

Global Commercial Strategy

CIPS L6M2

Version Demo

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Topic Break Down

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QUESTION NO: 1 - (SIMULATION)

Explain the characteristics of strategic decisions. At what level of a business are strategic decisions made and why?

ANSWER: See the explanation for the answer

Explanation:

Strategic decisions are choices that determine the organisation's long-term direction, scope and ability to achieve sustainable competitive advantage. Typical examples include entering or leaving markets, acquisitions, international expansion, major investment, outsourcing decisions, adoption of a new business model, and deciding how the business will differentiate itself from competitors.

Characteristics of strategic decisions include:

Long-term and future-oriented: they concern the organisation's direction over several years rather than day-to-day activity.

Organisation-wide scope: they affect the whole business, or a major business unit, and have consequences for functions such as procurement, operations, finance, HR, marketing and IT.

High commitment of resources: they commonly require significant capital, people, capabilities, technology and management attention.

Material impact: they can change market position, profitability, risk exposure, reputation and future competitiveness.

Uncertainty and risk: they are made using incomplete information about markets, customers, competitors, technology, regulation and economic conditions.

Difficult and costly to reverse: once implemented, for example through an acquisition, factory investment or market entry, withdrawal may create major financial and reputational costs.

Cross-functional and external: they require coordination across functions and consideration of suppliers, customers, competitors, governments and other stakeholders.

Non-routine: they are not normally governed by a simple standard operating procedure; judgement, analysis and alternatives are required.

Strategic decisions are principally made at the **corporate level**, by the board, CEO and senior executive team. In diversified organisations, they are also made at the **business-unit level**, where leaders decide how that unit will compete in its chosen market. Functional managers, including procurement leaders, contribute specialist evidence and implement the strategy, but their routine decisions are usually tactical or operational.

They are made at these senior levels because strategic decisions commit the organisation as a whole, require authority to allocate substantial resources and accept risk, and must align with the organisation's mission, vision, stakeholder expectations and long-term objectives. Senior leaders also have the broad, enterprise-wide perspective needed to resolve trade-offs between functions and business units. Thus, corporate strategy answers *where and in which businesses should we compete?*, while business strategy answers *how will we compete successfully in this market?*.

QUESTION NO: 2 - (SIMULATION)

Discuss the role and influence of industry regulators and international bodies in the business environment.

ANSWER: See the explanation for the answer

Explanation:

Industry regulators and international bodies materially shape the commercial environment in which an organisation designs and delivers its global strategy. They affect whether a firm can enter a market, the standards its products and processes must meet, its costs, contractual risks, supply-chain choices and its reputation.

Industry regulators are national or sector-specific public authorities (and, in some cases, delegated independent bodies) that apply law within a jurisdiction. Examples include competition authorities such as the UK Competition and Markets Authority (CMA), financial regulators, health-and-safety agencies, environmental agencies and data-protection authorities.

Market conduct and competition: regulators investigate cartels, abuse of dominance, misleading claims and anti-competitive mergers. This protects customers and smaller competitors, but means buyers must avoid bid-rigging, market sharing, inappropriate exchange of competitively sensitive information and exclusionary supplier arrangements. Merger control may delay, require remedies for, or prohibit an acquisition.

Licensing, quality and safety: sector regulators may require licences, product testing, traceability, audits or minimum service standards. In highly regulated industries such as pharmaceuticals, food, aviation and financial services, compliance is effectively a condition of market entry.

Consumer, labour, data and environmental protection: regulators enforce requirements on product safety, marketing, employment practices, privacy and emissions. For example, the EU/UK GDPR framework requires lawful handling of personal data; failures can lead to fines, claims and reputational damage.

Enforcement: powers can include investigation, inspection, directions, fines, withdrawal of licences, public naming and, in serious cases, criminal prosecution. The resulting financial and reputational risk makes compliance a board-level and procurement concern.

International bodies influence the cross-border rules and norms under which firms trade. Unlike a domestic regulator, many do not directly regulate an individual company; their influence is commonly exercised through treaties, member-state commitments, standards, dispute processes, lending conditions or national implementing legislation.

World Trade Organization (WTO): provides a rules-based framework for international trade, including non-discrimination principles, tariffs, subsidies and dispute settlement. Its rules affect customs costs, market-access conditions and sourcing decisions. Where no preferential trade agreement applies, WTO most-favoured-nation tariff schedules can become particularly important.

International Organization for Standardization (ISO): develops voluntary international standards, such as ISO 9001 and ISO 14001. Although not usually law, buyers, regulators and tender requirements may make certification commercially essential. Common standards reduce information asymmetry and facilitate supplier qualification across borders.

International Labour Organization (ILO): sets international labour standards. Its conventions influence national labour law and buyer codes of conduct, including expectations on forced labour, child labour, freedom of association and safe working conditions.

United Nations bodies and agreements: the UN Global Compact and Sustainable Development Goals influence responsible-business expectations; climate agreements influence national carbon, reporting and transition policies. The OECD Guidelines for Multinational Enterprises and OECD anti-bribery work similarly shape due-diligence and ethical expectations.

International financial institutions: bodies such as the World Bank and IMF can influence investment conditions, public procurement and macroeconomic policy, especially in developing markets. Their requirements may affect currency, infrastructure and country-risk decisions.

Strategic influence on businesses and procurement is both direct and indirect:

Compliance costs must be built into total cost of ownership: testing, certification, audit, reporting, training, specialist advice, import documentation and possible carbon costs.

Regulation drives supply-market selection. A buyer may prefer suppliers in jurisdictions with reliable enforcement, acceptable labour and environmental standards, and stable customs arrangements.

Contracts should allocate and manage regulatory risk through warranties, audit rights, data-processing clauses, anti-bribery provisions, modern-slavery and ESG requirements, change-in-law clauses, termination rights and indemnities where appropriate.

Regulatory change can create opportunity as well as cost. Environmental rules may increase demand for low-carbon products; common international standards can lower barriers to exporting and create a larger addressable market.

Non-compliance can interrupt supply, prevent goods from being sold, cause fines and litigation, exclude a firm from public tenders, and damage brand trust. This is especially significant in global supply chains where the buying organisation may be held accountable by customers, investors and regulators for supplier conduct.

Regulation therefore has **benefits**: it protects consumers and workers, promotes safe and reliable products, reduces corruption and unfair competition, provides predictable market rules, and supports trust in international trade. However, it can also impose administrative burden, slow innovation or market entry, create differing requirements across countries, and increase costs disproportionately for smaller firms. Poorly designed or excessive regulation may create barriers to entry; inconsistent enforcement can distort competition.

Conclusion: A commercially effective organisation does not treat regulators and international bodies merely as legal constraints. It horizon-scans regulatory developments, undertakes country and supplier due diligence, embeds requirements in category strategy and contracts, and engages responsibly with regulators and industry bodies. This approach protects licence to operate while using emerging standards and trade frameworks to support resilient, ethical and competitive global business.

QUESTION NO: 3 - (SIMULATION)

XYZ is a large and successful airline which is looking to expand into a new geographical market. It currently offers short haul flights in Europe and wishes to expand into the Asian market. In order to do this, the CFO is considering medium/ long term financing options. Describe 4 options that could be used.

ANSWER: See the explanation for the answer

Explanation:

Four suitable medium-/long-term financing options are:

1. **Bank term loan / asset-backed loan.** XYZ could borrow from a bank over, for example, 5–15 years, with repayments of capital and interest. The loan may be secured against aircraft or other assets. This provides a known amount of capital without giving up ownership, but creates fixed repayment and interest obligations.
2. **Corporate bond issue.** XYZ could issue medium- or long-term bonds to institutional or public investors. Investors provide capital now; XYZ pays periodic coupon interest and repays the principal at maturity. This can raise a large sum for aircraft, route-launch costs and airport infrastructure, although it requires sufficient creditworthiness and continuing interest payments.
3. **Aircraft leasing.** Rather than buying aircraft outright, XYZ could use an operating lease or finance lease from an aircraft lessor. Lease rentals spread the cost over a number of years and preserve cash for marketing, staff, airport slots and working capital. It is particularly useful when testing the Asian market, though the total lifetime cost may exceed purchasing and the airline does not own an operating-leased aircraft.
4. **Equity finance/share issue.** XYZ could issue new ordinary shares, either to existing shareholders through a rights issue or to new/strategic investors. The funds are permanent capital and do not require repayment or interest, reducing pressure on cash flow during market entry. However, issuing shares dilutes existing shareholders' ownership and potentially their control.

A practical approach could be to lease aircraft initially to limit entry risk, supported by a bond issue or term loan for longer-term expansion expenditure. Equity is especially attractive where XYZ wishes to avoid increasing its debt level.

QUESTION NO: 4 - (SIMULATION)

XYX is an airline whose profits have been severely affected due to not being able to operate during a two-year pandemic. Cash reserves at the organisation are at an all time low and XYZ are looking into sources of short-term funding for working capital. Discuss four sources and suggest which one XYZ should use.

ANSWER: See the explanation for the answer

Explanation:

Four potential short-term working-capital sources for XYZ are:

1. **Bank overdraft or revolving credit facility (RCF).** This permits XYZ to draw cash up to an agreed limit and repay/redraw it as cash receipts arise. Interest is normally charged only on the amount drawn, so it is flexible for volatile items such as fuel, airport charges, payroll and maintenance. However, it may be expensive, requires bank approval/covenants and can be reduced or withdrawn if the bank considers the airline too risky.
2. **Short-term bank loan.** A loan supplies a known lump sum for a fixed term, usually with a stated interest rate and repayment schedule. It can fund a clearly identified shortfall and gives certainty over the amount available. Conversely, XYZ must make capital and interest payments even if passenger revenue recovers slowly; following two loss-making years, an unsecured loan may be costly or unavailable without security or a guarantee.
3. **Trade credit / extended supplier terms.** XYZ can negotiate longer payment periods with fuel suppliers, airports, maintenance providers, caterers and other key suppliers. This is quick working-capital finance because it delays cash leaving the business, and it may avoid bank interest. The disadvantages are possible loss of early-payment discounts, supplier credit limits, late-payment charges and the risk that strategic suppliers refuse service or demand advance payment when they see financial distress.
4. **Invoice discounting or factoring.** XYZ could raise cash against eligible amounts owed by creditworthy corporate customers, travel agents or cargo customers. A factor may advance a proportion of the invoice value immediately; with factoring it may also collect the debt. This accelerates cash conversion but incurs fees and interest, and it is only useful where there is a sufficient, reliable receivables book. It is less suitable for consumer ticket sales already settled rapidly through cards or travel intermediaries, and weak/cancelled bookings reduce its availability.

Recommendation: seek a committed, secured revolving credit facility/overdraft, ideally supported by a government guarantee or backed by suitable assets, and use it alongside negotiated supplier credit.

This is the most appropriate primary *short-term* source because XYZ's cash requirement will fluctuate as flights restart. Unlike a fixed short-term loan, it allows the airline to draw only what is needed and repay it when ticket, cargo and other

operating receipts return. XYZ should forecast weekly cash needs, request a limit sufficient for the peak deficit, and negotiate terms that prevent the facility being cancelled on demand.

Factoring should be used only for suitable corporate or cargo receivables, while trade credit is a useful supplementary measure rather than a complete solution. A sale-and-leaseback could generate substantial cash, but it is primarily an asset-financing/restructuring decision and creates ongoing lease commitments; it should be considered separately only if the airline has aircraft assets and a credible recovery plan, not treated as the first choice for temporary working-capital volatility.