FACTFILE:
GCE BUSINESS STUDIES

A22 THE COMPETITIVE BUSINESS ENVIRONMENT – GLOBALISATION

The Competitive Business Environment – Globalisation

Learning outcomes

Students should be able to:
- demonstrate and apply knowledge and understanding of globalisation;
- demonstrate and apply knowledge and analysis of regulations related to trading globally; and
- demonstrate and apply knowledge and evaluate the factors a business should consider in trading globally.

It is an organisation's way of managing its strategies and policies aimed at **ensuring participation in global trading activities.**

Many Northern Ireland businesses are engaged in global trading activities. Examples include:

Bombardier (Canadian owned, manufacturing aerospace products worldwide including aircraft parts);

Ulster Carpets (manufacturing carpets worldwide for casinos in Las Vegas (USA) and the Burj Khalifa Hotel (Dubai);

LIDL (German owned, operates retail stores throughout N. Ireland) importing groceries from various countries throughout Europe to N. Ireland).

Regulations related to trading globally

- Tariffs – a financial levy/charge placed on a product/service imported from a foreign country.

The effect of this tariff is to inflate or increase the cost of the product/service, meaning that the customer will pay more for the product/service, compared to similar products/services provided by businesses in the domestic market.

- Quotas – a quantitative limit placed on the quantity of goods/services which can be imported from a foreign country.

The effect of a quota is to restrict the quantity available for sale to the final customer in the domestic market, which in turn is likely to make the sales price more expensive compared to similar products/services provided by local business in the domestic market.

For example, Mash Direct Ltd might be able to export only 100,000 servings of mashed potato to customers in Dubai (Middle East), as their culture dictates that cous-cous is the main dish for consumers in that country. This would have the effect of limiting the sales quantities and revenues for Mash Direct Ltd.

- Voluntary Export Restrictions (VER) – these are limits placed on the quantities of products/services which can be exported to a foreign market. Such restrictions are agreed on a voluntary basis between the business in the domestic market and the government of the foreign country to which the products are exported.

For example, SDC Trailers Ltd might decide that they will produce and sell a fixed quantity of 4-wheel trailers for customers in USA, since traffic laws dictate that they have weight restrictions in terms of loads transported.

This will have the effect of limiting the sales quantities and revenues of SDC Trailers Ltd.

- Administrative Restrictions – these are rules/regulations placed on a business engaged in exporting products/services to a foreign country. It implies that a product/service must comply with certain rules as a condition of sale.

For example, Thales UK Ltd is allowed to produce and sell missiles to national governments only around the world, once approved by the UK Government – usually under licence.

This will have the effect of limiting the quantities of missiles produced/sold and thus the sales revenues and market share of Thales UK Ltd.

Factors considered by a business trading globally

Fastcar Limited produces sports cars for the global market. The management team have recently reported an increase in sales revenues. The vehicles are manufactured to a variety of specifications, including:

- 2 or 4-seater vehicles
- right-hand drive vehicles or left-hand drive vehicles
- different engine sizes (including 2L, 3L and 4L)
- a range of colours (including blue, white, red, yellow and black)
- cloth or leather interiors.

Customers can tour the production facilities, watch their vehicles being assembled, attend technical seminars and visit the onsite gift shop which sells vehicle and driver accessories (e.g. car body kits and driver sunglasses). Management have reported that actual revenues from gift shop sales exceeded the original budget. The management team of Fastcar Limited make extensive use of a website as part of product promotion and to increase awareness of the product range.

There are a number of factors to consider which will influence business performance in the global market, including:

- Language – English is the official language, thus translations of product designs/specifications and user manuals may be offered to internationally-based customers, whose first language is not English, thus improving the customer experience at Fastcar Limited. The downside might be that it can be expensive to provide such facilities.

- Currency – Sterling (£) is the national currency in Northern Ireland; internationally-based customers are likely to be required to translate currency from Euro and/or Dollar into sterling in order to acquire goods/services. Most retail facilities currently accept automated payment systems which incorporate foreign currency transactions, so this issue requires management attention at Fastcar Limited in order to enhance the customer experience. Restricted currency exchange facilities will limit the sales revenues which Fastcar Limited might achieve, thus having a detrimental effect on financial performance.

- Product promotion – recent reports indicate that sales revenues have increased which may suggest that products/services are well promoted. The E-Commerce activities employed by Fastcar Limited's managers are crucial and may be used to promote the product range (e.g. 2 or 4-seater vehicles). Marketing of the product range can be expensive if it involves purchasing the resources required to build an established brand name, increasing consumer awareness and maintaining the brand in the global automotive market. A disadvantage may be that consumers may not be aware of the product range due to the specialised nature of the product.

- Technical standards – key objectives of Fastcar Limited's managers are:

  (i) ensuring each vehicle is manufactured to customer specifications (e.g. 2L, 3L or 4L engine size, 2 or 4-seater vehicles or fitted with cloth or leather interior);

  (ii) ensuring each vehicle produced meets global industry safety standards;

  (iii) ensuring they provide customers with a unique sports car experience not provided by rival car manufacturers.

- Increased cost – a key performance indicator will be to ensure that each vehicle produced and sold conforms to the sales price agreed with the customer. Participation in global trade typically leads to increased costs due to delivery costs, researching international markets, importing component parts and activities supporting the export of the finished product.

- Packaging/Labelling – in order to increase sales the management team must ensure that all products sold online or onsite are properly packaged/labelled to provide accurate descriptions, and that they meet customer expectations in terms of packaging and presentation. Doing this has the effect of increasing unit cost and may make the products more expensive.

Revision Questions

1. Using a business with which you are familiar, explain what is meant by the term 'globalisation'.

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2. With reference to Fastcar Limited, explain one way in which each of the following trade barriers might impact its global trading activities:

a. Quotas.

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b. Tariffs.

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c. Administrative restrictions.

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3. With reference to a business such as Fastcar Limited, analyse two opportunities which the management team consider will benefit the business, as a result of trading globally.

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4. With reference to a business such as Mash Direct Limited (See Specimen Assessment Materials, A2 2, Examination Paper), evaluate the likely impact of five different factors which the management team should consider when deciding to participate in global trading activities.

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