



Unit -1

Understanding the Global Business Environment

Learning Outcomes

By the end of this unit the learner will be able to:

- ✓ Describe the complexities of doing business in a global context
- ✓ Discuss trends in global business

Unit 1

Understanding the Global Business Environment

Defining Globalization

It wasn't that long ago that the notion of a small or medium sized business working in the global marketplace was something of a novelty. Only large, well-funded companies seemed able to work in an international setting profitably, but that's all changed. With advances (including lower prices) in technology, communication, and travel, even small companies can establish an international presence and conduct trade within a global environment.

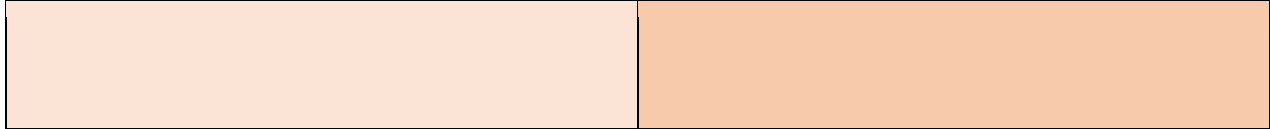
The concept of **globalization** relates to the interdependence between economies and nations in terms of economic, cultural, political, and technological influences. A company that can import and/or export their goods and services in more than just one or two countries can grow to leverage their position into even more of a global enterprise as they learn about culture, business practices, and the intricacies involved.

Test your knowledge

Consider this statement: "Technology, communication, and a strong desire to have global influence make it possible for companies to achieve globalization."

In the chart below, record the pros and cons of doing business globally with the above statement in mind.

Pros	Cons



Factors in Globalization

The Evolving Marketplace

The influence of different cultures, the nature of competition, and the ever-changing nature of technology means that the global marketplace is evolving constantly, but at a varying scale. Being good at doing business in one country (your own to start with) does not prepare you for working in an international setting where things can be very different in what can be perceived as the most basic way. For example, the way we introduce ourselves, offer a business card, exchange greetings, or sign off an e-mail all require different types of expertise as you move around the globe. We haven't even touched on legal contracts, currency exchange, or obtaining insurance yet.

In addition, the dynamics present in global trade are changing what we might refer to as "traditional" methods of resourcing materials, navigating supply chains, and dealing with influential economies, while also giving us access to new products, services, and supports aimed solely at global commerce.

Your Presence in the Marketplace

It is partly our access to effective, efficient, and relatively inexpensive communication that makes globalization so tempting. If I am at a computer in Malaysia and can speak with partners in North America at a moment's notice and for an insignificant price, the seemingly smaller world we function in seems like an ideal place to do business.

Another element of globalization is your potential presence in the marketplace. A global business may mean that you can offer services 24 hours a day by routing calls through different time zones. While many companies have done this for many years within their own countries, (where they may deal with a few time zones), the access to a global workforce who can serve clients across time zones and through language barriers (leading to uninterrupted service) is becoming more common.

The Role of Human Resources

Diversity is, and will remain, a highly important element of global business success. A high degree of cooperation will have to be negotiated in areas such as ethical human resource practices, human rights, and workplace health and safety, as well as issues like environmental responsibility. We have seen this

Top Trends

Introduction

The development of global business has and will continue to change the way companies do business. There is a lot of discussion about the complete disappearance of strictly “domestic” companies as we rely more on outsourcing and offshore development, and continue to leverage communication and technology.

Some of the trends in global business include the following items.

“Green” Business

Not that long ago, businesses declaring themselves to be green were very novel. Now there is a lot of support, demonstrated results, and increased demand for organizations to frame their operations to facilitate the preservation of environments, natural resources, and people. This is beyond using washable dishes in a lunchroom, and has developed into entirely new areas, including sustainability, environmental protection, and reclamation.

Fair Trade

While initially impacting trade in specific areas like handcrafted items, coffee, and cocoa, fair trade has expanded to include specifically defined elements such as child labor, access to healthcare, and human rights. This places responsibility on all aspects of the supply chain, and is having impact on supply chain management in addition to resource development.

Non-Governmental Organizations (NGO’s)

While once considered a fringe operation and not a consideration for global business operations, NGO’s have developed into strong voices and influencers in shaping global business. NGO’s have amassed political strength as the issues that they stand for become higher profile and higher priority. They are a part of the mainstream in international trade and global business.

Integrative Trade

When businesses review their costs to get products and services to market, and compare it with costs of building a business that draws from global partners, they often see that integrative trade will have a direct impact on their results. As accessibility improves, for example, you can see how accessing resources from different countries can lessen your production costs and lead to more profitable results. One current example of this is food being produced in one country, packaged in another, and then sold in a third.

Virtual Access, 24/7

With the development of technology comes the ability for customers and clients to reach your company 24 hours a day. Virtual access also means that you can deliver those products and services around the clock, especially if you have set up fulfillment and customer service responses that can provide service within their time zone while also serving others. This often allows businesses to transition from keeping 24 hour staff at one location to serving their clients through different locations that are available around the globe, where each office or location is open for regular business hours in that area.

Merger and Acquisition Trends

This is a trend that has actually been around for quite a while, and it persists. Mergers in industries like telecommunications, technology, energy, utilities, financial services, and natural resources have enabled the growth of some very large and powerful multinationals. As smaller companies find it increasingly difficult to compete with larger forces, more mergers are a natural next step. In addition, issues around privatization and deregulation will continue to be factors in this area.

Financial Investments

As things continue to evolve, we see the continued use of investment vehicles. While the leading funds used in this capacity, including hedge funds, are located in London and New York, their focus has been on emerging markets. However, as we see new sources of investment grow and a strong appetite for international investment, it is likely that investments will grow.

The interrelationship of global investments cannot be understated. While connectedness will facilitate business financing, the very real presence of fast-changing economies also makes them a higher risk. As quickly as investments can be directed to a particular area, those investments can be halted or withdrawn.

Take on the World

In discussion with your group, select a business or organization that currently operates locally. Then, answer the following questions:

What is the business called?

Identify how you would ensure that the business remains a local, domestic operation if you were in charge.

Identify any problems with keeping the business focused locally.

What advantages and disadvantages do you anticipate with taking the company into the global market?

Nominate one person from your group to present your ideas to the class.

The Global Trade Market

Evaluating Your Options

Developing Your Strategy

As you consider your own business, where are you inclined to expand as you begin to step into the global market (or take additional steps if you are already there)?

Business strategists normally recommend that you consider moving into one region or country at a time, so as not to put too much demand on your existing business. The implications of shifting from a domestic to global enterprise are significant, and you'll often find unexpected issues to deal with as you go. Your speed and efficiency for taking a business global will be impacted by the amount of money you can spend, your tolerance for risk, access to human capital, the availability of resources, and the welcome you receive in your new operating areas. This is not a simple decision, but the move to become a player on the international stage is an enticing one.

Supporting Organizations

Among your considerations right now are that, in addition to working with different economies, political systems, currencies, and languages, there are trade affiliations that are well established in many places. You will need to know what they are, and also recognize that new associations are created as needs change. The current associations will also change over time, and may be influenced by additional factors like China's relationships with, and developing interests in doing business in, Africa and India.

Formal associations include:

- ✓ WTO: The World Trade Organization, with 160 member countries and 29 observers
- ✓ NAFTA: The North American Free Trade Agreement between United States, Canada, and Mexico
- ✓ CIS: Commonwealth of Independent States (containing 11 former Soviet republics)
- ✓ MERCOSUR: In South America
- ✓ ASEAN: In Asia
- ✓ CARICOM: In the Caribbean regions
- ✓ COMESA: In Africa

Test your knowledge

Write down the countries and organizations that you are most interested in exploring.

List any specific questions that you would like to research.

Understanding Trade Agreements

In 1995, the **World Trade Organization (WTO)** was established to replace the **GATT Treaty** of 1947. The idea of GATT and the WTO is to facilitate international business by promoting free trade, reducing tariffs (taxes on traded goods), and reducing nontariff barriers like restrictions and preferential treatment.

The WTO includes protections for members so that all countries have the same status as trading partners. For example, they cannot tax different rates depending on a favored status. As well, members cannot export products at a price that is lower than the price normally charged at home, or lower than the cost of production.

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The WTO has the power to settle trade disputes among members, and the agreements within it are designed so that member countries participate in fair and open trade policies. Rulings cannot be ignored and offenders must meet the requirements or face financial penalty and/or trade sanctions. With 160 member countries, and 29 countries with observer status, the WTO is a powerful aspect to doing business globally.

How Trade Transactions Work

The New Face of Trade

In old-fashioned sales transactions, a salesperson might do whatever they could think of to persuade a buyer, even when the result was what we call a “win-lose” outcome. These heavy-handed sales tactics have been abandoned in many places, where a standard of professional behavior has been adopted. This more collegial or collaborative relationship is sometimes referred to as a “partnership.” However, there can be legal implications with this term, so we will refer here to collaborative relationships and strategic alliances instead.

It's common for suppliers to develop strong relationships with their customer firms. In a global operation, however, the supply chain has become a lot longer and more complicated. This means that there are more steps required for trade to take place.

A purchaser's role has evolved from being someone who provides an item at the right time and the lowest price to a role where they must also manage a supply base that protects the competitive advantage of the company. As barriers to transactions are reduced, the relationship between the company, the components of the supply chain, and the buyer all have to be considered.

Transactional Dealings

The most basic and common type of transaction is termed "**transactional**," where things are done at arm's length and neither party is really bothered about each other. They can both move from one contract to another without developing a long-term relationship; their deals can be considered independent of one another. There is little time required to make a purchase, and little support offered if there is a problem. This method of transaction works nicely for electronic purchasing.

Collaborative Transactions

A "**collaborative**" transaction takes place when both parties are aware of their interdependence, and they are also aware that cooperation makes this process a win-win. This kind of relationship has both parties looking after each other's interests, helping each other through problems, and pursuing opportunities for both businesses to operate profitably.

An example of collaboration occurs when a supplier can import goods more easily or less expensively in some way, and then passes the savings along to their client.

Supply Alliances

Lowering costs, improving quality, and improving availability (and continuity) of supply are elements of **supply alliances**. These kinds of arrangements result from the synergies created when parties really work together and become even closer than those involved in collaborative transactions. Supply alliances can result in reductions in direct and indirect costs, including production and labor, machinery usage and maintenance, and overhead.

Test your knowledge

What are most of your business relationships like domestically?

Do you anticipate the same kind of relationships within your global business strategy? If so, why? If not, why not?

Products and Services

How Services Are Traded

The World Trade Organization (WTO) has created a list of four methods by which services are exported. These are handy to understand as you consider what services or products your company will offer, in addition to setting up processes that can track what you do.

Cross-Border Delivery

In this method, the service crosses an international border but people don't. This happens in the delivery of management consulting, marketing, and transportation services. It also applies to virtual products and services, such as the online ordering of studies, reports, and books; eLearning; distance education; and even tele-health services.

Consumption Abroad

This takes place when the consumer (buyer) travels across a border, as they do in travelling for holidays or education, or accessing out-of-country health services. It also applies if you were seeking legal advice in a different country, and travel to that country to meet with the service providers that you need.

Commercial Presence

How Goods Are Traded

An **export** takes place when a resident in one country pays for a service or product from another country, and the goods are brought into the purchasing country. For example, if someone in England places an order for a blanket made in China, the English purchaser imports the blanket, and the China-based seller exports the blanket.

An **import** is conducted when a resident in one country pays for a product or service from another country, and brings it across the border.

When exports involve products or merchandise that are physically shipped, they are easy to track through the supply chain. However, tracking services (where no product is actually shipped) can be much more difficult.

It's not always easily possible to separate products from services: development, design, and consultation are all services that go into the creation of a product. All of them can be provided through what can be considered an export, but they can be very subtle and aren't as easy to track as a final, finished product.

What kind of goods are you planning to export?

How Intangible Products Fit In

Adding Value with Intangible Services

People with high levels of expertise and knowledge are in demand around the world. When you add highly skilled, valuable, knowledgeable people to your team, you can offer more value to your customers. More value means more profits.

By being aware of what your customers need, you can add highly valued services to your product offering. Market testing and focus groups can be a good way for companies to learn, for example, that people in one country prepare beer with more head (the amount of foam on the top of a glass of beer) than in other countries, or prefer more sugar, or more hops.

When a product or service-based firm can add a selection of intangible services, this can help them forge relationships in new regions. Marketing, ad design, packaging design, focus groups, and consulting can all be part of relationship building efforts, and all of them can become intangible offers.

In addition, it's becoming more and more common for companies to focus on outsourcing tasks so that they can focus on their core competencies. Things like market research; advertising promotions (including website development, brochures, presentations); and communication systems can all be outsourced.

There is also an opportunity for bundled services, where for example, health and dental services can be combined with tourism. This is an area known as **medical tourism** that is becoming more and more popular throughout the world.

Contractual Entries



When a company is unable to trade in an open market because their products are intangible, they may want to explore licensing, franchising, or turnkey (ready-made) projects as a way to move highly specialized skills in other markets.

What kind of intangible services could you add to your current planned service or product offerings?

What's Your Value?

The Importance of the USP

When we plan for businesses, and create strategy, we frequently discuss the distinguishing value of the company before we implement a marketing plan. These distinguishing factors are often termed a “**unique selling proposition.**” While you need to be clear on your distinguishing factors to operate in a domestic market, you need to be much clearer to take on a global enterprise. You need to know what you offer, certainly, but you also need to know what is important to people in countries where you operate.

Definition

A **value proposition** spells out the benefits, terms, and cost of a purchase that a client is considering, and how buying from you is preferred to other solutions.

Values Mismatch

For example, education of children might be a value where you live, so you don't mention it in your mission and values statements related to the company. However, if you are going to expand the business to a region that doesn't value education and uses child labor to fulfill contracts, you're going to have a misalignment of values to deal with even before you add this country to your supply chain or fulfillment strategy.

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Developing Your Value Proposition

When you are arranging conversations, developing marketing material, and creating relationships in your target areas, you'll need to make sure your statements are clear and concise.

When you write your value statements:

- ✓ Avoid a blanket-style, one-size-fits-all value proposition
- ✓ Don't make unsubstantiated statements like “industry leaders”
- ✓ Don't overstate the benefits or features of your services or products
- ✓ Don't write long, complicated, or hard to remember USPs

Make sure your value statements:

- ✓ Demonstrate an understanding of the clients' needs
- ✓ Promise satisfaction to the client
- ✓ Pay close attention to value and the bottom line

Mechanics of a Trade Transaction

Like a well-designed car, there are many moving parts in any trade transaction. The major pieces are presented here, but as with anything, remember that there can be other pieces present as well.

Exporter

An exporter is someone with vision, innovation, and an entrepreneurial spirit. Their primary role includes creating profitable business opportunities. The exporter is the person responsible for setting things in motion that will move business activities into the global marketplace as they take action to sell goods and services outside of their original country.

Importer

The importer is working in their comfort zone: the domestic environment. They might source and identify an innovative product they'd like to see in their home market. They often have a vision for the potential benefits to their community, whether it is a new technology, product, service, or something else that will enhance the lives of the people in their community.

Importers and exporters can be represented by the same person, especially in cases of integrative trade.

Financier

There can be a large number of people involved in the financing of a business, so activities can be coordinated by one financier, who ultimately finances the transaction. Bankers, export credit agencies, and investors can be relied upon to support the business activities, all coordinated by the financier.

Transporter

Transportation of goods is serious business. The transporter knows the most secure and optimal routes to ensure secure transportation. They also understand transportation rules and regulations, and the costs involved in these processes.

Customs Broker

The customs broker is often the first point of contact for goods moving across the border to their destination. The broker may collect taxes and duties on the imported goods, and can store them temporarily until monies are collected and any special permissions for import are reviewed.

Agent

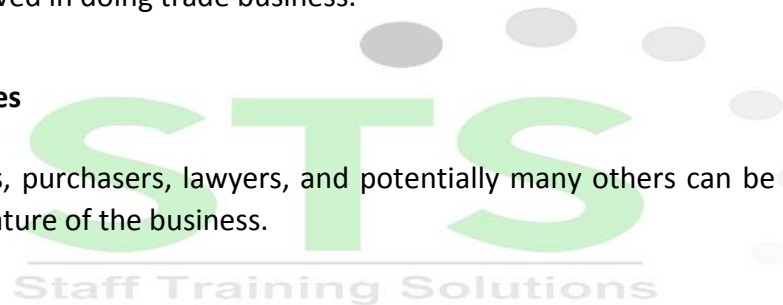
Agents are professionals in business and commerce. They typically have excellent connections in the originating (home) market. They may travel considerably and represent the exporter in the destination market.

Government

Regulations, taxes, negotiating with other governments, membership in trade organizations (including the World Trade Organization), and many other elements will fall under the purview of the government in all countries involved in doing trade business.

Additional Resources

Shipment inspectors, purchasers, lawyers, and potentially many others can be involved in the process, depending on the nature of the business.



Further Reading: