# Edexcel (B) Economics A-level

## Theme 3: The Global Economy

## 3.2 Economic Factors in Business Expansion

### 3.2.1 Conditions that prompt trade

Notes

## Push factors:

These are factors which push firms out of a domestic market. It could be due to poor trading conditions in a market. For example, the 2008 financial crisis affected many western businesses, which has made it harder for firms to survive in a market.

The market might be crowded (a **saturated market**) which makes it hard to establish a business and remain competitive. A market becomes saturated when it is not possible to expand sales volumes any further.

Excessive **competition** can also push a firm out of a market. Each firm will constantly be watching other firms in an attempt to remain competitive. A firm might try and differentiate their product by improving the design of the product or through innovation.

If firms try and increase their market share to try and drive out competitors, they could face high marketing costs. By expanding into a new market and trading, firms can take advantage of lower production costs and a whole new market of customers.

## Pull factors:

These are factors which can pull firms into a new market. There is a lot of potential for business growth in new, emerging markets. Firms gain the potential to earn higher profits as a result. One of the advantages of emerging markets is that the markets are relatively unsaturated, so there is a large potential to increase sales and profits.

Since trade can result in business growth, firms can take advantage of **economies of scale**, which might result in lower average costs of production. This can then be passed onto the consumer in the form of lower prices, which might make the firm more competitive.

Another pull factor is **risk spreading.** This is when a firm diversifies into another market, so if one market loses sales, the firm has another to fall back on. This makes business safer and more stable.

## Possibility of offshoring and outsourcing

Offshoring is the process of having some of a firm's processes or services abroad. This could be to take advantage of lower labour costs, for example. An example could be call centres, of which many have been offshored to countries with lower labour costs.

Offshoring could also be strategic. For example, firms might offshore their production so they can enter a new market and use resources which might not be available on the domestic market. It could also be done to overcome regulations in the domestic market, which might be limiting their business.

Outsourcing is the process of getting goods or services from an outside supplier, such as another country or firm.

### Extending the product life cycles by selling in multiple markets

Firms could export their goods and services by selling into a new market. This is one way a firm could extend the life cycle of their goods and services. This is because a new market can increase the profitability of the firm and provide the potential for increased sales. A good or service which is in the declining stage of the domestic market might be new for an overseas market, so the product life cycle can start again.

### Raising capacity utilisation

If a firm has spare capacity, they can use this to increase their production volume. This extra production could be sold on the domestic market if there is sufficient demand, or on the overseas market. As a result, average costs of production fall and the firm becomes more competitive.