International Marketing

International markets represent one of the largest and fastest growing areas of commercial and marketing activity. As such, they represent one of the most significant areas of business opportunities for the organisation. A company, in order to go global, needs to to make a series of decisions:

- **Deciding whether to go abroad** – Pros and cons of international marketing
- **Deciding which markets to enter** – How many markets to enter; developed vs developing markets, trade blocks
- **Deciding how to enter the market** – Indirect exporting, Direct exporting, Licensing, Joint ventures, FDI
- **Deciding on the marketing program** – Marketing Mix Elements
- **Deciding on th marketing organisation –** Export Department, International Division, Global Organisation

The Changing Nature of the International Business Environment

As in all business situations, opportunities and threats stem from changes in the environment. In environments which are not dynamic and changing, few such opportunities and threats arise. There is little doubt that the international environment is one of the most dynamic. Examples of some of the major changes in the international business environment in recent years include the following:

- The growth of whole new trading blocs and major changes to existing ones, e.g. the expansion of the European Union (EU), and the formation of the Association of South East Asian Nations (ASEAN).
- Newly emerging markets with significant growth potential, e.g. the Chinese Economic Area, Indonesia, India, South Korea and Mexico.
- Fundamental changes to the economic systems in some countries/regions of the world, for example the collapse of the former Eastern European Communist Bloc.
- Diminishing barriers to international trade and consequent significantly increased competition across national boundaries and often, as we shall see later, on a global basis.
- The growth of the multinational and transnational organisation.
- The development and impact of the Internet

Dynamic nature of the international environment

It is the dynamic nature of the international environment which provides the source of major business opportunities.

(a) The continued liberalisation of international trade

This particular aspect of the international environment is of particular importance when considering the growth of international business. As already indicated, there has been a continuing trend towards the liberalisation of international trade. Starting after the Second World War, under the auspices of GATT (latterly the World Trade Organisation), agreements have been reached to gradually remove trade barriers such as tariffs and quotas. Imperfect though these agreements have sometimes been, there is no doubt that these have helped the growth of world trade and the rising importance of international business. Patterns of world trade and understanding the world trading environment are very important to international business together with the social, legal, economic, political, technological and competitive forces which underpin them.

(b) Cosmopolitan customers

A third factor in the growth in importance of international business is the changing nature of customers and demand, and in particular, the increasingly cosmopolitan nature of today's customers. Today's consumer is much more widely travelled compared to even a decade ago. Combined with an increasingly global media network, today's consumer is exposed to global lifestyles, products and brands. Increased affluence and education on the part of customers have also served to reinforce much more cosmopolitan attitudes and lifestyles. At the turn of the twentieth century, our grandparents were mainly exposed to domestic products and services.

Furthermore, they weren't particularly interested in buying "foreign" products. Today's consumer, however, travels widely and wants to purchase the best value and most innovatory products and services, regardless of their country of origin. Clearly, consumers and their needs change, together with their buying habits and the influences on these. Understanding the consumer and their needs lies at the heart of business strategy and planning. This is no different in international business – indeed, if anything, one might argue that the need to understand or at least analyse customer behaviour is heightened when considering consumers across international frontiers.

(c) Improved communications

Helping to facilitate the emergence of the more cosmopolitan international consumer have been the huge improvements in international communication. Indeed, the increase in international travel just referred to has partly come about because of these. So, for example, it now costs approximately 1/6th in real terms of what it did only 15 years ago to fly the Atlantic. Of particular importance in this area, of course, has been the growth of new communication technologies such as satellite TV and more recently the growth of the Internet which is rapidly becoming ubiquitous and is giving ready access to consumers to international trends and markets.

(d) Strategic networking and the international supply chain

It is not only final customers that have become more cosmopolitan in their lifestyles and purchasing habits, but so too have organisational customers.

- Strategic networking is the formation of alliances and agreements between companies. Such alliances and agreements may involve, licensing, franchising and even mergers and acquisitions. Strategic networking is an attempt to combine two or more companies' skills and resources so as to be able to compete better.

- International supply chains refers to the increasingly international nature of supply in as much as companies often purchase components, raw materials, services, etc. from very diverse parts of the world

Increasingly, organisational buyers, whether in manufacturing, services or retailing, are looking towards non-domestic suppliers to provide their raw materials, components and finished products. A good example is that of the United Kingdom retailer, Marks & Spencer. At one time, Marks & Spencer made a feature out of sourcing from only UK suppliers wherever possible. However, in recent years this company, facing increrasingly aggressive competition, has begun to purchase from whichever supplier can best serve their needs with regard to factors such as price, design, delivery and so on, irrespective of their geographical location in the world.

Some of the same factors underpinning the emergence of the more cosmopolitan consumer, such as improved communication apply equally to the organisational customer. In addition, companies are increasingly developing strategic networks with suppliers which are based on international supply chains. So, for example, a car which is ultimately sold in the United Kingdom may have had its engine built in Spain, its transmission in Japan, its gearbox and steering in Korea and its trim in Brazil, with assembly in Germany.

A number of factors underpin this growth of strategic networking and international supply chains. So, for example, increasingly, even the largest companies can no longer afford to develop new products on their own, but must share the risk by developing strategic alliances with other companies, often in different parts of the world. Similarly, sometimes a company will be unable to gain access to an overseas market without the help of a local company and so again, strategic alliances or joint ventures of some kind are increasingly the order of the day.

One of the most significant developments promoting the growth of the international supply chain has been the recognition that managing supply effectively through value chain activities can be one of the most important sources of competitive advantage. There is no doubt that strategic networking and the international supply chain management which is associated with this, will continue to facilitate the growth of international business in the future.

(e) Growth of global companies – multinationals and transnationals Factors already discussed which have served to underpin the growth of importance of international business have in turn led to the emergence of the global company.

The global company thinks, plans and operates on a truly global basis; in other words, it transcends international boundaries. The 1980s and 1990s have seen the emergence of the multinational and, more recently, transnational company. In an admittedly somewhat chicken and egg fashion, the emergence of the global company has in turn helped fuel further growth in international business. At this stage, we should note that one factor in particular linking the global company with the growth of international business itself has been the growth of the global brands which such companies have promoted.

(f) Global brands

A combination of increasingly cosmopolitan consumers and lifestyles, together with the growth of global companies, have led to the growth of the global brand. Global brands transcend international boundaries and include brands such as Coca Cola, Ford, Mercedes, IBM and Rolex, to name just a few examples. Global brands reduce the risks for customers of buying brands produced in other countries. They also help facilitate a feeling of "belonging" on the part of customers throughout the world with shared lifestyles, values, aspirations, etc. These, then, are just some of the key factors which underpin the growth in, and importance of, international business. Again, remember that we will be considering many of these factors again in more depth in later study units. Here, we are simply concerned to establish the importance of international business and the fact that the dynamic environment which surrounds this area of business means that this is an area of significant opportunities. Needless to say, to recognise and appraise these opportunities is a key part of the international business's task. In addition to understanding the nature of the international environment and the factors which underpin this, including competitor and customer aspects, the international business also needs to understand and be able to apply the tools of international marketing research together with the concepts and techniques of competitive, absolute and comparative analysis.

DECIDING WHETHER TO GO ABROAD – Pros & Cons of going abroad

Reasons for Going International

All business is ultimately about identifying opportunities in markets and developing programmes to take advantage of these. We have already discussed some of the reasons for the growth of international business which have served to illustrate how dynamic this area is and therefore how it gives rise to significant opportunities. In broad terms, going international offers several potential advantages over and above purely domestic markets. For example, we have already seen that international markets and trade have tended to grow faster than more domestic economies.

Furthermore, there is substantial evidence to suggest that international markets and business are more profitable – i.e. the companies that operate in these markets achieve higher rates of return than their purely domestic counterparts of a similar size. It is not difficult to think of reasons for these higher rates of return. For example, international markets often give more scope for economies of scale or similarly, may allow the business to source components and raw materials, etc. more cost-effectively.

Additionally, the international business may, through effective global branding, simply be able to command a price premium or gain leverage for shelf space in the retail outlet compared to the purely domestic counterpart. There are all sorts of reasons why international business may represent opportunities for increased profits but there are many reasons which may underpin a decision for a company to go international. Examples of some of these reasons are shown below.

(a) Saturated domestic markets – the international product lifecycle

Very often, the motive for going international by a company will be that its own domestic markets are saturated, with no potential for future growth. The business may therefore be prompted to look for other international markets where this potential still exists.

There may be several reasons why a market may be saturated at home and yet offer potential for growth in other markets, but one reason is the product lifecycle. You know, of course, that the product lifecycle concept illustrates the fact that products pass through a number of stages in their lives from introduction through growth to eventual saturation and decline. We can also see that a product may often be at different stages in different countries. So, for example, the microwave oven was entering maturity in the United States whilst at the same time only being at the introduction stage in the United Kingdom. Very often, in fact, there is a pecking order to the international product lifecycle with products and services first reaching maturity and decline n developed economies while still being at the growth or even introductory stage in developing economies. The point is that by carefully identifying the next growth market, a business can achieve a fresh impetus to growth when domestic markets have become saturated.

Three further examples of products which are at different stages of their lifecycle in different parts of the world are shown in the following table::

Product	Current stage UK	Stage of lifecycle elsewhere
Cable TV	Introduction/growth	Maturity (US)
Disposable nappies	Maturity	Introduction/growth (Poland)
Digital cameras	Introduction	Growth (Japan)

(b) Intense/increased international competition in home markets

Another factor which may prompt a company to go international is where it faces intense and/or increased competition in its domestic markets, particularly from non-domestic competitors. Sometimes the business may seek to avoid such intense competition by looking for non- domestic markets to maintain and expand sales and profits. The danger here, of course, is that competition will simply follow you into your new markets. Sometimes, the company decides to counterattack global competitors in their home market.

(c) An opportunity to exploit a real competitive advantage

Some international markets present higher profit opportunities than the domestic market. A much more positive reason for going international than avoiding increased competition in the domestic market is where a company has a genuine competitive advantage which it wishes to exploit on an international basis. So, for example, a company with an innovatory new product which is, say, patent protected may feel that it wishes to gain the maximum value by expanding its sales of the product into other countries.

(d) Economies of scale

We have already mentioned the fact that international expansion through expanding the potential market often enables a company to achieve economies of scale. At one time, these economies of scale were linked to decreases in average cost in the production and research and development areas of the business, but increasingly, companies are also being driven by economies of scale in the marketing area and particularly in the areas of branding and advertising where going international can help reduce the average costs in this increasingly expensive area of the business.

(e) Merger and acquisition activity

Sometimes companies find themselves in the international arena through their merger and acquisition activities. Clearly, where the reason for the merger/acquisition is to, say, gain access to an overseas market, then obviously this is a conscious policy decision to go international. Sometimes, however, a company can find itself operating in international markets where the major reason for the merger/acquisition was perhaps to simply protect the domestic market or to acquire a valuable distribution structure. In doing so, however, the company may acquire/merge with a company that is already involved in international markets and so goes international by default.

(f) Servicing Customers

Sometimes cutomers relocate to new places and require international service. Companies decide to set up servicing facilities in these new locations where the existing customer base has relocated.

Clearly, there are many reasons why companies go international, but it is important to stress that all the evidence suggests that where a company goes international for positive reasons it is much more likely to be successful. So, for example, a company that is experiencing difficulties in its domestic markets, such as decreasing sales, increased competition, etc. will often struggle if it attempts to move into international markets from this weak base.

This again highlights the importance of analysing and assessing international markets for genuine market opportunities and matching these opportunities to company competences and strengths. This aspect of identifying and appraising opportunities in international markets is again no different to purely domestic business. But if this aspect is no different, it raises the issue of what is involved in international business and it is to this area that we shall now turn our attention.

Risks involved in Going International

- The company might not understand foreign preferences and could fail to offer a competitively attractive product.
- The company might not understand the foreign country's business culture.

- The company might underestimate foreign regulations and incur unexpected costs.
- The company might lack managers with international experience.
- The foreign company might change its commercial laws, devalue its currency, or undergo political revolution.

<u>INTERNATIONAL AND DOMESTIC BUSINESS - Similarities & Differences</u>

<u>Similarities</u>

(a) The centrality of the marketing concept

You will, of course, be familiar with the notion of the marketing concept, namely that effective business is based around identifying and satisfying customers' needs and wants. The importance of this concept is no different when considering international or domestic marketing activities.

(b) Management processes

The key processes of business management, too, are no different in international compared to domestic markets. Successful practice is still built upon the elements of analysis, planning, implementation and control.

(c) Management tools and techniques

All the tools and techniques pertinent to, and used in, domestic business activities are also relevant in the international context. So, for example, the tools and techniques of marketing research, market segmentation and targeting, forecasting and so on are just the same.

(d) The marketing mix

The elements of the marketing mix used in domestic marketing are all relevant to international marketing. So, later in the course we shall be looking at the 7P's of the marketing mix in the context of their application to international markets. Obviously, the application of the elements may differ compared to purely domestic marketing, but the ideas and concepts are just the same.

(e) Key decision areas/planning frameworks

Finally, the planning frameworks and key decision areas for international business are similar to those for domestic. So in marketing, for example, the business must establish objectives, select target markets and positioning strategies, develop marketing strategies encompassing the marketing mix and implement these and finally evaluate and control marketing activities.

As with the marketing mix, there will be some differences in application. So, for example, the business must decide the mode of entry into international markets – a decision obviously not found in purely domestic business, but again the principles and key areas of decisions are just the same in international, compared to domestic business.

<u>Differences</u>

With so many similarities between international and domestic business, what, if anything is different? The deceptively simple answer to this question (i.e. the key difference between international and domestic business) is the following:

"International business takes place across national boundaries."

At first sight, this would not appear to be a major difference but the very fact that international business is carried on across national boundaries is the reason for a range of major differences and applications of business concepts and techniques. The process of international marketing though involves the same disciplines as domestic marketing, has some differences compared to its domestic version. The major differences are the national differences between countries arising out of political, legal, economic, social and cultural differences.

- ***D*ifferent environment, culture and language**

Operating across national boundaries means that the business encounters a range of problems and issues not encountered when operating exclusively in domestic markets. Again, this deceptively simple statement masks the complexities and problems which this can cause. So, for example, the business must deal with a different set of environmental factors. Perhaps most significant of all, the business is dealing with a set of customers from a different culture and language.

So, for example, in respect of marketing, research involves considering language and respondent differences, and businesses must consider the extent to which marketing activities, and particularly the marketing mix, can be standardised across national boundaries.

Culture refers to widely shared norms or patterns of behavior of a large group of people. It is defined as the values, attitudes, beliefs, artifacts and other meaningful symbols represented in the pattern of life adopted by people that help them interpret, evaluate and communicate as members of society. The need for greater cross cultural awareness is heightened in our global economies. Cross cultural differences in matters such as language, etiquette, non-verbal communication, norms and values can lead to cross cultural blunders as illustrated by the following marketing mix:

Product: A soft drink was introduced into Arab countries with an attractive label that had six-pointed stars on it. The Arabs interpreted this as pro-Israeli and refused to buy it. Another label was printed in ten languages, one of which was in Hebrew-again the Arabs did not buy it

Price: An American firm was trying to get an acceptable price for their product from a Japanese buyer. The Americans presented a very detailed presentation and offered what they felt was a reasonable price. After a few moments of silence, the Americans thought the Japanese were going to reject the offer so they lowered the price. There was more silence by the Japanese. The Americans then said they would lower their price one last time and that this was the lowest they could go. The Japanese accepted this offer after a brief silence. The Japanese later said the first price was within an acceptable range, but it was their custom to consider the proposal *silently* before giving their decision. The Americans lost a lot of profit by jumping the gun and believing that Japanese respond just like the Americans do.

Place: A well known drinks company tried to introduce a two liter drinks bottle into Spain, but found it hard to enter the market - they soon discovered this was because few Spaniards had fridge doors large enough to accommodate the large size bottle.

Promotion: When Pepsico advertised Pepsi in Taiwan with the ad "Come Alive With Pepsi" they had no idea that it would be translated into Chinese as "Pepsi brings your ancestors back from the dead."

- ***Racial Differences***: This would refer to the differences in physical features of people in different countries. For example, the types of hair care and cosmetic products needed in U.S would differ from those needed in South Asia.
- ***Climatic Differences***: This would include the meteorological conditions like degree of rain and temperature range in the targeted foreign market. For instance, Bosch-Siemens had to alter their washing machines with a minimum spin cycle of 1,000 rpm and a maximum of 1,600 rpm in Scandinavia, owing to irregular sunshine. In Italy and Spain, on the other hand, it is sufficient to have a spin cycle of 500 rpm as there is abundant sunshine.
- ***Economic Differences***: The level of economic development in a market can affect th***e*** desired properties of a product and in this way can inspire a company to adapt its products in order to meet the needs of the local market. The level of economic progress in a market can be assessed by a series of indications:

  The level of revenue and buying power of local consumers: This will have an influence on the technical conception and marketing of exported products. In richer countries where the state of economic progress is more advanced, consumers generally having a higher purchasing power and tend to prefer purchase of more sophisticated products with advanced functions, while people in poorer markets would be interested in a simplified version of the product.

  The state of infrastructure in the market: The general level of the quality of infrastructure in the country consisting of elements such as transport, energy communication systems, etc. can affect how the product is constituted as it can bring about different conditions of use. When car manufacturer Suzuki entered India, it had to reinforce the suspension or the "road clearance level" of the cars as the state of the roads were poor.
- ***Religious Differences***: Religion has many impacts on products, more particularly on the ingredients, that constitute them. For example, in Islamic countries, companies, exporting grocery products based on beef have to furnish a certificate declaring that the animals have been slaughtered respecting "Halal" methods. Alcoholic drinks are equally banned in Middle Eastern countries. Religious restrictions can therefore require product adaptation.
- ***Historical Differences***: Historical differences help explain facts such as the playing of cricket in England, as opposed to game of boules in France. These differences have slowly evolved over time but have a profound effect on consumer behavior. For example, drinking Scotch whiskey is considered prestigious and trendy in Italy, but old-fashioned and almost boring in Scotland.
- ***Language Differences***: Language is an important aspect of international marketing research. Inappropriate use of language could result in loss of market apart from turning out to be a cross cultural gaffe. For instance, U.S. and British negotiators found themselves at a standstill when the American company proposed that they "table" particular key points. In the U.S. "Tabling a motion" means to not discuss it, while the same phrase in Great Britain means to "bring it to the table for discussion."
- ***C*ustomers.** In advanced countries, the wide range of available goods and services leaves few unsatisfied market areas. Buyers can be very fickle about whether or not to buy, and businesses therefore must be very clear about identifying and satisfying customer needs.

  In lesser developed countries, many customers have insufficient money to buy products. In other words, there is no "effective demand". However, people in these countries are often aware of the most up-to-date products through television and the cinema. Businesses in these countries face additional problems with regard to making products available which customers can afford.
- **Market information and forecasting**

  International markets often exhibit very different rates of growth which, combined often with a paucity of information, makes it very difficult to develop reliable estimates of market size and sales forecasts.
- **Competition**

  Businesses entering international markets, as already indicated, generally face much fiercer competition. Furthermore, this competition is now composed of perhaps unknown competitors from other countries. Admittedly, the purely domestic marketer can face international competition from both domestic and international competitors, but generally speaking, international business moves competitive pressures up to a new level.
- **Environmental turbulence**

  Compared to domestic environments, the international environment within which businesses must operate is much more dynamic and unpredictable. Changes in the international environment can be very rapid indeed, such as the much discussed withdrawal of the UK and Italy from the Exchange Rate Mechanism of the European Union in September 1992. Even changes that have been expected for many years can be difficult to predict with regard to their impact and implications for business, for example the handing back to China of Hong Kong. Environmental factors such as inflation rates, disposable incomes and technological and legislative changes can all change very rapidly in international markets, making it much more difficult for business. On the other hand, as we shall see, this very dynamism in international markets also gives rise to major business opportunities.

DECIDING HOW TO ENTER THE MARKET

Once a company decides to target a particular country, it must determine the best mode of entry. There are five market entry strategies that it can choose from. Each succeeding strategy entails more commitment, risk, control, and profit potential.

Indirect exporting: The normal way to get involved in an international market is through export. Companies typically start with indirect exporting – that is, they work through independent intermediaries. Domestic based export merchants buy the manufacturers' products and then sell them abroad. Domestic based export agents seek and negotiate foreign foreign purchases for a commission. Cooperative organisations carry on exporting activities on behalf of several producers. Export management companies agree to manage a company's export activities for a fee.

Direct exporting: Companies eventually may decide to handle their own exports in one of the following ways: Domestic based export department or division, overseas sales branch or subsidiary, travelling export sales representatives, or Foreign based distributors or agents.

Licensing: The licensor issues a license to a foreign company to use a manufacturing process, trademark, patent, trade secret, or other item of value for a fee or royalty. The licensor gains entry at a little risk; the licensee gains production expertise or a well-known product or brand name.

Joint ventures: Foreign investors often join hands with local investors to create a joint venture company in which they share ownership and control.

Direct Investment: The ultimate form of foreign involvement is direct ownership of foreign based assembly or manufacturing facilities.

TYPES OF INTERNATIONAL BUSINESS INVOLVEMENT

There are a number of different types of involvement in international business. At one extreme, some companies have a few sporadic foreign orders that they process as and when they arrive. At the other extreme, there are companies – such as Coca-Cola, Unilever, General Motors and Sony – with significant investments in plant, machinery and staff in other countries and with detailed marketing, planning and implementation in a large number of countries.

The degree of involvement can be measured by the percentage of sales revenue or profit contribution attributable to domestic and non-domestic sales. The amount of investment in non-domestic markets is another indicator. Other measures are the percentage of staff working on international markets and the relative planning importance given to international business.

The ways in which companies move from very little to intense international business have been explained in a number of different ways. In such a varied situation of companies, countries and interests, any one explanation is unlikely to be complete. Here we shall consider two such approaches.

Different Orientations, Different Management Culture

More companies are taking to operations on a global or regional scale than a national scale. The complexity and sophistication of the operations changes as the company steps into international markets. The guidelines to these issues can be found in the EPRG framework (Wind, Douglas, & Perlmutter, 1973). This framework identifies four types of orientations towards internationalization as the company expands into international markets.

Orientation	Focus
Ethnocentric	home/domestic country
Polycentric	host country
Regiocentric	regional market groups, e.g. ASEAN
Geocentric	world/global

These attitudes reflect the goals and philosophies of the company and help in developing management strategies and planning procedures with regard to its international operations.

- The **ethnocentric** orientation is one where the attitudes and approaches of managements are based upon their own domestic market. Little or no consideration is given to the different needs of non-domestic customers. The top management views domestic techniques and personnel as superior to foreign and as the most effective in overseas markets. The company sees its domestic business as its priority and views foreign sales as a profitable extension of its domestic sales. A company with this domestic market extension concept typically identifies markets where demand is similar to the home market and where its domestic product will be acceptable.
- The **polycentric** orientation is associated with multi-national enterprises with subsidiaries strongly based in host countries. This orientation is sometimes called multi-domestic because the company operates with an almost domestic approach to a number of different markets. A polycentric attitude emerges once the company begins to recognize the importance of the inherent differences in offshore markets. A company guided by this concept is of the view that country markets are vastly different and that, market requires an almost independent program for each country. The company also believes in using local personnel and techniques to suit the local market conditions. The company with such a multi-domestic market concept adapts its products without coordination with other country markets; its advertising campaigns, pricing and distribution decisions being localized.
- **Regiocentric** orientation has become more prevalent as regional market groupings have developed. In Europe we are seeing an increased interest in tackling European markets.

- **Geocentric** orientation is becoming increasingly important. It is sometimes mistakenly thought that the geocentric approach is only for very large companies. It is increasingly likely that all but the small companies will need to consider a geocentric orientation. Medium-sized companies might not compete in many markets around the world, but they need to be aware of emerging world trends in buying behaviour, in cost levels and in technologies. Without this global vision the company will not be able to adapt to our fast-changing world.

In the regiocentric and geocentric stages, the company recognizes the regional commonalities and undertakes regional strategies by considering the region or the entire world as a potential market, ignoring national boundaries. The firm develops policies and organizes activities on a regional or worldwide basis. Firms using this global marketing concept design product lines, pricing decisions, promotions and the channels of distribution for regional or worldwide markets. Coca-Cola, Ford Motor Company, General Motors and several other companies follow this orientation and can be described as global companies.

The Stages Approach

The following table illustrates the different stages a company may go through in developing from a purely domestic business to one that is fully international.

Stages in Process	Degree of International Involvement	International Business Approach
Domestic	None	None
Export selling	Reactive, very limited, experimental	None
Proactive exporting	Active involvement	Increasing knowledge and the development of planning approaches. Approaches are usually more tactical than strategic.
International	Committed involvement	The key here is that the company has some investment in at least one other country. Planning is used extensively, but usually on a multi-domestic basis.
Global	Committed strategic approach	Treats the world as an opportunity. The equidistant approach would be an ideal.

Note that the international business approach becomes more comprehensive, strategic and sophisticated the closer to the global stage the company has reached.

The difference between simply exporting and international business arises from the fact that exporting is the physical movement of a product produced in one country to another country. Profits are made from the sales revenue (less variable and indirect costs) gained from the non-domestic country customer. In international and global business, profits will be earned in a variety of ways:

- Net profits remitted by subsidiary companies;
- Net profits remitted from joint ventures;
- Licence fees earned by allowing non-domestic users to use your patented processes;
- Fees earned from the sales of "know-how";
- In addition, there will usually be sales revenues earned from exporting.

In general, international business is a more sophisticated process than exporting. It is usually closer to the final customer. Global business is a much more recent phenomenon. Whereas exporting and international business look for profitable opportunities, almost wherever they exist, global business seeks systematically to exploit opportunities around the world. For the global company the markets of Europe, North America and Japan, sometimes called the Triad, usually represent over 75% of the world market and are therefore of crucial importance. The Triad is likely to contain most of the world market and most of the world competition.

THE REASONS FOR INTERNATIONAL TRADE

International trade, of course, is not new – nations have been trading, and often fighting to trade, with other nations for thousands of years. The simple reason for this is that trade, and especially international trade, brings wealth and economic growth. Furthermore, few countries if any can be totally self-sufficient in all the goods and services that are needed to be consumed within a country.

The only solution is to do without or trade with other nations. Sometimes, of course, nations trade with other nations for non-economic reasons – for example, to develop international relations with other countries for strategic and political reasons, or perhaps even to help other nations develop their economies. The primary reasons for international trade, however, are essentially economic. Perhaps as we would expect then, it was the economists who first provided a rationale and a set of theories to explain the reasons for, and the patterns of, world trade. We shall begin by examining the economists' earliest theories of trade before moving on to consider more recent theories, including the emergence of more market and competitor-based theories of trade.

Theories of Advantage and Factors of Production

The 17th and 18th century economists were amongst the first to provide a rationale for international trade. Perhaps the first recognised theory was that developed by Adam Smith based on the notion of absolute advantage. This theory was further refined in Ricardo's theory of comparative advantage.

(a)Absolute advantage

This is developed from the work of Adam Smith in "The Wealth of Nations" published in 1776. If one country can produce, for the same costs, more products than another country, there is an advantage to be gained by specialising production in the higher-output country. In effect, the costs per unit are lower.

(b)Comparative advantage

Attributed principally to David Ricardo, the important idea here is the economist's concept of forgone opportunity. In producing, say, aeroplanes, the opportunity to produce consumer durable products will be missed. The ideal approach is to concentrate on those products and services that give the best relative position.

To take an extreme example, country X might have an absolute advantage over country Y in every type of product and service. Country X should concentrate on those items that give the best returns – those items in which it is able to add most value. It is probable that country X will concentrate on complicated manufacture requiring a talented and well educated and trained workforce. Country Y will produce more straightforward products and services. X will gain because it produces more high added value items. Y will gain because it will have access to the products produced by X at lower prices than Y could achieve.

These early economic theories were very influential, not only in exploring the rationale for international trade but in doing so, providing the basis for the promotion of such trade by governments and individuals. There is no doubt that the major legacy that these early economists left were the justification, ever since, for the protagonists of free trade. Important and influential though these early theories were, they did have shortcomings, particularly as countries and international trade itself began to develop further. Changes in the patterns of international trade led to two further additions to the economists' theories of international trade – in particular, the so-called productivity theories and the factor proportions theory. Each of these theories is outlined below.

(c)Productivity theories

There are various explanations for trade flows that look in detail at the productivity of factors of production. Early theories concentrated on the productivity of labour. If one country had people who produced more products or services, their costs would be lower. Trade would flow from this country to the other less productive countries.

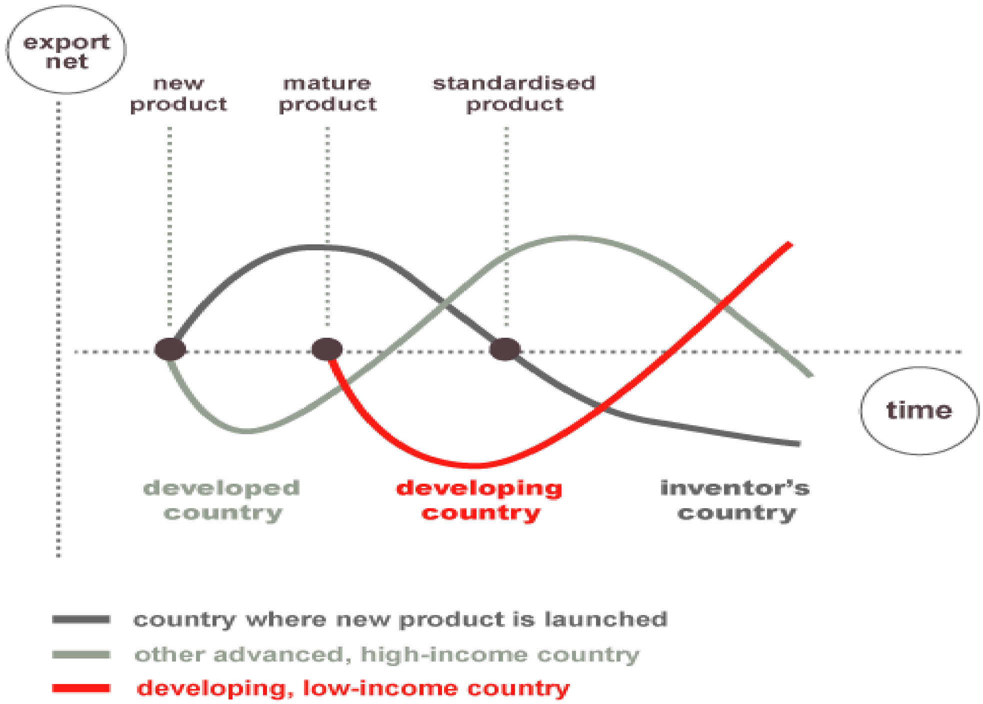
The weakness with the labour productivity theory is that labour is not the only factor of production. In the 20th century, the full range of factor costs or factor output per time period is still important. However, this needs to be balanced by the different factor inputs. Some companies can compensate for high labour costs by applying capital to increase the use of machinery. In addition, those companies tend to specialise in advanced innovative products with high levels of service. Germany and Sweden, both high-cost labour countries, are examples of this approach.

(d)Factor proportions theory

This theory assumes different factor proportions for different products. It also assumes that different countries will have different amounts of resources (i.e. factors of production). For example, if the UK wishes to gain more exports, it might wish to consider investing in education and training to develop a workforce capable of generating the kinds of added-value, knowledge-based products and services likely to be demanded in the future.

International product life-cycle

The standard product life-cycle (PLC) concept was applied in the 1960s by Raymond Vernon to international markets. The basic idea was a “trickle down” from advanced countries to the less advanced countries.



It assumes that advanced countries will innovate products and services. Over time, these new products will mature in their domestic markets and will, then, be introduced into the developing and the less developed countries. In these countries the PLC will start with the introduction phase, etc. Thus, products would be developed in, say, the US, but the PLC for that product would be straddled across the export of the product to less developed markets.

The trickle or cascade approach

Advanced Country
(e.g. US)
↓
Developing
Countries
↓
Less Developed
Countries

This approach is much less likely to happen in the turbulent 1990s. Many companies take a strategic approach to product development and product launch, with products often being launched, in a co-ordinated way, into several markets at once. This more modern approach has been referred to by Keegan as the shower approach.

The shower approach

Co-ordinated
Launch Programme
↓ ↓ ↓
Advanced Country (e.g. US) | Developing Countries | Less Developed Countries

In addition, the concept of the international PLC does not take account of other changes in the 21st century:

- New products and services are being developed in many different countries, not just advanced countries.
- There are fewer demand differences between countries. We have not moved to the globalvillage, but there are considerable signs of convergence.

Reasons for Erecting Trade Barriers

Countries, or rather governments, may erect trade barriers for a number of reasons. Some of the most frequent reasons are as follows:

- Protection of home markets/industries and employment. In some instances, barriers might legitimately allow an infant industry to establish itself before the full forces of competition can shake it, perhaps to breaking point. In other instances, the barriers might allow the domestic industry to become inefficient, resulting in domestic consumers paying higher prices and having less up-to-date products and lower levels of customer service.
- Strategic (military) reasons.
- Retaliatory reasons – political, economic, etc.
- As bargaining levers to secure desired objectives in international relations with other countries.

Tariffs

Tariffs are taxes or duties that are placed on imports and their use is widespread around the world. The purposes of tariffs vary from a means of raising revenue for a government to creating barriers to entry to the domestic market.

Non-Tariff Barriers (NTBs)

Whilst there has been a general reduction in the range and levels of tariffs, non-tariff barriers have tended to increase. For example, the Single European Market eliminated tariffs between the 15 member states, but is still wrestling with the need to harmonise NTBs.

The main types of non-tariff barrier are as follows.

(a) Public procurement policies

This is selective and discriminatory buying policies on the part of governments and state- owned-industry. In many countries there is either an explicit or implicit "buy our own national products" policy (e.g. in the UK, "Buy British", in France, "Buy French").

In the EU, no favouritism can be shown to national or local suppliers. Goods and services have to be selected either at the lowest tendered price or by an agreed "best value" formula.

(b)Quotas

Under this type of barrier, only a specified amount of particular goods are allowed to be imported during a time period (usually, over a year). Once this amount is filled, no more goods can be imported until the next time period. This restricts the potential market for exporters and makes it easier for domestic producers to gain market share. In addition, the exporter is faced with uncertainty – it might be difficult to establish whether the quota is full or not. If the quota amount has been reached, the exporter will have to wait until the next time period when the quota resumes.

(c)Technical standards

Many countries have technical requirements applying to specific goods within the domestic market. Sometimes these can be used to make it easier for domestic suppliers than those seeking to gain entry. The domestic suppliers understand the regulations better, perhaps continually changing the regulations to keep the balance of advantage on their side.

(d)Health and safety standards

These can be used in much the same way as technical standards.

(e)Restrictive administration procedures

A classic example of this occurred during the 1980s when the French attempted to slow the entry of Japanese-made video cassette recorders. They did this by making the only entry into France through one town for Japanese video cassette recorders. This caused very considerable delays.

Dumping and Anti-Dumping

Although generally speaking, barriers to trade are, in economic terms at least, largely indefensible, there are sometimes good reasons for imposing them, at least in the short term. One situation where barriers to trade might be justified is in the case of anti-dumping legislation which is enacted to protect a market from unfair competition.

Dumping occurs when a product is sold in another country at a price below its actual costs. There may be some difficulty in establishing what the actual cost is – it can be argued that it should include all costs (i.e. direct and indirect costs) although it is generally agreed that, in the short term, the price should cover the direct, attributable costs of producing a specific quantity of product.

There are three main types of dumping:

(a)Sporadic

This happens from time to time, usually as a result of surplus inventory or stocks. A company might prefer to find an export market to unload the surplus rather than risk unsettling the domestic market in which the company has a major interest.

(b)Predatory

This is a type of competition strategy in which a company seeks to destabilise a market with the objective of gaining market share by selling at very low prices. Once the domestic producers are driven out of business, the company can increase prices and recover profit levels.

(c)Persistent

This is the continued sale of products at very low prices. This was a particular problem with ex-COMECON countries where, in countries like Poland, Hungary and the USSR, prices and costs were established arbitrarily by central planners. Costs and prices showed no relationship to conventional Western accounting practices.

WORLD TRADE BODIES AND INSTITUTIONS

The early economists established the rationale and the benefits of free world trade. During the 1920s and 1930s, a major recession spread throughout the world. As economies collapsed, governments sought to maintain domestic output and employment in their own economies and a wave of trade protectionism swept across the globe. Tariffs, quotas and outright bans on imports were introduced in a bid to prevent industries collapsing further.

We now know, of course, that this did not help. Indeed, as Smith and Ricardo would have predicted, it made the worldwide recession even worse. Economies were just beginning to recover from this recession when the Second World War intervened. As a result, a large part of international trade, or at least conventional trade, collapsed, as did many economies as a result of their war efforts and damage to infrastructure and industries caused by hostilities.

By the end of the war, therefore, many economies were totally crippled and some countries such as Germany and Japan were totally crushed. In an effort to help these countries, and thereby the world economy, a number of international bodies and institutions were formed, principally with the objective of helping this worldwide reconstruction, but underpinned very much by the philosophy of promoting the growth and return of free world trade. Since their establishment, some of these bodies and institutions have had a major influence and impact on world trade and continue to have an important impact still today.

Of particular significance and importance are the General Agreement on Tariffs and Trade (GATT), more recently known as the World Trade Organisation (WTO), the International Bank for Reconstruction and Development (often referred to as The World Bank) and the International Monetary Fund (IMF). Each of these is discussed below.

The General Agreement on Tariffs and Trade (GATT)/The World Trade Organisation (WTO)

GATT was set up after World War II in an effort to avoid the difficulties of the 1920s and 1930s. During the inter-war years the world recession had been compounded by countries' individual policies on importing and exporting which were aimed at ensuring their preferential position in the international market-place. GATT aimed to create order and predictability in world trade with the objective of encouraging the development of this trade around the world.

GATT as it stands today is not just one treaty agreed in 1948, but a large cluster of around 180 which over the years have shaped its constitution and thus its direction, its membership and its mission. There have been seven negotiating "rounds", each lasting an average of nine years, which clearly demonstrates the complexities of the issues which GATT tried to address in a fast changing world trading environment.

Following the approval of the Final Act of the Uruguay Round of GATT in 1993, the World Trade Organisation (WTO), a permanent body with a status commensurate with that of the International Monetary Fund or the World Bank, effectively replaced GATT.

It is the responsibility of the WTO to monitor agreements to reduce barriers to trade, such as tariffs, subsidies, quotas and regulations which discriminate against imported goods.

All members of GATT automatically became members of the WTO on ratification of the Uruguay Round. Currently, the WTO has 132 members and a further 29 countries which have observer status.

The aim of the WTO is to create order and predictability in world trade. The principles embodied in the WTO are:

(a)Reciprocity

The idea is that if one country reduces its tariffs against another country's exports, then it can expect the other country to reduce the tariffs against its exports.

(b) Non-discrimination

Under the terms of membership, nations agree to apply their most favourable tariff rate to other WTO signatories. It is, however, possible to have preferential rates which may be used to encourage trade with particular nations. For example, the UK may wish to use a preferential rate with Commonwealth countries, particularly those that are less developed. The highest degree of preferential status is the "most favoured nation" (MFN) status and is accorded on a bilateral basis.

In recent years the granting or withdrawal of MFN has been seen as a political means of rewarding or punishing countries. For example, President Carter of the United States of America withdrew MFN from the USSR over the human rights issue with the Communist country, and President Reagan withdrew MFN from Central and Eastern European countries when martial law was imposed in Poland.

The potential economic impact of either loss or gaining of MFN status should not be underestimated. As we have already discussed, self-sufficiency is virtually impossible and the stability of most countries' economies is tied into the import and export market and more importantly into the country's position within that market.

(c)Fair trade

This principle prohibits export subsidies on manufactured goods and limits their use on primary products. Whilst the aim and principles of the WTO are relatively simple, the complexities surrounding their application and indeed their influence as we begin the new millennium must not be underestimated.

Since the establishment of GATT, more and more groups of countries have looked to become unified from an economic viewpoint, the European Union being perhaps the most successful to date. Increasingly the dimensions of the Pacific trading markets are changing as a response to shifts in regional trade flows. Economic indicators are pointing to an increasing interdependence among these nations. At the same time, Europe continues to debate the strengthening and extension of its economic ties.

The impact of the WTO can appear to be most significant at a national level. However, its potential impact at an organisational level is something that should not be overlooked and we will consider this further in the next unit when we look at influences on the international business environment.

The WTO is not without its critics. Towards the end of 1999, anti-globalisation protestors held a series of demonstrations which turned into riots outside the building in which the WTO was holding its next round of meetings. There were a number of reasons for these protests, but essentially, a number of critics feel that the WTO represents the interests of the highly industrialised countries, and particularly of the United States, at the expense of the lesser-developed countries. This, they suggest, continues to repress these developing countries, despite the WTO's commitment to raising the living standards for all the people of the world. There are also those who believe that the WTO represents the epitome of commercial greed and capitalism and hence are determined to destroy it. Yet others believe that world trade helps destroy the environment. These demonstrations were so successful that the discussions had to be postponed. There is little doubt that the interests of such pressure groups and a more socially responsible attitude will have to be taken into account in any future considerations by the WTO.

The International Monetary Fund (IMF)

The idea for the IMF was developed at the Bretton Woods Conference in New Hampshire, in the United States, towards the end of World War II in 1944. The IMF was designed to provide a stable framework for international currencies. Members of the IMF subscribed to a quota based on expected trade patterns. One quarter of the quota was to be paid in gold or dollars and the rest in local currencies. The funds were to be used to provide support for currencies during fluctuations in exchange rates and thus provide stability in the foreign currency exchange rates which are so important to the development of world trade.

The original intention of the IMF was to provide a support system for fixed exchange rates between countries. However, in 1971, the US abandoned the gold standard and devalued the dollar, the end result of which was the development of flexible or floating exchange rates instead of the fixed rate system.

The structural problems of developing countries often pose grave difficulties for the IMF in finding acceptable ways to support the developing country whilst at the same time safeguarding the funds of the IMF. In the 1980s, the IMF had to cope with severe difficulties experienced by a number of lesser-developed and newly industrialised countries – for example, Mexico – as a result of their substantial accumulated debts that they were unable to pay. In the 1990s, the IMF had major new pressures resulting from the collapse of the USSR when many countries in Central and Eastern Europe needed economic and foreign currency support during their reconstruction.

The World Bank

The World Bank, officially called the International Bank for Reconstruction and Development, was also founded in 1944. Its initial role was to assist the redevelopment of countries crippled economically by World War II. Since the completion of this role, the World Bank has played a major part in developing the economies of the poorer countries – particularly new countries emerging into independence from their former colonial status, such as Nigeria and India (from the UK) and Mozambique and Angola (from Portugal).

The World Bank finances several hundred major projects each year. Loans must be repaid, with interest, and are subject to guarantee by the government of the borrowing country. The projects range from developments in agriculture, to telecommunications, to population planning, and there are international business opportunities to be gained from World Bank projects.

The World Bank is also not without its critics. Again, the main criticism is that many of the lesser- developed countries who have been recipients of World Bank funds in earlier years have effectively been crippled economically by their large debt repayments and interest charges. In fact, some countries will never be able to repay the interest, let alone the capital and so their debts will simply accumulate. Recently, steps have been taken to address this problem. Some countries have had their debts reduced, and more recently, the United States and the United Kingdom have cancelled some of them completely.

WORLD REGIONAL GROUPS OR TRADING BLOCS

Various groupings of countries have existed throughout the history of the world. These groups, in the past, were based on empires, for example the Roman Empire. More recently we have seen the grouping of countries into various types of coalition and federation. The reason why countries should group together is usually to encourage trade between them. Subsequently, other forms of economic, political and social integration might be sought. Here we shall be looking at some of the major world regional groups or trading blocs. There are literally dozens of such groups throughout the world if we consider informal groupings, but we are only concerned with the largest, most powerful and influential. These are listed in the table below, together with the part of the world in which they operate and their current member countries.

Major world trading blocs

Abbreviation	Title/Area: Member Countries
NAFTA	**North American Free Trade Agreement**: Canada, Mexico and USA
EU	**European Union**: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and UK
ASEAN	**Association of South East Asian Nations**: Indonesia, Malaysia, the Philippines, Singapore and Thailand
LAIA	**Latin American Integration Association**: Argentina, Bolivia, Brazil, Chile, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela
MERCOSUR	**Southern Common Market**: Argentina, Brazil, Paraguay and Uruguay
APEC	**Asia Pacific Economic Co-operation**: Some 23 Asia Pacific nations including US

Analysing the external environment

Business and marketing strategy, whether it be at home or abroad, can only be effective if it is developed to meet the specific needs of a target group. The most common form of analysis in marketing is characterised by the initials "SLEPT" – looking at social (or social/cultural), legal, economic, political and technological factors.

SOCIAL/CULTURAL FACTORS

The social/cultural element is particularly important in SLEPT analysis and plays a considerable part in determining how the legal, economic, political and technological elements work.
It is important at the outset, though, to raise a word of caution in looking at these factors. There is sometimes a tendency to treat social and cultural differences in a rather superficial way by thinking about stereotypes – for example, the British as being reserved, Americans as being loud, Afro- Caribbeans as being colourful and gregarious, etc. This is a dangerous oversimplification and needs always to be avoided.

We have linked social and cultural factors together because they are so inextricably connected. Social factors are reasonably straightforward to identify in terms of the concepts of reference groups, social roles and status.

Reference groups are all those groups that have a direct or an indirect influence on a person's attitude or behaviour. These include family groups, friendship groups, workplace groups, religious groups and professional groups. The family probably represents the most important primary reference group that will influence a person's life.

In each group to which a person belongs (and it is important that we remember that individuals will belong to a number of groups), his or her actions and influence in that group will be determined by the role and status of the position held. For example, a woman within a family may have a number of roles – wife, mother, daughter, etc. If she also has paid employment, her role and position within the organisation in which she works is likely to be very different from that or those within the family.

But what influences these reference groups? Why do they behave the way they do? Thinking of the family it is easy to see that this varies a great deal from country to country. The answer is culture.

Defining Culture

Culture is the shared values and beliefs of a society – its "design for living". However, with such anall-embracing issue as this, precise definitions rarely give usable meanings. Thus, within the culture of most societies, there are almost always a variety of different "subcultures" – for example youth culture, student culture and so on.

Culture is learnt and the main force for transmission of whatever type of culture is the reference groups to which individuals belong. In this way, therefore, culture may also be thought of as the way in which people interact with each other in a group that shares some common sense of belonging.

One of the reasons that culture is so difficult to define is because it has so many elements that interrelate and change over time. One way of analysing it is to seek categories of significant elementsas in the following diagram.

Elements of culture

Elements of CULTURE

Language

Spoken
Written
Official
Hierarchy
International
Mass media
Colloquialisms

Religion

Sacred objects
Philosophical systems
Beliefs and norms
Prayer
Taboos
Holidays
Rituals

Values and Attitudes Towards:

Time
Achievement
Work
Wealth
Change
The scientific
Risk-taking
Possessions

Aesthetics

Beauty
Good taste
Design
Colour
Music
Architecture
Brand names

Education

Formal
Vocational
Primary
Secondary
Higher
Literacy level
Human resources
Planning

Law and Politics

Home country law
Foreign law
International law
Regulation
Political risk
Ideologies
National interests
Invention

Technology and Material Culture

Transportation
Energy systems
Tools and objects
Communications
Urbanisation
Science

Social Organisation

Family structures
Social institutions
Interest groups
Social mobility
Social stratification
Class systems

LEGAL FACTORS

The legal environment within which international business operates comprises three elements:

Home country law – this defines what is considered by the home culture to be acceptable behaviour both at home and in dealings with a foreign country.

Host country law – this defines acceptable behaviour within the country in which you wish to trade

International law – there is no international legislative body but there are a series of conventions, agreements and treaties, the enforcement of which relies on national sovereignties.

In light of this the international business must be aware of which jurisdiction will apply. Inevitable conflicts will emerge which may give rise to not only practical problems, but also moral issues as the legal environment in a foreign market conflicts with the cultural values of the home country.

There are also three main types of legal system operating in the world – common law, civil or code law and Islamic law.

Common law – This system of law, used in the UK, the United States and Canada, is based upon tradition and on legal precedents. Laws are passed by government, but are then interpreted by the courts. The interpretation of the law then becomes the legal precedent for similar cases in the future.

Civil or code law – Civil or code law is based upon laws that are written down. It is usual for there to be three different written types of law – commercial, civil and criminal. The aim in code law is to develop an inclusive set of written codes that will cover all possible situations.

Islamic law – This type of law, based upon the Koran, incorporates social and religious obligations in addition to legal duties. An important element in Islamic law is the achievement of social justice. One feature of Islamic law that shows the difference between it and common and civil law is that it is unlawful to charge interest on loans.

The Law and Business

Legal factors provide the regulatory framework within which international business must operate and the legal system applying to business in a particular country has an important influence on many
aspects of international trade – for example:

(a)Regulation of contracts

The establishments of the legal rights of the buyer and the seller. The establishment of the terms and conditions between agent and principals.

The mechanisms for the resolution of disputes regarding both the appropriateness of the quality of the merchandise (and so on) in respect of exported goods and responsibilities of agents.

(b)Regulation of the business environment

Legislation can condition what companies can and cannot do, including:

- export/import controls, tariff/non-tariff barriers and competition controls;
- pricing controls – for example, resale price maintenance and price increases
- the registration and enforcement of trade marks, brand names and patents;
- product liability and product safety;
- advertising and sales promotions – what can be promoted and how it can be promoted;
- labelling;
- environmental issues – for example, Germany has strong laws regarding excess packaging which makes manufacturers responsible for the responsible disposal of extra packaging materials.

It goes without saying that businesses must be careful to operate within the laws and regulations of the countries in which they are trading. This is particularly important when the business is trying to establish a global approach and, therefore, wishes to standardise operations and marketing as much as possible. So, for example, in some countries certain types of advertising may be illegal and the business cannot apply an approach used elsewhere in the world. Countries often differ considerably with regard to, for example, competition policy and price legislation. In the same way there is considerable difference throughout the world with respect to what is considered legal when offering "gifts" to organisational and government buyers.

Even countries which, in all other respects, appear to be very similar and are even supposedly bound by trading agreements because they are members of a trading bloc can in fact be very different when it comes to legislation. So, for example, Germany has much stronger legislation with regard to green issues than many other members of the European Union. For example, all packaging in Germany must be recyclable and the supplier is responsible for any pollution caused. This is very different to legislation operating in, say, the UK or France.

ECONOMIC FACTORS

The economy of any country is the end result of the production and the distribution of wealth. As we know this is a continually moving feast, but whereas in some countries the fluctuations are small over a prolonged period of time, in others changes can be great and almost overnight.

Economic Indicators

These are factors which provide information about the economic development and conditions in a country.

(a)Income

When we consider the economic factors, the distribution of wealth is perhaps the key consideration in the selection of target markets. Countries can be considered in terms of their total income, or gross national product. Using such a league table, the US, Japan and Germany have the top positions. Indeed, the concept of the importance of the Triad is based upon the large size of the GNPs of the US, Japan and Europe.

From an individual company point of view, the total income figure for a country can be used as a rough guide to a specific market size. Thus, a country might already be in the maturity phase with its markets reliant upon low levels of replacement sales. In other less developed countries, with lower levels of GNP, the market might be growing rapidly with initial purchasing. For example, the electricity supply industry in the top GNP countries is well established, but in countries with lower levels of GNP but with high growth rates, the demand for electricity might be increasing rapidly – this would create a strong growth in the market for electricity supply equipment and transmission in those countries.

In most instances companies are more concerned with market segment(s) rather than the total market in any one country. Because of this, companies will be more interested in the GNP per person or per capita than the grand total. Breaking down GNP per capita further, companies will be interested in the level of disposable income after various commitments of taxes, health and social security payments and other major payments have been made. This is usually a better indicator of available expenditure, in the majority of consumer markets, than GNP per capita. If this approach is used, considerable market segments can be identified in countries that are often thought to be quite poor. For example, in India there is an affluent middle class with a considerable disposable income. The total size of this segment is larger than the populations of most other countries in the world. Certain general relationships exist between income levels and expenditure patterns. For example, the amount of income spent on food, expressed as a percentage of income, is higher in poor families and in poor countries than it is in richer countries. There are variations in the general rule. For example, in Japan, almost 20% of consumer spending is allocated to food, compared with 15% in the US, 13% in Germany and 11% in Britain. The explanation for the high spending on food in Japan is partially based upon the high prices of food there, caused by protectionist economic policies in Japan to support local agricultural products. In part, though, expenditure on food is influenced by culture – food in Britain is given a comparatively low priority, whereas in Japan and France food is seen to be more important. This results in higher consumer expenditure on food.

(b)Inflation

This is a major influence in most countries. In some countries, one of the main reasons explained by government for economic decisions is a desire to control inflation to a particular target level. In other countries, inflation rates are so high that pricing and other decisions have to take account of the constantly increasing price of goods and services.

The Asian countries of China, India, South Korea and Taiwan have all achieved rapid growth during the past decade with inflation rates usually below 10%. Latin and South America is different and here there are several stories to tell. Some countries, for example Brazil which has sometimes experienced inflation rates in the order of 2,000%, have a long history of uncontrolled inflation. Argentina had very high inflation rates in the 1980s but has now brought the rate down to 11%. Mexico, whilst never as out of control as Argentina, has succeeded in bringing its inflation rate down from over 100% to under 10%. Chile has maintained the best record – its inflation rate never increased much above 20% in the 1980s and is now down to around 12%.

(c)Capital investment

This is associated with economic growth. Recently, countries in Asia have been spending a higher proportion of their Gross Domestic Product (GDP) on fixed capital investment than other countries around the world. At the beginning of the 1990s, financed mainly by the high level of domestic savings, the Asian countries of South Korea, Thailand, Singapore, China, Malaysia and Indonesia all invested 30% or more of their GDP into fixed capital. Latin American countries typically invested around 20 – 25%.

(d)Government policies

Other economic influences that can be important are the level of government budget deficit or surplus.

The level of official reserves of foreign currencies and gold and special drawing rights in the International Monetary Fund shows a country's ability to meet its external obligations. If reserves are going down rapidly, this will have an almost certain downward effect on the value of that country's currency. Declining official reserves shows a decline in confidence in the country's economy. It could be linked to deteriorations in the country's balance of trade and the balance of payments.

Government decisions taken to influence economic performance by, for example, reducing inflation or to stabilise the foreign exchange rate, will affect the level of personal and corporate taxation. If taxation increases, other factors remaining constant, market sizes will decrease in the consumer and most business markets. On the other hand, government markets will increase to reflect the higher influence of the government in the total market-place of that country.

POLITICAL FACTORS

In an ideal world, companies would like to have a political climate that does not change and is supportive to business interests. They would like to see policies which lead to:

- Low inflation rates
- Steady market growth
- Low taxes on company profits
- No restrictions on the ability to repatriate profits
- No restrictions on local content
- Support for a market economy
- A lack of government intervention, for example no controls on price levels or profit levels
- The encouragement of inward investment by foreign companies.

However, it is unlikely that this situation would persist in any country.

From a business point of view, the major political problem is likely to be instability. Instability may arise through frequent changes in the ruling political party or elite, and/or through frequent changes of policy by a stable ruling political party. If the political situation is one in which the environment surrounding the company is predictable, companies can develop and implement international business plans with some confidence. If the government changes direction frequently, medium- and long-term planning becomes very difficult and companies will feel forced to adopt short-term, highly pragmatic approaches.

Note that, even in politically stable countries, democratic elections which could change the ruling political party take place every five years or so. When a new party takes power, there is likely to be a measure of uncertainty whilst it settles into the job of running the country and the effect of new policies is awaited. Even if the same political party is in power for many years, there will be a variety of political and economic issues that will cause it to make changes in political and economic directions, and most governments pass laws which affect market opportunities from time to time.

Other forms of stable government may create problems for business – for example:

- where the political party in power does not support business interests, as was the case in most of the ex-COMECON countries from the end of World War II to 1989; and
- where the ruling power base is autocratic and is not subject to various checks and balances to prevent the abuse of power – the regime of Idi Amin in Uganda was an unfortunate example of the excess that can result from autocratic political power.

Stability, though, is not the only issue of interest to business. It is also concerned that governments take political and economic decisions that do not cause the economy to decline or become less profitable for companies. For example, many Latin American countries were not able to prevent runaway inflation in the 1980s, and other governments have acted in ways which conflict with business interests by such policies as increasing corporate taxation or using price controls to try and control inflation.

There have been various attempts to identify the level of risk inherent in a country. One such approach is the Business Environment Risk Index (BERI) which was started in the US in 1972. In the BERI ratings, countries are evaluated on 15 economic, political and financial factors on a scale from zero to four. The factors that relate most strongly to political areas are political stability, attitudes to foreign investors, nationalisation, bureaucratic delays, and currency convertibility. Scores on the BERI scale are calculated out of 100 and a score of 80 or more indicates an acceptable level of risk. However, scores of 40 or less suggest that the level of risk is probably unacceptable and companies should think carefully before commencing business in countries with this sort of score.

TECHNOLOGICAL FACTORS

You will be well aware that there has been a rapid growth in the speed of technological advancement over the recent decades. One of the remarkable features of this has been the way in which access to advanced technology has spread from one or two countries to many countries around the world. It is now not unusual to see people, without what many cultures would perhaps consider the essentials for existence, using computers in offices and shops, communicating by mobile telephone and watching television programmes via satellite. Wide variations in technology between countries are less a feature of the international environment than is the case with legal, economic and political factors.

This has partly been the result of the development of multinational and transnational companies and partly the result of government intervention.

- The practice of multinational companies basing their operations in those countries around the world that provide the best returns has increasingly meant that countries with low costs for labour and for factory and office sites are being used to produce components and sometimes the final assembled product. As part of this process, a great deal of technology transfer takes place. Many NICs and LDCs have benefited from the acquisition of technological and production-process know-how.
- In addition, governments in many countries have encouraged the development of "high-tech" industries and investment in education and training to ensure a competent, skilled workforce as a means of accelerating economic growth and to reduce levels of unemployment..

The availability of technology is, therefore, less based on a few countries, although it would be true to say that some countries have a much wider range of advanced technology than others.

DECIDING ON THE MARKETING PROGRAM – Marketing Mix Elements

PRODUCT and PROMOTION

Warren Keegan has distinguished five adaptation strategies of product and communications to a foreign market.

	Product		
Communications	Do not change product	Adapt Product	Develop New Product
Do not change Communications	Straight Extension	Product Adaptation	Product Invention
Adapt Communications	Communication Adaptation	Dual Adaptation	

PRICING

Multinationals must deal with several pricing problems – price escalation, transfer prices, and dumping charges. Companies have three choices for setting prices in different countries:

- Set a uniform price everywhere
- Set a market-based price in each country
- Set a cost-based price in each market

DISTRIBUTION

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