Keep in Mind

1. joint ventures
2. international franchises
3. strategic alliances
4. mergers
5. offshoring
6. multinational corporations

Business Fact

The United States consistently remains Canada's largest single-nation trading partner. China, Japan, and Mexico are other key trading partners.

2.3 International Business Structures

If you had just started a software business, and you had a product to sell that appealed to consumers all over the world, where would it make sense to market and sell your product? In your local town or city? Across Canada? In the United States? In China?

Reaching the greatest number of customers is what usually drives businesses to expand internationally. If you sell to the people who live in a small town, you may reach a few thousand consumers. If you market your product across Canada, you could potentially reach millions of consumers. If you sell to people not only in Canada, but also in the United States or in China, you can potentially reach hundreds of millions of potential customers. The rest of this chapter deals with some of the different business structures that allow businesses to expand into international markets.

The name Lamborghini is recognized around the world as a business that manufactures high-end sports cars.

Joint Ventures

Joint ventures are excellent opportunities to market your products or services to a wider audience. You can establish more contacts, get more leads, and increase your customer base using this business structure. Producers typically are experts in producing products or services, but these same producers may lack sufficient and efficient marketing tactics or techniques. Therefore, in spite of a useful and productive product or service, they are unable to generate revenue from the sale of a product or service. If the producer can find an efficient marketer, both could gain from sharing each other's expertise.

Joint ventures can be adopted for a trial period of a few weeks or months and should be continued only if they work to the advantage of both parties. A joint venture essentially matches the skills and expertise of two different individuals or businesses and, in the process, generates benefits for both parties. There is no legislation that specifically regulates joint ventures in Canada. Currently, joint ventures tend to be governed by the contract to which the involved parties have agreed.

For example, Pacific Northern Gas Ltd. and Kitimat LNG Inc. participated in a joint venture to build a $1.2 billion natural gas pipeline in northern British Columbia. Part of this partnership agreement was to build a pipeline system that would connect to a liquefied natural gas receiving terminal on the coast of northern British Columbia. In 2011, Pacific Northern Gas sold its 50 percent interest in the venture for $50 million.

Freight containers from all over the world at a Halifax port

International Franchises

Franchises are also a way to achieve an international presence by authorizing a group or an individual to sell its goods or services. The franchisee (the one who buys the rights) pays for being able to ride on the success of the franchiser (the one who sells the rights). For example, when the Richmond, British Columbia–based company Boston Pizza expanded into the United States, it was able to quickly set up franchises across North America, supplying franchisees with real estate, construction, start-up procedures, fixtures, operating systems, signage, equipment, marketing programs, training, and menus, because it had developed the concept in Canada. In fact, the only change that was made for the U.S. market was a modification of the name

Stretch Your Thinking

Why would a joint venture make more sense than a partnership for an international business idea?

to Boston's, The Gourmet Pizza. The name change was designed to communicate the superior product offering—this wasn't just any pizza, it was "gourmet pizza" with a crust, seasonings, and flavours unlike any other.

Strategic Alliances

Strategic alliances are agreements between businesses in which each business commits resources to achieve a common set of objectives. Typically, a strategic alliance is used to help co-develop, co-produce, and co-market the products or services of the two businesses. Businesses may form strategic alliances with a wide variety of players: customers, suppliers, competitors, universities, or divisions of government. This type of agreement can help businesses improve competitive positioning, gain entry to new markets, supplement critical skills, and share the risk or cost of major development projects. While partners in the alliance, each business remains separate and entirely independent of the other partner. An example of a "made-in-

A sign for a McDonald's Drive Thru in Amman, Jordan

Canada" strategic alliance involves the Canadian Broadcasting Corporation (CBC). CBC-Radio Canada has developed alliances with other media businesses such as the *Toronto Star*, the *National Post*, *Maclean's Magazine*, and *La Presse*. Combined efforts have resulted in joint coverage of major stories such as health care and education. Another example of a strategic alliance, which reaches beyond the borders of Canada, is one between the Citizens Bank of Canada and Amnesty International. These two players have partnered together to help raise money for campaigns to protect fundamental human rights around the world. When people use their Amnesty International Visa card, Citizens Bank donates 10 cents to Amnesty International.

Businesses from the United States considering a strategic alliance find that Canadian businesses have a lot to offer. Canadian businesses have world-class technologies, are **export** oriented, operate in a similar culture, and operate under government regulations that are not a disadvantage when compared to other countries.

Business Fact

In Canada in 2010, there were 2110 mergers and acquisitions valued at $130 billion.

Mergers

If the strategic alliance is successful, the two businesses may agree to a merger. A **merger** occurs when two or more companies join together, either because one has purchased a controlling interest in the other(s) or because the companies have combined their interests. A merger can help both companies strengthen their operations, enter new markets, and acquire new technologies, resources, and skills. If a smaller company merges with a larger one, the small company may also gain access to more capital or to a larger sales force. Companies will tend to consider a merger if that partnership allows them to increase market share, become a more efficient operation, or gain a competitive advantage. One of Canada's most famous merger attempts occurred in the Canadian banking system. In 1998, the Royal Bank and the Bank of Montreal announced a $40 billion proposal to merge. Within a few months, Canadian Imperial Bank of Commerce (CIBC) and the Toronto Dominion Bank (TD Bank) announced a $47 billion proposal to merge. But the federal government of Canada ultimately turned down the mergers because they wanted the banking system to remain as competitive as possible and, in the process, protect the interests of the public. The concern of the public was that too few banks could place too much power in the hands of not enough people!

In 2004, Molson, a Canadian brewery, announced a merger with an American brewery, Adolph Coors. Shareholders approved the $3.5 billion deal in 2005.

Offshoring

The World of Business DVD

"Trouble in Toyland"
from *The World of Business DVD*

Offshoring is the relocation of some of a company's operations to another country. Typically, the new location takes advantage of much lower labour costs. For example, many Canadian manufacturing companies have moved to China and Mexico. In fact, few manufacturing companies remain in Canada. But more recently, other factors have influenced companies' decisions to move offshore. For example, proximity to large, emerging buyer markets (such as China and India) and access to growing pools of skilled labour with low wages entice companies to consider moving elsewhere. Would it make sense for a Canadian manufacturer like Research In Motion (RIM) (manufacturers of the BlackBerry) to set up an offshore branch in Japan or China? If RIM could reduce its costs of production and if the Asian market represented one of RIM's major customers, it may make sense to establish an offshore operation. Other technology manufacturers, such as IBM and Hewlett-Packard, have already set up shop overseas. They are taking advantage of employees in India and China who have relatively high education levels but work for low pay relative to Canadian wages.

However, offshoring presents a public relations risk if it eliminates jobs in a company's home country. Firms must carefully weigh all the risks of offshoring before making a move. For example, if an offshore country's political climate is uncertain, or if the currency of that country is unstable,

In the News

In the summer of 2006, Google and eBay, two of the Internet's most prominent players, formed a strategic alliance that will see Google advertising used on eBay websites outside the United States. Previously, in the spring of 2006, eBay had announced a similar deal with Yahoo to serve all of its advertising within the United States.

The advantage of combining forces is to introduce "click and call" website technology to more people. "Clicking" a link on a website will allow consumers to be able to "call" eBay merchants or Google advertisers. The goal is to develop a whole new way for buyers and sellers to connect online, which will financially benefit both Google and eBay. Above all, this partnership alliance is about speed. It is about having a service available that can make an instant connection with someone who wants to buy something now. Maybe even before they can change their mind!

an offshore move could prove more costly than beneficial. Trade barriers could also be a stumbling block in a move, a topic that will be discussed more fully in Chapter 4 on International Business.

Multinational Corporations

A **multinational corporation** is a business enterprise that conducts business in several different countries. These corporations operate as if there aren't any borders, so the global marketplace becomes their place of business. Why do they do business in this fashion? In the long run, it could save money. A multinational corporation could have its corporate headquarters located in Canada, its raw material sources in South Africa, its production plant in Germany, and some of its retail stores in Japan. The reason for doing this is to take advantage of what each country has to offer. In the process of doing business, these corporations observe national regulations, rules, and policies in the countries in which they operate. However, many multinationals are powerful enough to pressure governments to give in to their demands.

A call centre in India answers calls made from customers in North America.

Ethical, Moral & Legal Considerations

Were you aware that Canada has a *Corruption of Foreign Public Officials Act*? This Act, passed in 1998, makes it a criminal offence punishable by up to five years in jail for a Canadian businessperson to pay a bribe to a foreign public official to gain a business advantage. Before the Act was passed, such behaviour was considered only an ethical issue, but with the passing of the Act, it has become a legal issue. The Act covers loans, awards, and advantages of any other kind made directly or indirectly to a government official to obtain a business advantage. For example, paying an agent to assist in obtaining a government contract or allowing that agent to use some of the funds to influence government officials is considered illegal.

Business Fact

According to Statistics Canada, one in five large Canadian companies has a foreign owner.

The most common threat is to close offices and lay off thousands of workers and take the employment elsewhere.

When a multinational corporation invests in another country, that country can benefit in several ways. Extra jobs, new technology, and training are the positive benefits of the arrival of a multinational corporation. However, there could also be a downside to the arrival. Some multinational corporations have been known to take advantage of the fact that workers in the new country will work for less money. This cheap labour helps keep costs of production lower, but it does not benefit the citizens of those countries. See Chapter 4 for more information on International Businesses.

Review Questions

18. Why might a manufacturer seek out a business with which to form a joint venture?
19. Identify five players that could form a strategic alliance with a business.
20. What is the difference between a strategic alliance and a merger?
21. What are some possible drawbacks to an offshore move for a business?
22. What benefits can a multinational corporation bring to a community when it decides to set up operations? Identify a possible drawback to the community.

CHAPTER REVIEW

Knowledge

1. Identify two skills that you now possess that could help you when working in a business environment.
2. Owning one share in a co-operative is different from owning one share in a public corporation. What difference does it make for voting or for sharing the company profits?
3. Make a list of financial institutions in your community where you could borrow money if you were to start a business.
4. List the domain names of 10 online businesses with which you are familiar. What good or service does each website provide?

Thinking

5. Prepare a partnership agreement for a lawn-care or snow-removal business.
6. If you had the choice to finance your business using either debt or equity financing, which one would you select? Explain your choice.
7. Debbi Fields of Mrs. Fields Cookies said, "You should be the best at what you do." What does she mean by this statement? How would being the best at what you do be good for a business?
8. Explain what is meant by the following expression: "In cyberspace, nothing is tangible."
9. Explain the difference between a joint venture, a strategic alliance, and offshoring.
10. In a group, discuss why Tim Hortons reorganized and changed its type of ownership several times. Have a spokesperson report back to the class with your ideas.
11. What factors do you think might contribute to a customer visiting or revisiting a website? What factors might discourage a customer from visiting or revisiting a website?

Communication

12. Invite to your class two or more representatives from a sole proprietorship, a partnership, a corporation, or a co-operative. Ask each representative to talk about his or her type of business ownership and to provide an overview of its advantages and disadvantages. Introduce each representative to your class, giving some information about the types of products or services that the business offers. Class members should be prepared to ask the businesspeople questions.
13. Choose one of the Crown corporations mentioned on page 44. Prepare an advertisement that tells what services the corporation provides.
14. Return to the list of potential risks involved in the lawn-care and snow-clearing business (page 59). Work with a partner to discuss how you would respond to each situation.

Application

15. Working with a partner, select two businesses in your community that have the same type of ownership (e.g., two sole proprietorships). Gather as much information as you can about each business. Try to acquire data that deals with the business's start-up costs, the availability of financing, the complexity of production, and the business's resource requirements. Which of these businesses would you prefer to own? Record your findings in a chart and briefly summarize the reasons for your choice.

16. Find out the start-up cost for each of the following franchises: Burger King, Merry Maids, and Tim Hortons. What do you get for your investment? Use the Internet, advertisements, and personal contacts. Make a list of all of the advantages and disadvantages of becoming a potential franchisee. (Note: If you have difficulty finding one of these, substitute another franchise.)

17. Select one person or family from Table 2.1 on page 45. Using research tools, such as the Internet, magazines, and libraries, find more about that person or family. How was the fortune attained? What business or businesses were involved in amassing this huge amount of money? Provide some financial details on the history of the person or the family.

18. Lower labour costs in other countries may attract Canadian international businesses, but the wages paid to workers in those countries may not be enough for them to live on. It is also virtually impossible for workers in some countries to establish a union to ensure fair wages, safe working conditions, and job security. In small groups, discuss what you think Canadians should do about these complex human rights issues. Report your group's findings back to the class.

Team Activity

Team Goal: To identify types of businesses found in your community

Team Assignment: Neighbourhood Businesses

Your team should find two specific examples of each of the following types of businesses within your community:

- service—non-retail
- retail
- franchise
- manufacturing
- not-for-profit
- public corporations
- Crown corporations

The winning team will be the first team to provide a list of 14 local businesses.

Portfolio

If possible, identify at least one of each of the business forms (sole proprietorship, partnership, corporation, co-operative, or franchise) for businesses within your selected industry. Describe the organization in detail from information you collected on its website. If you cannot find examples of one or more of the business forms, explain why you think your specific industry is not ideal for this form of business ownership.

For your corporate example, obtain the company's annual report and comment on the success of the firm. Track the company's share price over the rest of the course. Compare the beginning price with the final price and account for any discrepancies.

What is the most popular form of business ownership in your industry? Why is this so?

Reflect on Your Learning

Review your answers to the Before You Begin question on page 41. How would you answer this question now that you've read this chapter?

INTERNATIONAL PROFILE

Southwest Airlines

Rollin King had been on too many costly and inconvenient business trips. As he complained about this to his lawyer, Herb Kelleher, they came up with a great idea. King and Kelleher imagined an airline that would make it less expensive to fly than to drive between two points in Texas. At the time, this idea was outlandish, but in 1967, they founded Air Southwest, later renamed Southwest Airlines in 1971.

The competition fought to keep Southwest on the ground. However, in 1971, Southwest won an intense legal battle and the right to fly in Texas. Initially, Southwest flew three planes to locations in the state of Texas. Today, the company flies 86 million passengers a year to 72 cities all across the United States more than 3100 times a day.

The company turned its first annual profit in 1973 and has been profitable every year since, including the years following September 11, 2001. This profit record is unmatched by any other company in the commercial airline industry. How can Southwest be so successful in such a turbulent industry?

Southwest is the world's premiere low-cost, no frills airline—and is often unsuccessfully imitated by competitors. Although its structure can be easily imitated, its culture cannot. All employees are paid with stock options and participate in profit sharing, and since they are technically Southwest owners, they are more motivated to work to improve their company.

Southwest invented the "10-minute turn." That is, Southwest can land a plane, unload, clean the cabin, board new passengers, and take off again in 10 minutes. All employees help clean the cabin and check tickets, including the pilots. Southwest also keeps expenses low by flying out of secondary airports, not using travel agents to sell tickets, and serving minimal food on board. The success of Southwest even created a new business concept—the Southwest Effect—which states that when an aggressive and innovative company enters a market, the market itself changes, and usually grows dramatically.

To fight off competitors, Southwest has developed frequent flyer programs, offered free drink promotions, and moved into more airports. Customers are still the top priority. "I tell my employees that we're in the service business, and it's incidental that we fly airplanes," says Kelleher.

Luggage is unloaded from a Southwest Airlines plane.

QUESTIONS

1. Define the word "culture." How is Southwest Airlines culture different from that of its competition?
2. In what way does Southwest Airlines qualify as a "service" business?