Globalisation Continued: Global Business Development

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What we need to know

- Here are all the points this PowerPoint aims to cover from the BME Y12 Syllabus

These syllabus points are the first ones for BME; however, it is logical to study these points after you have studied the impacts of globalisation

- factors driving global business development, including:
  - financial growth opportunities and/or loss minimisation
  - consumer purchasing and spending patterns
  - World Trade Organisation (WTO) regulations and sanctions
  - deregulation of the financial market

Factors driving Global Business Development

Globalisation presents many opportunities for multinational businesses to increase sales, profits and ultimately provide sizeable returns to shareholders. There are factors directly influenced by consumers, Governments and organisations that have helped contribute to these opportunities.

In the Year 12 BME ATAR course, you only need to learn the following four driving factors.

1. **Financial growth opportunities and/or loss minimization** – how globalization has allowed businesses to expand their presence, outsource labour and engage in offshoring to increase their profits and reduce their expenses respectively

2. **Consumer purchasing and spending patterns** – how the increasing connectivity between consumers globally allows for identifiable trends in consumption and reduces barriers for businesses to access international customers

3. **World Trade Organisation (WTO) regulations and sanctions** – how the WTO creates and enforces standards of trade between participating nations to inspire confidence and create opportunities for businesses globally

4. **Deregulation of the financial market** – how Governments and agencies choose to relax certain laws to promote trade on the belief that businesses will take advantage of relaxed laws to maximise their return

Financial Growth Opportunities and/or loss minimisation

Various means of growth for businesses have been made possible because of globalisation, with increased customer base, cheaper production costs, economics of scale and risk mitigation all being opportunities for global businesses to grow financially.

- **Increased customer base** – businesses can increase their profits by capturing a wider target market. This is possible with more exposure through expansion of presence, both physically and digitally, into countries like China, India, and the United States which contain over a third of the world's population.

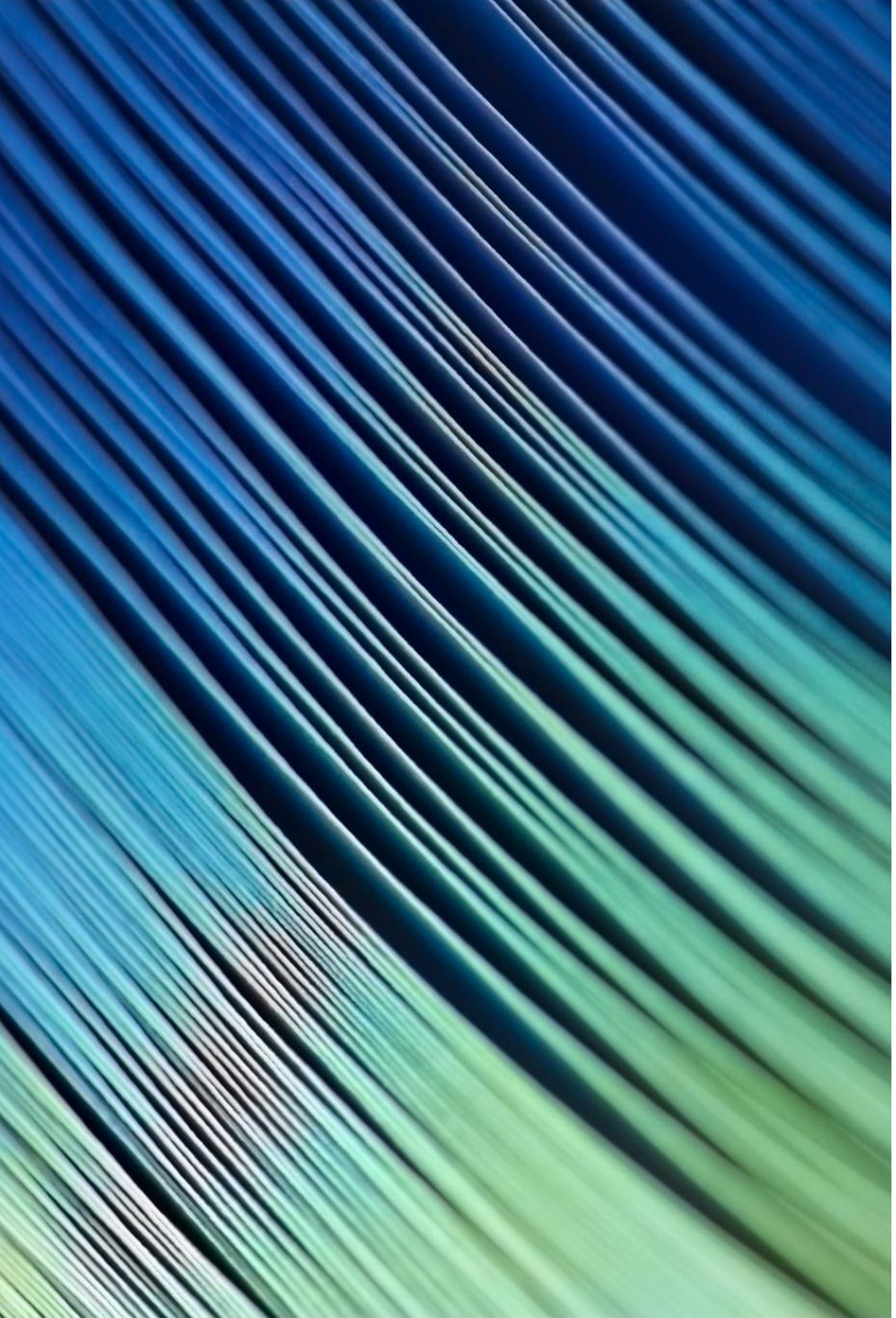
- **Cheaper production costs** – by moving business operations like manufacturing overseas, the firm is 'decentralising' which allows it to take advantage of lower minimum wage laws in countries like China to produce goods and services. Countries with no national minimum wage rates are favoured by multinational businesses.

- **Opportunity to extend product life cycle** – when businesses begin to reach maturity and decline for certain products in the product life cycle, this can be the perfect time for firms to go global. At this stage, a firm has low debt, high profit and cash reserves, this can be used to invest in introducing the product overseas and thus extending the lifespan of a product to generate more revenue.

- **Risk mitigation** – ensuring that a business' portfolio is diverse (not invested in one particular location) protects the business from experiencing notable financial distress should one location suddenly experience issues. Currency fluctuation can cause cost of supplies to increase and for goods to become undesirable if prices become too high in other countries. This shock is reduced (mitigated) because a business could move suppliers based on the countries they've already expanded to, or simply bear the suffering in the short term without it adversely affecting its long term cashflow.

- **Economics of scale** – should a business increase production overseas, in addition to the cheap labour costs, the average cost per unit of output (product) decreases.

Case Study: Apple Inc is a multinational company that benefits from all the above Financial Growth Opportunities. By expanding the iPhone SE, a budget conscious phone, to countries like India they have gained customers that would otherwise not be interested due to Apple's flagship phones costing too much. By diversifying the supply chain and outsourcing to China, India and Vietnam, Apple avoids the shocks of the United States imposing trade sanctions and tariffs on China as well as making the cost per iPhone cheaper in the long term.



Consumer purchasing and spending patterns

Consumers across the world have experienced higher employment, income and wealth as a result of globalisation. Trade intensity (the measure of how integrated a country's economy is with the world economy) has increased exponentially to 43% in Australia and even as high as 378% in countries like Hong Kong.

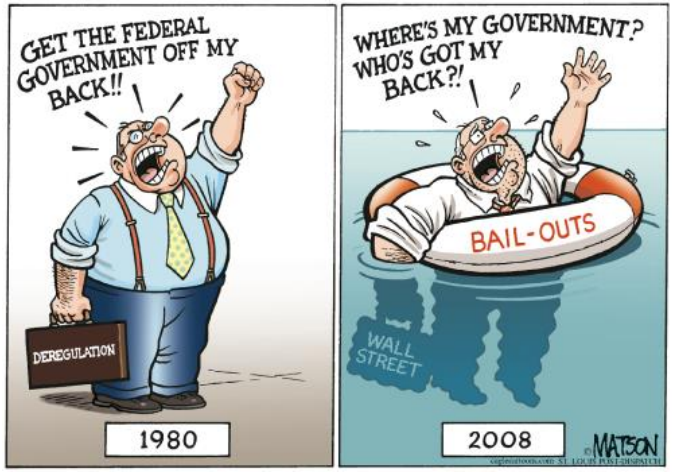
- **Developing countries have experienced rises in incomes and middle-class population** – as a result demand for luxury goods has also increased. This incentivises businesses to market premium goods to capture a greater market share in what are emerging economies.
- **Increased interconnectivity and brand awareness** – with the rise of social media and access to Internet globally consumers are now aware of foreign brands and have developed interest in diversity. Businesses can take advantage of this increased exposure to foreign brands digitally to attract and sell goods to consumers overseas. With enough or exceeding demand that appear from online sales businesses can then choose to invest further and open physical presences abroad to attract more customers from the same region(s).
- **Global consumers buy global goods, becoming the dominant price setters** – consumers place pressure on businesses to compete based on price, quality, range etc which disenfranchises domestic monopolies but provides global emerging businesses with an opportunity to compete based on these principles.
- **Influx in digital ecommerce** – a quarter of Australians purchase goods online at least once a week, with 78% of Australians characterised as frequent online shoppers. 27% of all people alive are digital buyers. This makes evident there is a growing appeal to online shopping which benefits emerging global businesses as the demand for online shopping increases.

World Trade Organisation (WTO) regulations and sanctions

The World Trade Organisation (WTO) is an internationally recognised body with authority over national Governments on restrictions and controls for global trade. The standards set by the WTO aim to ensure nations and businesses alike are equitably treated as a part of global trade. This is made possible through:

- **Arbitrary status** – the WTO acts as an independent mediator that implements rules where appropriate to resolve trade disputes. This ensures, as an example, that multinational corporations with more economic power than nations are not able to abuse their influence. A global business as such is insured with a right to fair resolution in the event they may need to dispute a matter that can affect their growth.
- **Free Trade Agreements (FTAs) standards** – the WTO sets standards on FTAs that mandate the elimination of tariffs, discrimination against service suppliers and other goods restrictions between member countries. This allows global businesses to benefit irrespective of operating in any member country when it comes to FTAs as well as encourage the use of alternate supplier businesses.
- **Reduction of trade barriers through standards and member nation agreements** – consumers and businesses alike benefit from this as global consumers became the new norm, which provides potential customers for new and existing global businesses. Global businesses operate with less risk and more certainty as well when expanding to new markets, understanding that the WTO protects businesses in over 80% of the world's countries.
- **Ability to enforce WTO member sanctions** – while sanctions by nature can be deemed discriminatory trade barriers, the WTO permits imposing them in permissible situations. This can help global businesses engage in ethical behaviour (i.e. sanctions imposed against Russia to deter business in what is considered a hostile nation) as well as prevent them from predatory or otherwise problematic behaviour.

Deregulation of the financial market

The revision, reduction or elimination of laws that restrict global movement of finance is known as deregulation of the financial market. The financial market is a broad term which describes a market place of buyers and sellers trading assets. Deregulation is driven by the belief that businesses are profit-orientated and will efficiently manage finance based on maximising their returns. This poses the following benefits:

- **Encourages innovation through lower barriers of entry**. Global businesses must find ways to innovate in markets that are saturated by the emergence of many other businesses in order to secure larger market share.
- **Increased freedom for businesses** – lower standards allow for greater choice in how a business chooses to operate. Businesses can develop strategies to return a greater profit at the expense of ethics with little resistance. This however may not benefit consumers with the minimum standards for what may be considered acceptable lowering. Consumers can correct this by refusing to purchase from firms however.
- **Ability to enter the forex market** – individuals, countries and businesses alike are now able to buy and sell currencies in order to return a profit, this is known as currency speculation. With more entities engaging in currency speculation spurred by deregulation, there is increased liquidity making it easier for foreign currencies to be accessed by businesses.