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# INTERNATIONAL TRADE OPERATIONS

## Lecture No. 1:

Basic Information about the course

Introduction to international trade operations

[www.slu.cz/opf/cz](http://www.slu.cz/opf/cz)

Ing. Radka Bauerová, Ph.D.

17. 2. 2026



# CONTENT OF THE LECTURE

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- ① **Definition of Business**
- ① **Operations Differences between domestic, foreign and international trade**
- ① **Specification of the type of business operations, functions and process in internal and international environments**
- ① **Sales intermediaries and sales representatives**



# INTRODUCTION



# BASIC INFORMATION

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Lecturer: Ing. Radka Bauerová, Ph.D.  
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E-mail: bauerova@opf.slu.cz  
Consultation hours: Thursday 10:35 – 12:10

Consultation hours can also take place via video call in MS Teams by prior arrangement (e-mail, chat in Teams).

## What will the teaching of lectures look like?

A combination of frontal teaching and discussions on topics, searching for current trends in a given topic, processing microtasks. The lecture and seminar will be combined together, so the tasks from the seminar will be directly intertwined with the subject matter covered.

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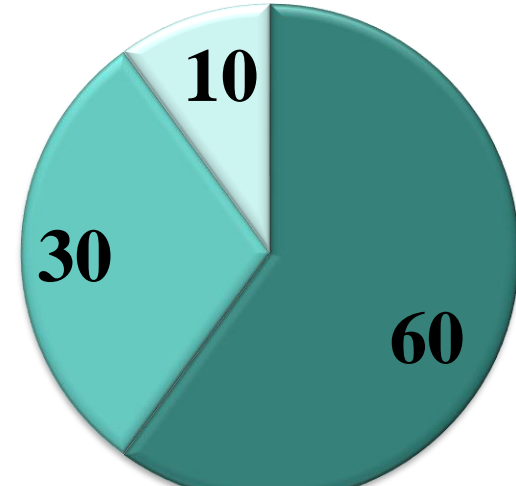
# REQUIREMENTS FOR SUCCESSFUL COMPLETION OF THE COURSE



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1. Present a **semester project** – process the materials into a template, see IS, subsequent presentation in suitable presentation software and discussion to be processed on the selected date.
2. Pass the **final written exam**.
3. **Participate in seminars of at least 50%**, where it is necessary to actively participate in the elaboration of tasks and discussions on case studies. Active involvement motivated by the possibility of earning points.

In total, the possibility of obtaining 100 points, for successful completion of the course it is necessary to obtain at least 60 points.



- Written Exam
- Points for the Semester Project
- Points for Active Participation in Seminars

Semestral work: max. 15 points for the processing of materials and max. 15 points for the presentation followed by the discussion

# QUESTIONS?

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Follow the interactive syllabus in the IS – a template of the semester paper, a general teaching schedule, exam tests, lectures, seminars and other materials are available.

# MOTIVATION FOR THE SUBJECT



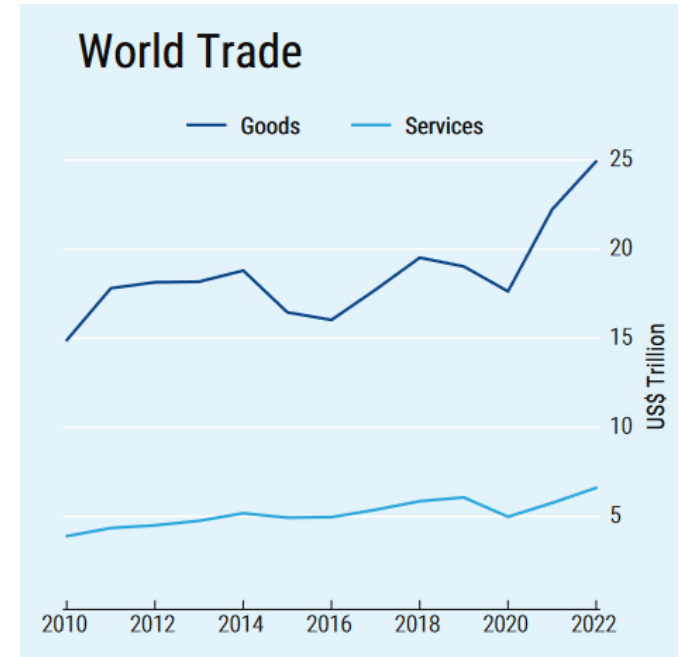
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- What do you expect to learn in this course?
- Why will you go to tutorials?



UNCTAD (United Nations Conference on Trade and Development) publication - Key statistics and trends in international trade 2023 – available [here](#)

Figure 1: Values and growth rates of world trade in goods and services



Source: UNCTAD, 2024

# Foundations of International Trade Operations – Part One

- Definition of International Business Operations
- Classification of business activities
- Advantages and disadvantages of conducting international business operations
- Decision-making criterion for starting international trade




# DEFINITION OF INTERNATIONAL BUSINESS OPERATIONS

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- Trading is buying and selling goods and services(Mulačová et al., 2013).
- An operation is the execution of a specific activity.



Business operations are a set of activities that support the purchase and sale of products

We will incorporate an international character



International trade can be defined as the exchange of goods, services and ideas between two or more countries(Singh, 2009)

**Definition of International Business Operations**

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# HOW WOULD YOU DEFINE INTERNATIONAL BUSINESS OPERATIONS?

Business operations are a set of activities that support the purchase and sale of products between two or more countries.



# CLASSIFICATION OF BUSINESS ACTIVITIES

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- Domestic Trade, Foreign Trade and International Trade (Mulačová et al., 2013).

## FOREIGN TRADE

- More demanding than domestic trade in terms of higher organizational, competency and economic requirements
- Ensuring sufficient sales with regard to the situation on the domestic market

## INTERNATIONAL TRADE

- It is an extension of foreign trade
  - A large number of individual business operations
  - It is influenced by the trade policy of individual states
  - Marketing dimension – consumer behaviour, culture, habits
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# BENEFITS OF CONDUCTING INTERNATIONAL BUSINESS OPERATIONS



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## ADVANTAGES

Increasing domestic competitiveness

Increase sales and profits

Increase global market share

Reducing dependence on existing markets

Better use of business technology and technical know-how

Global sales potential of existing products

Control of cyclical market fluctuations

Better chances for company expansion

Efficient use of excess production capacity

Better learning curve thanks to information about foreign competitors

Decide which advantage is most significant for the company given the current global market situation.



# DISADVANTAGES OF CONDUCTING INTERNATIONAL BUSINESS OPERATIONS



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## DISADVANTAGES

High financial demands – ensuring new promotional activities

More demanding administration of processes (export licenses, permits, export documentation, etc.)

Cost of additional human resources

Costs associated with the acceptance of cultural differences in the needs of foreign consumers

Adaptation of packaging and labelling of goods according to the requirements of the country

Long payment acceptance period and long-term financial commitments

Decide which disadvantage is the riskiest for the company given the current situation on the global market.



# FACTORS DETERMINING THE DECISION-MAKING CRITERIA FOR STARTING AN INTERNATIONAL TRADE



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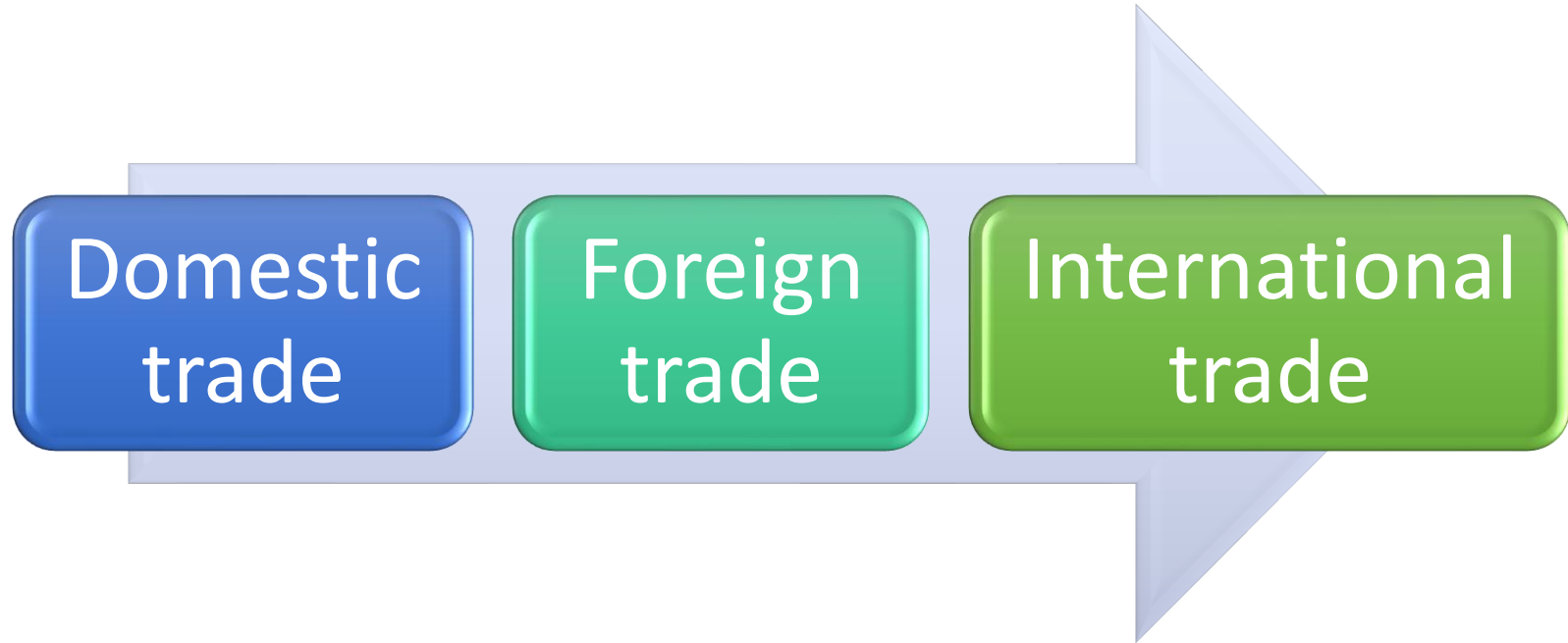
DECISIVE ELEMENT	DECISION CRITERIA
Scanning the market	Growth rate and structure of the economy, bureaucracy, capital, economic and business bloc, legal system, political regime and laws, regulation of investments and operations, political ideology and stability, type and structure of competition.
Ways to enter the markets	Political/legal – laws, regulations, investments, climate, government ideology, stability.
Focus on markets	Competition – type, structure, operations, strategic plans, programs, acquisitions, mergers.
Competition in international markets	Analysis of the various elements that determine the nature of competition in the target market.
Regulatory formalities for starting a business	Formalities to be completed to obtain an export/import license, registration certificate.

# FUNCTIONS OF FOREIGN AND INTERNATIONAL BUSINESS OPERATIONS

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Domestic  
trade

Foreign  
trade

International  
trade

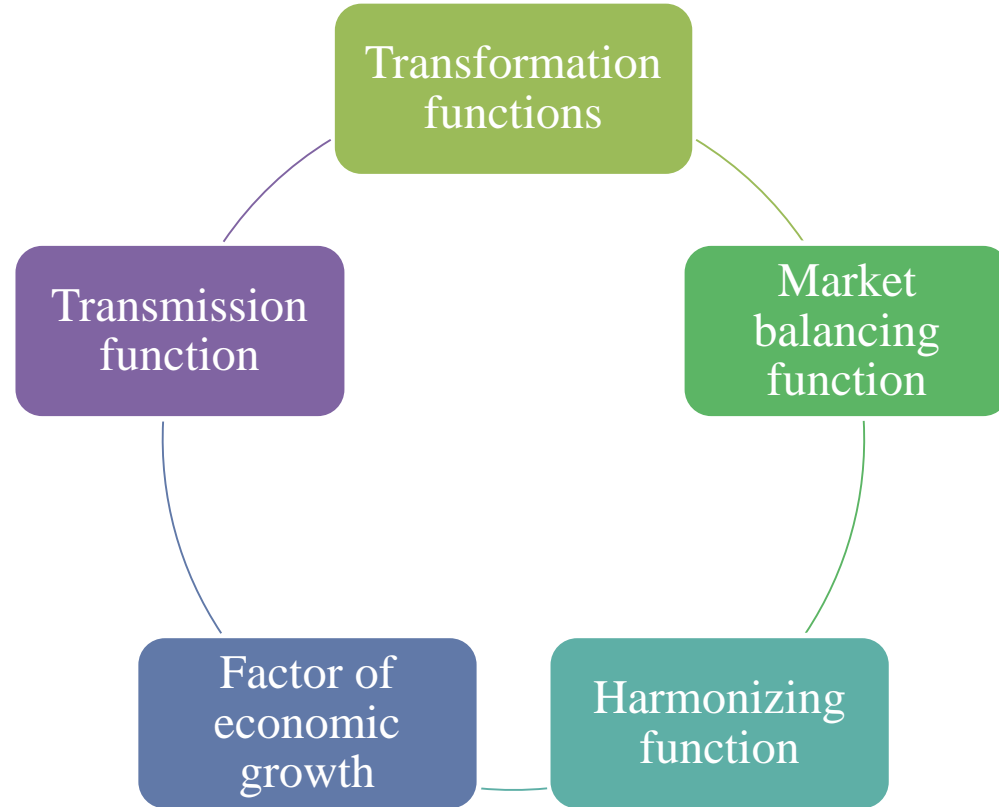
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# FOREIGN TRADE FEATURES



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In total, we can talk about five functions of business operations in foreign trade:

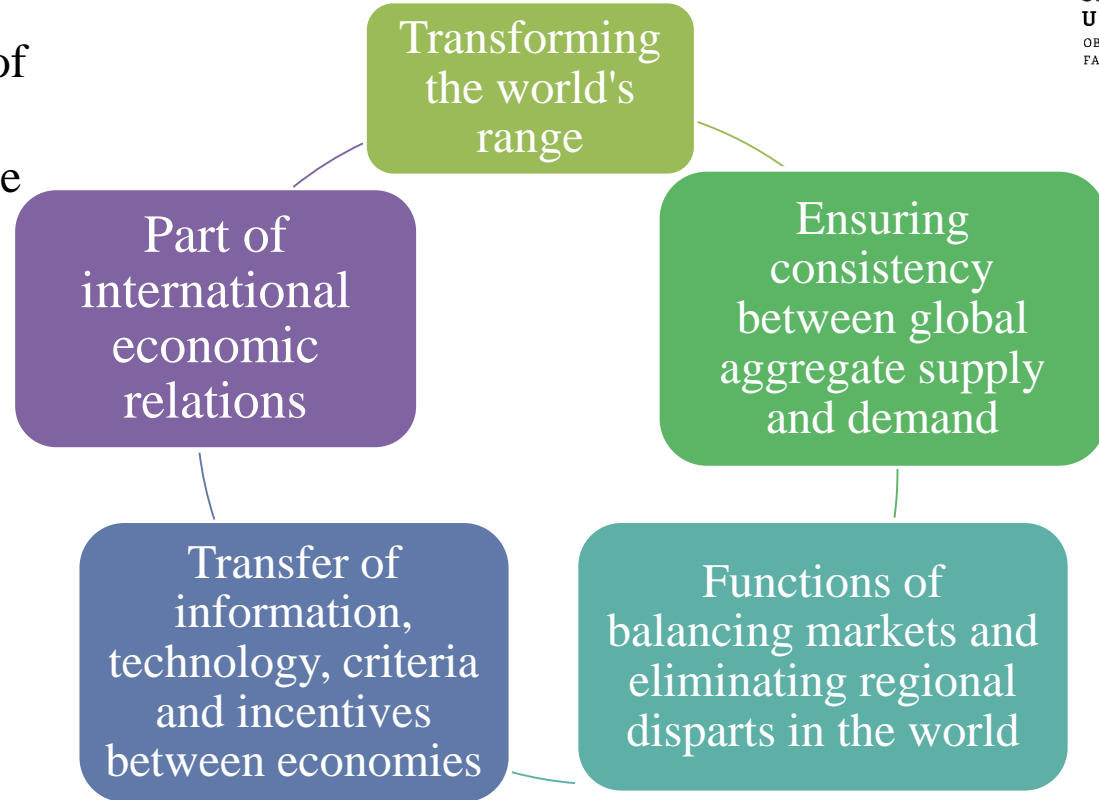


# INTERNATIONAL TRADE FEATURES



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Aggregation of functions of trade operations in foreign trade and similar to the role of trade in the national economy:



# FACTORS INFLUENCING THE PROCESS OF CONDUCTING TRADING OPERATIONS

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Each business operation in international relations has a certain specific course, which is mainly influenced by the following aspects (Machková a kol., 2014):

- type of goods,
- the nature of the relevant market,
- the commercial policy situation,
- the selected distribution channel,
- the scope and frequency of trading with the business partner, its legal and financial status;
- the manner of business conduct of the business partner.



# TYPES OF INTERNATIONAL TRADE OPERATIONS



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CATEGORY	TYPES OF INTERNATIONAL BUSINESS OPERATIONS
Subject of the business operation	Business operations in tangible and intangible products (goods)
Contract type	Selling/buying operations arranged on the basis of purchase contracts, brokering operations on the basis of mandate contracts, and Transport operations under a contract of carriage
Movement of goods	Purchasing and selling operations, export and import operations, transit and reexport
<b>Type of business</b>	Traditional trading operations, non-traditional operations, countertrade, re-exports, long-term contracts, exchange and auction trades, switches, line operations, foreign exchange arbitrage
Relationship to the reproductive process	Operations in the field of science and research, production, trade, services and stand-alone services

Source: Machková et al., 2014; Mulačová a kol., 2013

# INTERNATIONAL TRADE OPERATIONS BY TYPE OF TRADE

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- Their common characteristic is that the centre of gravity is in the exchange area itself and that they are the result of production for **mostly unknown consumers**.



# INTERNATIONAL TRADE OPERATIONS BY TYPE OF TRADE



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## Traditional Trade Operations

### Operation Based on Contracts

- Purchase
- Transportation
- Representation
- Insurance

## Non-Traditional Trade Operations

Counter-Purchase

Reciprocity

Deblocking of Receivables

## Countertrade

Barter

Compensation

Parallel Trade

Junktim

Buy back

Clearing

Industrial offset

## Other Types of Trade Operations

Reexports

Long-Term Contracts

Exchange and Auction Transactions

Switch

Market Operations

Foreign Exchange Arbitrage

**Why do firms trade through Countertrade trading operations?**



# TRADITIONAL BUSINESS OPERATIONS

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## ➤ Contract-based operations

PURCHASE

TRANSPORT

AGENCY

INSURANCE



# NON-TRADITIONAL BUSINESS OPERATIONS



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## PARALLEL TRADE

- Based on the buyer's intention to use its own imports to promote its own exports

## RECIPROCAL OPERATIONS

- On the basis of the negotiating weight of goods, it allows the expansion of trade even in contingents already exhausted by previous deliveries

## UNBLOCKING OF RECEIVABLES

- A process whereby a debt that was previously recorded as bad is returned to an active state (through alternative means of performance)



# COUNTERTRADE

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Countertrade is the **exchange of goods or services** that are paid for in whole or in part for **other goods or services**, not for money. (Czinkota, 2021)

## What could be the reason that companies trade in this way?

- Lack of hard currency
- It is not possible to trade on other markets
- Weak or devalued currency against the currency of another country (developing countries)

**Example:** In recent years, there has been a decline in the Venezuelan currency, which has fallen against the US dollar. It was thus disadvantageous for Venezuela to sell its oil to the United States. Countertrade is more financially advantageous in this case.



# COUNTERTRADE – types of operations



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## BARTER TRADE

- Is the pure barter of goods for goods
- There is no cash flow
- It is concluded by one contract between two partners

Nowadays, it is increasingly sought after → can be found, for example, at sponsors, advertising agencies, craftsmen and tradesmen

**Example** Sponsorship gift – Purchase of fuel for a racing car in exchange for placing an advertisement on the vehicle

Craftsman – agreement with the supplier on workshop equipment – payment with his products



# COUNTERTRADE – types of operations



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## COMPENSATION TRADE

- The oldest type of business operation in business activity
- Concluded by a single contract that has two levels (full compensation/partial compensation)
- It is possible to withdraw from the obligation to buy back or transfer it to a third party

## PARALLEL TRADE

- The most used type of operation within countertrade
- Export and import are concluded by two mutually independent contracts
- The exporter is paid the receivable immediately after its delivery, and he also has time (usually 12 months) for repurchase

## JUNCTIM

- This is a reverse parallel trade, the initiative of execution comes from the importer (import company) – for its import, it receives a contribution from the exporter for the implementation of the trade

# COUNTERTRADE – types of operations



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## BUY BACK

- Trade associated with take-back, where the exporter accepts full or partial payment in products produced on his exported technology/equipment/machines

### Example

This situation arises, for example, when a company builds a plant in a given country or supplies it with technology, equipment, training or other services and agrees to take a certain percentage of the plant's production as partial payment for the contract.

→ Party A builds a salt processing plant in country B and provides capital to that developing country. Country B, in turn, pays party A with salt from this plant.



# COUNTERTRADE – types of operations



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## CLEARING

- Mutual settlement of receivables between two or more countries

## INDUSTRIAL OFFSET

- A business operation based on the compensation of a large volume of exported goods (military equipment, aircraft, technological equipment).
- Compensation (compensation obligation) can be in the form of investments or indirectly in the form of products.
- The often proclaimed goal of this process is to balance the trade balance. An offset agreement is an accompanying contract to a (large) contract by which the original supplier commits to purchase products/services from the original customer.

**Example:** When purchasing Pandur II Armored Personnel Carriers in 2009, the Czech government negotiated offsets in the volume of 153%.<sup>1</sup>

<sup>1</sup> Web portal ČT24. Available from <https://ct24.ceskatelevize.cz/domaci/1418779-vojaci-dostanou-107-transporteru-pandur-ii-zakazku-posvetila-vlada>



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# Why do firms trade through Countertrade trading operations?



# OTHER TYPES OF BUSINESS OPERATIONS

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## REEEXPORTS

- The re-exporter exports goods purchased in one country unchanged to another country to a third party – direct and indirect re-exports.

## TRANSIT OPERATIONS

- They are based on a modified sales contract, where the supplier does not send the sold goods to the buyer, who is only an intermediary, but directly to the end customer of this intermediary on his behalf.

## FRAMEWORK TRANSACTIONS BASED ON LONG-TERM CONTRACTS

- They are used in the trade of raw materials in order to stabilize supply and consumption.
-

# OTHER TYPES OF BUSINESS OPERATIONS



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## FOREIGN EXCHANGE ARBITRATIONS

- It is a type of banking operation whose aim is to achieve a favourable price difference in exchange rates and thus profit by buying or selling foreign currency on different markets.

## STOCK EXCHANGE AND AUCTION TRADES

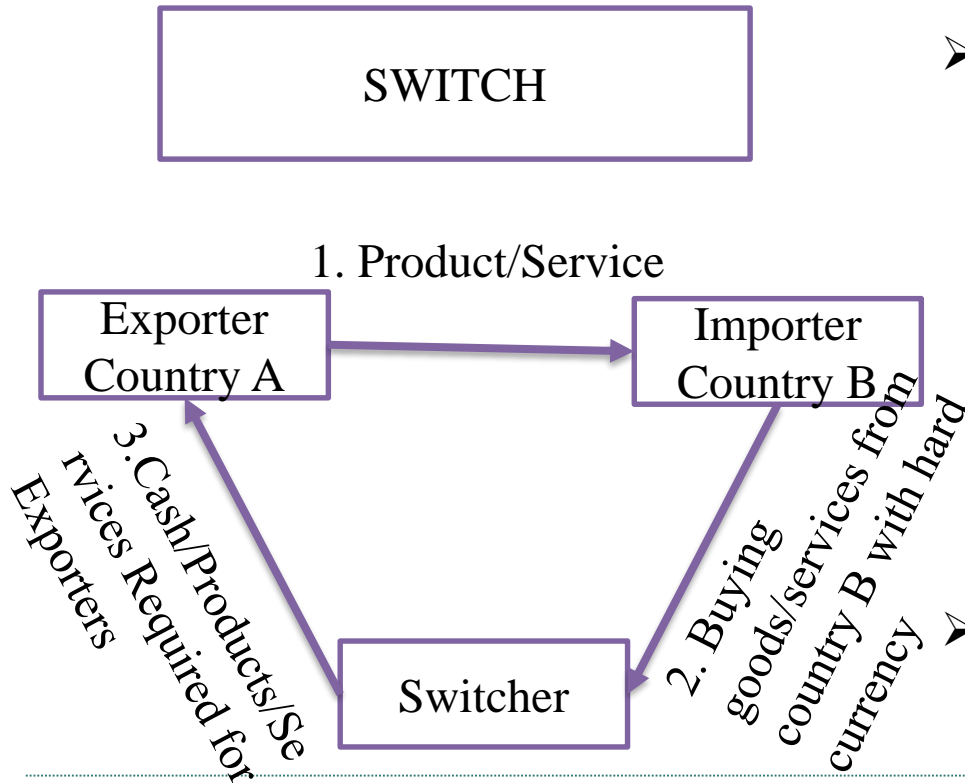
- Stock exchange operations are divided into effective operations and differentiation operations. Highly fungible but absent goods are traded.
- We conclude auction operations at auctions with the goods present according to auction customs.

Figure 2: Sotheby's auction house<sup>2</sup>



<sup>2</sup> The oldest and largest international company organizing fine art auctions in the world

# OTHER TYPES OF BUSINESS OPERATIONS



➤ It can be characterized as "foreign exchange arbitrage" carried out in the form of trade in goods. The essence is the conversion of a certain currency into another, desirable currency, a switcher is involved in the trade, whose task is to select partners according to the market situation (he examines the differences in official and free exchange rates and price differences in individual countries).

➤ This is a special type of indirect trade, in which foreign exchange that is not exchangeable with each other is converted.



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**What does indirect re-export mean?  
In what situation is this approach  
appropriate?**



# Basis of international business operations

- Business intermediaries and business agents



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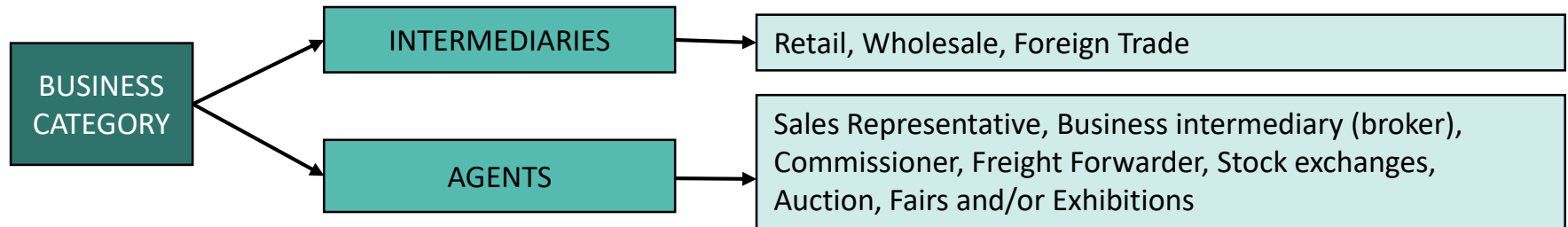
# BUSINESS INTERMEDIARIES AND BUSINESS AGENTS

The basic models of business relationships between individual articles are called business categories. There are two business categories that are specific to the movement of goods throughout the chain, the principles of transfer of ownership to individual entities and the financial mechanism of transactions. The business categories include:

- **Business intermediaries**
- **Business agents**

In practice, these two models also exist in different mutations, and in practice there are also combined ways of ensuring the movement of goods throughout the entire chain from the manufacturer to the final consumer. The complexity of economic relationships and the modification of the legal environment Even business practices in individual areas make it necessary to find optimal models for specific situations. (Mulačová et al., 2013)

**Figure 1: Types of business intermediaries and business agents**



# BUSINESS INTERMEDIARIES

Intermediaries are business companies of the classic type. They carry out the purchase and subsequent sale of goods. At the time of purchase of goods from its suppliers, it pays for its purchase price and the goods are transferred to their ownership. Therefore, they carry full business risk, in the case of non-subsequent sale of goods and their devaluation (spoilage, obsolescence, breakage) is the financial loss to them. However, given the often unbalanced power of these intermediaries with their suppliers, this risk is often passed on to the supplier in practice. They are obliged to accept the obligation to take back the goods in case they are not sold, as they could be replaced by another supplier. Intermediaries are classic intermediaries of exchange between seller and buyer. Business intermediaries include (Mulačová et al., 2013):

## RETAIL

- Purchase of goods from a wholesaler or manufacturer and their subsequent sale to the final consumer.
- There is a “transformation” of the production assortment into the sales assortment.
- Intermediate in the information flow **between manufacturer and consumer.**

## WHOLESALE

- Purchase of goods in large volumes and its subsequent sale to other business entities.
- Suppliers are either manufacturers or other wholesalers in the case of a multi-stage chain.
- It is an important link between the **manufacturer and the retailer.**

## FOREIGN TRADE

- It consists in the export of goods or their import from abroad.
- It is also the activity of wholesalers, but it has to overcome not only the temporal and spatial divisions, but also many added activities beyond the scope of normal domestic trading.
- In the field of consumer goods, foreign trade is very often carried out by wholesale elements of large retailing companies.

# Retailing

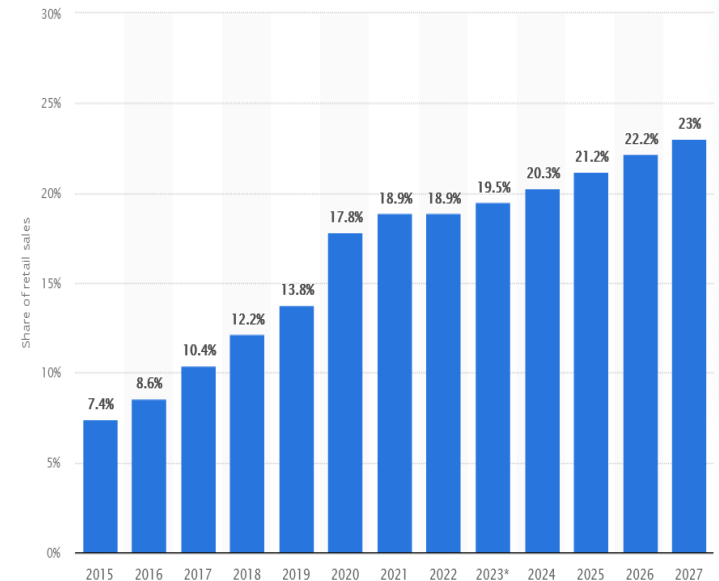


A lot of definitions of retailing exist, but the most important element of retailing is the **international character of operations**.

*“Retailing is an internationally understood retail system fully equipped with all logistics facilities and highly qualified information system with professional management” (Szczyrba, 2006).*

Online international retailing is called as **international e-tailing** is related to the growth of the internet audience across countries and continents. International e-tailing providing 24/7 online shopping opportunities, offers to retailers to sale via **potentially limitless shelf space, unconfined by store size, shape and location.** (Ferne et al., 2015)

Figure 1: Online sales forecast until 2027



Source: Statista, 2023

# JOINT RETAILING



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- It is a strategy where **two or more brands share retail space to reach customers together.**
- It can include, for example, **shop-in-shop concepts, shared sales areas, or shared marketing campaigns.**
- This allows companies to maintain their independence, but take advantage of the **synergy** of co-location and customer access.

## Advantages of joint retailing:

- helps you **start your business at the lowest possible cost,**
- Sharing resources (commercial space, office supplies, containers and components helps reduce both **initial and operating costs,**
- if an entrepreneur needs less space than what is available, renting space for joint retail can also provide him with an **additional source of income,**
- adapting to **changing customer requirements.**

It has happened several times that joint retailing has increased the total sales of both parties by more than 100%.\*

\*zdroj: <https://tweakyourbiz.com/posts/cooperative-retailing>

# EXAMPLES OF JOINT RETAILING



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## Sephora in Kohl's (USA)

- Sephora has its own beauty corner inside Kohl's department stores.
- It operates as a standalone beauty store, where premium brands are commonly available in Sephora stores.
- Sephora employees provide advice and services just like in a traditional branch.



## Advantages shop-in-shop concept for Sephora and their business partners

### For Sephora:

- **Access to a wider customer base** without the need to open separate stores.
- Opportunity to **test new markets at lower costs**.
- **Acquiring new customers** who don't normally shop at Sephora.

### For a host store (e.g. Kohl's):

- Increasing **attractiveness for customers due to the presence of a popular brand**.
- Higher traffic and the possibility of **cross-selling** (e.g. a customer who buys cosmetics also buys clothes).

*\*In 2021 – 200 such stores with a plan of up to 800 such establishments by 2023*

# EXAMPLES OF JOINT VENTURES WITHIN RETAIL COMPANIES



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These are entities created by two or more undertakings in order to achieve a certain objective.

- **Comparative advantages**
- **Expansion of brands that complement each other into areas that require specific skills.**
- **Enabling you to adapt to changing requirements.**

## Example of a common JV in retailing

H&M Group and Remondis - collection, processing and resale of unnecessary clothing

- 50 % H&M Group, 50 % Remondis\*
- Looper intends to collect, sort and sell used and unnecessary clothing and textiles, thereby expanding the use of these valuable resources as much as possible.



\*Source: Webový portál H&M Group [online] [vid. 5. března 2024]. Available from <https://hmgroup.com/news/hm-group-and-remondis-create-joint-venture-to-collect-sort-and-sell-used-and-unwanted-garments-and-textiles/>

# EXAMPLES OF JOINT VENTURES WITHIN RETAIL COMPANIES



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## Example of a common JV in retailing

Microsoft and General Electric

- 50 % General Electric Co., 50 % Microsoft Corp.\*caradigm.
- It develops and sells an open platform of health intelligence and clinical applications aimed at better management of the health status of the population.



## Example of a common JV in retailing

Kraft Heinz and TheNotCompany

- A combination to increase the use of plant-based ingredients in Kraft's portfolio of brands, allowing Kraft to capitalize on the greater demand for more sustainable food.
- NotCo brings its patented technology, while Kraft Heinz offers its portfolio of iconic brands.

Figure 2: Miguel Patricio, CEO of Kraft Heinz (left) and Matias Muchnick, co-founder and CEO at NotCo



Source: Webový portál Kraft Heinz [online] [vid. 5. března 2024]. Available from <https://ir.kraftheinzcompany.com/news-releases/news-release-details/not-your-average-joint-venture-kraft-heinz-and-thenotcompany>

\* Source: Webový portál Microsoft [online] [vid. 5. března 2024]. Available from <https://news.microsoft.com/2012/06/06/microsoft-and-ge-healthcare-complete-joint-venture-agreement/>



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# ARE JOINT RETAILING AND JOINT VENTURE TERMS HAVING THE SAME MEANING?



# THE CORRECT ANSWER TO THE PREVIOUS QUESTION

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**No**, co-retailing and joint ventures are not the same thing, although they may have some similarities in terms of cooperation between firms

**Co-retailing** (joint retailing) is primarily a marketing or distribution strategy where companies collaborate on sales in the same space.

A **joint venture** is a legally enshrined business agreement that leads to the creation of a new entity with shared ownership and responsibility.

## Explanation with examples:

- If Nike and Adidas **open a joint store** where they sell their products side by side, it is **joint retailing**.
- If Nike and Adidas **start a new company** that develops a new type of sports shoes, it is a **joint venture**.



# JOINT RETAILING - TASK



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Find an example of **joint retailing** and process the following:

- describe what exactly joint retailing consists of in the found example (shop-in-shop concept, common sales areas, or a shared marketing campaign),
- Characterize the benefits of this activity for both firms.

Separately

Time: 15 minutes

**A 2-POINT ASSIGNMENT!**



## Content of the second part of the presentation

1. Business methods
2. Classification of business methods
3. Specification of factors influencing the choice of business methods
4. Barriers to International Expansion



# BUSINESS METHODS



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The globalization of the world economy, together with developed and saturated domestic markets, → pressure on the international activities of large retailers

The transition from purely domestic retail to international is a significant step for many reasons, například:

- **Retailer transitions to a different business environment**
- A retailer must **commit to spending a significant amount of resources in the long term** in order for the brand to establish itself in the foreign market
- Investing abroad will eventually require a **significant internal reorganization of the company**



→ The importance of using appropriate business methods to internalize traders

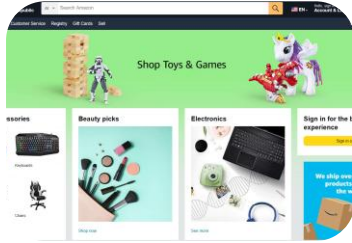
# TYPES OF BUSINESS METHODS



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**Exporting**



**Licensing product  
brand**



**Licensing process**



**Agents**



**Management  
contract**



**Franchising**



**Strategic alliance**



**Joint venture**



**Acquisition**



**Establish  
subsidiary abroad**

# CLASSIFICATION OF BUSINESS METHODS



Business methods are usually explained in terms of useful, cost, risk and market growth. However, for the purposes of this subject, we will focus on trade operations and usefulness of methods in retailing.

**Figure 1: Business methods of internationalisation in retailing**

Business method	Trade operations	Method is useful for/when
Exporting	Receives order from abroad; sends product abroad	Premium brands from high-class retailer; easier with website
Licensing product brand	Sells brand through another store in foreign country	Recognised brand in niche or undeveloped markets
Licensing process	Allows another retailer to use store brand or format	Service element usually makes this method inappropriate for retailing
Agents	Uses an individual or company to represent its interests	Cost of alliances is too high or market potential is limited
Management contract	Manages a business for another company; it receives a fee plus a percentage of profit	Hotel sector; in newly developing regions; where ownership restricted to national firms
Franchising	Allows another business to operate under its name	Fast food; cosmetics; hotels; fashion products
FDI Strategic alliance	Has partnership with another retailer or distributor to work together	Entry into some markets for political or cultural reasons
FDI Joint venture	Setting up jointly owned subsidiary to develop new market	Host country's laws regulate ownership or require indigenous partner
FDI Acquisition	Buys existing retail business. May convert to own format or keep existing brand	Quick entry to local markets; useful where there are significant restrictions on market competition or store development
FDI Establish subsidiary abroad	The company has an ownership interest in the business.	Organic growth (used by Tesco in Eastern Europe)

# SPECIFICATION OF FACTORS INFLUENCING THE CHOICE OF BUSINESS METHODS



Global retailers carefully **plan** their international operations.

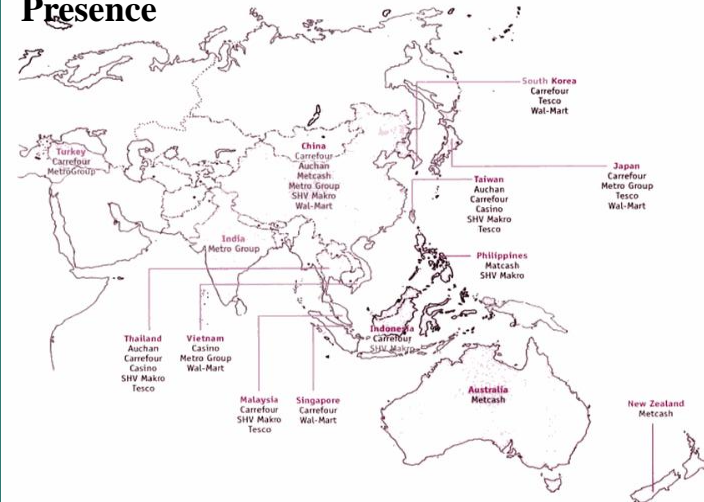
Before entering a new market they do a feasibility study and then design the best **strategy** for market entry.

Different international retailers have entered foreign markets at different points of time.

The business methods that global retailers take to entry a market depends on various **factors** such as (Mukherjee and Patel, 2005; Rafiq, 2014):

- Cost, control, uniqueness of the format
- Financial strength of the firm
- Local market condition
- Existing regulation governing retail trade
- Characteristics of the supply chain
- Availability of infrastructure facilities
- Consumer demand patterns
- Presence of domestic organised retailers
- Barriers to foreign investments in allied sectors such as real estate

**Figure 2: Non-Asian Retailers Regional Presence**



Source: Mukherjee and Patel, 2005

# Most Preferred Entry Routes of Global Retailers



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1. Mergers & Acquisitions
2. Joint venture
3. Franchising
4. Cash & Carry

**A)** Metro AG from Germany sells products for cash and without any kind of delivery service in India through wholesale

**C)** McDonald's entered many countries in this way.

**B)** In 1997, Wal-Mart entered the German market by buying the local chain Wertkauf. Later, he bought another local chain, Interspar. By buying these two domestic chains, Wal-Mart wanted to gain significant market share while limiting its competitors. Wal-Mart also entered the following markets in this way: Great Britain (Asda), Canada (Woolco), Asia (TOPS), Latin America (Disco).

**D)** In 1991, Wal-Mart first began operations in Mexico with the opening of Sam's Club, which was 50% owned by Cifra, one of Mexico's largest retailers.

Match specific real-world cases to global retailers' most preferred trading methods

# Barriers to International Expansion



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# Barriers to International Expansion



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The decision on which market to enter will be based on:

- the nature of the product and the type of market;
- related investments;
- **entry and exit barriers,**
- types of distribution channels,
- the type of logistics route and transaction costs associated with doing business in the markets



**Entry barrier – a barrier that makes it difficult for a company to enter the market**

A barrier is not considered a barrier to entry unless it is something that incumbent undertakings did not encounter when entering the market

A barrier to entry is anything that prevents market entry and has the effect of reducing or restricting competition, whatever its other characteristics may be

# CATEGORIES OF BARRIERS TO ENTRY TO INTERNATIONAL MARKETS



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Multinational retailers face a number of non-tariff, socio-economic and administrative barriers in foreign markets, which can be divided into three categories:

1. Barriers to market entry and operation in the selected market
2. Obstacles related to domestic regulations
3. Other obstacles

Domestic traders are also struggling with them

Only foreign traders are struggling with them

Examples of failure in the international market:

- Carrefour had to withdraw from the US due to strong competition from Wal-Mart
- Wal-Mart had to leave Indonesia after the 1997-98 riots

# BARRIERS TO ENTRY AND OPERATION



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## Typical Market Access Restrictions for Foreign Investment:

- Limiting foreign ownership of shares to a certain level
  - Restrictions on the purchase or rental of real estate
  - Economic needs tests for service providers
  - Requirement to set up a joint venture with local suppliers
- These obstacles can be **mitigated or eliminated** through negotiations between states and the conclusion of, for example, an **international mutually beneficial agreement**

### Examples from practice:

- Foreign retail investment with a capital investment of less than US\$1 million is not allowed in Sri Lanka
- In Malaysia, in the case of acquisitions by foreign investors, 70% of the equity can be held by either Malays or foreign investors, as long as the condition of a 30% "Bhumiputra" (Malay and other ethnic groups) share is met
- China has allowed foreign players to enter the retail trade through joint ventures, and there are several requirements regarding minimum wholesale volume, minimum imports and exports, or minimum share capital.

# OBSTACLES RELATED TO DOMESTIC REGULATIONS



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Many countries have introduced regulations that prevent large retailers from expanding their operations and taking advantage of economies of scale, these include:

- Limit the number of retailers
  - Store size and location restrictions
  - Store restrictions and zoning regulations
- This type of restriction is intended to **prevent anti-competitive practices and/or to protect local small retailers.**

## Examples from practice:

- In Germany, restrictions on store opening hours and retailers' pricing policies under unfair trading and antitrust laws make it difficult for large players such as Wal-Mart Stores to operate in the local market.



# OTHER OBSTACLES

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There may also be other hurdles in the market that a trader must consider if they decide to internationalize their business. These additional barriers may be linked to **competition** (strong local competition), **customers and consumers** (unfamiliar customer tastes, preference for domestic formats, low consumer purchasing power), **political situation and infrastructure**.

This category also includes the following obstacles, which are often used by some countries and their number is increasing:

- technical regulations and standards, certifications,
- obstacles of an administrative nature,
- abuse of sanitary and phytosanitary measures
- restrictive rules and procedures preventing bidding for public contracts;
- difficult licensing procedures for import, export and transit;
- discriminatory tax rules (tax advantages for local producers).

## Examples from practice:

- Strong competition – for example, cost leaders (Chinese, Japanese, and Korean firms)
  - Product differences – American, German and French companies
-

# BUSINESS METHODS AND EXPANSION BARRIERS

## - a task to practice



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### WORK IN PAIRS

Each team draws a Czech company selling a specific product and a market that the company wants to enter with its product.

### Task processing procedure:

- Conduct a market analysis and try to **identify** all possible barriers to entry
- **Decide** which business method of market entry is most appropriate and **justify** your claim
- Canada and France market

Time: **20 minutes + 10 minutes to present team results**

A 2-POINT ASSIGNMENT!



**Business methods: exporting, licensing product brand, licensing process, agents, management contract, franchising, strategic alliance, joint venture, acquisition, establish subsidiary abroad (FDI)**

# CANADA

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## Barriers:

- Licencing requirements for certain industries
- Bilingual language laws in Quebec (english and french)
- Strong local and US competitors
- High consumer brand loyalty in establish markets

## Appropriate entry methods:

- Joint venture
- Strategic Alliance



# FRANCE

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## Barriers:

- Strict labor laws and strong worker protections
- High corporate taxation compared to other EU countries
- A preference for french brands in certain sectors
- French language requirements in marketing and customer service

## Appropriate entry methods:

- Acquisitions
- Franchising





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**THANK YOU FOR YOUR  
ATTENTION**

[www.slu.cz/opf/cz](http://www.slu.cz/opf/cz)

**DO YOU HAVE QUESTIONS?**

# Foundations of International Trade Operations – Part One

## ➤ SUMMARY

- International trade operations (ITO) can be understood as a set of activities supporting the purchase and sale of products between two or more countries.
- Business activities are divided into internal, foreign and international trade (classification of business activities).
- The decision to carry out an international trade operation is influenced by decision-making criteria, and we consider the advantages and disadvantages of carrying out these operations.
- The functions of international trade are an aggregation of the functions of foreign trade (transformational, equalization, harmonization, economic growth, transmission)
- The ITO process is influenced by the type of goods, the nature of the relevant market, the commercial policy situation, the chosen distribution channel, the scope and frequency of trading with the given business partner, its legal and financial status, and the manner of business conduct of the business partner.
- According to the type, ITO's are divided into traditional and non-traditional operations, countertrade and other types of trading operations.

## SUMMARY

- Retailers can use to move from purely domestic retailer to international retailer these business methods: **exporting, licensing product brand, licensing process, agents, management contract, franchising, strategic alliance, joint venture, acquisition and establish subsidiary abroad (FDI).**
- The choice of business methods depends on various factors, e.g. cost, **control, uniqueness of the format, financial strength of the firm, local market condition, characteristics of the supply chain, presence of domestic organised retailers, barriers to foreign investments in allied sectors.**
- The most preferred entry routes of global retailers are these methods: **mergers and acquisitions, joint ventures, franchising, wholesale cash-and-carry.**
- The most known barriers in international expansion are **FDI restriction, minimum capital requirement, joint venture requirement, local sourcing requirement, limitation on size and number of retail outlets**, restrictions on pricing, advertising, promoting and selling certain products, strong local competition, unfamiliar customers taste, low purchasing power of consumers or poor quality of infrastructure.
- Good knowledge of the target **market economy** is very important in the internationalization of business operations.
- The internationalization of Czech trade is supported by various state organizations, for example **CzechTrade, Czech Export Bank, Export Guarantee and Insurance Corporation, CzechInvest and CzechTourism.**



## SUMMARY

- The providing of trade operations include these four phases: **preparatory phase of business operation, contract phase of business operation, implementation phase of business operation and finalization phase.**
- When prepare and planning of entering foreign market, is important to carry out analyses, e.g. **territorial survey, commercial-political research, commodity survey, competition research, consumer survey, price survey, tax survey.**
- International business negotiation can be divided into **micro and macro level negotiations.** There are **different negotiating customs and protocols** in the business world.
- The outputs of negotiation can be an individual contracts. Contracts in international trade include many various contracts such as **purchase contract, dealership agreement, contracts of transport, intermediary contracts and bilateral agreements.**
- Purchase contracts in international trade usually include **delivery parity.** The most used delivery parity worldwide are **International Interpretation Rules INCOTERMS.**
- INCOTERMS includes **rules for any mode or modes of transport and rules for sea and inland waterway transport.**
- Each country differs in the documents required for export, the most used documents are **pro-forma invoice, commercial invoice, packing list, shipping list, bill of lading, certificate of origin and documentary letter of credit.**
- International trade procedures are coordinated by international organizations such as OECD, WTO, IMF, ITC, IMO, CEB and UNEP.





## SUMMARY

- The risk can be defined as **the impact of currently unknown event on the business and a potential problem.**
- Domestic risk in trade operations is mainly related to area of operation which is within the country, providing by the same single currency. The most known risk in domestic business are **natural disasters risk, regulatory and legal risk, socio-political risk, start-up and operating risk, technological risk, market risk, financial risk and economic risk.**
- International risk in trade operations is specific due to difficulties and more risky international environment. Trade operations are providing in multiple currencies. The major risks in international are **financial risk, foreign exchange fluctuation risk, country risk and customer risk.**
- The level of risk escalates from **exporting-importing to licensing, and from licensing to foreign direct investment.**
- The ways of ensuring fulfilment of business obligations can include various possibilities, e.g. **using price-delivery terms to allocate risks and obligations, bank guarantee, commercial means of security in purchasing contracts.**
- The insurance is another way of ensuring fulfilment of business obligations. Insurance classes are divided into three basic groups: **property insurance, liability insurance and personal insurance.**
- The major specific international risk insurance types are **marine insurance** (ocean and inland marine insurance), **property insurance** (loss of real property, loss of personal property and financial responsibility for injuries or damage), **political risk insurance** (expropriation, currency inconvertibility and transfer restrictions, political violence) and **credit risk insurance.**

# POUŽITÉ ZDROJE A LITERATURA

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