

Topic 4

Preliminary selection of foreign markets and their research

Objective: to determine the sequence of actions for the pre-selection of foreign markets and their research

Plan

1. Selection of foreign markets and their research.
2. Assessment of factors of micro- and macromarketing environment in the market.
3. Analysis of economic risks of the firm in the international market.



Basic terms and concepts

Target export markets, factors of micro- and macromarketing environment, assessment, economic risks, export activity, export potential, primary and secondary research.

Thematic theses

1. Selection of foreign markets and their research.

In the context of intensifying international cooperation and development of foreign economic activity, the key role is played by the export component of the firm, which not only provides financial benefits, but also contributes to the formation of the country's image through the activities of individual businesses.

Note that the export activities of firms occupy a special place among other types of economic activity and require the formation of an appropriate strategy, which differs from the planning and organization of activities in the domestic market. The main differences of the company's export activities include taking into account such environmental factors as: cultural characteristics, business communication, ways of organizing business, market conditions, product quality, competitors and more. Equally important is the assessment of the company's readiness for export, which involves assessing the availability of the required volume of products and the possibility of its supply to foreign markets.

It is important that export-oriented firms should focus their activities not on survival, but on dynamic growth and development. According to scientists: "Decisions on the appropriateness of exports should also be made in the event of the expansion of activities in foreign markets."

For the most part, the decision to carry out export operations is due to random orders from abroad. However, in order to identify more profitable foreign markets that can ensure stable demand for products, it is necessary to define a clear mechanism for their search and selection. Comprehensive market research is a must for companies planning to start an export business or those that have been operating in a certain industry for a long time and are looking for new markets. Market research provides an opportunity to identify demand for products

or services that the company plans to export, as well as allows you to understand the pricing strategy and focus on quality characteristics.

In turn, the assessment of the firm's potential, which determines its readiness to export goods, forms its own point of view on the positioning of goods in foreign markets and the peculiarities of its segmentation.

To select a foreign market you need to follow certain steps:

a) initial selection of potential markets, ie analysis of product demand, market openness, tariff and tax policies, distribution channels, prices and risks. Additional factors for analysis are personal contacts in a particular market, target audience, culture, mentality;

b) assessment of target markets - the volume of production and consumption of similar goods by competing firms, demographic and economic trends, analysis of quality standards, management features, as well as determining the level of competitiveness of goods by price;

c) conclusions on the feasibility of entering the selected target market, the effectiveness of marketing tools;

d) demand testing.

We emphasize that exports are a special activity and require a special strategy that differs from the usual sale of products or services in the domestic market. This environment with other factors, such as: features of culture, methods of doing business, market dynamics, quality, etc. It is also important to understand that the export strategy contributes not only to the survival of the firm, but also to its dynamic growth. The decision to "export or not" should be made in the same way as in the case of expansion of the firm.

Firms often resort to export operations in response to random orders from abroad. Although this type of sale is valuable, because the company can find more promising markets and more stable demand through a systematic search.

Comprehensive market research is a must for companies planning to start exporting or those who have already exported but are looking for new markets. Market analysis makes it possible to identify promising markets through the study of objective facts and statistics. Market research not only provides an opportunity to identify and understand the demand for products or services planned for export, but also helps to understand the pricing strategy and the reasons for focusing on quality. As soon as the emphasis on quality is given priority, volumes will increase automatically.

Market research is not necessarily a linear process. Important information is obtained at different times and from different sources and gradually leads you to make a decision. It is also important to understand that market research is not only a one-time act, but also a process - the continuous acquisition of new information and its consideration in business.

Conducting a study to determine the target export markets involves a certain sequence of steps (Fig. 4.1).

STEP 1	Initial selection of potential markets
STEP 2	Assessment of target markets
STEP 3	Conclusions
STEP 4	Demand testing

Fig. 4.1 - Definition of target export markets

The first step involves the initial selection of potential markets based on the collection and analysis of information on trends in product consumption in the global and regional context on the basis of publications in professional publications and databases. It is necessary to analyze trade statistics, which show which countries import substitute goods. For these purposes, you can use statistical databases Trade Map, Export Helpdesk or Eurostat. In addition, you can use the UN statistical database on trade in goods.

A thorough review of available market research on the target country or several countries and sectors should be conducted to determine the degree of market openness, standard practices, tariffs and taxes, distribution channels, prices and other important factors.

Identify five to ten dynamically growing product markets. Analyze them over the last 3-5 years in terms of market conditions, pros and cons for certain periods.

Ask critical questions about possible risk factors that affect demand, the stability of market growth in recent years, changes in consumer preferences and tastes, the impact of seasonality. Analysis of export information on a particular product category over the past few years may show an increase in sales of one product item in this category, but a decrease - on another. The growth of exports of goods to a particular country may be caused by natural disasters or other temporary factors of change in the demand profile. In both cases, a historical analysis of international trade statistics can help determine seasonal changes in demand. It is also important to identify smaller but dynamically growing markets. Identify 3 to 5 most promising markets for further evaluation. The choice is made on the basis of the selection made in the previous step. If the market is just beginning to open, there may be fewer competitors than in the developed markets of certain goods. This applies equally to developing economies and developed economies. It is advisable to consult with business partners, freight forwarders and others to further assess the target markets. In this process, you can obtain important information about risks and opportunities that are not publicly available.

In addition to analyzing objective factors, you should pay attention to what personal contacts can be associated with a particular market (the more contacts,

the better), how much you like the target country, its culture and mentality, which is the import of goods per capita.

The second step is to assess the target markets. Investigate the consumption and production of competing products, as well as general demographic and economic trends in each target country. You need to pay attention to related products that may affect demand.

It is also necessary to identify sources of competition, including the degree of domestic production and the main foreign countries with which the company will compete in a promising market. Find out who are the players in the market.

It is mandatory to determine the quality standards, management, which must meet the company and the product.

The next important step is to analyze the factors that affect the marketing and use of goods in each market, such as final consumption sectors, distribution channels, cultural characteristics and business practices. It is necessary to identify tariff and non-tariff barriers to import goods to the target country and possible import-export control procedures, as well as to investigate the competitiveness of goods at price after taking into account costs of packaging, transportation, marketing, sales commission, taxes and tariffs and other charges. related costs.

The third step is to draw some conclusions and conclusions. After analyzing the data, the company can conclude that its marketing resources will be used more efficiently if it is exported to several countries. If the company is new to exports, no more than three target markets should be identified. The best results are achieved in the case of maximum concentration in one market. The choice must be determined by the company's internal resources.

The last step is demand testing. You need to try to find ways to test the demand for goods in foreign markets or target groups. Demand can also be tested through participation in the exhibition. You can gather a lot of useful information about the shortcomings, weaknesses of existing market participants through social networks. It is there that people express their attitude to goods, companies, and there you can explore the causes of dissatisfaction. Careful and systematic work in this direction can help increase competitiveness and generate ideas for new products for the market.

Consider market research as a product (document) prepared by company staff or an external organization to better understand the market. The finished study should contain information on consumer profile, market conditions (economy, demography, political (in) stability, trade barriers, distribution system, competition, transportation, storage, etc.), identify direct buyers (if not end users).

Market research is conducted by analyzing primary or secondary sources of information. During the initial market research, the company gathers information in foreign markets through interviews, surveys, feedback and other forms of direct contact with potential buyers. Initial market research has the advantage that it is adapted to the needs of the company and provides answers to specific questions, but at the same time requires significant time and financial

costs. At the same time, the primary research can be conducted after having previously acquainted with the potential market through the secondary market research.

Secondary market research is based on the analysis of statistical information, such as trade statistics, the study of business surveys (including materials prepared by sectoral business associations), the press and other secondary sources. For research to be effective, the information must be reliable and cover a significant period of time. Although the secondary study is much less expensive (compared to the primary), it may be more limited - due to the availability of only general information or distorted or misinterpreted statistics. However, even with such limitations, secondary research is a valuable and relatively easy first step for a company. This may be the only step needed to decide on indirect exports - through an intermediary - as the latter may have more developed research resources.

Among the main tasks of marketing research and market research in general is to identify and understand the differences of foreign customers - in tastes, needs and customs.

Given the cost of primary market research, most companies rely on secondary data sources. On the other hand, secondary research can be a preparatory phase for conducting primary market research on the spot - in this case, secondary research allows you to properly build a strategy and methodology for primary research, formulate a clearer technical task for the company that will conduct it. There are some recommendations for more useful secondary information:

a) analyze global events affecting international markets, follow the announcements of individual projects or simply visit potential ones. For example, the reduction of political tensions often leads to the opening of trade channels between countries. The sharp depreciation of the hryvnia may make the product more competitive;

b) analyze trade and economic statistics. Trade statistics are generally compiled by product and country. It gives you information about sending goods in certain periods of time. Demographic and general economic statistics, such as population and composition, per capita income and production levels by industry, can be important indicators of market potential for a company's products.

c) receive advice from experts:

1) attend seminars, trainings and international trade exhibitions in their field;

2) hire a consultant on international trade and marketing;

3) discuss issues with successful exporters of similar goods;

4) contact trade and industry associations.

To collect primary information, you can try to use a network of foreign contacts.

Market segmentation is important. Thorough market segmentation can allow you to position the product so that it will be out of competition, even in a surplus market. For example, a Ukrainian company may find that the market for a particular product in the target country is already crowded, but it employs large international companies that produce goods in significant volumes. Significant sales volumes are usually accompanied by a high level of standardization of production, as well as a decrease in the company's flexibility to fulfill individual customer wishes, consistent pricing policy, payment policy and more. This situation often creates vacancies for companies that can fulfill individual orders.

Small and medium-sized enterprises are not recommended to seek confrontation with large companies: it is necessary to find those market segments where large companies cannot operate due to their standards and scale.

In general, market segmentation can be done according to a large number of arbitrary criteria, analyzing "what" consumers buy, "when", "how" often and "why". Each time and according to each criterion, unique market segments or market niches can be identified. Here are some of them (Table 4.1).

Segmentation by target consumer groups allows you to create a "portrait" of the consumer group, which will be focused on the product or its modification. The result of such segmentation is a clear description of the target group - information that should be part of the content of the export plan. After market segmentation, you can roughly calculate the volume of market niches and sales in the target market.

Table 4.1– Market segments *

Demographic Aspects	Geographical Aspects	Consumer Behavior	Personal Aspects	Customer Behavior
- age; - education; - the nature of the occupation; - marital status; - to become; - social group; - income level.	- climate; - country; - region; - city / countryside; - mountain / sea area; - small town	- price; - quality; - image.	- Lifestyle; - modern / conservative; - classic; - extrovert / introvert.	- risk appetite; - entertainment; - health care; - interest in technology; - desire to own goods; - focus on comfort, convenience

Segmentation can also occur on a seasonal basis - in time. This applies to products such as ice cream, flowers, etc. But even in the case of goods such as windows and shoes, seasonality is also an important factor.

A good understanding of the specifics of seasonality will avoid unproductive costs and take advantage of market "windows".

Segmentation makes it possible to find new sectors that will reveal the demand for goods and ways to use them in foreign markets. The best way to find out is to live in the target country and immerse yourself in the socio-cultural

environment. Find out how people spend their leisure time, working hours, which goods they prefer (quality or price, national or foreign), etc.

To visualize the segmentation of own goods, it is necessary to describe which goods will be exported, where (geographically), to whom (end consumer and / or intermediary and specifically to intermediaries / intermediaries), make portraits of potential consumers and the path of goods according to different segments of consumption. After performing this step, it is possible to more specifically describe the needs of the company in dialogue with institutions that can provide assistance: Ukrainian embassies abroad, foreign missions in Ukraine, you can set a more specific task for consultants and more.

Thorough segmentation provides an opportunity to better understand the profile and motivations of the target audience, market size, competition and competitive position, the level of novelty of the product for the chosen niche and the prospects of changing the "size" of the niche in the future. That is, it is important to analyze the dynamics and trends of demographic, economic and socio-cultural portrait at present and in the future, features of state regulation of goods, possible impact of geographical and climatic characteristics on logistics and marketing of goods, possible needs for product change, packaging, solutions consumers, to find out the differences in national and foreign consumption cultures, the peculiarities of the needs for after-sales service and the challenges associated with it.

An important element of the analysis can be to determine the maximum possible number of factors that are important to customers when deciding to purchase goods. First you need to create a general list of factors and then carry out their detailed decomposition (Fig. 4.2).

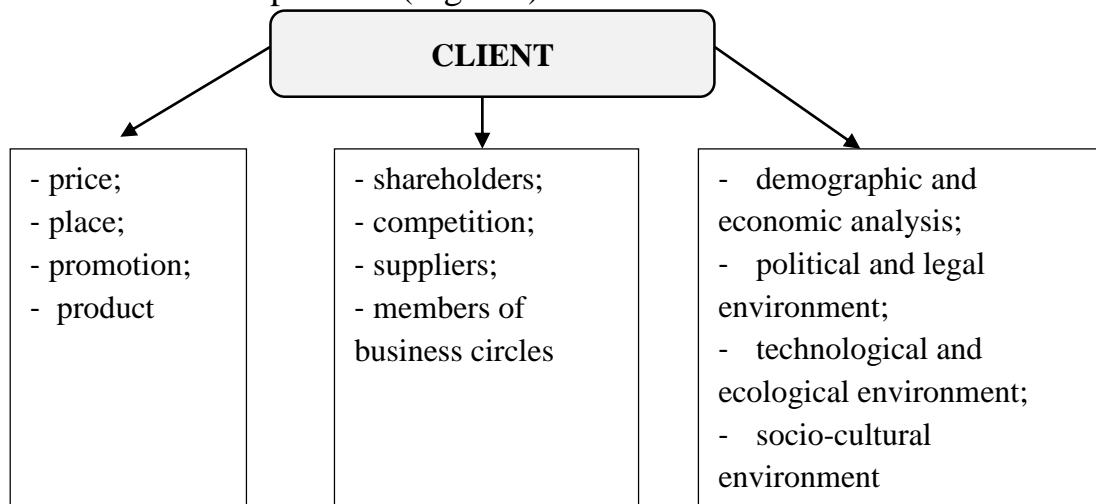


Fig. 4.2 - Factors influencing the decision to purchase *

The next step is to form a table of all possible similar factors. In the table you can assess your compliance with each factor and the compliance of your competitors. Each factor is given weight - the degree of importance of the

criterion for the client. In addition, for each criterion, compliance is assessed on a 10-point scale (Table 4.3).

Table 4.3 - Assessment of competitiveness factors

Category of competitiveness factors	Factor	Weight of the factor	Estimation of the product / firm in the target market	Estimation of the competitor 1 in the target market	Estimation of the competitor 2 in the target market
commercial	promotional discount prices				
commercial	price-seasonal discounts				
commercial	price-terms of payment				
commercial	price-credit programs				
commercial	brand strength-brand strength				
commercial	convenience of the site-convenience of the site				
operating	basic guarantee				
operating	extended warranty				
operating	warranty-post-warranty service				
operating	warranty-maintenance				
operating	delivery time-delivery time				
operating	availability of a license for installation work is standard				
operating	availability of a license for installation work - high-altitude				
operating	speed - preparation of a commercial offer				
operating	the ability to pay significant attention to the consumer				
operating	speed - during the warranty period				
operating	communication skills of staff - communicative skills of staff				
technical	energy efficiency-energy efficiency				

technical	aesthetics-color				
technical	aesthetics - decorative elements				
technical	aesthetics - design				

After filling in the table, you can form the curves of the company's competitiveness and the competitiveness of other players in the target market and get a "portrait" of strengths and weaknesses - a map of work to increase export competitiveness. This makes it possible to rethink how to position the product and how to offer a product to a foreign customer.

2. Assessment of factors of micro- and macromarketing environment in the market.

The implementation of international marketing activities begins with the study of the business environment, which is not only the identification and evaluation of numerous national factors of business, but also a comparative analysis of basic parameters of economic systems that shape the specifics and potential of international cooperation. Research of the marketing environment is a basic and defining stage for the implementation of other marketing tasks at the international level, depending on the intensity of international cooperation.

The marketing environment is a set of internal and external factors, prerequisites that influence management decisions regarding the operation and future development. Note that the marketing environment is usually unstable and often suffers from more or less significant changes, which requires regular monitoring of market factors and prompt response to changes in the market situation. Analysis of the factors of the marketing environment of international business is the first and very important for understanding the nature and trends of foreign markets, which determine the attractiveness and feasibility of entering and operating in a particular foreign market. The algorithm for identifying marketing problems and opportunities involves the selection and expert assessment of factors of the macro- and micromarketing environment that determine the characteristics of the market under study (Fig. 4.3).

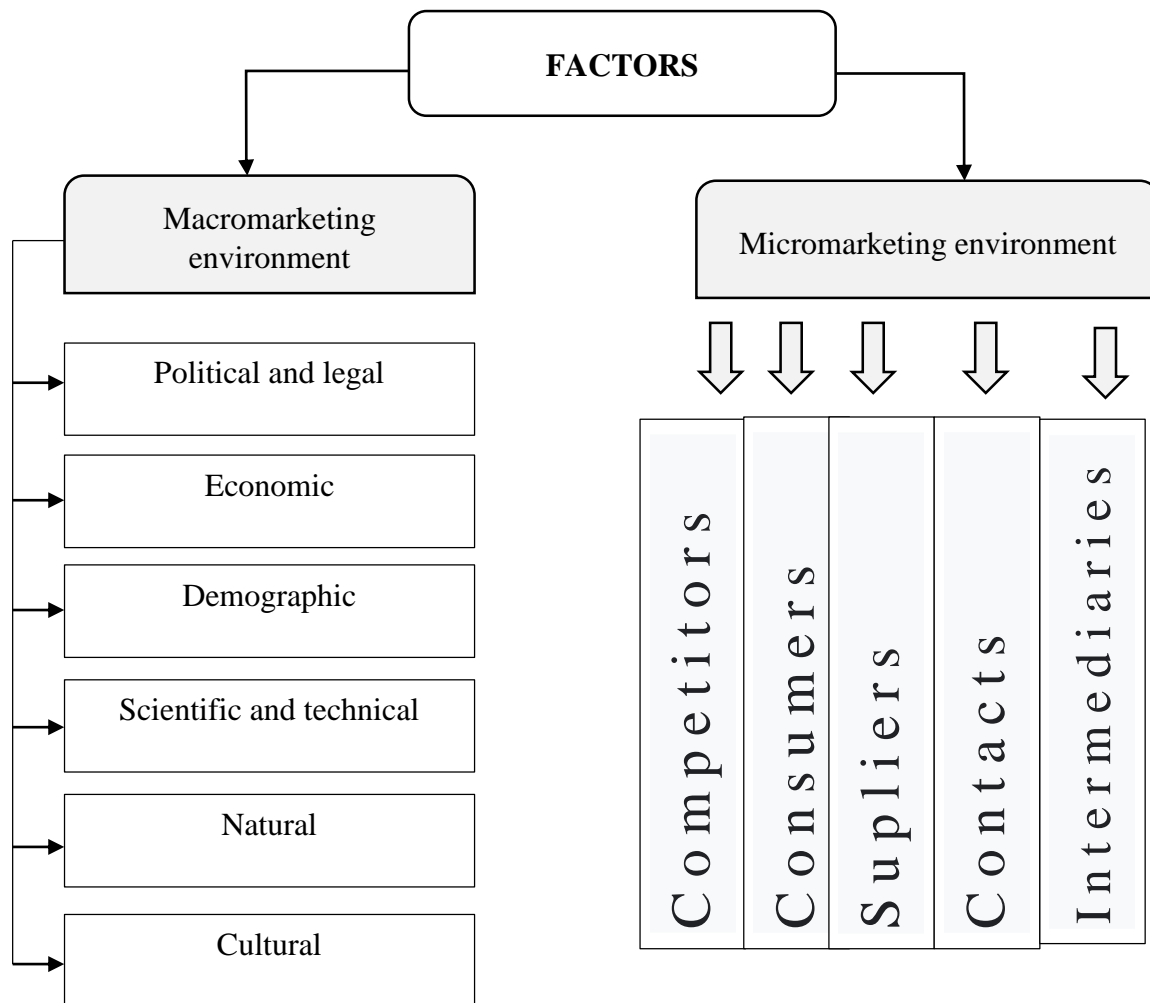


Fig. 4.3 - Classification of factors of micro- and macromarketing environment

The analysis of factors of the macromarketing environment begins with political and legal factors. Among the key elements of the political and legal environment should be identified: legislation, government decrees, the influence of certain groups, representatives of certain institutions. The decision to enter the international market is significantly influenced by tariffs, tax regulation, regulatory framework, regulatory documents, political stability, the presence / absence of political conflicts.

The economic environment is determined by the following factors: inflation, employment, balance of payments, monetary system and stability of the national currency. Note that economic factors have a conflicting effect depending on the characteristics of the firm, ie risks to the activities of one entity may be an advantage to another, providing new opportunities for development. The economic factors of the macroenvironment include: the level of income, ease of starting and starting your own business, market capacity and others.

For firms operating in the international market and constantly looking for new markets to exit, threats or opportunities due to exchange rate fluctuations, unstable political situation in those countries in which funds are invested.

Significant risk is caused by the activities of economic entities - cartels, which complicate access to raw materials. The next group is demographic factors, which include determining the population, distribution by territory and composition, the processes of population reproduction, the dependence of population movement on social, economic and cultural factors. This group of factors significantly affects the formation of preferences, preferences and beliefs of consumers. After all, with the increase in population, the level of consumption of goods and services increases, which has a positive effect on the commodity market and services.

Based on the above, we emphasize that it is demographic factors that shape the portrait of the consumer in the market, employees, partners, competitors and more.

The change in production technology is embodied in the scientific and technological environment, which determines the quantitative changes in technology, the emergence of new products, levels of technical and technological innovation. It is extremely important to take into account new trends and achievements of scientific and technological progress in time, which ultimately creates new opportunities for business expansion and qualitative change.

At the present stage, the role of natural factors is growing dynamically, due to the deterioration of the environment and the need to support sustainable development. This is the impetus for the emergence and development of the theory of socio-ethical marketing, which involves meeting the needs of a particular group of consumers, firms with due regard for the public interest in general. After all, modern realities show that most foreign companies pay considerable attention to maintaining social responsibility for health care, on the one hand, and the environment, on the other. That is, the main thing is to support the living environment of people, the level and quality of life of the population, which led to the emergence of "green" marketing.

In order to determine the nature of the impact on business processes of such socio-psychological phenomena as people's attitudes to work, lifestyle, dominance of certain customs and traditions, education, mobility, forming a group of cultural factors of the macromarketing environment. Note that for most international companies, the system of value orientations acts as the most important element of the business environment.

Analysis of the factors of the micromarketing environment involves the study of the behavior of consumers, competitors, suppliers and others.

Let's dwell in more detail on the method of assessing the factors of the macromarketing environment. The proposed method is universal, because it expands the possibilities of use for other groups of factors.

We use matrix methods to assess micro- and macromarketing factors. The methodology is based on the analysis of two-dimensional matrices based on the principle of the coordinate system, where the abscissa and ordinate axis reflect

changes in two factors, which, in turn, have a direct relationship and affect each other.

Matrix estimation methods are based on the use of a matrix - a table of elements arranged in rows and columns. These methods are convenient in terms of presenting information on research results and their analysis.

The evaluation process involves studying the micro- and macroeconomic factors of each country selected as potential for market entry and scoring. The maximum score is 10 points (Table 4.4).

Table 4.4 - Estimation of factors of micro- and macromarketing environment based on the matrix method

№	Country	Factors of the micromarketing environment	Factors of the macromarketing environment
1	Conditional country 1	6	4
2	Conditional country 2	5	3
3	Conditional country 3	7	2
Average value (geometric mean)		5,9	2,9

The average value of micro- and macro-environmental factors is calculated separately. The geometric mean formula is used for this purpose, which allows to take into account low and high values of the indicator, because when determining the arithmetic mean, low values are compensated by high ones, which reduces the objectivity of calculations and their correspondence to the real situation. The geometric mean is determined by the formula:

$$\bar{X}_i = \sqrt[N]{\prod_{i=1}^N X_i}, \quad (4.1)$$

де \bar{X}_i – geometric mean of the i-th indicator;

N – the number of countries that are potential markets for exit;

$\prod_{i=1}^N X_i$ – product of values of i-th factors of micro- and macroenvironment, respectively.

On the basis of the received calculations we make a matrix (fig. 4.4) which consists of four quadrants:

- the first quadrant of the matrix: assessment of factors of the micromarketing environment above the average level and assessment of factors of the macromarketing environment above the average level;

- the second quadrant of the matrix: assessment of factors of the micromarketing environment below the average level and assessment of factors of the macromarketing environment above the average level;

- the third quadrant of the matrix: assessment of factors of the micromarketing environment above the average level and assessment of factors of the macromarketing environment below the average level;

- the fourth quadrant of the matrix: assessment of factors of the micromarketing environment below the average level and assessment of factors of the macromarketing environment below the average level.

	Estimation of factors of the micromarketing environment above average level	Estimation of factors of the micromarketing environment above average level
Assessment of macromarketing environment factors is above average	I quadrant	II quadrant
Assessment of macromarketing factors below the average level	III quadrant	IV quadrant

Figure 4.4 - Matrix for assessing the factors of micro- and macromarketing environment

If a conditional country falls into the first quadrant of the factor assessment matrix, the country is attractive for entering its markets, because it has a high assessment of both micro- and macromarketing factors.

If the country falls into the second quadrant, it is necessary to analyze in detail the micromarketing factors in the country, identify the reasons for their low level and improve these components in order to increase the number of potential international markets.

If the country falls into the third quadrant, then its main task is to create conditions to improve the quality of micro- and macro-environmental factors.

If the country falls into the fourth quadrant of the matrix, it is necessary to analyze in detail the macromarketing factors in the country, to determine the reasons for their low level.

The matrix is a convenient tool for schematic representation, which allows for a thorough analysis and comparison of the results, as well as to determine a certain standard, the achievement of which allows to obtain a qualitatively new level of development.

For conditional countries, the evaluation matrix is presented in Fig. 4.5.

	Estimation of factors of the micromarketing environment above average level	Estimation of factors of the micromarketing environment above average level
Assessment of macromarketing environment factors is above average	Conditional country 1 Conditional country 2	-
Assessment of macromarketing factors below the average level	Conditional country 3	-

Fig. 4.5 - Matrix for assessing the factors of micro- and macromarketing environment

Based on the analysis of the matrix (Table 4.4), it is possible to justify the decision to enter the market of a country based on the assessment of factors of micro- and macromarketing environment.

Given that the contribution of the proposed factors in the development of international and foreign economic relations may be different, it is possible to determine the weighting factor (significance factor) for each group. In the table. 4.5 presents the weights of factors in the micro- and macromarketing environment, which can be determined by experts or directly determined by the degree of importance for the business entity.

Table 4.5 - Values of weights of groups of factors

Indicator	Factors of the micromarketing environment	Factors of the micromarketing environment
Weighting factor	0,4	0,6

Significance factors allow you to prioritize one indicator over another, which affects the quality of management decisions and complex tasks related to the search, analysis and entry into the international market.

To assess the factors of the two groups, it is necessary to construct a matrix (Table 4.6).

Table 4.6 - Data to determine the level of internationalization

№ 3/II	Country	Factors of the micromarketing environment	Factors of the micromarketing environment
1	Conditional country 1	6	4
2	Conditional country 2	5	3
3	Conditional country 3	7	2

The overall assessment of the factors of micro- and macromarketing environment can be calculated by the formula:

$$I_{total}^1 = \sqrt[m]{\sum_{j=1}^m \left(\frac{a_j x_{ij}}{\max_j(a_j x_{ij})} \right)}, \quad (4.2)$$

де x_{ij} – значення j – ї групи факторів для i – ї умовної країни;
 a_j – ваговий коефіцієнт j – ї групи факторів, $j = \overline{1, m}$.

Formula (2) contains the operation of the sum, which is equivalent to the value of "or", ie low values will be offset by high.

You can also use a modified formula:

$$I_{total}^2 = \sqrt[m]{\prod_{j=1}^m \left(\frac{a_j x_{ij}}{\max_j(a_j x_{ij})} \right)} \quad (4.3)$$

Formula (3) contains the operation of the product, which is equivalent to "and / and", ie simultaneously takes into account the values, without compensating for low values with high ones. For factors of the micromarketing environment, the maximum value, taking into account the significance factor, is 4, and for factors of the macromarketing environment - 6.

You can calculate the index by formulas (4.2) and (4.3) and compare the values obtained (Table 4.7).

Table 4.7 - Estimation of factors of micro and macromarketing environment according to formulas (4.2) and (4.3)

№ з/п	Country	Estimation of factors of the micromarketing environment according to formula 2 Estimation of factors of the macromarketing environment according to formula 3	Estimation of factors of the micromarketing environment according to formula 2 Estimation of factors of the macromarketing environment according to formula 3
1	Conditional country 1	0,6	0,4
2	Conditional country 2	0,5	0,3
3	Conditional country 3	0,7	0,2

Analysis of the results shows that if we consider the factors of the microeconomic environment as a priority, it is advisable to choose as a potential market for exit conditional country 3, provided the assessment of macroeconomic environment factors conditional country 1 is more attractive.

It should be noted that the use of the proposed approach allows to change the weights of indicators and take into account the contribution of each to the assessment of the factor, ie to analyze how the assessment of the environment will change (increase or decrease). This will allow us to conclude on the

contribution of each group of factors in decision-making to enter the market of a particular country and determine the strategy for further action.

2. Analysis of economic risks of the firm in the international market.

The company's activities in the international market involve many risks of several types. Some risks may be more or less, some types of risks are more important for one type of business than for another. It is because of the risks that firms begin to address issues related to threats that may affect their performance and further development.

The scientific literature presents different approaches to the definition of "risk", which differ from each other in content and complete definition. Thus, scientists have diametrically opposed views on the positive or negative consequences of activities in the international market at risk. It is common to define risk from the point of view of the theory of risk impact measurement, namely: the more you take risks, the higher the probability of receiving a significant reward. But at the present stage, this principle is not always effective, due to the emergence of new types of risk that do not have a defined management mechanism, and are mostly unpredictable. The inconsistency of the concept of "risk" is confirmed by its interpretation in Chinese literature as a combination of two hieroglyphs, one of which means "danger" and the other "opportunity". The term "risk" is translated from Greek as "rock", while the Italians define risk as "danger" or "threat", "probability of danger" or a certain action, which can be intuitive, aimed at obtaining certain results as an element of luck and happiness. In the literature, risk is defined in two ways: on the one hand, it is a danger, and on the other hand, it is an opportunity to reduce the level of uncertainty in decision-making. At the same time, businesses need to identify an effective mechanism for managing risks that cannot be avoided in the course of business, but to reduce their negative impact is a priority for the firm. That is, one should not avoid risk, but try to anticipate it and reduce the negative impact. From the point of view of economic activity, risk is understood as the probability (threat) of loss of a firm's part of its resource potential, loss of income or the emergence of additional costs as a result of certain production and financial activities. Risk is seen as an activity related to overcoming uncertainty in a situation of choice, in the process of which there is an opportunity to quantify and qualitatively assess the probability of achieving the intended result, failure and deviation from the goal. This confirms that risk can provide opportunities for improvement and growth, on the one hand, and threaten the effective operation of the enterprise in the international market, on the other.

The most important in international business are economic risks that directly affect other components of the activity. Theoretical analysis of the concept of "economic risk" can be defined as one of the types of risk that arises in the course of business activities and associated with the desire to make a profit, production of goods or services, sales of products accompanied by certain

financial transactions, commercialization and implementation of scientific and technical developments and projects. That is, economic risk is defined as a threat, the danger of material loss, loss of profit in the form of income or profit under the influence of internal or external factors. Risks in international business are classified according to the following characteristics (Fig. 4.6):

- internal - are formed within a specific form of international business;
- external to international business, formed in the economy of its host and origin;
- global, emerging in the world economy as a whole.

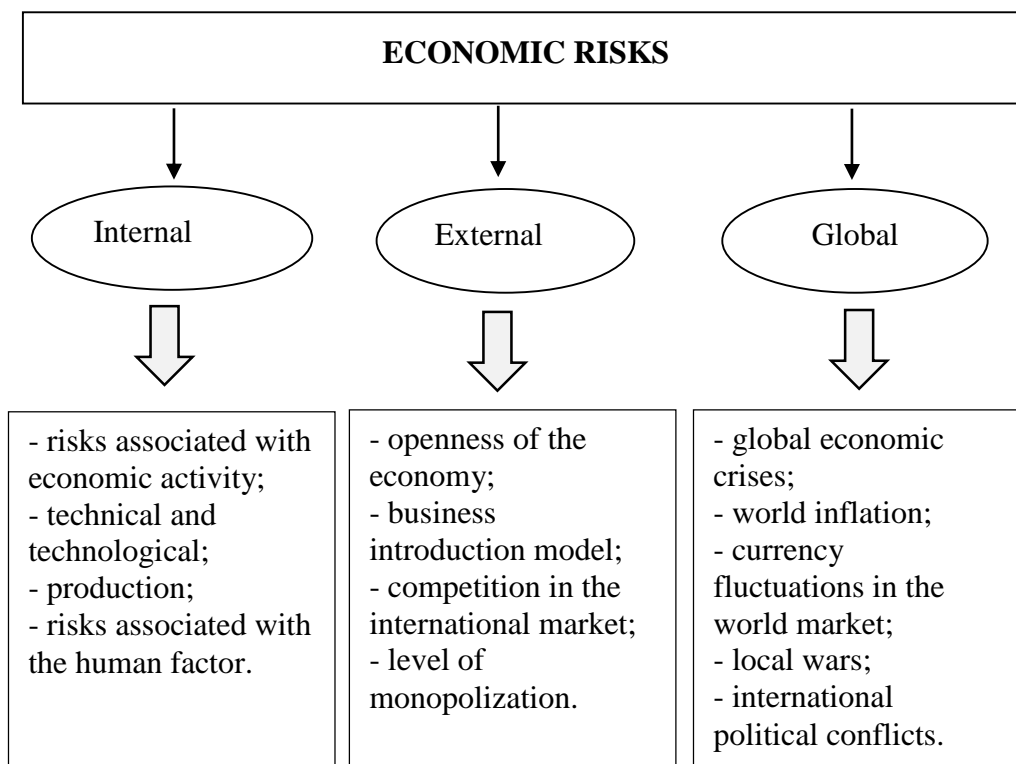


Fig. 4.6 - Types of economic risks

As we noted above, for international business, internal threats are primary and decisive, and external threats are secondary. Economic risks in international business are interdependent and have a conflicting effect on the activities of individual entities. It is dangerous that both internal and external risks can be hidden for a long period of time, which weakens the attention of the relevant actors and increases their number and negative impact.

Some external risks and threats can manifest as internal and vice versa. Among them it is often difficult to single out and prefer one or the other. The level of economic risk increases with increasing openness and interdependence of national economies, which increases the likelihood of loss of state sovereignty and, consequently, increases the vulnerability of both international and domestic business.

Let's focus in more detail on the external risks that determine the company's performance in the international market, which is important in terms of differentiation and reduce the negative impact of today's global challenges. Taking into account the risks of the company's activities in the international market is important, because, according to expert estimates, almost 40% of commercial transactions are unprofitable, due to underestimation of the impact of risks and ineffective mechanism for managing them.

It is important for a company that plans to organize its activities in the foreign market is the openness of the economy, which on the one hand, provides significant benefits, and on the other creates risks. The relatively high level of openness of the economy makes it possible to ensure stable demand for goods, diversify markets and establish business communication with partners from many countries. However, excessive openness exacerbates competition, raises product quality requirements and creates barriers to free entry due to "hidden" barriers.

When deciding on entering the international market, the firm must choose or formulate a model of business introduction, which would correspond to its own strategy and features of the international market. Note that at the present stage it is important to consider the possibility of starting a business online, which significantly expands opportunities and diversifies forms of business activity, and reduces risks.

Competition in the international market can have a double effect. On the one hand, it creates incentives to improve product quality, improve business strategy and models. On the other hand, it can lead to a decrease in demand due to the choice in favor of competitors.

One of the special types of risk in international business is cross-cultural risk, which is generated by cultural characteristics and mentality, value orientations (for example, process or result), leadership style and decision-making, and more. If, for example, a firm enters the market of a country where the business is primarily focused on the business process itself, focusing on the end result and dominating its own economic interest can exacerbate risks and lead to significant losses. The way to reduce risk is constant monitoring of the market, its analysis and transformation of activities in accordance with its requirements.

The first step in managing economic risks is to identify the source of any possible risks. Economic risk management is a process of systematic thinking about determining all possible undesirable consequences. There are six main elements of the risk management process, namely: creating a background of risks; risk identification; assessment of the probability and probability of the consequences of risks; development of strategies to reduce these risks; monitoring and evaluation of consequences; communication and consultations with all involved partners.

Note that the risks that accompany activities in the international market should not be an obstacle to entering foreign markets. After all, risks are an opportunity to improve your own business model and find new creative methods

to improve the results of their activities through the available human, social and emotional capital.



Questions for self-control

1. What is primary and secondary market research?
2. What is the algorithm for selecting target export markets?
3. Describe the factors of the microeconomic environment.
4. Which of the factors belong to the macroeconomic environment?

Describe their impact.

5. What types of risks may arise when a company enters foreign markets?