

**HOLDING THE POLICY OF STANDARDIZATION IN  
INTERNATIONAL MARKETING STRATEGY BY UKRAINIAN SIZE-  
MEDIUM BUSINESSES**

**Dubovyk S., PG student,**

**Bondarenko A, Prof.,**

**Lopatkina I., Prof,**

**Ukrainian Academy of Banking of the National Bank of Ukraine**

*The issue of standardization of international marketing strategy acquires special importance for domestic producers in connection with the globalization of markets. In this regard, management may build a work of marketing departments in the direction of maximizing the effectiveness of foreign economic operations. The major purpose of this article is to investigate the ability of Ukrainian companies to carry out the policy of “global marketing”. This paper presents a study of several empirical models for identification of the firm’s position towards the standardization of the marketing complex. Some of the aspects of the frameworks were examined by the author and proposals for their improvement were advanced in the research. In order to illustrate the models, the study of Ukrainian compressor equipment manufacturer is briefly discussed. The author then suggests the optimal structure of the investigated company’s presence in international markets.*

**Keywords:** *marketing strategy, standardization, adaptation, SMBs, B2B manufacturer.*

**Introduction.** The topic of standardization or adaptation of the marketing-mix components in international marketing has been debated in both academic circles and the business community for at least four decades. Most of the researchers tend to believe that standardization increases performance outcomes. According to their assumptions, the implementation of standardization strategies is connected with the existence of the following benefits:

1. Economy of scale in production and marketing expense savings in the creation and implementation of programs to upgrade the range, promotion, sales, etc., adapted for each foreign market. Levitt (1983) [1] asserted that large multinational enterprises (MNEs) “know that success in a world with homogenized demand requires a search for sales opportunities in similar segments across the globe in order to achieve the economies of scale necessary to compete.”

2. The ability to transfer and use the accumulated experience, know-how, successful ideas for products, promotion and distribution in other countries.

3. A worldwide consistency of company image (Yip 1995) [2].

4. Providing centralized coordination and control of marketing activities of departments and firms in different countries (Kanishchenko 2007) [3].

In line with recent research (Schilke, Reimann, and Thomas 2009) [4], the current article explores the moderating effect of several organizational factors on the relationship between standardization and firm performance. Authors believe that “knowledge of these factors can reduce the ambiguity managers face with regard to the appropriateness of standardization”. According to their view, “marketing standardization is not a “cookie-cutter” approach to marketing but rather an informed method based on learning and firm efficiencies.”

Conceptual model of mentioned authors is based on the hypotheses that standardization is positively related to firm performance, all else being equal. Research was conducted on basis of multigroup analyses of the structural relationships between eight characteristics with the sample of 2549 companies from different industries. The results of investigation allowed rejecting at least two hypotheses:

1) The positive relationship between standardization and firm performance is weaker for firms pursuing a differentiation strategy than for firms not pursuing a differentiation strategy.

2) The positive relationship between standardization and firm performance is stronger for firms with a B2B focus than for firms with a B2C focus.

The last statement is particularly interesting for us because the object of our research is a foreign activity of Ukrainian compressor equipment manufacturer – Joint Ukrainian-Belarusian Venture (JUBV) “Ukrtechnosintez” limited. The major part of its business belongs to B2B products. The objectives of the following paper are:

- to examine company’s position in the process of internationalization of international marketing objectives;

- to consider possible models for assessment of market potential and to examine the possibility of their improving in the context of national companies;

- to determine the level of preparedness of JUBV "Ukrtechnosintez" to implement a standardized marketing strategy;

- to suggest an optimal model of the company’s presence in foreign markets and to identify problems in the development of global functions by such companies in Ukraine.

At the same time the issue of holding the policy of standardization in international marketing strategy by Ukrainian companies still needs further research.

## **A Framework for Analysis of Strategic Position in Globalizing Markets**

Solberg (1997) [5] emphasizes the importance of investigation of small and medium-sized businesses/enterprises (SMBs/SMEs) and offers a new model of internationalization of the firm, which is applicable to both SMBs and large global firms. This suggestion is appropriate to the view of Naisbitt (1994) [6] about the global paradox: “small units are much better at speed to market and innovation.” Thus, a “new race” of small TNCs acquires greater influence on the world economy than 20 years ago. European experts note that SMEs were the main drivers of economic growth between 2004 and 2006 (Schmiemann 2009) [7]. In 2005 these companies provided jobs for 67.1% of the non-financial business economy workforce in the European Union and generated 57.6 % of the non-financial business economy value.

Reduction of terms of goods' life and return on investment in production and R&D requires from manufacturing departments greater flexibility and rapid update of production, which in large enterprises is difficult to ensure (Vafina 2002) [8]. The mentioned author cites the contention of Drucker about future domination of SMBs (200-4000 persons employed), “small enough to remain flexible, and sufficiently large to invest big amounts and to innovate.”

Coming from the last position, the most Ukrainian companies, even the largest in sales from realization and assets, belong to SMBs. In this context we carried out the comparative analysis of activity of JUBV “Ukrtechnosintez” – main company of Concern «Ukrrosmetal», leader of the Ukrainian compressor engineer (Table 1). JUBV “Ukrtechnosintez” provides marketing coordination of all production enterprises of Concern and active branding of «Ukrrosmetal» on internal and external markets.

Concern provides access to international markets in the following forms: export sales through its dealer network and representative offices, joint ventures on an equal basis within the organization of assembly products, and completely self-employed venture on the basis of the Belarusian enterprise “Gomelkompresormash”, Ltd. One of the main areas of development – expansion by the branch network, dealer centers and points of operational service, in particular – on the basis of JV “Orelkompresormash”, functions which also include the collection, directly sale and promotion of finished products of Concern.

Financial results of the studied company in 2009 generally were in a negative zone, including the profitability of foreign trade activities. Particularly, the net losses of JUBV “Ukrtechnosintez” in 2009 amounted to 16.5 million UAH.

**Table 1:** Comparing of the size of some Ukrainian and world companies

Company	Place in rating	Country	Sales		Assets		Employment
			EUR million	UAH million	EUR million	UAH million	
Ukrrosmetal	-	Ukraine	58.12	447.52	59.21	455.94	2421
Atlas Copco	-	Sweden	7442.19	57304.90	7833.14	60315.20	34119
Naftogaz of Ukraine	6	Ukraine	6609.9	50896.23	9440.63	72692.84	499

None of enterprises from Concern is presented in the mentioned ratings, although the general amount of sales/assets association exceeds the proper indexes of companies in a rating list. It is necessary to underline that JUBV “Ukrtechnosintez” is realizing about 75-80% of all products of “Ukrrosmetal” annually.

Despite the mentioned positive steps of management in direction of intensification of international marketing efforts we must define that one of the most important problems in development of strategic potential of Concern “Ukrrosmetal” is small size of the company in comparing to the world leaders of compressor and power engineer, such as Swedish Concern “Atlas Copco Group”, the turn of which in 2009 year exceeded the turn of enterprises of “Ukrrosmetal” in 224 times, and number of workers – in 22 times. Thus, we consider that the main criterion of company’s belonging to SMBs (as well as to TNCs) must be a complex index which demonstrates the real level of international competitiveness of a company (Table 2).

**Table 2:** The transnationalization level of companies in compressor and energy engineering

	Foreign assets to total assets	Foreign sales to total sales	Foreign employment to total employment	TNI <sup>1</sup>
Concern “Ukrrosmetal”	7,60	41,50	7,50	18,87
Concern “Atlas Copco”	59,34	97,52	87,57	81,48

International activity of JUBV “Ukrtechnosintez” belongs to a cascade type of marketing with a serial output on separate foreign markets. At the same time, the share of the company in total sales volume remained fairly significant over the last six years and amounted to 42% in 2009. According to the model of Lebedev (2003) [9], which determines the position of the company to relevant phases of marketing internationalization (Table 4), the firm is in the phase of “intensive sales – export marketing”.

As the foreign sales of the company are subject research, will use the followings degrees:

$K_p$  – degree of participation rate of exports in total revenues from the sales of enterprise;

<sup>1</sup> TNI, the Transnationality Index, which is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment

$K_k$  – degree of the ratio of export to domestic revenues from the sales of enterprise.

For JUBV “Ukrtechnosintez” degree of participation rate of exports in total revenues from the sales generally increased from 37% to 42% from 2005 to 2010, but during the financial crisis it has fallen (Table 3). Traditionally the main consumer of Concern is Russian Federation, where the most of subsidiaries and presentations of the company are located. It must be noted that share of sales to Russia has remained relatively stable during 2005-2010 and accounted for 70.5%, respectively, of the estimated foreign sales of JUBV in 2010.

**Table 3:** Degrees of export role for JUBV “Ukrtechnosintez”

Year	2005	2006	2007	2008	2009	2010
Sales in Ukraine	6301.2	14196.7	22068.2	27136.9	30389.1	15721.6
Foreign sales	3738.8	5083.4	12385.2	20298.2	26058.6	11164.5
Total, thousand dollars	10040.0	19280.1	34453.5	47435.1	56447.7	26886.1
$K_p$	0.37	0.26	0.36	0.43	0.46	0.42
$K_k$	0.59	0.36	0.56	0.75	0.86	0.71

Considering the importance of foreign markets’ structure of the companies we must emphasize that the mentioned model has some lacks. In our view for assessing the strategic position of Ukrainian companies at international markets the next indicators can be used:

1. Degree of the company's dependence on the largest foreign market-customer of its production and level of identity of its conditions with the domestic market’s conditions.

2. Degree of interdependence among national markets. The ultimate consequence of this factor is that any actor in the industry has to consider the outcomes for its competitive posture in several countries (Solberg 1997) [5]. Solberg in his paper offers to apply a scale to get an estimate of industry globality which is one of two dimensions in the author’s framework.

Thus, it is necessary to offer the following recommendations within the framework of the company expansion into international markets:

- using of a strategy of segmental diversification in traditional markets (concentration on a few target segments);

- application of a strategy of segment concentration and global niche in the markets of Western Europe and the Middle East, formation of strategic alliances with key competitors, entering into licensing agreements and joint ventures.

### **Assessment of the strategic effectiveness of global and transnational marketing types**

Investigation of company’s marketing presence on globalizing markets is indissolubly related to the issue of increase of the standardization programs which are using by companies while foreign expansion. Among the key underlying authors’ assumptions regarding the value of standardization we agree with Buzzell (1968) [10] that it is a significant aspect of international marketing strategy.

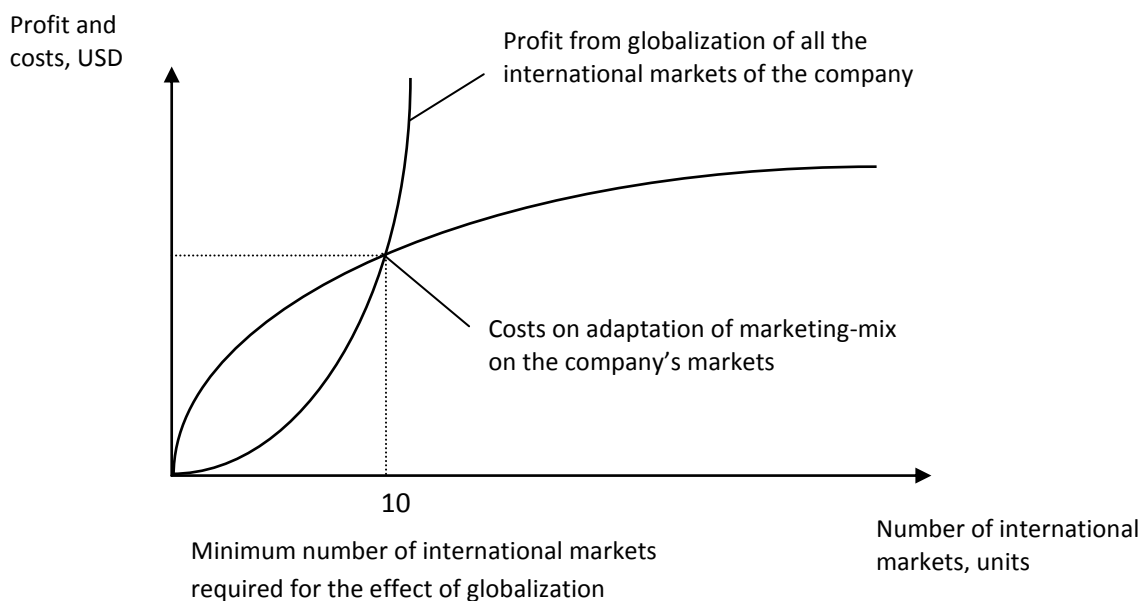
Coming from previous positions, we investigated company's preparedness for implement the transition to a global international marketing strategy. A model of Sobolev (2006) [11] was taken as a basic framework which estimates economic advantages of using standardization by determination of "globalization effect".

We examined marketing strategy of JUBV "Ukrtechnosintez" by expert interviews with an assessment of company's costs on development and adaptation of marketing-mix on target markets (Table 4).

**Table 4:** Indexes of economic efficiency from globalization of international markets of JUBV "Ukrtechnosintez"

Market of the country ( <i>i</i> )	Costs on market development	Costs on adaptation of marketing-mix ( $C_{ai}$ )	Profit from globalization of international markets ( $H_{ri}$ )	Coefficient of costs on adaptation of marketing complex ( $k_{ri}$ )	Economic efficiency from the globalization of international markets ( $E_{ri}$ )
Basic market (Ukraine)	0	100	-100	-	0
Russian Federation	60	5	55	0,08	11,00
Kazakhstan	50	20	30	0,40	1,50
Belarus	20	5	15	0,25	3,00
Georgia	35	25	10	0,71	0,40
Armenia	35	20	15	0,57	0,75
Uzbekistan	30	20	10	0,67	0,50
Azerbaijan	40	40	0	1,00	0,00
Moldova	10	5	5	0,50	1,00
Latvia	100	210	-110	2,10	-0,52
Poland	120	250	-130	2,08	-0,52
Total:	500	700	0	1,40	0,00

As we see, the amount of markets, at which a company would get a zero income from globalization of international markets, is equal 10 (Figure 1). Taking into account that JUBV "Ukrtechnosintez" on the beginning of 2011 carries out a valuable presence only on 4 foreign markets, it's early to talk about introduction of wide standardization. Thus, a firm in the activity couldn't get economies of scale, by comparison to large multinational competitors (like Atlas Copco) generally are able to offer precisely that: quality and service at a competitive price.



**Figure 1.** “Break-even point” for JUBV “Ukrtechnosintez” in the process of adaptation of marketing strategy

To estimate the interrelations between all the international markets let's calculate special coefficients  $K_r$  (average coefficient of typification of marketing-mix) and  $K_{rAV}$  (average coefficient of market interdependence), define the economic effect of markets globalization –  $E_i$ , as well as the general economy of developing countries through standardization and adaptation of the marketing-mix –  $E_r$  (Table 5):

**Table 5:** The aggregate indicators to evaluate the effectiveness of a standardized marketing strategy for JUBV “Ukrtechnosintez”

Calculation	Value
$K_r = \frac{\sum_{i=1}^R K_{bi}}{R^1}$ <p><math>R</math> is a number of markets at which company should use standardized elements of marketing-mix</p>	0.92
$K_{rAV} = \sum_{i=1}^R K_{bi} S_i$	0.71
$E_r = RC_{ab} - \sum_{i=1}^R E_i = RC_{ab} - C_{ab} \sum_{i=1}^R K_{bi} = C_{ab} (R - \sum_{i=1}^R K_{bi})$	77.5 thousand USD

The ratio  $K_{rAV} < K_r$  shows that globalization has the greatest value in markets that currently don't have the greatest value for the company. Thus, in order to implement large-scale standardization JUBV “Ukrtechnosintez” would actively come to “nontraditional” markets for it, first of all – Eastern Europe and the Middle East. The way in which distributing network and market

expansion was to be carried out would largely depend on the firm's management competence and financial resources.

**Conclusions.** We would like to note the followings factors which restrain introduction of global marketing strategy by JUBV “Ukrtechnosintez”:

1. medium size of the company (low production and sale volumes, undeveloped branch and service network; limited amount of markets where the company is represented);

2. no need of any level of adaptation to target foreign markets (countries of the CIS), which are characterized by similar structure of demand, level of technical and ecological requirements, single language space, infrastructure development etc. This indicates that management company has an extensive experience of adapting to the markets of other countries (including EU countries), which, in turn, requires considerable financial costs of adapting the marketing mix components to the terms “non-standard” markets;

3. low level of international communicational attractiveness (lack of global brand policy and inconsistency of the trademark of Concern to international criteria of universality, undeveloped system of corporate accountability to stakeholders, inability to run major advertising campaigns and other measures in promotion of company's products).

In our opinion, absence of “globalization effect” in activity of national enterprises is related primarily to continuation of orientation to the traditional markets. As a result, category a “basic market” applies to the whole set of companies' markets, that testifies to climbing only of the first stairsteps of internationalization ladder.

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