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Kakhovich Y.O.*Ph.D, Associate Professor at the Department of Management of Foreign Activity of University of Customs and Finance***Nemeth Y.I.***Student of University of Customs and Finance***OUTPUT OF UKRAINIAN COMPANIES TO THE FOREIGN MARKETS BY EXAMPLE OF THE EU MARKET****ВИХІД УКРАЇНСЬКИХ ПІДПРИЄМСТВ НА ЗАРУБІЖНІ РИНКИ НА ПРИКЛАДІ РИНКУ ЄВРОПЕЙСЬКОГО СОЮЗУ****ANNOTATION**

The main theoretical aspects of output of Ukrainian enterprises to the foreign markets are considered in the article, criteria for the selection of foreign markets and the basic strategies that are used in modern international practice are analyzed. The market of the European Union, its features and changes in relations between Ukraine and the EU against the background of the signing of the Association Agreement are investigated. Practical recommendations for output of Ukrainian enterprises to the EU market are developed based on the studied factors.

Keywords: EU, strategies of output to the foreign markets, the Association Agreement with the EU, criteria for the selection of foreign markets, foreign trade management, the EU requirements, reduction of customs rates.

АНОТАЦІЯ

У статті розглянуто основні теоретичні аспекти виходу українських підприємств на зовнішні ринки, критерії відбору зовнішніх ринків та основні стратегії, які застосовуються в сучасній міжнародній практиці. Проаналізовано ринок Європейського союзу, його особливості та зміни у відносинах між Україною та ЄС на тлі підписання Угоди про Асоціацію. Розроблено практичні рекомендації щодо виходу українських підприємств на ринок ЄС з урахуванням досліджених факторів.

Ключові слова: ЄС, стратегії виходу на зовнішній ринок, угода про асоціацію з ЄС, критерії відбору зовнішніх ринків, менеджмент ЗЕД, вимоги ЄС, зниження митних ставок.

АННОТАЦИЯ

В статье рассмотрены основные теоретические аспекты выхода украинских предприятий на внешние рынки, критерии отбора внешних рынков и основные стратегии, которые применяются в современной международной практике. Проанализирован рынок Европейского союза, его особенности и изменения в отношениях между Украиной и ЕС на фоне подписания Соглашения об ассоциации. Разработаны практические рекомендации по выходу украинских предприятий на рынок ЕС с учетом исследованных факторов.

Ключевые слова: ЕС, стратегии выхода на внешний рынок, соглашение об ассоциации с ЕС, критерии отбора внешних рынков, менеджмент ВЭД, требования ЕС, снижение таможенных ставок.

Formulation of the problem. Today, in view of the process of internationalization and globalization of production and economic life, Ukrainian enterprises strive for gaining competitive advantages by improving foreign trade activity through output to foreign markets. The development of market relations in Ukraine fundamentally changes the meaning of economic activity, giving its subjects the opportunity to choose independently the directions of their activities, build

their strategic plans and take an appropriate decision [1, p. 5]. The question of entering a foreign market, choosing an appropriate strategy and organization of management process in Ukrainian companies in connection with the process of internationalization and globalization is getting more and more relevant.

Managers of enterprises have an important task to learn how to make effective decisions which are based on various macro- and micro factors of international business, the problems of international cooperation with foreign partners taking into account different political, economic, legal and other aspects.

Ukrainian producers entering foreign markets should take into account the peculiarities of international markets, the specifics of each market, requirements of consumers to the products and services, legislation in chosen countries, the state of competition in this segment of the international market and other factors which can affect the company.

Presently Ukrainian enterprises face a number of problems that do not allow them to be competitive players in foreign markets, particularly in the EU market. The main problems are: lack of uniform standards; inconsistency between Ukrainian standards and global standards and certification principles; incompetent price policy; inconsistency between market participants; outdated technologies and lack of willingness of the Ukrainian enterprises to integrate into the world economic system. The market of EU has its own peculiarity, that's why it's very important to make right and appropriate researches considering all factors to make a right decision.

In connection with it, the analysis and improvement of management processes to develop the foreign activity in Ukraine is getting important.

Analysis of recent publications. In scientific literature there is a huge number of works which are devoted to the problem of output of companies to foreign markets, selection of appropriate strategy which is based on the analysis of a specific market and its peculiarities and organization of management process to achieve chosen goals. Sig-

nificant contribution to the study of these problems is made by such scientists and economists as Igor Ansoff [2], Henry Assael, Philip Kotler [3], Michael Porter, O.L. Kanishchenko [1,4], T.M. Tsygankova [5] and others.

Existing approaches proposed by scientists require a close look and modification taking into account the specific market for their effective use in the foreign economic activity of Ukrainian enterprises.

In connection with aspects mentioned above, **the aim of this study** is analysis of general output strategies of enterprises to the foreign markets; analysis of the EU market as a single market for 28 countries; development of practical recommendations on the formation of output strategies of Ukrainian enterprises to the EU market.

The main material research. Formation of an international strategy is a complex process that brings elements of risk and uncertainty. The main problem is to choose the main alternatives, understand and take into account all necessary factors and conditions that can influence this choice.

Developing an international strategy, managers should clearly understand the presence and importance of individual factors and their interaction

(SWOT-analysis) and their impact on the livelihood of the company. It is important to determine the position of the company and its products in various markets due to the life cycle of the product and type of business (commercial) activities. The company must carefully evaluate all their possibilities, products and areas of development and allocate efforts and resources and create right strategies which are based on these estimates [4, p. 33].

The first and the most important step which Ukrainian enterprises should take is the choice of an appropriate market which is based on a thorough analysis of all factors. There is a method, which is based on drawing up the tables and covers a wide range of indicators and criteria and is called "four filters" of selection of the foreign market [5, p. 42]. The selection of the particular market can be shown on Figure 1.

The choice and planning of an output strategy to a certain market should be simultaneous and coordinated. So the companies should not only consistently develop their actions at various stages but also create the concept of integrated systematic process of selection the national markets and output to this markets. This process should consist of the following stages:

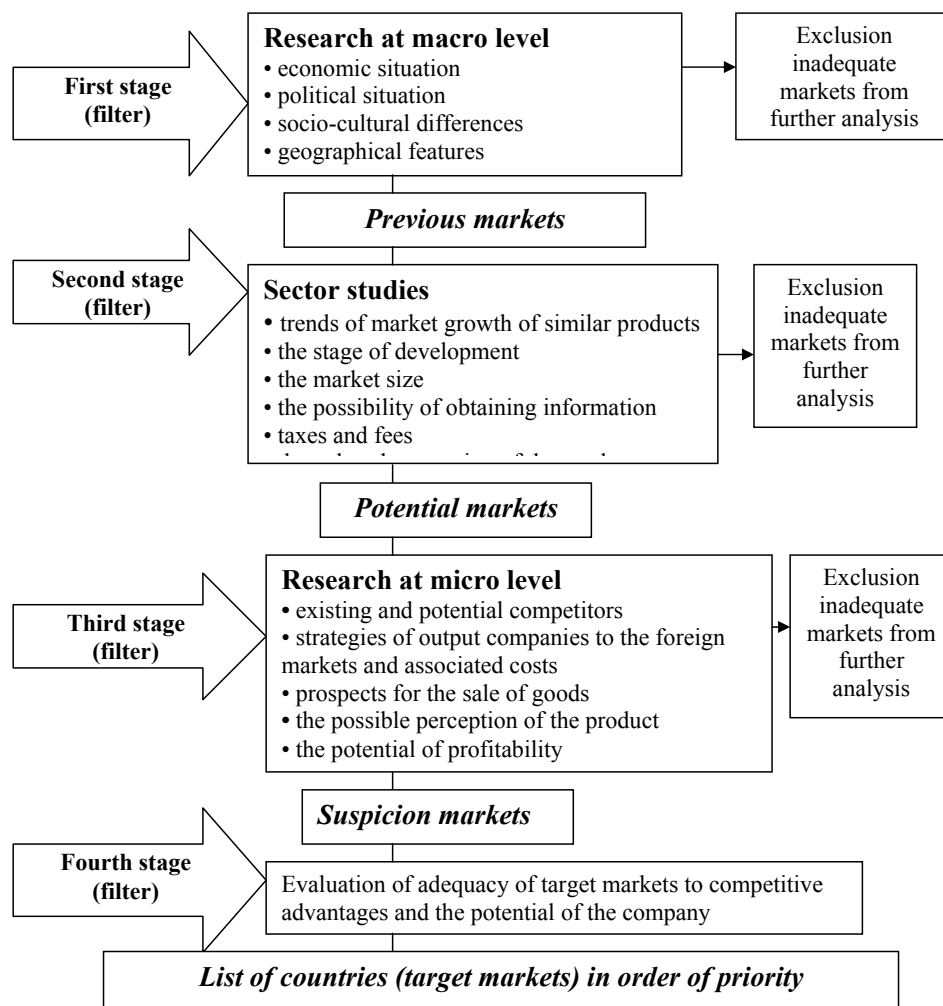


Fig. 1. The model of selection the foreign markets

- 1) forming the main objectives of the company;
- 2) development of portfolio strategy;
- 3) development of an output strategy to the geographical markets;
- 4) defining the strategy of competitive behavior;
- 5) determining the strategies for reaching the market;
- 6) development of positioning strategies.

If the company is going out on a particular market, its further actions should consist of the following stages:

- 1) making a decision to choose the foreign market;
- 2) assessment of regional markets based on selected criteria;
- 3) specification of goals for each market;
- 4) a decision of a strategy of output to the foreign market;
- 5) adaptation of global marketing strategy to the specifics of chosen market.

The methods of output of companies to the foreign markets depend on dynamics and specifics of the national markets and benefits from international activities. After selecting the most adequate foreign market the logical question arises ahead of companies, it's how to choose the appropriate forms of presence in this market and accordingly how to choose the right strategies. International business practice identifies three main strategies of output to the foreign market which are shown on the Figure 2:

- Export;
- Joint enterprise;
- Direct investment.

In the case of export strategy, the production remains on the national territory. Such strategy has its advantages and disadvantages. Joint ventures and direct investment need for production abroad. However, some forms of joint ventures are realized through contracts without additional investments and joint ownership and direct investments are in need of investments, that is to say long-term investment in the enterprises, social and economic programs, entrepreneurial and innovative projects.

Strategies mentioned above have only a theoretical character and need a detailed consideration and adaptation to the specific market. As Ukraine and EU signed the Association Agreement, including the Deep and Comprehensive Free Trade Agreement which entered into force on 1 January 2016, relations between Ukraine and EU are brought to a new level. The EU is Ukraine's largest trading partner, accounting for more than a third of its trade. It is also its main source of Foreign Direct Investment (FDI) [4]. In this connection, the EU market will be analyzed to identify problems and opportunities for the Ukrainian enterprises to choose the right strategy of output to this specific market.

The first feature of the EU market is unification and harmonization of the whole market.

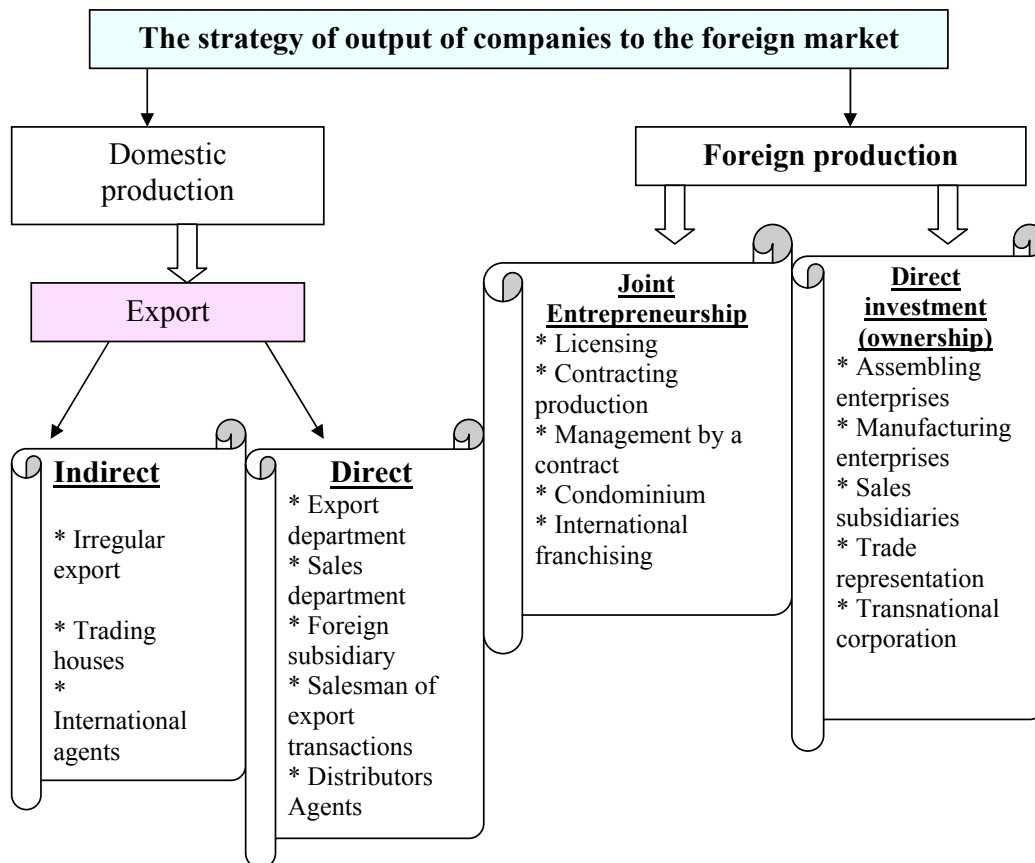


Fig. 2. Output strategies to foreign markets

The European Union is the world's largest single market and if the Ukrainian enterprise wants to export its production to the EU market it can benefit from a big European market of 28 countries with around 500 million consumers.

The advantages of output to the EU market:

- EU import tariffs are amongst the lowest in the world;

- The EU market is the most open to developing countries. Excluded, the EU imports more from LDCs (a least developed countries) than the US, Canada, Japan and China put together;

- It is not just exports that are essential to economic growth and job creation but increasingly also imports. Two-thirds of EU imports are raw materials, intermediary goods and components needed for Ukrainian companies' production processes [5].

To export to the European market, Ukrainian businesses have to follow various requirements, ranging from sanitary over technical and environmental standards to marketing requirements. Also tariffs and quotas have to be considered when exporting goods to the European single market.

First of all, there needs to be an understanding of the EU market, the principle of free movement of goods. Once that is accomplished, the aforementioned row of controls and checks has to be run through to ensure the products meet European standards.

Sanitary and phytosanitary requirements

Goods imported into the EU must meet the EU sanitary and phytosanitary requirements to protect human and animal health. Especially food and feed safety is of high concern of the EU with various controls implemented on residues, pesticides, veterinary medicines and contaminants as well as special rules on genetically modified food and feed, bio proteins and novel foods. What also needs to be considered when exporting to the EU is high standards in the marketing and labelling requirements for feed materials intended for particular nutritional purposes.

Environmental requirements

To protect consumers and the environment, goods imported to the EU must meet the following specified requirements.

Imports of certain dangerous chemicals into the EU fall under control with accordance to the Rotterdam and Stockholm Convention as well as other regulations. Before chemicals can be sold on the EU market, they must be classified, labelled and packaged in accordance with the United Nations Globally Harmonised System (GHS). There, chemicals are classified according to their hazardous properties. EU environmental standards are one of the strictest in the world, with regulations ranging from just registration and evaluation of chemicals and their classification and labelling to harsh controls on plant protection products and biocides as well as detergents, fertilizers, Ozone-depleting substances, fluorinated greenhouse gases as well as the import of endangered species.

In addition to this, the shipment of waste, packaging waste and electrical waste and batteries falls under EU rules.

Technical requirements

All member countries of EU use harmonized technical standards. It means that Ukrainian enterprises need to take into account the general safety requirements provided by EU to all goods, inform consumers of the risks that a product might pose, notify the relevant national authorities if they discover that a product is dangerous and cooperate with them on the action taken to protect consumers.

Ukrainian companies should appoint an authorized representative established in the EU to act on their behalf. They are responsible for designing and manufacturing products that comply with all applicable requirements and for carrying out the required conformity assessment procedure.

Signing the Association Agreement and particularly, establishing the Deep and Comprehensive Free Trade Area (DCFTA) is an opportunity for Ukraine to modernize its trade relations and develop the economy as a whole by opening the markets via progressive removal of customs tariffs and quotas, and by an extensive harmonization of laws, norms and regulations in various trade-related sectors, creating the conditions for aligning key sectors of the Ukrainian economy to EU standards [6]. Ukrainian enterprises have a big opportunity to expand the scope of their economic activities through access to the European market. On the figure 3 the dynamics of trade between EU and Ukraine is shown [7].

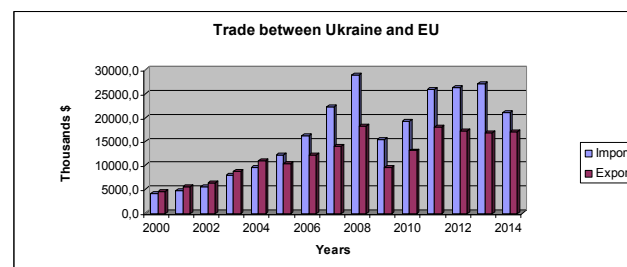


Fig. 3. Dynamics of trade between Ukraine and EU¹

From the early 2000s years the dynamics of trade annually gives a positive growth except for the years 2008 and 2009 when the world financial crisis affected the markets. From 2014, decline in export to the EU has been occurring in metallurgy. First of all, because of the war in the Donbass and the after-effect was the stop or deceleration of work of numerous iron and steel enterprises [8]. Negative dynamics which is shown on the figure 3 in this area also is explained by the decline in the world prices for raw materials which are the main article of Ukrainian export. Thus, the reduction of the Ukrainian export is largely predetermined by its structure, dominated by primary products.

Today, the Ukrainian government declares support for Ukrainian producers and exporters,

¹ Source: State statistics service of Ukraine [7]

hoping to solve the problem of falling exports. The Ministry of economic development and trade of Ukraine is developing an export strategy and plan of actions for Ukraine until 2020 to develop Ukrainian export sphere. The Working Group was also created to establish the business model of export-credit agency and to find the resources to fund it because public funds to the project does not stand out.

From April 2014, there are autonomous preferences to the Ukrainian enterprises. This means that Ukrainian goods are exported to EU market with customs rates, similar to those which have to work during the first year of the free trade agreement. At the same time European goods are imported to Ukraine with normal customs rates.

As for output of Ukrainian companies to the EU market there are major trends in foreign trade activity [9]:

- the supplies of Ukrainian goods mostly have increased to such EU countries as Poland, Germany, Italy and Hungary. Ukrainian companies which are only planning to enter the European market, consider as promising, markets of such countries as Poland, Slovakia, Hungary, Italy, Germany, Czech Republic and Bulgaria;

- Ukrainian companies mainly export to the EU raw materials and semi-finished products. The highest export growth rate is shown by such goods as mineral fuel, grain-crops, timber, ores, fats, oils and ferrous metals. According to experts, to create advantages in high-tech industries will be

possible by providing necessary conditions for doing business and attracting investments;

- the large Ukrainian companies mainly have intention to enter the European market because large business has the necessary resources (analytical service, sales and certification departments) to effectively organize the process of researching the behavior of competitors and partners, characteristics and prospects of a particular market. Small and medium Ukrainian companies have a lack of such resources, although they intend to expand their foreign economic activity through accessing to the EU market;

- practically Ukrainian companies choose such strategies of output to the EU market as direct sales to consumers (direct export) and sales through distributor registered in the EU (indirect export);

- such strategies as contracting production, condominium or joint ventures with European partners are considered for the purposes of participation in tenders and procurement;

- the majority of Ukrainian companies that plan to enter the European market are going to attract external funding.

With the signing of the Association Agreement with the EU new opportunities to enter the European market have appeared for Ukrainian companies. There are a number of preconditions that can help Ukrainian companies to enter the European market such as:

- reduction of duties for the export of Ukrainian goods to the European market;

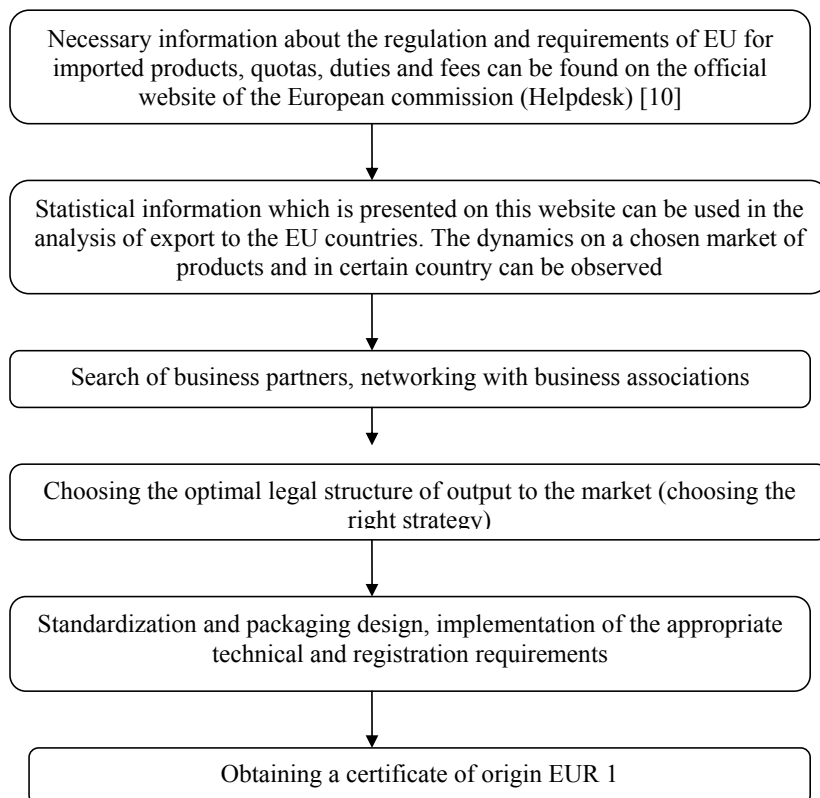


Fig. 4. Typical algorithm of output of Ukrainian companies to the European market

- market restrictions in the Russian Federation;
- market restrictions in other countries of the Customs Union.

Despite the existing opportunities for the Ukrainian companies, there are also some problems of entering the European market such as:

- lack of appropriate marketing strategies. Most companies have difficulties to find business partners and how to offer them their product and how to access EU associations;
- lack of proper quality assurance of Ukrainian products due to requirements of the EU;
- lack of researching of consumer preferences of European consumers and consumer culture in Europe;
- lack of circulating assets and investments;
- ignorance of the law and regulation in the EU.

On the figure 4 the typical algorithm of output of Ukrainian companies to the European market is shown.

Conclusions. The international strategy is formed for realization of long-term goals of the company to expand its foreign trade activities. This is the basis of firm actions in specific market conditions that determines how to use marketing, management to expand target markets and achieve certain results.

The first step in planning of output to foreign markets is the selection of the market, its analysis and formation of appropriate strategies (portfolio strategy, the strategy of competitive behavior, positioning strategy), taking into account a number of factors (filters). That is to say, the company, which plans to enter the foreign market must conduct analytical work on marketing activities and identify the feasibility of entering this market, calculate the risks and benefits of entering this market and so on.

Methods of output of companies to the foreign markets depend on the dynamics and specifics of the national markets and benefits from international activities. International business practices identify three basic strategies of entering the foreign market, such as export (direct and indirect export), a joint enterprise (licensing, contracting production, management contract, etc.), direct investment. Each strategy has its advantages and disadvantages.

The opening of the European market for Ukraine and the signing of the Association Agreement with the EU is certainly important and a necessary step to ensure its further integration into the global economic space. The EU is a major strategic partner of Ukraine, as of today, more and more Ukrainian companies are going to output with their products to this market. But Ukrainian companies should meet a number of EU

requirements for imported products in order to come out to this uniform and harmonized market.

According to the expectations, Ukraine will be able to take advantage of new trade opportunities in the EU market and harmonize all key sectors of its economy to the European standards through tariff reductions and approximation to the European standards. Use of EU standards and technical regulations will not only make Ukrainian products more competitive in the European market but also worldwide.

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