Introduction in International Business

"Knowledge is of no value until you put it into practice"
ANTON CHEKHOV

SESSION 1

Christian LINGEMANN

INTRODUCTION

What is international business?

Exchange of capital or goods or services between companies across national borders.

Sometimes it is also called **Cross-Border Business.**

National Business= Domestic Business ≠ international Business

INTRODUCTION

What can be exchanged in IB?

Goods ≡ Money
Technology ≡ Money
Services ≡ Money
Intellectual assets ≡ Money
Capitalistic assets ≡ Money

INTRODUCTION

What is the difference between International Business and International Economics ?

IE studies the “macroeconomic” nature of international Business
IB studies the “micro-economic” nature of international Business

Why study International Business

1. To impress your future boy or girl friend
2. To become rich quickly
3. To learn foreign cultures
4. To work in foreign places
5. To speak foreign languages
6. To start an Internet Export Import Business buying cheap goods from China and selling them with a profit in France online- making tons of money without working much
7. Because of the nice professor
8. To help local companies to reap the profits of Internationalization
9. To help foreign companies to sell their goods in France
10. To please your parents
11. Because you want to help poor countries to develop

INTRODUCTION

What is Globalisation ?

Ongoing economic integration and growing independency of countries worldwide on a macroeconomic point of view.

13 000 000 000 000 USD exchanged annually between countries.

Substantial flow of capital, goods, ideas, technology around the world!

INTRODUCTION

What is Globalisation

Ongoing economic integration and growing independency of countries worldwide on a macroeconomic point of view.

READ FINANCIAL TIMES AT THE LIBRARY OF ESC TO SEE HOW MACRO-EVENTS IN FOREIGN COUNTRIES AFFECT NATIONAL ECONOMIES !

http://www.ft.com/intl/global-economy

INTRODUCTION

What is Globalisation

Financial crisis 2012 = Example for Globalization

INTRODUCTION

What are the key concepts in international Business

International Trade = Export and Import
Exporting= Goods & Services against Money
Importing= Sourcing =Money against Goods & Services
International investment = Money against assets
FDI = Acquisition of productive assets
Portfolio Investment = Acquisition of financial assets

http://www.ft.com/intl/global-economy

INTRODUCTION

The Nature of Trade

Trade is growing very fast , faster than GDP growth

For Belgium: Total annual value of products trade (Export+Imports)/GDP= 150%

=== > (Exports+Imports)> GDP !!

For USA the ratio is about 20%. Why???

INTRODUCTION


Introduction

- The state of international Business In Europe
  - http://ec.europa.eu/eurostat/statistical-atlas/gis/viewer/
  - http://ec.europa.eu/trade/
  - file:///C:\Users\utilisateur\Dropbox\Yakeexport\Yakaexportcours\IB%20Introduction%20et%20economie%20internationale\KS-GI-10-002-EN.PDF
- www.intracen.org

- The state of international Business In France
  - http://www.douane.gouv.fr/

- The state of international Business In Auvergne
  - http://lekiosque.finances.gouv.fr/Appchiffre/Etudes/Brochures/Reg_18.pdf

INTRODUCTION

The Nature of Trade

SERVICE versus PRODUCT TRADE

Services are intangible.
25% of all trade is in Services
75 % of all trade is in Products

Why is it difficult to export services?
Service companies have to make FDI in the countries to sell their services.

INTRODUCTION

International Investment

Portfolio Investment= Passive ownership of foreign securities for the purpose of financial returns. Generally Non-controlling.

Foreign Direct Investment= Active ownership of foreign productive assets such as factories the objective is to take operational control of the assets

INTRODUCTION

FDI or Portfolio Investment?

Daimler is taking a participation of 5% in a Swedish car maker Volvo

A Russian company is buying 95% of the shares of GEFCO from PSA.

Toyota buys 100.000 kg of steel from a Chinese company for 100 Million JPY.

Your Father buys 5 Stocks of Google at the NYSE.

INTRODUCTION

How does IB differ from Domestic Business

To the usual risk of business we have to add on the following risks:

Cross Cultural Risks
- Cultural differences, Negotiation…

Commercial risks
- Non-payment, competition,….

Currency Risks
- Asset valuation, Currency exposure

Country Risks
- Political risk
- Foreign taxation, Corruption, Protectionism

INTRODUCTION

Currency Risk

Potential harm that arises from changes in the price of one currency relative to another.

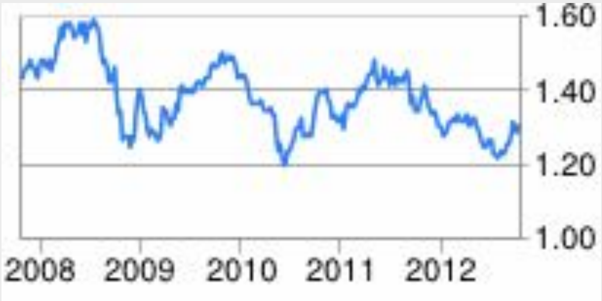
What currencies to you know? USD, EUR, AUD, JPY,CAD, CNY,CHF,GBP….

INTRODUCTION

Currency Risk

How did the value of 10 EUR in USD change from 2008-2012?
What are the highest /lowest values?
What will be the exchange rate of EURUSD in 2013?

EURODOLLAR EXCHANGE RATE 2008-2012:



INTRODUCTION

Currency Risk

How can I learn more about the currency market= Forex?

HISTORY OF INTERNATIONAL BUSINESS

Mercury the Roman god of trade.

History of globalization

Globalization is not new: trade always existed.

- Exchange of goods within the Roman Empire
- Exchange of technology in the middle ages

History of globalization

Phases of globalization : Past

- Industrialisation in Great Britain, The Netherlands, USA
- Rise of railroads and road transport
- Rise of Steel and electricity production
- GATT after WWII

History of globalization

Phases of globalization : Presence

- BRICS, Emerging Markets, Regional Integration
- Technology: Internet
- Container

History of globalization

Phases of globalization : Future

- Technology: Internet, Knowledge transfer
- WTO New Rules (Doha)
- “Global consumer”
- Improved transportation (Air, Road, Railway)
- New production technology
- Further reduction of (non) tariff trade barriers
- **GDP Growth = Trade Growth**

Organizations involved in IB

- What are the facilitators in IB ?

Banks
Insurance Companies
UBIFRANCE (Government agencies)
Logistic service providers
Lawyers
Custom brokers

Why to we trade?

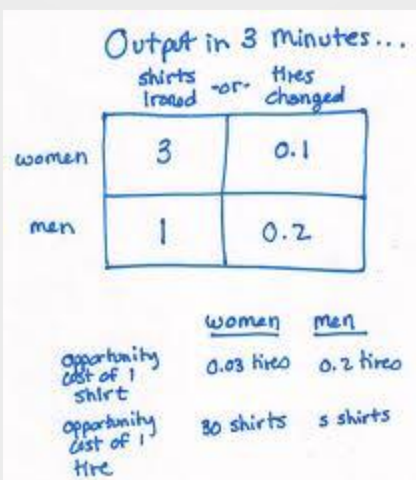
- What are the classical trade theories?
  - Mercantilism, Absolute Advantage Principle, Comparative Advantage Priniciple

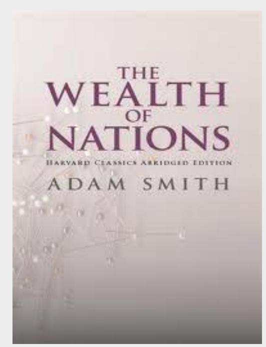
- What is mercantilism?
  - With the rise of nations came the idea that they should amass as much richness = Gold as they can. So they traded. If they have an trade surplus they increase their Gold stock. In case of a trade deficit their gold stock declined.

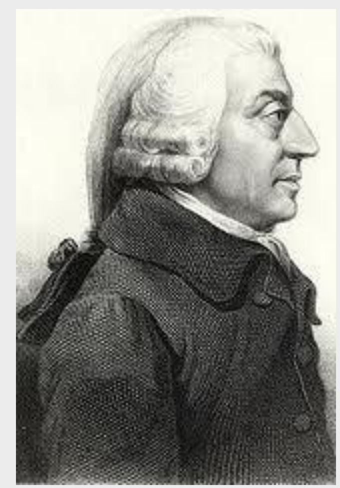
Why to we trade?

- What is the absolute advantage principle?
  - A country benefits by producing the products in which it has an absolute advantage.

- Who invented it?
  - Adam Smith, Scotsman



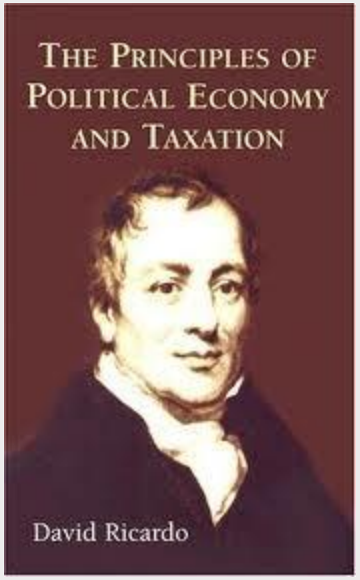




Why to we trade?

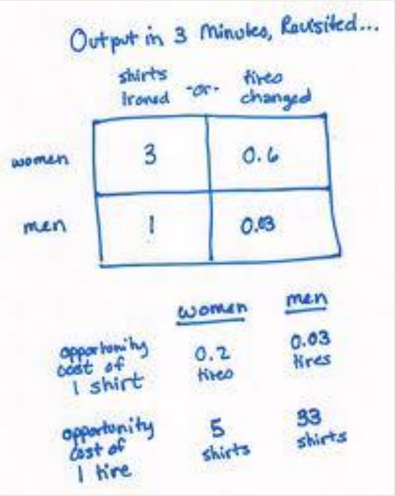
- What is the comparative advantage principle?
  - It can be beneficial for 2 countries to trade as long as one is relatively more efficient at producing goods or services needed by the other. This is the basis theory of I-Trade.

- Who invented it?
  - David Ricardo, Englishman



Why to we trade?

- How does the comparative advantage principle work?



- What is opportunity cost?
  - The value of a forgone alternative activity

What are the forces driving IB?

- Market liberalization
- Reduction of trade barriers
- Industrialization
- Integration of capital markets
- Technology advances
- Convergence of lifestyle and preferences

Why do companies internationalize?

1. To make more money by increasing sales by FDI or exporting
2. To make more money by reducing costs by global sourcing or FDI
3. To make money by selling Intellectual property
4. To “learn” or copy from competitors
5. To “follow” customers
6. To profit of EoS in the various parts of the Value Chain
7. To attack competitors on their home markets

Who is participating in IB

MNE = Multinational Enterprise
SME = Small and medium sized company
(< 500 employees)

BORN GLOBAL FIRM: The success in local markets depends on the successful presence in international markets.

How are the companies engaging in international business?

EXPORT

FDI

Collaborative Agreements

Value chain of the firm and globalization

Value chain: sequence of value adding activities performed by the firm.

Why are companies failing in IB?

Translation errors

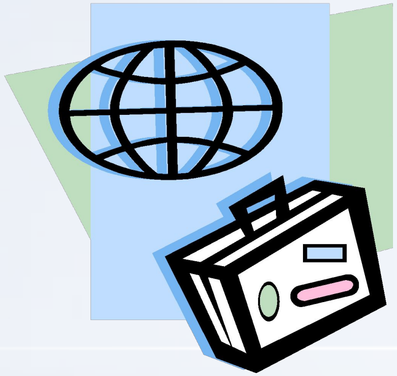
Strategy

Production

What is the export process like?

Export Diagnostics
Export Market Selection
Market Study
Prospection
Sales/Negociation
Order intake
CRM

COUNTRY EVALUATION AND SELECTION



EVALUATION AND COUNTRY SELECTION

QUESTION:

“What can happen if people don’t know about selecting and evaluating countries?“

CHAPTER 1

THE PROBLEM TO SOLVE TODAY:

Our company is manufacturing goods and wants to export as to increase its sales.

"Before engaging in selling and buying from abroad, managers need to set up an export operation. In order to do so they need to select the best adapted countries to start operations. The question is, what countries should we choose?"

Today you will learn how to establish a country selection matrix.

CHAPTER 1
THE PROBLEM TO SOLVE TODAY:

Exemple de tableau de sélection des marchés

Critères	Pondération	Pays A	Pays B	Pays C	Pays D	etc.
L'accessibilité du marché • facteurs physiques (desserte logistique, contraintes climatiques, etc.) • facteurs socioculturels (barrières linguistiques, contexte historique, etc.) • facteurs économico-politiques (situation économique, état des échanges commerciaux, relations bilatérales, etc.)						
Le potentiel du marché • demande – actuelle – potentielle – latente[1] • l'ouverture internationale du marché – importations et évolution – part des produits français dans les importations du pays						
Le risque pays • sécurité des transactions – problèmes de financement – retards de paiement • sécurité des investissements risques de confiscation, nationalisation, ingérence dans la gestion						
Totaux						

1. la demande latente correspond aux ventes possibles **à long terme** sur un marché donné : elle est fonction des processus d'adoption propres à chaque pays, eux-mêmes dépendants de plusieurs facteurs (niveau de développement, composition sociologique de la population, situation géographique, etc.).

CHAPTER 1

THE PROBLEM TO SOLVE TODAY:

What kind of conditions should our matrix satisfy?

Fast to put into place.

A logical approach.

No country should be forgotten

CHAPTER 1

THE PROBLEM TO SOLVE TODAY:

What are the advantages of engaging in export for a company?

Advantage N°1: Increases sales revenues
Advantage N°2: Increases benefices by using economies of scale
Advantage N°3: Becoming less depended on home market

CHAPTER 2

READY TO EXPORT?

What are in your opinion the necessary conditions to start exporting?

CHAPTER 2

READY TO EXPORT?

Production & Logistics requirements

Capacity?
Storage capacity?
Lead times?

Customs?
Incoterms?
Packing?
Are the transport costs important?

CHAPTER 2

READY TO EXPORT?

Finance

Investment financing?
Credit risk/payment risks?
Currency exchange risks?

CHAPTER 2

READY TO EXPORT?

Domestic Market

Growth market?
Sales growth?
If sales decline: why?
Is the margin comfortable

CHAPTER 2

READY TO EXPORT?

Communication

Site web in English available?
Brochures available in English?

CHAPTER 2
READY TO EXPORT?

Human Resources

English speaking personnel available?
Competences concerning legal matters available?
Competences concerning export available?

CHAPTER 2

READY TO EXPORT?

How to obtain the information for the diagnostic export?

Internal questionnaire
Internal documents
Face to Face interviewing
Observation

CHAPTER 2

READY TO EXPORT?

Conclusion of export diagnosis: :

-its weaknesses are too great and insurmountable. It must avoid exporting;

-it presents some gaps, but these difficulties are surmountable.

It does not have any major weaknesses which prevent exporting. Export is possible in the short term.

CHAPTER 3

CRITERIA'S TO EVALUATE COUNTRIES TO BE TAKEN INTO CONSIDERATION.

Market growth & Market size
Ease and compatibility of operations
Cost and Resource availability *
Risks

CHAPTER 3
CRITERIA'S TO EVALUATE COUNTRIES TO BE TAKEN INTO CONSIDERATION.

Market growth & Market size

- *Market size (Population, GDP level, GDP per capita)*
- *Growth of Gross Domestic Product (GDP growth rate)*
- *GDP per capita growth rate*
- *Existence of a trading bloc?*

CHAPTER 3

CRITERIA'S TO EVALUATE COUNTRIES TO BE TAKEN INTO CONSIDERATION.

Ease and compatibility of operations

- *Nearby location –distance to domestic market*
- *Share same language*
- *Have similar market conditions as in home market*

CHAPTER 3

CRITERIA'S TO EVALUATE COUNTRIES TO BE TAKEN INTO CONSIDERATION.

*Cost and Resource availability **

- *Labor costs*
- *Other factor costs: capital, labor, resources*
- *Rare resources are available*

CHAPTER 3

CRITERIA'S TO EVALUATE COUNTRIES TO BE TAKEN INTO CONSIDERATION.

Risks

- *Risks and uncertainty*
- *Political risks*
- *Payment risks*
- *Legal risks*

Chapter 4. Researching for sources

CIA World Factbook

https://www.cia.gov/library/publications/the-world-factbook/Worldbank:

A must! The "World Fact Book", published by the **CIA**, has extremely detailed information, by country, on the following subjects: **geography, demography, politico-legal environment, economy, communication and transport infrastructure, transnational problems, etc.** for most countries throughout the world. Indispensable when pre-selecting markets. Searches can be carried out by country or by theme.

Chapter 4
RESEARCHING FOR SOURCES

Chapter 4. Researching for sources

Worldbank: www.worldbank.org

In addition to information on its publications and reports, the World Bank site offers a "Data and Statistics" section. This allows highly-targeted searches on over 200 countries. These searches can be performed by country or by theme (**population, literacy levels, education, health, environment, poverty, GDP, economy, industries, governments, infrastructure, etc.**).

CHAPTER 4
RESEARCHING FOR SOURCES

OECD http://www.oecd.org

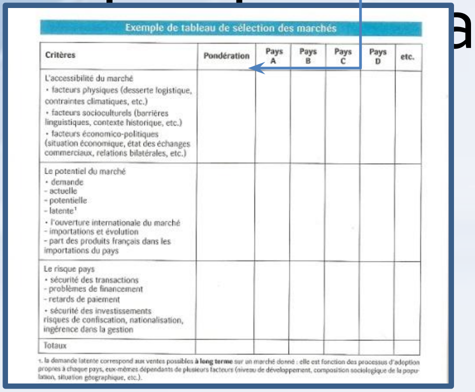
The Organisation for Economic Co-operation and Development offers all documents published since 1990, on-line (**systematic and country reports,** e-commerce, enterprise spirit, etc).

French and English

CHAPTER 5
COMPLETING THE MATRIX

Assigning weights to criteria's

(0-5) for important criteria's (0-3) for l... ant criteria's



Exemple de tableau de sélection des marchés

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CHAPTER 6
ANALYSIS AND CHOICE

Putting it all together

Calculate the points for each criteria for each country
Calculate the sum of all points for one country
Class the countries by largest number
Analyze the results : does that make sense?
Diffuse the results with the grid to your manager for validation