CONTENT MODULE 2 SELECTION AND ANALYSIS OF FOREIGN MARKETS

Topic 3

Export strategy. Approaches to exports

Objective: To clarify the concept of export strategy and to identify approaches to exports.

Plan

1. Export strategy.
2. Approaches to exports.
3. Export plan.

Basic terms and concepts

Export strategy, action plan, long-term goals, international competitiveness, elements of export strategy, alternatives, export options.

Thematic theses

1. Export strategy.

International economic activity is more successful only if the entry of enterprises into international markets is well planned, well-founded, and meet long-term goals. In this regard, international economic activity is closely linked to the strategic management of the enterprise.

The word "strategy" comes from the ancient Greek words "army" and "lead". This economic category is an integral part of the conceptual and categorical apparatus of management and provides a set of measures that provide the company with a competitive advantage in modern conditions. The most common approaches to the definition of "strategy" can be identified (Table 3.1).

Table 3.1 - Approaches to the definition of "strategy"

Author	Definition
Economic encyclopedia	strategy - a generalized model of action aimed at achieving the goal through the allocation, coordination and efficient use of resources
Mintzenberg H.	"Strategy" through the so-called combination of "5 77": 1) strategy - action plan; 2) strategy - cover, ie actions aimed at outwitting their opponents; 3) strategy - the order of actions; 4) strategy - position in the environment, connection with their environment; 5) strategy - perspective, the future state to which it is necessary to strive.
Statsey R.	strategy is a game of a group of participants, where the first move of one player takes the appropriate steps of other partners, and then the feedback system continues the one who started it, ie the nature of the strategy is explained on the basis of chain reaction ("challenge - response")
Chandler A.	strategy is the definition of the main long-term goals and objectives of the enterprise, approval of the course of action and allocation of resources needed to achieve these goals, i.e. plays the role of integrating goals and opportunities.

Ansoff I.	strategy - a list of rules for decision-making, which the organization uses in its activities

In international economic activity, the leading role belongs to the export strategy. Export strategy is a detailed comprehensive plan of export activities of the company, designed to ensure the competitiveness of its products in international markets and achieve certain strategic goals. The export strategy should support the overall strategy of the company and focus individual actions to achieve the fullest possible implementation.

The manager's task in creating and implementing the company's export strategy consists of five interrelated parts:

a) the formation of strategic directions for the development of the company's export activities;

b) transformation of general goals into specific areas of work;

c) skillful implementation of the chosen plan to achieve the desired results;

d) effective implementation of the chosen strategy;

e) evaluation of the results of strategy implementation, analysis of the situation on the foreign market, making adjustments to long-term goals, strategy or its implementation (taking into account new conditions, ideas or opportunities of the company).

Defining specific goals helps to move from the general direction of the company's export development to individual work plans that can be used to achieve success. The strategy sets out the means, methods and tools used to achieve these goals. When formulating strategic goals, it is very important to define specific positions - "what", "where", "when".The purpose of the strategy is an ideal result of activity in the future, therefore it should: be unambiguously formulated and clear to executors; be measurable; have deadlines; motivate the actions of the performer; be compatible with the overall goals of the organization and the group of performers; be formalized.

Most companies that solve strategic planning tasks perform the stage of formulating the goal and selecting the factors that affect its achievement, based on databases provided by previous marketing research. This makes it clear that the low quality of marketing research can affect the overall outcome of the strategic planning task, so special attention should be paid to the problem of increasing the probability of its results.

Unlike tactics (short-term plans), the company's strategy in the foreign market operates over several planning periods. Its creation should be based on the following hypotheses of strategic management:

a) the hypothesis of chance (if there is no universal solution, then each company is unique in nature and must seek its own path);

b) the hypothesis of dependence on the external environment;

c) the hypothesis of ownership;

d) hypothesis about strategy, abilities and activity (the company's activity is optimal when its strategic behavior corresponds to the level of turbulence of the environment, and business abilities - strategic behavior);

e) the hypothesis of multi-element (the success of the company - the result of interaction and complementarity of several key elements);

e) the hypothesis of balance (for each level of turbulence in the environment, you can choose a combination (vector of elements) that optimizes the success of the company).

The intensification of competition in commodity markets and changes in the structure of demand lead to the transition of enterprises to a more sophisticated policy of doing business, which involves the introduction of strategic planning in all areas of business. Export activities require particularly careful strategic planning due to their complexity and complexity in the context of internationalization. Export strategy is crucial in improving the effectiveness of foreign economic activity and is one of the main factors contributing to the development of foreign markets and further production activities abroad.

The problem of developing export strategies is relatively new for both domestic business and economics. Ukrainian enterprises have not yet formed a tradition of strategic planning of export activities, which is explained by the need for deep transformation of economic culture for a long time. However, in the domestic literature the problem of developing an export strategy is given considerable attention, which is why today there is no single interpretation of its essence.

Thus, according to Rokochi V.V. export strategy - a long-term course of export activities, which contains a set of tasks for the development of commercial, as well as investment, scientific and technical, production and service activities with foreign partners and a system of measures aimed at solving the tasks. Olin B. defines the export strategy as a fundamental program of action, which determines the priority areas of the enterprise in foreign markets, taking into account its available resources and requirements of foreign markets.

In the work of Shevelyov D.V. The company's export strategy is defined as a set of actions aimed at deepening and expanding export activities in order to better meet the economic and social needs of this business, along with the national interests. This definition is, in our opinion, one of the most meaningful, as it emphasizes the unique role of sound export activities in ensuring national welfare.

According to Bochaeva Z.N., export strategy - the process of considering alternatives in the field of exports that belong to long-term goals, and their rationale for decision-making. This interpretation is more suitable for defining strategic planning, but emphasizes the need for continuity of this process, which is its undoubted advantage. According to A. Kredisova and O. Derevianenko, according to Dakhno I. and Baranovska V., the export strategy is a detailed comprehensive plan of export activities of a country or firm, designed to ensure the competitiveness of its products in international markets and achieve certain strategic goals.

The difficulty of theoretical generalization of the essence of the export strategy is the lack of universal requirements for its content, as the latter is largely determined by the size and direction of the enterprise that implements it. However, the variability of the external environment, significant international competition and focus on foreign markets increase the relevance of strategic management of foreign economic activity in enterprises of all spheres of activity.

The task in creating and implementing the export strategy of the firm consists of five interrelated parts (Fig. 3.1).

1	formation of strategic directions of development of export activity of the organization	EXPORT STRATEGY
2	transformation of general goals into specific areas of work	
3	skillful implementation of the chosen plan to achieve the desired results	
4	effective implementation of the chosen strategy	
5	evaluation of the results of strategy implementation, analysis of the situation on the foreign market, making adjustments to long-term goals, strategy or its implementation	

Fig. 3.1 - Elements of export strategy

Export strategy involves the use of different types of strategies depending on the situation on the world market (Table 3.2).

Table 3.2 - Types of strategies

Name of strategy	Essence
Internationalization strategy	development of new, foreign markets using not only the expansion of exports of goods but also the export of capital
Diversification strategy	development of production of new goods, commodity markets, as well as types of services, including not only the diversification of product groups, but also the expansion of business activities to new and unrelated to the main activities of the region

Segmentation strategy	deepening the degree of saturation of the offered goods and services of all consumer groups, the choice of the maximum depth of market demand, the study of its small outflows
Deep penetration strategy	will be most effective in an unsaturated market. In this case, the firm reduces the cost of production of export goods and sells at a price lower than competitors
Market development strategy	involves an increase in sales of existing goods in new foreign markets or new segments of the existing market
Product development strategy	best suited for a company that already has a number of successful brands. Its essence is to create new product modifications for existing markets
Export pricing strategy	defines the goals of pricing, which should ensure the successful implementation of the export strategy. The goals of pricing can be: maximizing current profits; maximizing the volume of exports; gaining leadership in the field of product quality; expanding foreign market share
Communication strategy	formation of demand and promotion of products on the foreign market, as well as the implementation of other goals of international marketing
Demand formation strategies	are used at the stages of introduction and introduction of new products to the market; all types of marketing communications are aimed at finding ideas for a new product, bringing it to a new market, informing potential buyers about a new product
Sales promotion strategy	is relevant at the stages of maturity and decline of the product in terms of market saturation, intensification of competition for consumers. All known marketing marketing measures are used within this strategy

There are other criteria for distinguishing certain types of strategies. In particular, depending on the level of business standardization, there are four main types of strategy:

a) violent - a strategy of competitive behavior, which is to reduce production costs by organizing the mass production of cheap good quality goods;

b) patient (niche) - a strategy of competitive behavior, which consists in the manufacture of a limited number of highly specialized high-quality goods. The market strength of patient companies is that their products become indispensable for the relevant group of customers;

c) commutative (adaptive) - a strategy of competitive behavior, which aims to flexibly adapt needs to the local market. It is used mainly by small firms, which are limited in financial, material and scientific and technical resources;

d) explicit (pioneering) - a competitive strategy that provides long-term competitive advantage through innovation and is burdened with a significant level of risk.

In modern conditions, the strategy should be considered as a combination of planned actions and quick decisions to adapt to new industry achievements and a new disposition in the field of competition.

There are several alternative strategies for penetrating foreign markets, namely:

a) indirect exports;

b) direct exports;

c) licensing;

d) creation of a joint venture;

e) direct investment.

International commercial practice shows that companies often use two main penetration strategies, namely - direct and indirect exports.

Indirect export - means that the manufacturer acts through another company in the home country, directing its products to the international market. The company produces products in its country and adapts it to the requirements of foreign markets. In this case, special units for the organization of international trade are not created, independent intermediaries are used.

Options for direct export:

a) creation of an export department;

b) use of own sales representatives to search for foreign clients;

c) appeal to foreign distributors or agents, giving them exclusive or limited rights to represent the manufacturer in a particular country;

d) the creation of a foreign sales department or subsidiary, which allows the manufacturer to enjoy the effect of direct presence in the market and to control sales [54].

The export strategy provides answers to the questions "what" and "how":

a) which foreign market to choose;

b) what competitive advantages the company will receive;

c) what is the price of export goods (services) will be competitive in foreign markets;

d) how to satisfy foreign consumers;

e) how to stay ahead of competitors in foreign markets;

f) how to respond to changing market conditions;

g) how to achieve strategic goals.

It should be noted that each country needs to develop and adopt an export strategy. The effectiveness of the export strategy and the realization of the country's export potential should be based on the principles of public-private partnership, economic patriotism, and priorities should be given not to raw materials industries, but to high-tech products with high added value.

All highly developed countries of the world build export strategies on the following main principles:

a) international competitiveness of goods;

b) export expansion;

c) the existence of a powerful mechanism of state protectionism of the national producer.

Thus, an effective export strategy should be based on the definition of priorities, namely specific sectors of the economy that are in demand in certain geographical areas. Equally important is the creation of a special export infrastructure, the main component of which should be an effective credit policy, state protectionism, exchange rate regulation, risk insurance system and more.

The export strategy of enterprises at the present stage is formed on the basis of mutual coordination of the interests of economic entities and the state, which also greatly complicates the process of optimal choice of development directions from among the alternatives. The success of the export strategy, therefore, is determined today by the effectiveness of interaction of potential exporters with other actors in the domestic market - processing plants, competitors that can be considered as partners in creating a cluster, insurance companies, marketing agencies. All this indicates the impossibility of effective operation of enterprises in foreign markets without the implementation of the process of strategic planning of export activities.

According to Biryuk OGIn terms of macro-level export orientation, most studies focus not so much on assessing the quantitative characteristics of exports of countries or regions, but on their comparative characteristics, dynamics over time, forms and mechanisms of state motivation for exports. If from the company's point of view export orientation is a certain element of the overall strategy aimed at fulfilling its own mission and achieving its strategic goals (Fig. 3.2), then from the state's point of view export orientation is seen as a general model of national economic development. Thus, at the macro level, export orientation actually becomes an integral part of social development. The multifaceted nature and uncertainty of globalization have a significant impact on the formation of the strategy of export-oriented firms.

Thus, the feasibility of developing a strategy is determined not only by the desire of businesses to enter the international market, but also the ability to meet the needs of foreign markets, ie there is a need to assess the readiness of the firm to export.

2. Approaches to exports.

Companies that are new to exports generally treat export sales in the same way as domestic ones, using existing staff and organizational structures. But as international sales and demand grow, your company can separate export management from domestic sales.

The advantages of separating international and domestic areas include the centralization of specialized activities needed to operate in international markets and the benefits of concentrated marketing efforts, which gives more chances to increase exports. A possible disadvantage of this approach is segmentation, which can result in less efficient use of company resources, including duplication.

The company can divide international and domestic activities at different stages of export development. For example, when a company starts exporting, it can set up an export department with a full-time or part-time manager who will report to the head on domestic sales and marketing. At a later stage, the company may decide to increase the autonomy of the export department until the creation of a specialized structural department that will report directly to the chairman of the company. Many small companies incorporate export sales into existing features. This algorithm is effective as long as exports do not grow significantly.

Regardless of how the company organizes its export efforts, the main thing is to improve product marketing. Good marketing skills will help you work in an unfamiliar market.The company's success in foreign markets depends not only on the unique features of the product, but also on marketing methods.

The path you choose to export goods can have a significant impact on your export plan and specific marketing strategies. Different approaches to exports determine the excellent level of the company's involvement in the export process. There are at least four approaches that can be used alone or in combination.

Passive acceptance of orders from domestic buyers, who then export the goods. From the seller's point of view, such sales are no different from other domestic sales. In this case, the other party (for example, the buyer company) decides that your product meets foreign demand, and assumes all risks, as well as performs all export procedures, in some cases even without informing the original seller, many companies become more interested in exporting when they learn that their goods are already being sold abroad).

Search for domestic buyers representing foreign end users or consumers. These can be foreign corporations, foreign trading companies, foreign government agencies, foreign distributors, retailers, and so on. In this case, the company may have information that its goods are exported, but the domestic buyer still assumes the risks and takes care of all export procedures.

Indirect exports through intermediaries. Under this approach, your company uses the services of an intermediary firm that seeks foreign markets and buyers for goods, takes care of shipping goods and receiving payment.This can allow you to learn more about foreign competitors, new technologies and other market opportunities. This approach is the most popular among Ukrainian and European SMEs.

Direct export. This approach is the most ambitious and complex, because your company takes care of all issues of the export process from market research and planning to the distribution of goods in foreign markets and receiving payments. This requires management to focus, focus and spend time to achieve high results. At the same time, this approach can achieve the highest profits and long-term growth. With the help of forwarding companies, international banks and other agents, even small and medium-sized enterprises can export directly. The export process today is easier and requires fewer steps than ever before.

Those who still cannot afford to use such resources can use the services of trade intermediaries, trade consultants or others.

The main factor in deciding whether to approach sales abroad is the amount of resources your company is willing to devote to international marketing efforts. Additional factors to consider in this context include:

1. the size of the company;
2. propensity to risk;
3. resources you have for market development;
4. the nature of your goods and services;
5. previous export experience and knowledge;
6. conditions for doing business in selected foreign markets.

The first two approaches (passive acceptance of orders and search for domestic buyers) do not involve the company directly in the export process. If your goals and resources dictate that you use the indirect export method, you may not need complex planning. In this case, the main task is to find a suitable intermediary who will take care of most export procedures. Companies for which exports are a new business, or which cannot allocate staff and funds for more complex export activities, can use indirect export methods as more convenient.

The advantages of direct exports for the company include greater control over the export process, potentially higher profits and closer ties with foreign buyers and the market, as well as the ability to learn what to do to increase overall competitiveness. However, such advantages have their price: the company must allocate more time, human and other resources to direct exports than in the case of indirect exports.If a company decides to export directly to foreign markets, it will usually require an internal reorganization to support more complex functions. As a direct exporter, you choose the markets you want to enter, choose the best distribution channels for each market, and then liaise with a foreign buyer to sell the product.

However, the use of resellers does not preclude the possibility of direct exports for your company. For example, you can try to export directly to nearby markets, while resellers will sell more complex sales to other overseas markets. You can also decide to gradually increase the share of direct exports as you gain sufficient experience and increase sales to justify additional investment.

Market research, the development of an export strategy and an export plan should ultimately give you an answer to the question of what your export model will be. Will it be direct export or indirect, what type of trade intermediation will be used or which (wholesale) buyer will you be looking for? The use of own salespeople gives a significant degree of control over them, but such a luxury can be too costly for SME companies. In this case, the use of resellers can be a very effective solution for initial testing of the market and assess the potential of the product in it.

3. Export plan.

An important stage of preparation for export activities is the development of a strategic export plan. It is widely known in the business community that in the domestic market, any business or project starts with a business plan. The export plan plays an equally important role in international trade.

The Export Business Plan is a key document for purposeful and planned business, which also provides access to credit and start-up capital. The export business plan should be considered as a management tool that can change depending on the experience gained, the results achieved, the choice of strategy and achievement of goals. To succeed in the international market, the company must develop business plans for at least 3 to 5 years.

When considering the issue of lending to export activities of small and medium enterprises, along with financial instruments, banks and financial institutions will require a business plan. A business plan is also needed to work with partners or investors, who are usually ready to support the company's initiatives only if there is a plan with reasonable and specific goals and a clear implementation mechanism.The business plan helps the company to answer the following questions:

a) what kind of products to choose to enter the foreign market;

b) what will be the market demand for the goods and services offered, and how will it change;

c) what resources and in what quantities are needed to organize a business project;

d) how much will the necessary resources cost and where to find reliable suppliers;

e) what will be the costs of organizing the production and sale of products and services in the relevant markets;

e) what may be the market price for this product and how it will be affected by competitors;

g) what can be the total income and how it should be distributed among all participants in the business project;

h) what will be the indicators of production efficiency and how they can be improved.

To prepare and develop an exporter's plan (marketing plan) you need to use the services of consulting companies. However, if the company has specialists who are ready to master this task, you can make a plan yourself.

Before the company enters into its first foreign trade contract, it will need to develop an export marketing plan. It is necessary to pay attention to how important it is not to confuse different terms and concepts, in particular, such as selling a product and promoting it on the market, advertising and marketing. Marketing is an enterprise strategy. The 4P (Marketing Mix) theory known in marketing is its basis and should be built in four basic planning coordinates (Table 3.3).

Table 3.3 - Theory "4P" for traditional firms

Product	Goods
Price	Price
Promotion	Advertising, product promotion
Place	Location, market

In international trade, the number of components "P" increases to "8P", and the strategy of international marketing already has a more complex configuration (Table 3.4).

Table 3.4 - Theory "8P" for export-oriented firms

Payment	payment - features of settlements under foreign trade agreements
Personnel	personnel of the enterprise - knowledge and experience in export activity
Planning	planning - preparation of business plans
Paperwork	documentation - preparation of a set of documents for export
Practices	business customs - taking into account the national characteristics of doing business in other countries
Partnerships	cooperation - choosing a partner
Policies	strategy - the strategy of introducing export activities at the moment and in the future
Positioning	positioning - how the company will be represented in the market

Usually the content of marketing is identified with sales and its promotion, advertising. However, in fact, sales are one of the functions of marketing and often not the most important. If the company has worked well on such marketing areas as identifying consumer needs, developing suitable products and setting the appropriate price, setting up a distribution system and effective incentives, such products will no longer have problems with sales unless the company operates in a highly competitive market. The exchange process requires certain actions. Therefore, those who want to sell need to look for buyers, identify their needs, design appropriate products, promote them on the market, store, transport, negotiate prices. The basis of marketing activities are such processes as product development, research, communication, organization of distribution, pricing, deployment of service.

Questions for self-control

1. Define the export strategy.
2. What is an export plan?
3. Describe the structure of the export plan?
4. What are direct and indirect exports?
5. What approaches to exports are most effective?