

Chapter 26

**Global Business**

(Transnational Companies; Global Companies; Global Marketing (4Ps))

2015 Q3 (A)

Discuss reasons why multinational companies (MNCs) may choose to locate in Ireland. Provide examples to support your answer. (20m)

**MS: 2@ 7m (4+3) 1@ 6m (3+3) – E.g. needed for second mark**

1. UK corporation tax is 20%, Germany, France and Italy are 30-33%, and in Ireland **MNCs pay 12.5% corporation tax on their profits**. This low rate of corporation tax is a **key Government strategy in attracting FDI**.

E.g. Google can pay only 12.5% corporation tax on profits through their Dublin based offices.

2. IDA Ireland is responsible for the **attraction and development** of foreign direct investment in Ireland. Companies such as Apple, Microsoft and Facebook etc. have all interacted with the IDA and approximately **150,000 people are directly employed by foreign multinationals in Ireland**.

E.g. IDA Ireland helped attract Apple to set up their European HQ in Cork.

3. The availability of a **highly skilled and well-educated** workforce attracts MNC's. Our workforce is also very **experienced** with the likes of Intel and Google established here with lots of Irish staff. MNC's will set up here knowing they can access lots of 3<sup>rd</sup> level educated graduates, with lots based in **R&D**.

E.g. **LinkedIn** knew if they set up in Dublin that some of the top workers in the industry and also new graduates in relevant skills would be available.

4. The creation of the Single Market **eliminated trade barriers** within the EU, allowing for the **free movement of goods, services, labour and capital** between member states. (MNCs) that locate in Ireland have access to a huge EU market of over **500 million people**, whilst being able to deal in the international business language, **English**.

E.g. **Pharmaceutical Companies like Pfizer** use Ireland as a stepping stone to the larger EU market.

## 2016 Q3 (A)

*It's time to stop relying on Foreign Direct Investment (FDI) – and grow our own indigenous businesses instead. Source: Sunday Independent, November 2015*

To what extent do you agree with the above statement?

Outline reasons for your answer. (20m)

**MS: Agree/Disagree 2m; 3 @ 6m (3+3) Heading + Expansion**

### Agree (Importance of Indigenous Business)

#### Loyalty to Ireland

Indigenous Irish owned businesses are **loyal** to the country they are **founded** and set up in and may remain here **regardless of cost or economic cycle** e.g. during a recession. An Irish owned business is less likely to actively **seek out alternative countries** to move their operations to.

#### Large source of Jobs For Ireland

Small/medium enterprises create huge employment (**currently over 150,000 SMEs in Ireland**) - they tend to be more labour intensive than some FDI. If we can increase the number of SMEs / Indigenous businesses then **more jobs will be created** that are **likely to remain in Ireland in to the future**.

#### Create an Entrepreneurial Culture

Irish people upon **seeing** successful indigenous companies may look to set up their **own companies** as well, **stimulating growth** and helping to create a **culture of enterprise within communities**.

*Others: Reduced reliance on FDIs; Spin off business should increase; local community benefits from money spent in the area.*

### Disagree (Importance of FDIs)

#### Knowledge / Skill Development

Having FDIs established in Ireland and developing the latest cutting edge software and hardware means Irish employees are able to operate at a very high level and develop exceptional skills and knowledge in certain industries. This could help them go on and set up their own businesses.

## *The Business Guys*

### **Spin Off Effects**

Having large multinationals creates a large spin off effect on smaller, local businesses in Ireland. Service providers and Irish suppliers can land large contracts from MNC's, increasing their profits and creating jobs in Irish businesses.

### **Increased Government Revenue**

Ireland has a low 12.5% Corporation Tax which helps to attract FDI. MNCs register lots of profits in Ireland meaning we avail of lots of Corporation Tax as well as PAYE on their employees and VAT on goods they sell.

*Other: New R&D and technologies brought in to Ireland / Improved B of P Current A/C if MNCs export their goods from Ireland / Invest Capital here / Improve Ireland's standing as an attractive place to do business.*

2011 Q3 (B)

Illustrate how foreign transnationals (i.e. foreign direct investment (FDI) companies) have impacted on the Irish Economy. (25 marks)

**MS: 5 @ 5 marks (1+2+2)**

### **Direct employment**

Approximately **150,000 people** are directly employed by foreign multinationals in Ireland.

It is estimated that FDI companies give rise to indirect employment of **twice that amount** (called a spin-off effect).

They employ **highly skilled graduates (lots in R&D)** which prevents a 'brain drain' from the country, which was a big issue in the recession.

**E.g. Approximately 150,000 people are employed by FDIs**

### **Tax revenue**

There has been a big increase in **Government Revenue** e.g. transnationals pay **12.5% corporation tax** on their profits. This low rate of corporation tax is a key Government strategy in attracting FDI. Most employees of FDIs also get paid above average wages, leading to increased **PAYE returns** for the government.

**E.g. Facebook booked 50% of its Global Revenue in Ireland in 2014.**

### **Positive spin-off effects**

Local taxis, catering firms, cleaners, security firms, local pubs and restaurants all benefit from the presence of a transnational in their **locality**. Some may also source their **inputs** from **domestic companies** where possible, thereby increasing **employment** in those firms.

**E.g. Aldi look to source its meat and dairy from Irish farms.**

### **Less Loyalty to Ireland**

Some FDI companies are considered **Footloose**, having no loyalty to Ireland. They may leave immediately if operating costs are lower elsewhere.

**E.g. DELL Limerick move to Poland resulted in thousands of job losses in the Limerick area, which had a massive negative impact on the local area.**

### **Distortion of Economic Measurements**

Lots of MNC's are **relocating residency** of parts of their business which impacts sales and revenues figures, which distorts our **economic growth** and balance of payments by massively increasing our **exports figure**.

E.g. in 2015 our **economic growth** was a **distorted 26%** due to MNCs **residency changes** for tax purposes.

### 2014 Q3 (A)

- (i) Explain the term 'global business'.
- (ii) Discuss the effects of 'globalisation' on the Irish economy. Provide examples to illustrate your answer. (20 marks)

**MS: 4 (2+2) 2 @ 8 (3+3+2) +(3+3+2)**

(i) A global business sees the world as **one giant market** and **production location**. A global business provides the **same, undifferentiated product worldwide**.

It uses a global marketing strategy, which involves a standardized or sometimes an **adapted marketing mix (product, price, place, promotion)** throughout the world to build a **global brand**.

**Examples** of global businesses include **CocaCola, Apple, Nike, Toyota, Under Armour, LG, Google and Samsung**.

(ii)

1. Irish businesses can look to **grow and expand** their operations. Kerry Group and Glanbia PLC are expanding very successfully using Ireland's '**green**' image for dairy as its **USP**, leading to **economic growth** for the Irish economy.

2. Consumers get a much **wider variety** of products (increased choice) to choose from and they get the product they want at more **competitive prices**. Businesses are using both their **own websites** (e-commerce) and sites like **Amazon and eBay** to sell globally and consumers have much greater choice between products and prices.

**Other: Impact on Labour (IT market); More competitive markets – Ireland need to get cheaper/develop USPs; Closure of domestic business**

### 2012 Q3 (A)

*"Globalisation refers to the increasing interdependence of the world's economies."*

Outline **four** developments in technology that have facilitated the growth in globalisation. (20 marks)

MS: 4 @ 5 marks (2+3)

### Computer Aided Design

CAD had revolutionised the design process. It has made it much **easier** and **faster** for businesses to **react** to global markets and to **outsource** and develop designs between employees all over the world.

### Computer Aided Manufacturing

CAM has progressed manufacturing to allow firms to **locate anywhere** in the world i.e. they can choose to locate where is **cheapest/closest** to their market/buy from the cheapest source of raw materials.

Equipment can be **computer controlled** and use **computer integrated manufacturing (CIM)** which involves total integrated control of the production from design to delivery, producing **standardised products irrespective of local labour skill sets.**

### Communication

*Development in the internet and mobile technology becoming much cheaper and much more **accessible** has reduced costs for businesses wanting to operate globally. **Email, Whatsapp, FaceTime, Skype** all allow free, fast, effective communication.*

**EDI (Electronic Data Interchange)** allows **automated stock ordering**, details of trading figures etc. to be transmitted globally in a matter of seconds.

### Online Marketing

Social network sites such as **Facebook, Instagram, Youtube** and business networks such as **LinkedIn** have facilitated the global marketing of companies and the establishment of global brands.

Social Media advertising and promotions, company web sites and electronic payment e.g. **nike.com**, have allowed global E-commerce to flourish.

**Other: Distribution(software/JIT); File Cloud services.**

### 2009 Q3 (B)

(i) Explain the term 'global marketing' and name **two** global businesses.

(ii) "A business involved in global markets faces additional marketing challenges."

Discuss these challenges, using examples to support your answer. (30 marks)

MS: 6 Marks (3+3), 4 Marks (2+2) (ii) 3 P's 7 Marks (2+3+2) 7 Marks (2+3+2) 6 Marks (2+2+2)

(i) A global business is a business that **treats the world as one market place** instead of different countries/markets. Global marketing uses a **standardized** or an **adapted marketing mix** (product, price, place, promotion) throughout the world to build a **global brand**.

A global business will often change their product to meet the **needs/ culture / language / economic situation** in the different markets it is selling in to across the world.

E.g. Facebook, Google, Pepsi, Mitsubishi, LG

(ii)

1. Trying to sell at the same price worldwide is difficult (**Global Price**). There will be differences in **cost of living** in different countries, **transport** and **distribution** and also different **taxes/tariffs/custom duties** that will effect the selling price. Also **local competitors prices** will vary widely between markets.

E.g. McDonalds are seen as a cheap, value meal in Ireland whereas at similar prices in Thailand they would be more expensive than most local restaurants and be seen as a premium treat rather than a cheap option.

2. Selling in different markets can have its problems, knowing **local networks** and **traditions** can be helped if a business used a **local agent**, but this will **add costs** through **commission** or a **fee**.

They could try selling direct which would involve locating and leasing a **premises, employing locals**, or else using their **website's marketing to target local areas (Global Place)**

E.g. Taylor Made use an agent to sell its golf clubs to golf shops in Ireland rather than setting up a business over here

3. There are big differences in **humour, culture, language and legislation (law)** across different markets. Promoting the product through **advertising, PR and social media** needs to reflect this. **Slogans** and **sayings** may need to be **adapted. (Global Promotion)**

E.g. When Pampers launched an ad in Japan using a stork delivering a baby, they didn't realize that the stork wasn't used in Japanese folklore or storytelling

so it caused lots of confusion for consumers in Japan.

4. The benefit of selling the same, **undifferentiated** product (**Global Product**)

globally is that the global business can benefit from huge **economies of scale**, and can set up where it is cheapest to produce the product and source the cheapest raw materials. A business will try not to change their global product unless they have to but may have to for various reasons e.g. **legal, cultural, technical...**

E.g. McDonalds don't sell their famous hamburger or Big Mac in India as they don't sell Pork or Beef in McDonalds to reflect local religions / tastes.

**2016 Q3 (B)**

Discuss the **marketing** challenges an Irish business may face when trading globally, providing examples to support your answer.

**MS: 4 x 5 (2+2+1)**

Using the points in part (ii) above with an example was perfect for this Q.

**2017 – Short – Q7**

- (a) Explain the term **Global Business**.  
(b) Name **two** examples of Global Businesses.

- (i) As per 2014 Q3 (A)  
(ii) As per 2009 Q3 (A) on previous page

2015 Q3 (B)

Illustrate your understanding of the terms *standardised marketing mix* and *adapted marketing mix* in relation to global marketing. (20 marks)

MS: 8m (4+4) 12m (4+4+4) – Example can apply to any of the P's

### Standardised Marketing Mix

This is when a global brand e.g. Nike or Coca-Cola **treat the world as one market** and take an **undifferentiated approach** to their **marketing worldwide**. This **reduces costs** which increases profits as they don't have to change anything for **local markets** etc...

E.g. Global Promotion – Coca-Cola advertise their **logo** at the **Rio Olympics** aimed at the global market, not adapted to different regions/countries.

### Adapted marketing mix

Certain elements of the **global marketing mix (product, price, promotion, place)** are **changed to reflect local market needs** including **traditions and current economic situations**.

A business might change some of the 4 Ps to reflect differences in things like **language, culture or values** in different markets.

E.g. Global Product – **Toyota** are a global business but they need to adapt their car design for countries that are either left or right hand drive.

2017 Q3 (A)

Discuss the different channels of distribution that Irish businesses may consider when introducing their products to international markets. (15m)

1. Selling in different markets can have its problems, knowing **local networks** and **traditions** can be helped if a business used a **local agent**, but this will **add costs** through **commission** or a **fee**. E.g. Ping use an agent to sell its golf clubs to golf shops in Ireland rather than setting up a business over here
2. They could try selling direct which would involve locating and leasing a **premises**, **employing locals**, or else using their **website's marketing** to **target local areas**.
3. They could decide to use **e-commerce** to sell in to an international market. Instead of **physically moving** to a new market, they could **adapt their website** to suit the market (**language, layout, currency...**) and use **couriers** to deliver products. Lots of **online marketing and sales promotions** would be needed to **establish a presence** in a foreign market e.g. **Sports Direct** sold online to Ireland before they expanded in to Ireland with a physical store.