that specialize in performing international business services as commission representatives or as distributors.
- **Agent:** A representative or intermediary for the firm that works to develop business and sales strategies and that develops contacts.
- **Distributor:** A representative or intermediary for the firm that purchases products from the firm, takes title, and assumes the selling risk.
- **Trading companies:** The general trading companies involved in trading merchandise
- **The facilitators:** Entities outside the firm that assist in the process of going international. The facilitators may be private sectors or public sectors as well.

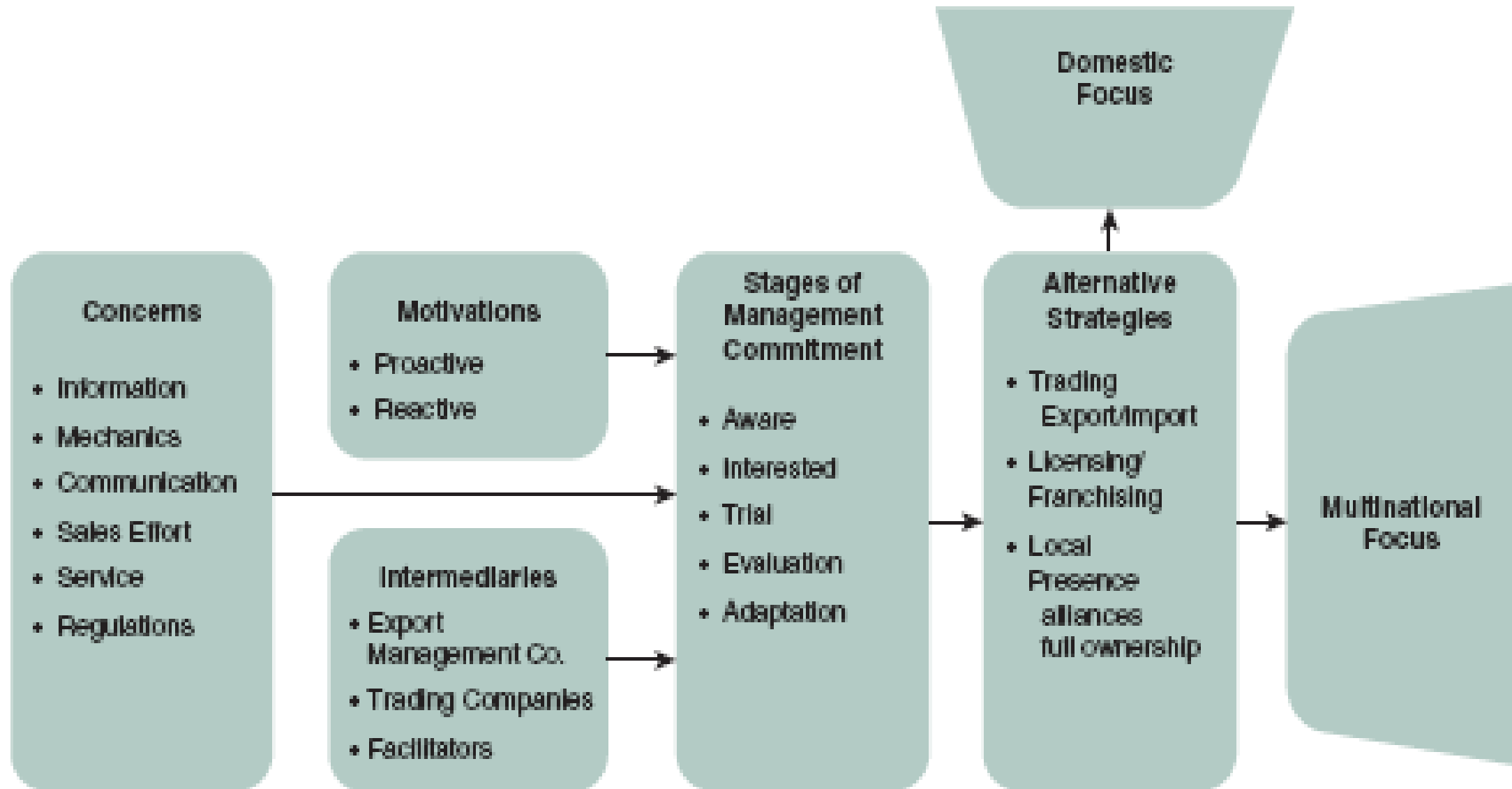
INTERNATIONAL INTERMEDIARIES CONTD....

- **Licensing:** An agreement in which one firm permits another to use its intellectual property in exchange for compensation. The compensation paid by one firm to another under the agreement is known as royalty. There is also practice of trademark licensing too.
- **Franchising:** A form of licensing that allows a distributor or retailer exclusive rights to sell a product or service in a specified area.

LOCAL PRESENCE

- INTERFIRM COOPERATION
 - Strategic alliances/informal cooperation
 - Management contract
 - Joint venture and consortia
 - Equity participation
- FULL OWNERSHIP
 - Fully owned subsidiary
 - Greenfield venture

COMPREHENSIVE VIEW OF INTERNATIONAL EXPANSION



ASSIGNMENTS AND EXERCISE

- Make an assessment on the motivators to the international expansion of a firm
- Examine the strategic considerations for each modes of going abroad

SELECTED READINGS

Chapter 13: Czinkota, M. R., Ronkainen, I. A., & Moffett, M. H. (2011).

International Business. Hoboken, NJ: John Wiley & Sons.