Zig Zag Education

Business

A Level | AQA | 7132

A Level AQA Business Course Companion

3.9: Strategic Methods: How to Pursue Strategies

2nd Edition – August 2023

zigzageducation.co.uk

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Contents

Teacher's Introduction

This resource has been written to support the teaching and learning of AQA Advanced Level GCE in Business to be first examined in June 2017. It covers in depth the content required, plus key topic points and a variety of learning opportunities to engage and develop student capabilities. Where relevant, key terms have been included together with illustrations to support learning.

This resource supports the teaching of Section 3.9: Strategic Methods: How to Pursue Strategies, which is part of the AQA Advanced Level GCE in Business (7132). It provides a detailed and accessible overview of the areas of study stated within the specification.

This resource is intended to be used as a companion for teaching and, while extremely valuable, is not an exhaustive list, so reading around the topic is recommended. Suggestions for additional resources are included and additional source material referenced. While this companion focuses on content, a variety of learning styles are catered for to help keep your students engaged and on task. At the end of each section are sample questions and answers to test your students' grasp of the content.

You can use the notes in this resource either as student preparation, as revision guidance or to supplement your class teaching. The questions in this resource include some quantitative analysis as these are skills now assessed in the exam.

Relevant case studies are included to both broaden and deepen student knowledge and bring a real-world flavour to their learning.

Each topic is explained in full and accompanied by a series of questions and extended-learning opportunities, which are designed to consolidate student understanding and hone their application, analytical and evaluation skills. Mathematical practice opportunities are included where appropriate. Answers are provided for each question.

The practice activities can be used to support the delivery of a lesson, be set as homework and/or be used by the student during independent learning.

August 2023

A web page containing all the research task links listed in this resource is conveniently provided on ZigZag Education's website at ***zzed.uk/12323***

You may find this helpful for accessing the websites rather than typing in each URL.

2nd edition – August 2023

- p.3 – section removed: 'The Experience Curve'
- p.10 – section heading changed to 'How to manage issues caused by growth and retrenchment'
- p.10 – 'Managing growth: Greiner's model' removed from key points
- pp.11–12 – section removed: 'Greiner's model of growth'
- p.12 – Research task question 1 removed
- p.17 – heading updated to '3.9.3. Assessing Globalisation and Internationalisation'
- pp.17–19 – sections added 'Business Reasons for Greater Globalisation and its Importance to Businesses' and 'The Importance of Emerging Economies for Business'
- p.19 – Four new questions added under 3.9.3a and answers added, subsequent questions have been renumbered to fit.
- p.20 – section on trade agreements updated to reflect EU/UK status
- p.22 – updated population data for 2023
- p.23 – Nissan case study updated
- p.26 – value of the pound paragraph updated
- p.30 – section removed: 'Bartlett and Ghoshal matrix'
- p.31 – question 2 removed and answer
- p.32–33 – section removed: 'The impact on internationalisation for the functional areas of the business'
- p.32–33 – automation added to list and paragraph added
- p.32 – data in graph updated for 2023
- p.35 – section removed: 'Enterprise resource planning (ERP)'
- p.35 – removed question 3 and answer
- pp.39–41 – section removed: 'The impact of digital technology on the functional areas of the business'
- p.40 – Q1, South Africa added to answers

3.9.1. Assessing a Change in Scale

Why businesses grow

! Key Points Covered

- Why businesses grow
- Economies of scale and scope
- Synergy
- The experience

It is often taken as a given that a business looks to grow. There are many benefi having the financial clout to outspend competitors in research and development competitive advantage.

So most companies look to grow, but not every company has the same objective small business might set objectives to grow to a certain size in terms of revenue desire of the owner to achieve a certain income or profit each year. A larger bus to market share – aiming to become the market leader, for example.

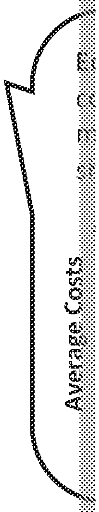
So why might a business set growth as an objective?

- **Profit:** Shareholders and other business owners look for profit, so businesse out profit. If the business is profitable as it is, shareholders are likely to feel its operations in order to make more profit. Why make 10% profit on £100, that's £10k), if you could make the same margin on £200,000 (£20k) or mor
- **Efficiency and profitability:** Profitability shows how *capable* a business is of generally presented as a ratio. Efficiency – making good use of resources – profitability. Businesses can achieve greater efficiency through economie
  - by increasing output, a business can decrease its average operating
  - by purchasing raw materials in bulk, a business can decrease its total co

  More on *economies of scale* later.
- **Market power over customers and suppliers:** Remember Porter's five force constantly at odds with one another to gain power over their markets' supp Having power over suppliers can mean leverage which leads to lower costs, reason – profitability.
- **Brand recognition:** Again, firms often increase their market share and brand medium-term tactic that supports the greater goal (strategy) of increased p supermarket chains, such as ASDA and Sainsbury's, work tirelessly to increa becoming the one name people think of when they need to do their weekly research on their customers (and potential customers) as well as push all m promotional campaigns. These could be anything from posters on bus shelt magazines to buy-one-get-one-free offers, in-store demonstrations and loss televisions at less than the recommended selling price). This brand recogni *scope*, where the brand itself is an asset that draws customers in to buy fro products. Again, more on this later.
- **Managers' personal objectives:** Business leaders themselves are often the looking to progress in their careers and earn more money. Boosting the siz one way of doing this for themselves personally.

Economies of scale

A business can become more efficient by being larger, so this is one impetus for growth. It may be that the business wants to become large enough to compete with others in the market who are benefiting from these economies of scale and are, therefore, more competitive. Or a B2B firm may be being squeezed by its customers to charge lower prices, and, therefore, it is having to find ways to produce at lower costs in order to remain profitable.



There are three main types of these economies of scale: technical, purchasing and managerial.

Technical

As output increases and becomes more efficient, the average cost of production falls.

Example: Economies of Scale

Let's use an example: 2000 Teas Ltd is a beverage company that specialises
The company's biggest seller is its classic breakfast tea, which it buys from
cost of purchasing the tea is £0.50 per 1 kg. 2000 Teas Ltd sells its breakfas
per 100 kg.

The calculation to find the selling price for 1 kg of breakfast tea is:

$$\text{Selling Price of 1 kg} = \frac{\text{Selling Price of 100 kg}}{100}$$

$$\text{Selling Price of 1 kg} = \frac{200}{100}$$

$$\textbf{Selling Price of 1 kg} = \textbf{£2.00}$$

The difference between the selling price (£2.00) and the cost of raw materials (£
Teas Ltd receives for every 1 kg of breakfast tea it sells. There are a few ways it c

- **Purchasing:** If 2000 Teas Ltd was to increase the amount of breakfast tea it
buying in greater bulk), the company might be able to negotiate a lower pri
- **Managerial:** Often the management team of a firm has scope to manage m
significantly more time. For example, hiring an extra staff member to deal w
in its warehouse will not necessarily mean the manager of the warehouse h
more work.
- **Technical:** Imagine 2000 Teas Ltd hires a machine to package the tea into te
as they don't sell enough tea to be using it 24/7. If they buy more tea, they
production without buying a new machine. Running costs may increase, bu
remains the same, and is spread across more units produced.

Let's calculate the difference again, assuming 2000 Teas Ltd negotiates
down to £0.40 per 1 kg.

The difference between the selling price (£2.00) and the cost of raw materi
2000 Teas Ltd continues to sell at the same rate, the company will make mu
power of negotiation they gain from buying in greater bulk.

Since 2000 Teas Ltd now pays less for its tea, it could bring down the sellin
potentially *generating more sales* and *increasing profitability* as a result.

Purchasing

The more a business buys in bulk, the cheaper raw materials can become on ave
taking advantage of the economies of scale that your suppliers benefit from – ve
pass on their savings with lower prices for their customers who order large quan

However, there is another element too – if your business, as a supplier's custom
power, it can pressure the supplier to accept lower prices, e.g. by threatening to
short term at least, smaller suppliers will have to accept the lower prices or lose
customer. Supermarkets have been known to take this approach and are a prim
economies of scale – although it risks bad supplier relations, which can turn
responsibility and public relations problem.

Managerial

Managerial economies of scale are the efficiencies a business can obtain by its m
leverage. Leverage is the ability to make a small effort that gives a proportionall
supervisor checks the first product an employee produces in order to ensure it is
Corrections and improvements that the supervisor suggests on the first product
to each subsequent product, requiring no additional input from the supervisor.

So if a manager trains one employee, often they could just as easily train two, th
employees without much more effort. If it takes four hours to train the first emp
take five hours to train two – meaning the average training time is 2.5 hours per
unit costs.

The same effect can be achieved by taking a management structure or system, s
applying it to a larger team. As long as the system is scalable (i.e. it can be expan
well), overhead costs of this system will be spread across a larger number of unit

Financial

Another economy you will sometimes see is *financial* economies of scale: where
and easier access to capital, from stock market flotation to lower interest rates f

Economies of scope

A large business may also benefit from being able to make use of its infrastructure to generate more revenue – by expanding the scope of its marketing or operations, it can make more money.

Looking at 2000 Teas Ltd again, if they market tea to shops, why not also do the same with coffee? They are already sending sales representatives to small and large shops who sell both, so there is a potential efficiency in doing both things at once. There are a few different types of economies of scope:

- **Infrastructure** – where a business has developed a system, structure or faci
different products or services. For example, a bank that sells insurance can
Its salespeople will need additional training, but once they have had that the
literally) being 'in the room' with the customer, and using the bank's servi
to them for commission.
- **Network economies** – computer network systems are often developed so that a ne
can often be added at very little additional cost.
- **Marketing** – firms that sell multiple products to the same customer can ben
marketing, so a firm that uses direct marketing to sell office supplies can m
already does to sell more different products.

Synergy: better together?

Often cited as a benefit of a merger (see below), *synergy* is where a team or busi parts. 2 plus 2 does not equal 4, but 5. A team can work better together than th individual members, by coordinating work, getting rid of duplication and playing businesses can do that too.

For example, imagine Gloss Ltd is particularly good at marketing its make-up pro able to produce them cheaply. It merges with Lippy Ltd which has particularly e savvy on the marketing front. The resulting Lippy-Gloss Ltd will surely be a force cosmetics market!

Evaluation point

Synergy is c[illegible]ayed down as a justification for mergers these days. You can i Gloss might have spoiled Gloss Ltd's image, and perhaps Lippy Ltd's products do standard that Gloss Ltd's customers expect!

3.9.1a Questions

1. Explain **two** reasons why a business will choose a growth objective.
2. Tiny Desks Ltd designs and manufactures flatpack office furniture. 95 p by the company are sold to IKEA. The company believes that it is not b so would like to develop more market power for itself. How could Tiny

Assessing methods and types of growth

Key Points Covered

- Organic growth:
  - Franchising
- External growth:
  - Mergers and takeovers
  - Vertical, horizontal and conglomerate integration

So the business wants to grow. How?

The Difference between organic and external growth

'External' growth refers to situations where a business expands its operations by either through a merger or by taking over the other firm. On the other hand, gro business increases its output or sales without integrating with another firm. Not internal sources of finance, such as retained profit, or 'external' sources of financ new shops using a loan from the bank. Organic growth is a more managed meth the rapid growth that a takeover or merger would involve.

Franchising

Franchising is a type of **organic growth** for the franchisor. The franchising proce straightforward: the owner of an *established* business, the *franchisor*, grants a *fra or service in exchange for monetary consideration*. Franchising allows a budding e business with a *degree of independence and a minimum of risk*. Motor vehicle de VW) and product *brand franchises* (such as KFC and McDonald's) are very commo

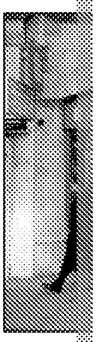
Franchises have become a popular form of business type as they allow the small participate in a *'ready-made'* business opportunity. The franchisor, the establishe use its brand name, business model and supply chain, gains many of the benefits brand recognition and profitability) without all of the risk associated with openin and managing operations.

	Advantages	
For the franchisor (seller of the franchise)	1. They receive a *lump sum income* from the franchise sale in addition to a regular agreed percentage of franchisee's profit. 2. The name of the established business gets *more widely promoted* with the sale of every franchise.	1. There is a operation 2. The *reputa* business c franchisee to the *stan*
For the franchisee (buyer of the franchise)	1. It trades under an *established business name.* 2. Has access to a *network of help and support* from the fr	1. They *must characteris* 2. Part of the *paid* to the

Joint ventures

Another way of expanding, particularly abroad, is a joint venture with another fi taking advantage of local expertise to go into a new market. More on this in Sec international.

Mergers and takeovers



Mergers are where two or more companies come together voluntarily, forming a single entity, often with a new name. The new company usually supports (as closely as is reasonable) the previous strategies of the merging companies. Any shares that each company previously had in their own businesses would be exchanged for shares in the merger company.

A famous merger occurred between mobile network providers Orange and T-Mobile, which came together to form the merger company EE. The merger, which happened in 2010, instantly increased the high-street presen… their collective revenue to more than £6bn and giving us multiple advertising cam… Kevin Bacon

A takeover describes the buying out of one company by another, which usually o… shares. Once a person or company owns more than 50 per cent of all shares in a… taken it over because they have overall control. A takeover may be agreed by th… may be a hostile takeover where the purchasing firm gains control of over 50 pe… wishes of the management of the smaller firm.

One of the most successful takeovers of all time was that between Disney and Pi… and Pixar had worked together on blockbuster smashes such as *Toy Story* and *M*… charge of production and design and with Disney leading marketing and distribu… for both sides. However, the partnership contract was coming to an end and so,… Disney bought Pixar outright for around $7bn (USD). Since the acquisition, Disne… make more international hits, including *Up*, *Toy Story 3* and *Wall-E*.

Reasons for mergers and takeovers

Businesses take part in mergers and takeovers for many reasons, most of which … or strategic.

Tactical reasons for a merger or takeover might include:

- to increase a business's market share
- to gain skilled staff
- to increase technology
- to gain ownership of intellectual property
- to expand to other locations

Strategic reasons for a merger or takeover might include:

- to increase profitability
- to achieve greater brand awareness
- to increase distribution capabilities
- to move a business into new markets

Horizontal, vertical and conglomerate integration

Mergers and takeovers can occur at different stages in the production process. H… when one business joins another at the same stage of the production process (e… while *vertical integration* describes when one business joins at a different stage in… supermarket buying a farmer). A third type is conglomerate integration, whe… another business in an unrelated industry (e.g. a mining firm buying out a superm…

Let's use an example:
Dress Nation Ltd is a British clothes retailer. The company has many competitors online traders. Below shows how Dress Nation Ltd's production process might lo

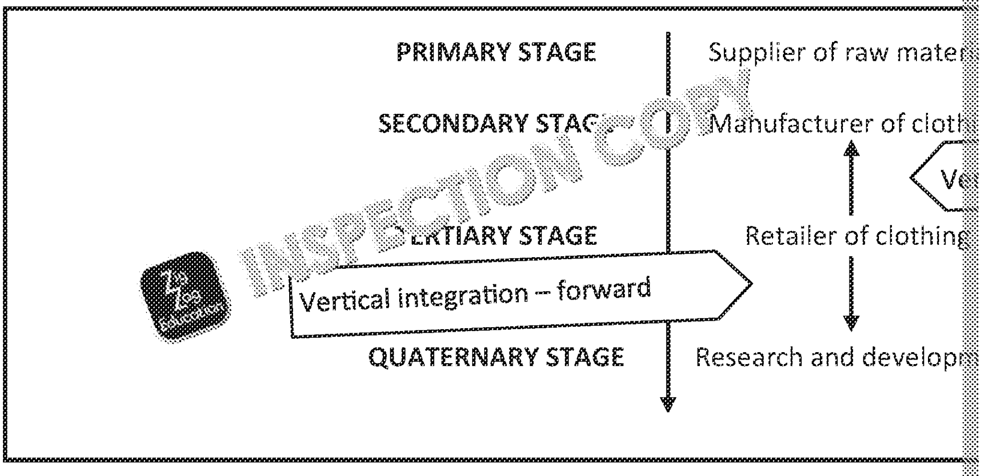


Diagram: The production process of Dress Nation Ltd

Dress Nation Ltd is situated on the tertiary (third) stage of the production process i.e. the company is the one selling products that have already been designed, manufactured and supplied. Dress Nation Ltd is now looking to grow and so it might decide to use horizontal integration or vertical integration.

Horizontal: if Dress Nation Ltd buys out another clothing retailer, th company is integrating horizontally. This is because Dre Nation Ltd and the other business are the same (i.e. wi are both clothing retailers).

Vertical – backward: if Dress Nation Ltd purchases a clothing manufacturer, i different business type (i.e. different industry sector) an stage of the production process (the secondary stage).

Vertical – forward: if Dress Nation Ltd purchases Future Fashion Ltd, which technology for clothing, this will again be a different sta quaternary, fourth stage).

Conglomerate: if Dress Nation Ltd buys the fast-food restaurant next d industry altogether.

Reasons for horizontal integration
This is a common form of integration as businesses can expand relatively quickly to choose horizontal integration, including:

- the buying company instantly increases their market share (assuming that the
- the buyers also benefit from economies of scale due to having more machin produce more goods at a more efficient rate
- the business effectively eliminates a competitor
- the expansion of a business can also help it enter a new market segment, such a business that operates in the north of England and, therefore, expanding its

Reasons for vertical integration
Many supermarket chains opt for this form of integration, i.e. purchasing a distri of their supply chain (e.g. farmers, wholesalers, etc.). There are many reasons b integration, such as:

- maintain and control the supply chain
- personally manage the standard of quality (e.g. the 2013 horse meat scandal supermarkets did not keep tight enough control on th suppliers)
- keep supplies away from rival companies
- access to market, i.e. manufacturers ant to personally take care of thei order to display and adve the goods in the way they wish

Reasons for c lo tegration
Usually onl main of very large businesses, this is a risky type of expansion

- it may b purely financial reasons – e.g. the smaller business is a cash cow finance its operations
- the conglomerate may benefit from wider synergy or economies of scale such department that looks after all the finance, or by sharing best practice, e.g. in
- the business diversifies its operations and, therefore, spreads risks – if there i mining firm can survive with the financial support of the supermarket chain it

Risks and rewards
As with almost any business venture, mergers and takeovers come with risks. H can turn several smaller companies into multi-million pound successes.

The risks of a merger or acquisition may include:

- the costs of purchasing another business
- the costs of reorganising the businesses
- redundancies necessary as employees increase th es or lose their value
- reworking of IT systems to ensure they c m ate efficiently
- rebranding of businesses
- the obliteration of sh r either company
- particu t s, and in vertical and conglomerate integration, the ne necess ertise to run the business

The rewards may include:

- revenue gained from the new business(es)
- economies of scale from spreading across organisations and markets, and inc

Problems with rapid growth
Successful mergers and takeovers are examples of rapid growth. Once a busines becomes bigger. There are some issues that come with this, including:

- diseconomies of scale, e.g. as the business expands, communications become
- companies can become so large that they lose their strategic direction
- mergers and takeovers can result in all firms diluting their core competencies
- clashes of corporate culture, such as one firm holding different values/ethics
- employees may not be willing to share information/s ith their new colle
- local culture clashes, i.e. if one firm is bought v oreign business, this ca

We will discuss all of these in mor

3.9.1 ns

Please ur answers on a separate piece of paper or in an exercise book.

1. Why might a business wish to grow?
2. What is the difference between a merger and a takeover?
3. Explain the difference between backward vertical integration and forward
4. International food conglomerates Heinz and Kraft Foods merged in 2015. many major brands, including Capri-Sun, HP Sauce, Heinz Baked Beans and

How to manage issues caused by growth and retrenchmen

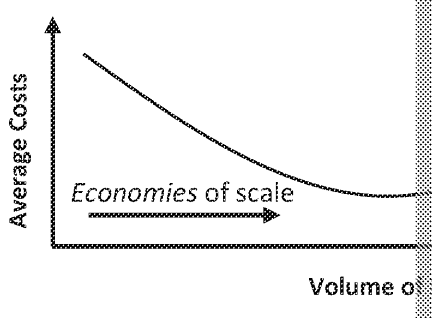
! Key Points Covered

- Problems arising from growth: overtrading and diseconomies of scale
- Why businesses retrench

Growth is generally a good thing for bus... ut ...ere are a few minefields to n

Diseconomies of sc...

Earlier we s... w ...osts can fall as the volu... roduction increases. The other side of the story is that unit costs can actually increase if production goes beyond a certain point. The idea here is that at any particular time there is an optimum level of production for the business where the unit costs are lowest.



Coordination

Let's look at 2000 Teas Ltd again: the company is able to sell 10,000 kg of breakf supermarkets) from its one warehouse. Encouraged by the number of sales gen capacity, 2000 Teas Ltd decides to increase its output to 15,000 kg per month. H warehouse becoming overcrowded, and delivery lorries queuing to get in and o an increased cost of transportation – and the average ... each unit goes up a

Communication

Another diseconomy of scale ... co... from the expansion of a company's proc internal network of c... ...cation can become more complicated and, therefor grows to a... ...na...able point, there is a chance that the bulk of the firm's em vision or str... hey are working towards.

Motivation

As a manager's *chain of command* grows, it may also become more difficult for subordinate employees to voice their opinions or receive support in pursuing their ideas. This can create rifts in the company and even result in demotivation of a workforce that feels undervalued.

Control

As the business grows, senior managers lose a level of control over parts of the b (with no one experienced there to analyse methods), duplication of roles (with t bureaucracy (with no managers with the scope to see it is unnecessary or the au

Overtrading

This is a common problem with new b... ne... but can happen to large ones to where a business hits cash flo... ...obl...s due to rapid expansion. Think of the fi American kids win a c... fr... the US Government to supply the Afghan Nat dollars' wo... ...rn...ments. These two would-be arms dealers didn't have the needed to s... ...et alone transport them halfway round the world, but they to

Okay, in the film (and in the real-life story that inspired it) they managed it – but cash flow problems, and taking on an order larger than a firm can fulfil is one suc that cash flow – such as buying the guns on credit, and then delivering them to t payment before the credit period expires and you get sued for the money – can

Why Businesses Retrench

A possible answer to the question of 'where next?' is that the business may need
than expand. Scaling down its operations is known as **retrenchment**. A business

- Perhaps it has hit too many of the problems we have discussed above: disec
  costs are too high and it's losing efficiency.
- Maybe a merger has gone wrong – the business is too big to function effecti
- Perhaps it needs to raise funds to pay off its debts.
- It could be that an area it decides to expand into – such as an overseas mark
  the business is withdrawing.
- Or perhaps its core market is in decline, or competition is too fierce.

Retrenchment may involve closing branches, selling a portion of the business or w
niche market. It may make staff redundant, either gradually by freezing recruitm
back specific less-profitable divisions, or by delayering – removing a level of man
of the business that was previously integrated. This may both cut spending and
management to focus on the business's core activities. In 2014, after failing to re
in the mobile phone market, Nokia sold its mobile and devices division to Micros
two years and being desperately in need of funds; the Finnish firm then refocuse
equipment company, Nokia Networks.

The impact of growth or retrenchment on the functional areas of th

All these changes in scale have associated problems. Firms need to be sure that
loss of sales revenue and redundancy pay for former employees – will be offset b

	Growth	
Marketing	Rapid growth will require the marketing department to keep up with any new markets the business is moving into, or the business risks losing sight of what customers want and how to reach them.	When a busin department w the promising business is ref
Operations	Maintaining quality in production (including service levels in service industries) will always be a key requirement for operations, and at no time more than when the business is growing.	Ensuring that production te markets, facto The change in to reorganise match.
Finance	Cash flow is a key consideration here. Periods of rapid growth are dangerous times for a business – maintaining liquidity is crucial and working capital is always going to be stretched at this time. In addition, ensuring the cost of any finance needed for expansion is tolerable.	Challenges wi can meet its c revenue, retai shareholder e
Human Resources	Maintaining and developing appropriate training programmes and ensuring the business complies with regulations in any countries it is operating in.	Human resour challenge of r They will strug best staff, unle the retrenchm last resort of a

3.9.1c Questions

Please write your answers on a separate piece of paper or in an exercise book.

1. Rising Batches Ltd is an independent bakers located in a large city. The co several years and so its owners are considering an expansion of five additi other cities. What pitfalls could arise from this growth?

3.9.1 Research task

1. Research Tesco's or   on   hina. How did they expand into the mark and way?

   Te :
   - *http://www.raconteur.net/business/why-tesco-failed-to-crack-china*
   - *https://www.tescoplc.com/about-us/our-businesses/tesco-china/tesco-in-ch*
   - *https://www.theguardian.com/business/2013/aug/09/tesco-withdraws-brand*

3.9.2. Assessing Innovation

Key Points Covered

- Kaizen
- Research and development
- Intrapreneurship
- Benchmarking
- Protecting intel

Why businesses innovate

Innovation has long been a buzzword in business. Innovation can lead to an edg completely new market, or a revolution in efficiency or marketing reach. In a co needs some kind of USP to guarantee its survival. There's a battle for customers offer some combination of the best price, the best product, and the best deliver there's a battle for share value, victory in which depends on convincing sharehol first battle.

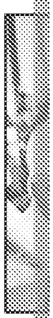
Being ahead of the competition means being better than the competition – at le being different, and innovating.

The value of innovation

There are three main ways a firm can innovate. Firstly, it can **improve existing p** are generally quite small, such as altering a characteristic or slightly enhancing it cars or smartphones as examples. However, these improvements can mean a fi – often it is these features that differentiates one firm's products from another.

Secondly, a firm can **develop completely new products**. This can open up new m 'first-mover advantage', where the first firm in the market is ahead of the compe dominant brand associated with the new product. For example, when Apple lau tablet computer available to the mass market, and today it is still the leading bra itself. (That the 'first mover' has an advantage is not guaranteed – for example, first social networks, but Facebook out-innovated it technologically, targeted a d better marketing techniques, becoming the market leader, and similarly synonym

Finally, a firm can innovate in the way it does things. This is called '**process innovation**'. Supermarkets are a great example of process innovation: the distribution, purchasing and supply systems that chains use have improved hundredfold since the advent of computer technology. Nowadays, whenever you go to a supermarket and purchase a bag of crisps, those products are then communicated from the checkout to the stock room to let workers know that they need to put more crisps out on display. In the same fashion, the supermarket's suppliers are automatically notified how many crisps have been sold throughout the day or week so that they can provide the right number of products on the next delivery.



There are lots of ways that each of these types of innovation can be encouraged see shortly.

Becoming an innovative organisation

Kaizen

Kaizen businesses work to improve their processes with the idea that this should
outcomes. Unlike quality circles, which give responsibility to some employees, ka
members of the workforce by continually asking for ideas on how employees bel
could improve.

The kaizen method (also known as *continuous improvement*) can bring about many benefits, including increase in employee motivation and productivity, reduction in wasteful processes and higher quality and overall improvements to a business's final products/services. Firms that use kaizen consider it an integral part of their business practices. A good example of a kaizen-focused business is the Japanese car manufacturer Toyota.

The philosophy behind kaizen is based on *gradual change* and *employee suggestio*
small, considered steps (rather than focusing on large, individual innovations) wi
volume of changes will eventually result in huge improvement.

Businesses cultivate a *culture* of continuous improvement by encouraging their w
These suggestions can be as big or small as necessary – sometimes improving the
creates the most noticeable results! Suggestions can be given anonymously, usin
person. Kaizen businesses focus on the talents of their employees, and their abi
than invest in expensive machinery in order to get to the same outcome.

Kaizen may seem like a long-winded (and, therefore, pricey) way of working, but
(the people most involved in a business's quality procedures day in and day out),
foundation for innovation that gives them the competitive advantage over any ri
improves quality, but increases motivation, too, as employees feel more valued a
to go the extra mile for their employer.

Research and development

Much of a firm's competitive advantage can come from its research and develop
Companies that have a strong focus on R&D, such as tech giants Google, Apple a
power over their markets. By investing in R&D, a firm can differentiate itself fro
brand presence (so people see the company as different) and developing a certa
consider the company's products as high quality).

There is an incentive for companies to invest in R&D since not only do their bran
loyalty can increase as a result of this, leading to more regular sales, revenue and
enough market power through R&D, it is able to be competitive without having t
more market power also means the business can set its own prices (perhaps eve
without having to worry about what its rivals are charging. In addition, with mor
more profit, part of which a company can reinvest into its R&D processes to cont

Intrapreneurship

Many companies promote *intrapreneurship* from their staff as a way to cultivate
leadership. Intrapreneurs are individuals who act like entrepreneurs but work wi

Businesses benefit from this initiative as it helps develop employees into highly m
that become more valuable as a result. The intrapreneur, on the other hand, be
certain risks an entrepreneur would, while comfortable in the knowledge tha
on the line personally.

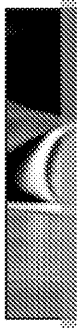
Companies encourage intrapreneurship through reward systems. These can incl
monetary bonuses and commission payments. The business reaps any rewards
be the one responsible for any failures.

Benchmarking

Innovation of both product and process can be achieved through benchmarking. product to that of your best competitors, with the aim of improving your own wi way of innovating to improve your product. A similar thing can be achieved with consultants, who gather data from a specific set of competitors, and share that d every firm involved to identify where its weak spots are compared with its comp its energies. Is our lead time good or bad? Could our lab roductivity be bet consultant will tell you where you are in the rank d, bad or ugly.

How to protect in and intellectual property

We have ta ow ation can give a firm a competitive advantage – wheth firm lower etter delivery methods or better customer service, or product product. But this advantage may not last if competitors simply copy the busines firm has to protect its innovations as far as possible.



For product innovation this is clear. Firms can try to keep their 'secret ingredient' under wraps, by defending against **corporate espionage** with contractual clauses for their employees, suppliers and distributors to not reveal it. However, where a physical product can be backwards engineered (i.e. another firm could take one of your products to pieces and see how it works), keeping the thing secret is not feasible. Instead firms will **patent** their design so that it cannot be directly copied – this gives the firm monopoly power over that specific product, and can last up to 20 years. However, there is a cost to patenting designs, so the firm has to recognise that they are worth protecting, and also be able to afford to protect them. Furthermore, patents need to g tered in different countries individually. These are enf rc ab civil courts, and many big firms have ongoing dispute er her or not their competitors hav designs. And the conseque vh a firm can convince the court it has lost i massive. In 2014, A Samsung were both found guilty of infringement of had to pay $1 6 million and Apple had to pay Samsung $158,400. (An o Samsung m payment by sending lorryloads of nickels to Apple's headquar out to be an example of fake news!)

In the creative industries and the knowledge economy, individuals and firms hav creative works – meaning only they can license distribution of it. In 2001, Napst to share files with each other on a massive scale, was shut down by a court rulin which argued its members were suffering loss of income due to the sharing of M the court ruled this was breaking copyright laws. Since then filesharing has dece industries including the film industry: according to some estimates, more people *Zombieland* than paid to watch it, and as a result the producers would not fund a copyright for creative industries is that it is automatic, so it does not have to be r can prove that you were the original creator somehow), and that copyrights are around the world through the Berne Convention.

In terms of process innovation, this is cult to protect. Machinery and m with the 'secret ingredient', th m choose to simply keep it confidential. T when employees mo firm to another in the same industry, however. conflicts w – arketing department may want to brag and boast abou methods th ses, but this risks telling competitors how it's done.

The impact of an innovation strategy on the functional area

Innovation is a boon for **marketing** departments – something they can brag abou limitations given above. They will have to choose the right pricing strategies, suc challenge of recognising what the key thing about innovative new products is tha customers, and who those customers might be. Marketeers can also benefit fro viral marketing themselves.

Operations can clearly benefit from process inno ation reducing costs or makin services possible. However, they are mo to come under pressure from m a lot depends on their innovati production processes. It will also fall to implement the large-sc of innovative new products from research have its ow er

Finance divisions in an innovating business may find that costs are suppressed w they could equally have problems with funding innovation – research and develo of its results, and the investment required often means long payback periods wh have to justify to investors.

Human resources have scope to be innovative; for example, in developing new w online learning. They may also be asked to cultivate a culture and matrix structu different specialisms can come together to support innovation. Giving autonomy intrapreneurship may mean difficulties in defining job roles and structures such a risk that the business loses control of employees.

3.9.2 Questions

1. Explain the difference between product a process innovation.
2. Imagine you work in the fin de tment of a medium-sized manufactu You have been ask to investors why the firm needs to spend si researching ve new products rather than paying higher dividends o 3 ds laining why innovation is important.

3.9.2 Research task

Toyota is famous for its application of the kaizen method. Research how it applie

- what Toyota's mission statement and objectives are
- what the business is trying to achieve with kaizen
- what other types of innovation the company uses
- an evaluation of how well Toyota's innovation strategy helps it meet its co

Toyota Group PLC Links

- *https://www.youtube.com/watch?v=Ohu9WH3a5FM*
- *https://www.theguardian.com/business/2007/dec/0 inesscomment.busi*
- *http://blog.toyota.co.uk/kaizen-toyota-prod ter*
- *http://www.telegraph.co.uk/news/nh 09 08 an-the-Japanese-car-facto a-Seattle-hospital-work-on-th*

Bonus research: Toyota's methods? Check out *The Toyota Way: 1 from th d' eatest Manufacturer* (Jeffrey K Liker, 2004).

3.9.3. Assessing Globalisation and Internationalisa

Business Reasons for Greater Globalisation and its Importa

! Key Points Covered

- Reasons for greater globalisation in business
- The importance of globalisation for business
- The im[...] econo[...]

Several different definitions exist for globalisation, but for the purpose of A Level be the process of a national market or business becoming global in nature with s strategies existing in each international location. In many ways international bra Coca-Cola treat the world as one global market, as similar marketing strategies a which they operate. These firms can benefit from accessing overseas finance, w than obtaining it in their home countries. Furthermore, it allows them to access or of a better standard not just through importing, but by also locating some ope

Businesses have greater access to global markets due to improvements in comm deregulation of international markets and a lowering of trade barriers, thus mak operations in overseas markets.

Globalisation provides a number of business advantages:

- **Improved purchasing economies of scale** – a business operating on a larger purchasing economies of scale. More raw materials and components will be activities, as the scale of operation increases, leading to its negotiation pow (suppliers) are likely to provide discounts for buying resources in greater qu costs of the business and leads to profit margins increasing.
- **Improved marketing economies of scale** – as the business operates on a larg spread across a greater volume of output, thus reducing unit costs and leadi
- **Increased sales and profit** – trading in overseas markets allows a business t assuming it can trade competitively, as it will sell to a bigger target audience
- **Lower operational costs** – businesses can locate their operations in countri advantage with regards to land, labour and raw materials. This reduces ope profit margins.
- **Access to skilled/knowledgeable employees** – globalisation has allowed bu in terms of skills, experience and market understanding. This has been achi labour mobility between countries or the ability of some businesses, especi countries which contain a workforce with the desired experience, skills and
- **Tax avoidance** – a multinational can have several headquarters located aro different regions they operate within. Some will locate the headquarters in which has the lowest tax rate. The income earned by any of the subsidiarie is assumed to be that of the headquarters, thus allowing it to be taxed at th European headquarters in Luxembourg, so any income earned by the UK su generated by the Luxembourg headquarters, thus allowing it to be taxed at payable in the UK. This minimises the amount of tax to be paid and keeps p practice is attracting much negative press, as multinationals earn million avoiding UK tax payments by registering their headquarters in another coun income of £3[...] but no corporation tax was paid here.

Globalisation does bring some disadvantages for businesses:

- Competition for both domestic and overseas firms increases in those countri for international firms to enter. In the late 1970s manufacturing production of UK GDP, whilst by the end of 2011 it was 12.6% (source: ONS). Overseas b produce products which are comparable to or of a higher standard than UK f contributing in part to the decline in UK manufacturing. The increased level emphasis on businesses to develop strong brand images in an international
- As consumers become exposed to more firms and products their expectatio fails to meet these expectations can suffer rapid decline, due to the alterna consumers, as experienced by Nokia in recent years.
- Globalisation requires firms to invest a larger proportion of their funds in re research and staff training, for example, in order to remain competitive.
- Businesses face increased threats of takeovers from overseas firms, especia Hewlett-Packard (HP), both American businesses, in the last two years acqu purchased Cadbury, whilst HP bought Autonomy, a software firm.

Globalisation can enhance the economies in which overseas firms choose to trad consumer choice and quality improve, but local economies benefit through impr and increased demand for domestic suppliers. However, globalisation has been perspective. As industrialisation increases in some countries with lower environ level of pollution and deforestation rises. Furthermore, it is argued that the true operating in overseas countries benefits them only and not their chosen locatio used to improve working conditions or local communities. However, multinatio Hewlett-Packard take an active role in the communities in which they operate by employee development, whilst also working positively alongside suppliers.

Although globalisation can provide many business benefits, it can be a costly mist firms will embark on a joint venture with another one that is already located wit to enter. They can utilise their experience and understanding of these markets t enter it speedily, but efficiently. Furthermore, if the firm with which they join ha targeted country, this can be a quicker way for the business to establish a reputa In January 2012 Starbucks announced it was entering the Indian coffee shop ma the Indian conglomerate, Tata.[1]

The Importance of Emerging Economies for Business

An emerging economy is a country with an average low income per head and lo experiencing high rates of economic growth, in comparison to those countries w developed. Some of the main emerging markets currently include Brazil, Russia,

Emerging markets provide a number of ***benefits***:

- Businesses have the opportunity to increase sales and profits, as they have a be achieved through exporting to these markets, locating operations within t the country targeted or embarking on a joint venture with a firm already well
- As competition increases in some markets or trading sales due to difficult ec emerging markets provide an opportunity for businesses to remain profitab rapidly growing markets. Although competition in the UK supermarket indu able to remain very profitable in part due to its expansion into both the Chi 2004 and 2008 respectively.
- The increasing number of middle-class consumers in emerging markets crea necessity products. Jaguar Land Rover and Burberry have benefited from hi increased demand for their luxury product ranges in both the Chinese and I

[1] Source: **http://www.bbc.co.uk/news/world-asia-india-16788563**

- Emerging markets provide the opportunity for businesses to access highly s than developed countries. This can reduce operational costs and increase p industry has benefited from locating some of its call centres in India, but thi advantageous, as some customers have complained about the quality of se time this was reported significantly in the media.
- Emerging markets provide businesses with the opportunity to be less relian sales. This can reduce the risk of failure, if one overseas market declines, as other international markets which should assist the continuity of the busine

Emerging markets do provide some ***disadvantages*** to UK firms:

- The infrastructure and communication networks may not be as well develo as des
- Governments may implement trade barriers to assist the development of d it difficult for UK firms to take advantage of the growth in these markets.
- Emerging market domestic businesses may be able to access government g its goods or services at a cheaper price than UK firms, thus making it difficul effectively in these markets.
- Although labour may be cheaper in these markets they may not have the re resulting in the goods or service not being provided at the required standar it was to close its Indian call centres and relocate them back to the UK.
- UK brands may not be as well protected in emerging markets, as firms withi trademarks and designs with little fear of court action. Not only does this le businesses, but it can damage the brand, as confusion is caused in the eyes the genuine one. Furthermore, if the emerging market firm does anything t may be irreparable resulting in long-term damage. James Dyson, founder o the lack of intellectual property right protection in the Chinese market.
- Rapid growth in emerging markets puts significant pressure on suppliers to goods and services. This can lead to inflation being at a higher rate than de increase the costs of firms choosing to operate in these markets.

Any business choosing to invest in emerging markets needs to take a long-term a highly unlikely to be realised immediately. There has to be a certain degree of p the country will not develop overnight. As one firm can see the benefit of opera can others. The level of competition could be far higher than anticipated, but if g out it should assist a UK firm in formulating the best strategy for success.

3.9.3a Questions

1. Explain **one** reason why globalisation has increased over the years.
2. Identify **three** ways a business may access the benefits of globalisation.
3. Explain why a country's membership of the EU or WTO improves trading o within it.
4. Explain **one** advantage and one disadvantage for a business that belongs t member of the EU or WTO.

Reasons for targeting, operating in and trading with interna

! Key Points Covered

- Internationalisation
- Diversification
- Economies of scale
- Emerg
- EDI
- Trade

There are various strategic methods a business can employ, including growth str economies of scale, Porter's generic strategies and innovation. This topic concer look at the reasons why businesses decide to operate internationally, the metho advantages and disadvantages of doing so. Many businesses will buy and sell int up their operations in another country. The exact method a company uses depe

Reasons for internationalisation

Internationalisation is when a business produces or trades with markets outside many reasons why companies do this. For example:

Growth – to expand the business through increased market share, sales volume be linked to the overall corporate objectives. Dyson moved its manufacturing to labour costs, resulting in an overall reduction in costs of 30%, which would incre

Diversification – to reduce the risk of relying on one domestic market. An econo severely damage a business just trading within the UK. By diversifying globally, t

Economies of scale – a business may benefit from operational economies of scal may also benefit from managerial, marketing and purchasing economies.

Larger market – by operating globally, UK businesses may find a greater number instance, the EU and the emerging markets such as India and China. Equally, it m shrinking, or may become more competitive due to foreign investment in the UK. E Russia, India, China (BRIC) and Mexico, Indonesia, Nigeria and Turkey (MINT) opened up new trading possibilities with their huge potential markets. The BRIC economic power, although the rate of growth is slowing. China's massive popula affluent and as a result companies such as Rolls-Royce cars and Burberry have co partly due to their iconic brands.

Growth in internationalisation

There are three key reasons why internationalisation has grown significantly ove

- **Trade agreements:** There are many different trade agreements throughout world trade. The World Trade Organization encourages negotiations betwe to export around the world with fewer regulations and trade barriers. The l remains the European Union (EU) – despite the UK leaving the bloc. The EU are no tariffs or control between member countries. It also means freedom capital and removes the technical and bureaucratic barriers to trade. Other – North American Free Trade Association and ASEAN – Association of Sout
- **Transport:** Improved global transport links is another key reason for interna freight links have improved, meaning lower transport costs for importers an has come about through containerisation. This simple but effective method of tra shipping has improved productivity and reduced costs dramatically.

Learn more about containerisation here:

http://www.economist.com/blogs/economist-explains/2013/05/econo

Video link:

https://www.youtube.com/watch?v=Gn7IoT_WSRA

- **Communication:** International communication has not only become cheape through the Internet. Huge amounts of data can be communicated betwee The development and ... the World Wide Web has not only opened enabled businesses to source new suppliers. E-commerce has meant access and businesses can now trade internationally, often without a physical 'bric countri... This has meant potential growth without necessarily the huge in internationally. Business-to-business companies have used electronic data standardised documents to suppliers. This has led to greatly reduced costs many businesses.

Evaluation point

While not all businesses actively enter international markets, those that do have However, there is usually one common theme – an increased potential market. strategy – although, for some, they may have no real choice if the competition is – and entering an international market becomes a reactive decision, rather than

The increase in potential market is a great advantage, but companies should be a

- a lack of knowledge of the market
- social and cultural differences between the markets
- the differences in practice and customs
- economic factors
- the difficulty of coordination of functions and control of the business and pr
- finally – probably the biggest issue for many businesses – the cost

3.9.3b Questions

1. Name the BRICS countries.
2. Name three economies of scale.

3.9.3b Research tasks

1. Find a UK business that has entered international markets. Identify the have done so. Rank these in order of importance to the business.
2. Find out about other international trade agreements. How to they con

Factors influencing the attractiveness of international mark

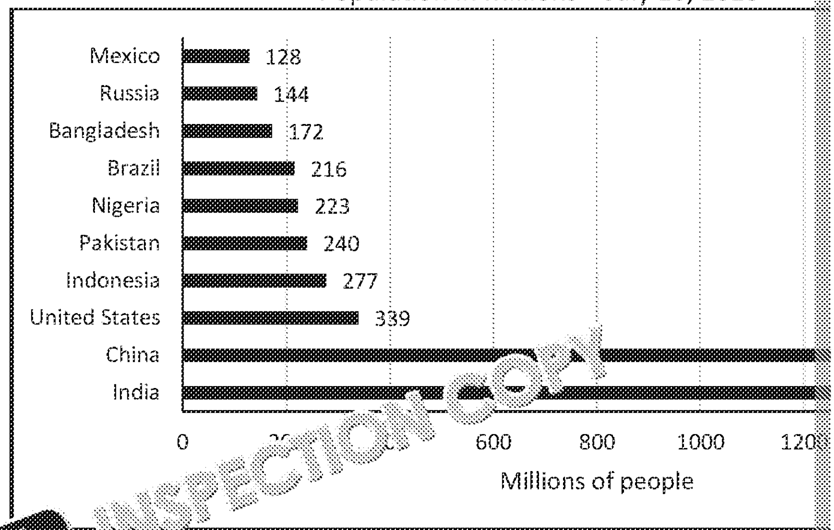
Key Points Covered

- Market growth
- Investment appraisal
- PEST analysis
- Decentralisation
- Ansoff matrix
- Porter's five forc

Size of market

The UK market is relativel[illegible] comparison with a global market. China and over 1.4bn. E[illegible]gi[illegible] [illegible]s around the world also mean that there are poten businesses. [illegible] ample, the food industry in India is worth five times that of th manufactur[illegible]d grocery retailers such as Tesco great potential for increased r

10 Most Populated Countries in the World
Population in Millions – July 16, 2023



Source: *https://www.worldometers.info/world-population/populat*

Cost

The cost depends heavily on which method of internationalisation is chosen (see investment is usually far more expensive than exporting. A business is likely to c the costs and complete a full investment appraisal.

External influences

PEST – The political, economic, social and technological influences would need to economic influence could mean fluctuating exchange rates impact heavily on exp legal environment could pose significant issues for a business setting up operatio are also environmental and ethical considerations.

Culture

Culture can be defined as 'how we do things', an[illegible] vary greatly from cou tended to trade mainly with the EU, du[illegible] agreements and its proximity. Commonwealth countries and th[illegible] US[illegible] businesses that trade with other areas m differences, for instanc[illegible] markets. In 2013, Tesco abandoned their loss differences [illegible] UK and the USA retail landscape being blamed.

While the international language of business is English, setting up operations in a language implications. Many of the local workforce may not speak English. This decentralised operations with local management. However, many businesses w management team from the UK. There are also issues in terms of differences in

Competition

Breaking into a new market can be seen through the Ansoff matrix as a medium- be more risky if the market is particularly competitive. Porter's five forces identi competitiveness. Also, significant barriers to entry may mean that existing busin

Level of risk

The level of risk involved depends on the method of entr... bstantial investme another country, although this also depends on th... of the business. Setti more expensive than setting up a call cen... example. A business must weig financial resources and corporate objectives.

Other

How access... market is – China is geographically vast – how do they transp areas? Indians speak a variety of different languages – how do they market to al business would also need to consider their own resources in terms of finance, la well as the resources within the target country, for instance technology and tran

Case Study

Nissan in Sunderland

The UK Brexit vote in 2016 has had implications for both UK businesses and fo Nissan's car plant in Sunderland employs around 6,000 people and is regarde plants in Europe. Nissan claims that a further 30,000 people are employed in However, Nissan has repeatedly questioned the future of the plant, having pr the UK decided to leave the EU. The main reason for this is the increased cost shipped in from abroad. Nissan remains for the time being, but insists that th internationally competitive.

3.9.3c Questions

1. W... entering a new market be seen as a medium-risk strategy?
2. An... two reasons why China and India might be difficult markets to bre

3.9.3c Research task

1. Research how exchange rates have fluctuated over the last 12 months.
2. Explain how the value of the pound has affected the international trade

Reasons for producing more and sourcing more resources a

Key Points Covered

- Labour intensive
- Ethics
- Lead times
- Labour costs
- Trade barriers
- Offshori

Many businesses will purchase at least some elements of their product from fore reasons of cost. The raw materials may be more abundant elsewhere and labou product. However, they may purchase products on the basis of better quality, ef technology, speed of manufacture and/or delivery.

However, a business may have to take into account ethical considerations. For, e been criticised for their involvement in child labour in their supply chain. Also, th whether the supplier has experience of trading overseas, their financial position, rate fluctuations.

Reasons for producing more abroad

- **Reduced labour costs** – Although UK manufacturing wages/salaries are belo countries, they are often much higher than in many other countries. A labo reduce costs significantly.
- **Lower trade barriers** – By operating in the target country, rather than just e tariff and quotas.
- **Proximity to raw materials / distribution** – Some manufacturers wish to be need to reduce transport costs, particularly if the customer is local too. This product is bulky and difficult to transport.
- **Skilled workforce** – Some countries have expertise in specific industries. Th technology, for instance.

Outsourcing, offshoring and reshoring

Outsourcing is where another organisation does the work. Offshoring is where s are moved overseas. This can be done in the UK or overseas. Reshoring is the te the production back to the UK.

Outsourcing is a very common business practice. Businesses will often outsourc catering, cleaning and IT. This enables professionals to complete these task so th core activities. Offshoring has become more common in the UK, particularly with intensive products. Many businesses cannot compete in mass production using countries can offer. However, we can compete in more niche, technical capital-i the labour costs that drive offshoring though. In the UK we have some of the hig costs. We also have many health and safety regulations that increase costs for U

However, up to 15% of UK businesses are now reshoring. This is partly due to th countries. It is also due to issues of quality – Trunki suitcases being one example quality from thousands of miles away. Other companies have reshored due to th products from China.

Evaluation point

While many businesses are reshoring, the overall numbers indicate that offshori increasing standard of living in countries such as China indicates that offshoring m

3.9.3d Questions

JCB opens plant in Brazil

In 2012, JCB opened a new manufacturing plant in Brazil. This was not at th
of an expansion. As an emerging market, the Brazilian economy had been i
infrastructure was needed. This included roads, housing and offices for the
in preparation for the World Cup in 2014 and the Ol s in 2016.

JCB has also been investing in India e opening of two new factories i
actually fallen in recent tim r, as huge investment on infrastruct
JCB wants to be pre he upturn in the economy.

JBC ha ctories in India, twelve in the UK, plus others in China and the

- **http://www.bbc.co.uk/news/uk-england-stoke-staffordshire-197431**
- **https://www.jcb.com/en-gb/about/news/2014/11/jcb-double-factor indian-success**

1. Explain why JCB directly invests in countries as opposed to exporting co
2. Analyse the problems JCB might face when setting up operations in Bra

Frog Bikes

- **https://www.theguardian.com/business/2016/aug/19/frog-bike-bre bike-companys-new-welsh-factory**

Adidas

- **https://www.theguardian.com/world/2016/ 5/adidas-to-sell-r**

1. Outline the main reasons why Fro ke h reshored production.
2. Explain why Adidas hav reshore production.

Influences on buying, selling and producing abroad

Key Points Covered

- Economies of scale
- Business-to-business
- Taxation

Selling abroad

Shareholders of limited companies usually demand increasing profits. One way t particularly if there is an overall gain in economies of scale or scope. Purchasing economies may mean that internationalisation can hugely reduce unit costs. product, labour costs are often much lower.

Fluctuating exchange rates might present opportunities to increase buying and s crash in the value of the pound after the 2016 Brexit vote meant British goods su before, which was an opportunity to sell more to those countries. The value of th lower than in the pre-Brexit era, meaning those business opportunities (for expo – see below) have become permanent.

Buying abroad

The flipside of the Brexit vote and the crash in the pound that followed is that it components that firms imported suddenly became more expensive, leading to h

Some companies need to be nearer suppliers but many choose to be closer to th important in the business-to-business (B2B) sector, where relationships can be b influence. It is difficult to create a solid working relationship with suppliers if the

Linked to this is the lead time for delivery to the UK. Products that have to be sh to arrive in the UK. As discussed already, quality is a key influence. So are ethica

Producing/operating aboard

If the UK market has become saturated, then expansion overseas represents a u business may be able to take its business structure abroad and benefit from eco particularly true of new markets where there are few local competitors – for exa business model in the US and rapidly expanded it abroad.

Many countries encourage foreign investment through tax breaks. Businesses w indirectly many more. Governments will benefit from an increase in tax revenue

Depending on how they decide to enter international markets, a business may b licensees or agents (see the next section), which means they forfeit a certain am quality issues if the business is unable to directly check or control the quality of t under its name.

3.9.3e Question

1. Analyse the impact of a six-week lead time for a grocery retailer in the U

Ways of entering international markets and value of differe

Key Points Covered

- Exporting
- Licensing
- Direct investment
- Joint ventu
- Strategic a

Export

UK business takes orders f... ...ational companies and delivers. It is the lea costs due to ... ...direct investment. However, this method does not a with custor... ...d as the customer is not always known to the business, there Presales and ...sales service will also be minimal so may be less suited for high

The business can use existing systems, e.g. e-commerce, and their profit margin can dictate payment terms, e.g. delivery, currency, credit. The business is also li although the lower barriers to entry may compensate for this.

The UK exports a lot of services, particularly in the financial services sector. This efficient way to provide these as many can be completed through e-commerce. where the company markets and sells itself. This gives control over branding, pr may export indirectly, through agents. These are individuals or other organisatio then market and distribute in their local area. Alternatively, the products could country. This method may be suitable for businesses with no experience in a for control of marketing is lost. Also, some agents will act as agents for other compa necessarily devote as much attention to each product.

Licensing

This is where one company gives ... ...rmission to manufacture its good or done with manufacturin... ...y is given permission to make a product on provides a r... ...ely ... method of entering international markets as a UK bus direct inves... Also, there are lower distribution costs. Many brewers and s Cola) do this. ...n advantage can be that the manufacturing company (licensee) w no trade barriers. However, a licensee could, in the future, use what it has learn process to recreate its own version of the product, which could lead to a loss of firm. Licensing is often seen as a quick way to enter international markets.

Case Study – Coca-Cola

Coca-Cola European partners has the licence to bottle for the Coca-Cola Co including the UK, France, Germany, Portugal and Spain. In the UK they emp 97% of all Coca-Cola products.

Case Study – Fosters Lager

This is brewed under licence in the UK. 1.2b... pi... ...re brewed in Manches Fosters are actually drunk in Aust... ...a ... ...e other brands such as VB and C Scottish and Newcastle h... ...nt o... the rights for the UK, giving them full co Heineken now hav... ...e European rights.

h... ...w.theguardian.com/business/2011/jun/21/fosters-lager-brewed-in

Strategic alliance / joint venture

This is where two companies combine to create a separate business/product. A business, with two companies or more owning a share of it, whereas a joint vent project. In this way, companies can pool resources such as technology, expertise distribution. However, this combination can lead to conflict due to different obj of entering international markets, they share the profits too. It encourages inno for growth as well as economies of scale.

Direct investment

This involves a business setting up production in the target country and is usually There are many advantages of doing this such as avoiding import duties, reducin distribution costs and providing greater access to raw materials. It also enables customer and also ensure products are more specific to the customers' need However, there are significant costs associated with the set-up, including rent an good examples of this.

Direct investment can come in two forms: through organic growth – where a bus up new international factories, offices, warehouses, etc. – or through external gr

Multinational companies (MNCs)

Multinational businesses have factories/production in more than one country. provide jobs, improve the skills of the workforce and increase tax revenue. They the consumer.

However, there are some criticisms of MNC's. In the UK, Amazon, Facebook and for the lack of Corporation tax paid. Other have been criticised for employing th jobs, rather than local workers.

Factors to consider when deciding which method is best

When deciding which method to use, businesses will need to consider internal fa objective, the nature of the product, whether they have the skills and experience and, perhaps most importantly, cost. Some methods involve losing some contro price or quality.

External factors include the potential size of the market, the availability of the w suppliers, the competition and PEST factors. ASOS, the online fashion website, h China. It has been unable to respond to local preferences and has faced strong c commerce provider Alibaba. Also, the Chinese economy has not grown at the ex decided to merely export using their existing website.

3.9.3f Questions

Amazon and Morrisons have entered into an alliance where food will be ava
Morrisons is the UK's fourth largest supermarket and has not fully engaged

'The combination of our fresh food expertise with Amazon's online and logi
said Morrisons' chief executive David Potts. 'This is low-risk and capital lig
that demonstrates the opportunity we have to become a broader business.
with Amazon to develop and grow this partnership over the coming months

http://www.morrisons-corporate.com/media-centre/corporate-news/morrison
with-amazon

1. What are the strengths and weaknesses of each business?
2. What are the likely motives for each business for this potential alliance?
3. Analyse the impact on rivals.
4. Which method of entering international markets do you think is most risky
5. How might a business minimise the level of risk?
6. Simpers Ltd has been manufacturing dental products profitably in the UK f
dental practices and hospitals. However, sales are not rising as quickly as t
director, Angela, has been looking at expansion abroad by opening an over
Eastern Europe.

   Discuss whether Simpers should open an overseas operation.

3.9.3f Research tasks

1. Find a business that ... Prepare a brief including background of busine
and drawbacks ... business.
2. Compare and contrast the use of sales agents and distributors as alternative
international markets.

Managing international business

Key Points Covered

- Centralisation and decentralisation
- Differentiation
- Local respo
- Cost reduc

There are a number of challenges facing businesses operating internationally. O keep average costs low through economies of scale. However, different markets therefore, businesses have to provide different products. Some businesses contr office location; this brings consistency in terms of decision-making and strategy, differentiate easily, not just in terms of the product, but in terms of operatin channels, legal and political demands in specific countries.

International strategy

These businesses tend to be highly centralised. No great benefit from global eco pressure. Theses business also do not need to differentiate their products for sp either. While McDonald's will produce local varieties of their burgers (for examp vegetarians in India means McDonald's' menu is substantially different), the prod other aspects of the business are controlled centrally. Printing and publishing of

Multidomestic strategy

These companies will often develop differentiated products because of the differ They are usually decentralised so that managers in different countries will launch they operate in. They might not benefit as much from economies of scale and, d structure, they may lack consistency in their range of products, marketing and qu decentralised, resulting in lack of consistency in product quality for example. Un strategy as they were not able to compete with their great rival Proctor & Gambl and marketing. However, a benefit of this model is that they are responsive to lo provides a localised service in many countries, based on different musical tastes. into this str

Global strategy

Cost pressure is high with this strategy. These companies will aim to be cost lead economies of scale with a focus of efficiency. They will also be highly centralised products across all markets with little or no customisation. They will tend to ope to-business industries rather than consumer goods. Steel production, for examp differentiation for different regional markets but will benefit from a global produ industrial chemicals are often associated with this strategy.

Transnational strategy

These organisations have high cost pressures and also high pressure for local res sharing framework, so, while largely decentralised, the organisation will share pr learn from each part of the business. The computer industry and the car industr Large manufacturers such as Nissan and Toyota will produce different cars for di

Should a business produce standard or custom products?

It depends! By differentiating a product(s), cost increases. This is because of s methods for this approach will depend on the objectives of the business, what res the competitors are doing, customer expectations and the nature of the product

Case Study – Ikea

Ikea has created different products for its Chinese market to reflect not only the different needs of apartment-based living in Chinese cities. It also has a strategy, aiming Ikea more at aspiring middle classes, rather than the mass This strategy for customisation has enabled them to enter the Chinese mark

Case Study – Rolls-Royce Cars

Rolls-R... to lead the world in the luxury car market. Many of th althoug...uction takes place in Goodwood in the UK. The company is o prides itself on its 'Britishness' which is a strong selling point in foreign mar USA although the Middle East is a growing market with Abu Dhabi having th last three years. China is also a critical market for the firm. Rolls-Royce enc cars with many customers spending thousands extra on each car. It prides i components and assembly.

3.9.3g Questions

1. Highly centralised, little differentiation. Which strategy?
2. Explain why Tesco might adopt a multidomestic strategy if entering the

3.9.4. Assessing Greater Use of Digital Technology

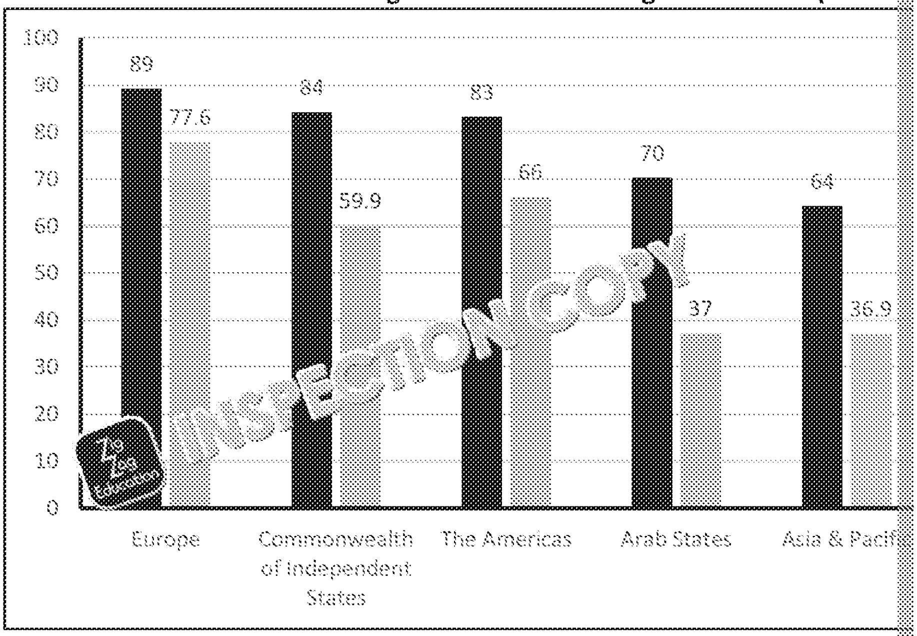
The pressures to adopt digital technology

! Key Points Covered

- Digital technologies that affect businesses, including:
  - automation
  - E-commerce
  - big data
  - Data mining
- Pressures t

The availability of new technology – in particular the Internet – has changed the w world. Consumers can now sit at a desk or on the sofa (or even lie in bed!) and d a mouse or by using their tablet, phone or smart TV. The numbers of consumers grow – and emerging markets such as Asia and Africa become a new marketplac This explosion in the use of the Internet has put pressure on many traditional bu technologies and take their business to the consumer rather than the consumer

Percentage of individuals using the Internet (2016–2



Retail has had to adapt to this change as the traditional bricks-and-mortar shop f online e-commerce stores open 24 hours a day online. The level of stock and va there is not the same physical restriction imposed as with a high-street store.

> **Key term**
> ***E-commerce***: commercial transactions conducted electronically on the Internet

Staffing is affected as the online portal replaces the sales assistant and money ex

All of this has allowed businesses to cut down costs, which can then be passed o prices, helping businesses gain future sales. The reduction in physical costs (e.g lighting) has meant that more firms can afford to start an online store – enabling and product choices.

The digital consumer is more savvy than ever before. They are able to use price c preferred supplier and review products using the hundreds of online customer re more affordable for a business to sell its goods, but the potential for competition

There are also market leaders in the online retail space such as Amazon. Origina
Amazon has since long overtaken the corporate giant Walmart in terms of its onl
leader in bricks-and-mortar retail but its e-commerce lags behind Amazon. Walm
2022 were around $73 billion[2] which equates to just thirteen per cent of its $573
comparison, Amazon's sales hit $514 billion last year, including its web service di
acquired the web retailer company Jet.com Inc in what was then the largest eve
start-up. It was an attempt to boost its web retail presence and stay competitive
yield results, leading to Jet.com being shut down in 2020.

The pace of change of digital technology is fast and some companies will fail to k
companies often benefit from economies of scale, interestingly the uptake of dig
most often in smaller companies and new start-ups. The balance is between agil
companies can respond faster and implement digital technology more quickly th
a greater number of stakeholders to bring on board.

Useful references and sources on e-commerce

- *https://www.shopify.co.uk/*
- *http://www.startupdonut.co.uk/set-up-a-business/starting-an-online-business*
- *http://ecommerce-platforms.com/articles/online-business-vs-offline*

Types of digital technologies affecting business

The twenty-first century is often referred to as the information age and if information is important then data is now even more crucial than ever for business success. Many companies feel the pressure to use digital technologies because their competitors seem to always be one step ahead of them. This is often due to the digital smart competition making effective use of data to target their audience and reach their potential markets in a very laser-focused fashion.

Key terms

Automation: the technology of replacement of human labour by mechanical o

Big data: extremely large data sets that may be analysed computationally to re
associations, especially relating to human behaviour and interactions.

Data mining: taking large batches of raw data and, through the use of software
into market information. The software identifies patterns of data which can the
strategies that target groups of customer characteristics and behaviours.

Automation has become an increasingly notable feature of the modern business
systems have become more powerful, they have been able to perform increasing
same time the costs involved in setting up automated systems have fallen. Auto
costs in the long run but usually involves high upfront costs, making it a more att

Using big data and data mining a company can identify things happening in the d
are mostly likely to be on Facebook or Twitter, or which celebrity stories get the
However, it can also help with 'real world' consumer buying patterns such as tim
to book restaurant tables or order clothes. Google already routinely shows how
different times of the day based on mobile phone location data.

Data mining is a useful marketing tool as it helps shape marketing strategy for co
failed marketing campaigns, leading to greater efficiency. This use of big data all
and when they advertise directly to their target market.

2 *https://www.wsj.com/articles/wal-mart-to-acquire-jet-com-for-3-3-billion-in-cash-stock-1470659763*

Case Study – Pokémon Go

A fascinating use of this big data approach was seen in the phenomenon tha the summer of 2016.

Implication of this augmented reality digital technology use for business – sl
http://www.slideshare.net/LHBSC/case-study-pok n-go

Read the case study extract below a e n how this digital technolog

Extract: Pokémon Go case study

'Pokén combines multiple layers of data to provide an engaging and e for insta :

- **Geolocation:** the marina next to my office is swamped with water-type reasons; Pokémon appear mostly in environments that suit their chara
- **Time:** late at night, the ghost-types and fairy-types are much more pre
- **User-specific information:** the higher the level of a player's avatar has Pokémon that player will encounter, and as a player levels up they will to catch (even a CP10 Pidgey…)

Combining this data, and countless other vats of information, allows Pokém experience to each user. Businesses can use this technique to provide accu messages to customers based on a variety of metrics, including but not limit shopping behaviour and weather conditions.

From a data collection perspective, Pokémon Go h infrastructure beh in real-time, where millions of real peopl ar , h ong they spend there, w many users sign into Pokémon G ir Google account… this location linked with the wealth of rm n Google already holds on these people

This a l rmation may include basic stats such as name, age and g data su e kinds of websites you visit and how much time you spend o information is a very powerful tool indeed. Depending on how vigilant an in data they allow Google access to, a very detailed profile can be created.

Aside from any data protection issues here, this is a massive marketing rese already available, companies would surely be seeking new and, importantly, their target market.'

Source: http://www.i-vere.com/blog/post/9526339/big-

3.9.4a Questions

1. Read the Forbes article
   http://www.forbes.com/sites/gregpet 08/25/amazon-vs-wal titans/#64c9e93e18d9

   What are three key issu nart needs to address in order to be co

2. Gi e for and three reasons against a start-up choosing to ON a nd-mortar business? (use sources from above to help)

   Present your findings in a table – advantages/disadvantages to solely onlin

The value of digital technology

! Key Points Covered

- The value of digital technology for businesses

How do you measure the value of digital technology?
Value can be a subjective term which is not useful for a business under pressure. When assessing the usefulness of implementing a digital programme, a company return on investment. Measuring the ROI takes into account negative as well as measure is the value of each customer transaction and the lifetime value of a cus

Those larger organisations who are coming to the digital table late are already op systems, e.g. using Excel spreadsheets, which may be a use of IT but are not a ful integrated accounting and database CRM software.

> **Key term:**
> ***CRM, Customer Relationship Management***: is a strategy for managing all of a b interactions with customers and potential customers. It can include, but is not l all points of contact customers have with a company. From enquiries to social c sales, refunds and reorders, it can also be used as a communication and conne

Smaller, leaner start-ups often start their company life with digital technology in than some of their larger competitors.

To measure the value of digital technology a company needs to set its digital obj the return on any existing systems they are using first, to establish a benchmark measure improvement.

Areas to measure ROI in a digital plan
Marketing – it is a matter of focusing on the value of each and ongoing cust Example: Facebook advertising. This is a huge growth area in marketing budgets companies and the cost of this advertising has seen a significant rise as demand h grown and gathered more and more data on its users. Companies need to know media has a tangible return. The soft returns are the public relations and brandi media. However, companies that have analysed their ROI and effectively use big potential customers see social media as having a positive ROI.

Facebook certainly holds one of the largest customer databases in the world and and demographics inform any company's advertising on that platform.

> ## Find out more
> For statistics on the ROI of social media see the infographic courtesy of
> *http://www.salesforlife.com/blog/the-roi-of-social-selling-5-data-drive*
>
> The value of digital technology addresses one of two key areas: does it incre reduce operational costs for the company?

Marketing and sales focus on increasing revenue but other digital technologies d reducing operational costs.

The value of digital technology in improving business processes

CAD/CAM technology is probably the most common and earliest use of digital te industry. This is the technology of robots making cars and computerised enginee familiar with. Digital technology is more appropriate in the design element but t humans (with their tendency to make errors) with machines (which can be progr digital revolution.

> **Key terms**
> ***CAD***: computer aided design
> ***CAM***: computer aided manuf ure

> **Key term**
> ***Millennial*** son reaching young adulthood around the year 2000.

However, in the twenty-first century digital technology has moved from the man smartphone. Business is literally in the palm of their customer's hand. This shift perception of value to the consumer's idea of what is value? The increasing buy forced many companies to adopt a digital presence and accessibility for fear of lo

The millennial generation are digitally smart and the generation most likely to us be cultivated by marketing as they grew up during the marketing explosion and c generation that will take advice and recommendations from friends over produc most likely to 'Google it' and YouTube it' when figuring out how to find out some something work.

Digital value to this generation is a joined-up process whe , with a tap of the get what they want in as few steps as possible. Th tr challenge for business interactive experience.

For a business, this joine g can add value to their internal processes b constantly f on efficiency.

Cost reducti potential of digital technology

There is an old IT saying from the 1980s coined by computer designers – GIGO – value of any digital technology is compromised by the information going in at the Digital technology will not turn inaccurate information into useful data.

Where it can significantly add value to a business is in consistency of information company can, over time, accurately measure trends in customer behaviour; com products and impact of changes made to designs and/or pricing choices.

It can also be used to model potential changes without the costly expense of phy

The greatest perceived value of implementing a digital polic n a company is the strategy to reduce time spent on mundane tasks a increase the retu technologies that are more efficient than hu n . However, this is not the digital framework in business; it m portunity to use digital technology

Specific areas reduce costs by implementing digital technologie section). T ss the value of digital technology a company needs to revi more than s operational. Companies at the forefront of digital technologic totally different way.

Google, for example, constantly push the boundaries of what digital technology c
services as lifestyle services, evolving and changing as people's work–life connec
started as a search engine but now Google are aggressively competing in busines
up with marketing, administration, analytics, web development and education.

Find out more

A snapshot of how Google has evolved:
https://youtu.be/olFEpeMwgHk

A key moment in this video is when they say 'How can we help you get thi possible?' (1:3…

This is a key question that shows that Google understands the value of digit
steps in a process makes economic sense but it is also great marketing and s
customer's desire for ease and simplicity even if the underlying technology i

'Traditional' business may feel uncomfortable under the pressure to adopt digita
moving them further away from their customers and away from face-to-face inte
plenty of companies who manage the balance between a personalised service an

Uber is a classic example of a company who did not just tweak the experience of
it; and they did it largely due to very smart use of digital technology. The result:
experience from start to finish that has a very high perceived value. For Uber, ut
the barriers to competition by not just providing a better service than existing ta
changing the service – the result is a niche San Francisco service founded in 2009
valued at $62.5 billion in 2016. One of the keys to Uber's success is to adopt a lo
expand into. They are acutely aware of local demographics and tailor their expe
respect, they are very close to the end customer despite using such an arr

Further reading

http://fortune.cnn.com/2012/02/02/the-trials-of-uber/

3.9.4b Mathematical Teaser

1. Work out the ROI
   Investment: £3,500 on Facebook adverts

   In the month that the advert runs:
   22,500 people see the advert
   900 potential customers click on the advert
   60% of those potential customers sign up for a free offer and become s
   15% of those subscribers buy a £12.50 product
   Another 5% of those subscribers then buy a £15… product
   Over a year, of the customers who signed up – 35% unsubscribe and 20
   on the company's products.

   - Was this a worthwhile investment in advertising spend?
   - What is the per customer transaction value and the customer lifet
   - What is the return on investment of each pound spent on the cam

3.9.4b Question

Read the extract from the case study on Uber and answer the question belo

Case study extract: Uber and its growth

'How did Uber do it? As a multi-sided marketplace business model, how did problem that so many marketplace startups struggle with? Much like Belly, to create local network effects in their launch city, San Francisco, while fuell through targeting of the early adopting Bay Area techset.

Uber is completely changing the way getting private transportation is done smartphone app integrated with Google maps so that you can see how fa meeting at on the screen, and hail a car to meet you there. You can eve (including ratings) as you watch the car get closer to your location.

Uber drivers call or text to confirm that they're on the way, giving you peac received. Once your car arrives (usually within a few minutes), the driver gr in. The cars are black cars and SUVs. Uber X, a lower cost version of the ser maintained sedans.

Once you arrive at your destination, the app charges your card, and you're f There's no need to deal with cash, change, tips, or receipts. You just hop ou the friction from the typical taxi cab transaction, and made it highly enjoyab

Uber provides a solution to a real problem that impacts millions of people. disrupted the monopoly of taxi cab transportation that exists in many cities from top to bottom.

Among the many problems Uber is tackling are poor cab infrastructure in s fulfilment – including dirty cabs, poor customer experience, late cars, driver and more.

Uber set out to reimagine the entire experience to make it seamless and en didn't fix one aspect of the system (e.g. mobile payments for the existing ta whole experience from mobile hailing, seamless payments, better cars, to n

Source: **https://grow**

1. Identify the value of the digital technology Uber uses that has created t

Answers

3.9.1a

1. A business may choose to grow for a number of reasons, including economies of increase its market share, to improve its competitiveness, to spread the risk of f ambitions.

2. Students can explain several methods for the business, including finding new cus products, devising new ways in which to market the products and finding new u

   Each of these options could help the business create more interest in its goods, secure more market power for itself. IKEA may then react by agreeing to negoti might emphasise the need to diversify, increase promotion and/or negotiate

3.9.1b

1. A business may choose to grow for a number of reasons, including economies of increase its market share, to improve its competitiveness, to spread the risk of f ambitions.

2. A merger involves two or more businesses agreeing to join together and operate directors. A takeover involves one business buying sufficient ownership in anoth running.

3. A business could engage in forward vertical integration, which involves merging w stage of production. Backward vertical integration involves a business merging w in an earlier stage of production.

4. Students should note that there could be tactical and strategic reasons for this d market share of each business, gaining ownership of intellectual property, expa increasing profitability.

3.9.1c

1. Possible pitfalls include diseconomies of scale (demand in the other cities may n company has to pay for additional locations), internal communication (as the increasing numbers of barriers can be put between staff members) and overtradi it is ready to provide for the demand that is likely to arise once it opens more lo consider whether it has the funds available for expansion and how much it woul

3.9.2

1. Product innovation means innovation in the product itself, whereas process inn ways to produce or market the product, or in some of the business's other meth

2. Students should include reference to the need to maintain competitive advanta may discuss long-term investment payback versus the short-term gain to invest they may reference increased share value as a benefit of this strategy to investo costs through process innovation, or opening up new markets and opportunitie development.

3.9.3a

1. Relaxation of trade barriers (tariffs and quotas), increased international trade a communications.

2. A business may access the benefits of globalisation through expanding into new locating activities overseas, outsourcing, embarking on a joint venture with a bu market or merging with or taking over a business in a market they wish to ente

3. Larger customer base, reduction in trade barriers, encourages efficiency, can so

4. Increased competition, countries may still put their national interests before th

3.9.3b

1. Brazil, Russia, India, China, South Africa

2. Any three from: Purchasing (monopsony power), managerial, technical (produc capital/funding)

3.9.3c

1. The new market may have different wants, needs a[illegible] from an existing m research could be needed in order to under[illegible] ew market. It is a lower business would usually be produc[illegible] product as in their domestic cou suggests alterations and [illegible] to their products/services, the strategy

2. They a[illegible] graphically huge which creates distribution problems. They working[illegible]ces and customs to the UK, as well as different legal and procedu trade barriers in place.

3.9.3d

JCB

1. Difficulty and cost in transporting completed goods due to their bulk. May bene materials, and cheaper location costs.

2. Recruiting skilled labour force, different cultural issues such as language, and d

Frog

1. Outline the main reasons why Frog Bikes have reshored production.

2. Explain why Adidas have chosen to re-shore production.

3.9.3e

1. Having a six-week lead time could lead to e[illegible] if there is a slight incre This could lead to lost sales opport[illegible] customer requirements change be will be too slow to react, w[illegible] an a rival retailer gains market share.

3.9.3f

Amazon an[illegible]isons

1. Morriso[illegible]eady have a good market share in the UK grocery sector. They ha and the knowledge of running a successful grocery business. However, they do e-commerce and delivery. They are behind the main competitors such as Tesco Amazon have huge success in logistics and delivery. However, they do not have the UK.

2. The likely motives are that each business can benefit from the other, without in business. Amazon will have a ready-made supply chain of products. Morrisons developing an e-commerce system and it will be ready to go much more quickly their own.

3. Tesco have first-mover advantage and have the highest market share in terms o Amazon have developed a globally successful logistics system which could impr customers. This could lead to Morrisons/Amazon takin[illegible]rket share away fro customers are to the likes of Sainsbury's and T[illegible]

4. Direct investment is usually see[illegible]sky. This is often because of the ext up a new operation. Th[illegible] actory with expensive machinery and equi employees need t[illegible]ed and trained. However, this all depends on pote planni[illegible] the business is in a position to take a calculated risk.

5. It could [illegible]uct extensive market research to find out about the market and co could have a detailed business plan, conducting investment appraisal and foreca 'change' management staff.

6.

	Mark Scheme
AO1 marks	Knowledge and understanding of relevant issues such as meth markets and reasons for doing so.
AO2 marks	Applied to the context of B2B, specialist product, ltd company, Eastern Europe.
AO3 marks	Analysis of the benefits/drawbac... ...ing an overseas op
AO4 marks	Decision based ... ...n context.

For –

- B... re...onships with customers
- Po... for further expansion into other countries
- Control over quality
- New target market
- Provide aftersales service

Against –

- More expensive in terms of admin, infrastructure, management
- Different laws, cultures, practice as outside of EU
- May need specialist workforce

Evaluation –

- What else could they do?
  - Export from UK, license their products, appoint an agent.
- Level of risk, market research, experience of staff, competition, economy o
- The most important factor is…
- In the long term / short term…
- Do the advantages outweigh the disadvant...
- Justified decision

Model answer

Simpers Ltd may have f... ...a... UK market is saturated and the slow growth fig expanding i... ...rn ...pe the business could expand and would have the possibil successful. ...uld lead to them benefiting further from economies of scale which having their ... operation they would ensure they kept control over important mat means the brand is not diminished, and customer service, leading to repeat business the business-to-business market. Perhaps most important is ensuring the quality of

However, expanding into Eastern Europe may lead to problems such as legal and em EU there are different rules and regulations. This could lead to a lot of time and effor Opening a new manufacturing plant will also be very expensive in terms of infrastruc increase their costs in the short term, leading to a fall in profit.

Simpers Ltd need to consider whether they can afford the risk. If the business is in a be able to afford the risk. We don't know what the competition is like in the Eastern looking at and we have no forecasted figures to help them decide. A less risky propo products. A licensee may have local knowledge and specialist knowledge of the mark knowledge of suppliers. This method of expansion would also ...ve time and money, the profit.

3.9.3g

1. Global strategy

2. It will ... ort... ...provide localised products, whereas the pressure for glob Brazili... market will be very different to the UK market. There should be manage... makes decisions to ensure Tesco can compete with local rivals.

3.9.3h

1.	Quality	the production line and manufacture of the shoes may b
	Economies of scale	depending on the size of the production plant
	Suppliers	may have difficulty in finding the right supplies

3.9.4a

1. Detailed explanation of points below:
    - Better management and understanding of customers through data
    - Intuitive and responsive supply chain that responds to customer needs
    - Innovation in a new market – mobile / virtual reality, etc.

2. Any three answers from below:

Advantages of online business	Disadvant
• Savings in physical costs and overheads – explain in detail • Market reach – reach beyond local population – explain why you might want to reach a larger geographic area • Simplicity and speed of start-up. Explain what is required for online success vs offline set-up. • Can reach customers 24/7 across all time zones • Direct contact with customers via social media and email • Access to consumers that competition of offline business cannot reach • Relatively easy to scale up as infrastructure established from the start	• Hidden costs of o become more co • Shipping costs of supply chain can to manage • Trust factor – ho physical presenc • What pressure d customer service • Expectation of in high visibility • Greater competit and improved up • Cyber security a

3.9.4b

1. ROI exercise

Cost:	£3,500
Return – subscribers in first month	= 540
Buyers in first month	81 × £12.50 = £1,012.50
Plus	27 × £15.00 = £ 405.00
Plus, over a year	108 × £25.00 = £ 2,700.00
Total revenue	= £4,117.50

NB this does not take into account the cost of marketing personnel, it is simply a

Per customer average transaction value – first month £13.12
Total customer transactions over a year = 216 and value of transaction = £19.06
ACTUAL profit from campaign without factoring marketing personnel costs = £
However, the company now has 216 customers and potentially 540 customers t
Each £1.00 invested in the campaign gave a return of £1.17
Discuss – is this good enough?

2. Uber case study
Use of apps – how that cuts down time for the customer and the company
Use of maps – how that makes arrival times efficient and helps the customer to
Charges your card so no need for cash or change – added security for the driver
often mugged for the money in their cabs
Launching in the right location – with tech-savvy early adopters
Digital media spread the word