

## Matching

Definitions	Terms
Cost savings which occur because of the large size of the business And large volume of transactions	Economies of scale
The combination of two or more businesses to form a new entity for a specific project	Joint venture
A situation where the owner of intellectual property permits another business to use that property	Licensing
The granting of permission to a business to sell a well known product using a well known trade name	Franchising
Expansion of a business into a host country to access markets that it was unable to previously	Penetrating overseas markets
Acquiring or developing businesses at different stages of production	Vertical integration
Acquiring or developing businesses in unrelated stages of production to the parent company	Diversification
The risk faced by a business that there may be an unexpected change in the exchange rate	Nominal exchange rate risk
The risk of interruption of business activity due to the actions of a government	Political risk
Location of business offshore in order to pay the lowest amount of tax	Tax minimisation

## True or False

- |          |          |           |
|----------|----------|-----------|
| 1. False | 5. True  | 9. True   |
| 2. True  | 6. True  | 10. False |
| 3. True  | 7. False |           |
| 4. False | 8. True  |           |

## Multiple Choice

- 1 D Methods of international expansion – relocation of production
- 2 C Methods of international expansion – tax minimisation
- 3 A Methods of international expansion – export
- 4 B Methods of international expansion – licensing/franchises
- 5 A Methods of international expansion – foreign direct investment
- 6 B Reasons for expansion – economies of scale
- 7 C Methods of international expansion – management contract
- 8 A Reasons for expansion – increase sales/find new markets
- 9 B Reasons for expansion – cushioning economic cycle
- 10 C Reasons for expansion – diversification
- 11 B Methods of international expansion – foreign direct investment
- 12 D Methods of international expansion – licensing/franchises
- 13 A Methods of international expansion – export
- 14 D Reasons for expansion – economies of scale
- 15 C Reasons for expansion – minimise competitive risk

## Short Answer Questions

### Question 1

- (a) The really sports-conscious athlete (psychographic characteristic) would be one target market for this business's products. Lower income families (economic characteristic) would be another target market because of the low cost of the cycles.
- (b) Many domestic businesses choose to enter the global market by means of export. Because of increases in technology it is now feasible for a low volume high quality product to be profitable as an export so technology has helped to reduce costs as niche markets have been developed. A major benefit will be the development of the profile of the business with the possibility of establishing an overseas production facility and the expansion of market opportunities. The major costs involved relate to the initial move into export and the risks associated with expansion overseas are relatively lower than other methods of global expansion. Austrade can help businesses wishing to develop new markets overseas.
- (c) The business could have expanded overseas by franchising. This would involve the business finding another business in the host country (Syria) that was suitable to use the home country (Sydney, Australia) business trade name and to market the home country business's products in the host country.

Another method of expansion would be to relocate overseas. This would be an option if production costs had become too great in Australia, and there was a valid opportunity to relocate in an offshore market.

**Question 2**

- (a) One reason for a business to expand into global markets is to cushion economic cycles. At any given time, different countries will be at different phases of their economic cycle, so if a business is located in a country which is in recession, this could be offset by having a subsidiary in a country which is experiencing a boom.

Another reason for global expansion is to increase sales and develop new markets. If the home country has a limited market size for the product, trying to develop markets in other countries can be beneficial for the business.

- (b) When a business, especially a business like Golfmania which targets the recreation market, is located in an economy experiencing downturn or recession, the profitability of the business or the ratio of gross or net profit to sales will be declining, and if sales are declining it is most likely that liquidity is falling as well. On the other hand in times of upswing and boom, profitability and liquidity will increase.
- (c) If a business is located in several economies, it can use as a benefit the fact that each economy is probably at different phases of its economic cycle, so that while one subsidiary may be reporting low sales revenue, this will be offset by subsidiaries in other locations reporting good results. It must be pointed out that cushioning economic cycles is not usually a primary reason for global expansion but more of a benefit by being able to offset losses in one area with profits in another.
- (d) Because Golfmania operates in the leisure activities market, and spending on leisure tends to be discretionary, the most appropriate market in this case is Togo. This country is undergoing growth of 5.3% compared with Panama's 0.4% and these growth rates are reflected in the unemployment rates in each country where the unemployment rate in Togo is quite low compared with Panama's high rate of 8.3%. This means that there are far more people in Togo who would have the discretionary income to spend on leisure goods compared to Panama. This is also reinforced by Togo's high Current Account deficit which indicates an excess of imports over exports.

**Question 3**

- (a) One method of international expansion is by foreign direct investment, where a business located in another country uses either debt or equity funding to purchase a business or establishes a new business overseas.

A second method of expansion is by exporting where a domestic business expands out of its local market by establishing an export market by selling its output overseas.

- (b) One driver of globalisation which could have encouraged Coldex to expand overseas is the impact of technology. While Australia is not well known for its skis or snowboards, it is a country that has been quick to adapt to new technology. Coldex may have access to new technology which overcomes the lack of geographic advantages and enables it to penetrate otherwise difficult markets. The FDI expansion into New Zealand may have been because of the CER treaty with NZ.

- (c) Tastes are one socio-cultural factor influencing consumer choice of Coldex snowboards. Although the market for such products is not big in Australia, Coldex has tried to penetrate overseas markets where winter snow sports are very popular. In this regard, Coldex is appealing to the tastes of people who frequent the snow resorts in other countries. Perhaps Coldex is trying to develop a market in Russia where people are just becoming used to having some discretionary income after the fall of communism
- (d) Coldex will certainly benefit from expanding overseas, because the market in Australia is very limited and the business will always remain small if it confines itself to Australia. Coldex has expanded to find new markets and increase sales. It is interesting that the business has opened a subsidiary in New Zealand and has decided to franchise in the popular snow resorts of Colorado, but has been more cautious with its expansion into European markets. So, a major benefit will be developing sales and new markets for its output.

Being in an industry where sales depend on discretionary spending, Coldex could also benefit from expansion overseas by cushioning itself against economic cycles or even protecting itself against bad seasons in Australia by expanding into other markets.