PAPER • OPEN ACCESS

The use of main methods of entering the agro-industrial enterprise to the foreign market

To cite this article: V S Tynchenko *et al* 2019 *IOP Conf. Ser.: Earth Environ. Sci.* **315** 022101

IOP Conf. Series: Earth and Environmental Science **315** (2019) 022101 doi:10.1088/1755-1315/315/2/022101

The use of main methods of entering the agro-industrial enterprise to the foreign market

V S Tynchenko[1,2], E AChzhan[2], V V Kukartsev[1,2], N V Fedorova[1,2], A V Fedorova[2] and I R Nasyrov[1]

[1]Reshetnev Siberian State University of Science and Technology, 31, Krasnoyarsky Rabochy Av., Krasnoyarsk, 660037, Russian Federation
[2] Siberian Federal University, 79, Svobodny pr., Krasnoyarsk, 660041, Russian Federation

E-mail: vadimond@mail.ru

Abstract. The article describes the actual topic of entering the agro-industrial enterprise to the foreign market and maintaining sustainable activities in these economic conditions. The modern world market is the cruelest in terms of competition for the buyers' interest and in order to occupy its own niche, to find and retain its buyers long and hard work is required. The article discusses the current conditions and problems affecting the entry of the enterprise into the world market. In order to achieve this goal, the stages were developed, which include strategies for organizing the foreign economic activity of agrarian enterprises. One of the options is licensed activity, as an opportunity to access foreign markets with minimal risks. Special attention is paid to the difficulties of using a particular strategic plan. The article considers internal production problems arising from organizations as they enter the maritime market. Also, in order to choose an appropriate strategy, it is important to understand whether managers and the enterprise as a whole are ready for increased responsibility and risks. All these aspects are described in the comparison of these strategies, and a detailed description of each of them is given, highlighting the advantages and disadvantages.

1. Introduction

The modern world market is a market with fierce competition for buyers. In order to occupy a niche, to find and keep a buyer in such conditions it is necessary to work constantly and diligently. In theory and in practice, there are 3 options for entering the foreign market [1, 2]: establishment by the exporter of regular uninterrupted connections to promote the goods; joint venture; foreign investment.

It is important to note that the first two methods are based on the production of goods in the producer's country with further exports. Speaking of the third method, we mean the production of goods in other countries with the participation of the capital of the investing enterprise. [3]

Every year, foreign markets are becoming more and more interesting for enterprises. If the organization has decided to enter the international market, the most important role in this endeavor is played by purposeful planning and practical reasoning of the direction chosen by the enterprise.

2. Relevance

The search for the optimal strategy and forms of entry of enterprises to foreign markets today is in many ways a problem of the survival of enterprises as independent subjects of foreign economic relations [4].

Why is it so important for enterprises to enter the world market? There are a lot of reasons for it, let's highlight the most common ones:

- Competitive pressure in the homeland.
- Saturation of the domestic market.
- The increase in revenue due to the new market.
- Overproduction or overcapacity.

For the organization's work, all these reasons represent a push needed for entering the world market.

Today, in the conditions of intensive changes in the external environment, characterized by numerous, complex and dynamic factors, the key to success, long-term survival and maintaining leading positions in the market is the rapid creation and implementation of effective strategies in such a way it is difficult for competitors to imitate [5].

Development of the enterprise in the foreign market leads to increasing the audience of customers, reducing dependence on the domestic market, eliminating seasonal fluctuations, and increasing the profits of the enterprise.

3. Choosing a way to enter the world market

Modern trends of the world economy and overall experience suggest the need for a rational approach in the selection of effective management tools that ensure the balance of interests of market participants in the context of the global community, ensuring competitiveness and economic growth in general [6].

After the firm makes a decision to enter the market of a specific country, it is necessary to choose of a way to enter the foreign market, namely, to develop an optimal strategy for penetration and presence in this market.

The development of an exit strategy for a foreign market begins with a preliminary study of it. In the country where it is planned to start carrying out activities, it is necessary to study the political situation, the level of state regulation of the market, economic factors, socio-cultural factors, the latter playing an important role in the acceptance or non-acceptance of goods by consumers. Then a decision is made on the expediency of entering the foreign market. It is based on the results of the research and the objectives of the company. Having decided to engage in sales in a particular country, the company decides how it will carry out its activities [7].

The practice of successful companies shows that developing a marketing strategy for a company, conducting marketing research in the face of fierce competition and the need to expand the boundaries of foreign markets is a prerequisite for its successful and efficient operation in foreign markets. The search for new growth opportunities for the enterprise and the expansion of business to a higher level makes it necessary in practice to apply new marketing tools to develop new markets [6].

The process of entering the foreign markets and carrying out international activities on them consists of the following main successive stages of internationalization:

- Lack of regular exports.
- Export through independent representatives (agents).
- Creation of one or several subsidiaries.
- Organization of own production abroad.

Usually, most companies start exporting products to those countries that set low entry barriers to their national market. Gradually, the number of partners (agents, resellers) of the company in this market

increases, and it has new opportunities and export directions. As a rule, the company specifically organizes an export department that regulates relations with a partner.

In those countries where the main export deliveries are sent, as a rule, subsidiaries are created, replacing the activities of agents and sales representatives. At this stage of internationalization, the expenses of the company increase, the risks increase, but at the same time the potential profit increases. The management of subsidiaries necessitates the transformation of the export department into an international department.

If certain foreign markets are successfully developed and show stable growth, and also, if the governments of these countries pursue policies that encourage foreign investment in local production, the company may decide to move to the next stage of the internationalization: the organization of the production abroad. While its obligations, investments and incomes naturally grow. The company thus begins to act as transnational corporations, studying the market, creating demand and using the most effective methods of managing its international operations.

Strategies for penetrating foreign markets:

- Indirect exports.
- Direct export.
- Licensing.
- Joint ventures.
- Direct investment.

Distinctive features of strategies of entering to foreign markets are the following: the form of capital movement; the level of costs associated with entering the foreign market; the degree of attractiveness of investing.

Comparison of these strategies is given in table 1.

Table 1. Comparison of strategies.

Characteristic	Export	Joint venture	Direct ownership
Obligations	low	medium	high
Resource provision	low	medium	high
Audit quality	low	medium	high
Risk	low	medium	high
Flexibility	medium	high	low

Each successive strategy of the above implies increased responsibility, risk, control, and potential profit.

The most obvious way for a company to enter a foreign market is to export products, services, or capital. Moreover, if an enterprise decided to export its products not occasionally, hoping only to receive one-time orders from foreign partners and consumers, and it also decided to strive to increase sales volumes and to be constantly present in a particular foreign market the enterprise should adapt their products and services to this market.

Export involves making changes to the production program of the enterprise, its management structure, investment policy, etc.

4. Using an indirect export strategy

Indirect export does not imply direct contact of the exporting manufacturer with a foreign buyer. All functions for the distribution of the product are shifted to an intermediary reseller, who already has his own distribution schemes, established sales channels and established relevant business processes abroad. At the same time, the intermediary assumes obligations for the distribution of the product and carries the associated risks. The exporter is not required to invest in the development of its own distribution network, to obtain specific information about the country of export, to manage the distribution process

abroad. There are practically no resources required for entering the market, switching costs are absent, which means contact with the external market, the degree of involvement in it is very small. The exporter on a contractual basis cooperates with an intermediary, obtains indirect access to new sales markets and thus transfers a small part of its distribution stage abroad. Given the possibility of such quick and low-cost access to new markets, the exporter does not have any attachment to a specific market, so its presence on it may be of a short-term nature [8].

Usually, a company begins with indirect exports through independent intermediaries, since it has two main advantages and is easier to organize than direct exports.

Firstly, for its implementation, significant funds are not required, there is no need to create an export department that will deal with sales abroad or establish contacts with foreign partners.

Secondly, such exports are less risky, since the intermediaries act on their own initiative, relying on the knowledge of the conjuncture of foreign markets, and offer the manufacturer additional services [7].

However, the following options are possible:

- Domestic exporting intermediary buys products from the manufacturer and then sells them abroad.
- The domestic exporting agent is looking for buyers abroad and arranging for supplies, hoping to receive a commission. This group includes trading companies.
- The organization exports on behalf of several producers and partly under their administrative control (for example, in the case of the simplest food or commodities delivery).
- The managing export company manages the export activities of the company for the agreed remuneration.

5. Direct export strategy

With direct exports, the exporting enterprise does not resort to the resident intermediaries in the domestic market in order to secure access to the external market. The exporter cooperates directly with non-residents, who may be end-users, as well as intermediaries with sales and agency organizations in the foreign market and carries a significant part of their distribution stage abroad. Direct export strategy requires large capital investments, but provides more opportunities for managing, controlling, and responding to changes in the market situation. An important difference between direct and indirect exports is the separation of direct export strategies into strategies that require and do not require direct investment. Thus, the degree of market involvement increases, and contact with the market becomes closer. But, at the same time, compared with indirect exports, for some direct export strategies, the rate of entry to a foreign market decreases, the level of risks increases [8].

The enterprise begins to export directly after its management has decided to independently enter a specific foreign market. It should be borne in mind that work on the foreign market is associated with significant costs and high risk. However, the firm can compensate for its costs and losses by saving money for the payment of intermediary services. There are several ways to organize direct export:

- Form a special export department or subdivision in an office, whose duties include selling abroad and organizing the collection of necessary information about the market. The export department can later become an independent unit that will accumulate, store and analyze information about foreign markets, conducted commercial operations, and manage all export activities.
- Organize a sales department or subsidiary abroad. Being directly on a specific foreign market, such a unit is designed to ensure greater efficiency of commercial activities and marketing operations. The foreign sales department or a subsidiary of the company carries out the functions of storing and maintaining stocks of goods, their distribution and sale in this market, as well as planning marketing activities for the adaptation of products, organizing demonstrations of its new designs at exhibitions, promotion of goods and the provision of services to consumers, etc.

- Create a network of sales representatives in the company to search for foreign customers and distribute products.
- Attract foreign distributors and agents. To organize the sale of its products, a firm may apply to foreign distributors and agents who are vested with certain powers (exclusive or limited rights) to represent it in a particular country.

Participation in foreign exhibitions is the best way to present the company's products in direct or indirect export.

6. Licensed activity and its forms

In this case, the licensor company, for a certain fee or royalties, grants the foreign licensee company the right to use its production and trade secrets, trademark or patent, and thus, with minimal risk, it gains access to the foreign market. The licensee company in turn receives the benefits associated with the use of advanced ideas (knowledge), new technologies, progressive production experience, or product (brand).

Joint venture enterprises may be necessary for economic or political reasons. In essence, this is the pooling of opportunities for foreign and local capital holders to invest in production, which will be managed by both parties in the ratio specified in the contract. a foreign company may be lacking financial, material or management resources or education. It may also be that the creation of a joint venture is an indispensable condition for market penetration set by the government. In such a case, even giant corporations have to create joint production to enter such closed markets. Moreover, the presence of joint ventures in different countries often makes it difficult for a transnational company to implement a special production and marketing policy throughout the world [7].

However, the company's entry into the foreign market through the sale of licenses is associated with the following problems:

- The impossibility for the licensor firm to exercise permanent and strict control over the licensee’s activities.
- High probability of creating a "do it yourself" in this market a powerful competitor for themselves after the expiration of the license agreement.
- Reduction of income of the company-licensor with long-term licensing agreement.

One of the ways to solve these problems is to include in the license agreement a special item on the supply by the licensing company of any proprietary components or ingredients for mandatory use by the licensee company in its activities. The best solution to these problems is the implementation by the licensor of the strategy of leadership in innovation, since such a strategy limits the licensee’s freedom of action.

In practice, there are several ways (forms) of licensing activities: contract management, contract manufacturing, franchising.

Contract management assumes that a certain company, for a certain remuneration, manages the property (enterprises) of another firm located in a foreign country. the management company signs an agreement with a foreign partner, the subject of which is the management of production and marketing activities. In other words, the managing company provides the foreign partner with know-how in management, which provides the necessary capital. Additional responsibilities of the manager are usually the reorganization of the marketing and management of the managed company, as well as the achievement of certain financial performance indicators within a specified time frame.

This type of export is characterized by low risks and is profitable from the very beginning. An agreement of this type is especially attractive if the management company is given the opportunity to redeem a certain share of the property of a foreign partner during a specified period or if it provides that the effective management company receives an increased remuneration. Contract management relieves the company of competition from the client.

Contract manufacturing is another form of licensing activity, when an enterprise entrusts the manufacture of its goods to firms located in foreign markets.

In this case, the company receives clear advantages in the form of a quick access of its products to foreign markets, a low level of risk, the emergence of the possibility of creating its own or joint venture. A type of contract manufacturing is contract production — a foreign enterprise undertakes to manufacture products at its own facilities, the acquisition of which is guaranteed by a domestic firm in accordance with the concluded agreement. A type of contract production is the operations with the customer-supplied raw materials, which consist in the supply of domestic raw materials, materials or semi-finished products abroad, where they are processed and then re-imported as finished products. The use of such a form is advisable when there is a shortage of own capacities, when foreign production is cheaper due to cost reduction, and also if there are major obstacles to export to the country. In the latter case, the company manages to do not only without investment in production, but also without the cost of transport and customs services.

The main disadvantages of this method are the difficulties associated with finding a reliable foreign partner, the danger of transferring production know-how to a future competitor, complications of product quality control.

At the same time, contract manufacturing provides an opportunity to quickly launch activities with low risk and the prospect of buying out the enterprise.

Franchising is the most developed form of licensing. The seller of the license (franchise) transfers to the buyer its trademark and production and / or marketing technologies, receiving for this the amount of money stipulated in the contract (compensation). The peculiarity of franchising is that each buyer of a franchise undertakes to fulfill various conditions and requirements of the seller (franchiser) regarding the production and sale of goods, as well as the provision of related services to consumers. Thus, in the world market, there are groups of enterprises, united in a single system under the patronage of a large international corporation. The advantage of this form of licensing for the franchise seller is it ensures the presence of its trademark in the markets of foreign countries, using local firms and their resources, which significantly expands marketing opportunities and brings additional income.

7. Foundation of joint ventures

Joint ventures are often set up to enter the foreign market when a company decides to merge with its foreign partner, dividing ownership rights and controlling the activities of this enterprise. Usually joint ventures exist in two forms: joint venture and joint stock companies.

Advantages:

- If the firm lacks financial, technological, managerial and other resources for independent development of the foreign market.
- If for political and economic reasons the government does not allow foreign firms and branches to enter its market without the participation of local capital.
- When for economic reasons it is more profitable for a company to unite with a foreign company to jointly produce products, the sale of which will ensure high profits for the company due to the low cost of local resources used.

Problems:

- There may be contradictions among partners in the joint venture associated with different points of view on the use of the company's profits, management methods and marketing activities, the main areas of investment, etc.
- The need for close partnership in the creation and financing of a joint venture may affect the implementation of a transnational corporation's own production and marketing policies that are universal for all countries.

One of the options for joint business is the conclusion of a contract with local producers for the release of goods.

If a contract management is present, when a certain company manages foreign hotels, airports, hospitals and other organizations for certain remuneration, then the company exports not management, but management services. This type of export is characterized by low risks and is be profitable from the very beginning. An agreement of this type is especially attractive if the management company is given the opportunity to redeem a certain share of the property of a foreign partner during a specified period or it provides that the management company effectively receives an increased remuneration. Contract management relieves the company of a competitor from the client [9].

8. Direct investment strategy

Direct investments are the most complete form of engaging a company in a foreign market, which consists in organizing its own enterprise there.

Its essence is in investing capital in the creation abroad of its own assembly or manufacturing enterprises. As the company accumulates experience in exporting and with a sufficiently large volume of the foreign market, manufacturing enterprises abroad will provide the greatest return to the company in the long term. Save money with cheaper labor and transport costs. By creating jobs, the company will ensure a favorable image of itself with the partner country. Establishing relationships with government agencies, customers, suppliers and distributors of the host country will help better adapt products to the marketing environment in each country where there are such enterprises. The firm will retain full control over its investments and will be able to develop long-term development programs that meet its goals internationally [10, 11].

Advantages:

- All profits from the use of investments belong to the company, and it can use it at its discretion, implementing its own long-term production and marketing strategies.
- The company can increase its profit as it gains experience in working in a large foreign market due to the use of local cheap raw materials, labor, savings in transportation costs, etc., as well as expanding sales and conducting effective marketing activities.
- Paying taxes to the budget of a foreign state and creating jobs, the company can ensure a favorable image of both the population and the government of this country, and as a result enjoy taxrebates and other benefits.
- Thanks to the establishment of close favorable relations with suppliers of raw materials, distributors, agents and consumers, the company can better adapt its products, services and marketing programs to the peculiarities of the foreign market, thereby constantly improving its competitiveness in it.

A kind of compromise between direct export and full-scale foreign production is assembly production (“screwdriver assembly”) is the transfer abroad of the final (usually labor-intensive) stages of the production cycle: parts, components and units manufactured in the country of location of the company are sent abroad for assembly into finished products. This allows to reduce transport costs and take advantage of lower customs duties on unfinished products. In addition, the company uses local labor, which facilitates its introduction into the market (mitigating the problem of employment through the creation of jobs). This practice is widely used when deploying large corporations in developing countries.

9. Conclusion

Having considered the topic of the possibilities of using the main methods of entering the foreign market, we can draw some conclusions.

In the conditions of modern competition and the development of production in the countries, the sale of goods and services outside national borders is the most important aspect in the speed of economic progress.

The process of entering the enterprise on the world market cannot but be accompanied by an increase in risks and costs. At a minimum, this is due to the fact that an organization, when entering into competition in the international market, must accept the conditions, requirements and characteristics of this market, which often changes the policy of an enterprise and its other aspects to some extent.

For the development of the organization, it is necessary to go beyond the borders of the country in which it sells its products, since only that can bring success in the current realities with the existing level of competition. In order to achieve the development goal, it is extremely important to think over and develop a high-quality international strategy for bringing goods and services to the world market. It is extremely important for organizations to understand that when deciding whether to enter an external market, in order to achieve the highest possible results with the lowest possible costs and risks, managers must consider all possible options for entering the world market.

It is important to note that entering the foreign markets for the company in modern conditions is a very laborious and complex process. It is necessary to take into account not only the desire of individual companies to increase their own sales market, but also the desire of foreign markets to accept or not accept new players into their territory. Without a full analysis of the external market, and especially without studying the political-right environment, access to a market is not possible. It is obvious that in the conditions of the inconstancy of the modern world, those companies that devote the maximum amount of time to studying the most significant macro-external spheres are more likely to succeed in their foreign economic activity than those companies that neglect this kind of studies.

References

[1] Karabaza I A and Yegorova I G 2016 Benchmarking analysis of international marketing strategies of retailers entering foreign markets *Act. Prob. of Econ.* **2** 41-9
[2] Zavrsnik B 2007 Critical success factors for international fashion retailers entering foreign markets *Fib. and Tex. in Eas. Eur.* **4** 13-7
[3] Okoroafo S C 1991 Modes of entering foreign markets *Ind. Mark. Manag.* **4** 341-6
[4] Konovalov V V 2013 Problems of entry of enterprises to foreign markets *Coll. of scien. pap SWor.* **4** 78-80
[5] Guryashina I I 2017 Development of the competitive strategy of the organization *Scien. J.* **10** 142-8
[6] Tarakanov S I 2016 Strategy and tactics for entering the foreign markets *Young Scien.* **26** 388-90
[7] Katsevman P and Polushkin O A 2013 Development of strategies for exit to foreign markets *Rus. and the WTO: Econ., Leg., and Soc. Asp.* 707-15
[8] Morozova A S 2009 Comparative characteristics of exit strategies to foreign markets *Scien. and techn.* **3** 304-6
[9] Kukartsev V V, Boyko A A and Antamoshkin O A 2018 The Simulation Model of Fixed Assets Reproduction of Mechanical Engineering Enterprise *Inter. Rus. Auto. Conf. (RusAutoCon) 20403*
[10] Boyko A A, Kukartsev V V, Tynchenko V S, Chzhan E A and Stupina A A 2018 Algorithm for managing investment resources for enterprises' fixed assets reproduction *Adv. in Econ., Bus. and Man. Res.* **61** 188-93
[11] Tynchenko V S, Kukartsev V V, Boyko A A, Danilchenko Yu V and Fedorova N V 2018 Optimization of customer loyalty evaluation algorithm for retail company *Adv. in Econ., Bus. and Man. Res.* **61** 177-82