

# THE ADVANTAGES OF GLOBAL BUSINESS



## Multiple choice

- |    |   |     |   |     |   |
|----|---|-----|---|-----|---|
| 1. | A | 6.  | A | 11. | C |
| 2. | B | 7.  | C | 12. | C |
| 3. | D | 8.  | D | 13. | D |
| 4. | A | 9.  | B | 14. | A |
| 5. | D | 10. | B | 15. | C |

## Short answer questions

### Question 1

- (a) **GRO Holdings sells its products directly to consumers in America (direct exporting). The company also sells products to consumers in Europe through intermediaries (indirect exporting) which may have been done through franchising or licensing. By purchasing a business in Asia, GRO Holdings has also engaged in foreign direct investment.**
- (b) **By selling its products directly to consumers in America, GRO Holdings has avoided the need to use intermediaries in its distribution process. Intermediaries will generally charge a mark-up on the cost price of the good, increasing prices for consumers and reducing profits for the business. However, direct exporting also has negative features. The lack of intermediaries can mean that a product reaches fewer consumers than it otherwise would. In addition, if GRO Holdings does not have a good knowledge of the American market then it may target its products at inappropriate market segments or may set prices at an unsuitable level. This will reduce revenue and profits.**

### Question 2

- (a) **Alphabeta would benefit from a reduction in trade barriers which would increase the access of their products to foreign markets such as Australia and China.**
- (b) **The lowering of trade barriers throughout the world might have exposed Alphabeta Ltd to international competition in the USA. These competitors may achieve economies of scale by producing books in low wage countries such as China. Alphabeta may have to increase its own overseas sales to compete with these low-cost businesses in order to gain the economies of scale necessary to compete.**

Alphabeta's decision may have been prompted by changes to its existing markets in the USA. Changes in government budgets may have cut education spending which would adversely impact Alphabeta's sales to schools. To maintain sales revenue, Alphabeta would then have to consider changing products or looking for new markets – such as China and Australia.

- (c)
- International expansion would substantially increase Alphabeta's potential customer base. At present, Alphabeta concentrates entirely on the American market, meaning that it has 50 million potential customers. However, expansion into China and Australia would give the company access to an additional 302 million customers. This may allow Alphabeta to dramatically increase sales.
  - In addition, lower labour costs outside America may allow Alphabeta to increase its profitability by shifting production overseas. For example, average labour costs in America are \$15 per hour compared to just \$12 per hour in Australia and 80 cents per hour in China. This would lower the cost per book to the company.
  - Increased production may also allow Alphabeta to reduce its production costs if it allows the business to achieve economies of scale. That is, if the business receives benefits from producing books in higher volumes.
  - Finally, international expansion will help Alphabeta to minimise its exposure to adverse economic conditions. By reducing its dependence on a single market, Alphabeta will be less susceptible to sudden shifts in demand and will be able to achieve more stable flows of revenue and profits.

On balance, it appears that expansion into the Chinese market may be the most beneficial to Alphabeta Ltd as it will allow the business to substantially reduce its cost base through lower wages a greater chance of achieving economies of scale. The Chinese market also exposes the company's products to a huge number of potential new consumers. Of course, Alphabeta would have to be careful to balance the risks associated with publishing in a different language.

### Question 3

- (a) Foreign Direct Investment allows a business far greater certainty in expansion – ie, lower risks. Wok Burn would already have an established market and knowledge of the market which could be exploited.
- (b) Foodfighters could sell franchises to New Zealand entrepreneurs. These franchisees would receive the right to operate their businesses under the Foodfighters name in exchange for a fee. Franchisees would also receive access to intellectual support and advertising services from Foodfighters in Australia.
- (c) Industrial conflict could arise if Foodfighters' management team decided to restructure Wok Burn after the purchase. This could result in job losses amongst existing Wok Burn employees. Wok Burn employees may be worried that their leave and other entitlements accumulated under the previous ownership regime would be changed or not recognised once Foodfighters' purchased the business. Finally, cultural differences between Australian and New Zealand business practices may cause resentment on the part of Wok Burn's employees. This may encourage them to engage in covert industrial action such as absenteeism.

- (d) In order to avoid industrial conflict, Foodfighters' management team should keep Wok Burn's employees fully informed of all changes in the operation of the business after the takeover. It would also be crucial to give existing employees a degree of certainty over their position and entitlements prior to the takeover to make the process as smooth as possible. Maintaining a high level of communication between management and employees can often help to reduce workplace conflict. In addition, Foodfighters' management could increase the morale of their New Zealand workforce by creating a more pleasant workplace environment, possibly through the introduction of non-financial rewards such as family-friendly work practices. Finally, Foodfighters' management could launch a training program to improve the skills base of its workforce. This program could improve the motivation of employees by making them feel that Foodfighters was interested in their own development, not just in making profits. Employing new managers from New Zealand as well as Australia – a geocentric approach – would also increase motivation.

#### Question 4

- (a) Transnational corporations are businesses that are managed, controlled and owned globally. They must also produce their goods in more than one country. TNCs have their greatest impact on globalisation through the movement of goods and services between nations – accounting for more than two-thirds of global trade. There are costs and benefits of TNCs for individual countries. They can provide greater access to new technologies and investment but some TNCs have also been accused of exploiting unskilled labour in developing countries.

The internationalisation of trade has spurred the creation of a global market for goods and services. Increasingly, consumers in different countries desire similar goods, services and lifestyles. The creation of global consumer markets is of benefit to corporations who are able to market single products in numerous markets. However, it is also reducing cultural diversity in many places.

- (b) i) By focussing on the Australian market, Boxit is leaving itself unnecessarily exposed to fluctuations in this country's economy. A slowdown in Australian economic growth could have serious consequences for Boxit's profitability. International expansion would allow Boxit to reduce its dependence upon the strength of the Australian economy.
- ii) Boxit may discover that the minimum wages and workplace restrictions placed on businesses in Australia place too high a cost burden on its profits structure. Moving its production facility overseas might lower costs.
- iii) The Australian economy is relatively small by international standards and can often only cope with a small number of competitors in each market. The prospect of a new competitor, or a joint venture between two competitors might adversely impact on Boxit's profits. International expansion would allow Boxit to minimise the competitive risk associated with the entrance of new competitors into the Australian market.