CHAPTER 2
APPRAISING THE INTERNATIONAL MARKETING ENVIRONMENT

A Company/Exporter has to learn many things before deciding to sell a product/service in a foreign land. One has to acquire a thorough understanding of the international marketing environment. These environmental dimensions are to be reckoned with irrespective of the techniques of foreign market entry or the kind of involvement. We have seen that an exporter has to cope with variables of both national and international environment. The international environment has undergone tremendous changes since 1945, creating both new opportunities and new problems. The most significant changes are:

1. Internationalisation of world economy reflected by the rapid growth of world trade and investment.
2. The rising power of Japan and countries like Korea, Singapore etc. in the South East and world market.
3. Establishment of international financial system, and improving currency convertibility
4. The shift of world income since 1973, to the oil producing countries (OPEC)
5. The increasing trade barriers put up by countries to protect their domestic markets.
6. The gradual opening of world markets ie., China and the recent development in USSR and the Arab countries

Any Exporter/International marketer, looking abroad, must start with an appreciation of the International trade system. Each nation has unique features that must be grasped. A nation's readiness for different products and services and its attractiveness as a market to foreign firms depend on its economic, political, cultural and business environment. We have to appraise these environments and also the domestic environment for successful outcome.

I. DOMESTIC ENVIRONMENT:

The main aspects of domestic environment within the limitations of which a firm has to carry out its foreign marketing/exports, consists of a large variety of factors, the relative importance of which keeps on changing from one point of time to another. These factors are broadly related to the domestic, economic and political conditions, including existing and potential resources, level and trend of economic growth, industrial base and structure, and the existence of facilitating and supporting agencies for foreign trade. Another important factor is the domestic demand and the availability of surpluses for export. Import-Export policies and the procedures have a direct bearing on the conduct of foreign marketing.

In a fast developing economy like India, the following aspects of
national export expansion policies and measures are gaining importance:

- development and expansion of export potential industries and markets.
- greater processing of raw materials at source and more emphasis on export of manufactured goods.
- planned development of an export sector and export priority and import substitution industries.
- Export incentive and support schemes
- Quality control and standards
- Institutional and infrastructure support.

And many more facilities supporting and strengthening the export supply, organisation and the management base. Thus the political economic, procedural and regulatory elements constitute the domestic environment for an exporting firm.

Structure of India's foreign trade can be classified into three parts:

**Composition of India's Export Trade:**

<table>
<thead>
<tr>
<th>Export Trade</th>
<th>Import Trade</th>
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<tbody>
<tr>
<td><strong>1. Raw Materials</strong></td>
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</tr>
<tr>
<td>Wool, animal hair, raw cotton, Cotton waste, mica, iron ore, Mineral ore, etc.</td>
<td>Raw cotton and jute, dyestuffs, chemicals, petroleum oil and lubricants, mineral oils, fertilisers, etc.</td>
</tr>
<tr>
<td><strong>2. Consumer Products</strong></td>
<td><strong>2. Consumer goods</strong></td>
</tr>
<tr>
<td>Tea, coffee, black pepper, Tobacco, cashew kernel, Oil cakes, etc.</td>
<td>Paper &amp; paper boards, drugs &amp; medicines, textiles, locomotives, electrical goods, certain food, Grains, etc.</td>
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<tr>
<td><strong>3. Manufactured goods</strong></td>
<td><strong>3. Manufactured goods</strong></td>
</tr>
<tr>
<td>Jute manufactures, Textiles, cloth, silk, Manufacturers, woollen Products, vegetable oils, Machineries, transport Equipments, iron &amp; steel, Handlooms &amp; handicrafts, Engineering goods, etc.</td>
<td>Machinery of different kinds, transport equipments, metals such as iron &amp; steels, nonferrous metals, etc.</td>
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<tr>
<td><strong>4. Services</strong></td>
<td><strong>4. Services</strong></td>
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The following is the classification of India's traditional and non-traditional export

**Traditional Exports**
Raw jute, cotton, textiles, tea coffee, cashew kernels, hides and skins, oil cakes, Spices, etc.

**Non-traditional Exports**
Clothing, Iron ore, leather and leather products, engineering goods, fish and fish products, computer software, etc.
Recent trends in India's foreign trade

Before 1947 India was colonial and basically agricultural and the trade was confined mainly to commonwealth countries and UK. After 1947 and one Plan after another, there is a remarkable increase in the volume and value of foreign trade from traditional items to manufactured goods, capital goods. The direction of India's trade also diversified to developed countries such as USA, Germany, Canada, ex-USSR, Japan, etc. through trade bilateral agreements.

II. FOREIGN ENVIRONMENT:

The home-based or the domestic export expansion measures are necessarily related to the conditions prevailing in possible markets. An Exporter has to overcome various constraints and adapt plans and operations to suit foreign environmental conditions. The main elements of foreign environment affecting marketing activities of a firm in a foreign country consist of the following.

A) POLITICAL DIMENSION:

Nations greatly differ in their political environment. Govt. policies, regulations and control mechanisms regarding the countries, foreign trade and commercial relations with other countries or groups of countries. At least four factors should be considered in deciding whether to do business in a particular country. They are

1. **Attitudes towards International Buying:**
   Some nations are very receptive, indeed encouraging, to foreign firms, and some others are hostile. For e.g.:
   Singapore, UAE and Mexico are attracting foreign investments by offering investment incentives, removal of trade barriers, infrastructure services, etc.

2. **Political Stability:**
   A country's future and stability is another important issue. Government changes hands sometimes violently. Even without a change, a region may decide to respond to popular feeling. A foreign firm's property may be seized; or its currency holdings blocked; or import quotas or new duties may be imposed. When political stability is high one may go for direct investments. But when instability is high, firms may prefer to export rather than involve in direct investments. This will bring in foreign exchange fast and currency convertibility is also rapid.

3. **Monetary Regulations:**
   Sellers want to realise profits in a currency of value to them. In best situations, the Importer pays in the seller's currency or in hard world currencies. In the worst case they have to take the money out of the host country in the form of relatively unmarketable products that they can sell elsewhere only at a loss. Besides currency restrictions, a fluctuating exchange rate also creates high risks for the exporter.
4. **Government Bureaucracy:**

It is the extent to which the Government in the host country runs an efficient system for assisting foreign companies: efficient customs handling, adequate market information, etc.

The problem of foreign uncertainty is thus further complicated by a frequently imposed "alien status", this increases the difficulty of properly assessing and forecasting the dynamic international business. The political environment offers the best example of the alien status. A foreign political environment can be extremely critical; shifts in Government often means sudden changes in attitudes that can result in expropriation, expulsion, or major restrictions in operations. The fact is that a foreign company is foreign and thus always subject to the political whim to a greater degree than a domestic firm.

**III) CULTURAL ENVIRONMENT:**

The manner in which people consume their priority of needs and the wants they attempt to satisfy, and the manner in which they satisfy are functions of their culture which moulds and dictates their style of living. This culture is the sum total of knowledge, belief, art, morals, laws, customs and other capabilities acquired by humans as members of the society. Since culture decides the style of living, it is pertinent to study it especially in export marketing.

E.g. when a promotional message is written, symbols recognisable and meaningful to the market (the culture) must be used. When designing a product, the style used and other related marketing activities must be culturally acceptable.

Every country (even regional groups within each country) has cultural traditions, preferences and taboos that the market must study.

An Exporter must have an understanding of the religious, educational, familiar and social institutions in the target market which influence his marketing system. Consumer preferences, life styles, tastes, consumption habits etc. would be visibly different from one culture to another even though there may be closer similarities in economic and political conditions.

E.g.: A Frenchman uses almost twice as many cosmetics and beauty aids as does his wife.

Only one Frenchman out of three brushes his teeth. The Dutch never touch Vodka.

Germans eat more spaghetti and more often than the Italians.

Similar cultural differences or similarities in consumption habits, attitudes and behaviour are found all over the world, an understanding and knowledge of which would prove an effective tool in competitive marketing of consumer goods in foreign countries.
IV) ECONOMIC ENVIRONMENT:

In considering the international market, each Exporter must consider the importing country's economy. Two economic characteristics reflect the country's attractiveness as an export market. They are the country's industrial structure and the country's income distribution by employment industrialisation and socio economic justices.

The country's industrial structure shapes its products and services, the requirements, income levels, employment levels and so on.

Four types of industrial structure can be distinguished:

1. **Subsistence Economics:**
   
   Here vast majority of the people engage in simple agriculture. They consume most of their output and barter the rest for simple goods and services. They offer few opportunities for Exporters.

2. **Raw - materials Exporting Economies:**
   
   These countries are rich in one or more natural resources and poor in other products. Much of their revenue comes from exporting these resources. E.g. Chile (tin & copper), Malaysia (Rubber), Arab Countries (Oil). These countries are good markets for extractive equipment, material handling equipment, tools, supplies, etc., They are also good markets for western-style commodities and luxury items.

3. **Industrialising Economies:**
   
   In an industrialising economy, manufacturing accounts for 10 to 20 percent of the country's GNP. Examples include Egypt, Brazil, India and Philippines. In such industrialising economies, the countries rely on heavy imports of heavy machinery, raw materials and less on finished products like paper, automobiles, etc. The industrialisation results in a new rich class and a small but growing middle class both demanding new types of goods and some of which can be satisfied only through imports.

4. **Industrial Economies:**
   
   They are major exporters of manufactured goods and investment funds. They trade manufactured goods among themselves and also to the other types of economies in exchange for raw materials and finished goods. The large and varied manufacturing activities of these industrial nations and their sizable middle class makes them rich markets for all sorts of goods.

The second economic characteristic mentioned is the country's income distribution levels. Income distribution is related not only to the industrial structure but also to the political systems. Economic indicators like the GNP, rate of growth, distribution of wealth etc., should be analyzed by international marketers. Balance of payment position and dependability on imports are indicators of economic vitality.
B) LEGAL DIMENSION:
The legal dimension of international marketing environment includes all laws and regulations regarding product specification and standards, packaging and labelling, copyright, trademark, patents, health and safety regulations particularly in respect of foods and drugs. There are also controls in promotional methods, price control, trade margin, mark-up, etc., These legal aspects of marketing abroad have several implications which an exporting firm needs to study closely.

C) GEOGRAPHICAL DIMENSIONS:
These include climatic features, altitude, temperature, humidity etc., which affect the use and performance of products and equipments, transportation, distribution, etc.,

A prospective international marketer should be reasonably familiar with the world, its climate and topographic differences. Otherwise the important marketing characteristic of geography could be overlooked when marketing to another country. Geographic barriers have indirect effect on marketing activities like communication and distribution.

D) BUSINESS DIMENSION:
These include business customs and practices, distribution structure and channel network, competitive patterns, means and methods of marketing environment and similar factors related to the conduct of marketing activities.

CONCLUSION:
We have seen above various major elements of international marketing environment which are neither common nor static in different world markets. The existence of ever-changing characteristics of the environmental elements gives rise to the real problems of international marketing. An exporter must be sensitive and responsive to those environmental differences and develop clear perspectives to locate the opportunities abroad and to design products and develop strategies compatible with the situation.

All these factors are intimately connected with the process of market selection, product adaptation, pricing strategies and distribution and promotion policies which are the Basic tasks of marketing management:

Main Points

1. New opportunities in International marketing scenario:
   a. rapid world trade growth
   b. improving currency convertibility
   c. increasing trade barriers in international market
   d. expansion of world market and
   e. integration of world economy through globalisation
2. Export Expansion supports by fast developing countries such as India through
a. priority and thrust on export of manufactured goods and import substitution
b. various export incentives & support schemes.
c. Emphasis on quality control & standards

3. Constraints in International marketing

a. **Risks such as political commercial, credit, cargo, exchange fluctuation and legal**

   - **Political Risks** - due to changes in political situation
   - **Commercial Risks** - due to lack of knowledge & transit-time
   - **Credit Risks** - due to realisation of export proceeds on Credit basis
   - **Cargo Risks** - due to unexpected transit disasters to Shipments
   - **Exchange fluctuation Risks** - due to invoicing in buyers currency which may depreciate
   - **Legal Risks** - due to difference in commercial laws and proceedings

b. **Problems in International Marketing environment such as**

   1. **Political dimension** - Govt. policies, regulations, & control - mechanisms, stability, etc.
   2. **Cultural dimension** - Cultural traditions, taboos, knowledge, beliefs, morals, etc.
   3. **Economics dimension** - Countries industrial structure and income distribution, GNP, etc.
   4. **Geographical dimension** - Climatic features
   5. **Business dimension** - Distribution structure & channel network, means & methods of marketing.

**Internationalisation - a necessity - not a luxury**

Over the last ten years, we have been witnessing the surge of Indian companies to internationalise operations. A nation's competitiveness can only be tested in an international market place - Some nations act as foreign direct investment, others are investors.

In the automobiles industry, MNCs realised that India can be a good outsourcing destination for parts, components and assemblies, due to its skilled and cheap labour, a fairly high level of IT applications in manufacturing practices which results in reduction in cost of production. The total outsourced value of about $ 1 bln/year as on Apr 04 had naturally germinated over the past years the decision of large Indian manufacturers from many sectors to foray into foreign direct investment.

The foreign venture can either be acquisition, acquisition / modernization, revival of sick companies and the like in other countries and continents. A few examples are Sundram Fasteners,
in Shanghai, China, Arvind Mills in Mauritius for garments, Moser Bayer for CDs in Germany, Aditya Birla group in Thailand for Carbon Black.

**How companies go international**

The biggest problem in international marketing is often not the foreign customer but the international market.

**The reasons are:**

**Product Maturity:**

The product life cycle stage at home may be one of maturity, whereas there may be a new embryonic market abroad enabling the product to start a new life cycle from introduction.

**Competition:**

Competition may be less intense abroad, than at home. Other countries may have cheaper raw material or labour costs. There may also be a certain element of attempting to start a march on a competitor by foreign market entry where that foreign market is also the home base of a major competitor. Such an act can help define competitive behaviour in other markets.

**Excess capacity utilisation:**

Wherever the domestic product has enabled to recover the R & D costs over a long period of marketing, the company may `dump' the product in a foreign country at a lesser price than the domestic one.

International marketing is a reality today. Money has no nationality and follows good market opportunity. Capital can be easily transferred across national boundaries. The market place is global for all specialised products or products containing high value added.

Diffusion of new products is taking place today simultaneously. A new model of a Ford car is released not only in USA, but in Europe and Asia on the same day.

Instant international communication (Fax, Email) mean instantaneous marketing activity. Due to time zone, if the receiving end is not in working hours, a hard copy from the exporter country is the message to be seen the next morning! This proves that with usage of Internet, location is not important but only good communications. As exporting business can be located in Australia, with majority of its customers in other Western Continents, but can succeed as long as customer service is fulfilled.

It is possible for a very small house company to host thro' Internet a more professional home page and promote exports than an established larger company.

Initially, the Internet was available only in English, but now the small exporter can send in his language the message which is automatically translated into the business language of the foreign
buyer, wherever he is located. This may sound like science fiction but is science fact. In fact, there is Compuserver, which is the services provider for translation of the internet message of the small specialised exporter's message to the other side of the exporter irrespective of his location.