

Chapter 2: Importance of International Business  
2.2 WHY DO COMPANIES EXPAND INTERNATIONALLY?  
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**Expand Markets and Increase Sales**

Expanded markets and increased sales mean more profits. Profits mean success for a business. They also mean that a business can make contributions to causes that they believe in.

For example, MAC Cosmetics is a business that increased sales and broadened their markets in order to become more successful. This business started as a small idea and eventually expanded to a greater establishment by going international.

This business in particular decided to create a fund dedicated to the cure and prevention of AIDS.

MAC Cosmetics really did expand their markets. They ended up selling their product in 118 countries, controlled 45% of cosmetic sales and had \$3.6 million in USD.

**Controlling Expenses**

Every business wants to have low expenses; so some companies will therefore enter the global arena to minimize their costs. Companies will examine the resources they need and where they can get them at the lowest price. By searching outside of their own borders, companies hope to find more economical solutions to the production and manufacturing problems they have. Business might choose to take advantage of lower labor costs, they might move manufacturing plants closer to natural resources, invest in new and more efficient technology, or profit from another countries innovations or tax structures.

For example a company that is located in Toronto that gets most of their resources from Japan might want to look into moving the company closer to Japan or they might have to look into finding a new place to get their resources. This is known as outsourcing, meaning that a company will obtain something by contracting it from another source.

**Diversification**

In order to diversify a company's product line they may choose to enter a specific international market. This will apply to both a large scale international business along with a small company.

Companies have a foothold in a number of countries so they don't have to depend on the economy of one country. Companies engaged in international business can protect their investments and their markets by dealing with countries in a variety of countries. A recession in one county won't have a huge effect if business is doing well in another country.

## **Competitiveness**

Many companies expand globally for defensive reasons-to protect themselves from competitors or potential competitors, or to gain advantage over them.

In today's business environment, even a small business is competing with international businesses. A neighbourhood video store is facing competition from a larger international company such as Blockbuster Video. A local store may have a limited selection because of its small size but it may be able to offer more personal service, a more specialized stock or even lower prices. On the other hand, local businesses may find it difficult to compete with the selection and price that multinational companies can offer. If their businesses are too threatened, they may find wider markets or merge with a larger, possibly international company.