



VILNIUS GEDIMINAS TECHNICAL UNIVERSITY

FACULTY OF BUSINESS MANAGEMENT

DEPARTMENT OF INTERNATIONAL ECONOMICS AND BUSINESS MANAGEMENT

Kęstutis Poviliūnas

**INTERNATIONAL MARKETING IN DEVELOPING PRODUCTION AND
TRADE OF CONSTRUCTION PRODUCTS**

**TARPTAUTINIS MARKETINGAS PLĖTOJANT STATYBINIŲ PRODUKTŲ
GAMYBĄ IR PREKYBĄ**

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Annotation

The objective of this work is to answer a question - how the international marketing in developing production and trade of construction products can overcome factors that do not allow achieving a competitive advantage in international markets. The final master thesis represents analysis of existing modern international marketing theoretical models and analysis of opportunity to develop international construction business in various countries using mathematical forecasting techniques. It provides a complex analysis of Lithuanian construction sector and its potential to develop international business relations. Qualitative study of key aspects of Lithuanian construction market is made in order to develop international production and trade of construction products. Finally, strategic solutions for international marketing development are given.

Structure: introduction, problematic part, theoretical part, analytical part, suggestions and conclusions, references.

Thesis consists of: 88 p. texts without appendixes, 15 figures, 13 tables, 60 bibliographical entries. Appendixes included.

Keywords: international marketing, international marketing strategies, international construction business, construction products.

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Tarptautinis marketingas plėtojant statybinių produktų gamybą ir prekybą

Autorius: Kęstutis Poviliūnas

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Anotacija

Pagrindinis šio baigiamojo magistro darbo tikslas yra atsakyti į klausimą – kaip tarptautinio marketingo, plėtojant statybinių produktų gamybą ir prekybą, vystymas gali padidinti statybinių kompanijų konkurencingumą ir padėti joms įsitvirtinti tarptautinėje rinkoje. Darbe nagrinėjama tarptautinio marketingo samprata, egzistuojantys modernūs tarptautinio marketingo modeliai, pagrindžiama rinkodaros svarba bei įtaka įmonių veiklos efektyvumui. Naudojant matematinius modelius, analizuojama galimybė vystyti tarptautinį statybų verslą įvairiose šalyse. Pateikiama kompleksinė Lietuvos statybų sektoriaus analizė ir išryškinamas sektoriaus potencialas vystyti tarptautinį verslą. Atlikta Lietuvos statybų rinkos pagrindinių aspektų kokybinė analizė, siekiant plėtoti statybinių produktų gamybą ir prekybą pasitelkiant tarptautinį marketingą kaip kritinį sėkmės faktorių. Pateikiami strateginiai siūlymai tarptautinio marketingo tobulinimui.

Darbą sudaro šios dalys: įvadas, probleminė dalis, teorinė dalis, tyrimai, išvados ir siūlymai, literatūros sąrašas.

Darbo apimtis – 88 p. teksto be priedų, 15 iliustr., 13 lent., 60 bibliografiniai šaltiniai. Atskirai pridedami darbo priedai.

Prasminiai žodžiai: tarptautinis marketingas, tarptautinio marketingo strategijos, tarptautinis statybų verslas, statybiniai produktai.

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INTRODUCTION

Construction activity takes place in almost every human settlement. The importance of the international construction industry is evident from its significance to a total gross domestic product and employment of the world's economy. Construction sector is one of the fastest growing business activities in emerging economies. On a daily basis everyone can notice rising new or being renovated old buildings as well as everyone can read, hear or notice himself a bad quality of final result. The press is full of articles about problems in the sector: bad quality of buildings, construction materials, shortage of skilled craftsmen, illegal constructions and many more. Many of the companies involved in construction business got complacent in the sector booming years. The enormous demand resulted in to abnormal picture of competition and cooperation between players in construction sector. "They will buy anyway" attitude often compromised a marketing orientation - the recognition by the business of the primacy of customer values in exchange and the focusing of business thinking and activities on exchange with customers.

Development of international marketing could be a vehicle bringing a very wide choice of construction products, solutions, and technology to meet the needs of present, rise quality, increase labor efficiency without compromising the ability of future generations to meet their own needs. It helps to look outside the business and use values and behaviors of customers as a means of defining and executing business activities.

The problem of efficiency and standards of professionalism in construction sector are analyzed in this work. Low professional standards and efficiency are among of the factors that do not allow achieving a competitive advantage in international markets. The objective of this work is to help answer a question – how the international marketing in developing production and trade of construction products can rise standards of professionalism and therefore increase efficiency in constructions. The scientific work represents the following tasks:

- analysis of existing modern international marketing theoretical models;
- analysis of opportunity to develop international construction business in various countries using mathematical forecasting techniques;
- complex analysis of Lithuanian construction sector and its potential to develop international business relations;
- qualitative study of key aspects of Lithuanian construction market in order to develop international production and trade of construction products;

- strategic solutions for development of international marketing which help to increase standards of professionalism and efficiency in constructions.

The first part of this work points out significance of international construction business and development of international marketing as a critical factor to success. Construction business has different approaches and different priorities in different countries, however, increased environmental considerations, health standards and attention to energy and cost efficiency provides brand new opportunities for international producers of construction products.

The second part represents modern theoretical models and research methodology for developing international marketing in production and trade of construction products.

Empirical research in the third part analyses opportunity to develop international construction business in various countries. The formal analysis of quantitative data research is made to help international players to have better opinions what will happen in the future and choose their markets of operation. It also provides complex analysis on Lithuanian construction sector and its potential to develop international business relations. The Lithuanian construction qualitative research brings up to date business information and analysis on key aspects of Lithuanian construction market – criteria and methods of selecting suppliers, which are important of development international production and trade of construction products.

Strategic solutions of how to develop loyal customer base and implement cross selling techniques through international marketing relations are given in the last part of the work.

1. DEVELOPMENT OF INTERNATIONAL MARKETING AS PREREQUISITE TO EVOLVE INTERNATIONAL CONSTRUCTION BUSINESS

1.1. CONCEPTION OF INTERNATIONAL CONSTRUCTION BUSINESS AND ITS ROLE IN SUSTAINABLE DEVELOPMENT OF MODERN ECONOMY

From the ancient world constructions meant to create shelter for the people. In different countries different climate conditions and available resources existed. In the Nordic countries first houses were built from stone, mud and wood. Early craftsmen undertook countless experiments and used experience from their ancestors until they found out what is working and which method or material has to be rejected. Usually most of the people of local community participated in planning, material collection and building process. Even today early buildings reflect culture, values and expertise of previous generations. As of evidence of that fact in Lithuania could be ethnographical museum in Rumsiskiai. But not the only expertise of local people in the construction has been used. As a result of natural trade process foreign architecture and craftsmen left their “foot prints” as we can see today. Local population learned from them in terms of design, efficiency and started to use modern at that time construction materials.

Industrial revolution has brought a large number of new building materials and World Wars, particularly in Europe, created demand for them. As a result was development of more efficient construction technologies. The extensive projects in housing, industry, transport and city development that followed the advent of modern construction materials formed the background of what emerged as modern construction industry.

The construction industry, as a segment of the economy, plays a strategic role in providing the building and infrastructure underpinning the activities of the rest of the economy. The construction sector as covered by this work includes:

- manufacturers of construction products, covering the wide range of different manufacturer types and different product types for professionals or “do it yourself” applications sold to the general public;
- professionals involved in the design and construction of works, including the range of activities carried out by engineers, architects, and designers;
- professionals involved in the construction of works (contractors as a traditional concept of the construction industry);

- international manufacturers of construction products, involved in direct export of products, together with importers;
- the wholesalers and retailers.

The importance of the construction industry to the economy of the European Union is evident from its significance to total European gross domestic product (GDP) and employment. Information provided on the Council of European Producers of Materials for Construction (CEPMC) website indicates that the EU construction industry accounts for 11 % of total European GDP, while the European Construction Federation (FIEC, 2006) quotes a figure of around 9.9 % of GDP. FIEC identifies the construction industry (i.e. contractors) as the largest industrial employer in the EU, employing some 14 million operatives, or 7.1 % of Europe's workforce directly. Indirectly, the construction sector (producers and professionals) is reported to add an additional 12 million workers the above figures through related employment in support services, chemicals, consulting and other such related industries. FIEC also provides information on turnover for the sector, reporting that it was in excess of 1,000 billion EUR in 2004. This was divided between 2.4 million enterprises, the majority of which are SME (97 % of enterprises have less than 20 employees). These figures are consistent with those reported on the European Commission's website, which indicates that an estimated 910 billion EUR was invested in construction works within the EU-15, representing approximately 10% of GDP and more than 50% of the Gross Fixed Capital Formation. Construction is also an important sector within the economies of the new Member States. According to Lithuanian Statistic office, construction sector contributed about 10% of 32298 million EUR of GDP in 2008.

Information provided on the CEPMC website indicates that the manufacture of construction materials and building products accounts for about 3.5% of total European GDP. The CEPMC website also indicates that direct employment in the construction materials and building products industry is around 2.5 million.

International construction is broadly defined as where a company, resident in one country, performs work in another country, and has traditionally implied companies from advanced industrialized countries carrying out work in newly industrialized countries and/or least developed countries. Similar applies to producers of construction materials. The internationalization process of companies has been the subject of widespread research. Swedish and Finnish researchers have been particularly active in developing models explaining the internationalization process (Bjorkman and Forsgren, 2000). Among the ways for construction companies to enter international market most notable are:

- economic booms (for instance resulting from sale of oil);

- bilateral or multilateral agreements, which includes protocols that makes possible for companies of the participating countries to enter the markets of each other or one another;
- participation in large international projects;
- be a part or perform the work for Multinational Corporations.

Usually when Multinational Corporations move to new markets they remain to use already tested partners. At the same time the need for local knowledge is very important and Multinational Corporations tend to form Joint Ventures with local partners (Sebesteyen, 1998). Internationalization models may differ in detail but researchers come to similar conclusion that internationalization process is a dynamic and multidimensional process with accumulation of knowledge and feedback as central factors. Very important in knowledge creation is inward and outward connections. Majority of Scandinavian companies are starting international activities from inward operations – imports of raw materials, machinery and services. Those inward activities often results in starting production and outward operations. A good example how those connections works could be experience of couple Lithuanian companies which are successfully exporting wooden house elements to Scandinavian countries (JP Hause, GEO Sintetika).

Sustainable development in definition provided by Bordeau (1998) is a development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Various activities of the international construction sector must be regarded when considering sustainable development. The international construction industry has significant direct and indirect links with various aspects of the modern economy. From on site the built environment is the most important support of economic development. Roads, bridges, commercial and living buildings as well as other infrastructure are imperative attributes of every developed country in the world. On the other side international construction business has significant impact on resources – land, materials, energy, water and human capital as well as on the working and living environment. Producers of construction materials are strongly dependent on energy source (manufacturing of many construction materials is energy intensive). This applies particularly to cement, clay brick, ceramic tile, glass, gypsum boards and many other products. Sustainable international construction has different priorities in different countries. In Eastern and Central Europe where are big differences in terms of infrastructure development to compare with Western Europe and inflow of EU funds provides many of opportunities. Key market drivers of Central European construction sector:

- roads: a low number of motorways to compare with Western Europe (for instance Poland with similar size and population as Spain has only 674 km to compare with more than 10250 km in Spain);

- a small airport size compared to Western countries and grow of air transport industry accelerates the development of regional airports;
- underinvestment in city infrastructures (poor condition, shortage of bridges etc.);
- needs for renovation of residential and public estate (especially in Lithuania);
- number of flats/population;
- demand for logistics facilities (result of dynamic growth in trade, infrastructure development and transit between East and West);
- low modern office space area per capita;
- retail and hotel segment.

Differences in infrastructure provide opportunities not only for local contractors but for foreign players as well. In the sustainable economic development of a country and improvement in its citizens' living standards are very closely linked to the creation of infrastructure, including both transport infrastructure and that relating to the provision of essential services such as healthcare and education. Infrastructure constitutes a means of achieving geographical, economic and social regional cohesion because it integrates space, provides a backbone for a geographical area, makes it accessible, and provides basic services required for social interaction and production. Adequate infrastructure also increases productivity by reducing production costs, stimulating commercial activity, contributing to job creation, and generating income – making it possible to increase tax revenues without increasing the burden of tax payers. Finally, infrastructure stimulates private investment and capital accumulation, both of which facilitate the development, economic growth and social welfare of poorer regions.

It is not surprising prediction of WTO that more than 70 % of the world's projected investment in infrastructure over the next ten years will be concentrated in two countries with the fastest growth rates – China and India, because of their vast population and geographical size, they require enormous investments in infrastructure in order to support and help sustain their economic growth. Between 2002 and 2006, investment in Chinese infrastructure increased from 191 bn EUR to 420 bn EUR – an average annual increase of 22 %. China currently spends 9 % of its GDP on infrastructure. In addition, since 2004 – three years after work commenced on China's accession to WTO – foreign companies have been allowed to operate in China's construction industry. The rapid increase in the Indian population and the country's economic growth has generated enormous pressure in connection with the modernization and expansion of the country's infrastructure. The Indian government's five year plan (2002 – 2007) budgeted for infrastructure investments of 175 bn EUR. However, according to various studies, India needs to invest 9 % of its GDP in infrastructure until 2012 – compared with the current 5 % - and would need to invest up to 12.5 % of GDP annually until 2015 to reach China's infrastructure level. An investment of

more than 315 bn EUR will be required by 2012, of which approximately 20 % will be provided by private sector.

The volumes of investment planned in China and India present an important opportunity for European construction companies and producers of building materials. However, European companies appear to be some way behind their competitors from US in terms of the two economies that will lead infrastructure investment over the next decade but with their domestic and extensive international experience possess enough financial muscle to grasp the opportunities and face up to the challenges that will emerge in the coming years.

Sustainable construction has different approaches and different priorities in different countries.

Underdeveloped countries identify economic, social and cultural as part of their sustainable construction framework, but for developed Western countries the main emphasis on ecological impacts to the environment (bio-diversity, tolerance of nature and resources). According to Deloitte (2008) report as early as 2003, 78 % of Europe's fund managers and analysts predicted that sound management of environmental risks would increase a company's valuation over the long term. Investor relations managers also largely agreed that good sustainability performance would lead to a better reputation, increased market value and improved economical performance. One of the reason for this is sustainability and the environment becoming ubiquitous in the media, and regulatory changes gaining momentum (at the G8 Summit held in Japan in 2008, a resolution to halve greenhouse gas emissions by 2050 was adopted). Because of this the international construction industry is likely to play a crucial role: particularly through remodeling existing buildings to save energy, and building new energy efficient structures. Higher priority environmental concerns for consumers have caused demand to rise for environmentally friendly products. As result construction standards are changing, buyers and investors are paying increasing attention to the energy and cost – efficiency. Brand new opportunities for international construction sector are emerging in areas such as wind energy and geothermal and solar energy plant construction. Modernizing existing power plants, as well as developing the next generation, is also becoming increasingly important. Even nuclear energy – frowned upon in some European countries until just a few years ago – is being discussed as an option to fight energy and carbon dioxide related problems. For producers of construction materials concerns include avoiding materials that are not environment friendly and with significant level of emission. For example, to build an environmentally friendly building, construction materials with certain properties such as adequate heat insulation and air circulation must be used. Disposing of recycling waste in an environmentally friendly manner is also primary importance: both for ethical reasons and to help lower the cost of materials by increasing recycling ratios.

1.2. DEVELOPMENT OF INTERNATIONAL MARKETING AS A CRITICAL FACTOR OF SUCCESS IN PRODUCTION AND TRADE OF CONSTRUCTION PRODUCTS

Even though international marketing in trade of construction products is not a new phenomenon, globalization provides the possibility of new opportunities to companies from both well developed and emerging countries. Developing countries need new infrastructure and buildings and welcome specialized contractors from industrialized countries. The lowering of international barriers also allows companies to conduct business in developed countries. But the international construction business is sensitive to world events and it entails political, financial, cultural, and legal risks. Understanding the opportunities and threats associated with international markets and assessing a company's preparedness for international ventures are crucial.

There are several reasons for companies to expand their business into international markets. These reasons include stagnant domestic markets, spreading risk through diversification into new markets, competitive use of resources, and taking advantage of the opportunities offered by the global economy. Technological advances, political reform, worldwide trends toward privatization and an increasing recognition of economic interdependence, represent the primary forces of globalization (Kennedy, 1991).

International marketing takes place when the marketer explores markets outside the national boundaries of its domestic market. This often begins with direct or indirect exporting to a neighboring country. The focus is to find markets which have needs similar to those in the domestic market and can be satisfied with similar products and services. The marketing environment may be different and some adjustment may have to be made to the marketing mix elements, exporting in economic terms is basically the movement of surplus production abroad.

When organizations begin operating across a number of national/political boundaries, they need a more cohesive and constructive approach to their engagement with their international markets. The characteristics of international operations are the differing effects of, and the emphases on, the uncontrollable marketing elements and needs for differing marketing mixes to address those differences. However, international operators may wish to minimize the effect of these differences by operating a standardized marketing mix policy by appealing to global market segments. The emphasis may still be on central production, planning, implementation and control with deference paid to different market conditions. When organizations begin to produce in different countries and market according to the demands of local or regional markets, with the resultant devolution of production, planning,

implementation and control. Despite this devolution, most multinationals have a corporate base from which to operate through a network of subsidiaries.

According to the International Monetary Fund (IMP, www.imf.org), economical internationalization is a historical process, the result of human innovation and technological progress. It refers to the increasing integration of economics around the world, particularly through trade and financial flows. The term sometimes also refers to the movement of people (labor) and knowledge (technology) across international borders. It refers to an extension beyond national borders of the same market forces that have operated for centuries at all levels of human economic activity including construction sector.

Markets promote efficiency through competition and the division of labor—the specialization that allows people and economies to focus on what they do best. Global markets offer greater opportunity producers of construction materials to tap into more and larger markets. It means they have access to more capital flows, technology, cheaper imports and larger export markets. However, globalization could accelerate the development and it could take it away just as easily. The current global economic slowdown has made it clear that it is also no longer wise to base future economic growth on the export-led foreign direct investments which are largely driven by the interests of the USA and Western Europe.

Recent events of global economic downturn exposed many problems in international trade of construction products. Many producers become complacent because of enormous demand in construction sector especially in emerging economies. Some of them created double standards by forcing other countries to open up their markets. The advent of new technologies has opened up business and marketing opportunities in the development of innovative products and services, and the creation of new values to consumers. In order to be able to develop successful customer-driven global marketing strategies, companies need to take into account changing consumer expectations and learn from their past mistakes. The increasing expectations of consumers and the quickening speed of technological change are leading to shorter product lifecycle. This means that the window for investments in research and development, and pursuing dominance, is narrowing. In order to compete organizations form alliances with other market players either on a temporary project or something more permanent such as a joint venture. The new competition most likely will be between networks rather than single organizations. There is a lot of speculation about companies improving their customer relations and taking a less combative approach to construction. Now is the time when those improved relationships should come to affect.

There can be little doubt that pressure to innovate and to find new approaches to managing successful marketing operations will continue. However, new thinking in international marketing management should not forget the old theories. Organizations have to recognize that effective management of relationships and core capabilities will continue to be crucial to the success of an

enterprise. There is no universal approach which could provide the solution for every organization. As organizations and consumers become more diverse, the search for a one-size-fits-all marketing solution will prove self-defeating. The international marketing is a key to success by asking right question and finding right answer. The purpose of this work is to underline the challenges facing producers of building materials in international market and suggest the ways to under come them.

2. THEORETICAL MODELS AND RESEARCH METHODOLOGY FOR DEVELOPING INTERNATIONAL MARKETING IN PRODUCTION AND TRADE OF CONSTRUCTION PRODUCTS

2.1. MARKETING THEORY AND APPLICATIONS IN DEVELOPING INTERNATIONAL PRODUCTION AND TRADE OF CONSTRUCTION PRODUCTS

2.1.1. INTERNATIONAL MARKETING CONCEPT

The word “market” comes from Latin mercari, meaning “to buy or trade”. Merchant finds its roots in merx, which means “goods”. The market is anywhere that goods or services may be traded. Today, it can range from a simple open-air exchange “Gariunai” to a description of an entire economy or EU or commercial function like stock market. The market also covers specific ethnic, cultural, religious, national, and social or political groups. People can group themselves as a market (e.g. EU or NAFTA). All markets can be subdivided into smaller and smaller groups all way down to an individual person, if needed (Curry, 1999).

In this part of work I concerned to develop some common understanding of what it might legitimately be described as Marketing and to show how it relates to business development, activities, managerial functions and behaviors. According to Gordon (1995), the basic relationship that exists between organizations and their customers is described as being an exchange of values. Marketing managers make decisions about a wide range of activities in order to accomplish the market exchange. They make choices between various types and levels of effort and expenditure in respect of the product, its price, how it will be promoted and how it will be made available to the consumer. These choices result in a particular mix of marketing efforts and this has become known as the marketing mix. Although the mix can contain numerous marketing decisions variables (sometimes referred to as “tools” or “instruments”), common shorthand is to cluster them into 4Ps of:

- product;
- price;
- promotion;
- place.

In their discussion of the marketing mix Christopher, Payne and Ballantyne (1991) argue for the inclusion of two additional Ps:

- people (to emphasize the personal care needed in performing services for customers);
- processes (because people cannot perform without structured processes in product and service delivery).

This listing should not be interpreted as a comprehensive picture of marketing decisions, because it omits important strategic considerations. It also gives no explicit recognition to the emergence of relationship marketing. Increasingly, the trend is not to emphasize the individual exchange transaction but to consider the development of long-term customer relationships, with some accent on customer service.

Exchange occurs in all aspects of life, organizational and personal and the process of exchange can be carried out in a variety of ways. If customer has gained little or no value from the exchange it only works short time, i.e. until the lie is discovered (“I Win, You Loose” approach). However, organizations require to exist through time and not only to create customers but to keep them.

It is common to classify the development of commercial exchanges into three types or orientations:

- production orientation;
- sales orientation;
- marketing orientation.

The first two of these are essentially based on the “I Win, You Loose” approach to exchange.

Production orientation: where business emphasize in production and the achievement of low costs. To fully achieve these economies both production and sales had to be in large volumes and the actual product had to be standardized to allow for mass production. The emphasis on business operations was, and for some companies still is, on production and capacity planning. Sales could almost safely be assumed.

Sales orientation: as many businesses found themselves with similar costs to their competitors there were limits to how far prices could be pushed down. Business looked for non-price methods of competing. They began to employ techniques such as personal selling through large sales forces; advertising through mass media; sales promotions such as give-aways and special offers. Both orientations are still current among businesses throughout Europe and in some cases, both are effective as business orientations. However, in many marketplaces and in many industries, both orientations have been identified as prime causes of business underperformance and failure. The characteristics of current markets require that business adopt another orientation.

Bathie (2005) describes: – a marketing orientation is the recognition by the business of the primacy of customer values in exchange and the focusing of business thinking and activities on exchange with customers.

In contrast to the two orientations described earlier, the Marketing Orientation is concerned to look outside the business itself and to use its knowledge of customers, their values and their behaviors, as a means of defining and executing business activities. This customer focus is not adopted by business because it is in itself a “good thing”. Just as increasing competition caused to shift emphasis away from production toward sale, ever more competition, excess supply in many markets and the shifting values and behaviors of customers – have caused business to shift emphasis again from internal efficiency toward external effectiveness in the market place.

An alternative to the “I Win, You Lose” approach to exchange is the “You Win, I Win” approach. The third orientation defined above, the Marketing Orientation is based on this latter approach to exchanges and seeks to increase the total value of an exchange by ensuring that both parties gain from it. For example, in commercial context, customer gains from the extra values that the product or service provides and the business gains from immediate and future revenues generated from a satisfied customer. Bathie, (2005) argues that the Marketing orientation requires that business:

- recognizes that business objectives are only achieved through exchanges with customers;
- recognizes the primacy of customers, in terms of values and behaviors, in the exchange process;
- organizes business activities around focus on customers receiving value from exchange with the business;
- creates exchange relationships with customers that are mutually beneficial as a basis for a continued relationship.

The “You Win, I Win” approach is based on the creation of long term, mutually satisfying relationships with customers. Business requires not only to create but also to keep customers, to survive and succeed. “You Win, I Win” exchanges are the most effective and increasingly the only way to carry out business.

2.1.2. THE EXCHANGE PROCESS

As marketing is concerned with exchange and specifically the “You Win, I Win” approach to exchanges, it is worthwhile considering the essential nature of exchanges. For exchange to occur certain conditions must be present – there must be two or more parties, willing and able to exchange and having

something of value to the other party to exchange. Exchanges under these conditions happen all the time of course. The major differences for a business exchanging values with customers are:

- the distance between the business and its customers, sometimes geographically, certainly in terms of knowledge and belief;
- the number of exchanges between the business and its customers, sometimes with millions of customers having the potential to exchange with business over many years;
- the need for the business to exchange in order to survive and grow through sales revenue generation;
- the ability of customers to access other sources of value, i.e. competition; in preference to the business' values.

Bonora and Kosnik (1990) identified common conditions under which marketing exchanges take place as:

- buyers outnumber sellers;
- any individual buyer is weaker than any individual seller economically;
- the total economic power of even a fraction of buyers is enough to ensure the existence of, or to put out of business, most sellers or group of sellers;
- the sellers compete to sway the largest number of buyers they can to their, rather than another seller's (competitor's) offerings;
- the sellers, in their attempt to meet competition and attract the largest number of buyers, are influenced as well, regularly modifying their behaviors so they will have more success, with more buyers, over time.

Under all these conditions the business must attempt to manage the exchange process between itself and its potential customers. Effective management requires knowledge and understanding of the situation, and effective marketing requires knowledge and understanding of the exchange process and the market situation.

Businesses are designed and operated to achieve objectives set for them by whoever controls them. For the business to survive and achieve these objectives, the business will have to earn some level of profit and generate sales revenue to do so. Somebody somewhere has to pay – the customer. Peter Drucker (1968) expressed the central importance of the customer clearly in:

“There is only one valid definition of business purpose: to create a customer... it is the customer who determines what a business is. For it is the customer and he alone, who through being willing to pay for a good or service, converts economic resources into wealth, things into goods. What the business thinks it produces is not of the first importance – especially not to the future of the business and its

success. What the customer thinks he is buying, what he considers “value” is decisive – it determines what a business is, what it produces and whether it will prosper”.

Bathie (2005) argues that effective exchange and marketing relationships require that the organization **create** customer values. However, this is not enough. The customer and business must share the same meaning about values that the business is offering in exchange. It is also necessary to **communicate** to the customer the type of value available and the means of accessing those values. All the effort that has gone in creating values and communicating them must eventually result in the actual exchange or **delivery** of values. Figure 1 (Bathie, 2005) outlines the exchange process as it is described.

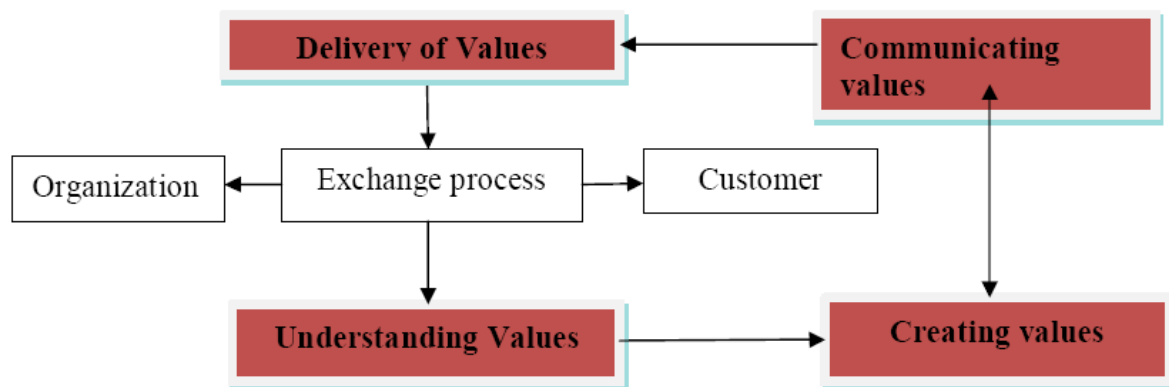


Figure 1. The exchange process.

Figure 2 (Oliver, 1995) describes a full model of the exchange process in a business context and acts as a structure. The marketing cycle described in figure links together three loops relevant to the marketing oriented organization.

Customer loop – the customer’s view of the world and their behavior in acquiring value; this is the focus for all organizational planning and activity. The general process illustrated in figure simplifies customer behavior into following stages.

1. That customers do have values in exchange that derive from their characteristics in terms of the objectives, needs and wants that they wish satisfied from exchange. Customers will also have patterns of behavior they have learned which guide them in carrying out exchange transactions. These patterns of exchange are generalized in the other three stage of the process described.
2. On the basis of their characteristics, objectives, needs and wants, customers will enter into exchanges with some idea of the values they are seeking and expecting from exchange. These values may be clearly held and measured by customers – as in the case of important, expensive purchases such as new house or a crucial piece of industrial equipment. Values may equally be

unmeasured and perhaps not fully realized by customers, e.g. where the purchase is seen as relatively unimportant or where the purchase has been made many times before and the customer relies on habitual behavior rather than consciously re-evaluating values.

3. Customers enter the market with a set of values they seek to acquire. Some of those values are general to them as customers, e.g. values with regard of to individuality, status, and care for the environment; some of those values are specifically related to product performance, e.g. the level of performance they seek, the price they are able to pay. It is a characteristic of many international markets that the customer will have several if not many sources of value to choose from i.e. the customer will be faced with a whole range of competing business' products, each capable of delivering some or all of the values. The customer will go through some kind of process of evaluating the alternatives and choosing a preferred alternative.

Exchange loop – the stages of the general exchange process.

Business loop – the tasks that business organizations have to achieve to carry out effective exchanges based on customer behaviors.

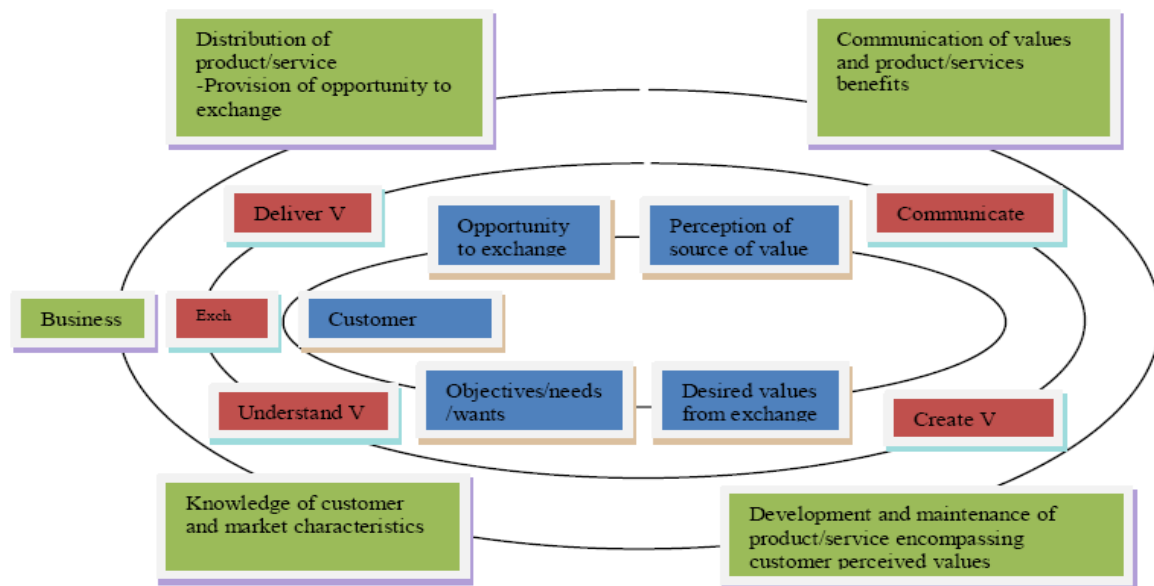


Figure 2. The marketing cycle.

The outer loop of the Marketing cycle describes the general tasks and activities that the marketing oriented business must carry out to successfully create and maintain business – customers relationships:

1. The international business has to have and must continuously update its knowledge of customers and the general market conditions that customers operate in, e.g. not only what customer values are being sought and typical customer behaviors in acquiring values, but also

an alternative and competing source of value and the systems that already exists for customers to learn about and acquire values (such as media available and the presence of absence of channels of distribution). The point of having this type of knowledge is to use it to make international business – customer exchange more effective, using knowledge and understanding to create, communicate and deliver customer values in such way that customers use and continue to use the product and that the business generates profitable sales revenues. The knowledge must be systematically gathered and analyzed to make effective marketing decision.

2. The first use of such customer and international market knowledge is to determine what customer values to create and for which particular group. Decisions related to the creation of values for which customer group can be viewed at two related levels: the total organization level – where the value creating and customer selection decisions are treated as strategic decisions which will determine the match of the whole organization's resources to its market environment. Another level is the marketing function level – where value creation is concerned with decisions related to actual products, e.g. physical characteristics, the branding of products, the range and variety of products to be made available, decisions to develop new products and to eliminate old ones.
3. In modern, dynamic international markets, customers are faced with variety of competing sources of value and are subjected to an increasing volume of information about the relevance of these product's values to them as customers. The potential customers of a business may be aware of unaware of the business' product values; they may be convinced or unconvinced as to the values of the product and their relevance to them; they may know or not know how to gain access to the product. Businesses cannot rely on customers to spend time and money on finding out about products and trying them. The business has to communicate the products' values to the customers. As with the creation of values, the communication of values by business is both an organization wide commitment and a specific marketing function.
4. All the activities of the business in creating and communicating values to customers will be wasted if the customer cannot access the business' product. The business has to ensure that the product is available to the customer to complete the transaction – the actual exchange of values. Such delivery of customer related values requires that the product is physically available. It also requires that the transaction itself does not reduce the values created and communicated. For example, that the experiences of the customer in acquiring the product do not reduce customer values to such an extent that the customer does not complete the transaction or does not return to further transactions, e.g. the level of customer service given in the transaction is enough or

more than enough to enhance the values being offered. The responsibility for delivering customer values can again be viewed at both the whole organization level and at the marketing function level. Customer service can be delivered by all parts of the organization. Within the marketing function of the organization, the delivery of customer values is based on decisions related to the physical distribution of products; the management of channels of distribution such as wholesalers and retailers; the direct delivery of values to customers.

King's (1985), recommendations regarding the essence of international marketing are still particularly noted:

- putting the customer first;
- giving satisfaction over time;
- using all the company resources;
- innovating.

2.1.3. INTERNATIONAL MARKETING PROCESS

The multi channel marketing model, proposed by Hauser and Lewison (2007), is based on five phase marketing process from unearthing potentially new and promising customer needs (analytical marketing), to mining and converting raw data into useful information (database marketing), to formulating new and successful ways of filling customer needs (strategic marketing), to building and operating a collection of pipelines capable of extracting sales (multi-channel marketing), and, finally, to managing and adapting the relationships required to directly serve chosen market prospects (relationship marketing).

Phase 1: analytical marketing

The first phase of the multi-channel marketing process – analytical marketing deals with gathering, analyzing, and interpreting the marketplace intelligence needed to make informed decisions concerning the internal and external aspects of your marketing effort. Successful marketing operations necessitate a complete understanding of the following:

- existing and potential customers;
- external and internal environments;
- levels, types, and degrees of competition.

It is imperative to know what customers think and how they act. Customer analysis is a mix of tools and techniques used in diagnosing past buying behavior and forecasting future buyer activities. Multi-channel marketers must continuously gather relevant information about what, where, when, why, and how

customers buy and behave. Important to know how prospects and customers act and react to various situations involving the procurement of products and the adoption of ideas. The buying behavior of individual consumers and organizational buyers tend to be significantly different. Consumers have become strategic shoppers with the knowledge and experience to go beyond simple searches for the cheapest or best-known products. Today, consumer buying activities have become multi-dimensional behaviors involving numerous marketing channels and a complex set of integrated and interacting forces. Consumer buying decisions, and the resulting patronage behavior, involve a problem-solving process in which consumers are swayed by a wide variety of internal and external influences. Figure 3 illustrates the relationships between the five stages of the buyer behavior process and the four categories of buyer influences.

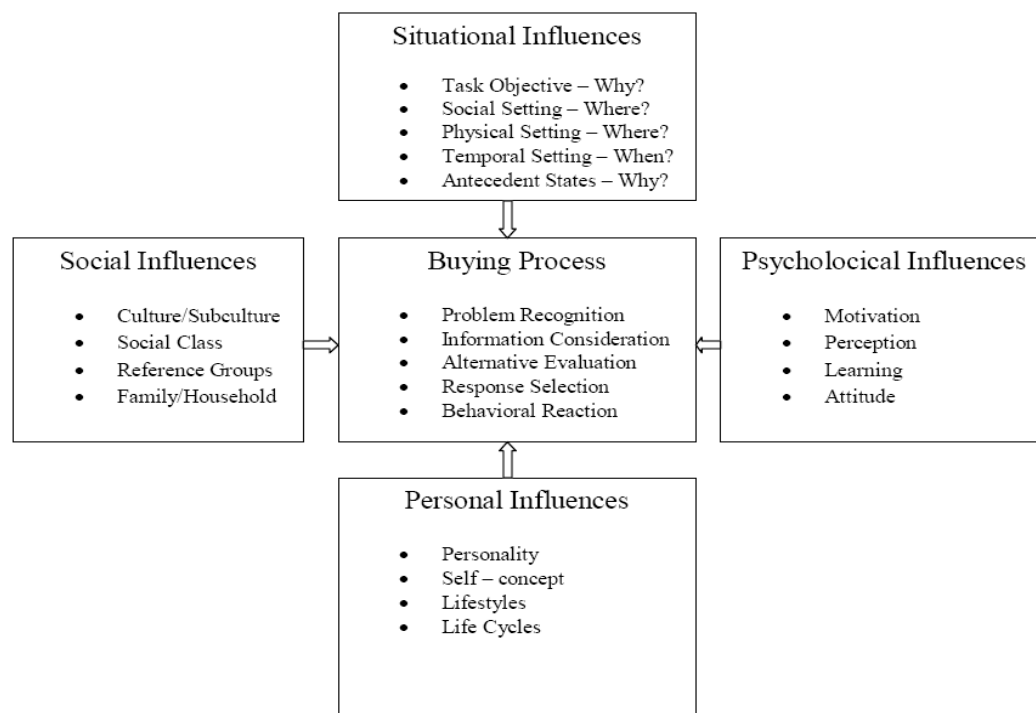


Figure 3. Customer analysis (Hauser and Lewison, 2007).

Organizational buying tends to be more rational, systematic, complex, professional, and direct. Organizations tend to use some form of multirole buying centers wherein need initiators, decision influencers, gatekeepers, decision makers, purchasing agents, and product users interact in a variety of ways to arrive at a purchase decision.

While the complexity of the organizational buying process is difficult to generalize, it tends to be a five-stage series of activities that is similar to the individual buyer buying process. The five steps of organizational buying typically consist of the following:

- 1) need for recognition and specification;
- 2) vendor identification and consideration;
- 3) proposal solicitation and evaluation;
- 4) vendor selection and order placement;
- 5) product inspection and performance evaluation.

Phase 2: Database Marketing

After gathering and categorizing information regarding customers, competitors and the environments and conditions under which company must operate, the statistic information can be changed it to actionable intelligence. Database analysis is all about transforming data into useful intelligence that allows to develop successful operational marketing programs.

A database is a compilation of data that can be accessed and organized using computers to make queries, sort data, and extract information through the identification of patterns and trends. Database marketing focuses on discovering relevant trends and patterns in customer and competitive behavior as well as identifying the opportunities and threats that are inherent in the international marketplace environment. The most common forms of databases are those related to the following customer traits and activities:

- purchase history in terms of what, how, and when of the customer's buying behavior;
- the type and level of response to previous offers;
- customer satisfaction levels with previous experiences;
- demographic characteristics;
- contact information;
- psychographic (interests, lifestyles, and activities) profiles.

Database marketing is a highly regarded marketing tool that allows to closely monitor customers and permits to categorize them in terms of their lifetime value to organization. It allows to identify the most profitable customers as well as those who are not worth the expense and effort of retaining. Good database analysis is an essential tool to identifying market segments, selecting target markets, executing tailored marketing efforts, and developing cross-selling opportunities. Databases are very useful in providing a strong analytical foundation for marketing plans and establishing the quantitative measures and successful implementation of those plans.

The essential steps in analyzing a market include market segmentation (dividing the heterogeneous mass market into more homogeneous submarkets), market targeting (selecting one or more market segments to be targeted and developed), and market positioning (creating in the minds of target buyers a distinctive position or image for firm and its products and marketing programs). According to Lindridge

and Dibb (2002) segmentation is attractive because it helps companies to improve their marketing effectiveness and can lead to more satisfied customers, improved competitiveness, increasingly efficient resource allocation and better designed marketing programs... the underlying principle of segmentation is that customers can be grouped using variables that help to discriminate between product needs and buying behavior.

Phase 3: Strategic Marketing

An intangible asset (information) is a major source of wealth in the knowledge/experience/service economy of today. Marketing strategy is the force that drives this value-creation process. A well-articulated marketing strategy is a vital integrative tool for connecting the realities of the marketplace with the practicalities of a strong marketing effort. Good strategy can provide direction and focus to each marketing program, give meaning to the marketing effort by creating a unique identity, reduce ambiguity and inconsistency in decision making and action taking, align and integrate vertical and horizontal marketing operations, create value for all of the firm's stakeholders, and assist the firm in gaining a sustainable competitive advantage by finding the right strategic fit between the internal organizational capabilities of the firm and the marketplace possibilities of the external environment. There are several categories of international marketing strategies and it will be discussed in this work further.

Phase 4: Multi-Channel Marketing

In traditional international marketing channel members (jobbers, distributors, manufacturers, wholesalers, and retailers) operated in a self-serving fashion by seeking for power and control of channel operations and market access. The limitation on vertical integration (between various levels of the channel) and the total absence of horizontal integration (between different types of channels) minimized most efforts at establishing a cooperative and coordinated channel effort. The dawn of a new era of multi-channel marketing will require most businesses to pursue a strategy in which they use several different channel alternatives that are both vertically and horizontally integrated. Channel alternatives include personal, electronic, broadcast, print, and teleservices channels.

Personal channels feature one-on-one explanations and demonstrations of the attributes and benefits of an offer. Brick and mortar retailers and direct personal selling are the two most common forms of face-to-face personal channels. Electronic channels utilize the Internet for communicating and interacting globally. By using text, pictures, sound, and video, electronic channel marketers use the World Wide Web and e-mail to contact prospects and customers. Radio and television constitute the primary forms of broadcast channels. Because broadcast channels have traditionally been limited to outbound communication with little or no inbound interaction capabilities, they are poorly configured for direct customer response. However, as part of a multi-channel strategy, broadcast channels play a vital role in a

multidimensional marketing network. Print channels rely on words and visuals (pictures, tables, and graphics) to extend and accept offers. Direct mail packages, magazines, and newspapers are the principal print media for generating customer interest and response. The final channel alternative is teleservices channels. The telephone is a convenient and effective two-way communication tool; as such, it can be used to contact and interact with prospects and customers (outbound telemarketing) or customers itself can contact and interact (inbound telemarketing).

Phase 5: Relationship Marketing

The marketing discipline was initially dominated by US-based consumer goods mass-marketing approaches. However, the so-called '4Ps' (or marketing mix) model of transactional marketing (TM) was to become too restrictive for modern international business practice. After the 1960s the market conditions that had favored TM began to change. Many consumer markets became saturated, population growth was declining and customers were becoming more demanding. However, much marketing practice did not reflect these changes and continued to be based on short-term economic transactions. Managers appeared to be guilty of viewing their customers in two ways: (a) as virtually passive recipients of promotional messages from marketers, and/or (b) as one half of adversarial relationships. This left TM as nothing more than 'hit and run' marketing (Buttle, 1996), without any consideration of future contact. Expenditure was usually directed at acquiring more customers instead of looking after existing ones.

During the 1980s and 90s relationship marketing (RM) emerged as an alternative approach to TM. Rather than basing its principles on consumer goods markets, RM developed from relationship issues surfacing in industrial and service marketing. Instead of manipulating the marketing mix, RM attempted to manage the relationships that are the context for trading. Relationships are founded on the creation and delivery of superior customer value on a sustained basis. For relationships to succeed, both parties must receive a degree of 'value'.

Rather than attempting to manage customer awareness and preferences through mass communication, as is often the case with TM, RM seeks to establish individualized, personal links with customers. It tries to create this 'intimacy' via strong personal appeal and continuing commitment, recognizing that at all times the customer can be a highly active agent (Varey, 2002), capable of taking their business elsewhere if their needs are ignored.

The ways in which RM differs from the transactional perspective of marketing is illustrated in figure 4 below.

Transactional Marketing	Relationship Marketing
✓ Focus on single sales ✓ Focus on volume ✓ Short term timescales ✓ Emphasis on product features ✓ Little emphasis on customer service ✓ Moderate but discontinuous customer contacts	✓ Focus on customer retention ✓ Focus on customer value ✓ Long term timescales ✓ Focus on relationship quality ✓ High emphasis on customer service ✓ High level of continuous customer contacts

Figure 4. Comparing relationship marketing to transactional marketing (Christopher, et al., 2002).

RM embodies the following elements (Christopher, et al., 2002):

- it involves a managerial shift in perspective from purely economic transactions to the ‘fuzzier’ boundaries of socio-economic exchange (i.e. recognizing that relationships involve people);
- it understands the economics of customer retention, as opposed to merely attracting customers;
- it recognizes the need for quality, customer service and marketing to be closely integrated;
- it extends the principles of relationship management to a range of market domains;
- it highlights the role of internal marketing in achieving external marketing success and ensures that marketing is considered cross-functionally.

As interaction between individuals is vital to successful relationship management, the more that the ‘social element’ of a relationship can be enhanced through, for example multiple contact points between firms. This need not necessarily involve a high degree of ‘socializing’ (dinner parties or basketball tournaments), but should give managers in particular functional areas in a selling firm the chance to communicate with managers in certain key roles within a buying firm. A move away from simple key account management with a single point of contact (i.e. sales manager and buying officer) towards a larger number of ‘interfaces’ between departments should be encouraged. In this way, the classic ‘bow tie’ model of KAM becomes a diamond. This may be a difficult area for senior managers in international contexts to control, but will provide a bond that is difficult to break (Donaldson and O’Toole, 2002).

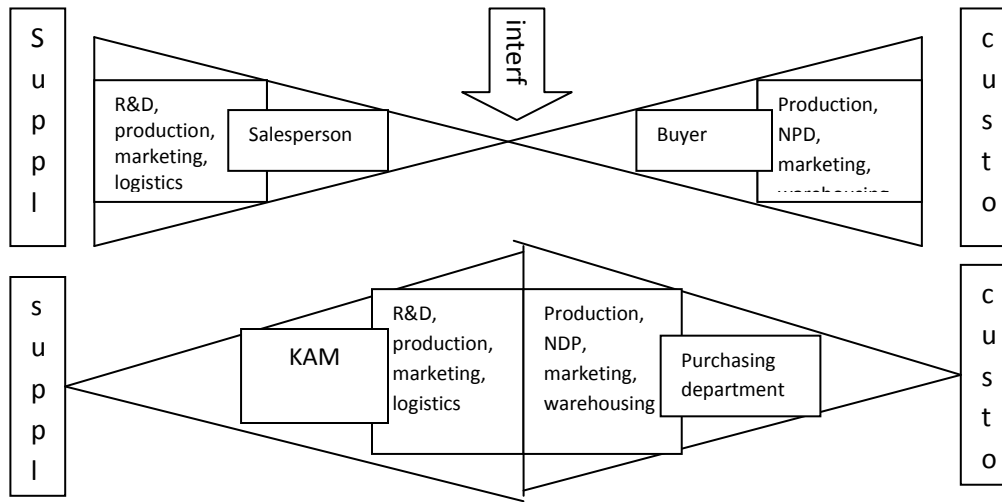


Figure 5. Alternative approaches to inter-organizational interaction: “bow tie” and “diamond” models.
Adopted from Egan (2001)

Learning in global marketing relationships is often the major form of added value that occurs between firms. It is harder to achieve across cultures, but to facilitate learning, routines should be built into the relationship such as formal and informal mechanisms for communicating and sharing new knowledge. This requires openness on behalf of managers and a willingness to learn. A helpful model has been put forward by Kanter (1994) which suggests eight ‘I’s needed to facilitate a more collaborative approach to managing relationships:

- 1) individual excellence - both parties should bring strengths and competencies to the relationship;
- 2) importance - both parties see the relationship as strategic;
- 3) interdependence - both parties need and complement each other;
- 4) investment - both parties are prepared to commit resources to the relationship;
- 5) information - both parties share information and communicate continuously;
- 6) integration - there are numerous linkages between the parties;
- 7) institutionalization - the relationship becomes formal and company-wide, not just between the two managers who may have instigated it;
- 8) integrity - both parties behave in a way that reinforces mutual trust.

2.1.4. INTERNATIONAL PRODUCT AND BRAND MANAGEMENT

A successful global product and brand strategy needs to assess what products, current or future, in the portfolio, need to be promoted, deleted or developed to match the market segments currently served, evolving or planned. To achieve this requires an understanding of customer and market needs and when to

provide a product or service to satisfy transnational segments or to adapt the product or service needs to local requirements. International markets often provide product opportunities, existing or new, which may be an incentive to enter international markets. These opportunities may be the result of analyzing customer purchase motives globally and the benefits which the product or service can supply.

To decide on what to offer internationally product wise, it is essential to know what makes a ‘product’ and what needs to be done to make it acceptable to the international market. There are different descriptions of what constitutes a product. Table 1 shows a description of the ‘product’ components.

Core Benefits	Core product or service, performance, image, function and technology
Attributes	Design, brand name, size, color, quality, specification, styling and price
Support and Services	Delivery, distribution, repairs and maintenance, installation, warranty, guarantees, after sales service, after parts
Potential Benefits	Aspirations, associations

Table 1. Components of a product or service (Lee and Carter, 2005).

Kotler (2003) describes the product benefits as the elements the consumers see as meeting their needs and providing satisfaction through product performance and image. He views the product attributes as the elements most closely associated with the core product, such as specifications and quality, and the marketing support services as additional elements contributing to satisfaction, including delivery and warranties. He offers a slightly different version of ‘basic product’, ‘expected product’, ‘augmented product’ and ‘potential product’.

According to Vignali (2001), it is difficult to find a completely standardized product or service, although the more technical the product or service, the more likely is the standardization. He states that, although substantial cost savings can be obtained through standardization, being able to adapt to an environment ensures success. Table 2 summarizes the arguments for standardization versus adaptation.

Standardization	Adaptation
Lower costs of production and marketing—economies of scale	Greater market share in specific segments which might otherwise be lost
Quicker ROI returns	Greater motivation by local management
Easier organization and control of product management	Ability to match or exceed competitive offerings
Takes advantage of growing global homogenous market segments	Takes account of cultural differences
Globalization forcing standardization	Responsive to changes in local legislation
Allows product enhancement extensions without incurring too much change	Addresses product liability and ethical considerations

Table 2. Criteria for standardization and adaptation in international markets (Vignali, 2001).

Rundh (2001), in addressing the problem of SMEs in the internationalization process, acknowledged the fact that the standardization versus adaptation argument was equally applicable to small as well as large enterprises, especially those SMEs in developing countries. Developing networks for export purposes is one suggestion but, in order to work up local export markets it is necessary to adjust the marketing strategy to the local requirements of different customers. The need to adapt the product may vary between industries and product areas and these have an influence on other variables in the marketing mix.

Rundh argues that to be competitive in the international marketplace it is necessary to meet the local market in relation to technology and product quality. The need for local customization is of great importance. Rundh sees the key to this as the ability to build up long-term relationships with customers in the local markets. This requires a high degree of commitment from top management and different resources for different markets - which SMEs may not be able to afford.

For SMEs, standardization may be the best initial entry strategy of adaptation for a few markets only, unless they can network with other SMEs and obtain resources to enter more markets with more adapted products or services.

Lee and Carter (2005) suggest that organization may decide to embark on an international product strategy based on a number of factors:

- the company's overall market objectives;
- its decision on the resources to be committed to international development;
- market and customer expectations;
- the products and services themselves;
- marketing mix support;
- environmental constraints;
- risk and control.

The product lifecycle is used as the theoretical basis for new or even existing product expansion. In domestic marketing, the product lifecycle has been cited as a useful planning concept which could also be used in international marketing (see Figure 6).

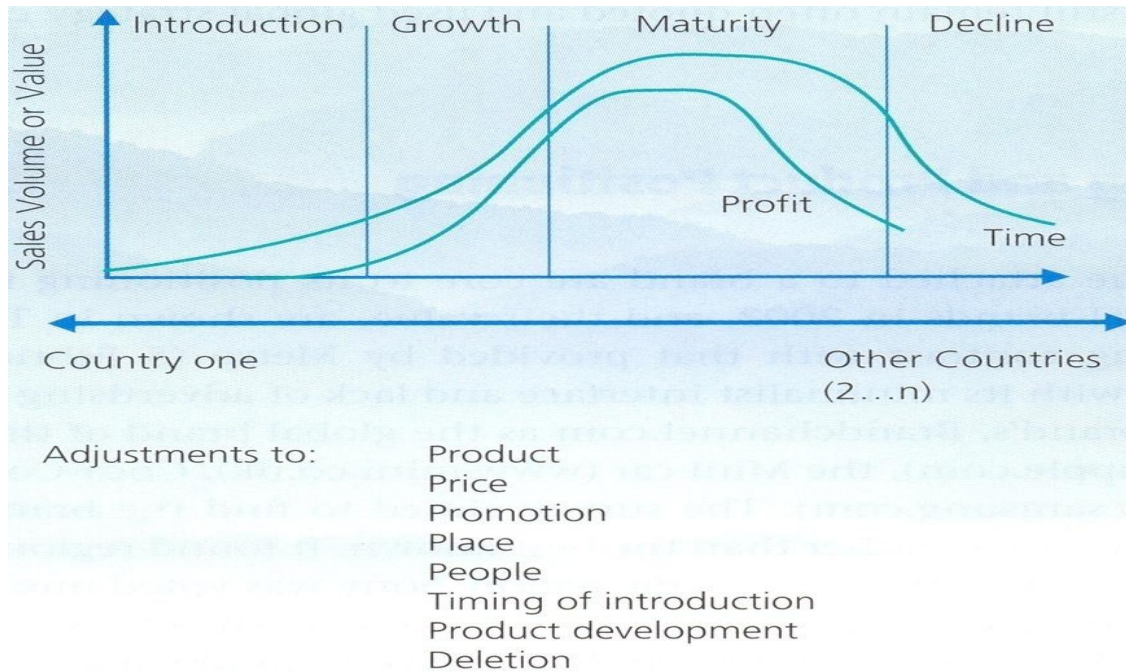


Figure 6. The product life cycle (Lee and Carter, 2005).

Introduction

The introduction of the product begins with first appearance of the product in the market place. At this stage customers are unaware of the product, its values and benefits; sales are initially nil and profits are negative. A great deal of the marketing effort at this stage is concentrated on communications with the targeted customer group. At this stage, because of the drain on cash flows, the risk associated with introducing new products and the possible need to modify the new product, it is likely that the product offered will be basic with very few, if any, versions of the product being made available.

Growth

Assuming the product survives the introduction, it might rapidly move into the growth stage, where sales increase rapidly. Profits during this stage reach their peak. At this stage the product line will be broadened as more product items are introduced to reach specific market segments.

Maturity

This stage of the PLC marks the widest distribution of the product and the highest levels of competition in the market. Products will be competing for a share of fairly static market. The intensity of competition and the need to spend on marketing activity leads to a reduction in profitability even though sales revenues might remain constant. For a particular product line, the maturity stage is characterized by having the deepest product line (i.e. maximum version of the product) in the PLC.

Decline

The dynamics of the market, such as changes in customer values and expectations, coupled with the introduction of new sources of values by competitors, lead to decline in the PLC – marked by rapidly falling sales and profits. The decline will lead to the “pruning” of the product line with those products not making a contribution being deleted.

The product trade cycle or product lifecycle (Vernon and Wells, 1968) suggests that many products go through a cycle during which high-income, mass-consumption countries which are initial exporters, lose their markets and finally become importers of the product. At the same time, other countries, primarily developing countries move from being importers to exporters. Entrepreneurs realize that the markets to which they are selling have lower production costs, therefore production for the new products is relocated, so starts the second stage. Foreign and high-income-country production begins to supply the same export market. When foreign producers expand and gain experience, their competition displaces the high-income production source. At this point high-income-production countries begin to invest in foreign markets to protect their share. As foreign producers expand, their economies of scale make them a source for third-country markets where they compete with high-income exporters. The final stages of the cycle occur when the foreign producer achieves such a scale that it starts exporting to the original high-income producer at a production cost lower than its original high-income supplier. High-income producers then face competition at home. The cycle continues as the production capability extends from other advanced countries to less developed countries at home, then in international trade, and finally, in other advanced countries’ home markets.

The Boston Consulting Group’s matrix of market growth against market share is particularly complex when applied to global markets. If competition is fierce, relative market share by country and product may be hard to assess, making it difficult to choose a retention, growth or elimination strategy. A matrix analysis is useful in attempting to balance the portfolio of international market involvement with the allocation of investment funds. Many firms are currently investing in China to take advantage of expected market growth, but they are reining back in the Middle East, where expected growth is lower. A company’s market objectives, stage in the product lifecycle, and manufacturing and marketing capacity will all influence the decision to add to, eliminate, grow or consolidate the products in different markets.

An analytical tool, such as the BCG matrix, will also enable organizations to assess the focus of their business. Companies such as British Gypsum (www.british-gypsum.com), one of the world’s leading manufacturers of plaster and plasterboard products has been divesting its paper-making capacity and concentrating on its core business, purchasing companies which make similar products throughout the world.

The product lifecycle and matrix approaches have been subjected to critical review (Kotler, 2003). Some products do not go through the product lifecycle, for example bricks, which show more of an undulating cycle corresponding to surges and troughs in building cycles. The matrix approaches have suffered from the 'snapshot in time' syndrome and one of the major problems is in predicting market growth rates or competitive share and investment accurately. When is the right time to introduce a product to the market, or delete one? Nonetheless, these concepts have survived the criticisms and evolved to meet many of them, and still remain often quoted and used global strategy conceptual building blocks.

The image and value attached to a brand are core to its positioning in the market. Different markets attribute different images to brands. Consumer acceptance depends on their assessment of the brand's intrinsic features (size, design, etc.) and extrinsic features like name and country of origin. Lack of knowledge of the range of product features leads to generalizations of the brand based on country of origin. For example, goods made in China can be viewed negatively whereas Swiss products conjure up a positive image. Overcoming these stereotypes can be a challenge to marketers.

Brands are the means customers use to differentiate products and services based on extrinsic and intrinsic features and are a source of an organization's differential advantage. De Chernatony (1989) suggests nine themes which differentiate a brand:

- a legal instrument;
- a differentiating device;
- a company;
- an identify system;
- an image in the consumer's mind;
- a personality;
- a relationship;
- added value;
- an evolving entity.

Medina and Duffy (1998) propose a four-level classification of international branding strategies, based on the standardization and adaptation argument:

- standardized brand (core and augmented components primarily for the domestic market but have global appeal);
- adapted brand (core components standardized, but augmented components adapted to local legal and market conditions);
- customized brand (core and augmented components to international target markets);

- globalized brand (compromise brand incorporating attributes of previous varieties, with standardized core and attributes added on to meet unique country or regional requirements and expectations).

According to Alreck and Settle (1999), brand evaluation is influenced by six consumer values: dependability (reliability), longevity (durability), leisure (convenience), aesthetic (attractiveness), frugality (expense) and simplicity values (how complicated it is).

2.1.5. *NEW PRODUCT DEVELOPMENT*

New products are a necessity in international product management strategies. Not only are they a source of competitive advantage, they are also essential when market segments tire of product offerings, products have come to the end of their lifecycle or competitors produce better ones. In general there are few new products. Most new products are revisions or improvements to existing ones. Market diffusion, often by different entry modes, is one way of introducing products to new markets, just as new product lines may be 'more new' to companies than mere process or other cost reduction new products.

Bathie (2005) describes development of new products as being "between a rock and a hard place". Markets and customers are continually changing in response to a wide range of influences. These changes lead to cycle of change in sales and profits as described by PLC. Such a cycle, which predicts falling profits from existing products, leads to pressure to develop new products to replace those in decline and to maintain the relevance of the organization's product portfolio, i.e. the "rock".

The development and introduction of new products is characterized by relatively high levels of development spending and high risk of failure. This high risk might be reduced by a comprehensive process of development which takes time and money. The longer the process continues, the more expensive product development becomes. The risks associated with new product development can be described as the "hard place".

Particular efforts have been made by marketers to develop systems for new product development which lead to reduced risks of failure while minimizing the expenditures incurred in development. Several development processes have been described in the marketing literature. A general framework which identifies the main decisions in the process is based on three stages:

Idea Generation – A necessary first step to produce a bank of new product ideas for feasibility analysis and possible further development. It takes a good many ideas to produce even a reasonable number worth pursuing. Ideas can be generated internally, through methods such brainstorming among those that are knowledgeable about markets and customers or the capabilities of the business. A marketing

orientation also points to the importance of the customer in generating new product ideas and marketing intelligence system of the organization should be capable of identifying and generating customer ideas.

Screening – the next stage of process is concerned with screening out those ideas that are neither workable nor commercial. Such screening can be carried out with varying degrees of sophistication and will normally include:

- comparing new product ideas with organization's resources and objectives;
- a business analysis which gives a prediction of the product's feasibility in the market – based on estimates of costs and future revenues;
- product development carried out on the initial survivors of screening and concerned with translating a paper idea into a physical, functioning existence;
- testing the product concept and related marketing ideas by a small scale introduction of the product to a group of targeted customers. This stage bridges the screening stages of product development with the last stage of market launch.

Commercialization – the final stage of the new product development process is the full scale commercialization of the product in the market. This is introductory stage of PLC or “launch” of the product.

As indicated above the new product development process is a relatively risky process and marketers have developed a wide range of systems and associated techniques for this area of decision making. Test marketing is the introduction of the product on a limited scale to determine the reactions of targeted customers. While such tests marketing can be risky in that it is expensive and can give away information to competitors, the benefits such as the generation of realistic sales performance predictions, the testing of strategies of price and distribution and the identification of any weaknesses in the product outweigh such risks.

The process for developing new international products is similar to that of domestic development except that the antecedents to the process are, probably, more critical. Once products are developed the company may wish to protect its competitive advantage by patent or licensing agreement and, most certainly, the entry strategy will play its part. ‘Time to market’ is crucial in this regard. The quicker the organization can go to market, the better. Chen (2002) states that shortening lifecycles, risks, costs and time involved in product development have led to many companies abandoning the heuristic or sequential approach in favor of approaches such as ‘risk and revenue’, involving a number of partners, manufacturers, component makers and, sometimes, universities prepared to carry the risks and costs of new development for a share in future revenues. The nature and location of R&D activities is another key decision. Smaller companies will usually concentrate on R&D in, and to benefit, the domestic market. As

they grow, they may have to make decisions on the location, whether to buy it in wholly or in part, license the technology or enter into strategic alliances. Many large corporations still adopt a 'home country' approach.

2.1.6. MARKETING ENVIRONMENT AND SYSTEM

The work of management writers has stressed the growing importance of the effects of environmental change. Books such as "Thriving on Chaos" by Tom Peters have drawn a picture of a dynamic and complex environment that demands that organizations develop marketing oriented approaches and systems of organization and management that focus on very close contact with the environment. The general complex of external influences, which are likely to affect the exchange process between organizations and their customers, is generally characterized as comprising five sets of influences:

1. Cultural and social influences – such influences cause both changes in customer values and in their exchange behavior. They have impacts on exchange and marketing through their influences on long-term strategies, product development and communications and distribution.
2. Legal and political influences – have a significant effect on exchange process. In addition to the great body of laws relating to exchange, e.g. regarding contracts, sale of goods, there are laws and codes of conduct related to advertizing, sales promotion, market research and so on.
3. Technological influences – one of the characteristics of the modern developed markets is the increased technological element of these markets. The technology affects not only the forms in which customer values are produced but also the expectations of customers and the means marketers can use to communicate and deliver values. There is for example an emerging marketing strategy termed maximarketing, which is specifically based on technological developments.
4. Economic influences – economic change does not only affect costs; macro – economic influences such as inflation rates, wealth redistribution, unemployment levels will have an effect on customer behavior and therefore for exchange.
5. Physical environment influences – the growing importance of environmental and "green" issues to a much larger public has forced many organizations to adopt policies that stress positive effects on environment. That they do so is in a part a product of the need to do so to achieve and maintain positive customer attitudes toward themselves and their product.

Lee and Carter (2005), define the international marketing environment as “variables, largely out of the organization’s control but which it must account for, within which it conducts its business globally.” There are numerous reasons for taking the marketing environmental factors into account. These include the following: reduces risk of failure; isolates the most important environmental variables to concentrate on those which need little or no attention; aids international/global strategy planning decision-making; aids decision-making on strategy implementation, which markets to enter and the appropriate marketing mix, therefore saving time and money; enables potential global businesses to assess the risk of conducting business between and within different countries. A global environmental analysis can be conducted in a similar way to a SLEPT (Social, Legal, Economic, Political and Technological factors), SWOT (Strengths, Weaknesses, Opportunities, and Threats) or PEST (Political, Economic, Socio-Cultural and Technological factors) analysis or other matrix analysis. The factors need to be assessed both in terms of importance and impact. For example, currency fluctuations are not regarded as an important issue in most countries of the EU today as most have adopted the Euro. But this could be important for Lithuania’s businesses and potential inward investors.

The global marketing environment comprises the intermediate environment and the macro environment. The intermediate environment contains those factors which are semi-controllable through contract, for example suppliers and banks. The macro environment is made up of those factors which are generally uncontrollable, for example cultural and economic factors. These factors are summarized by Lee and Carter (2005) in figure 7.

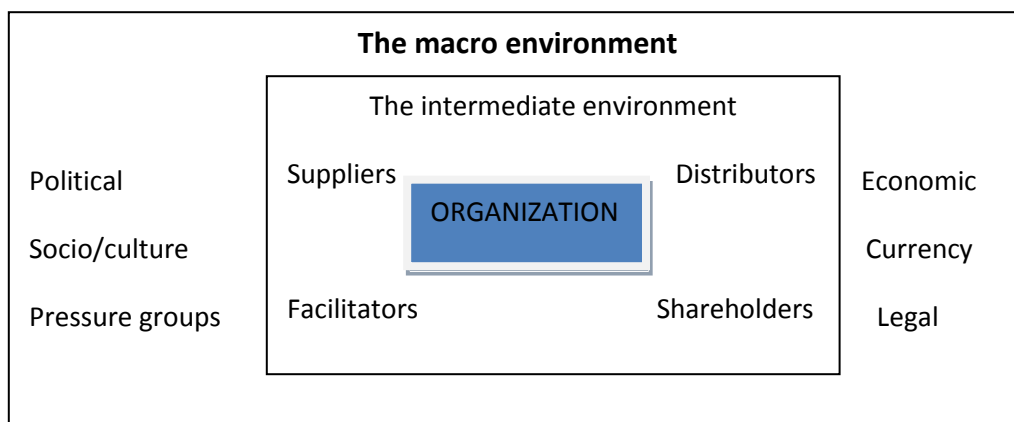


Figure 7. The global marketing environment (Lee and Carter, 2005).

Suppliers are any provider of goods and services used by organization to add value. These are interlinked to the organization, but they are not necessarily owned by the organization and as such cannot

be controlled. Organizations minimize the risk of breakdown of supply by working closely with suppliers, often undertaking joint research and development.

Networking has become a feature of the supply chain environment, and this has led to even closer cooperation between supplier and customer. It was the Japanese who pioneered the 'Just in Time' supply relationship, necessitating a move from an arm's-length to a relationship approach to suppliers. This movement has been a feature of the business-to-business market as well as the consumer market. This is an important development in international marketing. Because of networking is common to both domestic and global marketing, the logistics of crossing national boundaries make networking a more risky activity. Not only is there a possibility of breakdown in supply, but currency fluctuations, political factors and even weather.

Holmstrom and Roberts (1998), noticed that vertically integrated organizations have slowly dissolved to a horizontal integration. More and more organizations prefer direct interaction and stability to make sure that interactions are effective. For example if company buys a raw material or parts from supplier, it wants to be on safe side in the means of quality. Relationship between organization and supplier has to be based not only on price but also on trust, because low quality parts can be disastrous. Close cooperation helps to take advantage on the human capital and competencies for both – organization and supplier. Differences in national cultures, willingness to trust outsiders and attitude towards cooperation influence continuation of partnership. Many ideas of networks such as status, prestige, influence, legitimacy, power, etc. are rooted in a host country's culture.

Distributors are those logistical and institutional providers of transport, warehousing and order fulfillment. They usually work closely with organizations but are not wholly controllable, unless owned by the organization and therefore have to be carefully monitored and planned for.

Facilitators are the huge range of mainly service providers, who provide services necessary to make international operations run smoothly and more efficiently. These include banks, freight forwarders, market research agencies, insurers, cold store operators, government agencies, accountants, commodity brokers, etc. These facilitators usually operate in a highly competitive market therefore the international organization needs to be aware of those providing the knowledge, skills and service at the most effective price and in the most efficient way. A number of large multinationals operate these services 'in-house', finding them cheaper and easier to control.

Shareholders, as well as providing capital, play an increasingly important role in global operations. These days, short-term expectations are high among shareholders. As a result, large investment institutions whose actions are accountable to shareholders look for quick financial returns.

The marketing system, according to Oliver (1995), refers to the closer in aspects of business' environment that are likely to have a more immediate impact on the working of the exchange process and on marketing strategies and activities. The marketing system comprises five sets of external influences in addition to the organization itself:

1. Resource suppliers – suppliers of raw materials, components, finance and other resources. These suppliers may also supply competing organizations and are likely to be affected by customers and competitor activities. The relationship between the business and its suppliers is important to ensure continuity of supplies. The marketing approach can be applied equally to suppliers to ensure this continuity – termed reverse marketing.
2. Competitors – these are any source of values that customer sees as an alternative to the business' offering. This includes the directly competing organizations offering essentially the same product/service and those less competing organizations who offer alternative products with the same values.
3. Physical intermediaries – includes those organizations that can be used to distribute the product/service from the organization to the final customer. These include for example, wholesalers, agents, retailers, franchised outlets and those external agencies that transport the product. The willingness and efficiency with which these physical intermediaries distribute the product can have a very significant effect on the delivery of customer values.
4. Communication intermediaries – includes those organizations and individuals that the organization can use as a communications channel to the final customer. These include the formal media i.e. print, broadcast and outdoor media. The category also includes less formal media such as opinion formers and influencers.
5. Customers.

A diagrammatic representation is given of a typical marketing system in Figure 8.

The marketing system for any specific organization will be more complex than schematic illustrated. However, identifying these close influences on the organization – customer relationship is important not only for implementation of day to day marketing activities but also for the design of marketing strategy.

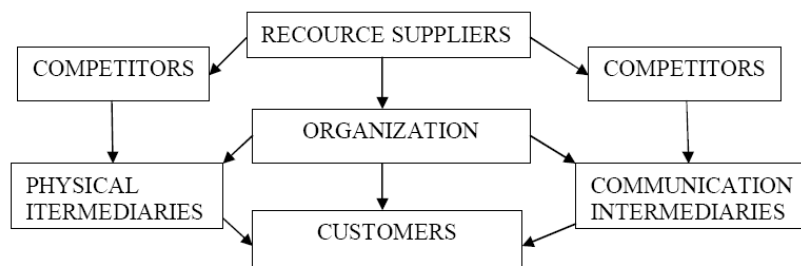


Figure 8. The marketing system (Bathie, 2005).

Competition, even hyper competition, is increasing, both in the international and local marketplace. According to Kandampully and Duddy (1999), the hyper-competitive market of the new millennium will make it increasingly difficult to assume that there will be an unlimited customer base and so an 'easy' target for organizations to tap into. The development of a loyal customer base will be important. Shared technology and communications, as well as mergers and joint ventures, are accelerating the competitive situation. More companies are using outsourcing and value chain analysis to source components from all over the world to gain competitive advantage.

Competitors come in different forms. They may be direct competitors, who are marketing similar products or services, for example, construction materials and glass. Competition may be in substitute form, for instance, the aluminum can be substitute for steel. It is essential to identify competitors in exactly the form that competition takes. Porter (1985), suggests that in order to be an effective player, organizations must understand competitive patterns in their industry. He developed his five-force model of competitive analysis. Later, in 2001, Porter revisited his original model because of the influence of the internet on industry structure. His five forces include:

- the threat of new entrants;
- the bargaining power of buyers;
- the threat of substitutes;
- the bargaining power of suppliers;
- intensity of rivalry.

In the 2001 model, Porter adds, in each of these dimensions, the effect of the internet recognizing that it widens the geographic market increasing the number of competitors and reducing competition to mainly the price dimension. In global marketing, Porter's model would suggest that organizations should balance these forces in a series of strategic moves or reposition the organization so that it is in the best position to defend itself against competitive forces.

Ideally, an assessment of competitors should be through a series of steps. Kotler (2003) describes these steps:

- identifying the organization's competitors;
- determining competitors' objectives;
- identifying competitors' strategies;
- assessing competitors' strengths and weaknesses;
- estimating competitors' reactions;
- selecting competitors to attack and avoid.

One of the keys is to obtain competitive intelligence. This can come from internal sources such as the sales force, suppliers and distributors, or from external sources such as market research companies and published data (e.g. government statistics). All these sources have to be checked for reliability and validity. SMEs may not be able to afford to set up a formal intelligence system so personnel, especially senior executives, should be aware of any sources they should access. The internet and search engines like Google are a useful starting point for accessing competitors' information. The Internet coupled with other external competitive information (newspapers, company newsletters and other professional magazines such as *Fortune* magazine, can produce a large amount of competitive information.

2.1.7. MARKETING STRATEGIES

“What do you want to achieve or avoid? The answers to this question are objectives. How will you go about achieving your desired results? The answer to this question you can call strategy.”

William Rothschild

Strategy might be simply described as the “matching of an organization's resources with its environment”. From this general description of strategy, Marketing Strategy could be described as “how the organization matches its resources to its market environment”. The necessity of adapting the resources of the organization to match the characteristics of the market environment requires some very basic and risky decisions regarding the nature of the organization and how it will operate. Mistakes regarding the types of market entered into; the types of value to be created, communicated and delivered; and the amount and type of resources to be acquired – are at least, likely to be expansive, and perhaps fatal.

Oliver (1995), reviews the marketing strategy decision and suggests a systematic process for the development of strategy which is shown in Figure 9.

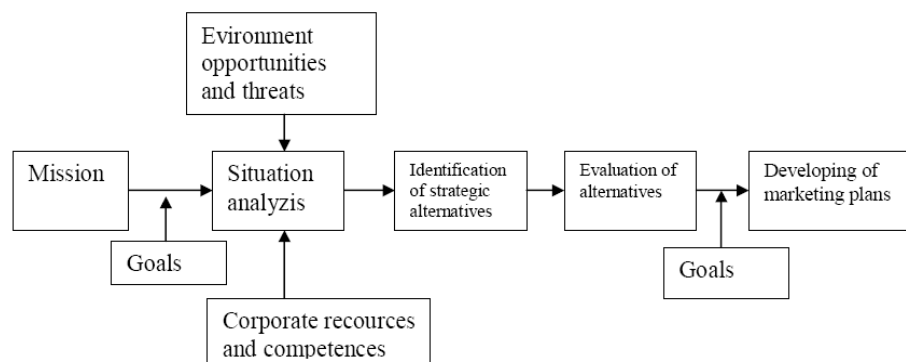


Figure 9. Strategic marketing planning (Oliver, 1995).

Various approaches have been taken to categorize the types of marketing strategies that are, or should be, followed by organizations.

Porter (1987) discriminates three broad “generic” strategies: cost leadership, differentiation and focus. Cost leadership implies high market share with the requisite skills and resources to deliver low unit cost control. A differentiation strategy seeks products that are unique and that are promoted on non-price attributes such as image, design, distribution or customer service. Focus relates to serving the needs of a narrow market segment, and may reflect cost or differentiation positions, but tailored to a relatively small target market.

Curry (1999), stress the role of **segmentation** in order to subdivide opportunity. The procedure whereby marketers determine how large or how small of a group to approach with their products called market segmentation is. Opportunities for segmentation in international marketing may seem endless. The world can be treated as a single marketplace, or it may be seen as composed of billions of single-member markets in the form of individual human beings. Any groupings in between these two extremes can be considered a market segment. The degree of segmentation is determined by the appeal of a product to a general market and by the ease with which that product can be adapted to increasingly specific markets. For this reason, most companies start off with as broad an appeal as possible, then sharpen their focus as more insights are gained. Initially targeting an entire country can be risky, especially when the geography is expansive and the population diverse. Marketers must determine how consumers in any particular group respond to the marketing mix - that is, the product, its price, promotional efforts, and the means of distribution. Information gathered during research will be used to make this initial determination, which over time will be increasingly refined. This doesn't necessarily mean that a company will change its focus from the market segment it originally targeted. Even when the segment remains the same, in time it will be further dissected into smaller and smaller niche groups as consumer tastes are perceived more precisely, or as they change.

Curry (1999), describes **differentiation** as the conscious effort by a company to distinguish itself from its competition. Even when a segment has been selected, it must be understood that a competitor has already made the same selection or will shortly. This is where differentiation comes into play as a means of reaching the consumer. Every consumer has a reason for buying a particular product—necessity, convenience, status, impulse, emotion, color preference, or a host of other motivations. Starting at the macro level of marketing, marketers will have only a general understanding of such motivations upon entering a new national market. Time and familiarity will bring about micro level marketing approaches as consumer buying patterns (and their underlying motivations) make themselves evident. Continued

differentiation from competitors can lead to an expanded market, a further segmentation of a current market, or both.

Positioning is the means by which a marketer establishes the product as a distinct image or brand in the consumer's mind. Simply put, it's the management of perception and it goes beyond consumers' general beliefs about a product. Products are seen as part of a larger category, but a marketer seeks to hold a separate and singular position in the consumer's mind. Curry (1999), identifies six main steps that can be used to prepare a positioning strategy:

1. Segment the market.

Deciding which group to go after in the foreign market is usually based on similarities found with successful marketing efforts at home. The wants and needs of consumers in this new market must be researched (surveyed) to not only fine tune the targeting but also to determine whether or not the original product will require modification.

2. List competitors.

Competitors may be very evident or you may have to do some searching. Even if product is the market prototype, likely competitors can be profiled from related industries. For details, see Competition Profiles in Chapter 8

3. Determine how competitors are positioned.

It must determine where the competition stands, as a position will only have meaning relative to competitors. If they're a local company, then chances are good that they're already well-established in the marketplace (even if it's just a related field) and consumer perceptions of them are readily available. If a competitor is another foreign company, information may not be as forthcoming.

4. Identify open positions.

Since no market is completely closed, suitable openings are to be assessed. Competition may be met "head to head," where each competitor attempts to out-service the other in the exact same segment. Both realize there are other segments and other positions, but each refuses to relinquish the luxury field to the other. Openings may be found in consumer's mind (fast, sophisticated, economical, luxurious, comfortable, professional, etc.) or, as is more often the case, openings can be expanded and exploited. Either way, they must be identified.

5. Determine how consumers make decisions.

Once a position has been identified, marketers must now find out how consumers reach decisions to act on that positioning at the purchase point. Finding out how consumers think can only be determined by direct contact.

6. Differentiate your product.

The final stage of positioning strategy will be to differentiate the product so as to maximize its appeal. This should only be done after consulting directly with consumers; do not attempt to guess how they think. It may be decided to position as a higher quality alternative to a competitor or as a more economical one. It's even possible to succeed as a duplicator of goods and services already present in the marketplace. Product "clones" often surpass the original in some markets.

Hauser and Lewison (2007) describe reference and growth strategies. **A reference strategy** is one in which direct and indirect comparisons between market offering and those of competitors are made. Customers tend to think in relative terms when organizing their thoughts and assessing their choices. Consumers make assessments in terms of a good or service being better, faster, cheaper, or cooler than someone else's good or service. When developing a market offering for specific target markets, it is important not only to be different but also to establish a unique mind-set about the firm and its offerings. Differentiation is the marketing strategy of developing a set of unique and meaningful differences that will distinguish the firm's marketing programs from themselves and from the offering of competitors. Company needs continuously ask itself, What are our "points of difference" and are they important to our target consumer groups? The consumer buying process starts with buyer awareness and interests; having a differentiated offering is one of the best ways to build recognition and appreciation for it. Differentiation distinguishes market offering from the sea of alternatives that make up the marketplace. Goods are differentiated by functional and aesthetic features and psychological benefits. Service differentiation is achieved by offering more service extras in a more consumer friendly manner (the way customers are treated, assisted, and served). Better value, greater convenience, and lower prices are three additional approaches used to create a difference.

Positioning carries the competitive referencing strategy to the next level. Employing the positioning marketing strategy attempts to establish a distinctive and consequential consumer mind-set with respect to firm and its offering. While being different is important, positioning goes beyond this basic concept. Positioning is all about being more appropriate, more consistent, more personal, more relevant, and more desirable when compared to what has been tendered by competitors. Depending on the situation, positioning strategies can be either creative or adaptive. Creative positioning seeks to fashion a new and distinctive perception of the firm and its marketing programs in order to improve the likelihood that chosen market segments will judge the offering to be superior to competitive deals. Adaptive positioning focuses on altering how consumers think about the firm's current offerings. The goal of a repositioning strategy is to change consumer mind-sets in such a fashion that the firm's modified offering is viewed in a more favorable light than its past position and the new positions of its competitors.

Growth strategies involves finding new and exploiting existing market opportunities is the core growth goal to be achieved through the implementation of market penetration, marketing development, and product development strategies. Long-term survival requires that company is able to redirect its efforts in response to environmental changes and to increase organization's resources by identifying and pursuing profitable growth opportunities. Essentially, growth strategies address the question of "what should our business be?" Growth opportunities and the means available for harvesting new market prospects include intensive, integrated, and diversified marketing strategies.

Opportunities found within the organization's current portfolio of businesses are referred to as intensive growth opportunities - occasions when current products and current markets have the potential for generating incremental sales volumes. A firm may be able to realize considerable growth potential by more aggressively marketing current products to existing markets (market penetration), by introducing current products to new markets (market development), and by developing new products for existing markets (product development).

Integrated growth opportunities are those that occur within the organization's current industry. Integration involves those occasions in which an organization establishes a strong position or a leadership role within a given industry by gaining greater control over its marketing channels of distribution or competitive business enterprises. By vertically integrating one or more levels of a distribution channel, marketers expect that resulting efficiencies will help them to increase sales revenues. A vertically integrated marketing channel is one in which a single channel member at one level controls and manages all or most of the functions performed by all channel members in all levels of the distribution system. Gaining control of competitors who operate at the same level (for example, the retail of construction materials level) within the same channel is the marketing strategy known as horizontal integration.

If new, attractive businesses whose business nature and format are dissimilar to current business concepts are elected, company is seeking diversified growth opportunities. Diversified growth is achieved by entering new markets with new products. The important question to answer in chasing this type of growth chance is "how new and different" should proposed products and markets be from current business operations? Company can elect to add new businesses and markets that are similar to and have numerous synergies with existing businesses and markets or it can venture into entirely new business concepts and unexplored markets. The further it gets from its core businesses and markets, the more difficult it gets to develop the necessary expertise for successfully running the business.

Table 3 classifies common marketing strategies according to the type of product – market interaction each represents. If marketing strategies are classified this way, there is fairly clear development through time of a reduction in scale, i.e. from mass marketing where production volumes, marketing

activities and the customer group were all very large; to maxi-marketing where the emphasis is on maximum targeting down to the level of the individual customer even where the total customer group is still fairly large.

PRODUCT	MARKET	(INTERACTION) MARKETING STRATEGY
Simple, basic, functional. Undifferentiated.	Basic value sought. Large number of potential customers.	MASS
Product range. Variation in marketing activities for segments.	Basic values plus extra values. Distinctive set of customers.	SEGMENTATION
Values in-depth from all marketing activity. High value, high margins.	Complex and distinctive set of values. Functional and symbolic values.	NICHE
Customized product and communications.	Individualized value sets.	MAXIMARKETING

Table 3. A classification of marketing strategies (Bathie, 2005).

While the determination of an appropriate marketing strategy is basic to the successful management of product – market interaction, the strategy has to be implemented effectively and efficiently. The majority of marketing decision making and management is less concerned with strategy than with implementation of strategy through specific marketing activities.

The overall strategy will be a major determinant of how activities are designed and implemented, particularly by laying down objectives for each activity area, e.g. where the marketing strategy requires a segmental approach to the market, product policy will have to produce a range of products appropriate to each segment; a pricing structure that generates profits and also reflects segmentation policies; a communication mix that achieves communication objectives in the various segments; and distribution activities that get “right product, in the right place, at the right time”.

2.1.8. *INTERNATIONAL MARKET ENTRY STRATEGIES*

According to Lee (2005), international marketing takes place when the marketer explores markets outside of its domestic market. Usually this begins with direct or indirect exporting to a neighboring country. The companies focus in finding markets which have similar needs for products and services. However, the marketing environment sometimes if different and some adjustment may have to be made to

the marketing mix elements by exporting organization. The future organization is faced with many new marketing challenges. They are linked with global developments in dynamic and volatile global business environment.

Being competitive in the twenty-first century, in the words of Zairi (1996): “requires an unprecedented set of extraordinary strengths. For one thing, the dynamics of the market are more turbulent where there is parity in terms of product/service technological capability and intense competition in less tangible, “soft aspects”, such as customer service, quality and responsiveness ... For another thing, successful competitiveness often is the result of the ability to determine rational capability (through strengths and weaknesses) and a rigorous attack to fulfill customer needs that are well defined through closeness to the market (voice of the customer) ... Finally, winning comes through innovation, uniqueness (differentiation), teaching rather than following, a culture of continuous improvement and learning.” There are a number of market internationalization approaches but just seven theoretical approaches to internationalization are generally accepted:

The Uppsala or Incremental Approach is characterized by firms developing their activities abroad incrementally as their knowledge develops. Firms expand first into markets that are physically close and later on into more distant markets when their knowledge develops. This knowledge can be described as “experiential” and differs from objective knowledge which is gained through the objective study of international marketing. This concept is common by German, Scandinavian and US firms. Root (1987) suggests that companies manufacturing high technology products may use licensing as the first mode of market entry. Some authors like Johanson and Vahlne (1990) notice three exceptions to incremental approach. First one where resources are large (Toyota building plants directly in the UK). Second is where market conditions are stable and permit to gain knowledge in ways other than by experience (European grocery discounters like Aldi). The third one exception is where market conditions are similar and make possible generalization across markets (Lithuanian Maxima expansion into neighboring Latvia).

For SMEs the incremental approach based on cautious exporting may be a wise move. Rundh (2001) found that the most important reason for international development was judgment of management to reach growth and profit possibilities outside domestic market and management’s interest for export business, unique products or technology and the possibility of spreading risks. The SMEs in Rundh’s research started their international activities by different market entry modes: direct export, established agents and setting up their own production facilities. Important factors in this decision were size of the market and proximity to the customer. The SMEs chose direct export where the product was complex and the risk of competitor’s getting an insight into the production process was high. Rundh found that the obstacles of entering international market were not only external (economic distance, language and

culture) but internal as well (risk aversion behavior by top managers). The problems of finding channels of distribution and the service levels demanded by the customer were barriers as well. The ability to build international networks was an important factor in exporting. Contacts within the industry were important but lack of experience sometimes forced the necessity of depending on networks. To be competitive SMEs have to meet demand from the local market in relation to product quality and technology. In order to customize the product, long term relations must be built with local customers. This requires resources and commitment from top management. Rundh's research showed that companies chose their entry mode based on individual situation. Flexibility to adapt the product to local conditions and top management's total engagement are necessary. Knowledge of the changes in the marketplace is an important, but not easy task.

Transactional cost analysis theory (TCA) states that a company will internationalize if it able to perform at a lower transaction cost than if it exported or entered into a contract arrangement with a local partner. The assumption is that in competitive markets low control entry methods like vertical integration are favored. The benefits of integration must be compared to the costs of it. This theory may work when there are few suppliers and costs with low control methods are increased (need for stringent negotiation and maintenance of contractual relationship. Hill (1995) questioned the applicability of TCA to non – Western countries like Japan, because culture differs to that of the West in terms of collectivism, loyalty, group identification which reduce costs of partnering.

Eclectic theory, or contingency theory integrates many strands of international business theories. The theory is built on three factors: ownership specific, location and internationalization. Researchers such as Li (1994) have confirmed a positive relationship between ownership specific factors and internationalization. Dunning (1988) emphasizes the importance of location specific factors as having a significant impact on non-production costs, i.e. transaction costs. These are now important as location specific costs are rising faster than production costs. Ownership specific factors include technology, marketing skills, financial and size variables.

The ownership of a unique approach to car marketing partly explains the successful launch of Daewoo cars into the UK in the 1990s. Without owning a dealer franchise, Daewoo outsold its longer established rivals like Malaysia's Proton by having a showroom where salesmen acted as consultants to the customer, without the commission-driven pressure to sell (Lee, 2005).

The agency approach to entry mode selection (Carney and Gedajlovic, 1991) is based on the principle of a contract where one party delegates to another. Franchises, licensing, joint venture and alliances are examples. The decision is twofold, which mode to use to target a specific market and how to evaluate the performance of the agent. The first decision is informed via collection of relevant information

and the second by writing a performance contract. Cross-cultural uncertainty may make both difficult tasks, especially aspects of gathering information and monitoring performance. This approach to the basis of entry mode selection has been subject to critical debate as most agency theory propositions have been based on the relative efficiency of only two modes of entry, licensing and direct investment. Agency theory and TCA are complementary approaches as both look at how functional relationships are organized efficiently and assume that both parties in the relationship are motivated by economic self-interest. Both explicitly incorporate different exogenous variables, i.e. asset specificity in the case of TCA and risk preferences in the case of agency theory. They differ in approach in that TCA concentrates on the transaction as the unit of analysis and agency theory on the individual agent.

The industrial network approach. According to Whitelock (2002): ‘the industrial system is a network of firms engaged in the production, distribution and use of goods and services through which lasting business relationships are established, developed and maintained’. This approach eliminates the weakness of Uppsala and Eclectic theories, because in both of those theories the international decisions are taken by an individual(s) within a firm. Whitelock (2002) sees four important variables in the interaction process:

- the elements and processes of interaction;
- the characteristics of the parties involved (buyers/suppliers);
- the atmosphere surrounding the interaction;
- the environment in which the interaction takes place.

In the industrial network approach the firm has to evaluate its position in relation to customers and competition. This model suits only for business-to-business products.

The business strategy approach to internationalization is based on pragmatism with the organization making a number of trade-offs between the number of variables in its internationalization decision and the methods it adopts to do so. Reid (1993) contends that expansion strategies are based on contingency, i.e. an analysis of market opportunity, firm resources and managerial philosophy. Root (1987) and Turnbull (1996) believe that the market factors to be considered include market attractiveness, psychic distance, accessibility and informal barriers, whereas the choice of organizational structure to serve the market includes an evaluation of international trading history, size, export orientation and commitment.

The bargaining power (BP) theory sees the choice of entry as the outcome of negotiations between the firm and the government of the host country. Taylor, Zou and Osland (2000) founded it more aligned to Japanese business practice (both parties are looking to negotiate an outcome in their long term interests). The focus of bargaining power theory involving negotiation is also consistent with the

competitive declaration that has often been ascribed to Japanese firms. Taylor, Zou and Osland state that BP starts from the premise that a firm has a natural preference for a high-control mode of entry since this is the most desirable outcome in terms of the firm's longer term ability to dominate a foreign market. However, the firm may be forced to settle for a lower control mode of entry if it has low bargaining power. They identified eight factors which played a role in the foreign market entry mode decisions by Japanese firms, and some of these have echoes in the business strategy approach. The factors are:

- the stake of the firm;
- the stake of the host country;
- the need for local contribution to the venture;
- the riskiness of the investment;
- the intensity of the competition for the investment;
- the level of resource commitment by the firm to the foreign market;
- host government restrictions;
- the size of the firm.

The authors found that five of the above factors were important in the investment decision:

- first, when the host country perceives a significant stake in attracting investment, Japanese firms are likely to negotiate a full ownership arrangement, for example Toyota and Nissan car plants in the UK;
- secondly, Japanese MNCs tend to opt for high control methods when the risk of doing business in the host country is high. Western MNCs are likely to use low control modes like licensing and franchising;
- the third factor is resource commitment. When resource commitment is high, Japanese firms are less likely to negotiate for a high control mode of entry, so they go for joint ventures or licensing;
- government restrictions are the fourth factor which plays a significant part in the entry mode of Japanese firms. When restrictions are high, like local content, foreign exchange control or ownership level, Japanese firms are unlikely to negotiate for a high control entry and will build for example a joint venture instead.

Table 4 gives an overview of the specific international market entry modes:

Marketing orientated	Contractual	Shared owned and controlled	Wholly owned and fully controlled
Direct exporting ▪ Agents ▪ Distributors ▪ E-commerce ▪ E-business Interactive TV Indirect Exporting ▪ Via domestic organizations ▪ Trading companies ▪ Export houses	Licensing Franchising Contract manufacture Alliances Management service contracts	Joint ventures Partial mergers and acquisitions	Subsidiaries Representatives Assembly
LOW	LEVEL OF INVOLMENT		HIGH
LOW	LEVEL OF RISK AND CONTROL		HIGH

Table 4. Specific international market entry modes (Lee, 2005).

Tallman and Shenkar (1994) state that choice and importance of the international market entry mode depends on a number of factors:

- corporate objectives and resources. May limit the choice decision, especially if SME.
- level of involvement. The more the involvement, the more likely a choice of shared or wholly owned and controlled mode of entry;
- level of risk and control. The more the political, financial, contractual, distribution and cultural risk, the more likely a marketing orientated or contractual mode will be favored;
- nature of market, competition, product, consumer and market coverage;
- speed of entry. If speed of entry is of the essence, the more likely a contractual mode or marketing mode will be favored. E-commerce/business has created a 'speedy' means of doing business as well as affording a cost-effective method;
- investment and market costs. The higher the marketing and investment costs the more contractual and marketing modes will be favored;
- administrative requirements. How large or small, type and functions;
- flexibility. Agents, distributors and retailers;
- payback. Japanese firms tend to take a longer term view on this than Western firms.

Timing the entry into an industry is complicated because some potentially unsatisfactory consequences may be largely out of the control of the firm. If entry is too early, there may be many unproductive years spent cultivating unresponsive market, or there may have been assumptions that a substantial market could be developed which later experience proved invalid. If entry is too late, there it

may be very costly to make any impression against already established firms. Such risks demand cool assessments of potential trends in industry life cycle and structure and the attention to the sources of competitive advantage (Oliver, 1995).

Broadly, the firm may choose to be:

- a pioneer – being an initiator of the industry;
- a fast follower –entering in the development phase of the industry;
- a late entrant – entering in rapid or late growth, or even in maturity.

Pioneers

Frequently but not always, firms who eventually belong to the dominant strategic group in a mature industry originally entered as pioneers. Successful pioneering can lead to enviable long-term positions, delivering from two sources. First, pioneers can take positional advantage because of the open field. They may be able to manipulate some of the dimensions along which advantage will be gained, such as in influencing the criteria that customers use in their evaluation of rival offers. Second, pioneers can make an early start on erecting mobility barriers, contributing to the shaping of future industry structure.

Quality leadership may be a prime positional advantage accruing to the pioneer because, as Buzzell and Gale, 1997 put in:

The products or services developed by a pioneering entrant frequently set the standard for later entrants and thereby achieve a leading quality position among customers – at least, until a new and better concept is developed.

Day, 1986 points to other advantages. The pioneer may elect to serve the larger market segments, leaving less desirable ones to later entrants. Customer loyalty of the first supplier in the market may be based on higher switching costs. The pioneer also gains early manufacturing experience which may contribute early cost reduction. Finally, the pioneer may be able to build a sustainable lead in technology.

Fast followers

Entry after the pioneer, but while the industry is still forming, has the advantage of the demonstration that the market exists, and example of the kind of product and examples the kinds of marketing strategies have been tried. Rapid learning could mould effective differentiation and this may lead to improved product design. There may also be the possibility of distinctive distribution strategy. The pioneer may have entered on a very small scale with extremely limited distribution outlets. The fast follower might have the confidence to plan for a much larger market and develop a substantial distribution network.

Late entry

Despite the inherent difficulties in coming late to an industry, it may sometimes be considered. Entry in maturity would pose problems but may be warranted if projections indicated a long life cycle. Such an entry would have to be undertaken seriously: firms in the industry would have a history of cost reductions and solid competitive advantage. An acquisition of a firm in the industry may be route in, and the risk would be reduced if the entrant could offer a very positive product improvement, possibly extending the market opportunities, leading to an extension of the industry lifecycle (Oliver, 1995).

The checklist in appendix 1 provided By Curry (1999) will help in the making of initial decisions about entering the international marketplace. It can be used for import/export companies, service businesses, manufacturers, and those considering joint-ventures with foreign partners.

2.1.9. THE INTERNATIONAL MARKETING RESEARCH PROCESS

According Craig and Douglas (2000), the first step in the international marketing research process frequently incorporates a preliminary phase of assessing information needs and availability. Some exploratory investigation will need to be conducted to pinpoint more precisely the relevant dimensions of the decision problem and to relate it to information needs.

Once the problem statement has been clearly articulated, following preliminary research, the specific research questions to be answered need to be formulated.

Most of the authors indentified three types of academic research: descriptive, comparative, or theoretical. These differ primarily in terms of the purpose of the research and the key research questions, as well as the structure of the research design.

Descriptive research typically focuses on understanding behavior and the market environment in a single country. This type of research is generally conducted in the initial phase of a project, when a researcher has little knowledge about a country or area of the world, and needs to broaden understanding of the market and its parameters. While this type of research was popular in the 1960s and 1970s, when academic research on international markets was in the relatively early stages, it is now considerably less common.

Comparative research focuses on comparing attitudes and behavior of consumers, firms or other organizations in two or more countries or regions of the world. This is the most frequently conducted type of research. The primary purpose is to compare behavior or market functioning in two or more countries or different cultural environments, typically with a view to identifying differences and similarities. Often these are attributed to differences in the macro-economic or cultural environment. Here, research varies in

terms of the extent to which it incorporates an explicit model and research hypotheses to explain or account for findings of differences or similarities. In the simplest type of design, no explicit model is included and often observed differences and similarities, based on factors such as level of economic development, linguistic differences, or purely ‘culture’.

Another approach is to identify two or more countries, which differ on some known dimension such as individualism *versus* collectivism, or linguistic grouping. Differences between countries are then attributed to this dimension. In some cases, a more complex research design is needed including two or more macro-variables. For example, countries or other organizational units at different levels of economic development, or in different geographic regions from two different linguistic or macro cultural groupings, might be compared. Differences and similarities are then accounted for in terms of a combination of macro-variables.

Yet, another approach is to develop a model that explicitly hypothesizes the various factors and intervening variables, which may account for similarities and differences. The model might, for example, include macro cultural variables, individual attitudes and values, patterns of social communication, etc. This helps to generate a deeper understanding of the factors, which underlie observed differences in patterns of behavior in international markets.

Theoretical research is concerned with the applicability of attitudinal and behavioral models and constructs in different countries and cultural contexts. The primary purpose of theoretical studies is to examine the extent to which theories, models and constructs developed in one country are valid and applicable in other countries and cultural contexts. These types of studies are related to comparative studies which rely on a conceptual model. Another type of academic research, which is related to **commercial research**, focuses on examining the strategy and tactical decisions of firms in international markets. Often it focuses on examining the effectiveness of alternative strategies or marketing mix tactics. Much of this research has, for example, focused on assessing the relative effectiveness of uniform or standardized strategies as opposed to strategies adapted to local market conditions. This has been examined both in relation to competitive strategy as well as to specific elements of the marketing mix. Another area of interest has been the comparison of strategies adopted by firms of different national origins. Sourcing and international market expansion strategies have also been examined.

In commercial research, the key research questions and information to be collected depend on the level and type of decision for which the research is being conducted. As in domestic research, information may be required for decision-making at different levels in the organization, from the *corporate* level relating to strategic issues, down to local operating units where concerns are often more tactical. Such decisions vary in focus and scope, from corporate decisions — relating to the long run direction of the

company and choice of which countries to enter and where to expand — to operational decisions such as whether or not to modify advertising copy or packaging for a given country, whether to launch a new product and how to position it.

Where responsibility for different decisions is located in the organization, and specific problems investigated, will depend to a large extent on a company's organizational structure. In companies organized by product division, new product research and development is likely to be conducted within that division or product development unit, often in centralized worldwide or regional product development units. In companies where local operating units have greater responsibility, such research is more likely to be conducted locally within each individual country.

In general, however, irrespective of the level and location where research is conducted, two major types of decisions can be identified — strategic and tactical decisions. These differ in terms of their information requirements and in the types of data most commonly used to make decisions. Strategic decision-making in international markets relies heavily on secondary data sources and on macro-economic data, in addition to management experience accumulated through operating in different countries and marketing environments. In some cases, primary data collection may also be required. Tactical decisions, on the other hand, are likely to require primary data collection and research tailored to the specific decision to be made.

Strategic decisions are made primarily at the corporate or regional level. These concern decisions relating to the long run direction and goals of the firm as, for example, international market entry, market expansion and development strategies, that is, whether and which new countries or product markets should be entered and what portfolio of countries provide the appropriate balance for future growth. In addition, decisions have to be made regarding the segmentation of markets, e.g. whether markets are segmented on a country-by-country or on a transnational basis. Directly related to this are decisions concerning global branding strategies, e.g. organizational level, corporate, product division or product, and what positioning strategies should be used relative to each target segment.

Such decisions imply determining the overall allocation of company resources across countries, product markets, and target segments. As such, they go beyond the marketing function, encompassing other functional areas such as financial and production management; and entail decisions relating to capital budgeting, accounting procedures and production scheduling. Different modes of entry, for example, imply different levels of financial and resource commitment and operation.

Given limited resources, decisions to enter different countries or product markets are interrelated, since decisions to develop new products, to expand existing product lines, or to extend them to other countries and product markets involve commitment of resources to specific countries or product markets.

The potential for economies of scale and scope associated with multiple product operations in a given country, or in multiple countries, suggests the need for an integrated perspective in making such decisions, coordinating international operations across product lines and across geographic or regional areas. Evaluation of entry into new countries or product markets or target segments should be made relative to expansion and development of existing operations in other countries and product markets.

Adoption of a global perspective in making such decisions implies that information is required at different levels in the organization, at which decisions have to be made, as well as relative to different geographic or market units, i.e. regions, countries, product markets, and target segments. Information is also needed relating to the degree of interconnectedness or linkages between markets relating, for example, to trade flows between countries or geographic regions, transportation and communication links across countries, movement of people and ideas, organizational and political linkages, etc. Information will be required related not only to marketing factors such as sales volume or product ownership, but also to financial variables such as rates of inflation and foreign exchange risk, to legal factors such as product or advertising regulation, and to political factors such as expropriations.

Some illustrations of the type of information likely to be required at each of these levels are summarized in table 5. It should be noted that these examples are illustrative. The specific information to be collected by management needs to be determined in each case, depending on management and corporate objectives, company resources, and the relevant product market and target segment.

	Types of indicators	Sample indicators
Country entry decisions	Political risk	Number of expropriations, expert ratings of stability
▪ Risks	Financial risk	Rate of inflation, foreign exchange risk, restrictions on capital flow
	Legal risk	Import-export restrictions, restrictions on ownership
▪ Opportunities	Macromarket potential	GNP per capita, growth of GNP, ratio of investment to GNP, population size, density, urbanization, educational level
Modes of entry decisions	Production and marketing costs	Electricity, energy costs, labor skills and costs, management training, capital and technology availability and costs, rates of interest
Product market decisions	Product market size	Sales volume of product, ownership of product, sales of complementary and substitute products, number, and size of competing firms

Table 5. Sample indicators for assessing risks and opportunities.

Adapted from Craig and Douglas (2000).

At the country level, two major dimensions need to be taken into consideration in making resource allocation decisions. These relate to the *risks* and the *opportunities* associated with operating in different countries. Surrogate indicators of these can be developed. As indicated in the table, risks might be

assessed based on factors such as political instability, rates of inflation, and foreign exchange risk; and opportunities based on indicators such as GNP per capita, total GNP, and population size and density.

Different modes of operation and marketing strategies entail different costs. The costs associated with these can be estimated based on factors such as costs of electricity, energy, water, and labor, retail margins, media costs, and transportation rates. At the product market level, information relating to current and projected performance levels is likely to be required. This information will only be available in relation to product markets in which the firm is currently operating. In product markets where the firm is not currently involved, surrogate indicators can be developed as, for example, sales volume of products, product ownership, sales of complementary products and number of competing firms.

Once this information has been collected, it can then be integrated into an international data bank and updated on a regular basis. This will facilitate integration of information into the management decision process. Some problems are likely to be encountered due to lack of comparability in data collected in countries and different environmental contexts, and differences in product market definitions.

The second type of information required relates to the specific tactics to be used in and across different countries and product markets. These are closely linked to market segmentation and positioning decisions. For example, given a specific brand positioning, research may be required to determine what advertising copy to use, how far a standardized theme can be used, or whether adjustments to a standard prototype campaign will be required. Examples of the types of decisions and related research are shown in table 6.

Marketing mix decision	Type of research
Product policy decision	Focus groups and qualitative research to generate ideas for new products Survey research to evaluate new product ideas Concept testing, test marketing Product benefit and attitude research Product formulation and feature testing
Pricing decisions	Price sensitivity studies
Distribution decisions	Survey of shopping patterns and behavior Consumer attitudes to different store types Survey of distributor attitudes and policies
Advertising decisions	Advertising pretesting Advertising post-testing, recall scores Surveys of media habits
Sales promotion decisions	Surveys of response to alternative types of promotion
Sales force decisions	Tests of alternative sales presentations

Table 6. Tactical international marketing decisions requiring international marketing research
(Craig and Douglas, 2000)

Decisions with regard to new product development, for example, can require product benefit and attribute research, concept testing, and test marketing in all the countries in which the product is to be marketed. Questions may arise as to whether products should be adapted to meet differing environmental and market conditions, such as differences in customer tastes, needs, and interests in other countries. Equally, branding strategies and brand names will need to be assessed. New products may be developed in response to specific market conditions and tested in a single or multiple country markets.

The effectiveness of using the same advertising theme or similar sales promotion tools in different countries or cultures also needs to be tested to determine whether these should be applied, or whether specific appeals and promotional tools geared to the particular market environment will be required. Research may also be desirable to assess whether price elasticities are similar in different countries, and whether similar pricing strategies can be used. Equally, distribution decisions will need to be examined as well as adaptation to different distribution channels in different countries or regions of the world.

The type of information required in relation to these decisions is essentially the same as that required in comparable domestic marketing research and often entails similar research procedures. Greater use may, however, be made of qualitative research techniques, especially in the initial stages of market entry, or where the researcher has little familiarity with the environment. The research process tends to be more complex since it is conducted in a variety of different cultural and environmental contexts and there is a need for comparability across these different contexts.

2.2. EMPIRICAL RESEARCH METHODOLOGY FOR DEVELOPING INTERNATIONAL PRODUCTION AND TRADE OF CONSTRUCTION PRODUCTS

The quantitative data research is made using one of the international market potential forecasting techniques – correlation. It is assumed that past associations between the variables can be projected into the future. This formal analysis can help international producer of construction products to have better opinions what will happen in the future.

The objective of research is to provide up to date business information and analysis on key aspects of Lithuanian construction market in order to develop international production and trade of construction products. The Lithuanian construction qualitative research is based on 32 face to face interviews with representatives of construction companies doing business in the Lithuanian construction sector. Survey participants responded to approximately 20 questions on the four key areas which are important for the qualitative analysis of the current situation of Lithuanian construction industry and its potential

development in the coming years. Questions used in interview were closed ended and provided in direct formulation. All relevant response categories was specified in advance. Some of the categories have been asked to rate from 1 to 10 by the level of importance. It is important to note that all interviews were conducted in summer of 2008, before the full start of the financial crisis which has impact on construction companies.

3. EMPIRICAL RESEARCH FOR MARKETING DEVELOPMENT IN INTERNATIONAL CONSTRUCTION BUSINESS

3.1. ANALYSIS OF OPPORTUNITY TO DEVELOP INTERNATIONAL CONSTRUCTION BUSINESS IN VARIOUS COUNTRIES

Statistical analysis deals with quantitative data. It's a scientific method of analyzing masses of numerical data so as to summarize the essential features and relationships of the data in order to generalize from the analysis to determine patterns of behavior, particular outcomes or future tendencies (Lucey, 2002).

A regression model is a statistical model of the influence of one (or more) random variables on another random variable. It is a mathematical technique used to determine the equation that relates the independent and dependent variables with the least margin of error. It is usually assumed that there is a simple linear relationship between the variables of the form. In general, the estimated model can be used to (Alexander, 2008):

- predict or forecast values of the dependent variable using scenarios on the independent variables;
- test an economic or financial theory;
- estimate the quantities of financial assets to buy or sell when forming a diversified portfolio, a hedged portfolio or when implementing a trading strategy.

When the value of one variable is related to the value of another, they are said to be correlated. So the correlation means an inter-relationship or association.

I have chosen to analyze the following five variables:

- construction industry volume (Y);
- gross domestic product (X1);
- real gross domestic product growth (X2);
- number of employees in the sector (X3);
- share of working population (X4).

The general hypothesis would be that the construction industry volume in any country depends on the mentioned variables, i.e. the country's gross domestic product (GDP), real gross domestic product growth, number of employees in the construction industry and the share of working population in construction sector.

In order to test the above hypothesis, I have chosen to analyze 10 different European countries, as shown in the table 7 below.

		Y	X1	X2	X3	X4
Country	No	Industry Volume (billion EUR)	GDP	Real GDP growth (%)	No of employees	Share of working population
Austria	1	32	273	3,3	247437	7,4
Belgium	2	30	331	2,8	200000	4
Bulgaria	3	4	28	6,2	187600	8
Croatia	4	4	38	5,7	137978	9,1
Czech	5	20	128	6,6	400000	8
Denmark	6	25	228	1,7	182000	6
France	7	155	1893	2,1	17668010	6,3
Germany	8	89	2424	2,5	240000	5,5
Hungary	9	10	101	1	330000	8,4
Lithuania	10	2,8	28	8,9	90000	4,1
	Sum	371,8	5472	40,8	19683025	66,8
	Mean	37,18	547,2	4,08	1968302,5	6,68

Table 7. Construction industry volume and other variables by countries (Eurostat, 2007).

The first goal is to determine whether the stochastic (accidental) relationship exists between the construction sector volume and any of the four variables X1, X2, X3 and X4.

In order to complete the first goal, I need to fill in the table of data, as below:

No.	Y ²	YX ₁	YX ₂	YX ₃	YX ₄	X ₁ ²	X ₂ ²	X ₃ ²	X ₄ ²
1	1024	8736	105,6	7917984	236,8	74529	10,89	61225068969	54,76
2	900	9930	84	6000000	120	109561	7,84	40000000000	16
3	16	112	24,8	750400	32	784	38,44	35193760000	64
4	16	152	22,8	551912	36,4	1444	32,49	19037928484	82,81
5	400	2560	132	8000000	160	16384	43,56	1,6E+11	64
6	625	5700	42,5	4550000	150	51984	2,89	33124000000	36
7	24025	293415	325,5	2,74E+09	976,5	3583449	4,41	3,12159E+14	39,69
8	7921	215736	222,5	21360000	489,5	5875776	6,25	57600000000	30,25
9	100	1010	10	3300000	84	10201	1	1,089E+11	70,56
10	7,84	78,4	24,92	252000	11,48	784	79,21	81000000000	16,81
Total	35034,84	537429,4	994,62	2,79E+09	2296,68	9724896	226,98	3,12682E+14	474,88
Mean	3503,484	53742,94	99,462	2,79E+08	229,668	972489,6	22,698	3,12682E+13	47,488

Table 8. The working data completed in Excel worksheet.

Then I calculate the correlation coefficient r and evaluate its statistical significance. The dispersion DX and mean $\bar{X}$ are calculated applying the following formulas:

$$\text{Mean: } \bar{X} = \frac{\sum x_i}{n}$$

$$\text{Dispersion: } DX = \overline{X^2} - (\bar{X})^2, \text{ whereas } \overline{X^2} = \frac{\sum x_i^2}{n} \text{ and } n=10$$

Correlation coefficient r is calculated applying the following formula (Lucey, 2002):

$$r = \frac{n \cdot \sum xy - \sum x \cdot \sum y}{\sqrt{n \cdot \sum x^2 - (\sum x)^2} \cdot \sqrt{n \cdot \sum y^2 - (\sum y)^2}}$$

Correlation coefficient r can also be calculated in Excel using function CORREL. A high value (above +0,9 or -0,9) of correlation coefficient shows a strong association between the two variables, whereas a low correlation coefficient, somewhere near zero, says that there is no linear relationship between the variables (Lucey, 2002).

Furthermore, while applying the coefficient r , it is possible to calculate the statistics t :

$$t = \left| r \cdot \sqrt{\frac{n-2}{1-r^2}} \right|$$

The calculated value t is compared to the critical t score value which in turn is calculated in Excel spreadsheet by using the function TINV, with probability rate equal to 0,05 and degree of freedom equal to $n-2$ (or $10-2=8$ in my case). If $t(\text{statistical}) \geq t\alpha; k$ (critical score), then it is claimed that r is statistically significant and the stochastic relationship exists between Y and X analyzed.

Using the above formulas and calculations, respectively provided in appendix 2, I submit the following table 9:

	Y	X1	X2	X3	X4
Total	371,8	5472	40,8	19683025	66,8
Mean	37,18	547,2	4,08	1968302,5	6,68
Dispersion	2121,13	673061,76	6,05	2,7394E+13	2,8656
r (correlation coefficient)		0,8839135	-0,4610214	0,85434125	-0,2397839
r (checked by Excel function CORREL)		0,8839135	-0,4610214	0,85434125	-0,2397839
t (statistical)		5,34605501	-1,4694405	4,64957498	-0,6985917
Critical t score		2,3060041	2,3060041	2,3060041	2,3060041

Table 9. Calculations of mean, dispersion, correlation coefficient r , t statistical and critical t score.

Let's compare the t statistical value with critical t score value – it is obvious that not in all four cases t statistical is greater than critical t score. That means that not in all four cases the stochastic relationship exists – it exists only between the two variables: Y and X1; Y and X3, in other words there is a relationship between the construction sector volume (Y) and gross domestic product (X1), also between the construction sector volume (Y) and number of employees (X3).

The second step of the analysis is to choose a straight line, or linear function, that describes the sum of statistical points at its best.

Simple linear regression analysis is the derivation of an equation between two variables. As the name suggests, simple linear regression analysis develops an equation to express the linear effect of the independent variable on the dependent variable, and thus, it is assumed that the relationship between these two variables is indeed linear in nature. If a positive relationship exists, linear means that as the independent variable increases, the dependent variable will increase by the value of the coefficient for the independent variable; if a negative relationship exists, linear means that as the independent variable increases, the dependent variable will decrease by the value of the coefficient for the independent variable (Kahn, 2006).

In general, such equation, describing a straight line, would take the following form:

$$\hat{Y} = a_0 + a_1 \cdot X$$

The parameter a_0 is called the regression constant and represents the intercept of the line with the vertical (Y) axis, and the regression coefficient a_1 represents the slope of the line.

The straight line determines that the sum of the squares of the vertical deviations of the data points from the line is a minimum. Obviously, even if a strong relationship exists, all the points would not lie on a straight line – there would be a variation in data because of other factors. However, if the correlation coefficient is close to -1 or +1, most points would be close to the line (Curwin, Slater, 2004).

Simple linear regression (also referred to as line of best fit or least squares linear regression) provides the mathematical way of estimating a_0 and a_1 (Curwin, Slater, 2004):

$$a_1 = \frac{n \cdot \sum x_i \cdot y_i - \sum x_i \cdot \sum y_i}{n \cdot \sum x_i^2 - (\sum x_i)^2}; \quad \text{- the value can also be checked in EXCEL, applying function}$$

SLOPE

$$a_0 = \frac{\sum y_i}{n} - a_1 \cdot \frac{\sum x_i}{n}; \quad \text{- the value can also be checked in EXCEL, applying function}$$

INTERCEPT

Linear regression coefficients		
	X1	X3
a1	0,049621069	0,00000751774805573783
a1 (as checked with SLOPE)	0,049621069	0,00000751774805573783
a0	10,02735107	22,38279771
a0 (as checked with INTERCEPT)	10,02735107	22,38279771

Table 10. Linear regression coefficients.

This way the following linear functions are compromised:

$$X1: \quad Y_1^{\wedge} = 10,02735107 + 0,049621069 \cdot X1$$

$$X3: \quad Y_3^{\wedge} = 22,38279771 + 0,00000751774805573783 \cdot X3$$

Finally, I submit the following table 10 by inserting X1 and X3 into the equations $Y_1^{\wedge} = 10,02735107 + 0,049621069 \cdot X1$ and $Y_3^{\wedge} = 22,38279771 + 0,00000751774805573783 \cdot X3$:

No.	$Y_1^{\wedge}$	$(Y_1^{\wedge} - Y)^2$	$Y_3^{\wedge}$	$(Y_3^{\wedge} - Y)^2$
1	23,5739	70,9991	24,2430	60,1716
2	26,4519	12,5888	23,8863	37,3767
3	11,4167	55,0080	23,7931	391,7679
4	11,9130	62,6148	23,4201	377,1396
5	16,3788	13,1127	25,3899	29,0510
6	21,3410	13,3886	23,7510	1,5599
7	103,9600	2605,0781	155,2064	0,0426
8	130,3088	1706,4188	24,1871	4200,7175
9	15,0391	25,3923	24,8637	220,9282
10	11,4167	74,2482	23,0594	410,4431
Sum	371,8000	4638,8496	371,8000	5729,1982

Table 11. Table of calculations completed in Excel worksheet.

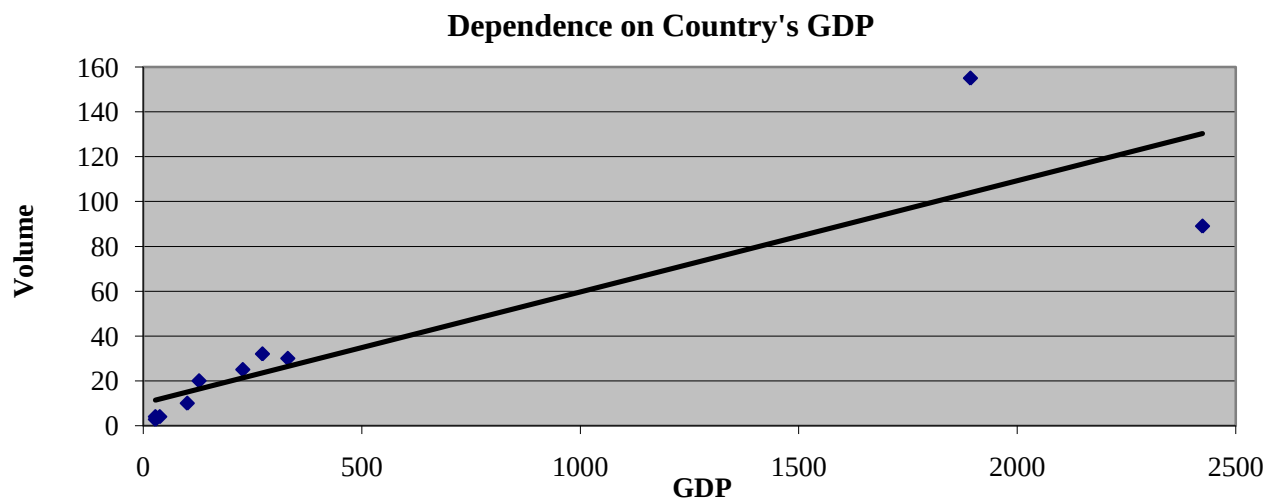


Figure 10. Dependence on country's GDP.

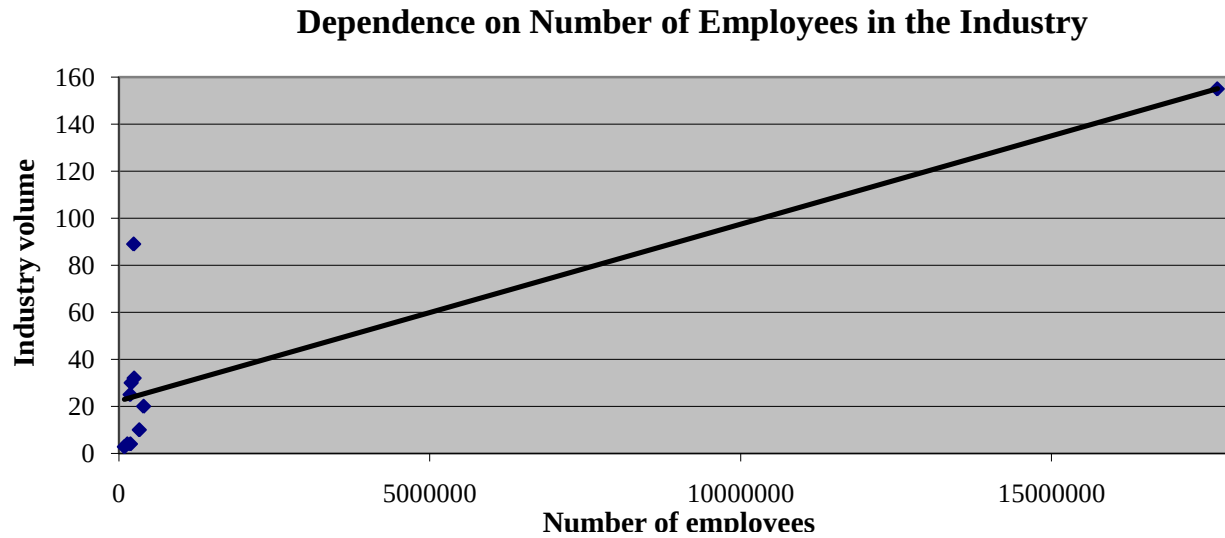


Figure 11. Dependence on number of employees in the industry.

The ratio of dispersions is calculated using the following formula (calculations are shown in table 12):

$$F = \frac{S(\text{regression dispersion.})}{S(\text{residual})} = \frac{\sum (\hat{y}_i - \bar{y})^2}{\sum (\hat{y}_i - y_i)^2 \cdot \frac{1}{n-2}}$$

	X1	X3
S (residual)	579,8561949	716,1497714
F	3,65803042	2,961854747
Tabulated value of F	3,388130235	3,388130235

Table 12. Calculations of S residual, ratio of dispersions F and tabulated value of F.

Calculated F value is measured against the tabulated value of $F_{\alpha; n-1; n-2}$, which is calculated in Excel by using the function called FINV, whereas $\alpha = 0,05$ (probability) and n (degree of freedom) = 10.

If $F \geq F$ (tabulated value), then the regression equations are adequate to reality and they can be used in planning.

In my case only one regression equation can be used in planning, because only one F value is greater than tabulated value of F (X1 case). So the equation $\hat{Y}_1 = 10,02735107 + 0,049621069 \cdot X_1$ can be used in planning. This allows to determine the dependent variable value when the independent variable value is known. So if the GDP is known, the volume of construction sector can be predicted/forecasted.

3.2. COMPLEX ANALYSIS OF LITHUANIAN CONSTRUCTION SECTOR POTENTIAL TO DEVELOP INTERNATIONAL BUSINESS RELATIONS

3.2.1. *STRUCTURAL ANALYSIS OF LITHUANIAN CONSTRUCTION SECTOR*

The Lithuanian construction industry accounted for about 10% of GDP and 9% of total employment in 2007 and has experienced growth over last few years until the end of 2008 when global financial crisis begun. Most of the construction companies in Lithuania are small enterprises employing fewer than 50 people, with the primary activity being renovation of existing buildings and apartments. Around 5% of construction companies employ more than 250 people and are engaged primarily in the construction of new buildings. According to Association of Lithuanian Construction the total number of companies operating in construction business in Lithuania is around 660, 135 of them belongs to association. There are around seven major construction companies, in all. Panevezio Statybos Trestas (PST) is consolidating its leading position in the industry. AB YIT-Kausta is also among the leading players in the Lithuanian construction industry, and is owned by the Nordic YIT Group.

About 30% of construction materials are imported into Lithuania, with the rest being produced locally. Most imports come from Belarus, Russia and Poland. The construction materials supplied from these countries (cement, lime, bricks, etc.) are very competitively priced, which is still the primary criterion for the Lithuanian buyer when choosing a product. There are about 20 of building materials producers acting in Lithuanian market. Most of them are competing on price by offering materials to general construction companies through whole sell facilities known as “Do it Yourself” (Senukai, Ermitazas, Steda, Partneriu Statybines Medziagos and so on). Most of the time building materials are sold as basic commodity but not as solution to the customer needs and lacking of service business offering like customer consultancy, specialized product and equipment. Sells are not supported by comprehensive training packages and reliable technical support. Some retailers are offering not only the product and training packages but also product and its installation. After such as behavior those distribution companies may become competitors to their customers – building and installation companies. Many brands of construction materials entered Lithuania’s market relatively early and gained a good share of market, however, in their home countries they are known as remote followers in means of quality and development of latest technologies.

As far as cement sales are concerned, the market is likely to expand at an annual rate of 15%. Currently, per capita consumption of cement in Lithuania is 3.5 times below the EU average. The

prospects for the only cement manufacturer in Lithuania, Akmenes Cementas, are good. The company invested about 9 mln LTL in 2005; in 2006. There is a certain lack of clarity regarding the impact of the partially changed ownership on activity of Akmenes Cementas. One-third of company's shares were acquired by Mexican company Cemex, one of the largest cement manufacturers in the world. The new owners did not get the controlling interest in the company and did not take over management of the Lithuanian cement factory, but they managed to buy 100% shares of Latvian cement factory, Broceni. Should they decide to expand production in Latvia, Lithuanian players may face additional difficulty in the market. Production capacity at Akmenes Cementas is 3.4 mln tones per year. However, only 20-25% of its production capacity is currently being utilized.

The growing popularity of new construction technologies and materials in Lithuania, as well as imports of cheap cement from Belarus, Ukraine and Russia, has negatively influenced local cement production. Germany headquartered Heidelberg Cement, the leading global cement producer, aims to buy 70% of Lithuania's cement trader Gerdukas. Gerdukas deals in cement imports, packaging and trade. The company has been cooperating with Heidelberg Cement since 1997. Earlier, Heidelberg Cement purchased Vilnius-based company Maxit, which operates clay block plants in Siauliai. Gerdukas also trades in cement produced by Akmenes Cementas, as well as in cement imported from Belarus and other countries. In 2007, Maxit obtained permission to acquire up to 100% of Viscum, a Kaunas region-based dry construction mixture producer. The company is currently looking for land parcels suitable for building two new plants between Vilnius and Kaunas. Global majors are trying hard to get a toehold in the Lithuanian construction market.

	2000	2001	2002	2003	2004	2005	2006	2007	2008
All construction units	2 564 343	2 725 079	3 321 296	4 289 539	4 881 926	5 854 881	7 807 624	10 776 300	11 889 539
Buildings	1 450 037	1 653 971	1 972 965	2 630 148	3 076 509	3 543 028	5 014 830	6 840 607	7 181 989
Residential buildings	247 101	257 830	354 765	431 220	611 145	826 262	1 458 153	2 198 259	2 126 949
Non-residential buildings	1 202 936	1 396 141	1 618 200	2 198 928	2 465 364	2 716 766	3 556 677	4 642 348	5 055 040
Civil engineering structures	1 114 306	1 071 108	1 348 331	1 659 391	1 805 417	2 311 853	2 792 794	3 935 693	4 707 550
Construction work carried out outside the country	45140	65736	76288	61900	66920	63761	67876	126914	156353

Table 13. Construction work carried out within the country at current prices (thousand LTL) by classification of types of construction and year. (Source: Lithuania's Statistics Department, 2009).

Construction work carried out in Lithuania

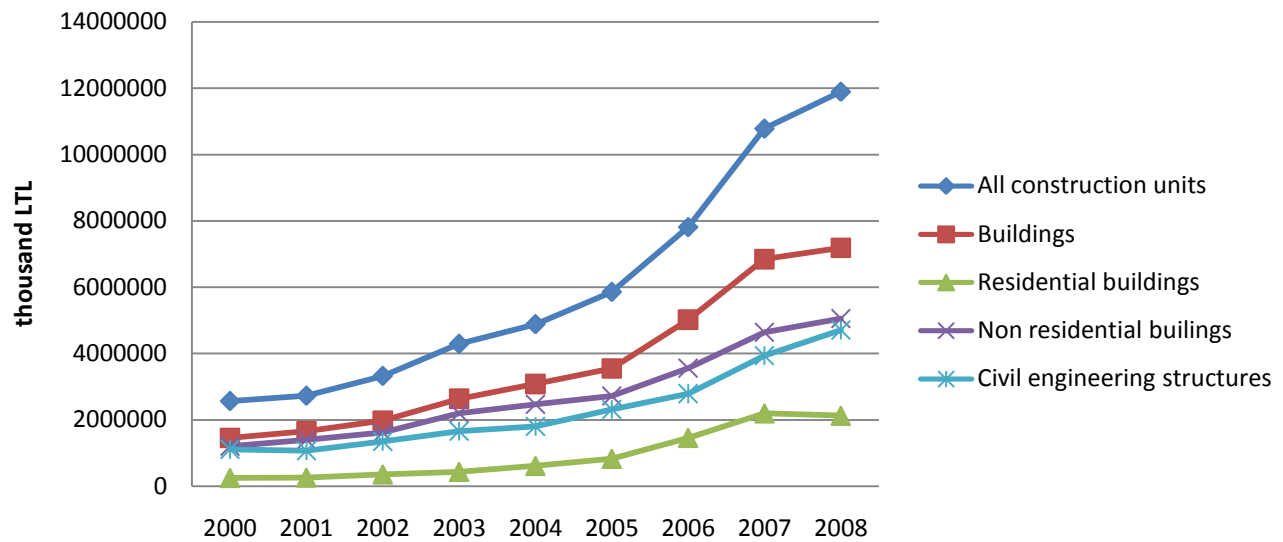


Figure 12. Construction work carried out in Lithuania.

Construction work carried outside Lithuania

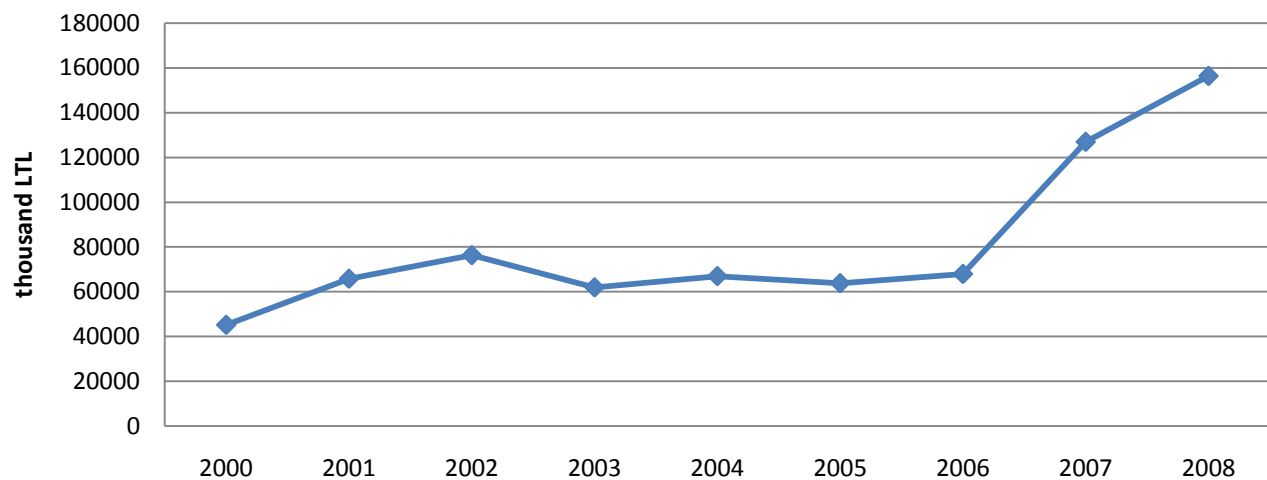


Figure 13. Construction work carried outside Lithuania.

The regional disparities in infrastructure between Western and Eastern Europe are slowly being eliminated. Entry into the EU has prompted the Central and Eastern European (CEE) states to devote attention to modernizing their existing infrastructure and integrating it with their neighbors, thereby creating a more unified system by amalgamating transport and energy networks. Advancements have been made and significant investments have gone into transport and energy to support the EU's policy goals.

However, on a community level more needs to be done before European networks are truly unified. The European infrastructure market is still somewhat divided along two broad fronts of highly developed and consolidated markets on the west, and rapidly expanding markets on the east.

On the one hand, western European states boast some of the most developed and sophisticated infrastructure markets in the world. On the other hand, the central and eastern European states, with the support of significant EU funds, are building constantly to fill a gap of five decades of underinvestment and underdevelopment in infrastructure. This need for overhauls and expansion has created opportunities for the private sector to expand. The western majors in the field of construction are concentrating in the CEE European regions in search of new markets.

3.2.2. SWOT ANALYSIS OF LITHUANIAN CONSTRUCTION SECTOR

Strengths	- Lithuania's economic growth is close to the top of Europe's GDP growth tables and this bodes well for growth of the construction industry in the future; - Lithuania benefits from its geo-strategic location between the markets of western Europe and Russia, as well as its status as the largest of the Baltic economies.
Weaknesses	- Lithuania relies on cheap cement imports from Belarus, Ukraine and Russia, and this has had a negative impact on cement sales and production within the country; - the Lithuanian construction industry requires higher health and safety standards; - the export and import structure is orientated towards low-technology products, and the quality of the labor force is being eroded by the emigration of skilled workers. Maintaining the competitiveness of the economy over the longer term may prove challenging, and additional reforms will be needed to enhance education, training and infrastructure; - the size of the shadow economy is decreasing only slowly, and according to some unofficial estimates may be as large as 20% of reported GDP.
Opportunities	- Lithuania is planning to develop many wind power stations as it seeks to expand its electricity generation capacities using renewable and other alternative energy sources; - Lithuania has a growing potential for foreign investment as the government is seeking to liberalize its foreign investment laws; - now that Lithuania is in the European Union there will be greater opportunities

for European firms to compete for tenders for large projects;

- the potential to adopt the euro over the longer term will stimulate further trade and investment with EU partners, and will diminish the external risks associated with a fixed exchange rate regime and large current account deficit.

Threats

- though the outlook is generally positive for Lithuania, the main threats are that robust economic growth seen in the last few years will not be maintained and this could lead to slower growth in construction, although demand for new road building and house construction should remain strong;
- EU membership could lead to greater emigration as Lithuanians seek employment in western Europe; this could even lead to a fall in population, as has happened in Russia, and also shortage of skilled labor in the construction industry;
- a long period of non-inflationary growth has come to an end. The energy and food-price-driven increase in inflation could prove more persistent, jeopardizing euro zone prospects, as domestic demand is strong and skilled labor is in short supply;
- the Monitoring Committee of the Cohesion Fund has expressed concerns over the discrepancy between funds allocated and funds used. The EU has recommended a review of the red tape procedures hampering efficient utilization of the funds.

At 65.8, (see appendix 3) Lithuania maintains one of the highest business environment ratings in the emerging Europe region (BMI report, 2008). As an EU member that has entered into the Schengen passport-free zone, the country benefits substantially from a robust legislative and regulatory framework that is harmonized to international standards. This has helped to develop the government's institutional capacity, which has been a key factor in promoting foreign investment and keeping security risks low. Reflecting its relative level of economic development, Lithuania also maintains an advanced infrastructure network and has a highly educated and skilled workforce.

The European Union structural funds are allotting capital for renovation of blocks of flats in Lithuania. However, the utilization of such funds is very low. The resources are to be granted to the municipalities where the people are not able to renovate their dwellings with their own funds. The renovation program has to be implemented by 2020. It is expected that approximately 70% old blocks of flats will be renovated. At present, the renovation program includes more than 300 blocks of flats in different places of Lithuania.

3.2.3. QUALITATIVE STUDY OF LITHUANIAN CONSTRUCTION SECTOR

Majority of the companies doing business in Lithuania are small enterprises employing fewer than 50 people, with the primary activity being repair and renovation of existing houses and apartments and final stage of work in new buildings and apartments. Most of the personnel in companies are conducting various activities in construction - from basic work (for example brick laying) to painting and final decoration. Usually the same craftsman is involved in different areas of application. However, there are not significant number of highly specialized companies acting in their chosen segment of work: professional tile laying, flooring, painting, renovation and pool installation companies. Experience of successful western companies suggests that more specialized companies maintain higher level of proficiency, labor productivity and accumulates more professional knowledge in their own areas.

The objective of research is to provide up to date business information and analysis on key aspects of Lithuanian construction market in order to develop international production and trade of construction products. The Lithuanian construction qualitative research is based on 32 face to face interviews with representatives of construction companies doing business in the Lithuanian construction sector. Sixteen of the companies interviewed were not specialized. Three of them are employing more than 250 people and 13 are small with number of personnel up to 50. Another part of interview participants were representatives of some what can be called “specialized companies”. Survey participants responded to approximately 20 questions on the four key areas which are important for the qualitative analysis of the current situation of Lithuanian construction industry and its potential development in the coming years. Questions used in interview were closed ended and provided in direct formulation. All relevant response categories was specified in advance. Some of the categories have been asked to rate from 1 to 10 by the level of importance. It is important to note that all interviews were conducted in summer of 2008, before the full start of the financial crisis which has impact on construction companies. The main goal of empirical research was to identify differences between specialized and not specialized construction companies in Lithuania in order to help develop international marketing operations in production and trade of construction materials. The factors were brought from scientific literature:

Track of record. Companies with a strong track record are considered to have a competitive edge. An experienced firm has either a ready solution or a cheaper one to a technical problem because it has encountered a similar problem in the past and has invested in its solution. It has demonstrated through

previous performances that it has the organization and technical know-how and experience to overcome technical challenges that may emerge in the course of a construction project (Quak, 1991).

Special expertise. According to Sillars and Kangari (1997), small companies from high developed countries do not have a cost advantage to perform a work abroad but possess specialist expertise which can help to get a niche in international market. Results show that special expertise is one of the major strengths for a company in international markets.

Technological advantage. The demand for sophisticated projects such as power plants, industrial complexes and others in the international market requires of sophisticated technology. Globalization itself is accompanied by an increase in the rate at which new technologies are introduced, changing the strategies required by industry members to remain competitive. According to Pheng (1996) the new technology is one of the effective tools that enables a construction company to enter into foreign markets. The new technologies in less developed countries usually are provided by companies from industrialized countries with more emphasized research and development.

A key factor in supplier relationships is power. According to Lee and Carter (2005), any imbalance in power, where one partner is seen as dominant and the other dependent, creates opportunities for partners to pursue short-term advantage. This can often happen when SMEs are dealing with larger companies. In fact, the quality of buyer-seller relationships is thought to be higher among smaller businesses operating in ‘closed communities’ typically found in less developed economies (Palmer, 2000). It could be suggested that it has only been with the growth of mass-market distribution that traditional relationships between members of the distribution chain have become so strained. This strain is especially evident in the changing relationships between brand suppliers and retail intermediaries. Historically, manufacturers attempted to attract consumers ‘over the heads’ of the retailer, whereas now retail chains have the most power (Egan, 2001). The legacy of these changes has been one of often adversarial, and arguably unethical, relationships within the retail supply chain.

As we can see from research the main methods in selecting suppliers for Lithuanian construction companies are three to four – long term contracts, partnering agreements or networking and recommendation. Specialized companies prefer one more method – technical seminars. Those events are typically organized by supplier where technical knowhow and product characteristics are demonstrated.

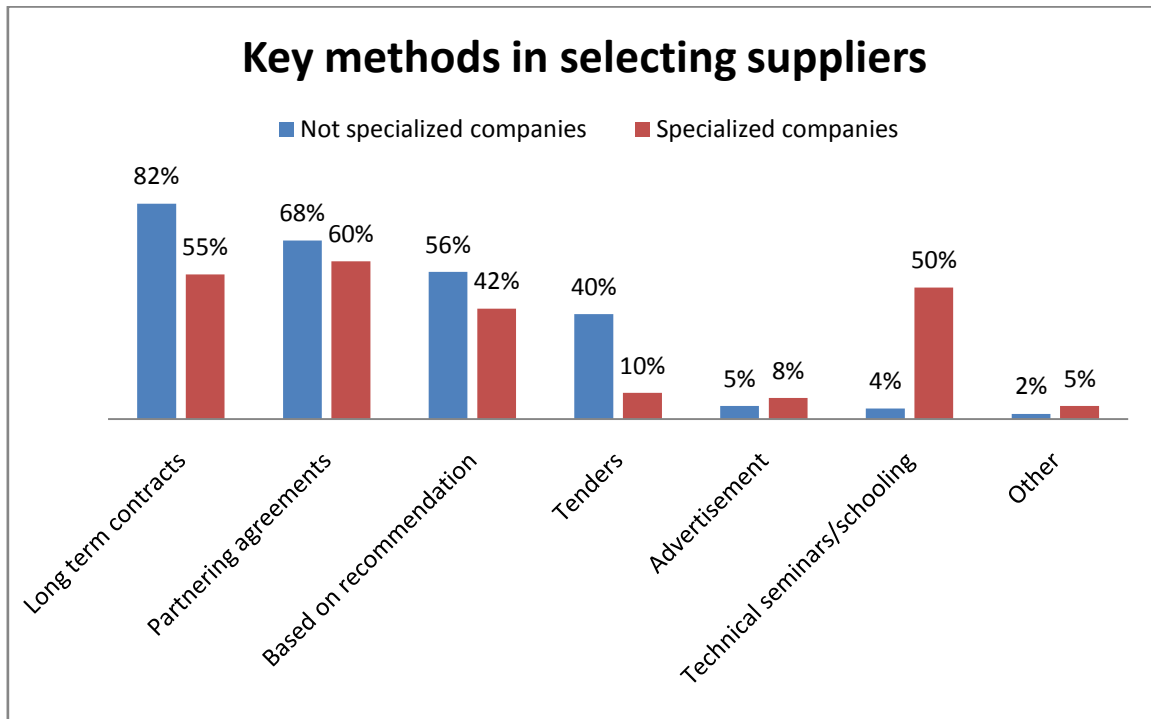


Figure 14. Key methods in selecting suppliers.

Long term contracts (82) is the main method in selecting suppliers for not specialized construction companies followed by partnering agreements (68) and recommendation (56). Long term contract method weight is significantly higher for representatives of not specialized construction companies and it could be explained by terms in those contract such as price, methods and delay of payments, quantity of products, etc.

Research shows that specialized companies are not giving such as significant weight to one of the methods in supplier selection. They prefer partnering agreements (networking) (68), followed by long term contracts (60), technical schooling (know how) (50) and recommendation (42). A network could be formal or informal association with producer of products. Construction firms interested in exploring foreign markets may participate in overseas trade missions in order to establish international contacts. These trade missions are generally organized by trade associations or by the government. Trade missions enable participants to have first-hand knowledge and allow to establish network connections.

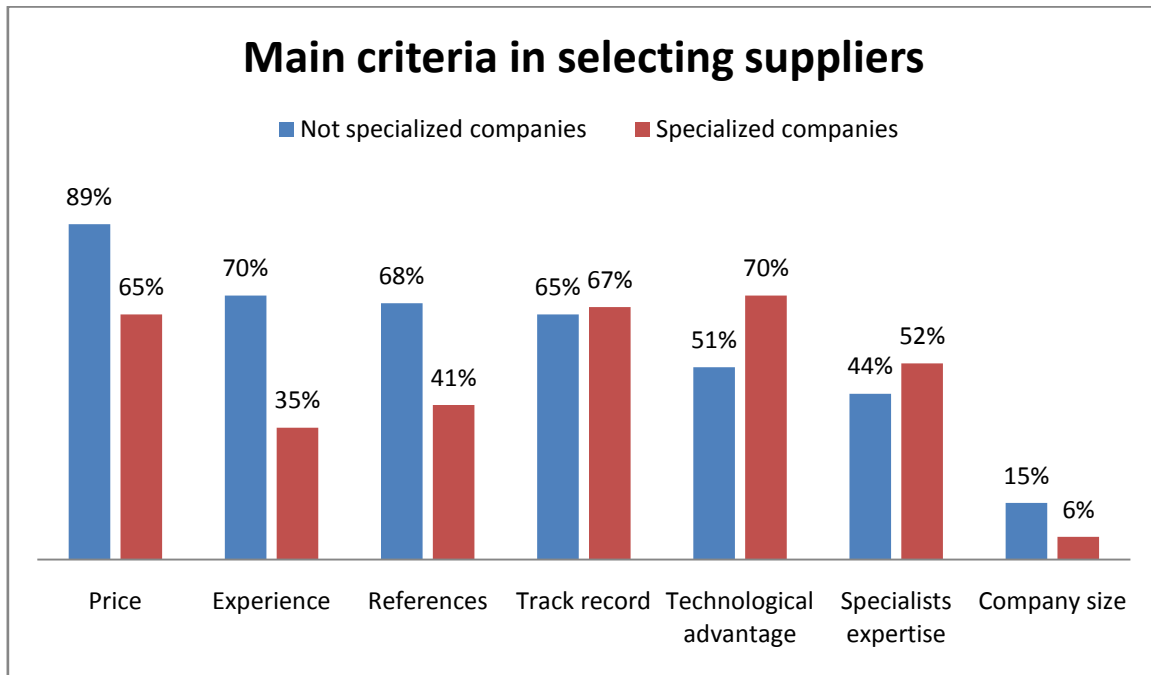


Figure 15. Main criteria in selecting suppliers.

The average construction company uses two to three criteria when selecting its suppliers. The key criteria for selecting suppliers are price, followed by experience, applied technologies and references. The price has the biggest weight for not specialized construction companies in Lithuania (89). The price is the factor which helps to enter in to the project but the problem is that the cheap product not always performs well and the biggest price is paid when it comes to claims and reflection on image of the company. In the contrast with not specialized construction companies, more specialized professional companies use three relatively equal criteria when selecting suppliers. Those are technological advantage (70), track record (67) and price (65).

4. STRATEGIC SOLUTIONS IN INTERNATIONAL MARKETING FOR DEVELOPMENT PRODUCTION AND TRADE OF CONSTRUCTION PRODUCTS

4.1. DEVELOPING LOYAL CUSTOMER BASE THROUGH INTERNATIONAL MARKETING RELATIONSHIPS

Every firm needs to interact with other firms—and every manager with other managers—in order for successful international market exchanges to take place. This is especially important in markets of construction materials within typical supply chains, but extends to organizations operating in business to customer markets as well. Relationships have always been a fundamental part of exchange in many Eastern cultures. Even in Western cultures, relationship management has been used, especially in the marketing activities of small and medium enterprises. Relationships, particularly at the inter-organizational level, present firms with value-enhancing opportunities. They can be used to leverage competencies in order to offer superior customer value.

Within manufacturing of construction materials, relationships can allow firms to achieve modularity in product and process design, where system products can be designed separately yet function as a whole. Increasing levels of macro environmental turbulence and market diversity also lead to the growth of relationships. Firms need to be able to respond quickly to changing customer needs. They must seek partnerships with other firms in order to serve fragmented markets, particularly those involving complex technologies. In most sectors R&D costs have escalated and the ‘window of opportunity’ for getting products and services to market has shortened, pushing firms to work together in joint New Product Development programs. Here, collaboration can reduce risks by minimizing ownership and investment in production, distribution and human resources. There has been widespread recognition of the profitability impact of customer retention. The cost of acquiring new customers can be substantial. Established customers tend to buy more and place more consistent orders, becoming less costly to serve. Satisfied customers may be willing to pay premium prices to a supplier they know and trust, and often refer new customers through positive Word of Mouth. Finally, the ability to retain customers can be a significant barrier to entry to competitors.

In business to customers markets most attempts at building customer loyalty have focused on creating strong brands, typically involving mass-media communications. As we can see from qualitative study of companies involved in construction business in Lithuania, evidence points to a gradual decline in brand loyalty. One explanation for this is that customers do not perceive much difference in product

quality between competing brands. Another factor is that consumers see their relationship as being more with the retailer than with the brand.

A fundamental of relationship management is an emphasis on 'loyalty' through strategies that aim to retain customers, and improve profitability. In order for loyalty and a relationship to flourish there should be trust, commitment and communication between the interested parties. The first two of these elements are almost inseparable. Trust can be viewed as a relationship 'atmosphere' that results from cooperation, based on predictability, dependability and faith. It appears to reduce risk perception in relationships, i.e. each party believes that the other will not take unfair advantage. Trust that develops through social interaction between individuals can often be more important than legally binding contracts. Commitment motivates partners' efforts to preserve a relationship and to resist alternative offers. It is unclear whether commitment is the outcome of growing trust or whether trust develops from the decision to commit to one supplier. Nevertheless, trust and commitment are required for firms to consider adaptations to meet partner needs, especially in international markets.

Marketers must consider the relationship dynamics of international operations. For example:

- markets may be entry-blocked by existing local relationships and organizations;
- entry and location decisions may be driven by customer firms;
- personal contacts may inform SMEs about which markets they could enter;
- relationship failures may force an exit from certain markets; or close intra-cultural relations may exclude a business from a particular network.

A relational view assumes that firms are interdependent on other firms and therefore cannot control the traditional sequential methods of decision-making in international marketing. Managers may need to ask:

1. Who are the main players in the foreign market?
2. What are the relative positions of each of the firms in the network?
3. What are the relations of the manager's firm to actors/stakeholders in the potential national market?
4. How can the resources of other actors be mobilized in support of market entry?

There are a number of managerial implications resulting from the growth of an RM approach to global marketing. First is perhaps the realization that managers trained under a competitive and hierarchical management philosophy may require a different set of skills to achieve cooperation amongst partners. A greater understanding of the mutual needs of the relationship partner, whether at the organizational or the personal level, is essential. This reinforces the basic advice in most marketing textbooks on 'marketing orientation', but true relationship management demands more interaction than basic customer awareness.

For instance, it will be important for managers to consult partners before acting in any decision process. It will be necessary to know the plans for the own-label ranges of the firm's main retail customers around the world. Furthermore, negotiated outcomes in relationships should represent compromises that lead to 'win-win' outcomes for all parties. This joint benefit should always underpin relational practice. Marketing action guidelines should include the following:

- fair and appropriate treatment during all business relationships;
- excellent supplier and customer relationship;
- distribution exclusively via wholesalers;
- always capable of delivering any product;
- punctual delivery;
- extensive services, such as competent on site counseling, advice from technical support, laboratory analyses, etc.;
- active presale support via exhaustive marketing material;
- establishment of training and information centers.

In terms of planning in relationships, managers need to set strategic objectives that represent acceptable targets for all parties and for the relationship itself. These might include increased revenues for two competing organizations in an alliance, or increased data exchange on end-user behavior for firms cooperating within a marketing channel. The outcome of the relationship in each case might be a reduction of costs. Flexibility is also essential, both in terms of possible conflict resolution and a willingness to change practices if market conditions alter.

4.2. IMPLEMENTATION OF CROSS-SELLING IN INTERNATIONAL TRADE AND DEVELOPING OF CONSTRUCTION PRODUCTS

The goal of international trade today has evolved from a transactional (one shot sale) mentality to build life time customer relationships. From trying to persuade and telling – to problem solving, helping and supporting. From low-price selling – to value added selling. Almost every business recognizes of the importance of cross-selling its full range of production and services to customers but very few achieve it in practice. That is because most of the marketers assume that buyers know what they want.

Studies have found that construction companies prefer long term contracts while selecting its suppliers. Therefore to sell to existing customer is much easier and cheaper than to new one. It does not mean just push more products to existing customers. It's encouraging customers to buy other products that meet their needs. Cross-selling can create more retention of customers, widen the customer reliance on the

company and decrease the likelihood that customers would switch to a competitor. Customers often appreciate the convenience that can be provided through comprehensive and beneficial approach. The more services a customer buys from the company – the more chance that customer will stay with a company for a longer period of time.

In the case of international development, manufacturing and trade of construction materials, customers can be highly professional segments as:

- professional tiling companies;
- professional masons;
- professional floor layers;
- professional painters;
- designers.

The goal of business is to guarantee their satisfaction. It must be done with their current purchase before cross-selling additional products (if a customer is unhappy with purchasing experience, why would they want to buy more?). The first goal of marketing must be to identify each customer's success criteria. The question marketers have to answer is: "how customers judge the success of product or service, company's technical support and responsiveness?" It could be a number of claims if any; project completion time; hardening and drying time of product; technical performance; fast delivery; problem solving abilities and many other criteria. If customers are requesting something that cannot be done, they have to be informed what can actually be expected. Monitoring on an ongoing basis of customer expectation helps easier, faster, and less expensive to correct problems when they are discovered sooner rather than later. Exploration for additional products or services begins when is clear that the customer is satisfied.

When providing solution to customer needs (not pushing a product), engineering and research & development department plays a vital role. They have to review a technological process and keeping in mind particular country's specifics (building culture, whether conditions, local building norms and even tastes) develop a system solutions which are easy to implement, long-lasting, problem free and guaranties fast and easy application.

Let's take for example one segment of potential customers – professional tiling companies. This small segment can be subdivided in to even smaller segments:

- natural stone installation companies;
- thermal baths and pools;
- off-shore deck coverings;
- specialized industrial areas etc.

All of them are using products as tile adhesive and grouting compound but requirements of such a product are very different: from weight, fire resistance, sound reduction or heat insulation – to whether and chemical resistance. The systems developed for each segment must meet immediate demands, be developed in close cooperation with the user and thoroughly tested. The system will consist not only adhesive and grout. It might include some additional products such as: surface repair mortar, primer, sealing compound, silicon, sealing tapes, inserts, sound insulation plates and so on.

The longer list of products – the more knowledge sales personnel has to possess. In fact, to have just product knowledge might be not enough. Sales managers must be able to combine knowledge of the product with their customer's needs – be a product masters. To create a product mastery is not an easy task. One of the biggest learning challenges is the problem of forgetting.

In trade of construction materials is important that sales personnel know the features and customer benefits of each product. A feature is some aspect of the service or product that exists regardless of a customer need and a benefit is the way that feature satisfies a need. Would be helpful for sales personnel to ask some questions themselves in order to help identify features and benefits of the product:

1. List each feature of a product.
2. What are the advantages of each feature?
3. How does each advantage benefit your customers?
4. Do this for each of your products.

The qualitative study of Lithuanian construction sector has shown that average construction company selects its suppliers using two main criteria: price of the product and experience of the company. They might not be aware that there are new technologies (which have been used already several decades in developed countries).

The growing requirements of quality and labor efficiency are resulting in demand of product, which can help increase those factors. Customers are no longer accepting questionable quality therefore building culture is changing. In order to survive, companies have to change their corporate culture, be more specialized and raise the standards for professionalism.

It is opportunity for producers of building materials to offer its products for problem free, fast and safe application for professional segment by implementing “know how” policy in every product range.

CONCLUSIONS

Today, no market is isolated from the global economy. Internationalization brings new opportunities to producers of construction products to tap into more and larger markets. The advent of new technologies has opened up business and marketing opportunities in the development of innovative products and services, and the creation of new values to consumers. It provides access to more capital flows but at the same time entails many risks. Understanding the opportunities and threats associated with international markets and assessing company's preparedness for international ventures are crucial. There is no universal approach or strategy which could provide the solution for every organization. The international marketing is a key to success by asking the right question and finding the right answer. International marketing strategies may differ according to uncontrollable marketing elements but must be technology and customer driven.

Analysis of international marketing theoretical models suggests that for producers and sellers of construction products the most appropriate international marketing strategy can be a segmentation strategy. It focuses on distinctive set of customers and with variation in marketing activities for segments can achieve its objectives. In case of marketing construction products target segments could be identified as follows:

- professional tiling companies;
- professional masons;
- professional floor layers;
- professional painters;
- designers and architects.

Target segments could be expanded and subdivided in to much more segments. For example, segment of professional tiling companies can be subdivided in to even smaller segments: natural stone installation companies, thermal baths and pools, off-shore deck coverings, specialized industrial areas etc. It's much easier to develop a system of products for a small segment than one universal system. The systems developed for each segment must meet immediate demands, be developed in close cooperation with the user and thoroughly tested.

Statistical regression analysis of quantitative data showed that construction sector value strongly depends on two factors:

- country's gross domestic product;
- number of employees in the sector.

Other variables, such as real GDP growth and share of working population have no significant impact. The second step of regression analysis allowed to determine the linear functions of the appropriate variables and it is concluded that the only equation $\hat{Y}_1 = 10,02735107 + 0,049621069 \cdot X_1$ can be used in planning and forecasting, i.e. when the GDP is known, the volume of construction sector can be forecasted.

Recent events of situation in Lithuanian construction sector proved that economic booms can significantly expand the value of construction sector but it could take it away just as easily.

Results of qualitative research on Lithuanian construction companies points out that the average construction company uses two to three criteria when selecting its suppliers, however, there is a difference between specialized and not specialized construction companies. The main criteria for not specialized companies is price followed by experience of supplier and references. In the contrast, professional specialized companies prefer technological advantage, track record and price. Those findings suggest that international marketing must promote efficiency through competition and division of labor. Specialization allows professional companies to focus on what they do best and those companies could be a primary target of qualified sales personnel. It is opportunity for producers of building materials to offer its products for technological, fast and safe application by implementing “know how” policy in every product range. It is imperative to implement and follow product policy in order to produce a range of products appropriate to each segment:

1. Best quality for optimal results - the most expansive and sometimes impossible to solve the problem caused by low quality product. This applies also for environmental safety and emission's harm for residents.
2. Wide product and supply range of specialized products - the emphasis should be made to offer system solutions in order to guarantee long lasting performance of construction. This will help to ensure high labor efficiency and desired technical and economical result.
3. High product safety via ongoing laboratory tests.
4. Innovative new developments - especially for Lithuanian market which must be adjusted to customer needs without compromising quality.
5. Permanent further improvement of existing products.

Results also show that both professional specialized and not specialized companies pay little attention to marketing tools such as advertisement while selecting suppliers. They prefer long term contracts and partnering agreements. This makes relationship marketing especially important in international markets of construction products. A fundamental of relationship management is an emphasis on ‘loyalty’ through strategies that aim to retain customers, and improve profitability. In order for loyalty

and a relationship to flourish there should be trust, commitment and communication between the interested parties. Established customers tend to buy more and place more consistent orders, becoming less costly to serve. Satisfied customers may be willing to pay premium prices to a supplier they know and trust, and often refer new customers through positive references. The relationship marketing is an alternative of so-called “4Ps” and recognizes the need for quality, customer service and promotes high level of continuous customer contacts such as competent on site counseling, advice from technical support and establishment of training and information centers. It replaces one shot sale mentality from trying to persuade and telling – to problem solving, helping and supporting, from low price product selling – to value added cross selling.

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APPENDIX 1

DECISION-MAKING CONCERN

	YES	NO
1. Have I researched the target market for potential competitors?	☐	☐
2. Has the target market exhibited interest in my product?	☐	☐
3. Has the potential size of the target market been quantified?	☐	☐
4. Will the foreign government permit import of my product?	☐	☐
5. Will my government permit the export of my product?	☐	☐
6. Will I be able to get my price?	☐	☐
7. If exporting, can letters of credit be secured?	☐	☐
8. Can proper insurance be obtained in the target market?	☐	☐
9. Is the target infrastructure capable of handling my product?	☐	☐
10. Will the foreign government give us fair treatment?	☐	☐
11. Can I control distribution?	☐	☐
12. If I have to use local distributors, are they trustworthy?	☐	☐
13. Can I maintain the quality of my products overseas?	☐	☐
14. Can we maintain control (rather than give it up to a local partner or agent)?	☐	☐
15. Does the foreign government promote imports?	☐	☐
16. Does the foreign government have a convertible currency?	☐	☐
17. Will I be permitted to travel freely in the target market?	☐	☐
18. Has my legal status in the foreign country been researched?	☐	☐
19. Have the regulatory and licensing processes been investigated?	☐	☐
20. Does the foreign tariff code treat us fairly?	☐	☐
21. Does my domestic tariff code treat us fairly?	☐	☐
22. Does the foreign market allow us to promote and advertise our imported products?	☐	☐

While a “no” answer to any of the above questions doesn’t automatically eliminate the potential for success, it should certainly give the reader cause for reflection before proceeding.

APPENDIX 2

Y = Sector Volume

X1 = GDP

No	Y	X1	Y2	YX1	X_1^2
1	32	273	1024	8736	74529
2	30	331	900	9930	109561
3	4	28	16	112	784
4	4	38	16	152	1444
5	20	128	400	2560	16384
6	25	228	625	5700	51984
7	155	1893	24025	293415	3583449
8	89	2424	7921	215736	5875776
9	10	101	100	1010	10201
10	2,8	28	7,84	78,4	784
Total	371,8	5472	35034,84	537429,4	9724896
Mean	37,18	547,2	3503,484	53742,94	972489,6
Dispersion	2121,1316	673061,76			

X2 = Real GDP Growth (%)

No	Y	X2	Y2	YX ₂	X_2^2
1	32	3,3	1024	105,6	10,89
2	30	2,8	900	84	7,84
3	4	6,2	16	24,8	38,44
4	4	5,7	16	22,8	32,49
5	20	6,6	400	132	43,56
6	25	1,7	625	42,5	2,89
7	155	2,1	24025	325,5	4,41
8	89	2,5	7921	222,5	6,25
9	10	1	100	10	1
10	2,8	8,9	7,84	24,92	79,21
Total	371,8	40,8	35034,84	994,62	226,98
Mean	37,18	4,08	3503,484	99,462	22,698
Dispersion	2121,1316	6,0516			

X3 = No of employees

No	Y	X3	Y2	YX ₃	X ₃ ²
1	32	247437	1024	7917984	6,1225E+10
2	30	200000	900	6000000	4E+10
3	4	187600	16	750400	3,5194E+10
4	4	137978	16	551912	1,9038E+10
5	20	400000	400	8000000	1,6E+11
6	25	182000	625	4550000	3,3124E+10
7	155	17668010	24025	2738541550	3,1216E+14
8	89	240000	7921	21360000	5,76E+10
9	10	330000	100	3300000	1,089E+11
10	2,8	90000	7,84	252000	8100000000
Total	371,8	19683025	35034,84	2791223846	3,1268E+14
Mean	37,18	1968302,5	3503,484	279122385	3,1268E+13
Dispersion	2121,1316	2,7394E+13			

X4 = Share of working population

No	Y	X4	Y2	YX ₄	X ₄ ²
1	32	7,4	1024	236,8	54,76
2	30	4	900	120	16
3	4	8	16	32	64
4	4	9,1	16	36,4	82,81
5	20	8	400	160	64
6	25	6	625	150	36
7	155	6,3	24025	976,5	39,69
8	89	5,5	7921	489,5	30,25
9	10	8,4	100	84	70,56
10	2,8	4,1	7,84	11,48	16,81
Total	371,8	66,8	35034,84	2296,68	474,88
Mean	37,18	6,68	3503,484	229,668	47,488
Dispersion	2121,1316	2,8656			

APPENDIX 3

BMI BUSINESS AND OPERATIONAL RISK RATINGS

	Infrastructure	Institutions	Market Orientation	Overall
Albania	57.0	35.4	38.4	43.6
Armenia	43.5	53.4	67.2	54.7
Belarus	58.5	24.8	26.2	36.5
Bosnia and Herzegovina	43.1	42.3	39.1	41.5
Bulgaria	59.7	50.8	53.0	54.5
Croatia	67.3	51.6	59.7	59.5
Cyprus	70.4	73.5	52.1	65.3
Czech Republic	78.3	59.9	51.5	63.2
Estonia	71.0	75.7	61.9	69.5
FYR Macedonia	47.7	43.0	47.1	45.9
Georgia	38.1	47.9	72.5	52.8
Hungary	72.7	66.1	42.9	60.5
Kazakhstan	47.2	39.5	50.3	45.7
Kyrgyz Republic	35.4	30.0	29.5	31.6
Latvia	66.1	65.5	64.0	65.2
Lithuania	65.6	72.3	59.8	65.9
Moldova	52.6	45.1	58.5	52.1
Mongolia	44.5	52.2	56.0	50.9
Poland	66.9	50.2	55.6	57.6
Romania	55.6	45.4	55.3	52.1
Russia	65.7	37.3	37.4	46.8
Serbia	60.7	43.9	47.7	50.8
Slovakia	69.7	64.0	45.6	59.8
Slovenia	77.8	66.9	55.1	66.6
Tajikistan	24.3	31.6	33.2	29.7
Turkey	51.9	51.2	52.9	52.0
Turkmenistan	29.6	22.2	28.8	26.9
Ukraine	56.4	40.2	40.8	45.8
Uzbekistan	31.2	26.0	19.2	25.4
Global average	47.7	47.7	48.7	48.0
Region average	54.1	47.5	48.2	49.9

Source: BMI. Scores out of 100, with 100 representing the best score available for each indicator.