DP IB Business Management: HL

Your notes

4.6 International Marketing

Contents

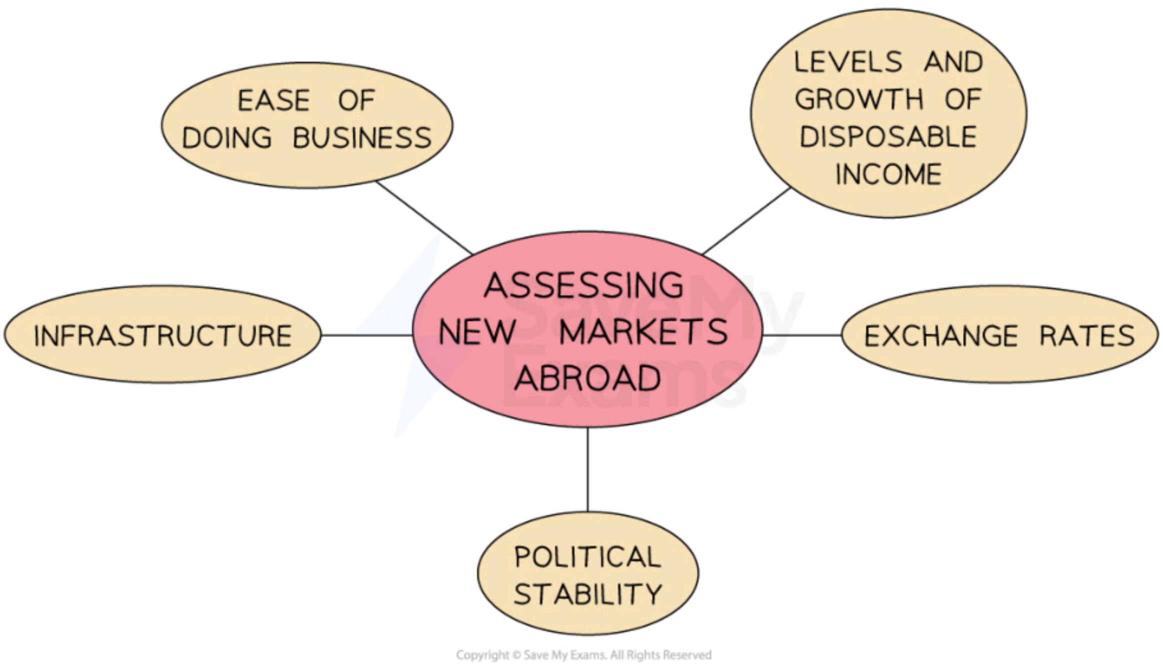
Entering & Operating Internationally

Your notes

Factors to Consider Before Entering New Countries

- When businesses are considering new markets, they have to consider the **attractiveness** of the market
- This will involve businesses carrying out extensive **market research**, and using models such as the **Boston Matrix** and **PESTLE**

Diagram: factors to consider when entering new international markets



Businesses should consider factors including infrastructure, ease of doing business, levels/growth of disposable income, exchange rates and political stability before entering an overseas market

Infrastructure

- Infrastructure considers factors such as **roads, transportation and communication** (mobile coverage/internet)
- Good infrastructure improves the production process and delivery of goods/services to the customer which **reduces costs and increase sales**

Ease of doing business

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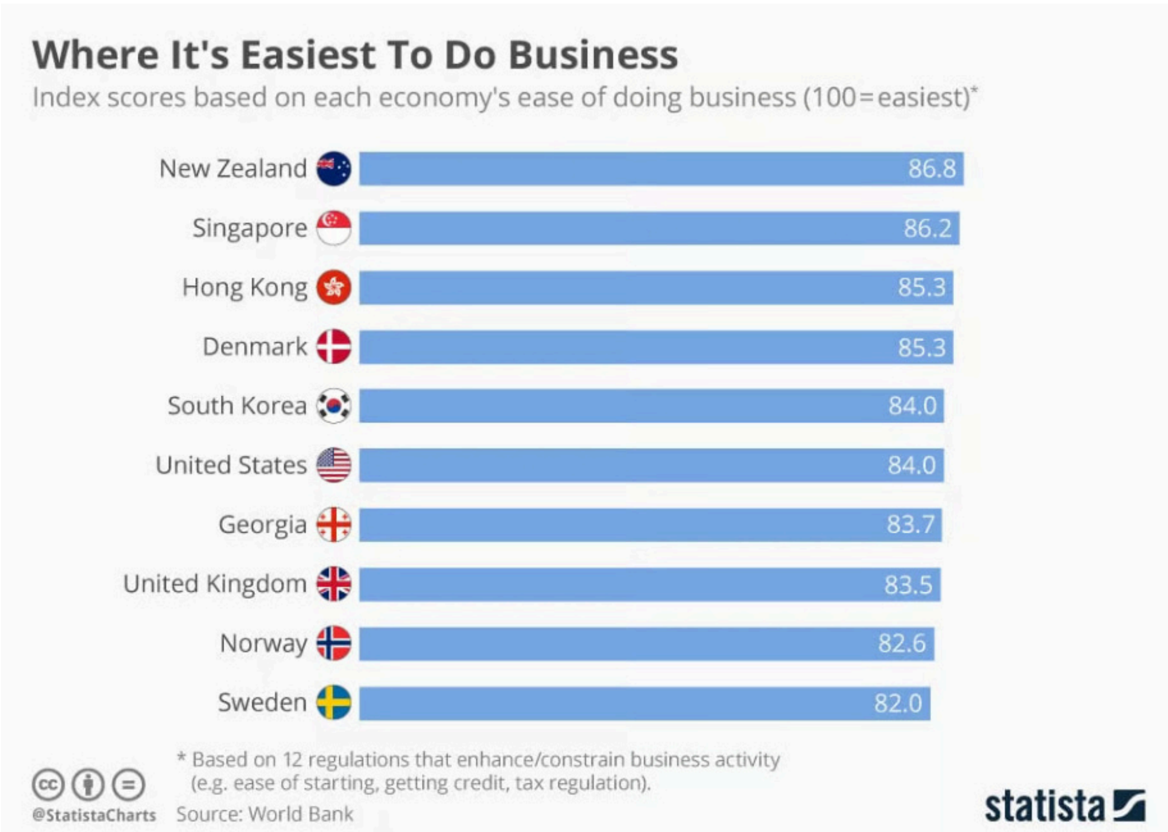
- Rules and regulations involved in establishing a business in a particular market may be relatively simple or extraordinarily hard
- Issues to consider include accessing credit, registering properties and enforcing contracts
- If businesses face significant challenges setting up a business, this may lead to delays in operations and the business generating sales



A scoring system that rates how easy it is to conduct business activities in different countries

(Source: World Economic Forum)

Levels of growth and disposable income

- Disposable income is the income individuals have left after paying direct taxes (e.g. income tax) and other deductions (e.g. pension contributions)
  - Selling products in a country with higher disposable income is likely to lead to **more sales**
  - Selling in a country with lower disposable income is likely to lead to **slower sales** growth

- Businesses should look at **trends in income levels** over time to see if there is potential growth in sales in the future

Exchange rates

- An **exchange rate** is the price of one currency in terms of another e.g. £1 = $1.10
- Exchange rates can be subject to **extreme fluctuations** due to external factors
  - Businesses should look at the **historical trends of the currency** of the country
- Businesses moving to countries with **stronger currencies** can import raw materials and components for production at a lower price
  - Exports from this country will be more expensive to customers abroad

Political stability

- Businesses may be at risk of not gaining a **return on their investment** in a country with political instability
  - A country with political instability will be subject to corruption, lack of law enforcement and higher levels of crime
  - It is more likely to have disruption to trading
- An economy with a **stable economy and government** is seen as a **less risky investment** for a business

Opportunities of Entering and Operating Internationally

- Entering new international markets has proved **attractive to many businesses**
  - The **internet** makes it easier than ever to enter international markets
  - **Financial systems** are much more joined up and make it much easier for money to flow between countries
  - This is a natural part of growth once a successful business has saturated their market share for a particular product

Diagram: the benefits of entering international markets

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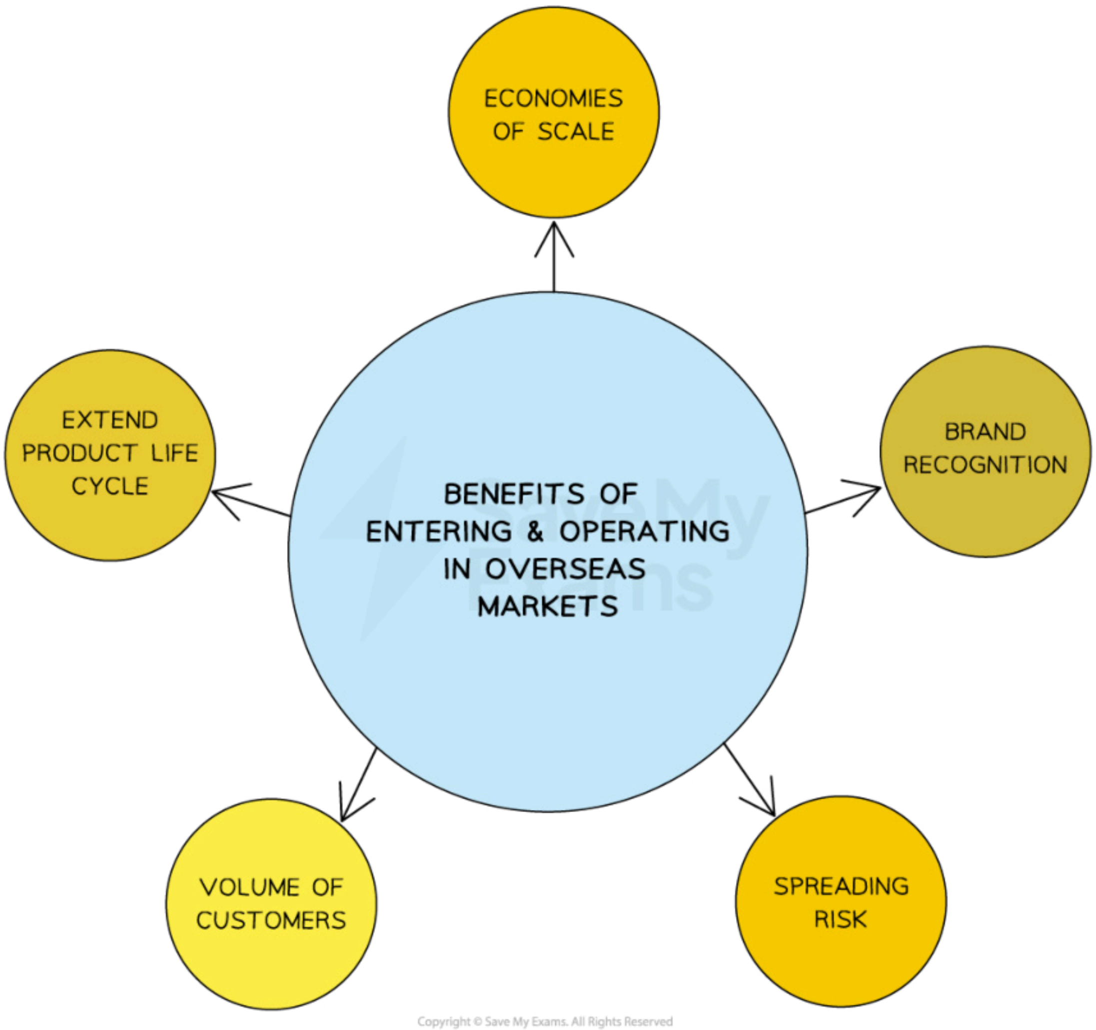

Entering and operating successfully in international markets can generate higher levels of profit

Economies of scale

- Operating on a larger scale can reduce unit costs
- Potential for higher profit margins
- Flexibility to reduce prices to gain market share

Brand recognition

- Higher visibility of branding (e.g. product/brand names, packaging)
- Particularly relevant to the ethnocentric approach

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- Improves brand loyalty/repeat sales

Spreading risk

- Less exposure to market change in one country
- May avoid localised economic downturns

Increased volume of customers

- Potential to earn high level of revenue from more sales
- Access distribution economies of scale

Extends the product life cycle

- Avoids saturation/decline in domestic market
- May reduce the need for spending on research and development

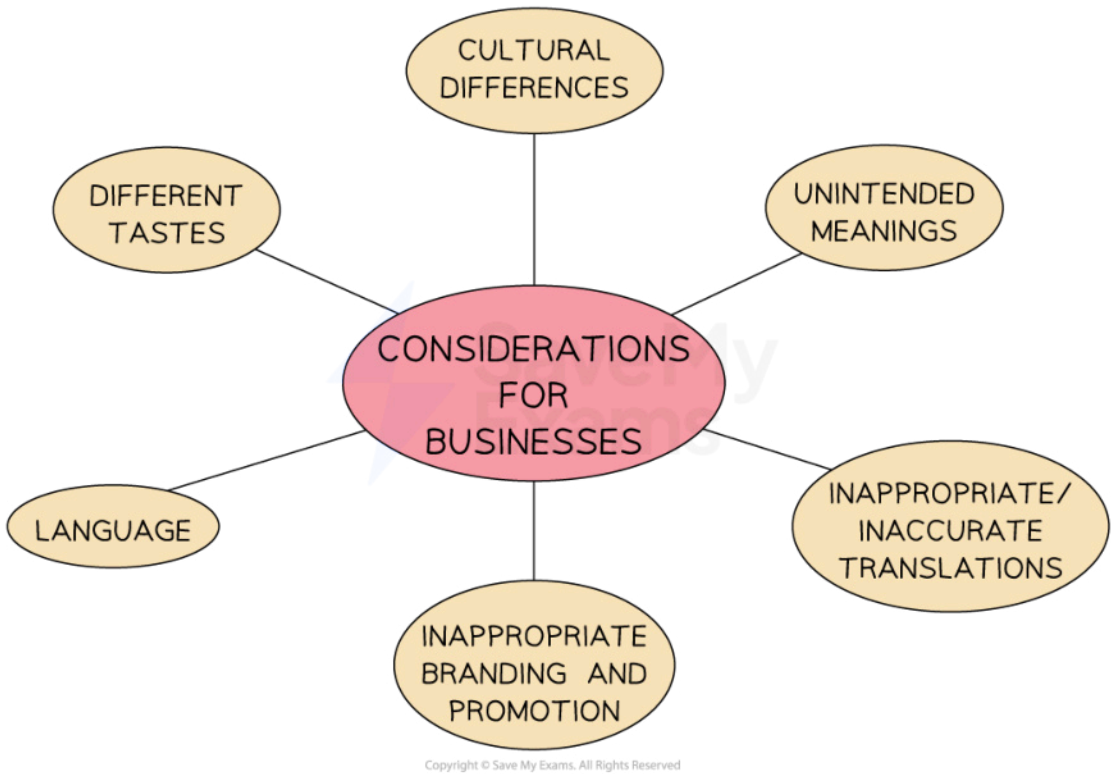
Examiner Tips and Tricks

Considering social, technological, economic , environmental, political, legal and ethical factors (STEEPLE analysis) before entering a new overseas market helps to reduce risk and improve the likelihood if business success. The Business Management Toolkit contains detailed guidance on the model

Threats of Entering and Operating Internationally

- Global businesses must consider various **cultural and social factors** to effectively market their products/services in different countries and regions

Diagram: cultural considerations of new markets



Understanding cultural and social factors can help businesses to build strong relationships with their global customers

- These are common errors that many businesses have made
  - These errors can damage the brand's reputation
  - These errors may be **costly to correct** resulting in lower **profit margins**
  - These errors **may not be recoverable** and may require a business to exit the market

An Explanation of the Cultural and Social Considerations

Factor	Explanation
Cultural differences	▪ Businesses need to understand cultural differences in areas such as values, beliefs, customs, and traditions, and **adapt their marketing strategies** accordingly
Different tastes	▪ Tastes and preferences vary greatly between cultures and regions and businesses should adapt their products/services to meet local preferences

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	▪ E.g. IKEA's product range in the UK features products suitable for small living spaces
Language	▪ Businesses must ensure that their marketing messages are **translated accurately and appropriately** ▪ This involves understanding language nuances and idioms ▪ E.g. When KFC entered the Chinese market, it translated its slogan "Finger-Lickin' Good" into Chinese as "Eat Your Fingers Off", which had negative connotations in the Chinese culture
Unintended meanings	▪ Unintended meanings can arise when businesses use images, symbols, or language that have **different connotations** in different cultures ▪ E.g. The colour white symbolises purity and innocence in Western cultures, but it represents death and mourning in some Asian cultures
Inappropriate branding/promotion	▪ Inappropriate branding and promotion can occur when businesses use images, symbols, or language that are **offensive or inappropriate in different cultures** ▪ E.g. In 2018, A Dolce & Gabbana advert showed a Chinese model attempting and failing to eat various Italian dishes with chopsticks. People were outraged over the depiction of Chinese people as lacking refinement and an understanding of culture