International Business: Advantages And Disadvantages Of Trading Internationally

Introduction

I am writing a report on why should a business trade internationally along with what are the advantages and disadvantages of trading internationally with how to help businesses trade internationally as well as the effect of globalisation and trading blocs on international trade.

During my report, I hope to show methods of how a business can gain special finance to aid their international trading steps and how they are protected when trading internationally.

The main layout of my work will be within my table of contents and during each task, I will be making the questions titles and I will answer the question in parts with subtitles.

What is international business?

This is when a business trades across their country borders and this can be done by either exporting, importing, multinational business/ trading with more than one business and associated businesses (logistics and marketing).

How does international businesses contrast from each other?

An international business can differentiate from what sector they specialise in to what type of business they are for example a fishing company and a logistics company are different in the fact both are in different sectors and the operations they carry out are almost completely

Difference.

Examples of international businesses

- Amazon - (1) this is a multinational business specialising in the ecommerce market place and cloud computing, Amazon is both multinational and diverse with their product range and service, they have a main headquarters in Seattle, Washington, USA.
- Nike Inc - (2) Nike is an american multinational business that has a main HQ in Beaverton, they sell footwear, clothing, equipment and accessories. Nike make their products in factories in places like india and export the product from the factory to Nike subsidiary shops or retailers across many countries.
- The Yarnit - (3) this is a business that specialises in making “yarn holders” and they export their goods to either wholesalers or directly to individual customers, the business is located in America and the products are made within the business to be 100% american.
- DOUKSNOW - (4) This is a small snowboard manufacturer in the UK which has clients/ customers outside the UK meaning that DOUKSNOW is an exporter and they sell handmade snowboards out of unwanted wood scraps.

P1

Explain why two businesses operate in contrasting international markets.

Business 1 - Yarnit (3) , by Kate Sullivan

- Type of industry - Accessories - Tertiary sector
- Background - The founder Katie Sullivan created an idea for a yarn protector and sold them via her website (3) and exported the products all across the globe individually to clients as well as batches to wholesalers in small shops.

Business 2 - Nike (2) by Bill Bowerman and Phil Knight

- Type of industry - Apparel, Accessories, Sports equipment - Primary, secondary and tertiary sector
- Background - An american multinational corporation that makes and sells apparel and accessories

Why does these businesses operate internationally?

Both businesses 1 and 2, trade internationally because they can reach a larger market and sell to places of small competition for easy sales, another reason is that the materials for the product or workforce costs are cheaper abroad so the business can obtain the same product/ service for a cheaper price, cutting costs but at a cost of a decline in quality of the product/service.

What is the advantages of Yarnit operating internationally?

Yarnit is a small business that has a lack of experience of selling goods on an international scale so they was easily able to access the international market via the internet and get most customer orders directly from their website making a ease of access for both exporter and importer very flexible and easy to use.

One reason why Yarnit is operating internationally, is to access a larger customer base in comparison to selling within the US/ California alone, this will provide Yarnit with more sales and create a larger customer base which in return can be a source of peer advertising however if the product does not meet the customers expectations, this can lead to bad publicity.

Yarnit also use makes use of perfect competition (6) when operating internationally because they can export their goods to countries with low competition whereas selling within the US is competitive due to a crowded market however, the disadvantage of this is that it can c online is that there is no opportunity to have a monopoly strategy because the internet always has competition.

One other benefit of operating internationally is that the business has access to export financial support which can ensure the business gets paid if they was to be scammed to ensure they always benefit off exporting which improves the businesses motivation level and other support such as insurance on the businesses imports to ensure they revive their products and up to quality.

The products the business sells will have a longer lifespan (5) in terms of how long sales for the products will continue for and whether or not the sales will decline after a certain period of time but this won't be the case as the business can sell their products all across the world in other places that have demand in comparison to if they only sold within their country/ non internationally. This is good for the business because there will be a steady decline in sales over time instead of a massive drop all at once unexpectedly due to trends ending so the business can be ready for the change in sales and adapt their product to their main market.

What is the advantages of Nike operating internationally?

One major advantage that Nike already takes advantage of is the cheap labour cost within asian countries which barely dents Nike's overall income/ revenue and this lowers costs for production of products for Nike. lowering overall costs means that Nike can have a larger turn over and be more cost efficient and spend the saved money on improving the business.

Another advantage of Nike operating internationally is stability in prices (7) which keeps prices of Nikes products at a constant price and unaffected by fluctuation prices all throughout the world which is advantageous to the business because the business won't lose value of their products and during fluctuation periods, they have the flexibility to change suppliers during this period of time.

Whilst Nike is operating from Beaverton, US, they have a range of options for choosing cheaper resources for their products and natural products from all across the world, all year round which allows Nike to have a constant supply of resources to choose from and Nike not depending on one supplier within their country. This benefit of having access to natural resources is great for the business because the costs will be lower and their ethical image/ environmental image will better.

Nike operates internationally because it allows them to implement a strategy known as the oligopoly strategy of pricing their products based on competitors within the markets area, making consumers van have enough buying power in comparison to rival products whilst ensuring customers can afford Nike's products and this is advantageous because the business can acknowledge the income rate of the population and adjust their product prices to the market to attract the mass majority(6), making more sales for Nike.

Finally, the last advantage of Nike operating internationally is that they encounter more/new opportunities such as new experiences, more chances to expand, gain new skills and the potential to receive contracts and valuable contacts such as better suppliers and workforce(8). In comparison to if Nike only traded within their own country, they would have less opportunities to expand and improve the business which in all could have increased revenue and improved cash flow, this also limits the businesses full potential at being better than they already are.

P2

Explain the types of finance available for international business.

What would an international business need financial support?

There are three main reasons why a business would need finance when operating internationally which is to help the business win contracts, fulfill contracts/orders and ensuring the exporter gets paid.

What types of finance is available for an international business?

For each reason that I have stated above, each reason can be met by various sources of finance, some of the main types of finance include: prepayment by the importer, letters of credit, export credits and bank loans, these types of finance are used to make sure exporters get paid, businesses can win contracts and fulfill contracts. UKEF, an agency that supports international trade is one of the

What is export credit and how did it help international businesses win a contract?

This type of finance can either be long term or short term(10)and is mainly used for businesses entering foreign market or trading with foreign markets. This source of finance credits the provider with either cash or highly liquid assets that can easily be converted into cash (11) but is mainly used for the short term, this type of finance is repayment period is usually 2-5 years for a short term use but for long term use, it is 5+ years.

Export credit has helped one business known as UK SME Dints, a mining equipment supplier that is based in the UK (9), the business was looking for new markets to cater/ sell to and one of the largest gold producers in west Africa was giving contracts to suppliers which could enter them into the african market through a marketing campaign but they wanted suppliers that can manage their inventory, able to insure their products when being exported, be cost efficient as well as the business having a good income rate to prove they are financially stable and won’t declare bankruptcy and be a bad business to invest into so the business Dints, requested help from UKEF and they was able to give the business export credit via cash which was given to them from their legal advisers Sullivan & Worcester and their bank, Investec Bank plc (9, third paragraph) to support their business model to show the contractor that Dints is more than capable to fulfil the contract and is worth their time and money. The financing allowed Dints to have a strong business model which won the contract for them

What is prepayment by the importer as and how did it help international businesses fulfill a contract?

prepayment by the importer is simply when the importer pays for the goods in advance in the agreed currency of the exporter before the product is made of shipped (12). This type of payment ensures that the seller receives the money as there may be regulations that can block the money transfer of payment, and avoiding this makes the seller more confident about the order as well as the exporter having the ability invest the money before exporting the goods.

Making the importer make prepayments, helped one business known as North Sea Ventilation Ltd fulfilled their contract this type of finance because having the payment in advance, allowed the business to have enough funding to create the ventilation units without having to use their own money which could have potentially have put the business into debt before the order is finished but this meant that the business didn't have to borrow any finance to complete the

order, it also gave the business confidence and made them be cost efficient when making the units.

What is letter of credit and how did it allow an international business to get paid?

A letter of credit is issued by a bank via another bank which is commonly in another country and it serves as an insurance for the exported product(13) mainly because when a product is not paid for in advance, the exporter risks not being paid at all which could happen due to payment transfer errors and other law barriers, preventing the transaction from taking place therefore, the exporter can take insurance to protect their supply of goods when exported if the goods was taken by a scam/ scammer so they will get reimbursed the full amount the cost of the lost goods was to ensure the exporter gets paid. This is used to both give exporters confidence and the ability to not make potential clients from thinking the exporter does not trust them which can lead to the client not buying from the exporter at all.

Bioguard (14), a Northampton manufacturer in hygiene products, struggled to find a safe way to export their products overseas without anything going wrong mainly due to the expensive products they sell and the fact they needed the revenue to ensure the survival of their business, UKEF- the UK government agency, was able to step in and provide insurance support which wa the letters of credit to ensure payment just in case the exported products payment transfer cannot go through or does not in which case, the business would be compensated for the products so they can continue selling with confidence and maintain their high market value. Without this aid, the business would not have been able to build their overseas brand and awareness.

M1

Analyse the support that is available to contrasting businesses that operate internationally

P3

Explain the main features of globalisation that affect two contrasting businesses

What is globalisation?

Globalisation is when the economies culture and way of life is influenced politically, socially or technologically which could have been caused by a business, social trend or technological advancement. Globalisation always increases competition and affects the costs and prices of the competitions which can potentially make local businesses declare bankruptcy due to the successful competition.

An example of globalisation and a businesses influence on the economy is Mcdonalds because they operated in every country and changed the countries culture in terms of food culture as the restaurant adapted to the culture of the economy to be socially acceptable and due to the social trend with McDonalds being good and successful, global expansion was no problem for the

business due to their great social status amongst the many economies.

Globalisation main features and their effect on businesses 1 and 2:

- Trading blocs - geographical areas that work together to protect themselves from countries outside the group and some examples are the European Union and the SAFTA which can offer the countries within the bloc to be entitled to free trade and low tariff costs
- International mobility of labour and capital - mobility of labour refers to how easily worker can change jobs within the economy and this is affected by geographical mobility and occupational mobility for the workers. This can be caused by skill and qualification requirements for the different jobs or the physical and mental well being of the worker
- International currencies - this is based on the exchange rate for the currency which can be good or bad in terms of the income being more of less than when it is exchanged
- Multinational corporations - this affects international businesses all the time but it can be either good or bad, depending of the nature of the business
- International business communications - this factor is influenced by the technological advancements across the world and access to them in terms of how readily available they are, there are many types of communication methods such as traveling to the countries to get down to business or simply doing a face to face web call from the comfort of your own home
- International payment systems - this can be either the facilities for automated payments, large/small payment, prepayment or minimum wage and payment standards across the world