Lesson Title: Understanding Types of International Businesses

Objective: By the end of this lesson, students will be able to identify various types of international businesses, including import/export, global sourcing, joint ventures, strategic alliances, and wholly owned subsidiaries.

1. Import/Export:

Definition:

Import/export involves the buying and selling of goods and services across international borders.

Characteristics:

Direct involvement in the global market.

Minimal financial commitment compared to other forms.

Examples:

- *Company:* Nike
  - *Explanation:* Nike, based in the United States, engages in the import of raw materials and the export of finished products globally. Its sneakers and athletic apparel are manufactured in various countries, showcasing a typical import/export model.
- *Country Perspective:* China
  - *Explanation:* China is a major player in both import and export markets. It exports a wide range of manufactured goods globally and imports raw materials and technology to support its industrial growth.

2. Global Sourcing:

Definition:

Global sourcing is the practice of sourcing goods and services from the global market to achieve cost efficiencies or access specialized expertise.

Characteristics:

Enhances cost competitiveness.

Requires effective supply chain management.

Examples:

- *Company:* Apple Inc.
    - *Explanation:* Apple sources components for its products globally. For instance, iPhone components come from various countries like Japan (display), South Korea (semiconductors), and China (assembly), showcasing a global sourcing strategy.
- *Industry*: Textile and Apparel
    - *Explanation:* Many clothing brands source raw materials (cotton, wool) and manufacturing services from different countries to optimize costs and quality.

3. Joint Ventures:

Definition:

Joint ventures are collaborative business arrangements where two or more entities share ownership and control to achieve common objectives.

Characteristics:

Shared risks and resources.

Opportunities for local market knowledge.

Examples:

- *Company:* Sony Ericsson (now Sony Mobile)
  - *Explanation:* Sony Ericsson was a joint venture between Sony and Ericsson to produce mobile phones. This collaboration allowed both companies to combine resources and expertise in the rapidly evolving mobile industry.
- *Country Perspective:* Airbus
  - *Explanation:* Airbus is a joint venture between several European countries, pooling resources to compete with American counterparts in the aerospace industry.

4. Strategic Alliances:

Definition:

Strategic alliances are partnerships formed to pursue mutual interests or gain competitive advantages without equity sharing.

Characteristics:

- Collaboration on specific projects.
- Allows for resource sharing without long-term commitment.

Examples:

- *Company:* Starbucks and Nestlé
  - *Explanation:* Starbucks formed a strategic alliance with Nestlé to market and distribute Starbucks' consumer packaged goods globally. Nestlé benefits from Starbucks' brand strength without full ownership.
- *Industry:* Airlines and Alliances
  - *Explanation:* Airlines often form alliances (e.g., Star Alliance, Oneworld) to share routes, resources, and provide seamless services to passengers.

5. Wholly Owned Subsidiaries:

Definition:

Wholly owned subsidiaries are business entities fully owned and controlled by a single parent company in a foreign country.

Characteristics:

A wholly owned subsidiary is a separate legal entity that is entirely owned (100%) by the parent company.

- Legal Structure: It operates as an independent company, with its own legal identity, and is responsible for its own liabilities, contracts, and legal obligations.
- Management: While it is controlled by the parent company, it may have its own management team and board of directors.
- Financials: The subsidiary usually prepares its own financial statements, which are then consolidated with the parent company's financials

Examples:

- *Company:* McDonald's in India
    - *Explanation:* McDonald's entered India through wholly owned subsidiaries, allowing it to have full control over operations, adapting its menu to local tastes and cultural preferences.
- *Country Perspective:* Toyota in the United States
    - *Explanation:* Toyota established wholly owned subsidiaries for manufacturing and sales in the U.S., maintaining control over its production processes and adapting to the American market.

6. Branch

- **Ownership**: A branch is not a separate legal entity; it is an extension of the parent company.
- **Legal Structure**: Since a branch is part of the parent company, it does not have its own legal identity. The parent company is directly responsible for all the branch's liabilities, contracts, and legal obligations.
- **Management**: The branch is managed directly by the parent company, and it does not have its own board of directors.
- **Financials**: The branch's financials are included directly in the parent company's accounts without the need for separate consolidation.

In summary, the main difference is that a wholly owned subsidiary is a distinct legal entity, while a branch is simply an extension of the parent company.