BUSINESS STUDIES

As a consultant, you have been asked to write a business report on a business. In your report, outline the appropriate alternatives for funding the proposed expansion, type of expansion, propose a process for the development of a new marketing plan and recommend strategies for the successful financial management of a global business.

Introduction – about Charlie's Chocolates

Charlie's chocolates is a well-known Australian business that sells and produces handmade chocolates. They have a variety of products that target specific target markets and they operate in all Australian states. They have more than 250 shops across the continent and have been in the chocolate industry for 10 years.

A few years ago Charlie's Chocolates introduced a new service into the business; catering. Now, not only are there freshly made products in store, but a flexible catering service can be utilised for functions and other events. These services, as well as home delivery, has made Charlie's Chocolates one of the leading chocolate makers in Australia.

The success of the business had provided managers the opportunity of expanding overseas and seizing the potential market there. The company has undergone extensive market research on the markets overseas and have decided that expanding to foreign countries will build a universally known brand as well as increase revenue of up to 70 %.

Reasons for expansion

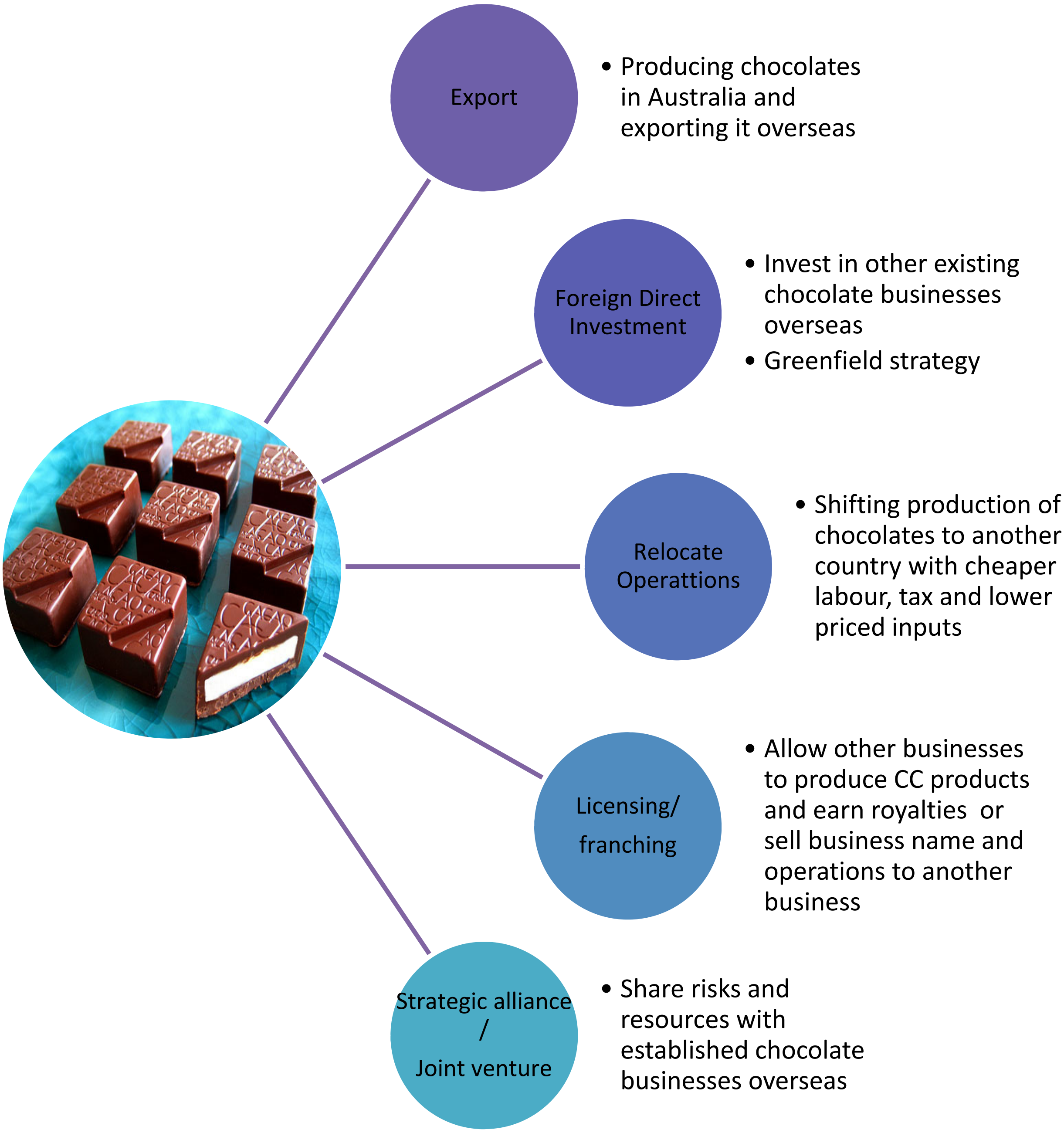
Charlie's Chocolates have numerous reasons for expanding overseas. Unlike BHP Billiton who saw their main reason for expansion was the growth of the company. They expanded their business by taking over smaller mining companies. They then expanded overseas by exports and then taking over international mining companies located in various parts of the world. The other concern for shareholders was to increase profit by increasing their input resources. [1]Charlie's Chocolates also aims to expand its company but the main aim to obtain a larger market share over the world.

[1] http://www.bhpbilliton.com/bbContentRepository/docs/AboutUs/history/BHPChronology.pdf

- Increase sales
- Find new larger markets
- Minimise competitive risk by establishing a loyalty brand before competitors do
- Extend product lifecycle by finding new international markets
- Achieve economies of scale to reduce costs by producing more products
- Introducing new products to suit new target markets
- Obtain and access new technology
- Cheaper labour
- More skilled or specialised labour
- Cushining the economic cycle by relocating to a country experiencing economic growth
- Diversification of incomes from different countries, reducing the losses experienced by foreign exhange
- Mimising taxes by relocating to a country with low taxes

Methods of international expansion

The following diagrams list the options that Charlie's Chocolates has to choose from in order to expand overseas. Managers have studied their situation and chosen the option that they saw fit to implement as an expansion strategy.



According to their financial situation, Charlie Chocolates have decided to expand overseas by exporting to overseas countries and establishing new businesses from scratch by implementing the Greenfield strategy. They have decided to do this in order to establish a global name and therefore create a universally known brand.

Establishing a new business will be difficult, but the chocolate makers want to seize the potential market by building trust between consumers and the business. There will be competition, especially from Switzerland and Belgium as they are the chocolate specialists, but Charlie's Chocolates are willing to confront these competitors. '

BHP Billiton was in a similar position in 1891, where it had expanded over Australia to seek new resources and expand the business; the company had then decided to expand overseas through exporting their products. Their first export was when they sold lead to chine in 1891. [2]

Funding the expansion

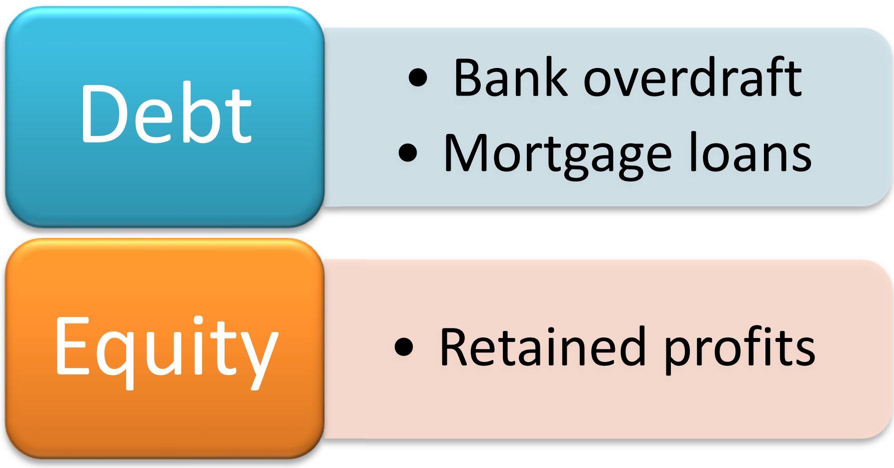
There are two methods Charlie's Chocolates can fund these expansions,

- Debt
- Equity

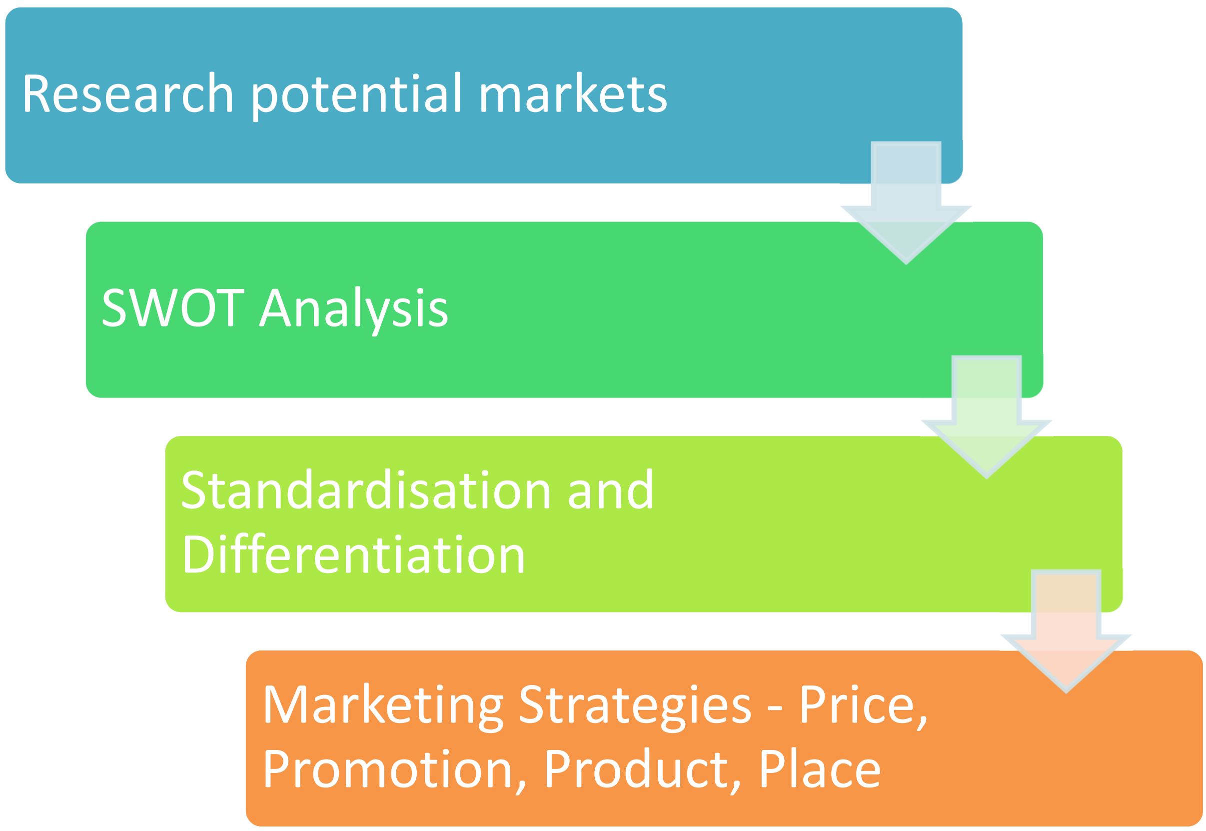
Type of payments	Costs involved	Disadvantages	Advantages
Debt	• Interest • Fees • Legal Charges	Repayment deadline is set and cannot be changed even though the business is experiencing financial problems	• Quicker access to funds • Interest repayments are tax deductable
Equity	• Dividends • Expenses of the business	• Dividends need to be higher than initial investments • Shareholders have the right to vote	• No set deadline for funds to be repaid

Charlie's Chocolates chose to use both debt and equity to fund their expansion. A balance of both is much more efficient and reduces the risk of cash flow problems. The types of debt and equity they will be using include

[2] http://www.bhpbilliton.com/bbContentRepository/docs/AboutUs/history/BHPChronology.pdf


Debt
Bank overdraft
Mortgage loans
Equity
Retained profits

Marketing


Research potential markets
SWOT Analysis
Standardisation and Differentiation
Marketing Strategies - Price, Promotion, Product, Place

Market research

Market research is essential for developing a successful marketing plan. The products that are sold here in Australia may not appeal to overseas markets. Furthermore, cultural preferences also influence product production. Furthermore, overseas markets differ in structure, type and taste, so these have to be considered by Charlie's Chocolates. Moreover, the marketing strategies used in Australia may not be accepted or work in other overseas countries and so have to be adapted to suit the country they are introduced in.

Heinz Watties had undertaken market research that involved both secondary and primary research. Their surveys found that on average that most people these days do not have cooking skills. As a result, they introduced their range of food products that can be made easily by just heating the open like soap, beans, rice and pasta dishes. That is why research is important – to determine consumer's tastes and needs. [3]

SWOT Analysis

A situation analysis has to be performed in order to identify internal and external factors that can affect Charlie's Chocolates operating overseas. By undertaking a SWOT analysis, these factors can be identified.

- Strengths
    - home delivery service
    - catering services
    - well established business name in Australia
    - range of products
    - quality of products
    - 10 years experience in the chocolate market
- Weaknesses
    - Not known internationally
- Opportunities
    - Potential overseas market
    - Introducing new products according to location
    - Building customer loyalty overseas

[3] http://www.afrbiz.com.au/page.asp?3652=432353&E_Page=416317&3648=432346&case=432348

- Threats
    - Competitors - Swiss and Belgium chocolate makers
    - Financial costs associated with establishing business from scratch overseas
    - Difference between currency in foreign exchange

Lindt & Sprüngli is recognized as a leader in the market for premium quality chocolate, offering a large selection of products in more than 100 countries around the world. Lindt & Sprüngli's has existed for 160 years with six production sites in Europe, two in the USA and distribution and sales companies on four continents. [4]

This company has a large competitive advantage over Charlie's Chocolate due to it's establish global brand and customer loyalty. Charlie's Chocolates must be more creative and innovative in order to gain an advantage.

Standardisation and Differentiation

Charlie's Chocolate's standard product is the Golden Waffle, however, even though it is the best selling product in Australia, the Waffle and other products must be slightly differentiated to suit other consumer tastes in different countries. Language, ethnicity, religion and consumer overall taste must be considered in every country before any product is produced, advertised or named.

When Heinz Watties expanded overseas, exporting to countries such as Japan, Australia and the United States, its revenue increased dramatically. However, it had to alter its products according to the country it sold its products too. [5] for example, in 2007, Heinz introduced soaps that could be made in the microwave for aimed at the New Zealand population, however, they suited the consumer tastes the United Kingdom and Australia as well, so that product was successfully sold. [6]

Market strategies

Developing marketing strategies will allow Charlie's chocolates to successfully tackle the overseas market

[4] http://www.lindt.com/int/swf/eng/company/
[5] http://www.afrbiz.com.au/page.asp?3652=432352&E_Page=416317&3648=432346&case=432348
[6] http://www.afrbiz.com.au/page.asp?3652=432354&E_Page=416317&3648=432346&case=432348

Product

- Different products need to be either produced or altered in order to suit different markets in a country
- products need to be packaged accordingly, with the correct language, description and appealing wrapping

Price

- Price is adjusted according to country's currency value
- When the business is first established it must adopt a competitively low price to achieve market share
- Prices can be then increased to establish a prestigious reputation

Promotion

- Advertising can be through TV, internet, newspapers, magazines, radio and posters
- Ads must be in the spoken language of the country and cannot be offensive or meaningless

Place

- There will be chocolate cafes located in different major cities over the globe, in busy locations
- There will be also small stands in major shopping centres internationally
- The stores also have to be near input resources to reduce transport costs

Coca Cola amatil is a global business that operates in many countries. It designs its can wrappings according to the location the products are to be sold in, that is, in the Middle East, Coca Cola would produce a label for the cans featuring Arabic writing and they would promote the drink by famous Arabic singers and actors. Currently, their add features a famous singer, Nancy Ajram, who promotes the drink.

Crazy Johns provide crazy prices where they penetrate the market and set up high competition with other mobile carriers. This marketing strategy allows them to increase market share by making the prices seem appealing. In addition, they also give away free accessories with any purchase to build trust between customer and the business.

Financial management of the global business

Businesses finances have to be managed accordingly in order to achieve a stable and adequately planned financial situation. Managing cash flow and inflow is important so that businesses can keep track if there is overspending or a reduction in revenue. One of the main things that Charlie's Chocolates needs to keep in mind while operating internationally is managing finances and reduces financial risks.

Charlie's chocolates must also minimise financial risks associated with credit, currency fluctuations, interest rates and different financial and legal systems.

Credit

Credit risks can be minimised and managed by implementing simple strategies that ensures Charlie's Chocolates obtain their money when they sell the products overseas. This can be achieved by;

Prepayment

- When Charlie's Chocolates are exporting goods they can demand payment from the importer before exporting their goods. That way, their money is obtained securely.

Bills of exchange

- The importer and Charlie's Chocolates can use the bills of exchange where the bank ensures that the importer recieves the goods and the exporter recieve their money

Open Account

- If Charlie's Chocolate trusts the importer and has had no conflict in the past, they can run an open account where the products are exported before the importer pays

Insurance

- Charlie's Chocolates should take out credit insurance to ensure that they recieve their payments even though the importer fails to pay or the goods are lost during export

Currency fluctuations

Currency fluctuation is an important financial factor to consider as ,depending on the foreign exchange rates, there can be severe losses or gains when products are sold or bought overseas. The Australian dollar a few months ago had reached 60 cents American dollars, which is quite low and a potential loss factor for many businesses exporting overseas. However, now that it has increased to 77 cents, then Charlie's Chocolates have the opportunity to export overseas with fewer losses.

Exporting overseas becomes a problem when the Australian dollar is reduced in value and therefore Charlie's Chocolates must be wary of the times when they should reduce exports, as a reduction in Australian dollar will lead to Charlie's Chocolates receiving less money for the products and so there will be a reduction in profits.

Hedging can be used to manage and deal with the problem of exchange rates. Using derivative contracts, Charlie's Chocolates can export overseas without worrying about the exchange rate on a particular day. By using a forward exchange contract, the bank will provide the business with a specific exchange rate on a particular date, regardless of the actual exchange rate. When the business uses a currency option contract, it can export, buy and sell whenever the exchange rate is to its advantage. Charlie's Chocolates may implement any of the two strategies in order to ensure that there are no losses during export, when they are buying inputs from overseas and when they are converting money.

Interest rates

Interest rates differ between countries. Now, due to globalisation, there is an opportunity for businesses in a country to obtain debt and loan from a bank operating in another country. Therefore, since the interest rates are currently low in Australia, Charlie's Chocolates will choose to obtain loans from Australia in order to continue its establishment in overseas countries. Moreover, the interest rates in America nearly hit zero due to the global recession, and this gives Charlie's Chocolates the opportunity to obtain cheaper loans from American banks.

Different financial and legal systems

When Charlie's chocolate establishes a business overseas in a certain country, there are financial costs and legal regulations worth considering such as tariffs, quotas, subsidiaries, restrictions, fees and charges that governments of those countries have implemented. These factors must be considered and payed for by the business

. Due to globalisation, the economies of many countries have become interlinked, so that when a downturn occurs in one economy, it will inevitably affect the other. The biggest example is the current global recession that originated when certain banks in American claimed bankruptcy and businesses shut down because of lack of funds. Consequently, banks and businesses in Australia, Europe and Asia have all been affected, resulting in a global recession. Therefore, Charlie's Chocolates must take that into account and withdraw any funds located in banks that have a potential of collapsing.

Conclusion

In conclusion, Charlie's Chocolates will be very successful when they expand internationally as they will open doors of opportunities for themselves. Not only with a world brand be established, but they will also increase sales and revenue. They have decided to expand internationally by implementing the Greenfield strategy and exporting goods overseas.

They will use a balance of both debt and equity finance to support their expansion strategy. When expanding to new countries, new products will be introduced suit and correspond to the culture present. They will implement specific marketing strategies based on Place, Promotion, Product and Price. However, market research needs to be conducted before any decisions are made.

When expanding by export, the payment method must be established with the importer before operations can be conducted. Furthermore, international factors such as currency fluctuations, interest rates and different legal systems must be considered.