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The formation international marketing strategy of interprise

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INTRODUCTION

The topic of international marketing is widely viewed as one of the most vital marketing topics for the twenty-first century. In the era of global markets, firms will have to compete with international corporations from a wide range of markets that have the capacity to offer the best products in the world. Confronted with these changes in the environment and the complexity of processes in the world economy domestic enterprises have to develop a cohesive marketing strategy in order to make decisions about how to concentrate their (always limited) resources on the greatest opportunities to increase sales and achieve a sustainable competitive advantage in the international markets. Defining desirable and possible directions of the future activity in the world market, the enterprise reduces the possibility of unforeseen influence of major external factors.

By developing conceptualizations of the marketing strategy, the enterprise will be better able to implement successful directions that may improve its overall performance and reduce dependencies on the domestic market. Therefore new approaches to the process of developing an international marketing strategy should be elaborated.

The object of the research is international economic activities, namely its marketing aspect of the Trading House HELZ – the exclusive and sole distributor of “Kharkov Electrotechnical plant “Ukrelektromash” which is one of the leading Ukrainian producers of electrotechnical production: AC electric motors and household pumps. Although there is a Marketing Department at the plant, all sales and promotion functions over Ukraine and abroad are assigned to the TH HELZ. The enterprise is conducting strategic planning of its activities though the management doesn't pay proper attention to marketing component in the process of developing and implementing the strategic goals.

The main goal of this project is designing methods and techniques of developing a marketing strategy of the enterprise in the international (foreign) markets.

In the process of achieving the object the following objectives are defined:

- on the basis of the analysis of the existing approaches, the essence of the notion of international marketing strategy is made more precise;
- the evolution of the marketing mix internationalization is determined;
- a classification of the marketing strategies in international business is proposed;
- analysis of the enterprise's economic activities and, in particular, foreign operations is carried out, characterizing the main tendencies of the enterprise's development;
- a methodology of forming a model of international marketing strategy is formed;
- the model of correlation and regression analysis used for forecasting sales volume and the technique of building a Decision Tree in order to make a selection between the alternatives are suggested for usage in the process of the international marketing strategy formulation.

The analysis of the domestic and foreign scientific sources lead by the author has shown, that, definition of interrelations between strategy and marketing in a context of the international business is a complex theoretical problem. For the first time strategy in the marketing concept was expounded by Jean-Jack Lamben in his book "Strategic marketing". Mack Hannah viewing the issues of recompetitive strategies defines that marketing is the main function of business, G. Mainer and G. Stainer gave their own definition of strategy but in the management concept, M. Porter and G. Ansoff distinguish the different types of strategies, but the problem was substantially studied by the Russian author – V. Cherenkov.

During the work both the general science methods and economic, statistical as well as methods of marketing research are used including the following: comparative analysis, induction and deduction methods, graphic approach, portfolio matrix, expert evaluations, SWOT analysis, Decision Tree analysis, correlation and regression and others.

Scientific novelty of the research and the practical importance of the received results consist in formation and improvement of the toolkit of developing a marketing strategy for the enterprise in the foreign market which can be used by the domestic enterprises to increase the efficiency of their activities in a complex environment of the foreign (world) market.

CHAPTER 1

THE ESSENCE OF MARKETING STRATEGY IN THE SPHERE OF INTERNATIONAL BUSINESS

1.1. The concept of international marketing strategy

The definition of interactions between the strategy and marketing is a complex theoretical problem of modern marketing. Therefore, for the beginning it is necessary to consider the conceptual techniques which will be used in the context of international marketing strategy.

Globalization of the world economy has led to the necessity of knowledge merge of many related subjects describing behavior of the company in the world market.

Synthesis of marketing and strategic planning represents international marketing management. So, according to the definition of American professors J-P. Ganne and D. Hanessy international marketing-management is a process of realization of the chosen variant of the enterprise's international marketing activity appearing in the form of international marketing strategy (described as a marketing plan for implementation of the marketing-mix strategies intended for one or more foreign markets). The final conversion to market relations` dominance makes any management in any business to be marketing.

The term "strategy" is interpreted ambiguously in a modern economic science. D. Johnson defines strategy in his book [50, p. 23] as follows: "Strategy is the company's direction and scope in the long-term: which achieves advantage for the company through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholders` expectations."

At the same time marketing strategies take a special place in the business development. In the very common sense according to [62, p. 15] they are "plans that

specify the impact that an enterprise hopes to achieve on demand for a product or a product line in a given target market.”

Thus, marketing is necessary for developing an effective strategy and strategy in particular varies within the marketing frame, both domestic and international.

“The international marketing is a philosophy and simultaneously intellectual technology of the international business having synergy character, under the influence and by the means of which in the form of tangible and intangible exchanges marketing communications are created and developed, which, as a rule, cross national frontiers and provide satisfaction of commercial and noncommercial interests and needs of the parties of these exchanges” [64, p.245].

Further one will deal with the following definition of the international marketing strategy:

“The international marketing strategy is subordinated to the company’s mission, coordinated with the international marketing environment and supplied with resources system of interconnected, long-term, significant purposes and goals which are implemented on the corporation’s level, formalized in the form of the marketing program based on positioning of the certain product in one or many foreign markets, carried out according to the minimization of the " marketing distance criterion" [32, p.320].

The necessity of the strategic choice, subordinated to the international marketing patterns, arises among the management of the leading companies carrying out international economic activities for different reasons. The main idea consists in the long-term survival of the enterprise in the conditions of rigid competition in the world market. And a strategy of the international marketing or an international marketing strategy can be developed and realized both by a small company and a global corporation.

International marketing and, in particular, strategic planning follows many of the same principles similar to domestic marketing. There are, however, major differences between countries and the development of strategy options and marketing programs build on these differences.

Let us emphasize especially the interconnection between marketing strategies and tactics and define the role of tactical actions of the international companies for the international marketing programs implementation. In spite of the fact that the term "tactics" often appears in works on marketing, the definition of marketing tactics on the background of abundance of marketing strategies is considered practically underdeveloped. We shall present the most general definition: "tactics are day-to-day operational decisions essential to the overall success of marketing strategies."

The issues that surface at the marketing tactics level can become marketing strategy or corporate strategy issues. There are no precise lines between marketing strategies and marketing tactics because one shades (to) the other. Hence it follows that a cohesive marketing program is provided by components of each marketing mix element.

Strategic business studying is connected to the activity of the multinational companies, and a special broad approach to the concept of strategic extended to the sphere of tactical and operative. There is a functional division of strategic levels within the organization.

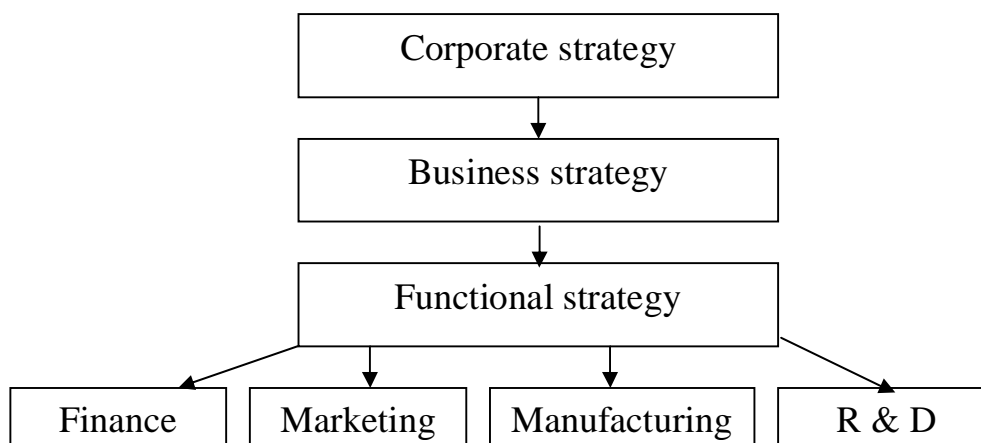


Fig. 1.1. The three levels of strategy in organizations [59, p.33]

The corporate level is where top management directs overall strategy for the entire organization. Marketing does not only help to shape this direction but must also help implement it.

The term business unit refers to an organization that markets a set of related products to a clearly defined group of customers. At this level business managers set the direction for their products and markets. The strategic direction is more specific. For less complex firms with a single business focus, the corporate and business levels may merge.

Each business level has marketing and other specialized activities (e.g. finance, research and development, human resource management) at the functional level, which is where groups of specialists create value for the organization. The term department generally refers to these specialized functions. At the functional level, the strategic direction becomes more specific and focused.

Marketing strategy in the international arena changes rapidly as the business grows or fails to grow; they are dynamic and interactive, partially planned and partially unplanned. Formulation of the marketing strategy which helps the company to achieve its general strategic purposes occurs at the stage of marketing planning. Without a sound marketing strategy, a marketing plan has no foundation. Marketing strategies serve as the fundamental underpinning of marketing plans designed to fill market needs and reach marketing objectives. It is important that these objectives have measurable results.

Strategy development helps establish a framework for setting direction, and helps determine the criteria for day-to-day decisions. Michael E. Porter stated, “The essence of strategy is choosing what not to do.” What he suggested is that the most difficult decisions in strategy development are not deciding what to do, but rather deciding what you are not going to do. Once objectives are determined, they must truly become priorities.

The process of international marketing strategy development does not considerably differ from the classic example given by P. Kotler in his book [54, p.562], however, it allows for rapid growth of the international function, changing markets, increasing competition, and the ever-varying challenges of different national markets (Fig. 1.2).

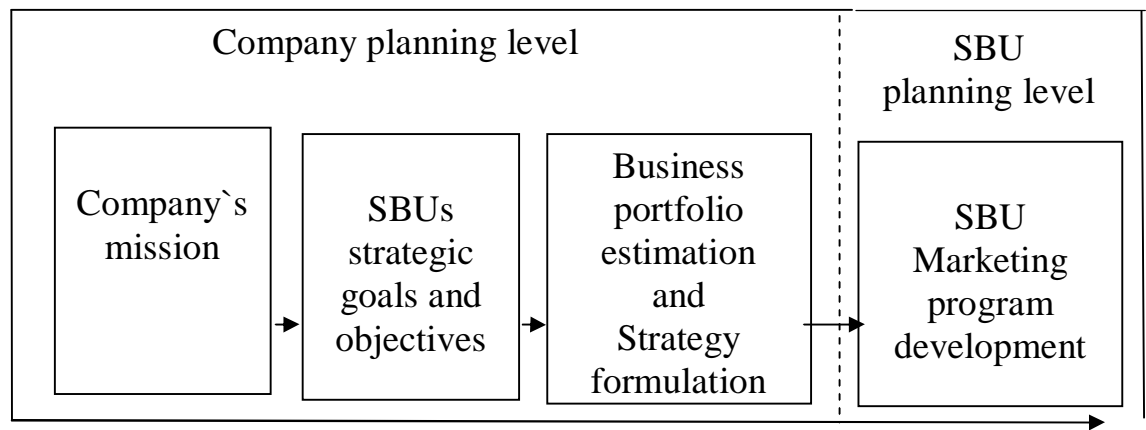


Fig. 1.2 Main stages of the strategic planning

Strategic planning is concerned about the overall direction of the business. It is concerned with marketing, of course. But it also involves decision-making about production and operations, finance, human resource management and other business issues. The objective of a strategic plan is to set the direction of a business and create its shape so that the products and services it provides meet the overall business objectives.

Marketing has a key role to play in strategic planning, because it is the job of marketing management to understand and manage the links between the business and the “environment”.

A model of strategy developing can be represented in the following form Fig. 1.3.

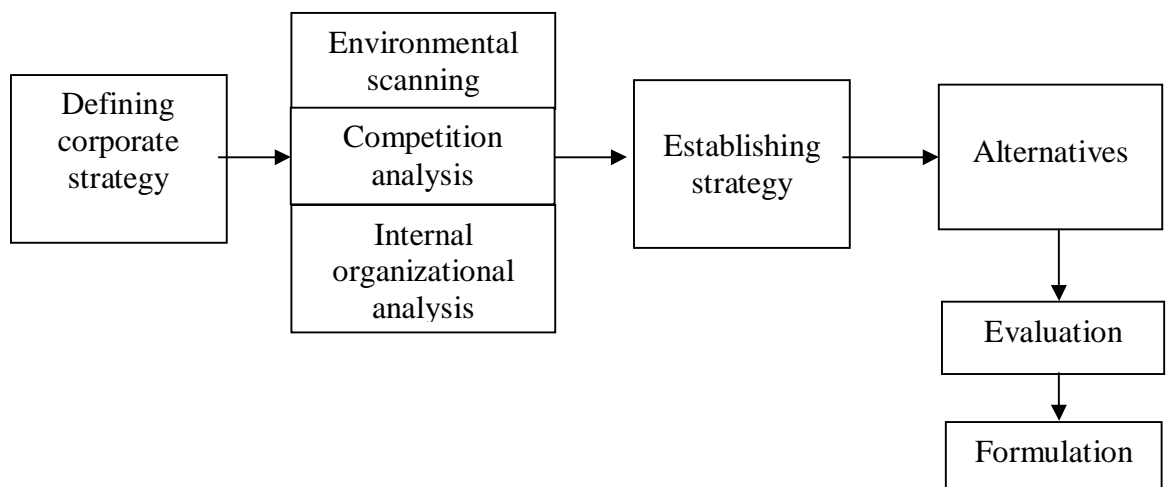


Fig. 1.3 A model of developing a strategy [53, p.274]

Developing an International Marketing Strategy is developing and maintaining a strategic fit between international company objectives, competencies and resources, and the challenges presented by its international markets.

Developing a marketing strategy is important, but it's a difficult work. The key to creating a usable marketing strategy is to follow a clear, structured, well-thought-out process. Doing so helps keep the management focused, ensures the consistent use of information, and streamlines decision-making. A more structured process also involves some front-end preparation, but this process ultimately saves time and money.

In the model given above marketing strategy formulation is not the beginning of the process — it's the end. Before establishing a strategy, a lot of marketing information must be collected, studied, and digested. When establishing a strategy many alternatives based on four marketing policies should be elaborated. They are then evaluated and a marketing strategy is defined.

Strategy formulation is both a skill and a process that leaders use to focus their organizations on where they need to go. Strategy formulation is iterative: the key people assess, decide, act, and review how they are doing. The decisions are fundamental to the success of a business.

So, taking into consideration what was said a marketing strategy is the bridge between corporate strategy and the situation analysis on the one hand and the action-oriented marketing programs on the other. Marketing programs should flow from and be consistent with the marketing strategy. In turn, the selection of a marketing strategy should be based on the results of the earlier steps in the planning process.

1.2. The structure of the international marketing mix

The marketing mix is probably the most famous phrase in marketing. Also known as the 'four Ps', the marketing mix elements are a set of variable and controllable marketing elements (price, place, product, and promotion), which an enterprise gathers together in order to gain the necessary outcomes in the target

market. Such a layout is really classical for marketing planning. The concept of international marketing mix goes back to the Kotler's megamarketing [52, p. 124] (he added two more Ps, political power and public opinion, to the basic 4Ps).

Elements of the marketing mix form the foundation for any marketing strategy. It establishes the brand's strategy in a systematic and structured manner. It helps the marketer to establish linkages with the focused target segment. Decades ago, companies may have attempted third degree marketing – which is “placing” the brand in the market and later fine-tuning the marketing mix elements (if the situation demanded) to suit the needs of the target segment. In today's context, even the brands which have been in the market for several decades make a planned attempt to construct a strategy based on marketing mix, carefully identifying the scope for providing a competitive marketing mix.

Marketing mix elements are equally important in international marketing. A product is a good, service or idea consisting of a bundle of tangible and intangible attributes that satisfies consumers and is received in exchange for money or some other unit of value. Dealing with industrial products, it is necessary to note that a major characteristic of industrial goods is that their sales are often the result of derived demand.

Foreign companies also face many challenges in determining pricing as part of their marketing effort. Individual countries may impose considerable competitive, political, and legal constraints on the pricing latitude of companies. Of course, economic factors also affect pricing decisions in the foreign market.

Distribution is of critical importance in international marketing. The availability and quality of retailers and wholesalers as well as transportation, communication and warehousing facilities are often determined by a country's stage of economic development.

An equally important element is promotion – a high-visibility campaign which creates awareness about the brand offering the value.

When launching a product into foreign markets the enterprise needs to decide whether it standardizes or adapts the marketing mix to the foreign market.

Basic marketing concepts tell that more of a product will be sold if the needs of the target market are met. Product adaptation is the degree to which the product (brand name, design, labeling, and variety of main exporting product line) differs between the domestic and export market. In international markets, many things have to be taken into consideration in order to deliver a tailored marketing mix program to suit the needs of consumers. However, several empirical studies indicate that standardized products are more successful than are adapted products because those who exported standardized goods were able to benefit from economies of scale and to avoid modification costs. Today's global world is becoming a lot smaller. Because of this there is no need to adapt products to local markets. In this vein, there has been a tendency for companies to enter export markets with a standardized product and to adapt the other aspects of the marketing mix. The motivation behind this approach is that a standardized product insures consistent product quality across segments, while still exploiting economies of scale in production, thereby lowering operating and coordination costs and enabling the firm to offer more competitive prices.

In contrast to what occurs with product, the literature tends to advocate the adaptation of other aspects of the marketing mix. The prevailing opinion is that promotion, pricing, and distribution strategies ought to take into account differences in the politico-legal, economic, and socio-cultural characteristics of any host country. By adapting to these specific characteristics, the company's pricing, communication, and distribution strategies can improve performance.

Promotion adaptation is defined as the adjustment of the domestic promotional program (advertising idea, media channels for advertising, promotion objectives, budget for promotion, direct marketing) to the main export market. Advertising messages in the countries may well have to be adapted because of language barriers or the current message used in the national market may be offensive to overseas residents. The use of certain colours may also need to be thought about. In India red is the colour worn by the bride in weddings, white is the colour for mourning in Japan. The level of media development has to also be taken into account. Many

organizations go for a strategy of adapting advertising messages to local markets to best meet consumer demand.

Price adaptation refers to the degree to which the pricing strategies (determination of pricing strategy, concession of credit, price discount policy, margins) for a product differ across national boundaries. Pricing on an international scale is difficult. As well as taking into account traditional price considerations fixed and variable costs, competition, company objectives, proposed positioning strategies, target group and willingness to pay, the organization needs to consider the costs of transport, any tariffs or import duties that may be levied on their products when they are sold on the international scale. Exchange rate fluctuation will also impact profitability and influence pricing decisions.

Finally, distribution adaptation reflects the readjustment of distribution (criteria to select the distribution system, transportation strategy, budget for distribution, and distribution network) to the export market. A standard distribution channel may go from a manufacturer, wholesaler, and retailer to consumer or direct from a manufacturer to a retailer. In an overseas market there may well be more intermediaries involved. For example in Japan there are approximately five different types of wholesaler a product goes through before the product reaches the final consumer.

The process of adaptation the marketing-mix when doing business in the foreign market may formally be described as follows:

$$\{M - MIX_A\}_i \Rightarrow \{M - MIX_B\}_i, \quad (1.1)$$

where A – the belonging of the marketing mix i-element to the multitude of the company's controlled variables developed for the A country;

B – the belonging of the marketing mix i-element to the multitude of revised company's controlled variables developed for the B country [32, p.308].

The structure of the marketing mix has been a subject to the discussion between different scientists and therefore it has constantly been expanded with new

variables. The evolution of the marketing-mix internationalization is illustrated in Table 1.1.

Table 1.1

The marketing mix internalization

	McCarthy	Kotler	Gale	Paliwoda
	marketing mix	megamarketing mix	international marketing-mix	
P ₁	Product	Product	Product	Product
P ₂	Price	Price	Price	Price
P ₃	Place	Place	Place	Place
P ₄	Promotion	Promotion	Promotion	Promotion
p ₁		Public opinion	People	People
P ₂		Political Power	Politics	Power
P ₃			Profit	Process
				Planning
				Precedents

It is ought to admit that S. Paliwoda gave the most broaden notion of “P”, he brought a record number of “P”, namely: “9P”. For better understanding of his approach, let us disclose some of his “p”. The power is all company’s resources as well as impacts by internal and external markets; the process is the interaction with competitors and the evolution of forms of the international economic activities; precedents include those political, legal and social decisions, which cannot be controlled by the business.

Formalization of the process of the international marketing planning, where the marketing mix is the core, may be described with the help of the following formula:

$$4P(3p) \rightarrow C \text{ or}$$

$$\{P_1(p_1, p_2, p_3), P_2(p_1, p_2, p_3), P_3(p_1, p_2, p_3), P_4(p_1, p_2, p_3)\} \rightarrow C, \quad (1.2)$$

where P₁ – marketing variables that characterize the product;

- P_2 – marketing variables that characterize the price of a product;
- P_3 – marketing variables that characterize distribution;
- P_4 – marketing variables that characterize promotion;
- p_1 – significant in marketing activities socio-cultural differences;
- p_2 – significant in marketing activities political differences;
- p_3 – significant in marketing activities economic differences;
- C – the concept of the international marketing-mix.

Thus, the used approach describes the dependence between both the marketing-mix components and the non-controllable factors of the external environment which in turn influence these components.

Marketing mix plays a vital role in international marketing as it becomes a competition instrument in a challenging global business. As in the formulation of an international strategy, the major issue regarding the international marketing mix is the extent to which it can be adapted across countries as there are different opinions on this matter.

1.3. The classification of the international marketing strategies

Once a company has decided to go international, it has to decide the way it will enter a foreign market and the degree of marketing involvement and commitment it is prepared to make.

Regardless of the means employed to gain entry into a foreign market, a company may make no market investment, that is, its marketing involvement may be limited to selling a product with little or no thought given to development of market control. Or a company may invest large sums of money and effort to capture and maintain a permanent, specific share of the market. In general, a business can be placed in at least one of five distinct phases of international marketing involvement, those are: no direct foreign marketing, infrequent foreign marketing, regular foreign market, international marketing, global marketing. As a company moves from one phase to another, the complexity and sophistication of international marketing

activity tends to increase and the degree of internationalization to which management is philosophically committed tends to change. Such commitment affects the specific international strategies and decisions of the firm.

There are three major ways of entering a foreign country: via export, by transferring technology and the skills needed to produce and market goods to an organization in a foreign country through a contractual agreement, and through direct investment (Fig. 1.4).

Exporting is the simplest way to enter a foreign market because it involves the least commitment and risk. It can be direct or indirect. Indirect exporting relies on the expertise of domestic international intermediaries: export merchants, who buy the product and sell it overseas for their own account; export agents, who sell on a commission basis; and cooperative organizations, which export for several producers.

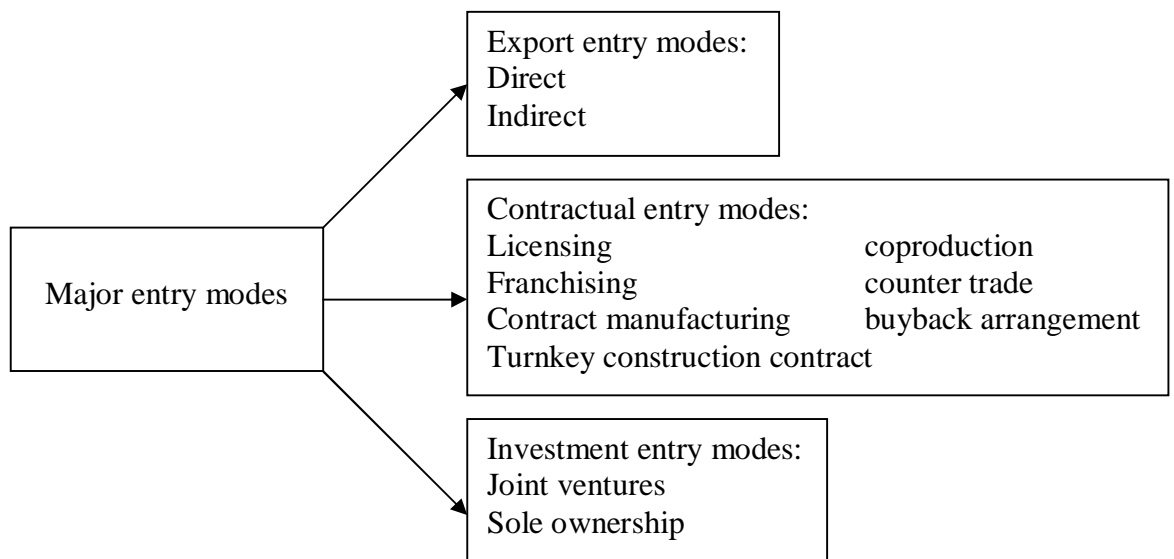


Fig.1.4 Classification of major entry modes

Contractual entry modes are nonequity arrangements that involve the transfer of technology and skills to an entity in a foreign country. In licensing a company offers the right to use its intangible assets (a brand name, a technology or product design, or a manufacturing or service operating process). Licensing is a practice not restricted to international markets and offers a particularly effective way of entering

foreign markets because it can offer simultaneously both a low-intensity (and therefore low risk) mode of market participation and adaptation of product to local markets. The other major advantage of licensing is that, despite the low level of local involvement required of the international licensor, the business is essentially local and is in the shape of the local business that holds the license. As a result, import barriers such as regulation or tariffs do not apply.

Franchising grants the rights to use the company's name, trademark and technology. It is an especially attractive way to penetrate into foreign markets at low cost and to exploit local knowledge and entrepreneurial spirit.

Other contractual entry modes include contract manufacturing, which involves sourcing a product from a manufacturer located in a foreign country for sale there or everywhere. A turnkey construction contract requires the contractor to have the project up and operating before releasing it to the owner. Coproduction involves a company's providing technical know-how and components in return for a share of the output, which it must sell. Countertrade transactions include barter, compensation packages, counterrpurchase, and buyback arrangements.

Overseas direct investment can be implemented in two ways: by joining venture or sole ownership. The former involves a joint ownership arrangement to produce goods in a foreign market. A sole ownership investment entry strategy involves setting up or acquiring product facilities in a foreign country [11, p.316].

One of the most important concepts of the marketing planning process is the need to develop a cohesive marketing strategy that guides tactical programs for the marketing decision areas. Such scientists as O. Kigan and P. Cateora lead the manifold of international marketing strategies to EPRG framework [32, p.144].

F. Bradley gave a priority to competitive strategies. Other economists group strategies according to the marketing-mix components. Besides, strategic decisions are motivated by a combination of both proactive and reactive behavior. Proactive behaviors require the company to develop specific strategies with the objective of achieving improved performance. Reactive behaviors are those in which the company responds to past results. Most research (including that in marketing) tends to explore

only the proactive side, ignoring the firm's reactive behavior, despite the fact that reactive behavior may play an equal role in the determination of current strategy.

It is of great importance to single out strategies which may be used in the sphere of international marketing. Summarizing all the different scientific points of view, one may suggest the following classification of the international marketing strategies (Fig. 1.5).

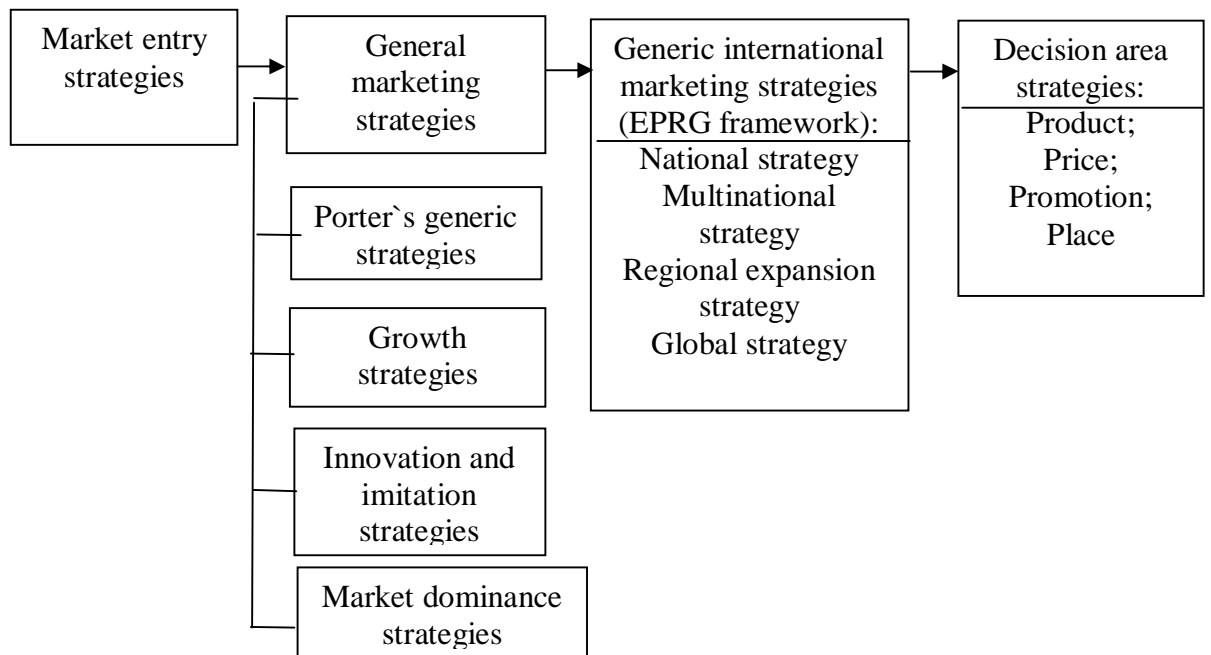


Fig. 1.5 A simplified classification of international marketing strategies

While different companies have different alternatives depending on their situation, there also exist general strategies that can be applied across a wide range of firms. General marketing strategies set the direction for all marketing efforts by describing, in general terms, how marketing will achieve its objectives.

There are a number of ways of categorizing these general strategies. A description of the most common categorizing schemes is presented below.

Growth strategies. In this scheme the question is how the company should grow.

Internal growth strategies include four main categories for selection:

market penetration, where the existing products are marketed to the existing customers;

market development, where the existing product range is distributed in a new market, this means that the product remains the same, but it is marketed to a new audience;

product development, where a new product is to be marketed to the existing customers, here new products and innovate offerings are developed to replace the existing ones;

finally, horizontal diversification is adding new unrelated products to new customers.

External growth strategies include:

horizontal integration – seeking ownership or increased control over competitors ;

vertical integration exists in the form of forward integration and backward integration. Forward integration is gaining ownership or increased control over distributors or retailers. Backward integration is seeking ownership or increased control over a company's suppliers;

concentric diversification is adding new but related products or services;

conglomerate diversification is adding new, unrelated products or services [14, p.138-145].

Porter`s generic strategies were used initially in the early 1980s and seem to be even more popular today. They are the ones that can be adopted by any firm, regardless of the product or industry involved, to achieve a competitive advantage.

They outline the three fundamental strategic options. Each of the three options is considered within the context of two aspects of the competitive environment: sources of competitive advantage – whether the products are differentiated in any way, or whether the company is the lowest cost producer in the industry; competitive scope of the market –the company targets a wide market, or it focuses on a very narrow, niche market.

The low cost leader in any market gains competitive advantage from being able to many to produce at the lowest cost. Factories are built and maintained; labor is recruited and trained to deliver the lowest possible costs of production. However, low cost does not always lead to low price. Producers could price at competitive parity, exploiting the benefits of a bigger margin than competitors. Some organizations, such as Toyota, are very good not only at producing high quality autos at a low price, but have the brand and marketing skills to use a premium pricing policy.

Differentiated goods and services satisfy the needs of customers through a sustainable competitive advantage. This allows companies to decensitize prices and focus on value that generates a comparatively higher price and a better margin. The benefits of differentiation require producers to segment markets in order to target goods and services at specific segments, generating a higher than average price. For example, British Airways differentiates its service. The differentiating organization will incur additional costs in creating their competitive advantage. These costs must be offset by the increase in revenue generated by sales. Costs must be recovered. There is also a chance that any differentiation could be copied by competitors. Therefore there is always an incentive to innovate and continuously improve [62].

The focus strategy is also known as a “niche” strategy. Where an organization can afford neither a wide scope cost leadership nor a wide scope differentiation strategy, a niche strategy could be more suitable. Here an organization focuses effort and resources on a narrow, defined segment of a market. Competitive advantage is generated specifically for the niche. A niche strategy is often used by smaller firms. A company could use either a cost focus or a differentiation focus. With a cost focus a firm aims at being the lowest cost producer in that niche or segment. With a differentiation focus a firm creates competitive advantage through differentiation within the niche or segment. There are potentially problems with the niche approach. Small, specialist niches could disappear in the long term. Cost focus is unachievable with an industry depending upon economies of scale e.g. telecommunications.

Strategies based on market dominance. In this scheme, companies are classified based on their market share or dominance of an industry. Typically there

are three types of market dominance strategies: leader, challenger and follower. This strategy looks to increase the marketer's overall percentage or share of market. In many cases this can only be accomplished by taking sales away from competitors which, in turn, may be achieved using some of the warfare strategies.

Marketing warfare strategies are a type of strategies, used in business and marketing, that try to draw parallels between business and warfare, and then apply the principles of military strategy to business situations.

Offensive marketing warfare strategies – attack the target competitor with an objective such as “liberating” some of its market share.

Defensive marketing warfare strategies – strategies intended to maintain your market share, profitability, sales revenue, or some other objective.

Flanking marketing warfare strategies – operate in areas of little importance to the competitor.

Guerrilla marketing warfare strategies – attack, retreat, hide, and then do it again, and again, until the competitor moves on to other markets.

Deterrence Strategies – deterrence is a battle won in the minds of the enemy. You convince the competitor that it would be prudent to keep out of your markets.

Companies typically use many strategies concurrently, some defensive, some offensive, and always some deterrents. According to the business literature of the period, offensive strategies were more important than defensive ones. Defensive strategies were used when needed, but an offensive strategy was requisite. Only by offensive strategies, were market gains made. Defensive strategies could at best keep you from falling too far behind.

Innovation strategies deal with the company's rate of the new product development and business model innovation. It asks whether the company is on the cutting edge of technology and business innovation. There are three types of companies the titles of which indicate the meaning of the strategy employed by the company: pioneers, close followers, late followers. Another related type of marketing strategies is imitation strategies. It assumes companies imitators keeping the reaction of the market to a new innovation product under observation and contains different

types: counterfeits or product pirates, knockoffs or clones, creative adaptation, technological leapfrogging, adaptation to another industry.

Among the approaches describing the different orientations evolved in a company as it moves through different phases of international marketing involvement – from casual exporting to global marketing – is the often-quoted EPRG schema. The authors of this schema suggest that companies can be classified as having ethnocentric, polycentric, regiocentric, and geocentric orientation (EPRG), depending on the international commitment of the company. Further the authors state that “a key assumption underlying the EPRG framework is that the degree of internalization to which management is committed or willing to move towards affects the specific international strategies and decision rules of the company” [39, p. 332]. It contains two major groups of generic international marketing strategies: the first assumes geographical determination of expansion (national, multinational, regional, global) and another product-market determination.

Within the ethnocentric orientation the domestic company is seeking sales extension of its domestic products into foreign markets. It views its international operations as secondary to domestic ones. Minimal, if any, efforts are made to adapt the marketing mix to foreign markets. It seeks markets where demand is similar to the home market and its domestic product will be acceptable. This domestic market extension strategy can be very profitable; large and small exporting companies approach international marketing from this perspective.

Once a company recognizes the importance of difference in overseas markets and the importance of offshore business to the organization, its orientation toward international business may shift to a multi-domestic market strategy. A company guided by this concept has a strong sense that country markets are vastly different and that market success requires an almost independent program for each country. Companies with this orientation market on a country-by-country basis, with separate marketing strategies for each country. The domestic market and each of the country markets have separate marketing mixes with little interaction among them. Products are adapted for each market without coordination with other country markets;

advertising campaigns are localized as are the pricing and distribution decisions. Companies with this orientation would be classified in the EPRG schema as polycentric.

A company employing a global marketing strategy strives for efficiencies of scale by developing a standardized product, of dependable quality, to be sold at a reasonable price to a global market set throughout the world. With this orientation a company attempts to standardize as much of its effort as is practical on a worldwide basis. The global marketing company would fit the regiocentric or geocentric classification of the EPRG schema.

So within this schema companies can use two kinds of strategies to compete in the international arena – global and national (local). Many companies combine these strategies. The success of a global strategy depends heavily on the extent to which the product – and to a lesser degree the marketing program – can be standardized across countries; this has brought about the use of the term standardized strategy. Many see global strategy as the trend of the future because of the growing homogenization of needs across countries, which lead to substantial economies of scale, which, in turn, lead to lower prices. As would be expected, industrial goods lend themselves more to a global strategy than do consumer goods.

Leontiades notes that there are two types of global strategy: those involving high market share and those concerned with global niche. Because of the enormous resources required to implement a high-share global strategy, many firms opt for some kind of specialization, focusing on a global niche. Such strategies can take many forms including specialization by technology, product, and market segmentation [56].

Global niche strategies are characterized by a product line that is relatively insensitive to price competition, avoids direct competition with global high-share competitors, uses alliances to reduce research costs and enter new markets, has a narrow product-market scope, and takes advantage of possible linkages with products offered by large competitors.

Localization strategy is based on the premise that products and programs must be adapted to the needs and wants of the consumers of individual countries because of environment differences, especially cultural ones. Localization often occurs because of mandatory adaptation. Mandatory adaptation is often difficult to cope with – especially when product specifications vary substantially across countries. Discretionary product adaptations occur primarily because of differences across countries relating to income, tastes, etc.

Companies adopting a national high-share strategy must achieve high volume and low relative costs to be successful. Even so, the company remains vulnerable to companies following a similar strategy at the global level.

National niche strategies are the same as global niche strategies except the fact they apply at the national or local level. They seek to take advantage of some form of specialization in a narrow market segment to defend against both national and global competitors.

For effective implementation, strategies at the corporate level need to be translated into more detailed alternatives that can be understood at the functional level of the organization. In the marketing activities there are two levels to strategy formulation: general generic marketing strategies (described above) and decision area strategies described below.

Decision area strategies are used to achieve the general marketing strategies by guiding the decisions within important marketing areas (product, pricing, distribution, promotion). For example, a general marketing strategy that centers on entering a new market with new products may be supported by decision area strategies that include: Product strategy establishing how products are positioned (that is, how they are understood by the market).

Pricing strategy is typically dictated by the product-positioning strategy. Positioning the product can be as the low-cost leader or the high-quality leader. Discounts and promotions are two important components of an overall pricing strategy. By using discounts it is possible to establish a particular market position

while maintaining some flexibility. Using promotions is another way to achieve specific marketing goals by temporarily reducing the product's price.

Communication strategy, defining how to present information about the enterprise and products. It is built on the product-positioning strategies and a thorough understanding of the target consumers.

Distribution strategy needs to identify channel partners to work with and how to work with them.

Achieving the decision area strategies is accomplished through the development of detailed tactical programs for each area. For instance, to meet the pricing strategy that lowers cost versus competitors' products, the marketer may employ such tactics as: quantity discounts, trade-in allowances or sales volume incentives to distributors.

CHAPTER 2

ANALYSIS OF THE TRADE HOUSE HELZ ECONOMIC ACTIVITIES

2.1. General characteristic of the Trading House HELZ

World economy is currently experiencing an upward cycle. In its latest analysis of global growth the IMF forecasts that the world economy will expand by 5%. According to the 2007 International Business Outlook of VDMA, the German Mechanical Engineering Association, machinery sales worldwide are expected to increase this year by 6% in real terms. In the CIS countries there is also a widespread growth of industrial output. According to the Ukrainian Ministry of Economics the volume of industrial output within January-March 2007 increased by 12.5% as compared to the similar period of 2006, for the period from the beginning of the year up to present – by 14,5% [71].

The most important part of the Ukrainian machine building is electroengineering branch. After an almost 10-year period of output volume drop, on the background of the general tendencies of the industry market it also starts developing. The manufacturing companies start to launch new products and enter new markets.

Electroengineering industry supplies almost all the branches of economy and social sphere. Its part in foreign trade is growing: in 2006 its share of export amounted to 3.3% of the general exports of the country, and 7.4% of the general imports. The electroengineering market in Europe is under global revision accompanied by mergers and takeovers. In the CIS market there is a great number of competitors. The most dangerous rival both in the domestic and foreign markets is the Chinese producer offering its products at prices lower than those of the domestic producer. But the characteristics declared for the Asian equipment do not correspond to the actual ones [73].

According to different assessments profitability of electroengineering industry in the Western European countries is up to 80%, while in Ukraine it is hardly 20%. The most important strategic movement for it is transition of electrotechnical production to an innovative development, at the account of investments in new generations of electrotechnical produce. According to the State Statistics Board, in 2004 there were invested 160.3 mln Hrn in electrical machines and devices, of which 3.2 mln Hrn were from the State budget. These poor figures are, first of all, the results of investments aimed at privatization and capital construction as well as of the unstable political and economic situation in the country. The western investor is not willing to take a risk of investing money in the Ukrainian electrotechnical enterprises, but the Russian one does. In particular, it was Russians who founded “Yujhelectromash” JSC (the town of Nova Kakhovka). Another Russian company bought a great number of shares of the “Elektromashina” JSC (Kharkiv) in 2000.

The production of AC electric motors plays an important part in Ukrainian electrotechnical production.

The domestic plants have sufficient production capacities to produce 5 mln electric motors per annum. However, only 16%-20% of the Ukrainian potential is used.

As for the pump building the domestic market of pump equipment is very promising. According to estimates of experts only the Ukrainian market may “swallow” up to 5 thousand industrial and household pumps. But the present state of the national pump building can not be characterized as favorable. Between 1995 and 1998 the greater part of the pumps sold was produced in Ukraine, the situation having changed at present. In spite of the presence of a greater number of foreign firms in the Ukrainian market, they are German – Wilo, Grundfos, Italian – Pedrollo, Speroni, Calpeda, Zenit, Mapina, Japanese – Ebara, import of pumping equipment keeps growing and new trade marks keep emerging. There are some reasons for it. First, there are fewer claims of the imported pumps from the consumers. Second, the imported pumps are less power-consuming and are 10-30% only more expensive than domestic produce. Third their range is wider compared to the domestic pumps.

Kharkov Electrical Plant “Ukrelektromash” JSC, founded in 1931, is one of the leading manufacturers of electrotechnical production – induction AC electric motors with the frame size 56-112 mm and a wide range of household electric pumps - in Ukraine.

Like for many other machine building plants the end of the era of prospering was over in the early 1990s, with the collapse of the former Soviet Union the Ukrainian plants lost their markets while the economic crisis inside the country made it impossible to compensate the loss at the account of domestic demand resources. Recently one of the vital factors of successful activities of economic entities under market circumstances is becoming an idea of corporate management, dealing with interaction of shareholders as well as creating integrated systems. HELZ “Ukrelektromash” JSC turned a new page in its history in 2001 with the appearance of UIEC JSC. Today the main activity of the company is aimed at restoring and developing the industrial enterprises basing on the modern market business philosophy. Efficient marketing measures taken enabled increase of the sales volume. The production was reoriented from the totally closed cycle to the wide cooperation with the greatest producers of Russia, China and Italy.

In 2002 aiming at organizing HELZ Ukrelektromash product sales, carrying out marketing research, establishing the image of HELZ trade mark and promoting it in the foreign and domestic markets, a new enterprise – the Trading House HELZ was set up being its general distributor and UIEC partner.

The main objectives of the TH HELZ are:

establishing the image of HELZ trade mark and promoting it in the foreign and national markets;

marketing and analytical research;

organization of the produce distribution in Ukrainian markets as well as in the CIS and the world;

coordinating the work of dealers and sales representatives;

continuous expanding the markets for its products.

The number of employees and staffing is of importance for the activities of the plant. At present in the Trade House there are 48 people working which is 18 people more than in 2005. The increase was caused by employing the young people, aged 18-24 years, university graduates. The main principle of the staffing policy is maintaining the personnel and attracting new young qualified specialists. The organizational chart of HELZ is given in Fig. 2.1.

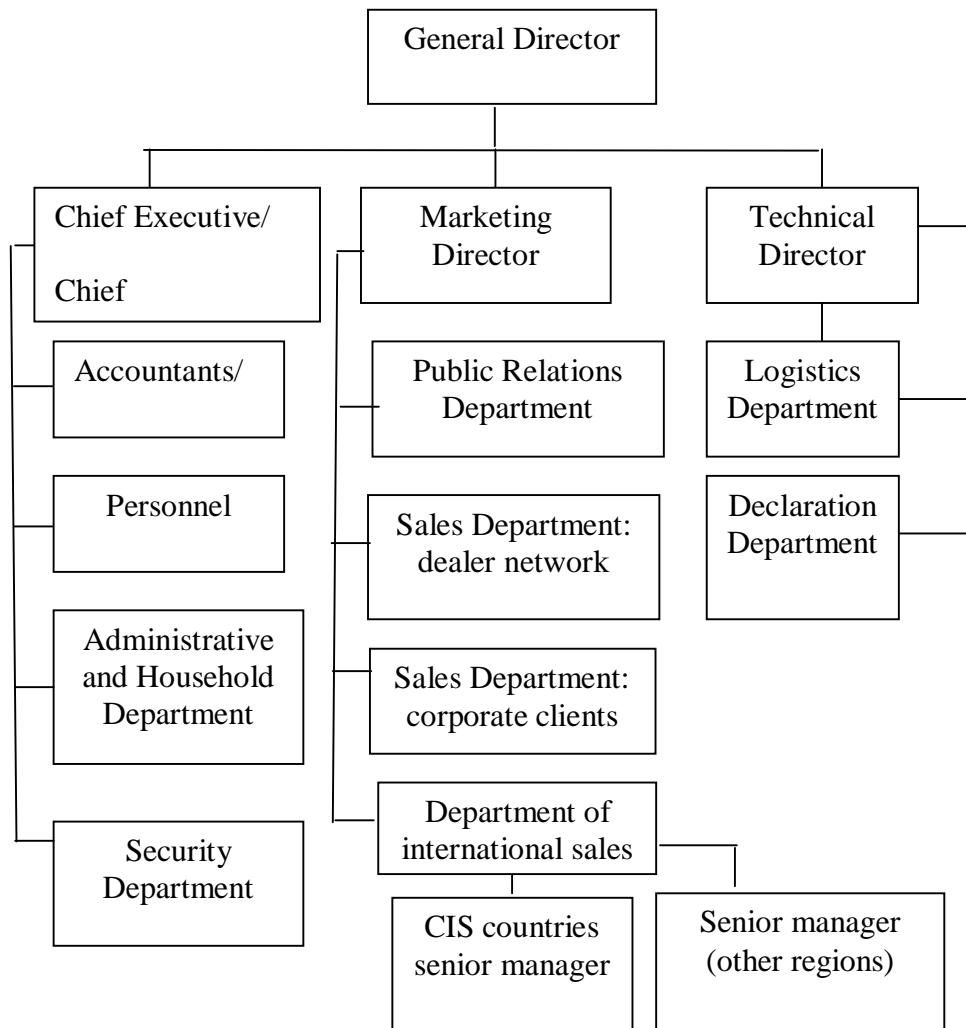


Fig. 2.1 Organisational structure of TH HELZ

The organizational structure of TH HELZ **lights** the distinction between line and staff position. TH HELZ uses functional, market-based and geographical groupings. There are three people in line positions. All the administrative and supporting departments report to Chief Executive of the enterprise who is also Chief

Accountant. Technical Director is in charge of Logistics Department and Declaration Department. Marketing Department contains Public Relations department and departments of domestic and international sales, organized by market-based groupings, dealer network and corporate clients; and geographical groupings within Department of International sales. The marketing department which in the person of the Marketing Director coordinates all the marketing operations both within the country and abroad, and is responsible for strategy development and implementation. It is built on the principles of geographical division of the markets and customer orientation within them. However, the effectiveness of the department is not always high – this is caused by poor analysis techniques of the internal resources and the environment, the lack of an integral systematic approach to the forecasting and estimation of the marketing decisions, and of all employees being not aware of the enterprise's strategic direction of development. As a result the chosen strategic goals do not always correspond to the enterprise's resources and consider the situation in the market. All that leads to losses in the amounts of sales and dealing with competition forces, the enterprise reacts very slowly to the market's requirements.

As it was mentioned above the production capacities of the plant enable it to produce up to 50 thousands pieces per month. All produce is manufactured at high-productive domestic and imported equipment made in Italy, Germany, Switzerland, Japan, up-to-date technological processes being applied. HELZ "Ukrelektromash" has strong competitive advantages in fulfilling sophisticated orders for manufacturing special-purpose electric motors. However, the unified, meeting CENELEK standards, design of the main parts is the basis of new types of electric motors. This enables fast, with minimal costs within the framework of the production process transition from manufacturing electric motors for the domestic market to manufacturing electric motors for export and vice versa.

HELZ "Ukrelektromash" has its own scientific facilities – a specialized design bureau being the main organization for certification and standard testing not only in Ukraine but in the CIS and Baltic countries. The system of quality meeting

the international quality standards ISO 9001:2000 is on at the plant. All the produce has both Ukrainian and Russian certificates of conformity.

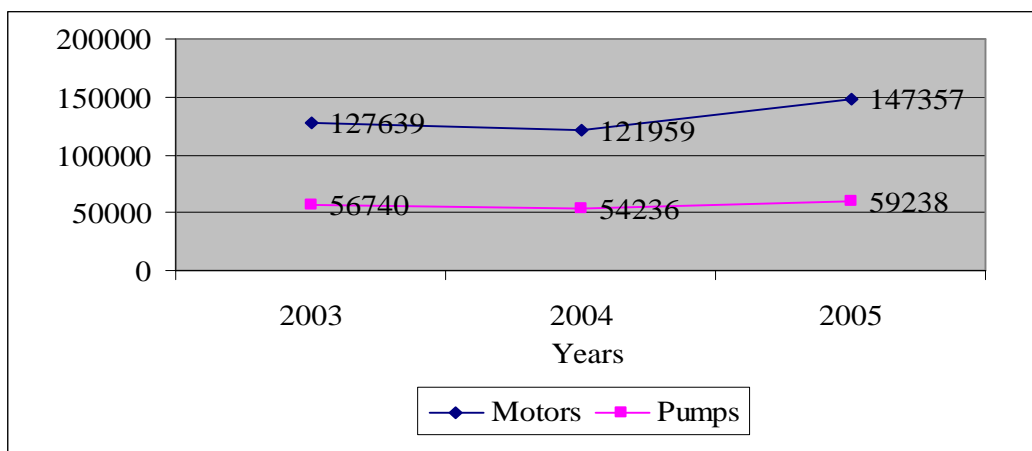


Fig. 2.2 Production volume of HELZ “Ukrelektromash” in 2003-2005, items

But the plant does not fully use its potential. Thus, in 2005 the total production volume made up 206,557 items. In 2004 there was a recession in the production of both pumps and motors from 127,639 to 121,959 items and from 56,740 to 54,236 items relatively due to the overproduction and increase in cost of raw materials and components which was followed in 2005 by the increase caused by designing new products and thoroughly thought out marketing policy carried out.

The TH HELZ sales the following products:

standard and special single and three phase induction electric motors and their modifications for different industrial and agriculture areas: metallurgy, machine-tool construction, atomic energy, building, river and marine fleet, light, food, retail industry, poultry, farming complexes, etc.;

household electric pumps and automatic working pressure systems (6 series as a whole), destined for water supply from ponds, wells and reservoirs, transferring of the polluted water with rate of impurity substances, for transmission of food and non-aggressive liquids, for water supplying in cottages, country houses and household buildings.

According to experts TH HELZ's share in the Ukrainian electric motors market amounts to 52% while that of household pumps is 23%.

The trend of total sales of TH HELZ is presented in Fig. 2.3.

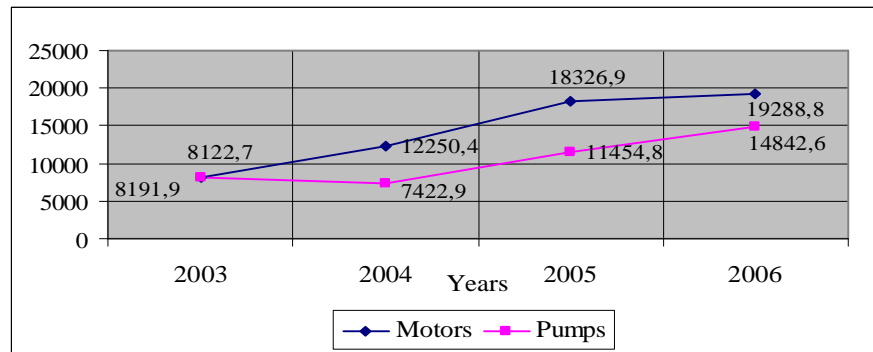


Fig. 2.3 Total sales of TH HELZ in 2003-2006, ths of Hrn.

As seen from Fig.2.3 within 2003-2007 there was a stable increase of motors sales in terms of money, but still the rate of growth in 2006 was slowed down and the increase was 5% only as compared to 50% in 2004 and 2005. This may be caused by intensified activities of the competitors, who started producing electric motors of similar frame size as well as decreasing purchases by corporate clients. Pumps sales decreased in 2004 by 769,000 Hrn but then a stable increase started and in 2006 they achieved 14,842,600 Hrn.

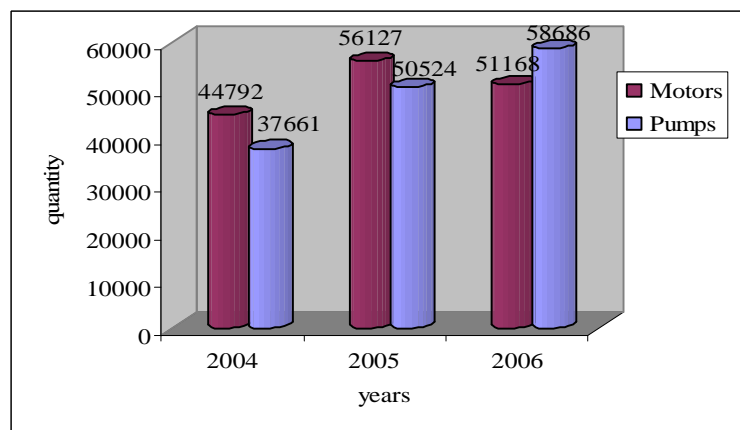


Fig. 2.4 Domestic total sales of pumps and motors by TH "HELZ" in 2004-2005, items

As for sales in terms of physicals there is a stable increase in selling pumps, from 37,661 items in 2004 to 58,686 items in 2006, and in 2005 there was a great increase in motor sales by 11,335 items but drop in 2006 of almost 5 000 items. In 2006 selling pumps exceeded motor sales by 7,518 items. In the range of general sales in the domestic market in terms of physicals pump sales are dominating and there is a trend of their increase. Thus, in 2006 the share of selling electric motors amounted to 46.6% and dropped by 6% as compared to 2005 and the share of pumps amounted to 53.4%.

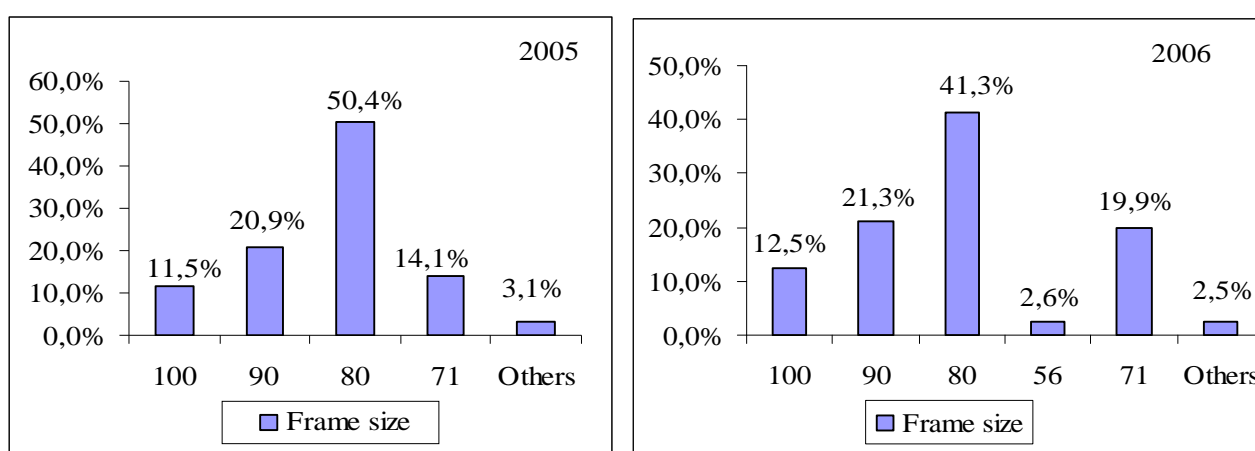


Fig. 2.5 Nomenclature of motor's sales by frame size, items

The main sales are those of electric motors of 80 mm, 90 mm, 71 mm and 100 mm frame size, in 2006 their share was 41%, 21%, 20% and 13% accordingly. In 2007 the share of 71 mm frame size sales increased by 6%. It might be caused by the fact that during the second half of 2005 HELZ "Ukrelektromash" completed the work of developing serial production of universal industrial electric motors of the above frame size and a set of marketing and advertising measures was taken which facilitated launching the product to the Ukrainian market.

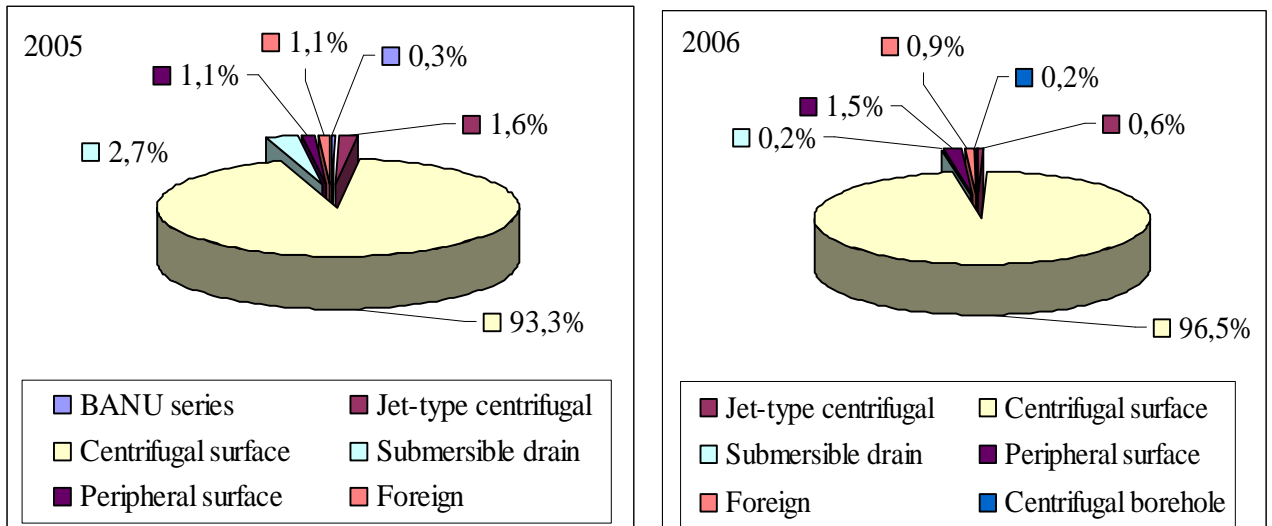


Fig. 2.6 Nomenclature of pumps` sales, items

As for the types of best-selling pumps over Ukraine, here the leader is centrifugal surface pumps for supply of water in the water-supply, watering and irrigation systems, their share in 2006 amounted to 96.5%, that is 3% more than in 2005. Peripheral surface pumps amounted to 1.5 % in general sales` range, thus increasing by 0.4%. Other types` sales decreased and their part was too low.

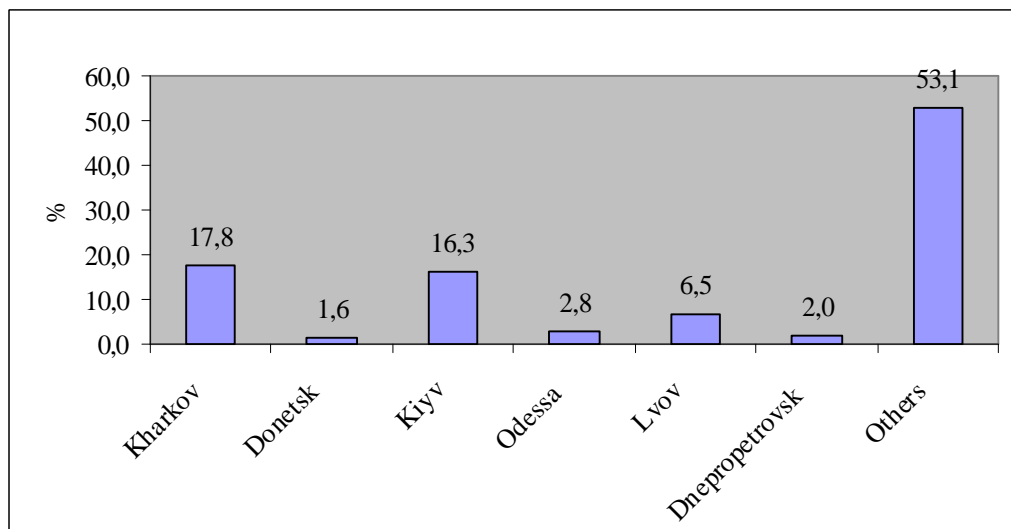


Fig. 2.7 Geography of inland sales in value terms, items

The distributor is working direct with the dealers enabling them to operate with all retailing and wholesaling customers in the regions and manufacturing plants (final users of the plant's produce who purchase in great bulk).

The first place in the amount of the supplied produce in terms of money is taken by the plants of Kharkiv (pumps, motors), the second – by Kijiv (motors), the third – by Lviv (motors). The other category of buyers is other Ukrainian enterprises. Next to the already working representatives it is planned to involve southern regions of the country and continue concluding dealer agreements in the CIS countries and in Russia in particular.

In order to characterize the enterprise's economic activities it is necessary to analyze their main indicators for various years (Table 2.1).

Table 2.1

The main indices of activity of TH HELZ in 2005-2006

Indicators	Unit of measure	2005	2006	Change	%
1	2	3	4	5	6
Gross sales revenue (Ukraine)	ths of Hrn	36091,3	40601,8	4510,5	12.5
Export revenues	ths of Hrn	1264,0	1269,7	5,7	0.5
Expenses per unit of sold produce	kop/Hrn	0,77	0,78	0,01	1
Sales cost	ths of Hrn	530,9	608,0	77,1	14.5
Payments to the state budget	ths of Hrn	146,2	182,9	36,7	25.1
Interest payments	ths of Hrn	129,1	421,0	291,9	226.1
The number of personnel	people	30	48	18	60
Average wages (per month)	Hrn/month	1063,6	860,4	-203,2	19.1

From the Table one can see the dynamic change of indicators of the enterprise's activities taking place in 2006. The volume of sales in Ukraine increased by 12.5%. The expenses per unit of the sold produce increased from 77 to 78 kopecks per 1 Hrn of sales. The enterprise's management should forecast the expenses decrease per unit of the produce because following the tendency of decreasing this indicator, increased profit is made. The sales cost increased by 14.5% due to the increase of transportation cost and cost of other services provided by the enterprise. There was a considerable growth of the interest paid for the loans – by 291,900 Hrn. Hiring 18 more employees led to the fall of average wage by 19% though the wages fund rose by 29.4%. The reason is that the recruits' salaries are much lower than those of the people already working.

Let us deal with the analysis of the enterprise's economic activities basing on the data of the balance sheet and horizontal and vertical analysis carried out.

Table 2.2

Analysis of the structure of assets based on the balance sheet of TH HELZ

Assets	2005 ths of Hrn	2006 ths of Hrn	Change		Share, %		Change
			ths of Hrn	%	2005	2006	
1	3	4	5	6	7	8	9
Non-working capital:							
Intangible assets	4,7	4,1	-0,6	12.8	0.2	0.1	-0,1
Construction-in-progress	237,1	580,5	343,4	144.8	9.7	12.5	2,8
Fixed assets	182,7	274,6	91,9	50.3	7.5	5.9	-1,6
Long-term financial investments	14,0	14,0			0.6	0.3	-0,3
Total	438,1	872,9	434,7	99.2	17.9	18.8	0,9
Working capital:							
Production inventory	30,6	57,0	26,45	86.58	1.3	1.2	-0,1
Products	570,8	937,9	367,10	64.32	23.4	20,2	-3,2
Bills receivable	750,0	2049,3	1299,2	173.23	30.7	44.2	13,4
Accounts receivable	555,6	561,5	5,9	1.1	22.7	12.1	10,6
Cash:							
national currency	91,3	155,8	64,50	70.68	3.7	3.4	-0,4
foreign currency	2,1	2,8	0,70	34.15	0.1	0.1	0,0
Total	2000,2	3764,1	1763,9	88.19	81.9	81.1	-0,8

The total cost of the enterprise's property for the accounted period increased by 2,198,850 Hrn or by 90% which certifies considerable expansion of the enterprise's economic turnover.

The horizontal analysis of the balance assets shows that the cost of non-working capital of the enterprise increased by 434,750 Hrn due to the increase of the items 'construction-in-progress' and 'fixed assets'. The presence of intangibles in the enterprise's capital characterizes its activities indirectly as innovative because it invests capital in patents, licenses and another intellectual property.

Using the vertical analysis we can notice that in the structure of the aggregate assets the greatest part is taken by the working capital – 81% whose share dropped by 0.8% in 2006. The enterprise has a 'light' structure of assets which certifies the mobility of its property. The total value of working capital grew by 1763,950 Hrn or by 88.2% accordingly. Such an increase may be considered positive; in the turn-round of working capital it is negative. As seen from Table 2.2 the greatest share in current assets is taken by the bills of the debtors, the absolute increase amounting to 1,299,250 Hrn. Their share increasing by 13.5% and amounting to 44.2%, which speaks for sales increase and providing pay-off delays for the customers; with the increase of the products item by 367,100 Hrn their share dropped by 3%; as for the receivable accounts their share dropped by 10.6% and amounted to 12.1% though there was a small decrease of the point by 5,900 Hrn in 2006; the amount of cash (national currency) increased by 64,500 Hrn.

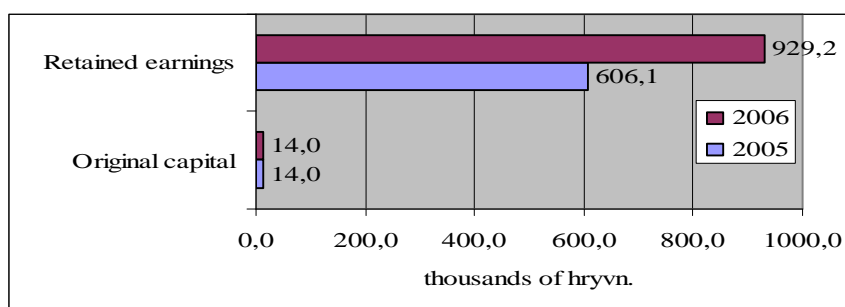


Fig. 2.8 The structure of capital inventory of the enterprise in 2005-2006

The equity is made up of retained earnings mainly, its value having increased by 323,250 Hrn while its share fell by 5% according to the Statement of Profits and the Balance Sheet the net income earned by the enterprise in 2005 and 2006 was completely re-invested in the economic activities of the enterprise.

Table 2.3

Analysis of the enterprise's borrowed capital structure

Liabilities	2005 ths of Hrn	2006 ths of Hrn	Change		Share, %		Change
			ths of Hrn	%	2005	2006	
1	3	4	5	6	7	8	9
Current liabilities							
Short-term bank loans	1000,4	3030,5	2030,1	202,9	41,0	65,3	24,3
Payable bills for goods	750,2	544,0	-206,1	27,5	30,7	11,7	-19,0
Current liabilities and settlements	29,1	51,2	22,1	75,9	1,2	1,1	29,1
Total	1779,7	3625,7	1846,0	103,7	72,9	78,1	5,2

The main source of raising capital by the enterprise is borrowed capital, its share amounting to 78.1% in 2006, the increase caused by the growing amount of short-term loans. The fact that 100% of liabilities are current is considered negative as it testifies a great risk of losing financial stability.

On the one hand, the enterprise can increase the profitability of its own capital due to using borrowed capital, on the other hand, its financial standing is unstable as short-term borrowed capital requires continuous operative work aimed at controlling its timely paying off and attracting other capitals for short-term usage. This policy was adopted by HELZ deliberately, as suppliers tend to require advance payment but sales revenues are late to come, so lacking the equity the enterprise has to apply to banks for loans.

Having analyzed the economic activity of HELZ together with its main indicators, one can come to the conclusion that the enterprise is developing. It is supported by the increased number of new employees, increase of the total value of the enterprise's property, attracting borrowed capital and re-investing profit, increase

of centrifugal pumps sales, further expanding dealers' chain and nomenclature at the account of foreign production. However, it is critical to direct marketing measures to electric motors sales because of the drop of their sales volume in terms of units, control the inventory and take measures for stimulating distribution of products as well as look for the ways to reduce operation costs in order to increase the enterprise's profitability.

2.2. Diagnostics of the enterprise HELZ state through financial indicators

Financial analysis and assessment of the financial standing of the enterprise is a mandatory part of its financial activities. Financial standing is the state of the enterprise finances characterized by the aggregate indicators reflecting the process of raising capital and using the assets. The main task of financial analysis is determining and defining the financial standing of the enterprise. Financial Statements – Balance Sheet and Form 2 Income Statement provide the most accessible information for carrying out such an analysis. Basing on them we are going to survey the financial standing of HELZ using for the purpose sets of indicators and coefficients which characterize business activities, liquidity, financial stability and profitability of the enterprise.

To evaluate the level and dynamics of income indicators financial statement is analyzed.

Within 2004-2006 there was a stable growth of net income of sales revenues, in 2005 the growth rate accounted for 152% while in 2006 it was 112%. The cost of the produce was increasing at the same rate. In 2006 the enterprise sold foreign currency and gained profit as a result of exchange rate margin; distribution cost increased 8 times but this increase was caused by the change in its presentation in Form 2 as in 2005 the "Services of other institutions" (customs duties, communications, exhibitions, advertising) were considered administration expenses while in 2006 – distribution expenses; interest payments increased by 225%; the income obtained due

to intangible assets sold accounted for 31,700 Hrn in 2006. Thus, the net income of the enterprise in 2006 as against 2005 decreased 14 times and amounted to 42,300 Hrn but as compared to 2004 it increased by 58%. This decrease was caused mainly by the increasing operative cost and loan interest paying off.

While analyzing the standing of the enterprise it is necessary to evaluate the degree of effective managing the assets by the managerial staff, the assets they were authorized to manage by the owners of the enterprise. In order to discover the trends of using the assets possessed by the company, there is a number of coefficients used which are based on the ratio between the turnover and the amount of capital needed to provide such a number of transactions as well as the duration of assets turnover whose value has a direct influence on the enterprise solvency.

Table 2.4

Analysis of business activities of the enterprise

Indicator	2005	2006
1	2	3
The ratio of assets turnover (circulations)	15.3	9.02
The duration of assets turnover (days)	23.5	39.9
The ratio of net assets turnover (circulations)	56.5	41.3
The duration of net assets turnover (days)	6.4	8.7
The ratio of inventory turnover (circulations)	48.3	32.8
The duration of inventory turnover (days)	7.5	10.9
The ratio of the receivable accounts turnover (circulations)	67.2	74.6
The duration of the receivable accounts turnover (days)	5.4	4.8
The ratio of the payable accounts turnover (circulations)	38.7	60.0
The duration of the payable accounts turnover (days)	9.3	6.0
The ratio of equity turnover (circulations)	60.2	44.4
The duration of equity turnover (days)	6	8.1
Operating cycle	12.9	15.7
Financial cycle	3.6	9.7

The ratio of assets turnover dropped from 15.3 to 9.02, i.e. in 2005 the enterprise received 15 Hrn of return of every 1 Hrn invested while in 2006 it was 9 Hrn accordingly. The duration of turnover amounted to 23 days in 2005 while in 2006 it was 40 days. In general, the enterprise has high indicators of inventory (48,3 and 32.8 circulations in 2005 and 2006 relatively) which testifies well-established relationships with suppliers and consumers as concerns goods dispatch. Still, the situation gets worse as the indicators are going down. In order to improve the given indicator it is necessary to compare the purchase periods and products sales to reduce the period of the capital in stock. The enterprise has high values of receivable accounts turnover and there is a slow acceleration of circulations from 5.4 to 4.8 days which testifies improving credit policy of the enterprise. The turn of payable accounts is decreasing from 9 to 6 days; a very rapid turnover of equity is caused by the trading character of the enterprise's activities.

After the necessary calculations having been made, one can see that the operating cycle as well as the financial cycle increased from 13 to 16 days and from 4 to 10 days relatively. It is necessary to take into account that the operating cycle rose due to the increase of products inventory while the financial cycle - due to the increase of operating cycle duration and decrease of the duration of payable accounts turnover. In 2005 the enterprise's assets were frozen for 13 days but, in fact, were out of turnover for 4 days. In 2006 the enterprise is assets were frozen for 16 days, but they were out of turnover for 10 days. Such an increase of the financial cycle leads to attracting extra capital.

The degree of the enterprise solvency of short-term loans is to be demonstrated by liquidity indices. The role of these indices is to compare the values of current liabilities of the enterprise and its current assets which are to repay these liabilities.

Depending on the liquidity degree, assets and liabilities are grouped according to Table 2.5.

From the Table it is evident that the enterprise's balance is not absolutely soluble as the unequal systems have opposite meanings of the one fixed in the optimal variety.

Table 2.5

Analysis of Balance liquidity

Assets	2005 ths of Hrn	2006 ths of Hrn.	Liabilities	2005 ths of Hrn	2006 ths of Hrn	Payment surplus or shortage	
						2005	2006
1	2	3	4	5	6	7	8
1. The most liquid assets	93,4	158,6	1. The most urgent liabilities	750,2	544	-656,8	-385,4
2. Marketable assets	1876,2	3574,6	2. Short-term liabilities	1750,6	3548,8	125,6	25,8
3. Slow to market assets	33,4	60	3. Long-term liabilities	41,3	70,9	-7,9	-10,9
4. Sticky assets	438,1	872,9	4. Standing liabilities	620,1	943,4	-182	-70,5
Balance	2441,1	4639,9		2441,1	4639,9	0	0

The comparison of assets and liabilities is as follows (and the same for the two years):

$$A1 < L1, A2 > L2, A3 < L3, A4 < L4.$$

As can be seen there is lack of liquid assets to cover the most urgent liabilities. The total sum lack is considerable and there is a resulting risk in paying off the urgent liabilities but the fact that in 2006 it dropped almost twice appears positive. The amount of the marketable assets exceeded that of short-term liabilities by 125,600 Hrn, although in 2006 this excess was reduced and amounted to 25,800 Hrn only. So the enterprise should monitor the situation to avoid emerging lack in this group. At the end of 2006 the lack of slow marketability of assets slightly increased but the amount was rather small so the situation does not seem dangerous. The standing liabilities slightly exceed sticky assets and in 2006 this lack is going down which testifies the lack of the own current assets.

The analysis conducted according to the scheme data is rather approximate that is why comparative characteristics are often used.

Table 2.6

Indicator	2005	2006	Standard value
1	2	3	4
General liquidity coefficient	0.8	0.91	1-2
Absolute liquidity coefficient	0.037	0.038	0.2-0.35
Net quick assets ratio	0.75	0.9	0.7-1
Current liquidity ratio (coverage)	0.8	0.94	1-2

From Table 2.6 one can see that in 2006 the general liquidity indicator increased from 0.8 to 0.91 as shown in the Table. It testifies increasing ability of the enterprise to effect payments of all kinds of liabilities. However, to meet the standard value an additional growth is needed.

It is also necessary to pay attention to the very low value of the absolute liquidity ratio which does not meet the standard value; the enterprise is unable to pay off its current liabilities with this cash balance.

As for quick liquidity ratio, forecasting of the enterprise solvency in case of timely effecting settlements with debtors it rose and is very close to the standard value.

The coverage ratio reflecting the enterprise solvency with favorable selling all current assets was almost equal to the standard value, in 2006 it was 0.94.

Following the general characteristic of the financial standing and its changes within the reviewed period the next important task of the analysis is surveying absolute values of the enterprise financial stability.

By financial stability we may mean the state of its financial resources, their allocation and application, providing the enterprise development based on the credit worthiness and payability within the acceptable degree of risk. For the description of the enterprise's financial situation four types of financial stability are used: absolute

financial stability, normal financial stability, unstable financial state of the enterprise which is near to bankruptcy.

The three indices of the presence of sources of raising capital correspond to the three indices of the provision which calculation is shown in Table 2.7.

Table 2.7

Analysis of providing inventory by sources of raising capital

Index	2005 ths of Hrn	2006 ths of Hrn	Cha nge ths of Hrn
1	2	3	4
Equity	620,1	943,4	323,3
Non-working assets	438,1	872,9	434,8
Owned working assets	182,0	70,5	-111,5
Owned and long-term loans	182,0	70,5	-111,5
Short-term borrowed capital	1000,4	3030,5	2030,1
Total value of main sources	1182,4	3101	1918,6
Inventory	601,4	994,9	393,5
Surplus/shortage of owned current assets	-419,4	-924,4	-505
Surplus/shortage of owned and long-term assets	-419,4	-924,4	-505
total value of main sources of capital raising	581,0	2106,1	1525,1
Type of financial stability	Unstable	Unstable	

Having analyzed the provision of raising capital by the sources as a whole, one can come to the conclusion that the enterprise was experiencing unstable financial state both in 2005 and 2006, decrease of the indicators of the owned current assets and increase of the inventory are threatening while increase of the excess of the total

value of the resources of raising capital was due to the increase of short-term borrowed capital. To stabilize the situation the enterprise has to arrange an optimal structure of the capital.

Together with the absolute indicators, financial ratios characterize financial stability. For the description of the enterprise's financial situation four types of financial stability are used: absolute financial stability, normal financial stability, unstable financial state of the enterprise, crisis financial state.

Let us analyze the changes of ratios using the calculations given in Table 2.8.

Table 2.8

Analysis of financial stability			
	Index	2005	2006
	1	2	3
Ratio of autonomy		0.25	0.2
Ratio of financial dependence		3.94	4.92
Ratio of financial risk		2.94	3.92
Ratio of correlation		1.61	3.21
Ratio of short-term debt		1	1
Ratio of financial stability		0.62	0.31
Ratio of creditor safety		6.6	1.12
Ratio of immobility		4.57	4.3
Ratio of maneuverability		0.29	0.07
Ratio of autonomy of the sources of raising capital		0.31	0.03
Ratio of provision of inventory with the owned current assets		0.3	0.07
Ratio of provision of current assets with the owned current assets		0.09	0.02

The ratio of autonomy dropped from 0.25 to 0.2, while the ratio of financial dependence increased from 3.94 to 4.92 these values being far from critical testify the great share of borrowed capital in the total capital of the enterprise. The ratio of financial risk provides a general evaluation of financial stability and shows that in 2006 there were 3.92 Hrn of the attracted capital per 1 Hrn of equity. The increase of the ratio of correlation characterizes increase of the enterprise dependence on external

investors. The ratio of short-term debt amounted to 1 and remained unchanged which means that the enterprise did not take long-term loans. The ratio of financial stability is reverse to the ratio of correlation as it fell from 0.62 to 0.31. the ratio of creditor safety dropped considerably (from 6 to 1) which testifies that in 2006 the enterprise earned money to pay loan interest only once, with minimal financial stability of the firm maintained, the ratio of correlation has to be limited concerning the top value by the value of immobility ratio. In our case this requirement is met. The drop of the ratio from 4.6 to 4.3 is caused by higher rate of growing non-current capital as compared to the current ones. The ratio of mobility indicates the part of the owned capital which may be turned over and which can be capitalized. In 2006 it fell dramatically from 0.3 to 0.7 it was the result of simultaneous drop of the own current assets and increase of the own sources of financing. In order to set an optimal value it is necessary to compare it with the average value in the industry. The ratio of autonomy of the sources of raising capital also dropped considerably and reflects the increase of dependence in borrowed sources. The ratio of providing inventory with the owned current assets went down from 0.3 to 0.07 which is caused by the rapid growth of the inventory. The ratio should be limited concerning the bottom value with the ratio of autonomy. In 2005 this requirement was met but in 2006 it was below the marginal value of 0.2. The ratio of providing current assets with the own current assets also fell and moved from the standard value (more than 0.1). Current assets were growing faster than the own capital.

The generalizing ratio of the activities efficiency under market conditions is profit. Consequently, one has to keep comparing profit with expenses and resources, i.e. to evaluate the enterprise's profitability. Let us analyze the indicators which characterize profitability (Table 2.9).

Table 2.9

Analysis of profitability

Indicator	2005	2006
1	2	3
Sales revenues	37355,3	41871,5
Net income	604,2	42,3
Average annual worth of capital	2441,1	4639,9
Expense ratio	0.021	0.001
Return on assets	0.25	0.009
Return on sales	0.016	0.001
Return on equity	0.97	0.045

The activities of the enterprise in 2006 were not sufficiently profitable as Return on sales amounted to 1.6% and in 2006 – 0.9%. Return on equity fell considerably because of the latter's increase and net profit fall at the same time. Due to the increase of the assets cost their profitability dropped from 25% to 0.9% the 2006 profitability indicators are of extremely low value as the amount of the net income is very small (42,300 Hrn). So, the management should review the policy aimed at effective managing expenses.

Using Altman's model let us calculate the opportunity of bankruptcy. The opportunity of bankruptcy both in 2005 and 2006 was least probable as only x_5 exceeds the total index of bankruptcy 2.67 times in 2005 and 2006 and amounts to 15.3 and 9.02 relatively. The same results are obtained by the calculations with Altman's modified version and Liss model - bankruptcy probability with the present situation remaining unchanged does not exist.

Generalizing the results of the enterprise's financial standing the following conclusion can be made:

The Trade House HELZ financial state is unstable and not absolutely liquid. Therefore, the management should review its policy of forming an optimal structure of the capital, namely, such a relationship due to which the optimal value of finance

stability and profitability of the capital with the minimized level of financial risks and cost of the attracted capital.

2.3. Analysis of foreign economic activity of TH HELZ

More than one third of the world industrial production falls on machine-building industry (in the highly developed countries – 35-40%, and in the developing - 15-20%) and 24-36% employed in the industry. The share of the developed countries in mechanical engineering comes to 90-92 % in different years. The feature of mechanical engineering of the developed countries as compared to the developing is a large proportion in the total worth of export. The share of machines and equipment is high in the export of large countries with the most complete structure of machinery engineering (in Japan – 54%, and about one-third in the USA and Germany). It reflects the high quality and competitiveness of machinery engineering products of the developed countries on the world market [72].

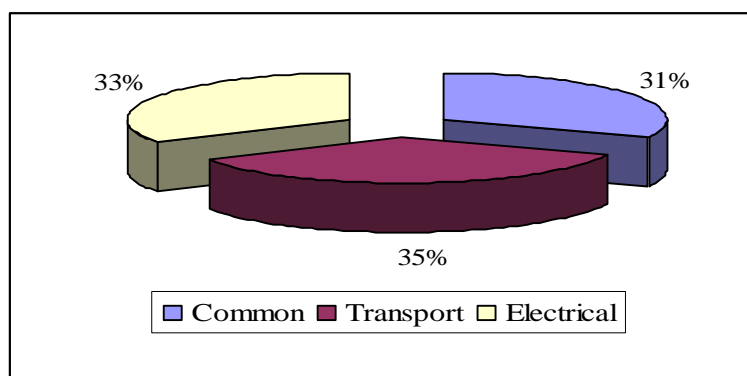


Fig. 2.9 The structure of world output of mechanical engineering

General engineering (in different years from 35% to 37%), transport (33-35%) and electrical engineering, including electronics (30-31%), prevail in the world mechanical engineering industry.

The European market of electric engineering is overwhelmed since 69% of the engineering equipment manufactured in the EU is sold in the EU; nevertheless it

offers expansion opportunities in the long term. In the period between 1999 and 2005 it grew by 27% in current terms. But the EU has done better in large generators, transformers and electric motors for special purposes, while the European position in small, standard motors is being eroded.

As for the New Member States of the EU, the production value of electric motors, generators and transformers in 2005 measured 2240 mln euro, which is higher than the production of any sector within mechanical engineering industry, but, on the other hand, smaller within the electrical engineering industry. The largest producer is the Czech Republic (with 900mln euro), followed by Slovakia (430 mln) and Slovenia (360 mln). The total production value corresponds to the share in total engineering of 6.3% (compared to 6.9% within the EU-15). However, many of the companies in the business area of power plants have become subcontractors to the big global players.

In China the biggest export items in 2006 are export of electrical engineering \$6.911 blns, petrochemical products (\$4.947 blns), motor industry (\$3.345 blns), cultural and office commodities (\$2.686 blns), devices and instruments (\$2.010 blns).

Considering financing of innovations, the EU invest 15% of the total charges in research and development in electrical engineering; in Japan this industry is also technologically in priority – 11% of general charges and takes the second place after electronics (18.5%). In the USA it was excelled by the sphere of services, presented mainly by information technology (about 20%), aerospace industry (12%) and motor industry (11%).

The world electrotechnical market is characterized by global competition. Up to now it has been dominated by the players from the mature industrialized countries – members of the Triad: Japan, the USA and the EU. The leading players of the world market for electrotechnical equipment are American General Electric, Japanese Mitsubishi Electric, German Siemens, ABB from Switzerland and French Schneider Electric, etc. One of the features of the electrotechnical market is that not a single country in the world can satisfy the needs in its products independently. The variety

of products is great, and the required decisions are so various, that the largest exporters traditionally are the largest importers of electrical engineering.

As for the world market of pumps, it is almost satiated but it continues to rise by 4.8% yearly. It is estimated worth 29.2 billion dollars. The biggest producers are Pedrollo, Speroni, Grundfos, Willo, Calpedo, Nocchi and others.

Electrotechnical engineering is one of the leading segments of the Ukrainian industry. But at present the situation on the market is becoming unfavorable. There is a slight drop in indices of the industry that may be explained by loss of internal as domestic producers clashed with foreign competitors and the level of investment in innovation is low. Domestic machine producers cannot compensate increase in prices of raw materials at the expense of increase in prices of their products – on the account of tough price competition with the Asian-made products both in internal and foreign markets. Although Ukrainian products do not yield into the quality of foreign analogues and sometimes even excel them.

In order to survive in the conditions of limited demand inside the country, Ukrainian producers must search for additional markets.

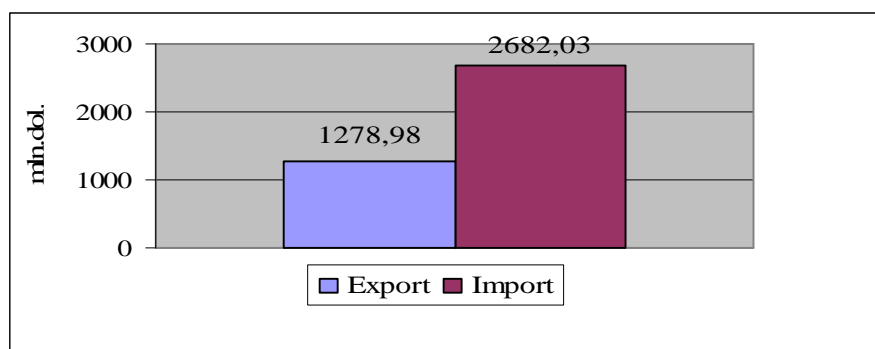


Fig. 2.10 Structure of Ukrainian foreign trade of electrotechnical production in 2006

The export volume of electrical engineering products in 2006 amounted to 1278,98 mln dollars, that is 39.5 % more than in 2005. Though the proportion of export of electrical engineering products in general export made up only 3.3%.

The import volume of electrical engineering products in 2006 amounted to 2682,03 mln dollars, that is 17.1% more than in 2005. The proportion in the general import is 6.0%. On the whole the import almost doubled export [73].

The export going to European countries amounted to 32.6% and 30.9% – to the countries of CIS, mainly Russia (21%) and export electric motors to this country twice as much as import from it. The import volume of electric motors on the domestic market is 35-40% (in money terms). The main foreign suppliers are the CIS countries, as well as Germany and Italy.

The Ukrainian market of electric engineering contains a large number of both domestic and foreign competitors. There are only about 15 producers of electric motors in Ukraine, among which Kharkov Electrical Engineering plant” (HELZ), “Electromachine” (Kharkiv), “Dnepropetrovsk electromechanic factory (DEMZ)”, “Electromotor” (Poltava), “Electrotyazhmash” and others.

The domestic market of pump equipment is characterized with hyper-competition. The main confirmation of that is the activity of large importers, which did not only consider it possible to open official representative offices in Ukraine but are also building networks of dealers.

The leader in the amount of pump sales on the territory of Ukraine and Russia is TM Pedrollo. Import of the Chinese pumps to Ukraine under TM DEMZ is worth special attention. It demonstrates that there is a considerable potential of development for the market of pump equipment and still there are free niches which can be filled. In 2005 the volumes of export of HELZ products to Russia and the CIS countries were 32% out of the common amount of the exported equipment.

As for TH HELZ – it is engaged both in export and import activities. It used to export to 35 countries of the world, including Austria, Germany, Italy, France, Australia. Nowadays, it mostly exports electric motors and pumps made by plant HELZ to the CIS countries. In September 2003 the Trading House HELZ became an exclusive dealer of PENTAX Co (Italy) in Ukraine, but due to the small demand by the national consumer because of the high prices of their produce as compared to the analogues ultimately in 2004 the enterprise gave up this activity, but continues to sell

the stock remaining in the warehouses. In December 2004 the Trading House HELZ concluded an agreement on long-term cooperation with “SibElektroMotor”, the leading Russian enterprise. HELZ supplies SibElektroMotor’s electric motors with large frame size being a representative of the Tomsk engineering plant in Ukraine. Late in November 2006 HELZ became a partner of Grundfos (Germany) and Calpeda (Italy). Grundfos and Calpeda are producers of a wide model line of industrial pump equipment in Europe. The Trade House is expanding its activities as the Ukrainian market demands it. Ukraine is experiencing construction boom that is why the interest to the equipmet which may be used for heating, water-running and air conditioning.

According to experts, the HELZ’s share in the CIS countries is 5% while that of household pumps is 12 %.

HELZ is working actively in order to attract new customers and to enter new markets by active participation in national and foreign exhibitions, conferences and seminars.

The import`s values can be seen in Fig. 2.11.

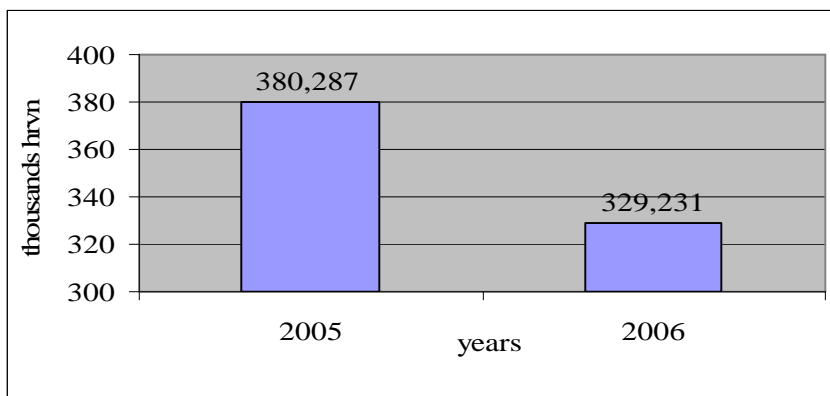


Fig. 2.11 Import of TH HELZ, thousands of Hrvn

As we can see the worth of imported goods declined from 380,287 to 329,231 ths of Hrn in terms of value in 2006 probably as a result of a poor demand in the Ukrainian market.

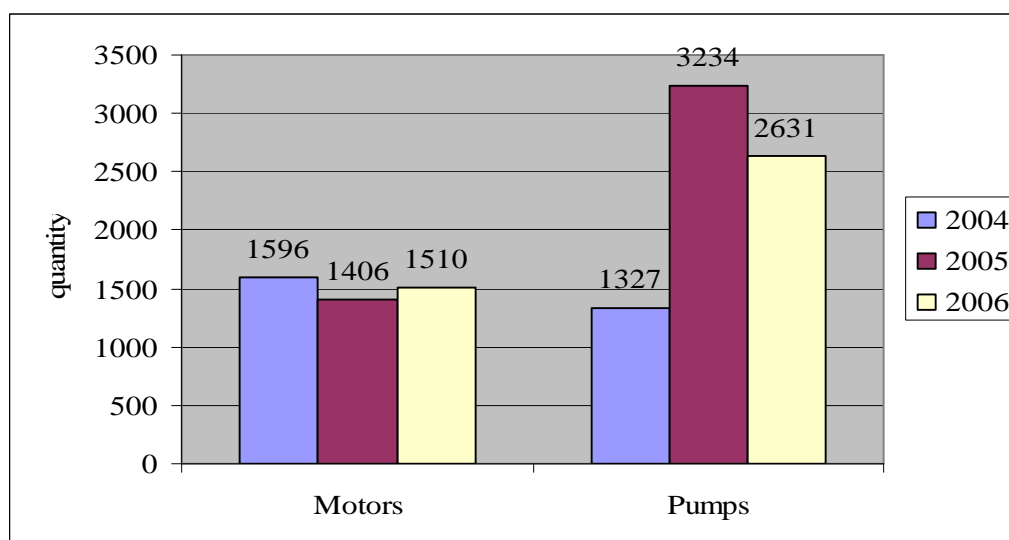


Fig. 2.12 Dynamics of export in 2004-2006, items

Export sales of motors were almost the same during 2004 and 2006, while the number of pumps sold on the foreign market in 2005 almost doubled the previous year sales but it decreased by 603 items in 2006 and amounted to 2631 items sold. As we can see a greater part in export by items is taken by pumps' sales – 70% in 2005 but it declined considerably in 2006 and the share was 64%.

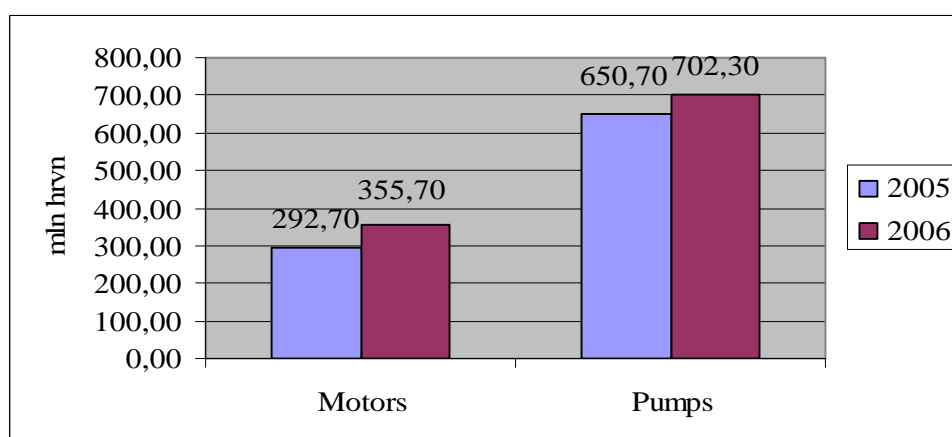


Fig. 2.13 Dynamics of export by the types of products in value terms in 2005-2006

On the other hand, there was a rise of export in value terms in both product groups. The share of export sales in the general volume of sales is very low and amounted to 3% in 2005 and 3.1% in 2006. At that time export sales of pumps in the

general sales of pumps in 2005-2006 came to 5.7% and 4.7% relatively, and export sales of motors in the general sales of motors in the same period were 1.6% and 1.8% relatively. Here it is significant that income from export was 1264 mln hrvn. in 2005 and 1269,7 mln hrvn., so there was a moderate rise in its sum.

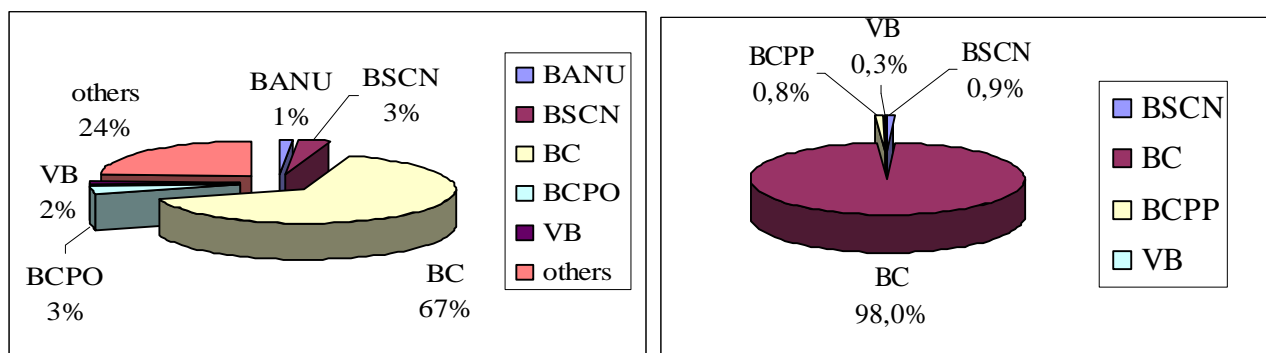


Fig. 2.14 Export range of pumps by types in 2005-2006, items

As for the pumps, the structure of export changed substantially - in 2005 the sales were represented by different types including 67% of centrifugal surface pumps, 24% related to other pumps, jet-type and submersible drain amounted to 3% accordingly. But in 2006 centrifugal electric pumps were the only leaders in sales amounting to 98%.

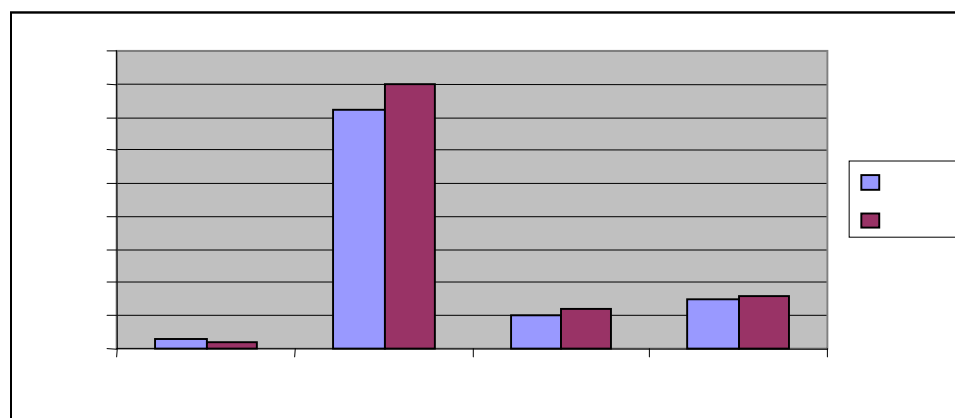


Fig. 2.15 Geographical structure of export sales of TH HELZ, items

Speaking about the geographical structure of export, the majority of export sales go to Russia (80% - motors and pumps) and they went up by 8% in 2006, 16 % – to Kazakhstan (pumps), 12% to Byelorussia (motors), and only 3% to Moldova (pumps). The increasing volumes of export delivery of trade mark HELZ to Russia confirm a demand for products of HELZ "Ukrelektromash" JSC on the foreign markets.

In consequence of imposition of the anti-dumping duties (for 3 years) on 80 and 100 frame size of electric motors produced by HELZ by Russia in October 2005, the joint Russian-Ukrainian venture "Interinvest" LTD was created in Belgorod.

Thus, the basic activity of Trade House HELZ is stimulation and organization of sales of HELZ plant both inland and beyond the country; the enterprise is also a dealer of other domestic and foreign suppliers. As to the foreign economic activity of the Trade House, here export prevails. There was a decline in physical export of pumps, but its share is greater than motors' share and foreign sales of pumps in value terms are higher than the sales of electric motors. Export is carried out to the countries of the CIS, a basic type of the exported products are centrifugal pumps and motors with the frame size 80 and 90 mm, a greater part of which goes to Russia. In order to succeed on a foreign market, the executives must develop a vision of their presence and marketing steps for developing its international activity both on the CIS markets and worldwide.

By the results of the complex analysis of the HELZ activities carried out one can come to the following conclusions:

In the domestic market the enterprise keeps holding strong positions due to the increase of the nomenclature and sales volume, expanding distribution activities although there is policy of forming an optimal structure of the capital and control of the expenses. HELZ is financially unstable and not absolutely liquid due to the great

value of short-term borrowed capital as compared to the own one, possession of inventory and debtor liabilities in the form of bills obtained. Financial and operating costs are high which results in low profitability of the activities. When establishing international marketing strategy the enterprise should start with improving basic economic and financial indicators;

As for foreign transactions the share of export in the total revenues is very small – 3% only, effective distribution and communication channels were not designed, competitive nomenclature of goods for the external market is not determined, which leads to the drop of pumps sales while the types of export-made motors are not numerous. So, in order to expand the existing markets and enter new geographical segments, the enterprise should develop an effective long-term program of its activities.

CHAPTER 3

MODELING THE PROCESS OF DEVELOPING THE INTERNATIONAL MARKETING STRATEGY FOR TH HELZ

3.1. The top-down model of marketing strategy development

In order to create an effective mechanism of developing a marketing strategy that provides a competitive position for the enterprise on the foreign market the following model has been elaborated.

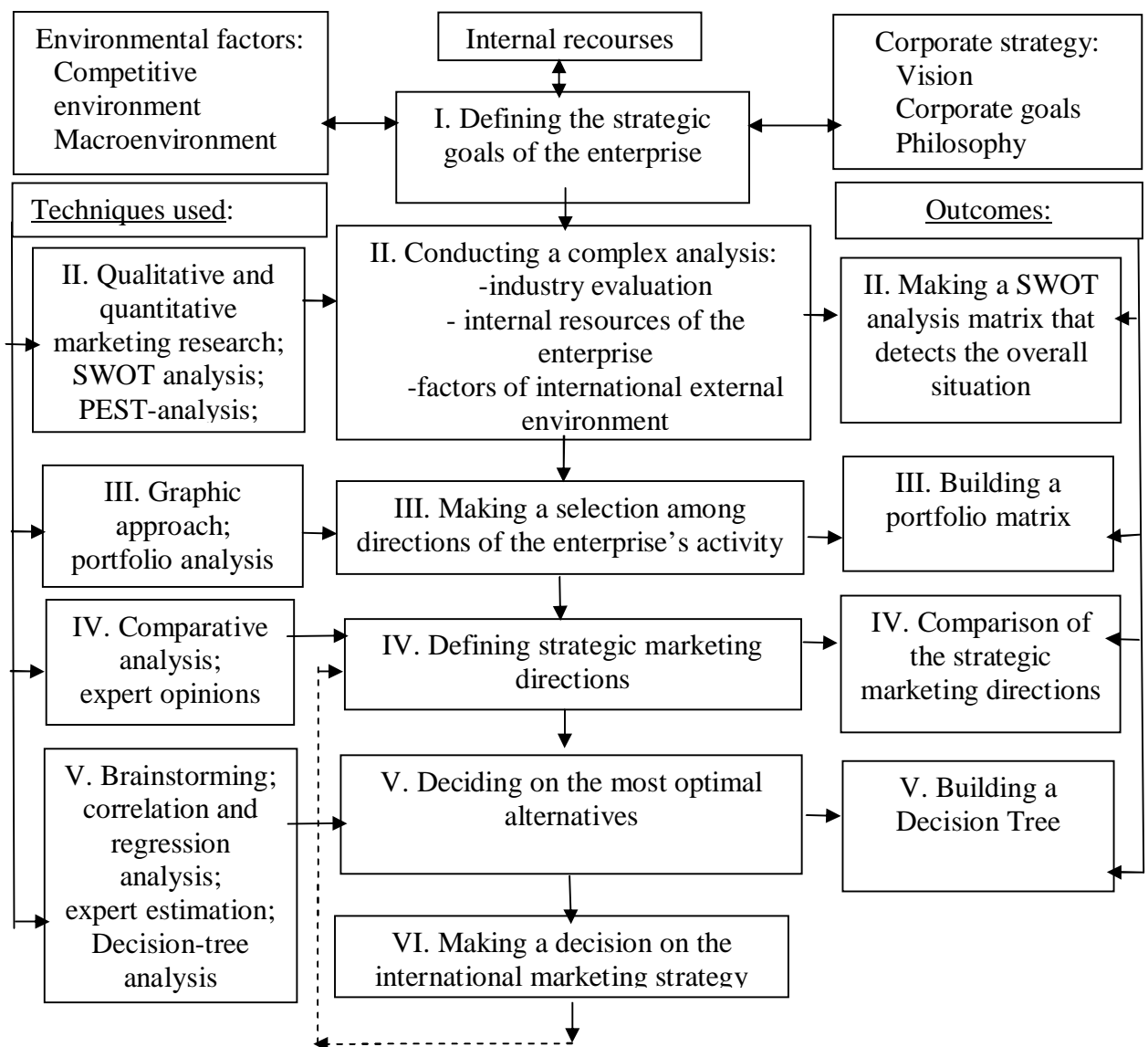


Fig. 3.1 Modified model of developing an international marketing strategy

Strategy formulation is an analytical process and the result of continuous conscious thinking. Marketing strategy formulation is not the beginning of the process – it's the end. Before beginning to generate strategies, it is necessary to collect, study, and digest a lot of marketing information.

The given model is a modified variant of the models of strategic marketing planning. Scientific novelty of the suggested approach to developing a marketing strategy is that it gathers strategic analysis, strategic planning and forecasting and describes strategy from both perspectives – long-term and tactical. A detailed description of the model is represented further.

The suggested model consists of two management processes – analysis and selection of a strategy. Each of these processes is a system of actions consisting of many interconnected elements. The main goal of strategic analysis is to evaluate core impacts on the enterprise's current and future state and determine their specific influence on a strategic choice. There are three components of strategic analysis: goals and objectives of the enterprise; external environment analysis; analysis of enterprise's internal resources.

The second key process is strategic choice, which also consists of three elements:
elaboration of the marketing strategy alternatives coming from enterprise's goals, external threats and opportunities;
forecasting and estimating the chosen alternatives;
making a decision on the international marketing strategy basing on the chosen criteria.

The first stage of the strategy formulating process is to identify strategic goals. The structure of large companies today is often extremely sophisticated and contains different levels (corporate, business unit and functional levels). There is a hierarchy of levels within companies; there is also a hierarchy of strategic direction set by management at that level. Marketing plays its part at each of these organizational levels. When setting a goal for the enterprise, it is important to remember that it must

be subordinated to the corporate strategy which includes vision, philosophy and goals.

A corporate vision is a clear word picture of the enterprise's future, often with an inspirational theme. It sets the overall direction for the enterprise, describing what it strives to be. Ideally, this vision is a short sentence that inspires employees, investors and customers.

Broadly speaking, a goal is a targeted level of performance set in advance of the work. Therefore corporate goals provide strategic performance targets that the entire enterprise must reach to pursue its vision.

A corporation has also a corporate philosophy that establishes the values and "rules of conduct" for running it.

On the other hand, environment uncontrollable components such as economic, technological, political, socio-cultural forces also affect acceptance strategy adopting; they may serve as accelerators or brakes for marketing (Fig. 3.2).

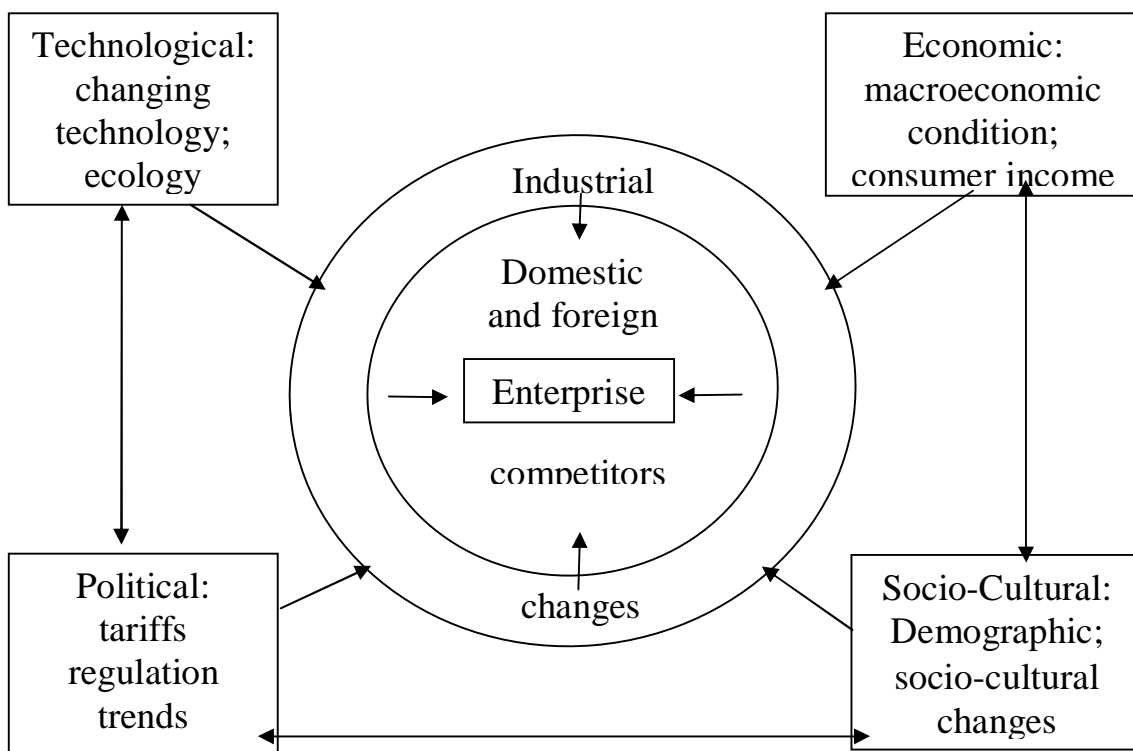


Fig. 3.2 Environmental forces affecting the enterprise [48]

Here the obvious observation is that international marketing, as opposed to marketing in a single country, takes place in an environment of increased complexity.

Economic environment pertains to the general level of economic well-being in a given country. It is important to consider two aspects of these economic forces a macroeconomic view of the marketplace and a microeconomic perspective of consumer income.

Social forces include characteristics of the population, its income, and the set of its values, press attitudes, public opinion. Changes in these forces can have a dramatic impact on the marketing strategy.

The main element in the political component is legislation, which defines the regulatory environment within which both local and foreign companies must operate, tax policy, trade and tariff controls, government type and stability.

Finally, technological environment refers to inventions and innovations from applied science or engineering research that influence the enterprise's product policy.

With regard to the mentioned above, let us turn to the notion of the strategic goal of a business. Strategy is usually said to have has three major components – mission, competencies and in the true sense – goals at this level.

A business mission is a statement that specifies the markets and product lines in which the business will compete. A mission statement can dramatically affect the range of the enterprise's marketing activities by narrowing or broadening the competitive playing field.

An enterprise's goal is a performance target the enterprise seeks to reach in an effort to achieve its mission. These goals must be balanced to form a consistent, achievable pattern and should address fundamental issues.

Business competencies – special capabilities resulting from its personnel, resources, or functional units – determine the means for achieving success. These competencies should be distinctive enough to provide a competitive advantage, a unique strength compared to competitors, often based on quality, time, cost or innovation. Thus at the first stage the enterprise's strategic goal that is limited by corporate strategy and influenced by environmental forces is formulated.

Other stages of a chart are built on the principle of ties between the outcomes of the carried out stage and the methods being used. All research techniques used in the model will be described further.

The second stage involves a complex analysis of external foreign environment, target markets and potential competitors as well as examination of internal resources.

An important tool for auditing the overall strategic position of a business and its environment is SWOT analysis. What makes SWOT particularly powerful is that, with a little thought, it can help to uncover opportunities that the enterprise is well placed to take advantage of. And by understanding the weaknesses of the business, the enterprise can manage and eliminate threats that would otherwise catch it unaware.

There are many forces within the firm that may affect a strategy success, such as organizational culture, the firm's capabilities and competencies, internal status of the export management, location, and product differentiation.

A systematic approach to examining enterprise's internal potential is the "value chain."

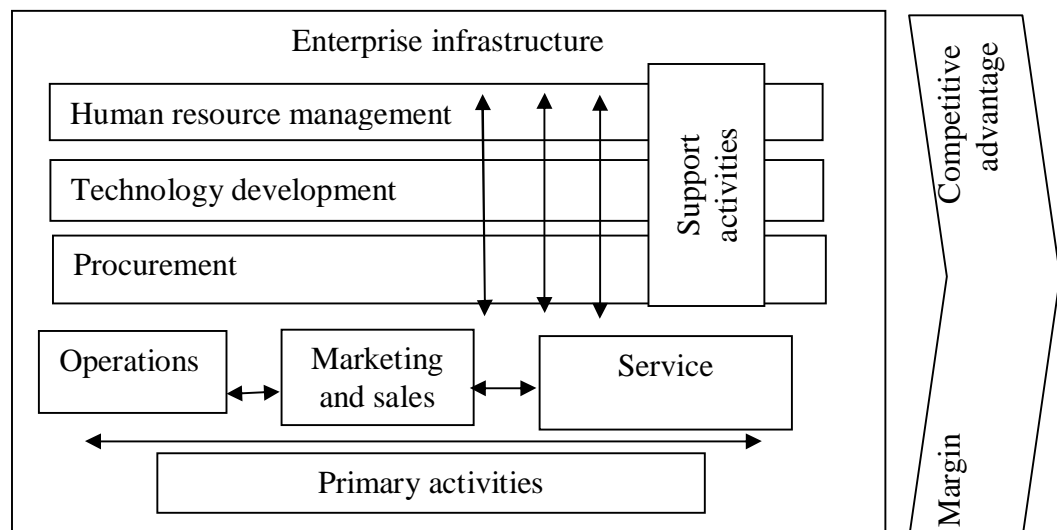


Fig. 3.3 Internal structure of the enterprise [62, p.545]

A “value chain” consists of a series of activities that create and build value. The enterprise is split into “primary activities” and “support activities.” Under this framework, the first step is to make the product, and then the second step is to figure out how and to whom it will be sold. The original chain popularized by M. Porter are to be altered for the enterprise’s needs, namely, the management should concentrate their attention on marketing operations, including considering of the enterprise’s commitment to exporting and management’s degree of international experience.

Knowledge about the competitive environment of a particular country is important because substantial differences typically exist between countries. As industries are getting mature and the growth is evident, increased volume comes primarily at the expense of competitors. Any analysis of the competitive environment must consider industry structure and how the interplay of various competitive forces affects the industry’s long-term profitability and the competitive position, strategy and strengths and weaknesses of the enterprise’s close rivals.

The outcome of this stage must end up with the detailed SWOT analysis of the enterprise.

Selection of overseas target markets follows essentially the same procedure as for domestic markets. The market attractiveness/business position matrix provides a useful analytical framework for prioritizing potential target overseas markets. Identification of factors to use in measuring the relative attractiveness of a given market as well as the enterprise’s competitive position in that market is needed. These ratings are also useful in helping to position the product in each of the markets selected as targets. All these procedures are realized on the third stage.

Once a clear picture of the firm and its environment is in hand, specific strategic marketing alternatives can be developed. They are developed in terms of the enterprise’s marketing-mix including the following:

Product strategy establishing how products are positioned (that is, how they are understood by the market).

Pricing strategy is typically dictated by the product-positioning strategy. Positioning the product can be as the low-cost leader or the high-quality leader. Discounts and promotions are two important components of an overall pricing strategy. By using discounts it is possible to establish a particular market position while maintaining some flexibility. Using promotions is another way to achieve specific marketing goals by temporarily reducing the product's price.

Communication strategy, defining how to present information about the enterprise and products. It is built on the product-positioning strategies and a thorough understanding of the target consumers.

Distribution strategy needs to identify channel partners to work with and how to work with them.

Marketing strategic alternatives are then ranked according to a degree of their significance using a graphic approach namely building a “field of tolerance”.

It is important to note that a marketing strategy is simply an extension of the corporate and business strategies. At the functional level the marketing department works closely with other functional units, such as manufacturing and finance, to achieve the vision, mission and goals coming from all the three organizational levels.

The next to the last stage is deciding on the alternative. Analyzing the outcomes of a few alternative actions before making a decision can help to determine a decision that produces the most favorable – or least painful – consequences. One of the most spread tools for helping to choose between several courses of action is Decision Tree. It provides a highly effective structure within which alternatives are laid out and the possible outcomes of choosing those alternatives are investigated. It also helps to form a balanced picture of the risks and rewards associated with each possible course of action.

Decision Tree analysis should be used in conjunction with common sense and other techniques. So it is suggested to use different methods of forecasting inside this Tree which then help us to get accurate estimates of the future.

And the final stage is making a rational decision on the international marketing strategy using the results received on the previous stages. It is important to admit that

there is a feedback between “making a decision” and “defining marketing strategic alternatives” stages, so if by some reason it is impossible to use the developed strategy, a new strategy based on the other alternative may be considered and taken into account.

So, the model suggested for developing a marketing strategy for TH HELZ in its foreign economic activity is a sequential set of stages that describes how the enterprise constitutes linking between its overall direction and marketing strategies in a complicated international environment. As agreed in theory part of this work a broad approach to the term “strategy” is assumed which hence can be used on strategic and tactical levels. It combines different techniques of the enterprise management.

3.2. Methodical tools for the process of marketing strategy development in the foreign market

A variety of techniques is employed to conduct analysis and researches in the sphere of marketing and management. Here an interdisciplinary approach based on mathematic, statistical, and stochastic research methods will be applied. A detailed description of the most important techniques used in the process of marketing strategy development is represented below.

PEST Analysis is a simple but important and widely-used tool that helps understand the big picture of the Political, Economic, Socio-Cultural and Technological environment the enterprise are operating in.

Among the listed possibilities, it is more important to focus on two aspects of particular relevance: export market development and export market competition. These two are selected because they impact the firm’s marketing strategy definition and may indirectly impact performance. Export market development refers to the overall standard of living in the export market, as evidenced by the level of economic development and education levels in that market. As the level of development in an export market increases, firms will typically have to adapt their marketing strategies

to these markets, as many countries may have legislation in place that requires changes in the strategy. Moreover, more educated and sophisticated consumers require more specialized marketing strategies that better fit their consumption patterns. Hence, we expect that as the level of development in an export market increases, marketing strategies must be adapted to the specifics of that market.

Export market competition is the extent to which businesses must strive to outdo each other to gain the economic rents of that industry. Competition may vary along multiple dimensions, such as the number of competitors, price competitiveness, and service/delivery. As the level of competition within an export market rises, firms must adapt their strategies in order to differentiate their offerings. Without differentiation, the firm cannot gain an advantage over their competitors that will produce higher rents. Hence, as competition increases, the firm will need to adapt all aspects of their marketing strategy.

The essence of the situation analysis is taking stock of where the enterprise or product has been recently, where it is now, and where it is headed in light of the organization's plans and the external factors and trends affecting it. A SWOT analysis is an acronym describing appraisal of the enterprise's internal strengths and weaknesses and its external opportunities and threats.

Location of factor	Type of factor	
	favorable	unfavorable
Internal	strengths	weaknesses
External	opportunities	threats

Fig. 3.4 A SWOT analysis table [59]

SWOT table has four cells formed by the combination of the rows and the column summarizes all factors. A SWOT analysis is based on an exhaustive study of the four areas:

trends in the foreign industry;

enterprise's rivals;

assessment of the enterprise itself;

researching present and prospective customers.

Portfolio models enable managers to classify and review their current and prospective businesses (product level or brand level) as though they are a collection of separate investments and then evaluating each business's competitive strength and the attractiveness of the market it serves.

The Boston Matrix is a well known tool for the marketing manager. It has two controlling aspects, namely, relative market share and market growth. Each individual product in the range (or portfolio) is placed onto the matrix. This matrix has some limitations which are overcome by the General Electric Business Screen. The GE Business Screen introduces a three by three matrix, which includes a medium category. It utilizes industry attractiveness as a more inclusive measure than BCG's market growth. A number of sub-criteria may then be considered:

for market attractiveness: size of market, market rate of growth, the nature of competition and its diversity, profit margin, impact of technology, the law, and energy efficiency, environmental impact;

for competitive position: market share, management profile, R & D, quality of products and services, branding and promotions success, place, efficiency, cost reduction.

On the stage of choosing between several strategic marketing alternatives Decision Tree is an excellent tool (Fig. 3.5). It helps to form a balanced picture of the risks and rewards associated with each possible course of action.

There are three key symbols in a Decision Tree:

A square represents a decision node. Lines from the box denote the decision alternatives (one line per decision alternative).

A circle represents a chance node. Lines from the circle denote the events that could occur at the chance node.

A horizontal rectangle represents a terminal node. A terminal node represents an outcome state, so there are no events that occur distal to a terminal node. The value of the outcome appears in the rectangle.

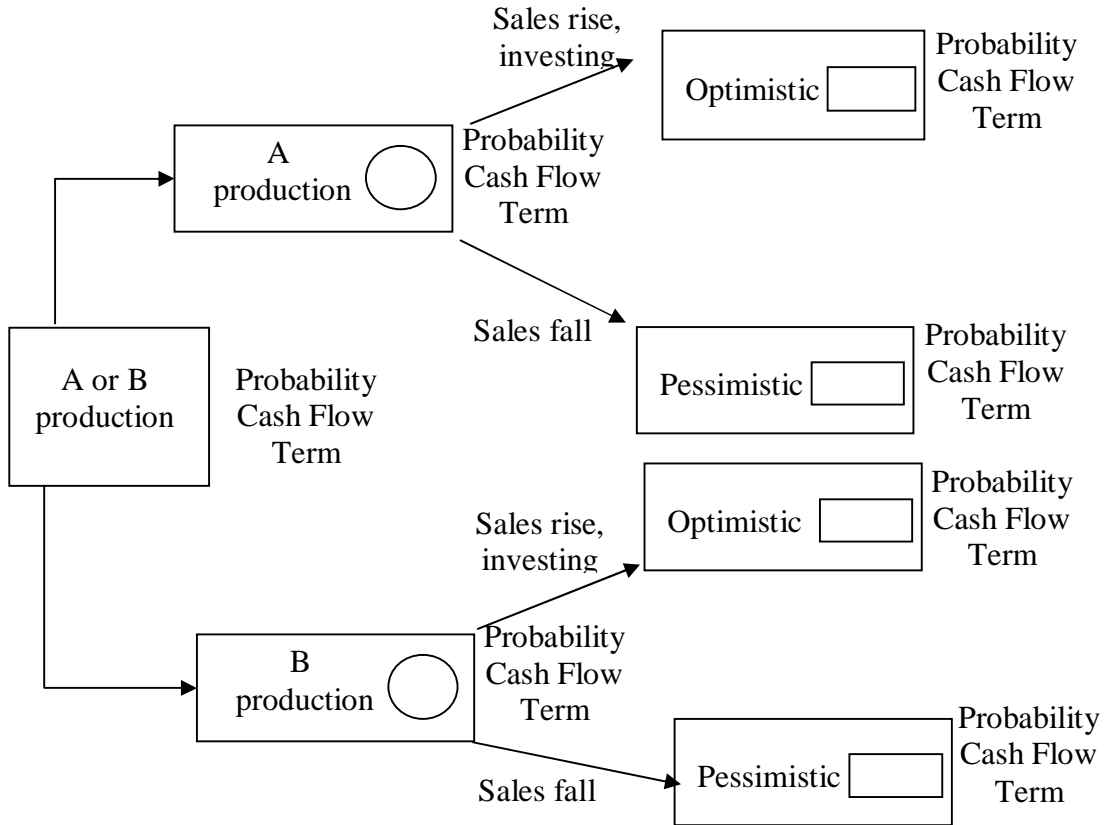


Fig. 3.5 An example of building a Decision Tree

A Decision Tree is started with a decision that needs to be made. Lines going out of the square display possible solutions.

At the end of each line, the results are considered. If the result of taking that decision is uncertain, a small circle is drawn. If the result is another decision that needs to be made, another square is drawn. When as many of the possible outcomes and decisions as can be seen have been drawn out the procedure ends.

Going on to evaluate which option has the greatest worth – value-based planning procedures may be used. It is build upon a discounted cash flow analysis that is a relatively simple technique for making decisions. The process begins with a

forecast of the operating cash flows the strategic alternative will produce within the planned period. Further goes the estimation of each outcome probability (of each circle representing an uncertainty point). Using percentages, the total must come to 100% in each circle, using fractions – these must add up to one. Next the forecasted cash flows are discounted back to the initial time period to arrive at their present value. Then the value of the outcomes is multiplied by their probability. The total for that node of the tree is the total of these values. Present values are usually calculated by the following formula [37, p.356]:

$$NPV = \sum_{t=1}^n \frac{CF_t}{(1+R)^t} - I_0, \quad (3.1)$$

where t – planned period in years;

CF_t – net after-tax cash flow in year i;

R – risk-adjusted cost of the capital;

I₀ – initial investment (cash outflows).

Having calculated these decision benefits, the option that has the largest benefit is chosen, and taken as the decision made.

Quite simply, a Decision Tree is a graphical representation of the path taken and the path not taken, and how the decision to go one way over another affects the result.

Instead of value-based planning another technique may be used, that is forecasting. A forecast is a probabilistic estimate or description of a future value or condition. Many different methods can be used in forecasting, the basic assumption of most methods is the same: the past patterns will continue into the future.

In order to forecast the future value of the alternatives and how the changes in the predictor variable may influence the change of dependent variable a regression analysis that is a casual method of statistical modeling is good to use because it is one

of the most frequently used forecasting methods. Regression analysis is a general approach to modeling the relationships between one variable, such as product sales and one or more other variables, such as price, customer income, etc. This method differs from univariate methods in that casual models predict the future by modeling the past relationships between a dependent variable and one or more other variables called independent, predictor or exogenous variables. The dependent variable is commonly denoted by Y and the independent variables by X.

Regression analysis has three general purposes:

First – to model the relationship between the dependent Y and one or more independent variables Xs.

Second – to measure the error in using that relationship to predict the dependent variable.

$$SEE = \sqrt{\frac{\sum e_i^2}{n - k}}, \quad (3.2)$$

where $e^2 = Y - \hat{Y}$ – residual error;

n – number of observations;

k – number of estimated parameters [44, p.125].

Third – to measure the degree of association (i.e. correlation which measures the degree of dependence or association between two or more variables) between the dependent and independent variables by adjusted coefficient of determination which equals the proportion of the variance in the dependent variable Y that is explained or eliminated through the relationship with the independent variable X.

Coefficient of determination:

$$\overline{R}^2 = 1 - \frac{S_{yx}^2}{S_y^2}, \quad (3.3)$$

Where S_{yx}^2 – unexplained variance;

S_y^2 – total variance.

A good way of structuring data being forecasted is a system diagram. This system diagram will show the relationships between factors. These relationships can then be quantified and a model based on them may be build (using such programs as Statdat applied on computers). The model is a simple equation:

$$Y = f(X_1, X_2, X_3) \quad (3.4)$$

The advantages of regression analysis include the ability to find potentially casual relationships that not only predict but explain the dependant variable.

The expected value of a discrete random variable X_i is defined as:

$$Y(X) = \sum X_i P(X_i), \quad (3.5)$$

where X_i – actual value;

$P(X_i)$ – probability of X_i .

By multiplying each X_i and summing those products, the expected value is the equivalent of the mean [44].

Even though statistical estimates are good techniques, managers may need to use judgments of the individual decision maker to supplement these approaches.

3.3. Developing the international marketing strategy for TH HELZ grounded on forecasting techniques

TH HELZ is the general distributor of HELZ “Ukrelektromash” JSC. Its activities are involved not only in domestic but also in foreign operations – it exports electric motors and pumps made by plant to the CIS countries and imports European pumps of the leading manufacturers to the Ukrainian market.

Strategy for the considering enterprise is developing at both the corporate level (in the form of strategic plans meant for 3-5 years by the plant “Ukrelektromash”) and at the functional level, where strategic plans are specified and strategic goals are formulated.

As HELZ “Ukrelektromash” JSC represents the corporate level for TH HELZ, let us cite its mission: “To become a leader in the field of electric engineering on the territory of Ukraine and Russia in developing and manufacturing the electric motors and, on their base, serial highly profitable pumps for household and industrial purposes. From high achievements of the enterprise to well-being of its workers.”

As it has been indicated earlier many factors influence making the decision on the strategic goals. From the one hand it is corporate strategy (mission, philosophy vision), from the other – external environment and state of the enterprise recourses.

The state of the internal resources of the enterprise was evaluated in the second chapter of the present work. From it is evident that the enterprise doesn't have sufficient working capital to enlarge its operations and enter new markets or considerably expand its dealer network besides the leading world markets are closed because of the tariff-walls and a great competition from the direction of multinational companies, and it is hard to penetrate the countries of Africa and Latin America because of the lack of reliable data and research about the situation in the market.

The principles of TH HELZ marketing policy are as follows: optimal prices for different volumes of sales targeted to stimulated bulk purchases; discounts and bonuses targeted to stimulate the plant's partners to keep the agreements provisions; flexible delivery terms including organization of products dispatch with bulk orders.

The main foreign geographical segment of TH HELZ is the countries of the CIS, thus about 80% of product sales go to Russia. This market is also growing and there is a potential demand for the new series of products of HELZ “Ukrelektromash” JSC which have been developed and are being produced by the plant. It is also in the enterprise's power to conduct the complex research of the defined market.

With regard to the said above the marketing strategy will be developed only for the CIS countries (in particular Russia) in order to sustain and expand the presence of TH HELZ there. But the technique can also be used concerning any of geographical segments.

So coming to the first stage of the marketing strategy development process – strategic goal formulating, let us form the following direction of the enterprise's

strategic behavior: “To position itself in the market of Ukraine and the CIS countries in 2007, as a large electrical engineering trading company which is able to satisfy any complex orders for supplying of AC induction electric motors with a frame size from 56 to 355 mm (national standard, ISO quality system) and on their basis of household electro-pumps as well as household and industrial pumps of the leading world producers.” In the frame of this direction the following goal is posed – “Till the end of 2007 consolidate and make further progress in the sales on the territory of Russia increasing them as a minimum by 25%.”

In order to simplify and shorten the further analysis (as it contains a large volume of information), we first rank the two business units of the enterprise (electric motors and pumps) and choose one as a more perspective and achievable.

It is to admit that both electric motors and pump markets of the CIS countries are characterized by a great competition, especially in prices. There is a stable growth in both industries but the branch of electric motors in Russia is growing at a smaller pace (3% to 6%-12% in pump sales). Another indicator is trade barriers – in 2005 Russia implemented customs duty on HELZ’s electric motors till 2007 that is why the enterprise is obliged to deliver its products disassembled to the joint company “Interinvest” placed in Russia, Belgorod, where they finished and achieve the target customer.

Considering the fact, that, according to experts, the share of TH HELZ in the market of the CIS countries in electric motors amounts to 5 %, and in household pumps – 12 %; the annual growth of pumps market of the CIS (due to production of new types) makes about 8 %, and motors only 4 % we shall build a matrix of HELZ’s perspective direction of business in the market of the CIS countries (the letter A stands for pumps’ market, the letter B – for electric motors’ market).

The matrix to rank the businesses of the enterprise is represented in Fig. 3.6.

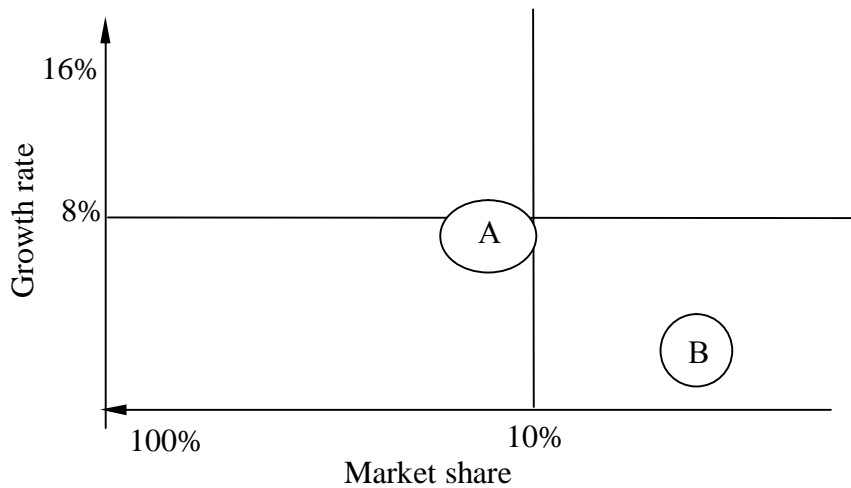


Fig. 3.6 The growth-share matrix for the ranking of enterprise's businesses

Thus, we have come to the conclusion, that at present in order to achieve the laid down strategic goals in the market of the CIS countries, the direction of foreign business – electro pumps is in priority. The further analysis will deal with it.

For pump business one may underline threats and opportunities that exist in the environment (Appendix A). A SWOT analysis helps to identify the strategy-related factors that can have a major effect on the enterprise. However, all factors in such an analysis are not of equal value, so experts should identify critical factors affecting the enterprise. They need then to choose the most important threats and opportunities from the list assessing each with the help of two parameters – as far it can influence the enterprise's activities and the degree of its probability (9 points analysis was used). The results of the evaluation of threats are shown in Table 3.1.

Table 3.1

The results of threats evaluation

Threats	Probability	Impact on the business
1	2	3
Price reduce as a result of a wide supply	5	4
Slow pace of production of new modifications by the plant which may lead to decrease in the market share	9	9
Construction of "Grundfos" plant in Russia	9	6
The lack of the developed dealer networks and service centers	8	9

Big traders selling HELZ products at lower prices (due to a bulk selling)	9	7
Payment prolongation used by competitors	6	7
Other competitors entering the pump segment	5	9
Corporate customers giving preference to other equipment	5	8
Rising costs on transportation	7	7
Intensified tax and tariff control	3	6
Bad weather conditions (raining and cold seasons)	5	5
A large supply of Chinese pumps with almost the same product range and lower prices	9	8

The most obvious threats are: a slow pace of new modification introductions by the plant which may lead to decrease in the market share; a construction of “Grundfos” plant in Russia; a large supply of Chinese pumps with almost the same product range and lower prices; big traders selling HELZ products at lower prices (due to a bulk selling).

The company may reduce the influence of threats by filling the product range with new modifications, trade mark development, setting a reasonable price and using promotion actions, developing distribution channels in order to cut down transportation costs.

The results of the evaluation of opportunities are shown in Table 3.2.

Table 3.2

The results of opportunities evaluation

Opportunities	Probability	Impact on the business
1	2	3
Market growth forecast	8	9
Fast pace of industrial production development	8	7
Customers tending to replace one type of pumps by another	6	8
Increase in pumps` prices	7	9
Improvement of trade image	3	7
Hot and dry seasons	5	5

new types of products output by “HELZ Ukrelektromash” JSC	6	9
If a wide range of products is available, there will be a high possibility of creating a dealer network	4	7
Reselling the Italian and Chinese equipment	7	7
Water-heating organizations giving preference to high-quality and inexpensive domestic pump equipment	7	4
High duties imposed on imported pump equipment	2	8

The next step is building dot charts in the form of threat and opportunity matrices on the basis of evaluations` received (Fig. 3.7).

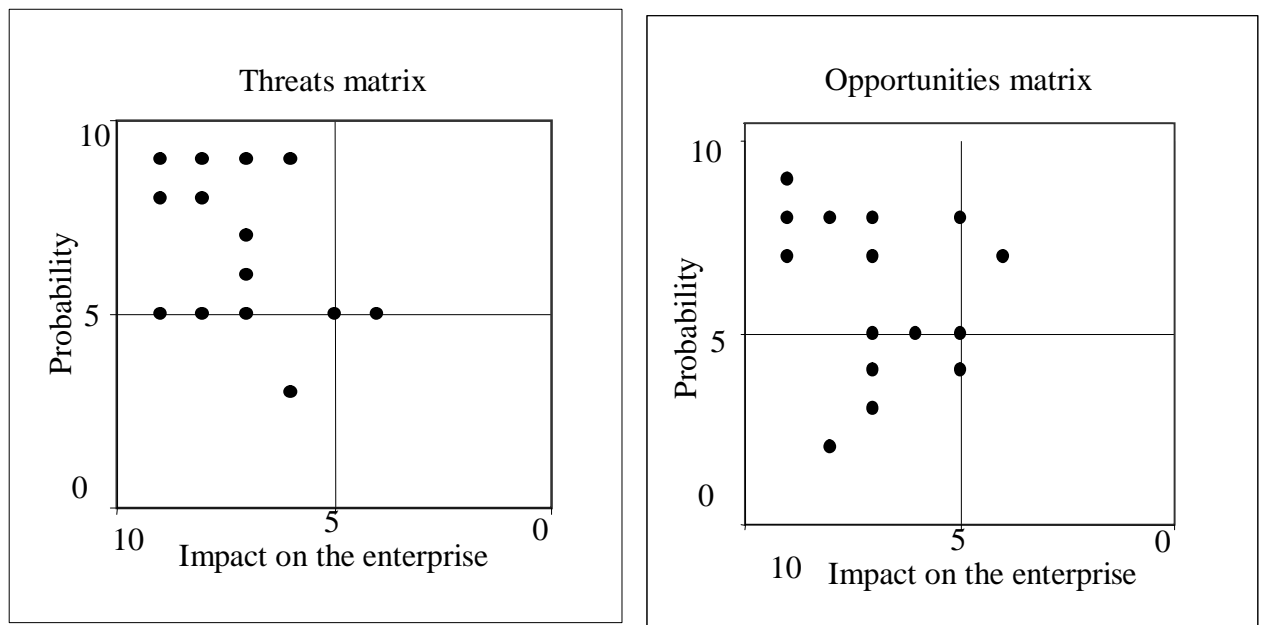


Fig. 3.7 The dot matrices of threats and opportunities for pump business

One can see from the opportunities matrix the more realistic and perspective opportunities. They are – market growth, fast pace of industrial production, increase in pumps` prices in the Russian market, customers tending to replace one type of pumps by another and the opportunity of reselling the Italian and Chinese equipment.

A range of valuations are made up in order to identify strengths and weaknesses of the enterprise. Each parameter is placed in a table of strengths and weaknesses (Appendix B).

The weaknesses of TH HELZ are the lack of working capital – a good financial position would give the enterprise a chance to prolong payments by debtors, implement effective promotion campaigns; undeveloped dealer network. It is also of great importance for the Russian market to have service centers, being a recognizable trademark. Overcoming these problems would give the enterprise the opportunity to occupy a greater market share and gain strong competitive advantages.

The enterprise may use the following opportunities based on its strengths: to expand existing product range with new series of pumps in that way to hold its position in the market; to take part in the international fair and carry out advertising campaigns using the experience of participation in such events as it of particular importance for the industrial company willing to gain new customers, increase sales and promoting its trademark.

The favorable factors must be balanced against unfavorable ones, the main weakness is the lack of dealer network and service centers which calls for additional financial resources. Under the present law profitability of assets it may cause negative effects on the enterprise`s activity.

Threat from the side of Chinese producers may be lessened if the enterprise reduce prices or starts to resell this equipment by itself.

It is also worth to admit that higher prices on HELZ pumps in comparison to some foreign or even Russian products under the tendency of price reductions lead to decrease in HELZ`s sales.

The main threats for the enterprise are:

to set aside the present range of products;

not to ensure the price policy change;

not to carry out a wide-area positioning of its trademark;

not to develop the dealer network.

On the basis of the analysis one may now describe the marketing mix strategic alternatives which can be used to strengthen the enterprise's position in the foreign market and secure a stable growth.

Product alternative – to expand the range of products.

Pricing alternative – to reduce prices and use the scale of discounts on volumes of sales as well as on terms of payment. The price policy differs essentially from that of the competitors, the perfect decision would be to fix the lower prices to existing ones for large wholesale buyers. This, in turn, will lead to advantages in the competition and increase in sales.

Promotion alternative – to participate in a famous international exhibition. This will give the chance to increase the number of customers therefore the number of sales and extend trade mark's recognition.

Distribution alternative – a distribution network developing will give the possibility to provide guaranteed sales and long-term cooperation.

In a competitive situation the enterprise has to prioritize the marketing mix elements. This does not mean concentrating only on a few elements and ignoring the others. Prioritizing emphasizes the need to recognize the fact that some elements may be important than others at a given point in time. Considering the results of the conducted analysis as well as taking into account that the price and reputation of the trademark are the prevailing factors of competitive advantage, let us choose the price and promotion strategies as the most important at the moment and that can be achieved with the help of the available resources.

In order to forecast the future outcomes of the alternatives, the available data was gathered within the marketing mix framework. Data concerning past export sales is represented in Appendix C and data related to the results of the exhibitions held is collected in Table 3.3.

Table 3.3

Data concerning the results of participation of TH HELZ in domestic and international exhibitions

Number of exhibitions held	Years	Rent costs (X1), Hrn	Administrative fee (X2), Hrn	Advertising expenses (X3), Hrn	Pump`s quantity sold in the export market, items
1	2	3	4	5	6
1	2001	1700	300	200	427
2		1900	400	300	451
3		2100	400	500	483
4	2002	2200	500	700	513
5		2300	500	850	526
6		2300	550	1000	577
7	2003	2350	550	1100	591
8		2400	680	1200	597
9		2460	700	1500	677
10	2004	2560	750	1800	727
11	2004	2600	750	2000	760
12		2710	800	2100	790
13	2005	2200	800	2500	892
14		2780	900	3000	1014
15		2800	1000	3200	1021
16	2006	2700	1000	3400	1079
17		3000	1150	3500	1068
18		2500	2000	3600	1006

Resting upon this data, correlation and regression models have been built which may be used in order to forecast the future value of the alternatives and how the changes in the predictor variable may influence the change of dependent variable.

The first multiple linear regression model is the model of correlation and regression forecast of increase in export sales due to the change in expenses related to participating in exhibitions.

The equation of the fitted model is:

$$Y = 637,07 - 0,11888 * X1 - 0,15377 * X2 + 0,2705 * X3, \quad (3.6)$$

where Y is the quantity sold, items;

- X1 – rent costs, Hrn;
- X2 – administrative fee;
- X3– advertising expenses.

One may see that there is the biggest degree of correlation between the quantity sold and advertising expenses. So in calculations one changes this parameter. The adjusted R-squared statistic, which is more suitable for comparing models with different numbers of independent variables, is 97,8%.

The second multiple linear regression model is the model of correlation and regression forecast of increase in export sales due to the change in prices (there is the biggest degree of correlation between the price and the variable factor). The equation of the fitted model is:

$$Y = 2081,13 - 5,39481*X1 - 0,152135*X2 + 0,0116247*X3, \quad (3.7)$$

where Y is the quantity sold, items;

- X1 – average price, Hrn per item;
- X2 – foreign competitor's pump sales;
- X3 – promotional costs.

So the management chooses two alternatives (two models) based on the price strategy and promotion in order to achieve the goals set at the beginning of the strategy formulating process, because it cannot do both alternatives due to budget constraints.

In order to form a balanced picture of the alternatives a Decision Tree tool is used, that is the effective structure within which the options are laid out and the possible outcomes of choosing those options are investigated. The alternatives, probabilities, cash flows and net present values, resulting expected value calculations are shown in the Decision Tree in Appendix D.

A decision that needs to be made is increasing sales till the end of the year by 25% in the Russian markets and getting higher share of it. As was admitted there are

two possible solutions: to use price change alternative or promotion. Within the exhibition regression model, one deal with the increase in advertising costs (the management deliberately make this decision as the analysis of past data showed the greater correlation between volumes sold and advertising expenses); within the price regression model, the management chose to reduce prices (for the same reason). It is significant that reduce in prices may be achieved by demanding a plant for lower cost price, cutting off transportation and other expenses related to exporting; and the increase in advertising expenses is a little amount and a company may make this step in anticipation of high profits.

Further evaluation and estimation of the outcomes are made using the technique described earlier (on the basis of data from Table 3.3 and Appendix C).

According to the Decision Tree if the company has a goal of maximizing expected values, the preferred strategy is to choose the option that has the largest benefit, and take that as the decision made. The net benefit calculated for sales rise due to promotion strategy is 47542,4 Hrn, while the net benefit of price strategy is 617191,6 Hrn. On this branch therefore the most valuable option is chosen. One may see that the best option is to reduce prices as its net present value is higher.

Following the route of higher net present value, one may identify that the most favorable outcomes are as follows:

Price alternative – reducing price – invariant reduced price, increasing advertising expenses. One must note that during the process of calculation only the factor being viewed changes, all other factors set to being equal.

So for a Decision Tree analysis one should implement the stages:

- to build a Decision Tree, foreseeing all the probable events and outcomes;
- to ascertain (by expert methods) the probabilities of each events;
- to make a budget of cash flows (using a correlation and regression model of forecasting), taking into account the initial investments in the decision being made;
- to calculate expected values of the future net cash flows and net values;
- to make a decision on the alternatives;

in case of unfavorable development of events to suggest a decision calling to improve the situation.

Thus taking into account the research made the enterprise adopts the following strategy for its activities in the foreign market (Russia).

As a generic strategy the whole company chooses strategy of market penetration where the existing products are marketed to the existing customers, as for orientation of the marketing involvement it uses the multi-national strategy within the EPRG schema and believes the marketing mix, if needed, should be adapted to the international markets. And on the level of marketing mix, the management of the enterprise's select among strategic alternatives of the price and promotion strategies (according to available resources and the current situation), namely choosing reducing its prices in order to achieve higher sales.

Conclusions

Expanding markets around the world have increased competition for all levels of international marketing. Cost containment, customer satisfaction, and a greater number of players mean that every opportunity to refine international business practices must be examined in light of companies' strategic goals.

In this research an attempt of forming a more comprehensive approach to the developing a marketing strategy for the enterprise operating in the foreign market was made. In this context the analysis of domestic and foreign economic activities of the enterprise – the Trading House HELZ – was conducted, showing that it is expanding its operations, nevertheless it is critical for management to control the inventory and take measures for stimulating distribution, the enterprise's financial state is unstable and not absolutely liquid, there is a high dependence on the short-term credits and hence it spends big sums on credit payments. Therefore it doesn't have sufficient funds to implement large strategic projects.

During the process of forming a marketing strategy for the Trading House in the Russian market the following stages were passed: the goal to make further progress in the sales on the territory of Russia increasing them as a minimum by 25% was defined as a strategic one that subordinates to the corporate mission of becoming a large electrical engineering trading company which is able to satisfy any complex orders of electric motors and pumps made by both Ukrainian and foreign manufacturers; conducting a SWOT analysis enabled to identify the strategy-related factors that can have a major effect on the enterprise those are the lack of dealer network and service centers, higher prices on some of HELZ pumps in comparison to some foreign or even Russian products, poor recognition of its trademark in the foreign market; defining price and promotion as strategic marketing alternatives; deciding on the most perspective one, using the forecasting techniques of correlation and regression analysis and a tool of building a Decision Tree based on the data of real past events. On the stage of making a selection between the alternatives it was determined that the preferred strategy is to choose the option that has the largest

benefit making a decision on the international marketing strategy, that is pricing strategy in the order – price alternative – reducing price – invariant reduced price, which will bring us 617191,6 Hrn in comparison to 475427,4 Hrn of the promotion strategy.

With regard to the said above the strategy of market penetration by reducing prices is taken which will give the chance for the enterprise to increase its sales in the Russian market. It is significant to comprehend that this model is build on the basis of numerous assumptions and all the other factors in environment are viewed as being equal.

The practical importance of the work is that its methods and techniques may be used by domestic enterprises to define strategic directions and forecast their values, hence make a decisions on the best outcome both in a foreign and international (global) markets.

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