

# MEASURING THE INTERNATIONAL ENVIRONMENT IMPACT ON CORPORATE MARKETING AND STRATEGY: THE « P.R.E.S.T.» MODEL

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## **Abstract:**

The changes in the international environment have been sharply perceived by companies operating both within and beyond national boundaries, leading, within a short period of time, since the late seventies, to a substantial evolution of traditional international marketing and strategic approaches. However, all the companies are not equally affected by the environmental changes and consecutive pressures ( formalised into the P.R.E.S.T. model, i.e. Political-Regulatory, Economic and Social, Technological): their specificities (such as size, international experience, financial soundness..), require an intermediate analysis level between «macro» analysis (at a national or multinational level) and «micro» reactions (at the corporate level). A so called «meso» level corresponding to the industry, the sector or, even, the activity, would be, then, necessary in order to enlighten and to facilitate the formulation of corporate responses to the evolving international environmental «pressures».

In such a P.R.E.S.T. analysis process, the «meso» level has to be geographically positioned in accordance with the globalization degree of the considered industry/sector/activity (measuring at a certain point the balance between localization and globalization forces) and with the strategic issue at stake (national, regional or global marketing approach, for instance).

Nevertheless, industries, sectors or activities have also to be permanently monitored, in order to take into account the continuous evolution of their flexible limits, due to the environmental pressures themselves as well as to the adaptation of corporate strategies, which leads

- to reposition each actor vis à vis its providers and customers, upstream and/or downstream, through the industrial networks,
- to internalize and/or to externalize them, through its value chain.

For the past twenty years, the common vision of internationalization has been deeply transformed (Welch and Luostarinen, 1988). Before, it relied on cross border or overseas export or import operations (see, for instance, Johanson and Wiedersheim-Paul, 1975, Bilkey and Tesar, 1977), on a relatively limited range of activities (such as raw materials, heavy equipments, cars, hifi, computers..), and, through foreign investment, on a relatively restricted group of large multinational companies (Porter , 1986). Nowadays, if all companies are not equally hit by the intensification of the competition, all are, henceforth, confronted with new challenges abroad or coming from abroad (Buckley and Casson, 1998). These companies do not correspond so closely to the previous models; and International becomes for all an unavoidable dimension of strategy (Bartlett and Ghosal, 1987). The

changes of political, technological and economic environment have declustered previously protected national areas, increasing dramatically communication facilities and capacities, creating new needs all over the world, with some convergences among customers expectations (Atamer, 1993).

As a consequence, a majority of firms have to react, not only to seize new opportunities to sell more on a larger scale, to cut costs by spreading overseas production and sourcing, to reduce their exposure to fiscal pressure or to foreign exchange, to enlarge their access to new competences and skills ... but also to prevent the loss of their domestic market shares, or to avoid possible take overs from foreign competitors (Zanfei, 1992)..: even in some sectors traditionally well protected -such as financial services, public utilities or defence industry- the international competition has to be considered, beyond and inside the home «sanctuary», and the correlative necessity to restructure on a worldwide scale (Sarathy, 1994).

Henceforth, in each company, some basic questions have to be raised, in order to cope with the new conditions of international competition, to find some methodological answers, giving the opportunity to analyse, then, to select possible orientations, and, finally, implement the best choices, with enough lucidity to adapt or, even, abruptly reconsider them, under the pressure of environmental changes or sectorial moves (Cavusgil, 1980, Douglas and Craig, 1989, Buckley and Ghauri, 1994).

For a majority of internationalizing firms, development beyond the national boundaries of the country of origin refers to successive steps to follow and to indispensable tools to be used, with some key preoccupations to keep in mind:

- the impact of external «pressures» on their sectorial environment,
- the international dynamics of their activities,
- their incentives to internationalize,
- the process they have to adopt in order to define their objectives and choices and to implement them..

## **1. Identifying external «pressures» of the sectorial environment: the P.R.E.S.T. model**

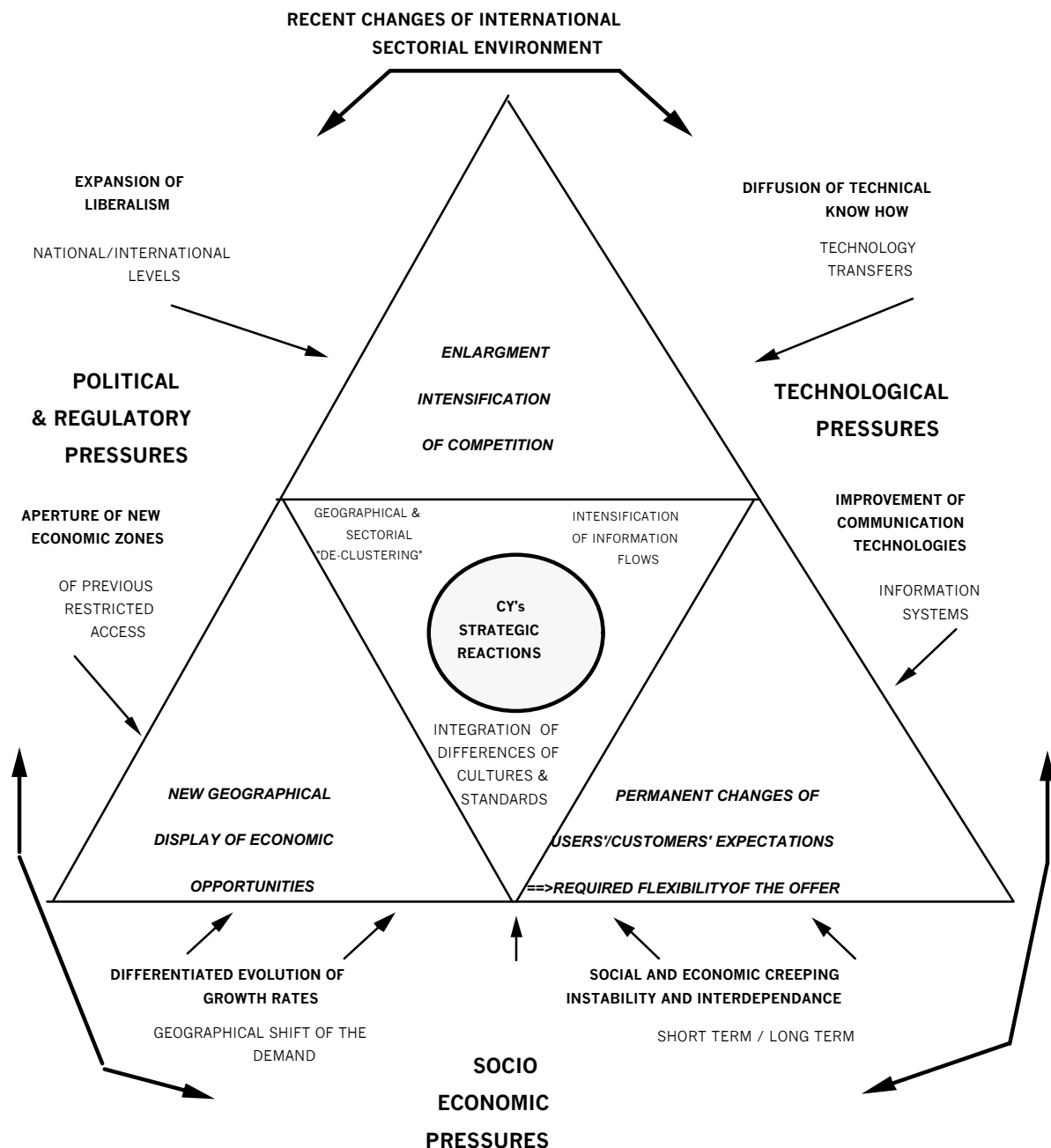
As a matter of fact, the approach to internationalization requires a clear vision, permanently updated, of the sectorial environment in which each internationalizing company operates (Dunning and Kundu, 1995). From one industry to another, from pharmaceuticals to leisure equipments, the impact of the «pressures» influencing the main features of their domestic as well as international development can be rather contrasted, even if some common traits, like the influence of liberalism, can be perceptible -with some differences- in almost all sectors (O'Connell and Zimmermann, 1979).

Which means such an approach has to be made, sector by sector, even if, generally speaking, the same types of «pressures» can be identified. In fact, the major external elements influencing the present and future evolution of a sector belong to three major «fields» (political- regulatory, socio-economic and technological), leading to an evaluation of their consequences, inside of each sector, in terms of intensity of competition, geographic expansion areas and adaptation needs to customers' requirements. Each actor of the sector

having on such a basis to choose the appropriate «levers» -innovation, organisation and/or costs cutting-, to react to those «pressures» and challenges at an operational level.

Each company could, then, refer to its sectorial environment, to more clearly define and rationalize the challenges to which it is or will be confronted, in order to measure the opportunities and threats it has or will have to deal with:

- the competitive challenge, focusing on possible enlargement (or concentration) of the competition within the sector or the activity (Doyle, Saunders and Wong, 1992),
- the aperture challenge, showing the geographic display of market potential (including saturating areas and segments as well as opening promising zones) (Brewer, 1981),
- the adaptation challenge, measuring the current and coming changes of the customers' or users' expectations, in the perspective of socio-economic and technological moves.



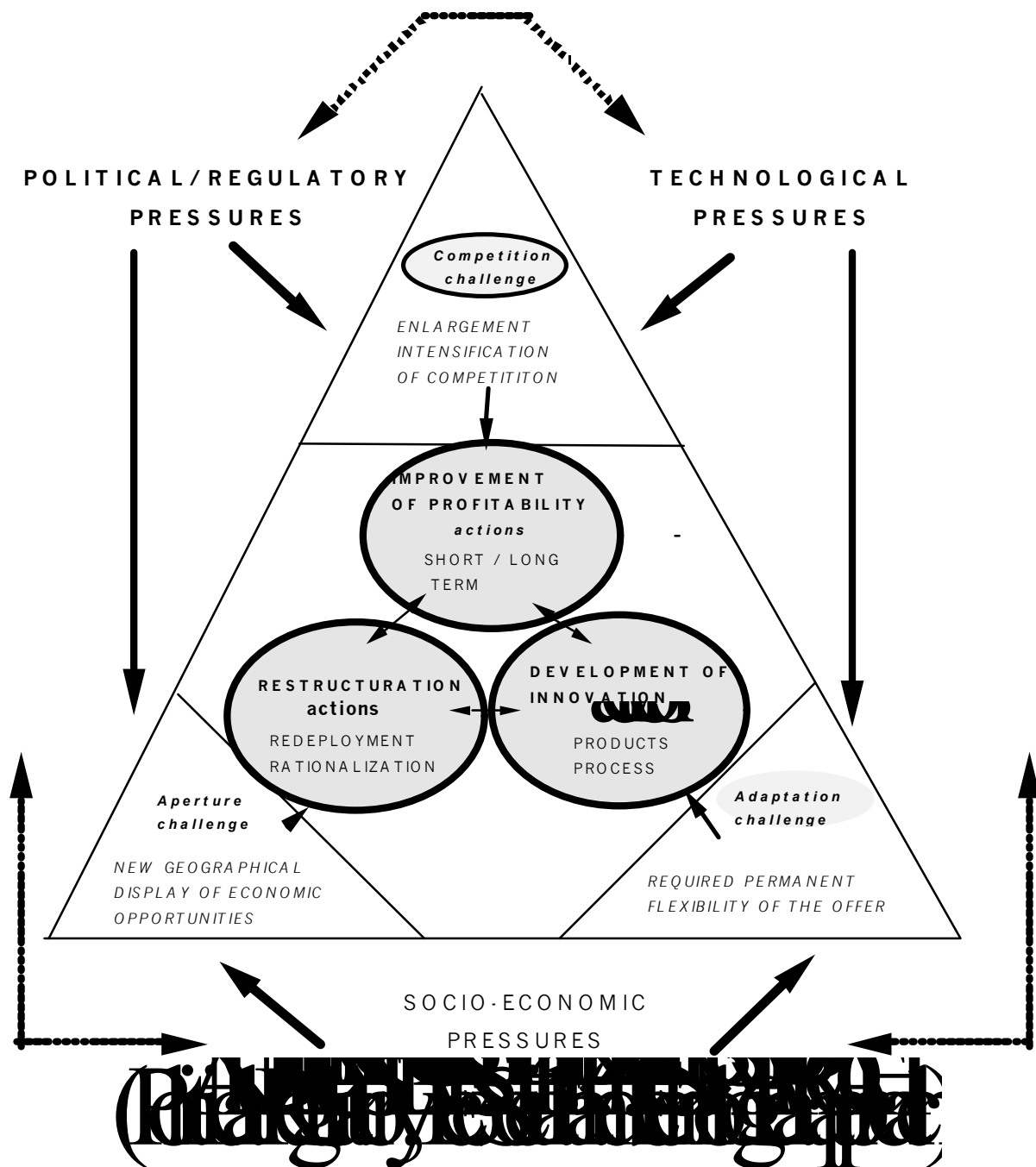
SOURCE: JEAN-PAUL LEMAIRE 1996

## 2. Defining the appropriate strategic mix:

Upon the basis of its inventory of strengths and weaknesses, such an approach could help the company's management to identify the likely «levers» which could be operated:

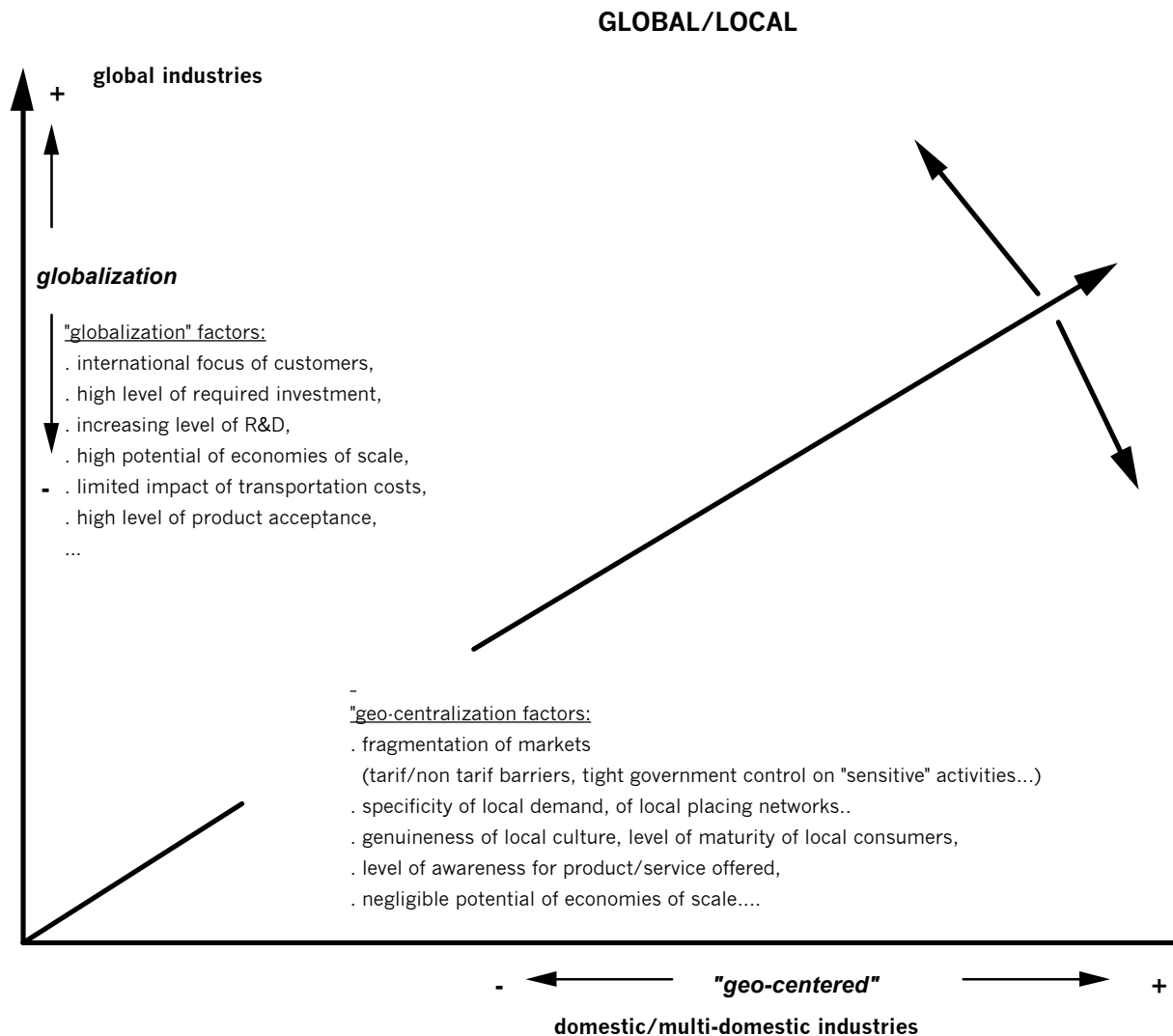
- decrease of costs, in the short term, through a better control of financial inflows or outflows, for instance, or, in a longer term, through a more effective use of its assets,
- optimisation of geographic, technical or markets internal display of the organisation and of the responsibilities, as well as external growth (M&A, JV..), diversification or, conversely, concentration on core business,

- development of innovative initiatives, creating new products, new services or new concepts (combining various products and/or services), but, also, of more efficient processing in order to better meet and anticipate the changes of demand.



### 3. Evaluating the geographical level of environmental analysis:

But this first external approach emphasising sectorial environmental issues, cannot be sufficient, in itself, to establish the pertinent geographic level of the previous approach.



It will obviously depend on the degree of globalisation of each sector, which stems from its positioning between two axes (Porter et al. 1986, Prahalad and Doz, 1987):

- the first corresponding to globalisation, characterised by a high level of internationalization of clients (and providers), the weight of the required investment - notably, for R&D-, a large potential of economies of scale, a good capacity of technology transfer or a low level of transportation costs..
- the second, corresponding to localisation, applying to domestically centered activities or companies, with very fragmented markets (due to protective regulations or standards, specificity of local demand, of cultural context..), absence of size advantages, ...

This type of scheme, which can be used to position sectors or activities, can also apply to the actors belonging to each of them (Yip, 1989), as it is presented on the chart above, evidencing various types of activities and companies which can be,

- the mainly global ones with a largely spread and coordinated «world» or multinational organisation,

- opposite these, the geo-centered ones, still exclusively or largely domestic, with some first attempts at cross-border ventures,
- inbetween, the so-called, «transnational» and «multi-local» types of activities, obliging the former, in spite of its global traits, to take into account local -mostly regulatory-specificities, and, the latter, to fit logistical constraints (such as transportation costs, customers proximity..).

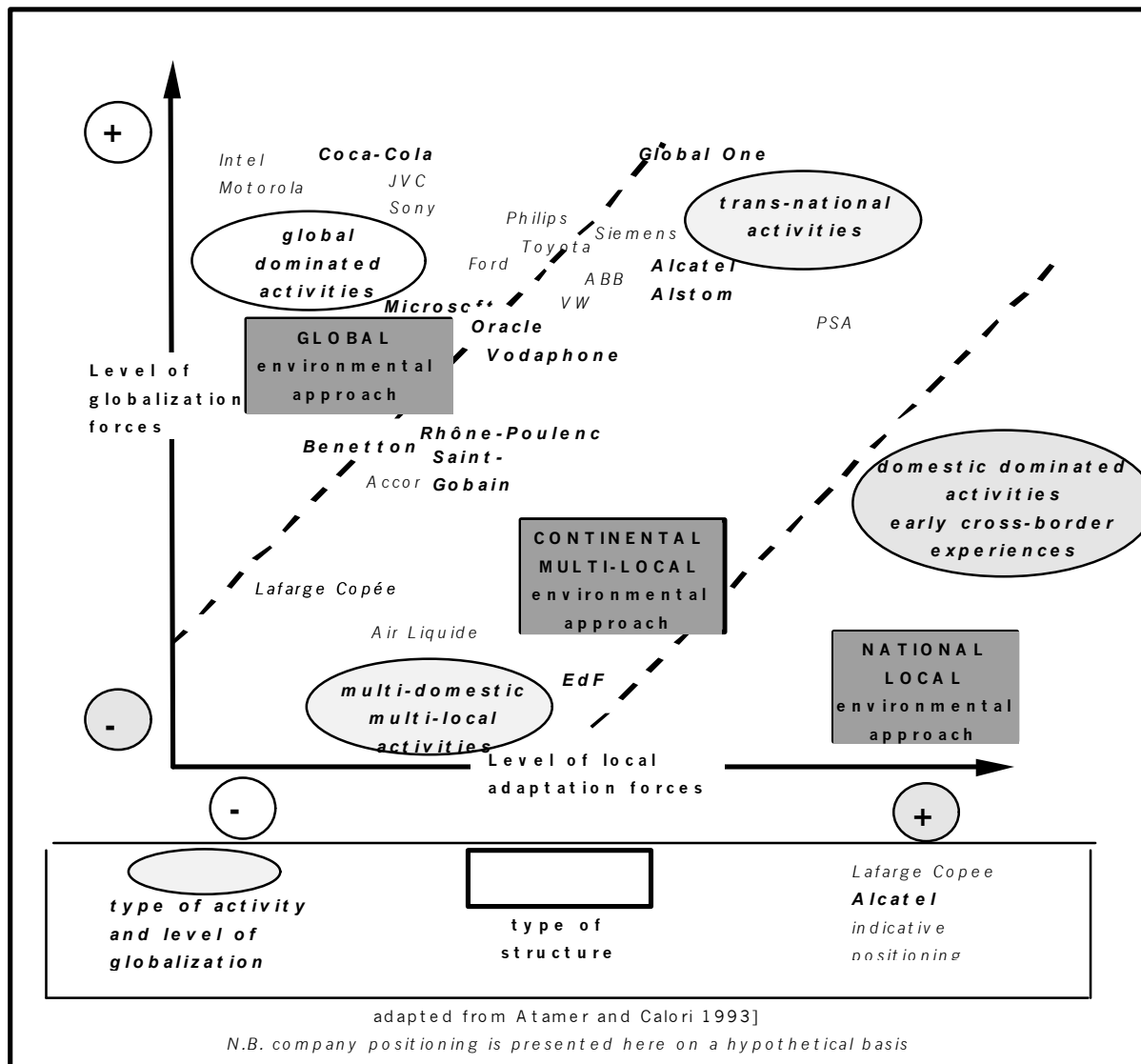
To each of those industries/sectors/activities applies a relevant geographical level of environmental approach:

- in so far as global ones, such as electronic components, are often dominated by global leaders -Intel, Motorola, for instance- and are relatively preserved from protectionism due to the liberalization of trade as well as to the necessity of the users to purchase them, the environmental approach has to be undertaken on a worldwide level,
- contrary to global activities, the national/global ones, tied up to a restricted area by protectionism and legal practices, cultural factors or high transportation costs, have to be envisaged at a national or even regional level,
- inbetween, the « transnational » and « multi-local » types lead to an intermediate level of geographic approach which has to be defined in relation with the market and/or sourcing coherence and pertinence, either on the scale of a group of national areas or, even, of a continent..

Another issue to be considered is precisely the purpose of the environmental analysis: market development or sourcing optimization do not require the same geographical focus: in the former case, an attempt will be made, through environmental analysis, to identify qualitative and quantitative issues related to potential demand, in the latter, to focus on qualitative and quantitative issues linked with manufacturing or service costs and available competences.

Then the definition of appropriate geographical level of environmental analysis combines the globalization measurement and the dominant functional preoccupation which dominates the corporate international strategic orientation.

**ENVIRONMENTAL APPROACH  
OF GLOBAL/LOCAL ACTIVITIES AND ACTORS**



**4. The necessity to reconsider permanently the industry/sector/activity boundaries :**

The paradox of the proposed model is to question permanently the industrial, sectorial or activities' boundaries on which it relies, in so far as external pressures as well as actors strategies tend to reshape the sectorial landscape,

- dividing into various components previous well established industries: chemicals, for instance, since the early nineties, have been split, at a « meso » level, into various groups of activities -such as pharmaceuticals or chemical specialties.-, and, simultaneously, at the level of major actors; ICI, for instance, has been involved early in a spin-off process, leading to the creation -stemming from the initial ICI company- of ICI chemicals and of Zeneca., due to external pressures, such as the need of focus of corporate core

competences (Hamel and Prahalad, 1990), becoming a key expectancy of the financial market..

- conversely, coming together of sectors which had previously little connections, like Banking and insurance, with consecutive sectorial shifts: bankers becoming insurance distributors, often with the technical cooperation of insurers and, beyond, giving birth increasingly to new merged structures, customers driven, into a new «bancassurance» industry; more original, but technologically driven, is the coming together of financial services and telecommunications (illustrated by a recent agreement, in Spain, between Telefonica and Banco Santander Central Hispano).

Another reason for questioning sectorial boundaries is the development of industrial networks, linked with the corporate strategies observed, leading to,

- repositioning the corporate activities upstream and/or downstream, through industrial integration (like tour operators integrating distribution, downstream, and/or , upstream, air transportation or accommodation facilities..),
- redefining permanently the corporate value chain, externalizing or internalizing some of its elements (IT fuction, Human Resources, Production, etc..), bringing together through partnerships, even with competitors, some others (R&D, sourcing..), like in the automotive sector, where manufacturers produce jointly part of their product range, and associate more and more subcontractors with their development in order to accelerate the launching of new models.

### **Conclusion: towards the «concept company»**

The increasing pace of these industrial, sectorial or activity transformations suggests to envisaging the using of the proposed P.R.E.S.T. model as a tool to assess and, even, to anticipate them.

It could be part of or orientate a sectorial analysis, which it can introduce and/or nurture, in order to enlighten,

- the characteristics and the dynamics of the industry, sector or activity,
- the positioning of its main actors or group of actors,
- the key factors of success and the winning strategies.

The economic and political declustering of countries, the liberalization of economic structures and behaviours, the interacting improvements of technologies accelerated by IT and telecommunications «revolution», with the economic and social correlative evolutions create a new environmental context, much more competitive, submitted to increasing adaptation and aperture constraints, encouraging dramatic changes in most of sectors.

A dialectical process tends then to be established between the « macro » level -the environmental pressures- and the « micro » level -the corporate reactions-, transforming progressively and, sometimes, abruptly, the intermediate « meso » level.

Will it lead to the irrelevance of a sectorial approach?

This can certainly be discussed in further analyses but, nevertheless, suggests rethinking the traditional sectorial approach in a more evolving perspective which will take into account the benchmark provided by leading companies. These would, like McDonald's, Microsoft, Virgin, Benetton or Citibank, develop evolving « concepts », creating differentiation and showing the rest of the sectorial actors possible strategic orientations, within the sectorial boundaries or outside.

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