

Getting started

International business takes place every day and includes movement of physical goods from one country to another and provision of services that often take place online using email or communication such as Skype. Write down as many different ways of trading as you can think of. At the end of the unit, review your list and see how many new types you have learned about, to measure your learning progress.



A

Explore the international context for business operations

In this section, you will explore the different ways that international business takes place, and the reasons why businesses choose to operate in this way. Choosing the right markets and the factors that influence those markets are also considered, as well as the finance and support needed for international business to take place.

International business

International business can take many different forms and these include sending things overseas (exporting), bringing them in (importing), operating in different countries (multinational) and being involved with the support for businesses operating in multiple countries, through activities such as marketing or logistics.

Types of business activity

Businesses will be involved in one or more different activities when they operate internationally. This may mean that they need offices in different locations or that they will use **subcontractors** to carry out work on their behalf, for example Fugro operate the cable laying for the Rampion offshore wind farm operated by E.ON UK plc.

Exporting businesses

When a business decides to export, it can do this within the European Union (EU) or outside the EU. Operating within the EU means that there are no customs checks on the goods that are moving into Europe and also that goods can be freely moved. This type of export is called dispatches. You will learn more about the EU and how this affects international business later in this unit.

If a business decides to export outside the EU, different rules apply and the countries where goods are sent to are called 'third countries'. Businesses deciding to export to these countries may need:

- ▶ an export declaration
- ▶ an export licence
- ▶ to pay customs duties
- ▶ to pay taxes in the country where the goods are being sent.

Many different businesses export throughout the EU and worldwide, including Pipe Source UK Ltd, which works with other partners to deliver piping and other related equipment to businesses all over the world.

Key term

Subcontractor - a person or business that carries out work on behalf of another person or business.

Research

In June 2016, the United Kingdom decided to leave the EU. Research different views on how this might affect trade.

Importing businesses

Importing goods from an EU country into the UK usually means that the business does not need a licence or to pay import duties, but value added tax (VAT) must be paid and the business needs to have a **commodity** code attached to the import so that the right VAT level can be paid. Plater Chemicals, for example, is a leading importer of chemicals from the EU and throughout the rest of the world.

Commodities are given codes that are used to give additional guidelines or show how much VAT is to be paid. For example:

- ▶ the code for importing playing cards is 9504400000:
 - 95 relates to toys and games
 - 04 table or parlour games
 - 40 00 00 relates to playing cards.

The amount of VAT is determined by the code that is given to that commodity.

Importing goods from outside the EU requires:

- ▶ an import declaration
- ▶ an import licence
- ▶ commodity codes to be allocated to the goods
- ▶ customs duties to be declared and paid to Her Majesty's Revenue and Customs (HMRC)
- ▶ VAT to be paid.

Multinational enterprises

Multinational businesses are those that operate in more than one country, and they can often operate in a number of different markets globally. Multinational enterprises have to be very careful to adapt the way that they trade to the different countries in which they are operating. Each country will have different rules for importation, tax and other duties that need to be paid. They also have different customs, laws and cultures which will affect their operations.

Associated businesses

Sometimes businesses will offer their support to other organisations through offering services or working in partnership. Businesses that associate with others to help with international trade may offer specialist services such as those relating to marketing or **logistics**.

For example, GBS Freight operates throughout Europe and the rest of the world, moving goods on behalf of others.

Key term

Commodity – a raw material or product that can be bought or sold.

Key term

Logistics – the movement of people, goods or facilities.

II PAUSE POINT

Think of four key reasons why a business might choose to export within the EU rather than exporting to the rest of the world.

Hint

Compare the movement of goods and people that is possible throughout Europe compared with outside Europe.

Extend

'Trading outside the EU is a very high risk business.' To what extent do you agree with this view?

Reasons for conducting business internationally

Conducting business internationally offers lots of different opportunities for growth and development that may not be possible from working in the UK alone. For example, AstraZeneca plc is a British-Swedish company that is one of the largest pharmaceutical companies in the world and which benefits significantly from international business operations.



► **Figure 5.1:** There are many good reasons to conduct business internationally

Growth

Offering goods and services in other areas outside the UK offers potential for organisations to grow, and growing sales should lead, in the longer term, to growing profits. Most businesses operate to make a profit, so taking something that is being sold successfully in one country and offering it in another should lead to more sales and eventually more profits, if the business operates carefully. Businesses operating outside the UK can also offer new goods and services from outside the country. This can offer growth in particular markets for them as well as growth for the associated companies that are required to help them, for example in distribution or marketing.

Key terms

Revenue – the amount of money that a company receives during a specific period of time.

Brand – a distinctive name or trademark that is given to a particular product or service.

Additional revenue streams

Choosing to sell goods or services in other countries also gives companies more opportunities to generate **revenue**. New revenue streams are methods to generate new income. The more ways that an organisation has to generate income, the more stable the business is likely to be. If one revenue stream is not working well, then there are others that can be used to generate income instead: for example, companies such as Virgin choose to offer different products and services that complement one another, such as trains, flights and gyms.

Brand exploitation

Exploiting **brands** means making the most of the name of the brand across different countries. This means that a brand name may be used for sponsorship in different countries, which is commonly used in sports, so different brands will sponsor different teams. Brands may also be exploited by using a brand name that is associated with one country and then having it licensed to be made or offered in another country by other companies on behalf of the business.

Research

General Mills is an American company that owns many well-known food brands manufactured under licence across the world. In the UK, for example, one of their brand items, Old El Paso Refried Beans, is manufactured in Spain for General Mills International, Switzerland and is then distributed to the UK.

Research other brands owned by General Mills and list the different places where they are manufactured and then distributed. Discuss what you find out with other members of your class.



- List as many internationally recognisable brand names as possible.

Access to new markets

Trading on an international basis gives businesses the chance to expand their sales and offer goods and services that may be common in one country and sell them in another. Accessing new markets offers new opportunities, as people in those countries may not have come across those products before.

Discussion**The tale of two salespeople**

There is a business story that tells of two shoe salespeople who went to another country. When they got there they found that no one was wearing shoes.

One salesperson was very disappointed and returned back to the UK, saying sadly 'we will never make sales in this country because no one wears shoes'.

The other salesperson was very happy and she telephoned back to the UK telling them to send the whole sales team to this country – because no one was wearing shoes and there were many sales to be made!

- Discuss the story above in small groups.
- What are the advantages and disadvantages of trying to sell a product or service in a country where it is not already sold?

Diversification

Diversification means taking a new product or service into a new market. Diversifying can help a business to reduce risks as they will then offer different types of product or service so they are not reliant on one or two, but it can also increase risks if that product or service does not take off in a particular country.

Increasing market share and market leadership

International businesses, as you have already learned in this unit, often work across many different countries and even regions. Having a greater share of the market means that they have more sales in that particular market and they are more dominant over the other businesses that are operating in that market. By becoming the leader in a market, the business has the most control over a particular market and can make sure that they are first to make changes to a particular product or service.

Technological dominance

To have the position of the market leader, as you have learned, means that you are the most powerful business in a particular market sector. Having dominance may make it hard for other businesses to come into the market in which you are operating and one of the other effects that often follows is technological dominance. When a business trades across countries and becomes large, it is able to invest in technology to make processes work more efficiently. This often leads to higher profits as sales go up and

costs go down. Technological dominance can also be gained by businesses operating internationally as they source supplies or carry out research in one country and then sell goods or services in another.



► How are processes made more efficient by technological dominance?

II PAUSE POINT

Why is the ability to increase market share important for a business thinking of trading overseas?

Hint

Think about the potential for revenue and increasing costs of trading at higher levels.

Extend

Market leadership is the single most important aim for any business entering a new market. Discuss this view.

Comparative advantage

Being able to produce goods or services across more than one country and then sell them in another reduces costs for a business and supports the potential for higher profits to be made. This is called comparative advantage.

Theory into practice

Comparative advantage

Compare these two businesses in the UK.

Business 1 has a toy bear manufactured in the UK for £3 per bear. They sell these for £4 per bear to retail stores. The retailer then sells them for £6 per bear.

Business 2 has a toy bear manufactured in Europe for £1 per bear. They have to import the toy bears at an additional cost of £1 per bear. They sell them for £3.50 to retail stores that sell them for £6 per bear.

- How much cheaper is it to manufacture a toy bear in Europe than in the UK?
- How much additional money is made by Business 2 when the manufacturing costs are taken away from the sales price?
- How much additional money is made by the retailer?
- What are factors to consider when selling a toy bear in the UK that has been made in another country?

'Keeping the selling price of a product high while keeping the costs low is the aim of any business trading internationally.' Discuss this view in small groups.

Economies of scale

Economies of scale mean that the more of a product or service that you sell, the lower the cost per unit to make it. This is because, whether you produce one product or 1000 products, your overheads will remain the same. Being able to produce large volumes of goods means costs go down, as shown in the Worked Example.

Worked Example

If you produce one tin of beans in a factory per day and the factory costs £1000 per day to run, that tin of beans would need to be sold for at least £1000 to cover its costs. If you produced 1000 tins of beans in that factory per day the cost per tin would be £1 per tin plus the costs of the tin, the beans and the label (variable costs, for example £0.25). The cost would then be £1.25. If the factory produced 50,000 tins of beans per day, then the cost per tin would be £0.02 per tin plus the variable cost of £0.20 (this would also usually go down due to being able to buy materials more cheaply), and the cost to produce the beans would be £0.22.



1 tin = £1000.25 per tin 1000 tins = £1.25 per tin 50,000 tins = £0.22 per tin

Research

In small groups carry out research into what is meant by diseconomies of scale and how this might affect a business wishing to trade on an international basis.

Fiscal benefits and preferential tax rates

Fiscal benefits and enhancements relate to the amount of spending and tax that a government of a country is seeking to make. If a business is choosing to export outside the UK, they may be given support by the UK government to do so, as this has a positive impact on the performance of the UK as a whole. If an international business chooses to come to the UK and is a large employer, so will create a lot of jobs, the UK government may offer an incentive for them to come. One of the ways in which this can be done is for them to have a preferential tax rate on profits that they have made in the UK. The same is true for businesses operating outside the UK that will seek to pay lower charges and taxes overseas if they are able to do so.

Research

The island of Jersey has different rates of tax for businesses, compared with mainland UK. Carry out research, in pairs, into the rates of tax for businesses in Jersey. What implications does this have for businesses operating there? What are the advantages or disadvantages for businesses choosing to work in Jersey or sell goods from Jersey?



► How many companies can you find that export flowers from the Channel Islands?

Choice of markets in which to operate

Throughout this unit so far, you have learned the different reasons why businesses choose to trade overseas. Choosing which market to operate in is the next decision for any business thinking about moving into, or expanding to trade in more international markets. There are three main types of market in which businesses can operate, as shown in Table 5.1.

► **Table 5.1:** Different markets for international business

| Type of market | Examples | Potential advantages | Possible disadvantages |
|--|--|---|--|
| Developed economies | <ul style="list-style-type: none"> • Europe • UK | <ul style="list-style-type: none"> • Already established and support available from agencies to help trade here. • Higher employment rates. • Established trading rules. | <ul style="list-style-type: none"> • Market already very competitive (unless a unique or new service). • Higher tax levels than other countries. |
| Less developed economies or developing economies | <ul style="list-style-type: none"> • Brazil • Russia • India • China | <ul style="list-style-type: none"> • Potential for high sales, e.g. there are 1.5 billion people living in China. • Structures in place to continue expansion and existing knowledge. | <ul style="list-style-type: none"> • Different tax or legal systems that present risks. • Protection of the country for its own products and services or reluctance to adopt products and services from other countries. |
| Emerging markets | <ul style="list-style-type: none"> • Turkey • Mexico • Iran | <ul style="list-style-type: none"> • Opportunities to be the first entrant into that market. • Government incentives offered there to create jobs or reduced taxes. | <ul style="list-style-type: none"> • Ethical considerations, for example the use of child labour if in existence. • Lower employment rates or lower wages that may restrict sales growth. • International relationships or restrictions on trading with that country. |

Factors influencing the choice of market

Choosing which markets to operate in needs very careful thought. For example, a business that is considering extending into China will need to have all the necessary support and local knowledge to ensure that it operates within the Chinese legal system. It must also ensure that any cultural differences between the UK and China are understood in order to avoid any problems. You will learn more about cultural differences later in this unit. The type of market choice will be affected by:

- the type of product or service: some products and services may not be appropriate for particular markets (for example, it would not be appropriate for a sausage manufacturer to choose a market where pork is not eaten)
- costs: the cost of exporting goods may be prohibitive to particular markets
- the size of the market: all businesses need to consider how many potential customers they will have in a particular market before deciding whether to enter that market.

Discussion

How could a UK supplier of sun hats grow their business by operating in different overseas markets?

Divide your group into two, with half of the group thinking of ways in which a UK business could grow their business by selling overseas and the other half of the group thinking of the barriers to sales.

Hold a class debate 'A UK sun hat supplier is unlikely to be successful when trading outside the UK.'

II PAUSE POINT

Describe the three most important reasons why businesses choose to engage in international business.

Hint

Think back to all the different reasons why they may choose to get involved and the benefits to them of doing so.

Extend

To what extent do you think choosing the right market is more important than the product or service itself?

Financing of international business

Once a business has decided that it wishes to trade internationally, and has researched all the possible options, the next stage of the process is to ensure that the finances are in place so that the international trade can be financed. There are four key ways to finance international business and the appropriateness of the different methods very much depends on the products or services that are being offered and the market in which the business is operating.

Methods used to finance international trade

Prepayment by the importer

If a business decides it wishes to import goods into the UK to sell, or if an overseas business wants to import British goods, it is sometimes required to pay in advance in total or in part-payment. Paying cash in advance for goods does involve a lot of trust between the two organisations. Total or part-payment in advance may be necessary when importing goods if:

- ▶ there is little trust by the company sending the goods to the importer
- ▶ the political situation in either country is challenging
- ▶ there is a high demand for the goods and, by paying in advance, the price can be fixed at a particular level
- ▶ the importer is a new business or new to the market and cannot negotiate better terms.

Part-payments may be more acceptable to both parties, depending on the size of the payment required in advance.

Discussion

When businesses trade overseas, they have to choose between trading in their own currency or the local currency of the country to which they are exporting. Discuss the benefits of trading in the different types of currency.

Letters of credit

Letters of credit are very commonly used for international trade. Under an import letter of credit, the bank of the importer agrees that they will pay the supplier as soon as the order has been completed and the terms and conditions of the letter of credit are met. The bank working with the importer will not check the goods that have been received but will make sure that the importer is paid. The bank monitors the agreement between the two different businesses and acts as a form of intermediary to make things easier for both parties.

Letters of credit are also used as evidence for customs and other legal practices in the countries where the businesses are operating.

Export credits

Export credits are when a business agrees with a supplier or customer that credit is offered or given for a specific amount of time and related to pre-set terms and conditions. Export credits may be offered to a business overseas when a UK company allows them to have the goods up front and allows them to pay for them after an agreed period of time. Export credits may also be used if the businesses are supplying to each other to save monies being moved between the two organisations.

Export credits may also be provided by an export credit agency. These agencies offer finance to help exports take place and their role includes helping to negotiate terms and also to provide insurance to make sure that payment is received. This is very important if the country with which the business is working is politically unstable and the transaction is high risk. Export credits negotiated through Export Credit Agencies may have short-, medium- or long-term payment periods, depending on the risk involved.

Research

Carry out research into UK Export Finance to find out their role and how they help UK businesses to export, and businesses overseas to buy products from the UK. In small groups, outline how UK Export Finance helps each type of business and why.

Bank loans

Bank loans are another source of finance to expand internationally. The type of loan and the type of terms that are offered depends on a number of different factors: size of the loan required, type of products or service on offer, knowledge of the market/ country where the goods are being sent or experience and track record of the business trading overseas. Some loans may be taken directly by the businesses through their existing banking arrangements. Others need more specialist loans and insurance, which is available from agencies such as UK Export Finance. Bank loans offer funding to support expansion of businesses overseas, but it is important for businesses to ensure that they sign up to the best terms and conditions that they can to support their business.



► Why are bank loans a common source of finance for businesses to use to expand?

II PAUSE POINT

Why might a business use a letter of credit in preference to a part-payment for an international order?

Hint

Think about the risks involved when using each method of payment.

Extend

'Bank loans are the most efficient way of accessing finance for international business.' Discuss this view.

Case study**British Chambers of Commerce**

The British Chambers of Commerce have been offering support for businesses to trade internationally for more than 150 years and promote partnerships between organisations in different countries. The support offered aims to give practical and on-the-ground advice about how to work in different markets in the world. Businesses wishing to operate overseas can get access to specific support to operate in a particular country including:

- market information
- practical tips about how to trade in a country
- building the share of a market in a particular country
- building the share of a market in a region.

Go to their website and check your knowledge.

Check your knowledge

- 1 Why do you think the British Chambers of Commerce offer support for businesses?
- 2 What are the advantages of providing information and support for businesses to trade in other countries?
- 3 Are there any potential disadvantages?
- 4 Carry out research online to find information on the nearest Chamber of Commerce to where you live. In small groups, discuss the different types of support available for organisations wanting to trade internationally in your area.

Support for international business

You have already learned, during this unit, about two of the agencies that support UK businesses to export goods and services: Chambers of Commerce and UK Export Finance. There are also other agencies that can offer help: UK Trade and Investment and Regional Advisory Organisations.

Agencies that support international business**Department for International Trade**

Department for International Trade offers support to UK businesses that trade internationally and also to overseas entrepreneurs wishing to set up their businesses in the UK. Department for International Trade has advisors in each of the regional areas of the UK and offers a service of workshops, videos and information packs to help any business thinking of trading internationally to have support to do so. Accessing support from Department for International Trade saves businesses time, and also therefore money, as they are able to trade more quickly and gain support to do so.

Regional advisory councils

You have already learned about some of the regional advisory councils that help businesses in your area to export. As well as having a national Chamber of Commerce that represents the UK as a whole, there are also local Chambers of Commerce that serve the needs of the different regions. Local Chambers of Commerce offer specific training and opportunities for the areas which they serve.

Local enterprise partnerships are also available in each of the regional areas.

Networking and support is on offer to help businesses from the regions to gain access to support and funding through partnership working to help increase the number of exports from the UK from those particular areas.

Case study

Greater Cambridge/Greater Peterborough Local Enterprise Partnership

Local enterprise partnerships operate across the UK and bring together representatives from business, local government and social enterprise, the voluntary sector and education. The purpose of all Local Enterprise Partnerships is to tackle barriers to growth in their areas by supporting growth, developing skills and setting up local support, including support for exporting overseas.

Greater Cambridge/Greater Peterborough Local Enterprise Partnership (GCGP LEP) offers support to businesses to help them export from the local area all over the world.

Go to their website and check your knowledge.

Check your knowledge

- 1 Why do you think the GCGP LEP offers support for businesses to export?
- 2 What are the advantages of providing information and support for businesses to trade in other countries?
- 3 Are there any potential disadvantages?
- 4 Now compare the support in your area with that offered in Great Cambridge/Greater Peterborough – how does your area compare?

Open to Export

Open to Export is a community interest company (CIC) that is run as a not-for-profit organisation. It is supported by many different agencies including the Federation of Small Businesses, the Institute of Export and the HSBC bank. The organisation supports businesses going into export by providing training, practical information, webinars and different forums so that ideas can be shared.

Research

Open to Export offers a wide range of advice, information, webinars and support, such as 'Ask the Expert'. In pairs, go to the website and find out information about how a small business such as a dog bakery would export its products from the UK to France. Produce a poster of what you have found to present to your class.

Types of support provided

There is a huge range of support on offer for businesses wanting to get involved in international trade, and advisors are available too. You have already learned about UK Export Finance earlier in this unit. They have advisers who are allocated to help businesses. Help is also available for businesses from other sources.

► **Table 5.2:** Support for international business

| | |
|-------------|---|
| Trade fairs | <p>Export Britain (part of the British Chamber of Commerce) organises local export trade fairs all over the UK. The trade fairs vary from single focused fairs, such as Discover Columbia: Business Opportunities for British Companies, to the International Festival of Business 2016 held in Liverpool.</p> <p>Export Britain also offers trade missions to countries such as China and Vietnam where UK businesses are given the opportunity to meet representatives from businesses overseas.</p> <p>Trade Fairs are also organised by trade associations and there are many different trade associations that can support the development of international trade: for example, Associated Independent Stores is an association that works to help smaller retailers by combining expertise, knowledge and purchasing power.</p> |
|-------------|---|

▶ **Table 5.2:** – continued

| | |
|-------------------------------------|--|
| Identifying international partners | <p>Visits to different international countries, and becoming aware of the different opportunities there, are ways to help to identify international partners for businesses.</p> <p>British embassies are based in most international countries and they are also there to help to support international trade with Britain. They are able to offer support and information to businesses about countries that they are working with.</p> <p>Other companies or agents are also available to help establish businesses overseas and look for partners for them to work with: for example, Intro International offers support to businesses wishing to establish themselves in Singapore.</p> |
| Grants for international promotions | Grants are available for UK businesses to start operating overseas. For example, grants may be available for small businesses wishing to grow by exporting overseas through the Growth Programme which aims to support new or existing small businesses in rural areas. |

II PAUSE POINT

Describe as many different types of support as you can that are available for businesses wishing to trade internationally.

Hint

Think about all the different types of support available under different categories and the impact of support for businesses.

Extend

Research the support available for businesses offering different types of goods or services in your local area.