International Trade operations

- Introduction to international trade operations
- Implementation of trade operations and trade documentation

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Lecture No. 1

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Content of the lecture

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

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

HOW WOULD YOU DEFINE INTERNATIONAL BUSINESS OPERATIONS?

Souhrn aktivit (činností) podporujících nákup a prodej produktů mezi dvěma a více státy.

CLASSIFICATION OF BUSINESS ACTIVITIES

- 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

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.

Source: Singh, 2009

FUNCTIONS OF FOREIGN AND INTERNATIONAL BUSINESS OPERATIONS

FOREIGN TRADE FEATURES

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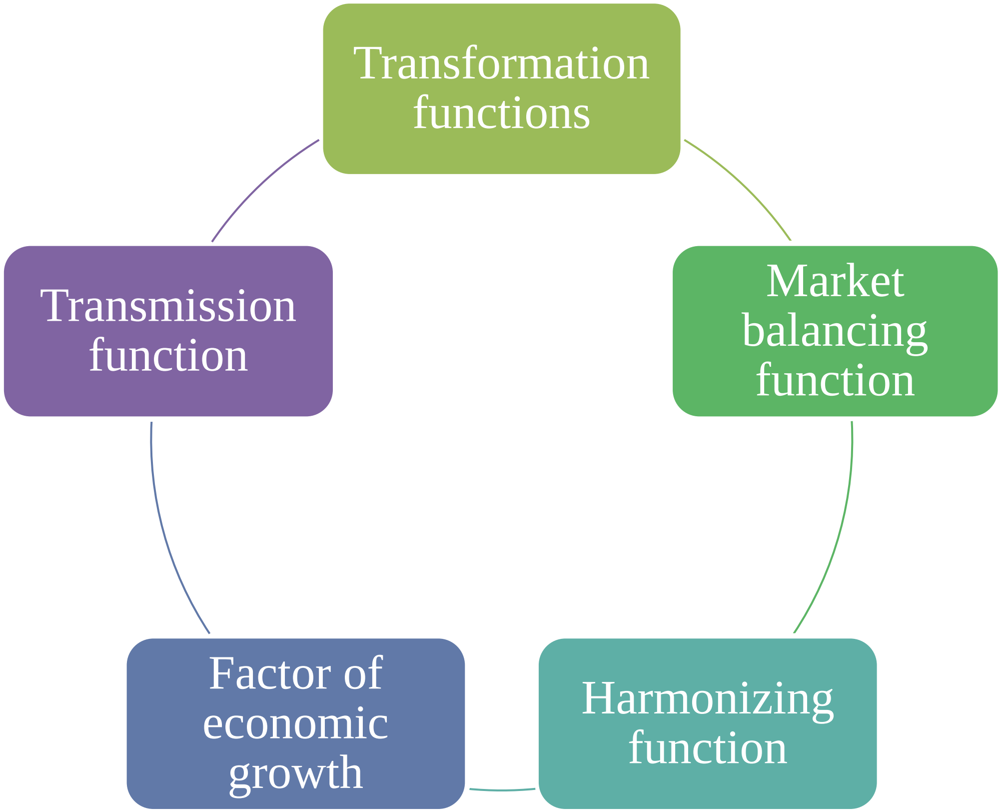
In total, we can talk about five functions of business operations in foreign trade:



Source: Šterbová et al., 2013

INTERNATIONAL TRADE FEATURES

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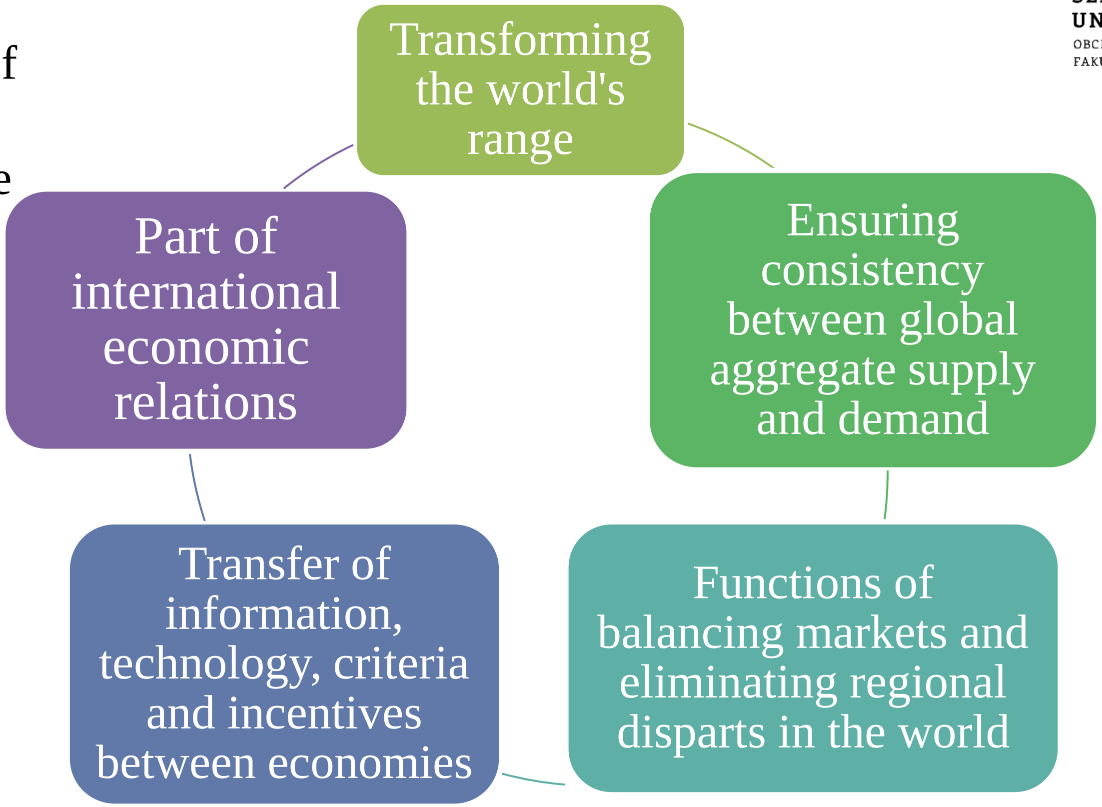
Aggregation of functions of trade operations in foreign trade and similar to the role of trade in the national economy:



Zdroj: Šterbová et al., 2013

FACTORS INFLUENCING THE PROCESS OF CONDUCTING TRADING OPERATIONS

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
Type of business	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

- 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?

Source: Czinkota, 2021; Cherunilam, 2020; Soukup et al., 2018; Machková et al., 2014; Mulačová a kol., 2013; Synek a kol., 2011; Svatoš a kol., 2009

TRADITIONAL BUSINESS OPERATIONS

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- Contract-based operations

PURCHASE	TRANSPORT
AGENCY	INSURANCE

Source: Machková et al., 2014

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)

Zdroj: Machková et al., 2014

COUNTERTRADE

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

ExampleSponsorship 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

Source: Cherunilam, 2020

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

Source: Cherunilam, 2020

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.

Source: Cherunilam, 2020

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%.[1]

[1] Web portalČT24. Available from https://ct24.ceskatelevize.cz/domaci/1418779-vojaci-dostanou-107-transporteru-pandur-ii-zakazku-posvetila-vlada

Why do firms trade through Countertrade trading operations?

OTHER TYPES OF BUSINESS OPERATIONS

REEXPORTS

- 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.

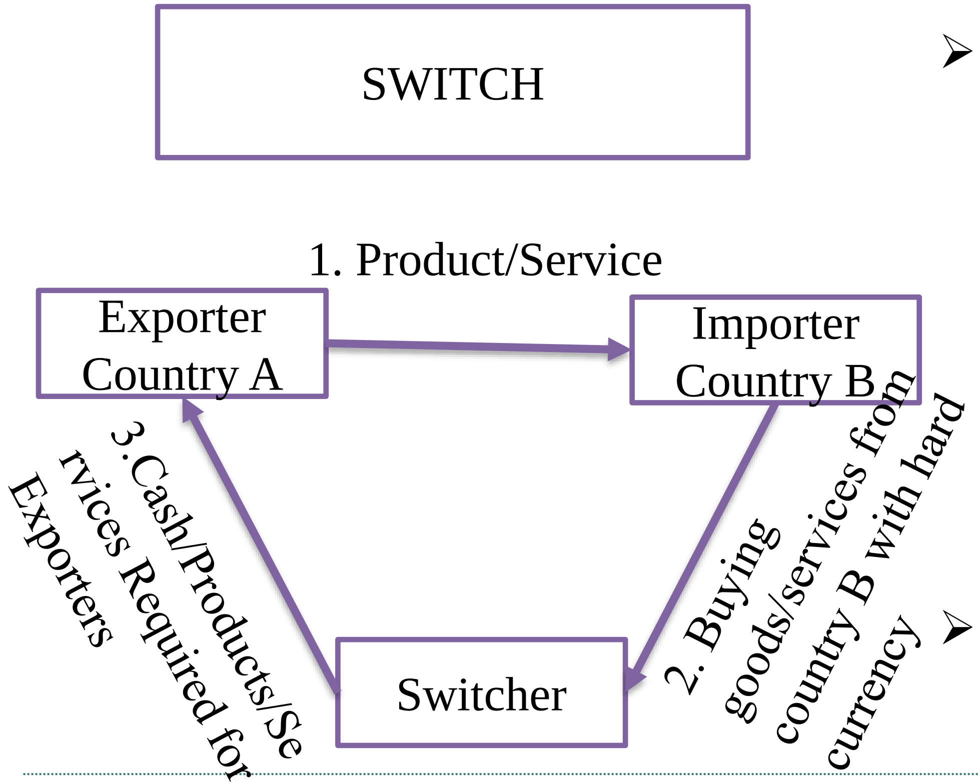
STOCK EXCHANGE AND AUCTION TRADES

- 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[2]

[2] 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.

Content of the second part of the presentation

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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

The **globalization** of the world economy coupled with mature and saturated home markets mean that international activity is a major management issue for most large retailers today (Rafiq, 2014).

However, the **move from purely domestic retailer to international retailer** is a significant step for these reasons (Bhatia, 2008):

Therefore, it is important to use **appropriate business meth** business method of internationalisation presents its own adva **cost and funding of new investment**, **how quickly the retaile abroad** and **the risk factors involved.** (Bhatia, 2008)

Nowadays, all types of retailers (luxury goods and specialist re fashion) are active in international retailing activities.

TYPES OF BUSINESS METHODS

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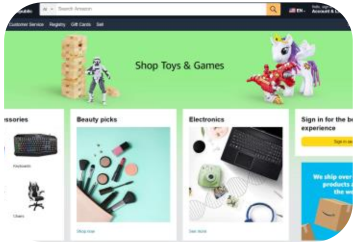
Exporting



Licensing product brand

Licensing process

Agents

Management contract

Franchising

Strategic alliance

Joint venture

Acquisition

Establish subsidiary abroad

CLASSIFICATION OF BUSINESS METHODS

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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)

Source: adapted from Bhatia, 2008

SPECIFICATION OF FACTORS INFLUENCING THE CHOICE OF BUSINESS METHODS

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

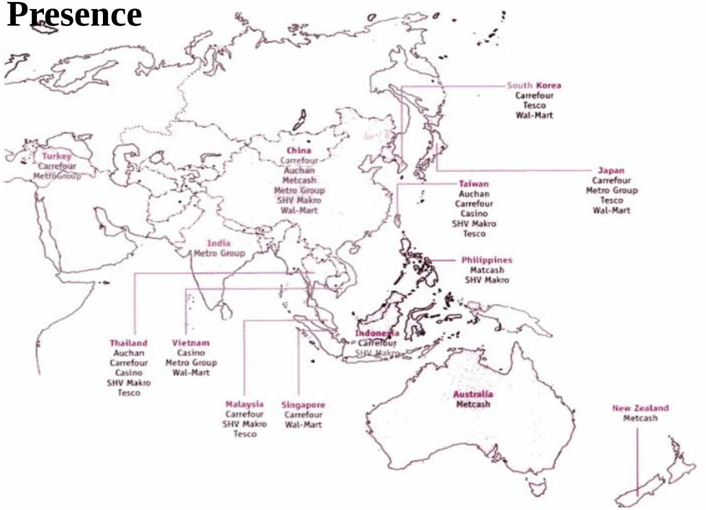
Before entering a new market they do a feasibility study and then design the best **strategy** for market entry.

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

The most preferred entry routes of global retailers are ranked from the most used method the following (Mukherjee and Patel, 2005):

1. Mergers and acquisitions
2. Joint ventures
3. Franchising
4. Wholesale cash-and-carry

MERGERS AND ACQUISITIONS

It allows bypassing barriers related to consumer preferences in merged company, which means that company A + company B = company A, where company B is merged into company A (Gaughan, 2017). Acquisition means gaining control over the company´s activities.

- **Example in retailing:** In 1997, Wal-Mart entered German market through acquisition of the local chain Wertkauf. Later it purchased another local chain Interspar. By purchasing these two domestic chains, Wal-Mart wanted to gain significant market share and at the same time reduce its competitors. Wal-Mart also entered by this way these markets: UK (Asda), Canada (Woolco), Asia (TOPS), and Latin America (Disco). (Mukherjee and Patel, 2005)

Most Preferred Entry Routes of Global Retailers

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JOINT VENTURES

It allows to circumvent the consumer preferences related barriers in collaboration with the local firm.

- **Example in retailing:** In 1991, Wal-Mart first set up operations in Mexico by opening Sam´s Club with 50-50 joint venture with Cifra, one of Mexico´s largest retailers. It now operates in Mexico under the name of several entities.

FRANCHISING

It allows firms to expand without investing their own capital, is based on local expertise and enables firms to circumvent local oppositions and regulations.

- **Example in retailing:** McDonald´s have entered into many countries through this mode.

WHOLESALE CASH-AND-CARRY

A cash and carry wholesaler has a warehouse set up with a cash and carry wholesale business (products are sold for cash and typically without any sort of delivery service).

- **Example in retailing:** Metro AG of Germany and Shoprite Checkers of South Africa have entered India through wholesale cash-and-carry operations.

Barriers to International Expansion

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Barriers to International Expansion

A large number of retail chains are expanding their operations beyond national boundaries, however, only few of them are able to sustain those operations and make profits. In some countries, domestic legislation controls the types of entry methods employed by retailers (Rafiq, 2014). → **Why are they doing this?**

Examples of failure in retailing:

- Carrefour had to withdraw from the US due to steep competition from Wal-Mart
- Wal-Mart had to leave Hong Kong after two years of its entry in 1994 and withdraw from Indonesia following the 1997-98 riots when its Jakarta store was looted and torched.
- Boots (UK-based health and beauty product retailer) had to sell its Dutch store to Royal Ahold in spite of having significant profits at home.

Multinational retailers face several barriers and difficulties in overseas markets, which includes these ones:

- **Barriers to entry and operation** (only faced by foreign retailers)
- **Domestic regulation related barriers** (both foreign and domestic retailers)
- **Other barriers** (both foreign and domestic retailers)

Barriers to Entry and Operation

Retail trade relies heavily on the freedom to establish a commercial presence in the foreign country. Hence, any barrier which limits the ability of firms to establish commercial presence affects international retailers. In many countries there are significant **market access restrictions** on foreign investments.

Examples in retailing:

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

Typically market access restrictions (Mukherjee and Patel, 2005):

- ➢ Limiting foreign equity ownership to specific levels
- ➢ Limitation on the purchase or rental or real estate
- ➢ Economic needs tests for service suppliers
- ➢ Requirement to form a joint venture with local suppliers

Domestic Regulation Related and Other Barriers

Many countries have imposed **regulations** which prevent large retailers from expanding their operations and benefiting from economies of scale. These restrictions **prevent anti-competitive** practices and/or **protection to the local small retailers**.

Example in retailing:

-In Germany, restrictions on shop opening timings and on retailers´ pricing policies, under the fair trading and anti-trust laws, is making it difficult even for larger players like Wall-Mart to operate in that market.

Typically domestic market access restrictions (Mukherjee and Patel, 2005):

- Restrictions on the number of retailers
- Restrictions on the size and location of outlets
- Restrictions on the outlets and zoning regulations

Other barriers include these ones:

- Strong local competition
- Unfamiliar customers taste
- Low purchasing power of consumers
- Customers preference for certain domestic formats
- Unstable political situation
- Poor quality of infrastructure

Summary of International Expansion Barriers

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Common Barriers **to Entry and Operation:**	**Common Barriers Due to Domestic Regulation:**	**Common Other Barriers:**
➢ FDI restriction ➢ Joint venture/local incorporation requirement ➢ Minimum capital requirement ➢ Local sourcing requirement	➢ Restrictions on geographical location and zoning regulation ➢ Limitation on size and number of retail outlets ➢ Restrictions on shop opening timings ➢ Restrictions on pricing, advertising, promoting and selling certain products	➢ Strong local competition ➢ Unfamiliar customers taste ➢ Low purchasing power of consumers ➢ Customers preference for certain domestic formats ➢ Unstable political situation ➢ Poor quality of infrastructure

- **What other barriers can affect international expansion?**
- **Why is knowledge of these restrictions important in trade operations?**

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.

A 4-POINT ASSIGNMENT!

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

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

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

Content of the second part of the presentation

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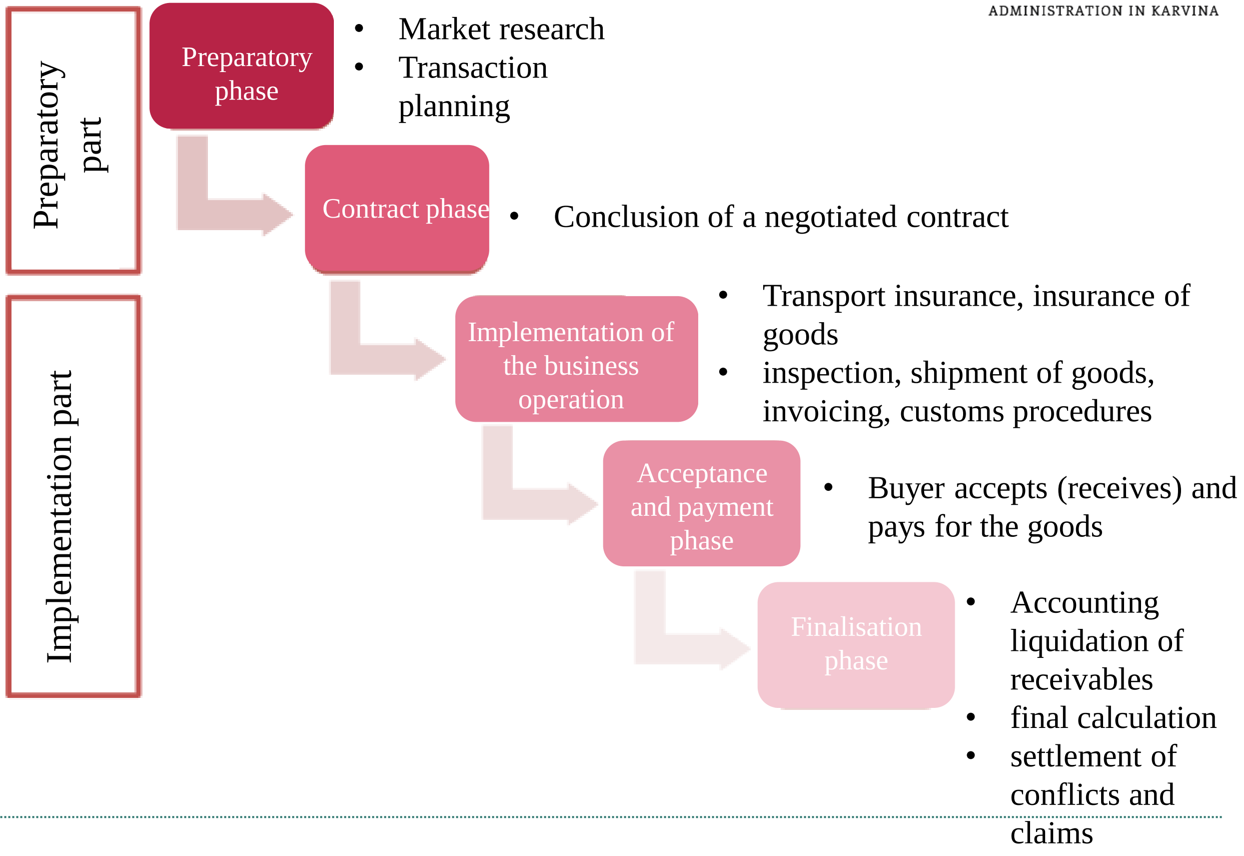
1. The role of the preparation and the plans for entering chosen market
2. Types of business negotiations
3. Business negotiations from the international perspective
4. Specification of documents types in business relations from the national perspective
5. Specification of documents types in business relations from the international perspective
6. Explanation of Incoterms

THE IMPLEMENTATION PHASE OF THE BUSINESS OPERATION

- Trading on foreign markets is carried out through individual trading operations, which can take different forms of entry into the international market.
- They are specific in content and consist of a preparatory and implementation phase.



Phase of Business Operations - a perspective on the differences between domestic and international trade

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Business operations are content-specific. The various stages and activities of the trade operations are detailed below.

Phase	National environment	International environment
1. **Preparatory phase of business operation** 	The domestic manufacturer, wholesaler or retailer sets out their buying or selling strategy, in which they sets out the goals and the results they want to achieve in exchange.	Importer and exporter determinate their buying or selling strategy. Importer and exporter sets goals, results, which they wants to achieve by buying or selling. In the case of capital inputs into the markets, the conclusion of the contract is also preceded by the stage of deciding on the profitability of entering the interest market based on a set of analyses of the foreign market (Mulačová et al., 2013).
2. **Contract phase of business operation** 	Conclusion of the purchase contract based on previous negotiation between business intermediaries (exclude foreign trade) or business agents (its content, preparation of the contract, negotiation, formulation and activities that allow its subsequent implementation).	The content is the conclusion of the purchase contract based on previous negotiation between importer and exporter, business agents or business intermediaries (its content, preparation of the contract, negotiation, formulation and activities that allow its subsequent implementation).
3. **Implementation phase of business operation**	 The goal is to fulfil the purchase contract, depending on how it was concluded.	
4. **Finalization phase of the business operation**	 The purchase contract must be terminated. Resolve any performance defects.	

PREPARATION AND THE PLANS FOR ENTERING CHOSEN MARKET

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Trading on foreign markets is carried out on the basis of individual trade operations, which can take various forms of entering the international market. (Mulačová et al., 2013)

- If a company decides to enter the market, either through export or foreign direct investment (FDI), **business preparation and plans** to enter a selected market are a very important stage for a successful business operation.

Foreign market analyses are a process of targeted searching and gathering information about **conditions, trends, opportunities and risks of the monitored market**. While this is a regular agent in the preparation of import and export operations or FDI for large companies with sufficient experience and own specialized analytical-statistical and marketing apparatus, this preparatory part presents a number of problems for small and medium-sized companies. Therefore, it is advisable to use the support of state institutions established by the Ministry of Industry and Trade (see Lecture 2).

The analyses carried out can be broken down from a number of perspectives, according to the methods used, the subjects that commissioned and finances the survey, the macro or microenvironment targeted, by region or country, or by time. However, it is important for the decision-making of an individual potential exporter or FDI implementer in specific business situations to **divide the analyses performed according to their content and focus on specific areas for trading**. (Mulačová et al., 2013)

The Specific Areas of Survey Focus when Conducting International Business Operations

- Territorial survey
- Commercial-political research
- Commodity survey
- Competition research
- Consumer survey
- Price survey
- Tax survey
- Examination of Payment conditions and instruments
- Survey of product quality and its technical level
- Logistics-Transport survey
- Exploring intercultural differences and social practices

- Before the final decision → conduct a risk analysis of the foreign trade operation

The Specific Areas of Survey Focus when Conducting International Business Operations

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It is important to carry out analyses in these specific areas for business operations (Svatoš, 2009):

- **Territorial survey** - focuses on the specifics of the area (country) in terms of macroeconomic, political, its trade policy and demography, including the country's creditworthiness (discussed in more detail in the second lecture).
- **Commercial-political research** – is an analysis of information on any autonomous market protection measures in use, tariffs, quotas, documents required and the stage of contractual instruments, including the examination of legal aspects.
- **Commodity survey** - focuses on the analysis of the market situation of a particular commodity, monitoring the development of prices, opportunities and tenders.
- **Competition research** - gathering information about the distribution of forces in the competitive market of the country (current and potential competitors), analysis of trends and further development.
- **Consumer Survey** - focusing on the consumer's purchasing behaviour and looking for factors that affect him, identifies the specific needs and desires. The analysis should identify who its customers (consumer, distributor, retailer) and specify the closer social, economic, age, gender and income characteristics of the market segment. In the case of the industrial market, know its country specificities and business partner profile.
- **Price survey** - has a key impact on pricing and acts as a marketing communication tool.
- **Tax survey** - finds out how the set tax level translates into higher prices of exported products, or how it affects business when opening branches abroad.

The Specific Areas of Survey Focus when Conducting International Business Operations

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It is important to carry out analyses in these specific areas for business operations (Svatoš, 2009):

- **Examination of payment conditions and instruments, including currency selection for the concluded contract** - is important to reduce insolvency or exchange rate risks.
- **Survey of product quality and its technical level** - prevents problems with the product market and ensures compliance with country regulations in the field of technical standards, sanitary and health regulations.
- **Logistics-Transport Survey** - focuses on identifying transport options, their costs, transport organizations or forwarding services and geographic specific areas.
- **Exploring intercultural differences and social practices** - involves identifying factors whose respect and use can significantly affect the marketability of a product or service. It manifests not only as linguistic, religious or communication differences, but also as differences in approach to business conduct, different meaning of verbal or written agreement, understanding of time, respect for authority, straightforward or tactical negotiation, individual or group decision making and business and private access in a personal meeting (**business negotiations**). Knowledge of national customs and their respect is a prerequisite for long-term business ties.

All information collected will be assessed by the exporter, importer, or FDI implementer either by their own expert team or with the help of external consultants. An important part preceding the final decision should be the elaboration of a risk analysis of the foreign trade operation. (Mulačová et al., 2013)

BUSINESS NEGOTIATIONS

TYPES OF BUSINESS NEGOTIATIONS

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As mentioned earlier, at the stage of preparation of a trade operation, it is important to find out the process of business negotiations in the country to prepare the trader as best as possible for the actual negotiation process.

Millions of international business deals are negotiated worldwide every day carried out by managers, business people, financiers, lawyers, engineers and sales and marketing executives. Many negotiations are carried out in face-to-face meetings. But, in addition, a wide range of alternative communication methods are used (text messaging, phone calls, emails, videoconferencing, virtual negotiation). Some of the factors that lead to success in both **domestic and international business negotiations** are the same, included (Maude, 2014):

- Preparedness of the negotiators
- Negotiating skills of the negotiators
- Quality of information acquired

But in many other ways international business negotiation differs from domestic negotiation and requires a different set of skills and capabilities – for instance, the ability to deal with complexity. The obvious complicating factors in international business negotiations are **language and cultural barriers** (Maude, 2014).

International business negotiation can be divided into micro and macro level negotiation (Weiss, 2006):

- **Micro-level negotiation** occurs between individuals, and is often focused on simple buying/selling transactions. Numerous small-scale buying-selling transactions are carried out every day by individuals who are in business for themselves.
- **Macro-level negotiation** takes place between organisations such as two international companies, or between a company and foreign government. Some macro-level negotiations are very large in terms of the values and the number of issues dealt with.

BUSINESS NEGOTIATIONS FROM THE INTERNATIONAL PERSPECTIVE

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International business negotiation differs from domestic negotiation in many important ways and requires a different set of skills and knowledge. The negotiators need to do more than simply transfer the tactics and techniques they used successfully at home to the international scene. **Cultural empathy and trust - building** skills are also needed. For example, negotiators from some parts of the world tent to distrust foreigners, which causes communication barriers to appear in negotiations. Other complications can include the impact made by **different legal** and **political systems**, as well as by **different negotiating customs** and **protocols**. (Maude, 2014)

Worldwide examples:

Chinese business negotiation culture

-the international negotiators should take into consideration three key aspects of the Chinese negotiation culture which would normally be critical for effective business negotiation. These are the three main Chinese cultural concepts and relationship management skills of ´guanxi´ (**relationship**), ´mianzí´ (**face**), and ´keqi´(**Chinese courteous and refined behaviour**). (Wang, 2017)

Russian business negotiation culture

-for trading with this country there are some specific practices, which states that the **language** of negotiation is Russian, important **personal contact**, business offers to be prepared **in different delivery parities** and in **different currencies**, negotiation of business conditions is sharp, the risk of contracts that it is not possible to influence, it is important to help in the territory from representatives or companies already operating on the market, the background materials must be in Russian language (or in Russian-English version), knowledge of not only **federal but also local legislation**, goods description and instructions in Russian , the **dates** of negotiations **are often delayed**.

Worldwide examples:

Brazil business negotiation culture

-the official language of Brazil is **Portuguese**, which is clearly preferred in trade negotiations, although some traders have a partial command of **English or Spanish**. Increased emphasis should be placed on the preparation of an interview with a business partner, which may to a certain extent predetermine the success or failure of their own business dealings. It has a very positive effect if at least part of **the promotional documentation is prepared in Portuguese**. If another language needs to be chosen, English is definitely better than the possible use of the Spanish version of the materials. It is advisable to arrive in time for the appointment in advance, although later arrivals of 10 to 15 minutes are usually tolerated. It is customary to address a business partner by **first name**, possibly with a supplement to the position he holds. Business cards are exchanged after the introductory performance. One of the prerequisites for success in the Brazilian market is respect for the fact that Brazilians like to deal with business issues during business **lunch or dinner**, so etiquette also plays a role. With regard to the relatively free working hours, it is recommended to use the interval between **10 am and noon or the afternoon after 3 pm** as the most suitable hour for a business meeting.

The United States of America business negotiation culture

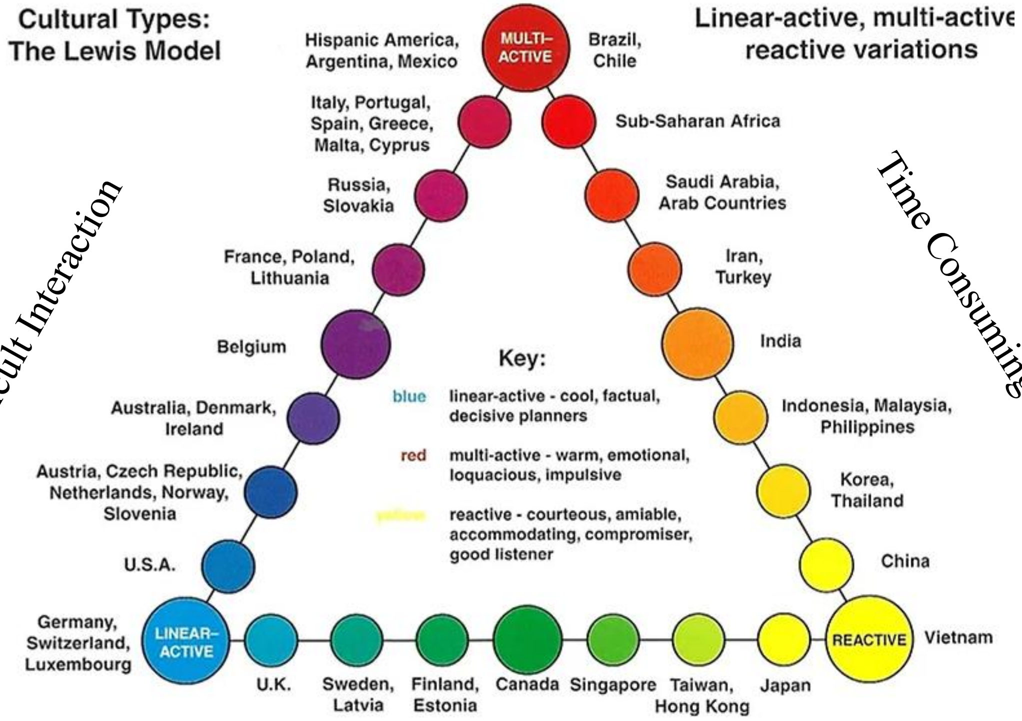
-An accompanying feature of American business culture is the pursuit of **simplicity and straightforwardness**, it is better to use short and clear positions in presenting and negotiating without unduly explaining and describing complex contexts. Maintain **direct eye contact** during negotiations to build trust. It is common practice to hold **teleconferences**, often in the presence of three or more people. These negotiations need to be taken as seriously as ordinary personal business meetings, to prepare well for them and to connect with the phone from the Czech Republic at a specified time. At the beginning of negotiations, it should be made clear what the parties are entering into negotiations with and what their **expectations** are.

BUSINESS NEGOTIATIONS FROM THE INTERNATIONAL PERSPECTIVE
-Worldwide examples in short

Country	Perception of negotiation time	Type of clothes	Language of negotiation	Preferred way of communication	Interesting facts in business negotiations
China	Appointment time preferably between 9-11 a.m. and 14-16 p.m. hours	Suit	Chinese	Personal meeting	The key is in the negotiations the role of a company **owner or CEO**. Inviting to lunch or dinner is a common part of a business meeting. Usually several courses are served. The invited partner is also expected to make a **few toasts**.
Russia	There is frequent delays in business negotiations	Business suits	Russian, but the management of large corporations and companies can also speak English	Personal meeting	**Gift exchange, frequent toasts**. Negotiations, which are often complicated by various **bureaucratic constraints**, are usually difficult, requiring patience and purposefulness.
Brazil	Appointment time preferably between 10-12 a.m.	Suit and formal shirt with tie	Portuguese. English and Spanish are also possible.	Personal meeting	It is usual to call a business partner by first name. Brazilians like to deal with business issues during business lunch or dinner. **Corruption also occurs**.
USA	In case of impersonal contact it is best to plan between 22-24 p.m. (in the case of the Czech Republic)	Conservative	English	Teleconference (Skype, videoconference)	Attendance of a company attorney in a business meeting. They **badly tolerate silence** in the meeting. **Sports issues** are perceived very positive and sporting verbal bargains can also be used (expressions like slam dunk, drop the glove).
Czech Republic	Appointment time preferably between	A conservative yet stylish suit is	Czech, English, other with the help	Personal meeting	If invited to a Czech home, it is appropriate to bring a **gift**. Good quality wine or spirits, chocolates and

Cultural Types – The Lewis Model

Difficult Interaction



Time Consuming Interaction

Succesful Interaction

EXAMPLES AND PRACTICAL IMPLICATIONS OF CROSS-CULTURAL DIFFERENCES

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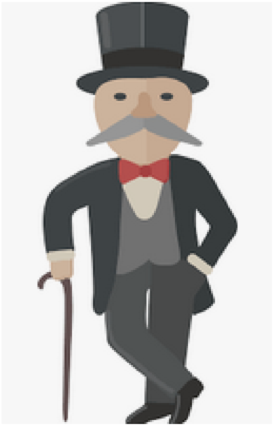
WHAT THE BRITISH SAY	WHAT THE BRITISH MEAN	WHAT FOREIGNERS UNDERSTAND
I hear what you say	I disagree and do not want to discuss it further	He accepts my point of view
With the greatest respect	You are an idiot	He is listening to me
That´s not bad	That´s good	That´s poor
That is a very brave proposal	You are insane	He thinks I have courage
Quite good	A bit disappointing	Quite good
I would suggest	Do it or be prepared to justify yourself	Think about the idea, but do what you like
Oh, incidentally/by the way	The primary purpose of our discussion is..	That is not very important
I´ll bear it in mind	I´ve forgotten it already	They will probably do it
You must come for dinner	It´s not an invitation, I´m just being polite	I will get an invitation soon



PREPARING FOR THE NEGOTIATIONS IN FRANCE

Ways to success	Ways to failure
Try to get into French discussion regarding a free market and social guarantees	Talk only English
Show respect to French culture	Ignore French intellectual experience
Be sure that your French guests gets good food and drinks	Curse and drink too much
Keep the formal communication till you suggested to address by names	Decreasing importance of French language in a modern world
Be logic and consistent while negotiating and keep up with your decision	Refuse a proposal to have lunch or diner together

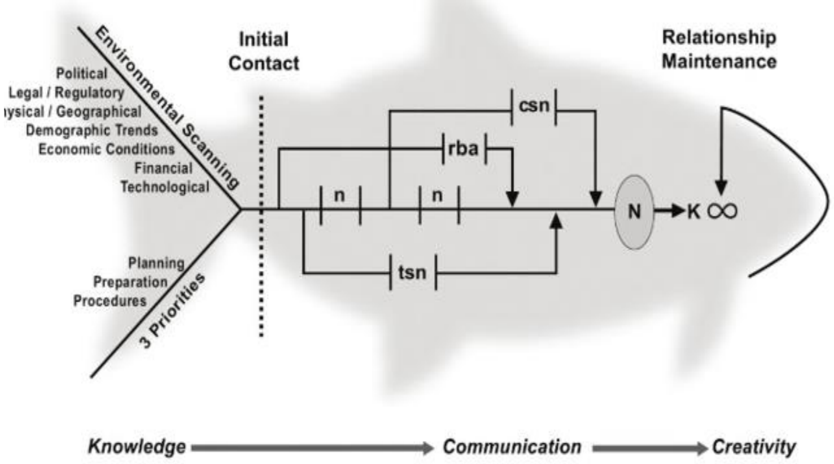
Icebreakers	Icebergs
Marvellous regions of France	Comparison of unemployment rate in France and EU
Food and wine	Old French – English conflict
Six Nations rugby Championship	Decision to choose a new world wine instead of French one

The Global Negotiation Process

The new rules in international business negotiation were created by Requejo and Graham, 2014 to efficient and creative international commercial negotiations. These rules help to transform international negotiations from traditional competitive and/or problem-solving activities into truly creative and innovative processes and include these simple rules:

1. Accept only creative outcomes
2. Understand cultures
3. Don´t just adjust to cultural differences, exploit them as well
4. Gather intelligence and reconnoitre the terrain
5. Design the information flow
6. Invest in personal relationships
7. Persuade with questions
8. Make no concessions until the end
9. Use techniques of creativity
10. Continue creativity after negotiations

Figure 1: The global negotiation process "The Fish"



Notes: N = formal negotiations
n = informal negotiation
K = contract/definitive agreement
rba = relationship building activities
tsn = technical side bar negotiations
csn = creative side bar negotiations

Source: Requejo and Graham, 2014

CONTRACTS IN INTERNATIONAL TRADE

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Contracts in International Trade

For the actual conduct of business operations, the legal framework establishes contractual relations that are specific because their entities are from different countries and the legal relations extend across borders. Therefore, there must be **agreement on the choice of law** governing the contractual relationship. (Mulačová et al., 2013)

In addition to contractual relations, certain business practices, representing certain rules that are known and observed in business circles, are respected in trading (Machková, 2010). These can be, for example, practices in ports, trading in certain commodities, or interpreting contracts.

Given that international trade and economic relations are governed by both international and private and public law standards, **international trade law** is defined **as a purposeful set of legal norms from different legal sectors and of different origins that combine their common purpose to regulate legal relations arising**

Contracts used in international trade include, for example (Machková et al., 2014; Looney, 2018):

- Purchase Contract
- Dealership Agreement
- Other contracts related to purchase contracts (contract for opening a letter of credit, contract for collection, lease contract)
- Contracts of transport
- Intermediary contracts
- Bilateral agreements

Purchase Contracts in International Trade

The purchase contract is concluded between the seller and the buyer and its content defines **the basic rights and obligations of both parties**. Form, method of closure and differences in legislation may give rise to possible problems and difficulties. For this reason, great attention should be paid to their preparation. When executing a business operation, there is a great risk of ensuring the agreed conditions, in particular the timeliness of delivery, quality and the correct assortment composition on the part of the supplier, but also does not remove the goods or their non-payment. Therefore, payment instruments that are proportionate to the level of risk should also be chosen. Exchange rate risks may also arise. (Mulačova, 2013)

Purchase contracts are concluded in **two stages** (Machková, 2009):

- Submission of the offer - draft purchase contract by the seller, usually in writing, which the buyer accepts (confirmation of the offer)
- Buyer's order and its confirmation by the seller

The purchase contract is a basic contractual relationship whose signature is the culmination of negotiation activities. It is an agreement on **essential attributes** that includes the following particulars (Mulačová, 2013):

- Contracting Parties
- Subject (identification of goods and their quantity, packaging, special requirements, country of origin, EAN marking, etc.)
- Price
- Payment terms and their security
- Delivery time
- **Delivery parity**
- Means of transport

The delivery clauses (parity)

Purchase contracts in international trade usually include delivery parity, which **expresses the obligations of the contracting parties in connection with the delivery and takeover of goods** (Mulačová et al., 2013). The delivery parity determines the obligations of the seller and the buyer related to the delivery and takeover of the goods, in particular (Machková, 2010):

- **method**, **the place and time of delivery** of goods to the purchaser
- the method, place and time of transfer of **expenses and risks** from the seller to the purchaser
- other obligations of the parties in providing **transportation, loading and unloading of goods, accompanying documents, inspection, insurance, customs clearance**, etc.

The delivery parity significantly influences the amount of the price in foreign trade, because it determines what part of the circulation costs associated with the delivery of goods is paid by the seller and what part the buyer. In general, the longer the delivery term, i.e. the greater part of the circulation costs are paid by the seller, the higher the prices may be.

Delivery clauses have arisen in business practice on the basis of business practices, which have often been used inconsistently according to local conditions, thus becoming a brake on the development of international trade. At present, the use of International Interpretation Rules **INCOTERMS** (International Commercial Terms) clearly prevails **worldwide**. Only when trading on the American continent can we exceptionally meet other rules, namely RAFTD (Revised American Foreign Trade Definition). (Machková, 2010)

Trade Terms

The standard rules of reference for the interpretation of the most commonly used trade terms in international trade are **Incoterms**. The basic purpose of the rules is to define how each Incoterm, as agreed in the sales contract, should be dealt with in terms of delivery, risks and costs, and specify the responsibility of the buyer and seller.

When choosing the appropriate terms of delivery, deciding factors (from the seller´s perspective) include (Grath, 2016):

- **The mode of transport** and the transportation route, the buyer and the nature of the goods
- **Standard practice**, if any, in the buyer´s country or any regulation set by the authorities of that country to benefit their own transport or insurance industry
- **Procedures**, where the seller should avoid terms of delivery, which are dependent on obtaining import licences or clearance of goods to countries they cannot properly judge
- **The competitive situation**, where the buyer often suggests their preferred terms of delivery and the seller has to evaluate these terms in relation to the risks involved.

EXPLANATION OF INCOTERMS

Delivery parity issues are governed by possible INCOTERMS clauses. These clauses are **not international treaties**, but have been **developed in practice on the basis of commercial practice** to **facilitate the conclusion of contracts and reduce the risk** of disputes and the uncertainty of differing interpretations of the delivery of clauses in different countries during goods handover, transport, unloading, warehousing or customs clearance. (Mulačova, 2013)

INCOTERMS clauses are not an international agreement and do not apply as an international business practice. They shall be binding only **upon the agreement of the Contracting Parties**. Only after this arrangement do they become part of a specific purchase contract and bind both parties. (Svatoš et al., 2009)

A set of international interpretative rules INCOTERMS is prepared and published by the International Chamber of Commerce in Paris (Machková, 2010). International Chamber of Commerce **defined INCOTERMS as**:

"ICC's Incoterms® rules are the world's essential terms of trade for the sale of goods. Whether you are filing a purchase order, packaging and labelling a shipment for freight transport, or preparing a certificate of origin at a port, the Incoterms® rules are there to guide you. The Incoterms® rules provide specific guidance to individuals participating in the import and export of global trade on a daily basis."

The 2020 terms are now current, making this the sixth version of these rules. Incoterms rules have been issued since 1936.

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.

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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.**

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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.

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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**.

Thank you for your attention ☺

Do you have questions?

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