

# EU Microintegration: Challenges, Opportunities, Milestones

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*Abstract – Prospects, challenges, opportunities and milestones of entering European Union market have been described in the article. Different options of how to enter foreign market, peculiarities of cooperation and negotiations with foreign partners have been noted in the article as well.*

Key words – foreign markets, international operations, EU market, foreign partners, microintegration, private label, international business, expanding business, international strategy.

## I. Introduction

Expanding of business operations is one of the important priorities for management of every organization, regardless of industry, country or headquarters location. Board of directors tasks is always devoted to the issue of finding opportunities for further business growth. In Ukraine, with its traditional stagnation of the economy, outspread of business is possible through expanding operations to foreign markets.

## II. Purpose of the article

The purpose of the article is systematization of consultancy experience and insight in shifting Ukrainian companies to the European Union markets.

## III. Research results

European Union Association Agreement implementation has opened doors of opportunity for businesses in Ukraine. The adoption of the trade agreement, a unilateral implementation of EU preferences for Ukraine in 2014 has created favorable conditions for starting international operations for each company in Ukraine.

Decision about implementation of foreign economic activity and starting international operations abroad is related with two main challenges. First of the them is major motivation and understanding what for this operation is valuable for Ukrainian company and what problems could be resolved by such decision in present situation [1]. There could be defined several reasons of why international operations have to be launched: foreign markets gives opportunity to increase extensive sales and intensive as well (by selling goods at higher price in comparison with domestic market); cost reduction through achieving Economy of Scale (EoS) and, as a result, higher profitability will be obtained by the Ukrainian company; the opportunity of continuance the product life cycle by launching operations in the emerging markets where such product will be an innovation; reduction of risks by expanding operations to different markets which has more or less its own “rules” and connected with different factors and risks than domestic market; obtaining experience of entering foreign market which lead to expand new market faster and effectively

with every new iteration; stay close with different types of customers to define their needs, motivation and demands which develops flexibility and ability to compete effectively both in foreign and domestic markets; increasing of Ukrainian company prestige and image in further international contracts and operations [2].

Process of business internationalization depends on position within domestic market, which could be described by two key factors [3]: degree of industry internationalization on which company operates and the degree of company internationalization as well. Industry internationalization degree could be characterized by the number and quality of international operations within the industry. If industry has deep international relations, export/import operations are connected with supply/distribution of the industry value-chain, so expanding business abroad in this industry is something like “must have” for companies. But, in the case of absence international operations within the industry, expanding foreign market for one single company in Ukraine could lead to obtaining leadership in domestic market and redirect additional cash flow to applying new technologies in production.

Before process of expanding company to foreign markets will begin one should make list of decisions about tactical solutions [4]. Expanding foreign markets means to start business in its core from the beginning, develop new business model which will solve the problems of potential customers in foreign market and will be competitive in comparison with present business models. There are many issues to consider, including:

- Export pricing strategies;
- Potential markets/sources/customers;
- Initial financing streams and anticipated revenues;
- Commercial policy for foreign market;
- Additional costs (e.g. marketing; shipping; inventory storage; storefront; travel);
- Legal, regulatory and licensure requirements;
- Potential partnership or investment opportunities.

Process of entering EU market should be started from study directives and EU regulations on certification and standardization of certain industry products. The next step is cooperation with companies that carry out certification. These step include obtaining such certificates as ISO, CE, Certificate of Origin and Certificate of Conformity etc. (list of certificates needed could be different depending on industry and type of product). Presence of such certificates simplifies the EU market entering for Ukrainian company.

The next step is development strategy of entering EU market. As part of this process is necessary to attract people who are familiar with the particular market and company profile, can convey hands-on experience in the market and bring information about the trade customs (trade traditions), way of how foreign market is organized, what is the market infrastructure in a particular country. However, taken in the account limited resources, work should start on the market of a single country what gives opportunity to accumulate experience of launching operations abroad and not to dissipate efforts of company internationalization.

In this context is also important to note that the development of the market of each country in the EU is associated with certain difficulties. They are:

- The non-competitiveness by price for Ukrainian goods. Despite the fluctuations of exchange rate toward the benefits of exporter and cheap labor forces, products of many branches in Ukraine is not competitive at the price of similar products sold in the EU. The reason is typically products made in China or other countries of Asia-Pacific region.
- Competition in the market. The more competitive is market of certain products the more stronger competitive advantages should possess Ukrainian producers. Because entering such market will lead to resistance from the present competitors on this market. In this case, Ukrainian companies should involve outside organizations or individual advisors which, by own insight and experience, brought the company to EU market with the lowest losses.
- High level of skepticism from the possible partners in EU (distributors, wholesalers, dealers etc). Products, which is not typical export product of Ukraine, is perceived by for example Polish companies decision makers rather skeptical. Non-typical is products which was never exported from Ukraine before. Ukrainian grain, sunflower oil and different kinds of vegetables are easy task to sell it in the EU market. Because producers of such goods are already successfully mastered the market of EU countries. When we cares about sophisticated technological products with a high added value, then European partner may have some doubts about the reliability of Ukrainian partner, the quality of the product or liability of Ukrainian company to respond for their agreement obligations. From the side of EU partners such doubts is connected not only with the image of Ukrainian business in Europe or some previous unsuccessful experience but also with evident events of political and military nature, taking place in Ukraine.

Same level of skepticism was provided by German partners toward Polish companies 15 years ago. But it was scattered after the first accomplished contract between German and Polish company. In our case recipe is the same. To overcome the skepticism and doubts of Polish, German or partner from any other country of EU one should be aware of Ukrainian business responsibility. After well completed contract with EU partner, appears some level of trust which will be inevitable asset in the following contracts. But, at the beginning, such doubts should be reduced by the business diplomacy during the contract preparation stage. Persuasion of EU partner to make test purchase, receive examples of products, visit production facilities in Ukraine, get confirmation from embassy that such company exist in Ukraine and so on. If Ukrainian companies want to start business operations in EU they should be ready to such kind of tests and verification. If Ukrainian company managed negotiation to this level, success is guaranteed for 50-60 %.

The key advantage of Ukrainian companies is ability to make delivery of products in time without any delay. This

makes the opportunity to EU company make its business without warehousing stocks which require huge costs. This advantage comes to Ukrainian companies from the shortcomings of cooperation between EU companies and Chinese producers, which, by physical distance and huge amount of orders around the globe, may provide delays of supplies for 3-6 months what is unacceptable for business in EU.

Ukrainian company could use one of the following ways to enter EU market depending on goals and strategy\*:

- Direct sales to foreign EU company which will sell Ukrainian products under own Private Label;
- Direct supply to wholesalers in EU country or specific region within a country. Wholesalers will be the link in the whole supply chain of the industry;
- Make agreement with distributors on the EU market which organize sales of Ukrainian products together with other product from the same category;
- Joint venture between Ukrainian and EU partners which is based on allocation of production facilities in Ukraine and distribution facilities in EU [5];
- Create own agency (affiliate company) in the foreign EU market which will take care about sales and distribution in particular country or region;

\*Options of entering EU market was sorted from the less costly and easy to much expensive, but higher degree of control under business operations within EU market.

Joint venture option is a good idea when EU investor is founded. For EU partner such way means cost reduction by implementation cheap labor costs strategy, for Ukrainian partner it means all the distribution troubles in EU market will be cares by EU investor. In this case Ukrainian manufactured products will be sold under other brand name separately of Ukrainian products. But one of the major advantages of this mode of internationalization is opportunity of technology transfer from EU what could be done by foreign (EU) investor.

One of the best options for many companies will be search of distributor or EU company who will sell Ukrainian products under own Private Label. This simplifies the perception of products by the EU customers and shift the purchase decision making from “trusted or not trusted product” to “price/quality” decision. Private Labeling is a good start for own distribution system with own brand in the future. This approach could be kind of manipulation to overcome the stereotypes of Ukrainian products for the average EU buyer.

The last option is the most expensive and difficult way to enter EU market. In such case, Ukrainian company should start to build own supply chain in foreign market from zero point. But if company succeed in this direction after 3-5 years all the investments will be returned and company secures the control under own distribution chain. This option should be used in the cases if goods provided by Ukrainian partner has high quality and reliability, provides competitive price and technical characteristics. On the other hand, development of a complex system to supply foreign markets through the establishment a network of subsidiaries and representatives without preparation, evaluation market, practical market monitoring, feedback from potential

buyers and consumers, without test sales can be ineffective and all the effort will be vain. Involvement consulting company or private advisor are critical factor if the company only launches activities in foreign markets.

In the nearest future the most successful will be companies which start their international operations as fast as they can. Main arguments towards this thesis is that international operations provide earnings in foreign currency (USD or EUR; which reduces currency fluctuations risk) and provides higher margin per unit; EU is most secured market through different types of certificates and restrictions, so entering EU market provides extra guarantee and trust to company from partners allocated in other countries (US, Australia, Saudi Arabia, Qatar, UAE, Latin America, countries of Asia-Pacific region etc).

Expanding business to foreign market is an expensive process which requires relevant amount of capital investments, knowledge, experience, insight and time. It is connected as well with the ability to make business with foreign partners, understand processes on the foreign markets. Also, negotiations require frequent travel abroad, starting from meetings with potential partners who expressed interest to product or company till partners who, after negotiations, are ready to sign the contract.

## Conclusion

Expanding business to foreign markets is very attractive and challenging process. It's lasting and tough. And if it was started by the one single company, opportunities and benefits are obvious. We believe that effective planning, solid investigation and resourceful execution will lead Ukrainian companies to success in EU market place and in other foreign markets as well.

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