

# International Business Strategy

## Lecture Three

### Analyzing Foreign Environment

#### Introduction of Lecture Three

In topic two we looked at foreign investment, theories that explain it, how, and why the government intervenes in it. In this topic we will delve into how business can do market analysis of the foreign markets that they may be interested in. If you recall in our topic one we noted that there are three questions that we will be trying to answer in this course, this topic will be helping the firm narrow down on the **where** question. With globalization and the opening up of economies, businesses have wider choices to pick from when they are confronted with the question of where to enter. The topic presents a systematic process of analyzing possible foreign environment or markets.

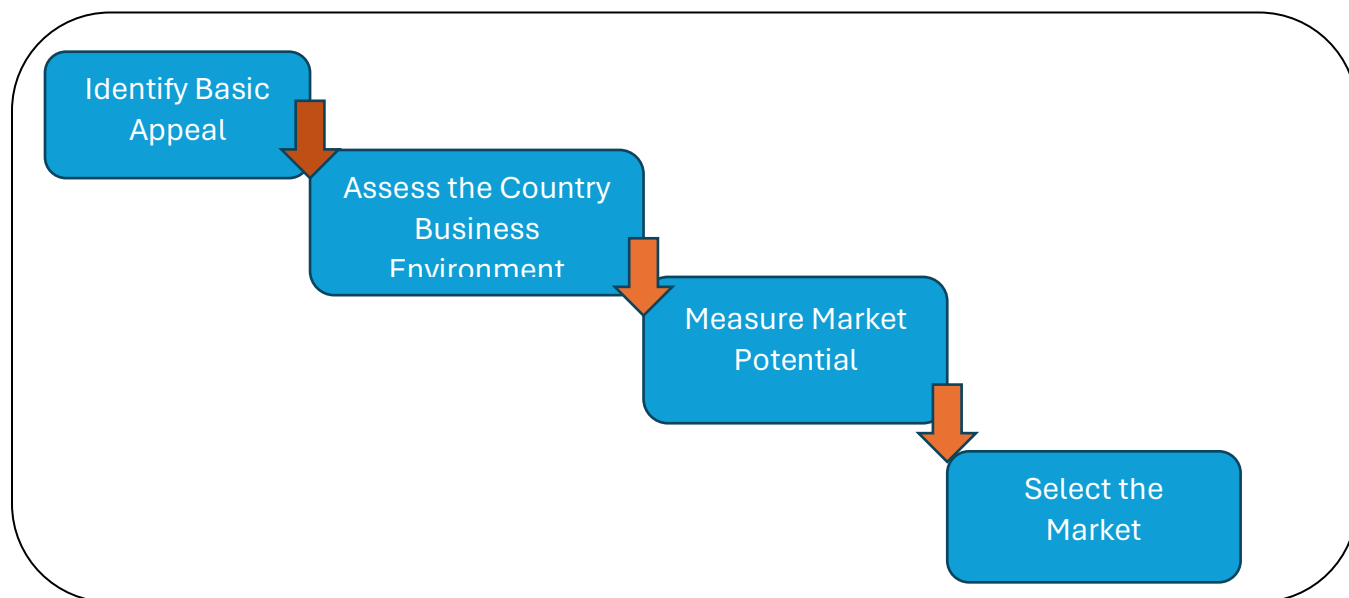
#### Learning Outcomes

1. Understand the steps used in analyzing foreign environment or market
2. Be able to analyze a given environment/market

#### Screening Potential Foreign Environments or Markets

The exercise is time and resources consuming, and every firm undertaking this process will always be concerned with cost and results. The topic will use Wild, Wild, and Han (2010) framework that has four main steps as indicated in **Flow chart 1**.

**Flow Chart 1: Potential Foreign Environment Analysis Process**



Adopted from Wild, Wild, and Han (2010)

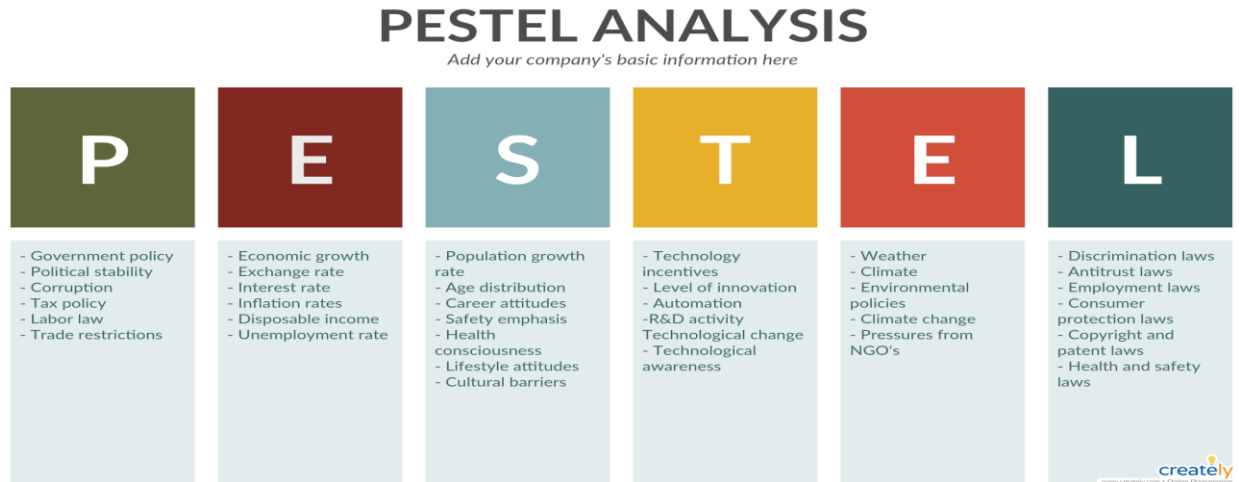
### **1. Identifying the Basic Appeal**

Part of the reasons why businesses venture into foreign markets is to increase their sales, it is therefore critical to identify at the initial stage if there is **demand** for the company's product and if there are **resources** that you need. In this stage you are more concerned with the compatibility of your product(s) with the people of a given country. For instance, you may not have basic demand for pork products in Islamic countries as their religion does not accommodate that, the same for alcoholic products. At the same time if a company is considering exporting its products, it must assess what will be the impact of tariffs and other taxation on its final price. Alternatively, where a company is considering local production, it must determine the availability of the needed raw materials and human workforce to ensure they produce. Countries that fail on these two tests: demand and resources availability are struck from the list of options, those that are left can proceed to step two described in the next section.

### **2. Assess the Country's Business Environment**

Economies differ greatly when it comes to their environment for doing business. When assessing the attractiveness of a given country the following factors are worthy of consideration: Social-cultural forces, political and legal framework, economic and financial forces, technological factors among others. The Framework shown in Figure 1 is common in

analyzing business environments, domestic or foreign, and we will use the same in our discussion in this section.



Source: douglasbaseball.com

### a. Political

Under this variable, the concern is stability or lack of it in a country, how smooth is power transition, the government attitude towards foreign businesses, the extent of corruption, the government bureaucracy, government relations with other countries, sanctions issued to the country or by the country. It is important to note and see how political, economic and legal factors are interconnected. The political class, through the laws they pass, determines the economic factors. For businesses investing in foreign countries, they are concerned about the political environment since it presents one of the risks that they must address.

Most of the developed countries do enjoy a relatively stable political environment and this increases the predictability of doing business in such markets. This cannot be said of some countries say in Africa. In a country where the government of the day has a negative attitude towards foreign investment, corruption is high and there is red tape bureaucracy especially in starting a business, unless otherwise should be ranked low as an option. Institutions such as World Bank and Transparency International regularly produce ranking of ease of doing business that should be helpful in this topic.

### b. Economic Factors

Firms must assess a country's economic factors before selecting a new market. In this variable, and as shown in **Figure 1**, the focus is mostly on the economic growth, exchange rate, interest rate, disposable income, employment rate, and fiscal policies. The ideal

situation would be to select a country where all or some of these factors are favorable. Economic growth rate or cycle being witnessed in a country is likely to be replicated in business growth and therefore, a country that is experiencing a boom or bust may be ranked high in the list of choices. The interest in Africa by businesses from the north is largely because of the economic transformations its leadership is carrying out with the results being out there for all to see. The Macroeconomic transformation in most of Africa's countries is bearing fruit in attracting foreign investment coupled with a relatively stable political environment (Collier, 2010). Volatile currency makes it difficult for businesses to predict their future earnings and this may make a country unattractive to foreign investors (Wild, Wild and Han, 2010).

### **c. Social-Cultural Factors**

Different countries will be characterized by different social and cultural factors. These factors encompass beliefs, norms, traditions, values, lifestyles, demographics and behaviors among others. The extent to which these factors are different from the home country of the firm will determine the extent to which the firm must adopt its products and marketing strategies as they venture in a new market. Ultimately, this would mean more cost. On the other hand, if the home country's culture is similar to the foreign market being targeted by the firm the more likeable the market will be holding other factors constant. The firm must establish the population's attitudes and behavior toward health, countries where health consciousness is high, products and marketing campaigns must mirror such if they are to be successful.

### **d. Technological Factors**

One of the constant changes we are witnessing is advancements in technology and business environments are not being spared. However, the rate of change, acceptance and the source of it are different. When venturing into foreign markets, a business must identify the attractiveness of a country using the aspects of technology. Key questions of interest here would be:

- *Are there technological incentives in the country?* Countries where the government prioritizes technology will have clear incentives to encourage development.
- *What is the level of innovation?* The number of new products, processes, and systems or basically intellectual property coming from a country will be a good indicator of the country's innovativeness.
- *What is the population acceptance level when it comes to new technologies?* The speed at which a country adopts and uses innovation is important and a good indicator of the probability they can accept a new product introduced. Africa has led

in mobile technologies adoption, and this has seen lot of innovation around the same this has transformed the place of mobile phone in its population.

- *What is the country's investment in research and development?* Similar to incentives, the budget that the government allocates to research and development through allocation and prioritizing of ministries, projects, and programs can tell of its attitude toward technology and innovation.

A country where population is receptive of technological innovation, and the government has invested heavily in technological infrastructure should be prioritized as it gives enormous opportunities, unlike where a firm will have to develop such infrastructure.

#### **e. Environmental Factors**

Included in this variable are ecological issues, climate change concerns, sustainability issues and environmental protection issues. Different countries are at different levels as far as these issues are concerned. There are countries that have enacted and are seriously implementing laws regarding the environment. While a few countries these could be least of their concern. Generally, the whole globe's awareness of the issues has been heightened. If the series of conferences held in the recent past on climate change matters indicates the government's concern, then we are moving in the tight direction. The COP26 in Glasgow in 2021, the COP27 held in Egypt in 2023, and the Africa Climate Summit held in Nairobi in September 2023, these are mere examples of increasing efforts toward reversing the adverse effects of climate change.

When analyzing the business environment in respect to this factor, firms would be interested in a country where the government is supporting such efforts. This may be attractive if a business is engaged in renewable energy or in a sector related to environmental sustainability. However, stringent rules may be a discouraging factor for firms that are in manufacturing and have not adopted sustainable methods.

#### **f. Legal Factors**

As mentioned earlier, this is a category that is highly connected to politics and tends to influence the economy of a country. Under this category, we are more concerned with the business legal framework in reference to the laws, regulations, intellectual property (IP) protection, labor laws, taxation, trade policies governing business operation in a country. The implication of explicit legal framework in a country is for the business community to have a predictable environment to operate in. Most of these factors are used by institutions such as World Bank in arriving at ease of doing business ranking, see **Table 1**.

A market where the legal framework is prone to frequent changes may be a discouragement to foreign investors and must be ranked very low as a potential destination. Where the legal framework is bureaucratic and unclear, it tends to slow things down and could result in corruption coming in as businesses try to fast track the process. Foreign investment risk is also high in countries where there is no regard to rule of the law, where IP rights are trampled and where the court systems are compromised, such country must be keenly vetted as a market choice.

### **3. Measure the Market Potential**

Those countries that pass the second step can now be assessed using their market potential. Though the data to embark on this exercise may not be readily available in some countries it is important for managers to engage in the little that they can gather from different sources. Wild, Wild and Han (2010) gave the following as some of the variables that should be included when determining the market potential of a country;

- *Market size*- this could be tied closely to the population size
- *Market growth rate*- help to unearth those markets that are growing and those that are shrinking. GDP growth would be a good indicator here.
- *Market intensity*- this is concerned with the purchasing power of the population as shown in per capital GDP.
- *Market Consumption capacity*- this indicates the estimate spending capacity
- *Economic freedom*- this try to gauge the extent to which free market tenets are upheld in a country
- *Country risk*- this tries to gauge the combined risk of doing business in a country. It combines political risk, economic, and financial risk.

After analyzing each of these factors and any other a firm may deem important, values are assigned according to their importance to the firm or the product in question. Then the potential markets are ranked according to their appeal as a new environment or markets a firm can venture into.

### **4. Market Selection**

It is hoped that at this final step the firm has really narrowed down its options. The step involves the most engaging phase yet of potential market evaluation (Wild, Wild and Han 2010). *Financial analysis* of the remaining markets may be done as the team tries to evaluate a country's contribution to its cashflow. Where the firm is satisfied with a market contribution, managers or a team from the firm are advised to *visit* the potential market. The

trips are essential as they allow the managers to experience firsthand the literature they have had. It also exposes them to the cultures and other realities on the ground all of which could be crucial before the final approval. Finally, a comprehensive competitor analysis is done capturing the following aspects (Wild, Wild, and Han 2010);

- How many competitors there are and their composition
- Market share of each
- The market they appeal (niche or mass market)
- Quality focus of the competitors
- The extent to which suppliers, distributors, and customers have been locked-in
- Threat of substitute products
- Threat of new entrants into the market
- Competitors competitive advantage.

At this juncture, if the information from the financial analysis of the country, competitors' analysis and the market visit convince the management it is a viable environment, the country can be chosen.

### **Topic Review**

In this topic we looked at the process of market/environment analysis, whereby we looked at identifying basic appeal, assessing country's business environment, measuring market potential and we have concluded with market selection. Having settled on a market, the next topic will now be about strategy formulation where we will now start answering the how question.

#### **Topic Activity**

Golden Africa (k), is currently based in Lukenya-Kenya where it has its headquarters and a factory. The firm manufactures cooking oil, fat, and washing soaps. Its brands include Pika, Avena, Zenta, and Saba. Given its success in Kenya, the company is considering entering into other East African Markets, on its list we have; Tanzania, Uganda, DRC, and Burundi. Do a research on the firm and following the steps we have described advise on the market they can enter.

**Table 1: Top Ten Ease of Doing Business 2020.**

Economy	Ease of Doing Business Rank	Rank within group	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
New Zealand	1	1	1	7	48	2	1	3	9	63	23	36
Singapore	2	2	4	5	19	21	37	3	7	47	1	27
Hong Kong SAR, China	3	3	5	1	3	51	37	7	2	29	31	45
Denmark	4	4	45	4	21	11	48	28	8	1	14	6
Korea, Rep.	5	5	33	12	2	40	67	25	21	36	2	11
United States	6	6	55	24	64	39	4	36	25	39	17	2
Georgia	7	7	2	21	42	5	15	7	14	45	12	64
United Kingdom	8	8	18	23	8	41	37	7	27	33	34	14
Norway	9	9	25	22	44	15	94	21	34	22	3	5
Sweden	10	10	39	31	10	9	80	28	31	18	39	17

Source: Extract from Ranking by World Bank (n.d)

## References

Collier, P. (2010, June 1). *The case for investing in Africa*. McKinsey & Company. <https://www.mckinsey.com/featured-insights/middle-east-and-africa/the-case-for-investing-in-africa>

Rankings. World Bank. (n.d.). <https://archive.doingbusiness.org/en/rankings>

Wild, J., Wild, K., & Han, J. (2010). *International Business* (5th ed.). Pearson Education, Inc.