

**1. Examine possible reasons why only a small proportion of Australian businesses export their goods or services.**

Possible reasons include: it can be costly for a business to set up operations in such a way as to compete effectively in global markets, i.e. being price competitive with goods and services; it can be a complex process; the risks may be high as there is uncertainty in global markets; the cultural gap between Australian business and offshore markets may be vast, and; a business may not have the capacity to observe niche areas in the market.

**2. Place the following reasons for international expansion in order of importance for a not-for-profit pharmaceutical manufacturer.**

- **Increased profit**
- **Greater access to markets**
- **Tax minimisation**

1. Greater access to markets
2. Tax minimisation
3. Increased profit

**3. Outline reasons for international expansion that might be the most important for the following businesses:**

- **A Tasmanian shoe shop**
- **A British oil company**
- **A Polish film company**

A Tasmanian shoe shop – the main reasons for international expansion would be to increase sales by finding new markets outside of the relatively small Tasmanian and Australian markets. This would lead to an increase in profits. International expansion would also cushion the company from changes in the Australian economic cycle, as downturns in Australia would hopefully be offset by upturns in other nations in which the business operates.

A British oil company – the main reason for international expansion would be to acquire new resources of oil supply as oil is limited resource and supplies in Britain may run out. Also, selling oil in overseas markets would allow the company to increase sales and profits and it would be easy to sell oil in overseas markets as it is a raw product and thus not highly differentiated.

A Polish film company – the main reason a Polish film company would expand internationally would be to acquire new resources in terms of skilled labour in the film industry. Poland is not known for its film industry's prowess.

**4. 'Going global is only for the bold, risk-taking and dynamic people of the business community.' Explain how international expansion can be a safety precaution for businesses.**

International expansion can act as a safety precaution for a business as it would become insulated from problems that may arise in the one country. Having greater access to foreign markets ensures that the business may be protected against sudden changes in the economic cycle. Also, the competitive risk faced by the business will be minimised as it will be less affected by the entrance of new competitors into its domestic market.

**5. Explain how international expansion lowers costs for businesses. Illustrate your answer using THREE examples.**

One way in which international expansion can lower costs for a business is that it allows the business to acquire new, cheaper resources and improve the efficiency of its supply chain. Also, international expansion allows businesses to gain access to new technologies which enhances efficiency and therefore reduces costs. Finally some businesses expand internationally to take advantage of regulatory differences, such as differences in labour standards, environmental standards and taxation rates, which can significantly reduce its costs. Examples include 3M's acquisition of new magnetic technologies when entering the Australian market, James Hardie's overseas relocation to reduce costs and Domino's expansion into Europe which allows supply chain efficiencies.

**6. Outline the possible risks associated with each method of international expansion. Which method has the highest / lowest risk? Justify your response.**

Exporting – when exporting through a distributor there is a high risk of losing control of important business functions, such as marketing. When establishing a new distribution chain in a foreign country there is a high level of financial costs and risk. When establishing a complex value chain there are risks involved with high monitoring costs if the structure of the value chain becomes too complicated. However, financial risks are low for this kind of expansion.

Foreign Direct Investment – when establishing a new operation (international greenfield expansion) it can be very expensive and very risky as the business has no experience in the new market. When acquiring an existing business there is a risk that problems will appear that were not mentioned during the purchasing process. Moreover, there is also a financial cost. When entering into a joint venture there are risks associated with culture clash and competing objectives of the partners.

Relocation of production – this method can have a high degree of financial risk as it can be very costly to find an appropriate site for relocation.

Licensing and franchising – one risk is that the potential profits from licensing and franchising may be limited to the fee that the business agrees to in advance. If the overseas expansion is highly successful, the business will potentially miss out on high profits. Another risk is associated with the fact that the domestic business will have little control over its foreign operations, but the actions of a foreign licensee could still produce negative publicity for the domestic business.

Management contract – as with a licensing or franchising arrangement, the potential profits of a management contract are limited to the fee arranged in the terms of the contract, thus there is the risk of missing out on large potential profits.

**7. Discuss the THREE main ways in which a business can become an exporter.**

One way for a business to become an exporter is to sell their goods to a distributor in a foreign market, who then on-sells the goods to retailers or customers directly. Another way is to establish their own distribution chain in another country, allowing the business to fully control its distribution activities. A final option is one that is employed by major global businesses and involves having complex value chains which engage in a considerable amount of inter-business trade. The divisions of the business export products to each other (intra-corporate transfer) and eventually distribute products into consumer markets.

**8. Define what is meant by foreign direct investment. What are the costs and benefits of the three ways in which a business can undertake FDI?**

Foreign Direct Investment (FDI) refers to the establishment of a new business or purchase of an existing business in another country. The three methods of FDI are an international greenfield expansion, acquiring an existing operation, or entering into a joint venture or strategic alliance with other businesses.

An international greenfield expansion is advantageous in that it allows the business to start from scratch. A disadvantage is that it can be very risky as the business does not have proven record of success in the new country.

The benefits of expanding by acquiring an existing operation are that the existing operation already has a track record and hopefully a steady cash flow and a solid customer base. However, there is the downside that the past experience of the operation may not be favourable and could include problems of debt and conflict between employees and management.

Finally, a joint venture can be advantageous as it allows the business to share the risk and costs associated with international expansion and the businesses can pursue opportunities that neither could take on individually. Statistics show however, that joint ventures have a very high failure rate which is generally due to a clash in the objectives or cultures of the partners involved in the new operation.

**9. What is the most appropriate method of international expansion for a business with the following characteristics?**

- Six employees
- Limited managerial expertise
- Small product line
- Limited financial resources

The most appropriate method of expansion for a business with these characteristics would be exporting by selling their goods to a distributor in a foreign market. This method would allow the business to take advantage of the expertise and financial resources of the distributor and would not place a great deal of stress on the current small staff. If the exporting venture proves successful the business can assess further international expansion options such as relocation of production or FDI. These options could only be pursued if the financial resources and managerial expertise are improved.

**10. Explain the difference between licensing, a franchise agreement and a management of contract agreement.**

Licensing involves the owner of a brand name or product, the licensor, selling the right to produce and/or distribute the good to a different business in another country, the licensee. The licensor receives an upfront payment and possibly ongoing royalties over time. A franchise agreement on the other hand, allows the franchisee to operate a business under the franchisor's name and take advantage of intellectual property and support services provided by the franchisor in return for a fee. A greater percentage of the business's profits are returned under a franchise agreement compared to licensing but it can be more complicated to monitor and establish.

Another alternative contractual method of international expansion is a management contract. This is characterised by a business receiving a fee in return for its managerial or technical expertise.