We Study External Environments to:

- Understand the effects of these systems on our business plans
- Identify change in external systems
  - Fads – unpredictable, short lived changes
  - Trends – changes in current patterns of behavior
  - Megatrends – large trends
- So that we can develop appropriate business plans and marketing mixes to match future demand.

Understand What Statistics Mean

- How many changes of Government (Prime Ministers) has Italy had during the past 10 Years?
  - (answer: 9)
- What does this mean in terms of Business?

The Macroenvironment

- Consists of the forces that shape opportunities, and
- pose threats to the organization, within which the organization exists, but about which the organization has no power or control.

Can you get There from here?

- When choosing new markets to enter, it is always necessary to consider the supply channel first.
- In spite of average density figures, people tend to live in urban areas and cows on farms.
- Determine where are the target customers located as well as where and how they shop.
Geographic Environment

- Logisticians are among the best friends and most feared allies of every officer in battle and the marketplace.
- They are the ones responsible for supplying every operation, and
- "They are the ones peering over the general's shoulder ever ready to say: "you can't do that."

For this reason, supply-chain management can be a major source of competitive advantage for the international firm.

Key Geographic/Demographic Trends

- People are continuing to migrate into and around metropolitan centers
- New opportunities in communication affect location decisions
- Congestion – in all major urban centers worldwide will lead to new solutions in work-life and home locations in terms of both time and space.

Climate

- Determine and monitor climatic characteristics, which may affect product use.
  - Temperature
  - Humidity
  - Rainfall
  - Northern / Southern Hemisphere

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HISTORY IS SUBJECTIVE

- The Placement of the continents on maps
- Descriptions of the Monroe Doctrine limiting foreign European intervention in the Americas, and the Manifest Destiny of the United States to rule from Sea to shining Sea are illustrative.

The Concept of Sustainable Development: A Key Proposition

- There is a crucial and potentially positive link between economic development and the environment.
- The costs of inappropriate economic policies on the environment are very high.
- Some say: Economic growth must be guided by prices that incorporate environmental values.
- Addressing environmental problems requires that poverty be reduced.
- Environmental problems pay no respect to borders.

Economic Environment

- Different economies (at different stages of what is called economic development) have various levels of consumption of various products.
  - Post-industrial
  - Industrial Economies
  - Industrializing Economies
  - Raw materials exporting Economies
  - subsistence Economies
### World Bank Classifications of Countries by Income

<table>
<thead>
<tr>
<th>CLASSIFICATION</th>
<th>2002 INCOME</th>
<th>GDP/Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Income</td>
<td>64</td>
<td>$735 or less</td>
</tr>
<tr>
<td>Middle Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lower Middle Income</td>
<td>54</td>
<td>$736 - $2,935</td>
</tr>
<tr>
<td>Upper Middle Income</td>
<td>34</td>
<td>$2,936 - $9,075</td>
</tr>
<tr>
<td>High Income</td>
<td>56</td>
<td>$9,076 or more</td>
</tr>
</tbody>
</table>

### Definitions of Average Income vary

- **GDP/Capita** (often shown in US Dollar equivalents)
- **PPP** = purchasing power parity = the number of units of a local currency required to purchase a specified basket of goods and services that could be purchased for $1 in the U.S.

### Key Economic Variables

- **Economic Variables**

  - GDP or GNP = GNI: total value of goods and services produced by domestic factors of production.
  - GDP is very similar: total value of goods and services produced domestically. The average income is an important variable, too.
  - Keniche Ohmae predicts that as the average income (GDP) in a society approaches $10,000 the consumer products desired by the mass market approximate those found in all developed economies.

  For Example: The personal automobile is demanded – regardless of road/parking availability.

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### Key Economic Variables: Income Distribution

- People buy products.
- They can use Current income, savings, or credit. Attitudes toward the importance of savings, as well as the use of credit varies from society to society.
  - The availability of all of these sources varies across populations, across geographic locations, and across age groups in a society.
  - There are luxury markets in poor countries and poor markets in rich countries.

### Key Economic Variables Inflation

- The level of inflation is important to all businesses (maybe not quite to the extent that the Germans emphasise this factor).
- Inflation defined: The growth in the money supply relative to the growth in goods and services in an economy in a period (year).
- Relative levels of inflation are critical in international business.

### Competitive Environment

- Firms exist in one of four competitive environments:
  1. **Competitive**: homogeneous supply, homogeneous demand
  2. **Monopolistically Competitive**: heterogeneous supply and heterogeneous demand
  3. **Oligopolies**: Few sellers, Many buyers, relatively homogeneous products
  4. **Monopolies**: One seller and many buyers
**Technological Environment**

- Technology changes rapidly and diffuses rapidly. This affects the ability of firms to compete in global markets.
- The Internet is changing competitive advantage and providing market access to new competitors.

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**Technological Environment**

- The life cycle of products is different in different countries
  - Markets are different stages
    - Competitive environment and required strategy differs with life cycle stage
    - Market attractiveness differs at different stages of life cycle