

A Study Of Different Modes Of Entry In International Business

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Abstract

International business consists of transaction that are carried across national borders to satisfy the objectives of individuals, companies and organizations International Business is the process of focusing on the resources of the globe and objectives of organization on global business opportunities and threats. International business defined as global trade of goods and services. This paper shows the meaning, need, advantages, disadvantages and different modes of entry in International Business.

Keywords

International business, contract manufacturing, mergers, acquisition, Turnkey. Foreign Direct Investment.

Introduction

The exchange of goods and services between two nations is called International Business. Just as a person cannot fulfill his needs on his own and has to exchange goods or services with other person. Similarly not even one country can fulfill all its needs and has to depend on other country. The reason for this is the variation of resources. Any country can produce according to the available natural resources. The surplus produced thus is sold to other countries and from there the good of their need are purchased. This purchase and sale of goods and services between two countries is called international business.

Objective of study

Objective of this paper is to know about international business and to study about different ways of entry in international business.

Research methodology

Paper is based on secondary data. Which are collected from books and websites.

Need or Importance of International business-

- **Benefits for International Specialization-** International business enable a country to enjoy the advantage of international specialization according to comparative cost. Every country specializes and export those commodities which it can produce cheaper in exchange for what others can provide at a lower cost.
- **Improvement in production method-** The fear of foreign competition encourages the producer of the country to always improve the production method.
- **International cooperation** - Due to International Business people of the country also increase their sympathy and cooperation with along with the transactions of goods and services.
- **Economic crisis prevention** - International business provide adequate support in times of crisis like famine, food etc.
- **Improvement in standard of living** - Profit of international business is also found that this increased the standard of living of many countries of the world become it gives consumers cheaper items and the use more and more products from their limited income.
- **Use of excess production** - It has been possible due to international business that goods after the need of the

country are export to other countries.

- International business help to achieve higher rate of profit.
- Nearness off raw material is possible through International Business.

Different modes of entry in International Business

1)**Export** - Export deals with physical movement of goods and services from one country to another through a custom port followings the rules of both the country of origin and country of destination. India is in 18th position in top export countries. India's top export are mineral, fuels, gems, precious metals, machinery including computers, organic Chemicals, vehicles, Pharmaceuticals, Iron, steel, clothing, accessories.

2)**Franchising** - Franchising is a form of licensing wherein the franchisor is exercises more control over franchisee. Through franchise the producers can expand his business at very low cost. After the expansion of business the franchisor purchases large quantity of goods. Purchasing of large quantity of goods reduces the cost of purchasing and transport expenses. Franchisee increases the credibility of the franchisor and leads to a double income in the way of royalty and income from sale.

On the other hand franchisee get ready market franchisor provides various types of assistance to the franchisee such as training, technical knowledge. All advertisement expenses bear by franchisor. Risk of franchisee is minimum in franchise business. There are some examples of franchise in India like mc Donald's Dominos, KFC, Pizza Hut, Archie's Greetings and gifts etc.

3)International licensing –

International licensing is an agreement between the licensor and the licensee over a period of time for the use of brand

name, marketing, copyright. Work method and Trademark by paying a license fee. There are various types of licensing agreement like software license agreement, copyright license agreement, Technology license, service license, music license, brand licensing etc. In this mode licensee who is buyer license access to established intellectual property and being able to enter the market move quickly. Licensee being able to generate revenue by using the intellectual property of the licensor.

Licensor the second party who is seller of license being able to utilize the licensee's distribution network to quickly enter into the new geographical region and foreign market. Licensor facing lower capital requirement and lower cost due to not having to invest in distribution and able to gain the expertise and skill of the licensee.

4)Management contracts-

A management contract is an agreement between two companies whereby one company provides managerial and technical assistance for which proper monetary compensation is given, either as a flat lump sum fee or a percent on the sales or a share in profit. Delta airlines, Air France. KLM offer such services in developing countries.

5)Contract manufacturing –

Contract manufacturing is a form of international business in which a firm contract with local manufactures or manufacturer to produce components and goods as per their requirement it mainly consists of there types in which first is that production of few components, Second is changing the final product by combining components and third is to produce certain goods in full. The different type of contract manufacturing are included in industry like medical, energy, packaging food, computers, Automotive etc.

6)Joint venture –

A joint venture is a binding contract between two venture partners to set up a project either in home country or host country or a third country in this case both parties are committed to joint risk taking and joint profit sharing. A company that want to explore international trade without taking the full responsibility of cross-border business transaction has to option of forming a joint venture with a foreign partner.

7)Merger and acquisition –

In this case the company in the host country select a foreign company merges itself with it. The foreign company acquires the control of ownership. This mode of entry gives an outstanding competitive edge over others. Such companies strengthen their International manufacturing facilities and marketing networks.

8)Take overs –

This is a strategy whereby a company identifies a healthy unit with strong brand name and network and brings it under the management of another unit in order to become a leader in the field and guarantee success. For example unifier's takeover of brook bond and Lipton enhanced its position as a leader in the tea industry in India.

9)Turn key projects –

A Turnkey project is a contract under which a company is fully involved from concept to completion. It covers right fram supply of manpower, capital and erection of plant installation and commissioning up to the trial operation of project.

10) Foreign direct investment (FDI)-

The flow of funds from one destination to another is called investment. A foreign direct investment is an investment in the form of controlling ownership in a business in one country by an entity based in another country. FDI in India is a major monetary source for economic development in India.

Limitation of international business -

- One of the disadvantages of International Business is that most of these destination countries customs and duties.
- Language barrier is also one of the major disadvantage of International Business.
- Cultural difference affects the growth of International Business.
- Due to International business countries adopt labours division and specialization. As a result that country produces only a few items of its requirement and imports others from other countries. In this way each country becomes dependent on each other.

Conclusion

Today international business taking wide form. Due to international business where cooperation is found in all the countries of the world, each country easily gets the product and services it needs International business itself has brought the countries of the world very close to each other. Therefore it can be said that International business has an important contribution in the development of modern civilization.

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