Assessment practice 5.2

C.P5 C.P6 D.P7 B.P4 C.M3 D.M4 C.D2 C.D3

The external and cultural factors that affect international businesses are very important. They can make the difference between a business working well in the international context and not working well. They can lead to better communication or total misunderstanding.

Using one of the businesses that you investigated earlier, produce a case study as a journal article, using your own research evidence, to explain the impact of international business, and make a detailed evaluation about the impact of external influences and cultural differences on that business.

In your article, you will need to ensure that you cover external influences and cultural factors that influence the way your business trades. You should ensure that you incorporate a wide range of research evidence and select appropriate research sources.

In your article you need to make sure you cover:

- external influences that affect whether a business trades internationally
- business support systems that help international trade to take place
- an exploration of the cultural differences, and an analysis of how these affect international businesses.

Using your research, you should carry out a situational analysis, using relevant models, on two different countries that your chosen business may trade in, including your recommendations for which country would best fit the needs of that business. Ensure that you fully justify your recommendations.

Plan

- Have I chosen the most appropriate business from assessment practice 5.1 for this task?
- Have I made sure that I can source enough research about the countries that I have chosen?
- Do I know where/how I am going to find the information I need about cultural differences?
- When are my deadlines?

Do

- How do I know I am on task?
- Where can I get my research?
- Who do I know that can help me with first hand research into cultural differences?
- Where can I get images and other information to enhance my work?
- How do I know I am keeping to my deadlines?

Review

- Did I include as much research evidence as possible?
- How did I approach it?
- What would I do differently next time to make sure that I improve in future assignments?

E Examine the strategic and operational approaches to developing international trade

In this section, you will learn about the different strategies that need to be used when operating internationally, and how businesses decide which ones best meet their needs. You will also learn some of the additional adaptations that are made to meet local demand and the costs and structures that are put into place to support businesses operating in this way.

Strategies for operating internationally

There are many different ways that businesses can operate strategically and these do not necessarily mean that the business has to trade in a particular country or countries.

Strategies

There are eight main ways that businesses can operate internationally and these are outlined below.

Licensing

Sometimes businesses will decide that licensing is a better way to expand internationally. Licensing means that a business enters into an agreement to let another business manufacture their product or market their services in another country as a **licensee**. Burton's Biscuits produce American brands in the UK under licence.

Licensing can give permission to another business to sell services, expertise or even ideas on behalf of the licensor. Licensing agreements can be used to cover copyright, patents and other forms of agreement. They can also be offered exclusively or non-exclusively in different countries. Exclusively means that only the licensee can produce the goods or offer those services. Licensing payments can vary but it may cost a set amount to buy the licence or it may represent a percentage of sales made. Fees may also be charged to the licensee for technical expertise and initial agreement payments that are made as a one-off. Agreements can also vary: they can be open-ended and therefore long term, or be set for a fixed period of time.

Table 5.13: Advantages and disadvantages of licensing arrangements

Advantages	Disadvantages
• Support on offer for the licensee. • Easy access for the licensor to new markets through the licensee. • Cheap for the licensor to expand using other companies to help them. • Low investment required in the new country.	• Loss of control for the licensor. • Potential lower income (only %) not all of the sales. • Licensee may damage the reputation of the licensor if not carried out correctly. • Potential for additional competition from the licensee if they decide to stop operating under licence.

Research

Mizkan Euro Ltd produce goods under licence in the UK and Europe. Find out the type of goods that they produce under licence and more about the history of the business.

Franchising

Franchising is similar to licensing in that businesses agree to pay to run a franchise in another country on behalf of another. The franchise itself is an agreement to sell or distribute goods through a legal agreement between a franchisor (the person offering the goods or services) and the franchisee (the person offering those goods or services in the other country).

Franchising is very popular throughout the world and many companies use franchising arrangements to expand their services and make their brand names more well known across the world. These include:

- McDonald's
- Subway
- Dunkin' Doughnuts
- Papa John's Pizza
- Harry Ramsden's.

Franchising means that the franchisee agrees to buy all from the franchisor, by arrangement, and that the business should be operated in the same way as the franchisor expects.

The only difference is that the profit that the business makes under the franchising agreement, and the legal status of the business running the franchise operation, are separate from that of the franchisor.

Case study

Papa John's Pizza

In 2016, the minimum expected investment to enter into a franchising agreement with Papa John's Pizza was £70,000.

Papa John's Pizza have over 300 restaurants in the UK and have used franchising to expand their presence in the UK. Papa John's Pizza have operated in the UK since 2000 and have won awards for their pizzas. Signing up to a franchising agreement has various incentives for the franchisee, which have included free ovens and marketing support.

Training is offered centrally by Papa John's Pizza and this includes online and offline training to help franchisees to run their businesses effectively. Franchisees need to be good communicators and must be very organised.

Check your knowledge

1. What are the benefits for Papa John's Pizza of operating this model to expand their business internationally?
2. What are the benefits for the franchisees of entering into an agreement with Papa John's Pizza?
3. Can you think of any potential disadvantages?
4. 'Franchising is a low risk way to expand a business internationally.' To what extent do you agree with this view?

Subcontracting

Subcontracting is another potential way for a business to expand internationally. It means that one business undertakes work on behalf of another, and is commonly used in the construction industry, where a large business may negotiate a contract and then ask smaller companies to carry out parts of the work on the ground.

Subcontracting can be carried out for services as well as for manufacturing, for example for financial services or technology consulting. A subcontractor may be asked to give advice or oversee a project for a specific period of time.

Subcontracting has many advantages including:

- being useful for specific projects/periods of time
- low investment required in advance
- subcontractors are usually **self-employed** so costs are lower
- costs are fixed as the business only needs to pay the contract costs and not additional costs such as holiday or sickness pay for employees
- faster and easier to buy in expertise.

There are also some disadvantages including:

- it may be more expensive in the longer term
- subcontractors may not be as loyal as employed staff
- less control potentially over the quality of the service offered or product manufactured
- subcontractors may be less motivated than permanent staff.

Key term

Self-employed – a person who earns their living from charging fees or commissions rather than being employed and earning a salary.

Outsourcing

Outsourcing is another way of choosing another business or agency to run services on behalf of another business. Outsourcing can be used to perform certain functions such as producing accounts, running a payroll system, call centres or telesales. Outsourcing can also be used to perform other functions, such as research and development, or marketing on behalf of the business.

Outsourcing allows the core business to continue to focus on what it needs to do. By using outsourcing, for example in marketing, a business could expand the sales volumes for their product or service whilst being able to focus on their core business purpose.

Table 5.14: Advantages and disadvantages of outsourcing

Advantages	Disadvantages
• Keeps the business focused. • Flexible. • Less risk. • Keeps costs under control through arrangement. • Access to specialist skills or expertise.	• Lack of control. • Reliance on third party and potential to be tied to that third party contractually. • Hidden costs. • Problems with quality.

Reasons for using a selected strategy

You have already learned some of the different methods that can be used to expand a business internationally. It is very important that a business chooses the right type of strategy to expand effectively. Choosing the right strategy needs to be thought about carefully and it needs to take into account the factors shown in the table below.

Table 5.15: Choosing the right strategy for business expansion

Factor	Areas to consider
Speed of establishing operations	• Time allowed in the business strategy – short or long term? • Competitor strategy and ability to copy the product or idea – first or follower? • Threats from markets in existing countries – expanding or declining? • Money available for the project to ensure that the operation can go forward quickly.
Access to local business knowledge and expertise	• Ability to communicate in the country, including language barriers. • Local culture or traditions around the service or product offered. • Local business conditions and working arrangements.
Cost control	• Capacity for a business to expand and invest in itself versus the ability to go out and get additional investment through third parties. • Cash flow of the business. • Requirements of the business for **capital investment** or expertise. • Need for economies of scale across geographical areas.
Risk control	• Reputation of the product or service. • Ability to control or influence the relationship between the cus • Level of investment available. • Capacity to take a risk in a new market. • Levels of risk traditionally adopted by the business.

Re-engineering products and services to meet demands and preferences

Although it is important to consider the different models of expansion when deciding to go into a new market, new country or even new geographical area of the world, it is also essential to consider the demands and preferences of customers in those areas.

Across the world, there are differences and adaptations that must be made in order to satisfy local tastes and needs. Businesses trading internationally should consider the impact of these adaptations and the extent to which they need to make changes. Changes can incur an additional cost that might be essential to trade in a new market.

Car manufacturing is a good example of re-engineering a product as some countries have left-hand drive cars and others, like the UK, have right-hand drive cars. A car manufacturer operating in the UK would need to re-engineer their products in order to produce an appropriate car.

Another example is that, in some countries, certain food additives, dyes or ingredients are not permitted and it is important that changes are made for local customers.

Discussion

Fast-food restaurants, such as McDonald's, have different menus for different countries. For example, in Abu Dhabi (United Arab Emirates) the food is produced and certificated as Halal and there is a selection of additional choices. These include haloumi for breakfast.

What are the advantages and disadvantages of re-engineering menus for McDonald's worldwide?

To what extent do you agree that it is impossible for a business to behave in the same way in each of the countries it operates within?

Key term

Capital investment – the amount of money that needs to be spent on investment in assets such as land, buildings, machinery or technology.