

Expanding the Business – Higher Level

Contrast Business Alliances and Franchising as different types of business organisations. Use examples to illustrate your answer. (30m) (LCHL 2003, 2000 and 1999)

Marks:

- Business Alliance: 3 points @ 5 marks. Must use an example.
- Franchising: 3 points @ 5marks. Must use an example.

A SAMPLE ANSWER:

- **Business Alliance** is an agreement between two or more businesses to engage in specific activities which benefit each business.
- Such co-operation between businesses helps each to achieve major objectives without the major expense usually involved.
- Examples include:
 - Promotional alliances, where one firm promotes another firms products, e.g. McDonalds promoting Disney movies.
 - Customer-sharing alliances e.g. One World Alliance which involves eight airlines passing customers to each other for different flights.
- **Franchising** involves a firm (the franchisor) granting permission to business people (franchisees) to set up a business using the brand name, identity and business methods of the franchisor. In return, the franchisee pays the franchisor a fee based on a percentage of the sales.
- This business model gives the franchisor a steady income with little risk and gives the franchisee a business with an established name and proven profitability.
- Examples include many fast food restaurant chains McDonalds, Supermacs, O'Brien's Sandwich Bars, or non-food operations such as Snap Printing.
- Franchising allows a franchisor to expand rapidly to reach the 'critical mass', which yields significant economies of scale. As a result costs are lowered and prices can be reduced to very competitive levels, facilitating further expansion.

Business Expansion – Ordinary Level

Pratai Plc was set up fifty years ago and makes potato crisps for the domestic and export markets. It has expanded through organic growth and now is a major employer in the local area. The demand for its productions is growing but the company has limited production capacity. Recent competition from other snack companies has decreased Pratai's market share.

Outline the implications of expansion of Pratai plc. and its effects on:

- *Share price*
- *Suppliers*
- *Profits*
- *Employees*
- *Consumers*

(20m)(LCOL 2000)

Marks: One point @ 4 marks each, for each issue.

A SAMPLE ANSWER:

- **Share price:** Expansion should cause Pratai's share price to rise as it should yield greater profits due to greater economies of scale.
- **Suppliers:** Suppliers can expect more business from Pratai if it expands.
- **Profits:** The cost of expansion might reduce profits in the short term but the extra economies of scale should increase profits in the long term.
- **Employees:** Expansion should create promotional opportunities for employees at all levels.
- **Consumers:** Because economies of scale will reduce unit costs, Pratai's may reduce prices to increase sales.