

Module 2

The International Marketing Milieu

Introduction

This module covers the following themes:

- The international business environment
 - Social
 - Political
 - Legal
 - Cultural
- The regionalisation of countries and rise of the trade blocs:
Increasing role of the RTAs
- WTO: The new world order
- Market entry modes and strategy
 - Objectives of market entry
 - Modes of entry into foreign markets
 - Selecting the appropriate entry mode
 - Trends in global sourcing strategy

Upon completion of this module you will be able to:



Outcomes

- *discuss* the dynamics of the international business environment.
- *explain* how the various facets of environment affect the decision-making process for any firm to go global.
- *describe* and apply the various tools and techniques used by organisations for managing the global business environment.
- *explain* the regionalisation of the countries and the rise of the trade blocs.
- *discuss* the various types of trade blocs and the prevailing norms of the global perspective required for the marketing effort.
- *discuss* the role and importance of WTO as the new world order and its impact on the marketing framework and planning.
- *identify* and apply the issues, tools and techniques in product and market selection process.
- *distinguish* between the market entry modes and help develop strategies to enter into any given market.



Terminology

Culture:	The underlying value framework that forms an individual's behaviour.
Regionalisation:	Threatening regions of the world as the new standardisation unit.
High Context cultures:	Cultures in which context is at least as important as what is said.
Low Context cultures:	Cultures in which most information is contained explicitly in words.

Lesson notes³

The global business environment is rapidly changing and most organisations have to be fully cognisant of their environment to adjust and adapt to the vagaries of these environmental changes. The context of environment here relates to the economic, political, technological, social and cultural factors surrounding any given enterprise. The context of environment to conduct business in a country largely depends on the economic systems and the stages of economic development that the economy or the country in question has been through. Take for instance the CIS (Commonwealth of Independent States), which is an amalgamation of the break-up countries from the former USSR. The current economic systems and the way the new economy has shaped itself have its roots in the past. For instance, some of the South East Asian countries actually started liberalising in the mid-1940s, the fruits of which are being borne today by most of them. It is important for you to understand how the origin of the country's economic system has been laid so that the future roadmap is clear. China, Japan, Korea or for that matter India, are all examples of economic policy frameworks drawn from stages of their development. Economic systems and types are discussed in depth in this module.

The context of environment and how it affects the process of economic growth raises concerns for international marketers, who seek to identify tools and techniques for scanning the market environment and develop entry and operating mechanisms accordingly. The social and cultural environment focuses on the softer issue of how social and cultural traits are embedded in the society. This becomes relevant when planning a marketing programme. Issues of communication and promotion have to integrate social and cultural factors, particularly in a cross cultural setting, such as a company moving to another country. In this case, culture and social settings might change. While studying the case of Euro Disney, you will learn how the company's inability to adapt to the local social and cultural setting resulted in substantial losses in the initial years of operation. The legal and regulatory frameworks are more apparent and

³ Participants to the programme are encouraged to read the article, *Apparel Exports from Bangladesh: Brilliant Entrepreneurship or Spurious Success?* By Quddus, Munir, Journal of Asian Business 12, no. 4 (1996), pp. 51-70.

very often comprise written laws. Organisations hire legal experts and advisors to unravel the local laws and by-laws so that they can operate in a more hands-on and hassle-free way. Often, lack of understanding or awareness of local laws can lead to organisations getting involved in expensive arbitration and dispute settlements, which can hamper the organisational growth process.

After analysing the environmental context of any country, it is also important to understand the norms of global trade and integration. The first prevailing norm seems to be the rapid rise of regionalisation of countries. More and more countries are coming together owing to their geographical proximity or because of the commonness in their cultural and social past. The conventional blocs like ASEAN (Association of the South East Asian Nations), NAFTA (North American Free Trade Agreement) and the more evolved EU (European Union) have paved the way for relatively newer integrations like MERCOSUR⁴, SAPTA, GCC, GMS, and Andean Community to name a few. Perhaps the spurt of regionalisation may not have an immediate impact on the nation or the bloc which comes together; however, it does help countries to find a better footing while negotiating internationally. With the advent of the WTO⁵, the new world trade order reinforces the fact that nations are increasingly coming together to battle new and complex issues in modern business. The growing importance of WTO and its role as an apex body for governing international trade has led to a large number of nations internally developing new mechanisms to understand and operate as per WTO guidelines. How does WTO impact international marketers? For one, WTO as a mechanism for trade regulation and dispute settlement implies that the whole approach to modern business is more structured and the certainty aspect in international trade is more pronounced. This helps marketers access and address markets with more confidence and from the host country perspective, the issues of exploitation and misuse of resources etc. are largely curtailed.

The last part of this module focuses on applying concepts used by marketers to enter any given market: namely, environment issues, the WTO context and regionalisation. The decision to enter any market and the strategy behind that decision is identified. From the indirect export mechanism to the context of green field investments, the continuum of risk to profit covers a wide range of entry modes. What will be critical points for the marketer to decide, the range of risk that she is willing to take and what are the future opportunities that the market holds out for her? If projections show dismal results for the market, perhaps it would be advisable to reduce the risk of entry and the entry mode chosen may be one that favours lower levels of commitment. However, if the market holds potential and the opportunities for business growth are high, one can expand more comprehensively. Entry modes amplify the options that

⁴ Mercosur: Southern Common Markets (Mercado Común del Sur), SAPTA: Saarc Preferential Trade Agreement, GCC: Gulf Cooperation Council, GMS: Greater Mekong Region, Andean Community: Comunidad Andina

⁵ World Trade Organisation



a marketer has for entering any given market based on the limitations and merits of the market.

Reading: Chapters 2 and 3



Reading

Reading: Keegan Chapters 2 and 3

You should now read Chapters 2 and 3 of the Keegan text (Global Marketing).



Note it!

In applying your understanding of this material, you should take note of the following:

- The first aspect of the chapter deals with the **global economic environment and the economic systems which govern most nations today**. This part also delves in depth into macro-economic issues and how its indicators are relevant measures of a stable country's environment. The balance of payment, per capita income, purchasing power parity and the level of economic development are all very important measures for a country to be ranked as a developed, developing or least developed country. In addition, there are the big emerging markets like China, India, Brazil, South Africa, Mexico and Russia, where the standard economic indicators may not be the best measure of the country's health.
- The second part of the discussion in this chapter focuses on **economic systems like capitalism, socialism and the mixed economies that may characterise different countries**. The historical origin of economic systems lays the foundation for the modern economy. This section also gives a detailed analysis of various economies and how their economic systems have evolved over a period of time, besides the current norms of today.
- Chapter 3 of the chapter discusses **modern economic organisations like WTO**. From the days of Bretton Wood⁶ institutions to the IMF, the world trade order has now become more organised and there are mechanisms for better trade control. This section on WTO discusses WTO in terms of its role and function. You are expected to familiarise yourself with the basics and then relate its role and relevance in the international marketing framework.

⁶ **Source:** The **Bretton Woods system** of monetary management established the rules for commercial and financial relations among the world's major industrial states in the mid-20th century. The Bretton Woods system was the first example of a fully negotiated monetary order intended to govern monetary relations among independent nation-states.

- Chapter 3 also refers to **world trends in trade in merchandise and services**. The global movement of goods and services are extremely relevant for marketers and has changed significantly over time. Regional market characteristics and preferential trade agreements form a major part of discussion in this section of the chapter. This theme is then followed by the overview of international finance, which provides exposure to important concepts of the foreign exchange market dynamics, exchange rate exposure and economic exposure as well as inputs to manage these.

Reading: Chapters 4 and 5



Reading

Reading: Keegan Chapters 4 and 5

You should now read Chapters 4 and 5 of the Keegan text (Global Marketing, 4th edition).



Note it!

In applying your understanding of this material, you should take note of the following:

- Chapter 4 covers **basic aspects of society and culture**. An important part of the discussion in this section is the global consumer culture. The Geert Hofstede's cross cultural model for understanding and managing two different cultures is an important part of the discussion. Participants must take note of the model that elaborates the high and low context cultures and various factors/dimensions on which the high and the low context dimension of the culture are assessed. The section also discusses how contemporary marketers are considering the unification of culture for a more focused segmentation approach to the market. Several cultural issues such as food, clothing and language as important departure points for different cultures around the world are also discussed in this section.
- Social behaviour and its process are also discussed in the **anthropological context of the society** and how it is relevant to marketing decisions. The context of Maslow's need hierarchy theory and its relevance for different cultures provides an interesting dimension of sociocultural environment.
- Chapter 5 discusses the **political, legal and the regulatory framework factors** which are important determinants of the environment. The political aspect of the discussion first starts with the concept of nation states and sovereignty. It talks about how organisations have been able to integrate the political system of the country and its philosophies into workplace conditions. The other aspect discussed is the role and nature of political risks. For most firms doing business in host countries, there is some form of political risk attached. This is in context of stability, favourability and the



overall vision that the government in power generates. Often, political instability may be a direct reason for entry or non-entry of multi-national corporations into any given country. Particularly, for large investments, the stability factor is significant to the long term presence of the company in the host nation.

- In the same context as political risk, **the legal environment is also critical for companies**. Very often, companies engage the services of industry experts and advisory organisations to verify and scan through the legal framework of the country before the company physically sets foot into it. Aspects of Intellectual Property, Patents, Trademarks and Copyrights are all important parts of the discussion. The chapter also discusses how countries have developed guidelines to combat any form of violation. Local antitrust laws and by-laws, licensing issues and trade secrets are important elements in deciding the overall environment as being a protected and safe economy into which investment could be considered.
- On the aspect of legal environment, another aspect of importance is the issue of **conflict resolution, dispute settlement and litigation**. What are some of the redressal mechanisms in operation and the time and physical costs expected in the settlement process? This is often an aspect ignored by companies and may result in heavy litigation expenditures. It is important to assess the alternatives available to litigation and the cost factors involved in these alternatives.
- The last part of this chapter emphasises **the regulatory environment of the business**. The regulatory environment consists of a variety of governmental and nongovernmental agencies that enforce laws or set guidelines for conducting business. These regulatory agencies address a wide range of marketing issues like price control, valuation of imports and exports, trade practices, labelling, food and drug regulations, employment conditions, collective bargaining, advertising content and competitive practices.

Reading: Chapters 8 and 9



Reading

Reading: Keegan Chapter 8 and 9

You should now read Chapter 8 and 9 of the Keegan text (Global Marketing, 4th edition).



Note it!

In applying the knowledge gained through this material, you should take note of the following:

- **Global Market Entry strategies are an important part of the Global Marketing framework.** For large-sized organisations and for the SME⁷ the process of entering any given market is critical to the long term strategy. From direct exports to green field investments the process of entering any given market is a function of the risks and investments in the given market, which is directly related to the returns one can get. (Chapter 8)
- **Exporting is at the bottom of the pyramid when it comes to entering any market.** Most global marketers, even the large multinationals are wary of exposing themselves to risk in any market. The initial testing of waters through exporting and then the gradual expansion in the host country is the most preferred option. This is why export remains the preferred option as it gives limited risk exposure, though with limited returns. However, it helps to provide meaningful insights into markets and enables companies to plan accordingly.
- **As discussed in chapter 9, licensing is a contractual arrangement,** whereby one company (the licensor) makes a legally protected asset available to another company (the licensee) in exchange for royalties, license fees or some other form of compensation. The licensed asset may be a brand name, company name, patent, trade secret or product formulation. Licensing offers advantages of limited risks and maximum returns. However, the brand name's reputation is very important for the kind of returns one expects to get. Today, licensing represents a popular market entry option, with larger geographic markets to capture and less physical control possible.
- **Joint ventures with local partners** represent a more extensive form of participation in foreign markets than either exporting or licensing. It is a strategy targeted towards a single market in which the partners share ownership of a newly created business entity. The strategy is effective when both partners agree to risk sharing and when home country company brings in the advantage of close familiarity with the host country environment.
- The last, high risk and high growth strategy involves the **investment via ownership or equity stake.** This results in 100 per cent ownership often in the form of an acquisition or a **green field investment.** The acquisition mode is very often and loosely referred to as **brown field investment.**

⁷ SME: Small and Medium Enterprises



Activity 2.1



Activity

1. Divide the class into two teams to debate the pros and cons of any trade bloc of your choice. The teams will research the trade bloc and discuss its history as well as its importance in today's trade scenario.
2. The president of XYZ Manufacturing Company of Buffalo, New York, comes to you with a license offer from a company in Osaka. In return for sharing the company's patents and know-how, the Japanese company will pay a license fee of 5 per cent of the ex-factory price of all products sold based on the U.S. Company's license. The president wants your advice. What would you tell him?

Activity 2.2



Activity

Internet Exercise: www.internationalist.com

Please go to the homepage of The Internationalist. Here you can start to explore the world. Browse through the site and then click on International Business. Click on 2-3 countries that interest you. Write a one-page impression of your findings regarding the culture of these countries and be prepared to discuss those findings with the class.

Summary



Summary

In this module, you learned:

- The dynamics of the international business environment.
- The decision-making process that a firm experiences when going global.
- The various tools and techniques used by in managing the global business environment.
- The various trade blocs and regionalisation of the countries.
- The World Trade Organization (WTO), the new world order and its impact on the marketing framework and planning.
- The different market entry modes and strategies to enter a selected market by the organisation.

Assignment



Assignment

Case Study: Ecuador Adopts the Dollar

Read through the case study entitled, *Ecuador Adopts the Dollar* on pages 112-114 of the Keegan text and respond to the following questions:

1. Do you agree with President Muhuad's decision to dollarise Ecuador's economy?
2. What market opportunities does Ecuador offer?
3. What steps should policymakers in Ecuador and other countries take to further decrease the production of crops that supply the drug trade?
4. President Gutierrez must find a way to balance the imperatives of economic development while maintaining a social safety net and preserving Ecuador's unique natural resources. What course of action should he take?

Submit your responses to the case study questions to your instructor or tutor for evaluation.



Assessment



Assessment

1. Explain the differences between market capitalism, centrally-planned capitalism, centrally-planned socialism, and market socialism. Give an example of a country that illustrates each type of system.
2. How do market reforms and nascent capitalism create opportunities for large scale investments by global companies?
3. What are some of the elements that make up culture? How do these find expression in your native culture?
4. Briefly describe some of the differences between the legal environment of a country that embraces common law and one that observes civil law.
5. When do companies move from exporting or licensing to investing?
6. How does Foreign Direct Investment affect economic policy of a country? What forms can FDI take?