

Marketing Essentials





Marketing Essentials



Chapter 4

Section 4.1 International Trade Section 4.2 The Global Marketplace

global analysis

SHOW WHAT YOU KNOW

Visual Literacy Globalization has created new markets for all products. It has also changed how business is done. What challenges and opportunities do you see for global businesses?

Discovery Project

Marketing in an Emerging Country

Essential Question How would you select an emerging country to market a product and what marketing strategy would you use?

Project Goal

Select a product to sell in an emerging nation. An emerging nation is a country that is developing into an industrialized nation. Conduct a PEST analysis on a minimum of two countries to determine which country is better suited for the product. Provide rationale for your selection and note any problems you may have to address. Prepare an advertising message and explain your plan for marketing the product in that country. Use a word processing program to prepare a written report. Use presentation software to prepare visuals for your oral presentation to the class.

Ask Yourself...

- What products do consumers need in emerging countries?
- In which nation would you have a chance of success?
- How will you address differences in language and culture in your marketing plan?
- How will you decide on what to include in the advertising message?
- What marketing strategy should you use?



Think Critically What opportunities and threats are apparent in emerging countries as a market for consumer products?

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Activity

Get a worksheet activity about globalization.

Evaluate

Download a rubric you can use to evaluate your project.

DECA Connection

DECA Event Role Play

Concepts in this chapter are related to DECA competitive events that involve either an interview or role play.

Performance Indicators The

performance indicators represent key skills and knowledge. Your key to success in DECA competitive events is relating them to the concepts in this chapter.

- Explain the nature of global trade.
- Discuss the impact of cultural and social environments on global trade.
- Assess global trends and opportunities.
- Discuss the global environment in which businesses operate.
- Identify considerations in implementing international marketing strategies.

DECA Prep

Role Play Practice role-playing with the DECA Connection competitive-event activity at the end of this chapter. More information about DECA events can be found on DECA's Web site.

READING GUIDE

Before You Read

Connect What international products do you consume?

Objectives

- **Describe** the benefits of international trade.
- **Discuss** the balance of trade.
- Compare and Contrast three types of trade barriers.
- **Discuss** three significant trade agreements and alliances.

The Main Idea

Nations rely on each other to provide goods and services. This interdependence creates a global marketplace.

Vocabulary

Content Vocabulary

- international trade
- imports
- exports
- balance of trade
- free trade
- tariff
- quota
- embargo
- protectionism
- World Trade Organization (WTO)
- North American Free Trade Agreement (NAFTA)
- European Union (EU)

Graphic Organizer

Draw or print this chart to help you organize key concepts related to international trade.

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Print this graphic organizer.

Academic Vocabulary

You will find these words in your reading and on your tests. Make sure you know their meanings.

- potential
- infrastructure

MARKETING CORE FUNCTION		
Market Planning		
Balance of Trade Trade Barriers Trade Agreements		

Section 4.1 International Trade

NATURE OF INTERNATIONAL TRADE

77

The global marketplace exists because countries need to trade with one another. It continues to expand because of the reduction of trade restrictions throughout the world. This new global marketplace makes all people and businesses in the world not only **potential** customers but also potential employees or employers.

International trade is the exchange of goods and services among nations. **Imports** are goods and services purchased from other countries. Conversely, exports are goods and services sold to other countries. These exchanges occur between businesses, but they are controlled by the governments of the countries involved.

As You Read

Consider How would your life be different if countries did not exchange products?

INTERDEPENDENCE OF NATIONS

Most countries do not produce or manufacture all the goods and services they need. They get some of their goods and services from other nations. This economic interdependence happens because each country possesses unique resources and capabilities. The principle of economic interdependence is fundamental to marketing in a global environment.

The global marketplace is here to stau.

ABSOLUTE ADVANTAGE AND COMPARATIVE ADVANTAGE

Some nations tend to specialize in certain areas. They specialize in products that they can produce most efficiently due to available resources in their countries

ABSOLUTE ADVANTAGE

An absolute advantage occurs when a country has economic resources that allow it to produce a product at a lower unit cost than any other country. For example, Brazil has an absolute advantage in coffee over most other countries. In this case, it is clear that Brazil will export its coffee to other countries in the global marketplace.

COMPARATIVE ADVANTAGE

Some countries have an absolute advantage in more than one product. They must compare the unit cost of each product. Then they decide which ones to produce and which ones to import.

The United States has a comparative advantage in producing high-tech products because of its infrastructure, raw materials, and educated work force. Products include airplanes, computers, high-tech machinery, entertainment, and telecommunications.

Some emerging nations have large, unskilled labor forces available at low costs. Labor-intensive industries—ones that rely on labor as opposed to machinery----do well in these countries. Emerging nations can produce labor-intensive toys, clothing, and shoes at a lower unit cost than most industrialized nations. They have a comparative advantage when manufacturing these goods. It is more cost-effective for high-wage countries like the United States to buy those items from emerging nations.

BENEFITS OF INTERNATIONAL TRADE

Consumers, producers, workers, and nations benefit from international trade in different ways. Consumers benefit from the competition that the foreign companies offer. This competition encourages the production of high-quality goods with lower prices. The variety of goods increases as more producers market their goods in other countries. Individuals have more options when making purchasing decisions.

Many producers today expand their business by conducting operations in other countries. Hewlett-Packard®, IBM®, and H.J. Heinz® report that over 50 percent of their sales are made overseas. About one-third of the profits of U.S. businesses come from international trade and foreign investments. As a result, businesses that want to be successful should consider using international trade. Even small businesses sell products that are used all over the world. Workers also benefit from international trade. Increased trade leads to higher employment rates both at home and abroad. For example, according "to Toyota[®], a Japanese company, more than 30,000 Americans are employed by this company in the United States. Thousands of U.S. manufacturing firms employ workers because they have a strong export business.

Nations as a whole benefit from international trade. Increased foreign investment in a country often improves the standard of living for that country's people. Individuals have more options to choose from when making purchasing decisions. Economic alliances among nations often solidify political alliances that foster peace.

Reading Check

Contrast What is the difference between absolute advantage and comparative advantage?



GOVERNMENT INVOLVEMENT IN INTERNATIONAL TRADE

All nations control and monitor their trade with businesses in other countries. The U.S. government monitors imports through the customs division of the U.S. Treasury Department. All goods that enter the United States from another country are subject to search and review by U.S. customs officials. Other countries also check incoming goods. All U.S. citizens and businesses must meet the customs requirements of foreign countries when exporting goods.

BALANCE OF TRADE

Nations must keep track of their international trade to be aware of their economic status. The difference in value between exports and imports is called **balance of trade**. A trade surplus occurs when a nation exports more than it imports.

A negative balance of trade, or trade deficit, occurs when a nation imports more than it exports.

TRADE DEFICIT

The large U.S. trade deficit may seem surprising because the United States is the world's biggest exporter. Some analysts believe this situation exists because Americans purchase more goods and services than do people of other nations. Others believe that the United States is now focusing more on providing services, making it more economical to import goods that were once domestically manufactured. The textile trade is a perfect example of this trend. Most apparel sold in the United States is imported from foreign countries, many of which are located in Asia. For example, the United States has a huge trade deficit with China in the area of textiles.

MARKETING CASE STUDY

Global Philanthropists

A global nonprofit venture capital firm called Acumen Fund is helping people in developing nations. It finds out what small villagers need and then researches a simple solution. The problems generally fall into three categories: health, water, and housing. Acumen uses the donations it receives to invest and loan money to companies in those developing countries. Then the companies can produce the needed products and services.

Global Solutions

In Africa, malaria is a major health problem. Acumen financed an existing business: A to Z Textile Mills of Tanzania. This helped the company create a specially designed bed net with an insecticide. The insecticide kills mosquitoes that spread malaria.

In India, where water is scarce, an inexpensive drip-irrigation kit was designed to help farmers. An Indian company started with Acumen financing was created to help provide information to poor rural residents about health, pensions, and government resources. The business model consists of information-hub kiosks equipped with computers, modems, digital cameras, and fax machines. Villagers pay a small fee for each transaction. They can apply for loans or look for jobs. These information kiosks can now be found all over India's countryside.

English Language Arts/Writing

Investigate Research developing countries around the world and select one country to support. Write a letter to Acumen recommending a specific project the company should consider.



Career Chatroom 🌾

Dave Walker

Computer Systems Security Specialist

What do you do at work?

I work for an internationally known technology solutions provider that services consumers, businesses, and institutions worldwide. My job entails making sure our products and services follow all technical guidance and standards issued by the Department of Defense and other government agencies. In order to be approved for sale, products must comply with these regulations. Depending on each product's system, I review the operating system, database, Web server, custom applications (software), and networking components and make changes where needed. The goal of my company is to ensure our products are exciting, innovative, and inspiring-no matter if the client is an individual or a globally invested company.

What is your key to success?

I think the keys to success are preparation and communication skills.

What skills are most important to you?

Obviously, computer skills are the most important skills to have in my business, particularly Windows[®], database, and networking. But it is also important to be able to make quick decisions, troubleshoot, and explain highly technological information in a way everyone can understand.

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Read more about this career and get a Career Exploration Activity.

NEGATIVE CONSEQUENCES OF A TRADE DEFICIT

An unfavorable balance of trade reduces a nation's revenue. When more money leaves a country than enters it, that country is in debt, or is a debtor nation. To survive as a debtor nation, the United States relies on foreign investors who buy U.S. securities. Another effect of a negative balance of trade can be increased unemployment. People may lose their jobs as foreign competitors take business away from domestic firms. If domestic businesses do not become competitive, they will fail.

TRADE BARRIERS

Many countries around the world favor and practice **free trade**. This is the commercial exchange between nations that is conducted on free market principles without any regulations. However, a nation's government may impose trade barriers or restrictions when it wants to limit trade. These controls restrict the flow of goods and services among nations. The three main types of trade barriers are tariffs, quotas, and embargoes.



TARIFFS

A **tariff** (sometimes called a duty) is a tax on imports. Tariffs may be used to produce revenue for a country. Revenue-producing tariffs were used in the United States as a primary source of government income before the federal income tax was established in 1913. These revenueproducing tariffs still exist today, but they can be as low as 25 cents per item or pound.

Another type of tariff is protective. A protective tariff is generally high. Its purpose is to increase the price of imported goods so that domestic products can compete with them. Protective tariffs can prevent foreign businesses from trading with the United States. This would protect domestic jobs and new domestic industries from foreign competition, especially from foreign nations that might not practice completely ethical and fair trade.

QUOTAS

An import **quota** limits either the quantity or the monetary value of a product that may be imported. For example, the U.S. government could place a quota on foreign automobiles, limiting the number that may be imported. This would control the number of cars entering the United States from other countries.

In theory, such a measure would give U.S. auto manufacturers a better chance to sell cars.

Sometimes one trading partner voluntarily puts quotas on exports to improve its relations with another country. In the 1980s, Japan placed quotas on its auto exports to the United States to improve trade relations between the two nations.

EMBARGOES

An **embargo** is a total ban on specific goods coming into and leaving a country. A government can impose an embargo for health reasons. The U.S. government embargoed Chilean grapes in 1989 as a precaution after inspectors found poisoned fruit in a shipment. That embargo was lifted within a week. In another example, China imposed a two-year embargo on U.S. beef in 2004 due to the "Mad Cow" disease scare.

Embargoes are more often used for political reasons. Such embargoes based on political differences can last for a very long time. The United States lifted its 20-year embargo on Vietnam in 1994 so that trade relations could start again between the two nations. The U.S. embargo against Cuba—imposed in 1960 when Fidel Castro created a communist state—still remains in effect. In 2000, President Clinton signed a law that relaxed restrictions on food sales to Cuba. As a result, the United States has become Cuba's main source of food products.

PROTECTIONISM

Trade regulations can have many political and economic consequences. **Protectionism** is a government's establishment of economic policies that systematically restrict imports in order to protect domestic industries. Protectionism is the opposite of free trade. Imposing tariffs, quotas, and embargoes are three methods of practicing protectionism. Under protectionism, a country chooses to conduct very little trade. It is as if the country has many embargoes against other countries. A protectionist country must rely largely on its own resources to meet the needs of its population. This can be difficult for countries that do not have many natural resources.

PROTECTIONISM AND SUBSIDIES

A government can accomplish the same goal by subsidizing domestic industries. This allows them to be more competitive against foreign competition. For example, the United States and Europe subsidize their farmers. Those subsidies allow them to overproduce products that they can sell or donate overseas. All excess output can then be sold internationally at very low prices. Naturally this displeases foreign competitors, who cannot compete with those low prices in the global marketplace. In 2009 a "Buy American" clause was included in the 2009 United States stimulus package. It was seen by many trading partners as a subsidy and an example of protectionism.

PROTECTIONISM AND RETALIATION

Sometimes, when one country imposes a tariff or quota, the other country retaliates. For example, in 2009, the United States imposed a 35 percent tariff on automobile tires made in China. After that tariff was announced, China responded by threatening to impose a higher tariff on chicken produced in the United States. In such situations, each country may complain that the other is engaging in unfair trade practices. A cycle of tariffs or quotas followed by retaliation may result in what economists and financial experts call a "trade war."



Protectionism Marketers must be mindful of international relations and instances of retaliation when marketing products on an international scale.

CHINA

Ancient Seasoning

From the Old English garleac, meaning "spear leek," garlic originated

in Central Asia some 6,000 years ago. Worshipped by pharaohs and used as protection against vampires, this small white bulb eventually found its way into world cuisine. Garlic reached America in the 1700s, but was not appreciated by gourmets until the 1940s.

Garlic Showdown China has cornered the garlic market, supplying 75 percent of the world's garlic. "We can meet any specifications," promises one Chinese farmer. Consumers can buy garlic fresh or frozen, in flakes, paste, or granules, and in decorated braids with colors ranging from white to purple. All of this worries U.S. growers. The U.S. garlic industry peaked in 1999 and now ranks fifth in sales. "We're going to fight," says a farmer from California where 90 percent of U.S. garlic is grown.

English Language Arts/Writing

Report Research the differences between the U.S. and Chinese garlic industries and write a short editorial that weighs the benefits of purchasing each type of garlic.

Here are some entry-level phrases that are used in conversations about marketing all over the world.

English	Chinese
Goodbye	ni hao zai jian ni hao ma?
Thank you	xie xie bu ke qi

TRADE AGREEMENTS AND ALLIANCES

Governments make agreements with each other to establish guidelines for international trade and to set up trade alliances. Some milestones in the progress toward worldwide free trade are formation of the World Trade Organization, the North American Free Trade Agreement, and the European Union. To view specific United States trade agreements visit the *United States Trade Representative* Web site.

THE WORLD TRADE ORGANIZATION

The **World Trade Organization (WTO)** is a global coalition of nations that make the rules governing international trade. The WTO was formed in 1995 as the successor to the General Agreement on Tariffs and Trade (GATT). GATT was an international trade agreement designed to open markets and promote global free trade. It reduced tariffs and created a common set of trading rules. GATT had no enforcement power, so it created the WTO to police the agreement and resolve disputes among nations. For example, in 2009, the WTO ruled in favor of the United States, which had alleged that European countries subsidize Airbus.

The WTO also manages world trade by studying important trade issues and evaluating the health of the world economy. It deals with activities that GATT was unable to address, including intellectual property rights, investments, and services.

THE WTO, FOR OR AGAINST?

Supporters of the WTO and free trade stress that globalization and the expansion of trade have created enormous wealth in both rich and previously poor countries.

Free trade supporters believe global prosperity can be maintained and expanded only through a borderless economy. This requires a set of rules that is universally accepted. Advocates argue that such a system is the only way to ensure fairness and avoid damaging trade wars.

Critics of the WTO raise concerns about democracy, labor rights, and the environment. They charge that the WTO makes decisions affecting all of society on a commercial basis. They do not like giving a nonelected body the power to overrule the government on issues of environmental protection and labor rights. Some of the more radical critics want the organization disbanded. Others want to transform it into a body that addresses social and environmental concerns as well as economic ones.

mage Source

NORTH AMERICAN FREE TRADE AGREEMENT

The **North American Free Trade Agreement** (NAFTA) is an international trade agreement among the United States, Canada, and Mexico. It went into effect on January 1, 1994. The principal benefit of NAFTA is increased trade with Mexico.

The main goal of NAFTA was to abolish all trade barriers and investment restrictions among the three countries by 2009. Tariffs were eliminated immediately on thousands of goods traded between Mexico and the United States, including food, clothing, and automobiles.

EUROPEAN UNION

The **European Union (EU)** is Europe's trading bloc. In 1992, the Maastricht Treaty created the EU and established free trade among its member nations. The treaty also created a single European currency (the euro) and a central bank. The euro replaced such national currencies as the French franc and the German mark.

Other provisions of the Maastricht Treaty relate to fair competitive practices, environmental and safety standards, and security matters. To be considered part of the European Union, all countries had to conform to the EU's political, economic, and legal standards.

After You Read Section 4.1

Review Key Concepts

- 1. Explain how countries benefit from international trade.
- 2. Distinguish between tariffs, quotas, and embargoes.
- 3. Describe the common goal or purpose of WTO, NAFTA, and the EU trade agreements.

Practice Academics

Social Studies

4. What are the pros and cons of United States protectionism during difficult economic times? Identify them and then take a position, pro or con, on the issue. Write a brief statement of your position and share it with your classmates.

Mathematics

5. If a Japanese company reported a 5.3 percent increase in trade surplus from last year's 160 billion yen, what would be this year's net profit in yen?

Math Concept Numbers and Operations: Percent Increase A percent increase can be calculated in one step by multiplying the original amount by a percent greater than 100.

Starting Hints To solve the problem think of this year's trade surplus as 105.3 percent of last year's. Convert the percent to a decimal number. Multiply that decimal number by 160 billion yen, last year's trade surplus, to find the dollar amount of this year's trade surplus.



Check your answers.

For help, go to the Math Skills Handbook located at the back of this book.

READING GUIDE



Before You Read

Prior Knowledge How does a PEST analysis help a company assess its place in the market?

Objectives

- List forms of international trade.
- Identify political, economic, socio-cultural, and technological factors that affect international business.
- **Understand** global marketing strategies.

The Main Idea

Besides language barriers, there are many other factors that must be considered for doing international business.

Vocabulary

Content Vocabulary

- licensing
- contract manufacturing
- joint venture

sure you know their meanings.

Academic Vocabulary

You will find these words in your reading and on your tests. Make

- proprietary • foreign direct investment (FDI) ٠
- multinationals mini-nationals
- globalization •
- adaptation
- customization

Graphic Organizer

Draw or print this chart to list factors that affect international businesses.

International Business Global Environmental Scan	Market Strategies
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Print this graphic organizer.	



corporate

The Global Marketplace

DOING BUSINESS INTERNATIONALLY

The global marketplace has been growing with the increased acceptance of capitalism around the world, advances in technology such as Internet connections, and the reduction of trade barriers. Global news coverage is instantaneous, connecting people throughout the world. These factors have encouraged businesses to venture into foreign countries. In this section, you will see what it takes for a business to become a global player.

Trade agreements by governments set the guidelines for businesses to operate in the global marketplace. Getting involved in international trade can mean importing, exporting, licensing, contract manufacturing, joint ventures, or foreign direct investment. Each of these options offers a different level of risk and control. **Figure 4.1** (page 94) shows how the profit potential increases as the level of financial commitment, risk, and marketing control increase for each market entry option.

As You Read

Connect What risks are involved in trying to learn a new skill?

IMPORTING

Importing involves purchasing goods from a foreign country. A domestic company that wants to expand its product selections can begin importing goods. Products imported for the U.S. market must meet the same standards as domestic products, including those imposed by the Food and Drug Administration. If these standards are met, most products can be imported without prior government approval.

A quota can limit entry of certain goods into the country. Quotas exist on agriculture, food products, and other merchandise. Once a quota is reached for a certain item, no more of that item may enter the country. Any shipment in excess of the quota is quarantined by U.S. Customs. Because understanding importing policies can be difficult, U.S. businesses usually hire customs brokers—specialists licensed by the U.S. Treasury Department. Customs brokers know the laws, procedures, and tariffs governing imports. They handle over 90 percent of all imports because of the complex procedures involved.

What does it take to become a global player? 77

EXPORTING

A domestic company that wishes to enter into the global marketplace with minimal risk and control might consider exporting. Domestic companies that want to export their goods and services can get help from the United States government through its Internet export portal and at its BuyUSA Web site.

LICENSING

Licensing involves letting another company, or licensee, use a trademark, patent, special formula, company name, or some other intellectual property for a fee or royalty. This type of market entry has its pros and cons. With licensing, a foreign company makes the product using the information or guidelines provided by the licensor. If the product is a success in the foreign country, the licensor has gained entry with minimal risk. If the product fails, the licensor will have a harder time trying to enter the market in the future. A special type of licensing is franchising. In a franchise agreement, a franchisor grants the franchisee the rights to operate under the company name. The agreement involves following specific guidelines for operation to foster a unified image of the franchisor. Many fast-food chains, like McDonald's[®], Wendy's[®], and Burger King[®], have franchised operations in foreign countries. Even though these companies are operating in different countries, there are elements of their stores, menus, and service that are the same.

CONTRACT MANUFACTURING

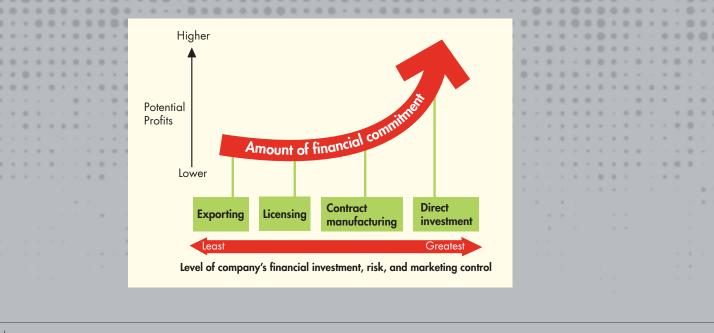
Contract manufacturing has become popular as emerging countries offer facilities, know-how, and inexpensive labor. **Contract manufacturing** involves hiring a foreign manufacturer to make products according to a company's specifications. The finished goods are either sold in that country or exported. Many U.S. companies that sell clothing, toys, golf clubs, and computers use contract manufacturers in emerging countries to manufacture their products. The major benefit is lower wages, which allow companies to be more competitive in their pricing. One of the pitfalls of contract manufacturing is that **proprietary** information must be given to these companies. Golf clubs are an example. In China, molds of new golf club heads have been stolen by workers and sold to counterfeiters. The counterfeit clubs are then sold as copies or knockoffs in the United States and abroad for much less than the brand-name clubs.

JOINT VENTURES

A **joint venture** is a business enterprise that a domestic company and a foreign company undertake together. In some countries, foreign investors are not permitted to own 100 percent of a business. If a company wants to conduct business in those countries, it must find a local business partner, thus creating a joint venture. This is often a good idea even when it is not mandated by law. Domestic business partners know the market and procedures for conducting business in their own country.

FIGURE 4.1 Doing Business Internationally

Level of Risk and Control International trade includes importing, exporting, licensing, contract manufacturing, joint ventures, and foreign direct investment. Each of these options involves a different level of risk and control. *What advice would you give to a small or medium-sized company interested in international trade*?



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As an example of a joint venture, consider Viacom, Inc.[®] It owns CBS, Nickelodeon, and MTV, and it has a minority share in a joint venture with Shanghai Media Group. That means Viacom has operations in both the United States and China.

FOREIGN DIRECT INVESTMENT

All the joint ventures described above are considered foreign direct investments. A **foreign direct investment (FDI)** is the establishment of a business in a foreign country. It can take many forms and is used for many purposes.

Sometimes that may involve no more than setting up an office with a staff to maintain a presence in that country. Higher levels of direct investment involve acquisitions of existing foreign companies and construction of facilities such as manufacturing plants and retail stores. Honda[®], a Japanese company, has invested in several countries. It has foreign direct investment of approximately \$9 billion in North America. In the United States, Honda has eight manufacturing plants and several other related businesses in various states.

MULTINATIONALS AND MINI-NATIONALS

Multinationals are large corporations that have operations in several countries. About one-third of the world's privatesector assets are controlled by more than 37,000 transnational corporations. These corporations have more than 170,000 foreign affiliates. The affiliates are companies that do business in international markets.

Apple[®] Inc., Procter and Gamble[®], Unilever[®], Nike[®], PepsiCo[®], and Coca Cola[®] are multinational firms. Nike has manufacturing operations in more than 50 countries. The products from these operations are sold in more than 160 countries. **Mini-nationals** are midsize or smaller companies that have operations in foreign countries.

Multinationals and mini-nationals are different from domestic businesses because of how they generate revenue. Multinationals make their money from foreign investments in factories, offices, and other facilities abroad. All these investments are referred to as FDIs. The difference between multinationals and mini-nationals is their size.

Reading Check

Contrast How is franchising different from foreign direct investment?

DIGITAL NATION



The iPhone Conquers the Globe

Apple[®] Computers launched the iPhone to long lines and big headlines in the U.S. on June 29, 2007. Within a year the product was available in 27 countries, including Australia, Japan, and Mexico, and had sold over 14 million units.

International Challenges

When it introduced the iPhone on the international market, Apple set up exclusive distribution deals with a single cell carrier in each country. Then legislation in several nations forced a halt to such exclusive deals.

The company quickly switched its strategy. Apple began to distribute the iPhone through a variety of cell carriers, which boosted sales. By 2010 the iPhone dominated the smart phone market everywhere except Asia and Africa. International sales are growing faster than U.S. sales.

Social Studies

Collaborate Discuss with your class how Apple was able to effectively analyze and evaluate the way its technology was used in the international market.

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Get a Digital Nation activity.

GLOBAL ENVIRONMENTAL SCAN

Recall the factors involved in a PEST analysis (See Chapter 2). These factors can be used to evaluate a country's marketing opportunities and threats in the international market. A global environmental scan includes analysis of political and economic factors, socio-cultural differences, and technological levels.

POLITICAL FACTORS

Political factors include a government's stability, its trade regulations and agreements, and any other laws that impact a company's operation.

GOVERNMENT STABILITY

A government's stability is an important factor when considering international business operations. If there are changes in the government, investors become wary. For example, when Luiz Inacio Lula da Silva, a left-wing politician, won Brazil's presidential election in 2002, stock prices plunged. Stocks regained strength when businesses saw that President Da Silva supported continued economic reform.

TRADE REGULATIONS AND LAWS

A business must keep abreast of new trade regulations, which can force companies to reconsider doing business in a country. Changes in trade regulations include review of trade agreements, tariffs, and laws to protect intellectual property rights and foreign direct investment. For example, on January 1, 2004 the United States-Chile Free Trade Agreement went into force. Under this agreement, Chile must adopt stronger standards for the protection of intellectual property rights. This means that Chile must adopt rules similar to those in the United States for copyrights, trademarks, patents, and trade secrets.

Domestic laws must be followed by foreign marketers. For example, Sweden does not permit advertising to children, and war toys cannot be advertised in Greece. These regulations are important for toy retailers, such as Toys "R" Us[®].

Microlending

The concept of microlending is a growing field of interest in international business. Premal Shah founded Kiva, a company that facilitates investors' lending small amounts of money to people in emerging countries to help them get their businesses up and running. *How might the practice of microlending be incorporated into a global PEST scan*?

Ask Premal Shah Why He Loves His BlackBerry

'Our website, Kiva ora; lets people make low interest micro-bans to the working poor in developing countries. A little seed capital can buy a sewing machine, a rickharw-the means to self-sufficiency. My BlackBerry® is the tool I use to constantly check how we're progressing. Kwa is growing so fast, it's nonstop interaction with people all over the world. At any moment, I need to know Mart's going on, and be able to respond quickly and creatively. My BlackBerry is a liberating phenomeno."

Find out why people love BlackBerry, or tell us why you love yours, at www.blackberry.com/ask.



Premal Shah

BlackBerry

ECONOMIC FACTORS

Key economic factors relevant to starting a business in another country include infrastructure, the quality and cost of labor, employee benefits, taxes, the standard of living, and foreign exchange rates. In addition, economic stability of that nation should be considered.

INFRASTRUCTURE

Things like undependable telephone service or inadequate roads would rule out a location for some businesses. Yet these same infrastructure factors would be an opportunity for companies involved in building roads, energy plants, and telecommunications systems. For example, Poland and the Czech Republic had to carry out environmental cleanup to meet the entry requirements for membership in the European Union. U.S. companies that have expertise in that area could partner with companies in Poland and the Czech Republic to help them with these projects.

LABOR FORCE

The quality and cost of a labor force is another important element in the decision to enter the market in another country. The educational and skill levels of the workers, as well as the customary wages and employment laws are important pieces of information. For example, India has been supporting technology education and now has a pool of highly qualified workers whose wages are lower than those for similar workers in the United States. U.S. companies like AOL[®], Yahoo![®], and Google[®] have recognized this opportunity. They now look to India for computer programming and other computer-related expertise.

EMPLOYEE BENEFITS

In most countries, employers must pay for mandated employee benefits in addition to employees' wages. Many companies do not invest in France because of its labor policies. France restricts the work week to 35 hours and requires companies to consult with employees before downsizing or restructuring. Payroll taxes and employee benefits are high. The cost of hiring a new employee is higher in France than in many countries.

TAXES

Other costs include taxes on property and profits. Countries that want to attract foreign investment may offer reduced taxes for a period of time as an incentive.

Switzerland has been known for its low **corporate** taxes since 1997. In 2008 additional tax incentives were introduced. As a result of these tax breaks, Switzerland has experienced a significant growth in foreign direct investment. Some large companies, like Procter & Gamble[®], McDonalds[®], Kraft Foods[®], Nissan[®], Starbucks[®], and Google[®], have their European headquarters in Switzerland.

STANDARD OF LIVING

Standard of living can be a consideration if a business is considering a country as a market.

When Honda entered China's consumer market, it recognized that most Chinese people could not afford cars. The company targeted the motorcycle market instead and was very successful.

The number of middle-income workers is increasing in poorer nations. This increases the demand for all types of ordinary consumer goods. U.S. products like soaps, detergents, breakfast cereals, snack foods, cell phones, and soft drinks are gaining popularity among consumers in emerging nations.

FOREIGN EXCHANGE RATE

The foreign exchange rate is the price of one country's money currency if purchased with another country's currency. Exchange rates vary every business day. The exchange rate for a nation's currency based on the U.S. dollar is an important factor to consider.

Changes in a nation's currency exchange affect businesses that sell abroad. If the dollar strengthens in value against other currencies, that means it costs more yen, euros, or pesos to buy one dollar. It also means it costs more yen, euros, or pesos to buy one dollar's worth of U.S.-made products. If the U.S. dollar is devalued, U.S. products are more attractive in the global marketplace.

ECONOMIC INDICATORS

Economic indicators used to evaluate a country's economic stability are the same for all nations. You can study inflation, unemployment, and business failure rates to determine how stable a nation's economy is. Interest rate data and retail sales figures also offer information on economic stability.

SOCIO-CULTURAL FACTORS

Before conducting business in a foreign country, a cross-cultural analysis should be performed. It should include socio-cultural factors such as language, symbols, holidays, religious observances, and social and business etiquette.

Differences in language and customs make international trade more challenging than doing business domestically. Cultural symbols are often different. In the United States, the number 13 is considered unlucky. In China and Japan, the number four is unpopular because it relates to death. Marketers should consider such symbols.

Holidays and religious observances are part of a country's culture too. In India, the cow is sacred, so no beef is sold there. Marketers must heed these cultural differences when creating, naming, packaging, and advertising products.

Social and business etiquette is critical when doing business abroad. A common practice in one nation may take on a different meaning elsewhere.

Insuring Business in another Country

This ad suggests that businesses need to consider buying insurance to cover risks in a foreign country. *What kinds of risks might a company encounter in a foreign country?* Gift giving is another area of concern. A gift may be considered part of business etiquette in some countries. However, it might be considered an illegal bribe in the United States.

TECHNOLOGICAL FACTORS

Technology is changing the ways that businesses can get involved in international trade. Studying a country's technology means taking into consideration even the most basic factors such as measurement systems and electric voltage standards.

It is important to take a thorough look at the use of computers, faxes, voicemail, wireless phones, and the Internet. A visit to the CIA's *World Fact Book* Web site provides information about the number of telephones (land lines and mobile), radio and television broadcast stations, and Internet users in a given country. These facts must be considered if a company is trying to do business in another country.

Reading Check

Interpret How can infrastructure be an opportunity as well as a threat to foreign investment?



One global insurance program for your expanding business. Even for places you've never been.

Access Support is the characterized with the part has particular sources. Subsection of the particular sources are particular to the sources of the particular sources are particular to the sources provide the sources of the particular sources are particular to the sources of the particular sources are particular sources are the sources are particular to the sources of the particular sources are particular to the sources of the particular sources are particular to the sources of the particular sources are the sources are the sources are the sources are the source are the



GLOBAL MARKETING STRATEGIES

In planning and making decisions about the four Ps (see Chapter 1) of the marketing mix, global marketers need to consider all the factors that were analyzed as part of the PEST analysis. There are three marketing strategies marketers can use when selling abroad. **Globalization** means complete standardization. New product development and complete customization are also options. **Figure 4.2** (p. 100) shows examples of the global marketing strategies for product and promotion decisions.



GLOBALIZATION

Globalization is selling the same product and using the same promotion methods in all countries. Globalization is mass marketing on a global scale. Very few products can use this marketing strategy.

HOW GLOBALIZATION WORKS

Companies can use the same product and same promotion if they have found a common need across cultures. Benefits of globalization are global brand recognition and reduced marketing costs. A company only has to design one logo and one ad campaign. A challenge is that it is difficult to translate words and phrases so they have the same intended meaning in different countries.

GLOBALIZATION EXAMPLES

Coca-Cola[®] and other soft drink companies can use a globalization marketing strategy by offering the same version of their products. They can use the same advertising message in countries around the world. Another example of a company that answers common needs across the globe is Microsoft[®]. Users need computer programs to function in different languages, but the basic applications remain the same. This is also true of Internet search engines. The success of e-commerce has increased the power of globalization in some instances, particularly where technology is involved.

ADAPTATION

Companies study the characteristics of a country and find ways to target consumers with similar needs and wants. That often requires adapting their products or promotions. Sometimes only the product is changed, while in other cases, only the promotion is changed. Adaptation is a company's use of an existing product or promotion from which changes are made. These changes better suit the characteristics of a country or region. This type of market segmentation has the advantage of addressing very specific cultural tastes and interests, which makes market acceptance more reliable. When compared to globalization there is a slight increase in marketing costs. There is also an increase in research and development, which may be considered a disadvantage.

PRODUCT ADAPTATION

Changing a product to meet different consumer needs or to reflect the cultural differences in a foreign market is product adaptation. In some cases, a product's brand name is changed. For example, Unilever's[®] Sunsilk hair products are called Seda (which means silk) in Latin America. In addition, Sunsilk's ingredients are formulated to match consumers' needs (in this case, typical hair types and styles) in different countries.

PROMOTION ADAPTATION

A promotion adaptation strategy involves changing the advertising message to reflect the values, familiar images, and cultural differences in a foreign market. The change may be as simple as using a popular model or star from a respective country in the different ads. In some cases, the advertising is changed in order to adhere to specific government regulations. For example, McDonald's must use adults in its advertising in Sweden, where advertising to children is prohibited.

FIGURE 4.2 Global Marketing Strategies

Marketing Abroad When marketing products in foreign countries, companies must make product and promotion decisions. Some create completely new products for specific countries (customization), while others use the same products and promotions for every country (globalization). Between these two extremes are companies that keep their products' brand names but vary their products and/or promotions enough to meet local tastes. Here are some examples of each strategy. *How do companies reach customers around the world*?

GLOBALIZATION Häagen-Dazs[®] ice cream uses the same logo, product packaging, and promotional messages around the world. The name Häagen Dazs is not derived from any language. It is simply two words that were made up by company founder Reuben Mattus. Mattus created a unique and original name that evokes the spelling systems used in several European countries. This is an example of foreign branding, a term describing the implied superiority of products and services with foreign or foreign-sounding names.



PRODUCT ADAPTATION The William Underwood[®] Company began exporting its spreadable deviled ham to Venezuela in 1896. Since 1961, the product has been produced in Venezuela. With product adaptation, the company keeps the same product but changes the name of the product to Diablitos Jamon Endiablado and the language on the packaging to Spanish.



v road



PROMOTION ADAPTATION Promotion adaptation involves changing some part of the promotional message or visuals used in the promotional campaigns for different markets. Advertisements for McDonald's use the same promotional message (in different languages) and format but different visuals and promotional messages to appeal to customers from different countries.

CUSTOMIZATION

Customization involves creating specially designed products or promotions for certain countries or regions. Each geographical area where a product is sold or a service is offered becomes a unique market segment. For example, Coca-Cola[®] has partnered with the China Academy of Chinese Medical Sciences to create drinks solely for the Chinese market. Its first drink was called Yuan Ye ("Original Leaf"), which is a ready-to-drink tea. The goal of the partnership is to incorporate herbs often used in Chinese medicine into drinks for the Chinese market. The company decided that it was worthwhile to change its products for this market. Customization is the optimized form of market segmentation. That means companies spend a lot of time researching demographic, geographic, psychographic, and behavioral characteristics.

As a result, customization has the advantage of reaching a very specific market target with new products and promotions. The excitement and interest generated by the new product is an advantage to a company. The disadvantage is the increased cost involved. Educating the new market about the benefit of a new product is more costly than introducing a brand extension of an existing product. New promotions are equally costly and risky. Once the product catches on, the company can determine whether it was a good investment.

After You Read Section 4.2

Review Key Concepts

- **1. Describe** an example of a political factor that could discourage a business from engaging in international trade with a given country.
- **2. Identify** the socio-cultural factors that make doing business abroad difficult. Cite an example.
- 3. Name and give an example of three different global marketing strategies.

Practice Academics

Social Studies

4. Translate a magazine ad or advertising slogan into a foreign language you are studying. What problems did you encounter with the translation? Suggest any changes and present your new ad or slogan in class.

Mathematics

5. Assume the currency exchange rate between the United States and Canada is \$1.10, which means \$1 in U.S. currency is equal to \$1.10 in Canadian currency. If a sweater costs \$50 at a Gap store in Montreal, how much should it cost at a Gap in Detroit?

Math Concept Numbers and Operations: Exchange Rates Exchange rates are decimal numbers that represent the value of one currency in relation to another.

Starting Hint To solve this problem, divide the amount the sweater costs in Canadian currency by the exchange rate.



Check your answers.

For help, go to the Math Skills Handbook located at the back of this book.

Global Analysis

A global environmental scan analyzes political, economic, socio-cultural, and technological factors.



Review and Activities

Written Summary

- International trade is necessary because of the interdependence of nations.
- Customers, workers, and countries benefit from international trade because of competition, increased employment, and higher standards of living.
- Currently, the United States has a trade deficit, which means it imports more than it exports.
- Trade agreements and alliances, such as the WTO, NAFTA, and the EU aim to establish guidelines for international trade.
- Three types of trade barriers are tariffs, quotas, and embargoes.
- Businesses can get involved in international trade through importing, exporting, licensing, contract manufacturing, joint ventures, and foreign direct investments.
- A global environmental scan analyzes political, economic, socio-cultural, and technological factors.
- Global marketing strategy options include globalization, adaptations of product and promotion, and customization.

Review Content Vocabulary and Academic Vocabulary

1. Arrange the vocabulary terms below into groups of related words. Explain why you put the words together.

Content Vocabulary

- international trade (p. 85)
- imports (p. 85)
- exports (p. 85)
- balance of trade (p. 87)
- free trade (p. 88)
- tariff (p. 88)
- quota (p. 89)
- embargo (p. 89)
- protectionism (p. 89)
- World Trade Organization (WTO) (p. 90)
- North American Free Trade Agreement (NAFTA) (p. 91)

- European Union (EU) (p. 91)
- licensing (p. 93)
- contract manufacturing (p. 94)
- joint venture (p. 94)
- foreign direct investment (FDI) (p. 95)
- multinationals (p. 95)
- mini-nationals (p. 95)
- globalization (p. 99)
- adaptation (p. 99)
- customization (p. 101)

Assess for Understanding

- 2. Define What is economic interdependence?
- 3. Describe How are governments involved in international trade?
- 4. Explain Why is the U.S. balance of trade skewed toward a trade deficit?
- 5. Imagine What are possible reasons for using each of the three trade restrictions?
- 6. Discuss What are the relative merits of three trade agreements and alliances?
- **7. Compare and Contrast** How is a global environmental scan different from a SWOT analysis?
- **8. Debate** What are the advantages and disadvantages of using globalization (mass marketing) versus customization (market segmentation) for a new food product and for newly designed golf balls? What is different in the way the products would be marketed?
- **9. Discuss** Should organizations that promote free trade have environmental or social checks and balances? Why or why not?

Academic Vocabulary

- potential (p. 85)
- infrastructure (p. 85)
- proprietary (p. 94)
- corporate (p. 97)



Teamwork Skills

10. International Trade Benefits Work in a group to prepare an oral presentation to explain international trade to a foreign language class in your school. Include an explanation and examples of why it is important, its benefits and disadvantages, and what government measures affect or regulate it. Also include what business ventures foster it and why learning a foreign language is beneficial for pursuing a career in the global marketplace. Present your findings in a written outline, using word processing software, and create an oral presentation, using presentation software. Cite your sources.

Technology Applications

11. Global Recession Research the global recession in 2008–2009 and how it affected business activities in one country. Consider how that country's balance of trade, foreign direct investment, and GDP were affected. Use word processing software, charts, and graphs to prepare a short report on your findings.

e-Marketing Skills

- **12. Global Scan** Visit the Web site for the CIA's World Fact Book to conduct a global environmental scan for a country of your choice. Decide if it is a country where you could sell American-made products or if it is a country where you might want to have goods manufactured. Consider the following questions as you complete your research:
 - Are any of your competitors in the market in this country?
 - What are the risks of exporting as compared to foreign direct investment (FDI)?
 - What will you need to do to distinguish your product from others in the country?
 - What resources (human, capital, and natural) will you need?

Build Academic Skills

Social Studies

13. Embargo on Cuba The United States placed a trade embargo on Cuba in 1962. Research how that embargo has changed between 2000 and 2009. What U.S. companies benefited from those changes? If the embargo was lifted completely, what U.S. companies would find business opportunities in Cuba?

English Language Arts

14. Diversity and the Global Marketplace Prepare a brief presentation that addresses the impact and value of diversity in the marketplace, as well as how diversity affects marketing in a global marketplace. Include specific examples in your oral presentation.

Mathematics

15. If the exchange rate is 13 Mexican pesos for one U.S. dollar, how many pesos would you get for \$5,000? Research prices for items such as food and lodging in Mexico. How many days could you afford to stay in Cancun? Use a spreadsheet program to present a report on the daily costs of your trip.

Math Concept Choosing an operation To solve this problem, multiply the U.S. dollar amount by the number of pesos it is worth.

For help, go to the Math Skills Handbook located at the back of this book.



Standardized Test Practice

Directions Read the following questions. On a separate piece of paper, write the best possible answer for each one.

- 1. Assume the exchange rate between the United States dollar and Euro is .77, which means that \$1 is equal to .77 Euros. How much would \$50 be worth in Euros?
 - **A.** \$27.00 **C.** \$38.50
 - **B.** \$77.00 **D.** \$88.50
- **2. True or False** Adaptation and customization are examples of mass marketing on a global scale.
 - Т
 - F
- **3.** ______ is when a government establishes economic policies that restrict imports in order to protect domestic industries.

Test-Taking Tip

When working on a test, keep things moving along. Work on a problem until you get stuck. Think about it for a minute or two, and if nothing comes to mind, then drop it and go on to another problem.



DECA Connection Role Play

Intern Advertising Agency

Situation Assume the role of an intern in a global advertising agency. A new client is an educational toy company that is considering marketing its goods abroad. This client has had great success with its products in the domestic market. However, this company is unsure whether its toys will be successful across the globe.

Since this company has not marketed its products internationally, its employees do not know about the concepts of licensing, contract manufacturing, franchising, joint venture, and foreign direct investment. You may not need to explain the differences between each of these concepts. However, you will need to make a recommendation to the company about how it should do business internationally.

Activity You are to prepare an outline of a presentation to your mentor (judge). Include the pros and cons of international trade and the challenges that companies face when marketing toys in a foreign country.

Evaluation You will be evaluated on how well you meet the following performance indicators:

- Explain the nature of global trade.
- Discuss the impact of cultural and social environments on global trade.
- Assess global trends and opportunities.
- Discuss the global environment in which businesses operate.
- Identify considerations in implementing international marketing strategies.

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Download the Competitive Events Activity for more Role-Play practice.

A Marketing Plan for a Recession-Proof Toy

What was your favorite childhood toy? Do you think it was recession-proof?



Scenario

You work for a toy manufacturer that sells toys in different countries. There is a global recession, which does not appear to be ending soon. Mattel[®] Inc. and Hasbro[®] Inc., large global toy manufacturers, have lowered their sales projections. Walmart[®] created its own doll line to sell for \$5 and cut the prices of other toys. Toy departments at K-Mart[®] and Sears'[®] look for toys that will sell. Spin Master[®] makes popular Bakugan[™] products, and another small toy manufacturer came out with a tiny robotic hamster that retails for \$10.

The owner of your company has put together a committee of employees from the design, production, and marketing departments. Each member of the team is expected to come up with an idea for a new recession-proof toy and marketing plan for it.

The Skills You'll Use

Academic Skills Reading, writing, social studies, researching, and analyzing

Basic Skills Speaking, listening, thinking, and interpersonal

Technology Skills Word processing, presentation, spreadsheet, telecommunication, the Internet

Your Objective

Design a toy and create a marketing plan for it so that it can be successful in any economic environment.

STEP 1 Do Your Research

Conduct research to find out about toy companies that have created popular toys that have captured the imagination of the public. Also, conduct research about how economic factors have affected the toy industry. As you conduct your research, answer these questions:

- What political, economic, socio-cultural, and technological factors affected the toy industry during a recent recession?
- What marketing strategies were used by toy companies that did well during a recession?
- What toys appeal to children all over the world?
- What global issues have to be considered when designing a new toy?

Write a summary of your research.

STEP 2 Plan Your Project

Now that you have completed your research, you need to begin planning your project.

- Conduct a PEST analysis.
- Design a new toy by making a drawing or a model.
- Write a marketing plan for your new toy. Include the PEST analysis, objectives, and marketing strategies.
- Include suggestions for your plan's implementation, execution, and evaluation.
- Use your knowledge of economics, business cycles, and the global marketplace to make a plan for how to sell your ideas to the committee.

STEP 3 Connect with Your Community

- Share your design idea with trusted adults and children to gauge their interest in your toy.
- Ask children to identify the features they enjoy in the toys they have.
- Find similar information about consumers of toys in different countries.

STEP 4 Share What You Learn

Assume your class is the committee the owner established to come up with new toy ideas.

- Present your toy design and marketing ideas in an oral presentation. Be prepared to answer questions.
- Explain how toy companies can meet the needs of consumers during a recession.
- Provide rationale for your project with supporting research.
- Present your complete marketing plan in a written format using word processing software.
- Use software to create a slide presentation to accompany your oral report. Include one slide for each key topic in your marketing plan.

STEP 5 Evaluate Your Marketing and Academic Skills

Your project will be evaluated based on the following:

- Knowledge of global recessions and the toy industry
- Knowledge of economics, business cycles, and global marketing strategies
- Toy design and marketing plan
- Rationale for recommendation
- Organization and continuity of presentation
- Mechanics—presentation and neatness
- Speaking and listening skills

MARKETING CORE FUNCTIONS

Market Planning

Pricing

Product/Service Management

Promotion

Marketing Internship Project Checklist

Plan 🣍

- Conduct research on toys and recessions.
- Design a toy and marketing plan for it.
- ✓ Use the results of a PEST analysis to inform your marketing plan.

Write

- Describe what happens to the toy industryduring a recession.
- Explain how the results of the PEST analysis
- will help the committee decide whether to develop your toy.

Present

- Present the new toy design and the rationale behind your marketing plan.
- Respond to questions posed by the audience.
- Consider the needs and experiences of the audience as you present research to your class.

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Evaluate Download a rubric you can use to evaluate your final project.

my marketing portfolio

Internship Report When you have completed your Marketing Internship Project and oral presentation, put your written report and printouts of key slides from your oral presentation in your Marketing Portfolio.

Marketing Plan for a Recession Select a different market and a company of your choice in that market. For example, imagine that you work for a hotel chain that has locations around the world. A global recession is affecting your firm significantly. Conduct research and create a marketing plan for your hotel chain to weather this recession. How have hotels survived in other recessions? What marketing strategies do hotels use? How does your research support your proposed marketing plan? How will you use your knowledge of economics, business cycles, and global marketing strategies to create an effective plan? Prepare a written report and an oral presentation.