

Entrepreneurship

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Lecture 10



Global aspects of Entrepreneurship



جامعة الجميع الذكية
EVERYONE'S SMART UNIVERSITY

Learning Objectives

1

Explain why “going global” has become an integral part of many small companies’ marketing strategies.

2

Describe the principal strategies small businesses have for going global.

3

Discuss the major barriers to international trade and their impact on the global economy.

- A few decades ago, small companies had to concern themselves mainly with competitors who were perhaps six blocks away; today, small companies face fierce competition from companies that may be six time zones away! As a result, entrepreneurs find themselves under greater pressure to expand into international markets and to build businesses without borders.
- Besides, entrepreneurs are discovering that the tools of global business are within their reach, the costs of going global are decreasing, and the benefits of conducting global business can be substantial.
- There has never been a better time for small companies to become players in the global marketplace.

Why Go Global?

- Offset sales declines in the domestic market
- Increase sales and profits
- Extend products' life cycles
- Lower manufacturing costs
- Improve competitive position
- Raise quality levels
- Become more customer-oriented



- Constant innovation
- Staying nimble enough to use speed as a competitive weapon;
- Maintaining a high level of quality and constantly improving it;
- Being sensitive to foreign customers' unique requirements;
- Adopting a more respectful attitude toward foreign habits and customs;
- Hiring motivated, multilingual employees;
- Retaining a desire to learn constantly about global markets.
- In short, business owners must strive to become “insiders” rather than just “exporters.”
- Entrepreneurs must see their companies from a global perspective and must instill a global culture through- out their companies that permeates everything the business does.



Chapter 10

10 Strategies for “Going Global”

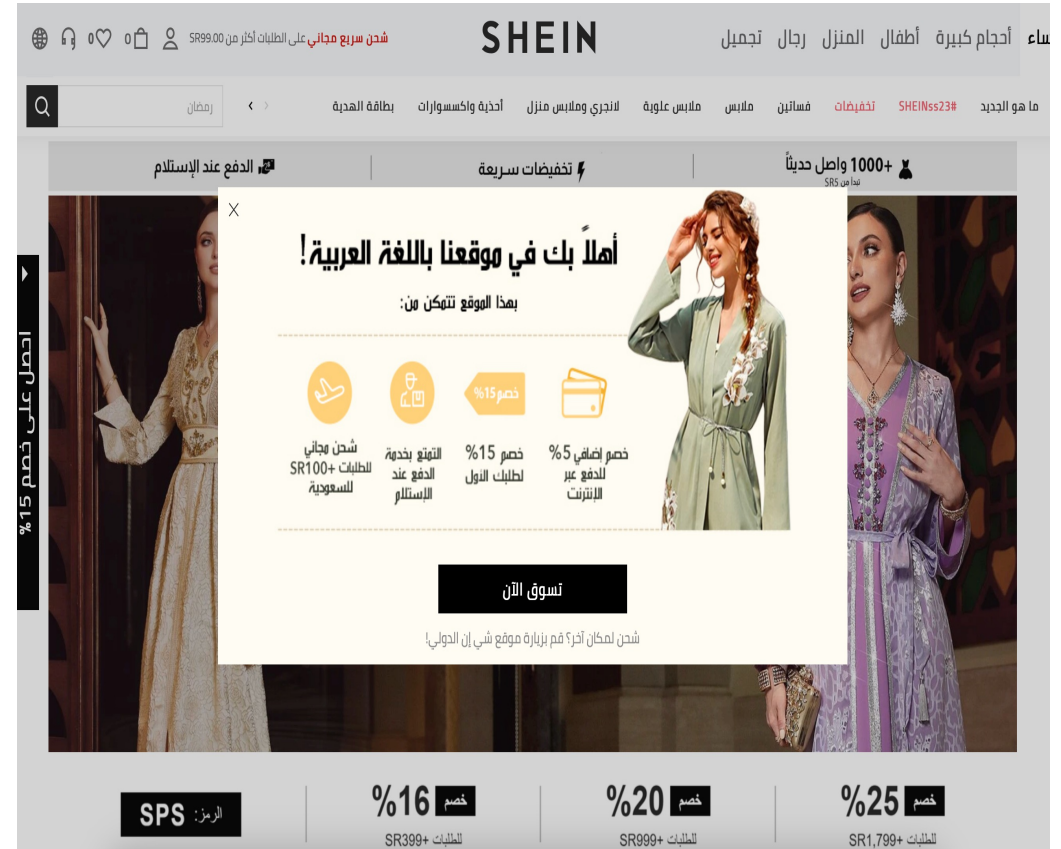


1. Launching a World Wide Web site:

- In our technology-rich global environment, the fastest, least expensive, and lowest-cost strategic option to establish a global business presence is to create a Web site.
- The Internet gives even the smallest business the ability to sell its goods and services all over the globe. By establishing a presence online, business gains immediate access to customers around the world.
- With a well-designed Web site, an entrepreneur can extend his or her reach to customers anywhere in the world—**without breaking the budget!**
- A company’s Web site is available to potential customers everywhere and provides exposure to its products or services 24 hours a day seven days a week.
- Just as business owners who conduct international business in person must be sensitive to the cultural nuances and differences in the business practices of other countries, entrepreneurs who conduct business online must take these same factors into account when they design their companies’ Web sites. Entrepreneurs must “**think local**” when they create Web sites that target customers in other countries.

1. Launching a World Wide Web site:

- Although having a single domain name with separate “language” buttons for translations is simpler and less expensive, e-commerce experts say having separate domain names for each targeted country produces better sales results.
- The design of Web sites that target foreign customers must reflect the local culture, customs, and language.



2. Relying on trade intermediaries:

- Although many small businesses handle their foreign sales efforts in- house, another alternative for getting into international markets with a minimum of cost and effort is to use a trade intermediary.
- **Trade intermediaries:** domestic agencies that serve as distributors in foreign countries for domestic companies of all sizes.
- They rely on their networks of contacts, their extensive knowledge of local customs and markets, and their experience in international trade to market products effectively and efficiently all across the globe.
- These trade intermediaries serve as the export departments for small businesses, enabling the small companies to focus on what they do best and delegate the responsibility for coordinating foreign sales efforts to the intermediaries.

Strategies for “Going Global”



2. Relying on trade intermediaries:

2.1. Export Management Companies (EMCs)

2.2. Export Trading Companies (ETCs)

2.3. Manufacturer’s Export Agents (MEAs)

2.4. Export merchants

2.5. Resident buying offices

2.6. Foreign distributors



2.1. Export Management Companies (EMCs):

- They are merchant intermediaries that provide small businesses with a low- cost, efficient, off-site international marketing department.
- They are an important channel of foreign distribution for small companies just getting started in international trade or for those **that lack the resources** to assign their own people to foreign markets.
- Most EMCs are merchant intermediaries, working on a **buy-and-sell arrangement** with domestic small companies, taking title to the goods and then reselling them in foreign markets; others work on commission.
- EMCs provide small businesses with a low-cost, efficient, independent international marketing and export department, offering services that range from conducting market research and giving advice on patent protection to arranging financing and handling shipping.



2.1. Export Management Companies (EMCs):

- The greatest benefits that EMCs offer small companies are **ready access to global markets and an extensive knowledge base on foreign trade**, both of which are vital for entrepreneurs who are inexperienced in conducting global business.
- In return for their services, EMCs usually earn an extra discount on the goods they buy from their clients or, if they operate on a commission rate, a higher commission than domestic distributors earn on what they sell.
- EMCs charge commission rates of about 10% on consumer goods and 15% on industrial products.

2.2. Export Trading Companies (ETCs):

- They are businesses that buy and sell products in a number of countries and offer a wide variety of import and export services to their clients, such as exporting, importing, shipping, storing, distributing, and others.
- Unlike EMCs, which tend to focus on exporting, ETCs usually perform both import and export trades across many countries' borders.
- Although EMCs usually create exclusive contracts with companies for a particular product line, ETCs often represent several companies selling the same product line.
- However, like EMCs, ETCs lower the risk of exporting for small businesses.



Relying on trade intermediaries

2.3. Manufacturer's Export Agents (MEAs)

- They are businesses that act as international sales representatives in a limited number of markets for noncompeting domestic companies.
- Unlike the close, partnering relationship formed with most EMCs, the relationship between the MEA and a small company is a **short-term one**, and the MEA typically operates on a commission basis.



Relying on trade intermediaries

2.4. Export Merchants

- Export merchants are domestic wholesalers who do business in foreign markets.
- They buy goods from many domestic manufacturers and then market them in foreign markets.
- Unlike MEAs, export merchants often carry competing lines, meaning that they have little loyalty to suppliers.
- Most export merchants specialize in particular industries, such as office equipment, computers, and industrial supplies.



2.5. Resident buying office

- Government- or privately owned operations of one country established in another country for the purpose of buying goods made there.
- Resident buying office is one that does the buying activities for many big producers and/or retailers in the same line of business.
- The buying office provides their clients with all the markets updates like prices, new products, new technologies etc.
- Selling to them is just like selling to domestic customers because the buying office handles all the details of exporting.
- The buying office may also after approval from its clients may initiate the procurement process by placing the order and finally delivering the clients.
- The buying houses earn a commission from the clients.

2.6. Foreign Distributors

- Some small businesses work through foreign distributors to reach international markets.
- Domestic small companies export their products to these distributors, who handle all of the marketing, distribution, support, and service functions in the foreign country.
- The key to success is screening potential distributors to find those that are reliable, financially sound, and customer focused.

The value of using trade intermediaries

- Trade intermediaries are becoming increasingly popular among small businesses because they make that transition much faster and easier.
- Most small business owners simply do not have the knowledge, resources, or confidence to go global alone.
- Intermediaries' global networks of buyers and sellers allow their small business customers to build their international sales much faster and with fewer hassles and mistakes.
- Entrepreneurs who are inexperienced in global sales and attempt to crack certain foreign markets alone quickly discover just how difficult the challenge can be. However, with their know-how, experience, and contacts, trade intermediaries can get small companies' products into foreign markets quickly and efficiently.



The value of using trade intermediaries

- **The primary disadvantage** of using trade intermediaries is that doing so requires entrepreneurs to surrender control over their foreign sales.
- However, by maintaining **close contact** with intermediaries and evaluating their performance regularly, entrepreneurs can avoid major problems.
- Many entrepreneurs begin their global business initiatives with trade intermediaries and then venture into international business on their own as their skill and comfort levels increase.



Steps to choose intermediaries

1. **Compile a list of potential candidates:** which type of intermediary will best serve a small company's needs + look for intermediaries that specialize in the products their companies sell and that have experience and established contacts in the countries they have targeted).
2. **Evaluate** each one using a list of criteria to narrow the field to the most promising ones.
3. **Interviewing** a principal from each intermediary on the final list should tell entrepreneurs which ones are best able to meet their companies' needs.
4. **Conduct thorough background and credit checks** Before signing any agreement with a trade intermediary.

3. JOINT VENTURE



- **A joint venture** is a combination of two or more parties that seek the development of a single enterprise or project for profit, sharing the risks associated with its development. The parties to the joint venture must be at least a combination of two natural persons or entities.
- Thus, joint venturing is entering foreign markets by joining with foreign companies to produce or market products or services.
- It differs from exporting in that the company joins with a host country partner to sell or market abroad.

3. JOINT VENTURE



- **There are two types of joint venture:**
 - **Domestic joint venture** – two or more local companies form an alliance for the purpose of exporting their goods and services abroad.
 - The businesses share the responsibility and the costs of getting export licenses and permits, and they split the venture's profits. Establishing a joint venture with the right partner has become an essential part of maintaining a competitive position in global markets for a growing number of industry
 - **Foreign joint venture** – a domestic firm forms an alliance with a company in the target nation.
 - The host partner brings to the joint venture valuable knowledge of the local market and its method of operation as well as of the customs and the tastes of local customers, making it much easier to conduct business in the foreign country.
- Most foreign joint ventures fail; average success rate is just 43%.

3. JOINT VENTURE



- The most important ingredient in the recipe for a successful joint venture is **choosing the right partner**. Taking the following steps will help avoid problems:
 - Select a partner that shares the company's values and standards of conduct.
 - Define at the outset important issues such as each party's contributions and responsibilities, the distribution of earnings, the expected life of the relationship, and the circumstances under which the parties can terminate the relationship.
 - Understand their partner's reasons and objectives for joining the venture.
 - Spell out in writing exactly how the venture will work and where decision-making authority lies.
 - Select a partner whose skills are different from but compatible with those of the company's.
 - Prepare an agreement that spells out what will happen in case of a "business divorce."

4. Foreign Licensing



- **Licensing** is entering foreign markets through developing an agreement with a licensee in the foreign market.
- For a fee or royalty payments, the licensee buys the right to use the company's manufacturing process, trademark, patent, trade secret, or other item of value.
- The company thus gains entry into a foreign market at little risk; at the same time, the licensee gains production expertise or a well-known product or name without having to start from scratch
- Rather than sell their products or services directly to customers overseas, some small companies enter foreign markets by licensing businesses in other nations to use their patents, trademarks, copyrights, technology, processes, or products.
- In return for licensing these assets, a small company collects royalties from the sales of its foreign licenses.

4. Foreign Licensing

- Licensing is a relatively simple way for even the most inexperienced business owner to extend his or her reach into global markets.
- Licensing is ideal for companies whose value lies in its intellectual property, unique products or services, recognized name, or proprietary technology.
- Some examples of things that may be licensed include songs, sports team logos, intellectual property, software, and technology.
- Foreign licensing enables a small business to enter foreign markets quickly and easily and with virtually no capital investment.
- **Risks to the company** include the potential loss of control over its manufacturing and marketing processes and creating a competitor if the licensee gains too much knowledge and control.
- Securing proper patent, trademark, and copyright protection beforehand can minimize those risks.



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LICENSING EXAMPLE



BATMAN CHARACTER TO
LEGO

TOP 10 (2023)

The WALT Disney Company

1 THE WALT DISNEY COMPANY



2 MEREDITH CORPORATION



3 AUTHENTIC BRANDS GROUP

WarnerMedia

GLOBAL BRANDS AND EXPERIENCES

4 WARNERMEDIA GROUP



5 HASBRO



6 NBCUNIVERSAL/
UNIVERSAL BRAND DEVELOPMENT



7 VIACOMCBS CONSUMER PRODUCTS

The Pokémon Company
INTERNATIONAL

8 THE POKÉMON COMPANY
INTERNATIONAL



9 BLUESTAR ALLIANCE

Sanrio®
10 SANRIO



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Advantage & Disadvantage of licensing

Advantage of licensing	Disadvantage of licensing
Obtain extra income for technical know-how and services.	Lower income than in other entry modes
Reach new markets not accessible by export from existing facilities.	Loss of control of the licensee manufacture and marketing operations and practices leading to loss of quality.
Quickly expand without much risk and large capital investment.	Risk of having the trademark and reputation ruined by an incompetent partner.
Pave the way for future investments in the market.	The foreign partner also can become a competitor by selling its products in places where the parental company has a presence.
Retain established markets closed by trade restrictions.	
Political risk is minimized as the licensee is usually 100% locally owned.	

5. International franchising

- **Franchising** is a system of distribution in which semi-independent business owners (franchisees) pay fees and royalties to a parent company (franchisor) in return for the right to become identified with its trademark, to sell its products or services, and often to use its business format and system.
- To be successful in global markets, a franchisor should have the following characteristics:
 - Sufficient managerial and financial resources to devote to globalization
 - A solid track record of success in the local country.
 - Adequate trademark protection for the franchise's brand
 - Time-tested training, support, and reporting procedures that help franchisees succeed.



The Franchising Relationship



Element	The Franchisor	The Franchisee
Site selection	Oversees and approves; may choose site.	Chooses site with franchisor's approval.
Design	Provides prototype design.	Pays for and implements design.
Employees	Makes general recommendations and training suggestions.	Hires, manages, and fires employees.
Products and services	Determines product or service line.	Modifies only with franchisor's approval.
Prices	Can only recommend prices.	Sets final prices.
Purchasing	Establishes quality standards; provides list of approved suppliers; may require franchisees to purchase from the franchisor.	Must meet quality standards; must purchase only from approved suppliers; must purchase from supplier if required.
Advertising	Develops and coordinates national ad campaign; may require minimum level of spending on local advertising.	Pays for national ad campaign; complies with local advertising requirements; gets franchisor approval on local ads.
Quality control	Sets quality standards and enforces them with inspections; trains franchisees.	Maintains quality standards; trains employees to implement quality systems.
Support	Provides support through an established business system.	Operates business on a day-to-day basis with franchiser's support.

5. International franchising

Franchisors that decide to expand internationally should take these steps:

1. **Identify the country or countries that are best suited to the franchisor's business concept:** Factors to consider include a country's business climate, demographic profile, level of economic development, rate of economic growth, degree of legal protection, language and cultural barriers, and market potential.
2. **Generate leads for potential franchisees.** Franchisors looking for prospective franchisees in foreign markets have many tools available to them, including international franchise trade shows, their own Web sites, trade missions, and brokers.
3. **Select quality candidates.**
4. **Structure the franchise deal.** Franchisors can structure international franchise arrangements in a variety of ways, but three techniques are most popular:
 - Direct franchising,
 - Area development
 - Master franchising.

5. International franchising

- **Direct franchising:** common in domestic franchise deals, involves selling single-unit franchises to individual operators in foreign countries. Although dealing with individual franchisees makes it easier for the franchisor to maintain control, it also requires more of the franchisor's time and resources.
- **Area development:** is similar to direct franchising except that the franchisor allows the franchisee to develop multiple units in a particular territory, perhaps a province, a county, or even an entire nation.
- **Master franchising:** is the most popular strategy for companies entering international markets. In a master franchising arrangement, a franchisor grants an experienced master franchisee the right to sell outlets to sub franchisees in a broad geographic area or sometimes in an entire country. Franchisors use this method to expand into international markets quickly and efficiently because their master franchisees understand local laws and customs and the nuances of selling in local markets. Although master franchising simplifies a franchisor's expansion into global markets, it generates less revenue for franchisors than direct franchising and gives them the least amount of control over their international franchisees. (Dominos Pizza)

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Difference between licensing and franchising

	Basis	Franchising	Licensing
1	Business Model	Deals with providing Services	Deals with Products & Goods
2	Ownership	Ownership of the business is with the franchisee, he purchases the right to run the same business on behalf of the franchisor in exchange of fees	Ownership of the ultimate product is with the licensee, he only buys the right to use a certain patented / original product of licensor in exchange of royalty
3	Degree of Control	Franchisor exercises enormous control over the business of the franchisee in terms of quality of service provided, marketing & selling strategies, etc.	The licensee is governed by the licensor's terms of use as prescribed in the licensing agreement for the licensed product. Licensor, however, has no autonomy over the business of the licensor
4	Process	Franchising is governed by an elaborate agreement specifying the responsibilities & duties of both the parties involved. The franchisor assists in setting up the service provider with adequate skill & knowledge to emanate its brand to the customers	Licensing is governed by a licensing agreement, which involves a one-time transfer of property or rights for a fee. There is no technical support or assistance provided by the licensor in most cases.
5	Legal regulations	Stricter compliance requirements governed by Companies laws (Franchise Laws in many countries)	Standard agreement governed by contracts law between the parties

Chapter 10

Difference between licensing and franchising

	Franchising	Licensing
Registration	Required	Not required
Territorial rights	Offered to franchisee	Not offered; licensee can sell similar licenses and products in same area
Support and training	Provided by franchiser	Not provided
Royalty payments	Yes	Yes
Use of trademark/logo	Logo and trademark retained by franchiser and used by franchisee	Can be licensed
Examples	McDonalds, Subway, 7-11, Dunkin Donuts	Microsoft Office
control	Franchiser exercise control over franchisee.	licensor does not have control over licensee

6. Countertrading & bartering

- **Countertrade:** is a transaction in which a company selling goods in a foreign country agrees to promote investment and trade in that country.
- The goal of the transaction is to help offset the capital drain from the foreign country's purchases. As entrepreneurs enter more and more developing countries, they will need to develop skills at implementing this strategy.
- In some cases, small and medium-size businesses find it advantageous to work together with large corporations that have experience in the implementation of this marketing strategy.
- Countertrading suffers numerous drawbacks. Countertrade transactions can be complicated, cumbersome, and time consuming. They also increase the chances that a company will get stuck with merchandise that it cannot move. They can lead to unpleasant surprises concerning the quantity and quality of products required in the countertrade.



6. Countertrading & bartering

- **Bartering:** is the exchange of goods and services for other goods and services.
- In a barter exchange, a company that manufactures electronics components might trade its products for the coffee a business in a foreign country processes, which it then sells to a third company for cash.
- Barter transactions require finding a business with complementary needs, but **they are much simpler than countertrade transactions.**



7. Exporting

- **Exporting** is entering foreign markets by selling goods produced in the company's home country, often with little modification.
- It is the simplest way to enter a foreign market.
- The company may passively export its surpluses from time to time, or it may make an active commitment to expand exports to a particular market. In either case, the company produces all its goods in its home country. It may or may not modify them for the export market.
- Exporting involves the least change in the company's product lines, organization, investments, or mission.



Steps to Successful Exporting

1. **Recognize that even the tiniest companies and least experienced entrepreneurs have the potential to export.** (If a company's products meet the needs of global customers, it has the potential to export.)
2. **Analyze your product or service** (Is it special? New? Unique? High quality? Priced favorably because of lower costs or favorable exchange rates? Does it fit well with the culture and traditions of a country or region?)
3. **Analyze your commitment to developing export markets** (Are you willing to devote time and energy to develop export markets? Does your company have the necessary resources?)
4. **Research potential markets and pick your target.** (Market research must include more than just the size of the potential market; it should include a detailed analysis of the demographic and buying habits of the customers in it as well as the cultural nuances of selling there)

Steps to Successful Exporting

5. **Develop a distribution strategy** (Should you use a trade intermediary or sell directly to foreign customers?)
6. **Find your customer.** (small businesses can rely on a host of export specialists to help them track down foreign customers. These agencies have the market research available for locating the best target markets for a particular company and specific customers in those markets)
7. **Find financing for export sales.**
8. **Ship your goods.** (Export novices usually rely on international freight forwarders and customs brokers—experienced specialists in overseas shipping—for help in navigating the bureaucratic morass of packaging and regulatory requirements, tariffs, and paperwork demanded by customs. These specialists, also known as transport architects, are to exporters what travel agents are to travelers and normally charge relatively small fees for a valuable service. They not only move shipments of all sizes to destinations all over the world efficiently, saving entrepreneurs many headaches, but also are well versed in the regulations that govern exported products and services.
9. **Collect your money.** (The safest method of selling to foreign customers is to collect cash in advance of the sale because it eliminates the risk of collection problems and provides immediate cash flow).

8. Establishing international locations

- Establishing an office or a factory in a foreign land can require a substantial investment reaching beyond the budgets of many small companies.
- In addition, setting up an international office can be an incredibly frustrating experience in some countries where business infrastructure is in disrepair or is nonexistent.
- Finding the right person to manage an international office is crucial to success; it also is a major challenge, especially for small businesses. Small companies usually have lean management staffs and cannot afford to send key people abroad without running the risk of losing their focus.



9. Importing and outsourcing

- **Importing:** to bring a merchandise into a country from another country.
- **Outsourcing:** Outsourcing is the business practice of hiring a party outside a company to perform services or create goods that were traditionally performed in-house by the company's own employees and staff.
- Outsourcing is a practice usually undertaken by companies as a cost-cutting measure. As such, it can affect a wide range of jobs, ranging from customer support to manufacturing to the back office.





- In addition to selling their goods in foreign markets, small companies also buy goods from distributors and manufacturers in foreign markets.
- For instance, a computer programmer in the United States might earn \$100,000 a year, but in India, a computer programmer doing the same work earns \$20,000 a year or less. As a result, many companies either import goods or outsource work directly to manufacturers in countries where costs are far lower than they would be domestically.
- Alibaba.com, an online trading platform started in Hangzhou, China, in 1999, has enabled millions of small companies to find reliable suppliers and vendors around the globe for the products and services they sell. Alibaba.com boasts nearly 37 million registered users in more than 240 countries.

10. Expat Entrepreneurs

- **Expat Entrepreneurs:** entrepreneurs who keep their citizenship in their home country but live and run their businesses on foreign soil.
- Some entrepreneurs take advantage of opportunities in foreign markets by actually moving to a country and starting a new business. People who take up residence and work in a foreign country are known as expatriates, or more commonly, expats.
- Some countries have been making it easier to become an expat entrepreneur to encourage economic development. For example, Spain recently cut the red tape associated with expats starting businesses to help ease its chronic unemployment and low rate of entrepreneurial activity.



1. Domestic Barriers:

- Attitude – “My company is too small to export”
- Lack of information about how to get started
- Lack of export financing



2. International Barriers:

- **Tariffs** - Taxes a government imposes on goods and services imported into that country.
- **Quotas** - Limits on the amount of a product imported into a country.
- **Embargoes** - Total bans on imports of certain products into a country.
- **Dumping** - Selling large quantities of a product in a foreign country below cost to gain market share quickly.
- **Political barriers** - rules, regulations and risks.
- **Business barriers**- business practices and regulations
- **Cultural barriers** - The beliefs, values, views, and mores that a nation's inhabitants share. . Differing languages, philosophies, traditions, and accepted business practices.

- In Europe and China, just as in the United States, punctuality for business meetings is important. In Latin America, Africa, and many Middle Eastern countries, however, business meetings rarely start at the scheduled time, something that does not seem to bother locals.
- In Great Britain, businesspeople consider it extremely important to conduct business “properly”—with formality and reserve. Boisterous behavior such as backslapping or overindulging in alcohol and ostentatious displays of wealth are considered ill mannered.
- In Colombia, foreigners are expected to be on time for meetings, although native Colombians are rarely punctual. Be ready to wait.
- In India, a limp handshake and avoiding eye contact are not signs of weakness or dislike; they convey respect.⁵⁶
- When doing business in Greece, executives must be thoughtful of their hand gestures; the hand-waving gesture that means “good-bye” is considered an insult in Greece.
- In Japan and South Korea, exchanging business cards, known in Japan as *meishi*, is an important business function (unlike in Great Britain, where exchanging business cards is less popular). A Western executive who accepts a Japanese companion’s card and then slips it into his pocket or scribbles notes on it has committed a major blunder. Tradition there says that a business card must be treated just as its owner would be—with respect. Travelers should present their own cards using both hands with the card positioned so that the recipient can read it.

- Make yourself at home in all three of the world's key markets – North America, Europe, and Asia.
- Develop new products for the world market.
- Familiarize yourself with foreign customs and languages.
- “Glocalize” – make global decisions about products, markets, and management, but allow local employees to make tactical decisions about packaging, advertising, and service.
- Train employees to think globally, send them on international trips, and equip them with state-of-the-art communication technology.
- Hire local managers to staff foreign offices and branches.
- Do whatever seems best wherever it seems best, even if people at home lose jobs or responsibilities.
- Consider using partners and joint ventures to break into foreign markets you cannot penetrate on your own.

thanks for
listening!