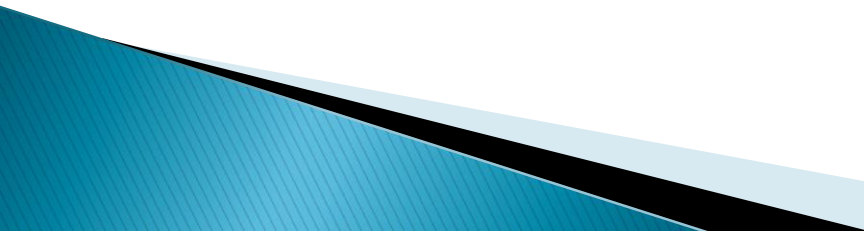


**SOS POLITICAL SCIENCE AND
PUBLIC ADMINISTRATION
MBA FA 404
SUBJECT NAME:
INTERNATIONAL MARKETING**

**TOPIC NAME: ENVIRONMENTAL FACTORS
AFFECTING INTERNATIONAL MARKETING**



- ▶ Due to technological advances and rapid economic growth, the level of world trade has increased considerably over the last four decades. Merchandise exports, for instance, grew from a value of \$160 billion in 1963 to almost \$16,000 billion in 2008 (WTO, 2009). Motivated by the many rewards and opportunities international exchange offers, more and more countries and companies have become largely involved in international marketing. However, the implications entailed in this “process of planning and conducting transactions across national borders” are rather different to those companies usually have to face when conducting domestic marketing (Czinkota & Ronkainen, 2007, p.4). Differences in cultures, economic conditions, and governmental systems amongst countries mean that the marketing activities of companies taking their operations outside national borders are affected by a new series of environmental factors.

- ▶ In order to be successful at international marketing, it is vital that marketers attain a thorough understanding of these factors as they impact the international business environment and take them into account when carrying out decisions on marketing activities (Hollensen, 2007). Consequently, this essay aims to identify both these fundamental environmental factors and the effects they have on the international marketer's decision making. The essay will firstly consider the factors that derive from culture, such as language and religion. Secondly, the economical elements that influence the international business environment will be examined. Finally, the essay will take into consideration legal and political factors.
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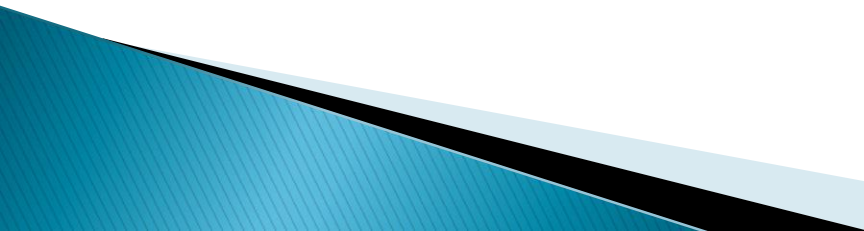
CULTURAL ENVIRONMENT:

- ▶ According to Hofstede (1980), culture is “the collective programming of the mind which distinguishes the members of one human group from another”. Given that culture affects consumers’ behavior, understanding cultural dissimilarities is crucial for the success of international marketing (Usunier & Lee, 2009).
- ▶ Hall (1976) states that there are high context cultures, such as the Japanese one, where the context is equally as important as the words used, and low context cultures, such as the North American one, where communication is often solely conveyed in words. Companies need to be aware of and adapt their marketing concepts to these differences as otherwise it can easily lead to misinterpretations in communication. They need to take into account the element of language which consists of a verbal (the words used and how they are spoken) and a non-verbal part (e.g. gestures and eye contact). The challenge for them is to attain both a thorough understanding of the language in terms of its technicality and the context in which it is used (Hollensen, 2007). In Japan, for example, IBM changed the classification number of its series 44 computer as the pronunciation for the word four is similar to the word death (Czinkota & Ronkainen, 2007).

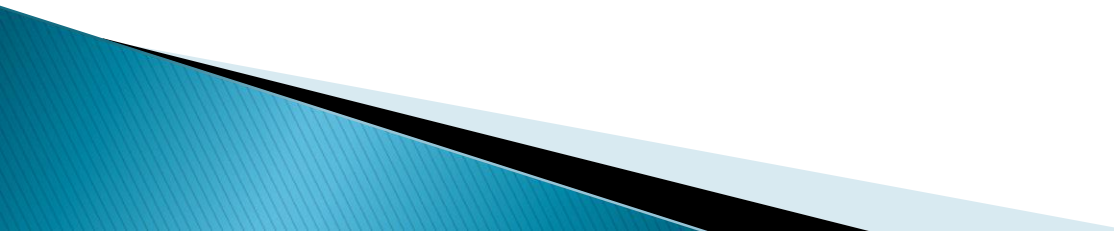
- ▶ A further important source of culture is religion. Marketers need to be aware of the differences between the main types of religion as well as the variations within them (Hollensen, 2007). In Hinduism, for example, people's capacity of consumption is determined by their status. Companies need to take this into account when making planning their marketing strategy. Also, as the main holidays are linked to religion marketers need to consider when they take place when planning marketing programs. The exchange of Christmas gifts, for example, occurs on 6th December in the Netherlands, whereas in other countries they are opened on 24th or 25th December (Czinkota & Ronkainen, 2007).
- ▶ Also, companies need to take into account the values and attitudes of countries. The more these shared beliefs or group norms are embedded into the culture the more care companies have to take when implementing marketing activities (Blackwell et al., 2005). Societies that place a high value on tradition are more reluctant to change and may perceive foreign companies with scepticism (Hollensen, 2007). In Japan, for example, many bureaucrats feel that the consumption of foreign products is disloyal to their country (Czinkota & Ronkainen, 2007).
- ▶ Another element of culture is aesthetics which determines what people find appropriate and what not. This can differ considerably from one culture to another meaning that marketers need to be aware of them and adapt their marketing concepts accordingly (Usunier & Lee, 2009). Henkel's FA soap, for example, modified its advertisement spot for the North American market by having the model wear a bathing suit instead of being naked, as in the ad for the European market (Czinkota & Ronkainen, 2007).

- ▶ Furthermore, it is important that managers understand the different manners and customs of countries (Usunier & Lee, 2009). General Foods' orange juice Tang, for example, is marketed as a breakfast drink in the United States, whereas in France it is positioned as a refreshment as there is no habit in drinking orange juice at breakfast (Czinkota & Ronkainen, 2007).
- ▶ There is also the element of education that needs to be taken into account. When designing products or services, for example, companies need to be aware of the level of intelligence of the consumer so they can adapt the complexity of the product or the service to the user (Hollensen, 2007).
- ▶ According to Dallas (1995), the best way for companies to overcome these cultural obstacles is to embrace the local culture. They need to take a localized approach by adjusting products to the markets, building relationships with locals and employing them. This allows marketers to gain information and experience at firsthand, attain an in-depth understanding of what influence consumer behavior in the market, and cooperate efficiently with employees, the government, and other local partners (Usunier & Lee, 2009). This would also allow companies to avoid accusations of cultural imperialism, which happens when marketing approaches are seen as too radical. McDonald's and Coca-Cola, for example, have been accused of forcing American standpoints into other cultures and consequently had to deal with boycotts from consumers (Czinkota & Ronkainen, 2007).

ECONOMIC ENVIRONMENT:

- ▶ International marketers equally need to be aware of economic factors when undertaking marketing decisions (Hollensen, 2007).
 - ▶ Population figures provide a basic indication of the attractiveness of the market in terms of size and potential growth by looking at life expectancy, age distribution and population growth. They allow marketers to identify the segments and the geographical areas they should target (Czinkota & Ronkainen, 2007). Low population growth rates, for example, usually characterize highly economically developed countries with good disposal income (Bradley, 1999).
 - ▶ Also, income levels need to be taken into account as they provide an indication of the purchasing power of the market and allow companies to adapt their marketing concepts accordingly (Hollensen, 2007). A packaged goods company, for example, brought out a more economic version of its product in countries that have lower income levels by using cheaper raw materials.
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- ▶ Nonetheless, marketers should not greatly rely on this indicator as there are certain types of products that because of the high value they create for the consumer are not affected by income levels. In China, for example, due to being a good upgrade for bicycles and a cheap alternative for cars, sales of motorcycles are high in the country despite the fact that the price of the product represents a high proportion of salary (Czinkota & Ronkainen, 2007).
- ▶ Besides, marketers need to consider consumption pattern which allow them to identify the proportion of income that consumers spend on necessities, including food and rent, and consequently the proportion that is left to spend on less important areas of consumption, such as household goods and leisure (Bradley, 1999; Hollensen, 2007). Given that purchases in these areas can be cancelled or postponed unexpectedly, companies can determine the level of confidence in the market (Czinkota & Ronkainen, 2007).

- ▶ Another important economical element is inflation as it strongly affects consumers' buying habits and ability to buy. In markets with high inflation rates companies need to modify their product making it less expensive to produce so that they can lower their prices to respond to customer needs and sustain demand (Hollensen, 2007).
 - ▶ In addition, marketers need to consider the availability and quality of local infrastructure. Transportation, communication, and energy networks have an important effect on the company's functions. They also provide an indication for the demand of industrial products and services (Bradley, 1999; Hollensen, 2007). The fact that two billion people live without electricity and that the access to a telephone is very limited in Asia, for example, informs industrial products and services companies that there are important marketing opportunities for them there (Czinkota & Ronkainen, 2007).
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- ▶ Furthermore, companies need to consider regional economic integrations as they can create both opportunities and benefits, and threats and problems for them. The European Union, for example, provides many benefits to companies operating within Europe, such as economies of scale thanks to the large single market. For non-EU companies, however, this integration may create problems (Hollensen, 2007). With the aim of protecting European farmers, for example, the EU has now and again imposed restrictions on the inflow of certain agricultural goods from the U.S. (Czinkota & Ronkainen, 2007).
- ▶ A thorough understanding of these factors allows companies to obtain a good assessment of the market and reduces the possibility of implementing marketing concepts that could have disastrous results (Czinkota & Ronkainen, 2007).

POLITICAL AND LEGAL ENVIRONMENT:

- ▶ The political and legal environment of the company's home country, its host country and the general international environment also has important effects on the marketing activities of international companies (Hollensen, 2007).
- ▶ The politics and regulations of the company's home country can determine its opportunities outside national borders (Hollensen, 2007). One of the main types of regulation that international marketers need to be aware of are embargoes and sanctions which are used to distort the free flow of trade. They need to know where they are applicable and take them into account when planning marketing activities so that they do not breach them and face subsequent sanctions (Czinkota & Ronkainen, 2007). Governments also employ export and import control systems. Export controls prevent or delay companies from selling their products in certain countries whilst import controls are used to protect and stimulate the domestic market. Marketers need to take them into account so they know where the company can do business and where it can obtain its supply from.

- ▶ Finally, governments may induct special measures to ensure that their companies behave in a correct manner in the international business environment. One of the major areas concerned is boycott, which is when companies reject to conduct business with someone (Hollensen, 2007). The government's control in this area can force companies to decide whether to stop transactions and lose profit or to continue trading and pay charges. The Arab nations, for example, have blacklisted a number of companies who conduct business with Israel. In response, the United States imposed several laws to prevent U.S. companies from complying with the Arab boycott as it has political ties with Israel. Companies may lose out to firms whose home country does not employ such measures (Czinkota & Ronkainen, 2007). Nonetheless, according to Czinkota and Ronkainen (2007), it is best to avoid adopting inappropriate behavior as it may lead to damages to the company's reputation, boycotts by consumers and cancellation of transactions. This might cost the company more money than it gained through adopting such behavior.

- ▶ Companies are also affected by the legal and political environment of the host country. Marketers firstly need to determine the level of political risk, i.e. the likelihood of political changes that could adversely affect the company, by looking at the host country's government, its political actions and its stability (Czinkota & Ronkainen, 2007). U.S. companies, for example, who are a major target for terrorist attacks because of their home country's actions and capitalistic image, need to particularly take into account the stability of the host country (Harvey, 1993). Marketers also need to be aware of the actions of the host country's government. Price controls, for example, which are used by the government to respond to inflation, can put international companies into a difficult situation where it has to decide whether to stop their operations or to carry on in the hope that the controls will be changed and they can regain the sacrificed profits (Frank, 1984). Companies also need to be familiar with the laws of the host country and the restraints they place on their operations.

- ▶ In France, Canada, Brazil, and Indonesia, for example, there are laws that restrict imports of U.S. entertainment to protect and preserve their cultural industries (Czinkota & Ronkainen, 2007). However there are also laws that are aimed at assisting companies with their international operations, e.g. subsidies (Hollensen, 2007). Shortages of regulations can also create problems for companies, e.g. the lack of intellectual property rights in China (Czinkota & Ronkainen, 2007). Therefore, companies need to attain a good understanding of how the country's legal and political systems work to reduce the impact of the problems they cause. By undertaking in-depth research on the country's history, culture and political setting before entering it allows companies to avoid making investments that could have disastrous outcomes. An in-depth knowledge of the country would also allow the company to anticipate, plan and adapt into the local community. Hiring locally, undertaking local charity work and joint ventures with local businesses show the government that the company cares about the local community and does not just see it as an object it can exploit. This reduces the amount of interference by the government giving the company more freedom in its operations (Czinkota & Ronkainen, 2007; Hollensen, 2007).

- ▶ Marketers must also consider the overall international business environment. Relations between countries and governments have important effects on the operations of international companies. The U.S. government's differences with South Africa, for example, forced U.S. companies to leave their operations in the country. Relations between home and host countries are governed by bilateral agreements, as well as by multilateral ones between sets of countries (Hollensen, 2007). Marketers need to continuously monitor the international political environment keeping up to date with political affairs so that they can anticipate changes and plan and modify their marketing strategy accordingly. In terms of the legal environment, managers need to be aware of certain laws and treaties which because of the respect they receive from many countries have a strong influence on the way companies operate (Czinkota & Ronkainen, 2007). The World Trade Organization, for example, gives an outline on the behavior that it finds acceptable from its member states (WTO, 2010).