VIDYA BHAWAN BALIKA VIDYA PITH

शक्ति उत्थान आश्रम लखीसराय बिहार

Class 11 commerce   Sub. BST. Date 25.02.2021

Teacher name – Ajay Kumar Sharma

INTERNAL TRADE

Mode of Entry into International Business

I. Exporting and Importing

Exporting refers to selling of goods and services from the home country to a foreign country while importing refers to purchase of foreign products and bringing them into one's home country.

II. Contract Manufacturing

When a firm enters into a contract with one or a few local manufacturers in foreign countries to get certain goods produced as per its specification sit is called contract manufacturing. It is also known as outsourcing and it can take place in following forms.

(a) Production of components like automobile components to be used later for making final product like car.
(b) Assembling of components into final products such as assembling of tyres, seat etc in a scooter.
(c) Complete manufacture of products such as garments.

(a) Merits

There is almost no investment risk involved as there is hardly any investment in the foreign country.
Contract manufacturing gives the advantage to international firms to get the goods manufactured at a lower cost.
Local manufacturers also get the benefits to be involved with international business and start exporting.

(b) Demerits

Local firms might not follow and provide the same quality standards. causing problems to international rums.
The local manufacturer loses his control as goods are manufactured strictly according to the terms and specifications of international firms.
The local manufacturer is not free to sell the goods according to his will.

III. Licensing and Franchising:
Permitting another party in foreign country to produce and sell goods under their trademarks, patents or copy right in lieu of a fee called royalty is termed as licensing. When there is mutual exchange of knowledge, technology and patents between the firms it is called cross-licensing. Franchising is similar to licensing, but it is used in connection with the provision of services. Pizza Hut and Wal-Mart are examples of some of the leading franchisers operating worldwide.

(a) Benefits
Established brand
Quality product
Advertisement
Financing
Training
Technological upgradation
Uniform control system
Better start
Expansion
Enhancing the goodwill
Direct feedback

IV. JOINT VENTURE
Joint venture means establishing a firm that is jointly owned by two or more independent firms. It can be brought into existence in three major ways.
(i) Foreign investor buying an interest in a local company.
(ii) Local firm acquiring an interest in an existing foreign firm.
(iii) Both the foreign and local entrepreneurs jointly forming a new enterprise.
(a) Merits
Reduces competition
Reduces risk
Protection for small companies
Advance technology
Reduction in cost
Better competence
Large capital
(b) Demerits
Problem in sharing capital
Legal restrictions
Conflicts

Mergers and monopolies
Lack of co-ordination

V. WHOLLY OWNED SUBSIDIARIES

When a foreign company is acquired by a parent company by making 100% investment in its equity capital then it is called wholly owned subsidiaries. A wholly owned subsidiary in a foreign market can be established either by setting up a new firm altogether to start operations in a foreign country or by acquiring an established firm in the foreign country.