ECON2245 Business Economics

Tutorial 6 - ANSWERS to Additional Tutorial Questions

1. What do you understand by the term ‘core competence’ when applied to business.

Answer:

A business’s core competency is what it does best; the basis of its competitiveness and success. To be a *core* competency, the competency must be valuable, in terms of the firm using it to deal with competitive threats. It must be rare, and as such not possessed by competitors. It must be costly to imitate by other businesses; and it must be non-substitutable, such that there is no alternative to it.

2. ‘Going global, thinking local’. Explain this phrase and identify the potential conflicts for being in behaving in this way.

Answer:

By going global the business generates a huge opportunity to create and benefit from economies of scale. However, in pursuit of such cost savings the business should not overlook the uniqueness of local market conditions. To do so may mean lost sales and hence profit. The problem with differentiating products for local markets, however, is that costs will rise. Hence a trade-off needs to be made between lowering costs and creating uniqueness.

3. Assume that an independent film company which up to now specialises in producing documentaries for Channel 7 wishes to expand. Identify some possible horizontal and vertical expansions it could undertake. What types of strategic alliances might the company seek to form?

Answer:

Horizontal expansion is firm’s grows (i.e. expands their business) by increasing their output, making similar products or purchasing a company which sells the same product. In the case of a company making documentaries for Channel 7, examples of horizontal expansion could include anything that the firm films. For example, the documentary firm might produce nature programmes or light entertainment or just more documentaries. Vertical expansion is whereby the firm grows by making inputs into production of the product it was producing or handling other aspects of the product such as distribution. In the case for the documentary firm this might include setting up its own broadcasting company or, by moving back into its supply chain, it might set up a company to manufacture and process film.

A strategic alliance is when a firm makes a formal or informal agreement with another company at a particular stage of production. For the doscumentary firm this might include strategic alliances with other media businesses. For example, a publishing house might offer the film company the ability to turn documentaries into books. An alliance with a music business might be beneficial in creating programme soundtracks.