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Your road to success

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LEVEL 6 DEVELOPING INTERNATIONAL MARKETS

ABE • OFFICIAL STUDY GUIDE

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Contents

Using your study guide

Welcome to the study guide for Level 6 Developing International Markets, designed to support those completing their ABE Level 6 Diploma.

Below is an overview of the elements of learning and related key capabilities (taken from the published syllabus).

Element of learning	Key capabilities
Element 1 – The World trading environment	Ability to evaluate the current debates over the nature of globalisation, utilising these skills in context of local environment demonstrating practical, "real world" relevant to context of local business practices *Intellectual debate, analysis of the global business environment, competitor analysis*
Element 2 – Global strategies	Ability to apply evaluation skills in respect of international markets and business opportunities based upon the use of appropriate analytical frameworks Ability to utilise market research techniques to apply practically to case study or relevant local/regional organisations to assess decision-making in respect of whether local companies should "go global" and if so, how *Evaluation, assessing opportunities, application of analytical frameworks, data analysis and interpretation, decision-making, leadership, strategy, influence and persuasion*
Element 3 – Market entry strategies	Ability to apply cultural awareness, cross-cultural sensitivity, diversity, in respect of globalisation and different work contexts Ability to utilise to local context, applying concepts to explain local/regional business practices *Cultural awareness, cross-cultural relationships, diversity, local knowledge of markets, critical analysis, assessing barriers, decision-making, risk management*
Element 4 – The challenge of globalisation	Ability to present arguments with respect to global marketing decisions effectively in a written format Ability to utilise these skills to apply to local/regional organisations *Reasoned arguments, global marketing, decision-making, communication, persuasion and influence, flexibility*

This study guide follows the order of the syllabus, which is the basis for your studies. Each chapter starts by listing the syllabus learning outcomes covered and the assessment criteria.

L6 descriptor

Knowledge descriptor (the holder…)	Skills descriptor (the holder can…)
• Has advanced practical, conceptual or technological knowledge and understanding of a subject or field of work to create ways forward in contexts where there are many interacting factors • Understands different perspectives, approaches or schools of thought and the theories that underpin them. • Can critically analyse, interpret and evaluate complex information, concepts and ideas.	• Determine, refine, adapt and use appropriate methods and advanced cognitive and practical skills to address problems that have limited definition and involve many interacting factors. • Use and, where appropriate, design relevant research and development to inform actions. • Evaluate actions, methods and results and their implications

The study guide includes a number of features to enhance your studies:

'Over to you': activities for you to complete, using the space provided.

Case studies: realistic business scenarios to reinforce and test your understanding of what you have read.

'Revision on the go': use your phone camera to capture these key pieces of learning, then save them on your phone to use as revision notes.

'Need to know': key pieces of information that are highlighted in the text.

Examples: illustrating points made in the text to show how it works in practice.

Tables, graphs and charts: to bring data to life.

Reading list: identifying resources for further study, including Emerald articles (which will be available in your online student resources).

Source/quotation information to cast further light on the subject from industry sources.

Highlighted words throughout denoting **glossary terms** located at the end of the study guide.

Note
Website addresses current as of September 2017.

Chapter 1

Key Characteristics of the Globalised Business Environment

Introduction

This chapter focuses on uncovering the characteristics and subject matter that surround the **globalisation** of the business environment. The first section will offer a definition of globalisation and its main concepts. However, it is also important to understand what is meant by the term "business environment".

The term refers to internal and external factors that can influence and shape how a business operates. These factors can include: clients, suppliers, competition, technology, laws and politics and economic and **market** trends.

An understanding and awareness of the environment in which a company has to operate is very important as the components that make up the environment impact every aspect of the business.

Learning outcomes

On completing the chapter, you will be able to:

1 **Critically analyse the key characteristics of the international globalised business environment**

Assessment criteria

1 **Critically analyse the key characteristics of the international globalised business environment**

1.1 Assess the international business environment and how the nature of trading has changed in recent years

1.2 Critically discuss, using relevant theories and frameworks, the reasons why countries trade

1.3 Discuss the alternative views of globalisation and evaluate approaches taken in respect of the nature and drivers behind globalisation

1.4 Critically evaluate the international competitive landscape

Level 6 Developing International Markets

1.1 The international business environment

When discussing the **international market** we must first understand the meaning of globalisation. When trying to define globalisation, geostrategy scholars Al-Rodhan and Stoudmann found that there is a wealth of theories and academic literature devoted to defining globalisation and the true meaning of what is global about it.[1] The term has grown in popularity, predominately over the last 20 years, and has been open to interpretation as it carries many connotations. It is not a new phenomenon; for example, Ford has been marketing cars outside of the United States of America (USA), where it first started, since 1920. Even with a large body of literature devoted to it, it is difficult to offer one true definition of globalisation.

With regards to the international market one of the most widely-accepted definitions of globalisation is by business scholars, Govindarajan and Gupta, who state that it describes the "growing economic interdependence among countries as reflected in increasing cross-border flows of three types of commodities: goods and services, capital, and knowhow".[2] This notion of market globalisation sees the standardisation of products that are **imported** and **exported** all over the world, with goods moving freely between national borders – making these borders almost irrelevant.

To form a picture of the scale of the international market we can look at the figures from the average share of exports and imports of goods and commercial services in world **gross domestic product (GDP)**. In the last 15 years, it has increased significantly from 20% in 1995 to 30% in 2014.[3]

OVER TO YOU

Activity 1: International businesses

Take a few minutes and think of as many businesses as you can that trade across the international market.

1 What type of businesses are they?

2 How many countries do they operate in?

1 Al-Rodhan, N.R.F., and Stoudmann, G. (2006), *Definitions of Globalization: A Comprehensive Overview and a Proposed Definition*. Geneva Centre for Security Policy

2 Govindarajan, V. and Gupta, A. (2000), "Analysis of the emerging global arena", *European Management Journal*, Vol. 18, Issue 3, pp. 274–84, p. 275

3 The Organisation for Economic Co-operation and Development (2017), *"Exports of goods and services (% of GDP)"* [online]. Retrieved from: https://data.worldbank.org/indicator/NE.EXP.GNFS.ZSNE.EXP.GNFS.ZS [Accessed on: 4 September 2017]

3 Are they successful?

Now do the same for businesses that operate solely on a national level, in your home country.

What does this tell us about the percentage of international vs domestic trade?

Globalisation and the role of organisations

When thinking about globalisation, it is important to think about the role of **small and medium enterprises (SMEs)** and **multinational corporations (MNCs)**. According to research by the **United Nations (UN)** around 80% of global trade comes from the world's largest organisations, with the top 200 multinational companies controlling a staggering one-third of the entire global production.

In 2012, Fortune Global magazine listed the top three largest businesses around the world as Royal Dutch Shell (more commonly known as Shell), ExxonMobil and Walmart stores. The fastest growing MNC in 2015 was listed as Landes Bank International.[4] It is one of the world's leading **offshore** banking institutes, which originated in Germany, but that now has one of the largest merger and consolidation businesses in the UK. Most people will have heard about some of these companies at some point in time, such is their global impact.

The Wikimedia Foundation is a different type of business, almost virtual, but is still classified as a multinational. Review the following case study of the Wikimedia Foundation to find out more about this type of organisational structure.

4 Fortune Global 500 (2015), *Landesbank Baden-Württemberg* [online] Retrieved from: http://fortune.com/global500/2015/landesbank-baden-wurttemberg-489/ [Accessed on: 20 June 2017]

CASE STUDY

Wikimedia Foundation and multinational non-profit organisations

The Wikimedia Foundation is a non-profit organisation that operates Wikipedia, as well as other open-source projects such as Wikimedia Commons, Wiktionary, Wikibooks, and Wikiversity. The Wikimedia Foundation reaches nearly 500 million people in 258 languages every month.

Wikimedia is based in San Francisco, employs approximately 142 people around the world and supports an active community of more than 350,000 online support staff. The Wikimedia community provides freely-licensed content for everyone to access and utilise, therefore fulfilling one of its aims of being able to share knowledge with people worldwide.

Globalisation and SMEs

Globalisation has impacted SMEs in two ways. Firstly, it has allowed smaller businesses to participate in transnational trading. This can be through activities such as importing and exporting or foreign direct investments. All of these activities have been made easier by the growth of globalisation.

The second way that SMEs have been affected is through a change in the role of **domestic markets**. More traditionally SMEs are viewed as having limitations and being unable to compete with the larger global companies. However, this has changed. Due to advances in technology and changes in trading SMEs have a greater chance of succeeding against larger organisations. It is no longer solely about labour and land – there is power and success available for smaller businesses if they have the ability to innovate.

What you can see from these examples of organisations from around the world is that globalisation has become something that we are all familiar with. In our high street, we can see examples of global organisations on a daily basis.

Global companies have begun to move their operations offshore from their home country to alternative locations, where there are advantages such as lower labour costs and a greater proportion of educated individuals who could potentially be employed.

In the UK, for example, companies such as Virgin, Orange, TalkTalk, Prudential, British Telecom and Lloyds Bank are examples of well-known businesses that have chosen to migrate operations and call centres overseas. One of the world's largest banks, HSBC which predominately operates in the UK, announced that it was cutting 1,200 jobs and would be opening call centres overseas.

The UK is not the only country where companies have opted to move their business overseas (known as offshoring). There have been many US-based companies that have moved their call centre operations overseas. In a publication by the Communications Workers of America in 2012[5] it

5 Communications Workers of America (2012), *Offshoring American Call Centers: The Threat to Consumers, Communities, and National Security* [online]. Retrieved from: http://cwafiles.org/national/call-center-bill/CWA-Offshoring-American-Call-Centers-Report-Oct-2012.pdf [Accessed on: 4 September 2017]

was stated that in recent years US companies have exported more than 500,000 call centre roles to developing nations such as India, Egypt, Mexico, Honduras and the Philippines. There are four main banks that the publication highlights as using overseas territories:

1. Bank of America
2. JPMorgan Chase & Co.
3. Wells Fargo
4. Citigroup

These moves have left many questioning the future of domestic-based operations. In 2003, the UK MP Brian Donoghue famously expressed his concern stating that "there would not be a call centre in Scotland in five years".[6]

The benefits of moving call centres overseas include less expensive labour costs and a larger pool of skilled labour. However, there are also negative aspects of using overseas locations. For example:

- Customers' data and private information may be left vulnerable to theft and misuse if the overseas contractors are poorly regulated and audited.
- Communities are devastated by the sudden loss of jobs and revenue; former workers and their families are now unemployed and suffer financial instability.
- National security may be threatened as more financial, medical, and personal data falls into the hands of contractors in potentially less stable nations.
- There may be communication difficulties between customers and employees due to language barriers.

Despite these negative aspects of relocating overseas, many companies are utilising the international market and the benefits that come with it.

OVER TO YOU

Activity 2: Domestic companies moving into the international market

Why do you think that businesses are moving operations outside of their home nations? Imagine you run a company that was founded in Zimbabwe and you wish to expand operations into the global market.

Think about where your company would migrate to.

What would be the benefits of operating outside of the original location?

What hurdles would it have to overcome to make the transition a success?

6 Donoghue, B. quoted in Bain, P. and Taylor, P.M. (2005), "India calling to the far away towns: the call centre labour process and globalization", *Work, Employment and Society*, 19(2), pp. 261–82, p. 262

NEED TO KNOW

There are examples of globalisation all around us.

Global companies have begun to move their operations offshore from their home countries to places where the cost of labour is less and there are plenty of well-educated people looking for work.

REVISION on the go

How the nature of trading has changed

Another key factor that steers globalisation is that there has been a major **paradigm** shift (a change in view of how things work) in consumer shopping habits. A large number of consumers globally shop online rather than purchasing items in person from a physical store. One prime example is Amazon, which has taken a large share of the market for books and entertainment products, meaning that many local, independent stores can no longer compete.

CASE STUDY

Online auction sites such as eBay

On 18 August 1999, a CD of German heavy metal band Scorpions was purchased for £2.89. This might seem like an uninteresting fact or purchase; however, it is not the CD that is of interest but rather how the CD was bought. This was the first item that was ever bought on the then unknown website eBay.

Since its development, eBay has been used by more than 19 billion people and more than 3 billion items have been sold that have a combined value of £65bn. eBay revolutionised the shopping and selling experience; 11% of all retail purchases are now bought online rather than in stores.

For many people, the appeal of eBay is that it can be used to buy and sell all kinds of items, from cars and signed photos to half-eaten toasted cheese sandwiches. One of the most publicised sales was by Eric Hartsburg, who made US$15,000 for having Mitt Romney's "R" campaign logo tattooed on the side of his head before the 2012 US presidential election. "I am a registered Republican and a Romney supporter," Hartsburg said. "I didn't mind getting this tattoo because it is something that I could live with and it's something that I believe in."

The online auction site's success has often been credited to its payment method. Retail analysts from the Mintel market researching firm said that eBay was so popular with the public due to the reassuring nature of its dedicated PayPal service. It notes this as being the reason that the sales revolution began.

Source: Adapted from www.theguardian.com/technology/2014/aug/18/how-ebay-transformed-way-people-shop

Unforeseen events and the impact on business

While there has been a decline in purchases from the high street, delivery organisations such as DHL, FedEx and UPS have witnessed a growth in sales and turnover due to the high demand for home deliveries.

In most cases, the change in shopping habits has been a gradual one and not an overnight shift. However, there have been a number of sudden incidents which have had a huge impact on companies. A good example was the European horsemeat scandal in 2013. It was discovered that a number of products that were advertised as containing beef contained horsemeat as well. This had major consequences for the companies selling those products. They had to destroy the products concerned, meaning they lost valuable profit. Consumer reactions to the food scare were significant as the brands involved gained a negative reputation.[7]

The weather can also have a major impact on business. The winter storms in North America in 2014 led to transport coming to a complete halt. This had an enormous impact on turnover and profits for businesses. In such circumstances, train companies and other transport organisations are often all impacted, resulting in travel chaos for consumers as they try to use services.

A more catastrophic example is the East African drought in 2011 which saw the driest period in the Eastern Horn of Africa since 1995, and had a huge impact on agricultural businesses.

Businesses operate in a fast-paced environment that is forever changing and often unpredictable. Whether a multinational or a local company, businesses must be able to respond quickly to market or environmental forces so that they can survive and grow.

For more information on how consumer habits have changed and how e-consumers have impacted the market, read at the article by Dennis, Merrilees, Jayawardhena and Wright, available in your online student resources.[8]

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7 Yamoah, F.A. and Yawson, D.E. (2014), "Assessing supermarket food shopper reaction to horsemeat scandal in the UK", *International Review of Management and Marketing*, Vol. 4, Issue 2, p. 98
8 Dennis, C., Jayawardhena, C., Merrilees, B. and Wright, L.T. (2009), "E-consumer behaviour", *European Journal of Marketing*, Vol. 43, Issue 9/10, pp. 1121–39

Evolving nature of organisations

Organisations have entered into the global market and set up resources such as call centres in other countries.

Offshoring	
Advantages	**Disadvantages**
• Low labour costs • Higher scale effects through bundling • Concentration on core competencies • Spread risks • Access to expertise	• Loss of control due to geographical distance • Language problems • Political risks • Time differences

Table 1: Advantages and disadvantages of offshoring

Retail trade has changed. High street shopping is declining and the popularity of online shopping is increasing.

CASE STUDY

Marks and Spencer (M&S) international challenges

UK-based retail giant Marks and Spencer Group plc has a long history of international expansion. It has attempted to use a variety of entry models worldwide, including:

- **organic growth**
- **joint venture**
- **franchise agreements**.

This kind of entry model strategy, mainly using a wide variety of tactics, can mean that priority is given to a company's global performance.

M&S began to enter the international market tentatively by exporting its St. Michael brand products in the 1940s. Then M&S formalised some of its export activities through franchise agreements in the 1970s.

In the next two decades, a gradual expansion occurred both in the number of stores and geographic scope. By 1998, M&S had almost 500 stores in more than 30 countries with retail sales of almost £8bn. Meanwhile, the company owned Brooks Brothers and Kings Supermarkets in the USA.

However, three years later, M&S sold its Brooks Brothers brand and Kings Supermarkets businesses; it turned the Hong Kong stores into franchises in a downgraded regional structure and closed European stores which were unprofitable.

M&S faced a survival crisis and most of the company's direct international activities had to stop. As a consequence, the company suffered some reputational damage.

You have briefly seen the impact of globalisation on the business environment and how important it is for businesses to continually monitor the external conditions. The result is an increasingly competitive business world in which organisations have to operate.

Later in the chapter we will discuss the key characteristics which are associated with the globalised business environment, but first, let's consider the differences between domestic and international marketing.

Domestic and international marketing

Whether occurring at a domestic or international level, marketing activities are governed by some of the same fundamental principles. However, there are also key differences.

Figure 1: Crossover of domestic and international markets

According to Kotler and Armstrong, marketing can be defined as "the social process by which individuals and organisations obtain what they need and want through creating and exchanging value with others."[9] This is a widely accepted definition of marketing. This section deals with analysing the differences between the domestic marketing environment and the international market.

What is marketing?

"The social process by which individuals and organisations obtain what they need and want through creating and exchanging value with others."

Domestic marketing: advantages and disadvantages

The domestic market can also be referred to as internal or domestic trading. Domestic marketing involves a company manipulating a series of controllable variables. These include price, advertising, and product/service attributes and distribution in a largely uncontrollable external environment, which is made up of different economic structures, competitors, cultural values and legal systems within a specific political or geographic boundary.

It is the system of trading in one localised area which sees the supply and demand of goods limited to a single country.

9 Kotler, P., and Armstrong, G. (2010), *Principles of Marketing*. Pearson, Prentice Hall

Businesses that are limited to one location can have advantages and disadvantages. Table 2 highlights the key points:

Advantages of trading in the domestic market	Disadvantages of trading in the domestic market
Less government interference	Limited cross-fertilisation of ideas
Lower risk factor	Limited access to materials
Less capital required	Limited access to labour, ideas and talent
Less research of the market required	Smaller market can equate to less profit
Only has to adapt to one economic environment	More vulnerable to economic change

Table 2: Advantages and disadvantages of operating in the domestic market

REVISION on the go

For more information and academic discussion on differing perspectives on domestic vs international marketing read the article by Perry,[10] which will be available in your online student resources.

OVER TO YOU

Activity 3: The domestic market

Think of a business that you know trades in your home country's domestic market.

1. **What advantages and disadvantages does this company face as a business that trades in one country?**
2. **If you were made CEO of the company would you prefer to operate domestically or internationally? Justify your answer and discuss this with your colleagues or tutor, as applicable.**

10 Perry, A. (1990), "International versus Domestic Marketing: Four Conceptual Perspectives", *European Journal of Marketing*, Vol. 24, Issue 6, pp.41–54

1.2 Why do countries trade?

Section 1.1 introduced globalisation, as well as domestic and international marketing. This section looks at why countries are involved in trading. The four main aspects that this section will cover are:

1. **comparative advantage**
2. international **product life cycle (PLC)**
3. barriers to world trade
4. world trade and free trading groups.

In general, countries support international trading. Companies trading with organisations in other countries help to increase profits and resources. If a country is plentiful in a resource it will aim to produce a surplus to allow trade to take place. International trade has been undertaken for centuries. Documented in a travel guide written in the first century AD, *The Periplus Maris Erythraei: Circumnavigation of the Red Sea*, there are details of traders that sailed from the Red Sea ports to the coast of East Africa to trade in goods such as textiles.

Comparative advantage theory

One theory at the heart of international trade is the concept of comparative advantage. A country is said to have a comparative advantage in a commodity when that country is more productive in comparison to other countries.

David Ricardo, an English political economist, contributed to the theory of comparative advantage in his 1817 publication *On the Principles of Political and Economy and Taxation.*

Hours of work required to produce one unit		
Country	**Cloth**	**Wine**
England	100	120
Portugal	90	80

Source: http://www.usi.edu/BUSINESS/cashel/241/text%20files/ricardo.pdf

Table 3: The Ricardian model example

The Ricardian model works on the idea that trade patterns in countries depend on productivity and differences. In the above illustration of Ricardo's concept, the world economy is looked at using two countries, Portugal and England. Both nations are producers of cloth and wine and both produce the goods to the same level of quality. As we can see, Portugal is able to produce more wine and cloth using less labour than England. Even though England may use more labour for the same result, the two countries have different costs for the production of the wine and cloth. In this circumstance, England is able to produce the goods at a lower cost prior to trade, which means that England has a comparative advantage over Portugal.

At its simplest level trade takes place between countries because one nation can produce a product at a lower price than elsewhere. For example, Japanese-made televisions dominate the European market due to economies of scale and better manufacturing technologies in Japan vs Europe, making prices and costs lower.

OVER TO YOU

Activity 4: Who has the comparative advantage?

Indian-based precious stone exporter, Diva Bling, is one of India's leading organisations that deal in the extraction and exportation of jewels. A US competitor, Gems Forever, has entered the market offering the same quality of precious stones but sourced from the hills of Colorado. Due to availability and the manufacturing process, Diva Bling is able to use fewer hours of labour than Gems Forever, making Diva Bling the most efficient company. However, Gems Forever has managed to lower production and extraction costs.

In this scenario who would have a comparative advantage? Use Ricardo's theory to justify your answer.

The Ricardian theory has been developed over the years and used by other theorists. In 1919, economists Eli Heckscher and Bertil Ohlin published a paper that includes a theory entitled the Heckscher-Ohlin model (HO).[11] The model aims to provide an evaluation of trade between two countries, in a similar way to Ricardo, but from a different perspective.

Ricardo's comparative advantage is based on labour productivity as the main variable whereas the HO model focuses on the level of resources in a country and the ability to export.

The theory focuses on the benefits of international trading, and puts forward a case for countries to trade in resources that are abundant. The benefits of this model are that countries not only export goods that they have vast amounts of, they also import goods and resources that they lack. This, in turn, means that there are global benefits and countries are not solely dependent on the domestic market.

11 Heckscher, E. (1919), "The Effect of Foreign Trade on the Distribution of Income," *Ekonomisk Tidskrift*, Vol. 21, pp. 497–512

This model is logical and relatively straightforward, but has faced criticism over the years. The theory has rarely been proven to work and economists have claimed that its over-simplified nature means that it is unrealistic and simply offers a general explanation of international trade.[12]

1.3 Approaches to globalisation and key drivers behind it

Organisations choose to branch into the international market for a variety of reasons. Listed below are some of the main reasons why countries opt to trade. New business opportunities such as:

- consumer demand for goods from other countries
- political change
- economic change
- greater profit.

Money is always a key driving force for any company. When trading in a new environment, profit tends to be one of the biggest factors for change. For a business to be successful it must generate a turnover. Thanks to advances in communication and technology, international consumers are easily reached and national boundaries are becoming a thing of the past. This is predominately due to the rise in popularity of e-commerce-based business. This in turn allows for new market opportunities, but is this always a positive? Table 4 contains a list of advantages and disadvantages of operating in the international market.

Advantages of trading in the international market	Disadvantages of trading in the international market
Access to technology	Higher risk
Access to labour	Dealing with multiple economic and social environments
Bigger market	Building global relationships, which can be time-consuming and expensive
Access to materials	Exhausting natural resources

Table 4: The advantages and disadvantages of the international market

REVISION on the go

Factors that contribute to the challenges faced by organisations entering into the international market include:

- **Culture**: The world is very diverse and markets also represent a high level of diversity.
- **Data/research**: This can often be more difficult to obtain in the international market.

12 Learner, E.E. (1984), *Sources of International Comparative Advantage: Theory and Evidence*. Cambridge, M.A.: MIT Press

- **Cost**: There are high costs associated with entering the international market, due to investment requirements and the purchase of goods or labour.
- **Politics and governmental issues**: Having to deal with a variety of governments and policies can be difficult. Problems may also be caused by political unrest or instability.

Predicting change

Domestic and international markets have positive and negative aspects when it comes to conducting business. Predicting change in the economy and climates of a country is a problem all businesses face. Predicting change tends to be easier for organisations in domestic markets than organisations operating globally. Domestic businesses tend to be able to stay afloat and cope well with change as they are only monitoring one environment. On the other hand, international businesses have to navigate through multiple changes in multiple countries.

Environmental scanning

To navigate successfully, businesses can use environmental analysis strategies. Environmental scanning is one such tool at a business's disposal. Environmental scanning involves gathering information regarding events and their relationships within an organisation's internal and external environments.

Smaller domestic businesses may have an easier time monitoring the market; however, it should be noted that climatic changes can affect domestic business more dramatically. Businesses operating internationally have the flexibility to continue making profit in other territories. Market issues in one country will not necessarily affect the entire business, which allows the company to continue generating profit elsewhere.

Market sizes: domestic vs international

As stated previously in Table 2, the size of the domestic market can put businesses at a disadvantage. The domestic market is limited and for businesses to expand and increase profits they need to venture into other countries and target new customers. An example of this limitation is the history of Swiss chocolate company Nestlé. Established in 1866, the company was based in Switzerland and grew over the course of the First and Second World Wars. The market was limited to Switzerland, so the company moved into the international market and is now one of the largest food companies in the world.

Expanding into the world market, although beneficial, can be challenging and companies face numerous barriers to trade. For more information on **trade restrictions** and **tariffs** that affect the global market go to page 28.

Impact of the internet on marketing

In 1989, the European Organisation for Nuclear Research started a research project that resulted in the development of the World Wide Web. This started as a means for researchers to share their findings and projects easily and developed into the "www" that we know today.

The internet has allowed people to share photos, watch videos, keep in touch with relatives and friends in other countries and order things from businesses worldwide. By allowing people to buy online, the internet has changed the nature of marketing. Businesses have had to accommodate this change in the market by remarketing themselves by utilising the latest technology and following consumer habits.

E-commerce (electronic commerce)

E-commerce is a term for any type of business or commercial transaction that involves the transfer of information across the internet. It covers a range of different types of businesses, from consumer-based retail sites, through auction or music sites, to business exchanges trading goods and services between corporations. It is currently one of the most important aspects of the internet to emerge.

E-commerce allows consumers to electronically exchange goods and services with no barriers of time or distance. E-commerce has expanded rapidly over the past five years and is predicted to continue at this rate, or even accelerate. In the near future the boundaries between conventional and electronic commerce will become increasingly blurred as more and more businesses move sections of their operations onto the internet.

Business-to-business (B2B) refers to e-commerce between businesses rather than between a business and a consumer. B2B businesses often deal with hundreds or even thousands of other businesses, either as customers or suppliers. Carrying out these transactions electronically provides vast competitive advantages over traditional methods. When implemented properly, e-commerce is often faster, cheaper and more convenient than the traditional methods of buying and selling goods and services.

International product life cycle (PLC)

In 1966 a model that described the internationalisation patterns of organisations was developed by Raymond Vernon. He was part of a team that overlooked a US investment plan to rejuvenate Western European economies after the Second World War.

Vernon had the intent to develop the initial comparative advantage theory.[13] The theory suggests that all products will follow four main stages, as shown below in Figure 2.

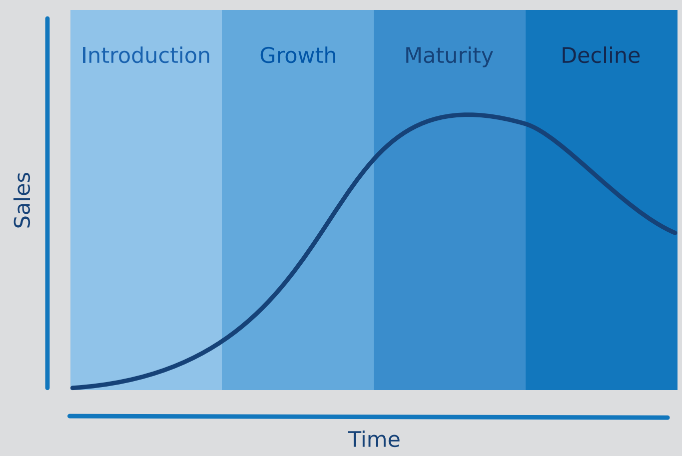

Figure 2: The product life cycle

Stage 1: Introduction

When a new product first enters the market it is said to be in the introduction stage of its life cycle. At the beginning of the product's life the consumer is unaware of the product. It is up to the

13 Vernon, R. (1966), "International Investment and International Trade in the Product Cycle", *Quarterly Journal of Economics*, Vol. 80, Issue 2, pp.190–207

creator of the product to begin promotions to entice customers to invest in the new product. When a product is initially introduced to the market, turnover and awareness of the product will be low. Even though low profits are never positive for businesses, this section of the PLC has one advantage – there are little to no competitors in the market. This means that as awareness and interest in the product grow, the product transitions into the second stage of the cycle.

Stage 2: Growth

The new product has successfully made it through the introductory stage and has managed to gather enough market interest and is now in the growth stage of its life cycle. This means that there is now a growing demand for the product, which has a positive impact on manufacturing costs, but a negative effect on the number of competitors that it faces. To help fight the competitors, the original producers increase their expenditure on promoting the product in a bid to win back custom and increase popularity.

Stage 3: Maturity

When the product enters Stage 3, it is well-known. Demand may reduce and the profit margins begin to lower. However, the business itself can still be lucrative as there is less need for spending on promotion, due to the high level of awareness of the product, and no extra spending on development is required as the product is now "mature".

Stage 4: Decline

This is the final stage that a product will enter. At this point it is well-known in the market and sales lessen. Once the profit begins to fall it will hit a point where it is not economically viable to continue to produce and market the product. The decision is then taken to either stop making the product or sell the product to a competitor. Potentially the product will be produced in a different country where labour costs less, which would mean that there would be a higher profit margin. The product could continue for a while if the labour cost is low and the profit is high. But this will only continue for a short period. At this point the product's life cycle is complete.

The diagram below is an example of four pieces of technology that are all in different stages of the PLC.

Stage 1	Holographic projection (in the introductory stages)
Stage 2	Tablet (in growing demand and development)
Stage 3	Laptop (mature; an established, commonly used product)
Stage 4	Typewriter (in decline and used less and less)

Figure 3: Examples of products at different stages of the product life cycle

With advances in technology and the growing nature of the international market, consumers are no longer satisfied using a typewriter due to its technological limitations. If we were to place it into Vernon's PLC model, it would be classed as being in Stage 4. Laptops, even though still widely used, are in Stage 3 of their cycle. People are very much aware of them and have purchased them, but demand is lessening with the growth of the tablet industry. Tablets are currently in the peak of their life cycle, but with more technology becoming available in the form of holograms, they will soon enter Stage 3. The diagram demonstrates the ever-changing market and the impact of market changes on a business.

Theories behind trade

There are three main theories that explain how and why countries trade:

1. comparative advantage theory
2. Heckscher-Ohlin model
3. international PLC theory.

REVISION on the go

OVER TO YOU

Activity 5: Putting theory into practice

Working with a study partner if possible, produce an example of any of the three theories in practice (e.g. introduction = 3D TV; growth = Blu-ray players; and maturity = DVD players).

Think about what it is that countries import and export. Which theory do you think is most relevant in today's international market and why?

Main drivers of globalisation

The **European Union (EU)**, **World Trade Organisation (WTO)**, **General Agreement on Tariffs and Trade (GATT)** and the **North American Free Trade Agreement (NAFTA)** are all bodies that strive to help increase trade between countries. But what do countries receive in return from globalised trade? George Yip created the "total global strategy" in which he claimed there were five main drivers for nations to trade internationally.[14]

1 Technology drivers

The English philosopher, Sir Francis Bacon, coined the phrase "knowledge is power" and this statement epitomizes the idea that technology is a driving force for globalisation.[15] Due to technological advancements in transport, communication and information, the global market has grown. An example of the impact that technology has on the international market is the introduction of the first commercial jet engine.

In 1958, Boeing introduced the Boeing 707, the first successful commercial jet engine. This development in transport was not only a piece of high-tech technology, but it also opened up the international holiday market with a form of transport that could take people to different countries. The jet engine had been in development from the early 1930s by Sir Frank Whittle and the engine had been used by the Royal Air Force, but Boeing was the first company to use the technology on commercial flights.

The Boeing aircraft is a prime example of a technological advancement that has now quite literally opened up the world and enabled new methods of transporting goods and services, and conducting business on a global scale.

OVER TO YOU

Activity 6: Technology that has changed the world

Can you think of any more examples of technology that have influenced the global market?

Working with a study partner if possible, discuss technology that has changed the way we trade. Think about things that you may use every day and the changes that have happened in your country.

14 Yip, G.S. (2001), *Total Global Strategy*. Prentice Hall PTR.
15 Bacon, F. (1597, 2013), *Meditationes Sacrae-Religious Meditations, Of Heresies–knowledge is power*. CreateSpace Independent Publishing Platform

2 Political drivers

We have previously mentioned the groups that help countries trade globally, including WTO, GATT, NAFTA and the EU. These bodies and organisations have all helped to produce a stabilised trading environment. They have produced policies and agreements that are all examples of drivers that help to move countries forward towards globalisation.

World trade bodies

WTO, GATT, NAFTA and the EU help to operate and regulate the international trading market.

They offer stability and try to impose fair regulations on all trading countries.

They strive to enable free trade and movement of goods.

REVISION on the go

3 Market drivers

The domestic markets have limitations due to market saturation. They do not offer the same level of profit opportunities, and companies and countries began to trade globally to improve their ability to make a bigger profit and reach a wider consumer market.

4 Monetary drivers

If we are looking to make a purchase, we tend to shop around and compare the price of one store to another or go online and look at all cost options. Countries and global companies act in the same way. They strive to find lower production, labour and resource costs. The global market allowed countries and companies to do this.

5 Competition

Along with importing and exporting goods at lower cost and using labour from other countries, global trade creates a competitive environment. This competitive environment exists internally in companies that operate in numerous locations around the world, but it can also include customer and resource competition. Some theorists have claimed that the competitive environment is not just a driver of globalisation, but also a resulting factor due to the quick and ever-changing nature of the global market environment.[16]

Global standardisation

Global standardisation is the use of standard marketing internationally. Theorist Ted Levitt called for the standardisation and eradication of market segmentation worldwide. A company that adopts a global strategic orientation makes no distinction between domestic and foreign market opportunities. This type of strategy believes that a marketing campaign, product or service can work anywhere across the world and does not need to change when entering other countries.

16 Goeltz, D.R. (2014), "Globalization and hyper-competition-Drivers, linkages, and industry differences." *Journal of International Business and Cultural Studies*, Vol. 8, pp. 1–15

CASE STUDY

Coca-Cola standardisation strategy

Coca-Cola is the world's leading manufacturer and producer of soft drinks. It operates in 200 countries and boasts one of the most iconic logos in the world.

In 1996 Coca-Cola adopted a standardisation approach to the international marketing of its product. The once CEO of Coca-Cola, Roberto Goizueta, enforced this approach by stating that "the labels 'international' and 'domestic' [...] no longer apply."

In those times its strategy was represented by the tagline "think global, act global". Goizueta's strategy proved successful as Coca-Cola earned 67% of its total revenues and 77% of its total profit outside North America.

Source: Ghemawat, P. (2003) "The Forgotten Strategy", Harvard Business Review, Vol. 81, Issue 11, pp 76–84

Technology has proven to be a great advantage to companies that opt for the standardised approach. The internet has made the world smaller and information more easily accessible, which in turn means that multinational organisational brands and marketing techniques are far reaching. With the internet suppressing the idea of individuality, it means that a standardised approach is easier.

There are company preferences for how to develop strategy. In 1969, Perlmutter introduced the concept of EPG-Typology. Perlmutter was a pioneering theorist that focused on the evolution of MNCs.[17]

His EPG (ethnocentric, polycentric and geocentric) theory is a qualitative method of analysis that looks at the distinct managerial approaches of international companies.

Ethnocentric

Ethnocentrism is the evaluation of other cultures according to preconceptions originating in the standards and customs of one's own culture. It occurs when conducting business domestically and internationally. As a business owner, you must understand how the ethnocentric views of consumers can affect your operations. Failing to understand this can alienate consumers from your company, but if you recognise the reality of ethnocentrism you can develop a strategy to benefit from it.

The benefits of ethnocentrism tend to be felt by domestic companies. Increasingly, consumers are more likely to purchase domestically-produced products and less likely to purchase foreign manufactured goods. This may mean that foreign companies don't enter the market, or rather cannot enter the market successfully due to low demand for their goods. This allows domestic companies to benefit from less competition and protection of their products. Examples of the rise in consumers wanting to support local businesses are the "Totally Locally" initiative[18] and the Friends of the Earth's "Shop Local First" campaign.[19]

17 Perlmutter, H. (1969), "The Tortuous Evolution of Multinational Enterprises", *Columbia Journal of World Business*, Vol. 1, pp. 9–18
18 For more information on the "Totally Locally" initiative, visit: www.totallylocally.org
19 For more information on the "Shop Local First" campaign, visit: www.foe.co.uk/news/2006_april_shop_local_first

Ethnocentrism may aid domestic companies, but it can be problematic for international or overseas-based organisations.

OVER TO YOU

Activity 7: Understanding ethnographic research

To help you grasp ethnocentrism and ethnographic research practices read the following journal article:

Agafonoff, N. (2006), "Adapting ethnographic research methods to ad hoc commercial market research", ***Qualitative Market Research: An International Journal*****, Vol. 9 Issue: 2, pp.115–125. (This article will be available in your online student resources.)**

When you have read the article think about the following points and discuss them with a study partner if possible:

1. **What is your understanding of ethnographic research?**
2. **What is the main purpose of the paper?**
3. **How many different approaches are there to ethnographic research, and what are they?**
4. **How do you think these types of research can help businesses? Think about culture, experience and behaviour.**
5. **How is this approach to market research better than other approaches?**

Polycentric

Polycentric marketing is a type of global marketing in which companies attempt to spread the appeal of their products or services among multiple countries. This tends to be used when businesses decide to expand into overseas territories. The focus is no longer on the domestic market or sales, but instead international sales are at the forefront of strategy.

Polycentric marketing is defined by several key factors. First, it takes place in multiple countries, not just one or two nations. Second, polycentric marketing requires that the business establishes subsidiaries in these countries, which means that it tries to diversify its marketing schemes. Each subsidiary is in charge of its own marketing endeavours and has its own budget for advertising.

Polycentric marketing is necessary for global adaptability. Each branch of the company looks at its local market, the language and culture of the people and how current trends are changing consumer needs. Using this information, each branch can create a unique marketing strategy that answers these needs and is not bound by a potentially ineffective marketing plan created by the parent company in another country.

Geocentric

If a company is **geocentric** it means that the management looks at the business opportunities on a global scale. It looks to conduct business anywhere in the world and does not just limit itself to the domestic or local markets. A company is adopting a geocentric approach if it hires a mix of people from around the world based on skill rather than where the person lives or is based. The toothpaste brand Colgate is a good example. It operates internationally with many top executives speaking two or more languages, with 60% from countries outside the USA.

Geocentric approaches can make it easier for companies to be competitive in the ever-growing global market. Companies can create business models that are sensitive to different cultures, communication and business styles. This in turn makes it easier to conduct business with a variety of people.

There are two main disadvantages of this approach. The first is that you will need to find management and employees that have the ability to adopt multiple styles and approaches. Secondly, companies lose the benefits of being an expert in one country and culture as they have to spread globally into different markets and business environments.

Problems with standardisation

Standardisation is not straightforward and there are many problems that face companies that opt for this strategy. A uniform campaign may not necessarily work in every country. This is the case across countries of varying economic status. An example is when Pampers began to sell in Japan and recorded poor sales. After conducting research it found that the problem was the packaging, which featured an image of a stork delivering a baby. The reference was lost on Japanese parents, since the story isn't part of Japanese folklore.

"Think local, act global"

The phrase "think local, act global" was first created when the concept of globalisation really started to take off in the late 80s and early 90s. It is a response to the growing demands of international business and the opportunity to become an international name, but with local needs and requirements in mind. There have been countless examples where this has taken place; some of which have been mentioned in this section.

The world is now a smaller place and the marketplace in which businesses compete is now on a global scale. Supply chain management has made trading easier and the opportunities to enhance the brands with local tastes and specialties is now the norm. Companies, especially those trying to run lean supply chains, want to keep their operations as simple and standardised as possible. That way, they can drive efficiencies and economies of scale. If they want to operate in this way, businesses must cater to specific tastes and preferences. The supply chain needs to act locally to understand and meet those needs.

Here are examples of how the "think global, act local" philosophy works. In Mexico, the Coca-Cola produced has a different formulation from the drinks produced and sold in the USA. McDonald's signature dish in India is the Chicken Maharaja Mac rather than the beef-based Big Mac popular in most other countries. Car companies often share chassis platforms to help achieve economies of scale, especially between some brands in the USA such as General Motors. Softer suspensions, twin cup holders and other features were some of the design consequences, as well as significant increases in market share.

So, what other options are out there for marketing on the international level apart from a standardised approach? Some organisations opt to treat every market uniquely and favour an approach that has coined the term **glocal** (a combination of "global" and "local").

The global approach favours a local adaptation of products and marketing, but within the global community. It is sometimes described as being like a balanced model between standardisation and a local strategy approach. This means that both aspects of each approach are considered.

Warren Heaps, who has 25 years' experience in the area of international human resources, describes the importance of the glocal strategy:

> *It's really important to recognise that markets are different around the world, and company compensation programs should reflect a balance between global corporate philosophy and local practice and culture.*[20]

When trying to understand the glocal concept it is useful to consider real-life examples.

KFC

The fast food restaurant chain KFC uses a glocal strategy as it serves different foods depending on which country it is in and the cuisine that is preferred on a local level. For example, KFC branches in Shanghai serve porridge at breakfast and offer Peking duck burgers for lunch.

Starbucks

The coffee company Starbucks has not always successfully applied the glocal strategy to its business. However, in Beijing the international brand is very popular and adapts its menu to include a variety of different aromatic teas.

20 Heaps, W. (2010) *"Think Globally, Act Locally" for Compensation Design* [online]. Retrieved from: https://internationalhrforum.com/2010/02/28/%E2%80%9Cthink-globally-act-locally%E2%80%9D-for-compensation-design/ [Accessed on: 7 September 2017]

OVER TO YOU

Activity 8: Think local, act global

List as many international companies as you can that you think use the glocal approach. Select two examples and discuss with your colleagues or tutor (if possible) why they fall into this category.

1.4 Critically evaluate the international competitive landscape

We have covered how the international trade market operates and how countries can benefit from trading internationally. However, conducting business globally is not straightforward.

Barriers to world trade

To enter the international market, companies can face multiple challenges which can prevent their ability to trade globally. There are multiple barriers to international trading, but here we will discuss the seven main factors that limit trade and affect companies worldwide.

Cultural and social barriers

Cultural and social barriers face any business that wishes to conduct business outside of its country of origin. Every country has different values, beliefs and ways of living. We all speak different languages and conduct ourselves in different ways. When conducting business, these differences can amount to barriers if businesses are not able to adapt to the different cultures. An example of a cultural barrier would be if a company from a Western society wishes to conduct business in the East. Both territories have different cultural values and beliefs and these differences need to be addressed.

The impact of culture on businesses operating in a cross-cultural environment will be examined further in Chapter 4, where we will consider academic theories that examine how businesses operate in a multicultural environment.

OVER TO YOU

Activity 9: Cultural and social differences

Working with a study partner if possible, choose two countries that you perceive to be very different culturally and socially.

List some of the differences that may act as cultural and social barriers and suggest how these barriers could be handled.

Political barriers

Every country has a different political and legislative climate. When conducting business internationally, changes in the **political climate** can heavily affect a business or product development.

Steelworkers want tariffs

In 2003, the Toronto Star in Canada published an article that stated the following.

> *The United Steelworkers union wants provincial governments to lobby Ottawa to protect the country's steel industry now that federal officials have decided against penalizing low-cost imports.*

> *Lawrence McBrearty, national director of the United Steelworkers, said yesterday he would speak with chief executives of Canada's major steel producers and to leaders of the union's locals in different provinces about a new lobbying strategy.*

> *A spokesman for Finance Minister John Manley confirmed yesterday that the government has decided against imposing tariffs on steel imports.*

www.witiger.com[21]

This story shows how the political environment at a national level can impact the trade market globally. If the steelworkers do not successfully get the parliament to implement a new trade tariff, they will go on strike. This could impact international trade. If the workers go on strike there is an impact on manufacturing and the exporting of steel from Canada.

Protectionism

Protectionism is the practice of shielding a country's domestic industries from foreign competition by taxing imports.

Protectionism refers to when a government creates policy or takes steps towards restricting trade in the international market. This is often done when the government intends to protect local businesses and jobs from foreign competition.

The most standard forms of protectionism are tariffs and quotas that are placed on imported goods. Another step that governments and policy makers can take is to cut taxes to local businesses to help reduce their costs.

We will now look at some other forms of protectionism.

21 Toronto Star (2003), *Steelworkers want tariffs* [online]. Retrieved from: www.witiger.com/internationalbusiness/steelworkerswanttariffs.jpg [Accessed on: 2 July 2017]

Tariffs and trade restrictions

There are different forms of trade restrictions and tariffs. A tariff is a duty or tax on imports. Trade tariffs raise the cost of goods which then affects the level of profit that can be made internationally. Tariffs can discourage companies from entering the international market due to increased costs.

As well as taxes there are also quotas and **embargoes** which limit the amount of produce and goods that can be imported and exported between countries. Embargoes are a blanket ban on specific import and export goods.

There are also forms of non-tariff barriers, such as subsidies, government support and customs entry processes that can all impact or limit trade.

Boycotts

A **boycott** is a refusal to deal commercially or otherwise with a person, firm or country. A government boycott is the absolute prohibition of the purchase and importation of certain goods from other countries. There are numerous types of boycotts and bans and all last for different periods of time. A prolific boycott that is still ongoing is the Arab League boycotting Israeli goods and services. This boycott began in 1948 when Israel was founded. The aim of the boycott was to isolate and discourage the trade and migration of Jewish people into the Middle East.

The Arab League is an extreme example, but there are other boycotting activities that help to explain the motives and the use of this barrier for trade.

OVER TO YOU

Activity 10: Boycotts

Research an example of an international boycott and answer the following questions.
Why did the companies or countries begin the boycott?
What is the end goal?
How will this be achieved?
Do you think boycotts work?
How do they impact an organisation which operates internationally?

Non-tariff barriers on trade

As well as tariffs, there is a non-tariff barrier category that limits trade and acts as a deterrent for international business. Non-tariff barriers can include standards to protect:

1. health
2. safety
3. product quality.

This type of barrier is best explained through the use of an example. According to non-governmental organisation, Action for Southern Africa (ACTSA), African farmers and horticultural producers are struggling to create successful and profitable business in the European market. The WTO and the Joint Expert Committee on Food Additives (JECFA) have implemented tight restrictions on the importing of produce from South Africa due to concerns over the standards of food in relation to biological and chemical contaminants.

CASE STUDY

Standard harmonisation agenda

The WTO allows countries to stop food entering their borders if it does not meet certain standards for biological and chemical contaminants. The UN's Joint FAO/WHO Expert Committee on Food Additives (JEFCA) is tasked with producing global standards on product/goods safety to the **Codex Alimentarius Commission (CAC)**.

It has been argued that even though JEFCA is part of an EU body, it frequently chooses to ignore suggestions made by CAC and impose stricter guidelines where it deems appropriate.

One example involves residues of aflatoxins, found in processed nuts and dried fruit. These are poisonous and claims have been made that they can cause cancer. In 1998, the EU demanded that food entering its market must meet stricter standards for aflatoxins than JECFA recommended.

This is one of South Africa's main export categories and estimates have been made that this could significantly impact exporters of dried fruit and nuts, costing them approximately R670 million to comply with the tighter restrictions.

The economic adviser in Mozambique's agriculture ministry stated that "in some cases there are differences in the views expressed by experts and in other cases we may essentially be faced with political pressure based on a widespread, but not universal public fear".

Source: Adapted from www.modernghana.com/ and www.un.org/en/africarenewal/vol19no4/194trade.html

European Community anti-dumping penalties

This is a tariff that domestic governments can impose on foreign imports that are priced lower than market value. Anti-**dumping** regulations are "intended to establish fairness between trading partners".[22] The intent is very different from the reality. The impact of this tariff is that international products can be sold for less than the value and cost of production. To protect domestic business these tariffs are supposed to be used to stop international exports controlling the market.

Monetary barriers to trade

The final barrier to international trade is monetary. There are two ways that this type of barrier can be used:

1. blocked currency
2. exchange rate.

Blocked currency or non-convertible currency, is when a country's currency is stopped from being used in the **Foreign Exchange Market (FOREX)**. This tends to happen as a result of government imposed restrictions. It imposed to protect a nation's economy if it is in a highly-vulnerable position. However, it is also argued that it can be classed as a political weapon. Financial controls mean that a government gets the **monopoly** of trade in all foreign exchange dealings.

The Brazilian real and the Chilean peso are two examples of currencies that have been blocked from operating on the FOREX. The Brazilian real was blocked due to political unrest and economic instability. One of the most well-known examples of blocked currency is the Chinese yuan. The impact of this type of barrier is huge as it impacts the way a country trades internationally and the balance of trade (the rate and levels of imported to exported goods).

22 Gestrin, M. and Rugman, A. (1991), "EC anti-dumping laws as a barrier to trade", *European Management Journal*, 9(4), pp.475–82

OVER TO YOU

Activity 11: Blocked currency

Research blocked currencies across the world and fill in the table to highlight your findings.

Country	Currency	Reason for being blocked	Impact on the country

Barriers to trade

There are seven main barriers to trade:

1. Culture and social
2. Political
3. Tariffs and trade restrictions
4. Boycotts
5. Standards
6. Anti-dumping penalties
7. Monetary

World trade bodies

In the previous section we focused on the reasons why countries trade and the barriers that may prevent them from trading. We will now consider who operates and regulates the international trade market.

World Trade Organisation (WTO)

One of the most influential and well-known organisations that is associated with global trade is the World Trade Organisation (WTO). This body is solely responsible for the regulation of trade between countries. The WTO rules are found in its agreements, which were negotiated between its member countries, and they are intended to help the regulation of trade in goods and services through importing and exporting.

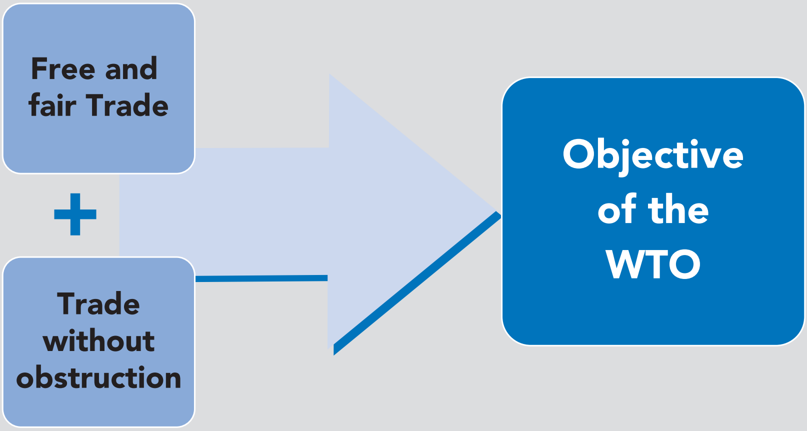

Figure 4: Main objectives of the WTO

Found in the preamble of the agreement establishing the WTO is the organisation's main objectives:

> *Raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services.*[23]

The WTO may be the most influential global trade body currently. However, it was created after the introduction of the GATT (General Agreement on Tariffs and Trade), a legal agreement between many countries designed to promote international trade.

The promotion of international trade meant that the GATT had to work on the reduction of trading barriers. Like WTO, the GATT preamble contained a brief statement of its main goals. It stated that they wanted to see "substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis."[24]

The GATT was developed during the UN Conference on Trade and Employment and was signed by 23 nations in Geneva on 30 October 1947. It came into effect on 1 January 1948. It remained in effect until 1994 when the Uruguay Round Agreements established the WTO.

North American Free Trade Agreement (NAFTA)

In 1994, the North American Free Trade Agreement (NAFTA) was developed in order to eradicate tariff and non-tariff barriers to trade and investment between Canada, the USA and Mexico.

23 World Trade Organization, n.d., *Sustainable development* [online]. Retrieved from: www.wto.org/english/tratop_e/envir_e/sust_dev_e.htm [Accessed on: 3 September 2017]
24 Duke Law, n.d., *GATT/WTO* [online]. Retrieved from: https://law.duke.edu/lib/researchguides/gatt/ [Accessed on: 7 September 2017]

It has allowed North Americans to enjoy an overall extended period of strong economic growth. Supporters of the agreement claim that it has allowed the territory better access to imported goods, investment opportunities and overall increase in the North American wealth and prosperity.

The EU

The EU has achieved a strong position by utilising a singular trading strategy rather than multiple strategies across all member states. This united presence represents strength and a solid global position making it an attractive territory in which to conduct business. What does the EU represent and what can it bring to the global market?

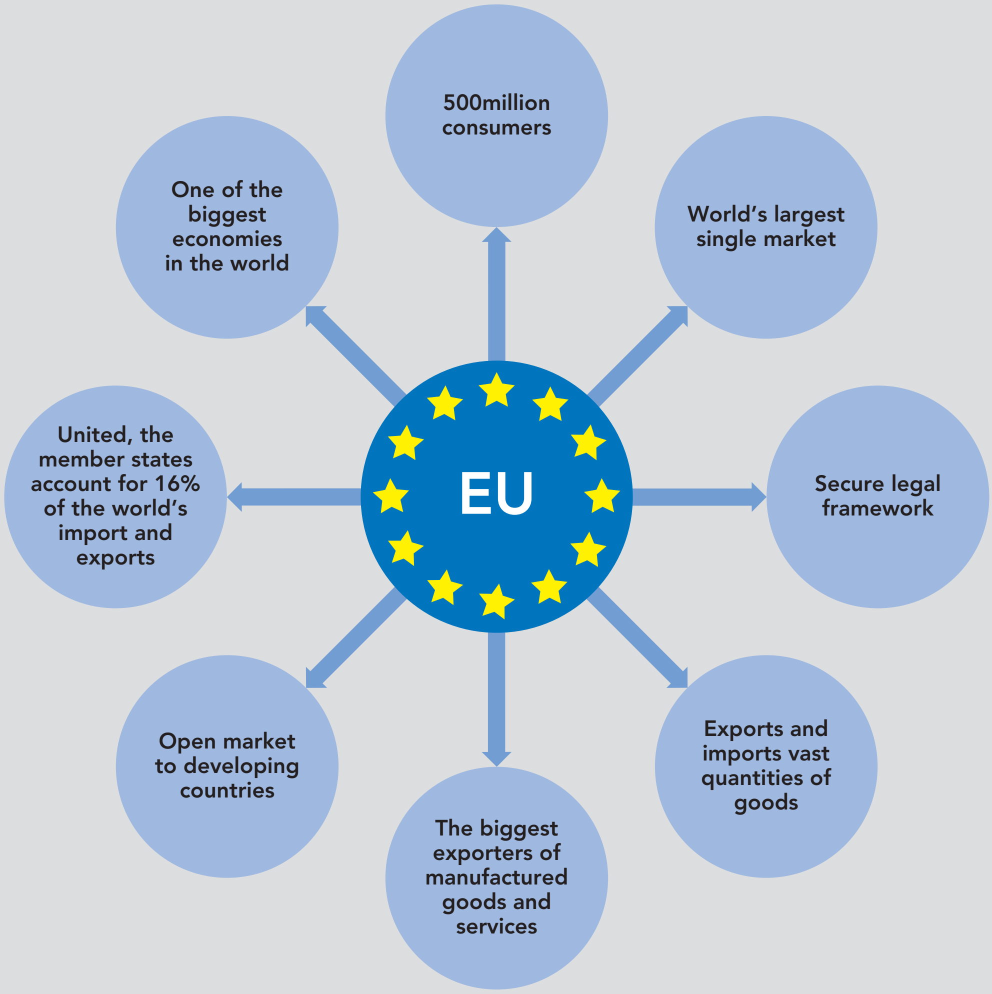

Figure 5: Importance of the EU in global trade

Figure 5 shows some of the reasons for the importance of the EU in the global trade market. Table 4 shows the value of import and export goods in 2013. This shows the extent of the EU's market share in the importing and exporting of goods compared to other locations.

Country or region	Imports (€bn)	Exports (€bn)
EU	2188	2415
USA	2079	1688
China	1716	1817
Japan	750	648
South Korea	468	506

Source: ec.europa.eu/trade/policy/eu-position-in-world-trade

Table 4: The EU's market share of imported and exported goods in 2013

The EU rarely implements barriers to trade as it is a firm supporter of free trade. An example of the EU's focus on free trade can be seen in the 2015 free trade agreement that was ratified and put into force by the member states. This allowed the EU and South Korea to trade freely without facing large duties on goods. After the agreement was introduced, 2016 proved to be a prosperous year for the newly-founded relationship and exports between the two locations increased by 55%.

There are a huge variety of trade associations throughout the world, shown in Table 5.

Trade association	Description
Accident management association	Insurance
Action4	Non-geographical call industry
Associated independent stores	Retail
College management	Education
Environment conscious building	Campaigns
Financial markets in Europe	Investment banking
Associated with survey computing	Trade

Table 5: Trade association examples

World trade bodies

There are four very influential bodies and agreements that have impacted how countries trade on a global level:

1 WTO
2 GATT
3 NAFTA
4 EU

Competitive intelligence: micro and macro factors

Competitive intelligence is highly important and necessary to succeed in global trade. In Chapter 2 we will look at how to enter the international market and strategies that should be used.

Prior to this, you must be aware of some internal and external factors that can influence the market. These can be split into two categories, micro and macro.

Micro	Macro
Suppliers	Demographic forces
Resellers	Economic factors
Customers	Natural/physical forces
Competitors	Technology
Public	Politics
	Social and cultural

Figure 6: Micro and macro factors that influence the market

These factors play a key role in how a business conducts its international trade and the strategies it adopts to enter a market.

PESTLE

It is useful to start with a general overview of some of the key factors that impact on an organisation. A way to ensure that we cover a full range of external factors is to carry out a PESTLE analysis. This looks at the external issues affecting an organisation under the following headings:

P = Political factors

E = Economic factors

S = Social factors

T = Technological factors

L = Legal factors

E = Environmental/ethical factors

The specific issues affecting an organisation under each heading will depend on many factors – the sector and location in which it operates, the products it is developing etc.

Political factors

- Government influences on labour mobility and barriers to trade and the movement of goods and services.
- Government influences on emigration/immigration.

- Government policies to attract targeted workers from abroad – health service workers and other key workers.
- Government policies on supporting/re-skilling the unemployed/disabled.
- The strength and determination of government to implement race/disability/equal opportunities policies.
- The power of regulatory bodies.
- European influences.
- The influence of government as a large customer of many business organisations.
- International events, (e.g. wars, terrorist attacks such as the 9/11 attacks on the New York World Trade Center).
- Government policies to encourage competitiveness, innovation and marketisation of the public sector; investment policies in education and skills.
- Government use of ICT in the management and administration of services.
- The strength of lobby groups on government, (e.g. UK trade unions, the South African Chamber of Miners and the Jewish-American Lobby).
- Local politics which might affect issues such as, planning permission for new buildings or extensions to existing properties.

Economic factors

- The rate of economic growth in the organisation's markets.
- Rates of price and wage inflation.
- Levels of unemployment.
- Levels of taxation.
- Levels of interest rates.
- Exchange rates against other currencies.
- Adopting, or not adopting, the Euro for EU member nations.

Social and cultural factors

- Changes in population structure (demographics).
- A change in living standards.
- Changes in moral attitudes and values.
- Changes in class structures.
- Changes in the pattern of housing development.
- Income and wealth distribution.

Technological factors

- Changes in the ways in which goods are made.
- Changes in the ways that services are provided.
- The increasing use of new forms of IT such as the internet and intranet.
- The influence of ICT on employee roles and tasks.

- The growth of virtual organisations and a weakening of organisational boundaries.
- Changing approaches to communication (e.g. email and texting).
- Changes to the structure and culture of work such as the encouragement for greater home working.
- Increased control over work performance and measurement.
- Greater integration of financial and banking systems.
- Easier knowledge transfer and greater control systems for multinationals.

Legal factors

- New domestic legislation.
- New international legislation.
- Changes in legislation relating to employment.
- Laws relating to business contracts.
- Health and safety legislation.
- Influence of legislation on diversity in the workplace – race/disability/equal opportunities.
- Environmental protection laws and the strength of enforcement.
- Laws relating to specific business sectors.

Environmental/ethical factors

- The influence of pollution – in air, water, etc.
- The influence of pressure groups organising environmental protests – against new motorways, new airports etc.
- Issues relating to food processing (e.g. protests against genetically-modified products).
- Resource scarcity leading to political problems (e.g. the depletion of non-renewable resources can increase prices and create volatile situations. An example being the increasing demand for oil, but lower levels of global oil reserves).
- Droughts and floods and other natural disasters.

We will look at the issue of ethics in more detail in the next chapter.

To read more about the process of carrying out a PESTLE analysis read the Chartered Management Institute's checklist[25] or the Chartered Institute of Personnel and Development's (CIPD) fact sheet.[26]

Market and competitive contexts

Another factor that has an increasing influence on an organisation's success is the market within which an organisation is operating, and the competition that it faces.

Consider the growth in online shopping which has meant that some high street retailers have struggled to survive. Think about the impact of online retailer Amazon on independent booksellers. As Amazon and other online booksellers deal with high volumes of goods, they are able to charge lower prices than independent sellers and consequently dominate the market.

25 www.cipd.co.uk/hr-resources/factsheets/pestle-analysis.aspx.and www.managers.org.uk/~/media/Files/Campus%20CMI/Checklists%20PDP/Carrying%20out%20a%20PEST%20analysis
26 www.managers.org.uk/~/media/Files/Campus%20CMI/Checklists%20PDP/Carrying%20out%20a%20PEST%20analysis

Government policy and legal regulation

The political dimension of the PESTLE analysis covers most issues relating to government policy, but it is worth making a few additional points. As different governments have different priorities, when we have a change of government we might also experience a change of priority. Let's look at three examples from around the world.

United Kingdom

In 2015 a new Conservative government came into power. In relation to employment, one of its key aims is to address strike action and in particular to address the number who have to engage in a ballot for strike action to go ahead. This is currently being addressed through the Trade Union Bill.

China

When Microsoft first opened its Beijing office, it instantly faced problems. It planned to use Taiwan operations to supply Mandarin version of Windows. The Chinese government banned the use of the Microsoft operating systems on government computers as it was concerned over the risk of poor technical support for the new operating system.

USA

The main economic forces come from the private sector. Through the American constitution the government has the power to impose policy and restriction on businesses. For example, for businesses to operate in the USA they must register and receive permission to operate and are issued a charter or registration documentation. This allows the government to monitor the companies that are located in its territory.

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- Anne C. Perry, (1990), "International versus Domestic Marketing: Four Conceptual Perspectives," *European Journal of Marketing*, Vol. 24, Issue: 6, pp.41–54. (This article will be available in your online student resources.)

RESOURCES

- World Trade Organisation: www.wto.org
- North American Free Trade Agreement: www.naftanow.org
- Ricardo's Theory of Comparative Advantage – International Trade: http://kalyan-city.blogspot.co.uk/2011/02/ricardos-theory-of-comparative.html

Summary

This chapter has provided you with an overview of globalisation, how and why companies trade globally and the landscape that they have to operate within. The world is ever-changing and becoming increasingly borderless. With the introduction of e-commerce and communication and technological innovations, companies and individuals are able to communicate and operate anywhere in the world at the touch of a button. It has allowed countries to profit from their own resources and import goods that are either scarce or difficult for them to produce locally.

In Chapter 2, we will explore in more detail the opportunities for businesses that decide to trade in the international market.

Chapter 2

Strategic International Marketing Opportunities

Introduction

International marketing is the process of planning and executing the conception, prices, promotion and distribution of products and services multinationally.

For a company to enter the international market it must have an awareness of the opportunities that exist within the market and be able to effectively make the most of them.

This chapter will look at marketing opportunities, how they can be assessed, the main tools that can be used to break into the international market and how important market research is to businesses.

Learning outcomes

On completing the chapter, you will be able to:

2 Critically evaluate strategic international marketing opportunities

Assessment criteria

2 Critically evaluate strategic international marketing opportunities

- 2.1 Explain the nature of international development
- 2.2 Critically evaluate different strategic responses and approaches to global strategy development
- 2.3 Analyse the main approaches to international marketing research and opportunity development

2.1 Explain the nature of international development

International development or global development has been historically largely concerned with the economic development of countries, through the rise of multinational businesses and international trading. International development offers categorisations for the economic status of a nation. Countries are classed as developed, developing or least developed, and more recently as **emerging market economies**. International development is also seen from a human perspective too, with many companies also developing their corporate social responsibility, for example by supporting projects that help to alleviate poverty, improve communities and increase literacy.

In a marketing context, international development is simply the expansion of trade. In previous sections, we have examined the impact of the internet and technological advancements on the global market. All of these drivers and advancements help to develop and grow the international trading market.

Market expansion

Market expansion can be defined as the process of introducing a product or service to a wider section of an existing market or a new demographic or geographic market. It is a simple concept, designed to increase sales and expand a business.

The purpose of market expansion is to increase profit. The two main methods of expansion are shown in Figure 1.

Figure 1: Market expansion

REVISION on the go

Companies can generate new sales and expand the market through using existing products that are already available to consumers. This is done by either:

- getting customers who have already purchased a product to buy more;
- attracting other customers to invest in your product;
- venturing into new markets with a product that is already available.

If a company chooses the alternative method to market expansion – the introduction of a brand new product – it can do so by:

- introducing updated and new versions of the current product;
- creating expansion packs (an improvement/update of software) that can be used alongside the current product or to improve the current product;
- producing a brand new product.

Market concentration

Market concentration relates to the number of organisations that operate within a certain market or produce the same product within the industry. It can be difficult for a new company to enter into and make a profit in a highly-concentrated market.

Organisations should conduct appropriate research and analysis before trying to enter or expand into a new market. One tool that is commonly used to assess the level of market concentration is the **Herfindahl-Hirschman index (HHI)**.

The index takes the top four performing firms and the market share that they control, and it also looks at the market share as a whole.

Concentration levels		
Level	**Concentration ratio**	**HHI**
High	80% to 100%	1,800 to 10,000
Medium	50% to 80%	1,000 to 1,800
Low	0% to 50%	0 to 1,000

Table 1: Concentration levels

REVISION on the go

The table above shows the basic principles of the HHI. If the index shows a number between 1,800 and 10,000 then there is a high level of market concentration. If the index showed a high concentration level, then this would indicate a monopoly; the US Department of Justice uses the HHI index for potential merger investigations. If the chart shows 0 to 1,000 then there is a low level of concentration within that market.

Examples of highly-concentrated markets

In 2012, IBISWorld analysts compiled data on the most concentrated industries in the USA. The research listed the top ten most concentrated markets:[27]

1. search engines
2. arcade, food and entertainment complexes
3. sanitary paper
4. wireless telecommunications
5. satellite TV providers
6. soda production
7. food services
8. lighting and bulb manufacturing
9. tyre manufacturing
10. major household appliances.

OVER TO YOU

Activity 1: Concentration

Look at IBISWorld's list of the most concentrated markets in the USA. Are you surprised by any of the industries that feature on the list?

Make a list of the markets that you think are highly concentrated in your country. Give reasons for your choices.

The importance of market concentration

If businesses decide to enter a new market, it is easier for them to enter a less concentrated market and this allows the opportunity for greater profit. Governments also monitor the level of market concentration as there is a risk of monopolies forming, which can prevent smaller businesses from competing. Ensuring market balance and a level of space for new business entry results in a healthier economy and fairer market.

27 Alegria, A., Kaczanowska, A., and Setar, L. (2012), *Top 10 Highly Concentrated Industries* [online]. Retrieved from: http://news.cision.com/ibisworld/r/top-10-highly-concentrated-industries,c9219248 [Accessed on: 4 September 2017]

A concentrated market does not necessarily mean that there is no room for expansion or for market entry. As mentioned in the list of highly concentrated markets in the USA, telecommunications tends to be highly-concentrated across the world due to technological advancements and the growth of the mobile phone industry during the last 20 years. However, in 1996, the USA deregulated the telecommunications industry, which opened-up the market to new competitors.

Developing relationships

Understanding the market that you are trying to enter is very important for businesses, but there are also other factors that should be considered. Relationships between importing countries and exporting countries are key when conducting and trying to understand international trade. Relationships between countries and trading businesses are vital in ensuring that problems do not arise.

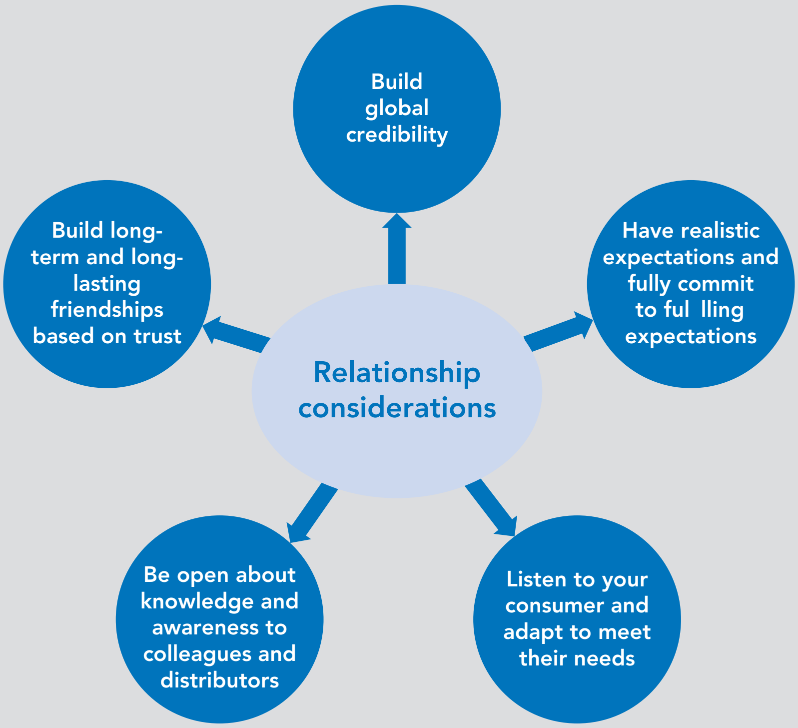

Figure 2: Five considerations when developing global relationships

These considerations are important in order to build trust between the producer, supplier and consumer.

All five considerations will lead to successful, sustainable, long-term trading relationships.

Networks and networking

To build relationships organisations must also engage and network with a variety of people from various backgrounds. Networking is a tool which can be used to expand your knowledge and awareness of the business environment and the product or service that you are selling.

Successful networking can have positive effects on a business. There are potential financial rewards as a result of the new relationships that are forged through networking, as it can generate new business through referrals from others.

B2B and B2C

Business-to-business (B2B) refers to the marketing of products to businesses or other organisations for the production of goods, in general business operations (such as office supplies), or for resale to other consumers, such as a wholesaler selling to a retailer. B2B marketing is a form of developing relationships with other businesses and is often seen as an effective way of building rapport with others.

In **business-to-consumer (B2C)** transactions, consumers select and pay for goods or services on a one-to-one basis. Customers are in control of the purchasing decision in this case and select products, place an order and arrange delivery through an agreed logistics channel. There might be less opportunity for direct discounts, but loyalty and repeat business helps to generate profit.

The benefits of being friendly

Building relationships helps with market expansion by:

1. building credibility
2. building trust
3. improving knowledge
4. establishing long-term relationships.

REVISION on the go

2.2 Evaluate different responses and approaches to global strategy development

To operate at an international level companies must develop a plan of how they will enter the market and ensure that they have an effective business model. This process is called global strategy. There are three types of strategy:

1. International: focusing mostly on the domestic market, but also operate overseas;
2. Multinational: operates across numerous markets and uses distinct strategies in each location;
3. Global: the world is treated as one united market.

For this section we are going to focus predominately on the global strategy framework, which focuses on a singular global market. However, there are very few businesses that operate using the purest form of this strategy. Instead, a glocal approach is favoured, which combines a global business front with a local, personalised touch.

CASE STUDY

PepsiCo produces numerous savoury snacks across the globe. It manufactures Lay's chips which are branded with the company logo. However, in the UK the branding is changed to Walkers crisps. PepsiCo bought Walkers at a point when the latter was the market leader for savoury snacks; for this reason PepsiCo kept the original Walkers logo.

PepsiCo, even though classed as a global company and adopting a global market strategy, still considers the domestic issues with the branding for its UK products.

The importance of global strategy

By using a strong global strategy, a company can make a greater level of profit in the international market. There are even examples of companies that have struggled in the domestic market due to a lack of resources, but by branching out globally have managed to secure the necessary resources to build a strong global brand.

OVER TO YOU

Activity 2: Global strategy – benefiting organisations

Working with a study partner if possible, think of (or research) any domestic businesses that have successfully branched out into the global market.

Give some reasons suggesting why they did this and how they managed to do this successfully.

The benefits of global strategy to the customer are not immediately obvious, when they are the ones that are spending money. However, in theory, the customer benefits as goods and services in the international market should cost less overall. Costs are lowered as labour and resources are cheaper in other countries and companies have begun to realise the benefits of utilising these opportunities and are able to pass these benefits on to the consumer.

Global strategy drivers

As well as companies and customers profiting and benefiting from the global market, there are other benefits of trading globally. Figure 3 highlights the main benefits.

Figure 3: Benefits of global strategies

These are all driving forces that push for the continual development of the global market and the use of global strategy. However, there are also negative aspects to this approach, such as high costs, the greater levels of resources required, barriers to trade and a loss of sensitivity to domestic marketing.

Standardised strategy

A loss of local sensitivity is often associated with the standardisation strategy model. As we have already discussed the standardisation approach aims to treat all markets equally without local differentiation. For a definition and the basic premises of global standardisation, see Chapter 1.

There are two schools of thought. The first is that the global market is unifying the world and there is a loss of local identity in marketing and the production of goods. The second is that global companies should customise their marketing approach and allow for a more glocal approach.

These opposing views are the standardisation or adaption/customisation approach.

Why choose the standardisation approach?

- Improved efficiency
- Cost savings
- Brand consistency
- Economies of scale
- Consumers benefit from a globally recognised brand
- A sense of familiarity that builds consumer confidence across borders, operational nature of standardisation (e.g. visual messaging is the core content in advertising)
- Celebrity endorsement (e.g. global movie, sports or pop stars)
- Music forms an important part of the communication
- Symbols and trademarks are prominent
- Improved efficiency and cost-saving are often the main drivers

Potential issues of standardisation

- Spoken or written language often causes issues when used between cultures
- Using humour is difficult across cultures and individual markets
- Brand personalities need to be country-specific
- Campaigns should not rely on previous campaigns, unknown in some markets
- Consumers may feel they are not being treated in a special way

Standardisation vs adaptation

Theodore Levitt, a notable German academic, is credited with popularising the term "globalisation" in his 1983 publication *The Globalization of Markets*.[28] Levitt believes that there can be a successful union of customers and cultures across the globe and that standardisation can be a successful and useful tool in global strategy. Through increases in free trade movements and technological developments a unified market is achievable and realistic.

In opposition to the standardisation approach is adaption theory. This approach is all about customising marketing to suit people on a local level as opposed to a singular global approach. The basic premise of this theory is that anyone entering and trading should consider the following:

28 Levitt, T. (1983), "The Globalization of Markets", *Harvard Business Review*, 61, pp. 92–102

- Environment
- Language
- Race
- Occupation
- Academia
- Laws
- Culture
- Social
- Politics

Multinational companies should research and analyse the market and adjust their selling, marketing and business techniques to fit the culture and environment in each of their locations.

! NEED TO KNOW

Adaption theory – is it important?

The world is culturally diverse and, due to advancements in technology and communication, we have the greater ability to interact with people from different countries and cultures. In marketing, the adaption theory approach considers the diversity of the world that we live in and sees products and marketing becoming more tailored to suit particular cultures or demographics of consumers.

REVISION on the go

Advantages and disadvantages of standardisation and adaption

So how do we choose which approach is best and decide which strategy will suit a company trading in the global market? Let's look at the advantages and disadvantages to each approach.

	Standardisation	Adaption
Pros	• Economies of scale • Faster set-up time • Single coherent global image • Excellent monitoring of communication	• Respects local specifications and expectations • Excellent local image • Customers feel noticed and respected
Cons	• Possible loss of advertising effectiveness • Little reactivity and little flexibility • Can create negative reaction from negotiating local needs	• Higher cost • Time-consuming and poor speed of execution • Difficulty knowing what consumers really want

Table 2: Standardisation vs adaption theory

REVISION on the go

With both positive and negatives to each approach, companies have begun to realise that a pure version of global strategy is not always the most efficient method of market entry. Instead, companies have used a blended model that looks at the global market, and also considers local factors.

CASE STUDY

Getting it right

Fast food giant McDonald's is a company that has managed to strike the right balance between both models. McDonald's is comprised of 33,500 restaurants in over 120 countries worldwide. It manages to deliver a unified marketing campaign, but allows for local cuisine variations on its menus to appeal to local customers. As well as menu changes, it also shoots its promotional advertisements in over 12 languages to ensure that its campaigns and marketing is understood globally.

To further your knowledge on standardisation and adaption theory in relation to multinational organisations, read the following article:

Lamprianou, I., Thrassou, A. and Vrontis, D. (2009), "International Marketing Adaptation Versus Standardisation of Multinational Companies", *International Marketing Review*, Vol. 26, Issue 4/5, pp. 477–500. (This article will be available in your online resources.)

Regional strategy

Regional marketing and the strategy used to approach this is different from national or even global. This is because it is focused on a certain area or location which has unique characteristics. Adopting regional strategies can bring many advantages and disadvantages which should be considered before use.

The prime example of this might be advertising through the local media in that location. This brings many advantages; the first is the cost reduction which is often seen as a result because national marketing and glocal marketing are so expensive. It means that a business can focus on a very local market and build a strong brand reputation. The other advantage is that it can promote and focus on certain products. One of the best examples of this is the consumer goods giant, Proctor and Gamble, which advertises specific medications, such as malaria tablets, in African countries. There is very little point in advertising this product in Poland – as malaria is less likely to occur in Eastern Europe.

The disadvantage to this is that it is much more focused, sometimes too narrowly, and therefore it can be difficult to expand further if the business is just starting out. However, different markets and segments can be targeted in relevant ways, keeping the brand strong and appropriate to regional needs.

2.3 Analyse the main approaches to international marketing research and opportunity development

Market research is vital as it is important that businesses collate data that will help to guide them when making difficult decisions. There are countless reasons why research is important in any area, whether it be academic research, evidence-based policy making or businesses conducting market research.

We are focusing on the international markets and the importance of market research in business. Figure 4 shows six reasons why companies should conduct research.

Figure 4: Six reasons to conduct market research

OVER TO YOU

Activity 3: Market research

How would you carry out market research for a company entering into the international market from the domestic market?

Think about what they would need to know, what tools are at their disposal for conducting the research and what the benefits of each research method are.

There are market research companies that specialise in helping organisations grow and expand through conducting research that helps them understand the market. One of the most notable market research organisations is B2B International. It works with globally recognised brands such as Mercedes-Benz, Henkel and ExxonMobil.

B2B International says that companies need to know six main areas before entering a new market or expanding in their current market:[29]

- What is the size of the market and is it big enough to interest my business?
- What proportion of the market is ever likely to be interested in our offering?
- What are the precise requirements in terms of the whole customer value proposition – core product, service offering and intangibles?
- What are the promotional messages and channels we should adopt?
- How can I price my products and services in the new target market?
- What is the optimum channel strategy and which specific **intermediaries** should we do business with?

To be able to gain answers to these questions the market research group conducts market sizing research, needs assessment research, pricing strategies and value chain analysis. All of these tools aim to gain knowledge on the market size, how products are developed and distributed and how an organisation should market and price its product to fit within the current market.

Why companies should always do their research

In a study carried out by CB Insights in 2014, it found 20 key reasons why new businesses fail to be successful.[30] The top three reasons which were found to be the most common in all sampled failed businesses all related to poor or no market research being carried out.

Figure 5 shows the results from the data collected. We can see that 42% of businesses are not successful because they did not identify a new product or clear market that they could enter. Put very simply, these businesses failed to define a product or market it in a way that made people want to buy it. To prevent this type of failure companies should invest in in-depth market research to help them develop a strong strategy to achieve success.

Analysing and researching the market

In the domestic environment, businesses can be significantly affected by economic, cultural and legal changes specific to that country. Businesses may not be able to control any of these ever-changing factors, but they can respond to them in an attempt to limit the negative effects for the organisation. Premeditating and reacting to changes is complex, but it is significantly easier to deal with one set of environmental and business problems compared to multiple, which may be faced by a business that operates in numerous countries.

On top of dealing with only one set of factors or one business environment, a domestic company only deals with one target market. For example, TM Supermarkets is a chain of stores that operates solely in Zimbabwe. By operating in this territory alone, the company would only have to invest a limited amount of resources into researching and analysing its potential customers. This would involve looking at what they would be purchasing and how to market the stores and produce.

29 B2B International, n.d., *"China Market Entry"* [online]. Retrieved from: https://www.b2binternational.com/research/services/market-entry/china-market-entry/ [Accessed on: 11 September 2017]
30 CB Insights (2014), *The Top 20 Reasons Startups Fail* [online]. Retrieved from: www.cbinsights.com/research-reports/The-20-Reasons-Startups-Fail.pdf [Accessed on: 12 September 2017]

If a business were to expand into international locations a significant amount of time and resources would be required to research each location, economy, market and competitors. The international supermarket chain 7-Eleven, for example, boasts stores in over 46,000 locations across the world. The company, founded in the USA, operates in a variety of locations that all have different economic and cultural climates and the organisation must take these differences into consideration.

Quantitative and qualitative research

The two main types of research are quantitative research and qualitative research.

Quantitative research

Quantitative research focuses on sampling techniques such as customer surveys. The results of quantitative research can be analysed, expressed numerically and can be dealt with mathematically. This approach allows for the researcher to estimate future events or quantities. For example, if a retailer wants to find out how many of its customers purchase a particular item, it could conduct a survey and ask participants what products they have purchased. The results would then go through a statistical analysis that would provide the company with a breakdown of the number and percentage of customers that buy particular products. Quantitative research provides the user with a global understanding of a particular topic, but on a general level.

Qualitative research

This methodology is different to the quantitative approach in that it is on a smaller scale, but provides greater detail and the option for in-depth examination. It is not numerical and often involves the use of interviews, both structured and semi-structured. At its very basic meaning, qualitatively refers to "quality" and quantitative refers to "quantity".

Table 3 shows the differences between these approaches to research.

Comparing qualitative and quantitative research		
RESEARCH ASPECTS	**Qualitative research**	**Qualitative research**
COMMON PURPOSE	Discover ideas with general research objectives	Test hypotheses or specific research questions
APPROACH	Observe and interpret	Measure and test
DATA COLLECTION APPROACH	Unstructured and free form	Structured response categories provided
RESEARCHER INDEPENDENCE	Researcher is immediately involved (results are subjective)	Researcher is an uninvolved observer. Results are objective
SAMPLES	Small samples are often used and in a natural setting	Large samples to produce general results (that can be applied to other situations)

Table 3: Comparison between qualitative and quantitative research

CASE STUDY

Starbucks vs Australian independent coffee

Starbucks coffee was founded in Seattle, Washington, USA, in 1971 by Jerry Baldin, Gordon Bowker and Zew Siegel. The business started out as a local coffee shop with the goal of creating the "highest quality coffee in the world".

In 1982, Howard Schultz joined the team as Director of Retail Operations and Marketing. Under the influence and guidance of Schultz the company began to expand and today Starbucks is one of the most well-known global coffee house chains and brands, with a revenue of US$3.9bn in 2004. However, in 2008 Starbucks made headlines by becoming a flop in Australia.

In the space of eight years, the Starbucks stores that opened in Australia faced significant loss in profit levels and ultimately 700 employees lost their jobs. So what went wrong? Starbucks made five fundamental errors:

1 The company failed to conduct in-depth market research into the Australian coffee market.
2 It failed to follow the mantra of "think global, act local".
3 Its product was not unique enough to stand up against local domestic competitors.
4 It lost sight of the quality of the product and focused solely on profit.
5 It had a flawed business model by selling premium priced coffee that Australian consumers did not view as being of premium quality.

The company failed to research its target market. The Australian coffee market is built on independent and unique cafes with high-quality roasted beans from around the world. This coffee culture was not suited to the generic Starbucks coffee brand.

OVER TO YOU

Activity 4: Starbucks – what would you have done differently?

What you would have done differently to make the introduction of Starbucks into the Australian coffee culture more successful? Discuss your ideas in a group, if possible.

Challenges faced when conducting market research

Conducting market research is beneficial for the company and ultimately the consumer. However, it does not come without its difficulties. There are five main problems that companies must face when they are conducting market research:

1. difficulty getting stakeholders to sign contracts or commit to the business;
2. too many hypotheses to test due to budget and time restraints;
3. inability to find email addresses for prospect targets;
4. low response rate from early rounds of interview requests;
5. difficulty reaching a certain segment of the market.

Market research

The positive aspects of market research are that it:

- helps guide communication with consumers;
- identifies opportunities in the market;
- minimises risk;
- measures reputation;
- can highlight problems;
- helps organisations to plan ahead;
- identifies market trends;
- establishes market entry position.

REVISION on the go

Understanding your target audience

Customers' needs are continuously changing and evolving and organisations need to constantly adapt to these changes. Buyer behaviour research can be conducted to help forecast and manage these changes.

Opportunity identification and analysis

To identify and analyse the key areas to consider when entering a new market, a company should follow the 5 Cs model which includes climate, competitors, customers, company and collaborators. The 5 Cs model is a modern take on the 3 Cs model developed by Japanese strategist Kenichi Ohmae.[31]

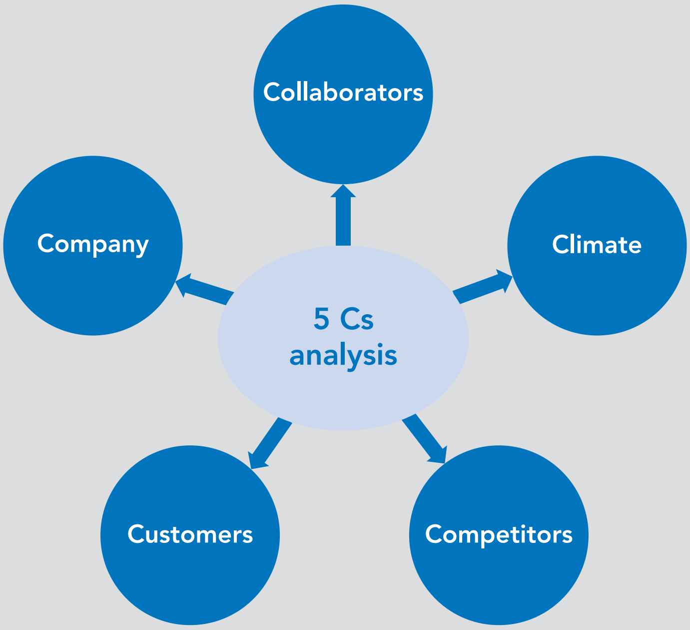

Figure 6: 5 Cs analysis diagram

Each of the 5 Cs can represent a number of different elements that must all be understood by an organisation for them to successfully trade on an international level.

To use an example let us focus on climate. This can refer to the political climate within a country, its economic climate, technology, culture and legal climate or environmental issues. All are important and can affect many aspects of trade.

The 5 Cs have been used by many academics and organisations. All agree that methodically looking for the 5 Cs can bring clarity to the search for innovation opportunities.

CASE STUDY

Tanzanian sisal

Tanzanian sisal is a product which was used by companies who failed to forecast and account for a change in the level of demand for the product in Eastern Europe. The region was in a state of political unrest and this also had a damaging effect on the business.

Sisal is a fibre that is used in the production of clothes and matting. When companies first began to use it, the industry blossomed. But due to a downturn in sales, sisal mills had to close and hundreds of jobs were lost.

31 MBASkool.com, n.d., *3C's model Ohmae* [online]. Retrieved from: www.mbaskool.com/business-concepts/marketing-and-strategyterms/1565-3cs-model-ohmae.html [Accessed on: 12 September 2017]

In the 1960s, sisal was Tanzania's largest export, accounting for over a quarter of the country's foreign exchange market. However, during the 1970s and 80s, production began to slow and problems began to hit the manufacturing organisations. Tanzania is now no longer the leading producer and exporter.

The decline in sisal production came in two stages – an initial stage up to 1987 and then 1990 onwards. Both internal and external factors account for the decline. In the initial stage, the internal factors included the nationalisation of some of the sisal estates in the late 1960s, an overvalued exchange rate, high export taxes and a controlled single channel marketing system.

External factors in the two periods had the most significant effect and clearly show the consequences of an ill-prepared global strategy. In the initial stage, up to 1987, Tanzania experienced declining world prices of sisal fibre and the introduction of a substitute, cheap synthetic fibre polypropylene twines. These factors led to low investment in replanting, leaf transport facilities and factory machines.

In the second stage, from the 1990s onwards, the collapse of the former USSR, one of the major markets for Tanzania's sisal fibre and changing world demand had a major impact on profits. The inability to adapt to these changes in demand was a major factor in the manufacturing organisation's collapse.

Source: Adapted from www.naturalfibres2009.org/en/stories/sisal.html

Market research planning process

The process of conducting market research is systematic and tends to take place in six stages.

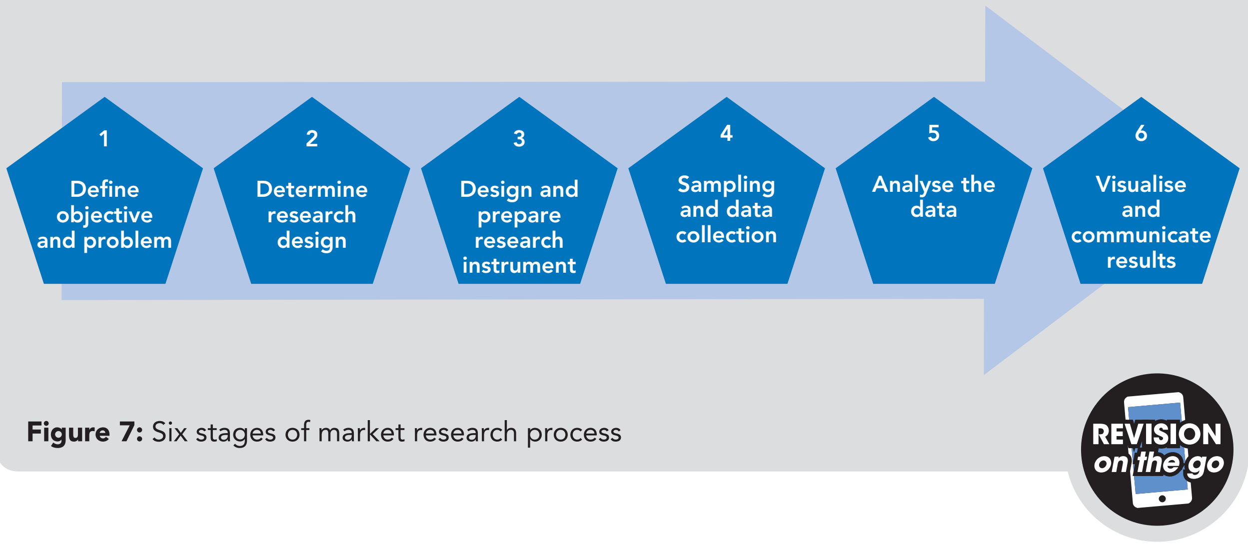

Figure 7: Six stages of market research process

Step 1: Define the objective and problem

This could be classed as the most important step in the market research process: defining the goals of the project. This involves an organisation understanding what issues need to be addressed through market research. Typically, there is a key business problem that needs to be examined, but there is a lack of information to make decisions comfortably. It is the job of a market researcher to inform that decision with data. Deciding which price to see a product for is an example of a business problem that may be made easier with the results of market research.

Step 2: Determine your research design

Now that the area that needs to be researched has been determined, it is time to plan out the type of research that will best obtain the necessary data. Think of the research design as a detailed plan. The first step is to determine the market research method (for example, a survey or focus group may be the most appropriate method). You will also need to think through how to identify and choose the sample (Who are we targeting? Where will we find them? How will we incentivise them to take part?).

The choice of research instrument will be based on the nature of the data you are trying to collect. There are three classifications to consider.

Exploratory research – This form of research is used when the topic is not well defined or understood, your hypothesis is not well defined, and your knowledge of a topic is vague. Exploratory research will help to gain broad insights, narrow focus, and learn the basics necessary to go deeper. Common exploratory market research techniques include secondary research, focus groups and interviews. Exploratory research is a qualitative form of research.

Descriptive research – If the research objective calls for more detailed data on a specific topic, then quantitative descriptive research is required. The goal of this form of market research is to measure specific topics of interest. Surveys are the most common research instrument for descriptive research.

Causal research – The most specific type of research is causal research, which usually comes in the form of a field test or experiment. For example, does the music I play in my restaurant increase dessert sales; for example, is there a causal relationship between music and sales?

Gathering research on a market helps companies to target a specific demographic and learn about the environment that they will be entering into. It is used to gain a competitive advantage over rival companies in the same market. Having access to knowledge that competitors don't have means that an organisation can know the best marketing strategy to follow and implement.

The main benefits of market research in the global market are:

- gaining an insight into industry growth patterns;
- gaining knowledge on relationships between the demand for goods and services and the profit available;
- predicting patterns of demand in specific countries;
- being able to estimate the demand when data is unobtainable;
- being able to perform a comparative analysis;
- being able to perform a cluster analysis.

Step 3: Design and prepare research instrument

At this stage of the research process, the marketing department will seek an appropriate method to conduct the research. A research instrument is simply a tool used to conduct the market research. A survey is a good research instrument, and can be distributed through email, physical distribution and websites such as Survey Monkey, for example. More modern instruments will help make the analysis much easier and make it look professional.

Step 4: Sampling and data collection

A decision is made regarding which proportion of the population will be surveyed or questioned about the products or services. The stronger the sample size, the better the results will be. The data is then collected from the target market.

Step 5: Analysis of the data

More modern research instruments and technology analyses the data for the business. This makes life very easy for the organisation and marketing team. Usually, the results of the analyses will be presented in diagrammatic format such as line graphs, bar charts, pie charts or info-graphics. This stage allows the business to form marketing decisions, or at least start the decision-making process.

Step 6: Visualise and communicate results

Here, a marketing department may put together a report and produce the results with some form of analysis for the main stakeholders of the business. This follows on from Step 5 where the decision-making process begins to where the actual planning starts, based upon results and findings.

SWOT analysis

Another way for a company to discover new opportunities and identify potential threats to their success is through a **SWOT analysis**. It is sometimes referred to as the corporate appraisal and is an honest assessment of the current performance of the organisation. It can lead to an understanding of areas that need to be developed in the future. In a SWOT analysis the following aspects of a business are appraised.

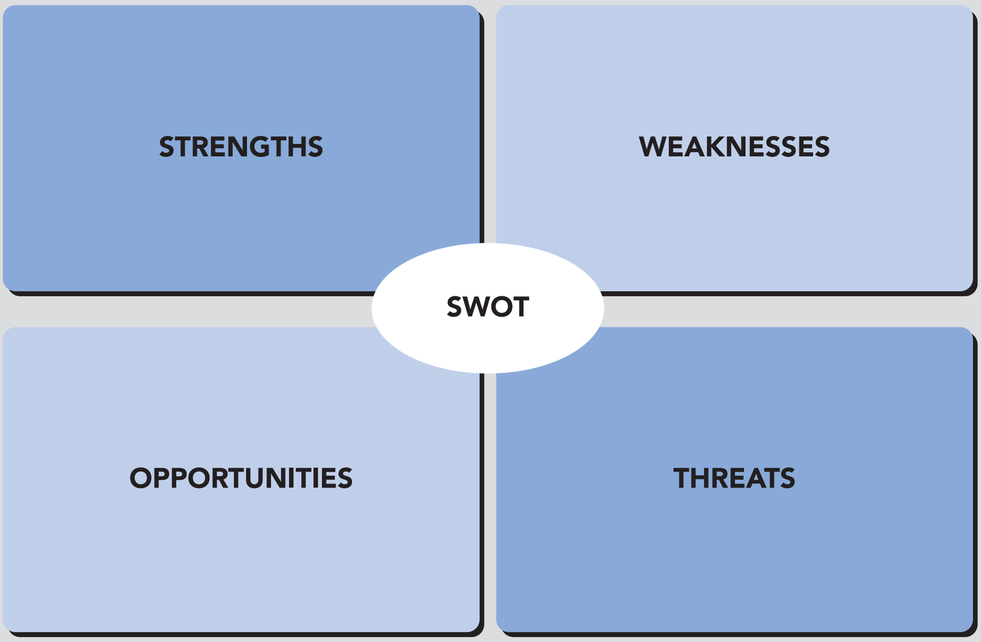

Figure 8: SWOT analysis diagram

REVISION on the go

The SWOT analysis, therefore, primarily focuses on internal issues.

As with the PESTLE analysis, the specific factors under each heading will vary, but the types of things that you might see include the following.

Strengths

- Large market share
- Well-known brand
- Operating in a range of markets
- Highly-skilled workforce
- Highly-experienced management
- Strong leadership
- Steady annual growth

Weaknesses

- Small market share
- Poorly-recognised brand
- Only operating in one market
- Low-skilled workforce
- New management with little experience
- Weak leadership
- Steady annual decline

Opportunities

- New markets opening
- International market potential
- Changing demands from customers
- New product ready for market soon
- Changing social attitudes make product/service particularly desirable
- Gap in the market has been identified

Threats

- Declining markets
- New competitors on the scene
- Competitors offering goods/services at reduced prices
- Customers demonstrating a lack of loyalty
- Niche market with no new outlets identified
- High employee turnover

To read more about the process of carrying out a SWOT analysis read the Chartered Institute of Personnel and Development's fact sheet here: www.cipd.co.uk/hr-resources/factsheets/swot-analysis.

OVER TO YOU

Activity 5: SWOT analysis

If you are employed currently, carry out a SWOT analysis of your organisation (or if you do not feel you know enough detail about the organisation focus the analysis on the department within which you work). Share your findings with a colleague or your manager and see if they agree.

Strengths:

Weaknesses:

Opportunities:

Threats:

Problems faced when conducting international market research

To collect and analyse a global data set is sometimes very problematic. Listed below are the main issues concerning this type of data collection:

- multiple markets need to be considered, each with unique characteristics, availability of data and research services;
- it is sometimes not cost-efficient to collect data from small markets;
- the practical logistics of obtaining data can be problematic (e.g. language barriers and problems with interpretation and the costly and time-consuming nature of collecting primary data);
- availability of resources, including technology and communication devices;
- cultural factors, such as the fact that women and children cannot be approached in certain cultures while some communities are reluctant to talk to strangers or share personal information.

Collecting any data set or market research can be full of potential pitfalls and barriers. However, without collecting such data, organisations would attempt to enter into new markets without any prior knowledge or expectations, which would prove to be very damaging to business.

To help counter problems, any data should be used well and analysed thoroughly. There are numerous techniques for data analysis, but one which has proved to be popular with market researchers is the process of segmentation.

International market segmentation

Market segmentation is the process of dividing a large unified faceless market into clearly identifiable subcategories. These are known as segments and are based on the following common, shared characteristics:

- needs
- interests
- lifestyles
- demographic profile.

The overall aim of segmentation is to identify areas that are likely to be the most profitable and have a strong potential for market growth. These can then be used to focus on target markets.

There are numerous ways that a market can be split or segmented.

B2B	B2C
Different businesses	Demographic segments
Different countries	Behavioural segments

Figure 9: Examples of market segmentation using B2B and B2C businesses

REVISION on the go

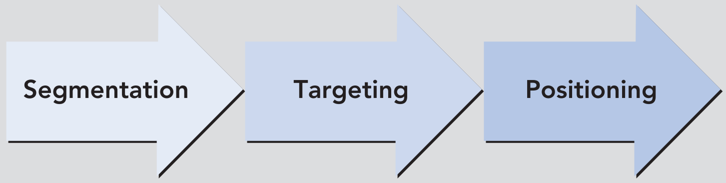

Figure 10: The STP approach highlights the three areas of decision-making

Market segmentation assumes that different segments require different marketing styles and focuses, such as different prices, promotions and offers. Market segmentation is not only designed to identify the most profitable areas, but also to develop profiles of key segments in order to better understand them.

Insights from segmentation analysis are subsequently used to support marketing strategy, development and planning. Many marketers use the STP approach. Figure 10 shows the basic format for STP – segmentation, targeting and positioning.

Think of segmentation like peeling into an orange and separating out all of the pieces. In a marketing context, this is the same as looking at the market, pulling it apart and focusing on each sector that makes up that market individually.

Contemporary market segmentation emerged in the twentieth century as marketers responded to two pressing issues:

1. Demographic data was available for groups, but rarely for individuals.
2. Advertising and distribution channels were available for groups, but rarely for single consumers.

Until more recently due to new technology and digital communication, most segmentation approaches retained a tactical perspective that focused on addressing immediate short-term decisions, such as describing the current market.

Now it is possible for marketers to conceive of segmenting at the level of the individual consumer. Extensive data is now available to support segmentation at very narrow groups or even for the single customer, allowing marketers to devise a customised offer with an individual price and this can then be disseminated via real-time communications.

Number of segments	Segmentation strategy	Comments
Zero	Undifferentiated strategy	Mass marketing: no segmentation
One	Focus strategy	Niche marketing: focus efforts on a small, tightly-defined target market
Two or more	Differentiated strategy	Multiple niches: focus efforts on two or more, tightly-defined targets
Thousands	Hyper segmentation	One-to-one marketing: customise the offer for each individual customer

Table 4: Segmentation strategy breakdown

A number of factors are likely to affect a company's segmentation strategy:

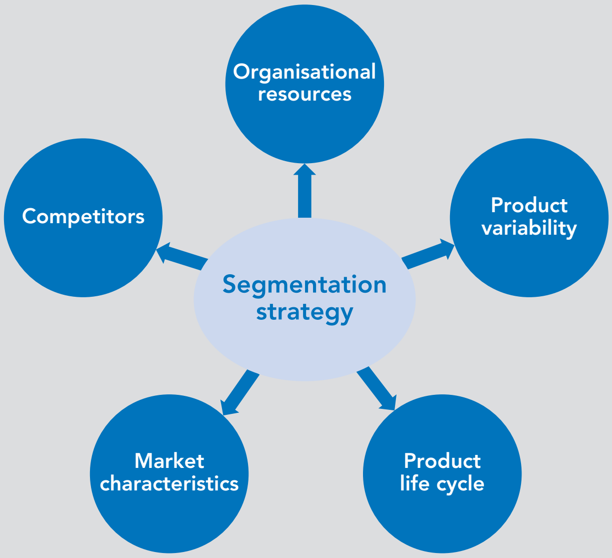

Figure 11: Factors affecting segmentation

The limitations of conventional segmentation have been well documented. There are five main criticisms:

1. it is comparable to some mass marketing techniques and does not provide enough detail;
2. the approach is not able to focus in on the market tight enough to highlight key differentiating factors;
3. the approach cannot identify narrow clusters;
4. geographic and demographic segments are too descriptive and lack sufficient insight;
5. difficulties with market dynamics and its instability to charter segments over time.

Even with these limitations, segmentation remains one of the most prolific tools in marketing and it is still widely-used.

To widen your understanding of segmentation and some of the other terms and ideologies associated with it, read the journal article by business scholars Fuat Firat and Shultz (this article will be available in your online student resources).[32]

! NEED TO KNOW

Market entry method selection

There are a variety of ways that a company can enter into the international market. The most appropriate method to allow a business to sell its product is dependent on the business, the product and the results of market research and analysis. There are seven methods of market entry: contracting, franchising, direct export, indirect export, licensing, manufacturing abroad and joint venture. Each method is unique and the appropriate selection has to be made for a company to launch successfully in a new market.

32 A. Fuat Firat, Clifford J. Shultz II, (1997), "From segmentation to fragmentation: Markets and marketing strategy in the postmodern era," *European Journal of Marketing*, Vol. 31 Issue: 3/4, pp183–207

Market profile analysis

Market profile analysis is a process that sees the market being analysed using tools such as a market profile chart. To be able to plot an accurate chart you must have knowledge on structures, values, distribution and price. By utilising this tool, organisations can make well informed and smart decisions for trading in the international market.

Figure 12: Market profile analysis

REVISION on the go

Risk management

Whatever company or industry you may work or operate within, there is always an element of risk involved in conducting business. Risk incorporates two main issues:

1. the probability of something going wrong;
2. the negative consequences.

It is difficult to spot risk in a market, which makes risk analysis an essential tool for all organisations. It can help to identify and understand the risks that could occur, and this can help companies manage potential risks and minimise their impact on the business.

Risk analysis

How to create a market profile

Let's say we own a bakery based in Chicago, USA. The bakery is called Cakey Bits Baked Goods. It is currently developing its marketing strategy for the next financial year. There are a few steps that must be followed to create the plan.

First we need to identify the target market. A target market is a group or segment of society that the business aims to entice into buying its product. A company will select its target audience and ensure that all marketing strategies are designed to attract this selected group of people.

As the name implies, Cakey Bits Baked Goods sells freshly-baked goods and are targeting those consumers who desire a fresh-tasting cake. The company's research shows that the average buyer of baked goods in the area is married women between 50–70 years old.

The market profile for the company further breaks down the target market. It has identified some key characteristics of its target market, which together constitutes the market profile.

With this information an initial marketing plan can be produced. The beginnings of which is a positioning statement for the distinct customer sector that is being targeted.

Cakey Bits Baked Goods positioning statement:

"Cakey Bits Baked Goods' target audience is a married woman aged 50–70 years old. Our ideal buyer resides in Chicago, close to the location of our current business. The majority of baked goods are purchased by people who appreciate traditional home baking and desserts. It's our intention to market and sell to these women who desire our product."

Demographic
Gender: Female
Marital status: Married
Age group: 50–70 years old
Income: $50,000–$75,000 per year

Geographic
Chicago, USA

Psychographic
Buyers value home-cooked meals and desserts

The positioning statement would address who the target consumer is, their occupation/income, cultural values and where they live/work. It is important that this statement is the focus of all marketing strategies and entry methods to ensure consistency and focus.

Through the use of market research, more detailed information can be drawn out that will capture information on the interests and requirements of the consumers.

READING LIST

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Emerald Insight articles

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- Demetris Vrontis, Alkis Thrassou, Iasonas Lamprianou, (2009), "International marketing adaptation versus standardisation of multinational companies," *International Marketing Review*, Vol. 26 Issue: 4/5, pp.477–500 (This article will be available in your online student resources).

RESOURCES

- Market research company example: www.b2bmarketing.net/en-gb/events/awards/about
- SWOT Analysis: www.cipd.co.uk/hr-resources/factsheets/swot-analysis.aspx

Summary

In this chapter we have covered the main areas that surround strategic international marketing opportunities. We have learned the importance of market research and the impact that it has on market entry selection and success. There are numerous risks that can face a company entering a new market. Companies must ensure that they are aware of the risks and how to tackle them in order to succeed.

The use of a SWOT analysis is one of the most well-known ways for a company to track its performance and identify any threats that it may face. The use of such analysis tools as well as compiling data on the target market and the actual consumers will help to strengthen a company's position.

In the following chapter, we will develop these concepts and approaches to international marketing even more by looking at alternative market entry methods and the formulation of an international business strategy.

Chapter 3

Alternative Market Entry Methods and the Formulation of an International Business Strategy

Introduction

For a business to become successful outside of its domestic market, it must create an appropriate entry model that will allow it to enter new markets. Developing a market entry strategy is a relatively long and complex process that involves thoroughly researching the target market, understanding the current economic climate, potential competitors and consumers and potential barriers to trade that may be faced.

This chapter will provide you with the knowledge and ability to successfully appraise the suitability of market entry methods and the relevant theory that surrounds this topic.

Learning outcomes

On completing the chapter, you will be able to:

3 Appraise the suitability of alternative market entry methods as part of the formulation of an international strategy

Assessment criteria

3 Appraise the suitability of alternative market entry methods as part of the formulation of an international strategy

3.1 Critically discuss the main characteristics of international marketing strategy

3.2 Critically evaluate various market entry methods

3.3 Evaluate potential barriers to entry, limitations on organisational capability, and the advantages or disadvantages of different market entry methods

3.4 Discuss the management of risk and control in respect of market entry into new international markets

3.1 The main characteristics of international marketing strategy

Throughout this study guide, we have been building a picture of the international market in comparison to the domestic market. The key feature of the international market is that it tends to be a large-scale trading environment that focuses on wholesale rather than retail. The market tends to be heavily dominated by multinational companies that have more leverage in the global trading environment.

It is a powerful and large market that has many financial advantages, but these advantages do not come without risk. Having a strong strategic business model for entering this market will help to make a company more secure and hopefully more effective in trading on an international level.

Professor of industrial marketing and business strategist Malcolm Cunningham identified five strategies used by firms for entry into new foreign markets:[33]

1. Technical innovation strategy – products should be shown to be superior to competitor models;
2. Product adaptation strategy – existing products can be modified and enhanced;
3. Availability and security strategy – transport challenges can be overcome by countering foreseen risks;
4. Low-price strategy – a price can be set to penetrate the market;
5. Total adaptation and conformity strategy – everything the customer might need in terms of product quality and delivery can be handled by a foreign producer.

33 FAO Corporate Document Repository, n.d., *Market Entry Strategies* [online]. Retrieved from: www.fao.org/docrep/w5973e/w5973e0b.htm [Accessed on: 12 September 2017]

All foreign marketing strategies aim to penetrate the market with a new product or expand an existing company. There is a basic formula for conducting any research, which is represented in Figure 1.

Figure 1: The basics of conducting research

Business growth

Most international businesses start at the domestic level and have taken steps to grow their organisations. Growing a business is "the process of improving some measure of an enterprise's success. Business growth can be achieved either by boosting the top line or revenue of the business with greater product sales or service income or by increasing the bottom line or profitability of the operation by minimising costs".[34] There are numerous ways that an organisation can grow and evolve. These include increasing the number of employees that work for the company, growing the customer base and improving the level of revenue.

Ansoff's growth matrix

Igor Ansoff produced a theoretical framework[35] that can be followed to help businesses attempt to expand into a new market. In Ansoff's model, this can be done by either using a new product or a pre-existing product.

34 Business Dictionary, n.d., *Business growth* [online]. Retrieved from: www.businessdictionary.com/definition/business-growth.html [Accessed on: 20 June 2017]

35 Ansoff Matrix, n.d., *What is the Ansoff Matrix?* [online]. Retrieved from: http://ansoffmatrix.com/ [Accessed on: 20 June 2017]

Figure 2: Ansoff growth matrix

The output from the Ansoff matrix is a series of suggested growth strategies. These provide businesses with an insight into the direction that they should take when developing a business strategy. It shows us that there are four options for potential organisational growth.

1 Market penetration

With this strategy, the business focuses on selling existing products in existing markets. This will help to:

- maintain or increase the market share of current products – this can be achieved through a combination of competitive pricing strategies and advertising;
- secure market dominance;
- restructure a mature market by driving out competitors;
- increase business from existing customers.

A market penetration marketing strategy focuses on maintaining a normal approach to business. The organisation will focus on developing and trading in products that it knows well and has dealt with for a period of time. An organisation using this method will have a strong awareness of its competitors and will know what its customers need and want. The strategy will not require new investment as market research is not of great benefit to an organisation in this situation.

However, the business may benefit from other types of investment, such as more advertising in the domestic market, development of loyalty/benefit schemes and customer relations management strategies.

2 Market development

In this scenario, a business sells its existing products to new markets. This can be done by:

- entering into new geographical markets (e.g. exporting the product to a new country);
- creating new product dimensions or packaging;
- forming new distribution channels;
- implementing different pricing strategies to attract new customers.

Market development is a more risky strategy than market penetration due to the targeting of new markets. To enter into a new market the company must conduct market research and this can be costly, time-consuming and a drain on resources.

3 Product development

The third strategy is when a business aims to introduce new products into existing markets. This strategy may require the development of new competencies and requires the business to develop modified products which can appeal to existing markets.

A strategy of product development is particularly suitable for a business where the product needs to be differentiated in order to remain competitive. A successful strategy places the marketing emphasis on:

- research, development and innovation;
- detailed insights into customers' ever-changing needs;
- being first to the market and beating your competitors.

4 Diversification

This is the implementation of a new product into a new market.

This is an inherently more risky strategy because the business is moving into markets in which it has little or no experience.

For a business to adopt a **diversification** strategy, it must have a clear idea about what it expects to gain and conduct an honest assessment of the risks involved. However, when there is the right balance between risk and reward, a marketing strategy of diversification can be highly rewarding.

3.2 Critically evaluate various market entry methods

When a business wishes to enter another market, there are a number of options available. Here are seven key market entry methods that can be used by international organisations.

Strategic alliance

This is an agreement between organisations where each company provides resources to help achieve a common set of objectives and goals.

Joint venture

A joint venture is a strategic alliance where two or more parties, usually businesses, form a partnership to share markets, intellectual property, assets, knowledge, and profits.

Direct foreign investment

Direct foreign investment is an investment from a business in one country to a business in another country. This involves establishing operations or acquiring tangible assets, including stakes in other businesses.

Licensing

Licensing involves a licensor allowing another business to make its products, using the brand name. In return for a licence, the licensee will often pay a loyalty payment.

Franchising

Franchising is another form of licensing. Here the organisation puts together a package detailing the elements that made the company a success in its home market and then franchises this package to overseas investors. One of the best examples of this is when Ray Croc of McDonald's began offering franchised stores for people to run. The advantage of this is that the core business or brand can worry less about controlling every single store. However, a disadvantage is that an unsuccessful franchise can impact the image of the wider business. Therefore, it is important that the organisation retains an element of control.

Subcontracting

Another form of market entry in an overseas market is subcontracting, which involves the exchange of ideas. This is where the business will contract out some element of the production or sale of its goods or services. It means that extra work can be taken on, but some contracts do not permit this type of transaction.

Outsourcing

This is where market entry can be achieved quickly with assistance from other companies in the local area. Some businesses will do this in order to reduce costs and in some cases it is a tax advantage too. Many call centres outsourced to India and Gibraltar in the 1990s because of tax and cost-reduction plans. However, service quality can often be negatively impacted as a result.

CASE STUDY

Carrefour

In order to expand its business boundaries, the French retailer Carrefour entered into the market of Saudi Arabia. Initially, the company faced stiff competition from the most popular brands in the country. However, using a franchising model, it has been able to enter new international markets effectively.

During the 1990s, Carrefour took over French **hypermarket** chains Euro Marché and Montlaur. This helped to strengthen the brand, and it has since grown significantly in size and value.

Carrefour internationalised by opening stores across Europe and also Asia. This was achieved either by taking ownership of foreign stores or entering the market via a wholly-owned subsidiary. It has changed the hypermarket image and culture across the world, and it has succeeded because of its selective market entry methods. It now owns nearly 12,000 stores in more than 30 countries and is considered the global leader in food retail.

Source: Adapted from www.carrefour.com/content/group

Importing and exporting

Importing and exporting are the most traditional and well-established forms of conducting business in foreign markets. Countries and companies import goods and resources that they cannot produce domestically. This allows the importing country to benefit from free trade movements and from another country's excess of natural resources or goods.

Exporting

Exporting is the sale and distribution of goods or services to other countries.

The advantages of exporting are:

- manufacturing and production are completed domestically which reduces the risks of operating overseas;
- it provides an opportunity to learn about overseas markets before investing.

The main disadvantage is that an exporter can be at the mercy of overseas intermediaries and so the lack of control has to be weighed against the potential advantages. For example, in the export of African horticultural products, the agents are sometimes in a position to dictate to producers. This can have a significant impact on the cost and availability of goods.

A distinction has to be drawn between passive and aggressive exporting.

Passive exporter vs aggressive exporter

If an exporter or business is classed as being passive, it means it tends to wait for customers to approach it for business or that customers come across the business accidentally. In other words, a business does not try to force sales or push heavily for custom. Passive exporters tend to be linked to indirect exporting methods.

At the other end of the spectrum, there are aggressive exporters. This type of exporter focuses on developing active marketing strategies to ensure that the organisation has a clear and decisive plan on how the foreign market will be penetrated. This type of approach is often linked to direct exporting. The company tries to determine exactly where it's going and how it will achieve its market entry aims.

In countries such as Tanzania and Zambia, organisations are being encouraged to export. They are motivated by the potential to generate profit from foreign markets, saturated domestic markets, growth and expansion objectives and the need to repay debt.

A company may quickly achieve initial success through exporting, but the risks of failure in the early stages are high. The key is to learn how to minimise the risks associated with the initial stages of market entry and commitment.

Exporting and importing

Exporting

The transport, marketing and selling of goods to another country.

Advantages:

- Companies can expand their markets and become less dependent on their domestic market.
- Manufacturing and production are completed domestically, which reduces the risks of manufacturing overseas.

Disadvantages:

- Potential to lose focus on the domestic market and existing customers.
- Higher administration costs that may be incurred for exporting.
- Establishing and maintaining international relationships can be problematic.
- Potential loss of control.

Importing

The transport, marketing, and selling of goods from an overseas market.

Advantages:

- Reduced costs as a result of resourcing locally and not facing export charges or having to finance new marketing campaigns.
- Company can keep control and manage the entire process.
- Local markets can acquire a greater variety of products.
- Importing raw materials and resources can allow for greater domestic production of goods, allowing for benefits to the local communities such as job opportunities.

Disadvantages:

- Importing can discourage local manufacturing.
- Unemployment could increase if imports replace domestically manufactured products.

REVISION on the go

Direct exporting

Direct exporting is when the producer of a good or a service directly sells its product to an international market, either through intermediaries or directly selling the product to the end user. Intermediaries in this scenario would include:

- sales representatives of an organisation
- distributors
- foreign retailers

To be able to directly export, an organisation must research the target market to identify the potential consumers of its products. Alongside strong market research, it must also forge a relationship with the direct buyer. This type of export is dependent on the size of the market. If the market is small, it will be more difficult as there are fewer options for direct exportation.

An example of direct exporting is Chinese computer part manufacturer Hon Hai Precision Industry Co. Ltd., which began selling its computer parts directly to Intel Corporation for use in the manufacture of its Dell computers.[36]

Figures 3 and 4 show the advantages and disadvantages to the direct exporting approach.

Figure 3: Advantages of direct exporting

Figure 4: Disadvantages of direct exporting

36 Simmtester.com (2002), *"Hon Hai seal deal with Dell to supply PC"* [online]. Retrieved from: http://www.simmtester.com/page/news/shownews.asp?where=533424&num=5163 [Accessed on: 4 September 2017]

OVER TO YOU

Activity 1: Direct and indirect exporting

A tropical fruit farmer based in Malaysia is looking to branch out into the international market by exporting their produce. Can you advise them on whether direct or indirect exporting would be more beneficial to them? Make a note of your thoughts here:

3.3 Evaluate potential barriers to entry, limitations on organisational capability, and the advantages or disadvantages of different market entry methods

Once a business determined its chosen method of entry into the international market, it must then overcome any challenges that it may face.

Every market has its obstacles; these are known as **barriers to entry**. So, let us look at what constitutes an entry barrier.

Structural or strategic

Barriers to entry can be categorised as being either structural or strategic. Strategic barriers to entry are created by existing organisations that operate in the market. Strategic methods of deterring entry arise when a company takes tactical actions in order to drive competitors out of the market.

Structural barriers to entry are related to basic industry conditions, such as cost and demand. Structural obstacles are a result of natural business or economic issues.

Put simply, structural issues are related to issues that would naturally occur within a business and strategic barriers are those that have been purposefully imposed by a business for tactical purposes.

As strategic barriers can be more complex, below are some examples:

- **Limited pricing tactics:** When a firm sets a price low enough to discourage new entrants into the market.
- **Predatory pricing tactics:** Setting an artificially low price for a product in order to drive out competitors.

OVER TO YOU

Activity 2: Structural and strategic barriers

Working with a study partner if possible, think of examples of structural and strategic barriers to market entry. For example, pricing and brand loyalty are examples of strategic barriers, and economies of scale which mean that large companies dominate the market and get low-cost resources is a structural barrier.

List your ideas below:

As well as identifying if a barrier is strategic or structural, it is also important to know the different kinds of barriers. In Porter's book *Competitive Strategy: Techniques for Analysing Industries and Competitors*,[37] he listed six specific barriers to entry:

1 Economies of scale

As production volume of a product increases, the price per unit declines; this is known as the economies of scale. When organisations operating within the same industry have achieved economies of scale, it acts as a barrier by forcing new entrants to the market to either compete on a large scale or face a cost disadvantage in order to compete on a small scale.

2 Product differentiation

In many markets, established organisations operating within an industry have gained brand recognition and customer loyalty by using long-standing advertising campaigns and making sure their customer service is satisfactory. This creates a barrier to market entry by forcing new entrants to invest time and money into making their products stand out in the marketplace and attracting customers who are loyal to other brands.

3 Capital requirements

New entrants also face a barrier when they are required to invest large financial resources in order to compete in an industry; for example, they may need to make large capital investments in inventories or manufacturing facilities. This can be a very difficult barrier to deal with when the capital is required for investments with an uncertain chance of return, like research and development.

4 Switching costs

A switching cost is a one-time cost incurred by a buyer if they switch from one supplier's product or service to another's. Some examples of switching costs include retraining employees, purchasing equipment, paying for additional technical support and redesigning products. These costs can be high and can force new entrants to provide potential customers with viable incentives to switch to their products.

37 Porter, M.E. (1980), *Competitive strategy: Techniques for analyzing industries and competition.* New York: The Free Press

5 Access to channels of distribution

In many industries, the more established organisations have control over channels of distribution as a result of building long-standing relationships. New entrants must be able to provide incentives to persuade distribution channels to accept their products, such as cooperative advertising and price discounts. This can be costly, and can act as a barrier as it may reduce profitability.

6 Government policy

Government policies can act as barriers, making it difficult for new competitors to enter the marketplace. Licensing requirements, limits on access to raw materials, pollution standards and product testing regulations are all examples of government policies which could potentially hinder new entrants' ability to operate.

Timing and method of entry

Alongside barriers to entry, it is also important for organisations to consider the timing for their entry to market. There is no single method or theory behind knowing the right time to enter a market. However, there are five main strategies that have been identified:

1 Be the original

The best entry timing strategy is to be first into the market. This can be an expensive tactic. However, it has been found that if a company can successfully get a new product into the market, it will have an advantage in the market share.

There are two ways that a company can use the first move advantage:

1. Technology leadership: First movers can lead the way in technological advances, which later entrants to the market then follow. An example of this strategy has been used by Procter & Gamble, a company that specialises in healthcare and household cleaning items which used the first mover advantage when they launched diapers into the US market.
2. Control of resources: The first mover can also benefit from the ability to control a resource which is better than the resources that later entrants might use. Walmart is a good example of a retail firm that optimised the control of resources strategy by opening up discount stores in prime locations in small towns across the USA.

CASE STUDY

Apple Inc.

Apple is the leading manufacturer of consumer electronics and has one of the most successful examples of pioneering market entry methods. It has 498 retail stores and has a revenue of more than US$215bn.

Apple's iPhone was hailed as being the most successfully launched product in history; they entered the market with a brand new product which has continually grown through its entry into new markets and the regular development of updated models.

Through its production of iPhones, iPads, and smart watches, Apple has entered into highly-competitive markets and flourished. It continuously advances and redesigns its products, which has seen it dominate the markets for decades.

Source: Adapted from www.statista.com/statistics/265125/total-net-sales-of-apple-since-2004

2 Late arrival

Entering a market late can also have certain advantages, particularly if the pioneers have grown complacent or can no longer cater to a growing market. In this instance, innovative and unique marketing is key to driving the product into the consumer's awareness.

Late entry may also pay off if the product offers a technological improvement over those already available, is significantly cheaper or is supported by better customer service. Markets that are already cluttered with products offer some opportunity for a late arrival that is of better quality or uses new delivery channels.

This approach can result in:

- low price advantage;
- suggest added value;
- ease of use advantage;
- non-price incentives;
- outsmarting/outselling competitors.

OVER TO YOU

Activity 3: Late arrival

Think of examples of companies that have chosen the late arrival approach with their products. An example is the search engine Google, which was founded in 1998, whereas its competitor Yahoo was founded in 1995.

- **Did they succeed?**
- **What benefits did they have from using this method?**
- **Do you think this was the right approach to entering the market?**

Discuss your ideas with a study partner, if possible.

3 Dynamic timing

A new method for timing market entry was suggested by business theorists and professors Özer and Uncu.[38] They suggest that, as a business goes through the design process for a new product, it should constantly update its knowledge about both the efficiency of the production process and

38 Özer, Ö. and Uncu, O. (2007), "Optimizing Time-to-Market Decision for Hitachi Global Storage Technologies, Inc.", *The Stanford Global Supply Chain Management Forum*, Vol. 13, Issue 1, pp.1–3

the potential market. The product should continue to be improved until the optimal time to enter the market. At that point, the design process should stop and the product should enter the market.

4 Time of year

The time of year can have a big effect on chances of success. For example, a product designed for sale at Christmas should be released early enough in the year to gain momentum by the time the peak shopping season arrives.

5 Wave, sprinkler, waterfall

These types of timing strategy are usually applied to timing entry into multiple international markets.

In the wave strategy, a new product is introduced all at once into countries that have similar cultures and characteristics to the home market of the company.

In the sprinkler strategy, the product is launched into all suitable countries at the same time. This method is often linked to the principle of diversification.

In the waterfall strategy, a product is launched in one country at a time, and new markets are entered only after sales are established in the previous market.

Managing competitive dynamics

Competitive dynamics refers to the actions and tactical manoeuvres of an organisation that operates in a competitive market environment. When a company initiates certain actions successfully it is said to be gaining a competitive advantage.

An example of competitive advantage in a competitive market environment is the smartphone industry. Due to the constantly-evolving nature of smartphone technology, each new product has a very short PLC.

The nature of this has led to a highly-competitive environment that forces businesses to take competitive action in response to advances in technology to ensure that they stay relevant. Figure 5 shows four companies that are all market leaders in their own industries. Samsung and Apple dominate the smartphone and telecommunications industry. Eventmobi and Spot-me are event apps that dominate their industry.

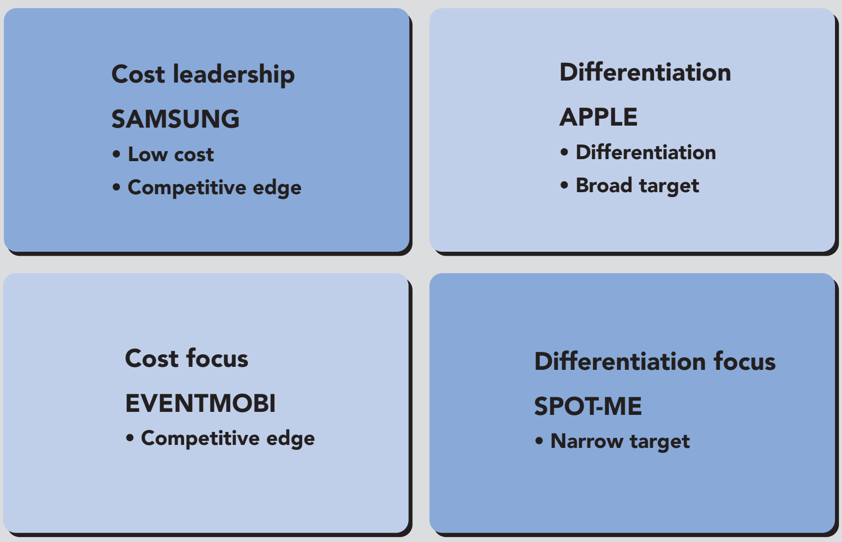

Figure 5: Competitive strategy

Competitive advantage

Porter also created the Five Forces competitive analysis framework that is used by academic theorists and businesses globally. The framework can be used to analyse the level of competition that is in a particular market or industry, evaluate density of the competition and determine whether or not it is wise to enter the market and if it is an attractive business opportunity.

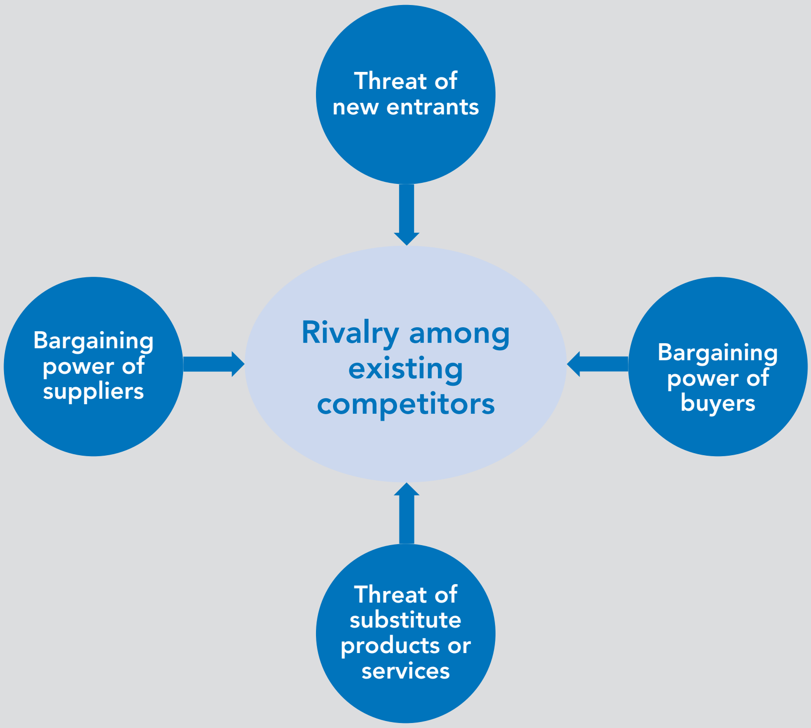

Figure 6: Porter's Five Forces

REVISION on the go

OVER TO YOU

Activity 4: Who has the comparative advantage?

Research a major non-traditional crop or agricultural product which your home country produces with overseas sales potential. Devise a market entry strategy for the product, clearly showing which strategy you would use and justify your choice, indicating why the method would have benefits for your country and the potential importing countries.

3.4 Discuss the management of risk and control in respect of market entry into new international markets

We have established that there may be higher risks associated with international trade, but there is also the potential for greater rewards as a result of successfully trading at this level.

There are tools that companies can use to help guide them through this risky period. The key for any business is to manage the risks and optimise the return, but all businesses must first identify the risks that may affect them.

Let's look at the agricultural trade as an example.

Agriculture is a high-risk industry due to its dependence on environmental and human factors. There are five main risk categories:

1. Production risk – weather, climate change, pests, disease, technology, machinery efficiency;
2. Marketing risk – market-related activity such as government/policy changes and unanticipated economic global problems;
3. Financial risk – cost, cash flow, financial shocks;
4. Legal risk – laws, liability, insurance, public policy, contracts;
5. Human risk – health, family, business relationships, management.

There are also numerous additional risks that any company may face and must be equipped to deal with:

- market risks;
- credit risks;
- operational risks;
- model risk;
- compliance and conduct risks;
- economic and regulatory capital;
- capital planning (**stress tests**);
- provisions;
- organisation and governance of the risk function.

There are three main options to manage risks.

1. Avoidance – do not act or enter the market.
2. Deferment – wait and do not make decisions or take any action.
3. Reduction – work on preventative tools and reduce risk where possible.

The table below outlines some examples of risks that could occur and potential solutions to these risks.

Marketing risk example	Marketing risk management examples
Website crashes	Redundant servers for website
Social media manager is sick/quits	Multiple employees trained in social media
Making poor marketing choices	Success criteria for new initiative approval

Marketing risk example	Marketing risk management examples
PR crisis/product recall	Crisis management response plan
Brand spokesperson demonstrates bad behaviour	Performance requirements in contract
Infringements: technology and competitors	Patent protection and defence work
Promotion error leads to over redemption	Promotion insurance
Great new product from competitor	Your own new product
Problem in new product development	NPD risk identification and contingency plans
Low new product acceptance	Consumer research to ensure acceptance
Marketing creative is off strategy	Use creative brief to keep team on strategy
Marketing budget is cut	Pre-agreement not to cut key strategic programmes

Table 1: Marketing risks and management

Market entry selection criteria

Company objectives and expectations relating to the size and value of anticipated business should consider:

- the size and financial resources of the company;
- existing overseas involvement and experience of international operations;
- skills, abilities and attitudes of company management to international marketing;
- the nature of any country-specific barriers to trade (e.g. tariffs);
- any area of competitive advantage;
- the nature of the product;
- timing (in relation to the competitive environment);
- risk and control in market entry.

READING LIST

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Summary

This chapter has examined the different market entry strategies that are available to businesses, the importance of knowing your market and the risks that surround expanding your market and entering a new market. It is vital that companies know how to approach their target audience in order to be successful.

There are numerous strategies for market entry, but all have their barriers and obstacles that companies must be aware of and address. These barriers are strategic when created by a business to hinder competitors from entering and competing in the market.

Barriers can also be structural when they arise as a result of factors that are not influenced by a competing organisation (for example, economic factors).

All of the discussed aspects should be taken into consideration before an organisation selects an appropriate market entry strategy. If a company enters a market without being aware of the barriers that they may face, they could struggle to achieve success.

Chapter 4

Marketing Strategies in Different Cross-Cultural Settings and Real-Life Case Studies

Introduction

This study guide has provided you with information on globalisation and how companies and countries can interact on a global scale. This final chapter focuses on how businesses can successfully operate in a multicultural environment.

The aim is to provide an understanding of the concept of ethnocentrism in a multicultural landscape as what works for a business in one country will not necessarily work in another.

This chapter will provide you with examples of companies that have successfully penetrated the international market by gaining an understanding of cultural diversity and the need to put the phrase "think global, act local" into practice. We will also see examples of businesses that failed to adapt or research their new market, and unsuccessfully branched out into other countries as a result.

Learning outcomes

On completing the chapter, you will be able to:

4 Examine and justify relevant marketing strategies within different cross-cultural, applying them to real life case studies

Assessment criteria

4 Examine and justify relevant marketing strategies within different cross-cultural, applying them to real life case studies.

4.1 Appraise the role of culture in conducting international business and its impact on transnational transactions.

4.2 Evaluate social and cultural considerations in developing international business strategy

4.3 Justify the differing product and service strategies employed in an international context

4.4 Discuss the need for different marketing methods when operating in an international environment

4.1 Appraise the role of culture in conducting international business and its impact on transnational sales

The Cambridge Dictionary defines culture as "the way of life, especially the general customs and beliefs of a particular group of people at a particular time".[39] Culture also refers to the symbolic and learned non-biological human interactions that define how feels to be part of an organisation or group.

Cultural identity is important as it influences our behaviours and interactions with others. To be able to live peacefully within society, we must have a level of awareness and tolerance for different cultures.

Why is understanding culture important?

- It helps us work together to build communities and influence positive change.
- Different views and beliefs can help improve effectiveness of policy.
- A peaceful society with mutual respect helps trade.
- It provides knowledge and history of your community and country.
- Businesses are heavily affected by culture due to the increase in globalisation.

OVER TO YOU

Activity 1: Culture

Working with a study partner if possible, make a list of aspects of culture in your country. Then select a country that you believe has different cultural attributes.

Consider the similarities and differences between the cultures of the two countries.

Why do you feel it is important to be aware of different cultures?

39 Cambridge Dictionary, n.d., *Culture* [online]. Retrieved from: http://dictionary.cambridge.org/dictionary/english/culture [Accessed on: 20 September 2017]

What is organisational culture?

Organisational culture is the values and behaviours that help to contribute and build an organisation's unique environment. There are many aspects of an organisation's culture, including its business philosophy, organisational structure, history, and company ethos as represented by its values, beliefs and customs.

These customs can be written up as brand values or a mission statement or they can be an unspoken set of principles that exist between the members of an organisation. They are based on a company's core behaviour and usually evolve and develop over time.

Three key aspects highlight how culture is shown by a company:

1 How a company conducts business;

2 Treatment of employees and customers;

3 Decision-making and the development and implementation of new ideas and products.

There are numerous definitions and ideas relating to the concept of organisational culture. The most well-known theory was developed by psychologist Edgar Henry Schein, who defined it as being the "basic assumptions and beliefs that are shared by members of an organisation, that operate unconsciously and define in a basic 'taken-for-granted' fashion an organisation's view of itself and its environment."[40] It consists of four layers:

1 Taken-for-granted assumptions

2 Behaviours

3 Beliefs

4 Values

Understanding a company's cultural environment is important, but not straight forward. However, there are tools that can help.

The cultural web

The cultural web paradigm, created by Scholes and Johnson, is a well-known model for plotting the structures and attributes that contribute to the development of an organisation's culture.[41]

40 Schein, E. H. (1985), *Organizational Culture and Leadership* (1st ed.). San Francisco: Jossey-Bass

41 Johnson, G., and Scholes, K. (1997), *Exploring Corporate Strategy*. Prentice-Hall, Europe.

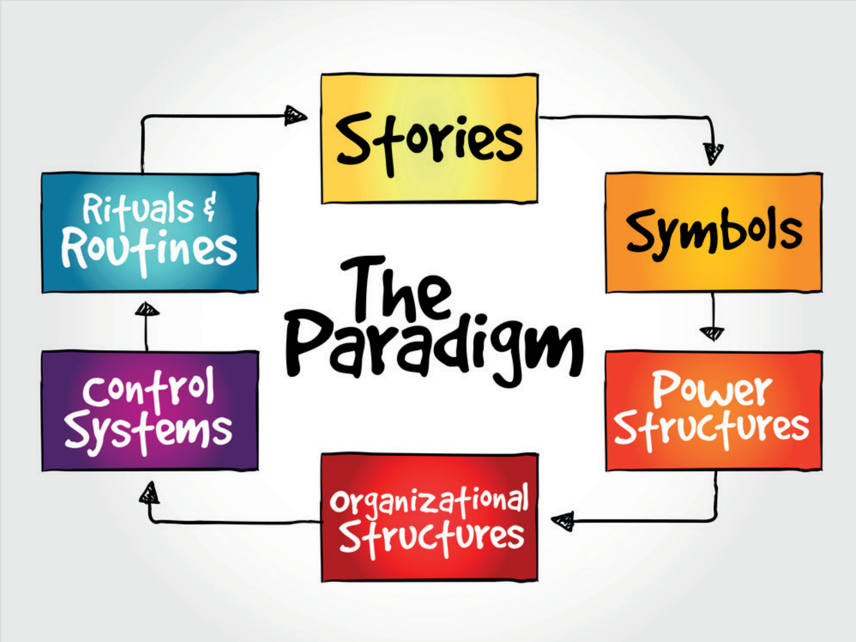


Figure 1: The cultural web paradigm

REVISION on the go

The model focuses on exploring assumptions that are often taken for granted, yet are key to building the organisational structure. Let's look at each element of the model:

Stories

Stories reflect the beliefs of an organisation and can represent an organisation's strengths, weaknesses, successes and failures. They portray important details about the organisation's activities and members and can be told by employees to others outside the firm. Stories that come from within the organisation can be used to tell people about important aspects of the organisation. An example of this would be good public relations.

Symbols

A symbol represents the organisation's core message and can be used as a marketing tool. An organisation's company's logo and branding are symbols, but also the language and reward systems may have a symbolic status for both employees and consumers.

Power structures

Power structures are how an organisation and the beliefs of the organisation. Heads of organisations and management teams tend to hold the highest level of power and are charged with sharing the organisation's beliefs and values with staff.

Organisational structures

This section of the model is closely aligned with power structures as it focuses on the relationships between individuals and teams within the organisation. How an organisation is structured can signify what is important to it.

Control systems

This section looks at performance indicators and how an organisation measures and monitors its business results. Reward systems and incentives feature in this part of the model.

Routines and rituals

This examines what behaviour is encouraged in the company and what the core beliefs reflect. In simple terms, this refers to how organisations conduct their business, and these aspects are often engrained in the ethos of the organisation and how it carries out its daily activities.

The six elements of the cultural web:

1. Stories
2. Symbols
3. Power structures
4. Organisational structure
5. Control systems
6. Routines and rituals

REVISION on the go

4.2 Evaluate social and cultural considerations when developing international business strategy

At its core, an organisation is a group of people who work together towards a common goal. In order for an organisation to be successful, all employees must follow its basic rules of working and demonstrate its values.

Charles Handy, an Irish philosopher who specialised in organisation culture, claimed that there are four types of culture:[42]

Type of culture	Characteristics
Power	• Power can remain with a few individuals. • Special privileges for decision-makers. • Classed as the most important people in the organisation. • Lower level employees have to follow strict guidelines and have little power. • Can push for major unrest.

42 Management Study Guide, n.d., *"Charles Handy Model of Organization Culture"* [online]. Retrieved from: http://managementstudyguide.com/charles-handy-model.htm [Accessed on: 20 June 2017]

Type of culture	Characteristics
Task	• A team-based structure where people work as a unit to solve problems or hit targets. • Common interest and specialised areas of knowledge work together. • Equal contribution.
Person	• Employees are seen to be the most important. • Self-progression and agenda. • Money driven and not focused on the organisation as a whole. • Business can suffer. • Lack of loyalty.
Role	• Work is delegated based on ability, knowledge, academic background and skill. • Employees decide what they can do well and take on tasks. • Individual accountability rather than team accountability. • Power comes with responsibility.

Table 1: Culture and characteristics

REVISION on the go

OVER TO YOU

Activity 2: Organisational culture… which one is right for you?

Using Handy's four types of corporate culture, answer the following questions:

- **Which culture do you think is the most effective?**
- **Which culture would you like to work in?**
- **Which culture do you think best describes the culture of the company that you work for or have worked for in the past?**

Handy's types of culture

1 Power 2 Task 3 Person 4 Role

REVISION on the go

Organisational structure and international trade

If businesses fail to consider the cultural environment that they are operating in, they will not be successful. They cannot always rely on the same techniques for carrying out business in every location. For example, US-based companies have different cultural values and behaviours to organisations based in Asia.

CASE STUDY

Cultural differences

- In some countries (e.g. Japan), people bow when they greet each other. In other countries (e.g. the UK), people shake hands.
- In Sri Lanka, shaking your head left-and-right means "yes". In other countries, the action for "yes" is nodding your head up and down.
- In the Czech Republic, a typical full-time working week is 30 hours. Other countries have different norms.
- In Spain, it's usual for people to take a nap (*siesta*) in the heat of the afternoon.
- In Brunei, the sale and consumption of alcohol are strictly prohibited.
- In Hispanic culture, people are taught humility, whereas in US workplaces if employees do not promote themselves and their achievements they can be overlooked.

In many international organisations, executives are educated about cultural differences and this awareness should help them in their international dealings. In studies about cultural sensitivity, it has been found that a more adaptive model to international trade is favourable.

CASE STUDY

A big thumbs up!

With an increase in global trade leading to an increasingly borderless world, it is important to be aware of how our actions and use of language can offend or alienate others.

American business executives are known for their use of upbeat signs of approval. A well-known gesture in western society is the "thumbs up", which is used by people as a sign of approval, acceptance and ultimately happiness.

However, the use of this gesture in Greece, parts of Italy or even South America can be very offensive. It is therefore important to know your audience and anticipate how other cultures may interpret your behaviour.

Organisations have realised the importance of understanding different cultures. Today, there are even organisations that offer training on culture for employees to enhance their company's chances of success when operating in different markets. The China Business Culture Training programme, for example, offers help to western organisations to build more confidence in operating within the Chinese culture.

Cross-cultural communication styles: high and low context

The concept of **high- and low-context cultures** refers to how people from different cultural backgrounds communicate. These concepts were first introduced by the anthropologist Edward T. Hall in his 1976 book, *Beyond Culture*.[43]

High context: This implies that there is a lot of unspoken information which is transferred implicitly in communication. Long-term relationships and loyalty are often very important in high-context cultures, and following regulations tends to be less important. An example of a high-context culture is Mexico.

Low-context: This implies that there is a lot of explicitly stated information exchanged through the message itself, and information is rarely implicit or hidden. Low-context cultures are often typified by short-term relationships, and following rules and standards is quite important. People working within this type of culture are generally very task-oriented. An example of a low-context culture is Germany.

Understanding whether your international colleagues are living in high-context or low-context cultures will help you to adapt your communication style in order to build stronger relationships. These concepts are often taught through cultural-awareness training.

When doing business in a high-context culture, such as Saudi Arabia, Japan or the Middle East, there can be difficulties, such as:

- misunderstanding someone, as information is provided in a non-verbal manner (e.g. gestures, pauses, facial expressions);
- getting the impression that information is lacking;
- unwritten rules that are taken for granted by those who are aware of them, but can easily be missed by strangers;
- contracts which are less dense since less information is required.

When doing business in a low-context culture such as the UK, Switzerland or the USA, you might find that:

- all information is provided explicitly;
- to avoid misunderstandings, extensive background information and explanations are provided;
- people follow rules and standards closely;
- contracts tend to be long and densely detailed.

High- and low-context cultures usually correspond with **polychronic** and **monochronic cultures**.

43 Hall, E. T. (1976), *Beyond Culture*. Garden City, N.Y.: Anchor Press

Table 2 shows the general preferences of people.

High context	Low context
Indirect and implicit messages	Direct, simple and clear messages
Polychronic	Monochronic
High use of non-verbal communication	Low use of non-verbal communication
Low reliance on written communication	High reliance on written communication
Use intuition and feelings to make decisions	Rely on facts and evidence for decisions
Long-term relationships	Short-term relationships
Relationships are more important than schedules	Schedules are more important than relationships

Source: https://www.communicaid.com/cross-cultural-training/blog/high-and-low-context/

Table 2: Differences between high- and low-context cultures

! NEED TO KNOW

Cross-cultural communication

Today's workplace is becoming increasingly more diverse and the business environment is expanding. This can make it difficult to communicate.

One of the biggest communication problems is created by language barriers. Organisations can overcome this barrier by hiring staff speak multiple languages and educating staff on non-verbal communication techniques.

Cultural dimensions

Now we know the importance of understanding and respecting culture, let us look at the theoretical framework that surrounds business culture.

One of the most comprehensive studies of workplace cultural diversity was conducted by Dutch psychologist and professor, Geert Hofstede. He defined culture as the "collective programming of the mind distinguishing the members of one group or category of people from others".[44]

Hofstede created a theory called the six dimensions of national culture.

44 Hofstede, G. (1991), *Cultures and organizations: Software of the mind.* London: McGraw-Hill

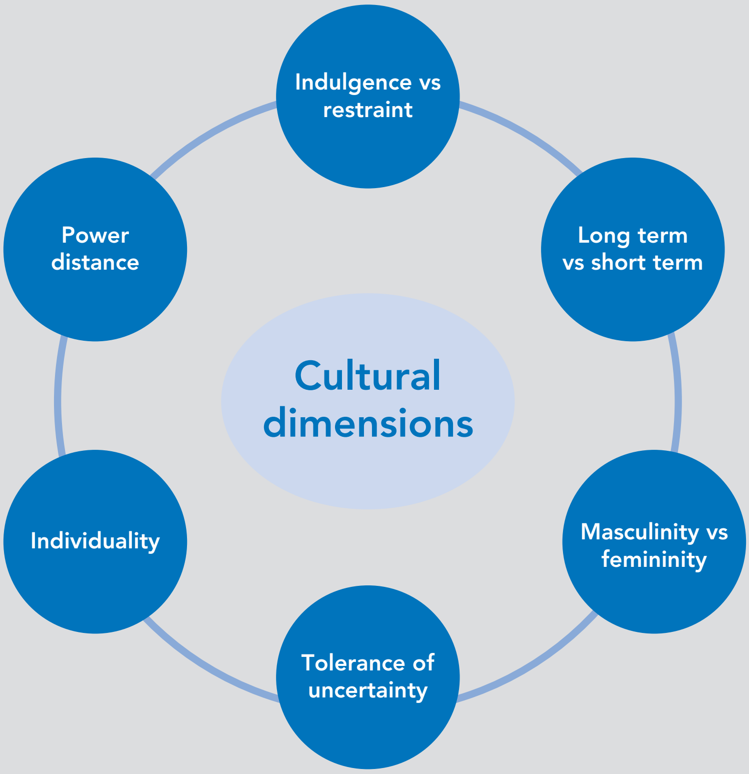


Figure 2: Hofstede's six dimensions of national culture

REVISION on the go

CASE STUDY

Cultural dimensions

Geert Hofstede carried out research on 116,000 employees of **International Business Machines Corporation** covering 40 different countries. This research showed four dimensions of national value systems that have a bearing on organisations and the working relationships of employees.

1. *Power distance*: High power distance means that there is an acceptance among people that there is an inequality within organisations and institutions. Countries where this is apparent are Malaysia and the Philippines. Low power distance is where the people expect power shared more equally, such as in Austria and Denmark.

2. *Uncertainty avoidance*: High uncertainty avoidance is when people in a society are not comfortable with uncertainty and for this reason they are in favour of beliefs that guarantee certainty. Countries which fall within this bracket are Portugal and Uruguay. Low uncertainty avoidance is where people have a greater tolerance of the unpredictable and unclear. Examples of countries under this umbrella are Jamaica and Singapore.

3. *Individualism and collectivism*: Individualism in society is a loose structure in which everyone is expected to look after themselves. This is particularly prominent in countries such as United Kingdom, Canada and the USA. Collectivism in society is a tighter structure in which

everyone looks after everyone else and organisations look after its members' interests. Countries that characterised by collectivism are China and Ecuador.

4 *Masculinity vs femininity*: The concept of a "masculine" culture is said to represent assertiveness, heroism, material success and a focus on work. A "feminine" culture, on the other hand, places more value in cooperative relationships and group decision-making, as well as welfare and quality of life. For example, Germany has a masculine culture whereas Sweden has a more feminine culture.

Source: Adapted from www.clearlycultural.com/geert-hofstede-cultural-dimensions/masculinity

Hofstede's cultural dimensions

1 Power distance
2 Uncertainty avoidance
3 Individualism vs collectivism
4 Masculinity vs femininity

4.3 Justify the differing marketing strategies employed in an international context

A consumer is defined as someone who purchases goods or services for their use. For a business to understand the wants and needs of a consumer, it needs to know what a consumer buys and their decision-making progress.

Consumer decision-making process

The five stages in the consumer decision-making process are shown in Figure 3.

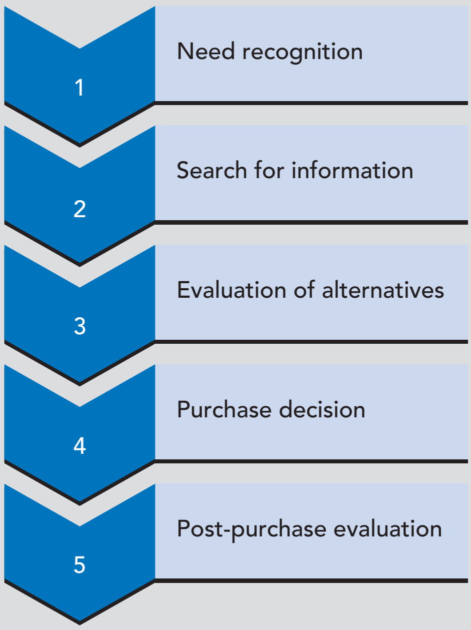


Figure 3: Consumer decision-making process

Step 1: Need recognition – The most important catalyst for buying products and services is consumer needs.

Step 2: Search for information – When an individual has recognised their need for a particular product/service, they begin gathering information about their potential purchases.

Step 3: Evaluation of alternatives – Once the consumer has researched the type of product/service they are interested in purchasing, the next step is to evaluate the various alternatives available in the market to choose the best option for their need, taste and budget.

Step 4: Purchase decision – When the consumer has decided on the best option for them, they proceed with the purchase.

Step 5: Post-purchase evaluation – After the consumer has made their purchase, they analysis of whether the product fulfilled their needs sufficiently.

Consumer diversity

Many people believe that there is a golden rule in life that you should treat others the way you want to be treated. This saying is appropriate for the business and marketing environment. Organisations should treat customers with the same courtesy, respect and dignity no matter their cultural, ethnic or religious differences.

When operating cross-culturally you should always aim to do the following:

1. Know the importance of customer diversity;
2. Know your customer's cultural background and widen your knowledge of their culture;
3. Listen actively and make yourself aware of patterns for communication;
4. Ensure your workplace is welcoming and diverse;
5. Share experiences within your organisation to ensure consistent approaches.

4.4 Discuss the need for different marketing methods when operating in a global environment

In terms of marketing, businesses must have a marketing strategy that takes diversity into account.

In the USA alone there are:

> *"54 million Hispanics living in the US representing approximately 17% of the total population, those of Latino origin are the nation's largest ethnic or race minority. By 2020, that figure is expected to grow to 31% as the numbers of Latinos in the US more than doubles. Also by 2020, more than 50% of all US consumers will be classified as multicultural."*

www.census.gov[45]

45 United States Census (2014), *Facts for Features: Hispanic Heritage Month 2014* [online]. Retrieved from: https://www.census.gov/newsroom/facts-for-features/2014/cb14-ff22.html [Accessed on: 12 September 2017]

Good marketing strategies vs bad marketing strategies

Having studied the premise of international marketing as well as how to approach and deal with multicultural environments, let us move to looking at examples of organisations that have got their marketing campaigns right, and ones that have not been successful.

Examples of good multicultural marketing campaigns

Coca-Cola

Coca-Cola's strategy of offering its product logo in multiple languages makes the brand popular in multiple nations and gives the impression that it is produced locally.

Cheerios

Cheerios a cereal manufactured by the General Mills food manufacturer that has been on the market since 1941. In 2012 the company produced a television advert that was in Spanish with English subtitles. As the USA has a high level of Hispanic citizens, this effort to appeal to the Spanish culture was well-received.

McDonald's

Like Cheerios, the fast food chain McDonald's has also produced TV adverts in multiple languages to target a variety of cultures and countries. As well as showing its understanding of customer needs, the company has shown its understanding of local cuisine by diversifying its menu in different locations around the world to take into account tastes, cultural and religious practices.

OVER TO YOU

Activity 3: Multicultural companies

Working with a study partner if possible, research a company that you believe acknowledges the multicultural climate in which it operates. How does it represent this through advertising?

Cultural dimensions

Good marketing involves listening and adapting to different cultures and voices.

Bad marketing occurs when a business fails to do its research.

REVISION on the go

Examples of poor multicultural marketing strategies

We have seen examples of successful marketing campaigns and strategies that have proven to be beneficial to multinational corporations. Now let's look at some which have been less successful.

Gerber

The Gerber baby company failed to conduct sufficient research before entering the African baby food market. In African food branding, companies tend to include pictures that represent the contents of the packaging. The image of a young infant on the packaging of Gerber baby food, therefore, meant that the product received a lot of criticism.

Revlon perfume

Revlon, a popular cosmetics brand in the USA and UK, put a perfume on the market that was camellia-scented. However, the company introduced the product to the Brazilian market where, unfortunately, the camellia flower is associated with funerals. Revlon failed to understand a key custom and belief that was well-known in Brazil, and it was forced to recall the perfume, which was costly to execute.

Schweppes

Soft drinks manufacturer Schweppes failed to check the translation of its product in all of its markets. In Italy, "tonic water" translates to mean "water from the toilet/WC".

To look further at the importance of considering cultural diversity in marketing, study the article by Reisinger and Turner (1999) which is available in your online student resources. The article examines the cultural differences between Australian and Japanese consumers in the tourism market.[46]

How do businesses assess culture in global markets?

There are three main tools at the disposal of businesses to help them interpret the market and cultures that they will be entering. These tools are:

- environmental scanning;
- consumer research;
- corporate exploration.

Environmental scanning

This is the process of continually building your knowledge of events and incidents that occur outside the organisation. An awareness of events will help organisations to identify and interpret potential market and cultural trends and changes.

Consumer research

There are two different approaches to gaining information from customers on why they purchase products. See Chapter 2 for more information on the different types of market research.

46 Yvette Reisinger, Lindsay Turner, (1999), "A cultural analysis of Japanese tourists: challenges for tourism marketers", *European Journal of Marketing*, Vol. 33, Issue: 11/12, pp.1203–1227 (This article will be available in your online student resources).

Corporate exploration

Before entering a market, companies should invest in market research and tap into employee knowledge.

Marketing communications in a global environment

Once a company is comfortable with its marketing strategy and how to interact in a multicultural environment, it must also learn how to promote the products or services that it trades in. This is referred to as the communication mix. There are five methods of promotion, as shown below in Figure 4.

Figure 4: Marketing communication mix

Advertising

Advertising tends to be the most prominent aspect of the communication mix. Marketing and advertising are often confused as being the same thing; however, this is not the case. Advertising is the way in which companies get messages to their target audience. Costs for advertising can be high and tends to take up a large portion of a company's budget. Even though it can be financially draining, advertising is an important tool in spreading awareness of a company's products or services.

Sales promotion

Even with the advancements in technology and communication, sales people are still a key aspect of the communications mix through their ability to influence the sales of a product. Retail sales people often help to promote and spread word of mouth endorsement of a product.

Events and experiences

Companies use promotional sales, events and discount opportunities to promote a company's product. The main goal is to increase revenue and attract new customers, but also to clear older stock and make way for new goods.

Public relations (PR)

This is very similar to advertising in that it involves the communication of a message. The difference is that PR tends to focus on the free elements of self-advertisement such as media coverage. The disadvantages of this strategy are that the company does not have full control of how the outside organisations will promote the business.

Interactive marketing

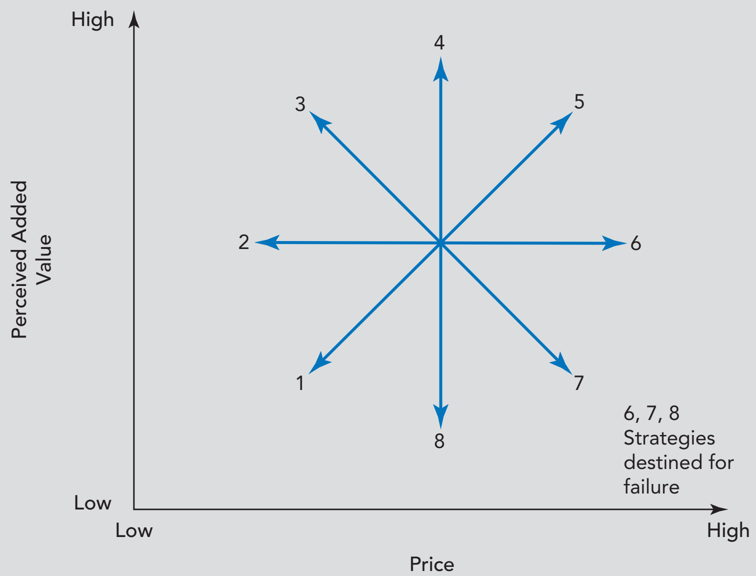
Interactive marketing, sometimes called trigger-based or event-driven marketing, uses two-way communication channels to allow consumers to connect with a company directly. Traditionally, this took place in person, but it has increasingly taken place online through email and social media.

Pricing strategy in a global context

So how does a business position itself in the global market? Bowman's strategy clock model provides an insight into strategic market positioning, which is how a product should be marketed to grant it the most competitive chance. Bowman's clock model demonstrates that a business has a number of options of how to position a product based on two variables:[47]

1 Price

2 Perceived value



Source: *Adapted from* https://www.tutor2u.net/business/reference/strategic-positioning-bowmans-strategy-clock

Figure 5: Bowman's strategy clock

47 Simister, P. (2011), *Bowman's Strategy Clock – Your Strategic Options* [online]. Retrieved from: http://www.differentiateyourbusiness.co.uk/bowmans-strategy-clock-your-strategic-options [Accessed on: 20 June 2017]

Options 1 and 2 of the Strategy Clock are focused on low price and low added value. These are for organisations that are not worried about offering a five star service to customers. Customers and the brand segment that purchase products and services from this type of organisation do not expect that quality service either. Some examples of brands that are considered to operate in this manner are Ryanair, Lidl and Aldi.

Option 3, the hybrid strategy, is aimed at offering a perceived improvement in quality and customer service while still providing goods and services at an affordable price. Skoda is a good example of an organisation which takes this approach. A member of the Volkswagen group, Skoda cars are cheaper than the Volkswagen range, but the quality is still good because of the parent group.

Option 4, the differentiation strategy, is all about offering a product perceived as being of excellent quality. The prices of these products are notably higher, but this often does not have a negative impact on sales as customers appreciate the quality of the products and have a sense of brand loyalty. Brands such as Mercedes-Benz and BMW take this approach.

Option 5, focused differentiation, is very much about targeting a specific segment of the market. Rolex is an example of a brand that uses this approach. The retail prices of the products are extremely high, but the products are designed for a demographic of consumers who have high amounts of disposable income.

Option 6, 7 and 8 are poor strategies that organisations tend not to follow.

Organisations which follow option 6, the increased price but standard value strategy, are doomed for failure. They have such high prices for products which are not of particularly high quality that they will eventually fail.

The option 7 strategy involves increased prices for low quality products or services. One way in which this strategy can be operational is through monopoly pricing, which is when a service does not really worry about customer perceptions because the organisation is the only one in the market offering a particular service. A prime example of this would be Flybe, which is the only airline to offer a flight from Glasgow to Birmingham in the UK. The flights are pricy and often late, but nobody serves the route apart from them.

Option 8, the standard price but low value strategy, represents a loss of market share. Organisations that use this strategy are unlikely to survive. They are uncompetitive and their products or services have a perceived low value.

OVER TO YOU

Activity 4: Summary exercise

As a conclusion to this chapter, complete this task designed to help you focus on cultural influences and the impact that they have on consumer behaviour in the international market.

Imagine you are a newly-appointed CEO of Etisalat, the largest telecom company in the United Arab Emirates. This Middle Eastern telecom giant is looking to move into overseas markets.

You are required to produce a short report on all of the factors that Etisalat needs to consider when planning to market to foreign consumers.

You should think about covering the following points:

- **Cultural forces such as religion, family, history, language, education, arts;**
- **Cultural messaging on consumer behaviour – symbols, morals, knowledge;**
- **The consumer decision-making process;**
- **International marketing requires assumptions to be challenged – is the consumer buying process consistent across all cultures? Buying processes might not be individualistic in all countries;**
- **Needs might not be consistent across all cultures;**
- **Cultural learning;**
- **Cross-cultural analysis – high/low context approach;**
- **Hofstede's cultural dimensions and the role of culture and international business;**
- **The role of culture in negotiation styles;**
- **Ethical issues in cross-cultural marketing.**

Write your report on a separate piece of paper.

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READING LIST

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- Van Maanen, J.E. and Schein, E.H. (1977), *Toward a theory of organizational socialization*. MIT Alfred P. Sloan School of Management

Emerald Articles

- Yvette Reisinger, Lindsay Turner, (1999), "A cultural analysis of Japanese tourists: challenges for tourism marketers," *European Journal of Marketing*, Vol. 33 Issue: 11/12, pp.1203–1227. (This article will be available in your online student resources).

RESOURCES

- The extent of multiculturalism in the USA: http://mashable.com/2015/07/24/multicultural-marketing-tactics/#TU7aUtqrIPqb
- To find out more about cultural dimensions, visit: https://geert-hofstede.com/

Summary

The focus of this unit has been to provide you with knowledge on international markets and how global marketing practices differ from domestic practices.

This learning outcome has looked at marketing strategies, both good and bad, and how they work across the multicultural business environments.

In today's borderless world it is vital that marketers understand the influence and importance of cultural identity.

Culture is not only associated with a country's unique identity, but also with organisations as every organisation has its own culture. This type of culture is identified by stories, symbols, values, behaviours and beliefs. All of these aspects shape and influence how an organisation conducts business and how successful it is.

By this point in your study, you will be able to discuss globalisation and the impact that it has on business and marketing.

Alongside knowing about conducting business and marketing globally, you will also be aware of the potential barriers involved in global business. All types of business activity have associated risks; however, international business has a higher level risk due to reasons such as the extra capital required for marketing and start-up. There are tools available for organisations to anticipate and combat such issues, placing them in a stronger position within the international market.

Glossary

Barriers to entry Economic, procedural, regulatory, or technological factors that obstruct or restrict entry of new firms into an industry or market.

Boycott A refusal to deal commercially or otherwise with a person, firm or country.

Business-to-business (B2B) Trading between firms, characterised by relatively large volumes, competitive and stable prices, fast delivery times and, often, on a deferred payment basis.

Business-to-consumer (B2C) Selling individual products to individual buyers, usually on a cash payment basis; retailing.

Codex Alimentarius Commission (CAC) An intergovernmental body that is focused on international food standards, guidelines and codes of practice.

Comparative advantage A country should specialise in the production and exportation of goods and services which it can produce more efficiently and at a lower cost than other goods and services, which it should import.

Competitive dynamics Refers to the actions and tactical manoeuvres of an organisation that operates in a competitive market environment.

Competitive intelligence The process of continually monitoring the market or industry that an organisation operates in. This is aimed to build knowledge on competitors or future competitors and their activities that may impact the organisation.

Diversification A risk management technique that mixes a wide variety of investments within a portfolio. The rationale behind this technique contends that a portfolio constructed of different kinds of investments will, on average, yield higher returns and pose a lower risk than any individual investment found within the portfolio.

Domestic markets This represents the system of trading that is limited to one country. Traders do not operate overseas or in foreign markets, but stick to one localised area.

Dumping In international trade, dumping is the export by a country or company of a product at a price that is lower in the foreign market than the price charged in the domestic market.

Embargo An official ban on trade or other commercial activity with a particular country.

Emerging market economy Countries included in this category have low to middle per capita income and have embarked on economic development by opening up their markets to enter into the global market. Examples include China and Tunisia.

Ethnocentrism The evaluation of other cultures according to preconceptions originating in the standards and customs of one's own culture.

European Union (EU) The largest, oldest and most developed of the trading blocs. The EU comprises 28 nations (to date including the UK) and features a customs union (free trade), single market as well as shared legal and political institutions.

Export/exporting This is when goods are produced in one country and then sold to a different country.

Foreign Exchange Market (FOREX) A global decentralised market for the trading of currencies. This includes all aspects of buying, selling and exchanging currencies at current or determined prices. In terms of volume of trading, it is by far the largest market in the world. The main participants in this market are the larger international banks.

Franchise agreements Legal contracts that involve a well-established business consenting to provide its brand, operational model and required support to another party. This allows the other party to set up and run a similar business in exchange for a fee and share of generated income. The agreement sets out the duties that each party will be expected to perform and what compensation they can expect if needed.

General agreement on Tariffs and Trade (GATT) 1947–1994 – A legal agreement between many countries, which promotes international trade by reducing or eliminating trade barriers such as tariffs or quotas. It forms the basis of the World Trade Organisation (see WTO).

Globalisation Refers to the process by which the world is becoming increasingly more interconnected and, almost borderless. It has resulted in the free movement of goods, capital and services between many countries.

Gross domestic product (GDP) This is the total market value of goods and services that have been produced in a country in one year, equal to the total consumer, investment and government spending, and the value of exports, minus the value of imports. A GDP report is published on the last day of each quarter and reflects the previous quarter.

Herfindahl-Hirschman index (HHI) Also known as HHI-score is a measure of the size of firms in relation to the industry and an indicator of the amount of competition among them.

High- and low-context cultures Terms used to describe cultures based on how explicit the messages exchanged are and how much the context means in certain situations.

Hypermarket Vast self-service warehouse/ retail outlet that combines the features of a supermarket, department store, discount store, and specialty store in one location.

Imported Products of foreign origin brought into a country.

Intermediaries A business or organisation that operates between producers and consumers or business users, also called middlemen. Examples would be wholesalers, retailers or facilitating intermediary.

International market A market that is outside of the international borders of a company's home country.

Joint venture New organisations are formed to achieve specific objectives of a partnership like a temporary arrangement between two or more firms. Joint ventures can be used as a risk reducing mechanism in new-market penetration, and in pooling of resource for large projects. It can, however, be problematic and present unique problems in equity ownership, operational control, and distribution of profits or losses.

Market Meaning a system of institutions, rules and procedures relating to the exchange of goods and services between people or organisations. It can be defined either through geographical location, consumers or products.

Market concentration This relates to the number of organisations that operate within a certain market or produce the same product within the industry. In a highly-concentrated market it can be difficult for a company to enter and problematic to make profit.

Market expansion Can be defined as the process of entering a product or service into a wider section of an existing market or a new demographic or geographic market. It is designed to increase sales and expand a business.

Monochronic cultures These cultures value a certain orderliness and sense of there being an appropriate time and place for everything. They do not value interruptions. They like to concentrate on the job at hand and take time commitments very seriously.

Monopoly Market situation where one producer (or a group of producers acting in concert) controls supply of a good or service, and where the entry of new producers is prevented or highly restricted. Monopolist firms (in an attempt to maximise profits) keep the price high and restrict the output, and show little or no responsiveness to the needs of their customers. Most governments therefore try to control monopolies.

Multinational corporation (MNCs) An organisation that is operating and conducting business in several countries, but managed from one base country/home country.

North American Free Trade Agreement (NAFTA) A trilateral treaty among Canada, Mexico, and the USA, established in 1994 to remove import duties (tariffs) and non-tariff barriers within ten years for most types of goods, and within five more years for others. This agreement also addresses concerns relating to environment, health, and natural resources.

Offshore A term used for a company that is located in a different country to the one which it does most of its business. This is normally done for tax purposes or to avoid high-level government control.

Organic growth This is a strategy that involves a company strengthening itself by using its own energy and resources. This strategy tends to take longer than other approaches, but uses lower costs and so making it desirable for small businesses with small capital.

Organisational culture The values, beliefs and behaviours that contribute to the unique social and psychological environment of an organisation.

Paradigm A paradigm is a view or perception that is accepted by an individual or a society as a clear example of how things work in the world.

Political climate The political climate is the current mood and opinions of a society and the political opinions of a population. The concept of a political climate has been used historically to describe both politics and public reactions to political actions.

Polychronic cultures Polychronic cultures like to do multiple things at the same time. A manager's office in a polychronic culture typically has an open door, a ringing phone and a meeting all going on at the same time. Though they can be easily distracted they also tend to manage interruptions well with a willingness to change plans often and easily. People are their main concern and there is a tendency to build lifetime relationships.

Product life cycle (PLC) Describing the period of time over which an item is developed, brought to market and eventually removed from the market. The cycle is broken into four stages: introduction, growth, maturity and decline.

Protectionism The practice of shielding a country's domestic industries from foreign competition by taxing imports.

Small and medium enterprises (SMEs) In the EU, defined as a firm with 50–250 employees, annual turnover of €7–40 million, total assets less than €27 million and not more than 25% ownership by a large corporation, may be classified as a SME.

Stress tests A generic term describing various techniques used by financial firms to gauge their potential vulnerability to exceptional, but plausible events.

SWOT analysis A study undertaken by an organisation to identify its internal strengths and weaknesses, as well as its external opportunities and threats.

Tariffs A tax or duty that is to be paid on a particular class of imported or exported goods.

Trade restrictions This refers to any government policy that limits the free flow of goods and services across borders.

United Nations (UN) Composed of independent states brought together to encourage diplomacy and peace between various countries. The UN is also in charge of maintaining treaty obligations and ensuring that countries included in the organisation obey international laws.

World Trade Organisation (WTO) The only global international organisation dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments.