

## CHAPTER 7

# Global Trade

## Sections

7.1 Global Business Environment

7.2 Global Marketplace



College  
and Career  
Readiness

## Reading Prep

As you read this chapter, determine the author's point of view or purpose. What aspects of the text help establish this purpose or point of view?

## Check Your Marketing IQ

Before you begin the chapter, see what you already know about marketing by taking the chapter pretest. The pretest is available at [www.g-wlearning.com/marketing/](http://www.g-wlearning.com/marketing/).

# DECA Emerging Leaders

## Principles of Hospitality and Tourism Event

**Career Cluster:** Hospitality and Tourism

**Instructional Area:** Human Resources  
Management/Professional Development

### Knowledge and Skills Developed

Participants will develop many 21st century skills desired by today's employers in the following categories:

- communication and collaboration
- creativity and innovation
- critical thinking and problem solving
- flexibility and adaptability
- information literacy
- initiative and self-direction
- leadership and responsibility
- productivity and accountability
- social and cross-cultural skills

### Performance Indicators

- Discuss the nature of human resources management.
- Assess personal interests and skills needed for success in business.
- Orient new employees.
- Analyze employer expectations in the business environment.

### Purpose

Designed for first-year DECA members who are enrolled in introductory-level principles of marketing/business courses, the event measures the student's proficiency in those knowledge and skills identified by career practitioners as common academic and technical content in hospitality and tourism. This event consists of a 100-question, multiple-choice, business administration core exam and a business situation. Participants are not informed in advance of the performance indicators to be evaluated.

### Procedure

1. The event will be presented to you through your reading of these instructions, including the performance indicators and business situation. You will have ten minutes to review this information to determine how you will perform the task and demonstrate the performance indicators of this

event. During the preparation period, you may make notes to use during the business situation.

2. You will have up to ten minutes to role-play your situation with a judge. You may have more than one judge.
3. You will be evaluated on how well you meet the performance indicators of this event.
4. Turn in all your notes and event materials when you have completed the role-play.

### Business Situation

You are to assume the role of a human resources department full-time employee at the Majestic Hotel, a family-oriented hotel chain. You have worked at the Majestic Hotel for several years and have the knowledge and understanding of the importance of human resources management and professional development.

Majestic Hotel is currently experiencing an extremely high turnover of employees. This turnover is causing a significant decrease in hotel profits and employee morale. A **new manager (judge)** has just been hired and you have been asked to explain the importance of staff growth and development in order to increase productivity and employee satisfaction.

The new manager (judge) wants you to explain why human resources management and professional development are important to the success and profitability of a business. Your presentation should also address the additional performance indicators listed on the first page of this event.

You will discuss customer relations with the new manager (judge) in the Majestic Hotel general manager's office. The new manager (judge) will begin the role-play by greeting you and asking you to explain your knowledge and understanding of the importance of human resources management and professional development to the success and profitability of a business. Following your explanation, the new manager (judge) will ask you additional questions.

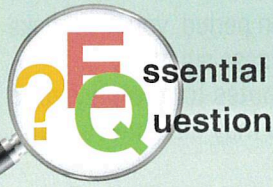
### Critical Thinking

1. What is the value of employee orientation?
2. What are several ways to reward employee loyalty?
3. What are several current employment trends in the hospitality and tourism industry?

Visit [www.deca.org](http://www.deca.org) for more information.

Published by DECA Inc. Copyright © by DECA Inc. No part of this publication may be reproduced for resale without written permission from the publisher. Printed in the United States of America.

## Section 7.1



How are you connected to the global economy?

# Global Business Environment

## Learning Objectives

- LO 7.1-1 Cite reasons nations engage in international trade.
- LO 7.1-2 Discuss currency in the global marketplace.
- LO 7.1-3 Identify ways governments play a role in international business.

## Key Terms

|                       |                 |
|-----------------------|-----------------|
| globalization         | trade policy    |
| international trade   | protectionism   |
| absolute advantage    | trade barrier   |
| comparative advantage | embargo         |
| export                | trade sanction  |
| import                | tariff          |
| balance of trade      | quota           |
| balance of payments   | trade agreement |
| foreign exchange rate | trading bloc    |
| floating currency     |                 |

LO  
7.1-1

## Globalization

**Globalization** is the connection made among nations worldwide when economies freely move goods, labor, and money across borders. The global environment in which businesses operate includes modern technology that allows communication to flow easily around the world. It has created opportunities for nations to connect by opening new markets, creating jobs, and developing political relationships.

The terms *global trade* and *international trade* are sometimes used interchangeably. However, there is a slight difference. *Global* means the world, such as *global economy*. **International trade** is the buying and selling of goods and services between two or more specific nations rather than all nations in the world. For example, an *international treaty* is signed by specific countries rather than all the countries in the world.



smereka/Shutterstock.com

The United States has an absolute advantage in wheat production over many countries. *How might a country's absolute advantages impact business opportunities in that country?*

Nations engage in international trade because most countries do not have enough factors of production to produce all the goods and services needed by their population. The available land,

labor, capital, and entrepreneurship vary by country. Trading goods and services produced by each country's businesses allows more needs and wants to be met.

An **absolute advantage** exists when a country can produce goods more efficiently and at a lower cost than another country. The United States has an absolute advantage over Costa Rica in the production of wheat. Costa Rica has an absolute advantage over the United States in the production of bananas. The United States can benefit from trading wheat for bananas.

A **comparative advantage** exists when a country specializes in products that it can produce efficiently. For example, the United States might be very efficient at producing both aircraft and certain items of clothing. However, producing aircraft might be much more profitable. As a result, the United States can benefit by specializing in aircraft production and buying clothing from another country.

International trade takes place through exporting and importing. An **export** is a product that is produced within a country's borders and sold in another country. An **import** is a product that is brought into a country from outside its borders. Figure 7-1 shows US exports to the top ten foreign markets in 2016. Exporting and importing has created a *global dependency*. This means countries depend on each other for products.

| United States Exports in 2016 |                                       |                                                 |
|-------------------------------|---------------------------------------|-------------------------------------------------|
| Country/<br>Region            | Export Dollar<br>Amount<br>(billions) | Percent of Total<br>US International<br>Exports |
| Canada                        | \$ 266.8                              | 18.3%                                           |
| Mexico                        | 231.0                                 | 15.9                                            |
| China                         | 115.8                                 | 8.0                                             |
| Japan                         | 63.3                                  | 4.4                                             |
| United Kingdom                | 55.4                                  | 3.8                                             |
| Germany                       | 49.4                                  | 3.4                                             |
| South Korea                   | 42.3                                  | 2.9                                             |
| Netherlands                   | 40.3                                  | 2.8                                             |
| Hong Kong                     | 34.9                                  | 2.4                                             |
| Belgium                       | 32.3                                  | 2.2                                             |
| <b>World Total</b>            | <b>\$1,454.6</b>                      | <b>100.0%</b>                                   |

Source: U.S. Department of Commerce, Census Bureau, Economic Indicator Division;  
Goodheart-Willcox Publisher

**Figure 7-1** The data in this chart reflects US exports to the top ten foreign markets in 2016.

All countries measure and record the economic exchanges that take place with all other trading countries. The **balance of trade** is the difference between a nation's exports and its imports. A nation that has more exports than imports has a positive balance of trade, or a *trade surplus*. When a nation imports more products than it exports, the result is a negative balance of trade, or a *trade deficit*.

The **balance of payments** is the total amount of money that comes in to a country, minus the total amount of money that goes out for a specific period of time. This includes all the goods and services a country imports and exports, as well as all the country's international financial transactions. Financial transactions include investments in stocks, real estate, and international companies. It also includes tourism. A country has a *positive* balance of payments when more money comes into the country than leaves it. If more money leaves a country than comes into it, a *negative* balance of payments is created.

L0  
7.1-2

## Currency

Currency is money. When businesses, individuals, or governments in the same country buy and sell goods to one another, they use the same currency. Most countries have a unique currency and typically will only accept this currency for business exchanges. For example, a US business that buys from Europe needs to exchange dollars for euros to complete the financial transaction. This can become complicated because the value of each country's currency is different when compared to other currencies. Factors that affect the way a nation's currency functions in the global market include the foreign exchange rate and the currency value.

The **foreign exchange rate** is the cost to convert one currency into another. Exchange rates are needed because currencies have different values. For example, the value of one US dollar (USD) is not equal to one British pound (GBP). The exchange rate helps determine how much in British pounds is needed to equal one US dollar. Figure 7-2 shows examples of five foreign currency exchange rates.

When buying and selling products in countries that use different currencies, it is important to understand the value of the foreign currencies.



James L. Davidson/Shutterstock.com

Most countries have a unique currency and will only accept their own currency for business exchanges.

*Why do you think different countries developed unique currencies?*

The *foreign exchange market (FOREX)* is a financial marketplace for buying and selling the currencies of different countries. It works like a stock market for foreign currencies.

The exchange rate of currency is often considered to be an indicator of the economy's health. The rates can be influenced by many factors:

- political stability or instability in the world
- nations changing their laws
- nations in dispute with other nations
- economic conditions, such as interest rates

Today, most currencies are floating. A **floating currency** is one with an exchange rate that is set by the market forces of supply and demand in the foreign exchange market. Exchange rates can vary from day to day and even hour to hour. This fluctuation in exchange rates can make financial exchanges complicated.

The US dollar is a floating currency. It can strengthen or weaken against other currencies.

Sometimes, the value of a foreign currency declines in US dollars. When this happens, it means the value of the US dollar has *strengthened*. A stronger dollar can buy more imports. However, exports then become more expensive to foreign buyers. When the value of foreign currency increases in US dollars, it means the value of the US dollar has *weakened*. A weaker dollar can buy fewer imports. However, exports then become less expensive to foreign buyers.

LO  
7.1-3

## Role of Government in International Trade

Governments regulate many aspects of international trade for various reasons. Most governments try to protect domestic companies from foreign competitors. They may also want to put pressure on foreign governments for political reasons. Trade policy, trade regulations, and trade agreements are ways in which governments play a role in international trade.



### Marketing Ethics

#### Sourcing

Ethical businesses try to purchase raw materials or goods from reputable foreign suppliers whose products are manufactured in sustainable and environmentally safe conditions. They also look for suppliers who treat their employees well. However, sourcing products overseas in an ethical manner is often challenging because other countries have standards that are different from those in the United States.

### Currency Exchange Rates (Value per USD)

| Currency                  | December 31, 2014 | December 31, 2015 | December 31, 2016 |
|---------------------------|-------------------|-------------------|-------------------|
| British Pound (GBP)       | £0.64             | £0.68             | £0.81             |
| Canadian Dollar (CAD)     | \$1.16            | \$1.38            | \$1.34            |
| European Union Euro (EUR) | €0.82             | €0.92             | €0.95             |
| Japanese Yen (JPY)        | ¥119.76           | ¥120.31           | ¥116.97           |
| Mexican Peso (MXN)        | \$14.74           | \$17.25           | \$20.27           |

Source: Board of Governors of the Federal Reserve System; Goodheart-Willcox Publisher

**Figure 7-2** The value of foreign currencies tends to fluctuate over time.

## Trade Policy

**Trade policy** is the body of laws related to the exchange of goods and services for international trade. Most governments believe that fair and open trade among nations benefits everyone. Governments are constantly negotiating trade terms with one another. Disagreements among governments are often related to access to markets. Trade disputes may arise over certain policies and practices. This can create an unfair advantage or disadvantage for at least one of the trading partners.

## Trade Regulations

The nature of trade regulations is to promote fair competition and honest business practices in the global marketplace. Trade regulations may be used to prevent hazardous products from entering a country. They are also used to put political pressure on foreign governments and protect domestic businesses from foreign competitors.

**Protectionism** is a policy of protecting a country's domestic industries by enforcing trade regulations on foreign competitors. Methods used in protectionism are trade barriers such as tariffs, quotas, and other regulations. Protectionist policies can work against the goal of free trade.

Governmental policies that regulate trade can restrict or discourage import activity through trade barriers. A **trade barrier** is any governmental action taken to control or limit the amount of imports. There are several types of trade barriers, including embargos, tariffs, and quotas.

An **embargo** is a governmental order that prohibits trade with a foreign country. A *total embargo* is the most severe trade restriction. A **trade sanction** is an embargo that affects only certain goods. For example, trade sanctions can prohibit the import of a specific product for public health reasons.

A **tariff** is a governmental tax on imported goods. A tariff may also be called a *duty*, *customs duty*, or *import duty*. There are two reasons governments impose tariffs: revenue and protection. Tariffs generate revenue for the government because the tax is paid on each related product. Imposing tariffs also protects domestic businesses. The additional tax makes imported products more expensive for consumers than competing products available from domestic businesses.

A **quota** is a limit on the amount of a product imported into a country during a specific period

of time. For example, the United States has quotas on sugar, some textiles, tuna, beef, certain dairy products, and peanuts. Import quotas are meant to protect domestic producers by limiting foreign competition.

Governments use import regulations to protect the health and safety of citizens from dangerous imported products. The United States has laws controlling hazardous materials, firearms, and drugs coming into the country. There are also laws regulating plants, animals, and food that may bring pests or diseases into the country. Endangered plant and animal species and products made from them are banned under the US Endangered Species Act.

## Trade Agreements

The United States has trade agreements and partnerships with many individual nations and regions around the world. A **trade agreement** is a document listing the conditions and terms for importing and exporting products between countries. The goal of trade agreements is to create economic benefits and opportunities for all participating nations by allowing free trade and investing across their borders.

The *World Trade Organization (WTO)* is a global organization that negotiates trade agreements and enforces a system of trade rules for its member countries. It is composed of over 160 nations around the world that have signed the WTO's international commerce agreements. These



monticello/Shutterstock.com

Laws regulate the import of plants, animals, and food that may bring pests or diseases into the country.

**What consequences may result from importing a product that introduces pests or diseases?**

agreements outline the rights and responsibilities of member nations that engage in international trade with each other. In addition, the WTO handles trade-related disputes that arise between members. Most countries that engage in international trade belong to the WTO.

The *North American Free Trade Agreement (NAFTA)* is a trade agreement between the United States, Canada, and Mexico that was established in 1994. The agreement lowered trade barriers and opened markets among the three countries. Trade has increased dramatically among the three nations since NAFTA went into effect. Canada and Mexico are top trading partners of the United States.

A **trading bloc** is a group of countries that has joined together to trade as if they were a single country. A trading bloc is usually a free-trade zone, as well. A *free-trade zone* is a group of countries that have reduced or eliminated trade barriers among themselves.

The *European Union (EU)* is a major trading bloc and free-trade zone in the modern global



## Employability Skills

### Resilience

*Resilience* is a person's ability to cope with and recover from change or adversity. Resilient people are able to aptly handle challenges in one aspect of their lives while not letting it affect other aspects. They can bounce back even when they feel as if they have been knocked down.

economy. It currently consists of 28 countries in Europe and is the largest trade sector in the world. The EU has one of the largest GDPs and is the largest importer and exporter of goods and services. Many of the EU countries share the euro as the common currency. The main trading partners of the EU include the United States, China, Switzerland, and Russia.

## Section 7.1 Review

### Check Your Understanding

1. What is the difference between global trade and international trade?
2. Why are exchange rates needed?
3. When the value of a foreign currency increases in US dollars, has the US dollar strengthened or weakened?
4. List examples of trade regulations.
5. Which organization regulates international free-trade practices on a global scale?

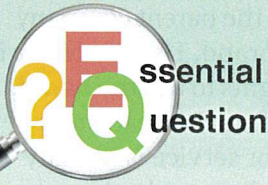
### Build Your Vocabulary

As you progress through this text, develop a personal glossary of key terms. This will help you build your vocabulary and prepare you for a career. Write a definition for each of the following terms and add them to your personal glossary.

absolute advantage  
balance of payments  
balance of trade  
comparative advantage  
embargo  
export  
floating currency  
foreign exchange rate  
globalization  
import

international trade  
protectionism  
quota  
tariff  
trade agreement  
trade barrier  
trade policy  
trade sanction  
trading bloc

## Section 7.2



How does the place in which you live impact what you buy?

# Global Marketplace

## Learning Objectives

- LO 7.2-1 Identify ways businesses can enter the global market.
- LO 7.2-2 Discuss the importance of an environmental scan.
- LO 7.2-3 Describe global marketing strategies.

## Key Terms

|                           |                  |
|---------------------------|------------------|
| licensing                 | demographics     |
| franchise                 | culture          |
| joint venture             | diversity        |
| multinational corporation | global marketing |
| offshoring                | standardization  |
| contract manufacturing    | adaptation       |

LO  
7.2-1

## Engaging in Global Business

There are various ways a company can enter the global market and conduct business in foreign countries. These include exporting and importing, as well as other opportunities for international expansion.

### Exports and Imports

Exporting products to foreign markets can benefit businesses and the overall economy. Companies can realize potential new markets and increase their profits. Creating products for export also generates jobs. These jobs mean employment for the citizens of the origin country, as well as new tax dollars for that country. The positive ripple effect is felt throughout that country's economy.

Exporting also presents challenges for companies. These include identifying a target market and handling problems related to communication, shipping, and legal issues. However, these obstacles can often be overcome with careful planning. Export advice and assistance is available to

US businesses from governmental agencies such as the US Department of Commerce.

Importing is another way a domestic company can increase sales potential. This presents the opportunity to introduce a new or different product to the domestic market. For example, a food



*EvrenKalinbacak/Shutterstock.com*

Both importing and exporting products can increase the sales potential of a business. *In what ways does the expansion of global business benefit the average consumer?*

company might increase its sales by importing a pasta sauce from Italy that is new to US customers.

Importing also presents business challenges. Imports must meet the same US standards as domestic products. For example, food and drugs must comply with standards of the US Food and Drug Administration. In addition, imports can be restricted by trade quotas set by the United States. Importers often hire specialists known as *customs brokers* to handle the legal requirements of foreign trade.

## Licensing

**Licensing** is when a business sells the right to manufacture its products or use its trademark. Licensing involves selling the rights in exchange for a fee, also known as a royalty. A *royalty* is an amount of money paid to the original creator of something, such as a company brand. The company that sells the license is the *licensor*. The buyer of the license is the *licensee*.

An example of a licensing agreement is when Walt Disney entered the Japanese market as the licensor of Tokyo Disneyland. The amusement park carried the Disney name but was built and operated by Oriental Land Company.

Licensing can benefit both parties. The licensor earns revenue, often for little or no extra work. The licensee gets product into the market quickly. However, there are potential problems that arise when licensing. Examples are improper use of the trademark or product and failure to deliver the material or property to the licensee.

## Franchising

A **franchise** is the right to sell a company's goods or services in a specific area in return for royalty fees. The *franchisor* is the parent company that owns the chain and the brand. The *franchisee* is the company that buys the rights to use the brand.

Franchising enables the franchisee to enter a market where the product or service is already known. The franchisor provides standards and procedures to get the company organized and in operation. However, buying a franchise can be expensive and maintaining established franchise standards can be challenging.



photopixel/Shutterstock.com

One way a company can enter the global market is to become a part of a franchise business, such as Marriott. *How do franchises support the expansion of global business?*



## Case in Point

### Mattel, Inc.

A company has many decisions to make when planning to go global. These include the culture of the potential market and marketability of the product it wants to sell. Mattel, Inc. decided to capitalize on decades of success in the United States with the Barbie doll and enter the Chinese market. The company built a flagship Barbie store in Shanghai with six floors draped in Barbie's signature pink color. The store also displayed the largest collection of Barbie dolls and related products in the world. In order to attract both young girls and adult women, the store featured a hair and nail salon, customized Barbie dolls, a restaurant and tea lounge, and other unique amenities.

Mattel made a large investment to enter the Chinese market, but the company miscalculated the recognition of their product and the Barbie brand in China. While popularity of Barbie products has remained strong for generations in the United States, Barbie was not widely popular in China and customers did not associate any meaning with the brand. In addition, because Mattel did not source the Barbie products sold in the store from China, many of the products were expensive. Chinese consumers did not hold Barbie as a cultural icon and did not want to pay high-end prices for Barbie-branded merchandise. To many, Barbie dolls were just a toy. Because of these mistakes in marketing strategy, Barbie Shanghai closed after less than two years, costing Mattel tens of millions of dollars.



## Exploring Marketing Careers

### Customer Service

No matter how hard a company works to provide excellent quality in its products or services, customers will occasionally have questions or complaints. How the company handles these can have a huge effect on the success of the company—for better or worse. People who work in customer service are a company's interface or connection with its customers. Typical job titles for these positions include *customer service representative*, *customer service specialist*, *hub associate*, *account service representative*, and *call center representative*.

Some examples of tasks that customer service professionals perform include:

- Provide product or service information to customers in person or by telephone
- Keep records of customer comments and complaints and actions taken to resolve the issues
- Solve customer complaints by exchanging merchandise, offering a refund, or making adjustments to charges
- Refer unresolved issues to the appropriate department for further research
- Recheck to make sure customers' problems have been solved

People skills are of utmost importance for customer service professionals. They must be active listeners, giving their full attention to what the customer is saying. They also must have the ability to speak well and persuasively. They use critical thinking to negotiate solutions that work for the customer and the company. Most customer service positions require a high school diploma and up to a year of on-the-job training. Prior experience in working with the public is also helpful. For more information, access the *Occupational Outlook Handbook* online.

### Joint Venture

A **joint venture** is a partnership of two or more companies that work together for a specific business purpose. Each company remains independent but they share the profits or losses. Joint ventures may be formed between two domestic businesses, or between a domestic and foreign company. Some countries do not allow a foreign business to enter unless it has a joint venture with a domestic company.

An example of an international joint venture is Campbell Soup Company forming a joint venture with local companies in Japan and Malaysia. This enabled Campbell Soup to enter foreign markets without assuming all the risk.

### Multinationals

A **multinational corporation** is a business that operates in more than one country. Multinational corporations often have their corporate headquarters in one country and divisions of the business in another country, or located *offshore*. **Offshoring** is moving sections of a business to another country. General Motors and Johnson & Johnson are examples of multinational corporations.

### Contract Manufacturing

**Contract manufacturing** is transferring production work to another company. This is also known as *outsourcing*. Companies outsource production to avoid capital expenditures, reduce costs, or improve product quality. Many companies outsource work to foreign companies because the operating costs in other countries are lower. This can include the manufacture or assembly of final products or parts. Unfortunately, foreign outsourcing results in lost domestic jobs.

## Global Environmental Scan

LO  
7.2-2

Before completing a marketing plan, a review of the external environment that the business will encounter should be completed. An *environmental scan* is an analysis of the external factors that affect the success of business. One way to complete an environmental scan is to use a *PEST analysis*, which is an evaluation of the political, economic, social, and technological factors in a certain market or geographic region that may impact the success of a business. This process identifies

potential opportunities and threats to a company's business plans and strategies.

The process is also applied to global business strategies. A *global environmental scan* should be completed before the marketing plan is written. A business will face many similar issues for conducting global business as they encounter with their domestic business.

## Political Factors

Political structure is an important external factor for conducting global business. Traditional, command, market, and mixed economies each function differently. The type of economic system may require changes to the business and marketing plans in order for the business to be successful in a foreign country.

The level of stability in a country's government affects the success of businesses that operate within it. Stability also impacts the willingness and ability of consumers to purchase products. Many situations can lead to political instability in a country, such as military conflicts, changes in political leadership, and poor economic conditions.

Laws relating to trade regulation and taxation have a significant impact on businesses. Trade regulations determine the extent to which a company can engage in business within certain markets. A country's tax policy affects the potential success of a business expanding overseas. Some countries have tax policies created to attract foreign businesses, while the tax laws of other countries make it more difficult for a business to be successful.

## Economic Factors

Economic factors affect the ability of consumers to purchase products, as well as the cost of doing business. Examples of economic factors to consider include exchange rate, infrastructure, cost of labor, standard of living, and economic indicators.

### Foreign Exchange Rate

The way a nation's currency functions in the global market affects the operation and profitability of a business. When the US dollar strengthens against a foreign currency, US products become more expensive and less attractive to foreign buyers. When the US dollar weakens against a foreign currency, US products become less expensive and more attractive to foreign buyers.

### Infrastructure

*Infrastructure* consists of the transportation systems and utilities necessary in a modern economy. It is considered a type of capital and is a factor of production. Countries with an up-to-date and stable infrastructure have reliable access to basic necessities, such as clean water, electricity, fuel, and waste removal. They also have access to the transportation, shipping, and communication infrastructure required to conduct business. This can include airports, highways, railways, telephone systems, and Internet services.

### Labor

There are many issues related to a country's labor force that can impact the success of conducting



## You Do the Math

### Currency Conversion

When conducting global business, it is necessary to understand currency conversion. To determine currency exchange, you can use one of the many currency converters found on the Internet.

#### Solve the following problems.

1. You want to buy two books published only in the UK. The prices of the books are listed in British pounds (GBP or £). The cost of the books is £17.98. The current exchange rate is \$1.00 = £0.60797.
  - A. What is the cost of the books in US dollars? (Round to the nearest cent.)
  - B. Shipping from the UK is £9.97. What is the total cost of your purchase including shipping in US dollars?
2. A manufacturer of small home appliances needs to purchase \$3,500 worth of circuit boards from a supplier located in India. The supplier's prices are listed in Indian rupees (INR or ₹). The current exchange rate is \$1.00 = ₹66.00. What is the cost of the circuit boards in rupees?

business abroad. Each country has unique labor laws that determine who can work, the standard number of days and hours of work, and minimum rates of pay. The standard of acceptable working conditions also varies from country to country.

The education and skill level of a country's labor force determines the type of work it is able to do and its overall productivity. For example, countries with a highly educated population have a large pool of workers who are qualified to work in the fields of technology, science, and medicine. The workforce of other countries may be very skilled at efficiently manufacturing consumer goods for an affordable price. Work that requires a higher level of education will cost a business more in labor.

## Standard of Living

*Standard of living* refers to the financial well-being of the average person in a country. The standard of living of people within an economy affects their demand for products, as well as how they go about fulfilling their needs and wants. Businesses evaluate standard of living to determine which products to offer in the market, as well as the potential for earning profits. For example, a furniture company identifies a market where a large portion of the population lives in smaller, efficiency-style housing. Expansive wall units for entertainment systems, oversized sectional couches, and large bedroom sets would not sell in this market due to the standard of living. To be profitable, the company would need to offer smaller-scaled furniture in the market.

## Economic Indicators

The strength of the economy can be measured using certain common economic indicators. Some of the most widely followed indicators of the economy include gross domestic product (GDP), inflation, interest rates, unemployment rate, and the stock and bond markets. These are discussed in detail in Chapter 6.

## Social Factors

Social factors refer to the demographic and cultural aspects within a business environment.

**Demographics** are the qualities of a specific group of people including age, gender, income, ethnicity, education level, occupation, marital status, and family size. Demographic information is used to target a market in a foreign country, just as it is in a business's home country.



Everything/Shutterstock.com

Culture is the shared beliefs, customs, practices, and social behavior of a particular group or nation. *Why is it important for a business to consider culture when considering conducting business in a foreign country?*

**Culture** is the shared beliefs, customs, practices, and social behavior of a particular group or nation. It affects how people think, work, interact, and communicate with others. **Diversity** is the different backgrounds, cultures, or demographics and includes age, race, nationality, gender, mental ability, physical ability, and other qualities that make an individual unique.

The cultural beliefs and values of potential customers in a market affect how they make economic decisions and set economic goals. Cultures vary widely in terms of their beliefs and values. Examples are as follows:

- attitude toward spending, saving, and borrowing money;
- degree to which religious beliefs affect the use of money;
- influence of family in financial decision making;
- role of the individual in society;
- traditional values related to money; and
- value of independence and entrepreneurship.

Culture also influences people's political preferences, such as how involved the government should be in economic issues. The attitudes of potential customers toward topics such as health, environmental issues, and how leisure time should be spent can have a significant impact on whether a product is successful.

Social factors include the customs and expected behaviors related to carrying out business activities, such as meetings, financial transactions, developing business relationships, and other business functions. Social and business etiquette may differ in foreign countries. For example, in

some countries it is customary to bring a gift to the host of a business meeting. In others, this would be an awkward and uncomfortable gesture.

## Technological Factors

Technological factors affect the ease with which a business can operate within a country and the level of productivity possible once the business is in operation. Infrastructure for telephone systems, cellular phone service, Internet connectivity, broadcast media, and transportation are all included in the technological factors a business should evaluate.

Technology also impacts the array of products offered within a country's market and the cost of the products for both businesses to produce and for customers to purchase. The level of technology used in production often determines the productivity level of a company.

## LO 7.2-3 Global Marketing Strategies

**Global marketing** consists of dynamic activities that identify, anticipate, and satisfy customer demand for product in countries worldwide while making a profit for the business. Many companies sell products that can be profitable on a global scale when the correct marketing strategies are applied.

Marketing is important in the global economy because it can help increase international trade. When businesses participate in international trade, they generate competition within the global economy. The competing businesses conduct marketing activities that promote a variety of products at competitive prices for consumers around the world. Successful global marketing can result in profitable businesses, which support international trade activities and the global economy.

Global marketing, similar to marketing domestically, starts with the marketing mix. As you recall, the *marketing mix* is the strategy for using elements of the product, price, place and promotion. It involves making decisions about the four Ps for a specific product or group of products.

## Product

Some businesses have products that are suitable for both domestic and global sales. The product can be sold in both markets without any

changes. A good example is Head & Shoulders shampoo manufactured by Procter & Gamble. The same product is sold globally.

Other products can be sold globally if changes are made. *Product adaptations* customize existing products to the local tastes, expectations, buying habits, and customs of a foreign market. They can be accomplished by changing the ingredients or materials used, the quantity packaged, certain components or functions, or even the name of the product itself.

For example, areas of Africa that have electrical supply grids often experience power surges and outages. Samsung Electronics adapted their LED televisions for the instability of the region's power supply by adding functionality that allows the television to operate on both AC and DC power. The televisions can be powered by the AC electrical supply from household outlets and DC electrical supply from other power sources, such as solar cells and batteries.

## Price

Determining the selling price of a product for global markets can be challenging. As with pricing for the domestic market, many factors have to be taken into consideration. If the product is exported, many costs must be considered. If the product is made in the country in which it is sold, the cost to produce it could be more or less than exporting. Global markets may be more price-sensitive than the domestic market and profit margins may be less. Much planning and research is necessary when determining pricing strategies.

## Place

Place decisions involve determining when, where, and how products get to customers. It involves distribution strategies to get the product to the consumer. Distributing to foreign countries involves a vast and well-planned supply chain. A *supply chain* is the businesses, people, and activities involved in turning raw materials into products and delivering them to the end users.

## Promotion

**Standardization** is applying consistent promotion strategies to the marketing of a product regardless of the specific market. One product and one message create a uniform perception of the brand. Using a standardization strategy saves the business



Microsoft applies consistent promotional strategies to the marketing of its products regardless of the specific market. *How might consistent promotional strategies contribute to a company's image?*

money by avoiding costs related to the promotion campaigns. A good example of standardization is Microsoft. No matter where the product is sold, marketing standardization is applied.

However, for many companies, a standardized global strategy does not address the differences in culture, distinct preferences, and other unique characteristics among customers in various foreign markets. Ignoring these factors may make

products less appealing or completely unappealing to global market customers. This can put the profits of a company in jeopardy.

In marketing, **adaptation** is changing the marketing strategies to meet the preferences and demands of customers in a specific market. This strategy considers the local culture and economy that affect customers in the market. The goal of the adaptation strategy is to make an existing product appeal to a new market.

Adaptation modifies strategies and elements of promotion to align with the regulations, culture, and social expectations of a local market. This includes using graphics, packaging, slogans, and advertisements that are acceptable and appealing in a foreign market. For example, television advertising directed at children is prohibited in Sweden and Norway. When planning promotional activities in these markets, businesses must ensure that the message and appeal of the promotions are directed at adults.

Adaptation also includes changes made to conform to local laws and regulations. This may include using the local language on packaging, pricing in the local currency, stating contents in local units of measure, and product warning and instruction requirements.

## Section 7.2 Review

### Check Your Understanding

1. What types of challenges do businesses face when exporting?
2. How does licensing benefit both the licensor and the licensee?
3. When conducting a global environmental scan, what four factors should be evaluated?
4. What are product adaptations?
5. Explain the difference between standardization and adaptation strategies.

### Build Your Vocabulary

As you progress through this text, develop a personal glossary of key terms. This will help you build your vocabulary and prepare you for a career. Write a definition for each of the following terms and add them to your personal glossary.

adaptation  
contract manufacturing  
culture  
demographics  
diversity  
franchise

global marketing  
joint venture  
licensing  
multinational corporation  
offshoring  
standardization

## Chapter Summary

### Section 7.1 Global Business Environment

#### LO 7.1-1 Cite reasons nations engage in international trade.

Nations engage in international trade because most countries do not have the factors of production needed to produce all the goods and services needed by their population. International trade allows more of the needs and wants of consumers to be met.

#### LO 7.1-2 Discuss currency in the global marketplace.

The value of a country's currency is different when compared to other currencies. Factors that affect the way a nation's currency functions in the global market include the foreign exchange rate and the currency value. The exchange rate of currency is often considered to be an indicator of the economy's health.

#### LO 7.1-3 Identify ways governments play a role in international business.

Trade policy, trade regulations, and trade agreements are ways in which governments play a role in international trade. Governmental policies can restrict or discourage import activity through trade barriers such as embargos, tariffs, and quotas. The goal of trade agreements is to create economic benefits and opportunities by allowing free trade and investing across their borders.

### Section 7.2 Global Marketplace

#### LO 7.2-1 Identify ways businesses can enter the global market.

A domestic business can enter a global market in various ways. Exporting and importing are obvious ways of conducting international business. Licensing, franchising, joint ventures, multinationals,

and contract manufacturing may also provide a company with growth opportunities in global markets.

#### LO 7.2-2 Discuss the importance of an environmental scan.

An environmental scan is an analysis of the external factors that affect the success of business, including potential political, economic, social, and technological opportunities and threats to a company's business plans and strategies.

#### LO 7.2-3 Describe global marketing strategies.

Global marketing consists of dynamic activities that identify, anticipate, and satisfy customer demand for product in countries worldwide while making a profit for the business. It involves making decisions about the four Ps for a specific product or group of products.

## Check Your Marketing IQ

Now that you have completed the chapter, see what you have learned about marketing by taking the chapter posttest. The posttest is available at [www.g-wlearning.com/marketing/](http://www.g-wlearning.com/marketing/).

## Review Your Knowledge

1. Cite reasons nations engage in international trade.
2. Discuss currency in the global marketplace.
3. Provide an example of factors that can affect the exchange rate of currency.
4. Identify examples of barriers to trade.
5. Identify ways governments play a role in international business.
6. Identify ways businesses can enter the global market.
7. Explain struggles encountered by companies engaging in exporting, importing, and contract manufacturing.
8. Discuss the importance of an environmental scan.

9. Explain how culture and political structure affect international trade.
10. Describe global marketing strategies.

## Apply Your Knowledge

1. How might diversity and cultural differences in the global marketplace impact the marketing plan for the company you selected?
2. Explain the impact of imports and exports on the US economy. How might your company benefit? Are there negative aspects to your company participating in importing or exporting activities? Write several paragraphs to explain your answers.
3. Assume your marketing plan will include global marketing strategies. Outline items to evaluate in an environmental scan in order to create a successful global marketing plan.
4. In order to develop global marketing strategies, you will need to determine the marketing mix for your product that will be marketed internationally. Describe each of the four Ps of your product's marketing mix as they apply to the global marketplace.
5. Assume the company you selected will be expanding its business operations through exporting. Identify potential strategies to include in your marketing plan for entering the global market through exporting.
6. Describe how the foreign exchange rate can affect the buying power of the US dollar and your business..
7. A US company makes furniture and uses large amounts of exotic woods. How will quotas on imported wood affect the price of the product and the marketing plan?
8. A restaurant chain that specializes in Stromboli sandwiches is considering opening restaurants in a foreign country. However, the company discovered that Stromboli sandwiches are virtually unknown there. Identify a potential advantage and disadvantage of expanding into this new market.
9. The management team of the business you selected is considering entering the global market. What strategy or strategies would

you recommend for this company to enter the global market: exporting, importing, licensing, franchising, joint venture, expanding to a multinational, or contract manufacturing? Explain the pros and cons of the option(s) you choose to recommend.

10. Describe potential barriers to communication that can occur when conducting international business. How can your company prepare itself for intercultural communication?

## Apply Your Math Skills

An important component of a global marketing plan is to show statistical evidence of the factors that can lead to success. Communicating marketing facts and figures using visuals is typically more meaningful and engaging for meeting participants. Apply your math skills to solve the following problems.

1. On a sheet of paper, draw a bar graph that shows the amount of exports for each of the top five countries in 2016. Use the data from Figure 7-1. List the top five countries on the horizontal axis and the dollar amount (in billions) on the vertical axis.
2. Your company had the following sales in Canada over these five years:  
 2013: \$0  
 2014: \$10,000  
 2015: \$35,000  
 2016: \$75,000  
 2017: \$130,000

On a sheet of paper, draw a line graph to show the growth in sales. List sales on the vertical axis and the years on the horizontal axis.

## Communication Skills



College  
and Career  
Readiness

**Listening** Practice active listening skills while listening to a broadcast business report on the radio, on television, or podcast. Select a single story about foreign or domestic trade and its importance in a global economy. As you are listening, take notes on important points that you hear.

When you are finished, review your notes and conclude whether you were an active listener.

**Writing** Generate ideas that relate to the importance of accurate information. Make a list of reasons you would provide a business owner when explaining why it is important to have accurate exchange rates when conducting business with a foreign company. After your list is complete, write a paragraph summarizing your reasoning.

**Speaking** The cultural beliefs and values of potential customers in a market affect how they make economic decisions and set economic goals. Prepare a brief speech that summarizes your viewpoint about this statement. Present the information clearly, concisely, and logically so the audience can follow your line of reasoning, organization, and the development of your ideas.

## Internet Research

**Global Currencies** Select three countries whose currency you desire to research. Next, locate a currency conversion calculator online. Determine how much each type of currency is worth in US dollars. In which countries is the dollar worth more than it is in the United States? In what countries is it worth less?

**Protectionism** Perform online research about *US protectionism*. Cite a recent example from the news in which US protectionism has been critiqued, defended, or referenced. Compose an original argument for or against US protectionism. Support your position with evidence. Are there any sanctions affecting a given industry or country that you would recommend be removed or kept in place?

**Product Adaptations** Identify a product that could be adapted for the market in a foreign country. How would the product need to be adapted in order to be successful in this new market? Use online resources to help identify what features may need to be added, removed, or changed.

## Teamwork

Working with your team, discuss the benefits nations derive from forming trade agreements

and trade blocs such as NAFTA, WTO, and the EU. Explain whether you think these benefits flow equitably to all countries involved.

## Portfolio Development



College  
and Career  
Readiness

**Digital File Formats** A portfolio will contain documents you have created electronically, as well as documents in hard copy format that will be digitized. It will be necessary to choose file formats to be used for both types of documents. Before you begin, consider the technology you might use for creating and scanning documents. You will need access to desktop publishing software, scanners, cameras, and other digital equipment or software.

For documents that you create, consider using the default file format to save the files. For example, you could save letters and essays created in Microsoft Word in DOCx format. You could save worksheets created in Microsoft Excel in XLSx format. For presentations that include graphics or video, confirm the file formats necessary for each item. Use the appropriate formats as you create the documents.

Hard copy items will need to be converted to digital format, or *digitized*. Portable document format, or PDF, is a good choice for scanned documents.

Another option is to save all documents as PDF files. Keep in mind that the person reviewing your digital portfolio will need programs that can open these formats to view your files. Having all of the files in the same format can make viewing them easier for others who need to review your portfolio.

1. Decide the strategy you will use for saving documents. Make note of where the technology is available for your use, such as your home computer or the school lab.
2. Document any special instructions needed to use the software or equipment. This will save time when you are ready to create or save files.