PROFIT
promoting regional opportunities for investment and trade

Internationalisation

FACTSHEET // JANUARY 2021

Internationalisation

1. Introduction

It is great that you are thinking seriously about trading or investing internationally[1]. It is understandable that you may be unsure about exactly where to begin and, of course, you will be keen to find the most appropriate starting point and avoid making the wrong choices. International trade is the exchange of goods or services for money between countries; foreign direct investment is investment by a business in another country for the purpose of trade, which could be domestic or international. However, there are many ways in which you can clarify the opportunity[2] and 'internationalise' your business which you will learn about on this programme.

Opportunities to get into profitable exporting may present themselves in many different forms, some of which you may never have considered, such as sub-contracting the manufacture of your product to a third party, or licensing others to deliver your services. Exporting is not simply a question of expanding your firm's geographical boundaries; it is also about widening your horizons and thinking beyond what you currently do to allow you to cater best to new markets. In most cases, you will be thinking, at least as an entry strategy into a new country, about export but once you are doing that successfully you may want to consider enhancements, such as setting up a subsidiary or local assembly.

Paradoxically it is often not a lack of opportunity which presents the first-time exporter with a problem - many first-time exporters find that they have a number of opportunities to consider. But remember to narrow your choices, avoid the temptation to leap at opportunities and to over-stretch limited. So, as you begin to ask yourself the question, 'what can I export?' some possible answers should begin to present themselves to you. Remember, you may not find the answer by simply looking at what you sell now. You might, for example, be able to export skills and expertise where you now sell products; you might find opportunities to export products where you now sell services; and you might also

---

[1] This factsheet tends to talk about 'export' and 'exporters' as shorthand for businesses that intend to engage in international trade or investment, on the basis that the business intends to sell something in an international market.

[2] Much of this factsheet is based on material originally published in Exporting for the First Time by Graham Smith & Paul Sampson and edited by Colin Weatherspoon & David Irwin, copyright Project North East, 1996, and used with permission.

export opportunities for others to improve their business by licensing your ideas to them. None of the options are mutually exclusive – you can start with one method and then progress later to another if you think that might be advantageous and, indeed, could even combine them. For example, you might set up a wholly owned subsidiary in another country, which then imports your products and sells them in that country, perhaps then expanding to export from that country as well. There is no single 'best' route to exporting and certainly no magic formula to help you find the perfect starting point. There are, however, a few guiding principles and the experience from other businesses that have successfully internationalised to help you find your route.

This factsheet sets out some approaches – covering trade (in goods, services and intellectual property), franchising and direct investment (buying a business, starting a new business in the target country or partnering to form a joint venture). It then poses some questions to help you think about what you have to sell and how to establish whether specific markets are appropriate. A complementary PROFIT factsheet, *Market entry options*, will help you think through the advantages and disadvantages of each approach.

2. Trade in goods

2.1 Import trade

This is probably the simplest of all approaches. Import trade is the purchase of goods or services from a business in a foreign country. You may already do this and not even know it – because you are buying from an intermediary or a local supplier of a foreign company. If you start to import directly, then you are trading internationally. You may simply need the raw materials or components to include in something that you make. Or you may be importing a finished product with the expressed intention of selling it domestically. You could agree to become an agent or a distributor for a foreign supplier.

2.2 Export trade

This is almost as simple, at least in theory, as import though the goods or services are being bought by a business in a foreign country. In practice, it is more complicated because you need to determine whether there is a market and whether the market is likely to be sustainable. You also need to cope with a legion of regulatory requirements. You may sell direct to end-users – and indeed the opening of internet platforms like Amazon, eBay and Ali Baba makes this increasingly easy, at least for sales to consumers – or you may sell to a business that will use your product in something that they make. For example, a manufacturer of roller bearings will sell to car manufacturers. You may decide to sell via agents or distributors. In selling to businesses, unless your product is unique, you may find yourself having to tender to win business.

2.3 Entrepot trade

This trade involves import and export – the import of goods and services from one country that will then be exported from the second country after some value-addition. A business in Vietnam for example might import textiles from India and then sell apparel to the EU.

3. Trade in services

As with goods, you can import and export services. Often this is just the selling of know-how such as consultancy. It is much more likely with services that you will be dealing directly with the end-user. However, there is a specific form of trade in which people, or businesses, sell labour through the provision of people to undertake specific tasks. Obvious examples include teachers, doctors and nurses going from one country to work in another, but this can cover almost all professional services as well as unskilled services such as agricultural labour and domestic service.

4. Trade in intellectual property

Many businesses look to others to enhance their product or the process by which they deliver their product. They might do this by buying a local company (see below) but they may also do it through some form of technology transfer or licensing. Technology transfer usually describes the process of transferring technological know-how (and possibly equipment as well) from one business (or a university or research institute or innovation lab) to another business. This is usually done in such a way that the receiving business both understands the technology and can build on it if they so wish. The precise terms of the agreement will be covered in a licence. However, it is also possible to license the use of a specific technology without the underlying intellectual capital being shared and without the scope to develop the technology further. Proprietary software is typically sold this way.

5. Franchising

Franchising is a way of licensing what is essentially a service business, whereby the franchisor makes available equipment, know-how, marketing support and usually brand awareness. The franchisee runs the business within the terms of the franchise, paying a fee, but otherwise retaining all the profit. Obvious examples include McDonalds and Starbucks. But there are many other less well-known examples as well.

6. Direct investment

Many businesses invest directly in another country, to shorten supply chains, or to secure raw materials, or to manufacture or assemble locally, or to get around challenging restrictions on imports, or to access third party markets.

6.1 Buy a business

The easiest, though possibly not the cheapest, way to enter a foreign market is simply to buy an existing business. You will need to assess whether the purchase makes sense and will offer a decent return. You will also need to familiarise yourself with the regulations of both the target country and your own country, since some countries have restrictions on international investment-inflows and outflows.

6.2 Invest in a business

Almost the same as buying a business but only involves buying a proportion of the shares. Decision making will thus be shared and cultural differences can sometimes lead to clashes. Otherwise, this is similar to buying a business.

6.3 Establish a subsidiary

Rather than buying an existing business, you could set up a business from scratch, recruiting staff locally, perhaps seconding one or two key managers from your home country. Many countries have incentive schemes to encourage foreign direct investment including tax holidays and, sometimes, less onerous regulatory burdens. If you are trying to export, setting up a subsidiary in your target country to act as a sales hub and which then imports from you, can be an effective strategy.

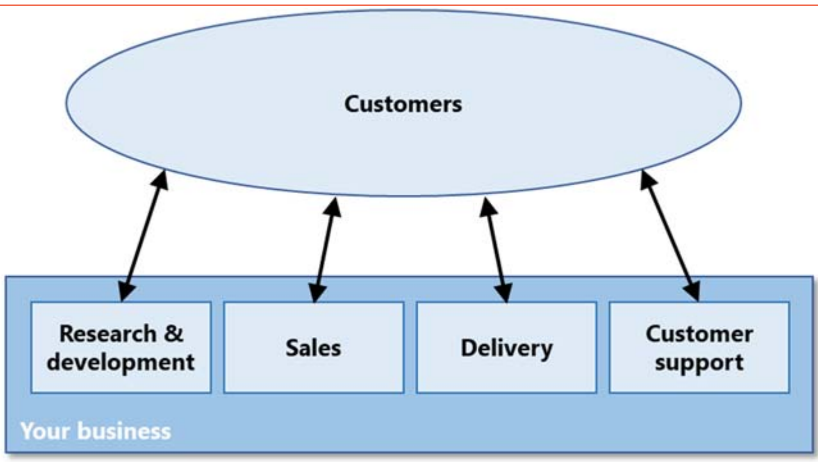
6.4 Joint venture

A joint venture occurs where two (or more) businesses set up a third company, which may be equally owned but does not have to be. You may do this to develop a new product together or to pool intellectual capital. You may then sell into your owndomestic market, or the market in which your partner(s) is located, or into a third market. For example, a textiles business in India might partner with an apparel business in Vietnam and sell into the EU.

7. What could I export?

Planning for exports involves thinking about all aspects of your business. Your total 'product' or 'service' as it exists in your home market is made up of numerous different aspects – technology, design, image, servicing, efficiency of supply – many of which are saleable in themselves. Let us take another look at the 'Typical home market approach' shown here as Figure 1.

Figure 1: Typical home market approach



This illustrates the typical customer related functions of a business. Your decision about what to sell involves thinking about which of these functions you want to continue to control. For example, where your business is very strong on research and development, or product marketing, you may choose to sell consultancy services to foreign operations in a range of similar fields. By selling in this way you may get business from firms who would otherwise have been your competitors. You do not have to stick to a ‘traditional’ supplier-customer relationship; many export operations are based on mutual benefit rather than supply and demand.

Successful exporting means being alert to industry development on a global level, being able to recognise potential opportunities and exploit them. It also means looking at how you might work with others to take advantage of and to create opportunities. Collaboration represents a classic export opportunity, reducing the investment risk for both parties. Firms who have won key export or international contracts will often be keen to subcontract work or will be responsive to offers of technical support from companies with skills to sell. Less conventional export options can lead to a successful and profitable entry into new markets and are definitely worth considering.

Whether the differences are in the way you sell or what you sell you should be aware there are very likely to be differences between your home market and your export market or markets. These differences, far from being a threat, can provide great opportunities. There are a number of points to consider when deciding what to export:

- What is it about your business, its products and services that set it apart and contribute to your success in your home market?
- What opportunities might there be to develop partnerships with businesses with complementary strengths (working with a distributor or agent is a “partnership”)?
- Which element of your product or service range is currently most profitable?
- To what extent are your products and services targeted at the particular needs of customers in the home market and what might you have to do to adapt it to meet the needs of customers in export markets?
- To what extent is it likely that one of your products or services, not necessarily your ‘best’ or most profitable, might help you to develop a reputation in your chosen market and on the strength of which you can introduce further products and services?

Unfortunately, there is no sure-fire formula for determining what will sell. Perhaps the most important point to consider when deciding *what* to sell, is the target market. Thorough market research is the only way to gain an insight into the opportunities which exist for you. Market factors – existing industry structure, lifestyle, customer base and demand, competition, etc – are essential to consider when making decisions about your product;

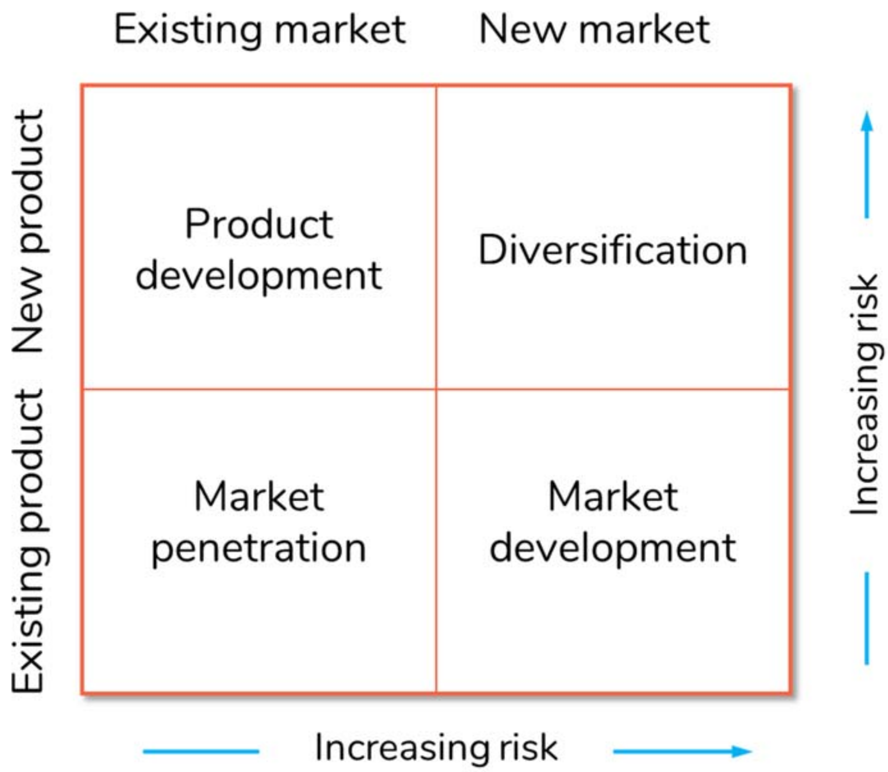
while you need to have some ideas about what you will sell before you begin market selection, you should be prepared to refine your ideas in the light of what you discover.

8. Choosing an export market

Selling into any new market involves a high degree of risk. So, it makes sense to do all you can to reduce your risk. Market research is the key to reducing your exposure as it will provide the information you require to identify and select an appropriate market to target.

As the risk matrix in Figure 2 demonstrates, there is most risk involved when introducing new products into new markets. As a first-time exporter you will be involved in market development, that is to say, you will be introducing your existing products, albeit with some modifications, into a new market.

Figure 2: Product market risk matrix



Source: Originally conceived by H Igor Ansoff (1957) Harvard Business Review

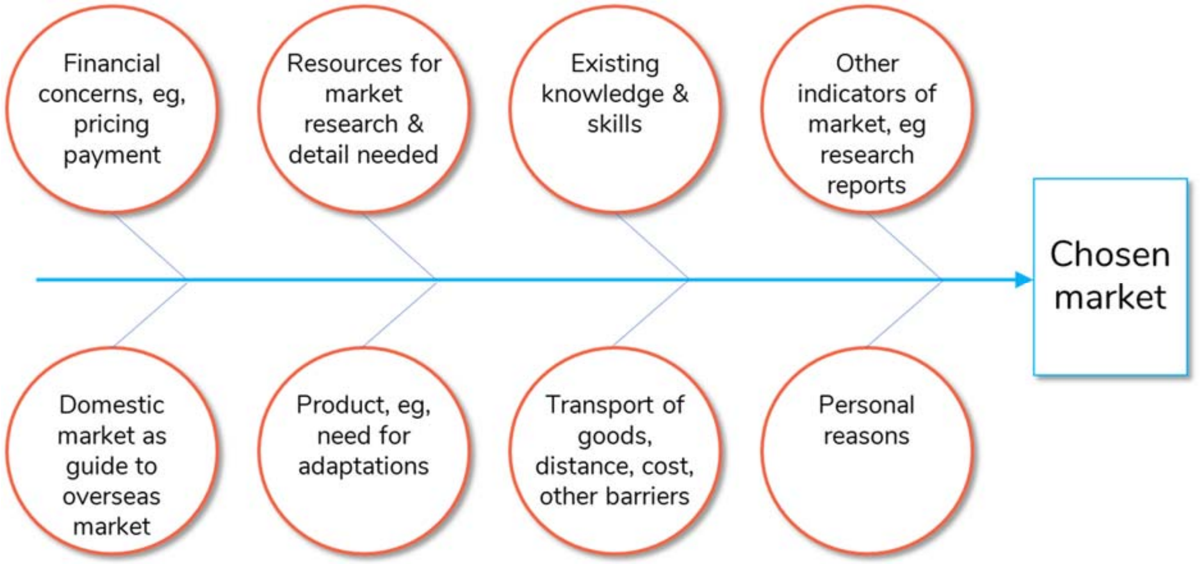
Typically, first time exporters are encouraged to look “close to home” for potential export markets and trading between India and GMS fits that bill.

Consider your first steps in exporting as a test market exercise where you can limit your risks and iron out any problems, quickly and cheaply, without destroying relationships with your customers. Choosing the market you will target first means taking into account a number of factors including assessing the effects of something going wrong and you having to bear the cost of fixing it.

Your objective should be to narrow down your choice to one specific market. You might find that market value plays an important part in determining your choice; but information on the value of the market for your particular product or service may either not be available, or if it is may not necessarily be an important factor. Other considerations may, however, be more relevant to you so it is also important to think through your individual priorities.

When you finally make your choice, you will need to take into account some broad considerations as Figure 3 illustrates.

Figure 3: Selection issues



Research is the key to helping you select your target market. Market research methods are covered in the factsheet on *Researching the Market*, but the following points will help to direct your thoughts as you begin the process of selecting your target market country:

- Are there any barriers to trading with this country/area? These may be both overt and hidden and range from political sanctions and civil war to poor internal transport systems.
- What is the general market potential of the area? Who are the main customers for your type of product/services?

- What will your major competition be? Are there any gaps in the market which you feel you could supply?
- Obtain a brief outline of the trade channels which operate, or are available in this country, and how you can access them. Will these channels impose any limitations on your strategy?

Making detailed comparisons between different countries may clarify your initial thoughts. The type of information that you will need should be readily available through export journals and organisations which publish country features and reports on new markets. Talk to the people around you; including those in your own business, those in other businesses and those who may have some knowledge of the country. You can then begin to grade the potential markets in terms of *suitability*, *potential value* and ease of *entry*. You can then investigate in more detail, looking at such things as sales of similar and related products, local production, competition (locally and from other imports) and who typically buys these products. Many sources of help are available and there are several organisations which can provide statistics and general advice about world markets.

9. Conclusion

So far we have encouraged you to think in terms of targeting a single opportunity as you begin to consider internationalisation. You should also now be more aware of the kinds of opportunities that might present themselves to you. The time will come when you will need to get started and finalise your choice in terms of the product or service you intend to sell and the market you intend to sell into. Focus initially on one opportunity. You can make your choice by analysing a range of opportunities. As you analyse your opportunities, bear in mind that exporting is more than just the geographical expansion of your business. It will inevitably have an impact on your business as a whole. To this extent you will recognise the need to relate your export objectives to your overall business aims and objectives.

10. Further information

PROFIT factsheet on *Market entry options*

There are a large number of online resources available. Just type ‘internationalise your business’ into google. Whilst its focus is Australia, a good source of ideas is available at https://www.altusfinancial.com.au/blog/8-steps-to-internationalise-your-business.

If you are interested in franchising, a list of Indian companies seeking franchisees is available at www.franchiseindia.com.

All countries have trade promotion and investment promotion offices and they will be happy to give you information about the regulatory requirements and incentives.

DISCLAIMER While all reasonable efforts have been made to ensure the accuracy of the information in this factsheet, the publisher makes no warranties that it is accurate or up-to-date and will be neither responsible for any errors or omissions nor any consequences of any errors or omissions. Professional advice should be sought where appropriate.

website

contact@profit-accelerator.com

email

PROFIT is an initiative of the Asian Development Bank, managed by a partnership of IMC Worldwide, ASSIST Asia & Bombay Chamber of Commerce & Industry.

ADB

PROFIT
promoting regional opportunities for investment and trade