



TAMPEREEN TEKNILLINEN YLIOPISTO
TAMPERE UNIVERSITY OF TECHNOLOGY

MORENKO MARIIA

EUROPEAN MARKET ENTRY FOR NON-EUROPEAN
COMPANY

Master of Science thesis

Examiner: prof. Mäkinen Saku

Aarikka-Stenroos Leena

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ABSTRACT

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The metallurgical industry plays a significant role in many economies in their current economic downturns. It shows its attractive opportunities in different industries such oil and gas industry. There are a big number of companies that produces pipes for oil and gas transportation and production. Realizing the promising opportunity of pipe trading between Georgian and EU markets, author proposed a market entry research where Europe was considered as a target market.

The main objective of this paper is to assist the case company to decide on the target markets in Europe and what countries should be on the export market list. Current theses are explaining the steps of the market entry that the case firm should take. Analysis of the entry barriers is explained as well. The author also added the information about the future trends for the industry of interest.

This work involves: analysis of the case firm, its strength and weaknesses which are explained as barriers for the new market entry; analysis of the target market; and finally, analysis of the entry modes that the case firm should implement in order to enter the market.

There are several findings in the thesis. First, the European market shows a nice attractiveness for the case firm due to its big production volumes. Second, despite some limitations and barriers, the case company can easily enter the European market without much investments and losses. Finally, the most important outcome of the thesis is recommendations for the future development for the case firm.

PREFACE

Current thesis is a combination of two different knowledges that I have gained during me studies. Since I came from a technical background, current research brought a great opportunity to understand the managerial side of the business. In this research I was focusing on the market entry analysis. The case firm was encouraged by my interest in studying this question. Under the patronage of the firm manager I started my research.

While working on this project I have learned a lot about different analysis that the company needs to do in order to penetrate the new market. Cooperation with managers of the case firm gave me a clear direction of my research. It was very interesting to participate in the discussions and be a part of the decision-making team.

I would like to thank Leena Aarikka-Stenroos for helping me with writing and guiding my research throughout my thesis. I would like to thank Mr. Sergei Morenko for consulting and giving an inside information about the case firm. I would also thank to my family and friends for supporting me not only throughout studying but also encouraging me all my life.

Tampere, 25.5.2016

Morenko Mariia

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1 INTRODUCTION

1.1 BACKGROUND

Globalization has become a very popular term in different aspects of people's life. This term can be used in economic and political sides, as well as in cultural matters, religion and social life. The term as 'globalization' is rather young and still investigated. Different resources and researchers are putting labels on this word, some of them are right and some are doubtful. Today you can hardly open a newspaper without reading articles about multisided ways in which the world is interconnected. One can find globalization in the way how people are interacting with each other, in cultures transmigration. Other can see it in the way how companies are doing their businesses. Nowadays one country or continent is not a limit for corporations and for people too.

For the past thirty years the word 'globalization' became very popular. By itself globalization made a huge impact on our life although such transnational phenomenon was way before. There are three main factors that made globalization happen (Eriksen,2007). They are:

- The end of Cold War
- Internet
- Identity politics

Firstly, the rise of the world's interest in geopolitics, international communication and trade, has increased after the end of The Cold War in 1991. Cessation of arms between the USA and the Soviet Union basically made the whole world a single marketplace. Secondly, growth of the internet in 1990th made a revolution in people's social life and opened more business opportunities for companies. Finally, the politics of identity between nationalities, ethnics, religions and territorial was always an issue of interest for many countries. Combination of all these factors made a globalization needed and warmly welcomed all around the world.

One of the biggest advantages of globalization is the opportunity to do business internationally. This means, that companies are having more possibilities in international trading. Globalization does not only work well for corporations but also it reduces unemployment level and poverty. However, globalization has a lot

of disadvantages which are not taken into account. All this pros and cons are described by Collins (2015) and analyzed next.

Pros

1. Globalization opened more opportunities for the firms from different countries and made international trade possible.
2. Openness of the world has created more work places that have promoted better interaction between the countries.
3. Internationalization forced big corporations to be interested in developing countries and opened a way for investments.
4. Availability of different kind of goods from different countries to the customers worldwide.
5. Better understanding of how to make a business with people from different cultures and countries.

Cons

- Even though the globalization is all about reducing barriers for international trade, there are still too many of them.
- Due to the big flow of migrants, people from developed countries are losing their jobs in favor to cheap labor from developing countries.
- In order to avoid high taxes, more and more companies are transferring their business to other countries, thereby reducing the ability of home country to develop.
- Because of the constant integration of the cultures and nationalities, companies are facing political, ethical and environmental problems.
- Due to the popularity of outsourcing, issue of the product quality concern consumers more and more.

Taking into account all the advantages and disadvantages of globalization, one cannot have a definite answer: is globalization a positive phenomenon for international trade or it is a tsunami that will only increase the miscomprehension between countries and people.

For better understanding of the research questions, current paper will be following next theoretical approach. In era of globalization more and more companies are willing to reduce the cost of production. To do so companies are willing to outsource manufacturing side. Other companies are working with subcontractors and ordering parts or materials from countries where it is cheaper.

The era of globalization allows many companies to expand their businesses in foreign markets. There are many barriers that the company should overcome in order to enter that foreign market. The company should have a good market entry strategy. One of the most critical issues in international market entry strategy is a choice of the most suitable entry mode (Terpstra and Sarathy, 1994). Entry mode selection is understood as the most suitable way for the company to enter the foreign market in order to manage their international business. What is more, the company should manage the business by analyzing and exploiting their competitive advantages (Root, 1994).

A foreign market entry mode is "an institutional arrangement that makes possible the entry of a company's products, technology, human skills, management or other resources into a foreign country" (Root, 1987). One of the most common reasons for the company to enter foreign market is economic advantages (Porter 2004). According to several researchers such as Coughlan (1987), Klein and Roth (1990) decision to penetrate into a new foreign market comes with critical decisions to make. This decision is a choice of a suitable entry mode. This decision is critical also because of the impact on the business's international performance for the long term (Anderson & Coughlan, 1987). According to Hill (1990), there are three variables that can influence the choice of an entry mode: strategic, environmental and transaction-specific. The environmental variables are related to the location, country specific demand and competitive conditions in the hosting market. The strategic variables are related to the adaptation of the product for the specific market. This can be different kinds of specifications, standards and so on. Finally, the transactions specific variable is related to the specific advantages that the company can offer to the new market and new customer. To sum up, Johanson and Vahlne (1977) stated that the decision on entry mode is based on company's current state, past experience, stability, resources and structure of the target market.

In order to choose the most suitable entry mode firm needs to base its decision on trade-offs between risks and returns. It is expected that the firm will choose the mode that offers the highest risk-adjusted return on investment. Although practice shows that there are other aspects that can influence mode selection. These factors are resource availability and need for control. Resource availability brings up the financial and managerial capacity of a firm in order to suit the chosen foreign

market. Control means the ability of a firm to influence decisions in the foreign market. For a firm control is needed to improve its status and competitive position in the new market. This refers to greater ownership of the firm in foreign venture but also brings up higher risks due to the admission of responsibility for decision making and higher commitment of resources.

According to Root (1994) studies there are four main entry modes that a firm can choose from:

- Export modes
- Contractual entry modes
- Investment entry modes

First, exporting is the most common way to enter the foreign market. Export modes consist of indirect entry, direct distribution, direct branch subsidiary and others. Second, contractual entry mode consists of several agreements between the firm from target market and the company itself. These types are licensing, franchising, technical agreements, service contracts, management contracts, turnkey contracts, co-production contracts and other. Finally, investment entry mode consists of foreign direct investment, acquisition and joint venture. All this entry modes are going to be discussed further in the current paper.

1.2 OBJECTIVES

The main objective of the thesis is to research the possibility of the company to enter new foreign market, as well as to analyze this new market. Based on the data that will be collected, author will work in cooperation with the case company's managers to research how difficult it can be for the company to enter a new market. The secondary objective is to design the market entry plan for the case company. The most important issue in entering the foreign market is the choice of the entry mode. Selection of entry mode is a key finding of the current thesis. However, the research could be successful it do not mean that there should not be further developments and analysis for future. Therefore, current thesis will identify the short-term plan with possible customers and entry mode that the case company should use when entering the new foreign market. The objective of this thesis is

...to analyze the preparation of the company for foreign market entry and the selection of the plan to penetrate the chosen market.

The second chapter aims to present the discussion of the theoretical framework. There will be discussed the existing knowledge about the market penetration, types of entry modes and entry barriers. In the third chapter research design is presented. What is more, data collection is discussed. The fourth chapter is talking about the

empirical implementation of the previous framework. The final chapter consists of the conclusion of the thesis and further recommendations to the case company.

1.3 RESEARCH QUESTIONS

The research questions listed below are identifying the main objectives of the current research. All of the questions are considering the case company and the result of co-operation of the author and the company representatives. Research questions are connected and follow each other. First question is considering the first step of the market entry process which is the selection of the target market. As it follows, the second question is based on the analysis of the case company's ability to become a player on the new market. That is why the author placed the question about the barrier that the company will face. And finally, the conclusion question is the actual entry mode selection.

Here are the main three questions:

- How the firm is choosing the target market when going international?
- What are the barriers faced by the firm when entering foreign market?
- When the market is selected, what are the entry modes the firm should use?

2 THEORETICAL BACKGROUND

There are many studies about international strategies and basically they all are about selection of a market and entry modes (Root,1994; Sarkar and Cavusgil,1996; Wind and Perlmutter,1997). It is important for a company to have a relevant analysis in order to enter international market successfully. As well, growing competition on the market increases the need for companies in a more detailed study entry mode selection (Cavugil,1985). According to Root (1994), there are several decisions on market entry strategies. First, the selection of a target product and the market. Second, the purpose in the selected target market. Third, the actual choice of the required entry mode. Fourth, marketing plan to penetrate the market. Finally, monitoring system to control the implementation of the selected mode. This study is aiming to analyse three decisions, as it is illustrated in the Figure 1.

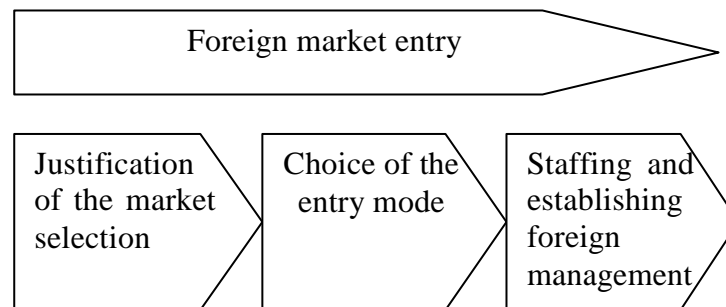


Figure 1. Stages of foreign market entry

Current study is aiming to link this three decisions that company needs to make in order to penetrate the market.

2.1 TARGET MARKET SELECTION

In the modern world studying overseas market as well as analysis of associated risks becomes more critical than ever. At one side, all the necessary information can be find because of the availability of different kind of resources. In the age of Internet one can find all the data without going abroad and leaving the office. From the other side, the accuracy of this information can be doubtful. And this is caused not only by rapidly changing data, but also by unstable political situation in the world.

Despite the environmental issues that can appear when going international, it is worth noting that choosing the target market as a country is always loaded with problems. Even though there are a variety of different international data services and global data-bases, the market-level data between countries is still full of uncertainties. Lack of information means that any predictions and forecasts are inappropriate. So what is the most suitable approach that company can make in order to enter a new market? According to Johansson (2005), there are two approaches. First, the initial selection should be based on well-analysed vision of why the company wants to go international and whether the company has sufficient resources to penetrate the market. Second, if there are more than one country in the list of potential market entry, the final choice should be made after personal visit to the chosen country and confirmed data about the market size, growth, entry barriers, and competitiveness of the market share.

At the primal stages of the research, the analysis of the attractiveness of the market can be quite unidirectional and simplified. One can use too simple factors when analysing the market and this analysis would not cover all the concerns that a firm should think over. In order to give a proper market assessment, later analysis should be more direct and systematic. According to Johansson (2005), there are next factors that should be taken into account when choosing the target market:

1. political risk analysis,
2. environmental research,
3. systematic entry screening,
4. forecasting country sales.

Farther in this chapter each of this factors will be discussed.

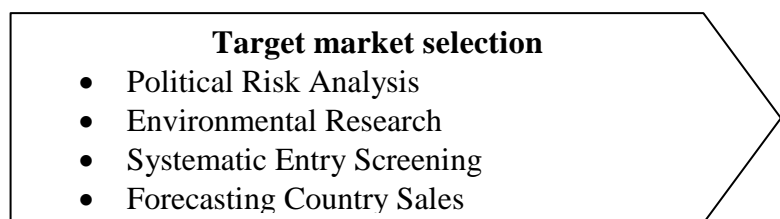


Figure 2. Factors influencing the target market selection

2.1.1 Political Risk Analysis

Today one of the main concerns for firms is political stability in countries where this firm is planning to enter. This question comes first because even small change in political structure can cause big changes in economic rules and regulations overnight. There are different ways to analyse the risk of the emergence of political instability and ways to impact on this changes. The factors that needs to be consider are shown in the Table 1 below.

Level 1	General Instability	Revolution,external aggression
Level 2	Expropriation	Nationalization, contract revocation
Level 3	Operations	Import restrictions, local content rules, taxes,export requirements
Level 4	Finance	Repatriation restrictons, exchange rates

Table 1. Political Risk Factors (Korbin,1979)

As it is shown in the table, factors of the political risks are divided by the level of importance for the entering firm. It goes from the most unacceptable conditions like revolutions and external aggression to the level when firm can set aside the investment decision. There are some cases when the economics of investment are acceptable, but due to the unstable political situation, the project can be suspended. This most likely to happened when the firm is looking for the subcontractors for raw materials but when the project is about the market penetration, political risks can play a crucial role. There should be mentioned also another kind of political risks which is terrorism. Even before attacks on the World Trade Center in New York on September 11th, issue of terrorism was one of the acute problems. It is impossible to predict and prevent terrorist attacks, but companies who are entering international markets should be aware of this kind of political risk.

2.1.2 Environmental research

When the political risks were analysed, next step is to analyse the environment of the targeting contry and market. At this stage firm should understand customer needs and implementation strategy for their product on the market. The primal analysis of the new market should be enviromental factors of consumption and buying behaviors. To assess the country specific behaviors there are four environmental dimensions are used (Amine,1986):

- physical,
- sociocultural,
- economic, and
- trade blocs and regulatore environment.

First, physical environment identify the climate of the country. Interestingly, but climate affects people's buying behaviours radically. For example, swimming suits are in more demand at summer time rather than at winter time. From the other side, there are some countries where climate is not changing and it is always hot or always cold. Based on this factors, customer's behaviours are changing. Second, sociocultural dimension is reflected to class groupings and social satisfaction. This factors are not as visible as physical, but the sociocultural dimension will be important when analyzing how market accepts the new entrant. Third, economic environment is a major factor when talking about local market behavior. Income data and sales information can easily be found in different sources, so the firm can easily analyse the market from economical perspective. Finally, primal analysis should include the information about membership in trade blocs. Information on whether the chosen country is dedicated to some trade bloc, like European Union, can help the firm to gain some understanding on possible barriers and major regulations before entering the market.

2.1.3 Systematic Entry Screening

Most of the studies are seeing the market selection in tree stages: screening, identification and selection (Kumar,1994; Cavusgil, 1985; Root,1994). First, screening of the market gives country specific analysis which allows the company to eliminate those countries who do not meet the goals of the company (Kumar,1994). Second, identification is linked mainly to the industry specific analysis. At this stage market size and growth, competition, entry barriers and market segmentation analysis can be made. Finally, selection represents company-specific information. Here company can analyze its profitability, product competences.

According to Johansson's (1997) model, there are four stages:

1. Geographic identification (populaton, GNP, growth rates)
2. Preliminary screening (political situation, geographic distance and economic development)
3. In-depth screening (market specific information for both markets, market potential, competition in the market, entry barriers, company resources)
4. Final selection (company-specific analysis such as sales,revenues,resources needed)

First stage is geographic identification when different data are used to identify target regions and countries. Usually company decides to enter a certain trade area. For example, oil companies can target those countries which produce oil and engineering companies are aiming to enter countries with big construction projects. Second stage, preliminary screening, gives the company a macrolevel analysis on political stability, geographical distance, and economical development. At this stage company can make a resource analysis, which means the analysis of anticipated cost of entering, transportation costs, costs for storage and warehousing, and support of the product in the market. Stage three, in-depth screening, provides the core assessment. At this stage company should use industry-specific data and verified market information. As well, at this stage, company will find the information on market potential and market size, growth rate, strength and weaknesses of the chosen market. Final stage is the final selection. At this stage all the gained information about the selected market is brought to match with companies perspectives. This stage usually comes down to arrangement of the countries from highest to lowest attractiveness for the firm.

2.1.4 Forecasting country sales

When the target country was chosen and firm's perspectives were met, it is necessary for the company to make sales forecast that are likely to be obtained. Here the focus is on two levels: *industry sales and market share*. *Industry sales* are based on several methods. The build-up method is based on the estimated sales information from different industry experts. Forecasting by analogy method is based on the comparative characteristics of the lagging country and leading country where the product is marketed. Another method is judgmental forecast. When the product has no comparable information in other markets, pure judgmental methods can be used. There are four judgmental forecasting techniques generally used: the jury technique (based on comparison of different expert's forecasts), expert pooling (based on involvement of the expert from the side to give the forecast), panel consensus (more like the jury forecast, seeking for the information from more than one source), and, finally, Delphi method (consists of rounds of numerical forecasts from selected experts, who provides individual estimations) (Vernon-Wortzel, 1990).

2.2 CHOICE OF ENTRY MODE

After the target market was selected and all the risks were analyzed, next step is to choose the entry mode for the company. According to Root (1987) market entry mode is a type of agreement that enables the entry of a company's products, technology, human skills, management and other resources into a foreign country. There can be different reasons for the company to enter an international market. One of the most common reasons is economic advantages, but there also can be other reasons for the penetration (Porter,2004). According to different studies, company faces a crucial decision in order to enter a foreign market. This decision is selection of an appropriate entry mode (Hill, 1990). What is more, this decision has a great influence on the future of the company on the selected foreign market for a long time (Anderson,Coughlan, 1987). There are different factors that can influence the choice of the entry mode. According to Hill (1990), there are three factors: strategic variables, environmental variables, and transaction-specific variables. Strategic variables related to adaptation of the product to the foreign market it enters. Environmental variables are concerning the location of the market, country risks, demand and competitiveness of the chosen market. Finally, transaction-specific variables are related to company's advantages that it can have between the existing players in the market. According to another study (Johanson,Vahlne,1977), implementation of the entry mode is based on the company's current position, past experiences, stability, resources and structure of the target market.

According to Anderson (1986) and Hill (1990), entry modes can be differentiated by level of control, commitment, resource and risk involvement. Each study stress the importance of different factors. According to Blostermo(2005), control is the most important factor when choosing the entry mode because it includes both risks and returns of the investment that needs to be made. Control is defined as an ability of the company to influence different management systems (Brookes,Roper,2010). If the company has a control it can also improve its competitive position and maximize return of assets. This factors that are influencing the choice of the entry mode depend on the goals and perspectives of the company. Companies that are aiming to enter a new foreign market have a variety of entry modes to choose from.

According to Roots (1994), there are three entry mode selection methods as mentioned in following Figure 3:

- Exporting modes (exporting, indirect entry, direct exporting).
- Contractual entry modes (licensing, franchising, technical agreement, service contracts, management contracts, construction contracts, and co-production contracts).

- Investment entry modes (foreign direct investment, sole venture, joint venture).

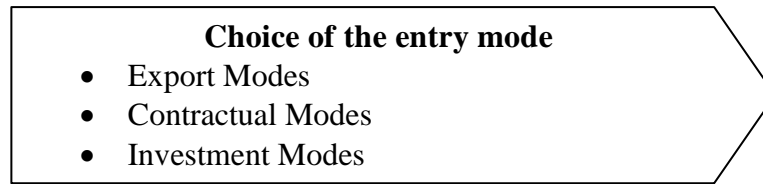


Figure 3. Types of entry modes.

First method is exporting modes and it consists of indirect and direct exporting, direct distributor, and direct branch subsidiary. Second, contractual modes are licensing, franchising, technical agreements, service contracts, management contracts, construction contracts, co-production contracts. Third, investment entry modes are sole venture, establishment, acquisition, joint venture.

2.2.1 Export Modes

According to Root(1994), export entry mode is based on the fact that company's end product is manufactured outside the target country and later on transferred to it. Thus exporting is refers only to the physical product. Barkley (2005) states that exporting is the easiest and quickest way to enter the international market. This mode is aiming to gain the knowledge and experience of the new market. As it is said before, export modes are consists of several sub-modes which are exporting, indirect entry, and direct exporting.

Exporting is the easiest and low risk way of entering the foreign market. According to Chung and Enderwick (2001), this mode has a low commitment of resources and investment choice. From the other side, exporting has drawbacks like low profit return and low control over the company. Bradley (2005) said that exporting can be taken as a part of increasing commitment to internationalization. Indirect expoting involves the use of a middleman with the help of whom the company can export to the chosen country (Root,1994). From the other side, this way does not able the company to have it's own international market entry strategy and it means that the company do not control the market. When the company is aiming to operate by itself in the international market, they chose direct exporting. This means that the company is going to sell it's product directly to the buyer or importer who is based in the foreign market. (Root,1994). Direct exporting has three advantages. First, is partial or full control over the market, second is concentration of marketing plan on the company's product line, and third is quick respond from the international market which enables faster adaptation of the product in the new market.

2.2.2 Contractual Entry Modes

This type of entry mode is based on the long-term commitment between the company and organization in the target country that include transportation of the product and human resources. Contractual entry mode differ from export entry mode because it involve the commitment of the knowledge and skills, and also opens an opportunity for the export. These two entry modes are distinguished from each other because contractual mode does not involve an equity investment by the company. (Root,1994)

There are next types of contractual entry modes: licensing, franchising, technical agreements, service contracts, management contracts, construction contracts, and co-production contracts. Licensing is a type of entry mode when company shifts it's intangible assets which are not import restriction items.(Root, 1994) In other words, licensing provides foreign market companies with technology for the fee or royalty. Usually licensing is a combination of a brand name, operation expertise, production technology, access to a factory and company's secret. With the help of licencing company have information about the market with low investment cost and gain the market knowledge from local firms. Drawbacks of this entry mode are lack of control, it also can open a way for the new entrance and waste the acquired knowledge and experience. (Bradley, 2005)

Franchising is another type of contractual entry model. It differ from licensing in a way that in this mode the company is licensing the business format instead of technology. (Brdley,2005). In other words, franchising gives the company the ability to empower the property as an intellectual assets. According to Maskus (1998), "*Intellectual property (IP) is an asset, developed by inventive or creative work, to which rights to exclude its unauthorised use have been granted by law. The international exploitation of IP is central for trade, foreign direct investment (FDI) and technology licensing across borders*". Franchising helps in protecting accessible information from overuse and wide access. From the other side, franchising has a weak power when making a business with countries where intellectual propetry is not protected by the law and government. In such countries there is no point in using franchising. (Maskus & Yang,2001) There is also a contract manufacturing entry mode. This type is a mix of licencing and investment entry (Root,1994). This means that the company can place its production line in foreign country but duty for the marketing and distribution lies on the company. What is more, this type of entry needs small investment of money and time, and provides a fast entry to the new market (Albaum, 2008).

There are also a number of drawbacks such as lack of information to the competitors and the profit from manufacturing stays with foreign contractor. Management contract is one more type of entry which gives the company an ability to control the day-to-day operations in the foreign company. However, this type do not allow the company an ability to influence the decisions on capital investment, policy changes, long-term debt or alter ownership arrangement according to Root (1994). This type oftenly used in cooperaton with export of investment entry modes. A special type of entry modes is so called turnkey constrution contract. According to Albaum (2008), in this contract include construction of the plant, training personnel and initial operations of plant from the foreign investor. One of the most important things in the entry is a negotiations between the company and the foreign investor due to the uniqueness of every project.

2.2.3 Investment Entry Modes

Investment entry modes are based on the ownership of the company, of the manufacturing plants or other units in the target country. It can be both: entire production line or some stage of the production line like assembling or production of parts of the product. From the side of ownership and management control, this entry modes can be classified as sole venture (new establishment and aquisition) and joint venture. (Root,1994) Large investment in the new country and in the new market can be done with sole venture in two ways: with new establishment and aquisition. First, sole venture with new establishment, also called foreign direct investment (Chung,Enderwick,2001). This type of entry requires a lot of outlay but as well it gives the ability to transfer other resources such as manufacturing, management, skills and technology (Bradley,2005). With the help of replacement of the companies assets directly to the foreign country, company can gain competitive advantages faster then with any other entry mode.

According to Faeth (2009) and Bradley(2005), there are next factors that can influence the foreign direct investment: size of the foreign market; concurrence of the market; previous experience; competition in the market. According to Faeth (2009) *“FDI should not be explained by single theories but more broadly by a combination of ownership advantages or agglomeration economics, market size and characteristics, cost factors, transport costs, protection and risk factors and policy variables. Many empirical studies have already taken that approach, even when focusing on specific theories or aspects of FDI”*. Other type of the sole venture is aquisition. Aquisition means that the company is simply buying already established business in a foreign market (Root,1994). There are several reasons for the company to acquire a foreign company: geographical changes, some specific assets like management, production, accessibility of raw materials or financial diversity. The specific advantages can be a faster start in the new market due to

establish firm, new product line and a short payback period due to immediate income for the investors.

The disadvantages on the other hand are transfer of ownership and control, and hard to evaluate the prospects, but several of the advantages can turn in to disadvantages if it is not handle right. The other type of investment entry mode is international joint venture. According to Root(1994), joint venture is a partnership between the company and one or more local companies who are operating in the target market. As well it can be cooperation not only with local companies, but also with other firms who has already entered the chosen market. One of the main advantages of joint venture is economies of scale (Bradley,2005). This way of penetration is less expensive then acquisition, risks are shared between couple of firms and profit and return of investment if better in comparison to other investment modes (Albaum,2008). From the other side, due to complexity of stuff, joint venture suffer from management problems what can cause bad performance and delay the market entry. Another downside is cultural difference (Nippa,2007). Difference between companies in joint venture may cause also lead to lack of trust and misunderstanding between the partners.

2.3 GLOBAL MANAGEMENT

After the most demanding stages of the foreign market entry were done, next question is what the company should do next. Next sage can be seeing as an analysis of future of the company in the global market. This future can be analysed with the help of integration of the global network and development of global strategy. The Figure 4 below indicates the framework of global management for the company.

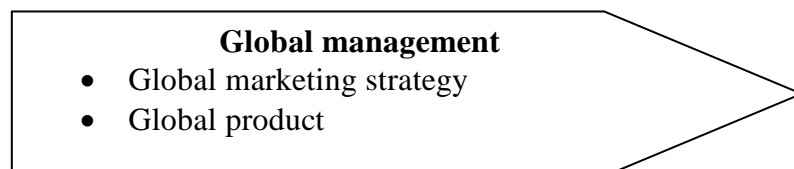


Figure 4 . Global management

First, the company should decide on a global marketing strategy to implement in the chosen international market. One of the main questions for the company is to decide whether the strategy will be the same for every foreign market or different for each market. Second, when the strategy was selected, company should analyse what are the product they are selling and who are customers. Finally, the last but

not the least, is the question of banding, pricing and distribution that company what to implement.

According to Johansson (1997), global marketig startegy is a planning process of company's actions. This actions involve five steps:

1. Analyzing the readiness of the company to globalization. Once the evaluation is done, management needs to decide if they should go further with globalization.
2. Next step is analysis of the market situation in the different countries. The reason for that is to see the difference between the market's standarts. For the new comers this step can be demanding. At this step company needs to understand which advantages they can show at which market. As well, interaction with local managers can be helpful at this stage.
3. After reciving the help from local managers, company can decide on the global strategy to use. Company should formulate one strategy for global markets with only small differences between selected countries.
4. At this step company needs to evaluate the local market strategy in order to predict the changes in the international markets. Here company needs to compare information from different sources and make any evaluations.
5. Finally, after receiving negative and positive benefits from the local markets, evaluate the strategy in order to get better net profit from the proposed global strategy.

Global products are standardized for all international markets. For most international companies some product standartization is essential. It is more cost efficient for the company to invest in product modification in order to be adapted in the new market. There are a number of advantages of standartization (Johansson,1997). First, by economies of scale company can gain a cost reduction. Product modification costs can be spread over a bigger number of products. Second, standardized products are more likely to offer a better quality. Due to the additional investments in product development, standardized products are more tested and more likely to function well. Third, standardized products are more likely to recieve customer's preferences and trust. Fourth, then the product is standardized for one international market, the company can easily penetrate other countries. Finally, standardization fits with emerging international customer segments.

From the other side, there are some drawback of standardized products. One drawback is that the product is likely to miss the target. In most cases, customer's needs are different in different countries. There is also a problem of lacking uniqueness of the product. Another problem is that standardization brings stronger competition. Since all the products are more or less the same quality, it is hard to gain customer's attention. Finally, there can not be a 100 percent standardization of the product. Some features can be standardized and the main problem for the company is to choose which features to standardize. (Johansson, 1997)

2.4 ENTRY BARRIERS

This section introduces entry barriers that the company is facing when penetrating new market. According to Porter (2004), penetration into the new market is always considered as a competition in the target market. There are many different studies about the entry barriers. This section will focus on six major barriers suggested by Porter. They are:

1. Economic of scale
2. Production differentiation
3. Capital requirements
4. Switching costs
5. Access to distribution channels
6. Cost advantages independent of scale

First, economic of scale based on a principle of reducing the unit cost of a product by increasing the volume of production. In this case, new company should take a big risk and enter with large scale or face a cost disadvantage and enter with small scale. Another problem that can occur is foreclosure of input or market for the product. Most customers buy from local firms and new firm can be squeezed by the requirements of the customer's buying behaviour.

Second, it is very hard for the new entrant to overcome existing products and gain customer loyalty. To do so, new firm should heavily invest in product differentiation. This usually takes more time and cost for the firm to enter the market.

Third, one of the highest entry barriers is capital requirements. Entering new market already a high investment project. Capital investments can be needed at different stages on the project starting from research and development also for inventories and advertising. Even if the company has capital, allocation of this capital could be risky.

Another entry barrier is switching costs. This barrier can be related to different costs like product adaptation, switching suppliers, cost of new machinery, training new employees and so on.

Fifth, barrier can be an ability of the new firm to create a distribution channel to the new market. New firm should use price breaks, cooperative advertising allowances and so on in order for the distributor channel to accept their product. Sometimes the barrier can be so high that it is easier for the new comer to create its own distribution channel.

Finally, new entrant should have cost advantages apart from economies of scale. This cost advantages are next:

- 1). Licenced technology (patents and secrecy of technology or design characteristics);
 - 2). Access to cheaper raw materials;
 - 3). Convenient location;
 - 4). Government subsidies;
 - 5). Experience curve (costs decrease because workers becoming more efficient).
- (Porter,1980)

Depending on the market, entry barriers can be high and low. There are also structural characteristics that can cause difficulties for the new entrance such as technological advantages, economies of scale and absolute cost advantages. (Porter,2004) According to Gable (2010), entry barriers identify the disadvantages of the new entrants and prevent the influx of the new comers in to the market. There are many companies who have a potential to enter an international market, but due to the high entry barriers, this companies are not even taking a risk to try.

3 METHODOLOGY

3.1 RESEARCH DESIGN

According to Bryman and Bell (2003) there are two ways to do a research study: qualitative and quantitative research study. Qualitative research study is explained as a study based on the data collection and analysis. In this type of research, study is focused on the information and the quality of this information. There can be a small number of resources but the main thing is to get the most appropriate information. From the other side, quantitative research study is based on the number of the resources that can be used in the study. In this type of research the main focus is to gather as much information as possible from different resources.

To sum up, qualitative research method is a theory gathering method and quantitative is theory testing method (Bryman and Bell, 2003). Depending on the industry and a type of the analysis these two different methods can be used. For example, in manufacturing industry qualitative research will give better results rather than quantitative due to the quality of data needed to analyse (Ekeledo,2003). According to Creswell (2003), researchers can also use third type of research which is mixed research method. This method is based on the philosophical direction of the study which is supported by analysis of data. Basically, mixed method is a combination of qualitative and quantitative research methods.

Current research is based on the case of Georgian firm Rustavi Steel. Relevance of this research is caused by the globalization mainly. More and more developing countries are aiming to extend their businesses into more stable markets like European. Mainly study is concentrated on the analysis of the case firm and its suitability to the new market. It is important for the firm to have a clear understanding of its chances to survive in such complex market like European.

Current case research was based on the qualitative research method. Bryman and Bell (2003) explained this type of research as theoretical research. Due to the limitations of the case firm, the theory explained in the study could not yet be implemented into the action. However, the proposed theory was found as a very promising plan for future development by the managers of the firm.

3.2 DATA COLLECTION

According to Bryman and Bell (2003), there can be two approaches for data collection: primary data and secondary data. Primary data is information that was collected in order to answer the research question. Secondary data is information that other researchers collected before in this research area. There are several

methods can be used to collect both primary and secondary data. Based on the purpose of the study, availability and skills of the researcher, choice of the method can be different. Such characteristics as socioeconomic and demographic can play a significant role on the quality of the data. What is more, quality of the data can also be determined by the way the purpose of the study is explained to the potential respondent. Researcher should have a clear understanding of the purpose and relevance of the study.

The following Figure 5 illustrates the diversity of data collection methods.

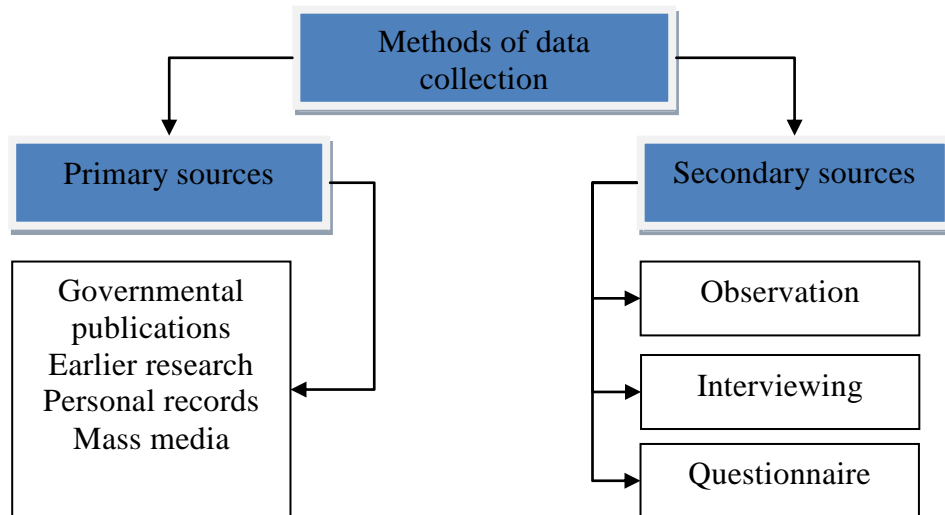


Figure 5. Data collection methods

There are next types of primary sources: observation, interviewing, questionnaire. First, one of the most appropriate methods is observation. Observation is systematic way of gathering information by watching and listening over the study. For example, this method is helpful when the research is about people's habits and so on. Observation can be two types: participant and non-participant. Participant observation is when the researcher takes part in the action of the studied problem. Non-participant observation takes place when the researcher cannot be involved in any activities and plays a role of passive observer.

Second type of data collection is interview. This method is the most commonly used. According to Burns (1997) 'interview is a verbal interaction, often face to face, in which an interviewer tries to detect information from another person'. There are two types of interview: unstructured and structured interviews. Unstructured interview is when the researcher does not ask before planned questions and free to direct the interview in any direction. From the other side, structured interviews are more strict and planned. In this type the researcher uses predetermined questionnaires and it gives comparability of data.

Third type is questionnaire. This type is based on the written list of questions to which the respondent should answer and record the answer. The difference between

the structured interview and questionnaire is that in second there is no one to explain the meaning of the question which can cause some misunderstanding. There can be two types of questionnaire: mailed and collective. Mailed questionnaire is the most common approach when the list with questions is send by the mail. Due to the low respond rate the questionnaire better to be send by pre-paid, self-addressed envelope. Collective questionnaire is made in one place with a group of people. This assure high rate of response.

From the other side, when the information cannot be collected by the researcher or have being already collected before, secondary sources are taking place. There are four types of secondary data:

- Governmental or semi-governmental publications – collected by special organizations that can be used by pubic.
- Earlier research – previous research studies by other researchers.
- Personal records – people’s personal records like diaries where researcher can find relevant information
- Mass media – reports from newspapers, books, Internet.

In current paper information was collected with the help of different data collection methods. Mainly there can be noted the following methods: surveys, experimental study, observation and interviews. Observation and interviews are related to qualitative research method and surveys and experimental studies – to quantitative. (Bryman, 1996) The following Table 2 shows all the types of data that was collected, when it was collected and how. What is more, it shows how this information helped during the research.

Data	When it was gathered	How it was analysed	How helpful was it
Interviews	Final (April,2016)	Open-ended questions (in-person)	Main source of the relevant information
Earlier research	Before interviews (February, 2016)	Examples of the similar researches	Guidelines
Books/Articles	Early investigation of the issue/case (October,2015)	Guidelines for the research	Guidelines

Table 2. Types of data.

As it is shown in the Table 2, there were three types of data: books and articles earlier research and, interviews. First, on the early stages of the research, books and articles were main sources. In the beginning research needs to find directions in which it should go. A lot of literature was analysed before the framework was build. Secondly, when the researcher found the direction of the study, it was helpful to analyse earlier researches that was made in the same field. Couple of different studies were analysed and in the end it helped the researcher to combine them and finally create the framework. The final framework was implemented to

the research questions. Finally, after the framework was build and research questions were made, it became possible to create relevant questions for the interview. Since the interview was in person, the questions were open-ended. It was possible to redirect the questions during the interview. It was possible for the interviewer to ask other questions that were not prepared beforehand.

3.3 EMPIRICAL DATA COLLECTION

Primary data was collected from 2 interviews; the respondents were from studied plant: sales manager and main engineer. Interviews were according to Kvale (2009) so called qualitative research interview, with the purpose of understanding the respondent every day routine. Some sources call this semi-structured interviews (Bryman and Bell,2003). The benefits with qualitative interview are that the interviewers can go away from the interview guideline and ask follow up questions depending on the answer that they get. This method was chosen because the researcher can get better understanding on firm's decision of entry strategy.

The interview guide-line that was pre-decided and a topic guide were sent beforehand to the respondents. A topic guide were sent so that they had time to prepare but not the actual questions so they could not give standardize answers (Bryman and Bell, 2003). The interviews were done in Russian with the respondents from the Georgian. Due to time and economic reasons one interview was done in person and other through Skype conversation. Interview is presented in the Appendix A.

In the current paper researcher has faced some limitations when collecting the data. Due to the financial limitations, there was a problem of visiting the firm since it is situated in Georgia. There was one visit to the factory when the researcher was observing everyday routine of the plant. After that the interview with main engineer took place. The interview with the sales manager was made later. Since the investing firm is situated in Ukraine, the interview with sales manager was made a bit later. Another limitation was due to the political and economic situation in Ukraine.

3.4 ANALYSIS METHOD

When the data was collected, it needs to be analyzed. Qualitative data is taken from observation and interviews. Due to the fact that this kind of data is not structured, it can be hard to analyze. (Bryman,Bell,2003) There are two ways to analyze this data: grounded theory and induction analysis. First, grounded theory is all the data that was already analyzed during the research process. Second, induction analysis is the way when the researcher can find the divergence from the hypothesis of the research question. (Bryman,Bell,2003)

Furthermore the data is presented the Appendix A with keywords from interviews. It is made in order to indicate the respondents between each other. Next step after the collection of empirical data is deeper analysis of given information. The main goal is to find the connection between the interviews. According to Charmaz (2006), the good way of analyzing the interviews is placing all the information from it right away to the excel sheets. When the analysis is done the conclusions can be made.

3.5 VALIDITY

According to Bryman and Bell (2003), validity is understood as evaluation of quality of the research. It means that the conclusions of the research can be accepted as persistent or not. They also mentioned that it is important to have an appropriate research design that is connected to the purpose of the research. These theses start to show patterns, but in order to make conclusions more solid, the study needs to be more complete. The design of the study with semi-structured interviews raises the validity of thesis because the design fits the purpose.

Guidelines of the interview have been generated from the collected theory. The questions for the guidelines where connected to the operationalization and this increase the validity of the thesis. Furthermore the results are evaluated in the way that gives the highest validity from the research material. A discussion of the terminology and thorough operationalization where made to increase the understanding of the respondents.

Topic guides of the interviews were sent to respondents in order for them to understand the direction of the interview. When the interviews were held, they were recorded and notes were taken to make it possible to review them and freshen up the memory of the researcher. This was made in order to make the validity higher due to the fact that the notes of the interview could be revised. In order to increase the validity of the research more empirical data should be collected.

3.6 RELIABILITY

According to Bryman and Bell (2003), reliability states how applicable the results of the study are. It is a way to control the results and analyze if they could have been made differently if someone else have done the research (Kvele,2009). They also stated that if the research is conducted with high reliability, the outcome should be similar regardless who is doing the research.

Although they say that small differences are to be anticipated due to the researcher's way of analyzing the results and how it can divert from researcher to researcher. This thesis gets better reliability due to the pre-decided questions. The investigator thinks that Swedish universities are similar, so a study with the same purpose will give comparable results, because of that the reliability is high. The transcriptions of the interview were sent to the respondent to confirm that the interview material was interpreted in the correct way.

This improves the reliability of the conducted research and this thesis. All of this compile to a reasonable reliability in this thesis. Through the discussions that were made in the reliability and validity sections it is accurate to think that the validity is higher than the reliability. The reason for this is that it is fairly easy to copy the research and do it again due to the careful explained instructions in conducting this thesis.

4 EMPIRICAL PART

4.1 COMPANY OVERVIEW

Rustavi steel LLC is Georgian firm that was established in 1948 as the fully integrated metallurgical complex. This firm produces different kind of products such as reinforcing bars, seamless pipes, square billets, pig-iron castings, metal constructions, mechanical parts, shaped castings, granulated slag, silicon-manganese, lime and limestone. The plant is currently exporting to the Russian, Kazakhstan and Middle Eastern markets. As it was mentioned, there is a wide range of products. This case is focused on the seamless pipes market. The following Table 3 shows companies basic information.

Official name	Rustavi steel LLC
Established	1948
Operating market	Metallurgical
Number of employees	Over 1,300 people
Company's turnover	\$ 35 million

Table 3. Company's overview

This research is concentrated on one line of products: seamless pipes. Currently company is working with different international companies. They provide these companies with different kinds of pipes for different purpose. There are two main product lines: casing pipes and line pipes. Casing pipes are used for oil and gas exploration and for oil and gas wells operation. Line pipes are used for oil, gas and water transportation. The following Table 4 illustrates the variety of pipes that the company is making and shows the standardized sizes of these two types.

Pipelines	Casing pipes
168x7 ÷ 20	∅ 168
178x7 ÷ 24	∅ 177,8
194x7 ÷ 24	∅ 244,5
203x7 ÷ 30	∅ 298,8
219x6 ÷ 32	∅ 339,8

245x7 ÷ 38	
273x7 ÷ 38	
299x8 ÷ 42	
325x8 ÷ 42	
355x9 ÷ 32	
377x9 ÷ 28	
426x9 ÷ 18	

Table 4. Assortment of pipes

As it can be seeing, there is a great assortment of pipes that the firm can produce. Due to the big variety of products, to the diversity of sizes, Rustavi Steel can full fill customer needs. One of the main advantages of the firm is ability to produce different pipes which are not always can be produced by other metallurgical companies.

4.2 CURRENT SALES MARKET

Rustavi Steel is progressive company that is working with different companies. As it was mentioned before, the main market for this company are companies from Post-Soviet Union countries. The main reason for that are similarities in business processes. For example, in metallurgical industry it is important to provide specifications of the products. Specifications are various in different countries. In Europe there are one standard and in countries in Eastern Europe and Asia they are different.

Rustavi Steel is a big company that own Rustavi Metallurgical Plant. The following Table 5 represents volumes of the plant. From one side it represent the volumes of the produced pipes for the period 2014-2015, as well it shows the money flow.

Country	Volumes (tons)	Volumes (\$)
Kazakhstan	1000-1500	1,200 000
Azerbaijan	1000-1500	1,040 000
Russia	1500	1,200 000
Ukraine	1000	750 000

Table 5. Sales volumes for 2014-2015

As it can be seen from the Table 5, there is a big commodity turnover. Due to the fact that pipes are widely used and the whole world still depends on oil and gas, pipes are still demanded products.

4.3 FOREIGN MARKET ENTRY

As it was mentioned before, there are three steps for the company to prepare for the foreign market entry. Each step was described earlier and now each of the steps will be described concerning the case firm as it is shown in the Figure 6.

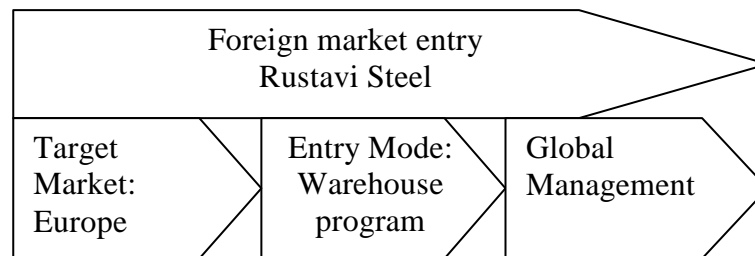


Figure 6. Market entry for case firm

4.3.1 New Market Selection

First step is selection of the new market. As it was discussed with the sales manager, firm's goal is to enter European market. As main target countries firm considers Norway, Denmark and England. Choice of these countries was caused by the fact that these countries are the biggest oil and gas producers in Europe. There are three companies in which Rustavi Steel is interested: Statoil (Norway), Shell (Denmark), and British Petroleum (England). As it was discussed in the theoretical framework, there are several factors that need to be considered when choosing the new target market: political risk analysis, environmental research, systematic entry screening, and forecasting country sales.

First, countries that are mentioned above are politically and economically stable. According to Korbin (1979), there are four levels of political risks. According to ESPAS (2012) report about the future trend of the Europe, the above mentioned countries show that first two levels, which are general instability and expropriation, have a low probability to happen. There are low instability and occurrence rate. Financially these countries are the most promising and riskless. From the other side, taxes in these countries are high what can cause problems for the case firm when entering markets in these countries.

Second factor is environmental research. Environmental aspects can cause some restrictions for the case firm. As it was mentioned, according to Amine (1986), there are four environmental dimensions: physical, sociocultural, economic and trade bloc's environments. First, physical environment plays a significant role for the oil and gas producers. For example, due to the environmental issues the

volumes of oil and gas production in Europe can dramatically decrease in next 10-20 years. Since the whole world is moving towards alternative energy sources, oil and gas companies can decrease their volumes, and it will cause decrease in demand for the pipes. Second, sociocultural factor plays a big role since the European customers are very critical to the new entrants and it may cause some difficulties for the case firm. Third, economical information is in the publicly available and such information as income data and sales information could help in analyzing the market of interest. Finally, information about the membership in some trade blocs like European Union could have made it easier for the Rustavi Steel to enter, but Georgia is not in that kind of trade unions.

Third factor is systematic entry screening. According to Johansson's (1997) model, there are four stages of entry screening. Firstly, the case company needs to analyze the target market from the side of the geographic identifications like population, GNP and growth rates. Developed countries like Norway and Great Britain show a growth in demand for oil and gas consumption what tells about the needs in pipes. Second, preliminary screening is somewhere repeats the selection of the target market. At this stage the company again screens the political situation, geographical distance and economic development. European companies are working mostly with China; Rustavi Steel can be seen as a good competitor since the location is closer and it can be taken as one of the advantages of the case company for the new target market. Next two stages concerns about the in-depth analysis of the both markets, metallurgical and oil and gas markets. These two stages should be analyzed by professional from the firm in order to show the whole picture with calculations and conclusions.

Fourth factor is forecasting country sales. As it was mentioned there are two levels of forecasting: industry sales and market share. In the current thesis, with the help of managers from case firm, estimated industry sales could be calculated. Since the case firm is directed to the warehouse program, calculation can show the volumes that the Georgian plant can produce per month. These volumes depend on the demand of the target market and in edition it could be extended to the needs of the customers.

4.3.2 Entry Mode Selection

Second step is actual entry mode choice. As it was mentioned there are three main entry modes: export, contractual and investment modes. Each of the entry modes has its own types. First, export modes are based on the production that is made outside the target market. (Root, 1994) Since the production of the pipe in Europe is quiet expansive, the fact that the production line of Rustavi Steel is situated in Georgia is considered as an advantage. Exporting is the most suitable entry mode for the case firm since it has fewer risks then other entry modes and does not need heavy investments. For the case firm the most appropriate entry mode would be

indirect exporting which involves the use of a middleman company (Root,1994). This middleman company could play a significant role as representative of the case firm on the European market. That is why the choice of such representative company should be deliberate and calculated by the managers of the company.

Second entry mode is contractual. This type is based on the commitment between producer and the customer. There are different types of such commitments: licensing, franchising, technical agreement, service contracts, management contracts, construction contracts and so on. This type of entry mode has a lot of advantages such direct entry to the target market, from the other side there are a lack of control left for the producing firm. Due to that fact this entry mode is not the best suitable for the primal entry to the new market. Contractual entry mode could be useful for the Rustavi Steel as a future development for the future markets.

Third entry mode is investment mode. This type of entry mode is the most demanding but the most effective among all the entry modes. Investment mode is based on the collaboration of the case firm with other firm in the target market. It can be ownership of the whole company or some part of production. This entry mode can be classified to two types: sole venture and joint venture (Root,1994). For the case firm investment entry mode is rather risky and hard to implement. The case firm does not have such financial possibilities, and in the entry mode investment is a key moment.

The following discussion will go directly about the Rustavi Steel company. The case company is situated in Georgia and all the production is made in country. The ability of the plant to do all the production indoors narrows the search of the entry mode. After the discussion with manager of Rustavi Steel, one of the most suitable entry modes is a warehouse program. In this case the company will supply the products to the market through the other companies. These companies are already operating as a middle man between company-supplier and company-buyer. The selection of this entry mode is due to ease process of penetration. These middle companies are already working in the market and can be a good representative of the Rustavi Steel.

Another point that needs to be considered is the barriers that the firm can face when entering the market. One of the barriers is the fact that Rustavi Steel does not have much experience of work with European market. Many international companies are very demanding to their suppliers. For many firms it is better to pay a bigger price but be sure about the quality of the product. In this case the cost attractiveness is not paying much role in decision making. It is important for the new comer to pay more attending to the quality of the product they are providing to the customer. Another barrier is production differentiation. There are different standards in Europe and Georgia. This barrier is low for the Rustavi Steel since they has been certified and produces pipes according to European standards. Next barrier is capital requirement. This is the highest entry barrier due to the fact that the company needs to invest heavily first in order to generate the profit. Due to the

selected entry mode, these investments are depending on the warehouse program. Currently the plant can produce 10-12 thousands ton per month. For example, now company has a warehouse program for 5 thousand tons for Turkey. Next barrier is switching cost which is low with the selected entry mode. The only complication that can arise is cost of product adaptation. Another barrier is creation of a distribution channel. Since the distribution is not direct to the customer, the barrier is easy to overcome. To do so, the company needs to negotiate with the middle company that they will have a warehouse program. Currently Rustavi Steel has cover's distribution with trucks and trains. There are many barriers that can cause some difficulties to the company but all of them are easy to solve.

4.3.3 Global Management

Closing stage of the market entry process is how the company should proceed after they have decided on entry modes for the market entry. The main question is how the firm can stay on board in the fast moving, growing and new for the firm market. According to Johansson (1997) there is a planning process consist of five steps. First, globalization is a big step for every company and the first stage is analyzing if the company is ready. For the case company this step is already analyzed and undertaken since the plant got it certification which is must-do for European market.

Second step is analyzing the market situation in the whole world. Due to the globalization every country in the world is connected even thought we might not see the connection. For example, if we will take the case company in Georgia, they are connected to the demand on the pipes in Europe, and the demand is based on the oil production not only in Europe but also in Iran and United States. If the company wants to stay in European market it is not enough to follow the changes only in this market. The company needs to monitor the situation in different market in order to be aware of changes.

After the company analyzed the market and world situation around, it is time for the next step, which is formulation of the strategic plan. Since Rustavi Steel is interested in one geographic location which is Europe, the plan would be almost the same for each country with only small differences. From the other side, future plans of the company to enter American market will require the management to overview the whole global management in order to enter that market.

Fourth step is somehow connected to the previous stages. At this step company needs to make more careful analysis and create a plan for the domestic market. Finally, the conclusion part of the global management plan is calculation of the net profit for the company. Considering all the negative and positive benefits of the local market, the company needs to see in number the profit from the created plan.

Global management plan is very important stage for the company. This will help Rustavi Steel to analyze its possible risks and predict the future of the company in the new market. The case company is very promising and developing company with a huge potential. It has a number of advantages that can be very useful in the European market. Management of the company should pay a lot of attention to the analysis and calculation of every step they will take on the road to the new market entry.

5 CONCLUSION

Everything is changing and developing nowadays. Every industry is growing and bringing new technologies to the market. Metallurgical industry is not an exception. In order for the company to stay in market and generate profit, they should be aware of the changes and bring their solutions to the developing market. One of the biggest changes is internationalization. It is based on the constant changes in every market. And these changes did not pass by Georgian company Rustavi Steel. The case company is growing company and has a number of advantages as a new comer for the European market.

In the beginning of the current study there were three main research questions:

- How the firm is choosing the target market when going international?
- What are the barriers faced by the firm when entering foreign market?
- When the market is selected, what are the entry modes the firm should use?

Throughout the research process all the questions were studied and answers were found. Firstly, according to the framework that was proposed by author, the company needed to analyze the target market they are interested in. Since the research was based on the internationalization, it is clear that Rustavi Steel is interested in going global. The company is already working with its neighboring countries such as Russia, Azerbaijan and Ukraine. Europe has become the target market for the company not only due to geographical position, but also due to the attractive untapped sales market.

Secondly, due to the attractiveness of the European market, many companies want to become a part of this huge market. In order to enter this market, company need to overcome a number of barriers. First, European companies are very rigorous to the new suppliers. Second, switching costs are playing a significant role for the customer and he case company need to be aware of it. Third, one of the main barriers is a quality of products. It is very important to present a very good product starting from the very first deal. Four, is a need of investment and preparing a good deal for the middle companies who are going to present the company in the European market. Finally, one of the barriers is a distribution channel. Although the company has its own distribution channels it is important to reconfigure them for the new market.

Finally, the main research question was about the actual entry mode that will be suitable for the case firm. As it was discussed there are a lot of different entry modes. For the Rustavi Steel, as a new company in the European market, the best entry mode is a exporting. With the help of warehouse program and middle companies it will be easier for the case company to enter and declare themselves in from the best side.

Rustavi Steel is interested in penetrating the European market. Since company is producing pipes for oil and gas transportation, it is clear that the main customers are countries that produce oil and gas. Main producers are in countries with high entry barriers that is why the selection of the entry mode was not direct to those oil companies. Warehouse program as an entry mode was selected for the company. The main idea of such program is to supply warehouses in Europe from where company's pipe will be sold. For example, one of such companies is 'Quality tube' that is situated in France and England. Currently Rustavi Steel is working with this company and supply pipes for general purpose. The main purpose of the research was to indicate the best suitable entry mode for the case company. After the analysis of the company's abilities, target market and indication of the barriers that can be, there was a suggestion of the warehouse program as an entry mode.

Based on the research that was made, company's manager should make a better and deeper analysis of the market entry plan. There are some improvements needed inside the company and analysis of the target market too. The following bullet points are aiming to give an explanation and direction for further research.

- *Extend the production line.* Currently plant is producing tubes for the pipe lines. With additional investment and modernization the plant can also start to produce casing pipes. Although these pipes are harder to produce and need special license, the company can generate bigger profit and be more compatible on the market.
- *Deeper analysis of the market.* Current study only partly affected the analysis of the target market. For better understanding of changes and trends on the European market, managers should focus on the competitor's research. As well, it is important to make an analysis of company's strength and weaknesses.
- *Extend the list of target countries.* Although the firm is aiming to work with oil and gas companies (in countries that produces oil and gas), it could be helpful to start working with middle companies and gain loyalty among them at the first place.

In the conclusion it is worthy to mention that currently firm is implementing the proposed plan. Managers are very enthusiastic about the European market entry, and planning to improve this research and implement it in nearest future. It is also important to mention that the case firm is promising and growing company. With good management and investments into the further development, the firm is seeing to make a strong competition on the metallurgical market.

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APPENDIX A

Question	Manager's reply
1. What is company's current production line?	Rustavi Steel is a metallurgical plant. In your research you are studying pipe production, so there are two different pipe types: for pipelines and casing pipes. Pipeline tubes are making the main turnover at the company now. For future we are interested in casing pipes production.
2. Who are your current customers?	Currently we are working with Russia, Ukraine, Kazakhstan, and Azerbaijan and also we have orders from Turkey.
3. Why did you decided to enter European market?	Every company is interested in extending their business. Europe is untapped market for us. What is more, it is very big and complex market with great opportunities. It should be very interesting to work with European companies and gain some new knowledge.
4. What are the barriers the company can face in your opinion?	One of the main problems is the fact that European companies are very picky when it comes to new suppliers. It is hard to gain their attention and propose our production. And low prices are not a deal -barkers here. The main concern is quality.
5. What are the competitive advantages the company can offer to the new customers?	Of course, its prices. We are not cheaper the main European supplier, China (their price is 600-650\$ and ours are 750-800\$), but our price is still compatible. Also I should mention the variety of products and abilities of the plant. We have equipment to produce even more products and our volumes can be doubled.
6. Who do you think is your biggest competitor?	It is easier for China because they have governmental support that covers transportation cost, and tax legislation is loyal to producers-exporters. For Georgian firm there no such support. And because of that China can make their prices very low and grab the biggest market share.
7. What are your plans for a long-term period?	Well, we want to enter European market and become recognizable for big companies in nearest future. As well we want to start making casing pipes. It is very difficult pipe but with price around 1000-3000\$ per ton we could have increase our income in couple times. For the long-term it should be great to become a part of biggest pipe producing companies like Vallourec or Tenaris.