CENGAGE

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INTERNATIONAL MARKETING STRATEGY

Analysis, Development and Implementation

PART I: ANALYSIS

AIMS AND OBJECTIVES

Knowledge and an understanding of the markets in which companies operate are important for all business activities. In international markets, because of geographical distances and the complexities of operating in a number of disparate markets where risk and uncertainty are high, the need for knowledge and understanding becomes of paramount importance. It is this issue that is central to Part I of this book. The chapters in this section concentrate on helping the reader generate a greater understanding of the concepts of the international marketing process and the international environment within which companies operate. It aims to extend the range of understanding in order to enable the reader to deal with international marketing situations and to develop the skills to analyze and evaluate non-domestic markets, which in turn will enable their firms to compete effectively in world markets.

In Chapter 1 we focus on the international marketing environment. The book uses the SLEPTS approach to understand the complexities of external influences on international marketing, thus enabling the reader to acquire an appreciation of marketing on an international basis. We examine what is meant by international marketing and introduce the reader to the international market planning process. We also examine the reasons for success and failure in international marketing strategies and the characteristics of best international marketing practice.

In Chapter 2 the focus is on gaining an understanding of the world trading environment. We first examine, at a macro level, the development of international trading structures and the changes in trading patterns, as well as reviewing the major international bodies formed to foster world trade. The evolution of trading regions is analyzed and the implications for international marketing companies assessed.

In Chapter 3 we take a fairly detailed look at the social and cultural influences in international marketing. The components of culture are examined, together with the impact of these components on international marketing. We then look at how cultural influences impact on buyer behaviour across the globe both in consumer markets and in business-to-business markets and discuss methods that can be used to analyze cultures both within and across countries.

In Chapter 4 the focus is on the identification and evaluation of marketing opportunities internationally. Segmentation of international markets and how to prioritize international opportunities are discussed. The marketing research process and the role it plays in the development of international marketing strategies are also examined. The different stages in the marketing research process are discussed, with particular attention being paid to the problems in carrying out international marketing research in foreign markets and coordinating multi-country studies.

CHAPTER 1

AN INTRODUCTION TO INTERNATIONAL MARKETING

LEARNING OBJECTIVES

After reading this chapter you should be able to:

- Explain and use the SLEPTS factors to assess international markets
- Discuss the differences between export marketing, international and global marketing
- Understand the criteria required to evaluate a company's international marketing strategy
- Appreciate the key steps in the international marketing planning process

INTRODUCTION

Managers around the globe are recognizing the necessity for their companies and organizations to develop the skills, aptitudes and knowledge to compete effectively in international markets.

The fact that the world economy is open and interdependent, plus the globalization of consumer tastes and the unabated expansion of mobile Internet applications, which can be downloaded to smartphones to perform all kind of feats from social networking to online banking, all increase the interdependency and interconnections of country economies across the globe. The need for managers to develop the skills to maximize the opportunities such technological developments bring, impacts on companies of all shapes, sizes and sectors.

In this chapter, readers will be introduced to the concepts of international marketing, enabling them to acquire an appreciation of the complexities of marketing on an international basis and how this activity differs from operating purely in domestic home markets. In the following sections we will define international marketing, examine the important trends in the global marketing environment, and introduce the reader to the international marketing strategy development and international marketing planning process.

The strategic importance of international marketing

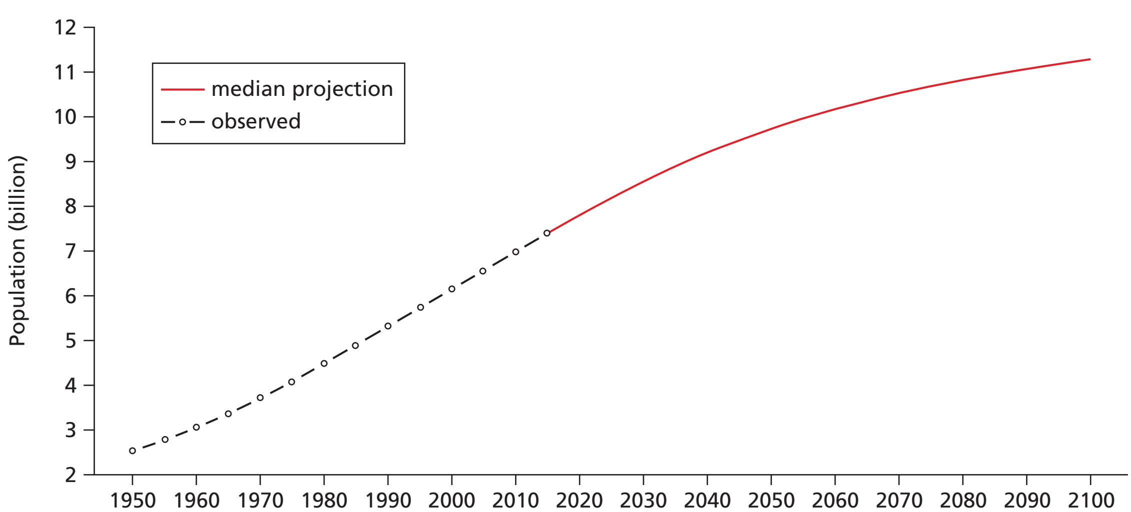
The dollar value of **world trade** in merchandise exports is up based on 2017 data and now stands at US$17.2 trillion, an annual increase of 11 per cent. Similarly, world trade in commercial services exports has also increased and now stands at US$5.25 trillion, an increase of 7 per cent, again based on data from 2017 (World Trade Organization 2018). It is almost impossible to visualize such large amounts of money; however, it does serve as an indication of the scale of **international trade** today.

The world's population consisted of 7.6 billion people in 2017. The population is expected to rise to 9.8 billion by 2050 and could rise to 11.2 billion by 2100 (United Nations 2017). The population rate is not growing as fast as it used to. In fact, in 2007 the global population was growing around 1.24 per cent per year. Today's level (2017) is slightly lower with the population growing at a rate of around 1.10 per cent per year. However, the population is still growing, in part because in some countries, large families are still customary and people are living longer. Having said that, the United Nations predicts that by 2100 the population of the world might begin to plateau and possibly start to decline (see Figure 1.1).

Figure 1.1 shows that overall the global population will continue to rise but at a slower pace; populations in some countries will continue to grow while declining in others. For example, it is expected that 47 of the least developed countries, such as Burundi, Somalia and Zambia, will continue to have high growth in their populations. However, around 51 countries around the world, including Bulgaria, Croatia and Romania, will see their population reducing by around 15 per cent by 2050. What is interesting is by 2050 just nine countries will accommodate 50 per cent of the world's population.

The last few years have also seen a worldwide increase in personal wealth. Personal wealth means the total value of an adult's non-financial (usually land and housing) and financial assets less the debts that a person owes. Wealth per adult rose by 4.9 per cent, suggesting that an average adult's wealth is US$56 540, with United Kingdom (UK) adults being a high income country, enjoying US$278 038. Yet for low income countries such as Gambia, adult wealth is US$898 and in Ethiopia US$153. Despite the differences all regions have shown an increase in wealth per adult since 2000 when records of this nature began (Credit Suisse 2017). Within regions there are differences in wealth. This can be seen when comparing the UK average adult wealth of US$278 038 with the European average wealth, which is US$135 163. Similarly, the percentage share of the world's total wealth is not equally distributed, with North America accounting for 36.0 per cent and Europe 28.4 per cent. China, the country whose adult population is the

FIGURE 1.1 Population of the world 1950–2100, according to different projections and variants



Source: United Nations, Department of Economic and Social Affairs, Population Division (2017). World Population Prospects 2017 – Data Booklet (ST/ESA/SER.A/401). Copyright © [2017] United Nations. Reprinted with the permission of the United Nations.

highest, accounts for 10.3 per cent of the world's total wealth. The increase in worldwide adult wealth suggests to the marketer that there is a general increase in demand for goods and services. Increasing affluence and commercial dynamism from nations such as China, Brazil and countries across Eastern Europe, means that consumers actively seek choice, with the result that globally competition is intensifying as companies compete to win the battle for disposable income.

Population growth and increased affluence together have helped create a **global youth culture** which accounts for approximately 30 per cent of the population globally. In many countries, more than half the population is pre-adult, creating one of the world's biggest single markets, the youth market. Everywhere adolescents project worldwide cultural icons: Coca-Cola, Apple, YouTube and Nike. Social networking in the forms of Facebook, Instagram and SnapChat are all now commonplace, creating a one-world youth culture market that potentially can exceed all others as a premier global market segment. Parochial, local and ethnic products may not satisfy the international culture and identity young people seek.

Older consumers are also increasingly transnational in their consumer identity. They drive globally produced cars, take worldwide holidays, watch programmes from across the globe on television, use globally developed technology and are increasingly plugged into the online digital media technology previously only used by the younger generation. On the supply side, transnational corporations are increasing in size and embracing more global power. The top 500 companies in the world account for 70 per cent of world trade and 80 per cent of international investment. Total sales for multinationals are now in excess of world trade, which gives them a combined gross product of more than some national economies.

To strategically position themselves for global competitiveness, companies are consolidating through mergers, acquisitions and alliances to reach the scale considered necessary to compete in the global arena. At the same time, there is a trend towards global standardization as companies strive for world standards for efficiency and productivity. With over a third of businesses worldwide considering growing their businesses through M&A, there will be many international marketing opportunities riding on the back of that (Consultancy.uk 2015). In 2017 the mergers and acquisitions total volume of dealmaking peaked at $3.5 trillion, trending upwards for the fourth year in a row (*FT* 2018). Some of the interesting deals made in 2017 included giant brands such as Facebook buying Instagram, the sale of the 21st Century Fox empire to Disney and the acquisition of Whole Foods by Amazon. It is anticipated that big brand M&As will increase in the coming years suggesting businesses are looking outside country borders and diversifying into multiple product portfolios.

In the telecommunication market, the French company Altice is an example of an organization growing its business both locally and cross-border. In 2015, Altice acquired SFR, a domestic French-based mobile communication company. Other organizations look further afield, with some seeing Turkey as a good place in which to do business. The Commercial Bank of Qatar looked to Turkey as part of their international strategy and joined forces with Alternatifbank AS in Turkey with an acquisition of over 70 per cent. The Japanese company Panasonic also entered Turkey when they acquired Viko, an organization that supplies electrical wiring equipment. Panasonic was not only interested in acquiring a local company to make and supply wires for its household electronic equipment, it sees this strategic move as an opportunity to break into the Russian and African markets. Panasonic is not the only Japanese organization to expand internationally. During 2016 China looked outward and bought many global assets including Syngenta, the producer of agrochemicals and seeds, and more 'trophy' assets such as football clubs, film productions companies, hotels and tourist resorts. In fact, for the first time, Chinese companies overtook US ones in terms of buying global assets (by value). However, it is expected that from 2018, Chinese companies will invest more heavily domestically and encourage two-way investment with companies with whom they currently do business.

The global marketplace is no longer the summation of a large number of independent country markets but much more multilateral and interdependent: economically, culturally and technically. Money, information and corporate ownership move seamlessly throughout the world. The ease of doing transactions and transmissions are facilitated by the convergence of long distance telecoms, cuts in the cost of electronic processing and the exponential growth in Internet access.

The combination of these forces has meant that all companies need to develop a marketing orientation which is global in nature. Companies also need managers who have the skills to analyze, plan and implement strategies across the world. It is for these reasons that international marketing has become such a critical area of study for managers and an important component of the marketing syllabus of business faculties in universities.

So perhaps now we should turn our attention to examining exactly what we mean by international marketing.

What is international marketing?

Many readers of this textbook will have already followed a programme of study in marketing. But, before explaining what we mean by international marketing, let us reflect for a few moments on our understanding of what is meant by marketing itself. The Chartered Institute of Marketing defines marketing as the 'Management process responsible for identifying, anticipating and satisfying customer requirements profitably'. Thus, marketing involves:

- focusing on the needs and wants of customers
- identifying the best method of satisfying those needs and wants
- orienting the company towards the process of providing that satisfaction
- meeting organizational objectives.

In this way, it is argued, the company or organization best prepares itself to achieve competitive advantage in the marketplace. It then needs to work to maintain this advantage by manipulating the controllable functions of marketing within the largely uncontrollable, external marketing environment made up of the SLEPTS factors, i.e. **S**ocial, **L**egal, **E**conomic, **P**olitical, **T**echnological and **S**ustainable.

How does the process of international marketing differ? Within the international marketing process the key elements of this framework still apply. The conceptual framework is not going to change to any marked degree when a company moves from a domestic to an international market; however, there are two main differences. First, there are different levels at which international marketing can be approached. Second, the uncontrollable elements of the marketing environment are more complex and multidimensional, given the multiplicity of markets that constitute the global marketplace. This means managers have to acquire new skills and abilities to add to the tools and techniques they have developed in marketing to domestic markets.

International marketing defined

At its simplest level, international marketing involves the organization making one or more marketing mix decisions across national boundaries. At its most complex, it involves the organization in establishing manufacturing/processing facilities and coordinating marketing strategies across the world. At the one extreme, there are organizations that opt for 'international marketing' simply by signing a distribution agreement with a foreign agent who then takes on the responsibility for pricing, promotion, distribution and market development. At the other, there are huge global companies, such as Ford and Ben and Jerry's, with an integrated network of manufacturing plants worldwide who operate in around 150 and 40 country markets, respectively. Thus, at its most complex, international marketing becomes a process of managing on a global scale. These different levels of marketing can be expressed in the following terms:

- *Domestic marketing*, which involves the company manipulating a series of controllable variables. These include price, advertising, distribution and the product/service attributes in a largely uncontrollable external environment. This environment is made up of different economic structures, competitors, cultural values and legal infrastructures within specific political or geographic country boundaries.

- *International marketing*, which involves operating across a number of foreign country markets. Here, uncontrollable variables differ significantly between one market and another, but the controllable factors in the form of cost and price structures, opportunities for advertising and distributive infrastructure, are also likely to differ significantly. It is these sorts of differences that lead to the complexities of international marketing.
- *Global marketing management*, which is a larger and more complex international operation. Here a company coordinates, integrates and controls a whole series of marketing programmes into a substantial global effort. The primary objective of the company is to achieve a degree of synergy in the overall operation. By so doing, it can take advantage of different exchange rates, tax rates, labour rates, skill levels and market opportunities. As a result, the organization as a whole will be greater than the sum of its parts.

This type of strategy calls for managers who are capable of operating as international marketing managers in the truest sense, a task which is far broader and more complex than that of operating either in a specific foreign country or in the domestic market. In discussing this, Doyle (2017) suggests international marketing managers have dual responsibilities to the parent brand and the local needs of consumers in a foreign country. She says, 'You can carry on with the same global architecture of your idea [brand], but you need to bring this . . . [brand] . . . into the local market with relevance. You need to make sure to offer the ideas differently for each market.' She therefore emphasizes that international brands must be managed by staying true to their values and goals. So, international marketing managers must coordinate marketing efforts in multiple countries, combining domestic and foreign markets, and standing out . . . in a highly competitive marketplace.

Thus, how international marketing is defined and interpreted depends on the level of involvement of the company in the international marketplace. International marketing could therefore be:

- **Export marketing**, in which case the firm markets its goods and/or services across national/political boundaries, often without any adaptations to the goods and/or services. Generally, exporting begins with neighbouring countries that have similar laws, regulations and consumer culture.
- **International marketing**, where the marketing activities of an organization include activities, interests or operations in more than one country. There is usually some kind of influence or control of marketing activities from outside the country in which the goods or services will actually be sold. Sometimes markets are typically perceived to be independent and a profit centre in their own right, in which case the term multinational or multi-domestic marketing is often used.
- **Global marketing**, in which the whole organization focuses on the selection and exploitation of global marketing opportunities. It marshals its resources around the globe with the objective of achieving a global competitive advantage.

The first of these definitions describes relatively straightforward exporting activities, numerous examples of which exist. However, the subsequent definitions are more complex and more formal. They indicate not only a revised attitude to marketing but also a very different underlying philosophy. Here the world is seen as a market segmented by social, legal, economic, political, technological and sustainable (SLEPTS) groupings.

In this textbook, we will incorporate the international marketing issues faced by firms, be they involved in export, international or global marketing.

For all these levels, the key to successful international marketing is being able to identify and understand the complexities of each of these SLEPTS dimensions of the international environment and how they impact on a firm's marketing strategies across their international markets. As in domestic marketing, the successful marketing company will be the one that is best able to manipulate the controllable tools of the marketing mix within the uncontrollable, external environment. It follows that the key problem faced by the international marketing manager is that of coming to terms with the details and complexities of the international environment. It is these complexities that we will examine in the following sections.

At this point it is also useful to refer to the concept of the internationalization of an organization, widely discussed in the academic literature. There are a number of definitions of internationalization, much research and many different theories on the subject, which are too extensive to cover here. Moreover, the sheer complexity of international marketing suggests that all the theories have limitations. We have introduced some, but by no means all, theories in Table 1.1 and invite discussion.

Table 1.1 Theories of internationalization

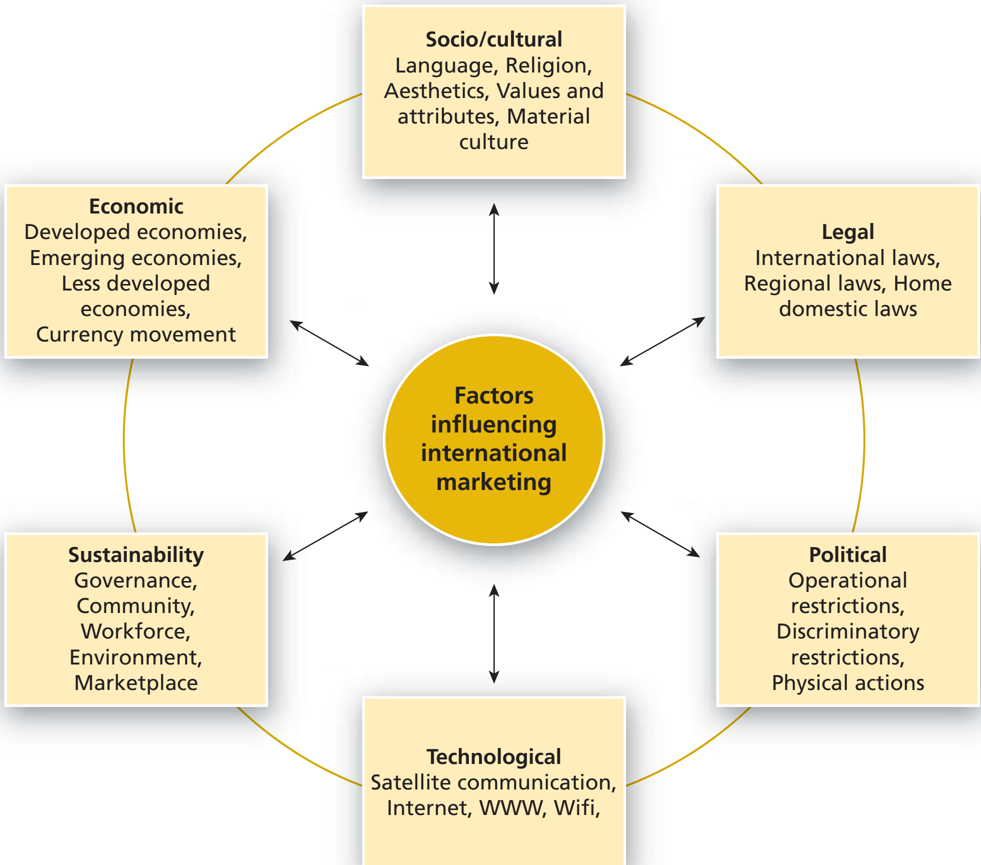
Definition of internationalization The method of adapting an organization's operations to foreign environments.
Internationalization process theories From the brief introduction in this chapter, the reader should undertake research to gain an understanding of the key aspects and limitations of the theories. The theories that probably (but not always) work best with multinational enterprises (MNEs) are the economic and behavioural approaches. Smaller firms, on the other hand, often adopt a network/relationship approach or a 'born global' approach.
Economic model With a base in the economics of organizations and markets, Transaction Cost Theory focuses on the cost of taking part in a market (from start to finish). It is based on whether the external transactions are greater than the internal transactions. For example, an MNE internationalizes due to economies of scale and efficiencies. These result from better knowledge and technology and enable them to compete successfully against local organizations that have traditionally supplied the market. Dunning's (1988) Eclectic Theory provides a framework to explain the factors, incentives and configurations that drive MNEs in international markets. The theory seeks to answer the questions: should the firm enter foreign markets; in which markets should it invest; and how should it organize for the markets? An international version of the product life cycle might propose that after saturating the domestic market, further growth for the organization would require participation in foreign markets.
Behavioural model The Uppsala model proposes that firms build their knowledge in the domestic market, then start overseas operations in nations that are close culturally, geographically and in terms of religion. They should start with export-type approaches before progressing to more involvement in countries.
Network or relationship model This theory proposes that a network of long-term relationships among suppliers, customers, competitors, extended family, friends and other stakeholders provide the opportunity, support and motivation for internationalization. The relationships are dependent on technical, market knowledge, and economic interdependence, but maintaining personal relationships is key.
Born global model Organizations based on an innovation that appeals to global customers, use web-based communications technology to market their products and services to customers, anywhere in the world, from day one. They believe that it is necessary to build their global market before competition emerges. Born global firms tend to have leaders that create and transform companies through a clear, shared vision for the business. The leader is strong with an envisioning style that communicates and demonstrates a team spirit culture. He/she is someone who also empowers their team to take responsibility and collectively drive the business forward.

The international marketing environment

The key difference between domestic marketing and marketing on an international scale is the multidimensionality and complexity of the many foreign country markets a company may operate in. An international manager needs a knowledge and awareness of these complexities and the implications they have for international marketing management.

There are many environmental analysis models which the reader may have come across. For the purposes of this textbook, we will use the SLEPTS approach and examine the various aspects and trends in the international marketing environment through the social/cultural, legal, economic, political, technological and sustainability dimensions, as depicted in Figure 1.2. In this edition, we have added a sustainability dimension. Sustainability is about considering the impact of everything we do, be it sympathy for the biodiversity of a region in which we want to construct a factory, or the human rights of the workforce. This means encouraging a holistic way of thinking in our responses to the global marketing challenges we identify and assessing the impact of our marketing strategies – socially, economically and environmentally – in our approach to ensuring sustainability over the longer term.

FIGURE 1.2 Factors influencing international markets



Social/cultural factors

The social and cultural influences on international marketing are immense. Differences in social conditions, religion and material culture all affect consumers' perceptions and patterns of buying behaviour. It is this area that determines the extent to which consumers across the globe are either similar or different and so determines the potential for global branding and standardization.

A failure to understand the social/cultural dimensions of a market are complex to manage, as McDonald's found in India. It had to deal with a market that is 40 per cent vegetarian and where the population does not eat either beef or pork. They also have a hostility to frozen meat and fish, but with the general Indian fondness for spice. To satisfy such tastes, McDonald's discovered it needed to do more than provide the right burgers. Customers buying vegetarian burgers wanted to be sure that these were cooked in a separate area in the kitchen using separate utensils. Sauces such as McMasala and McImli were developed to satisfy the Indian taste for spice. Interestingly, however, these are now innovations they have introduced into other markets.

Cultural factors

Cultural differences and especially language differences have a significant impact on the way a product may be used in a market, its brand name and the advertising campaign, for example, Yong Fang Pearl Cream is a moisturising cream produced for Chinese women. The word Fang 芳 conjures up images of beauty in China; however, Western women would associate the word fang with the teeth of a wolf or a poisonous snake. So, they would shy away from products associated with possible danger. Images associated with words are just one element the international marketer must consider in terms of product management. Another cultural factor is the pronunciation of words. For example, Coca-Cola had enormous problems in China, as Coca-Cola sounded like 'Kooke Koula', which translates into 'A thirsty mouthful of candle wax'. The company managed to find a new pronunciation 'Kee Kou Keele' which means 'joyful tastes and happiness'. Companies that have experienced similar problems in Germany include Irish Mist, which introduced its drink brand, and Estée Lauder, who exported liquid make-up called Country Mist. The problem word was 'Mist', which is a slang word for 'manure' in Germany.

Pepsi Cola had to change its campaign 'Come Alive with Pepsi' in Germany as, literally translated, it means 'Come Alive Out of the Grave'. In Japan, McDonald's character Ronald McDonald failed because his white face was seen as a death mask. Products launched in France have not always been successful. When Apple launched the iMac in France it discovered the brand name mimicked the name of a well-established brand of baby laxative – hardly the image they were trying to project. An actual baby product by Gerber is sold in many countries, but not in France, as Gerber means 'vomit' in French.

Operating effectively in different countries requires recognition that there may be considerable differences in different regions. Consider northern Europe versus Latin Europe, the northwest of the USA versus the south, or Beijing versus Taipei. At the stage of early internationalization, it is not unusual for firms to experience what appear to be cultural gaps with their counterparts in the countries they are expanding into. This can be for West going East or the East going West. A campaign by Camay soap which showed a husband washing his wife's back in the bath was a huge success in France. It failed in Japan, however, not because it caused offence but because Japanese women viewed the prospect of a husband sharing such time as a huge invasion of privacy.

On the other hand, some commentators argue there are visible signs that social and cultural differences are becoming less of a barrier. The dominance of a number of world brands such as Apple, Burberry, Facebook, Mini Cooper, McDonald's, Holiday Inn and Google etc., all competing in global markets that generally transcend national and political boundaries, are testimony to the convergence of consumer needs and international acceptance of new words worldwide. However, it is important not to confuse globalization of brands with the homogenization of cultures. There are a large number of global brands but even these have to manage cultural differences between and within national country boundaries.

There are also a number of **cultural paradoxes** which exist. For example, in Asia, the Middle East, Africa and Latin America, there is evidence both for the westernization of tastes and the assertion of ethnic, religious and cultural differences. Companies such as Avon Cosmetics who sell directly through their own distributors are well placed to exploit such paradoxes in emerging markets. In Thailand, Buddhist monks are often seen in full traditional dress doing their online mobile banking with an app downloaded to their mobile phone, or taking selfies in front of one of the many historical statues. Thus, there is a vast and sometimes turbulent mosaic of cultural differences when buying, sharing experiences and giving product advice through the online global village or in cafes and tea shops around the world. Indeed, the social and commercial online borderless village enables organizations to promote their goods and services to consumers in different regions of the world simultaneously. In fact, 'born global' organizations, mostly niche small- and medium-sized enterprises, begin with a vision to *be* international from the moment they launch their brand. In 2016 Jean-François Gagné, an established entrepreneur, and Yoshua Bengioir, whose background is in artificial intelligence research, joined forces to form Element AI (Artificial Intelligence). Their goal is to 'push the limits of AI to make it much more flexible'. They do this with a team of scientists and engineers that works together with a worldwide client network. Element AI has the characteristics of growing fast, providing cutting edge AI solutions to businesses and debating the future of AI in journals and at conferences around the globe.

The social/cultural environment is an important area for international marketing managers. We will return to this subject in a number of chapters where we examine the various aspects of its strategic implications. Chapter 3 is devoted to a full examination of the social and cultural influences in international marketing. In Chapter 5 we will examine the forces driving the global village and its strategic implication for companies across the world.

Social factors

Growth and movement in populations around the world are important factors heralding social changes. Currently, of the world's population, 60 per cent live in Asia (notably 4.5 billion of the world's population of 7.6 billion), with 17 per cent living in Africa. In terms of countries, China and India have the highest populations with 1.4 billion and 1.3 billion, respectively, which accounts for 36 per cent of the world's population (United Nations 2017). This means nearly two out of every five people live in China and India. However, while world population is growing dramatically, the growth patterns are not consistent around the world. Examples of inconsistency are due to life expectancy and number of births.

Worldwide, the life expectancy at birth has changed in recent years, increasing from 65 years for men in 2000–2005 to 69 years in 2010–2015. For women, the life expectancy at birth has risen from 69 years to 73 years. Population life expectancy in some countries such as Australia, Hong Kong SAR (China) Island, Italy, Japan, Macao SAR (China), Singapore, Spain and Switzerland at present is around 82 years for both men and women. However, it is as low as 55 years for those living in other countries such as the Central African Republic, Chad, Côte d'Ivoire, Lesotho, Nigeria, Sierra Leone, Somalia and Swaziland.

It is also useful to note that continents have differing age densities. Some have a relatively young population and others an older population. Take for example Africa and Europe. In Africa 60 per cent of the population is under the age of 24 years old, whereas in Europe the average is 27 per cent. At the other end of the population scale 25 per cent of the population in Europe is 60 years and over, whereas in Africa it is 5 per cent. Globally, life expectancy for both sexes combined is projected to rise from 71 years in 2010–2015 to 77 years in 2045–2050 and around 83 years in 2095–2100.

The number of births per woman is another indicator that can help predict changes in the world's population. As shown in Figure 1.1 and indicated in Table 1.2, the population by 2095–2100 may stabilize or even fall. One of the reasons for this is the number of births per woman. In 2005–2010 the number of births per woman in the world was 2.57. This is predicted to fall to 1.97 by 2095–2100. The only continents where there is predicted to be an increase in the number of births per woman are Europe and North America. It is worth noting that the number of births per woman for the replacement of the population in the long term is around 2.1 births per woman.

It had been predicted that India would surpass China's population by 2028. However, the latest projections (United Nations 2017) show that in 2024, both India and China will have populations of 1.44 billion, with India exceeding China's population in 2030. China's population is predicted to decline slowly after the 2030s.

There are also visible moves in the population within many countries, leading to the formation of huge urban areas where consumers have a growing similarity of needs across the globe. In 2016, an

Table 1.2 Births per woman 2005–2010 to predicted 2095–2100

Region, country or area	Total fertility (live births per woman) 2005–2010	2025–2030	2095–2100
World	2.57	2.39	1.97
Africa	4.89	3.90	2.14
Asia	2.30	2.06	1.81
Europe	1.55	1.69	1.84
Latin America and the Caribbean	2.26	1.89	1.78
Northern America	2.01	1.87	1.91
Oceania	2.53	2.23	1.86

Source: United Nations, Department of Economic and Social Affairs, Population Division (2017). World Population Prospects: The 2017 Revision, Key Findings and Advance Tables. Working Paper No. ESA/P/WP/248. Copyright © [2017] United Nations. Reprinted with the permission of the United Nations.

estimated 54.5 per cent of the world's population lived in urban settlements. By 2030, urban areas are projected to house 60 per cent of people globally, and one in every three people will live in cities with at least half a million inhabitants.

What is even more interesting is the number of people living in *megacities*. Megacities are those with more than 10 million inhabitants. Currently there are 31 megacities, with Tokyo being home to 38 million people. Tokyo is predicted to have the highest population of residents in 2030 but with a slightly lower population of 37.2 million. New York, once one of the top megacities, is being overtaken by cities in India and China (United Nations 2016). Table 1.3 shows the 20 megacities of the world and the projections for the future. This has powerful implications for international marketing as these cities will provide a new type of consumer, particularly the urban dweller who requires faster, more convenient services and products, is highly connected online, tends to live in an apartment and seeks convenient transportation. The urban

Table 1.3 Top 20 megacities of the world and projections for the future

Rank	City, Country	Population in 2016 (thousands)	City, Country	Population in 2030 (thousands)
1	Tokyo, Japan	38 140	Tokyo, Japan	37 190
2	Delhi, India	26 454	Delhi, India	36 060
3	Shanghai, China	24 484	Shanghai, China	30 751
4	Mumbai (Bombay), India	21 357	Mumbai (Bombay), India	27 797
5	São Paulo, Brazil	21 297	Beijing, China	27 706
6	Beijing, China	21 240	Dhaka, Bangladesh	27 374
7	Ciudad de México (Mexico City), Mexico	21 157	Karachi, Pakistan	24 838
8	Kinki M.M.A. (Osaka), Japan	20 337	Al-Qahirah (Cairo), Egypt	24 502
9	Al-Qahirah (Cairo), Egypt	19 128	Lagos, Nigeria	24 239
10	New York-Newark, USA	18 604	Ciudad de México (Mexico City), Mexico	23 865
11	Dhaka, Bangladesh	18 237	São Paulo, Brazil	23 444
12	Karachi, Pakistan	17 121	Kinshasa, Democratic Republic of the Congo	19 996
13	Buenos Aires, Argentina	15 334	Kinki M,M.A. (Osaka), Japan	19 976
14	Kolkata (Calcutta), India	14 980	New York-Newark, USA	19 885
15	Istanbul, Turkey	14 365	Kolkata (Calcutta), India	19 092
16	Chongqing, China	13 744	Cuangzhou, Guangdong, China	17 574
17	Lagos, Nigeria	13 661	Chongqing, China	17 380
18	Manila, Philippines	13 131	Buenos Aires, Argentina	16 956
19	Guangzhou, Guangdong, China	13 070	Manila, Philippines	16 756
20	Rio de Janeiro, Brazil	12 981	Istanbul, Turkey	16 694

Source: United Nations, Department of Economic and Social Affairs, Population Division (2016). The World's Cities in 2016 – Data Booklet (ST/ESA/ SER.A/392). Copyright © [2016] United Nations. Reprinted with the permission of the United Nations.

dweller also wants to engage in many leisure and lifestyle experiences. For businesses, urban city dwellers are easily identifiable. Firms can communicate with them efficiently via advertising and communication tools on electronic billboards, social media and through geo-tracking technology.

Therefore, megacities are an attractive place to do business and to seek and attract new consumers. And with the likelihood of ten new megacities emerging by 2030 – Lahore (Pakistan), Hyderabad (India), Bogotá (Colombia), Johannesburg (South Africa), Bangkok (Thailand), Dar es Salaam (Tanzania), Ahmadabad (India), Luanda (Angola), Ho Chi Minh City (Vietnam) and Chengdu (China) – such cities are fertile ground for marketers. Some cities such as Paris (France) and London (UK) were once in the top ten megacities in the world. However, they are currently 25th and 29th respectively and are projected to fall further down the worldwide list of megacities by 2030 to 33rd and 36th.

Legal factors

Legal systems vary both in content and interpretation. A company is not just bound by the laws of its home country but also by those of its host country and by the growing body of international law. This can affect many aspects of a marketing strategy – for instance advertising – in the form of media

ILLUSTRATION 1.1

Megacities or mega digital: which will dominate in the future?

Market analysts and business models favoured the development of megacities. And it has long been expected that megacities will continue to grow to unimaginable sizes. It has been acknowledged that there are downsides to megacities such as:

- the huge displacement of millions of people
- unsustainable infrastructure
- large areas of inadequate slum-like housing
- poor air quality, and
- high numbers of socially fragmented citizens.

However, the opportunities for people who live and work in megacities are endless in terms of the different cultural experiences available, the variety of night and day-time entertainment, uber-modern technology and, of course, potential job opportunities.

In terms of economics, whether a developing or a developed country, those with cities populated with over 10 million citizens account for around one-third to one-half of the country's Gross Domestic Product. Megacities, therefore, are hubs that boost innovative ideas, growth and productivity. Indeed, clustering workforces within cities not only provides vibrant workspaces but leads to excellent economies of scale.

Despite the expected growth in megacities' businesses, workers and consumers are turning away from the megacities' professional services, manufacturing and retail spaces, and looking instead at digital opportunities. Digital opportunities for the manufacturing industry include 3-D printing to create anything from cars to sports training shoes and no longer need to cluster a large workforce. Shopping centres have always been located near cities, yet visits by consumers have declined by around 50 per cent as they prefer to browse and buy using smartphones and tablets.

Questions

1 In addition to 3-D printing and shopping online, what other digital activities will affect manufacturing and retail?

2 How should professional services such as doctors, dentists, banks or offices adapt and move from megacities to digital?

Reference: Lim, C.H. and Mack, V. (2017) Can the world's megacities survive the digital age? Available from: www.smithsonianmag.com/innovation/can-worlds-megacities-survive-digital-age-180964967/ (accessed 21 January 2018).

restrictions and the acceptability of particular creative appeals (see Illustration 1.2). Product acceptability in a country can be affected by minor regulations on such things as packaging and by more major changes in legislation. In the USA, for example, the MG sports car was withdrawn when the increasing difficulty of complying with safety legislation changes made exporting to that market unprofitable. Kraft Foods sells a product called Lifesavers, which is very similar to the Nestlé Polo brand, in many countries. Using EU law, Nestlé attempted to stop the sale of Lifesavers in the EU purely to protect their market share.

ILLUSTRATION 1.2

Product placement laws in films

Young people often look to film stars to be their role models. They know that film stars set trends in fashion and behaviour. Film stars, and the characters they depict, reach out from the screen and form 'para social' relationships with the audience. So close is this relationship that audiences, especially adolescents, suspend their everyday life to join the glamorous party, hang out with the rebels or join the space crew to explore the galaxy and save the world.

Many highly sought after branded products are placed, for a fee, within the film set to stimulate awareness and desirability, particularly when linked, even for a fleeting moment, with film heroes and villains. Viewers, therefore, associate products with behaviours they see in films. Sometimes in a film the character reaches for a cigarette to show they are being defiant, have had a hard day or just to be part of the crowd.

It is the depiction of smoking behaviour that worries organizations such as the World Health Organization, World Lung Foundation and the National Cancer Institute. It is declared, especially by cigarette companies, that smoking in films is not advertising. However, there are many that disagree and go on to say that the fact smoking is in films normalizes behaviour and influences young people to smoke.

Currently around 50 per cent of films contain smoking behaviour (this includes old and new films). Some governments have put sanctions in place to reduce and remove smoking behaviour and links to cigarette brands from films. In India, any film that includes scenes of characters smoking has to include a written health warning. Additionally, a 20-second video outlining the side effects that smoking has must appear at the beginning and in the middle of the film. In China, the State Administration of Radio, Film and Television (SARFT) has advised film and television drama producers to reduce the number of excessive smoking scenes. The Chinese authority also stated that young people (minors) cannot be seen buying cigarettes or being with people who are smoking.

Questions

1 What would be the benefits of having one set of laws and regulations for all countries to implement regarding smoking in films?

2 What would be the downside of having one set of laws and regulations for all countries to implement regarding smoking in films?

3 What other products that are placed in films should be governed by laws and regulations?

It is important, therefore, for the firm to know the legal environment in each of its markets. These laws constitute the 'rules of the game' for business activity. The legal environment in international marketing is more complicated than in domestic markets since it has three dimensions: (1) local domestic law; (2) international law; (3) domestic laws in the firm's home base.

- *Local domestic laws*: These are all different! The only way to find a route through the legal maze in overseas markets is to use experts on the separate legal systems and laws pertaining in each market targeted.
- *International law*: There are a number of international laws that can affect the organization's activity. Some are international laws covering piracy and hi-jacking. Others are more international conventions and agreements and cover items such as the International Monetary Fund (IMF) and World Trade Organization (WTO) treaties, patents and trademarks legislation and organizations such as the United Nations which developed the Universal Declaration of Human Rights that belongs to all people worldwide.
- *Domestic laws in the home country*: The organization's domestic (home market) legal system is important for two reasons. First, there are often export controls which limit the free export of certain goods (e.g. military items) and services to particular marketplaces. Second, there is the duty of the organization to act and abide by its national laws in all its activities, whether domestic or international.

It is easy to understand how domestic, international and local legal systems can have a major impact upon the organization's ability to market into particular overseas countries. Laws will affect the marketing mix in terms of products, price, distribution and promotional activities quite dramatically. For many firms, the legal challenges they face in international markets are almost a double-edged sword. Often firms operating internationally face ethical challenges in deciding how to deal with differing cultural perceptions of legal practices.

In many mature markets, they face quite specific and, sometimes, burdensome regulations. Following the Paris Climate Convention 2012, many countries are striving to implement environmental regulations and laws. These regulations and laws require a firm to be responsible for the retrieval and disposal of the packaging waste it creates and produce packaging which is recyclable. In many emerging markets there may be limited patent and trademark protection, judicial systems that are still being developed, non-tariff barriers and instability through an ever-evolving reform programme.

China earned notoriety in the past for allowing copyright infringements and blatant piracy. However, this is now changing. Some governments are reluctant to develop and enforce laws protecting intellectual property, partly because they believe such actions favour large, rich multinationals. Anheuser Busch (USA) and Budvar (Czech Republic) have been in constant litigation over the right to use the name Budweiser in the **European Union**, and both companies have recently been given the legal right to use it.

Piracy in markets with limited trademark and patent protection is another issue. One of the biggest challenges faced internationally is the use of unlicensed, therefore pirated, online streaming. The English Premier League was triumphant when it won an anti-piracy court order to block illegal access and streaming of football matches ahead of the 2017/18 football league. UK Internet Service Providers (ISPs) will receive a 'blocking order' to prevent illegal access and streaming of Premier League matches. So far over 5000 server IP addresses have been blocked together with associated and non-associated apps and add-ons being closed down. Broadcasting channel BBC 5 Live investigated the issue with sports fans and found that around half of the participants stated they had streamed a football match from an unofficial provider. Therefore, the anti-piracy court order and 'blocking order' will be of great benefit to BT Sports and Sky, who may see the return of paid subscribers to their sports channels. This, in turn, will contribute to the £5.136 billion (for three years) they pay for the rights to show football matches live (*BBC News* 2017).

India is regarded by many firms as an attractive emerging market beset with many legal difficulties, bureaucratic delay and lots of red tape. For example, pairs of shoes cannot be imported, which causes huge problems for shoe manufacturers who need to import shoes as production samples. By separating the pairs and importing each shoe to a different port, importers of shoes are using a loophole in the law and trying to overcome this problem. Coca-Cola has found the vast potential of India's market somewhat hard to break into. In 2014 one of Coca-Cola's bottling factories in the north of India, Uttar Pradesh, was ordered to close after local activists and farmers accused Coca-Cola of building the factory on land that belonged to the local council. They also claimed that Coca-Cola was taking too much water from the underground water table, making it difficult for agricultural farmers to grow their crops, and depositing polluted water which damaged the environment (*RT News* 2014). Similar battles began during 2017 in Tamil Nadu (south India) with retailers boycotting Coca-Cola, favouring local beverage products and accusing Coca-Cola of taking scarce water. At the same time Maharashtra's food and drink administration (western India) banned Coke Zero from McDonald's fast food outlets because there were growing concerns over the artificial sweetener contained in the drink and, more importantly, that there was no legal warning displayed on product packaging (*The National* 2017). When marketers research different countries to add to their international portfolio, the political squabbles, legal battles, bureaucratic delays and infrastructure headaches may be obstacles that need to be considered.

Economic factors

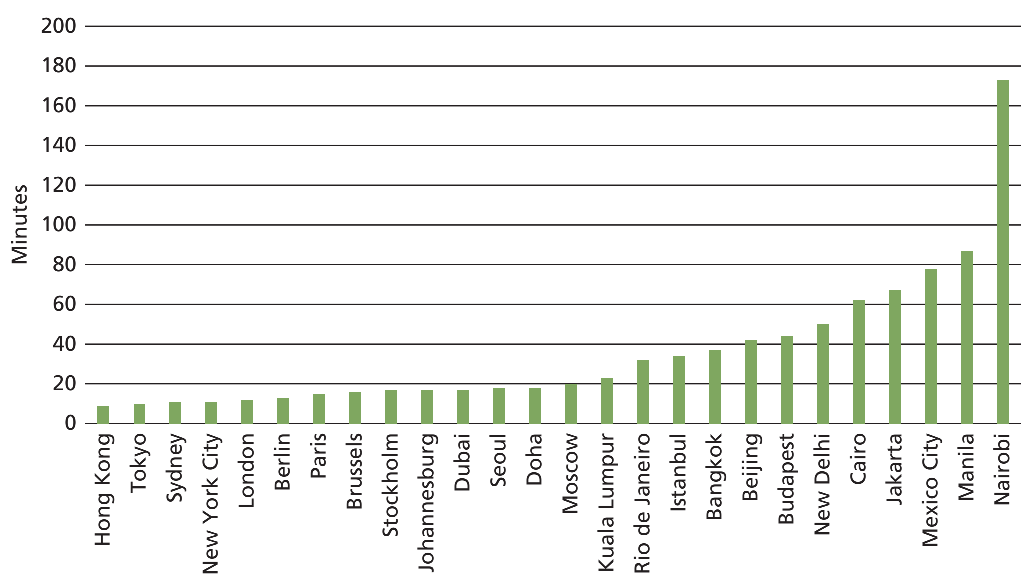
It is important that the international marketer has an understanding of economic developments and how they impinge on the marketing strategy. This understanding is important at a world level in terms of the world trading infrastructure. Such infrastructure includes world institutions and trade agreements developed to foster international trade, regional trade integration and at a country/market level. Firms need to be aware of the economic policies of countries and the direction in which a particular market is developing economically. In this way they can make an assessment as to whether they can profitably satisfy market demand and compete with firms already in the market.

Gross national income in the world is around US$70 trillion (2017). However, the gross national income of a nation is not shared equitably across the world, and the range across the globe is enormous. Among the 209 countries of the world, there are varying economic conditions, levels of economic development and **gross national income per capita** (GNIpc) at **purchasing power parity**, or PPP). For example, Qatar, with the highest figure, has a GNIpc (PPP) of US$125 000 and Macao SAR, China is second with US$65 650. The lowest figures are for Liberia at US$710 and the Central African Republic at US$700.

Another key challenge facing companies is the question as to how they can develop an integrated strategy across a number of international markets when there are divergent levels of economic development. Such disparities often make it difficult to have a cohesive strategy, especially in pricing.

The Economist 'Big Mac' Index (Figure 1.3) is a useful tool which illustrates the difficulties global companies have in trying to achieve a consistent pricing strategy across the world. It provides a rough measure of the purchasing power of a currency. UBS, a bank in the USA, uses the price of the Big Mac burger to measure the purchasing power of local wages worldwide. It divides the price of a Big Mac by the average

FIGURE 1.3 An alternative Big Mac index: how many minutes to earn the price of a Big Mac?



Source: Adapted from *The Economist*, Big Mac Index 2018; UBS Prices & Earnings, Working Time Edition 2015.

net hourly wage in cities around the world. Fast food junkies are best off in Hong Kong where it takes a mere nine minutes at work to afford a Big Mac. By contrast, employees must toil for almost three hours to earn enough for a burger in Nairobi. This causes problems for McDonald's in trying to pursue a standard product image across markets. Priced in US dollars, a Big Mac in Sweden would cost US$6.12, in China US$3.17, whereas in South Africa it would be US$2.45.

In order to examine these challenges further we divide the economies into developed economies and **least developed economies**.

The developed economies

In developed economies, the top five traders for merchandise exports and imports (in terms of value) are China, the USA, Germany, Japan and France. In terms of world merchandise trade, when added together, these five countries account for just over 38 per cent of all countries' merchandise trade. Merchandise trade as a term is the average of exports and imports. There are some countries that are more inclined to be strong in imports or exports. For example, the Netherlands is ranked fourth in the world when just considering exports and the UK ranked fifth in the world when just considering imports. Table 1.4 highlights the import/export situation of three regions. As shown, Europe is both the highest importer of merchandise trade and the highest exporter.

For many firms, this action of importing and exporting constitutes much of what is termed the global market. Even though many companies call themselves global, most of their revenues and profits will be earned from these markets. This leads some commentators to argue that most competition, even in today's global marketplace, is more active at a regional level than a global level.

Table 1.4 Merchandise regions: exports and imports

	Imports US$ trillion	Exports US$ trillion
Asia	3.07	5.75
Europe	5.92	5.94
North America	5.21	2.22

Source: Adapted from World Trade Organization (2017) World trade statistical review 2017.

The emerging economies

Brazil, Russia, India and China (the BRIC economies) are no longer considered to be the only emerging economies. Mexico, Indonesia, Nigeria and Turkey, known as the MINT economies, are countries that marketing managers of global brands have started doing business with. In these countries, there is a huge and growing demand for everything from automobiles to mobile phones. All are viewed as key growth markets where there is an evolving pattern of government-directed economic reforms, lowering of restrictions on foreign investment and increasing privatization of state-owned monopolies. All these rapidly developing economies herald significant opportunities for the international marketing firm.

Such markets often have what is termed a 'dual economy'. Usually there tends to be a wealthy urban professional class alongside a poorer rural population. Income distribution tends to be much more skewed between the 'haves' and the 'have nots' than in developed countries. The number of Chinese and Indonesian people that earn less than US$2 per day has reduced dramatically with a general increase in the middle earners.

Least developed countries

This group includes underdeveloped countries and less developed countries. The main features are a low gross domestic product (GDP) per capita, a limited amount of manufacturing activity and a very poor and fragmented infrastructure. Typical infrastructure weaknesses are in transport, communications, education and healthcare. In addition, the public sector is often slow-moving and bureaucratic. Having said that, Ethiopia's GDP is forecast to be around 8.3 per cent, which is higher than the global growth rate forecast at around 2.7 per cent. Ethiopia is a low-income country, and it is expected that its GDP will continue to grow. This growth is due in part to the government of Ethiopia accelerating its spending on infrastructure. Ethiopia's prospects are good; however, the infrastructure costs are high and thus public debt now exceeds 50 per cent of GDP.

It is common to find that least developed countries (LDCs) are heavily reliant on exporting raw materials, and these products are the main export earners. In the Democratic Republic of Congo, for instance, their exports comprise copper (over 50 per cent), cobalt (over 21 per cent) and petroleum (around 15 per cent). In addition, three-quarters of LDCs depend on their main trading partner for more than one-quarter of their export revenue. The risks posed to the LDC by changing patterns of supply and demand are great. Falling commodity prices can result in large decreases in earnings for the whole country. The resultant economic and political adjustments may affect exporters to that country through possible changes in tariff and non-tariff barriers, changes in the level of company taxation and through restrictions on the convertibility of currency and the repatriation of profits. In addition, substantial decreases in market sizes within the country are probable.

A wide range of economic circumstances influence the development of the less developed countries in the world. Some countries are small with few natural resources. For these countries it is difficult to start the process of substantial economic growth. Poor health and education standards need money on a large scale, yet the pay-off in terms of a healthier, better-educated population takes time to achieve. At the same time, there are demands for public expenditure on transport systems, communication systems and water control systems. Without real prospects for rapid economic development, private sources of capital are reluctant to invest in such countries. This is particularly the case for long-term infrastructure projects. As a result, important capital spending projects rely heavily on world aid programmes. Marketing to such countries can be problematic.

MANAGEMENT CHALLENGE 1.1

How SMEs internationalize

Small and medium enterprises (SMEs) are motivated to expand internationally for a number of reasons. These include gaining access to a new customer base with different viewpoints on their products that they can capitalize on, or because there are too many competitors in the home market. The speed at which SMEs internationalize varies and is one of the decisions that needs to be made. Fast SME internationalizers are those that enter many countries in quick succession. Slow SME internationalizers, on the other hand, only enter one new country every 20 years or so.

There are a number of stages that SMEs go through once they have thoroughly investigated their expansion options and feel there is nothing more they can do within the domestic market.

Stage one is the expansion stage when SMEs develop export activities. Exporting activities often happen with neighbouring countries to the SME's home country.

Stage two is the internationalization stage, which means exports may continue but SMEs then decide to invest in another country through acquisition of a similar SME, hiring a salesforce or purchasing/building a production centre.

Stage three is the internationalization review stage when SMEs decide to increase, decrease or withdraw from internationalization activities. Stage three is an activity that occurs year on year as SMEs constantly review their success and the external opportunities.

Question

1 Why do SMEs usually expand into neighbouring countries first?

Currency risks

While we have examined economic factors within markets, we also need to bear in mind that in international marketing, transactions invariably take place between countries, so exchange rates and currency movements are an important aspect of the international economic environment. On top of all the normal vagaries of markets, customer demands, competitive actions and economic infrastructures, foreign exchange parities are likely to change on a regular if unpredictable basis. World currency movements, stimulated by worldwide trading and foreign exchange dealing, are an additional complication in the international environment. Companies that guess wrongly as to which way a currency will move can see their international business deals rendered unprofitable overnight. Businesses that need to swap currencies to pay for imported goods, or because they have received foreign currency for products they have exported, can find themselves squeezed to the point where they watch their profits disappear.

In Europe, the formation of the European Monetary Union (EMU) and the establishment of the Single European Payments Area (SEPA) led to greater stability for firms operating in the market. The formation of the EMU and the introduction of a single currency (the euro) in many countries in the European Union had important implications for company strategies. We will discuss these in Chapter 2 when we examine regional trading agreements, and in Chapter 11 when we look at pricing issues in international marketing.

Political factors

The political environment of international marketing includes any national or international political factors that can affect the organization's operations or its decision making. Politics has come to be recognized as the major factor in many international business decisions, especially in terms of whether to invest and how to develop markets.

Politics is intrinsically linked to a government's attitude to business and the freedom within which it allows firms to operate. Unstable political regimes expose foreign businesses to a variety of risks that they would generally not face in the home market. This often means that the political arena is the most volatile area of international marketing. The tendencies of governments to change regulations can have a profound effect on international strategy, providing both opportunities and threats. One threat that has been in the news over recent years is terrorism. There is an economic cost due to acts of terrorism, and this was calculated at US$84 billion (Statista 2016). In some cases, this has an effect on world peace and political relations. In others it brings nations together. The Global Peace Index 2018 shows Syria, Afghanistan, South Sudan, Iraq and Somalia as places of instability and unrest. The instability in the Middle East and the continued threat of global terrorism have served to heighten firms' awareness of the importance of monitoring political risk factors in the international markets in which they operate. Lesser developed countries and emerging markets pose particularly high political risks, even when they are following reforms to solve the political problems they have. The stringency of such reforms can itself lead to civil disorder and rising opposition to governments. Political risk is defined as a risk due to a sudden or gradual change in a local political environment that is disadvantageous or counter-productive to foreign firms and markets.

The types of action that governments may take which constitute potential political risks to firms fall into three main areas:

- *Operational restrictions*. These could be exchange controls, employment policies, insistence on locally shared ownership and particular product requirements.
- *Discriminatory restrictions*. These tend to be imposed on purely foreign firms and, sometimes, only firms from a particular country. Economic sanctions were put in place during the crisis in Ukraine. During that time Russia responded by banning food imports from several European Union countries, the USA, Norway, Canada and Australia. They have also imposed bans on imports from Libya and Iran in the past. Such barriers tend to be special taxes and tariffs, compulsory subcontracting or loss of financial freedom.
- *Physical actions*. These actions are direct government interventions such as confiscation without any payment of indemnity, a forced takeover by the government, expropriation, nationalization or even damage to property or personnel through riots and war. The Argentine government seized Spanish oil company Repsol's assets in the country in 2012, claiming it had failed to invest to meet internal demand. Two years later Repsol agreed compensation of US$5 billion, half of the initial claim, and withdrew from the country (*BBC News* 2014).

Investment restrictions are a common way governments interfere politically in international markets by restricting levels of investment, location of facilities, choice of local partners and ownership percentage.

Recent decisions by certain Latin American countries to compel foreign investors to renegotiate their investment contracts on sanction of expulsion, introduced considerable uncertainty for companies operating in the region. One of the most difficult countries to operate in is Venezuela, despite it being a country with a large economy. Signing agreements, getting land deals, paying taxes and simply withdrawing money from the bank takes an inordinate amount of time. For example, as a general rule, worldwide, there are around nine procedures to complete when a business decides to register and begin the process of starting a business. However, in Venezuela, there are 17, which take around 144 days to complete due to the extensive bureaucratic process. Permits and approvals, with associated fees and certificates, are required from the Ministry of Labour and the National Bank for Housing and Habitat, plus from the banks, road, fire and telecoms agencies. And just to get electricity connected to a new business is very costly and takes around 150 days to complete.

The **World Trade Organization (WTO)** has led negotiations on a series of worldwide agreements to expand quotas, reduce tariffs and introduce a number of innovative measures to encourage trade among countries. Together with the formation of regional trading agreements in the European Union, North and South America, and Asia, these reforms constitute a move to a more politically stable world trading environment. An understanding of these issues is critical to the international marketing manager. In Chapter 2 we examine in some detail the patterns of world trade, the regional trading agreements and the development of world trading institutions intended to foster international trade. In Chapter 4 we will examine in some detail the procedures, tools and techniques which can help the analysis and evaluation of opportunities across such markets.

The political and economic environments are greatly intertwined and, sometimes, difficult to categorize. It is important, however, that a firm operating in international markets assess the countries in which it operates to gauge the economic and political risk and to ensure it understands the peculiarities and characteristics of the market it wishes to develop (see Illustration 1.3).

ILLUSTRATION 1.3

Sproxil born global to help us live longer

Counterfeiting is a global problem. Consumers are extremely disappointed when they buy a high-end luxury item via the Internet only to find they have bought a fake. Losing money on a handbag or watch is one thing, but buying fake medicine can cost lives. Counterfeit medicine is dangerous for patients as up to 700 000 people die each year from buying fake anti-malaria medicine and tuberculosis drugs. The multi-million dollar problem is worldwide. It is worse in emerging countries and is a drain on businesses and international regulatory bodies. Sproxil is a brand protection service organization in emerging markets with headquarters in the USA. Born global is at the very heart of Sproxil. They saw an important niche in the market and developed technology to solve an international problem. Sproxil opened their first local office in Nigeria 12 months after they launched their business and now have offices in Ghana, Pakistan and India. They help businesses, be they global or local, to protect their brands and to help consumers ensure they are buying legitimate medicines and drugs. Consumers at point of purchase text (free of charge) the product's on-pack ID number and an immediate reply shows if the product is legitimate or fake. Sproxil has branched out into verifying branded cosmetics, fast moving consumer goods (FMCGs) and electrical goods.

Question

1 Many organizations are born global. What factors enable them to do this?

Reference: www.sproxil.com.

Technological factors

Technology is a major driving force both in international marketing and in the move towards a more global marketplace. The impact of technological advances can be seen in all aspects of the marketing process. The ability to gather data on markets, management control capabilities and the practicalities of carrying out the business function internationally have been revolutionized in recent years with the advances in electronic communications.

Satellite communications, the Internet and local wifi means that in the international marketplace, information and connectivity is power. At the touch of a button we can access information on the key factors that determine our business. Multiple channels supply news 24 hours a day, 7 days a week. Manufacturers wanting to know the price of coffee beans or the relevant position of competitors in terms of their share price or new product activity have it at the touch of a button, often through a mobile app.

As mobile technology renders landline cables and telephone lines redundant, developing countries have abandoned plans to invest in land-based communication and go straight to mobile. They have bypassed terrestrial communication systems, enabling them to catch up with and, in some cases overtake, developed countries in the marketplace. In **emerging economies** consumers are jumping from no telephone to the latest in global communications technology. Wireless application protocol (WAP) technology allows online services to be available to mobile phone users on the move, wherever they happen to be in the world. The use of Global System for Mobile Communications (GSM) technology enables mobile phone operators to determine the location of a customer globally to send them relevant and timely advertising messages.

British Airways operates its worldwide online operations from Mumbai: everything from ticketing to making an 'exceptional request' facility, such as wheelchair assistance needed for a passenger, can be managed from the centre in India. The ease of hiring computer-literate graduates by the hundred, who are intelligent, capable, keen and inexpensive to hire, as is local property to rent, has enabled India to build a global advantage in this rapidly developing industry.

The Internet

The Internet has revolutionized international marketing practices. Airlines such as easyJet and Ryanair have helped completely change the way we book our airline reservations with more airline operators abandoning many face-to-face operations. Consumers flying with easyJet book, check-in and choose their seat online. Upon arrival at the airport there is no representative to take the consumer through check-in. Now check-in is done by using kiosks to scan tickets and consumers load their own luggage onto a conveyor belt aptly entitled 'bag-drop'. Alibaba Group with headquarters in China set up an online only business-to-business (B2B) facility to enable small Chinese exporters and manufacturers to sell their goods internationally. Firms ranging in size from a few employees to large multinationals have realized the potential of marketing globally online and developed the facility to buy and sell their products and services online to the world.

Around 46 per cent of the world's population are Internet users. In 2000, the penetration of Internet users was 6.8 per cent. This has had a major effect on the retail high street in that e-commerce sales worldwide account for \$2.29 trillion. This means that of all retail sales worldwide one-tenth of those sales are through e-commerce.

Another major growth area is B2B sales due to the fact that many multinational and international businesses are completing more transactions with their own supply chain online as well as with consumers. Nevertheless, at this stage, the amount of business completed online far outstrips business-to-consumer (B2C). However, more consumers than ever before are using smartphones, tablets and PCs to browse and shop for goods and services online.

The Internet has meant huge opportunities for SMEs and rapid internationalization for many. It has enabled them to substantially reduce the costs of reaching international customers, reduce global advertising costs and made it much easier for small niche products to find a critical mass of customers. Because of the low entry costs of operating as an online business, it has permitted firms with low capital resources to become global marketers, in some cases overnight. There are, therefore, quite significant implications for