

Lecture 2

- Factors affecting international operations
- Reasons of going international
- Opportunities and risks to marketing internationally
- The firm's international orientations



Go international is challenging!

Every firm must be prepared to compete in an increasingly interdependent global economic and physical environment.

All businesspeople must be aware of the effects of these trends when managing either a domestic company that exports or a multinational conglomerate.

Globalization gives opportunities and treats to companies (lower costs in production, better products for different people, bigger markets to serve, but also more market research, more risks, more uncertainty)

Factors influencing internationalization strategies

- Good business opportunities for company's growth
- Physical and virtual interconnections
- Economic unions (e.g. free trade areas)
- Trade rules
- Communications tools – information technology – more information moves worldwide connections and actions; digital tools increase frequency and intensity of worldwide relationships, dissolving distance and national borders
- Transportations (integrated supply chains)
- Management of resources and environment properly for the generations to come (sustainability)

Reasons for pursuing international opportunities (I)

- **The domestic market is small or saturated**
(sometimes, foreign countries become the only way to survive)
- **Reduce dependence on one market**
(geographic diversification)
- **Company's customers go abroad and require international services**
(customer brand and product loyalty)
- **Opportunity to achieve economies of scale**
(large markets with high volumes)



Reasons for pursuing international opportunities (II)

➤ Favourable international conditions

(e.g. delocalization – labour costs, saving on transport, proximity to the demand/market)

➤ Customer relationships

(e.g. suppliers need to internationalize their manufacturing operations as their customers become more internationalized)

➤ Market diversification

(The broader the range of markets served, the less likely it is that failure in any one market will cause fatal corporate decline; if the organization has a well-spread portfolio, resources can be shifted for further development or for facing short-term difficulties)

Source of information about a foreign country

Having feedback from strategic organizations, it is important to approach to foreign market:

- **Suppliers** – information about the supply chain and producers
- **Consumers** – information about purchasing attitude, segmentation, etc.
- **Competitors** – information about competing, strategic choices and operations

They provide the background to make the right (hopefully!) decisions on international marketing strategies.

They contribute to reduce the uncertainty and degree of complexity related to non-domestic environments.

Issues on International Marketing

Implementing Marketing Strategy at international level requires a process similar to the one that a company might carry on in the domestic market; however, there are some important issues that make that process more difficult at international level:

- **Information demand** (habits, culture, buying behaviour, etc.)
- **Business risk** (not all information are available)
- **Complexity** (related to an unknown environment)
- **Level of uncertainty** (specific models are required to reduce uncertainty)

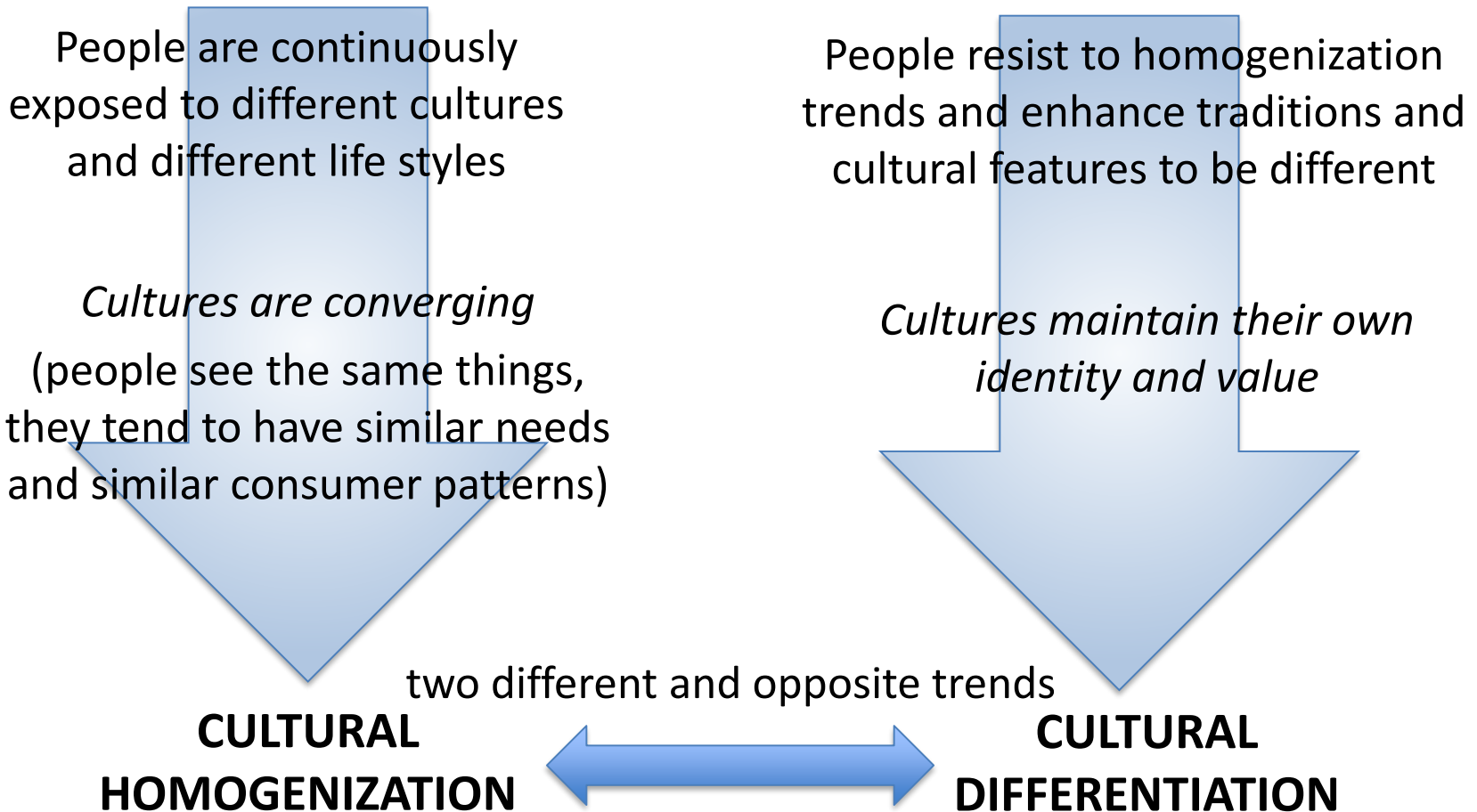
Complexity of International Marketing decisions

In approaching foreign markets, every firm should focus on some important questions that need to be solved, such as:



- Which *country* should be selected?
- What kind of *product* can satisfy foreign customer needs? (standard/differentiated)
- What currency the *price* is quoted? What *shipping costs*, *import duties* and other *taxes* need to be considered?
- Which import *documents* and *papers* are required to transfer the product (e.g. insurance)?
- Which *services* and *after-sales arrangements* are needed?
- Which *communication tool* is more appropriate to promote the product?
- Which type of *intermediaries* are suitable to sell the product successfully?

Are consumers' attitude becoming more similar?



Risks of marketing internationally

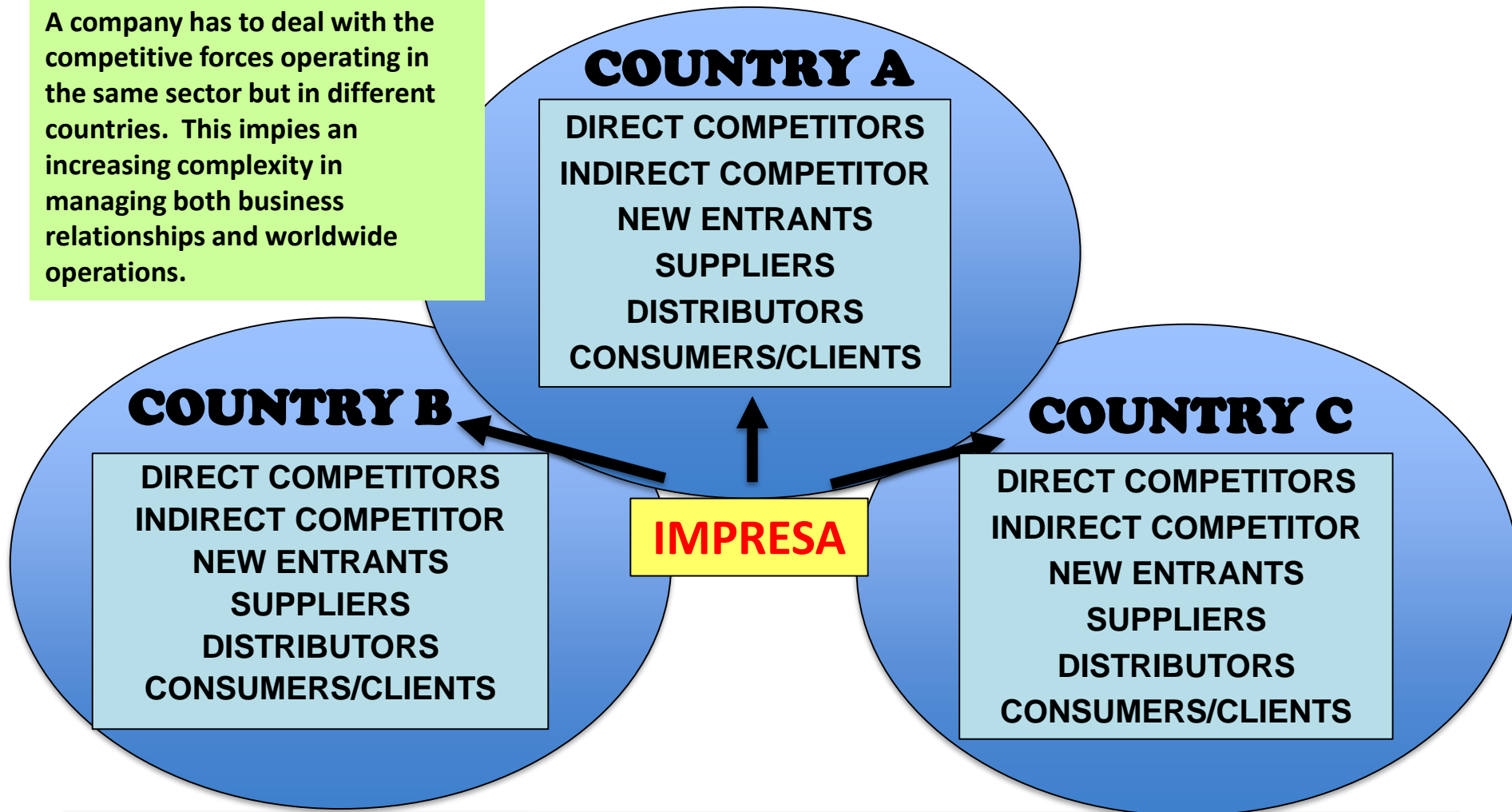
Operating at international – or even global – level may be a huge effort for a company, which has to face several problems and risks.

For example, the company might

- not understand foreign *customer preferences* and fail to offer a competitively attractive product
- not understand the foreign country's *business culture* and make unsuccessful negotiations
- underestimate foreign *regulations* and incur unexpected costs
- realize that it lacks *managers* properly trained for managing international relationships and operations

Competitive forces and international markets

A company has to deal with the competitive forces operating in the same sector but in different countries. This implies an increasing complexity in managing both business relationships and worldwide operations.



The importance of international top management

International management is the process of developing strategies, designing and operating systems, and working with people around the world to ensure sustained competitive advantage.

Therefore, companies that desire to remain globally competitive and expand their operations to other countries will have to develop *top managers* who

- have experience operating abroad (e.g. international assignments, recruitment towards host-country national/local country national)
- understand what it takes to do business in other countries (diversity management)
- understand what means to work with other people in and from other culture (level of acculturation, customs, values, cross-cultural training)

IM and firm orientation towards international markets

The complexity of IM arises not only from the different actions needed to deal with foreign markets, but also from the *attitude towards international markets*. IM can be an integral part of the corporate culture or it could be viewed as an add-on extra of less importance than domestic marketing: *it depends on the firm's orientation toward international markets*.

Today most business activities are global in scope. Technology, research, capital investment, and production, as well as marketing, distribution, and communication networks all have *global dimensions*.

Firm orientation towards international markets

DOMESTIC MARKET EXTENTION ORIENTATION

International markets are secondary compared to domestic operations. The approach towards foreign markets is the same used in the national one (*ethnocentric approach*).

MULTI-DOMESTIC MARKET ORIENTATION

Awareness that country markets are vastly different and this requires specific strategies for each country. Subsidiaries establishment, differentiated marketing mix, adaptation (*polycentric approach*).

GLOBAL MARKETING ORIENTATION

It is pursued by global companies which reach for economies of scale. The world is divided in global homogeneous segments where different strategies are implanted (*regional/global approach*).

Questions for discussion

- ❑ What impact do global linkages have on firms and consumers?
- ❑ Can you think of examples of international marketing contributing to world peace?
- ❑ Identify a company for each type of orientation to international markets
 - Ethnocentric
 - Polycentric
 - Geocentric