

## CHAPTER 2

### ASSESSING THE GLOBAL MARKETING ENVIRONMENT—THE GLOBAL ECONOMY AND TECHNOLOGY

#### LEARNING OBJECTIVES

After reading this chapter you should be able to:

- Apply the PESTEL model to scan the global environment
- Understand what the characteristics of global companies are
- Evaluate the international trade position of the United States
- Appreciate the power of transnational companies
- Demonstrate the importance of High Technology and Global Trade
- Understand the arguments for and against globalization

#### CHAPTER OVERVIEW

The global marketing environment is comprised of political, economic, social/cultural, political/legal and technological elements. Together, they form the acronym PESTEL, which serves as a solid framework for a global firm's analysis of the external environment.

Economic liberalization represents a seminal shift in the commercial world. This liberalization has led to growth in global trade that has outstripped domestic trade growth. The United States continues as the world's leading trader when assessing both exports and imports of merchandise and services, and still the world's largest exporter if both exports of merchandise and services are included. As might be imagined, America's

largest customers are the NAFTA partners of Canada and Mexico, followed by several members of the EU. Despite being the world's largest trader, or perhaps in part because of it, the U.S. carries a burdensome balance of payment of trade deficit: the difference between the value of its exports and imports. Temporary improvements in the deficit are experienced when the U.S. dollar weakens against world currencies and thus temporarily lowers the price of U.S. exports. Any accounting statement indicating a deficit would be cause for concern, and a national deficit is no different. The presence of a deficit indicates that more money is going out than coming in, lessening the value of the currency and generating a decrease in aggregate income. That being said, for some countries, a deficit can be an indicator of a newly prospering economy as domestic consumption increases and imports meet the demand. Of note is that in the US. 95% of exporters are SMEs that account for 25% of total exports.

World trade growth is largely driven by high-tech products, proffered by industries such as aerospace, pharmaceuticals and electronics. In fact, the global market for high-tech products has grown twice as fast as for other manufactured goods. The internet is both a product of this high-tech explosion and an element in assuring its continued success. Both global and domestic businesses are increasing their use of IT applications for knowledge generation and communication, and for producing and marketing finished products or services. Advanced technology and statistical control devices enable management to utilize sophisticated software programs to run their organizations. And, new developments in fields such as nanotechnology and biotechnology are being

harnessed by business. Further fueling world trade is the fact that many high-tech products are manufactured from components made in several countries.

Statistics reveal that emerging countries such as the Philippines, Malaysia and Singapore have high shares of high-tech to total exports. This phenomenon has its roots in the electronic components industry. As intermediate inputs, the items are imported for final assembly and re-exported.

High-tech markets are considered dynamic, complex and risky. They mature rapidly, move quickly through their life cycles and are expensive to harvest due to rapid technology changes, intense competition and discriminating consumers. The global marketer can mitigate these challenges by applying a first-mover strategy only when necessary, conducting strident market research, carefully targeting the market and directing product and communications to innovators and early adopters. Market entry and global supply chain selection must also be assiduously analyzed. In the high-tech arena, marketers cannot benefit from long-lived competitive advantages, as the rapid rate of innovation dispels them quickly. Technology also enhances the globalization and operations of the financial sector.

The term "global economy" refers to the fact that the world's nations have become increasingly interconnected. Economies have expanded beyond national borders, and transnational corporations account for ever-growing amounts of production. In short, production, finance, marketing, communications and labor forces have become

globalized. The number of transnational corporations in the world has increased from about 8,000 in 1975 to 40,000 in 2005. While global in reach, nearly all these corporations' headquarters are concentrated in industrialized countries.

An indicator of globalization is the extent to which a firm's activities are concentrated outside of its home country. For example, General Electric has 60% of its assets fully located outside of the United States. Not only are TNCs highly globalized, but they possess significant economic power. The economic strength or size of several transnational corporations equal that of many developed countries. This economic strength is wielded in many emerging markets to establish technology access and more efficient distribution channels for trade.

Population demographics are also shifting. By 2050, and the 20<sup>th</sup> edition of your Global Marketing text, there will be 2.0 billion people over the age of 60. The impact of this shift is profound, affecting available global labor, product design and demand, financial services and taxation. This trend is least evident in Asia, where the comparatively younger population will provide the necessary labor to sustain high growth levels.

The Green Economy is an emerging marketplace that seeks to optimize the synergy among three sets of values: social, environment and financial. This is most commonly referred to as the "triple bottom line." The green economy is intended to be environmentally sustainable, socially just and locally rooted. Increasing energy and commodity costs and consumer demands for a more sustainable environment have led to

a push for a green economy in industries such as energy and utilities, construction, transportation and manufacturing in which clean technology can be leveraged. In spite of its appealing message, not all global consumers are purchasers of green products and services. Their behavior toward environmental issues and key demographic factors are most likely to determine their likelihood to purchase these products. Further, consumers are more likely to buy organic goods or environmentally friendly products motivated by what makes them feel good about themselves, rather than for altruistic reasons.

#### TEACHING TIPS & CLASS DISCUSSION SUGGESTIONS

1. One important concept discussed in this chapter is that of the Triple Bottom Line. An instructor resource to provide added guidance in conveying the criticality of this topic to business students is found at <http://jubilee-economics.org/journal/2011/4/1/episode-12-teaching-triple-bottom-line.html>.
2. Bring up several current examples of high-tech product introductions that were unsuccessful either in stimulating consumer demand or that had significant operating issues. These should be products or services with which your students are intimately familiar. One good example might be the introduction of Apple's iPhone 4 in 2010. Have them apply Rosen, Schroeder and Puriton's recommendations for reducing market failure risk to see how the problems associated with the product's introduction might have been mitigated.

3. As an outside class activity, either individually or during the course of a class session, have students visit an electronics store such as Best Buy. Students should identify a product of interest and read through the product packaging verbiage. Have them prepare an analysis of the number of different countries that were involved in the manufacture and provision of component parts of the product. An extended version of this exercise can involve student research into the type and value of import barriers associated with some of these components. While this industry category works well with the exercise, students can also find examples in far less sophisticated categories. A quick reference to the Swiffer product produced by Procter and Gamble will reveal no less than nine countries' worth of component parts.

4. Students can exercise critical thinking skills by discussing the impact of mergers and production agreements on the local populace. The text indicates that transnational mergers and shared production agreements may serve to improve the standards of living in developing nations. Have students assess the ways in which these types of arrangements might assist in contributing positively to the economic, political and social-well being of a developing country?

5. In debate mode, have students compare and contrast the concepts of the Triple Bottom Line and the capitalist assumption that continuous economic growth is requisite to prosperity. This exercise can become heated, and the instructor may wish to preface the activity with an overview of 'debate best practices.'

6. As a semester-long project, students can work in teams to develop a submittal for the Global Social Entrepreneurship Competition sponsored by Global Envision. The program evaluates the work of student teams from around the world who submit proposals for creative and commercially viable businesses that serve to reduce poverty in the developing world. <http://www.globalenvision.org/2011/10/25/global-social-entrepreneurship-competition>.

### INTERNET EXERCISES

1. Students should select one of the ten most globalized companies listed in Table 2-5. Visit the firm's website and do additional Internet searches to outline the company's future plans for globalization. Are its strategies related to geographic expansion, product development, or market penetration? What challenges do you see for the firm with regard to its global expansion strategy?

2. Students may be taking your course as a sequence requirement for a related degree. However, if their career aspirations lead them to global marketing, now is not too soon for them to consider their alternatives. Have students visit the online employment sites of global marketing firms of their choosing and synopsise a global marketing position description. Some sites to recommend include:

A.T. Kearney

<http://www.atkearney.com/>

Boston Consulting Group

<http://www.bcg.com/>

Procter & Gamble Worldwide

[http://www.pg.com/en\\_US/careers/career\\_main.shtml](http://www.pg.com/en_US/careers/career_main.shtml)

McKinsey & Company

<http://www.mckinsey.com/>

3. Have students visit the World Bank site, [www.worldbank.org](http://www.worldbank.org) and research a country of their choice. They should identify the population and demographic trends related to population, the currency and the GNP. What is the country's balance of trade position? Income distribution? This exercise can be adapted by limiting country choices to a particular trading block such as NAFTA or ASEAN.

#### ANSWERS TO DISCUSSION QUESTIONS

1. It is argued that high-tech products will dominate trade in the 21st century. Does this mean that emerging market countries will be left out of this development?

No. Many emerging markets are already benefiting from demand for high-tech products by becoming centers for sub-assembly of intermediate inputs and re-export. Companies such as General Electric, Intel and have large manufacturing plants in the Philippines, while IBM and Siemens have plants in China. Many lower income countries have high imports of electronics components for the processing of components or their assembly into final products is based on the employment of lower wage workers, rather than technological capabilities. Examples include the Philippines, Malaysia, and Singapore.



2. Most developing countries have aging populations, and this trend is expected to intensify in the future. If you are the international marketing manager of a consumer products firm, how will these demographics affect your marketing-mix over the next decade?

In addition to the obvious issues of labor availability and the potential reduction in disposable income, marketers in those developing countries with aging populations must assess their marketing mix to determine how to both mitigate the risks associated with this shift, as well as how to take advantage of it. For example, if a greater proportion of disposable income is allocated to medical supplies for the older consumer, existing products may require modification to make them more affordable. Single packs may become more prevalent, and cost reductions pursued to increase affordability. In addition, products will need to accommodate the needs of the elderly from a functional standpoint. Cell phones, for example, may feature dial pads with larger numbers and letters for ease of visibility and the phone itself may eliminate features less likely to be used by seniors. The market for senior pharmaceuticals and healthcare products as well as senior assistance services will continue to burgeon. Examples of these items might include medications for blood pressure, chairlifts and safety handles. Marketers currently serving these needs will look to expand their offerings, while marketers in adjacent categories should consider line diversification to include them. Changing the distribution of the mix element to direct sales and shipping would meet the needs of the homebound, while promotional communications may seek to direct their message to late majority and laggard adopters.

3. How would you differentiate an advertising campaign for the “alarmed” market segment versus the “concerned” segment?

This question speaks to the concept of the Green Market and consumer segmentation studies which identify six categories of consumers as they lay on an environmental concern continuum ranging from alarmed to dismissive.

Alarmed consumers are the most concerned about climate change and the most active in terms of reducing their personal impact upon the environment. Consequently they are the most likely to purchase products with a positive environmental impact. They are activists in the environmental movement and expect the marketers of their preferred products to be, as well. An advertising campaign targeted toward this segment would focus on one or a combination of four elements. 1) Messages that position the marketer as highly involved in environmental improvements. These would highlight the firm’s attempts to optimize energy utilization in manufacturing, construct LEEDs certified facilities and use hybrid, hydrogen or reusable fuels in product transportation. 2) Messages that position the product as green. These would include the use of recycled materials, the recyclability of the product in its entirety, the natural ingredients used in the product. 3) Institutional marketing messages that show employee engagement in environmental remediation, the planting of community gardens, etcetera. 4) Messages that show the happiness experienced by calm, attractive ‘alarmed’ users and their families when they realize they

are doing something environmentally positive when buying and using the marketer's product.

Concerned consumers are convinced that climate change is occurring, but have not personally engaged in activities intended to address it. Messages to these consumers should focus far less on core environmental issues and more on the personal benefits to be obtained from consuming green products, for example, cost savings, health benefits, and greater efficiency.

#### VIDEO LINKS

Globalization:

<http://www.youtube.com/watch?v=q-V2OSRzZQA&feature=related>

Globalization: Discussion by BCG:

<http://www.youtube.com/user/TheBCGVideo#p/c/B9C2FD21F204CDD6/2/xgizrJzE7BY>

Companies and Technologies: PHILIPS:

[http://www.youtube.com/watch?v=Fwp9Edn\\_g7A&feature=related](http://www.youtube.com/watch?v=Fwp9Edn_g7A&feature=related)

Emerging Economies:

<http://www.economist.com/blogs/freeexchange/2011/08/emerging-economies>

From Russia with Entrepreneurial Expertise:

<http://www.reuters.com/video/2011/09/05/from-russia-with-entrepreneurial-experti?videoId=220941030&videoChannel=1005>

## ADDITIONAL RESOURCES

*Globalize.Org Website* [www.globalize.org](http://www.globalize.org)

*GlobalEdge Website, Michigan State University* <http://globaledge.msu.edu/resourcedesk/>

*The United States Census Bureau Global Statistics and Population Mapping*

<http://www.census.gov/population/international/>

*The Organization for Economic Cooperation and Development*

[www.oecd.org/oecdEconomicOutlook](http://www.oecd.org/oecdEconomicOutlook)

*The World Trade Organization* [http://www.wto.org/english/news\\_e/news\\_e.htm](http://www.wto.org/english/news_e/news_e.htm)