

Ukrainian market as a potential market for Marshe Ltd's export operation

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<p>The following thesis is dedicated to provide Marshe Ltd. detailed market research data in order to further develop its business in the target country, Ukraine.</p> <p>Marshe Ltd. is one of the biggest meat and fish products manufacturer in Georgia. Due to increased productivity and the ability to conduct business outside Georgia, the company decided to widen its network and enter Ukrainian market.</p> <p>Ukrainian market is a perfect place to start. Being geographically close, having good political relations and public awareness of Georgian products, will make doing business there fairly easy compared to other possible countries.</p> <p>In this thesis you will find work dedicated to increase the awareness of Marshe Ltd. of the threats, benefits and challenges it will face when entering Ukrainian market. SWOT analysis as well as PESTLE analysis will help the company to better understand the necessary steps to take in order to maximise its success rate and be able to obtain desired market share and revenue as soon as possible. The work presented below resulted in gathering and combining relevant information in one place that will be useful for the company. Company analysis, Country analysis, SWOT and PESTLE analysis, Economical overview, Entry methods, Competitor analysis, Logistical analysis, Consumer culture analysis and so on can all be seen as a result of the conducted research.</p> <p>Furthermore, this report will serve as a handbook for Marshe Ltd. that will improve their chances of doing business in Ukraine as well as serve as a field test for my skills.</p> <p>In the end you will find suggestions to the company based on the research.</p>	
<p>Keywords: International Trade, Supply/Demand, Food Industry, Competitiveness, Culture.</p>	

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Introduction

Below you will find information about the thesis concept and the topic itself as well as the main research question followed by a brief presentation of Marshe Ltd., thesis concept, demarcation and key concepts.

1.1 Thesis concept

This thesis is designed to give valuable information, feedback and reliable data to Marshe Ltd. in order to help it to develop its business further and successfully sell its products or even expand further in the Ukrainian market.

First of all, the research question is: “How profitable can exporting be in Ukrainian market for Marshe Ltd. in fish and meat products?”

Secondly, the main aspect of this thesis will be the Ukrainian market itself. Analysing supply, demand, possible entry modes, PESTLE analysis, competitor’s analysis, economic overview, market analysis, logistical issues and solutions will take the most part of this work. This will provide Marshe Ltd. the ability to further assess the risks and benefits it will get by entering Ukrainian market.

Furthermore, the thesis will continue by pin-pointing the exact product types that are popular in the target market and what competitors specialising on producing so that Marshe Ltd. will be able to focus its resources, time and money on making the products that will help them to quickly enter the market, break even and then gain profit.

In the end, the thesis will be concluded by my personal advices, comments as well as future recommendations.

1.2 Marshe Ltd.

Marshe Ltd. is a Georgian company that mainly focuses on bakery, meat, fish and finished products. It is one of the biggest and most trusted producer of the above-mentioned products in Georgia. The company is one of the few that holds ISO quality standards certificate that ensures its name as a company that really cares about how the products are handled and made. "Quality control is our top priority" (Chiteishvili, 2013).

Throughout my tour in one of the main facilities, I noticed that biohazard control is one of the company's top priorities as well. Advanced air filters, air conditioning system and anti-insect facilities ensure full safety of the products.

The company has laboratory facilities as well. All types of products are thoroughly examined before processing for presence of any harmful bacteria for human health. The company tries its best to become more and more successful while maintaining good CSR and environmentally friendly strategy. For now company takes part in various trends in order to improve its image and further increase public awareness about the company. Their goal business wise now is to enter Ukrainian market and further develop their network and increase market coverage (Ljubicic, 2013).

1.3 Thesis objectives

The research objective is to provide the target company reliable, professional and well formulated data relevant to their business that will eventually support their business growth and help them to successfully penetrate Ukrainian market. This document will be solely used for research purposes and will serve as a guideline for the company to avoid unforeseen barriers, risks and errors by having intellectual advantage and advanced knowledge of the market.

Furthermore, this thesis will be a great tool to help me better understand a foreign market and increase my knowledge of it. The thesis will help me to truly test myself and see what I am capable of in International Business Administration. It will also put

my skills and knowledge under thorough test and will give me an understanding of how well I can apply what I have learnt so far to the actual work.

1.4 Thesis topic and investigative questions

The research question is “How profitable can Ukrainian market be for Marshe Ltd. in fish and meat industry?”

The Investigative Questions are:

IQ 1: What are the possible risks and benefits of entering the Ukrainian market?

IQ 2: What logistical issues are there and how to solve them?

IQ 3: Who are the competitors and what is their competitiveness capability?

IQ 4: What is the public opinion in Ukraine about Georgian products?

IQ 5: What index of openness does the Ukrainian market have?

IQ 6: What are the possible modes of entry?

IQ 7: How to improve chances against competitors?

Table 1. contains the overlay matrix with information about theories, measurement questions and results related to each investigative question.

Investigative questions (IQs)	Theoretical Framework	Measurement Questions	Results
IQ 1: What are the possible risks and benefits of entering Ukrainian market?	Husted-Melvin: International Trade and Finance	What will it cost to enter the market? What will the company gain in return?	Risks and benefits of conducting business in Ukraine will be analysed
IQ 2: The logistical issues and how to solve them	Logistics Management and Strategy	What trade barriers can the company face? How to	Possible problems and barriers will be pinpointed, analysed

		overcome them?	and solution will be provided
IQ 3: Who are the competitors?	Research	Finding and analysing possible competitors	List of main competitors with their strong and weak sides will be analysed
IQ 4: What is the public opinion about imported goods?	Research	Are products made in Georgia popular in Ukraine?	Will give us an understanding of what people think about products made in Georgia
IQ 5: What index of openness does the Ukrainian market have?	Husted-Melvin: International Trade and Finance	Accessed International Chamber of Commerce for necessary information	We will know how open is the Ukrainian market for international trade
IQ 6: What are the possible modes of entry?	Cavusgil, Knight & Riesenberger: International business strategy management	How can Marshe Ltd. be classified and which is the best entry mode it can use?	We will know how Marshe Ltd. can enter Ukrainian market with highest success possible.
IQ 7: How to improve chances against competitors?	Cavusgil, Knight & Riesenberger: International business strategy management	What steps can Marshe Ltd. take in order to remain competitive?	We will know what Marshe Ltd. has to do in relevance to this question to succeed.

1.5 Demarcation

Availability of Ukrainian market for foreign import is a wide research area but this thesis will cover only the investigative questions given by the company. It will not go further than the interests of Marshe Ltd. and it will focus on providing answers and solutions for the above listed investigative questions.

1.6 Key concepts

PESTLE analysis – The name is derived from analyzing Political, Economic and Social, Technological, Environmental and Legal factors of doing business (Cavusgil, Knight & Riesenberger, 2008).

Trade associations – Being a member of a specific group of countries who benefit from easier trade compared to other countries (Garth, 2011).

Supply and demand – One of the main drivers of economy and trade. Supply determines the companies (or countries) ability to provide desired products to the market. Demand determines the amount of products needed to satisfy desire of customers. It is always good to have supply a little bit more than actual demand is. In other words, surplus is desired (Rosenbloom, 2013).

Prices – One of key drive factors for competition. Price wars are known strategy. The key is to have lower prices than the competitors while maintaining good service or high quality products (Garth, 2011).

Product transportation and safety regulations – Product transportation is required to be safe and efficient (Bozarth, 2013).

SWOT analyses – Analyzing the Strengths, Weaknesses, Opportunities and Threats for the company (Garth, 2011).

2 Country and competitor analysis

Analysing the country as a whole is a very time consuming task but if demarcation is done correctly, that task can be accomplished with ease. Hence, below you will find the list of key investigative questions that I used to narrow down my research and find relevant data and information to answer them.

2.1 Country Analysis Theory

The following section is dedicated to provide analysis of country related investigative questions listed below.

2.1.1 What are the possible risks and benefits of entering the Ukrainian market?

The best way to successfully exchange goods or services and grow as a result is International Trade (Cavusgil, Knight & Riesenberger 2008, 5). Following this statement, it is a wise step by Marshe Ltd. to expand its coverage and increase its productivity. Marshe Ltd. will gain significant increase in sales and revenue right after the first month of entering the market. This assumption is made on the following facts: awareness of Georgian goods within Ukrainian consumer market, the time necessary to deliver goods or services and the time for marketing to kick in. For example, it took Pàgen about a month to promote its product, Gifflar and now that product is being sold EU wide with success.

Another benefit the company will acquire is further expansion and increased awareness of their name. This in a way will help Marshe Ltd. to focus on other markets as well while consumers in those markets will already have an idea what is Marshe Ltd. all about. Penetrating Ukrainian market will also gain the company increased experience in doing business abroad and understand the difference between domestic and international business doing.

Furthermore, let us narrow down the four risks the company might face when going international. This risks are: cross-cultural risk, country risk, currency risk and commercial risk (Cavusgil & al. 2008, 11).

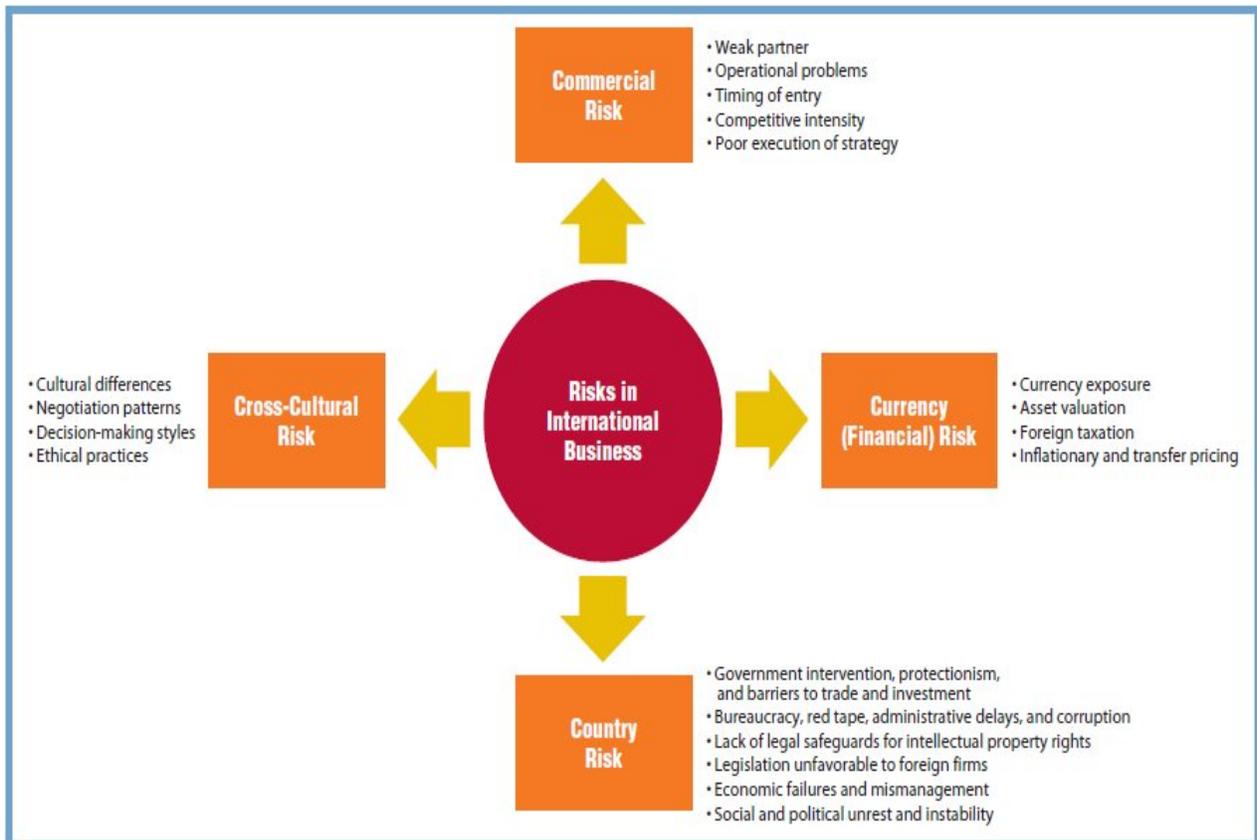


Figure 1. Explaining 4 major risks the company might face when going international. Each concept is described below for better understanding.

Cross-cultural risk – is a state when differences between cultures may cause misunderstanding and miscommunication on various levels and can put human value at stake (Cavusgil & al. 2008, 11). This event can be caused by various factors such as differences in culture, language, way of life, business doing and even religion.

Country risk – Developments of various kinds in a country, such as political, legal and/or economic might affect the productivity and performance of a company in a negative way (Cavusgil & al. 2008, 12). This will be the biggest risk Marshe Ltd. will be facing while entering Ukrainian market. Countries political position is unstable, it has

unsolved conflict with Russian Federation concerning annexing Crimea and still ongoing conflict in Donetsk. All of this causes unrest among population and the number of FDIs is dropping causing the big picture of economy within a country to look quite unstable.

Currency risk – or also known as financial risk can be caused by unexpected differences in exchange rates between two currencies (Cavusgil & al. 2008, 12). For the given situation two currencies we have are Georgian Lari (GEL) and Ukrainian Hryvnia (UAH). The exchange rate between them is 1 to 8.17. Now both countries had conflict within a time lapse of less than 10 years with Russian Federation. Georgia had war with Russia in 2008 and its economy is recovering fast but unrest in the region causes unstable environment. Ukraine is having war with Russian Federation right now causing this to have a major impact on its economy. The risk in here would be that both currencies might fluctuate against each other quite unexpectedly causing the value of business, revenue and income gained by Marshe Ltd. to drop significantly within days. I would recommend using outside currency which is more stable to avoid above mentioned risks. Currency such as USD or EUR.

Commercial risk – The following risk can be caused by having poorly planned strategy, action plan and tactics. This eventually will cause loss in income and failure in supply chain (Cavusgil & al. 2008, 12). Commercial risk would be the least expected one by Marshe Ltd. from its side. The company has years of experience of doing business, having everything ready on time and always double checking for everything to go fine. The risk though, would still be there if a company would rely on supply from local suppliers within Ukraine. Most of them but not all tend to fail in Just in Time delivery and are often reluctant to meet tight deadlines. The best option for Marshe Ltd. would be to find a reliable partner. This topic can be seen further discussed in chapter 2.1.3 Another option would be for Marshe Ltd. to monitor the whole Supply Chain Management by itself or conduct training for workforce in order to minimize commercial risk but this subsequently would cause additional expenses.

2.1.2 What are the possible modes of entry?

There are several ways for firms to conduct market entry. The easiest way to decide which way and how to use it, is to determine what a company does. Below you can see the figure representing a framework for identifying market entry strategies for various firms and businesses

Nature of International Transaction	Types of Focal Firm	Foreign Market Entry Strategy	Location of Major Activities	Typical Foreign Partners
Trade of products	Small manufacturer	Exporting	Home country	Distributor, agent, or other independent representative
	Large manufacturer	Exporting	Mainly abroad	Company-owned office or subsidiary
	Manufacturer	Importing (e.g., sourcing)	Home	Independent supplier
	Importer	Importing	Home	Trader or manufacturer
	Trading company	Exporting and Importing	Home	Trader or manufacturer
Contractual exchange of services or intangibles	Service provider	Exporting	Usually abroad	Agent, branch, or subsidiary
	Supplier of expertise or technical assistance	Consulting services	Abroad (temporarily)	Client
	Licensor with patent	Licensing	Home	Licensee
	Licensor with know-how	Licensing (technology transfer)	Home	Licensee
	Franchisor	Franchising	Home	Franchisee
	Service contractor	Management/Marketing service contracting	Abroad	Business owner or sponsor
	Construction/Engineering/Design/ Architectural Firm	Turnkey contracting or Build-Own-Transfer	Abroad (temporarily)	Project owner
	Manufacturer	Non-equity, project-based, partnerships	Home or abroad	Manufacturer
Equity ownership in foreign-based enterprises	MNE	FDI via greenfield investment	Abroad	None
	MNE	FDI via acquisition	Abroad	Acquired company
	MNE	Equity joint venture	Abroad	Local business partner(s)

Figure 2. Graph for classifying the company and available foreign partners

In the above mentioned figure I have classified Marshe Ltd. as following: Company is focused on trading goods. To the standards and scales of Georgia it is a large manufacturer. In this case, target action is exporting and main operations happen within Georgia, hence, home country. You can notice that the “Typical Foreign Partners” section is outlined as yellow. In this case these are all the options that Marshe Ltd. can use as partners. For the first stage, I would recommend using Ukraine Logistics LLC services. In other words, distributor, agent or other independent representative applies. On the second stage, if the company manages to be successful and establish a foothold in Ukrainian market, I would recommend switching from distributor to company owned office or subsidiary. This will drastically cut down logistics costs and time necessary for delivering products from the point of origin to the point of selling.

Furthermore, if the company decides to establish subsidiary or a company owned office, hiring a local workforce would be a good idea. For this, I would suggest using turnkey contractors. Turnkey contractors basically are focal firms who plan, finance, organise and manage covering all phases of the project and then handling it over to the customer of foreign origin after training local personnel (Cavusgil & al. 2008, 70). So basically turnkey contractors can be seen as a group of people willing to do the planning of various aspects, then deliver the project and train personnel. This way the newly hired personnel would already know what to do and the company would have the project layout to better plan their future actions.

Later, in order to better establish its brand name within Ukrainian market, Marshe Ltd. could also hire manufacturer's representative. Manufacturer's representative is an entity, which basically serves as a middle man between a hiring company and the target market. He is basically contracted by the exporter in order to represent and sell its products in the target country (Cavusgil & al. 2008, 76). The plus side of this kind of entry is that Marshe Ltd. will be able to directly ship products to end user or customer through the agent. One thing to consider is that manufacturer's representatives do not maintain physical facilities or customer support capabilities so this functions must be controlled and fulfilled by Marshe Ltd. The sole role of the manufacturer's representative is to get goods and sell them.

In addition, I would suggest the company to have a look on the Integration-Responsiveness framework below (Cavusgil & al. 2008, 317). Let us focus on responsiveness part for now. There are various reasons and drivers for a firm to become locally responsive in the countries where it operates such as unique natural endowments, diversity of local customer needs, differences in distribution channels, local competition, cultural differences and so on (Cavusgil & al. 2008, 318).

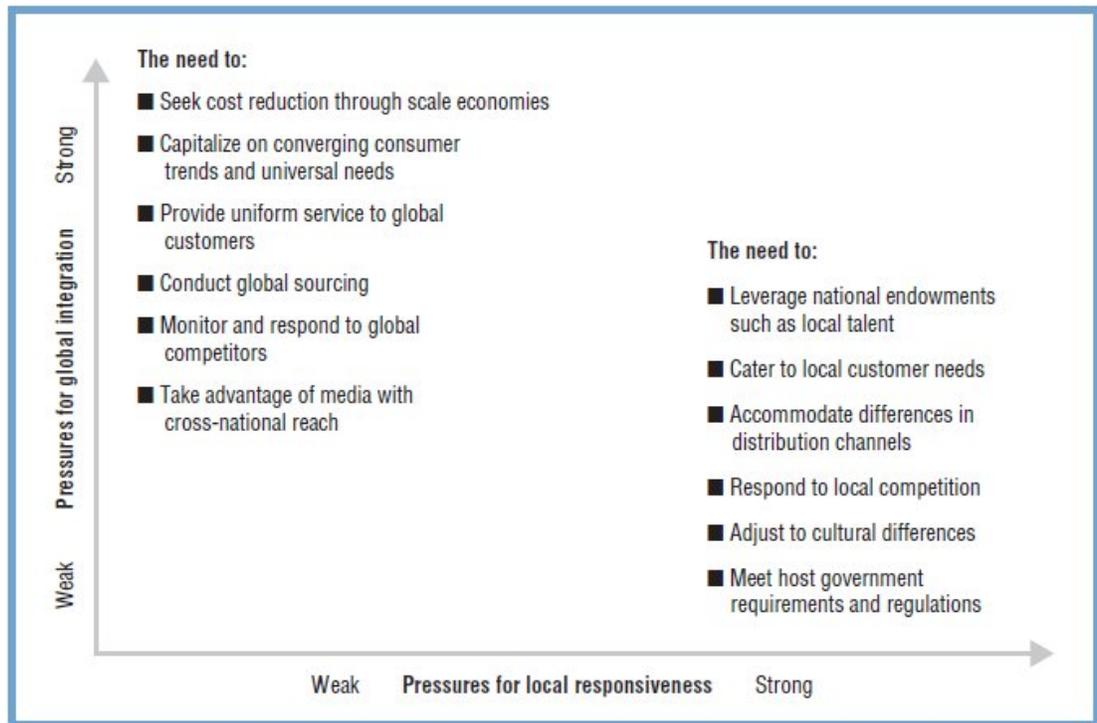


Figure 3. Integration-responsiveness framework.

2.1.3 What logistical issues are there and how to solve them?

In my opinion I would classify Marshe Ltd. as a starter Focal Firm. The purpose of a focal firm is to initiate international business transaction that focuses on producing goods or services that is meant for consumers worldwide (Cavusgil & al. 2008, 62). Despite Marshe Ltd. being small, it has already began taking first steps of becoming one of the biggest exporters in Georgia. It has already sent test products in various countries including United States, Russia, Azerbaijan and Turkey. That is why I would classify it as a starter Focal Firm. Now, this being said I would still recommend Marshe Ltd. to find a reliable distribution channel intermediary rather than conducting trainings or overseeing SCM by itself. Distribution channel intermediary is a local firm that solely focuses on providing a variety of logistical services for focal firms both in home and abroad (Cavusgil & al. 2008, 62). After some research, I would strongly recommend using Logistics Ukraine LLC. As a partner for offering logistics services. Company's contact information can be seen in the references section in the end of this thesis.

Furthermore, in order to avoid misunderstanding with customs and make it easier for products to be delivered on shelves as well as making all this happen legally, I would recommend hiring a local facilitator. Facilitator can be an individual or a small company of experienced individuals with special skills and expertise which they can use to offer legal advice, banking services, customs clearance and so on that will eventually assist focal firm (in this case Marshe Ltd.) to increase business performance (Cavusgil & al. 2008, 63).

Later, another option for making it easier to export goods within Ukraine could be hiring freight forwarder. Freight forwarder is a company offering international shipping on behalf of exporting firm (Cavusgil & al. 2008, 63). This is optional solution if the company won't consider Logistics Ukraine LLC. They already are freight forwarders and could offer the same service.

2.1.4 What is the public opinion in Ukraine about Georgian products?

Due to several centuries of friendly relationship, both ways tourism and high culture and market awareness, the general opinion about Georgian products is positive. This statement is derived from accessing various forums and public surveys. The sources to them can be seen in the reference section. Please note that I was not able to directly conduct interview within a market due to not having physical reach with Ukrainian customers or sufficient enough people I know from Ukraine to count their opinion as enough to make the decision.

Firstly, I would like to point out that Marshe Ltd. should try to adjust the culture of selling their goods to the one that is expected and appreciated within Ukrainian market. For this, I would suggest to the company to use polycentric orientation. Polycentric orientation means understanding and being in harmony with the market and country in which the company operates developing higher affinity and better public image (Cavusgil & al. 2008, 128). This option will significantly speed up the process of market integration but if the company feels confident enough and is sure what it is going to do, then they can use geocentric orientation but this is more risky and not recommended. Geocentric orientation is conducting business in foreign market based on

your own beliefs and experience while not taking into consideration country boundaries (Cavusgil & al. 2008, 128). Once again, I would not recommend going with this kind of approach.

Furthermore, being new in the market means being fragile and this subsequently arises the need to quickly establish foothold. Learning the behaviour of customers, or in other words socialisation would be a good start. Socialisation means learning the pattern of behaviour of consumers in target market (Cavusgil & al. 2008, 129). By knowing how customers behave and what they expect from you, you can easily calculate and determine what they want and expect from you as well. Mutual cooperation and understanding will eventually pay off in many ways. I would not say that acculturation should be focus for the short-term planning for Marshe Ltd. It simply means adjusting and fitting the culture around you in the foreign market (Cavusgil & al. 2008, 130). But if the company chooses polycentric orientation, both acculturation and socialisation are expected to happen.

Later, culture is a difficult research topic that is hard to understand. Picture it as an iceberg of which you can see only the top that represents roughly 10% of the whole iceberg. Speaking of which, the figure below will better illustrate what I mean.

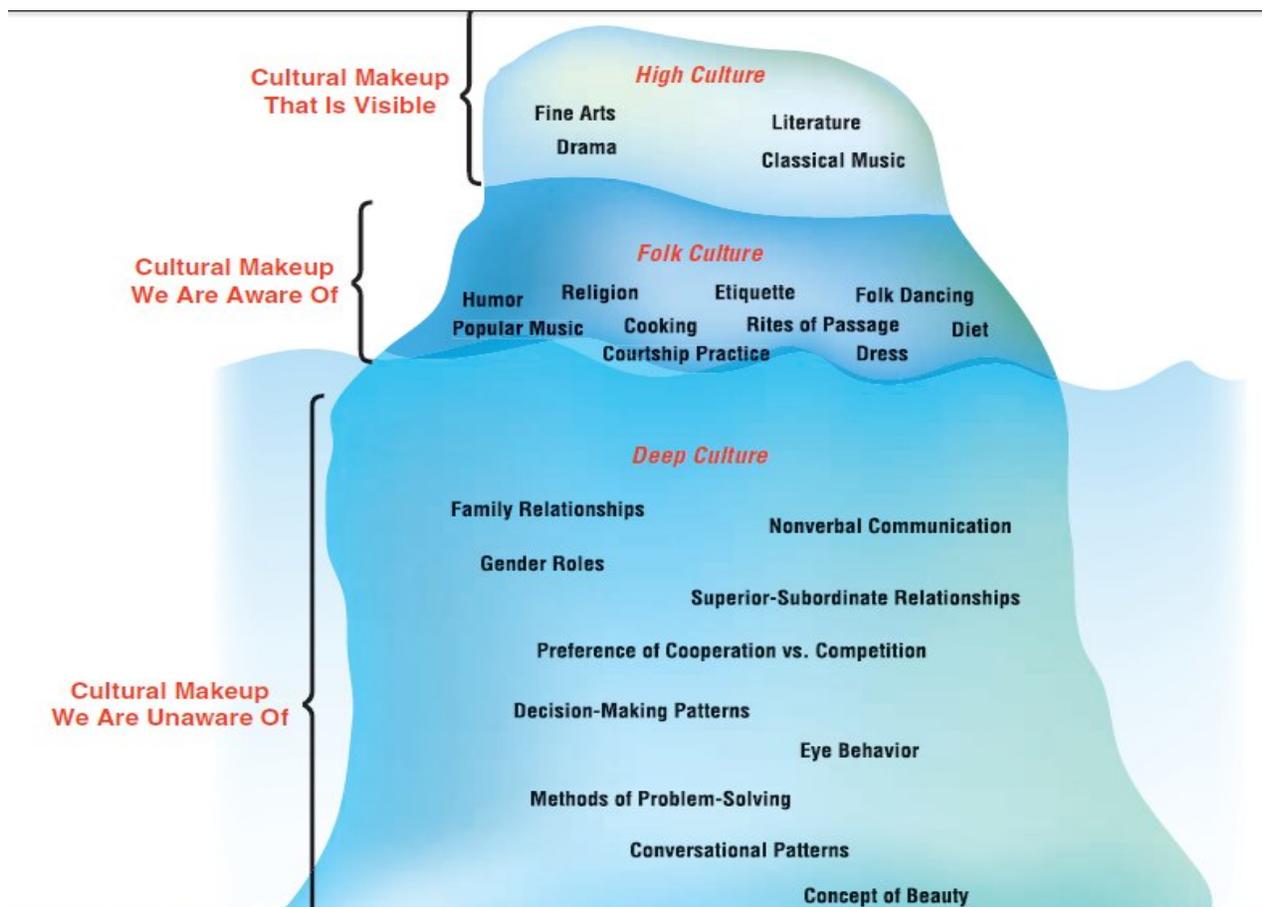


Figure 4. “iceberg” representation of culture of what is visible and hidden.

As I was saying, we can see only small part of culture by just looking at it. The preferences in various aspects such as music, fashion, food, cars and so on can easily be seen. This part is called cultural makeup that is visible (Cavusgil & al. 2008, 130). Then comes patterns such as religion, sense of humour, etiquette, cooking and so on called the cultural makeup that we are aware of (Cavusgil & al. 2008, 130). Now here things get more complicated than in the first part. In this case we have a basic idea or understanding of what to expect but we do not know exactly what it will be. There have been various examples of companies confusing this knowledge as written in stone and causing dissatisfaction within target segment. In order to avoid this, I would suggest

Marshe Ltd. to learn their target market as much as possible. For starters I would say that Ukrainians are oriented on quality, price, availability, necessity, being green, health but the actual list will be way longer. As of the third and the most difficult stage, which we can't neither see nor have an idea about, is the bottom of the iceberg called cultural makeup we are unaware of (Cavusgil & al. 2008, 130). This will be the hardest part to understand because the habits, opinions and behaviour there can only be seen when it happens. Unless deep customer study is not conducted, many actions and expectations shown by customers can turn out to be surprising for the company.

In the end, I would suggest Marshe Ltd. to first plan, study, learn and then act. Knowing what you are dealing with is half way road travelled towards success.

2.1.5 What index of openness does the Ukrainian market have?

According to International Chamber of Commerce, the index of openness for Ukraine is 3.7. That is considered as average openness by the scaling system of ICC putting it in 3rd category (International Chamber of Commerce, 2014).

This means that Marshe Ltd. will have neither hard nor easy time entering Ukrainian market. There might be delays with paperwork and other legal necessities. Taking loans from local banks is not recommended due to the fact of high interest and short payment terms. Relying on Just in Time delivery is not recommended either mainly caused by the unprofessional treatment of business. Local suppliers might be reluctant to follow a strict schedule. High control of cargos safety is recommended.

On the bright side, Ukraine and USA are in the same category in what it comes to the openness. This is also better than category 5 for instance where basically there is no chance of successfully conducting business. As mentioned above, Ukraine belongs to Category 3 that has a slight risk of something not going according to the plan, but this must not be the reason for refusing the chance of entering the market. This is just a reason to stay on ones toes and monitor the situation closely.

2.2 Competitor analysis theory

The following section is dedicated to answer questions related to competitor analysis. The questions are analysed, investigated and solutions applied.

2.2.1 Who are the competitors and what is their competitiveness capability?

It should be taken into consideration that the recent armed conflict has severely affected all kinds of businesses in Ukraine including meat and fish sectors. Still, I managed to find several companies Marshe Ltd. would have to compete with. These companies are:

1. ArimTrade-Ukraine ltd.

This company mainly focuses on producing chicken and pork products with a turnover of less than 1 million USD. Currently it employs roughly 100 people. Established and operational since 2002 (Business to Business Portal for International Meat Industry, 2014).

Competitiveness ranking: Medium

2. Virtus

This company mainly focuses on producing chicken and pork products and exporting outside Ukraine. Still it has a division working on solely producing and selling products within Ukraine. No information about turnover, employees and so on could be obtained (Business to Business Portal for International Meat Industry, 2014).

Competitiveness ranking: Low

3. Apk-invest Pjsc

This company heavily produces pork products. It has a high number of employees with a promising turnover (no exact data can be shared due to a disclosure request).

Market coverage is average and production capacity exceeds demand. It has the ability to survive and break even only by selling its products within Ukraine. The whole production is done by factories owned locally in Ukraine. Company employees experienced crew (Business to Business Portal for International Meat Industry, 2014).

Competitiveness ranking: Very high

4. Vortex-plus

In the company description it says that the company produces meat. No further information could be found. Considering this Vortex-plus can either be a very weak, not well organised and established company or a business experience crew willing to share its details only with customers. It was not possible to obtain further information due to their restriction of data access unless you are a potential client (Business to Business Portal for International Meat Industry, 2014).

Competitiveness ranking: Average/High

Furthermore, in total, Marshe Ltd. will have to compete with 93 local companies focused on the same field as Marshe Ltd. Some of them focus on chicken meat production only so they can be excluded from the list of competitors while still maintaining potential risk if Marshe Ltd. decides to cover production of chicken based products or other way around.

2.2.2 How to improve chances against competitors?

In my opinion competition is the main drive of business life. Sometimes it can be more important than getting more revenue or increasing sales. If a company remains competitive and is big enough, it can influence the market and cause other competitors to react. I would say that for a company being competitive is more important than being wealthy.

First of all, in order to be competitive, the company must analyse its surroundings. Knowing what you are dealing with will significantly increase the chances of success. In order to better understand your surroundings, I recommend using Global Market Opportunity Assessment tool (Cavusgil & al. 2008, 346). This tool consists of six tasks and gives very detailed information about questions the company needs to have answers for in order to be aware of what is happening around it. The figure version of Global Market Opportunity Assessment tool can be found in references section.

1. Task 1: Analyse organisational readiness to internationalize

“Before undertaking a substantial investment in international business, whether it is launching a product abroad or sourcing from a foreign supplier, the firm should conduct a formal assessment of its readiness to internationalise” (Cavusgil & al. 2008, 347). Following this statement, it is better to realise if a company is ready for this big step. Having some doubts or unfinished research can be fatal for the company and cause him to retreat from the market. SWOT analysis is particularly effective before making decision like this. Please note that SWOT analysis of Marshe Ltd. is presented in this thesis under chapter 3.4. It is also important for management to make necessary actions to get the personnel ready for increased production demand, moving abroad or for any other activity that both parties agree upon in order to succeed.

2. Task 2: Assess the suitability of the firm’s products and services for foreign markets

Once task 1 has been confirmed and management has decided to go international, it must assesses the necessity and suitability of their products to the target market. They should have answers to questions like are our products sold well in Georgia? Can we address the new need that arises in Ukrainian market? Will consumers like our products? And so on. Knowing answers to this type of questions will help the company to have basic understanding of how things will go. This kind of questions will also give an overall picture of how the product is suitable for Ukrainian market.

Later, managers should determine the product potential for target market. They should focus on answering questions like: Who initiates purchasing? Who will use our product? Why will people buy our product? Covering these questions and alike will help the management to the big picture of product's potential.

3. Task 3: Screen countries to identify attractive target markets

As for Marshe Ltd. This task has already been completed meaning they have already chosen Ukraine as their target market. I would still suggest to focus on aspects like market size, market growth rate, market intensity, market consumption capacity. On the other hand, they can use a scaling system where they will assess the country according to commercial infrastructure, economic freedom, market receptivity, country risk and so on (Cavusgil & al. 2008, 356-357). This can become handy when considering other markets.

4. Task 4: Assess the industry market potential (demand)

Industry market potential is an estimate that shows possible sales that can be expected for all firms participating in the same industry (Cavusgil & al. 2008, 363). While evaluating the market potential, three key figures must be known. People skills and availability of it if the company intends to establish subsidiary or a daughter company, business environment to have an understanding of how will market react to your actions and what can you expect from it and financial structure to have better understanding of how capable is the market financially. Knowing answers to these questions will give a picture of what can company expect from a market.

5. Task 5: Select qualified business partners

This task will be the most important to Marshe Ltd. since for now it plans to rely on agents and distributors in order to deliver its products to Ukrainian market. I would suggest for Marshe Ltd. to focus on the following when selecting a partner. Partner must be financially sound and stable. It must have competent, skilled and professional management. It also would be desirable for them to be willing to invest in firm's business to support mutual growth. Having experienced staff that is aware of the industry is a big plus and most importantly they must be committed and faithful in the long run.

6. Task 6: Estimate company's sales potential for target market

Task six is final and will probably will take the longest to answer and complete. Factors such as partner capabilities, access to distribution channels, analysis of competitive environment, pricing and financing of sales, human and financial resources and so on should all be covered (Cavusgil & al. 2008, 368). Figure below can better illustrate what company must do in order to cover above mentioned topics.

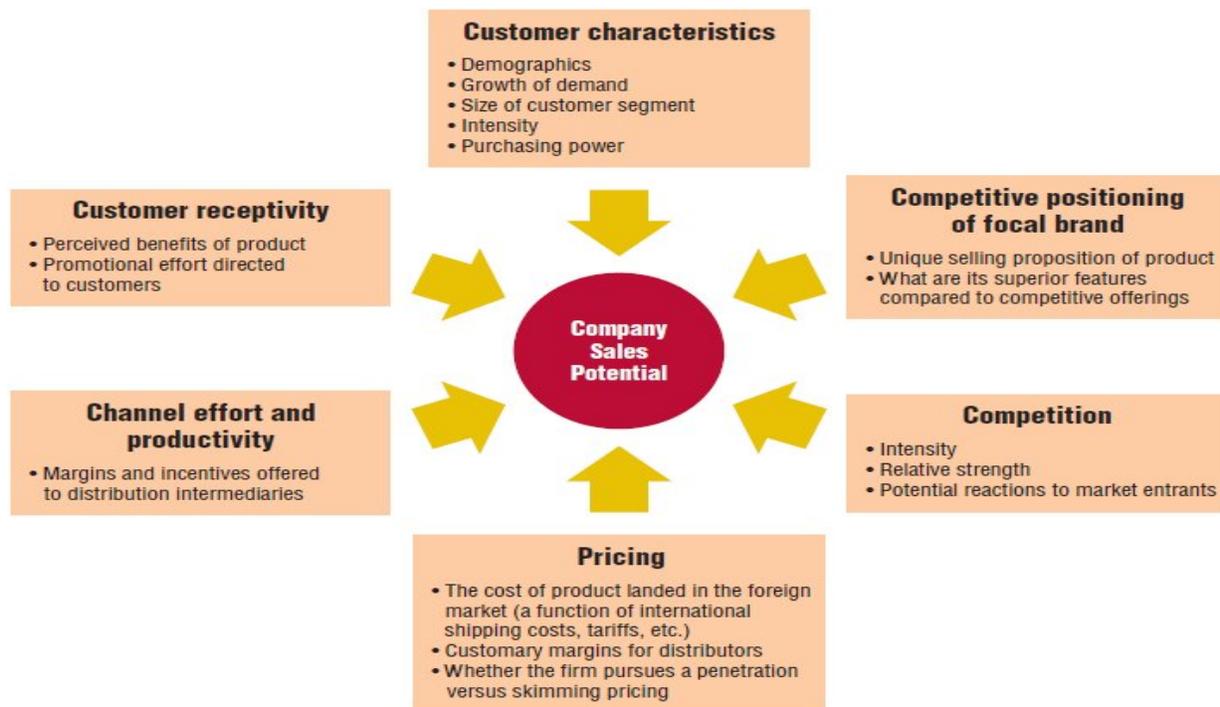


Figure 5. Aspects that affect company sales potential.

All in all, if the company uses this tool to better assess, analyse and answer the topic covered, it will gain significant competitive advantage by having everything analysed, studied and written down. Having intellectual advantage over the competitor will significantly increase Marshe Ltd.'s chances to remain competitive and one step ahead of all the competitors.

3 Research

In the following chapter you will read what I have done with Marshe Ltd. How the interview was organised, what I got from it, what kind of research methods I decided to use and what questions were asked. You will also find topics such as brief country overview including economic and legal state analysis, PESTLE analysis, SWOT analysis followed by extended discussion on possible risks and logistical issues.

3.1 Methods and design

In this research a mixture of qualitative and quantitative methods were used. Both methods were used in different variations depending of what kind of approach the topic required. Interview was also conducted with company's head of quality control, Levan Chiteishvili and with production director Sinisa Ljubicic.

First of all, the interview was arranged in Tbilisi, Georgia 2013. The interview was held with Levan Chiteishvili and Sinisa Ljubicic on one of Marshe Ltd. facilities. Lots of topics were discussed and mutual understanding had been established. Our discussion went in a formal manner. At first we exchanged our background information and what was each other's interest. I asked them what was their goal for entering Ukrainian market? What did they expect from it? What kind of information they wanted me to find? What was their turnover? What quality control standards did they use to ensure product safety? Have they already tried to enter the market or not? From our interview we discussed many topics that both, me and company representatives wanted to cover but in the end we narrowed them down to seven investigative questions the company was most interested in finding answers for and that I could provide these answers for them. This questions were the ones listed in the beginning of thesis but once more I will mention them here:

1. IQ 1: What are the possible risks and benefits of entering the Ukrainian market?
2. IQ 2: What logistical issues are there and how to solve them?
3. IQ 3: Who are the competitors and what is their competitiveness capability?
4. IQ 4: What is the public opinion in Ukraine about Georgian products?

5. IQ 5: What index of openness does the Ukrainian market have?
6. IQ 6: What are the possible modes of entry?
7. IQ 7: How to improve chances against competitors?

As far as I can judge, all of this questions have been completely answered. The research conducted by me covered all the topics that the company wanted to find answers for. In the end it resulted in formulating this thesis that can be successfully used by the company to get a great head start for their business.

3.2 Ukraine in brief

Ukraine is considered as a risky market for any business considering facts such as corruption, slow reforms, its current political relations with Russian Federation and high inflation. Being a bordering country for both EU and Russia, the country has a very important geographical location for trade.

Table below shows the benchmark of Ukraine's ranking in doing business among other countries published by World Bank as of 2013:

Table 2. Ukraine Market Analyse

Doing business in 2013	Rank
Ease of doing business	145
Starting a business	118
Dealing with construction	179
Registering property	164
Getting credit	32
Protecting investors	109
Paying taxes	181
Trading across borders	139
Enforcing contracts	43
Closing a business	150

The numbers stand for the grading scale, from 1 to 196. The lower the number, the better the country is in the specified field. For instance, Ukraine has been ranked as 32

in ease of getting credit. This means that legal actions and paperwork needed to be done is fairly easy to handle in order to get the credit (Euromonitor, 2014).

Furthermore, Ukraine's population mainly consists of well-educated low income people. Most of them know what needs to be done if they are assigned tasks according to their professions but the lack of resources and unemployment denies them access to their full potential. This affects the ability to purchase high priced goods in general and when entering the local market the company must understand this fact and should not bring in overpriced goods.

3.3 Economical state of Ukraine

First of all, Ukraine was the major component of the Soviet Union's economy until it declared independence on August 24th, 1991. For the first ten years, following its departure from Soviet Union in 1991, the country's economy suffered great recession, including hyperinflation and almost 90% fall in economic output. It took the country ten years to return to the state in which it was in before the collapse of the Soviet Union. After that, from 2000 to 2008, the country began to develop at a high rate and by the end of 2007 it was ranked as the 45th of 196 according to GDP nominal, with the total of 188 billion USD and nominal per capita GDP of 3900 USD (Nationsonline, 2014).

Secondly, despite the positive forecasts and analyses of real numbers, Ukraine suffered economic crisis by the end of 2008 resulting in the country's GDP dropping by 15.1%. The effect lasted for two years. The inflation stabilised in July 2009 and stayed at 11% until 2011 and an additional +0.5% inflation to this number is expected to happen in 2014. The Ukrainian currency, Ukrainian Hryvna is pegged at a rate of 8:1 to USD (Euromonitor, 2014).

Furthermore, considering the economical disadvantages Ukraine faced in the late 2008, the unemployment rate of the country was surprisingly low and it was capped at 3%, but in 2009 the unemployment rate was averaged at 9.4%. Now the unemployment rate is 8.8% (Euromonitor, 2014).

Table below illustrates the current state of the economy better and will give the reader an understanding of every detail.

Table 3. GDP and monetary information of Ukraine

GDP	337.4 billion USD (PPP of 2013) 175.5 billion USD as of nominal
GDP growth	0.4% (From 2012 to 2013)
GDP per capita	7400 USD (PPP of 2013) 3861 USD as of nominal
GDP by sector	Agriculture 9.9% Industry 29.6% Services 60.5%
Inflation	12%
Population below poverty line	24.1%
Average gross salary	306 euro
Main industries	Coal, electric power, ferrous and non-ferrous metal, machinery and transport equipment, chemicals, food processing.

3.4 Marshe Ltd. SWOT analyse

Strengths

- Well organised company with experienced crew
- Loan free
- Continuous R&D towards food quality control and improvement
- 93% positive feedback from customers
- High local market coverage

Weaknesses

- Relatively inexperienced in doing business in Ukraine
- Small in size
- No reliable business contacts within Ukraine

Opportunities

- Possibility to gradually increase revenue
- Expand market coverage
- Experience doing business on international level

Threats

- Current state of Ukraine (war)
- Unsettlement between government officials and people
- Problems in Donetsk*
- Economic drop due to unsettled state

*Donetsk is a region in Ukraine were currently unofficial forces from Russia and forces from Ukraine are engaging.

3.5 PESTLE analysis of Ukraine

Political – Current political situation in Ukraine is tense. Due to recent events the government is unstable. Government officials fail to comprehend the unsettlement level within the country and the population is disturbed due to recent annexing of Crimea and ongoing conflict in Donetsk. Relationship with Russia severely disturbed causing the biggest business partner of Ukraine to hold trade (Lucintel, 2014).

Economic – Economical rise has been frozen and is barely holding where it was before the conflict. This can be explained by the fact that Russia was and in fact still is the biggest market for Ukraine. Due to recent conflict many businesses have stopped developing (Lucintel, 2014).

Social – Social level in the middle of Ukraine is settled. There are no riots or public disturbance but the overall anxiety of people caused from recent events can still be seen. On the other hand people have trouble when trying to socialise with relatives or friends in Donetsk or Crimea. Before the conflict Ukraine wanted to become a member of EU and was very close to it. Majority of people wanted this as well but conflict denied their access to membership and that can be the reason of mild disturbance among population causing dissatisfaction (Lucintel, 2014).

Technological – Ukraine is a developing country. The level of the technological advancement within country can be ranked as average. For now R&D rates have dropped and are expected to rise again after the conflict is solved (Lucintel, 2014).

Legal – Legal business doing in Ukraine is simple enough. Before the conflict the country was blooming and the legal actions could have taken some time but now, since some businesses have stopped, getting necessary documents to start one will not take long. Corruption is still unfortunately present (Lucintel, 2014).

Environmental – Ukraine tries to be Eco-friendly country by adjusting its waste and other actions to standards that correspond to being green. Pollution can be still seen in various parts of the country but it is expected to be removed soon (Lucintel, 2014).

3.6 Export and import

More than 60% of the products that are exported from Ukraine go to post soviet countries such as Russia (25.6%), Belarus and Kazakhstan followed by Turkey (5.4%) and Egypt (4.2%). The value of exported goods was 71.14 billion USD in 2013. Revenue from import in 2013 was 53.07 billion USD, expenses were 59.58 billion USD.

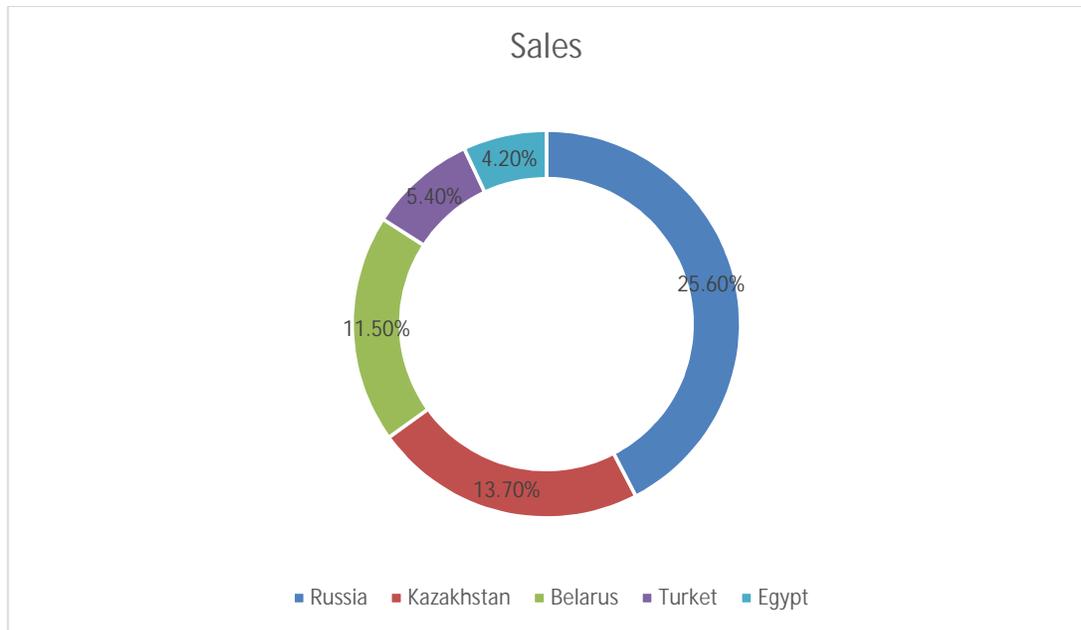


Figure 6. Illustration of total export deviation between countries

3.6.1 Export of meat

Ukraine will significantly increase exports of all kinds of meat in 2015, with pork having the biggest increase in exporting. Ukraine's Ministry of Agrarian Policy and Food forecasted that the meat output of the country will reach 2.47 million tons by 2015. This number is 3.3% bigger than the one of 2013. Ukraine's beef export is expected to reach around 25000 tons, while pork export is expected to increase by 7.1% and poultry exports are forecasted to hit 160000 tons, resulting in 6.6% growth compared to 2013 (GlobalMeatNews, 2014).

Ukrainian Ministry of Agrarian Policy and Food has recently announced that they want to decline import of any meat in Ukraine gradually. This decision was explained by two things. First of all, the Ministry of Agrarian policy and Food stated the fact that they want to promote local producers and give them more room to better sell their products while having less and less competition every year until supply/demand won't balance itself out. Secondly, they explain their decision by stating the fact that Ukraine is

importing more than needed which causes the abundant number of meat products as well as more costs for the government (Global Meat News, 2014).

3.6.2 Import of meat

Ukraine imported 330000 tons of meat during 2014 and that number is expected to be a bit less, if not the same, in 2015. Out of this 330000 tons, 217000 tons was pork, 69000 tons poultry and 19000 tons of beef. Figure bellow shows the illustrated version of abovementioned information (Kyivpost, 2014).

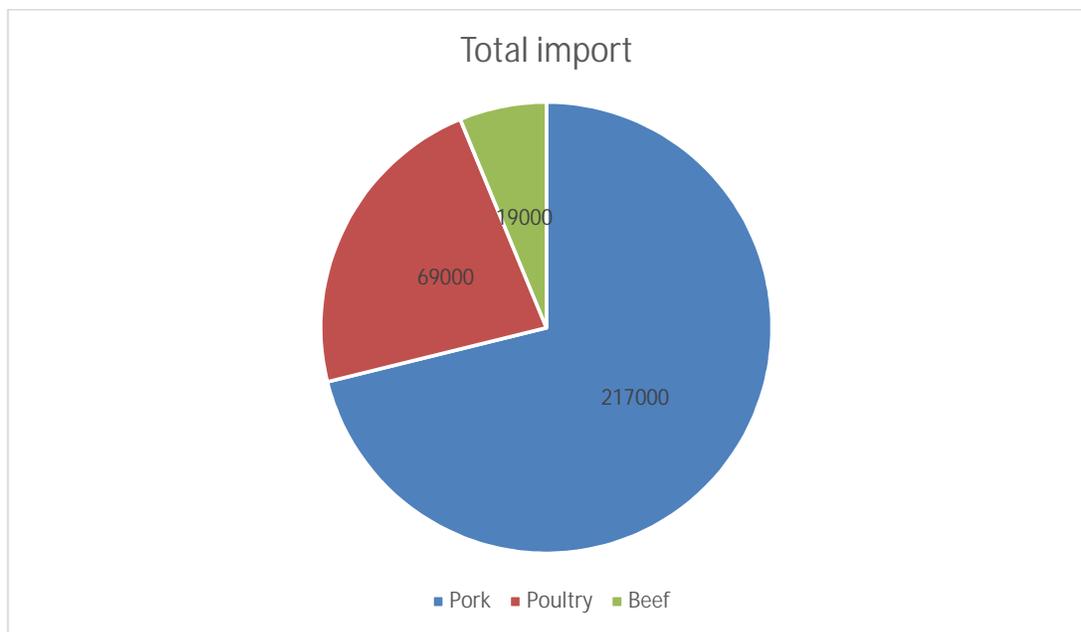


Figure 7. Total import for meat products in 2014.

3.7 Risks and benefits of entering the Ukrainian market part II

As of now, Ukraine is undergoing a series of changes economically, politically and geographically (the latter meaning annexing of Crimea). Crimea is a region in Ukraine located on the shoreline of the Black Sea. All of these factors will have a drastic influence on FDIs and a desire of businessmen conducting further investments in Ukraine overall. Despite the situation being stable and reliable in other regions considering what happened to Crimea, the overall business doing looks as followed:

The country currently ranks among top 96 for doing business and being open for new opportunities for 2015. This number went up in ranking by 16 compared to 112 that was set for 2014. Below you can find the table for more detailed information. (World Bank Group, 2014.)

Table 4. Ranking among various fields for 2014.

Starting a business	76
Paying taxes	108
Trading across borders	154
Enforcing contracts	43
Resolving insolvency	142
Dealing with construction permits	70
Getting electricity	185
Registering property	59
Getting credit	17
Protecting minority investors	109

The abovementioned information is still subject to change. This change will heavily rely on how the situation with Crimea develops and how the EU reacts to all of this followed by Russia's further aggressive or peace keeping actions.

Furthermore, the numbers given to every category stand for how easy and feasible doing actions in those fields is. For example, having a ranking of 17 in Getting credit means you will be having very easy access to getting it and paying in time whereas having 185 in getting electricity means that you will have to undergo several legal actions, paperwork and payments in order to allocate electricity to your possible factory. In brief, the lower the number the better.

3.8 The logistical issues and solutions part II

Considering that Georgia and Ukraine do not have a land border, the transportation should be done via sea or air. Transporting by sea seems to be better option. Transportation can be done either from Poti or Batumi ports located on the shoreline of Georgia and directed straight to Ukraine. This seems a more efficient method considering the weight carry capacity of cargo ships and the costs necessary to pay per one container of goods. It will take more time to transport goods via sea but will be far more efficient compared to air both money and quantity wise.

Secondly, transportation by air will be less efficient meaning the costs and cargo capacity that one cargo plane can carry followed by the costs arisen from high fuel consumption and affected by conditions such as bad weather. On the other hand, Black Sea is situated in a kind of location which provides low chances of storms.

4 Recommendations

I suggest Marshe Ltd. to proceed with caution with starting business in Ukraine. This can be explained by the current state the country is in. The political situation is unstable, economy is falling and the country is on the brink of war but all these factors provide considerably low costs for Marshe Ltd. to conduct its business in Ukraine.

Doing business in Ukraine became easier due to the fact that many businesses have stopped or even retreated from the country. This provides an opportunity for Marshe Ltd. to quickly and efficiently penetrate the market and start doing business. The possibility of having low competition will accelerate integration within the market.

As for logistics, I suggest using sea transportation. This is roughly 67% cheaper than the same service offered by air. The products can be made within Georgia, loaded to freighter and transported to Ukraine or Marshe Ltd. can organise a daughter company within Ukraine and avoid majority of transportation costs by having contract manufacturing but for starters I would recommend local production and distribution. I would advise caution with choosing distributors. Some of them may be reluctant to deliver products or services in time but would recommend Logistics Ukraine LLC.

As for competition, Marshe Ltd. will have to face lower competition than it was expected before conflict but still big companies who have been doing business for years in Ukraine are still there and adjusting prices and quality according to the market would be a wise choice.

Furthermore, I would recommend to use every possible safety measures to avoid legal problems as well as financial loss. Once again, country is in unstable state and it is risky to do anything related to business there.

In the end, I would suggest to read this report carefully, extract the necessary information and start planning the steps to successfully enter the market.

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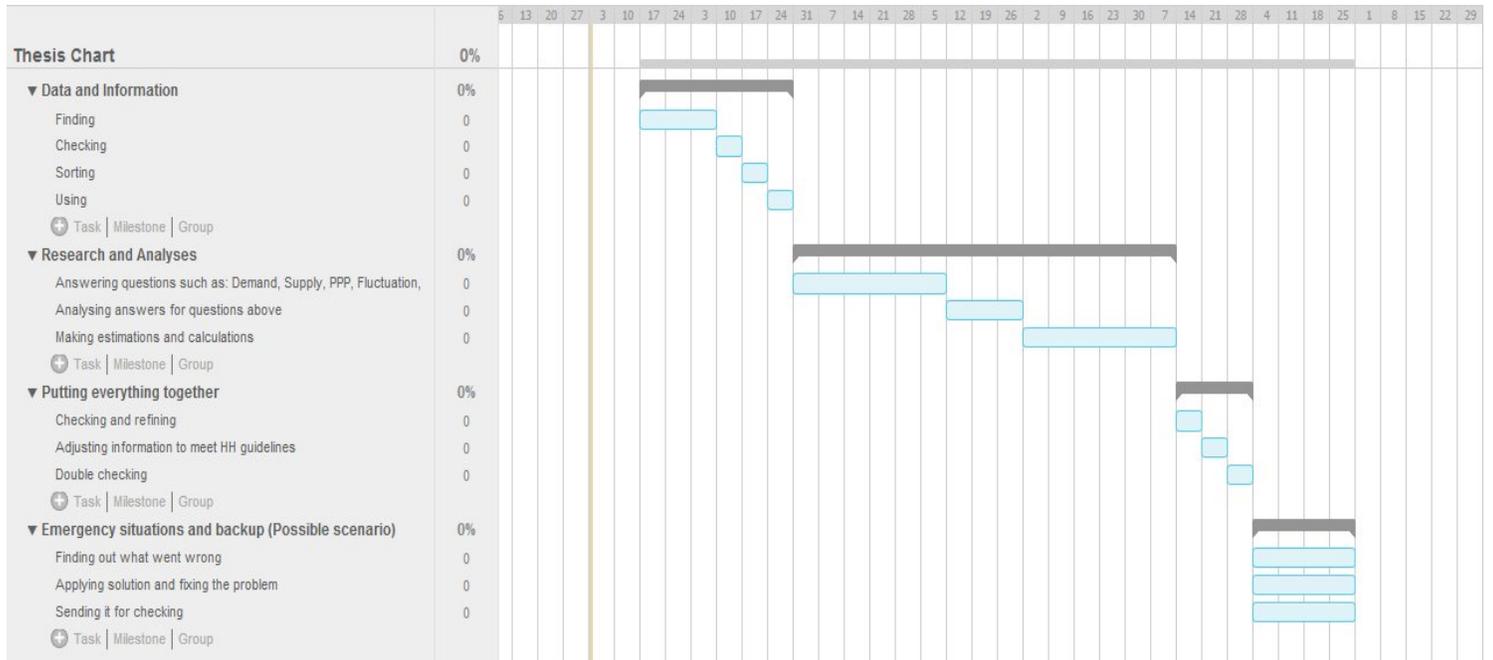
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Attachments

Attachment 1. Gantt chart



Attachment 2. Global Market Opportunity Assessment tool Part I

<i>Task</i>	<i>Objective</i>	<i>Outcomes</i>	<i>Selection criteria</i>
1. Analyze organizational readiness to internationalize	To provide an objective assessment of the company's preparedness to engage in international business activity.	A list of firm strengths and weaknesses, in the context of international business, and recommendations for resolving deficiencies that hinder achieving company goals.	Evaluate factors needed for international business success: <ul style="list-style-type: none"> • Relevant financial and tangible resources • Relevant skills and competencies • Senior management commitment and motivation
2. Assess the suitability of the firm's products and services for foreign markets	To conduct a systematic assessment of the suitability of the firm's products and services for international customers. To evaluate the degree of fit between the product or service and customer needs.	<ul style="list-style-type: none"> • Determination of factors that may hinder product or service market potential in each target market. • Identification of needs for the adaptations that may be required for initial and ongoing market entry. 	Assess the firm's products and services with regard to: <ul style="list-style-type: none"> • Foreign customer characteristics and requirements • Government-mandated regulations • Expectations of channel intermediaries • Characteristics of competitors' offerings
3. Screen countries to identify target markets	To reduce the number of countries that warrant in-depth investigation as potential target markets to a manageable few.	Identification of five to six high-potential country markets that are most promising for the firm.	Assess candidate countries that the firm may enter with regard to: <ul style="list-style-type: none"> • Market size and growth rate • Market intensity (that is, buying power of the residents in terms of income level) • Consumption capacity (that is, size and growth rate of the country's middle class) • Country's receptivity to imports • Infrastructure appropriate for doing business • Degree of economic freedom • Political risk

Attachment 3. Global Market Opportunity Assessment tool Part II

<i>Task</i>	<i>Objective</i>	<i>Outcomes</i>	<i>Selection criteria</i>
4. Assess industry market potential	To estimate the most likely share of industry sales within each target country. To investigate and evaluate any potential barriers to market entry.	<ul style="list-style-type: none"> • 3 to 5-year forecasts of industry sales for each target market • Delineation of market entry barriers in industry 	<p>Assess industry market potential in the target country by considering:</p> <ul style="list-style-type: none"> • Market size, growth rate, and trends in the industry • The degree of competitive intensity • Tariff and nontariff trade barriers • Standards and regulations • Availability and sophistication of local distribution • Unique customer requirements and preferences • Industry-specific market potential indicators
5. Select qualified business partners	To decide on the type of foreign business partner, clarify ideal partner qualifications and plan entry strategy.	<ul style="list-style-type: none"> • Determination of value adding activities required of foreign business partners • List of attributes desired of foreign business partners • Determination of value-adding activities required of foreign business partners 	<p>Assess and select intermediaries and facilitators based on:</p> <ul style="list-style-type: none"> • Manufacturing and marketing expertise in the industry • Commitment to the international venture • Access to distribution channels in the market • Financial strength • Quality of staff • Technical expertise • Infrastructure and facilities appropriate for the market
6. Estimate company sales potential	To estimate the most likely share of industry sales the company can achieve, over a period of time, for each target market.	<ul style="list-style-type: none"> • 3 to 5-year forecast of company sales in each target market • Understanding of factors that will influence company sales potential 	<p>Estimate the potential to sell the firm's product or service, with regard to:</p> <ul style="list-style-type: none"> • Capabilities of partners • Access to distribution • Competitive intensity • Pricing and financing • Market penetration timetable of the firm • Risk tolerance of senior managers