

Lesson 6 - Types of International Business Structures

Why Do Companies Expand Internationally?

Why do companies expand into other countries? Why do companies not simply focus on the domestic market around them? Outlined below are some of the key reasons to 'go global'!

- **Expand Markets and Increase Sales**
- **Control Expenses**
- **Diversification**
- **Competitiveness**



Why Do Companies Expand Internationally? (1 of 2)



Expand Markets and Increase Sales

By increasing sales a company can potentially increase profit.

- Ex: M.A.C. make-up went into the U.S. market to expand.

Some companies expand markets by acquiring other companies

- Ex: Estee Lauder bought 51% of interest in M.A.C.



Control Expenses

Companies search beyond borders to decrease their costs (better labour rate, more efficient technology, less expensive tax structures, closer proximity to natural resources etc...)

Why Do Companies Expand Internationally?

(2 of 2)

Diversification

By appealing to different target markets, a company can increase their sales.

Geographically diversifying can decrease the risk of operating in only one area.

Competitiveness

If the competition is operating abroad, then other companies must follow suite in order to maximize profits.

Matrix Structure (1 of 3)

- A **matrix organizational structure** is a company structure in which the reporting relationships are set up as a grid, or matrix, rather than in the traditional hierarchy. In other words, employees have dual reporting relationships - generally to both a functional manager and a product manager.
- E.g. Dutch Company “Phillips” in 1970s
 - Structure typically used by companies encountering complex projects

Matrix Structure - Benefits (2 of 3)

- Benefits:
 - Resources can be used efficiently
 - Products and projects are formally coordinated
 - Information flows both across and up through the organization
 - Employees are in contact with many people
 - Staffers have to work autonomously and do some self-management between their competing bosses

Matrix Structure - Drawbacks (3 of 3)

- Drawbacks:
 - Staffers have to make their own decisions about work prioritization
 - It can be difficult to determine who is responsible for operating financial results
 - The additional layer of overhead caused by the second set of managers increases costs
 - The frequent changes in reporting relationships can be difficult for staff

Assignment #1 – In-Class Discussion

Based on the note you just read, research one Canadian company that has expanded internationally and state which of the reasons outlined pertains most to this company (i.e. did they expand to increase their market share? Decrease costs?)

Share your response to the above question when you're done.



Methods of Achieving a Global Presence (1 of 5)

If a company chooses to enter the global arena, there are various strategies of expansion. These include:

- Licensing Agreement
- Franchise
- Establishing a Subsidiary
- Purchasing in Foreign Markets
- Joint Venture
- Strategic Alliance



Methods of Achieving a Global Presence (2 of 5)

Licensing Agreement

A patent or copyright owner allows another organization (individual, government or company) to use their idea or invention for a fee or royalty.

EX. Mercedes Benz invented many of the safety features on today's cars, for example four-wheel ABS. When other car companies put ABS into their cars, they need to pay a royalty to Mercedes Benz.



Mercedes-Benz

Methods of Achieving a Global Presence (3 of 5)

Franchise

A type of business in which a company authorizes a group or an individual to sell its goods or services. The franchisee is the person who buys the rights and the franchiser is the person who sells the rights. The franchiser supplies: training, store design, product line marketing.

Establishing A Subsidiary

A 'spinoff' company from the parent company that may, or may not, use the same name operates in a foreign market.

EX. In England, Kijiji is called "GumTree", and in Argentina it's called "alaMaula" and all of these are owned by Ebay

kijiji ebay



Methods of Achieving a Global Presence (4 of 5)

Purchasing in Foreign Markets

The purchasing of parts or materials from other countries for manufacturing in the home market. This is common in industries with many components: i.e. a cell phone company could get parts from Southeast Asia.

Joint Venture

Companies from two different countries go into an agreement to produce a product/service together. They share assets and control so that there is mutual benefit. (Automotive industry: companies share technology and actual plants)



Methods of Achieving a Global Presence (5 of 5)

Strategic Alliance

Two or more companies agree to co-develop, co-produce or co-market their products. The length of the alliance can vary greatly.

Now let's see if you've been paying attention... =)

Pop Quiz! Check Your Understanding (1 of 4)

- An agreement between two or more companies or organizations to share assets and control of a new business for mutual gain:
 - a) consulting
 - b) franchising
 - c) joint venture
 - d) none of the above
- **ANSWER: c) joint venture**

Pop Quiz! Check Your Understanding (2 of 4)

- A _____ is a type of business in which a company authorizes a group or an individual to sell its goods and services

- ANSWER: franchise

Pop Quiz! Check Your Understanding (3 of 4)

- True or False: A strategic alliance indicates that one company has purchased, or gained control of the other company.
- ANSWER: False - A strategic alliance is merely joint co-operation for mutual gain. No ownership -changes.

Pop Quiz! Check Your Understanding (4 of 4)

- What is one product you own that has a license granted?
- ANSWER: Songs, movies, books etc. They all have patents or copyrights attached to them.

Global Organizational Structure

Companies that are expanding internationally require an organizational structure that will accommodate and allow flexibility for a new focus or strategy. Reporting lines, chains of command and responsibilities need to be clearly outlined for everyone in the various geographical and functional areas of the company to contribute to growth. Companies have a variety of methods of organizing their resources. There are five main methods of structuring a global company. You will now research the characteristics and drawbacks of each of these structures.

Global And International Companies

- What's the difference between global and international companies? Are these two terms interchangeable?
- You will now read a bit about each structure in a slideshow and fill in the missing parts.
- Handout: [Activity 6 PPT - International And Global Companies – Print and read](#)

Assignment #2: Global Group Presentation

In a group of 2 you are to select a global company and research their global positioning, mode of operation and organizational structure.

Your groups will be assigned. You are to present your findings using **PowerPoint or other presentation software.**

Some examples of multinationals are: *Microsoft, Toyota Motor, Intel, Coca-Cola, Sony, IBM, General Electric, Nike, etc.*

use the Internet to research many more!

