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:

Maximum control over operations.

Significant financial commitment and risk.

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.

Difference between Joint Venture and Strategic Alliance

Strategic alliances and joint ventures are both forms of collaboration between companies, but they differ in terms of their structure, level of integration, and the extent of shared control. Here are the key differences between strategic alliances and joint ventures:

1. Ownership and Control:

- Strategic Alliance:
  - Limited integration and shared control.
  - Participating companies maintain their independence.
  - No equity stake in each other's businesses.
- Joint Venture:
  - Involves the creation of a new, jointly owned entity.
  - Shared ownership and control between the participating companies.
  - Both parties have equity stakes in the joint venture.

2. Purpose and Focus:

- Strategic Alliance:
  - Formed for a specific purpose or project.
  - Can be more flexible and temporary.
  - Collaboration may be on a particular product, service, or market.
- Joint Venture:
  - Established for a more extended period.
  - Involves a more substantial, ongoing business operation.
  - Often formed to pursue long-term strategic goals, such as entering a new market or developing a new product.

3. Risk and Investment:

- Strategic Alliance:
  - Shared risks and benefits for a specific project or goal.

    - Limited financial commitment compared to joint ventures.
- Joint Venture:
    - Higher level of financial commitment and risk.
    - Both parties invest resources and share the financial outcomes of the joint venture.

4. Level of Integration:

- Strategic Alliance:
    - Limited integration of business operations.
    - Each company maintains its identity and operations.
    - Cooperation is often focused on specific areas, such as marketing or R&D.
- Joint Venture:
    - Involves a higher level of integration.
    - The creation of a new entity with shared ownership and joint decision-making.
    - Joint ventures can have their own management structure and business operations.

5. Exit Strategy:

- Strategic Alliance:
    - Easier to dissolve after achieving the specific goal or project.
    - Companies can discontinue collaboration without significant consequences.
- Joint Venture:
    - Dissolution may involve more complex negotiations.
    - Ending a joint venture may require agreements on the division of assets and responsibilities.

Examples:

- Strategic Alliance Example:
    - Coca-Cola and Nestlé formed a strategic alliance to jointly market and distribute ready-to-drink tea and coffee products without establishing a new entity.
- Joint Venture Example:

- Sony Ericsson was a joint venture between Sony and Ericsson to produce mobile phones. It involved shared ownership, control, and a long-term commitment to the mobile industry.

In summary, while both strategic alliances and joint ventures involve collaboration between companies, the key distinction lies in the level of integration, shared control, and the formation of a new entity in the case of joint ventures. Strategic alliances tend to be more flexible and project-specific, whereas joint ventures involve a deeper, more integrated partnership.