

Chapter Two: International Marketing Environment

2. Introduction

Environmental forces influence organization marketing. Some of these forces are external to the firm, while others come from within. There isn't much that management can do about controlling the external forces, but it generally can control the internal ones. Successful marketing depends largely on a company's ability to manage its marketing programs within its environment. External forces have considerable influence on any organizations marketing system. Therefore environmental monitoring also called environmental scanning is deemed necessary. Environmental monitoring is the process of: **Gathering** information regarding a company's external environment, **analyzing** it, and **Forecasting** the impact of whatever trends the analysis suggests. These uncontrollable external forces that influence an organization's marketing activities includes: Cultural forces, Economic conditions, Political and legal forces and Technological forces.

A. Cultural Environment

A definition of Culture: Anthropology, the study of humans, is a discipline that focuses on the understanding of human behavior. Cultural anthropology examines all human behaviors that have been learned, including social, linguistic, and family behaviors. Culture includes the entire heritage of a society transmitted by word, literature or any other form. It includes all traditions, habits, religion, art, and language. **Definition:** Culture is a set of traditional beliefs and values that are transmitted and shared in a given society. Culture is also the total way of life and thinking patterns that are passed from generation to generation.

Cultural Influences on Marketing

The function of marketing is to earn profits from the satisfaction of human wants and needs. In order to understand and influence the consumer's wants and needs, marketers must understand the culture, especially in an international environment. Culture is embedded in elements of the society such as religion, language, history, and education. These elements send direct and indirect messages to consumers regarding the selection of goods and services. The culture we live in answers such questions as, Is tea or coffee the preferred drink? Is black or white worn at a funeral? What type of food is eaten for breakfast? One of the most difficult tasks for global marketers is assessing the cultural influences that affect their operations. In the actual marketplace there are always several factors working simultaneously, and it is extremely difficult to isolate any one factor. Frequently, cultural differences have been held accountable for any noticeable differences between countries. However, when environmental factors differ, what is thought to be cultural may in fact be attributable to other factors.

Characteristics of Culture: Culture means many things to many people because the concept encompasses norms, values, customs, art and more. Behavior can be interpreted differently depending on where in the world it occurs.

a) Culture is prescriptive: Culture prescribes the kinds of behavior considered acceptable in the society. That is, certain behavior is not acceptable in some countries. The prescriptive

characteristics of culture simplify a consumer decision making process by limiting product choices to those which are socially acceptable. These same characteristics create problems for those products not in tune with the consumer's cultural beliefs. I.e. smoking was once socially acceptable behavior, but recently it has become more and more undesirable – both socially and medically.

b) Culture is socially shared: Culture, out of necessity, must be based on social interaction and creation. It cannot exist by itself. It must be showed by members of a society, thus acting to reinforce culture's prescriptive nature. I.e. Chinese parents at one time have the preference of wanting their girl children to have small feet. Large feet viewed as characteristics of peasants and low – class people;

c) Culture facilitates communication: One useful function provided by culture is to facilitate communication. Culture usually imposes common habits of thoughts and feeling among people. Thus, within a given group culture makes it easier for people to communicate with in another. But culture may also impede communication across groups because of lack of shared common cultural values. This is one reason why a standardized advertisement (i.e. a global advertisement prepared for many countries) may have difficulty communicating with consumers in foreign counties. Advertising and promotion require special attention because they play a key role in communicating product concepts and benefits to the target segment.

d) Culture is learned: Culture is not inherited genetically – it must be acquired. **Socialization** or enculturation occurs when a person absorbs or learns the culture in which he or she is raised. In contrast, if a person learns the culture of a society other than the one in which he or she was raised, the process of **acculturation** occurs. The ability to learn culture makes it possible for people to absorb new cultural trends. I.e. Indian women never used to shake hands with the opposite sex; however, after a while they have started doing so.

e) Culture is subjective: People in different cultures often have different ideas about the same object. What is acceptable in one culture may not necessarily be so in another. In this regard, culture is both unique and arbitrary. As a result the same phenomenon appearing in different cultures can be interpreted in very different manners. It is customary in many cultures for a bridegroom family to often a dowry to a bride's family, whether for the bride's future security or to compensate her family for raising her. In Indian, an entirely different set of cultural rules applies. A woman there is viewed as a burden to both her own family and her husband – to – be. When she marries, her family must offer a dowry to the bridegroom.

f) Culture is enduring: Because culture is shared and passes along from generation to generation, it is relatively stable and somewhat permanent. Old habits are hard to break and a people tend to maintain its own heritage in spite of a continuously changing world. I.e. India and China, despite serve overcrowding, have a great deal of difficulty with birth control.

g) Culture is cumulative: Culture is based on hundreds or even thousands of years accumulated circumstances. Each generation adds something of its own to the culture before passing the

heritage on to the next generation. Therefore, culture tends to become broader based overtime, because new ideas are incorporated and become a part of the culture. Of course, during the process, some old ideas are also discarded.

h) Culture is dynamic: Culture is passed along from generation to generation, but one should not assume that culture is static and immune to change. For from being the case, culture is constantly changing. It adapts itself to new situations and new sources of knowledge. i.e. length of hair serves as a good example of cultural change. The dynamic aspect of culture can make some products obsolete and can usher in new buying habits. Because values and ideas change over time, marketers must keep up with changes in tastes in order to capitalize on new cultural trends.

Elements of Culture

Language: Language is a key component of culture because most of a society's culture finds its way into the ***spoken language***. Thus, in many ways, language embodies the culture of the society. Knowing the language of a society can become the key to understanding its culture. But language is not merely a collection of words or terms. Language expresses the thinking pattern of a culture and to some extent even forms the thinking.

Today, companies tend to choose product names carefully and test them in advance to ensure that the meaning in all major languages is neutral and positive. They also want to make sure the name can be easily pronounced. Language differences may have caused many blunders, but careful translations have now reduced the number of international marketing mistakes. However, the language barrier still remains, and companies that do more to overcome this barrier frequently achieve better results.

It is also possible to develop cultural empathy through learning a foreign language which is believed to help in developing cultural skill. However, even when executives understand each other's language, there can still be plenty of room for misunderstanding. When an American executive says yes in a negotiation, this usually means, "yes, I accept the terms." However, yes in Asian countries may mean four different things. First, it may mean that the other side recognizes that you are talking to them but not necessarily that they understand what is said. Second, it could mean that what was said was understood and was clear but not that it was agreed to. Third, it may mean that the other party has understood the proposal and will consult with others about it. And finally, yes may mean total agreement. It takes skill to understand just what yes means in any type of negotiation.

Non-Verbal Language: However, achieving some fluency in foreign is not the only cultural barrier to cross. At least as important is the use of nonverbal communication, or body language. Sometimes referred to as the "silent language," this includes such elements as touching, the distance between speakers, facial expressions, and speech inflection, as well as arm and hand gestures.

Religion: Many business people ignore the influence religion may have on the marketing environment. There still are, however, religious customs that remain a major factor in

international marketing today. Religion impacts people's habits, their outlook on life, the products they buy, the way they buy them, even the newspapers they read. Acceptance of certain types of food, clothing, and behavior are frequently affected by religion, and such influence can extend to the acceptance or rejection of promotional messages as well. Religion is one of the most sensitive elements of a culture. When the marketer has little or no understanding of a religion, it is easy to offend customers unintentionally.

Education: Though the educational system of a country largely reflects its own culture and heritage, education can have a major impact on how receptive consumers are to foreign marketing techniques. Education shapes people's outlooks, desires, and motivation. To the extent that educational systems differ by country, we can expect differences among consumers. However, education not only affects potential consumers, it also shapes potential employees for foreign companies and for the business community overall. This will influence business practices and competitive behavior.

The Family: The role of the family varies greatly between cultures, as do the roles that the various family members play. Across cultures, we find differences in family sizes, in the employment of women, and in many other factors of great interest to marketers. Particularly since the family is a primary reference group and has always been considered an important determinant of purchasing behavior, these differences are of interest. In some countries, such as China, the family is valued more than individuals or even country resulting in a situation where individuals have no right in a family or expense is shared. In such cultures product advertising appeals must focus on family benefits, not individual benefits.

Family structure is also one cultural factor affecting international marketing decisions. The term nuclear family is normally used to refer to the immediate family group father, mother, and children living together. In cultures such as United States and some Western Europe countries, their family refers to only the nuclear family. However, for many cultures, the extended family including grandparents, in laws, aunts, uncles, and so on is of considerable importance.

Work and Leisure: The attitudes a society holds toward work have been documented to have a substantial impact on a society's or culture's economic performance. David McClelland has maintained that it is not a country's external resources that determine its economic rise but its level of entrepreneurial spirit in exploiting existing resources. What was found to be crucial was the orientation, or attitudes, toward achievement and work. Cultures with a high level of achievement motivation were found to show a faster rise in economic development than those with low achievement motivation.

Well-known German sociologist Max Weber investigated the relationship between attitudes toward work and those toward religion. McClelland later expanded Weber's theory to cover all religions and found that economies with a more protestant orientation exceeded economies with a Catholic orientation in per capita income. McClelland ascribed this difference to the Protestant belief that man did not necessarily receive salvation from God through work but that success in work could be viewed as an indication of God's grace. Consequently, accumulating wealth was

not viewed as a shameful activity that needed to be hidden. Traditional Catholic doctrine viewed moneymaking in more negative terms. Thus, religion appears to be a primary influence on attitudes toward work.

By the same token, different societies have different views about the amount of leisure time that is acceptable. Society significantly influences work and leisure through statutory holiday allowances and public holidays. A study of 25,000 people in 23 countries revealed that European countries give employees 25 to 40 days of vacation annually, whereas U.S. Japan, Mexico, and the Philippines require only 5 - 10 vacation days. Moreover, the working hours in Europe are shorter than U.S., Japan, and Mexico. This difference has implications on how people use their vacation times as well.

Reference Groups: Reference groups are people such as family, friends, celebrities, common man and experts that consumers turn to for advice on product purchases. Past experience clearly indicates that the concept of reference group influence applies to many cultures. Differences can be found in the types of relevant reference groups and in the nature of their influence on individual consumers. Famous sports celebrities, movie stars, etc., traditionally have been used to exploit the reference group concept. The idea is to tap the prestige of accomplished athletes and movie stars to promote certain products. The challenge is in finding a sport personality or a movie star that people around the world will recognize equally is difficult.

Analysis of the Elements

In general, cultural elements must be evaluated in light of how it could affect a proposed marketing program; some may have only indirect impact, while others may be totally involved. If a company is simply marketing an existing product in an already developed market, studying the total culture is certainly less crucial than for the marketer involved in total marketing from product development through promotion, to the final setting. The effect of all elements of marketing should be seen together since each element is interrelated with the other to produce a specific kind or culture.

The Challenges of Cultural Changes

Culture is dynamic in nature; it is not static, but a living process. But that change is constant seems paradoxical, because another important attribute of culture is that it is conservative and resists change. The dynamic character of culture is significant in assessing new markets even though changes face resistance. There are a variety of ways society changes. Some have change thrust upon them by war (for example, the changes in Japan after World War II) or by natural disaster. More commonly, change is a result of a society seeking ways to solve the problems created by its existence. One view is that culture is the accumulation of a series of the best solutions to problems faced in common by members of a given society.

Accident has provided solutions to some problems; invention has solved many other problems. Usually, however, societies have found answers by looking to other cultures from which they can borrow ideas. Cultural borrowing is common to all cultures. However, even though many

behaviors are borrowed from other cultures, they are combined in a unique manner that becomes typical for a particular society. To the foreign marketer, this similar-but different feature of cultures has important meaning in gaining cultural empathy.

Several nationalities can speak the same language or have similar race and heritage, but it does not follow that similarities exist in other respects- that a product acceptable to one culture will be readily acceptable to the other. However, differences run much deeper than language differences. Thus, marketers must assess each country thoroughly in terms of the proposed products or services and never rely on an often used saying that if it sells in one country, it will surely sell in another. Most cultures tend to be ethnocentric; that is, they have intense identification with the known and the familiar of their culture and tend to devalue the foreign and unknown of other cultures. Ethnocentrism complicates the process of cultural assimilation by producing feelings of superiority about one's own culture and, in varying degrees, generates attitudes that other cultures are inferior, barbaric, or at least peculiar. There are many reasons cultures resist new ideas, techniques, or products. Even when an innovation is needed from the viewpoint of an objective observer, a culture may resist that innovation if:-

- ◆ The people lack an awareness of the need for it.
- ◆ Local environmental conditions prevent functional use
- ◆ If the innovation is complex in nature affecting the culture's ability to understand it.
- ◆ If it conflicts, customs, traditions, or beliefs

An understanding of the process of acceptance of innovations is of crucial importance to the marketer. The marketer cannot wait centuries or even decades for acceptance but must gain acceptance within the limits of financial resources and project profitability periods. Marketers have two options when introducing an innovation to a culture: they can wait, or they can cause change. The former requires hopeful waiting for eventual cultural changes that prove their innovations of value to the culture; the latter involves introducing an idea or product and deliberately setting about to overcome resistance and to cause change that accelerates the rate of acceptance.

B. Political-Legal Environment

Political and legal factors often play a critical role in international marketing activities. Even the best business plans can go wrong as a result of unexpected political or legal influences. A single international political and legal environment does not exist. The business executive must be aware of political and legal factors on a variety of planes. For example, while it is useful to understand the complexities of the host country legal system, such knowledge does not protect against a home-country- imposed export embargo. We will examine the political legal environment from the manager's point of view. In making decisions about his or her firm's international marketing activities, the manager will need to concentrate on three areas: the political and legal circumstances of the home country; those of the host country; and the bilateral and multilateral agreements, treaties and laws governing the relations between host and home countries.

1. Home Country Political and Legal Environment

No manager can afford to ignore the policies and regulations of the country from which he/she conducts international marketing transactions. Wherever a firm is located, it will be affected by government policies and the legal system. Many of these laws and regulations may not be designed specifically to address international marketing issues, yet they can have a major impact on a firm's opportunities abroad. Minimum wage legislation, for example, affects the international competitiveness of a firm using production processes that are highly labor intensive. The cost of domestic safety regulations may significantly affect the pricing policies of firms in their international marketing efforts.

Other legal and regulatory measures, however, are clearly aimed at international marketing activities. Some may be designed to help firms in their international efforts. Apart from specific areas that result in government involvement, the political environment in most countries tends to provide general support for the international marketing efforts of the country's firms. For example, a government may work to reduce trade barriers or to increase trade opportunities through bilateral and multilateral negotiations. Such actions will affect individual firms to the extent that they affect the international climate for free trade. Often, however, governments also have specific rules and regulations restricting international marketing. Such regulations are frequently political in nature and are based on the fact that governments believe commerce to be only one objective among others, such as foreign policy and national security. Four main areas of governmental activities are of major concern to the international marketer here. These are: embargoes or trade sanctions, export controls, import controls, and the regulation of international business behavior.

◆ *Embargoes and Sanctions*

The terms trade sanctions and embargoes as used here refer to governmental actions that distort the free flow of trade in goods, services, or ideas for decidedly adversarial and political, rather than economic, purposes. To understand them better, it is useful to examine the backing and legal justifications under which they are imposed.

Trade sanctions have been used quite frequently and successfully in times of war or to address specific grievances. The basic idea was that economic sanctions could force countries to behave peacefully in the international community.

The problem with sanctions is that frequently unilateral impositions have not produced the desired result. Sanctions may make the obtaining of goods more difficult or expensive for the sanctioned country, yet achievement of the purported objective almost never occurs. Moreover, unilateral embargoes expose businesses from that country to competitive disadvantage and thus are often fought by business interest. In order to work, sanctions need to be imposed multilaterally, a goal that is clear, yet difficult to implement. Quite often individual countries have different relationships with the country subject to the sanctions, and for one reason or another they cannot or do not wish to terminate trade relations. In addition, sanctions imposed by governments always raise the issue of compensation for the domestic firms that are affected.

◆ *Export Controls*

Many nations have export control systems designed to deny the acquisition of strategically important. Some countries require that an exporter get export license for certain products from the appropriate government offices before the export can take place. The international marketing repercussions of export controls have become increasingly important. To design a control system that is effective and, in consideration of important national concerns, restricts some international business activities is one thing. It is quite another when controls lose their effectiveness and when, because of a control system, firms are placed at a competitive disadvantage with firms in other countries whose control system is less severe or nonexistent.

◆ *Import Controls*

Many nations exert substantial restraints on international marketers through import controls. This is particularly true of countries that suffer from major balance-of-trade deficits or major infrastructural problems. These countries, either all imports or the imports of particular products are controlled through mechanisms such as tariffs, voluntary restraint agreements, or quota systems. On occasion, countries cut off imports of certain products entirely in order to stimulate the development of a domestic industry. For the international marketer, such restrictions may mean that the most efficient sources of supply are not available, because government regulations restrict importation from those sources. The result is either second best products or higher costs for restricted supplies. This in turn means that the customer is served less well and often has to pay significantly higher prices.

Policymakers are faced with several problems when trying to administer import controls. First, most of the time, such controls exact a huge price from domestic consumers. Even though the wide distribution of the burden among many consumers may result in a less obvious burden, the social cost of these controls may be damaging to the economy and subject to severe attack by individuals. However; these attacks are counteracted by pressures from protected groups that benefit from import restrictions. For example, while citizens of the European Union may be forced because of import controls to pay an elevated price for all agricultural products they consume, agricultural producers in the region benefit from higher levels of income. Achieving a proper trade-off is often difficult not impossible for the policymaker.

A second major problem resulting from import controls is the downstream change in import composition that results from these controls. For example, if the import of copper ore is restricted, either through voluntary restraints or through quotas, producing countries may opt to shift their production systems and produce copper wire instead, which they then export. As a result, initially narrowly defined protectionist measures may have to snowball in order to protect one downstream industry after another. A final major problem that confronts the policymaker is that of efficiency. Import controls that are frequently designed to provide breathing room to a domestic industry either to grow or to recapture its competitive position often turn out not to work. Rather than improve the productivity of an industry, such controls provide it with a level of safety and a cushion of increased income, yet let overall technological advancement fall

behind. Alternatively, supply may respond to artificial stimulation and grow totally out of proportion.

2. Host Country Political and Legal Environment

The host country environment, both political and legal, affects the international marketing operations of firms in a variety of ways. The good manager will understand the country in which the firm operates so that he s/he is able to work within the existing parameters and can anticipate and plan for changes that may occur.

1. Political Action and Risk

Firms usually prefer to conduct business in a country with a stable and friendly government, but such governments are not always easy to find. Therefore international managers need to analyze the host country's government, its policies, and its stability to determine the potential for political change that could adversely affect corporate operations. A manager will want to think twice before conducting business in a country in which the likelihood of conflict and violent change is high. If conflict breaks out, the firm and its employees will possibly face violence in the form of guerrilla warfare, civil disturbances, or terrorism. Such violence often has an anti-industry element, making companies and their employee's potential targets. Less dramatic but still worrisome are changes in government policies that are caused, not by changes in the government itself, but as a result of pressure from nationalist or religious factions or widespread anti-foreigner feeling. The aware manager will work to anticipate these changes and plan ways to cope with them. Generally, international firms need to look for answers to six broad key questions

- ◆ How stable is the host country's political system?
- ◆ How strong is the host government's commitment to specific rules of the game, such as ownership or contractual rights, given its ideology and power position?
- ◆ How long is the government likely to remain in power?
- ◆ If the present government is succeeded, how would the specific rule of the game change?
- ◆ What would be the expected changes in the specific rule of the game?
- ◆ In light of those effects, what decisions and actions should be taken now?

2. Possible actions of governments:

What sort of changes in policy result from the various events described? The range of possible actions is broad. All of them can affect international marketing operations, but not all are equal in weight. Except for extreme cases, companies do not usually have to fear violence against employees, although violence against company property is quite common. Common also are changes in policy that take a strong nationalist and anti-foreign investment stance. The most drastic steps resulting from such policy changes are usually confiscation and expropriation.

- i) **Confiscation:** Is a process of a government taking ownership of a property without compensation. An example of confiscation is the Chinese government's seizure of American property after the Chinese communists took power in 1949. The US congress did not approve the normalization of economic relations with China until a satisfactory claim settlement had been negotiated.

- ii) **Expropriation:** Differs somewhat from confiscation in that there is some compensation, though not necessarily just compensation. More often than not, a company whose property is being expropriated agrees to sell its operations – not by choice but rather because of some explicit or implied coercion.
- iii) **Nationalization:** After property has been confiscated or expropriated it can be either nationalized or domesticated. Nationalization involves government ownership, and it is the government that operates the business being taken over. Burma's foreign trade, for example, is completely nationalized. Generally, this action affects a whole industry rather than just a single company.
- iv) **Domestication:** In the case of domestication, foreign companies relinquish control and ownership, either completely or partially to the nationals. The result is that private entities are allowed to operate the confiscated or expropriated property. The French government, after finding out that the state was not sufficiently proficient to run the banking business, developed a plan to sell thirty six French banks. When situation worsened in South Africa and political pressures mounted at home, Pepsi sold its South African bottling operations to local investors, and Coca – Cola signaled that it would give control to a local company.

Another classification system of political risk is the one used by **Root**: based on this classification, four sets of political risk can be identified: general instability risk, ownership / control risk, operation risk and transfer risk.

- i) **General instability risk:** Is related to the uncertainty about the future viability of a host country's political system. The Iranian revolution that overthrew the shah is an example of the kind of risk.
- ii) **Ownership / control risk:** Is related to the possibility that a host government might take actions (e.g. expropriation) to restrict an investor's ownership and control of a subsidiary in that host country.
- iii) **Operation risk:** Proceeds from the uncertainty that a host government might constrain the investor's business operations in all areas, including production, marketing and finance.
- iv) **Transfer risk:** Applies to any future acts by a host government that might constrain the ability of a subsidiary to transfer payments, capital or profit out of the host country back to the parent firm.

Ways to lessen the risk:

In order to reduce the risk of government intervention, a firm needs to demonstrate that it is concerned with the host country's society and that it considers itself an integral part of the host country rather than simply an exploitative foreign corporation. Ways to do this include intensive local hiring and training practices, good pay, more charity, and more socially useful investment

Local borrowing can be taken as another strategy to reduce political risk. Financing local operations from indigenous banks and maintaining a high level of local accounts payable maximize the negative effect on the local economy if adverse political actions were taken. Typically, host governments do not expropriate themselves, and they are reluctant to cause problems for their local financial institutions. It is also advisable to minimize fixed investment in the host country by taking actions like leasing facilities instead of buying them.

Other actions that can be taken by corporations to protect against political risk consist of the close monitoring of political developments. Increasingly, private sector firms offer assistance in such monitoring activities, permitting the overseas corporation to discover potential trouble spots as early as possible and react quickly to prevent major losses.

Indicators of Political Risks:

To assess a potential marketing environment, a company should identify and evaluate the relevant indicators of political difficulty. Potential source of political complications include social unrest, the attitudes of nationals, and the policies of the host government.

i) **Social unrest:** Social disorder is caused by such underlying conditions as economic hardship, internal dissension and insurgency and ideological, religious, racial and cultural differences. Lebanon has experienced conflict among the Christians, Muslims and other religious groups. The Hindu – Muslim conflict in India continues unabated. A company may not be directly involved in local disputes, but its business can still be severely disrupted by such conflicts.

ii) **Attitudes of nationals:** The national's attitude toward foreign enterprises and citizens can be quite inhospitable. Nationals are often concerned with foreigners' intentions in regard to exploitation and colonialism, and these concerns are often linked to concerns over foreign governments' actions that may be seen as improper. Such attitudes may arise out of local socialist or nationalist philosophies which may be in conflict with the policy of the company's home country government.

iii) **Policies of the host government:** Government policy formulation can affect business operations either internally or externally. The effect is internal when the policy regulates the firm's operations within the home country. The effect is external when the policy regulates the firm's activity in another country. E.g. a company in one country may be prohibited from doing business with other countries that are viewed as hostile. A dispute over the boundary between Chile and Argentina prompted Argentina to restrict traditional exports to Chile, including petrochemicals, pharmaceuticals, vehicles, and vehicles replacement parts. The restriction disrupted the marketing plans of General Motors, Peugeot and Renault all of which supplied Chile with automobiles parts from Argentina plants.

3. Government Types:

a) Political System

One way to classify governments is to consider them as either parliamentary (open) or absolutist (closed). Parliamentary governments consult with citizens from time to time for the purpose of learning about opinions and preferences. Government policies are thus intended to reflect the desire of the majority of the society. Most industrialized nations and all democratic nations can be classified as parliamentary. At the other end of the spectrum are absolute governments, which include monarchies and dictatorship. In an absolutist system, the ruling regime dictates government policy without considering citizens' needs or opinions. Frequently, absolutist's countries are newly formed nations or those undergoing some kind of political transition. Many countries political systems do not fall neatly into one of these two categories. Some monarchies and dictatorship (E.g. Saudi Arabia and South Korea) have parliamentary elections.

b) Number of Parties

Another way to classify governments is by number of political parties. This classification results in four types to governments: two – party, multi-party, single party, and dominant one – party.

i) Two party

In a two party system, there are typically two strong parties that take turns controlling the government, although other parties are allowed. The USA & UK are prime examples. The two parties generally have different philosophies, resulting in a change in government policy when one party succeeds the other. i.e. in USA, the Republican Party is often viewed as representing business interests, whereas the Democratic Party is often viewed as representing labor interests, as well as the poor and disaffected.

ii) Multiparty

In a multiparty system there are several political parties, none of which is strong enough to gain control of the government. Even though some parties may be large, their elected representatives fall short of a majority. A government must then be formed through coalitions between the various parties, each of which wants to protect its own interests. Countries operating with this system include India, Germany, France and Israel.

iii) Single party

In a single party system, there may be several parties, but one party is so dominant that there is little opportunity for others to elect representatives to govern the country. Egypt has operated under single – party rule for more than three decades. Countries often use this form of government in the early stages of the development of a line parliamentary system.

iv) Dominated one – party

In a dominated one party system, the dominant party does not allow any opposition, resulting in no alternative for the people. In contrast, a single party system does allow some opposition party. The former Soviet Union, Cuba, and Libya are good examples of dominated one party system. Such a system may easily transform itself into a dictatorship. The party, to maintain its power, is prepared to use force or any necessary means to eliminate the introduction and growth of other parties.

3. The International Environment

In addition to the politics and laws of both the home and the host countries, the international marketer must consider the overall international political and legal environment. Relations between countries can have a profound impact on firms trying to do business internationally.

4. International Politics

The effect of politics on international marketing is determined by both the bilateral political relations between home and host countries and by multilateral agreements governing the relations among groups of countries. The government-to-government relationship can have a profound effect, particularly if it becomes hostile. International political relations do not always have harmful effects on international marketers. If bilateral political relations between countries improve, business can benefit. The good international marketer will be aware of political currents worldwide and will attempt to anticipate changes in the international political environment, good or bad, so that his or her firm can plan for them.

5. International Law

International law plays an important role in the conduct of international business. Although no enforceable body of international law exists, certain treaties and agreements respected by a number of countries profoundly influence international business operations. As an example, the World Trade Organization (WTO) defines internationally acceptable economic practices for its member nations. Although it does not directly affect individual firms, it does affect them indirectly by providing a more stable and predictable international market environment.

A number of efforts have been made to simplify business procedures. For example, firms wanting to patent their products in the past had to register them separately in each country in order to have protection. In response to the chaos and expense of such procedures, several multilateral simplification efforts have been undertaken. European countries have been at the forefront of such efforts, having developed the European patent Convention and the Community Patent Convention. Similar efforts have been undertaken with regard to trademarks so that firms can benefit from various multilateral agreements.

4. THE ECONOMIC ENVIRONMENT

The assessment of a foreign market environment should start with the evaluation of economic variables relating to the size and nature of the markets. Because of the large number of worthwhile alternatives, initial screening of markets should be done efficiently yet effectively enough, with a wide array of economic criteria, to establish a preliminary estimate of market potential.

People alone do not make a market. They must have money to spend and be willing to spend it. Consequently, the economic environment is a significant force that affects the marketing activities of just about any organization. A marketing program is affected especially by such economic factors as the current and anticipated stage of the business cycle, as well as inflation and interest rate. Firms are very sensitive for the following major and other economic factors: Energy price; Interest rates; Exchange rates; Taxation;

1. Inflation/deflation and Economic growth of the nation:

There is also a range of economic factors at an industry level such as the availability of land, capital and labor in different economies and regions. In economic language, the three central economic tasks of every society are really about choices among on economy's inputs and outputs. **Inputs** are commodities or services used by firms in their product processes. **Outputs** are the various useful goods or services that are either consumed or employed in further production. We classify inputs, also called factors of production, into three broad categorized land, labor and capital.

- ✓ **Land** – or more generally natural resources represents the gift of nature to our production processes. It consists of land used for farming or for building houses, factories and roads.
- ✓ **Labor** – consists of the human time spent in production – working in automobile, factories, teaching school etc.
- ✓ **Capital** – resources form the durable goods of an economy, produced in order to produce yet other goods. Capital goods include machines, roads, computers, hammers, trucks etc.

2. Economic Systems

In the earliest societies, custom ruled every facet of behavior. What, how and for whom were decided by tradition passed on from elders to youth. Different societies face the demands for change through alternative economic systems and economic studies the different mechanisms

that a society can use to allocate its scarce resources. Economic organization can be briefly discussed as follows:

- ✓ **Command Economy:** A command economy is one in which the government makes all decisions about production and distribution. In a command economy, the government owns considerable fractions of the means of production (land and capital). It also own and directs the operations of enterprises in most industries. It is the employer of most workers and tells them how to do their job. And the government in a command economy decides how the output of the society to be divided among different goods and services.
- ✓ **Market Economy:** A market economy is one in which individuals and private firms make the major decisions about production and consumption. A system of prices, of markets, of profits and losses, of incentives and rewards determine what, how and for whom. Firms produce the commodities that yield the highest profits (the what) by the technique of production that is least costly (the how). Consumption is determined by individual decisions about how to spend the wages and property incomes generated by their labor and property of consuming.
- ✓ **Mixed Economy:** With elements of market and command, there has never been a 100% market economy. Today most decisions are made in the market place. But the government plays an important role in modifying the functioning of the market. Government sets laws and rules that regulate economic life, produces educational and police services, and regulates production and business.

3. Market Characteristics

The main dimensions of a market can be captured by considering variables such as those relating to the population and its various characteristics, infrastructure, geographical features of the environment, and foreign involvement in the economy.

✓ **Population**

The number of people in a particular market provides one of the most basic indicators of market size and is, in itself, indicative of the potential demand for certain staple items that have universal appeal and are generally affordable. Population figures themselves must be broken down into meaningful categories in order for the marketer to take better advantage of them. Because market entry decisions may lie in the future, it is worthwhile to analyze population projections in the areas of interest and focus on their possible implications. Depending on the marketer's interest, population figures can be classified to show specific characteristics of their respective markets. Age distribution and life expectancy correlate heavily with the level of development of the market. An important variable for the international marketer is the size of the household. A household describes all the persons, both related and unrelated, who occupy a housing unit.

✓ **Income:**

Markets require not only people but also purchasing power, which is a function of income, prices, savings, and credit availability. A part from basic staple items, for which population figures provide an estimate, income is most indicative of the market potential for most consumer and industrial products and services. For the marketer to make use of information on gross national products of various nations, further knowledge is needed on distribution of income. Per capita GNP is often used as a primary indicator for evaluating purchasing power. In some

markets, income distribution produces wide gaps between population groups. The more developed the economy, the more income distribution tends to converge toward the middle class. In general, income figures are useful in the initial screening of markets. However, in product specific cases, income may not play a major role, and startling scenarios may emerge. Some products, such as motorcycles and television sets in China, are in demand regardless of their high price in relation to wages because of their high prestige value. Some products are in demand because of their foreign origin.

Further, the lack of income in a market may preclude the marketing of a standardized product but, at the same time, provide an opportunity for an adjusted product. A packaged goods company, confronted with considerable disparity in income levels within the same country, adapted a deodorant product to fit two separate target income groups the regular product version in a spray can and the less expensive one in a plastic squeeze bottle. By substituting cheaper parts and materials, successful international marketers can make both consumer and industrial products more affordable in less affluent markets and therefore reach a wider target audience.

✓ ***Consumption Patterns***

Depending on the sophistication of a country's data collection systems, economic data on consumption patterns can be obtained and analyzed. The share of income spent on necessities will provide an indication of the market's development level as well as an approximation of how much money the consumer has left for other purchases. Engel's laws provide some generalizations about consumers spending patterns and are useful generalizations when precise data are not available. They state that as a family's income increases, the percentage spent on food will decrease, the percentage spent on housing and household operations will be roughly constant, and the amount saved or spent on other purchases will increase.

✓ ***Infrastructure***

The availability and quality of an infrastructure is critically important in evaluating marketing operations abroad. Each international marketer will rely heavily on services provided by the local market for transportation, communication, and energy as well as on organizations participating in the facilitating functions of marketing: marketing communications, distributing, information, and financing. Indicators such as steel consumption, cement production, and electricity production relate to the overall industrialization of the market and be used effectively by suppliers of industrial products and services. As an example, energy consumption per capita may serve as an indicator of market potential for electrical markets, provided evenness of distribution exists over the market. Yet the marketer must make sure that the energy is affordable and compatible (in terms of current and voltage) with the products to be marketed.

✓ ***Foreign Involvement in the Economy***

For the international marketer interested in entering a foreign market, it is important to know the extent to which such entry is accepted by a country. An economy's overall acceptance of foreign involvement can be estimated by analyzing the degree of foreign direct investment by country and by industry in a given market as well as by the rules governing such investment.

Regional Economic Integration

Economic integration has been one of the main economic developments affecting world markets since World War II. Countries have wanted to engage in economic cooperation to use their respective resources more effectively and to provide larger markets for member-country producers. Some integration efforts have had quite ambitious goals, such as political integration; some have failed as the result of perceptions of unequal benefits from the arrangement or parting of ways politically. These economic integration efforts are dividing the world into trading blocs.

4. Levels of Economic Integration

i. Free Trade Area: The free trade area is the least restrictive and loosest form of economic integration among nations. In a free trade area, all barriers to trade among member countries are removed. Goods and services are freely traded among member countries. Each member country maintains its own trade barriers vis-à-vis nonmembers.

ii. Customs Union: The customs union is one step further along the spectrum of economic integration. As in the free trade area, members of the customs union dismantle barriers to trade in goods and services among members. In addition, however, the customs union establishes a common trade policy with respect to nonmembers. Typically, this takes the form of a common external tariff, where imports from nonmembers are subject to the same tariff when sold to any member country.

iii. Common Market: The common market amounts to a customs union covering the exchange of goods and services, the prohibition of duties in exports and imports between members, and the adoption of a common external tariff in respect to nonmembers. In addition, factors of production (labor, capital, and technology) are mobile among members. Restrictions on immigration and cross-border investment are abolished. The importance of factor mobility for economic growth cannot be overstated. When factors of production are mobile, the capital, labor, and technology may be employed in their most productive uses. Despite the obvious benefits, members of a common market must be prepared to cooperate closely in monetary, fiscal, and employment policies. Furthermore, although a common market will enhance the productivity of members in the aggregate, it is by no means clear that individual member countries will always benefit.

iv. Economic Union: The creation of a true economic union requires integration of economic policies in addition to the free movement of goods, services, and factors of production across borders. Under an economic union, members will harmonize monetary policies, taxation, and government spending. In addition, a common currency is to be used by members. This could be accomplished, de facto, by a system of fixed exchange rates. Clearly, the formation of an economic union requires members to surrender a large measure of their national sovereignty to supranational authorities in community wide institutions such as the European Parliament. The final step would be a political union calling for political unification.

Economic Integration and the International Marketer

Regional economic integration creates opportunities and potential problems for the international marketer. It may have an impact on a company's entry mode by favoring direct investment

because one of the basic rationales of integration is to generate favorable conditions for local production and intraregional trade. By design, larger markets are created with potentially more opportunity. Because of harmonization efforts, regulations may be standardized, thus positively affecting the international marketer.

The international marketer must, however, make integration assessments to envision the outcome of the change. Change in the competitive landscape can be dramatic if scale opportunities can be exploited in relatively homogeneous demand conditions. The international marketer will have to take into consideration varying degrees of change readiness within the markets themselves; that is, governments and other stakeholders, such as labor unions, may oppose the liberalization of competition in all market segments.

For example, while plans have called for liberalization of air travel and automobile marketing in Europe, EU members have found loopholes to protect their own companies. The international marketer will then have to develop a strategic response to the new environment to maintain a sustainable long-term competitive advantage. Economic integration will create its own powers and procedures similar to those of the EU and its directives. The international marketer is not powerless to influence both of them; as a matter of fact, a passive approach may result in competitors gaining an advantage or it may put the company at a disadvantage.

Summary

- ✓ Economic variables relating to the various markets' characteristics population, income, consumption patterns, infrastructure, geography, and attitudes toward foreign involvement in economy form a starting point for assessment of market potential for the international marketer.
- ✓ Economic data provide a baseline from which other more market/product-specific and even experiential data can be collected. Understanding the composition and interrelationships between economic indicators is essential for the assessment of the other environments and their joint impact on market potential. The international marketer needs to understand the impact of the economic environment on social development.
- ✓ The emergence of economic integration in the world economy poses unique opportunities and challenges to the international marketer. Eliminating barriers between member markets and erecting new ones vis-à-vis nonmembers will call for adjustments in past strategies to fully exploit the new situations.

AFTA	ASEAN Free Trade Area: Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam
ANCOPM	Andean Common Market: Bolivia, Colombia, Ecuador, Peru, Venezuela
APEC	Asia Pacific Economic Cooperation: Australia, Brunei, Canada, China, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Philippines, Singapore, South Korea, Taiwan, Thailand, United States

Exhibit 3.1: Major Regional Trade Agreements

D. Technological Environment

Technology is changing day by day at a greater pace that it causes a major threat for domestic as well as international marketing. Due to globalization effect, there has been an unlimited innovational opportunities worldwide. Moreover international marketers are pumping out more resources for research and development activities of their products. Ultimately technology change is a force for creative destruction. Technological advances have had substantial effect on the variety of goods and services.