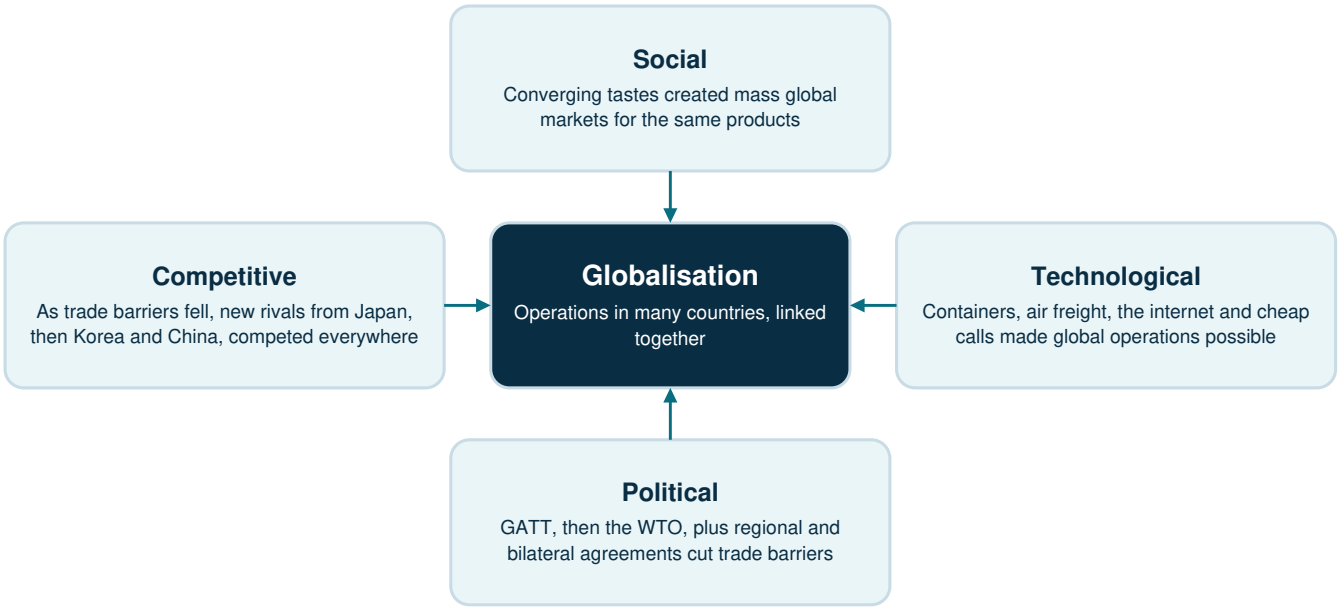
The global context of business

MODULE 1 | 1.5 | STUDENT COMPANION

Globalisation describes organisations that operate in many countries, with their activities in those countries connected through money, manufacturing, marketing or selling. Ways in range from importing and exporting, licensing and franchising, through joint ventures and strategic alliances, to a wholly owned subsidiary. Generally, more control brings more investment and more risk (entry modes are covered in Module 4).

Four forces that drove globalisation



Five families of global risk

Market
More rivals with local know-how; different distribution; localise or standardise?

Economic and financial
Different growth, labour costs and spending power; interest, inflation, tax; exchange rates

Legal and political
Different laws and regulations; harder debt collection; new governments and agencies

People and culture
Customs, values, languages and leadership styles; employment law and industrial relations

Physical and technological
Time zones, infrastructure, electrical standards; IP leakage; cyber attacks

These risks come on top of the normal risks of competing, and multiply across countries

Worked example: exchange rate risk (imagined)

Nothing about the product or the customer changed; only the exchange rate moved.

Wildmoss Botanicals sells one jar of face cream in the US for US$30	A$ received
When A$1 buys US$0.65: 30 / 0.65	A$46.15
When A$1 buys US$0.75: 30 / 0.75	A$40.00
Fall in A$ received per jar (about 13%)	A$6.15

Four benefits of globalisation

Cost
Scale economies, more purchasing power, lower production costs

Timing
Launch in many markets at once; less time for imitators

Learning
Share knowledge across countries instead of in national silos

Arbitrage
Place activities where currencies, wages and input prices give the best return

Benefits depend on conditions such as market growth, technology and customer responsiveness

Case note: Starbucks in Australia

Starbucks opened its first Australian store in Sydney in 2000 and grew to 87 stores by late 2007. In July 2008, after years of losses, it announced it would close 61 of its 84 stores, keeping 23 and cutting 685 jobs. Analysts pointed to Australia's thriving espresso and independent café culture, a price premium customers did not see as justified, high rents and an expansion that ran too fast. In 2014 Starbucks sold its remaining 24 stores to a local operator.

Sources: ABC News, 29 July 2008; Starbucks annual report (Form 10-K), 2007; UNSW commentary (P. Patterson), 2008.

Practice questions

MODULE 1 | 1.5 | TRY THESE BEFORE THE WORKED ANSWERS

Question 1 case. Imagine a South Australian winery called **Redgum Ridge** planning to sell its wines in India. It has learned that imported wine faces significant import duties; alcohol rules and taxes differ from state to state; wine must be sold through licensed importers and distributors, several of whom already represent well-known European brands; many local wine drinkers prefer lighter, slightly sweeter styles; the rupee can move sharply against the Australian dollar; summer temperatures can exceed 40 degrees Celsius and cool storage along the supply chain is patchy; and a rival has been caught copying another Australian winery's label design.

Question 1 - Identify the main risks in each family

Risk family	Risks facing Redgum Ridge
Market	
Economic and financial	
Legal and political	
People and culture	
Physical and technological	

Question 2 - Which benefits apply?

Imagine a payroll software company called **Ledgerly** with development teams in Brisbane, Manila and Krakow. It sells one product, translated into several languages, to customers in fifteen countries. It releases every update to all customers on the same day, keeps a shared library of fixes so a problem solved in one office is solved for everyone, and decides where to grow each team by comparing salaries and exchange rates in the three cities. Which of the four benefits of globalisation does Ledgerly enjoy? Explain each one.

Question 3 - Standardise or localise?

Imagine an Australian flat-pack furniture retailer called **Woodfold**, known for a simple Scandinavian-style range made from plantation timber, planning to open in Japan. Its research shows that city apartments there are often smaller than Australian homes, many households use futon-style bedding and low tables, customers expect a very high finish and clear instructions in Japanese, and Woodfold's cost advantage depends on long production runs of a standard range. Should Woodfold standardise or localise its range? Justify your recommendation.

Worked answers

MODULE 1 | 1.5 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Question 1 - Redgum Ridge's main risks

Risk family	Risks
Market	Entrenched European brands with established importer relationships; distribution only through licensed importers; a choice between adapting wine styles and labels or keeping the standard range
Economic and financial	Import duties raise shelf prices, so affordability depends on disposable income; rupee movements can erode margins; state taxes add cost
Legal and political	Different alcohol rules, licences and taxes in each state; import regulations that can change
People and culture	Preference for lighter, sweeter styles; different drinking customs between regions; the need to build relationships with distributors
Physical and technological	Heat and a patchy cold chain can spoil wine; label copying threatens the brand, so trademarks should be registered locally

Question 2 - Ledgerly's benefits

Cost: one product sold in fifteen countries spreads development costs over a far larger customer base. **Timing:** simultaneous releases are efficient and give imitators less time to copy new features. **Learning:** the shared fix library stops each office solving problems another office has already solved. **Arbitrage:** growing teams where salaries and exchange rates give the best return lowers the cost of development.

Question 3 - Woodfold: standardise or localise?

Recommendation: a hybrid. Standardise what drives the cost advantage and the brand: core designs, materials, production runs, supply chain and brand identity. Localise what Japanese customers clearly need: compact sizes for smaller apartments, a few new lines such as low tables and futon-friendly bases, a higher finish standard, and instructions and service in Japanese.

Justification: full standardisation risks a range that does not fit Japanese homes, the same trap that hurts brands entering a market with a strong local culture. Full localisation would destroy the long production runs that make Woodfold competitive. Starting with a limited adapted range and testing it lets Woodfold learn before committing.