UNIT 16 EMERGING TRENDS AND ISSUES IN INTERNATIONAL MARKELTING

Structure

16.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the nature of the emerging trends in global trade
- narrate the growing role of MNCs in the changed international trading environment
- state the role of small enterprises in the emerging global competitive environment
- describe the factors that contribute to the growing trend towards mergers and acquisitions, and then impact on global trade
- analyse the impact of information technology on international business
- identify the major social, ethical, and environmental issues in international business.

16.1 INTRODUCTION

The fact that international trade has, since many years, been expanding faster than global output is a clear indication that international market has become more important than domestic market for a number of countries, companies, and products. The rapid growth of the world market has naturally led to growth in competition. The growing competition, in turn, has led to changes in the rules of the game. The war of external trade is no longer fought with the traditional weapons of product, price, place and promotion only. The tremendous growth in technology, particularly in the fields of communication, information and transportation, has provided new weapons in the armoury of countries and companies. Emergence of large sized mutinational firms, particularly in the developed world, and, the large number of mergers and acquisitions across national borders have thrown challenges to and provided opportunities for competing firms. Environmental and ethical considerations are increasingly determining the extent of market access a product can hope to get in an overseas market. Indian firms should increasingly become aware of such developments and adjust their strategies accordingly, if they want to survive and prosper not only in external markets but even in the domestic market.

16.2 EMERGING GLOBAL COMPETITION

Competition is becoming more and more global in an increasing number of industries and markets. With the progressive liberalisation of economic policies in many countries, firms encounter growing competition not only in overseas markets but in domestic markets as well.

16.2.1 MNCs and Global Competition

Many industries are characterised by dominance of multinational corporations (MNCs). The size of operations of MNCs is mind boggling. The annual sales turnover of a number of MNCs is bigger than the Gross Domestic Product (GDP) of most developing nations. The number of MNCs and their subsidiaries has been on rapid increase. A significant share of global investment, production, employment and trade is accounted for by MNCs which number over 50,000 with about 4 lakh affiliates. Their combined sales turnover is estimated to exceed the aggregate GDP of all developing nations, excluding the oil exporters.

Liberalisation of economic policies across the world has facilitated the market penetration and expansion of MNCs, extensifying and intensifying the global competition. As a result, many firms, whose market is confined to the home country, are forced to face increasing global competition in the domestic market.

To a considerable extent, MNCs have been able to depress a number of domestic firms. Several local/national firms have been taken over by MNCs and many have downed their shutters or have lost market share due to increasing competition from MNCs. Increasing competition from MNCs has had on the other hand some favourable effects also on many domestic firms. To cope with competition, they have been forced to improve their efficiency and performance and consequently many of them have become more dynamic and innovative. This has enabled them not only to compete domestically but also to venture into overseas markets.

There are differences in the portfolio and competitive strategies of MNCs of different countries. MNCs compete in many national markets but the nature of competition they face may differ from market to market. In some major markets, the global competitors are the same. However, their relative market shares and positions may be different in different markets. In some markets they encounter powerful domestic firms.

Strategic posturs and organisational behaviour of MNCs show variations. Several MNCs like Philips, Unilever and ITT traditionally gave substantial strategic freedom and organisational autonomy to subsidiaries so that their operations were localised to a considerable extent. However, competitive environment has, sometimes, necessitated changes in strategic postures and organisational behaviour. Philips, for example, had to move from a multinational towards a transnational approach later.

A number of companies (particularly the Japanes ones) have developed international operations that are driven more by the need for global efficiency and are more centralised in their strategic and operational decisions. To these companies, which regard the world market as an integrated whole, the global operating environment and worldwide consumer demand are the dominant units of analysis, not the nation, state, or the local markets.

16.2.2 Small Firms and Global Business

The growth in the number and size of MNCs does not imply that small firms have no competitive edge in global business. Indeed, a number of well-known large players (including Microsoft) are of recent origin and had a humble beginning. There are also young Indian firms, like Infosys, which are growing fast in global business.

Size has advantages as well as disadvantages. Large companies need not necessarily be efficient or highly competitive. The large number of loss-making companies in the *Fortune 500* list is an indication of this fact. In the early 1990s, Fortune 500 companies accounted for only about 10 per cent of the Americal economy, down from 20 per cent in 1970. John Naisbitt observes in the *Global Paradox* that small and medium size companies are creating the huge global economy. About 50 per cent of the US exports is accounted for by companies with 19 or fewer employees. The same is true of Germany. Well over one-third of India's exports is contributed by the small scale sector.

Gary Hamel and C.K. Prahalad in their *Howard Business Review* article on *Strategic Intent* point out that several Japanese firms which have grown spectacularly in the global market had fewer resources than their American counterparts. Companies that have risen to global leadership over the recent decades invariably began with ambitions that were out of proportion to their resources and capabilities, but they created an obsession with winning at all levels of organisation and then sustained that obsession over the 10-20 years quest for global leadership. This obsession is termed as strategic intent. Hamel and Prahalad point out that on the one hand, strategic intent envisions a desired leadership position and establishes the criterion the organisation will use to chart its progress. Komatsu set out to "encircle caterpillar", Canon sought the "beat Xerox", and Honda strove to become a "second Ford". In short, companies with small size and resource constraints can also become important global players with strategic intent and right strategies.

16.2.3 Mergers and Acquisitions, and Consolidation

Several industries across the world have been witnessing significant mergers and acquisitions (M&As), and the resultant consolidation of market power. There have been a number of mega mergers and many mergers have been international in nature. M&As have, obviously, implications on all operations of business such as productivity, profits, efficiency, competition, cost reduction, market share, etc.

Recent years have seen tremendous growth in cross-border mega mergers. According to UNCTAD report, the total value of majority-owned international mergers and acquisitions amounted to $ 411 billion in 1998, almost twice that of 1997 and three times the 1995 level. The UNCTAD report also points out that the surge in M&A activity is partly due to increased competition brought about by liberalisation and international business consolidation.

M&A is also employed as a market entry strategy. According to UNCTAD in 1998, nearly 90 per cent of large cross-border M&As which do not necessarily require cash or new funds but can be based on a mutual exchange of stocks — took place in developed countries, where this mode of entry is more important than in developing countries.

The recent M&As cut across several critical industries such as pharmaceuticals, telecommunications, infotech, food and beverage, automobiles, steel and energy. Several factors have contributed to the growth of M&As. The global trend towards 'focus' has been responsible for sale of non-core businesses by many companies. This has been made use of by other companies to consolidate their core business by acquiring the businesses put on the block.

Several mergers have been the result of the realisation by the respective companies of the need to consolidate their power to effectively fight competition. M&As have obviously been causing changes in competitive equations.

Since M&As have the effect of reducing the number of competitors consumer interest may be adversely affected. *The World Investment Report* (WIR) 1998 indicates that, in 1997, M&As accounted for more than 85 per cent of all FDI flows. This means a corresponding decrease in the share of green field investments, that is those which result in creation of additional productive assets in the host country. This has far reaching competitive implications.

This, in 1997 there were 58 transactions individually valued at over $ 1 billion each and 90 per cent of these M&As were by TNCs from the developed countries. The largest number of large-scale mergers seem to have taken place in financial services and insurance, chemical and pharmaceutical industries, telecom and media industries.

This points to a major thrust towards international concentration of production, which is especially marked in the developed countries. The main consequence of such a drive towards mergers and acquisitions internationally is greater concentration of business in the hands of a few firms in many sectors. In fact, M&As between dominant TNCs, which result in even larger TNCs, seem to impel other major TNCs to move towards restructuring or making similar deals. This competitive pressure means that, globally a few giant firms emerge, which control the vast share of production in specific sectors. Such monster enterprises are clearly evolving in pharmaceutical, automobile, defence, telecom and financial industries.

The WIR is even more alarmist about the future. The total number of major automobile makers may well decline to 5-10 by 2010, from its current number of 15. In the pharmaceutical industry, many markets are now controlled by fewer firms, with seven firms having sales of over $ 10 billion each, accounting for about a quarter of the $ 300 billion market.

The WIR points to a shift in the strategic policy of TNCs in focussing on what are called "core activities". Sales of non-core operations have accelerated, and the tendency has been for large TNCs to acquire divisions or affiliates of other firms that are engaged in similar operations to their core activities. However, this may be only a small part of the explanation for the huge increase in international M&As in the recent past.

It is now fairly clear that liberalisation, deregulation and privatisation have been the main forces behind the dramatic growth in the number and value of M&A transactions. This is especially evident in the services sector, particularly financial services.

These trends point to potentially, far-reaching changes in the structure of production and distribution both internally and within countries. The growing concentration of production within countries is something which has been noted for sometime, and in most developed countries there is a complex array of anti-trust and anti-monopoly legislation which is supposed to deal with this. Generally, however, such legislation has not been able to prevent the continued process of concentration and centralisation of production.

Check Your Progress A

1. Examine the competitive environment, the Nirma is facing in India.

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16.3 INFORMATION TECHNOLOGY AND INTERNATIONAL MARKETING

Information technology has been revolutionlising marketing operations. Telemarketing has brought about a significant change in the technique of communication with customers and in procurement and processing of orders. The revolutionary changes being ushered in by the internet is indeed exciting.

The revolutionary changes in the information technology is sweeping across global business. Developments in telecommunications and information technologies have cut down the barriers of time and place in doing business. It is now possible for customers and suppliers to transact business at any time in any part of the globe, without having to come together physically, thanks to the developments in optical fiber technology, videophone and teleconferencing facilities. The net has changed the face and pace of business to business marketing and retailing.

Effective use of information technology helps a company identify and profile customers, reach out to customers quickly and effectively, and make inventory management and distribution system more efficient.

If Indian firms do not keep pace with such contemporary developments, global business, and even domestic business is likely to be largely out of their reach in course of time.

16.3.1 Telemarketing

One of the recent developments even in developing countries is telemarketing. Telemarketing refers to the use of modern telecommunications technology such as telephone, facsimile (fax), television, computer and internet for marketing interaction between buyers and sellers.

Telemarketing in the past mostly involved the use of telephone for transacting business so that it was defined as a form of nonstore retailing in which a sales person initiates contact with a shopper and also closes the sale over phone. Telemarketing blossomed in the US in the late 1960s with the introduction of inbound and outbound Wide Area Telephone Service (WATS) which enabled marketers to offer customers and prospects toll free numbers to place orders for goods and services stimulated by media advertising or direct mail, or to lodge complaints or suggestions. Telemarketing has grown in popularity because of the convenience it provides and the savings in cost and time to the buyer and seller. Telemarketing is a very convenient and cost-effctive way of personal selling in many situations.

For consumers, placing routine orders or orders for standardised products, telemarketing saves them the drudgery and time and cost of going to the shop. This also facilitates easy information gathering for the purchase decision making. For companies, it saves the costs involved in storage and display.

Telemarketing progressed rapidly with the advances in information technology substantially altering the modus operandi of marketing. Needless to add, it has revolutionised international marketng. It is now easy to identify and profile customers or suppliers across the globe. This has given global competition a new dimension.

16.3.2 Intenet and E-Business

There has been an explosive growth in the use of internet and e-commerce world wide. Between 1993 and 1997, the number of internet hosts (computer connected to the internet) grew from 1 million to 20 million; by 2001 that figure is expected to rise to 120 million. The value of the global internet commerce is huge. Estimates of it range from 1.3 per cent to 3.3 per cent of gross domestic product by 2001 about \$ 50 to 1000 million. All these statistics indicate the enormous size of the e-commerce and its growing potential.

As could be expected, it is the developed countries and the newly industrialised economies that the internet and e-commerce have made rapid strides. However, in developing countries across South East Asia, Argentina, Brazil, China and in some island states such as Barbados, Fiji and Tonga, uptake of the internet has also been growing rapidly sich about 1996, although the growth continues to be hindered by problems related to telecommunications infrastructure. E-commerce is developing in India. Many types of business – grocery to modelling and placement services – are increasingly using the net. The net gives abundance of opportunities to people with imagination and innovative ideas. A great advantage of the net is getting into a business – both tranditional and innovative quickly with lower cost and with wide reach. But the net is still an unchartered territory with opportunities, surprises, ideas and traps at every corner. Many with innovative ideas or entrepreneurial skills have become netpreneurs and splendid opportunities await many more.

Retailing in developed markets is increasingly becoming net-tailing or e-tailing developing countries will follow the trend sooner or later. The place in the marketing mix is gradually being replaced by (net) space. The channel system is being drastically restructured. The number of intermediaries is falling. An e-tailer may directly deal with the manufacturer and ultimate buyer. Direct markelting will also get a boost.

A large number of match makers or infomediaries have sprung up. Infomediaries can play a useful role even when there are established dealers for a product, with no need for the match maker to stock the goods. The match maker model of e-commerce connects buyers on one side with sellers on the other. For example, Jaldi.com has set up an online mail for white goods which enables potential buyers to compare price and features across all brands of white goods. The customer can post an enquiry for a model at the site and all the dealers registered with the net marketers will quote the price for it. The customer can then choose the dealer he wants to buy from. Although the dealer will make the sale to the customer, the net marketer will get a commission from the dealer.

The net facilitates quick, easy, and wider reach across the globe both for the seller and the buyer. This implies that firms which do not have websites will simply be bypassed by many (in future by most) of the potential customers. E-commerce is becoming more popular in business to business marketing.

As an international trade centre (ITC) publication points out, using the net to lower communications costs and reduce time-to-market for goods and services makes it a very valuable medium for firms engaged in international trade. Its ability to deliver information of almost any sort in digital format at low cost offers significant efficiencies that firms can pass on to customers in the form of lower prices. It can also help to manage supply chains for goods and services in cross-border trade, cutting overheads associated with logistics.

The internet also creates new opportunities to raise service levels, which are increasingly the key to successful business-to-business and business-to-customer trading. As internet technology advances and overcomes problems with reliability and speed, it is likely to be used in almost every conceivable way to trade goods and services. Many large firms now integrate in-line technology into their older proprietary Electronic Data Interchange (EDI) systems, and are building new Internet-based business systems for supply chain management and other inventory control. Other trading systems, such as financial and commodity markets are now in the early stages of moving to an Internet base. New supply and demand aggregation services, such as buying-groups and online auctions, are leading markets in directions that were not feasible before the advent of the internet.

As more and more countries start using internet for trade, learning and social interactions and as the number of industries affected by it grows strongly, it seems inevitable that the internet's influence on international trade will grow very quickly. Despite its portrayal as a popular communications medium (e-mail, games, chat), there are more business-to-business than social transactions on the internet; the ratio is as much as 4 to 1. The internet's biggest impact will come from efficiency improvements, it introduces within firms that use the internet to streamline product and market research, improve production and marketing efforts around the world, form and develop business alliances and better integration of the entire value chain, from suppliers to end-customers. These business benefits suggest that the impact on trade will continue to grow and outstrip benefits to individuals. Although the sale of goods – such as books and music – is the most visible area of e-commerce growth, the biggest advances so far are in the supply and distribution of services. These include software, finance, eduction, entertainment and professional services. Manufacturing companies too are beginning to use the internet to manage global supply chains and radiate from the US, Europe and parts of East Asia.

Trade distribution and logistics industries deal with two flows: flow of goods and 'counter-flow' of information about the goods and their movement. The efficiency of these industries is being dramatically improved by internet-based methods of moving information, allowing them to reduce transport, insurance and border administrative costs. These supply-chain efficiencies have made direct retailing of consumer products such as clothing, processed foods and health products at global level possible. Internet seems set to become a major marketing tool for at least some commodities and enable producers, buyers and marketing authorities develop close relationships with final overseas customers and improve information flows in price-sensitive markets. By reducing transaction costs, internet provides unprecendented opportunities for small and medium sized firms to trade across borders.

Lower transaction costs also provide opportunities for many rural and regional communities to revitalise their economic bases. Skilful use of the internet can create opportunities by giving farmers small business people and communities the capacity to present a regional image to the world, create focal points for inquiries about local businesses and their offerings, create global businesses and develop new products and services.

Information technology is becoming all embracing, efficiently networking the whole business system, making a shift from e-commerce to e-business. E-commerce becomes e-business when a company connects its business system directly to its critical constituencies – customers, employees, vendors and suppliers – via intranet, extranet and over the internet. This is depicted in Figure 16.1.

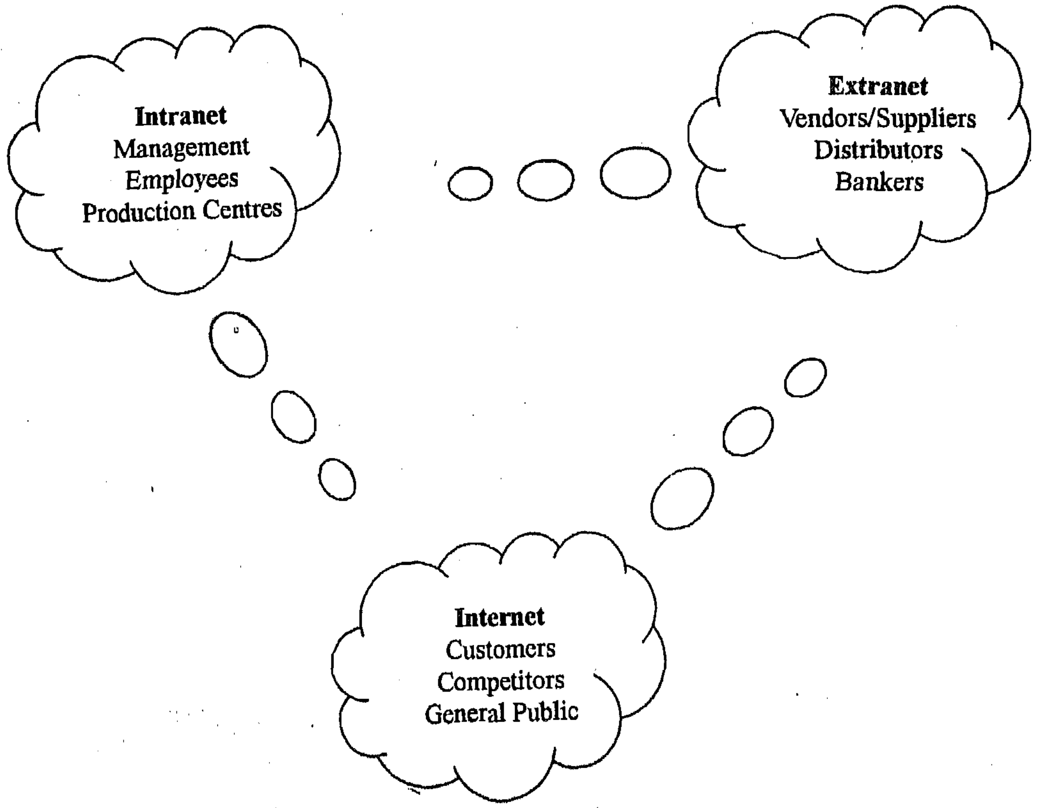

Figure 16.1 : The Internet, Intranet and Extranet

Source: Reproduced from M J Xavier, Marketing in the New Millennium

When a company has properly liked its business system comprising intranet, extranet and over the internet, when a customer places an order by the internet, it gets communicated to the company, distributors and the bankers. Goods are shipped by the distributor on intimation to the company and the banker who will collect the money and credit the supplier. When the stock with the distributor falls to a specified level, the company replenishes it. All these transactions take place on the real time. The important requirements for e-commerce is a home page and tie-up with credit card companies for collection (the dormancy of credit card system is a serious handicap for e-commerce in India), and courier company for delivery of goods. If these linkages are assured, e-commerce can be extended to any part of the globe.

Check Your Progress B

1. Examine the scope for improving your business by the modern information technology, or you becoming a netpreneur.

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16.4 SOCIAL, ETHICAL AND ENVIRONMENTAL ISSUES

There are several social, ethical and environmental issues confronting international business. While the genuine issues should be appreciated and attended to, the unfortunate thing, however, is that at times these issues are raised deliberately to harass certain firms or countries that do not toe the line of the importers or host countries. They are also used as non-tariff barriers to business, particularly by developed countries against developing countries.

One of the important social issues in the developed countries in respect of business with the developing countries pertains to treatment of labour and children. Child labour used in the manufacture of products exported from the developing countries is widely criticised by many in the developed countries. There is a protest against this in the developing countries too. For example, it is alleged that child labour is used by the carpet industry in India and some other countries and social activists in the developed nations demand ban on the import of goods employing child labour. Consumers are called upon to boycott such goods.

A similar issue is the sweat labour. The argument here is that goods manufactured by labour working in inhuman/unhealthy working conditions and not getting fair wages should be banned or boycotted. Certain important developing countries exports, like garments, are alleged to be suffering from such a problem. Some multinationals are criticised for sourcing products from developing countries benefiting from sweat labour.

While some of the criticisms may be valid, it is also a fact that the enterprises in the developed countries, which are adversely affected by the cheap imports from developing countries, blow up the issues to serve their vested interests. A very complex and controversial issue is that of ethics. The varying ethical norms and social values many a time make the business environment very intricate and perplexing in international business. The term business ethics refers to the system of moral principles and rules of conduct applied to business.

That there should be business ethics means business should be conducted according to certain self-recognised moral standards. There is, however, no unanimity of opinion regarding what constitutes business ethics. An international marketer often finds that the norms of ethics vary from country to country. What is ethically wrong or condemned in one nation may not be so in another. In this connection, Peter Drucker very appropriately remarks "There is neither a separate ethics of business, nor is one needed. For, men and women do not acquire exemption from ordinary rules of personal behaviour because of their work or job. Nor, however, do they cease to be human beings when appointed vice president, city manager, or college dean. And there have always been a number of people who cheat, steal, lie, bribe or take bribes. The problem is one of moral values and moral education of the individual, of the family, of the school."

Bribery, pay offs or kickbacks are common in business in many countries. However, the extent and intensity of it vary from country to country. In some countries there may be a common practice with government officials and other employees. The law in respect of such practices also varies among countries.

According to regulations in some countries, while bribing is illegal within the country, bribing by that nation's firms in foreign markets to get or conduct business is not illegal because of the feeling that bribing is inevitable in some markets. The position appears to be that "morality only exists within a culture. And it is not for us to say what is moral in someone else's culture".

Several West European countries either condone bribery or look the other way – such expenses are tax deductable upto a certain amount in some countries. However, the US Foreign Corrupt Practices Act of 1977 prohibits a firm from making or authorising payments, offers, promises, or gifts for the purpose of corruptly influencing action by governments or their officials in order to obtain or retain orders for a company. American businessmen complain that they are severely handicapped because of the legislation when they have to compete with those who are not so regulated.

Whatever may be the legal position regarding bribing, it is basically a question of moral values and self-regulation. Some people, who hold that bribing politicians and/or officials to get business is unethical, feel that paying the lower levels is not unfair if the papers don't move normally otherwise.

Environmental issues have been engaging increasing discussion in the international business horizon. As in the case of the social issues, the environmental issues that are raised are mostly those which disadvantage the developing countries, ignoring or relegating to the background several serious issues for which the developed nations and firms from such nations can be held guilty.

Some countries prohibit import of goods which cause ecological damage. For example, the USA has banned the import of shrimp harvested without turtle excluder device because of its concern for the endangered sea turtles. There are other instances of developed countries insisting on use of biologically degradable material for packaging, use of vegetable dyes for printing etc. Countries like India are affected by it.

Developing countries are affected by the relocation of polluting industries from the developed to the developing ones. Similarly, several products which are banned in the developed nations are marketed in the underdeveloped world.

The dumping of nuclear and hazardous wastes in developing countries and the shifting of polluting industries to the developing countries impose heavy social costs on them. The indiscriminate exploitation of the natural resources of the developing countries to satisfy global demand also cause ecological problems.

When the multinationals employ, in the developing nations, polluting technologies which are not allowed in the developed countries or do not care for the ecology as much as they do in their own nations, it becomes essentially a question of ethics. Another problem is that sometimes environmental issues are used mainly as a trade barrier or a coercive measure by the developed countries rather than for genuine reasons.

16.5 LET US SUM UP

Global competition is growing in depth and width. Many industries across the world are dominated by multinational firms. Mergers and acquisitions are reducing the number of major players and consolidating the position of MNCs in a number of industries. However, a number of new firms have been becoming important global players in several industries. Similarly, small firms also play a very important part in global business.

Advances in information technology have been dramatically changing the way global business is conducted e-commerce and e-business are growing very rapidly. Countries and companies which fail to keep pace with such developments are likely to be left far behind in global business.

There are a number of social, ethical and environmental issues which affect international business. While some of these issues may be genuine, some are raised to harass developing countries or firms which do not toe the political or economic line of the developed nations. They are also used as business barriers. Many a time there is a bias against developing nations in the way these issues are raised.

16.6 KEY WORDS

E-business: Business system properly networked by modern information technology, so that all the major constituents of the system – customers, suppliers, bankers, departments of the company, etc., are systematically interlinked for the efficient conduct of the business.

E-commerce: Commerce conducted by use of electronic information technology.

Internet: A world wide network of inter-connected computer systems and a series of several different types of computer services.

Merger and Acquisition: Merging together of two or more firms into one entity or taking over of one firm by another.

Telemarketing: The use of modern communications technology such as telephone, fax, computer and internet for marketing interaction between buyers and sellers.

16.7 TERMINAL QUESTIONS

1. Discuss the emerging global competitive environment. Examine whether small enterprises have scope in the emerging global business environment.
2. Explain how mergers and acquisitions affect global competition.
3. Examine how advances in information technology impact business.
4. Discuss some of the important social, ethical, and environmental issues in international business.
5. Write short notes on the following: (a) Telemarketing; (b) e-business.

SOME USEFUL BOOKS

Francis Charunilam. *International Marketing*, Himalaya Publishing House, New Delhi.

Philip R. Cateora, *International Marketing*, McGraw-Hill, Chicago.

San Onkuisit and John J. Shaw. *International Marketing Analysis and Strategies*, Prentice Hall India, New Delhi.

Warren J. Keegan. *Global Marketing Management*, Prentice Hall India, New Delhi.

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