BUS.AL16 Multinationals and Global Market Entry Strategies

AQA 7132 · Calculators not allowed · about 50 minutes

Total Marks

Name: ______________________________ Date: ____ / ____ / ______

Answer ALL questions. Use full sentences for the three extended questions (the last three). Show any simple working for calculations.

1 Which one of the following is a typical reason a business becomes a multinational?

- ☐ A) To reduce product quality by using cheaper materials
- ☐ B) To access new customer markets overseas
- ☐ C) To increase the fixed costs per unit
- ☐ D) To avoid hiring local workers

(Total for Question 1 is 1 mark)

2 State one method a business can use to enter an overseas market.

(Total for Question 2 is 1 mark)

3 Identify two factors that influence where a multinational locates production overseas.

(Total for Question 3 is 2 marks)

4 Explain one advantage to a business of using franchising as a method of entering an overseas market.

(Total for Question 4 is 3 marks)

5 Explain one disadvantage to a multinational of using licensing to enter an overseas market.

(Total for Question 5 is 3 marks)

6 Which one of the following best describes foreign direct investment (FDI) as a market entry strategy?

- ☐ A) Selling licences to a local company to use the brand
- ☐ B) Exporting goods from the home country without any local presence
- ☐ C) Establishing a long-term physical presence, such as a factory or subsidiary, in the host country
- ☐ D) Allowing independent retailers to stock products without control over pricing

(Total for Question 6 is 1 mark)

7 State one cultural factor a multinational should consider before entering a foreign market.

(Total for Question 7 is 1 mark)

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8 Explain one benefit to a host country of a multinational locating a factory there.

(Total for Question 8 is 1 mark)

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9 Identify two reasons a multinational might choose to locate production in a low-wage country rather than in its home country.

(Total for Question 9 is 2 marks)

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10 Explain one ethical concern a host country might have about a multinational's operations there.

(Total for Question 10 is 2 marks)

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11 Which one of the following is a likely disadvantage to a host economy when a multinational repatriates profits to its home country?

- ☐ A) Increased local tax revenue
- ☐ B) A rise in domestic investment
- ☐ C) A reduction in money retained in the local economy
- ☐ D) Improved local skills and training

(Total for Question 11 is 1 mark)

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12 Scenario for questions 12 and 13: Kestrel Foods, a mid-sized UK food brand, wants to enter Brazil. Kestrel can either (A) export products to local supermarkets and appoint a local distributor, or (B) form a joint venture with a Brazilian food firm that already has local distribution and manufacturing capacity.

Assess the suitability of exporting via a distributor (option A) for Kestrel Foods entering Brazil. In your answer, consider costs, speed of entry, control and risks for Kestrel. Write a focused answer using the scenario.

(Total for Question 12 is 8 marks)

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13 Using the same Kestrel Foods in Brazil scenario, assess the suitability of forming a joint venture with a Brazilian food firm (option B). In your answer, consider costs, access to local knowledge and capacity, control and risks for Kestrel. Use the scenario in your reasoning.

(Total for Question 13 is 8 marks)

14 Evaluate the impact of multinational corporations on a host country, using economic, cultural and ethical considerations. In your answer, show knowledge, apply to a host country context, analyse consequences and evaluate the net effect. You should consider both positive and negative impacts and reach a reasoned judgement. Use real-world style examples where helpful.

(Total for Question 14 is 16 marks)

Mark scheme · BUS.AL16 Multinationals and Global Market Entry Strategies

Question 1

- **B1** B cao
- **Answer: B**

Question 2

- **B1** any one valid method named, e.g. exporting
- **Answer: Any one method, e.g. exporting, licensing, franchising, joint venture, foreign direct investment.**

Question 3

- **B1** labour costs
- **B1** infrastructure or political stability or proximity to markets or trade barriers (any one listed as second)
- **Answer: Any two, e.g. labour costs and infrastructure.**

Question 4

- **B1** identifies an advantage, e.g. rapid expansion with lower capital outlay
- **B1** develops the point, e.g. local franchisees provide the investment to open outlets
- **B1** links to an outcome, e.g. this allows the business to grow overseas quickly while reducing financial risk for the parent company
- **Answer: Franchising allows rapid expansion with lower capital outlay because local franchisees provide the investment, so the parent company grows overseas quickly while reducing its financial risk.**

Question 5

- **B1** identifies a disadvantage, e.g. loss of control over the brand or technology
- **B1** develops the point, e.g. the licensee may produce lower quality or use the technology improperly
- **B1** links to an outcome, e.g. this can damage the multinational's reputation and reduce future sales
- **Answer: Licensing can lead to loss of control over the brand or technology because the licensee may produce lower quality or misuse the technology, which can damage the multinational's reputation and reduce future sales.**

Question 6

- **B1** C cao
- **Answer: C**

Question 7

- **B1** any one valid cultural factor, e.g. language, consumer preferences, local customs or religious practices
- **Answer: Any one cultural factor, e.g. language differences, local consumer preferences, customs or religious practices.**

Question 8

- **B1** identifies and briefly explains a benefit, e.g. job creation leading to reduced unemployment
- **Answer: Creates local jobs which can reduce unemployment and increase incomes for local workers.**

Question 9

- **B1** lower labour costs
- **B1** access to new markets or proximity to raw materials or favourable tax/regulatory environment (any one)
- **Answer: Lower labour costs; and access to new markets or proximity to raw materials or favourable tax/regulatory environment.**

Question 10

- **B1** identifies an ethical concern, e.g. exploitative working conditions or low wages
- **B1** develops the point, e.g. such practices can harm local workers and damage the country's international reputation or trigger protests
- **Answer: An ethical concern is exploitative working conditions or very low wages, which can harm local workers,**

Question 11

- **B1** C cao
- **Answer: C**

Question 12

- **Level 1** (1-3): Limited points about exporting with weak application to Kestrel Foods and little development.
- **Level 2** (4-6): Developed points applying to Kestrel Foods, considering some costs, control and risks, but not fully balanced.
- **Level 3** (7-8): Well developed, balanced assessment of exporting for Kestrel Foods, covering costs, speed, control and risks with clear application to the scenario.
- **Indicative content:**
  - Exporting has lower initial capital expenditure, which suits a mid-sized firm cautious about investment in Brazil.
  - Using a local distributor allows quick market access and leverages local knowledge, helping Kestrel sell to supermarkets faster.
  - Exporting gives Kestrel more control over product formulation and brand than licensing, but less control than local production, since distributor handles local marketing and pricing.
  - Costs include transport, tariffs and distributor margins which may raise final retail price and reduce profitability.
  - Risks include exchange-rate fluctuations, trade barriers and potential problems with distributor performance or reliability.
  - Conclusion might weigh speed and lower capital risk positively for Kestrel, but note potential long-term limits on control and higher per-unit costs compared with local production or a joint venture.

Question 13

- **Level 1** (1-3): Limited points about joint ventures with weak application to Kestrel Foods and little development.
- **Level 2** (4-6): Developed points applying to Kestrel Foods, considering access to capacity and risks, but not fully balanced.
- **Level 3** (7-8): Well developed, balanced assessment of a joint venture for Kestrel Foods, covering costs, local knowledge, control and risks with clear application to the scenario.
- **Indicative content:**
  - A joint venture can provide Kestrel with local manufacturing capacity, reducing transport costs and bypassing some trade barriers.
  - Local partner knowledge of Brazilian consumer tastes and supermarket requirements speeds adaptation of products and market acceptance.
  - Costs are higher upfront, since capital investment and integration are required, and returns are shared with the partner.
  - Control is shared, which can be positive for local insight but may limit Kestrel's control over quality and strategic choices.
  - Risks include cultural clashes, disagreements over strategy, and legal or political risks if the partner is weak or governance is poor.
  - Conclusion might argue a joint venture is suitable if Kestrel wants deeper long-term presence and local capacity, but it requires readiness to invest and manage partnership risks.

Question 14

- **Level 1** (1-4): Basic knowledge or assertions about multinationals with limited application, minimal analysis and no clear judgement.
- **Level 2** (5-8): Clear knowledge and some application to a host country context, with partial analysis of positive and negative impacts but limited evaluation.
- **Level 3** (9-12): Good knowledge, effective application and analysis of economic, cultural and ethical impacts, with a considered evaluation and an attempt at judgement.
- **Level 4** (13-16): Excellent knowledge and application, detailed analysis of multiple impacts across economic, cultural and ethical dimensions, and a well-balanced, justified judgement supported by evidence.
- **Indicative content:**
  - Economic benefits: job creation, skills transfer and training, increased tax revenue and investment in local infrastructure, and potential boost to GDP.
  - Economic costs: profit repatriation reduces local retained income, crowding out of local firms, dependence on a few multinationals, and potential exploitation of tax rules to minimise local tax.
  - Cultural effects: positive cultural exchange, introduction of new products and business practices, and diffusion of management skills; negative effects include cultural homogenisation, loss of local firms and erosion of traditional industries or practices.
  - Ethical effects: potential improvements in labour standards and corporate social responsibility, but also risks of low wages, poor working conditions, environmental damage and weak enforcement in some host countries.
  - Role of government and institutions: effective regulation, local content rules and tax policy can maximise benefits and reduce harms; weak governance raises risks of exploitation.
  - Evaluation might weigh short-term gains in employment and investment against longer-term issues like repatriation of profits and market domination, concluding that the net impact depends on host-country policies and the behaviour of specific multinationals.