Market Conditions for Trade

1	**Key idea**	International trade has been vital for the UK economy for many years. As the UK is an island, the UK must make IMPORTS of suppliers of raw materials.
2	**Imports**	These are products, or raw materials that are bought in other countries and shipped in to UK.
	Key Idea	There are manay conditions that prompt trade such as trade agreements, workforce, entrepreneurs, access to machinery

Push Factors

1	**Key Idea**	Push factors are adverse factors in the existing market that encourage an organisation to seek international opportunities, such as overseas markets
2	**Key Idea**	Push factors include: Saturated Markets Competition
3	**Saturated Markets**	This is one where most of the customer who would buy a particular product already have it, or there is limited remaining opportunity for growth in sales. For example: Limited opportunities to grow in the UK so find new countries where cycling is becoming popular and not yet at its full growth
4	**Saturated Markets**	In this type of market it is really important that businesses need to differentiate their products or sell where there is still demand
5	**Competition**	A rise in competitors or a high level of competition in the domestic market may force a business to sell abroad. Competitors could be selling similar products at a lower price or a higher quality which makes selling the product unprofitable or very difficult
6	**Competition**	Faced with competition in domestic markets a business may be forced to look abroad. This may involve change the products to meet the needs and tastes of the new customers.

Pull Factors

1	**Key Idea**	Pull factors entice firms in to new markets. They are the opportunities that businesses can take advantage of when selling in overseas markets. There are many pull factors but they depend on the nature of the business or the current state in the home market.
2	**Pull Factors**	New or bigger markets Lower costs including workforce or materials Lower costs of transportation Technical expertise, including research facilities Managerial or financial expertise Organisational skills Assets such as intellectual property or patents
3	**Economies of Scale**	EoS occur when increasing the scale of production leads to a lower cost per unit of output.
4	**Spreading the Risk**	This is the probability of a bad event happening multiplied by its negative impact. This can range from financial, strategic, operational or hazard related risks. By spreading the risk businesses are able to limit the reliance and dominance in one market and encourage investment in another. If one market decrease or stops growing then the business is still invested in another market.

Beckfoot

A Level Business	Conditions that prompt Trade	4.2.1

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Possibility of off-shoring and Outsourcing

1	**Key idea**	Off shoring is shifting jobs to another country, while outsourcing is shifting jobs to another business

Off-Shoring

1	**Off shoring**	Off shoring involves moving manufacturing or service industries to a location with lower costs.
2	**Drawbacks**	Moving jobs to other countries can be controversial especially where there are a lot of jobs lost in the home country. It can potentially damage a businesses reputation There can be a language barriers Cultural differences Risk with external factors
3	**Benefits**	Reduces costs – including the workers Hire workers with particular skills

Outsourcing

1	**Outsourcing**	This involves moving an entire business function or project to a specialist external provider. For example many large firms have outsourced their payroll functions to another business.
2	**Drawbacks**	Comes with risk Reliance on 3rd parties leaves a business vulnerable to their mistakes The businesses objectives may not be aligned Poor communication
3	**Benefits**	Reduces costs – including the workers Specialisation in areas of the business Complies with specialist rules and regulations

Extending the Product Life Cycle by selling in multiple markets

1	**Key Idea**	The Product Life Cycle is a concept that was developed to describe the stages in the life of a product. Research & Development Introduction Growth Maturity Decline Extension Strategy
2	**Key Idea**	When the product has reached the decline stage with falling sales, saturatd market, and decline in profits, a business needs to make a decision Remove the produce from the market Extend the life cycle

Assessment of a country as a market

1	**Key idea**	Before moving a product in to a new market businesses need to assess the country to see if it has suitable conditions to enter that market
2	**Factors to conside r**	Assessing a country as a market is not easy. There are some key factors for initial consideration: 1. Levels of growth of disposable income 2. Ease of doing business 3. Infrastructure 4. Political Stability 5. Exchange Rates

Key Factors

1	**Levels of growth and disposable income**	Disposable income is the amount of money that a person has left over after they have point all the bills, and taxes. The disposable income is therefore used for consumption or saving. • Failing disposable income levels – this means that the amount left over that people can afford to spend on 'other things' is increasing in the economy. This might be an indicator of more low income jobs and people struggling with a minimum standard of living. • Higher or Growing levels of disposable income – this means that more people have more money to spend and have a better standard of living.
2	**Ease of doing business**	The ease with which a business can do business is an important factor to consider when evaluating a country as a potential market. If a business faces problems with goods entering the country, setting up premises or dealing with everyday trading activities then it is unlikely a business will want to move in to that country/market.
3	**Infrastructure**	The quality of a country's infrastructure is an important factor in any decision to move to a new market. Many developing countries have underdeveloped and unreliable transportation infrastructure and this can add significantly to a businesses production and operating costs. For instance do they have easy access to airports or seaports? Is there a reliable road network trainlines. A delay or failure to deliver due to poor infrastructure can lead to lost sales and increased costs.
4	**Political Stability**	Political decisions and events can have a significant effect on a countries business environment and can cost investors some or all of the value of their investment. A country with a calm political climate can minimise uncertainty, which might make that country attractive as a potential market to invest in. It is therefore important to evaluate the following areas: The nature of the Gov and its relationship with businesses The nature of the Gov and its relationship with major international organisations like UN, WTO, IMF, WB The gov approach to regulation and taxation The political risks that emerge in the near future
	Exchange Rates	An exchange rate is the value of one currency against another currency. A currency can rise in value – appreciate – against other currencies, or fall – depreciate. Changes in exchange rate can have a really big impact upon business activities operating internationally. S – strong P – pound I – imports C – cheap E – exports D - dear

A Level Business	Assessment of a country as a production location	4.2.3

Assessment of a country as a production location

1	**Key Idea**	A new business or a business expanding its operations will need to consider in which country they wish to locate production. There are several factors that need to be taken in to consideration

Key Factors

1	**Costs of production**	Many countries locate to countries that have low peoduction costs. By keeping these low, a business may gain ao competitive edge in the market. Some of the main production costs such as labour, energy, raw materials and land are a lot lower in Asia than in many other parts of the world. Some businesses consider low labour costs to be the most important factor in determining overseas production location.
2	**Skills and availability of labour force**	Quality of the human capital are very important when considering where to move production to. A business needs to consider if the labour force has the necessary skills to maintain quality standards. A business can not afford the consequences of poor quality, and a business might need to invest vast amounts of money in to education and training to upskill workers. As well as current workforce, the business needs to consider longer term and if there the country has the potential to provide a skilled workforce in the future.
3	**Infrastructure**	The quality of infrastructure is really important and in developing countries it might be inadequate to support larger production facilities. The following factors need to be considered: Roads, Rail, Airports, Ports Broadband networks Investment in Education, possibly hospitals for health care
4	**Location of Trade Bloc**	Some businesses locate production facilities in certain countries to avoid trade barriers such as tariffs and quotas. They do this by locating within a Trade Bloc. This will mean that the output of the business would be free from trade barriers when selling inside the bloc.
5	**Government incentives**	Some Gov provide incentives such as tax breaks, lower rate of company tax, interest free loans, cheap land and good business rates. Governments do this to encourage businesses to locate production in their country which in turn increases education, employment and income.
6	**Ease of doing business**	The ease with which a business can do business is an important factor to consider when evaluating a country as a potential market. If a business faces problems with goods entering the country, setting up premises or dealing with everyday trading activities then it is unlikely a business will want to move in to that country/market.
7	**Political stability**	Some countries are politically unstable. This means that it is dangerous to do business in such countries, The exposure to possible financial loss might be far too high due to political tensions. One of the other problems is kidnapping, and Western businesses are common targets for this
8	**Natural Resources**	Some types of businesses require large quantities of natural resources. The obvious example is mining. This means that mining countries need to be near the mines.
9	**Likely return on investment**	This means that the business takes in to account a full range of factors, not just the practical things, but also the possible financial returns. The quantitative methods that businesses consider are: Payback method, Average Rate of Return, Discounted Cash Flow

A Level Business	Reasons for global mergers or joint ventures	4.2.4

Reasons why businesses join together

1	**Key idea**	Exporting may not make sense if other countries can produce the product or service more cheaply. Arrangements such as licencing and franchising may not make commercial sense either
2	**Licensing**	A firm enters in to a licensing contract with another firm to use its brand, intellectual property or to produce its product or service in return for a fee.
	Franchising	Franchising involves a long-term cooperative relationship whereby one party, the franchisor, contracts with another, the franchisee, to run the business.
	Key Idea	Rather than franchising firms may opt for joint ventures or cross-border mergers and acquisitions. There 2 forms of investment are the main foreign investment routes for most international companies.

Key Factors

1	**Spreading the Risk**	This is the probability of a bad event happening multiplied by its negative impact. This can range from financial, strategic, operational or hazard related risks. By spreading the risk businesses are able to limit the reliance and dominance in one market and encourage investment in another. If one market decrease or stops growing then the business is still invested in another market.
2	**New Markets and Trade Blocs**	Instead of growing organically businesses can take a shorter route to international growth through mergers and acquisitions. Firms in the maturing industry find that the only way they can grow is through merging or acquiring firms in other markets.
3	**Acquiring national and international brand names or patents**	A business may want to become a global player in the international market. However, it may lack brand recognition or a patent that prevents other business from copying its product. Using mergers, acquisitions and joint ventures is a quick and effective way to gain a reputational foothold or to get access to intellectual property (patent, copyrights or trademarks)
4	**Securing resources**	Firms may choose to merge with another firm to secure resources or supplies further back in the supply chain. This is known as backwards vertical integration. They may need to do this because the resources used in the creation of the product may be scarce and this secures sourcing. It also ensures quality or price.
5	**Maintaining or increasing global competitiveness**	Merging or joining another firm can provide bigger markets, scales and scope economies and cost saving. This in turn could make the firm much more competitive in terms of pricing power over customers and suppliers. Where there is a lot of competition in the market, or where a firm is hoping to become a dominant player on a global scale, merging or acquiring another firm can be part of a successful strategy.

Achieving global competitiveness

1	**Key idea**	Being multinational can help an enterprise to develop competitive advantages that are not open to single nation companies.
2	**Key Idea**	Multinational Corporations (MNCs) often benefit from: Global operations bring bigger economies of scales Global sourcing can give frims more scope to find the best quality sources at the right prices Global operations allow companies to get closer to their international customers MNCs tap in to much bigger knowledge and skill set MNCs can diversify risk
	Effects of exchange rates on business	An exchange rate is the value of one currency against another currency. A currency can rise in value – appreciate – against other currencies, or fall – depreciate. Changes in exchange rate can have a really big impact upon business activities operating internationally. S – strong P – pound I – imports C – cheap E – exports D – dear
	Fixed Contracts	Many businesses use fixed contracts to counter fluctuations in the exchange rates. This means that the change in exchange rate will have a smaller impact. Most contracts will be fixed at 12-18 months for the price of buying raw materials will hardly change.

Significance of changes in the exchange rate on business

1	**Elasticity of demand**	If there is a depreciation in the value of the pound the effect it will have on a business and its products depends on the price elasticity of demand. If UK businesses sell goods where demand is price inelastic then the fall in price would have only a relatively small increase in demand. If demands for exports is price elastic then there will be a bigger percentage increase in demand.
2	**Economic growth in other countries**	For example, if the pound depreciated in value but the EU economy was in a recession, then the demand for exports is already weak.
3	**Fluctuation in exchange rates**	If there is an appreciation in the pound because there have been improvements in efficiency and productivity, then businesses will be able to absorb the stronger pound more easily. However if the pound rises due to speculation n or due to weaknesses in other countries then business could be uncompetitive because the rise in the pound is not related to either improved competitiveness or productivity.

Competitive Advantage

1	**Key idea**	A firm can be said to have a competitive advantage when it has some sort of distinctive strength that its competitors do not, such as cost advantages, size, technical or managerial expertise, or an ability to innovate
2	**Key Idea**	Having a competitive advantages is key to entering succeeding in an overseas market. MNCs will want somewhere to operate where they can find the resources and capabilities to maximise their competitive advantage.
	Key Idea	There are 2 types of competitive advantage: Cost Competitiveness Differentiation
	Skill shortage	Many industries require highly skilled, and highly traned engineers, scientists, technicians or professionals to be able to complete. Companies who have long term access to skilled and low cost labour have an advantage over their competitors who do not. Where a firm own these advantages in their home market it may be able to produce and export more effectively than its competitors.

Types of Comp Adv

1	**Cost Competitiveness**	This is where an international firm is able to chieve scale and scope economies. Cost competitiveness allows the business to deliver the same product or service but at a lower costs which allows the business to make more profits
2	**Differentiation**	This is where, rather than focusing on costs, the business focuses on the product, and tries to match it to specific customers needs. Therefore resulting in charging a higher price for the product. In order to sustain differential over the long term a firm must fully understand its own strategy and its competitors who may be following a similar strategy. This is where barriers to entry are important, a large firm would have advantages over a new entrant to the market who face barriers because they don't have brand recognition (for example)