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FOREIGN MARKET ENTRY OF COMPANY D.E.E.D. LTD. INTO UKRAINE

FIRMA D.E.E.D. A.S. A JEJÍ VSTUP NA NOVÝ ZAHRANIČNÍ TRH - UKRAJINA

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AUTOR PRÁCE
AUTHOR

Bc. MICHAEL TREML

VEDOUCÍ PRÁCE
SUPERVISOR

doc. Ing. et Ing. STANISLAV ŠKAPA, Ph.D.

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Treml Michael, Bc.

European Business and Finance (6208T150)

Ředitel ústavu Vám v souladu se zákonem č.111/1998 o vysokých školách, Studijním a zkušebním řádem VUT v Brně a Směrnicí děkana pro realizaci bakalářských a magisterských studijních programů zadává diplomovou práci s názvem:

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Vedoucí diplomové práce: doc. Ing. et Ing. Stanislav Škapa, Ph.D.

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L.S.

doc. Ing. Tomáš Meluzín, Ph.D. Ředitel ústavu	doc. Ing. et Ing. Stanislav Škapa, Ph.D. Děkan fakulty

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Abstrakt:

Diplomová práce se zabývá analýzou forem vstupu na zahraniční trh v odvětví dřevostaveb zaměřenou na konkrétní firmu D.E.E.D. a.s., a její případný vstup na Ukrajinský trh. Využití metodologie forem vstupu na zahraniční trh pro střední firmu by měla následně ukázat, zda na trh vstoupit či ne, a jakou formu zvolit. Výsledky budou dále také srovnávány s podobným trhem, kde firma již působí. Na tomto základě bude navrženo efektivní využití a postup do budoucna.

Abstract in english:

The master's thesis deals with an analysis of foreign market entry into Ukraine. The thesis is focused on specific company D.E.E.D. Ltd. and segment of wooden houses. The thesis contains theoretical knowledge about methods of foreign market entry for company of medium size which should subsequently show, if entry the market or not and which method to choose. Results will be compared with similar market, where the company has already worked. On this basis will be proposed effective usage and future process.

Klíčová slova: D.E.E.D. a.s., vstup na zahraniční trh, formy vstupu na zahraniční trh

Key words in english: D.E.E.D. Ltd., foreign market entry, foreign market entry methods

Statutory declaration

I declare that submitted master's thesis is authentic and worked up independently. I also declare that citations are complete and copyrights are not violated (pursuant to Act. No. 121/2000 Coll, on copyright and on laws related to copyright Act.).

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1 Introduction

This thesis selected the company with many experience in the Czech market. The company faced many problems in the last decade. Nowadays is trying to change the strategy. Main issue is not more to concern about Czech market anymore and try to get to the similar turnovers before all problems started. This should be done through the entry into new markets in Europe. It is very important to consider carefully all aspects of this big step. Each of the markets has its own specific characteristics and trends that in many cases differ a lot from each other. In order to choose the right market in the fitting time, there is a need to analyse these markets and then create a proper strategy to enter market successfully. Hence there will be analyses of internal and external environment which should make the decision easier.

2 Executive summary

The main reason of this master's thesis is to analyse the foreign market entry strategy of D.E.E.D. Ltd which was main player on the Czech market in prefab low-energy houses. Main topic of the report is focused on market entry strategy used in the Ukrainian market and its operation in this market. Appropriate analysis of external and internal environment and following evaluation, conclusions and recommendations were done.

Structure of this paper is as follows. The first part focuses on theoretical background of literature which is related to international strategy, triggers for market entry, and frameworks uses for analysis of foreign environment and choice of mode of entry. The second part is dedicated to analyse the current situation and history of the company. In this part are showed several analysis include introduction of D.E.E.D. Ltd, PEST, Porter's Five forces and SWOT frameworks used for external and internal analysis of the company and Ukrainian market. The company's foreign market entry strategy based on related literature and business analysis is covered in the third part. The fourth part the master's thesis contains conclusions and recommendations related to chosen issue.

3 Targets and methods

The main aim of this thesis is to evaluate the situation of Ukrainian market in wooden houses segment and choose the right method of foreign market entry or even choose to enter the market or not. In order to reach the main goal it is necessary to fulfil partial goals at first which are:

- Review the literature
- Describe the investigated company
- Analyse the current situation and wooden construction industry in Ukraine
- Evaluate the results
- Compare with similar market where company has been already situated
- Choose the strategy whether to entry the market or not, optionally choose the right method of foreign market entry
- Draw conclusions

In the work, general theoretical methods are applied as well as other chosen methods. The data are obtained from the financial statements of the company, interviews with the employees and customers, online monitors, literature and further resources.

The work is intended to be a useful overview of Ukrainian market which can make a proposal of expenditure for the company management.

4 Theoretical Foundations

This part of thesis is aimed to describe theoretical background of foreign market entry strategy. The market entry strategy is important decision which has to be supported by relevant analyses. It is necessary when a company wants to succeed and keep competitive advantage. Tools which were used in the thesis to analyse the environment, such as Porter's Five Forces, PESTEL, SWOT analyses, etc. are more discussed and explained in this part.

4.1 Foreign market entry

Most of the companies would rather stay at domestic market, if their domestic market would be big enough. Managers should not learn other languages and laws, take care of volatile currencies, be at political and law uncertainty or make products to satisfy every different customer. Business should be easier and safer. However there are factors which are constantly pushing or pulling companies to foreign markets. (1)

4.2 Market entry triggers

Mitra and Goldner (2002) are suggesting that companies are "pushed" and "pulled" abroad with many reasons. Pushing factors are trying to push company out of domestic market, on the other hand pulling factors are trying to pull foreign companies into their own domestic markets. (2)

4.2.1 Pushing factors

They are considering about two main factors.

<u>Saturation at domestic market</u>

There is a small potential to find customers at domestic market. Customers have many choices how to substitute company`s product. Even though product's lifecycle is going to the end and there are no other possibilities to make something with this product at domestic market.

<u>Competition at domestic market</u>

Huge competition at domestic market. On the one hand there are many domestic companies with same or similar product or service. On the other hand there are global companies which can offer better quality and lower price.(2)

4.2.2 Pulling factors

Main pulling factor of foreign market entry is probably motive of growth and bigger profit.

<u>Increasing the size of the market</u>

Developing new markets abroad may permit the company to fully exploit scale economies which is particularly important when these are substantial for that product. In some cases the minimum efficient size for a company's production may be greater than the total sales potential of the domestic market. In this case the company's average costs can only be reduced to their lowest level by finding extra sales in foreign markets.

Helping reduce investment pay-back periods

Finding foreign markets helps achieve high volume sales early in the product life cycle, thereby reducing the payback period needed to return the initial capital outlay and making many investment projects more attractive. This may help to compensate for modern trends towards shorter product life cycles which are tending to inhibit investment expenditure.

Reducing stock-holding costs

Foreign markets may provide new sales outlets for surplus stocks, thereby reducing warehousing and other stock-holding costs.

Establishing first-mover advantages

From a less cost and more market-oriented perspective, being the first entrant within an overseas market may be an advantage. By becoming a ‘first mover’ a company may make it difficult for new entrants to compete. For example, advantages include established customer loyalty, greater choice in terms of suppliers and the experience that comes with being the first entrant.

Benefits on taxes

Export can be supported by government with tax reductions. (2)

Before the enter companies also have to consider about some circumstances which can lead into disaster.

- Company may not understand preferences of foreign customers and will not succeed at offering of competitive attractive product
- Company may not know the business culture of foreign country or how to communicate with foreign customers
- Company can underestimate foreign regulations and will have to pay extra costs
- Company should realize that are missing managers with international experience
- Foreign country can change the law, devalue currency or there can be a political revolution which expropriate company property (3)

Other risks and barriers connected with the method of entry this thesis shows in next chapters.

4.3 Which foreign markets to enter?

The first major challenge for any company looking to expand internationally is to decide which market location offers the best cost–benefit opportunity. Larger companies can invest in the due-diligence process or employ in-house resources and expertise and/or external specialists to help identify the most promising country markets in which to expand. This can entail a complex analysis comparing the relative risks and rewards of different country markets.

Decision-makers in both small and large companies also rely on their personal experience and existing international network relationships, both informal and formal, to assess the potential of different markets. This includes knowledge gained from existing buyers and suppliers and alliance partners. But there is evidence that shows that these personal experiences and relationships are much more important to the decision-making process in small companies. Small companies, and particularly the smallest, owner-managed enterprises, tend to decide which markets to enter on the basis of fairly subjective evidence. This includes the views and opinions of personal contacts abroad and the experience and personal characteristics of small company owners themselves. (4)

A study by Collinson and Holden used mental maps to capture the perceptions of decision-makers in a sample of SMEs of the relative risks and rewards of foreign markets. Mental maps are defined as “cognitive representations of the nature and attributes of the spatial environment.” Appendix 1 shows one of these mental maps. The mental maps of decision-makers do reflect their individual and group perceptions of opportunity and risk and subsequent geographical bias. They illustrate how “psychic distance”—the perceived degree of cultural, social and psychological differences between a home country and a foreign country—operates in practice. These perceptions do form the basis of internationalization decisions. (5)

They also compared the views of managers in small companies that had internationalized, and therefore had experience of international location selection and market-entry, with non-internationalized companies. Appendix 2 compares their responses. It shows how factors such as language, future potential growth, currency stability, and foreign investment restrictions are rated higher as influences on the country selection decision for companies that have experience of internationalization. Managers in non-international companies are more concerned about the international financial standing of the target market, general ease of access, and climate. The relative ratings of language and climate show a complete contrast. (5)

4.4 Foreign market entry modes

When the company is decided where to go, it is necessary to choose the best mode of entry. Wall, Minocha and Rees (2010) divided modes into 3 categories. (6)

4.4.1 Export-based methods

This is the most common way in which a company begins to go international. It continues to produce its product in the domestic market, but exports a proportion of this output to foreign markets. This may involve physical movements of products by air, sea, road or rail, but it increasingly involves the cross-border transfer of less tangible items such as computer software, graphics, images and the written word. These export-based methods of internationalising are sometimes broken down into **'indirect exporting'** and **'direct exporting'.**

<u>Indirect exporting</u>

We can talk about indirect exporting when a company does not itself undertake any special international activity but rather operates through intermediaries. The exporting function is outsourced to other parties, which may prepare the export documentation, take responsibility for the physical distribution of goods and even set up the sales and distribution channels in the foreign market. This mode has a huge advantage in lower investment and it is not risky.

<u>Direct exporting</u>

Direct exporting would typically involve a company in distributing and selling its own products to the foreign market. This would generally mean a longer-term commitment to a particular foreign market, with the company choosing local agents and distributors specific to that market. This mode allows a company to monitor developments and competition in the market. Also interaction between both sides is more promoted than in indirect exporting.

4.4.2 Non-equity based methods

In these methods, companies sell technology or know-how under some form of contract, often involving patents, trademarks and copyrights. These are often along with intellectual property rights and they now form a major part of international transactions, having grown enormously since the 1980s. These non-equity methods often take the form of **licensing, franchising or other types of contractual agreement based on these intellectual property rights.**

Licensing

Simply stated, licensing is permission granted by the proprietary owner to a foreign concern in the form of a contract to engage in an activity that would otherwise be legally forbidden. The licensee buys the right to exploit a fairly limited set of technologies and know-how from the licensor, who will usually have protected the intellectual property rights involved by a patent, trademark or copyright. This tends to be a low-cost strategy since the foreign entrant makes little or no resource commitment. The licensor benefits from the licensee's local knowledge and distribution channels, which would otherwise be difficult and time consuming to develop and maintain. Such agreements are often found in industries where R & D and other fixed costs are high, but where aggressive competition is needed at the local level to capture market share.

Franchising

In franchising the franchisee purchases the right to undertake business activity using the franchisor's name or trademark rather than any patented technology. The scale of this activity varies from so-called **'first-generation franchising'** to **'second-generation franchising'.**

- In first-generation franchising, the franchisor usually operates at a distance.
- In the second-generation franchising, the franchisor exerts far more control on the day-to-day running of the local operations.

Franchising is popular for its immediate presence with relatively little direct investment, it employs a standard marketing approach helping to create a global image and allows the franchisor a high degree of control.

Other contractual modes

- Management contracting - Supplier in one country undertakes to provide to a client in another country certain ongoing management functions, which would otherwise be the responsibility of the client.
- Technical service agreements - The supply of technical services across borders, as when a company outsources the operation of its computer and telecommunications networks to a foreign company.
- Contract-based partnerships – It is formed between firms of different nationalities in order to share the cost of an investment.

4.4.3 Equity-based methods

These methods are about the application of foreign direct investment by the company to be competitive in the modern global economy. The major advantage of this method is that the firm secures the greatest level of control over its proprietary information and technological advantages it might have. In addition, profits need not be shared with any other parties such as agents, distributors or licensees. In real business, companies can use different approaches to foreign direct investment by **acquiring** an existing company, by creating an equity **joint venture** overseas, by establishing a foreign operation from scratch (**'greenfield' investment**) or by creating **various consortia**.

Joint ventures

Unlike licensing agreements, joint ventures involve creating a new identity in which both the initiating partners take active roles in formulating strategy and making decisions. There is a potential in sharing and lowering costs of high- risk project, securing access to partner`s technology or in creating more effective future competition in the industry.

Acquisitions and ‘greenfield’ investment

Acquisition is about overtaking an existing company. If we are talking about ‘greenfield’ investment, it’s an establishment of entirely new foreign operations. Acquisition of an existing foreign company has a number of advantages compared to ‘greenfield’ investment; for example, it allows a more rapid market entry, so that there is a quicker return on capital and a ready access to knowledge of the local market. Because of its rapidity, such acquisition can pre-empt a rival’s entry into the same market. Further, many of the problems associated with setting up a ‘greenfield’ site in a foreign country (such as cultural, legal and management issues) can be avoided. By involving a change in ownership, acquisition also avoids costly competitive reactions from the acquired firm.

Characteristics of different types of global alliances can be seen at Appendix 3 which is in detail describing benefits, costs, critical success factors etc. of all modes which were mentioned. (6)

4.5 Market barriers

Buckley and Ghauri remark that companies tend to opt for higher commitment and higher-risk entry modes with increasing firm size. SMEs are often assumed to opt for low equity and cooperative strategies because they have less access to financial assets or the level of human resources needed to support these higher-commitment modes of entry. This also means that they have to quickly reach a level of profitability when they enter new markets because of their limited ability to raise investment capital. The entry is not that similar what was mentioned before there are barriers which can slow or even stop the whole company strategy. The top 10 barriers for SMEs are shown at Appendix 4. (7)

4.6 Competitive advantage

Porter (1980) and later writers mentioned the dependence of strategic decisions to achieving a competitive advantage over the competition. Competitive advantages is often expressed as 'added value'. This means what more to add to company product to be more popular which can be vital for many companies in the industry. (8)

Where no explicit comparator is stated, the relevant benchmark is the marginal firm in the industry. The weakest firm which still finds it worthwhile to serve the market provides the baseline against which the competitive advantage of all other firms can be set. (Kay 1993) (9)

These competitive advantages could be attributed to a host of potential factors:

- Architecture (a more effective set of contractual relationships with suppliers/customers);
- Incumbency advantages (reputation, branding, scale economies, etc.);
- Access to strategic assets (raw materials, wavebands, scarce labour inputs, etc.);
- Innovation (product or process, protected by patents, licences, etc.);
- Operational efficiencies (quality circles, just-in-time techniques, re-engineering,
- etc.).

On this basis Porter identifies three generic strategies which can help companies to make a better position with their competitive advantages. These are **overall cost leadership, differentiation and focus.**

Overall cost leadership strategy

It is about lowering costs than other competitors in the industry while is necessary to maintain the product quality. This strategy requires aggressive investment in efficient plant and machinery, tight cost controls and cost minimisation in functional areas. Main point is to understand the business value chain.

Differentiation strategy

This strategy is based on ‘something unique, unmatched by its competitors’. The product has to be valued for buyers even if the company change the price. (Porter 1985). This entails achieving industry-wide recognition of different and superior products compared to competitors, which might result from using superior technology or providing superior customer service

Focus strategy

Last type involves selecting particular buyer group, segment of the product line, or geographic market’ as the basis for competition rather than the whole industry. (9)

4.7 Macro environment analysis

To help make decisions to entry foreign market is necessary to understand macro environment where company wants to operate. There are factors which directly affect the profitability of organisation or even existence of the organisation. On the other side if company understand these environments it is possible to take the advantage to maximise the opportunities and minimise the threats. For this purpose there is PEST analysis. (8)

4.7.1 Pest analysis

A PEST analysis is framework which is used to understand risks associated with market growth or decline, and as such the position, potential and direction for an individual business or organisation. There are four elements which are represented by letters P, E, S, and T.

Political forces

These refer to the stability of the political system, attitude of political parties etc. However government also influence tax policies which can have impact on trading agreements.

Economic forces

Economic forces represent economic growth rates, levels of employment and unemployment, cost of energy, materials etc., interest rates, monetary policies, exchange rates or inflation rates.

Socio-cultural forces

Culture of the society where the organisation plans to enter can be different than at domestic market. These factors include demographics, age distribution, population growth rates, level of education, social classes, living conditions or lifestyle.

Technological forces

It is necessary to understand level of technology at the chosen country. Companies consider about new inventions and development, changes in information, mobile technology, internet, government spending on research, methods of manufacture, distribution or logistics. (8)

4.8 Industry analysis

Industry can be particularly described by PEST analysis. However there is need to analyse other forces. Industry rivals may care about four other competitive forces as well: customers, suppliers, potential entrants, and substitute products. These forces we can be found at **Porter`s five forces** analysis. (Appendix 5). Industry is often described also in simple way as several **Key success factors**. (10)

4.8.1 Porter`s five forces

Porter (1980) identified five competitive forces which shape every single industry and market. Companies can recognize intensity of competition, profitability or attractiveness of the industry. (8)

Threat of new entrants

The threat mainly depends on barriers which exist in every market. Some of them were mentioned in previous chapter according to OECD. Porter described his six possible sources, namely economies of scale, differentiation of the product, capital requirements of entry, cost advantages, access to distribution channels and legislative intervention.

Threat of substitute products

The threat of substitute products can alter the competitive environment within which the firm operates. A new process or product may replace an existing product and make it useless. For an individual firm the main issue is the extent to where the danger is. The firm may be able to minimise the risks from substitutes by a policy of product differentiation or by achieving a low-cost position in the industry.

Bargaining power of suppliers

Suppliers have the ability to squeeze industry profits by raising prices or reducing the quality of their products. Porter states that a supplier is powerful if few suppliers exist in a particular market, there are no substitute products available, the industry is not an important customer of the supplier, or the supplier's product is an important input to the buyer's business.

Bargaining power of buyers

With greater power of buyers come greater ability to depress industry profitability. Porter defines several determinants: the concentration and size of buyers, the importance of purchases to the buyer in cost terms, the costs of switching between suppliers, and the degree of standardisation of products. (10)

4.8.2 Key success factors

Every business is unique in all aspects, and every business therefore also has to find its own unique match with its environment. So it is impossible to generate general statements about the causes of success. Key success factors should be small in number and emphasize main points of the industry. This tool can be very helpful in decision-making processes if the enter the market or not. (Christensen et al., 1987). (11)

4.9 Internal analysis of the company

Internal analysis may reveal organization's strengths and weaknesses which be advantageous or disadvantageous in target market. These factors will go out at SWOT analysis. (8)

4.9.1 SWOT Analysis

David, Fred R. (1993) assumed that a SWOT analysis leads the company to identify the positives and negatives inside and outside. Inside we are talking about strengths and weaknesses, outside of it there are opportunities and threats. . Developing a detailed analysis can help with both strategic planning and decision-making.(12)

Strengths and Weaknesses

These are internal factors of the analysis. Main consideration should be about resources and experiences like:

- Human resources - staff, volunteers, board members, target population
- Physical resources - your location, building, equipment
- Financial - grants, funding agencies, other sources of income
- Activities and processes - programs you run, systems you employ
- Past experiences - building blocks for learning and success, your reputation in the community

Opportunities and Threats

Every organisation is influences by outside events and forces which cannot be controlled from the organisation. We are talking about:

- Future trends - in your field or the culture The economy - local, national, or international
- Funding sources - foundations, donors, legislatures
- Demographics - changes in the age, race, gender, culture of those you serve or in your area
- The physical environment
- Local, national or international events (12)

4.10 Psychic distance and comparison with similar market

When all analyses will be done. There is a potential how to reduce risk in final decision making. Dow and Karunaratna (2006) analyze the psychic distance as a key which can clarify several factors which can be important for the company. Then explain that company who wants to be advantageous have to have good understanding of market abroad because similarities between foreign market and market where the company already works can reduce the perceived uncertainty too. (13)

5 Current Situation Analysis

This chapter is focused on detail analysis of the company and environment where will enter. It should create and overview of current situation of the company, Ukrainian market and possibilities how to enter the market. All analysis are based on previous theoretical chapter.

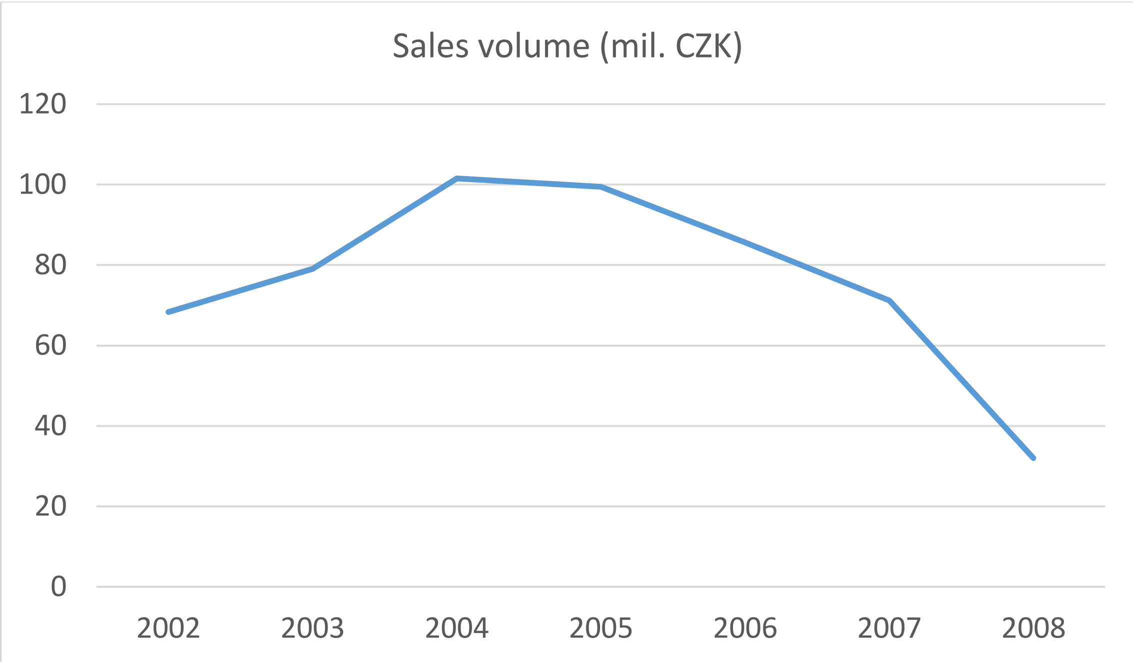
5.1 Company D.E.E.D. Ltd.

This part is introducing history of the company and current situation. There is need to mention financial statements and identify a problem which led to the reasons why company chose Ukraine.

5.1.1 History of the company

Company D.E.E.D. Ltd. was founded in January 2001 as one of the first manufacturer of low-energy prefab houses in the Czech Republic. Company was created as follower of traditional and experienced German company which came to the end same year. At this time, Czech Republic had not many clues about low-energy prefab houses. Before year 2000 this term was known only at several people. However demand was higher every year. From 2002 company was experiencing its best period what it can be seen on the following table. Turnovers were high and company was used to work at two-shifts. At this time D.E.E.D. Ltd. was employing about 60 people. Since the company was doing well they established old cooperation with sales companies at Germany and Switzerland which were used to cooperate with that German company before D.E.E.D. Ltd. was even founded.

Chart 1: Sales volume 2002-2008



To better understand the situation it is necessary to say how the company worked. There were two segments production and offices. The production was doing at two-shift working of eight hours by 20 employee on each shift. Another 20 employee were at offices. At this time company is doing whole operations by themselves. This is everything from the first contact of the customer through the creation of project to the actual construction. Contracts were established by own salesmen or by extern sales companies abroad. Demand was huge and there were not many competitors with products of same quality hence to find customer was not much big problem. Company didn’t expect any trouble therefore management of the company was spending money really fast. Salaries were high, everyone has new car and money was invested into doubtful projects.

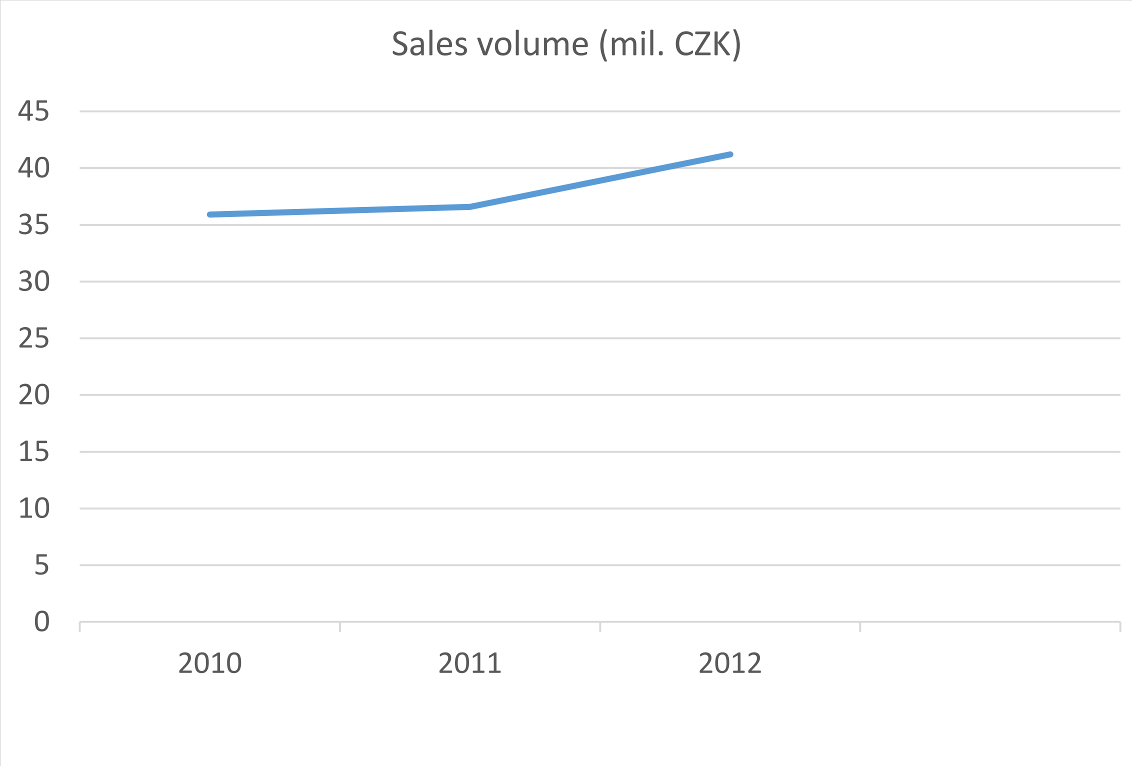
5.1.2 Problem identification

The beginnings of the company problems could be from 2006 when the level of sales was starting to slow. However no one too much cared about it, company was still profitable. The reasons of this slow were probably at growing competition on the Czech market. At this year their market share was not so huge. There were several main players on the market (RD-Rymarov, D.E.E.D. Ltd. , MS-Haus or Woodsystem) which probably didn't expect so big expansion of small companies of low-energy prefab houses which followed next year in 2007. These companies were largely created by former employees of these main players. Firstly they worked on basis of small teams and small turnover with lower margin because they had almost no added value however they grew every year. Some of main players reacted on this situation by lowering the customer prices in order to get back the customer share and sell out excessive stock levels. Unfortunately D.E.E.D. Ltd. reacted by the opposite tactic to hold a high quality with quality and fast services but with higher price. This proved to be a big mistake and Czech customer showed the way which was predictable. The critical element was customer price. This all was going even worse when in 2008 came the financial crisis. D.E.E.D. Ltd was on the verge of collapse nevertheless the company survived. This was a big shock and company decided to make a rapid changes in the functioning.

5.1.3 New way of D.E.E.D. Ltd.

Company made rapid changes in all segments. Main issue was not more to concern about Czech market. This is not our number one. Company lost almost all market share in Czech market and doing only few houses there per year. However this supports decision to care more about foreign markets especially Switzerland and Germany where they built several houses before but it was not the priority. Now they are company`s priority and these markets are keeping company alive. Nowadays turnover you can see on following graph.

Chart 2: Sales volume 2010-2012



D.E.E.D. Ltd done also changes in company structure. The number of employees was reduced to 35 from 60. Production was also reduced to half because there was no need to use whole production when the demand is missing. Neither offices were not spared, company is trying to get costs down everywhere is it possible. There is only one salesman now and many processes were replaced by external powers.

New main goal is try to get to the similar turnovers before all problems started. This should be done through the entry into new markets in Europe. In summary company is operating now in four markets – Switzerland, Germany, Czech Republic and now also in Poland. Polish market was chosen on basis of very good relationships with one of the sales company which is finding contracts. From the beginning the company was a little bit sceptical because was used to work abroad only at western markets. However after several constructions importance of this market growing by every construction. Obviously it is mainly successful thanks to their sales partner nevertheless this market has big potential for the company. With this experience company decided to enter another eastern foreign market. After several discussions company selected Ukraine.

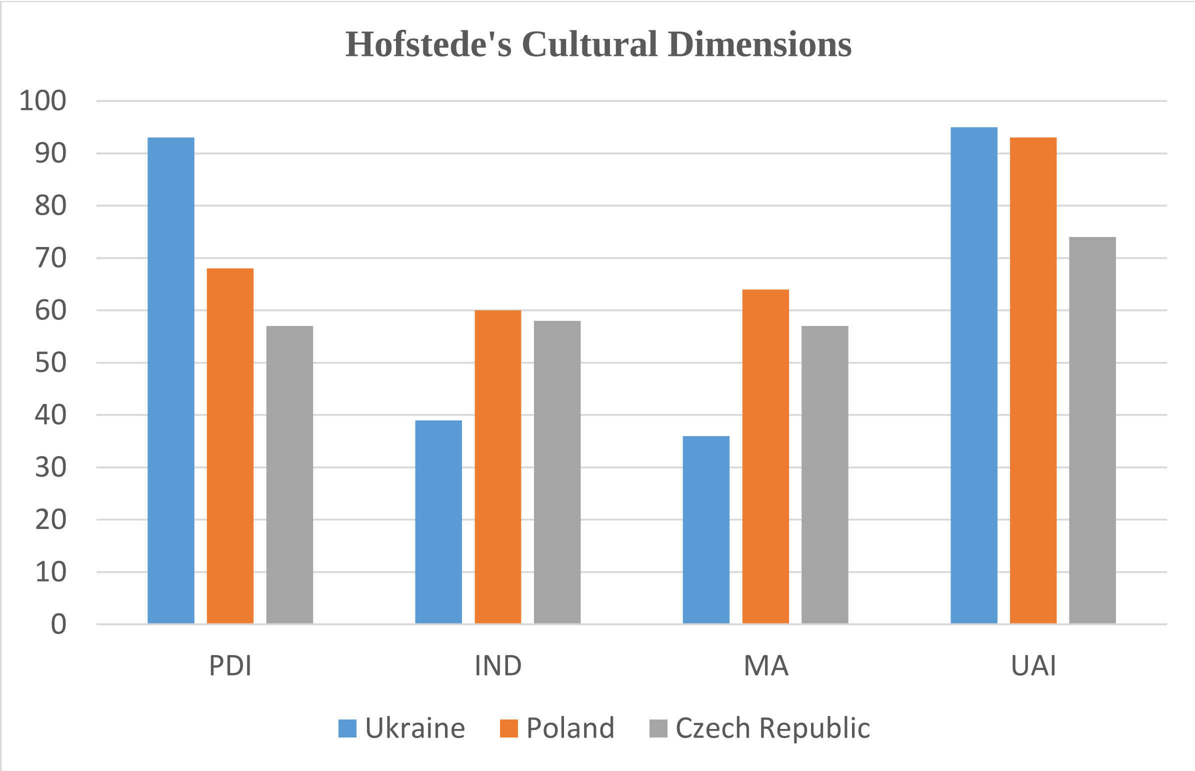
5.2 Presence on the Ukrainian market

In the past D.E.E.D. Ltd led negotiations with many foreign companies however most of them were abandoned. Nowadays with new goals and strategy is right time to try resume some of them. The negotiations were established with many potential countries such as Italy, Greece, France or Ukraine. Most of them were only one-off exports though the Ukrainian building company from the city Bila Cerkva was really interested in cooperation on joint ventures basis. This cooperation should be on creation new subsidiary in Bila Cerkva (Kiev region) which can supply all eastern markets. However after 2008 when D.E.E.D. Ltd was solving own crisis of existence these negotiations stayed on dead point. When the company entered Polish market there was invented new idea of entry Ukrainian market again. Poland and Ukraine are neighbours and their markets should be similar. Hence there is new plan for the company to analyse Ukrainian market and valorise possibilities of entry. On the one hand D.E.E.D. Ltd if there are possibilities to enter the market by their own or on the other hand the better way is establishment of old negotiations with Ukrainian company.

5.3 National culture comparison

Professor Geert Hofstede conducted one of the most comprehensive studies of how values in the workplace are influenced by culture. He provided four dimensions of national culture which can be compared and reduce risk if potential entry. This study compare Poland as new company working market and Ukraine new company potential entry market. Above that there is need to add values of Czech Republic for better overview. The comparison of four dimensions - Power Distance (PDI), Individualism versus Collectivism (IDV), Masculinity versus Femininity (MAS), Uncertainty Avoidance (UAI) you can see on the following chart. (14)

Chart 3: Cultural Dimensions



Power distance

This dimension deals with the fact that **all individuals in societies are not equal** – it expresses the attitude of the culture towards these inequalities amongst us. The highest score noticed Ukraine with 93 what classifies it to the 10% of the most power distant societies in the world. This country is extremely centralized: most of all foreign investments go into Kiev, Kharkov or Donetsk were also most of the financial potential is concentrated. The huge discrepancy between the less and the more powerful people leads to a great importance of status symbols. Behaviour has to reflect and represent the status roles in all areas of business interactions: be it visits, negotiations or cooperation; the approach should be top-down and provide clear mandates for any task.

Individualism

The fundamental issue addressed by this dimension is **the degree of interdependence a society maintains among its members.** It has to do with whether people´s self-image is defined in terms of "I" or "We". If Ukrainians plan to go out with their friends they would literally say "We with friends" instead of "I and my friends", if they talk about brothers and sisters it may well be cousins, so a lower score of 39 even finds its manifestations in the language. Family, friends and not seldom the neighbourhood are extremely important to get along with everyday life's challenges. Relationships are crucial in obtaining information, getting introduced or successful negotiations. They need to be personal, authentic and trustful before one can focus on tasks and build on a careful to the recipient, rather implicit communication style.

Masculinity/ Femininity

Like the individualism Ukraine noticed lower number than two other countries. **A high score** (masculine) on this dimension indicates that the society will **be driven by competition, achievement and success.** A **low score** (feminine) on the dimension means that the dominant values in society are **caring for others and quality of life**. Ukraine's relatively low score of 36 may surprise with regard to its preference for status symbols, but these are in Ukraine related to the high Power Distance. At second glance one can see, that Ukrainians at workplace as well as when meeting a stranger rather understate their personal achievements, contributions or capacities. They talk modestly about themselves and scientists, researchers or doctors are most often expected to live on a very modest standard of living. Dominant behaviour might be accepted when it comes from the boss, but is not appreciated among peers.

Uncertainty avoidance

The dimension Uncertainty Avoidance has to do with the way that a society deals with the fact that the future can never be known: **should we try to control the future or just let it happen?** Scoring 95 Ukrainians are in this point equal with Polish. They feel very much threatened by ambiguous situations, as well as they are using established complex bureaucracy. Presentations are either not prepared, e.g. when negotiations are being started and the focus is on the relationship building, or extremely detailed and well prepared. Also detailed planning and briefing is very common. Ukrainians prefer to have context and background information. As long as Ukrainians interact with people considered to be strangers they appear very formal and distant. At the same time formality is used as a sign of respect.

The main compassion of all points either of cultural dimensions will be at part Proposals and Contribution. (32)

5.4 PEST Analysis

Ukraine is a country in the centre of Eastern Europe. Ukraine borders the Russian Federation to the northeast, Belarus to the northwest, Poland, Slovakia and Hungary to the west, Romania and Moldova to the southwest. Also has access to the Black Sea and Sea of Azov at the south and southeast of the country. It has an area of 603,628 km², making it the largest country entirely within Europe, when we are not counting Russia. (15)

First independence of Ukraine is in 1917 when Russia was experiencing czarist collapse. However it was only a short-lived period of independence (1917-20), but was reconquered and forced to endure a brutal Soviet rule that engineered two forced famines (1921-22 and 1932-33) in which over 8 million died. In World War II, German and Soviet armies were responsible for some 7 to 8 million more deaths. Although final independence for Ukraine was achieved in 1991 with the dissolution of the USSR, democracy and prosperity remained elusive as the legacy of state control and endemic corruption stalled efforts at economic reform, privatization, and civil liberties. (16)

5.4.1 Political factors

Nowadays Ukraine is formed as a republic ruled in accordance with the constitution originally adopted in 1996. The capital city is Kyiv, where are situated all fundamental governmental organisations. The country is under a semi-Presidential system where the President is the chief of state (from February 2010 Viktor Yanukovych) and shares power with the parliament. The Prime Minister is appointed by the President on the recommendation of the party or parties holding a parliamentary majority. The Parliament approves the Prime Minister and appoints and dismisses cabinet ministers as proposed by the Prime Minister. However, the President holds the constitutional right to appoint the defence and foreign ministers, as well as the head of the security service. The President also holds the right to veto legislation, with the exception of constitutional laws, as well as to stop cabinet decrees. (16)

5.4.1.1 Foreign relations

Ukraine is trying to be constructive and keeping relations with their neighbours in peace. The closest countries for cooperation are Poland and Russia. However relations with Russia are complicated as a result of conflicting foreign policy priorities in the region concerning energy dependence, payment arrears, etc. The main goal for government was to declare Euro-Atlantic integration. They signed The European Union's Partnership and Cooperation Agreement (PCA) and is included in the European Neighbourhood Policy. In 2012 the EU signed deals on free trade and political association with Ukraine, however EU leaders have stated that these agreements will not be ratified unless Ukraine addresses concerns over a "stark deterioration of democracy and the rule of law", including the imprisonment of Yulia Tymoshenko and Yuriy Lutsenko in 2011 and 2012. Ukraine is also member of Eastern Partnership (EAP). It is a forum aiming to improve the political and economic trade-relations of the six Post-Soviet states of "strategic importance" - Ukraine, Belarus, Moldova, Azerbaijan, Armenia and Georgia. The Partnership mainly provides the foundation for new Association Agreements between the EU and those partners. Ukraine is a member of the EBRD (European Bank for Reconstruction and Development), International Monetary Fund, World Bank and since

2008 of the World Trade Organization (WTO). Currently, it does not receive IMF financing. The World Bank and EBRD provide loans and grants to support the development of the country and the implementation of reforms for improvement of the investment climate, public administration, financial management, and social inclusion. (16)

5.4.1.2 Regulations

Meaningful for this report is regulatory of environment. Ukraine`s economic freedom score is 46,3 making the economy the 164th freest in the Economic Freedom Index 2013. Detailed description of individual channel is showed in Appendix 6. Highest index is 84,4 in trade freedom what demonstrates small discrimination against imports, tariffs or quotas. Furthermore other indexes such as business or investment freedom belong to lowest. (17)

Heavy obstruction stems from the Corruption Perceptions Index (CPI). This index ranks countries according to the perception of corruption in the public sector. Ukraine`s rank is 144 out of 174 countries covered on World Corruption Perception Index 2012 which indicates the level of corruption relatively high. (18)

Ukraine encourages foreign trade and investment and has established Ukrainian Centre for Foreign Investment Promotion. Foreigners have the right to purchase businesses and property, to freely repatriate revenue and profits, and to receive compensation in the event that property is to be nationalized by a future government. Ukraine has low tax rates. Thanks to the adoption of a New Tax Code, Ukraine offers an **increasingly attractive tax regime**:

- Corporate income tax: 21%, down from 25% on 1 January 2012, to be further reduced to 19% in 2013 and 16% in 2014;
- Personal income tax: 15%, or 17% for monthly income exceeding 10 times the minimum monthly salary;
- Dividend tax: 5%, down from 15%;
- VAT: 20%, scheduled to be reduced to 17% as of 1 January 2014;

- Automatic VAT refund for exporters and introduction of delayed refund penalty;
- International Agreements for the Avoidance of Double Taxation signed with 63 countries.

Besides, the Ukrainian law provides for special regimes:

- **Sector-based incentives**: total exemption from taxation until 1 January 2021 for aircraft manufacturers, shipbuilders, hotels, light industries and agricultural machinery producers;
- **Simplified tax regime for SMEs** (annual turnover below UAH 1 million, i.e. about EUR 93,000, and less than 50 employees): 6% on the sales revenue plus 20% VAT, or 10% rate including VAT.
- **Advantageous customs regimes**: exemption from import duties for in-kind contributions to the charter fund of an enterprise with foreign investment, exemption from import duties and taxes for goods imported and stored at bonded warehouses, no tariff for goods imported to or exported from special economic zones, etc.
- **Industrial parks**: co-financing of infrastructure development by the State

Additional incentives may be granted by city councils according to their strategic development plans. (19)

5.4.1.3 Labour conditions

From 2013 is the minimum wage $144 and the average wage is $414 per month (Poland 1180 USD). The Labour Code provides for a maximum 40-hour work-week, one 24-hour day of rest per week, and at least 24 days of paid vacation per year. The minimum employment age is 17 years. In certain non-hazardous industries, however, enterprises may negotiate with the government to hire employees between 14 and 17 years of age, with the consent of one parent. Ukrainian law contains occupational safety and health standards, but these are frequently ignored in practice since there is little enforcement of the laws. Because of limited funding, there are few officials to inspect workplaces and the labour laws only provide minor punishments for violations. Ukrainian workers have the right of association, and the right to organize and bargain collectively. Although officially they have these rights, the government is actively trying to stop the workers of some economic sectors from using these rights, such as in the nuclear industry. (20)

5.4.2 Economic factors

After Russia, the Ukrainian republic was the most important economic component of the former Soviet Union, producing about four times the output of the next-ranking republic. Its fertile black soil generated more than one-fourth of Soviet agricultural output, and its farms provided substantial quantities of meat, milk, grain, and vegetables to other republics. Shortly after independence in August 1991, the Ukrainian Government liberalized most prices and erected a legal framework for privatization. Ukraine is dependent on Russia for energy supplies, which is making Ukrainian economy vulnerable to external shocks. Country was also highly affected by economic crisis. They dealt with it by and agreement with the IMF for a 16.4 billion USD, but the program quickly stalled due to the Ukrainian Government's lack of progress in implementing reforms. The economy contracted nearly 15% in 2009, among the worst economic performance in the world. In April 2010, Ukraine negotiated a price discount on Russian gas imports in exchange for extending Russia's lease on its naval base in Crimea. In August 2010, Ukraine, under the Yanukovych Administration, reaches a new agreement with the IMF for a 15.1 billion USD Stand-By Agreement. Economic growth resumed in 2010 and 2011, buoyed by exports. (16)

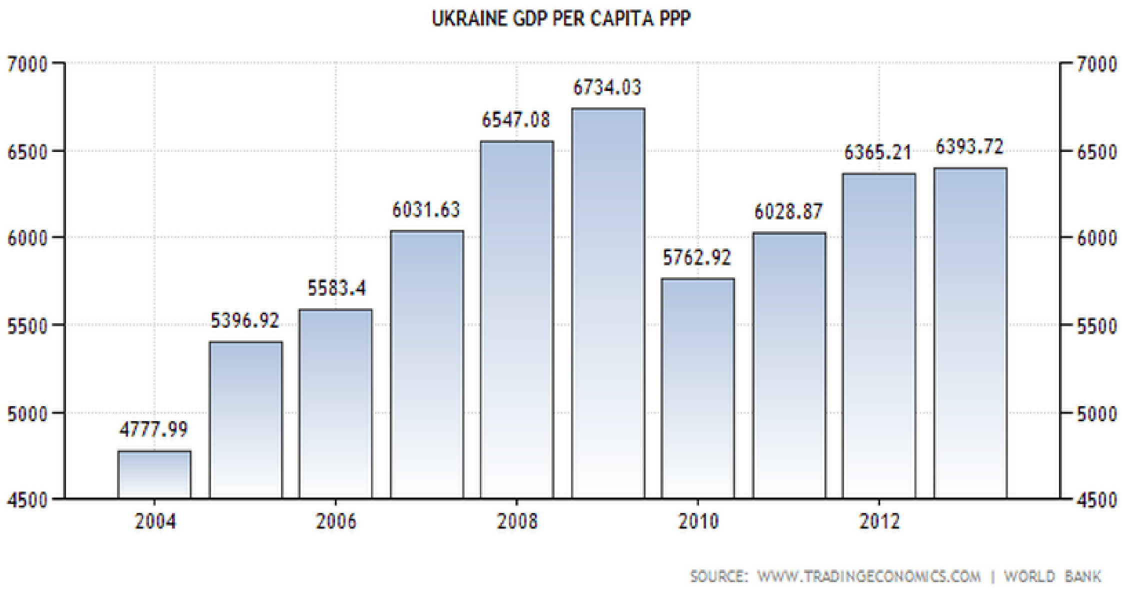
5.4.2.1 Economic growth

Ukraine has shown high growth over the past decade. Due to the financial crisis, a deep recession occurred in 2009 (-15%) but economic growth resumed in 2010 and 2011. After that there were drops in 2012 however from 2013 the GDP will grow. Changes after 2010 you can see on the following graph. Agriculture accounts for 9.3% of GDP, industry for 34.7% and services for 56.1%. Ukraine is an **open economy** heavily relying on external trade: exports of goods and services accounted for 50% of GDP in 2010, while the ratio of imports to GDP was at 53%. Metallurgy and mechanical industries have always been key sectors for the country’s exports. Its main trade partners are Commonwealth of Independent States countries (36.9% of exports and 47.6% of imports in 2011) and the EU (28.8% of exports and 29% of imports). (21)

Chart 4: Ukraine GDP growth rate

Another important factor which is increasing attractiveness of the foreign country is the purchasing power of potential customers. Purchasing power is measured by GNP per capita which was 2012 almost 6400 USD (Following graph). In comparison with Poland, where was the latest successful foreign market entry of D.E.E.D. Ltd, the number is three times smaller. (21)

Chart 5: Ukraine GDP per Capita PPP



For the company is necessary to known the number of potential customers. Market size and concentration is evaluated by number of inhabitants in a country that live in urban areas. For Ukraine in 2011 is estimated amount of **31,484,190** in contrast of Poland where is only **23,271,557**. Both amounts shows comedown against years before. (20)

5.4.2.2 Inflation

The situation on the foods market remains relatively stable thanks to an increase in the number of markets and trading places on them. However, the current monetary policy of the National Bank of Ukraine also promotes relatively low inflation. By following graph results of 2013, inflation in Ukraine is about 0%. The higher rates of this index growth in the current year will be promoted by expected enhancement of economic growth on the backdrop of improvement of the situation in the Eurozone, more liberal monetary policy of the National bank of Ukraine in the second half of the year, as well as possible rise of prices for gas and housing and communal services. Positive expectations as regards the yield, as well as growing competition on the foods market, will curb inflation. For the comparison with Poland the last inflation rate there was recorded at 1.10 percent in July of 2013. (22)

Chart 6: Ukraine Inflation Rate

5.4.2.3 Interest rates

The benchmark interest rate in Ukraine was last recorded at 7 percent. Interest Rate in Ukraine is reported by the National Bank of Ukraine. Ukraine Interest Rate averaged 44.82 Percent from 1992 until 2013, reaching an all-time high of 300 Percent in November of 1994 and a record low of 7 Percent in December of 2002 which also nearly there to the last record this year (Following graph). In Ukraine, interest rate decisions are taken by the National Bank of Ukraine. The official interest rate is the discount rate. For the comparison with Poland the last interest rate there was recorded at 2.50 percent in July of 2013.

Chart 7: Ukraine Interest Rate

5.4.2.4 Foreign Direct investment

- Ukraine ranks 10th in Central and Eastern Europe (2006–2010) for the number of FDI projects (178) and number of jobs created (7,487)
- In 2010 Ukraine attracted 31 projects and created 1,150 jobs.
- Ukraine is the 3rd largest recipient for FDI in financial services in Central and Eastern Europe (2006–2010)
- The Ukrainian industrial sector grew by 11.5% in 2010, but Ukraine attracted only 3% of all industrial FDI into Central and Eastern Europe.
- The last record of FDI volume is 49 362,3 million USD (31.12.2011), per capita 1084,3 USD
- Major FDI source countries – Cyprus, Germany, Netherlands, Russia, Austria, UK, France, Sweden, USA
- FDI in Construction – 6,1 %

For the comparison with Poland the last growth in 2011 was 0,73 %, in volume 11 552 million USD. (22)

5.4.2.5 Country risk rate

The other index, which can affect decision of market entry, was chosen by Mudambi and Navarra (2002). They are considering about role of the risk in targeted location. What means a collection of risks associated with investing in a foreign country. (23) These risks include political risk, exchange rate risk, economic risk, sovereign risk and transfer risk, which is the risk of capital being locked up or frozen by government action. Score of Ukraine by Euromoney (2012) is established at 37,95 which belongs to tier 4 of highest risky countries worldwide. Poland gets 65,17 which belongs to tier 2. (24)

5.4.2.6 Employment growth

Unemployment Rate in Ukraine increased to 8.60 percent in the first quarter of 2013 from 8.10 percent in the fourth quarter of 2012. Average is about 8.47 Percent from 2003 until 2013, reaching an all-time high of 10.30 Percent in March of 2009 and a record low of 6.50 Percent in September of 2008. In Ukraine, the unemployment rate measures the number of people actively looking for a job as a percentage of the labour force. If we look at Poland unemployment rate Poland remained unchanged at 13.10 percent in August of 2013 from 13.10 percent in July of 2013. (21)

5.4.3 Social factors

D.E.E.D. Ltd consider that most of the customers are families with children and, as a result, revenues are dependent on the birth rates. In recent years, many countries have experienced a sharp drop in birth rates as their population ages and education and income levels increase. A It is used the crude birth rate which indicates the number of live births occurring during the year, per 1,000 population estimated at midyear. Ukraine same as Poland are on same number near to 10. However the amount in comparison with latest years is falling in both countries. (16)

Psychic distance by Dow and Karunaratna (2006) can be measured as differences in language, religion, industrial development, education and degree of democracy. (13) Both states are democratic and languages are in same Indo-European language family. We can see differences in religion. Though both are Christians, Poles are mainly Catholics in spite of Ukrainians belongs to Orthodox. Biggest dissimilarities are in industrial development, education because Poland belongs to advanced countries. (16)

Geographical distance is almost zero because they are neighbors. (16)

5.4.4 Technological factors

For the company can be advantageous to consider about three factors – number of internet users for online creation of contract or just checking the website, research and development of the construction and used materials and the level of infrastructure for potential supply.

If we target the internet supply and level of infrastructure, there are huge diversities in both indicators. Poland has almost double up the amount of internet users than Ukraine. We are speaking about variance of 7 fixed broadband Internet subscribers per 100 people. (20)

Both countries were making the Euro 2012 championships and expecting visitors from across the continent although they were faced with a transport debacle. Hence under pressure, the infrastructure of both nations had the biggest facelift of all countries in Eastern Europe and beyond. Ukraine built 5 new airports, thousands of kilometers new roads. Poland’s government promised about 3,000km of new highways and expressways in near years. The improvements in Ukraine and Poland are luring in investments and it seems to make huge upgrade in infrastructure. (25)

From detail look Ukrainians are not used to work with new construction materials especially with them which can spare energy. The housing sector accounts for more than 30% of Ukraine's total energy consumption (and around 40% of the country's heat energy). Hence there is a huge potential in building with thermal modern materials which is D.E.E.D. Ltd using. The usual material of all building in Ukraine is reinforced concrete which was very popular before a few decades. In 2012 was also officially registered The Ukrainian Green Building Council. The Council brings together companies, organizations and individuals interested in promoting sustainable development principles into real estate projects and environmentally friendly construction what can be contribution for promotion our products. (26)

5.5 Porter`s five forces

The detail analysis of this type of industry in Ukraine and the company concrete forces which are affecting the functionality are described more in this section in five categories: competition, customers, suppliers, environment and substitutes.

5.5.1 The threat of new entrants

This section could be viewed from more sides.

5.5.1.1 Supply-side economies of scale

D.E.E.D. Ltd is used to work with same quality materials which are innovated every year by their suppliers. These materials are primarily from Germany and there is no need to change them. Employees are used to work with and on the market there are not many which relative different than what the company is using. Hence the existing and reliable structure of suppliers in Czech Republic is advantageous for the economy of scale. With bigger consumption is coming stronger power to negotiate about price which is giving an opportunity to supply products under relative good conditions to the Ukrainian market. Another thing is that these materials are hard get at Ukrainian market because they are not used to work with them. The Ukrainian market with low-energy prefab houses is in similar situation such as The Czech Republic after 1990 when the knowledge about another materials than reinforced concrete was missing. Hence the supplement of most materials from Ukrainian suppliers is practical impossible. (19)

5.5.1.2 Demand-side benefits of scale

The customer base in Ukraine is still creating however the economy is growing and there are a lot of opportunities for new entrants with new products which can save energy. These products will be new and green which can create a feeling of high quality and environment friendly products and services. The economy of scale should bring a lower price but the price with all costs probably can't compete with typical family houses for this country. Hence the price should be somewhere higher than middle to different old type of construction and the new one. (27)

5.5.1.3 Capital requirements

This point absolutely depends on mode of foreign entry. The company is considering about cooperation with the Ukrainian construction company which can supply labor and space but don't have any know how and machines. This mode shouldn't be so expensive but there is question about risks and possible profits. Another way is create a salesman network which will find contracts which not be also so expensive in cost however it can take a lot of time to make functional network from which company can expect something. There are also ideas about acquisition of company with is used to work with wood and have space for expansion nevertheless this one is the most expensive and it is no guarantee that company can release needed capital. This idea is possible when D.E.E.D. Ltd could negotiate conditions of donations with government or even find contracts especially for government construction. (28)

5.5.1.4 Incumbency

It is clear that incumbent competition is known by their customers and that they trust them. The hardest thing for D.E.E.D. Ltd will be succeed on the market and show customers an alternative way of their living. The company should focus on good brand name, and many years' experience from many foreign markets. This product has high quality and according the several analysis there is demand for these types of construction. (19)

5.5.1.5 Unequal access to distribution channels

The advertising should through the internet and fairs or through Salesman Company which will be created. It was mentioned before that Ukraine is belongs to most corruptive countries in the world hence there should be problems with another companies with substitutes which can have connections for example on government. Then some of them could defend their position on the market and it is not unusual to see some ways of sabotage. (19)

5.5.1.6 Restrictive government policy

According to Ukrainian legislation construction is subject to licensing requirements. The licensing body is the State Architectural Inspection of Ukraine. Companies responsible for certain types of works/services connected with creation of architectural objects should also pass professional evaluation and receive respective qualification certificate. This process has many points and there is no need to show it in this thesis. Also Ukraine is not a member of the EU and several regulation and policy were noticed in PEST analysis. (30)

5.5.2 Power of suppliers

As the company is using some of special materials which can't be easily replaced the power is of suppliers is relatively very high. There are some possibilities how to substitute them but it can influent the quality of the product. Fortunately only some of them are so much unique that they are produced by only one brand. This is especially only Fermacell boards which have special properties with heat retention and water proofing. Hence the power is relatively high because without this material quality is going lower and customers can be dissatisfied with some properties of the house.

5.5.3 Power of buyers

Buyers of the company are especially families with children or couples in retirement. As the new product on the market which will be supported by government the power of buyers should be relatively low. However there is need to count with substitutes which can replace company product and buyers knew them. The main aim is show buyers quality and functionality of company products. If everything will go well there are no doubts about buyers' power.

5.5.4 Threat of substitutes

It was written before that this product is relatively substitutive. House could be made from other materials – concrete, bricks, panel, only wood, dirt, etc. Especially in Ukraine where uncertainty avoidance is very high and people are used to do things by their own way. However there is big advantage that government is trying to support new green products and potential customers need to get their energy usage lower. These things can make company product different and make it relatively irreplaceable.

5.6 SWOT Analysis

This analysis is trying to identify basis of company strengths and weakness which are influencing the company from inside and opportunities and threats on the market from outside. If the company should be successful, it is essential to use the strengths and try to avoid the weaknesses.

5.6.1 Strengths

- Brand with a long tradition and experience in foreign markets which trying to bring something new and modern
- High quality products with many certificates from western markets
- Strong know-how which is improving by using modern materials
- Experienced employees who are not afraid to travel for work abroad and stay there as long as it will be necessary

- Company managements can speak Russian
- Good reviews from neighbour country Poland

5.6.2 Weaknesses

- Brand is known especially in western markets
- Lack of free capital
- Employees who are traveling and assembling products don’t speak Russian
- Large distance between Ukraine and Czech Republic
- So far there is no established partnership or organization in Ukraine
- Long transport

5.6.3 Opportunities

- Ukraine is a large market with 46 million population. It has high potential and low level of competition in company sector
- Ukraine’s economy is on sustainable growth track
- Strategic location for next expansions
- Low wages and growing purchasing power
- Support from government in energy sparing and green construction
- Setting a new market relatively without competition
- Similar situation like in Poland some years ago

5.6.4 Threats

- Risky country with high percentage of corruption
- Customer don’t need to like new products and rather trust local companies

- Slow judicial system and enforcement of law
- Different currency – company need to care about exchange rates
- Relatively big number of substitutes – houses can be made from different materials
- Dependency on several suppliers
- Disadvantageous conditions in cooperation with Ukrainian company
- Potential problems with local construction companies

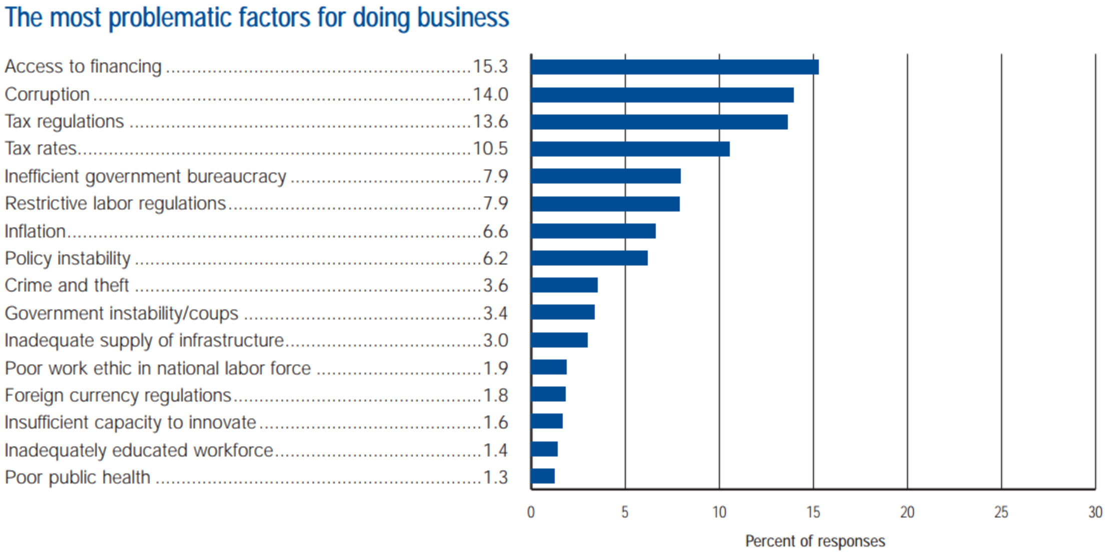
5.7 Key success factors

To accomplish a goal and be successful at Ukrainian residential market the company need to generate few factors which need to be done before.

- Retain the cooperation with key suppliers which made the company product exclusive
- Get donations or establish cooperation with government
- Economies of scale can help to optimize production costs
- Succeed early at market before the competition can be created
- Establish the distribution

On the other side it is good to notice problematic factor which can be critical and deny company success in Ukraine. (29)

Chart 8: The most problematic factors for doing business in Ukraine



Source:

http://www.doingbusiness.org/~/media/giawb/doing%20business/documents/profiles/country/UKR.pdf

5.8 Competitors in Ukraine

The presence of competition is one of the main factors in decision making of market entry. Since the market is still being formed (creation of Green Building Council, interesting in sparing energy and heat) there is relative huge space for companies like D.E.E.D. Ltd. Existing housing stocks are aging and need replacement, while demand for new housing is steeply trending upward in step with rapid economic growth. Rapid economic growth in these countries means that salaries have risen considerably since 2000 with many people now seeking to purchase their own homes. However, the very slow process of constructing high rise multi-family housing combined with the desire to live in a single family home is driving the enormous interest in cost efficient pre-fabricated housing. Competition in the pre-fabricated housing market in Russia, Ukraine, and Kazakhstan is currently very low, making it the ideal time for market entry. (31)

Obviously there have to exist some companies which are making something similar however they are using another technique and other materials. These houses are often only from wood which can belongs also in green building but the energy sparing is here missing.

Nevertheless the main material for construction in Ukraine are bricks and cement. The main players which can be also company competitors are - Kyivmiskbud, T.M.M., Poznyakyzhylbud, Consol, Stolitsa, K.A.N. Development, UDP, OsnovaSolsif which all belong to the major players on the market of residential and commercial construction of Ukraine.

<u>TMM</u>

TMM is a vertically integrated real estate developer and construction company of the full scope. TMM has been operating on the Ukrainian market of real estate construction since 1994 and is one of the leading real estate developer and construction companies in Ukraine. The Company’s projects are presented in Kyiv and Kyiv region, Kharkiv, Zhytomyr and the Crimea.

Kyivmiskbud

Holding Company “Kyivmiskbud” was created based on assets of state utility construction corporation Kievgorstroy in 1994. Joint Stock Holding Company “Kyivmiskbud”, through its subsidiaries, engages in the businesses of housing, construction, real estate selling, repair and facility management, communication equipment organization, computer technology services, medical services, and hotels.

Altcom

Altcom is a financial industrial group, headquartered in Donetsk and represented in 12 regions of Ukraine as well as overseas. The group is interrelated chain of enterprises, involved in works from extraction, production and conversion of raw materials to accomplished stages of prospecting, designing and building industrial and civil objects and also building of roads with different level of complexity. (19)

5.9 Competitive advantage

The main advantage is in differentiation. How was mentioned Ukrainians are not used work with materials such as D.E.E.D. Ltd. Hence there is no need to try get attract potential customers with lowering price or etc. This company is producing something unique with unique properties. Nowadays in Ukraine people are looking for opportunities of modern construction which can spare money for them. In summary the company’s product should be easily recognizable from the competition.

6 Proposal and contribution

This part should show and evaluate the suitable mode of entry according analytical and theoretical part of work. On this basis can be created suitable strategy how to enter the Ukrainian market as company D.E.E.D. Ltd.

Triggers for market entry

Company is pushed to go abroad by several factors. After the company crisis in 2008 is company trying to change strategy and get to the similar turnovers like in its best period. This goal should be achieved through foreign markets. Nowadays it has good experience with Poland and want to try another eastern market Ukraine. On the other side Ukraine is pulling D.E.E.D. Ltd. with its huge potential and market opportunities. Ukraine is a large market with 46 million population and the main issue is that there is a low level of competition in the company sector. Ukraine has also similar psychic distance as Poland where is everything still going fine. This detail also can reduce risk of possible entry. According last explorations government is going to support this type of construction with several donations. However first idea of Ukraine is thanks to proposal of Ukrainian company from the city Bila Cerkva.

Mode of market entry

According to Wall, Minocha and Rees we can consider about several modes of entry into foreign market. Selecting the right one can reduce risk make the company successful. The D.E.E.D. Ltd can consider about three options.

First one is direct or indirect export to the Ukraine. In indirect export company has not care about many things. The main issue is to supply the product. The responsibility for the physical distribution of products is set by another company which is also setting up the sales and distribution channels in the foreign market. This mode has a huge advantage in lower investment and it is not risky. This mode is very suitable for the company and it is used to do that this way in another markets. If we look at direct transport the company has to create own distribution channels through the local salesmen. This would generally mean a longer-term commitment to a particular foreign market. This mode also allows a company to monitor developments and competition in the market. Also interaction between both sides is more promoted than in indirect exporting. However this mode is more costly and risk is higher.

For D.E.E.D. Ltd would be suitable thinking about joint venturing with the Ukrainian company from the city Bila Cerkva which made the proposals before. It is about sharing experiences, know-how, technology and management skills. In this case is mainly about sharing technology and know-how. These joint venturing alliances are very common in Ukrainian market. This method can be beneficial, because customers in Ukraine are familiar with the domestic company and the alliance can decrease risk of refusing the new brand on Ukrainian market and can profit from experiences of the domestic company. However companies would make a contract which will be profitable for both sides and trust themselves. Also D.E.E.D. Ltd should create their own team of managers who can speak Ukrainian or Russian which can control the situation from the beginning. Another thing is time. The D.E.E.D. Ltd is trying to foreign this market as soon as possible. In this cooperation no one can say how long it would take than the company will produce their first house.
The last option is acquisition. Ideas about acquisition of company with is used to work with wood and have space for expansion nevertheless this one is the most expensive and there is no guarantee that company can release needed capital. This idea is possible when D.E.E.D. Ltd could negotiate conditions of donations with government or even find contracts especially for government construction. (33)

Macro environment analysis

These factors are influencing management and future decision of the company. According to political factors Ukraine is trying to connect with other states especially with Poland and Russia nowadays also with European Union. They are also a member of EBRD (European Bank for Reconstruction and Development), International Monetary Fund, World Bank and since 2008 of the World Trade Organization (WTO). However the most important indexes are economic freedom score and Corruption Perceptions Index (CPI). These indexes are showing the Ukraine from another view. Ukraine`s economic freedom score is 46,3 making the economy the 164th freest in the Economic Freedom Index 2013.. Highest index is 84,4 in trade freedom what demonstrates small discrimination against imports, tariffs or quotas. Furthermore other indexes such as business or investment freedom belong to lowest. Heavy obstruction stems from the Corruption Perceptions Index (CPI). This index ranks countries according to the perception of corruption in the public sector. Ukraine`s rank is 144 out of 174 countries covered on World Corruption Perception Index 2012 which indicates the level of corruption relatively high. From the view of taxes is Ukraine doing everything what they can to attract more international investors. Corporate income tax is going to be reduced to 16%, VAT to 17% and it belongs to countries with International Agreements for the Avoidance of Double Taxation. Wages for potential employees are lower than other states where the company is operating.

Economic indexes are growing up. Due to the financial crisis, there was a deep recession occurred in 2009 (-15%) but economic growth resumed in 2010 and 2011. GDP again dropped in 2012 however from 2013 the GDP will grow. Another important factor which is increasing attractiveness of the foreign country is the purchasing power of potential customers. Purchasing power is measured by GNP per capita which was 2012 almost 6400 USD (Following graph). In comparison with Poland, where was the latest successful foreign market entry of D.E.E.D. Ltd, the number is three times smaller. For the company is necessary to known the number of potential customers. Market size and concentration is evaluated by number of inhabitants in a country that live in urban areas. For Ukraine in 2011 is estimated amount of 31,484,190 in contrast of Poland where is only 23,271,557. Both amounts shows comedown against years before. Another indexes such as inflation, interest rates, FDI or employment growth are in norm or even is going to be better which can also attract new investors. There is need to care about only one index which is country risk rate. Score of Ukraine is established at 37,95 which belongs to tier 4 of highest risky countries worldwide on the other side Poland gets 65,17 which belongs to tier 2.

Social factors which can influence the decisions are probably number of birth rates where Ukraine same as Poland are on same number near to 10. However the amount in comparison with latest years is falling in both countries. Psychic distance can reduce risk and can be measured as differences in language, religion, industrial development, education and degree of democracy. Both states are democratic and languages are in same

Indo-European language family. We can see differences in religion. Though both are Christians, Poles are mainly Catholics in spite of Ukrainians belongs to Orthodox. Biggest dissimilarities are in industrial development, education because Poland belongs to advanced countries. Geographical distance is almost zero because they are neighbors.

Technological factors are considering about three things - number of internet users for online creation of contract or just checking the website, research and development of the construction and used materials and the level of infrastructure for potential supply. If we target the internet supply and level of infrastructure, there are huge diversities in both indicators. Poland has almost double up the amount of internet users than Ukraine. We are speaking about variance of 7 fixed broadband Internet subscribers per 100 people. In the level of infrastructure are probably on the similar level because there were huge investments according to Euro 2012. From detail look Ukrainians are not used to work with new construction materials especially with them which can spare energy.). Hence there is a huge potential in building with thermal modern materials which is D.E.E.D. Ltd using. In 2012 was also officially registered The Ukrainian Green Building Council. The Council brings together companies, organizations and individuals interested in promoting sustainable development principles into real estate projects and environmentally friendly construction what can be contribution for promotion our products.

Internal analysis of D.E.E.D. Ltd

Insights from internal environment showed that D.E.E.D. Ltd had a strong position in the Czech market between years 2002 and 2007. They were main competitors in low-energy prefab houses. From 2006 company was dealing with crisis nevertheless the company survived. After that company made rapid changes in all segments and set the new strategy to get to the similar turnovers before all problems started. This should be done through the entry into new markets in Europe. In summary company is operating now in four markets – Switzerland, Germany, Czech Republic and now also in Poland which was one of the main issues why to enter the Ukrainian market.

As a result of SWOT analysis the main strengths of the company are the brand with a long tradition and experience in foreign markets which trying to bring something new and modern and strong know-how which is improving by using modern materials. As main weaknesses could be here the lack of free capital and the large distance between Ukraine and Czech Republic. However the Ukrainian market has huge potential. Ukraine is a large market with 46 million population with low level of competition in company's sector. There is support from government in energy sparing and green constructions, economy is on sustainable growth track and it is a similar situation like in Poland some years ago. Otherwise there are also some threats. Ukraine is risky country with high percentage of corruption. Company can also underestimate preparations and customers don't need to like new product and rather trust local companies or there is relatively big number of substitutes – houses can be made from different materials.

Analysis of the industry

The basis of this analysis is in the Porter's five forces framework. The threat of new entrant is somewhere in the middle range. There are some barriers but also advantages. The main barrier is in the capital requirements and in unequal access to distribution channels. Capital requirements absolutely depend on mode of foreign entry. The company still not decided how much capital can provide. With unequal access, Ukraine is belongs to most corruptive countries in the world hence there should be problems with another companies with substitutes which can have connections for example on government. Then some of them could defend their position on the market and it is not unusual to see some ways of sabotage. As advantage could use the economy of scale.

The power of suppliers is relatively very high because some of special materials which can't be easily replaced. . Fortunately only some of them are so much unique that they are produced by only one brand. This is especially only Fermacell boards which have special properties with heat retention and water proofing.

The power of buyers should be relatively low because this product could absolutely new on the market. The main aim is show buyers quality and functionality of company products. If everything will go well there are no doubts about buyers' power.

Threat of substitutes could be high or low it depends on angle from we are looking. It was written before that this product is relatively substitutive. House could be made from other materials – concrete, bricks, panel, only wood, dirt, etc. Especially in Ukraine where uncertainty avoidance is very high and people are used to do things by their own way. However the product is unique with its properties and it is relatively irreplaceable.

<u>Competitors</u>

Since the market is still being formed (creation of Green Building Council, interesting in sparing energy and heat) there is relative huge space for companies like D.E.E.D. Rapid economic growth in these countries means that salaries have risen considerably since 2000 with many people now seeking to purchase their own homes. However, the very slow process of constructing high rise multi-family housing combined with the desire to live in a single family home is driving the enormous interest in cost efficient pre-fabricated housing. Competition in this sector is currently very low what makes it the ideal time for market entry.

<u>Key success and problematic factors</u>

To summarize main goals of successful entry company need to care about several points - retain the cooperation with key suppliers which made the company product exclusive, get donations or establish cooperation with government, economies of scale can help to optimize production costs, succeed early at market before the competition can be created, establish the distribution. Problematic factors as access to financing, corruption, policy stability are main factors about what company should care.

7 Conclusions

The selection of right foreign entry mode should be vital for the company for the near future. D.E.E.D. Ltd is going to try to get to the turnovers when were done in their best years. Hence they are choosing new markets for expansion. Until now company has had most of its experience only with indirect export.

PEST analysis provided important information about Ukrainian market. Ukraine is big potential market with many opportunities for these kinds of companies especially in prefab low-energy houses. From the political view there are many threats. Ukraine is not much stable country. There is high index of corruption and it is belongs to the most risky countries on the world. These points could be main factors why don’t enter this country. On the other hand there are good economic and legislative opportunities which are supporting foreign investors especially in green construction.

The comparison with the Poland showed also very similar indexes and the company is already working on Polish market and it is successful there. The situation could be similar as in polish market some years ago. However the Poland is more stable country.

If we look at competitors, there are no direct ones. Obviously there have to exist some companies which are making something similar however they are using another technique and other materials.

According all what was written before, this thesis recommend the D.E.E.D. Ltd to enter the Ukrainian market, which is very perspective and conditions are favourable. Nevertheless there many risks which can influence the company and thanks to them company should fail. Hence the foreign entry could be that on what is company used to and that is indirect export. This method is not so riskier and can explore the market. If it will be successful company should improve the mode and could go into deeper risks.

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9 Appendixes

9.1 Appendix 1

The scheme of Mental map

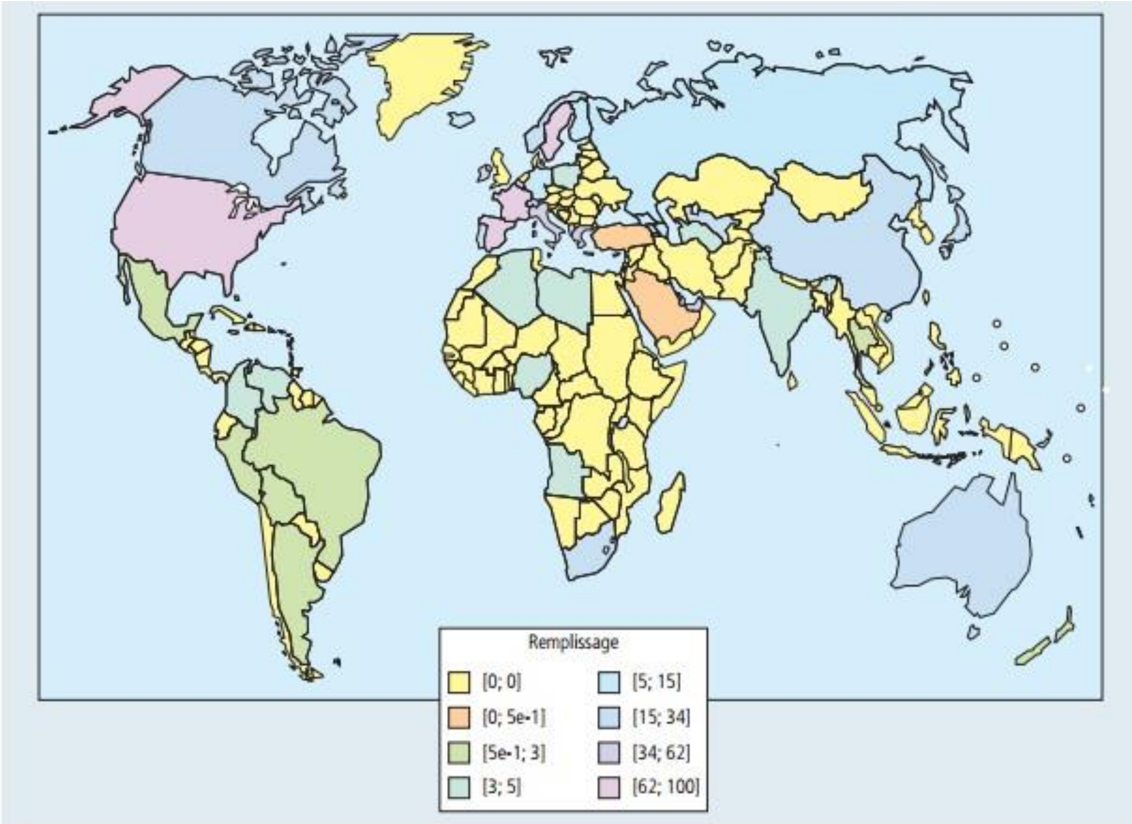

Figure 11.4 Risk vs. reward: country market attractiveness for SME managers

Source: Collinson and Holden (2005).

9.2 Appendix 2

Foreign market selection criteria

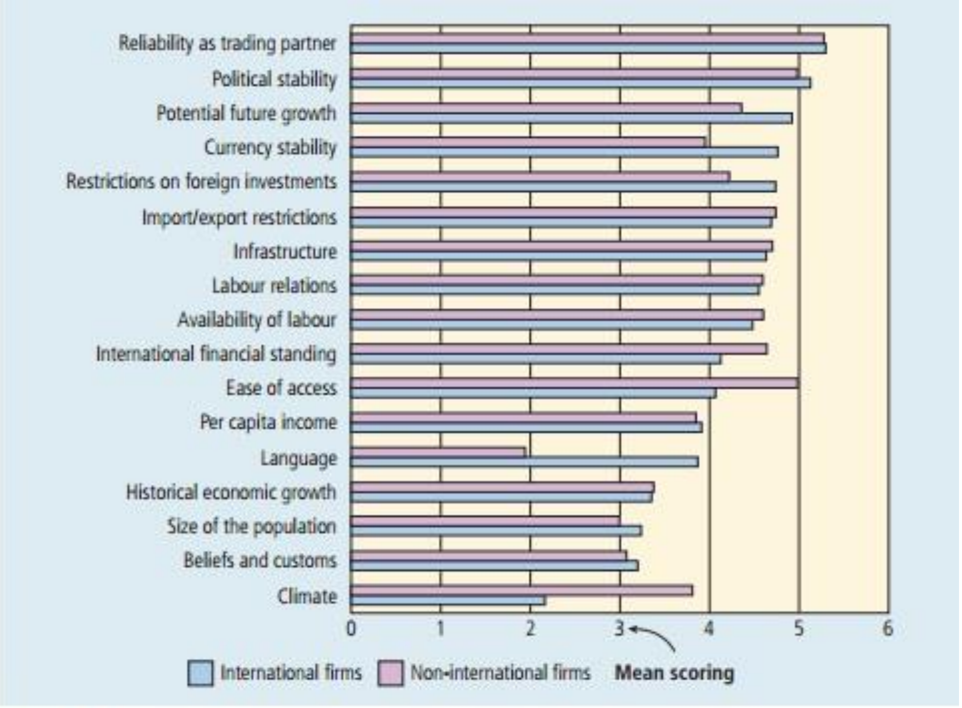

Figure 11.5 **Foreign market selection criteria for international and non-international SMEs**

Source: Collinson and Holden (2005).

9.3 Appendix 3

Different types of global alliance

Table 2.1 Characteristics of different types of global alliance

Type of global alliance	*Benefits*	*Costs*	*Critical success factors*	*Strategic human resources management*
Licensing – manufacturing industries	■ Early standardisation of design ■ Ability to capitalise on innovations ■ Access to new technologies ■ Ability to control pace of industry evolution	■ New competitors created ■ Possible eventual exit from industry ■ Possible dependence on licensee	■ Selection of licensee likely to become a competitor ■ Enforcement of patents and licensing agreements	■ Technical knowledge ■ Training of local managers on-site
Licensing – servicing and franchises	■ Fast market entry ■ Low capital cost	■ Quality control ■ Trademark protection	■ Partners compatible in philosophies/values ■ Tight performance standards	■ Socialisation of franchisees and licensees with core values
Joint ventures – specialisation across partners	■ Learning a partner's skills ■ Economies of scale ■ Quasi-vertical integration ■ Faster learning	■ Excessive dependence on partner for skills ■ Deterrent to internal investment	■ Tight and specific performance criteria ■ Entering a venture as 'student' rather than 'teacher' to learn skills from partner ■ Recognising that collaboration is another form of competition to learn new skills	■ Management development and training ■ Negotiation skills ■ Managerial rotation
Joint ventures – shared value-adding	■ Strengths of both partners pooled ■ Faster learning along value chain ■ Fast upgrading of technological skills	■ High switching costs ■ Inability to limit partner's access to information	■ Decentralisation and autonomy from corporate parents ■ Long 'courtship' period ■ Harmonisation of management styles	■ Team-building ■ Acculturation ■ Flexible skills for implicit communication
Consortia, kairetsus, and chaebols	■ Shared risks and costs ■ Building a critical mass in process technologies ■ Fast resource flows and skill transfers	■ Skills and technologies that have no real market worth ■ Bureaucracy ■ Hierarchy	■ Government encouragement ■ Shared values among managers ■ Personal relationships to ensure coordination and priorities ■ Close monitoring of member-company performance	■ 'Clan' cultures ■ Fraternal relationships ■ Extensive mentoring to provide a common vision and mission across member companies

Source: Wall S., Minocha S. and Rees B., *International Business.* Third edition. Prentice Hall: Pearson Education Limited Edinburgh, 2010.

9.4 Appendix 4

Top 10 barriers to SME access

Table 2.3 Top 10 barriers to SME access to international markets as reported by member economies

Rank	*Classification of barrier*	*Description of barrier*
1	Capabilities	Inadequate quantity of and/or untrained personnel for internationalisation
2	Finance	Shortage of working capital to finance exports
3	Access	Limited information to locate/analyse markets
4	Access	Identifying foreign business opportunities
5	Capabilities	Lack of managerial time to deal with internationalisation
6	Capabilities	Inability to contact potential overseas customers
7	Capabilities	Developing new products for foreign markets
8	Business Environment	Unfamiliar foreign business practices
9	Capabilities	Meeting export product quality/standards/specification
10	Access	Unfamiliar exporting procedures/paperwork

Source: Table 1.4. Top ten barriers to SME access to international markets as reported by member economies, pp. 36, Source: OECD Member Economy Policymaker Survey and SME Survey, 2006, *reproduced in Removing Barriers to SME Access to International Markets*, OECD 2008.

Source: Wall S., Minocha S. and Rees B., *International Business.* Third edition. Prentice Hall: Pearson Education Limited Edinburgh, 2010.

9.5 Appendix 5

Porters five Forces

(b) Porter's 'Five Forces' analysis

Source: Wall S., Minocha S. and Rees B., *International Business.* Third edition. Prentice Hall: Pearson Education Limited Edinburgh, 2010.

9.6 Appendix 6

Ukrainian regulation indexes

Source: http://heritage.org/index/country/ukraine