CHAPTER ONE

INTERNATIONAL MARKETING: AN INTRODUCTION

Introduction

International marketing is exciting because it combines the science and the art of business with many other disciplines. Economics, anthropology, cultural studies, geography, history, languages, statistics, demographics, and many other fields combine to help you explore the global market.

International marketing is important because the world has become globalized. International marketing takes place all around us every day, has a major effect on our lives, and offers new opportunities and challenges.

International marketing is necessary because, from a national standpoint, economic isolationism has become impossible. Failure to participate in the global marketplace assures a nation of declining economic capability and its citizens of a decrease in their standard of living. Successful international marketing, however, holds the promise of an improved quality of life, a better society, and, as some have stated, even a more peaceful world.

Importance of International Marketing

There has never been a time in modern economic history when more change has occurred in so short a period than that which has occurred in the last decade of the 20th century. New markets are springing forth in emerging economies of the former Soviet Union, Common Wealth of Independent States CIS, Eastern Europe, China, India, Korea, Mexico, and Brazil – in short, globally.

The economic, political, and social changes that have occurred over the last decade have dramatically altered the landscape of global business.

The world is shrinking rapidly with the advent of faster communication, transportation, and financial flows.

International marketing takes place all around us every day, has a major effect on our lives, and offers new opportunities and challenges. International marketing is important because the world has become globalized. Products developed in one country are finding enthusiastic acceptance in other countries.

International marketing has received increased attention from governments and business firms over the six decades since the end of World War II. International marketing is necessary because, from a national standpoint, economic isolationism has become impossible.

Failure to participate in the global market place assures a nation of declining economic capability and its citizens of a decrease in their standard of living. Successful international marketing, however, holds the promise of an improved quality of life, a better society, and, as some have stated, even a more peaceful world. Regarding the firm, today there is intensified global competition. Foreign firms are expanding aggressively into new international markets, and home markets are no longer rich in opportunity. Few industries are now safe from foreign competition. So the companies have to continuously improve their products at home and expand into foreign markets so as to face the global competition.

Companies that delay taking steps toward internationalizing their operations face the risk of being shut out of growing markets in Eastern Europe, South Asia, South America, and other places. Firms that concentrate only on domestic market for safety reasons may not only lose the opportunity of entering lucrative overseas markets but also may risk losing their home markets. Domestic marketers that never thought of competition from foreign marketers in their home market suddenly have found foreign competition in their base market.

1.1 Definition of International Marketing (What is International Marketing?)

Though international marketing has distinct characteristics, it is similar to domestic marketing in terms of technical factors. The marketing process consists of two factors such as technical and social. The technical factors cover non-human factors such as product, price, brand, etc. The basic principles regarding these factors are universally applicable.

On the other hand, social aspect of marketing is unique, because it associates with human elements such as behavior of consumers, characteristics of society which includes customs, attitudes, values, etc. It is true that marketing as a social process is not uniform in different environments.

Definition

International marketing can be better understood by the following definitions: According to Michael R. Czinkota and I. A. Ronkainen, 'International marketing is the process of planning and conducting transactions across national borders to create exchanges that satisfy the objectives of individuals and organizations.' International marketing has forms ranging from export-import trade to licensing, joint ventures, wholly owned subsidiaries, turnkey operations, and management contracts.

As this definition indicates, international marketing very much retains the basic marketing tenets of "satisfaction" and "exchange." The fact that a transaction takes place "across national borders" highlights the difference between domestic marketing and international marketing. The international marketer is subject to a new set of macro environmental factors, to different constraints, and to quite different conflicts resulting from different laws, cultures, and societies. The basic principles of marketing still apply, but their application, complexity, and intensity may vary substantially. It is in the international marketing field where one can observe most closely the role of marketing as a key agent of societal change and as a key instrument for the development of societal responsive business strategy.

When one looks, for example, at the newly emerging market economies in the different parts of the world, one can see the many new challenges that international marketing is confronted with. How does the marketing concept fit into these societies? How can marketing contribute to

economic development and the betterment of society? How can one get the price mechanism to work? How should distribution systems be organized? Similarly, in the international areas of social responsibility and ethics, the international marketer is faced with a multicultural environment with differing expectations and often inconsistent legal systems when it comes to monitoring environmental pollution, maintaining safe working conditions, copying technology to trademarks, or paying bribes. These are just a few of the issues that the international marketer needs to address. The capability to master these challenges successfully affords a company the potential for new opportunities and high rewards.

The above definition also focuses on international transactions. The use of the term recognizes that marketing internationally is an activity to be pursued, often aggressively.

According to Stuart Wall and B. Rees, 'International marketing can simply be defined as involving marketing activities that cross national borders.' According to Philip R. Cateora and John L. Graham, 'International marketing is the performance of business activities designed to plan, price, promote, and direct the flow of company's goods and services to consumers or users in more than one nation for a profit.' According to Vern Terpstra and Ravi Sarathy, 'International marketing consists of finding and satisfying global customer needs better than the competition, both domestic and international, and of coordinating marketing activities within the constraints of the global environment.' Simply said, the term international marketing refers to exchanges across national boundaries for the satisfaction of human needs and wants.

The only difference in the definitions of domestic marketing and international marketing is that marketing activities take place in more than one country. This apparently minor different "…*in more than one nation*…" accounts for the complexity and diversity found in international marketing operations. Marketing concepts, processes, and principles are universally applicable, and the marketer's task is the same whether doing business in a domestic market or international market. Businesses' goal is to make a profit by promoting, pricing, and distributing products for which there is a market. If this is the case, what is the difference between domestic and international marketing?

The answer lies not with different concepts of marketing but with the environment within which marketing plans must be implemented. The uniqueness of foreign marketing comes from the

range of unfamiliar problems and the variety of strategies necessary to cope with different levels of uncertainty encountered in foreign markets.

Competition, legal restraints, government controls, weather, and any number of other uncontrollable elements can, and frequently do, affect the profitable outcome of good, sound marketing plans. Generally speaking, the marketer cannot control or influence these uncontrollable elements, but instead must adjust or adapt to them in a manner consistent with a successful outcome. What makes marketing interesting is the challenge of molding the *controllable elements* of marketing decisions (product, price, promotion, and distribution) within the framework of the *uncontrollable elements* of the marketplace (competition, politics, laws, consumer behavior, level of technology, and so forth) in such a way that marketing objectives are achieved. Even though marketing principles and concepts are universally acceptable, the environment within which the marketer must implement marketing plans can change dramatically from country to country or region to region. The difficulties created by different environments are the international marketer's primary concern.

1.2 Why Firms go International / Reasons for International Marketing

Broadly speaking, firms go international when they can no longer achieve, to their satisfaction, their strategic objectives by operating solely in the domestic market. The reasons why firms commonly seek to extend the geographical scale of their marketing activities are:

1.2.1. Increasing the share of the market

Developing new markets abroad may permit the firm to fully exploit economies of scale, which is particularly important when these are substantial for that product. In some cases, the maximum efficient size for a firm’s production may be greater than the total sales potential of the domestic market. In this case the firm’s average costs can only be reduced to their lowest level by finding extra sales in overseas markets.

1.2.2. Extending the Product Life Cycle

Finding new markets abroad may help extend the maturity stage of the product life cycle. This can be particularly important when domestic markets have reached "saturation point" for a

product. Market saturation can provide a major incentive for firms to search for new opportunities. Foreign expansion may become a feasible strategy if the home market is stagnant or declining.

1.2.3. Supporting International Specialization

In an attempt to reduce overall production costs, separate elements of an overall product may be produced in large scale in different geographical locations worldwide. For example, labor-intensive components will often be produced in low-cost labor locations, whereas capital-intensive components are more likely to be produced in high technology locations. The final product, once assembled, must by definition be marketed internationally to achieve the huge sales volumes which are a pre-requisite for international specialization.

1.2.4. Helping Reduce Investment Pay-Back Periods

Finding overseas markets helps achieve high-volume sales early in the product life cycle, thereby reducing the pay-back period needed to return the initial capital outlay and making many investment projects more attractive. It also helps in compensating the modern trends towards shorter product life cycle which are tending to inhibit investment expenditures.

1.2.5. Reducing Stock-holding Costs

Overseas markets may provide new sales outlets for surplus stocks, thereby reducing warehousing and other stockholding costs.

1.2.6. Risk Diversification

Many, but not all, international marketing firms probably face less total market risk than domestic marketing firms by virtue of their having diversified geographical markets. Typically, countries do not face the same type and timing of business cycle. Selling in several markets (market spreading) reduces the risk associated with declining sales and profits in any one market.

1.2.7. Foreign Market Opportunities

Revealing market opportunities abroad has often exerted a strong influence upon the firm's willingness to undertake international marketing operations.

1.2.8. Small Domestic Market

A firm may be pushed to undertake international marketing because of small home market potential. For some firms, domestic marketing may be unable to sustain sufficient economies of scale and scope, and these firms automatically include international marketing.

1.2.9. Unique Product/ Technology Competence

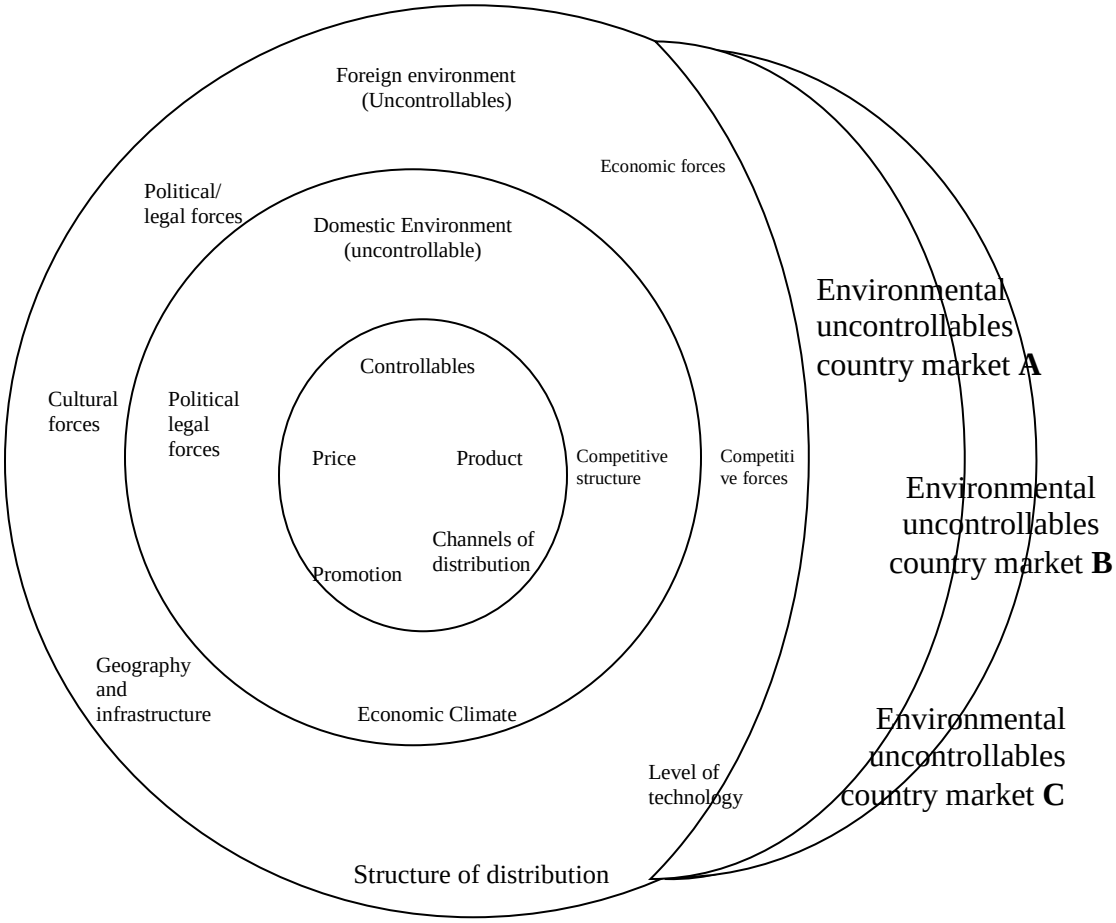
There is definite role that unique products and/or unique technology competence plays in stimulating international marketing behavior. First, a firm producing superior products is more likely to receive inquiries from foreign markets because of perceived competence of its offerings. Second, if a firm has developed unique competences in its domestic markets, the possibilities to spread unique assets to foreign markets may be very high because the opportunity costs of exploiting these assets in foreign markets will be zero or low.

1.3 The International Marketing Task

The international marketer's task is more complicated than that of the domestic marketer because the international marketer must deal with at least two levels of uncontrollable uncertainty instead of one. Uncertainty is created by the uncontrollable elements of all business environments like political and legal environment, social and cultural environment, competitive environment, economic environment, but each foreign country in which a company operates adds its own unique set of uncontrollable.

The following figure illustrates the total environment of an international marketer.

Figure 1. The International Marketing Task



The inner circle depicts the controllable elements that constitute a marketer's decision area, the second circle encompasses those environmental elements at home that have some effect on foreign-operations decisions, and the outer circles represent the elements of the foreign environment for each foreign market within which the marketer operates. As the outer circles illustrate, each foreign market in which the company does business can (and usually does) present separate problems involving some or all of the uncontrollable elements.

Thus, the more foreign markets in which a company operates, the greater the possible variety of foreign environmental uncontrollable with which to contend by the international marketer.

Frequently, a solution to a problem in country market A is not applicable to a problem in country market B.

1.3.1 Marketing Controllable

The successful marketing manager constructs a marketing program designed for optimal adjustment to the uncertainty of the business climate. The inner circle in Figure 1 represents the area under control of the marketing manager. Assuming the necessary overall corporate resources, the marketing manager blends the controllable price, product, promotion, and channels of distribution activities to capitalize on anticipated demand.

The controllable elements (marketing mix) can be altered in the long run and, usually, in the short run, to adjust to changing market conditions, consumer tastes, or corporate objectives.

The outer circles surrounding the market controllable represent the level of uncertainty that are created by the domestic and foreign environments. Although the marketer can blend a marketing mix from the controllable elements the uncontrollable are precisely that and there must be active evaluation and, if needed, adaptation. That effort, the adaptation of the marketing mix to the uncontrollable, determines the ultimate outcome of the marketing enterprise.

1.3.2 Domestic Uncontrollable

The second circle in Figure 1, representing the *domestic uncontrollable*, includes home-country elements that can have a direct effect on the success of a foreign venture and are out of the immediate control of the marketer: political and legal forces, economic climate, and competition.

A political decision involving domestic foreign policy can have a direct effect on a firm's international marketing success. For example, USA imposed a total ban on trade to Iraq when Iraq occupied Kuwait and this led to the restriction of international marketing programs of IBM and Exxon by these political decisions.

Conversely, positive effects occur when there are changes in foreign policy and countries are given favored treatment. Such were the cases when South Africa abolished apartheid and the embargo was lifted, and when the U.S. government decided to uncouple human rights issues

from foreign trade policy and grant most favored nation status (MFN) to China. In both cases, opportunities were created for U.S. companies.

The domestic economic climate is another important home-based uncontrollable variable with far-reaching effects on a company's competitive position in foreign markets. The capacity to invest in plants and facilities, either in domestic or foreign markets, is to a large extent a function of domestic economic vitality. It is generally true that capital tends to flow toward optimum use; however, capital must be generated before it can have mobility. Furthermore, if internal economic conditions deteriorate, restriction against foreign investment and purchasing may be imposed to strengthen the domestic economy.

Competition within the home country can also have a profound effect upon the international marketer's task. Competition within their base/home nation affects a firm's domestic as well as international plans. Inextricably entwined with the effects of the domestic environment are the constraints imposed by the environment of each foreign country.

1.3.3 Foreign Uncontrollable

In addition to uncontrollable domestic elements, a significant source of uncertainty is the number of foreign *uncontrollable* (depicted in Figure 1 by the outer circles).

A business operating in its home country undoubtedly feels comfortable in forecasting the business climate and adjusting business decisions to these elements.

The process of evaluating the uncontrollable elements in an international marketing program, however, often involves substantial doses of cultural, political, and economic shock.

A business operating in a number of foreign countries might find polar extremes in political stability, class structure, and economic climate, which are critical elements in business decisions. The dynamic upheavals in some countries further illustrate the problems of dramatic change in cultural, political, and economic climates over relatively short periods of time. For example, China, Russia, etc. have moved from a communist legal system to a commercial legal system.

The more significant elements in the uncontrollable international environment, shown in the outer circles of Figure 1, include: 1) political/ legal forces, 2) economic forces, 3) competitive

forces, 4) level of technology, 5) structure of distribution, 6) geography and infrastructure, and 7) cultural forces. They constitute the principal elements of uncertainty an international marketer must cope within designing a marketing program. Consider the level of technology and political/legal forces as illustrations of the nature of foreign uncontrollable.

The level of technology is an uncontrollable element that can often be misread because of the vast differences that may exist between developed and undeveloped countries. A marketer of USA cannot assume that the level of technical support is the same in other nations as in the USA.

Political and legal issues face a business whether operating at home or in a foreign country. However, the issues abroad are often amplified by the "alien status" of the company, which increases the difficulty of properly assessing and forecasting the dynamic international business climate. There are two dimensions to the alien status of a foreign business:

- alien in that foreigners control the business, and
- alien in that the culture of the host country is alien to the management.

The alien status of a business means that, when viewed as an outsider, it can be seen as an exploiter and receive prejudiced or unfair treatment at the hands of politicians and/or legal authorities.

Furthermore, in a domestic situation political details and the ramifications of political and/or legal events are often more transparent than they are in some foreign countries. For instance, political and legal events in USA are more transparent when compared to China or Russia. The point is that a foreign company is foreign and thus always subject to the political whims of the government to a greater degree than a local firm.

The uncertainty of different foreign business environments creates the need for a close study of foreign uncontrollable environment within each new country. Different solutions to fundamentally identical marketing tasks are often in order and are generally the result of changes in the environment of the market. Thus, a strategy successful in one country can be rendered ineffective in another by differences in political climate, stages of economic development, level of technology, or other cultural variation.

1.4 Stages of International Marketing Involvement

Once a company has decided to be international, it has to decide the degree of marketing involvement and commitment it is prepared to make. These decisions should reflect considerable study and analysis of market potential and company capabilities – a process not always followed. Many companies begin tentatively in international marketing, growing as they gain experience and gradually changing strategy and tactics as they become more committed. Others enter international marketing after much research and with fully developed long-range plans, prepared to make investments to acquire a market position.

Regardless of the means employed to gain entry into a foreign market, a company may, from a marketing view point, make no market investment that is, its marketing involvement may be limited to selling a product with little or no thought given to development of market control. Or a company may become totally involved and invest large sums of money and effort to capture and maintain a permanent, specific share of the market.

In general, one of five but overlapping stages can describe the international marketing involvement of a company. Although the stages of international marketing involvement are presented here in a linear order, the reader should not infer that a firm progresses form one stage to another; quite to the contrary, a firm may begin its international involvement at any one stage or be in more than one stage simultaneously.

1.4.1. No Direct Foreign Marketing

A company in this stage does not actively cultivate customers outside national boundaries; however, this company's products may reach foreign markets. Sales may be made to trading companies as well as other foreign customers who come directly to the firm. Or products reach foreign markets via domestic wholesalers or distributors who sell abroad on their own without explicit encouragement or even knowledge of the producer.

As companies develop their own website on internet, many receive orders from international "web surfers/users." Often an unsolicited order from a foreign buyer motivates the company to seek additional international sales.

1.4.2. Infrequent Foreign Marketing

Temporary surpluses caused by variations in production levels or demand may result in infrequent marketing overseas. The surpluses are characterized by their temporary nature; therefore, sales to foreign markets are made, as goods are available, with little or no intention of maintaining continuous market representation. As domestic demand increases and absorbs surpluses, foreign sales activity is withdrawn. In this stage, there is little or no change in company organization or product lines.

1.4.3. Regular Foreign Marketing

At this level, the firm has permanent productive capacity devoted to the production of goods to be marketed on a continuing basis in foreign markets. A firm may employ foreign or domestic overseas middlemen or it may have its own sales force or sales subsidiaries in important foreign markets. The primary focus of operations and production is to service domestic market needs. However, as overseas demand grows, production is allocated for foreign markets and products may be adapted to meet the needs of individual foreign markets.

Profit expectations move from being seen as a bonus to regular domestic profits to the position where the company becomes dependent on foreign sales and profits to meet its goals.

1.4.4. International Marketing

Companies at this stage are fully committed and involved in international marketing activities. Such companies seek markets all over the world and sell products that are a result of planned production for markets in various countries. This generally entails not only the marketing but also the production of goods outside the home market. At this point the company becomes an international or multinational marketing firm.

1.4.5. Global Marketing

At the global marketing level, the most profound change is the orientation of the company toward markets and its planning. At this stage, companies treat the world, including their home market, as one market.

In contrast to the multinational or international company that views the world as a series of country markets (including their home market) with unique sets of market characteristics for which marketing strategies must be developed, a global company develops a strategy to reflect the existing commonalities of market needs among many countries to maximize returns through global standardization of its business activities – whenever it is cost effective and culturally possible. The entire operations, its organization structure, sources of finance, production, marketing, and so forth, take on a global perspective.

1.5 The International Marketing Concepts

The differences in the international orientation and approach to international markets that guide the international business activities of companies can be described by one of three orientations to international marketing management:

1. Domestic Market Extension Concept

2. Multi-domestic Market Concept

3. Global Marketing Concept

The differences in the complexity and sophistication of a company's marketing activity depend on which orientation guides its operations. The ideas expressed in each concept reflect the philosophical orientation that also can be associated with successive stages in the evolution of the international operations in a company.

Among the approaches describing the different orientations that evolve in a company in different stages of international marketing – from casual exporting to global marketing – is the often-quoted EPRG schema. The authors of this schema suggest that firms can be classified as having an *e*thnocentric, *p*olycentric, *region*-centric, *or g*eocentric orientation (EPRG), depending on the

international commitment of the firm. Further, the authors state that " a key assumption underlying the EPRG framework is that the degree of internationalization to which management is committed or willing to move towards affects the specific international strategies and decision rules of the firm." The EPRG schema is incorporated into the discussion of the three concepts that follows in that the philosophical orientations described by the EPRG schema help explain management's view when guided by one of the concepts.

1.5.1. Domestic Marketing Extension Concept

The domestic company seeking sales extension of its domestic products into foreign markets illustrates this orientation to international marketing. It views its international operations as secondary to and an extension of its domestic operations; the primary motive is to market excess domestic production. Domestic business is its priority and foreign sales are seen as profitable extension of domestic operations. Even though foreign markets may be vigorously pursued the firm's orientation remains basically domestic.

Minimal, if any, efforts are made to adapt the marketing mix to foreign markets; the firm's orientation is to market to foreign customers in the same manner the company markets to domestic customers. The firm seeks markets where demand is similar to the home market and its domestic product will be accepted. This domestic market extension concept strategy can be very profitable; large and small exporting firms approach international marketing from this perspective. Firms with this marketing approach are classified as *ethnocentric* in the EPRG schema.

1.5.2. Multi-domestic Market concept

Once a company recognizes the importance of differences in overseas markets and the importance of offshore business to the organization, its orientation toward international business may shift to a multi-domestic market strategy.

A company guided by this concept has a strong sense that country markets are vastly different and that market success requires an almost independent program for each country. Firms with this orientation market on a country-by-country basis, with separate marketing strategies for each country.

Subsidiaries operate independently of one another in establishing marketing objectives and plans and the domestic market and each of the country markets have separate marketing mixes with little interaction among them. Products are adapted for each market without coordination with other country markets; advertising campaigns are localized, as are the pricing and distribution decisions.

A company with this concept does not look for similarity among elements of the marketing mix that might respond to standardization; rather, it aims for adaptation to local country markets. Control is typically decentralized to reflect the belief that the uniqueness of each market requires local marketing input and control. Firms with this orientation would be classified in the EPRG schema as *polycentric*.

1.5.3. Global Marketing Concept

A company guided by this orientation or philosophy is generally referred to as global company, its marketing activity is global marketing, and its market coverage is the world. A company employing a global marketing strategy strives for efficiencies of scale by developing a standardized product, of dependable quality, to be sold at a reasonable price to a global market, that is, the same country market set throughout world.

Important to the global marketing concept is the premise that world markets are being " driven toward a converging commonality" seeking in much the same ways to satisfy their needs and desires. Thus, they constitute significant market segments with similar demands for the same product the world over. With this orientation a company attempts to standardize as much of the company effort as is practical on a worldwide basis.

Some decisions are viewed as applicable worldwide, while others require consideration of local influences. The world as a whole is viewed as the market and the firm develops global marketing strategy. The global marketing company would fit the *regiocentric* or *geocentric* classifications of EPRG schema. Examples of those companies which could be classified as a ‘global company’ include Coca-cola, General Motors, and Ford Motors.

The global marketing concept views an entire set of country markets as a unit, identifying groups of prospective buyers with similar needs as a global market segment and developing a marketing

plan that strives for standardization wherever it is cost and culturally effective. This might mean a company's global marketing plan has a standardized product but country-specific advertising. The point is, to be global is a mindset, a way of looking at the market for commonalities.

1.6 Challenges of International Marketing

The most cost-effective method to market products or services worldwide is to use the same program in every country, provided environmental conditions favor such an approach. However, invariably (as we have seen in the previous section), local market characteristics exist that may require some form of adaptation to local conditions. One of the challenges of international marketing is to be able to determine the extent to which a standardized approach may be used for any given local market. To do this, the international marketing manager must become aware of any factors that limit standardization. Such factors can be categorized into four major groups: market characteristics, competitive conditions, marketing infrastructure, and regulatory conditions.

The debate over the amount or extent of standardization is one of the longest in the field of international marketing. Some see markets as becoming more similar and increasingly more global while others point out the difficulties in using a standardized approach, as experienced by many companies and the research of many academics.

A. Market Characteristics

Market characteristics can have a profound effect on an international marketing strategy.

The physical environmental conditions: of any country-determined by climate, product use conditions, and population size-often force marketers to make adjustments to products to fit local conditions. Many cars in Canada come equipped with a built-in heating system that is connected to an electrical outlet to keep the engine from freezing while turned off. Cars manufactured for warmer climates are not equipped with such a heating unit but are likely to feature air condition-ing.

A country's population: It affects the market size in terms of volume, allowing for lower prices in larger markets. Market size, or expected sales volume, greatly affects channel strategy. Company-owned manufacturing and sales subsidiaries are often possible in larger markets, whereas independent distributors are often used in smaller countries.

Macroeconomic factors: Income level, or gross national product (GNP) per capita, varies widely among nations-from below $100 per year for some of the world's poorest nations to above $20,000 per year for rich countries such as Kuwait, Sweden, and the United States. As can be expected, marketing environments will differ considerably according to income level. If the population's level of technical skill is low, a marketer may be forced to simplify product design to suit the local market. Pricing may be affected to the extent that countries with lower income levels show a higher price elasticity for many products, compared with more developed

countries. Furthermore, convenient access to credit is often required of buyers in developing countries. This has negative impact on the sale of capital goods and consumer durables.

Cultural and social factors: are less predictable influences on the marketing environment, and they have frustrated many international marketers. Customs and traditions have the greatest effect on product categories when a country's population has had prior experience with a given product category. Although Coca-Cola has been very successful transferring its Coke brand into many countries, it has also run into difficulties with other products. Its canned coffee drink, Georgia Coffee, which met with success in Japan, did not find any acceptance elsewhere. And a soy drink that did very well in Hong Kong did not take off in the United States. Nestle, which wanted to capitalize on the cold-coffee-drink opportunity in the United States, stopped marketing its Nescafe blended cold-coffee drinks because the size of the iced-coffee category in the United States had not met its expectation.

Language: can be another hurdle for international marketing, and international marketers are focusing their attention on this problem. Few areas have been as affected by language as the software industry. One of the most frightening tasks for western software companies was to enter the Asian markets with products using Chinese characters. Neither IBM nor IBM-compatible PCs could make a major dent in the Japanese PC market until 1991, when IBM developed DOS/V, a bilingual operating system for use with the Japanese language. A different challenge faced Microsoft. A pair of Chinese-language characters in Microsoft's translation of its Windows 95 operating system resulted in unexpected difficulties. Among the large selection of available characters were two that could form the term "communist bandit," which was clearly unacceptable to the Chinese government. The problem stemmed in part from programs written for the more complex characters in Taiwan and Hong Kong that had also found their way onto the mainland. Microsoft, eager to meet local market requirements, had to promise to exchange all disks and to eliminate offensive terms. Such a move is definitely worthwhile: it is expected that the Chinese market for PCs will become the world's third-largest market behind the United States and Japan. With China's PC penetration rate at about 10 percent of households in major cities such as Beijing, and as low as 2 percent in smaller cities, there is still considerable room for growth in that market.

Different language environments affect even the Internet. Although most people consider English to be the language of the Internet community, when it comes to on-line shopping, data show that the majority of consumers may browse the web in more than one language, such as speakers of English as a second language. Consumers also prefer to buy products and services in their own native tongue. With some 60 percent or more of Internet users and 40 percent of e-commerce users coming from outside the United States within the next few years, many e-commerce merchants will be forced to maintain multiple sites for different languages.

B. Industry Conditions

Industry conditions often vary by country because products frequently are in varying stages of the product life cycle in different markets. Also, a company may find that one country's limited awareness of or prior experience with a product requires a considerable missionary sales effort and primary demand stimulation, whereas in more mature markets the promotional strategy is likely to concentrate on brand differentiation. The level of local competition can be expected to

vary substantially by country. The higher the technological level of the competition, the more an international company must improve the quality level of its products. In countries where competitors control distribution channels and maintain a strong sales force, the strategy of a multinational company may differ significantly from that in a country where the company holds a competitive advantage.

C. Marketing Infrastructure

For historical and economic reasons, the marketing infrastructure assumes different forms in different countries. Practices in distribution systems often entail different margins for the same product, requiring a change in company pricing strategy. Availability of outlets is also likely to vary by country. Mass merchandisers such as supermarkets, discount stores, and department stores are widely available in the United States and other industrialized countries but are largely absent in less developed nations in southern Europe, Latin America, and other parts of the world. Such variations may lead to considerably different distribution strategies. Likewise, advertising agencies and the media are not equally accessible in all countries, and the absence of mass media channels in some countries makes a "pull" strategy less effective.

Eastern Europe is an area where many companies found they had to adapt to a much less developed marketing infrastructure. Xerox, in expanding its business in Czechoslovakia following the economic and political liberalization, found it difficult to increase its sales to independent copy shops. All copying was previously done by government-owned shops, where customers had to show identification. Sales were transacted through only three government-owned sales outlets. Although a sufficient number of government-employed service technicians existed in the country, the company found it very difficult to find independent people willing to start copy shops, or even independent dealers for local sales. The opening of eastern Europe during 1991 completely changed this situation, resulting in opportunities for numerous independent dealers.

D. Regulatory Environment

The regulatory environment also requires consideration for the development of an international marketing strategy. Product standards issued by local governments must be observed. To the extent that they differ from one country to another, unified product design often becomes a challenge. Tariffs and taxes may require such adjustments in pricing that a product can no longer be sold on a high-volume basis. Specific restrictions may also be problematic. In Europe, restrictions on advertising prohibit the mention of a competitor's name, despite the fact that such an approach may be an integral part of the advertising strategy in the United States.

Under the auspices of the World Trade Organization (WTO), the international trade body based in Geneva, efforts are under way to deal with the multitudes of patent law interpretations. Indonesia and India were traditionally two countries that had adhered to the rule of patenting processes for pharmaceutical drugs, rather than the products themselves. As a result, a local firm could copy the products of international pharmaceutical firms as long as it used a different manufacturing process to arrive at the final product. With India now joining the WTO, its old

patent rules will have to change by the year 2005, and its local firms will also have to apply for product patents, substantially impacting India's twenty-four thousand local pharmaceutical firms. In Jordan, another country where patents for drugs are issued on the process, U.S. pharmaceutical firms estimate that they are losing substantial sums to the lack of patent protection, with some 70 percent of the Jordanian firms' output sold on export markets. Again, Jordan aspires to join the WTO, which will force an eventual change in this country's patent practices.

To carry out the international marketing task successfully, international managers have to be cognizant of all the factors that influence the local marketing environment. Frequently, they need to target special marketing programs for each country. With newly emerging institutions such as the WTO, however, the world is moving closer to a level playing field with fewer differences in regulations, and the opportunity for firms and governments to bring a lawsuit if they believe they have suffered under undue protection or unfair trade practices.

CHAPTERTWO

THE ENVIRONMENT OF INTERNATIONAL MARKETING

OBJECTIVES

After studying this unit, you should be able to:

- Understand how the economic environment affects international marketing.
- Explain the importance of the political environment to international marketing.
- Understand
    - Local law and international marketing
    - International law and international marketing
    - Foreign laws and international marketing
- Understand the impact of socio-cultural environment on international marketing.

2.1 The Economic Environment

Marketing is an economic activity affected by the economic environment in which it is conducted. A major characteristic of the international marketer's world is the diversity of marketing environments in which business may be done. In particular, the economic dimensions of the world market environment are of prime importance.

Economic forces, affect the international marketer by the impact that they have on market potential and, at any point in time, market actualization. The economic environment includes factors and trends related to income levels and the production of goods and services.

In international marketing a firm must closely examine the economic conditions in a particular country. The international marketer must study each country's economy. A nation's infrastructure and stage of economic development are key economic factors that affect the attractiveness of a market and suggest what may be an appropriate strategy.

Infrastructure

A country's ability to provide transportation, communications, and energy is its infrastructure. The economic forces in a country may be influenced strongly by the infrastructure that exists, including the communications, energy, and transportation facilities. Infrastructure is a critical consideration in determining whether to try to market to a country's consumers and organizations. Depending on the product and the method of marketing, an international marketer will need certain levels of infrastructure development. For example, an internet marketer such

as **etoys.com** selling low-priced toys requires a warehouse and transportation system that will permit widespread distribution.

Regarding communications, many firms may require telephone essential for conducting their business and some other firms may require print media for advertisements so as to contact their customers. The international marketer should never take infrastructure in foreign markets for granted and assume that they would get the same infrastructure abroad as is provided in the domestic market. The international marketer must assess what infrastructure is needed for efficient operations and whether that infrastructure is available in that overseas market.

Level of economic development

The level of development in a country is a general indication of the types of products that are likely to be in demand. On a broader scale, the extent of economic development of a market influences the methods by which the business can be carried out in a country. Foreign markets may be at different stages of economic development, each stage having different characteristics.

The most common criterion for assessing economic development is ***gross domestic product*** (**GDP**), a measure of the value of all goods and services produced in a country during a year. Or the ***gross domestic product*** (**GDP**) represents the total size of a country's economy measured in the amount of goods and services produced. Changes in GDP indicate trends in economic activity.

The most common way of classifying nations regarding stage of economic development is as ***developed*** (for example, United States, Japan, United Kingdom) or ***developing*** (for example, Malaysia, Egypt, India).

Developed countries have somewhat mixed economies. Private enterprise dominates, although they have substantial public sectors as well. The United States, Canada, Japan, France, and most of Western Europe can be considered developed. Developing countries are in the process of moving from an agricultural to an industrial economy. There are two subgroups within the developing category; (1) those that have already made the move and (2) those that remain locked in a preindustrial economy. Countries such as Poland, Hungary, Australia, Israel, Venezuela, and South Africa fall into the first group. In the second group are Pakistan, Sri Lanka, Tanzania, and Chad, where living standards are low and improvement will be slow.

Another way of classifying countries according to economic development is as ***less developed***, ***newly industrialized***, and ***highly industrialized*** countries. Among the world's approximately 190 independent nations, about 115 are categorized as ***less developed countries*** because they have a GDP of less than $1,700 per capita. These nations lack most or all resources for growth and often rely heavily on foreign aid. They frequently have unstable governments and overpopulation problems. Countries in this category include Ethiopia, Cambodia, Sudan, Afghanistan, Myanmar, Haiti, and Bangladesh. These less developed countries are not attractive

markets for most consumer goods or for highly technical products. However, they should not be totally ignored. Less developed countries are very eager to acquire technology that will, for example, allow them to increase agricultural output.

In the next level are countries that have an average GDP between $1,700 and $ 5,500. This group of about 40 nations, including Chile, Thailand, Malaysia, and Mexico, are described as ***newly industrialized countries***. They combine an eager workforce, low wages, and reasonably stable governments to produce high rates of economic growth. They typically export manufactured goods and import technology and consumer goods. These are highly attractive markets for firms that have a technological advantage.

Finally, there are the ***highly industrialized countries***, which have an average per capita income GDP over $5,500. About 35 nations fall into this category, including the U.S., Canada, Japan, Taiwan, Germany, France, and U.K.

They have well-developed infrastructures, high levels of education and literacy, stable governments, constantly advancing technology, and well-trained work forces. These countries are heavily involved in exporting a wide variety of goods.

Although these are the wealthiest countries, they are also the ones in which the foreign firm is likely to face the stiffest competition.

The World Bank has a different classification for categorizing countries regarding economic development. The World Bank (1996) groups countries on the basis of gross national product per capita as follows:

1. Low- income economies (for example, Vietnam, Ethiopia, Haiti) *$490*
2. Lower middle- income economies (for example, Guatemala, Philippines, Turkey*) $1740*
3. Upper middle- income economies (for example Mexico, Malaysia, Greece) $4600
4. Upper – income economies (for example. USA, Japan, Germany) $25,870

As a separate class, the newly industrialized countries (NICs) of Asia such as Singapore and Taiwan are recognized.

Use of Classifications

These types of classification are only of limited usefulness to an international marketer and should not be used as the sole basis for deciding whether or not to enter foreign markets and how to market to such markets. Any classification scheme assumes certain homogeneity among markets in the same category, which often is not correct. Even the more traditional countries may have groups of people who, due to their income and other sets of values will be a market for sophisticated products and services, while some of the developed countries still have portions of their population to some extent outside the of active involvement in the economy.

Note that a classification like the above can be useful, but its simplicity may make it misleading. Some smaller countries, such as the United Arab Emirates and Kuwait, have large GDPs relative to their small populations, although their overall level of economic activity is small in comparison with the larger countries. Consumers in these countries may have a lot of purchasing power, but there are not that many of them.

Conversely, many developing countries have large populations relative to their economic strength; that is, individual customers do not have much purchasing power. However, subgroups within these countries may have substantial purchasing power, or economic growth may offer substantial opportunities in the future. India, for example, has a large and growing population but a low per capita income. Within this relatively poor country, however, are 250 million middle-class consumers. This is larger than the total U.S. market.

Many companies including Coca-Cola, Walt Disney, and Motorola have recently started operations in India to take advantage of this opportunity. Thus, when analyzing a given foreign market, management must also consider other indications of development. Common economic indicators include the (1) ***distribution of income***, (2) ***rate of growth of buying power***, and (3) ***extent of available financing***.

Useful noneconomic indicators are (1) ***infant mortality rate***, (2) ***percent of the population that lives in urban areas*** and (3) ***the number of daily newspapers***.

Income distribution

The income and wealth of the people are relevant because they determine purchasing power. A country's income distribution is important because it gives a more reliable picture of a country's purchasing power. Generally speaking, as the proportion of middle-income class households in a country increases, the greater a country's purchasing power tends to be.

That income is a major determinant of ownership of consumer durable goods is very much documented. But, sales of some durable goods are affected by other factors such as climate and geography. Countries with subsistence economies may consist mostly households with very low family incomes. In contrast, industrialized nations may have low-, medium-, and high-income households. Still other countries may have households with only either very low or very high incomes.

However, in many cases, poorer countries may have small but wealthy segments of upper-income consumers. So even in a society with low average income, there may be a population

segment with a high-income level and the desire to purchase luxury goods. Also, even in low-income and developing economies, people may find ways to buy products that are important to them. Income growth in developing countries of Asia, Latin America, and Central and Eastern Europe is expected to stimulate world trade in the first century of this millennium. Thus, international marketers face many challenges in understanding how the economic environment will affect decisions about which foreign markets to enter and how.

2.2 The Political Environment

The political environment of international marketing includes any national or international political factor that can affect its operations. A factor is political when it derives from the government sector.

The political environment comprises three dimensions: (1) the host-country environment, (2) the international environment, and (3) the home-country environment.

Surveys have shown that dealing with problems in the political arena is the number one challenge facing international managers, and occupies more of their time than any other management function. Yet international managers' concerns are different from those of the political scientist. Managers are concerned primarily about ***political risk*** – the possibility of any government action affecting adversely (or favorably) their operations.

2.2.1 Host-Country Political Environment

By definition, the international firm is a guest, a foreigner in all of its markets abroad. Therefore, international managers are especially concerned with nationalism and dealings with governments in host countries.

i) Host-Country National Interests

One way to get a feeling for the situation in a foreign market is to see how compatible the firm's activities are with the interests of the host country. Nationalism and patriotism refer to citizens' feelings about their country and its interests. Such feelings exist in every country.

All countries wish to maintain and enhance their national sovereignty. Foreign firms, individually or collectively, may be perceived as a threat to that sovereignty.

The larger and more numerous the foreign firms, the more likely they are to be perceived as a threat – or at least an irritant. In times of turmoil, foreign firms – or foreign embassies – may be targets.

Countries wish to protect their national security. Although the foreign firm is not a military threat as such, it may be considered as potentially prejudicial to national security. Governments generally prohibit foreign firms from involvement in "sensitive" industries, such as defense, communications, and perhaps energy and natural resources. If the firm is from a country deemed unfriendly to the host country, it may have difficulty operating or even be denied admission.

All countries want to enhance economic welfare. Generally, this means increasing employment and income in the country. Foreign firms contribute to this by the employment they generate. They can contribute further by using local suppliers and having local content in their products. They can contribute further still by exporting from the country and generating foreign exchange. They can contribute in a different way by supplying products, services, and / or training that enhances productivity.

ii) Host – Country Controls

Host countries don't depend entirely on the goodwill of the foreign firm to help them achieve their national goals. To achieve their goals, the host countries use a variety of tools/controls over the firm, such as entry restrictions, price controls, quotas & tariffs, exchange control, and even expropriation. These national interests and controls constitute the political environment of an international marketing firm.

iii) Political – Risk Assessment

The international marketing firm needs to evaluate the host- country environment and assess its own political risk there. Then it needs a plan for managing host-country relations, both before and after entering the country. While evaluating the political environment of the foreign market, the firm can include a preliminary analysis of its political vulnerability in a particular host country. Elements in such an analysis include ***External*** and ***Company*** factors.

a) External Factors

1. ***The firm's home country*****.** Other things being equal, a firm has a better reception in a country that has good relations with its own county.
2. ***Product or industry.*** Sensitivity of the industry is an important consideration. Generally, raw materials, public utilities, communications, pharmaceuticals, and defense- related products are most sensitive.
3. ***Size and location of operations.*** The larger the foreign firm, the more threatening it is perceived to be. This is especially true if the firm has large facilities and is located in a

prominent urban area, such as the capital. This serves as a constant reminder of the foreign presence.

4. ***Visibility of the firm.*** The greater the visibility of the foreign firm, the greater is its vulnerability. Visibility is a function of several things. Two are the **size and location of the firm's operations in the country**. Another is the **nature of its products**. Consumer products are more visible than industrial products. Finished goods are more visible than components or inputs that are hidden in the final product. Heavy advertisers are more visible than non-advertisers. International brands are more provocative than localized brands.
5. ***Host-country political situation.*** The political situation in the host country can affect the firm. The country's political risk should be evaluated before starting marketing operations in that host country.

b) Company Factors

1. ***Company behavior*.** Each firm develops some record of corporate citizenship based on its practices. Some firms are more sensitive and responsive to the situation in the host country than others. Goodwill in this area is a valuable asset.
2. ***Contributions of the firm to the host country*.** Many of these contributions are objective and quantifiable. Contributions could be regarding how much tax has been paid, how much employment created, how many exports generated or what new skills or resources the firm brought in.
3. ***Localization of operations.*** Generally, the more localized the firm's operations, the more acceptable it is to the host country. There are several dimensions to localization, including having local equity, hiring local managers and technical staff, using local content in the products, including local suppliers of goods and services, and developing local products and local brand names.
4. ***Subsidiary dependence.*** This factor is somewhat in contradiction to the preceding point. The more the firm's local operation depends on the parent company, the less vulnerable it is. If it cannot function as a separate, self-contained unit but is dependent on the parent for critical resources and/or for markets, it will be seen as a less rewarding takeover target. This is so because it cannot operate on its own without support of its parent for critical resources and so would be seen as a less rewarding takeover target.

Political environment and analysis are continuing tasks for the firm. The information that these analyses provide must be used to manage the firm's political relations.

Table 2-1 suggests some approaches to managing host country relations both before and after entering the country

Table 2-1 Managing Host – Country Relations

Pre- Entry Planning

1. Avoid threatening countries.
2. Negotiate with host government.
3. Buy insurance – for overseas investment risks.
4. Adjust entry method.

Post-Entry Operations

1. Have a monitoring system.
2. Develop corporate communications program.
3. Have appropriate national executives and advisory board.
4. Develop local stake holders (employees, suppliers, customers).
5. Change operations over time as perceived host –country cost – benefit ratio changes. Examples: new products and processes, more local equity and management, new exports, local R&D
6. Have contingency plans

2.2.2 International Political Environment

The international political environment involves political relations between two or more countries. The international firm almost inevitably becomes somewhat involved with the host country's international relations, no matter how neutral it may try to be. It does so, first because it is a foreigner from a specific home country, and second, because its operations in a country are frequently related to operations in other countries, either on the supply or demand side or both. One aspect of a country's international relations is its relationship with the firm's home country. For example, US firms abroad are affected by the host nation's attitude toward the United States. A second critical element affecting the political environment is the host- country's relations with other countries. For example, if a country is a member of a regional group, such as EU, that fact influences the firm's evaluation of the country. If a nation has particular friends or enemies

among other nations, the firm must modify its international logistics to comply with how that market is supplied and to whom it can sell. For example, the United States limits trade with various countries.

Another clue to a nation's behavior is its membership in international organizations. Memberships in international organizations affect a country's behavior. Membership in WTO reduces the likelihood that a country will impose new trade barriers. Membership in IMF or the World Bank also puts constraints on the country's behavior. Many other international agreements impose rules on their members. These agreements may affect patents, communication, transportation, and other items of interest to the international marketer. As a rule, the more international organizations a country belongs to, the more regulations it accepts, and the more dependable is its behavior.

2.2.3 Home - Country Political Environment

The firm's home-country political environment can constrain its international operations as well as its domestic operations. Home-country political environment can limit the countries that the international marketing firm may enter. The United States for example, prohibits its firms from dealing with North Korea. Sometimes, restrictions are even occasionally exercised against foreign firms, such as Toshiba, which was penalized by U.S. for selling to the Russians technology that allowed their submarines to move more quietly.

The best – known example of the home-country political environment affecting international operations used to be South Africa. Home-country political pressures induced more than 200 American firms to leave South Africa altogether.

A more recent example occurred when pressure from American human rights groups induced some American firms to leave Myanmar. PepsiCo, for example, pulled out of a joint venture even though it had 85 percent of the soft drinks market there.

One challenge facing multinational companies is that they have a triple – threat political environment. Even if the home country and the host country give them no problems, they can face threats in third markets. Firms that do not have problems with their home government or the host government, for example, can be bothered or boycotted in third countries. For example, Nestlé's problems with its instant formula controversy were most serious, not at home, in Switzerland, or in African host countries, but in a third market – the United States.

2.3 The Legal Environment

In addition to the political environment in a nation, the *legal environment – that is,* the nation's laws and regulations pertaining to business – also influences the operations of a foreign firm. A firm must know the legal environment in each market because these laws constitute the "rules of the game." At the same time, the firm must know the political environment because it determines how the laws are enforced and indicates the direction of new legislation. The legal environment of international marketing is complicated, having three dimensions. For a domestic/ Ethiopian firm, these are (1) local / Ethiopian laws, (2) international law, and (3) domestic laws in each of the firm's foreign markets.

2.3.1 Local Law and International Marketing

The local laws that affect international marketing operations of a local firm differ from country to country. These local laws may relate to exporting, antitrust / monopoly, and organization and ownership arrangements.

For example, USA has export controls, antitrust controls, and laws against bribery by US firms.

2.3.2 International Law and International Marketing

International law could be defined as the collection of treaties, conventions, and agreements between nations that have, more or less, the force of law. International law involves some mutuality, with two or more countries participating in the drafting and execution of laws or agreements.

IMF and WTO

The agreements in both IMF and WTO identify acceptable and non-acceptable behavior for member nations. Their effectiveness lies in their power to apply sanctions. The IMF can withhold its services from members who act "illegally," that is, contrary to the agreement. WTO allows injured nations to retaliate against members who have broken its rules.

International marketers are interested in both IMF and WTO because of a shared concern in the maintenance of a stable environment conducive to international trade. The legal reach of WTO and the IMF does not extend to the international marketer's behavior but rather to the behavior of the nations within which the firm is marketing. The environment for international marketing is more dependable because of these two organizations

UNCITRAL

The United Nations established a Commission on International Trade Law (UNCITRAL) with a goal to promote a uniform commercial code for the whole world. The commission works with government and private groups, such as the International Chamber of Commerce. Its first output (in 1983) was the Convention on Contracts for the International Sale of Goods. The purpose of the convention is to bridge the communications gap between countries having different legal systems as well as minimize contract disputes and facilitate the task of selling goods between countries.

ISO

Intentional Standards Organization (ISO) has been working through its technical committees to develop uniform international standards. ISO is creating standards for international products that the firm must incorporate into its product planning. But standardization is a slow task because changing national standards often hurts vested interests.

Patent Protection System

Many firms have patented products to sell. When selling outside their home market, they want to protect their patent right. Generally patents must be registered separately in each country where the firm wants protection.

The purpose of patent protection is to prevent others from selling the patented product wherever the patent is registered. This element of monopoly protection allows higher prices and encourages Research & Development (R&D) activity by the firm.

Trademark Conventions

Trademarks are another form of intellectual property. Like patents, trademarks or brands must go through a national registration process to be protected; registration is less time-consuming and costly, though.

Regional Groupings and International Law

Many nations have felt the need for larger market groupings to accelerate their economic growth. Such regional groupings have developed on all continents. With regional groupings the body of international (regional) law grows. Because these groupings are primarily *economic* alliances, the international law that develops is primarily to economic and business questions. Therefore regional groupings provide a development of international law of interest to multinational companies.

2.3.3 Foreign Laws and International Marketing

Ethiopian local laws play a ubiquitous / ever-present/ role in Ethiopian business practice. The laws of other nations play a similar role regarding the activities of business within their boundaries.

The importance of foreign laws to the international marketer lies primarily in domestic marketing in each foreign market. Problems arise from the fact that the laws in each market tend to be somewhat different from those in every other market.

Differing Legal Systems

Most countries derive their legal system from either the common law or the civil code law traditions.

i) Common Law

Common law is English in origin and is found in the United States and other countries (about **26**) that have had a strong English influence, usually a previous colonial tie. Common law is tradition oriented; that is, the interpretation of what the law means on a given subject is heavily influenced by previous court decisions as well as by usage and custom. If there is no specific legal precedent or statute, common law requires a court decision. To understand the law in a common law country, one must study the previous court decisions in matters of similar circumstance, as well as the statutes.

ii) Civil or Code Law

Civil or code law is based on an extensive and, presumably, comprehensive set of laws organized by subject matter into a code. The intention in civil law countries is to spell out the law on all possible legal questions rather than to rely on precedent or court interpretation. The **'letter of the law'** is very important in code law countries. However, these needs to be all–inclusive may lead to some rather general and elastic provisions, permitting an application to many facts and circumstances.

Because code law countries do not rely on previous court decisions, various applications of the same law may yield different interpretations. This can lead to some uncertainty for the marketer. Code law is a legacy of Roman law and is predominant in Europe and in nations of the world that have not had close ties with England. Thus, code law nations (about **70**) are more numerous than common law nations.

iii) Islamic Law

Islamic law represents the third major legal system. About **27** nations follow Islamic law in varying degrees, usually mixed with civil common, and / or indigenous law. The Islamic resurgence in recent years has led many nations to give Islamic law, Shari' a, a more prominent role. Shari'a governs all aspects of life in areas where it is the dominant legal system, as in Saudi Arabia. Rules not defined by Shari'a are left to decision by government regulations and Islamic judges. Although it has harsh penalties for adultery and theft, Islamic law is not dramatically different from other legal systems insofar as business is concerned.

Concluding comments on different legal systems

The differences among legal systems are important to the international marketer. Because the legal systems of no two countries are exactly the same, each market must be studied individually and appropriate legal advice sought when necessary.

Foreign Laws and Marketing Mix

Foreign laws influence the four P's of marketing of the international marketer.

i) Product

The international marketer will find many regulations affecting the product. The foreign laws affect all aspects of product policy, including the physical product itself, the package and the label, the brand name, and the use of warranty. The physical and chemical aspects of the product are affected by laws designed to protect national consumers with respect to its purity, safety, or

performance. Although consumers should be protected, different safety requirements are not necessary for the consumers of every country. One reason nations persist in particular legal requirements is that they protect their own producers. For example, German noise standards kept British lawnmowers off German lawns.

Labeling is subject to more legal requirements than the package in international marketing. Labeling items covered include (1) the name of the product, (2) the name of the producer or distributor, (3) a description of the ingredients or use of the product, (4) the weight, either net or gross, and (5) the country of origin. As to warranty, the firm has relative freedom to formulate a warranty in all countries.

Brand names and trademarks also face different national requirements. Most of the larger nations are members of the Paris Union or some other trademark convention, which ensures a measure of international uniformity. However, differences exist between code law countries (ownership by **priority in-registration** of a brand) and common law countries (ownership by **priority in use**) in their treatment of the brand or trademark.

ii) Pricing

Price controls are pervasive in the world economy. **Resale – price maintenance** is a common law relating to pricing. Many nations have some legal provisions for resale-price maintenance, but with numerous variations. Another variable is the fact that some countries allow price agreements among competitors.

Some form of government price control is another law in a majority of nations. The price controls may be economy wide or limited to certain sectors. Generally, price controls are limited to "essential" goods, such as foodstuffs. The pharmaceutical industry is one of the most frequently controlled. Control here sometimes takes the form of controlling profit margins.

iii) Distribution

Distribution is an area with relatively few constraints on the international marketer.

The firm has a high degree of freedom in choosing distribution channels among those available in the market. Of course, one cannot choose channels that are not available. One major question is the legality of exclusive distribution. Fortunately, this option is allowed in most markets.

iv) Promotion

Advertising is one of the most controversial elements of marketing and is subject to more control than some of the others. Many nations have some law regulating advertising. Advertising

regulations take several forms. One form pertains to the message and its truthfulness. In Germany, for example, it is difficult to use comparative advertising and the words *better* or *best.*

Another form of restriction relates to control over the advertising of certain products. For example, Britain does not allow any cigarette or liquor advertising on television. In many nations there are restrictions on sales promotion techniques like discounts, contests, deals, or premiums.

Enforcement of the Laws

The firm needs to know how foreign laws will affect its operations in a market. For this it is not sufficient to know only the laws; one must also know how the laws are enforced. Most nations have laws that have been forgotten and are not enforced. Others may be enforced haphazardly, and still others may be strictly enforced.

An important aspect of enforcement is the degree of impartiality of justice. Does a foreign subsidiary have as good a standing before the law as a strictly national company? Courts have been known to favor national firms over foreign subsidiaries. In such cases, biased enforcement makes it one law for the foreigner and another for the national. Knowledge of such discrimination is helpful in evaluating the legal climate.

2.3.4 The Firm in the International Legal Environment

Whose Law? Whose Courts?

Domestic laws govern marketing within a country. Questions of the appropriate law and the appropriate courts may arise, however, in cases involving international marketing.

When commercial disputes arise between principals of two different nations each would probably prefer to have the matter judged in its own national courts under its own laws.

By the time the dispute has arisen, however, the question of jurisdiction has usually already been settled by one means or another. One way to decide the issue before hand is by inserting *jurisdictional clause* in to the contract. Then when the contract is signed each party agrees that the laws of a particular nation govern.

Arbitration or Litigation?

The international marketer must be knowledgeable about laws and contracts. Contracts identify two things: (1) the responsibilities of each party and (2) the legal recourse to obtain satisfaction. Actually, however, international marketers consider litigation a last resort and prefer to settle disputes in some other way. For several reasons, litigation is considered a poor way of settling

disputes with foreign parties. Litigation usually involves long delays, during which inventories may be tied up and trade halted. Further, it is costly, not only in money but also in customer goodwill and public relations. Firms also frequently fear discrimination in a foreign court. Litigation is thus seen as an unattractive alternative to be used only if all else fails.

Arbitration is the process by which both parties to the conflict agree to submit their cases to a private individual or body whose decision they will honor. Arbitration generally overcomes the disadvantages of litigation. Decisions tend to be faster and cheaper. Arbitration is less damaging to good will because of the secrecy of the proceedings and their less hostile nature.

2.4 The Socio – Cultural Environment

The socio - cultural environment influences the behavior of customers who comprise markets, the managers who plan and implement international marketing programs, and the marketing intermediaries who participate in international marketing process. Culture should not be simply considered as an obstacle to doing business across cultures. Culture can provide tangible benefits and can be used as a competitive tool or as a basis of a competitive strategy. In short, cultural differences can, and should be managed. It is when they are mismanaged that problems arise and profits are adversely affected.

The buying decision process of buyers whether consumer or industrial is influenced by the socio-cultural characteristics of buyers, and these socio - cultural characteristics are influenced by external stimuli. The set of factors included in socio-cultural characteristics are such things as material culture, language, education, values and attitudes, social organization, political-legal structure, and philosophy. This set of factors found in socio-cultural characteristics is very important.

On a more general level, consumer in each nation is different from consumers in every other country. There are major cultural differences among these consumers of different nations which affect purchase behavior. International marketing managers all too often lack cultural awareness which can lead to errors or loss of potential gains in marketing process. The process of acculturation – adjusting and adapting to a specific culture other than one's own – is one of the keys to success in international marketing.

2.4.1 The Nature of Culture

Cultural factors exert the major influence on consumer behavior as it is the most fundamental determinant of a person's wants and behavior. The success of international marketing operations depends upon the understanding of culture.

So what is culture!

Culture can be defined as the specific learned norms of the society, based on attitudes, values, and beliefs. In a real sense, culture is human-made. It is learned and, as such, is communicated from one generation to another. To understand a culture one must understand its origins, history, structure, and functioning.

Culture undergoes change over time, with change typically being slow to occur.

Sometimes "rapid changes" occur due to outside pressures like government, but not due to natural reasons. For example, Iran after the fall of Shah changed into theocratic culture from that of earlier liberal culture.

International marketing managers need to know how the culture changes, and also how their decisions interact with and sometimes serve as a change agent in the culture. Learning about cultures is made even more difficult because societies or groups may share certain common cultural traits, but there are many possible subcultures with characteristics that explain variations in behavior within cultures.

Major subcultures may be based on nationality, religion, race, and location.

With regards to international marketing management, it seems best to study cultures not only from a broad perspective to learn about relevant patterns and themes, but also from a narrow perspective as behavior relates specifically to certain products or marketing efforts. This approach to studying culture can lead to information that will guide international marketing efforts.

2.4.2 Culture and Communication

Every culture reflects in its language what is of value to the people.

Language – whether written, spoken, or silent – becomes the embodiment of culture and is a means whereby people communicate to other people, either within their own culture or in other cultures. The language capability serves four distinct roles in international marketing. First, language is important in information gathering and evaluation efforts. Second, language

provides access to local society. Third, language capability is increasingly important in company communications whether within the corporate family or with channel members.

Finally, language provides more than the ability to communicate. It extends beyond mechanics to the interpretation of contexts. Behavior itself is a form of communication, and is known as silent language.

Broadly, communication includes any behavior that another person perceives and interprets. As such, it is one person's understanding of what another person means.

The major dimensions of the silent language as they operate within international marketing as being: (1) Time; (2) Space; (3) Material Things; (4) Friendships, and; (5) Agreements. These five dimensions can form the basis of real understanding of foreign cultures.

Finally, the international marketer needs to recognize that doing business in foreign markets involves cross- cultural communication in all aspects of the relationship. When the person from the other culture does not receive the sender's message in the manner intended, cross- cultural miscommunication occurs. The greater the differences between the cultures of the seller and the buyer; there will be a greater probability for cross- cultural miscommunication to occur or to take place. Miscommunication involves misunderstanding due to misperception, misinterpretation, and misevaluation. Thus, in becoming involved in cross- cultural situation, the international marketer should heed the advice: '*assume difference until similarity is proven.*'

2.4.3 Self – Reference Criterion

James Lee coined the term 'Self-Reference Criterion' as a useful concept to avoid cultural bias. He suggested that problems should be first defined in terms of the cultural traits, habits, or norms of the home society. Then they should be redefined without value judgments, in terms of the foreign cultural traits, habits, and norms. He indicated that the difference between these two specifications is an indication of the likely cultural bias, or self-reference criterion effect. Self-reference criterion effect can then be isolated and carefully examined to see how it influences the problem. Following this examination, the problem is redefined with the bias removed.