Opportunities and threats of international markets

Many businesses set objectives to grow revenues and profits. Expanding overseas can achieve these objectives once the business has achieved its domestic strategic objectives. However, all business decisions come with risk, and expanding overseas can be especially risky. This is because of customers' loyalty to companies already operating in those countries, difficulties with language and customs, and lack of knowledge of the economic, business and regulatory environment. International marketing therefore comes with both opportunities and threats.

Opportunities from entering and operating internationally

An **opportunity** is a favourable external condition or trend that might be beneficial for a business. Opportunities are external factors responsible for creating prospective openings for a business to grow, expand and develop. Entry into international markets can provide the following opportunities for businesses.

Larger pool of customers and greater sales revenue

The main motivation for international expansion is, of course, to increase sales revenues. The global population is over 7.9 billion people and average incomes are rising. If companies can design products with global appeal, the potential revenues might increase and might attract and increase consumer demand. According to the World Bank, average GDP growth globally is expected to be 4.1% in 2022, with lower income countries expected to grow at an average rate of 4.6%. This growth represents a big opportunity for international companies to enjoy large increases in sales revenue and profits.

Lower costs of production and economies of scale

International marketers can benefit from lower production costs in foreign countries. There are lower costs of production due to the larger size of the company, which can result in economies of scale. Economies of scale mean that, as a company increases its sales, the average cost of producing its goods or services should reduce. There are many factors that lead to economies of scale, all of which are explored fully in Section 1.5.2 (/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-

174702/book/internal-and-ext-economies-id-36534). Once average costs begin to fall, companies have two options: They can reduce their selling price in an effort to gain more sales, or they can keep their selling price the same and enjoy higher profit margins.

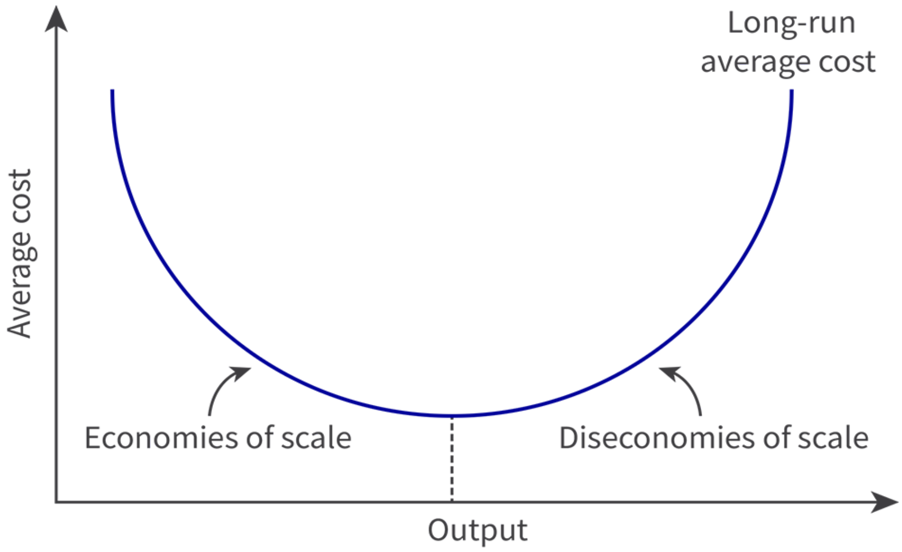

Figure 1. Economies of scale reduce average costs.

Spreading risks

Having operations in multiple countries can help businesses spread risks; if one country where a business operates is experiencing a recession, the business may be able to rely on healthy sales in another country. For example, BMW sales declined in Germany in 2008 due to the global financial crisis of that year, however, its sales increased in China and the Middle East in the same period.

Improved brand reputation

Once a brand is able to expand into a foreign market, it will benefit from increased recognition within both that market and the original market. Part of this will be the result of knowing that the brand is from a particular country. For example, customers abroad knowing that a particular brand has sold well in Europe or the USA already may help to establish a perception of the brand in the minds of customers. In addition, customers might gain confidence in the brand if they know it is already successful. They are more likely to trust the product and what it promises.

Threats for entry into international markets

Threats are the external factors that pose challenges to businesses that wish to expand internationally.

STEEPLE analysis, first introduced in **Section 1.1.5** (/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/tool-swotsteeple-analysis-id-36504), provides a framework for analysing external influences. STEEPLE factors can also be considered an advantage or opportunity because they are external. Some factors – such as climate conditions, certain laws and ecological factors – can actually help the organisation to make more money. Opening in China, for example, can be attractive because of its less stringent laws about polluting the environment.

Sociocultural, legal, political, technological and economic differences play an important role in, and influence, international markets. The explanation of each of these is discussed below.

Making connections

Section 1.1.5 (/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/tool-swotsteeple-analysis-id-36504) of this book provides a detailed analysis of the STEEPLE tool.

Figure 2. The STEEPLE analysis framework.

Exam tip

If you forget the threats for entry into international markets, remember STEEPLE, and apply and analyse the same factors to the case study given in Paper 2 type questions.

Sociocultural factors

The difference in social, political, legal, cultural and demographic factors might make businesses alter their marketing strategies in order to meet the demands, preferences and culture of their international customers. When businesses do not have enough knowledge of the country in which they operate, this can act as one of the most important threats they might face. For example, language barriers might hinder operations and sales in countries where the main language used by the business is not spoken.

International businesses should consider the differing social and demographic conditions in different countries. Price of products might differ when sold to an affluent country with high incomes. There is greater demand for sports cars in Middle Eastern countries than in India. The price of German cars will be different when sold in the US as compared to Indonesia. Another factor is multiculturalism. The United Arab Emirates (UAE), for example, is a multicultural society where marketing takes place in different languages, catering to the needs of the international audience. Having local knowledge of different business etiquettes in different countries might also help businesses to grow and expand.

Technological and economic factors

Online marketing and e-commerce have increased competition among international businesses. To stay competitive, businesses need to change and adapt a strategy that will increase demand among online buyers.

Economic factors

Global incomes vary greatly, which means that products need to be tailored to satisfy different consumer budgets.

Figure 3. Countries creating the highest GDP per capita.

As **Figure 3** shows, huge amounts of global wealth are concentrated in northern regions. However, many of the poorer southern regions are growing fast. If companies want to target these consumers, they must adapt their marketing mix. For example, Gillette has developed a new razor, made of cheaper materials, which it sells to consumers with lower incomes in countries such as India.

Growth and development in China has lifted 800 million people out of poverty since the 1980s. As these people join the consuming class (an opportunity), they will also be earning higher incomes. China is no longer the cheap manufacturing environment it once was.

In addition, shipping costs will vary depending on the distances that goods need to be transported. The fastest transportation method is by air, but this can cost up to 100 dollars or more per item. Shipping by boat takes much longer but is cheaper. Differing qualities of infrastructure in countries will also determine how easy it can be to operate in a foreign country, as will the quality of the labour market. Declining economic performance such as recessions, increase in price levels (inflation), and tight labour markets can all make it more difficult for a business to operate abroad.

Environmental factors

Due to both the rapid growth of trade and advancements in technology, international trade has increased substantially. Environmental factors such as increased risk of flooding, drought, storms or other natural disasters in some parts of the world – many due to climate change – pose threats to businesses. Increased emissions and destruction of the habitat due to cutting down forests (deforestation) are two of the ways the environment has been impacted. As an example, Indonesia is the top producer and exporter of palm oil, however palm oil production involves extensive deforestation. In order to increase the supply of palm oil, the government in Indonesia sells licences to producers to buy and deforest. As a result of this unsustainable means of increasing supply, the EU has stopped importing palm oil from Indonesia, decreasing Indonesia's export revenue. The EU has banned palm oil in the name of sustainability.

Concept

Sustainability and ethics

Businesses need to meet human needs (of customers, employees and suppliers) within planetary boundaries, no matter where they are located in the world. This involves watching out for human wellbeing and the environment. To be ethical simply means that a business needs to adopt morally acceptable practices and values throughout all its business processes, whether it is operating domestically or internationally.

Ethical practices are when businesses decide to make a commitment towards the environment and simultaneously increase their business operations. The need to protect the environment is more important than ever. Businesses have a responsibility to ensure that their activities are carried out in a sustainable manner in order to protect the needs of future generations. Businesses should be mindful of environmental laws or legislation in the different countries in which they operate. Not complying can reduce the competitiveness of the business and can act as an ethical barrier in its operations. Businesses have a responsibility to deliver their products in a sustainable manner.

While studying the opportunities and threats businesses face in operating in internal markets, consider the following:

- How could entering a market and operating internationally make it more difficult for a business to act ethically?
- How might ethical and sustainable business activity in international markets impact a company's costs and revenues, both positively and negatively?

Political factors

Countries that have a stable political environment, such as Singapore or the United Arab Emirates, are relatively low-risk places in which to do business. In contrast, the political uncertainty in countries such as North Korea or Afghanistan make those countries much more risky for businesses.

Legal factors

Businesses operating internationally must abide by the different laws and regulations of the countries in which they operate. Product standards and trading laws vary around the world. Understanding the legal environment can be difficult for companies seeking to expand internationally.

Other legal issues relate to international trade barriers. When a product is exported to another country, it may be subject to trade restrictions such as a tariff or quota. These restrictions can increase costs and slow down distribution times. For example, the trade war between Europe and the US in 2020–2021 had a considerable impact on international businesses and aircraft manufacturers.

Legal requirements such as trademarks, patents and copyrights should also be adhered to in different countries. Moreover, it is important for businesses to comply with laws about how they advertise their products in different countries. For example, in India, it is illegal to advertise or sell beef burgers.

Marketing products carefully, as well as being conscious about external factors, is important for businesses. Some large businesses have learned about this the hard way by making some international marketing mistakes (see **Table 1**). In these well-known examples, a domestic marketing campaign or advertisement did not work well with the company's international customers.

Table1. Examples of international marketing mistakes.

Company	Slogan/brand name	Problems
American Motors	A mid-size car named the 'Matador'.	In Spanish, 'matador' translates as 'killer'.
Braniff Airlines	The slogan 'Fly in leather'.	In Spanish this slogan means 'fly naked'.
Ford	The slogan, 'Every car has a high-quality body', which was part of an advertising campaign in Belgium.	When translated to Dutch (one of Belgium's official languages), this slogan actually means 'every car has a high-quality corpse'.
Pepsi	The slogan 'Come alive with the Pepsi generation'.	In Chinese this slogan means 'Pepsi brings your ancestors back from the grave'.
HSBC	The slogan 'Assume nothing'.	In several countries, this translates as 'do nothing'.

Activity

Learner profile: Knowledgeable
Approaches to learning: Thinking skills (critical thinking)

Examine this list of opportunities and threats:

- periods of recession
- reduced costs due to higher pool of labour available
- authoritarian government regime; ban of several food items
- increase in incomes
- high import tariffs
- lower restrictions on advertising/marketing
- language barriers
- niche target markets
- lack of competition
- improved communication and infrastructure

Create a table as shown below and classify each of the above as either an opportunity or a threat by adding it to the correct column.

Opportunity	Threat