2.Acquiring resources

Producers and distributors seek out products, services, resources, and components from foreign countries sometimes because domestic supplies are inadequate. They are also looking for anything that will create a competitive advantage.

- This may mean acquiring resource that cuts costs,
- Sometimes firms gain competitive advantage by improving product quality or differentiating their products from those of competitors. (e.g. automobile manufacturers).
- They also learn while operating abroad, and they acquire product knowledge for entering new markets at home, such as what PepsiCo is doing in order to enter the fast-growth U.S yogurt market.

3.Reducing risk

Operating in countries with different business cycles can minimize swings in sales and profits. The key is the fact that sales decrease or grow more slowly in a country that's in a recession and increase or grow more rapidly in one that's expanding economically. Moreover, by obtaining supplies of products or components both domestically and internationally, companies may be able to soften the impact of price swings or shortages in any one country. Companies often go international for defensive reasons. Perhaps they want to counter competitors' advantages in foreign markets that might hurt them elsewhere. (e.g. by operating in Japan, for instance, P&G delayed foreign expansion on the part of potential Japanese rivals by slowing their amassment of resources needed to enter into other international markets where P&G was active.)

E.g. Tesco.

MODES OF OPERATIONS IN INTERNATIONAL BUSINESS

1.Merchandise exports and imports

Exporting and importing are the most important modes of international business. **Merchandise exports** are tangible products that are sent *out* of a country, **merchandise imports** are tangible products brought *into* a country. They are also called *visible* exports and imports.

(e.g. Import and sold in U.S. of an automobile made in Japan by Japanese company).

2.Service exports and imports

For non-merchandise *international earnings*, we use the terms **service exports** and **service imports** and are referred to as *invisible.* The provider and receiver of payment makes a service exports, the recipient and payer makes a service import.

(e.g. visit by a U.S. citizen to Tokyo Disneyland in Japan).

- Tourism and transportation,
- Service performance,
- Asset use.

Tourism and transportation

- Joint venture,
- Licensing agreements,
- Management contracts,
- Minority ownership,
- Long-term contractual arrangement.

The term **strategic alliance** is sometimes used to mean the same, but it usually refers either to an agreement that is of *critical importance* to one or more partners. It is an agreement that does not involve joint ownership.

Multinational enterprise (MNE)

MNE usually refers to any company with foreign direct investments. The term **multinational corporation** or **multinational company** (**MNC**) is often used as synonym for MNE, while the United Nations uses the term **transnational company (TNC).**

Does size matter?

Some definitions require a certain size, usually giant. However, a small company, usually described within the U.S. as having fewer than 500 employee, can have foreign investments and adopt any of the operating mode we've discussed.

WHY INTERNATIONAL BUSINESS DIFFERS FROM DOMESTIC BUSINESS

Let' s now turn to the conditions in a company's *external environment* that may affect its international operations. The best way of doing business abroad may differ from that in a company's domestic environment. There are many anecdotes illustrating operational problems when companies have failed to consider foreign environmental differences:

- Some of the anecdotes are merely myths,
- Gaining start-up success domestically is also problematic almost anywhere in the world,
- A good understanding of what one will encounter helps reduce operating risk.

There are two different factors that influence international business:

1.Physical and social factors

The physical and social factors can affect how companies produce and market products, employ personnel, and even maintain accounts. Any of these factors may require a company to alter its operation abroad.

a) Geographic influence,
b) Political policies,
c) Legal policies,
d) Behavioral factors,
e) Economic forces.

a.Geographic influences