Global Marketing

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Introduction to Global Marketing
Chapter 2

Introduction

This chapter includes:

- An overview of the world economy
- A survey of economic system types
- The stages of market development
- The balance of payments

The World Economy—An Overview

- In the early 20th century economic integration was at 10%; today it is 50%
- EU and NAFTA are very integrated
- Global competitors have displaced or absorbed local ones

The World Economy—An Overview

- The new realities:
  - Capital movements have replaced trade as the driving force of the world economy
  - Production has become uncoupled from employment
  - The world economy, not individual countries, is the dominating factor

The World Economy—An Overview

The new realities, continued:

- 75-year struggle between capitalism and socialism has almost ended
- E-Commerce diminishes the importance of national barriers and forces companies to re-evaluate business models

Economic Systems

Resource Allocation

Resource Ownership	***Market***	***Command***
Private	Market Capitalism	Centrally Planned Capitalism
State	Market Socialism	Centrally Planned Socialism

Market Capitalism

- Individuals and firms allocate resources
- Production resources are privately owned
- Driven by consumers
- Government’s role is to promote competition among firms and ensure consumer protection

Western Market Systems

Type of System	Key Characteristics	Countries
Anglo-Saxon	Private ownership free enterprise Minimal social safety net	US, Canada, Great Britain
Social Market Economy Model	Private ownership Inflexible employment policies, "social partners"	France, Germany, Italy
Nordic Model	Mix of state and private ownership, large safety net High taxes	Sweden, Norway

Centrally Planned Socialism

- Opposite of market capitalism
- State holds broad powers to serve the public interest; decides what goods and services are produced and in what quantities
- Consumers can spend only what is available
- Government owns entire industries and controls distribution
- Demand typically exceeds supply
- Little reliance on product differentiation, advertising, pricing strategy
- China, India, and the former USSR now moving towards some market allocation and private ownership

Centrally Planned Capitalism

- Economic system in which command resource allocation is used extensively in an environment of private resource ownership
- Example:
  - Swedish government controls 2/3s of all spending; a hybrid of CPS and capitalism
  - Swedish government plans move towards privatization

Economic Freedom

- Rankings of economic freedom among countries
  - "free" "mostly free" "mostly unfree" "repressed"
- Variables considered include such things as:
  - Trade policy
  - Taxation policy
  - Capital flows and foreign investment
  - Banking policy
  - Wage and price controls
  - Property rights
  - Black market

Economic Freedom—2011 Rankings

Free

1. Hong Kong
2. Singapore
3. Australia
4. New Zealand
5. Switzerland
6. Canada
7. Ireland
8. Denmark
9. United States
10. Bahrain

Repressed

169. Turkmenistan
170. Timor-Leste
171. Iran
172. Dem. Rep. Congo
173. Libya
174. Burma
175. Venezuela
176. Eritrea
177. Cuba
178. Zimbabwe
179. North Korea

Not ranked: Afghanistan, Iraq, Liechtenstein, Sudan

Stages of Market Development

- The World Bank has defined four categories of development using Gross National Income (GNI) as a base
- **BEMs**, identified 10 years ago, were countries in Central Europe, Latin America, and Asia that were to have rapid economic growth
- Today, the focus is on **BRIC:** Brazil, Russia, India, and China

Low-Income Countries

- GNP per capita of $996 or less
- Characteristics
  - Limited industrialization
  - High percentage of population in farming
  - High birth rates
  - Low literacy rates
  - Heavy reliance on foreign aid
  - Political instability and unrest
  - Concentrated in Sub-Saharan Africa
  - Uzbekistan and Turmenistan

Lower-Middle-Income Countries

- GNI per capita: $996 to $3,945
- Characteristics
  - Rapidly expanding consumer markets
  - Cheap labor
  - Mature, standardized, labor-intensive industries like footwear, textiles and toys
- BRIC nations are India, China

Upper-Middle-Income Countries

GNP per capita: $3,946 to $12,195

Characteristics:

- Rapidly industrializing, less agricultural employment
- Increasing urbanization
- Rising wages
- High literacy rates and advanced education
- Lower wage costs than advanced countries

Chilean copper mine

- Also called newly industrializing economies (NIEs)
- Examples: Brazil, Russia, Malaysia, Chile, Venezuela, Hungary, Mexico

Marketing Opportunities in LDCs

- Characterized by a shortage of goods and services
- Long-term opportunities must be nurtured in these countries
  - Look beyond per capita GNP
  - Consider the LDCs collectively rather than individually
  - Consider first mover advantage
  - Set realistic deadlines

Mistaken Assumptions about LDCs

1. The poor have no money.
2. The poor will not “waste” money on non-essential goods.
3. Entering developing markets is fruitless because goods there are too cheap to make a profit.
4. People in BOP (bottom of the pyramid) countries cannot use technology.
5. Global companies doing business in BOP countries will be seen as exploiting the poor.

High-Income Countries

- GNI per capita: $12,196 or more
- Also known as advanced, developed, industrialized, or postindustrial countries
- Characteristics:
  - Sustained economic growth through disciplined innovation
  - Service sector is more than 50% of GNI
  - Households have high ownership levels of basic products

Tokyo

High-Income Countries

- Characteristics, continued:
  - Importance of information processing and exchange
  - Ascendancy of knowledge over capital, intellectual over machine technology, scientists and professionals over engineers and semiskilled workers
  - Future oriented
  - Importance of interpersonal relationships

G-8, the Group of Eight

- Goal of global economic stability and prosperity
  - U.S.
  - Japan
  - Germany
  - France
  - Britain
  - Canada
  - Italy
  - Russia (1998)

2011 G-8 Leaders in Deauville, France

OECD, the Organization for Economic Cooperation and Development

- 30 nations
- Post-WW II European origin
- Canada, U.S. (1961), Japan (1964)
- Promotes economic growth and social well-being
- Focuses on world trade, global issues, labor market deregulation
  - Anti-bribery conventions

The Triad

- U.S., Western Europe, and Japan
- Represents 75% of world income
- Expanded Triad includes all of North America and the Pacific Rim and most of Eastern Europe
- Global companies should be equally strong in each part

Product Saturation Levels

- The % of potential buyers or households who own a product
- India: 20% of people have telephones
- Autos: 1 per 43,000 Chinese; 21 per 100 Poles; 8 per 1,000 Indians
- Computers: 1 PC per 6,000 Chinese; 11 PCs per 100 Poles; 34 PCs per 100 EU citizen

Balance of Payments

- Record of all economic transactions between the residents of a country and the rest of the world
  - Current account–record of all recurring trade in merchandise and services, and humanitarian aid
    - trade deficit—negative current account
    - trade surplus—positive current account
  - Capital account–record of all long-term direct investment, portfolio investment, and capital flows

Balance of Payments

TABLE 2-5 U.S. Balance of Payments, 2006–2010 (US$ millions)

	2006	2007	2008	2009	2010
A. Current Account	**–811,477**	**–731,214**	**–668,854**	**–376,551**	**–470,898**
1. Goods Exports	1,023,109	1,148,481	1,304,896	1,069,491	1,288,699
2. Goods Imports	–1,861,380	–1,976,853	–2,139,548	–1,575,400	–1,934,555
3. *Balance on Goods*	*–838,271*	*–819,373*	*–834,652*	*–505,910*	*–645,857*
4. Services: Credit	422,594	497,245	534,166	505,547	548,878
5. Services: Debit	–342,845	–378,130	–398,266	–380,909	-403,048
6. *Balance on Services*	79,749	119,115	135,850	124,637	145,830
7. *Balance on Goods and Services*	*–758,522*	*–700,258*	*–698,802*	*–381,272*	*–500,027*
B. **Capital Account**	**–3,880**	**–1,842**	6,010	**–140**	**–152**

Top Exporters and Importers in 2009

TABLE 2-7 Top Exporters and Importers in World Merchandise Trade, 2009 (US$ billions)

Leading Exporters	2009	Leading Importers	2009
1. China	$1,202	1. United States	$1,605
2. Germany	1,126	2. China	1,006
3. United States	1,056	3. Germany	938
4. Japan	581	4. France	560
5. Netherlands	498	5. Japan	552

Source: WTO.

Overview of International Finance

- Foreign exchange makes it possible to do business across the boundary of a national currency
- Currency of various countries are traded for both immediate (spot) and future (forward) delivery
- Currency risk adds turbulence to global commerce

Foreign Exchange Market Dynamics

- Supply and Demand interaction
  - Country sells more goods/services than it buys
  - There is a greater demand for the currency
  - The currency will appreciate in value

Foreign Contract Exchange Rates	$1,000,000 Contract		€1,100,000 Contract	
	U.S. Seller Receives	European Buyer Pays	U.S. Seller Receives	European Buyer Pays
€1.25 = $1	$1,000,000	€1,250,000	$880,000	€1,100,000
€1.10 = $1	$1,000,000	€1,100,000	$1,000,000	€1,100,000
€1.00 = $1	$1,000,000	€1,000,000	$1,100,000	€1,100,000
€0.85 = $1	$1,000,000	€850,000	$1,294,118	€1,100,000

Exchange Risks and Gains in Foreign Transactions

Managing Economic Exposure

- ***Economic exposure*** refers to the impact of currency fluctuations on the present value of the company's future cash flows
- Two categories of economic exposure:
  - ***Transaction exposure*** is from sales/purchases
  - ***Real operating exposure*** arises when currency fluctuations, together with price changes, alter a company's future revenues and costs

Managing Economic Exposure

- Numerous techniques and strategies have been developed to reduce exchange rate risk
  - ***Hedging*** involves balancing the risk of loss in one currency with a corresponding gain in another currency
  - ***Forward Contracts*** set the price of the exchange rate at some point in the future to eliminate some risk

Looking Ahead to Chapter 3

- The Global Trade Environment