



## Section 1.6

### Activity 1.6.1

1. Two problems Ben might face operating at full capacity include:
  - The business cannot take on new orders
  - There is a risk of capital breaking down
  - Pressure on employees.
2. Buying in a new machine means the business maintains control over supply and does not rely on another business.
3. Cost advantages of the business expanding its scale of production might be:
  - Buying in bulk
  - Selling in bulk
  - More efficient, larger scale capital.

### Activity 1.6.2

1. 'Internal growth' is the expansion of a business by means of opening new branches, shops or factories (also known as organic growth).
2. Starbucks may have adopted such a rapid growth strategy to:
  - Gain advantage over competitors by being first into the market
  - Exploit economies of scale to give it a cost advantage.
3. Advantages of focusing growth in China might be:
  - The large number of potential customers
  - A lack of strong potential competition
  - Relatively low set-up costs.
4. The potential economies of scale Starbucks might get from further expansion might be:
  - Purchasing economies – buying in bulk
  - Technical economies – larger-scale capital
  - Financial economies – access and cost of attracting funds
  - Marketing economies – spreading advertising and promotion costs
  - Managerial economies – attract specialist managers.



## Activity 1.6.3

1. In the case studies, Jet Airways/Air Sahara and Mercedes-Benz/Chrysler are both horizontal integration.
2.
  - a. If Jet Airways merges with an aircraft manufacturer this would be vertical integration.
  - b. Benefits of this merger for Jet Airways might be:
    - Reliability of supply
    - Control over the price paid for aircraft
    - Control over the design requirements of aircraft.
3. The takeover by Jet Airways of Air Sahara might have the following advantages for:
  - Consumers – lower prices because of economies of scale
  - Shareholders – potential to achieve higher profits and dividends
  - Employees – prospect of new job opportunities in a larger company.

The disadvantages might be:

- Consumers – higher prices if Jet Airways has more control over the market
- Shareholders – the cost of the takeover might initially reduce dividends
- Employees – takeovers often mean redundancies.

## Activity 1.6.4

1. A 'franchise' is a business that uses the name, logo and trading systems of an existing business.
2. The benefits Harry would enjoy if he opened a franchised Pizza Delight restaurant might be:
  - Established brand name
  - Successful production system
  - Purchasing economies of scale.
3. Drawbacks of Harry agreeing to the terms of the franchise contract might be:
  - Purchasing solely from only one source might be at a higher price than the competition
  - The cost of the annual payment
  - Losing independence over things like the design of the restaurant.
4. The reason for Harry to take out the franchise might be:
  - Established brand name



- Successful production system
- Purchasing economies of scale
- National advertising
- Staff training.

The disadvantages might be:

- Purchasing solely from only one source might be at a higher price than the competition
- The cost of the annual payment
- Losing independence over things like the design of the restaurant
- New franchises might set up to provide competition
- Harry has to accept any changes made by Pizza Delight.

## Activity 1.6.5

1. A 'subsidiary' is where one business owns and controls another business.
2. Possible benefits to Borges of establishing operations in India might be:
  - A large number of potential customers
  - The lack of strong potential competition
  - Relatively low set-up costs.
3. Problems Borges might encounter setting up in India might be:
  - Government regulations
  - Cultural challenges in production, like language
  - Different tastes of Indian consumers.

## Activity 1.6.6

1. Two multinational companies that have located in South Africa are:
  - BMW
  - Ford.
2. Possible reasons for multinational companies setting up in South Africa might be:
  - A large number of potential customers
  - The lack of strong potential competition
  - Relatively low set-up costs because of low land costs.
3. Possible benefits to South Africa from investment by multinational companies might be:
  - Employment prospects



- Access to goods produced in South Africa rather than imported
  - Export revenue from goods exported by the multinational.
4. The South African government should continue to support investment by multinational businesses in its economy because of the following possible advantages:
- Employment prospects
  - Access to goods produced in South Africa rather than imported
  - Export revenue from goods exported by the multinational
  - Improvements in infrastructure
  - Revenue for linked businesses
  - Increased tax revenue.

There are, however, the following disadvantages:

- Repatriated profits
- Managerial jobs might go to the citizens of the multinational's home country
- Environmental concerns
- Exploitation of workers.

## Exam practice question

1. A 'merger' is where two firms agree to join together as one firm with a single group of shareholders.
2. Average cost of production might fall as a business increases its scale of production because of economies of scale like purchasing and technical economies.
3. A potential benefit to consumers of steel from a takeover of Corus by Tata might be:
  - Lower prices because of lower unit costs from economies of scale

A potential drawback might be:

- Higher prices as Tata exploits its market power (monopoly) position benefit.
4. Indian consumers might benefit from more shops being owned by larger retail businesses because of:
- Lower prices due to lower unit costs from economies of scale
  - Being able to buy from a familiar branded store
  - Larger shops can invest more in stores to improve the shopping experience.

The disadvantages might be:

- Higher prices if larger shops experience higher unit costs because of diseconomies of scale
- Higher prices if larger firms exploit their market power
- Less choice from a more limited range of shops.



## Key concept question

Globalisation might have had the following effects on the activities of a multinational organisation:

- Increased number of potential customers
- More diverse range of consumers
- Changing taste and preferences of consumers
- Increased level of competition
- Ability to access employees from different countries
- Attitudes of employees change
- Ability to set up and produce in different countries
- Access to an increasing range of suppliers
- Government regulation on business change.