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“International target market selection and entry strategies into international markets: the case of SOCAR”

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ABSTRACT

In the present globalized world, there is an inclination that organizations, with enough source and investment funds besides their operations in the national market, will partake in international markets, as well. That is the reason all organizations have comprehended the significance of international market and try to play a part in this procedure. To have the capacity to take part in this procedure organizations ought to have a few required abilities that are not normal for each of them.

Entities should make extensive research for selecting its target market before entering the global market. This study incorporates some subjects like examination of environmental factors that may influence global marketing, the study of market segmentation, defining the strategy of target market determination. Additionally, defining of optimal entry mode is required so as to enter the targeted market.

The first chapter of this thesis covers theoretical information about the procedure of deciding target market in the international markets, second part talks about alternative entrance strategies that may be utilized to enter decided target market and existing theories about this choice procedure. The last chapter of research analyses the global market entry procedure of State Oil Company of Azerbaijan Republic and it was presumed that investigation results support existing hypotheses.

Keywords: International marketing, choosing target market, entry international markets, SOCAR.

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INTRODUCTION

Because of technology’s vertiginous development countries are also getting to come closer to each other and assumed as one country. The number of companies that develop cheaper, faster and more qualified production are not limited to only developed countries but also remain worldwide. Ease of availability of information in the electronic environment as a result of advanced technology provides a chance to all countries to turn needs and possibilities occurring in the world in favor of themselves. Besides that, strong countries and companies of the world economy face with competitors from all continent and countries, and the economy is globalized with uncontrolled speed.

As the economy is globalizing, developing countries’ economies have to compete with both internal and international rivals. The main way for countries and firms that quickly put conditions of competitiveness with global actors is to get rid of the localization and transfer their goods and services to different regions and markets of the world.

This process that shortly called internationalization can have successful result only with careful and diligent work. Firms that want to offer their products to the international market, initially, have to decide if they have enough capacity to start this process by analyzing their resources the following task for businesses which begin to open up to external markets with a decision that result of this analysis is to determine target market or markets correctly. The following task the companies that made positive decision after this analysis is to determine target country and market carefully. The entry strategy is also crucial as much as selecting target market.

In this context, in the first chapter, the target market determination in international markets was discussed in detail; firstly, the factors affecting the target market selection were examined under the sub-headings of economic, cultural and legal factors, then the target market selection process was explained in detail, and finally the target market setting strategies were explained.

In the second part of the study, the introduction strategies to the international markets were examined in the light of export, contracted strategies and direct investment classification, then the models in the literature on the international markets entry decision and the process were mentioned and finally the theoretical part of the study is completed with the marketing program in terms of product, price, distribution and promotion strategies.

In the third part, the process of opening the State Oil Company of Azerbaijan Republic (SOCAR) to international markets was analyzed in order to see the reflection of the information in the theoretical section in practice.

CHAPTER 1. INTERNATIONAL TARGET MARKET DECISION

1.1 The international target market decision affecting factors

As the dependence of companies on international business increases and competition is getting tougher, the significance of decision-making process in the identification of target market in foreign markets increases between other international activities.[1] Actually, this importance arises from this decision's character of affecting other decisions of the company made during the international business activity.[2]

Therefore, companies aiming to get success in the global market, firstly, have to make a strong effort for right decision in selecting the target market. In this context, the elements that influence target market choice increase their priority.

It is impossible to say there is an exact consensus about factors that affect target market identification. But factors such as economic, socio-cultural, political and legal environment are mentioned almost in all sources.[3]

1.1.1 Economic environment factors

Beside the modern business management thought requires creating marketing plans, strategies and programs in accordance with understanding the importance of global economic environment and perspectives, it is one of the conditions for successful adaptation and integrating to international markets.

Companies have to analyze the country as a market to be able to foresee the potential environmental factor that can affect them. In the case of analyzing country as a market, aggregate demand, adaptations costs, competition, economic

[1] Reza Farzipoor Saen, "International Market Selection Using Advanced Data Envelopment Analysis", IMA Journal of Management Mathematics, 2011, 22, 371−386, p 372.
[2] Charlotte Gaston-Breton and Oscar Martin Martin, "International Market Selection and Segmentation: A Two-Stage Model", International Marketing Review, Vol. 28 No. 3, 2011, pp. 267-290, p.268.
[3] Jukka Hohenthal et al, **"Market Discovery and The International Expansion of The Firm"** International Business Review 12, 2003, pp. 659–672, p. 659.

development and performance, production power and consumption have to be studied carefully[4].

The economic feature of potential consumers in the external target market is the material issue that should be appreciated. Demographic indicators build an opinion in terms of estimation aggregate demand in the target market country, but it is not sufficient itself. That’s why economic indicators such as economic conditions, revenues of people and purchasing power parity, have to be interpreted correctly.

Because of the development level of countries is a relative concept, it is hard to make a generally accepted classification. Even classification of World Bank, structured according to strict numerical rules, is criticized for not demonstrating the real development level of countries. World Bank uses Gross National Income per capita as the main criterion. Countries classified as below:

- $1005 and below – the Low-income group
- $1006-$3955 – Lower-middle income group
- $3956-$12235 – Upper-middle income group
- >$12235 – the High-income group

According to this distribution, low-income group countries defined as under-developed, lower-middle and upper-middle countries as developing and high-income countries as developed countries.[5] As mentioned above, this classification based on GNI per capita, that's why countries that have an extremely high population, (China, for exp) might be in the lower category than they are right now.

The population is a crucial statistical source for companies. It contributes them to forecast basic demands for products, market size and personal expenditure. Of course, the growth rate of population is significant for businesses to consider problems that companies may face in the future.

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[4] Van R.Wood and Kim R. Robertson, **“Evaluating International Markets”**, International Marketing Review, Vol.17, 2000, pp.34-55 p.37-38.

[5] www.worldbank.org, date of access: 06.05.2018

The balance of payment accepted as the most important economic indicator for the country. The balance of payment is the statistical report of country's capital inflow and outflow due to import and export.

1.1.2 Socio-cultural factors

The growth rate in the economies of scales, and unbelievable swiftness in international competition and communication because of the globalization made impossible to ignore cultural and social values of a target market for companies. Therefore, "culture" concept accepted as one of the significant factors that desire special appraisal.

Culture – is the total of rules and responsibilities that determine behaviours of society and makes each nation separated environment. Before the analyzing the impacts of cultural differences to the international economy, we have to accept that each nation or society has specific cultural dynamics.[6] These different features, naturally, lead to variable thoughts and values in all countries and their impact will not be the same to the international economy. Language is the main point between cultural factors[7]. All marketing activities – from trademark to marketing research, from advertising to packaging – are intensely connected with language.[8] International companies have to take into consideration the level of education in the country. For example, a literacy rate of people is crucial in establishing marketing strategy, especially in advertisements. The level of education is taken as a basis for the personnel selection, as well. The religion factor plays a significant role in target market selection. It is obvious that religion has the potential of shaping the nation's outlook on life and daily behaviours. Although the religion separates nations from

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[6] Jan Benedict ve E.M. Steenkamp, **"The Role of National Culture in International Market Research"**, International Marketing Review, Vol.18, 2001, pp.30-44, p36.

[7] David Gilbert and Jenny Tsao, **" Exploring Chinese Cultural Influences and Hospitality Marketing Relationships"**, International Journal of Contemporary Hospitality Management, 2000, pp.45-53, p.46

[8] Philip Kotler, **"A Framework for Marketing Management"**, 2nd edition, International Editon, Prentice Hall, Upper Saddle River, New Jersey, USA, 2003, p.103.

geographically close countries, it associates different countries that are far from each other but with the same beliefs.

1.1.3 Political factors

Companies are ready to meet cost for some new investments when they enter the new target market. But sometimes, the return of these investments may not be at an expected rate and even may not be returned because of political reasons. For this reason, international companies have to take some measurements about countries they plan to enter and identify their entry strategies according to results of this evaluation. In the case of investment in any country, international businesses have to investigate environmental conditions of the country. The reason is to make a right decision and assumptions about the issues like political condition, competition, technological development level and socio-cultural changes, and maintain right approaches that contain long-term plans based on this knowledge. We can summarize types of socio-political power that have to be studied for evaluating the country from the political aspect as below:

- Ideological forces (Communism, Capitalism, Socialism, Conservative and Liberal Ideologies)
- Nationalist tendency
- State-owned business trends
- Government impact and control
- Stability of state and government
- Politic conflicts or hostilities based on history
- Impact of international organizations
- Defense policy of countries
- External policy of countries
- Terrorism

1.1.4 Legal environmental factors

Because of all protectionist and statist policies are removed, many opportunities occurred in different regions of the world and companies are looking for how to develop this chance. But on the other hand, companies' activities in the unlimited international market and enlarging their market share day by day make governments concern about it. There are some protection attempts to maintain industrial development in the country, while they want to take part in the global market. Governments can never ignore their local markets; they would never like to weaken their country in the international market. Although no country wants the foreign company to affect their policy, they design legal regulations to contribute developing of economy and infrastructure.

1.2 Global target market selecting process

The process of target market selecting in the international market is similar to the process realizing in the local market. Because of the excessive amount of potential markets that companies should assess, and criteria that should be analyzed, choosing the target market in the global market is more complicated than the process implemented in the national market[9]. The purpose of this evaluation is usually to provide the company with the alternatives that company could choose. The activity which starts the target market selection process - based on consumer groups for whom have been developed special product or marketing strategies - is segmentation which means the application of dividing the market to different fragments[10].

1.2.1 Market segmentation

There are many different definitions of market segmentation in the international marketing. In general, segmentation can be defined as the dividing the market into the specific consumer groups, which show an identical reaction to some parts of

[9] Saen, ibid. p. 371

[10] Nicolas Papadopoulos and Oscar Martin Martin, **"International Market Selection and Segmentation: Perspectives and Challenges"**, International Marketing Review, Vol. 28 No. 2, 2011, pp.132-149 p.133.

marketing strategies, or specific segments according to certain criteria.[11] The whole market of any country cannot be the potential consumer of the product planning to export. Possible consumers of certain product construct a special segment where they share the same characteristics. Income and educational levels, age groups, occupation types can be one of these features. Consumers, in general, can be divided into segments according to the cultural, demographic, socio-economic and behavioral characteristics.

Nowadays most of the businesses make segmentation in local markets and focus on benefit and drawbacks of this segmentation. But these companies don't do the same thing in the external markets looking at the whole country as one market. However, it is necessary and possible to do segmentation for all countries separately. Companies would gain these advantages from the segmentation:

- Sales efforts concentrate on the high profit expected segments.
- Goods or services constructed according to consumer demand
- Changes occurring in the market may be followed more closely.
- Sales efforts will be designed suitable for market and executed effectively.

The prior criteria using in market segmentation is the purpose of use of marketable product or service. When we take into account the intended use of good and services, there are two fundamental types of market: final consumer markets and corporative markets. But dividing the market into only consumer and corporative segments is not sufficient in terms of using marketing strategies.[12] In other words, this is too wide and general segmentation. In this case, in addition to segmentation as a consumer and corporative, making exact segmentation using much more specific criteria is necessary.

•There are various criteria which using to divide consumer market into more specific and exact segments. Identifying appropriate segmentation criteria is

[11] Terri C. Albert, **"Need-Based Segmentation and Customized Comminication Strategies in a Complex-Commodity Industry: A Supply Chain Study"**, International Marketing Management, 32, 2003, pp.281-290, p.281.

[12] Lance Eliot Brouthers et al , **"International Market Selection and Subsidiary Performance: A Neural Network Approach"**, Journal of World Business, Vol:44, Iss:3, 2009, pp.262–273, p.268.

significant as much as market segmentation itself. Some of the factors that affect choosing suitable criteria using in market segmentation as below: [13]

- Product type
- Characteristic of demand
- Using distribution method
- Available media tools for marketing communications
- Motivational instruments that can motivate consumers
- Geographical criteria (geographical proximity, climate, geographical conditions, urban features)
- Demographic criteria (age, gender, family size and structure, income, education, profession, ethnicity and religion, property, marital status)
- Psychographic criteria (personality, culture, social class,)
- Behavioural criteria (utility, the speed of use) and etc.

Corporative market segmentation realised in the same approach with final consumer market segmentation. That is why similar variable groups appear in this process, too. Nevertheless, segmentation of industrial markets is more difficult than consumer market segmentation. For this reason, more complex models observed in the segmentation of corporative markets. After making sector segmentation, using the macro variables, firstly, corporative market can be divided into segments using micro

[13] A. Caroline Tyanan and Jennifer Drayton, **"Market Segmentation",** Journal of Marketing Management, 2, No.2, 1987, pp.301-335, p.306.

variables. Criteria available for using in the corporative market segmentation are disclosed such as:

- Geographical criteria (demand, climate, geographical conditions and natural resources)

- Demographic criteria (National income, economic structure, standard industrial classification, Using raw materials and etc.)

- Utility criteria (product performance, durability, economic efficiency, ease of use, image, relevance to production and etc.)

- Type of corporation

- Customer size

1.2.2 Identifying attractiveness and competetiveness standards

In the first step of the international markets oriented target market selection process, criteria are defined to use in measurement of attractiveness and competence conditions for each target market. Although the detail of mentioned criteria varies according to the market, it is possible to summarise them in the context of different factor groups. Factor groups using to evaluate the attractiveness of market segments are the following[14]:

- Group of ustomer needs and behaviours related to market segments
- Group of size and growth rate of market segments
- Group of macro trends for relevant market segments

[14] Harper W. Boyd et al , **"Marketing Management"**, Boston, 2002, p.198.

In addition to the attractiveness of the market segment, standards that concretise competitiveness conditions also have to be determined. These criteria also can be summarised in three factor groups:[15]

- Group of opportunities for competitive advantage
- Group of business and its competitors’ capacity and resources
- Group on attractiveness from the competitors’ point of view

In the last step of the selection process criteria chosen in the previous step are weighted based on the level of significance. In this weighting, primarily, all criteria have to be determined whether how much are they important in target market selection. After determination of significance, they are evaluated with scores between 0 and 1. Market segments are appreciated according to criteria which they meet, and all scores are summed to obtain the final score for each market.[16]

1.2.3 Selection of market segment as a target market

Although the process mentioned above applied for choosing the target market, target market selection strategies, goals, facilities and resources of businesses deeply affect the selection of target market.[17] That is why the mentioned factor will be effective in the final decision. For example, the company’s target market strategy may be ”concentrated marketing " approach. In this point, although there is more than one segment with suitable conditions in different parts of the market, the company can choose only one segment as a target market. In that case, the choice made in the last phase of target market selection have to be supported by company’s resources and facilities and have to be able to meet target market strategies.

[15] Boyd, ibid. p.198.
[16] Boyd, ibid. p.199.
[17] Eric Berkowitz et al. **“Marketing”** Boston, 1994, p.245.

1.3 Common strategies using in international target market selection

After segmentation of the market using the appropriate criteria, there are numerous segments where the company is likely to be in marketing activities. In this case, the company will choose relevant the target market according to different criteria for the particular market segment with approach mentioned above.[18] But at this point, how will the business be engaged in marketing activities in selected target markets? Philip Kotler developed three basic strategies on this subject:[19]

- Undifferentiated marketing strategy (whole market)
- Concentrated marketing strategy (one segment)
- Differentiated marketing startegy (multisegment)

1.3.1 Undifferentiated marketing strategy

In undifferentiated marketing strategy, the company takes the whole market into account as one unit or audience, acts ignoring all differences which construct the market or assuming that they are the same. So management develops one marketing mix to reach to as many customers as possible in the whole market. In other words, to develop one product, price, mass promotion program and distribution system for the whole market and satisfy with this, not to see any need to make a change in the mix elements.

Generally, this strategy used during old periods more widely. The most important advantage of this strategy is financially saving because of production,

[18] Jianna Zhao et al, **"An Analysis on the Target Market of China's Textile and Garment Export Trade"**, Procedia Engineering, Vol: 15, 2011, pp.4718–4722, p.4719.
[19] Kotler, ibid. 1994, p.283-286.

distribution, promotion of one product in a big amount. So in this method cost of goods per unit is very low.

1.3.2 Concentrated marketing strategy

Beside that this strategy is very useful in cases when businesses have limited resources and opportunities, this is following the path to capture a big part of the little market instead of having little share in the big market. Concentrating on the specific segment provides the company with strong market position through knowledge, experience and specialisation. It can gain considerable advantages in production, distribution and promotion if they have chosen the right segment; they can compete with big companies and work profitably.

Because of the topic is concentrated marketing, it good to mention niche marketing. Nowadays, production conditions are switching from economy of scale to economy of scope. That is why it is difficult to talk about the exact homogeneity in the certain segment. In other words, occurring niches as a result of the division of segment into various sub-segments is possible. Market segments, normally, are large and determinable groups in the market. Niche is determining group in a narrower sense. Groups whose needs are not fully satisfied are typical niches.

1.3.3 Differentiated marketing startegy

In this strategy, businesses choose two or more different market segments and direct all marketing efforts to develop the marketing mix for each of the segment separately. Commonly, businesses follow "one segment" strategy initially, and spread to the other segment which comes attractively, after achieving success in this segment.

This strategy brings more profit than concentrated marketing. It has crucial advantages because of other various reasons; to benefit from seasonal demand if there is, or in the case of excess capacity in the production, to have an opportunity to use this capacity for found new segments.

CHAPTER 2. ENTRY STRATEGIS FOR INTERNATIONAL MARKETS

2.1. Process of international market entry

Differences between local and global markets affect to companies' marketing strategies executing in the international market entry. Companies enter into international markets with making changes on local marketing strategies. That is why companies have to make a choice after detailed studies on entry strategies when they enter the international market. They can penetrate to international market only after choosing the right strategy which is appropriate to company's character.

International market strategies are corporative regulations which transfer entity's goods and services, technology, knowledge, skills, human capital, management and other resources to the foreign countries[20]. So determining these strategies is complicated and careful investigation-requiring process.

One of the problems occurring during internationalization attempts is increasing management responsibility. This responsibility varies according to entry mode. Management responsibility depends on knowledge, experience, managerial intuition, motivation, decisiveness and activities that lead to changes. All improvements, processes and factors are relative to each other in internationalization stage.

In order to enter international markets, you have to perform well in every aspect of the market, and this is one of the hardest problems can be faced in terms of businesses. These entities that would like to demonstrate their competencies in new and unfamiliar markets have to answer two major questions at this point:[21]

- How much of their resources are they willing to devote to this job?
- How much control do the companies want to have over the external operations?

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[20] Michael R. Czinkota et al, **"Foreign Market Entry Mode Of Service Firms: The Case Of U.S. MBA Programs"**, Journal of World Business Vol:44, Iss:3, 2009, pp.274–286, p.276.

[21] Andreas P. Petrou, **"Foreign Market Entry Strategies in Retail Banking: Choosing an Entry Mode in a Landscape of Constraints"**, Long Range Planning, Vol:42, Iss:5–62009, pp.614–632, p.617.

These questions may be answered only by considering the risks that management intends to face in the target market.[22] Firms may evade from allotting resources to high-risk group countries and would like to control activities in the markets of low risk-group countries as well as local markets.

Traditionally, cultural characteristics and current risk level are often used variables in the investigations carried out, although the features that have to be taken into account when entering international markets vary from country to country.[23] But nowadays, the number of these variables boosted, and researchers about this issue are getting more comprehensive.

The logical flow model of the international target markets entry decision is demonstrated in Figure 1. As can be seen in figure 1, the entities that want to open up to foreign markets, firstly, should decide, whether they have product or products which could be introduced to international markets. Then they should make a decision about examining foreign markets. In the following step, businesses have to determine potential target markets of countries through preselecting from entire countries' markets and have to decide whether those are truly potential target markets. In the next stage, the secondary data about target markets of countries have to be analyzed, and it must be revealed if the target country has high sales potential. Furthermore, the primary data have to be checked if they support the secondary data. If the negative picture emerges from any of the stages, the entity has to go on to activities in its local market.

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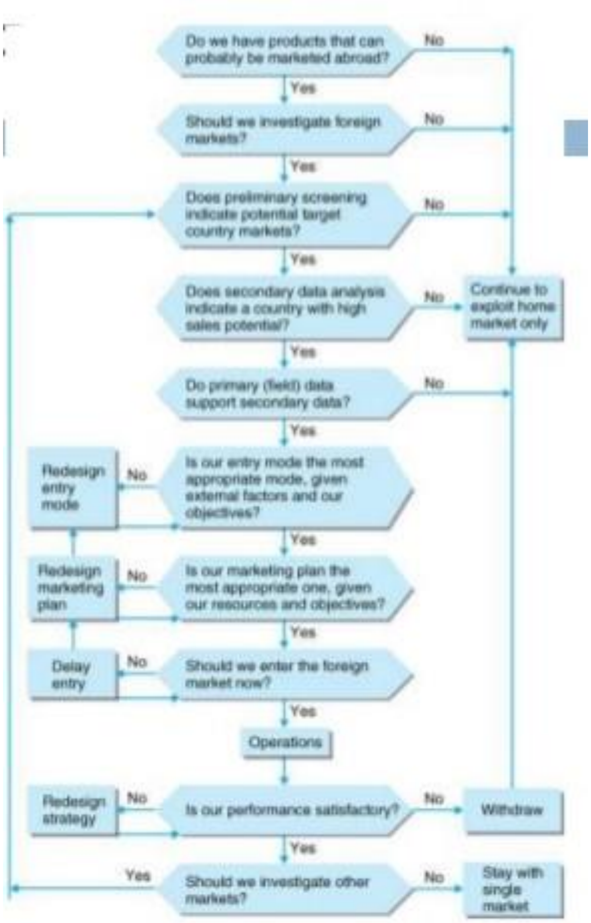
[23] Diego Quer, Enrique Claver and Rosario Andreus, **"Foreign Market Entry Mode In The Hotel Industry: The Impact Of Country- And Firm-Specific Factors"**, International Business Review, Vol:16, Iss:3, 2007, pp.362–376, p.364.

Figure 1. The logical flowchart of international market entry



Source: Franklin R. Root, **“Entry Strategies for International Markets”** Jossey Bass Publishers, San Francisco, 1994, s. 22.

In the next stages, the decision has to be taken about choosing the most suitable entry strategy for the international market and developing international marketing plans. Additionally, the timing in the international market entry has great importance as well. Operations are initiated after international market entry decision is made. Controlling satisfaction and sufficiency of international market performance contains the following step. There are two options for the companies if their performance is not sufficient: to shape the strategy again or withdraw. In the case of sufficient performance, the firm has to make a decision whether to investigate also other markets.

Firms may follow two different entry modes when they enter international markets:[24]

1. Incremental entry
2. Simultaneous entry

A firm that enters the global market based on the incremental entry, initially, gain experience in the matter of international business through entering only one market and after that opens up to other foreign markets respectively. Such firms acquire knowledge about international markets step by step. This strategy can be used in cases of late entry into markets and tough local competition. If the firm is small and has limited resources or over-sensitive to risk, prefer to enter into only one or few markets.

The reason of simultaneous entry strategy into international markets is to try to get hold of emerging opportunities. Simultaneous entry makes easier early penetration to market and gives the firm a chance to gain experience in the shortest time. Furthermore, it provides firms with production integrating operations in the international markets and possibility of reaching to economies of scale in the marketing. This strategy can be preferred for goods or services that are innovative or have a technological advantage. Simultaneous entry into international markets requires substantial monetary and managerial resources and holds high operational risk.[25]

International market entry strategy is an extensive and comprehensive plan. This strategy is designed by goals, targets, resources and policies for management activities that bring this firm to steady growth in the future. The period of entry strategy varies between 3-5 years for most of the entities, because it takes so much time to achieve sustainable market performance. This period may be less or longer for some firms, but whatever the length is, it has to be such that managers will be able

[24] Susan P. Douglas ve C. Samuel Craig, **"Global Marketing Strategy"**, McGraw Hill., New York, 1995, p.136.
[25] Douglas, ibid. p.137

to find answers to questions about long-term direction and area of firm’s international activities.

Companies that don’t have any strategies for goods or target markets prefer solely “sales” approach to foreign markets. “Sales” approach is compared with entry strategy approach at Table 1. Entities without any international experience, entering into global markets for the first time and suspicious of competitiveness in foreign markets may welcome this approach as normal. But to stay on this approach for a long time will lead to failures in international marketing activities.[26]

[26] Franklin R. Root, “Entry Strategies for International Markets” Jossey Bass Publishers, San Francisco, 1994, p.3.

Table 1. comparison of Sales approach with International markets entry strategy

	"Sales" approach	**Entry Strategy approach**
Time interval	*Short-term*	*Long-term*
Target markets	*No systematic choice*	*Choice based on market/sales potential*
Main goal	*İntermediate sales*	*Forming permanent market position*
Resource usage	*Enough to intermediate sales*	*As much as possible to gain permanent market position*
Entry mode	*No systematic choice*	*Systematic choice of the most appropriate strategy*
Development of new product	*Only for domestic market*	*For both local and international market*
Product adaptation	*Obligatory adaptation of domestic products(in order to meet legal and technical requirements)*	*Adaptation of domestic product according to external customers choice, income and usage conditions*
Distribution channels	*No control effort*	*Control effort in order to support market goal and objectives*
Price	*Determined according to meet the cost*	*Besides the cost, demand, rivals, goals and other market policies affect to the price*
Promotion	*Commonly limited with personal sales or transfered to distributor*	*Usage the mix of advertising, sales promotion, and personal sales in order to achieve market target or goals*

2.1.1 International markets entry strategies classification

Entry strategies of businesses for international markets are various. As mentioned above, these strategies are dependent on a group of variables. The variables below can be some of them:[27]

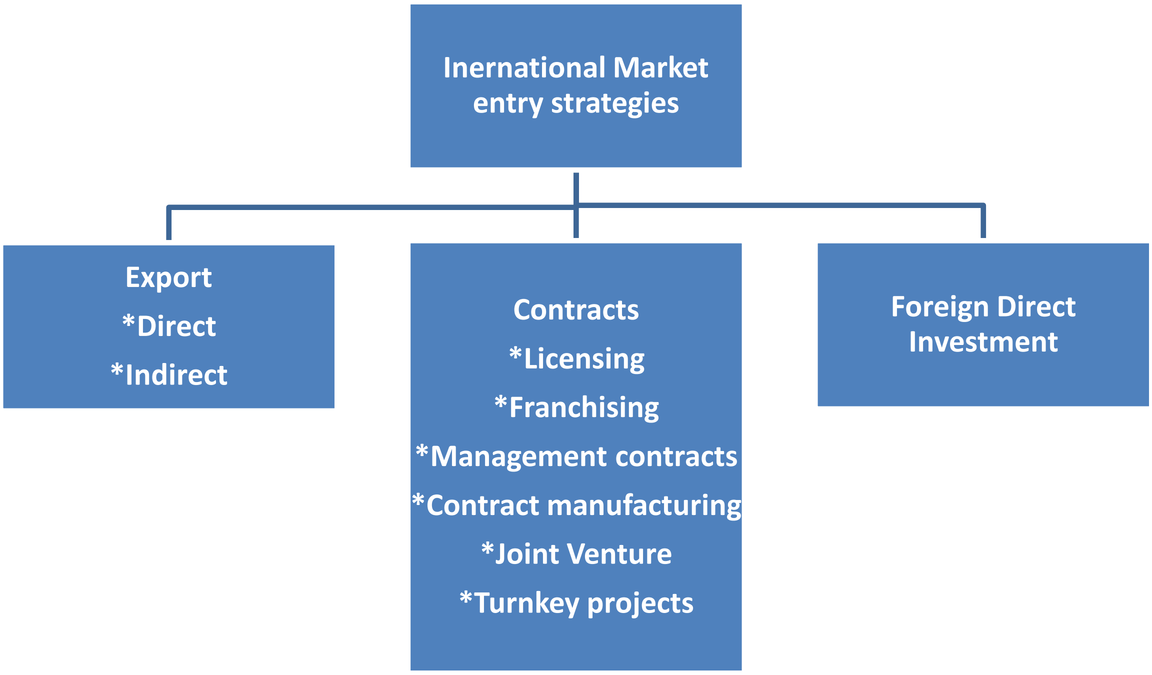
- Goals of business
- The size and capacity of business
- The number and characteristics of goods and services
- Competence power
- The number and size of target markets
- Probable sales potential
- Flexibility
- Technology
- Political conditions
- Managerial conditions

As a result of evaluation of all variables mentioned above, businesses come to the stage of determination of entry mode for international markets.

These strategies are demonstrated in figure 2.

[27] Vern Terpstra and Ravi Sarathy, "International Marketing", Dryden Press, Orlando, 1994, p.317

Figure 2. International Market Entry Strategies



2.1.1.1 Exporting strategy of international market entry

Exporting is the oldest and traditional method of operating in the international markets, which means shipping goods and services out of borders. In other words, exporting is detecting of potential consumers, selling and delivering products to them in the foreign markets. Shipment of products manufactured in the country abroad and gaining currency that has international validity in return create the export.

Exporting strategy, generally, is preferred in different conditions which some of them can be listed as below:

- The firm is small-sized and doesn't have necessary resources for joint venture or FDI
- Unreasonable resource use due to political risk or unstable markets
- Having no political or economic pressure for production abroad.[28]

Export, which plays a very strategic role in the macroeconomic development of the country's economies and micro-economies, is the strategy of opening up international markets with minimal risk.

[28] Bradley, ibid. p.262.

Sometimes producers go this way without any changes in the product (as well as in the local market) or making some changes according to market they are planning to enter. This happens in two ways:

1. Indirect export
2. Direct export

The indirect export is exporting activity of businesses through the domestic intermediary companies. Entities that don't have enough information about external markets and employees in this field begin to get surface information about foreign markets through indirect export. But they are not able to get information about consumers' views and opinions in the foreign market.[29]

Indirect export is much easier than direct export because it doesn't need either specific professionality or large cash expense. Exporters in the main country do all the job. Management only gives the instructions. There are:

1. Representatives that are making sales for producers
2. Representatives of exporting delegation which makes purchases for overseas clients
3. Export traders who trade on their own account
4. International companies which use products manufactured in overseas (mining, construction and oil companies) among these exporters.[30]

Despite there is a high risk of losing control in the marketing activities, to be able to export is a crucial advantage for businesses even if they don't have any experience. On the other hand, the business eliminates political and market risks through indirect export. But it leads to low profit because of the high number of intermediaries and evasion from different risks. In other words, the profit rate decreases while sufficient control is not established over marketing activities and risk are not taken.

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[29] Jorg Sydow et al, "Foreign Market Entry as Network Entry", Scandinavian Journal of Management Vol:26, 2010, pp.13-24, p.19.

[30] Arthur Thompson ve et al, **"Crafting & Executing Strategy: The Quest for Competitive Advantage"** McGraw Hill Irwin, New York, 2007, p.203.

Direct export is the kind of export which businesses reached to certain size direct to get out of disadvantages of local intermediaries and be ready to pay for investments to increase the profit coming from exports and accept risks occurring from this. In order to hold on to the direct export, management should give a task of dealing with exporting activities to one of the employees. In other words, someone, usually sales manager, is given a responsibility to develop exports. In the further steps, the enterprise can establish a sales branch in the host country. Sales branches make an import from the main enterprise on its behalf and billing according to host country's currency. This type of entities has great potential to grow.

When firms begin to focus on direct exporting, they use the methods mentioned below:

- Agencies – in the international markets, agencies are institutions that act as an intermediary in the operations that involve exporter firm in the particular international market, based on contract, or are professed to make them on behalf of the firm. Agencies don't have property rights on the good they sell. It gives the enterprise much more control possibility. Agencies can sell the products of the single firm, as well as the products of the competitors. This situation is the disadvantage for firms using agencies in the direct export.

- Distributors – export agents that offer goods to the international market by the purchasing exporter firm's goods. As distinct from agencies, distributors buy goods from exporting firm at their own expense and operating with the certain profit margin. They also take a responsibility related to the marketing of goods in the international market. This management advantage should provide the firm with high revenue by concentrating distributors' facilities on the sale of goods if distributors are only sellers of the goods. But compared with agencies, using distributors leads to less control over the export operations.

- Mobile sales representatives – officials working in the firm and trying to sell firm's products by travelling around the world. Their main mission is to get orders for their products. Such kind o trips can be costly. But risk rate is too low. In general, the success of the company using this method depends on representatives' individual efforts.

•Wholesale and retailers in the foreign countries - wholesalers in the international market entry are enterprises which purchase products of exporters and sells to other commercial or manufacturer entities. But retailers sell products of exporter firms to final consumers in the target market. Using retailers in the international market entry leads to more controlled exporting compared with wholesalers because goods pass through a group of intermediaries when firms use wholesalers. But retailers deliver it to final consumers.

•E-commerce – eliminating time and distance limits as a result of the worldwide use of internet made firms consider e-commerce as an alternative for reaching to both domestic and international markets. It has various advantages for firms participating in the international marketing activities. E-commerce facilitates fast and on time delivery by providing making fewer errors from order to delivery, large access area in the global market, and the decrease of costs.

The direct advantages of export for enterprises are:

- Gives a chance to expand market share
- Provides with the opportunity to increase production, if full capacity is not used in the local market
- Decreases dependence or helps to compensate the recession in the domestic market
- Faster availability of technologies, methods and knowledge which help firms to be always fit for competition

But naturally, it has also disadvantages, which are:

- The outflow of export profits can be forbidden or limited by the target market country
- Fluctuations in the exchange rates may decrease or eliminate profit, even may lead to loss

- Problems may occur in the appealing to the judiciary in the cases of no payment or conflicts
- War, civil war or nationalisation by the foreign government can cause a loss for entities

2.1.1.2. Entrance to International Markets with Contract Strategy

2.1.1.2.1. Licensing contracts

If the international company gives another foreign company a right of utilization of its patents, trademarks, production process, technical knowledge, commercial secrets and technical services, it is a subject of licensing. In return, the foreign company accepts to pay an amount according to plan which both companies agreed on.[31]

There are two parties of licensing: licensor and licensee. The license agreement may contain:

- Trademark
- Copyright
- Know-how
- Technical assistance
- Design
- Management experience
- Product formulas
- Process and etc.

The advantages of licensing are:

- An opportunity to enter into hard markets
- Low capital needed
- Resource-saving
- Increasing the quality and service in domestic markets
- Low-risk rate (thus capital is not threatened).

[31] Bradley, ibid. p.174.

- Companies can enter into countries where entrance and activities of foreign companies are forbidden through licensing agreements

Disadvantages are:

- Easy transfer of technical knowledge and experiences
- Difficulties in the controlling of licensee entities
- The inability of entering the market actively
- The difficulty of the agreement

2.1.1.2.2. Franchising

The simplest and shortest definition of franchising is permitting of one company (franchisor) to another company (franchisee) the use of franchisor's goods and services.[32]

Despite the fact that there are some similarities with licensing, there are also differences. These differences are shown in the table below.

In general, there are two systems of franchising. There are:

Trademark franchising – franchisors that are popular in the global market in terms of image and quality give franchisee a right to use its trademark and name and sell its products as well.

Franchising as a business format – in this franchising contracts franchisor grants an authority to use its production, personnel, management and business system along with trademark and selling product or services.

In terms of franchisor and franchisee, franchising has three types:

- Producer-retailer systems (automobile sales)
- Producer-wholesaler systems (soft drinks firms)
- Service firms-retailer systems (fast food firms)

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[32] Jeffrey E. Curry, **"Uluslararası Pazarlama, Uluslararası Pazara Ulaşma Kılavuzu"**, Kontent Kitap, İstanbul, 2002, p.235.

For franchisors, advantages and disadvantages of franchising can be sorted.

Advantages:

- An amount charged from franchisee can be used for developing own business
- Regular royalty from franchisee
- Because of granting authority, franchisor don’t face with management problems and interfere with daily activities
- Imitation is highly prevented

Disadvantages :

- Franchisees may not declare sales regularly and pay royalty in time
- Risk of losing control in the countries which have legal gaps
- Problems of compliance to standards may be occur
- Risk of creating a competitor. It has to be mentioned in the contract that franchisee will not operate in this sector for a certain period

For franchisees, advantages of franchising are:

- Gaining successful business system
- Work inexperience is eliminated with managerial education programs
- Less cash needed compared to new business
- Standardised advertising marketing program is offered
- Protecting from other franchisees because of regional protection

Disadvantages :

- Entrance fee to the system is usually high
- Ingredients which can be procured from local suppliers have to be bought from the places determined by the main company
- Certain percent of monthly sales have to be paid to the main company as a royalty
- Regular controlling by auditing
- If one of the franchisees or franchisor loses its reputation, it affects franchisee's business negatively and leads to losing customer.

2.1.1.2.3. Contract manufacturing

In contract manufacturing, the business that aims to enter into international markets transfers the production to the local manufacturer, while undertakes marketing activities itself. Products can be marketed not only in the market they produced but also other international markets. Payments to producer firm are, generally, a certain amount per unit. But the main point in the contract manufacturing is producer's ability to achieve required quality standards.

The main advantages and disadvantages of contract manufacturing are as follows:[33]

Advantages:

- Contract manufacturing requires limited local investment. International firm can make savings from initial investment for production activities.
- Provides with financial advantages in logistic activities like transport, storing and stocking
- Image of the domestic product can have a supportive effect on sales
- The firm that aims to enter into international market will professionalize at marketing activities with getting rid of production.
- Getting the advantage in countries where labor and energy costs are low
- Producer firm can benefit from the popularity of international company and use this as a reference

Disadvantages:

- Know-how transfer in production is more complicated than licensing
- Contract manufacturer firm can reveal as a competitor in the future. Because the firm has already got production know-how

2.1.1.2.4. Management contract

[33] Eda Arısoy, **"Çokuluslu Şirketlerin Uluslararası Pazarlara Girişte Marka Yönetimi ve Tüketicinin Marka Tercihi",** Master's Thesis, Dokuz Eylül Üniversitesi, İzmir, 2007, p.45.

Management contract can be defined as a mutual agreement between the international company and foreign business to manage entire or certain part of this business's activities. The local firm which is investor and founder of this business is provided with managerial service and technical assistance by the international company through this contract. Service is exporting instead of concrete product. Managerial contract can be seen as the easiest and the most risk-free way in the international market entry. Furthermore, it brings profit as soon as it starts to operate.

We can list the benefits of managerial contract as follows:

- The possibility of entering a lot of new international markets
- The management fee is a significant income
- Low risk at entering international markets
- Opportunity to enter into markets where impossible to enter with FDI

Drawbacks are:

- There is no stable position for firm's own products
- Agreement process can take a time
- Using of rare management skills[34]
- Financial risk in case of performance fee avoidance
- Dependence on financial power of owner of business
- Limited control on the internal factors such as government effect
- The risk of early cancellation of contract

2.1.1.2.6. Joint Venture

Joint venture, which defines the establishment of new business with separated legal personality by two or more firms, is a kind of cooperation where firms put their assets and capabilities together to realize a certain job or project in a specific field.

[34] Root, ibid., p.115.

The purpose of presence of joint venture is to ensure performing of specific projects that main companies may have difficulties or are not able to realize alone. Joint ventures seem as a strong structure in terms of reducing operational cost.[35] In this context, the companies that want to enlarge their activities in the global market aim to overcome ownership limitations, decrease risk, cope with global competition and learn from their rivals through joint ventures.[36] Collaboration created with local business provides the company with crucial information about market, competence conditions, legislation and cultural structure of the country. Domestic firms often have control over cheaper labour, raw materials, market knowledge, and distribution channels. Foreign firms have resources of technological, managerial and organizational knowledge, and required currency and finance to set up a business. These joint advantages and expected benefits of cooperation will arise as a competitive advantage in a short time.

In terms of the multinational company, the advantages of the joint venture can be listed as below:

- International partner shares risks with local partner
- Local firms have very precious information about the host country and share it with the foreign partner
- These partnerships can create political advantages
- Economy of scales is realising
- Technological advantage on rivals
- Competitive advantage in the market
- Easier availability to resources
- Political pressures on multinational companies will be reduced
- Easier entrance into new markets

Disadvantages of the joint venture for multinational companies are:

[35] Buckley P.J. and K.W. Glaister, **"What Do We Know About International Joint Ventures?"**, Cooperative Strategies and Alliances, Elseiver Science Ltd., Netherlands, 2002, p. 50.

[36] Azmi Yalçın et al, **"Why International Joint Ventures Are Not Always Successful? : A Case Study in Turkey"**, Bourgas Prof.Assen Zlatarov University, Education, Science, Economics and Technologies in the Global World, 14–16 September, Bulgaria, 2007, p.203.

- Losing control because of technology transfer
- The company has to be satisfied with less profit than direct investment
- In the case of reinvestment, one of the partners can have a hardship with maintaining necessary resources

2.1.1.2.8. Turnkey projects

As an international markets entry mode, the turnkey project means receiving of the system as a whole and available for operation by the client. It contains purchasing solution that meets the need as a system, operation and maintenance of the system, necessary skills given to the personnel who will operate the system, supply with all necessary education and support. At the end of the contract, the system goes to the ownership of the client. In other words, the keys of the project are delivered.

Turnkey projects commonly used in the sectors with complicated production processes (oil refineries, pharmaceuticals, chemicals and etc.). Additionally, great projects that are sold to governments of countries are also included in turnkey projects.

There are some advantages of turnkey project mentioned below:

- This strategy can be appropriate to enter the international markets, in cases of difficulties at direct investment
- Turnkey projects don't create risks appeared in direct investment strategy (political, economic and etc.). Because the firm that joined to this project, just sets up the system and transfers to the client.

Disadvantages are:

- Client firm can come up as a competitor against the company in the future
- They are not long-term projects for international market entry
- Large financial resources required

2.1.1.3. Direct investment strategy for international markets

Entering into international markets through acquisition or launching new enterprise is the mode of market entry that defines the highest level of dependence and requires much more resource investment than other modes. The business may tend to build manufacturing facilities if the business acquires considerable experience in the market that it has export operations or if the market is large enough[37]. Firms are usually structured according to a geographical horizon bounded by a certain region or country. But these horizons are changeable. The reasons of these changes may be internal like decisions of top management, developing of new product or technology, the need for a larger market and etc., or external such as customers, governments, expansion of competitors to abroad.

The firm repeats applications that successfully realized in the other market before in their foreign investments. But firm observes revealing of some unrivalled assets and some competitive advantages that it has. These elements may be a potential invention or differentiated product demanded by the target market.

Firms sometimes open up to the international market through direct investment to eliminate current risks. Current risks can be further reduced through diversification because it is impossible for all investments of the firm to operate in the same profitability. The firm can balance its profits by operating in more than one foreign country to reduce the possibility of expansion and recession in different countries at the same time.[38]

Multinational companies entering to international markets prefer to acquire one of the target country's firms that have market knowledge and dominating on marketing channels, instead of establishing the new entity, and this method gives the company a chance to market their products without losing time through an already existing organization and experienced staff. The firm that acquired in the target country completely loses its identity and takes on the acquirer character.

This entry mode has evident advantages:

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[37] Hakan Çınar, **"Pratik İthalat İhracat İşlemleri ve Dış Ticarette Finansman Teknikleri"**, 2nd edition, İstanbul, 2004, p.99.

[38]Michael Gannon, **"Does The Firm's Technology and Marketing Profile Affect Foreign Market Entry?"**, US: Mc. Grow Hill, 2000, p.189.

- Cheap labour force and raw materials, investment incentives of foreign countries and savings caused by transport advantages
- The positive image in the country as a result of creating job and employment opportunities
- Developing a good relationship with government, domestic production factories, customers and distributors to contribute adaptation of company's products to the local market

The most important drawbacks of the direct investment are local currencies that have been blocked or devaluated and worsening market situation.

2.2. Decision of international market entry

International marketing decisions can be listed as starting export, the decision of internationalisation, choice of region, country and market, the decision of market entry, marketing mix decision, and the decision to organise in the international market. At first of them, the firm makes a decision between entering foreign markets and staying a local firm. The second decision contains the choice of target market. Another decision is preferation strategies like export, FDI or licensing. Marketing mix decisions cover the creation of marketing program and strategies. The organisational decision includes coordination and organisation of the firm's activities in the international markets.

2.2.1. Optimal entry strategy selection

The optimal entry strategy for international market defines the most accurate and most appropriate entry strategy. Moreover, the optimal strategy is the strategy that delivers the firm to the specified achievements as soon as possible. Because of the correct determination of this strategy directly affects to the productivity of the business in the international market, managers that make this decision have to select the most relevant strategy for firm's goals by considering signals coming from the targeted market.[39]

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[39] Jordi Brandts and Ayça Ebru Giritligil, "Entry and market selection of firms: A laboratory study", Journal of Economic Behavior & Organization, Vol:68, Iss:3-4, 2008, pp.593–612, p.610.

2.2.1.1. Entry Strategy Selection Rules

International market entry strategy can be selected according to three rules:[40]

Naive rule – according to this rule, businesses that are strategies enter the international market with only one strategy for all markets. Actually, these firms choose target market according to their determined strategies, more than sales potential. Entry with the wrong strategy can also be seen as the result of the naive rule because firms that act on the assumption that they choose the right strategy don't consider the long-term profitability of strategy chosen for each target market. The flexibility of naive rule hampers companies full evaluation of opportunities of international markets. The firms following this rule are likely to make two mistakes soon or later:

1. They may not enter into the promising international market with a single entry strategy they chose
2. They may enter into international markets with the wrong strategy

Pragmatic rule – firms that obey this rule, enter the international market with less risky strategy and over the time they can switch to a new strategy if they find this strategy is inadequate or no longer profitable. The main advantage of this rule is that firms choose less risky but profitable strategy for them. Furthermore, they don't have to spend the time to collect detailed information about each strategy because firms adopt that strategy when they determine the applicable strategy. But we cannot say that the strategy selected through this rule is the most correct. Another entry mode can lead to better evaluation of opportunities in the market and moreover, can be more suitable for firms' skills and resources. That is why chosen strategy may not be the most correct, although it is applicable.

Strategy rule – more complicated rule compared with pragmatic one because firms following this rule have to make a systematic comparison of alternative entry modes. But, compared with other rules, this rule is more convenient way to select the most correct strategy. As mentioned before, there are many internal and external

[40] Root, ibid, p.159.

factors that affect choice of strategy and firms following strategy rule have to examine these factors. Besides that, a great number of entry strategies make the selection of the most correct more difficult. Comparison of alternative strategies is also complicated process because advantages and disadvantages of each strategy have to be evaluated based on the number of goals and targets of the firm. The strategy which has advantage based on one goal (for exp. growth rate in sales) can be disadvantaged based on the other goal (for exp. profitability). Because of not be able to measure, firms may have hardships in determination of advantages and disadvantages of some strategies.

Comparison of entry strategies have to be done in terms of benefits and finance expected in the future. Furthermore, variable strategies are face-to-face with different politic risks. That is why expected finance and utility have to be evaluated together with risks.

2.2.1.2. Comparison of Entry Strategies

After determination of applicable entry strategies, systematic comparative evaluation of these strategies is carried out because all of these strategies are appropriate to firm's resource capacity and the firm has a possibility to enter the international market with all of them. There are three types of comparative analysis that are profit contribution analysis, risk analysis and non-profit goals analysis.

Comparative profit contribution analysis. Profit contribution of entry strategies is the net profit gained from the strategic plan. Different entry strategies have different time profiles for profit and cost. For example, the export strategy will make a profit earlier than investment. Present values of estimated profitabilities have to be calculated to standardize time profiles for comparative analysis.[41]

Comparative profit contribution analysis is realized in 5 steps:[42]

1. Determining and measuring of all profits of each applicable entry modes

[41] Root, ibid, p.163.
[42] Root, ibid, p.165.

2. Determining starting and activity costs

3. Calculation of all net profits of all applicable strategies over the years

4. Calculation of present values of expecting profit contributions

5. Ordering all net present values of all applicable strategies according to their values

Comparative risk analysis. In this analysis, entry strategies are comparing in terms of political, legal, economic and other risks. Each strategy has the different level of affecting by these risks. For example, investment-based strategies have more political risk than exporting or licensing contracts. That is why beneficial strategies for profit contribution will disadvantageous in risk analysis.

Comparative analysis of non-profit goals. In this stage, applicable strategies are analyzing in the base of non-profit purposes. Entry mode that is on the top as a result of profit contribution and risk analysis can be disadvantageous because of specific non-profit targets. Non-profit objectives can vary from firm to firm. These objectives may include sales volume, growth, market share, control and etc.[43]

2.3. Determination of marketing program in international markets

According to marketing research, the strategy of entering the market should be determined, and necessary information about licenses, patents, standards, customs duties, quota, fees and other non-tariff barriers should be collected. Afterwards, suitable pricing strategy should be defined and financed if necessary.[44]

There may be just the label of product needs to change, while the package or contents may need to change, too. It should be noted that each country has various tastes, usage habits and standards. Otherwise, little details may lead to plenty of troubles from rejection of goods by customs to sending back of exported goods put

[43] Root, ibid, p.167.
[44] Bradley, ibid, p.324.

on the shelves of the retailer because of being unsuitable after some tests.[45] We should investigate in detail all necessary product-related changes and certificate and documents for each country and market because such details have vital significance in determining costs and prices correctly.

The product itself, its price, sales and distribution efforts, advertising and sales incentive campaigns are basic tools of the international marketer to reach his goals. It depends on firm's condition and objectives at what rates these tools will be combined. That is why to suggest just one marketing strategy is impossible. But examining of the basic strategies will facilitate the developing of the most effective strategies for each firm's status.

2.3.1. Product-oriented strategies

After developing of export-oriented product, the decision has to be made about which strategy will be implemented for marketing of the product in the target market. The fundamental strategies available for international marketer can be summarized as follows:

New product development strategy – successful international companies have to make innovations constantly to be ahead of their competitors and to meet their more demanding customers' needs. Besides the importance of innovation to be a leader, especially in the high technology markets, it should be noted that company needs connection style that makes consumers in different markets perceive innovation in different ways and focused to understanding and adoption of the innovative product. The disadvantages of this strategy are high research and development costs and need investment to transition to new production.

2.3.1.1 Standardization strategy

In terms of product and brand, standardization means the operations of the companies with the standard product in both internal and external markets, and the characteristics of consumers forming the internal markets and internal market

[45] Anders Pehrsson, **"Strategy Antecedents of Modes of Entry Into Foreign Markets"**, Journal of Business Research, Vol:61, Iss:2, 2008, pp.132–140, p.146.

structure are considered in the development of the product. In other words, the product introduced to international market carries the same basic benefits and additional features that the brand brings in the internal market.

The main benefits of global standardization are the utilization of economy of scales, significant financial savings, decreasing the cost per unit, improvements in the distribution channels and planning, decreasing logistics costs and great control over national borders.

The main disadvantage of standardization strategy is to be product-oriented, rather than being consumer or competitor-oriented. It will reveal the risk of failure to meet the consumers' wants and needs because although the price is low, the consumer may prefer the product that meets their want and needs better by paying for the slightly higher price. Standardization strategy can be not applicable in the cases of changes in the environmental regulations in the market, product safety standards or government regulations related to local conditions that the companies, especially foreign companies, have to obey.

2.3.1.2 Adaptation Strategy

Adaptation, which is an option for designing various marketing programs, defined as making product or service developed for internal market suitable for external markets. In this case, it is possible to produce the product that meets the needs and demands of consumers in the external market by producing the product with the same basic benefit and with the additional features and differentiation. Although companies that want to open up to international markets wish to operate with the standard product, they are forced to act locally in the international markets by different wants and needs in the different countries, and in this case, the adaptation of standard product is inevitable for the most of the companies. One of the examples for this issue is American cars, which are unmarketable in Europe because of insufficient maneuverability on the narrow and curved European roads and therefore American automakers produce cars based on European road conditions.[46]

2.3.1.3 Market share strategy

An international marketer has to determine the targeted market share for each market decided to enter, and strategy will be followed to achieve this share. It is obvious that market share is one of the main factors affecting the profitability. In more cases, the companies that have a considerable share in the market are more profitable than their competitors with a smaller share. Size of the company plays a significant role in getting market share. Larger share usually means larger firm. Size also gives an advantage to the firm in the purchase, production, marketing and other cost items, decrease cost per unit.

Size also increases bargaining power in the market, facilitates having more shelves in the stores and defining less margin on the distribution channel. Large market share attracts exclusive employees to the firm with easier sales and high moralized management staff. Good staffs also maintain and increase market share.

The strategies related to the product, communication, market choice, market segmentation and market share have to be concrete, clear and comprehensive as much as possible. Markets the firms intend to enter, products to be sold, prices and qualities of these products, how they should be produced, how they should be financed have to be determined there. The objectives such as the number of sales, market shares, profitability have to be mentioned numerically, and there should be described how to reach these goals.

2.3.2. Strategies applied in terms of pricing

Price is one of the main tools that make the firm reach to profitability goals. Furthermore, the firms that opens up to international markets can also set non-profit goals such as quicken the entrance into the market, maintain market share in competition intensive environments, seize the market share of other firms by price

[46] Bradley, ibid, p.253.

competition and etc. The point where the firm has to be careful in the pricing is not only to focus on short terms but also maintain the long-term profitability of the firm.

It is evident that price of goods or services depends on three fundamental factors: cost, demand and competition. These three factors are enough to set a price in the domestic markets, but in the in the international markets, some additional factors are joined to these factors. Government policies related to pricing, market differentiation, fluctuation in the currency, transfer pricing are some of them. Firms can use the following pricing methods according to different conditions:

- Pricing by cost – setting the price with addition certain profit margin on per unit of the goods.
- Pricing by demand – pricing made by considering consumer reactions against various prices. Because of this method is based on reliable assumptions upon demand functions, it may need comprehensive market research.
- Pricing by competition – firms that have the low competitiveness and are not able to offer the new product to the external markets follow this method in the environments where competition is intense and differentiation in low. They can use this way as long as they meet their cost and gain sufficient profit.

2.3.3. Strategies implemented in Terms of Promotion

Firms can have some strategic goals in the context of international marketing. For example, the firms that are a leader or want to be a leader of well-known product market have to provide value to customers from different countries by using current product or communication technologies. Depending on these goals and objectives, company sets three or five-year goals that seem reachable. There are different general target can be determined:

- International product – to maximize the effectiveness of the company with removing all internal and external barriers to market development
- Differentiate itself from current and potential competitors in the selected international markets

- Retain the income while maintaining the long-term financial balance of the company

Many companies became successful in the international markets because of elimination of all market entry barriers by changing their well-known business structure. These companies introduce competitive products through different distribution channels, internet or direct marketing and consequently, remove foreign wholesalers and intermediaries. The stronger strategy is to make the company's products more trustworthy which also exceeds the strategic service obstacles. New automobile manufacturers like Korean companies made the small cars reliable with great effort. This approach is difficult to imitate by veteran companies of the market and provides new companies with reputation.

Many authors defend the standard approach. According to this view, this approach is preferable because the sales can be higher with using of the same product image in the different regional markets. Moreover, costs can be reduced by savings through transporting production to lower cost locations and implementation of single standard marketing plan without compromising on quality. According to defenders of standardization approach, global companies cut the costs per unit which allow them to enter the market by price and force non-global competitors to exit the market. In their view, global companies operate like all the world or some major regions is a single market and sell the same product in the same way everywhere.[47]

The second school, the advocates of differentiation, argues that there are only a few markets very similar to one another, so marketing mix have to be as special as possible to meet customer needs in each market. Most of the great consumer goods companies benefit from local differentiation. Even well-known brands like Coca-Cola and McDonalds accept the importance of local tastes to be successful in the international markets. Coca-Cola has already understood that the soft drink market of

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[47] Szymanski, D.M et al, **"Standardization Versus Adaptation of International Marketing Strategy"**, New York, 1999,p.117

the world is not just carbonated beverages. The company introduced ice tea to meet the needs of customers from different regions of the world.

2.3.4. Strategies implemented in Terms of Distribution

2.3.4.1 Special Distribution (Limited Distribution)

Implemented for consumer and industrial goods. Firms sell goods through the single intermediary or privileged institution in the specific international market. Limited distribution is used if the consumers are insisted on buying special goods. It is more common in the goods that are differentiated from competitors' goods. Special distribution provides the producer with benefits like controlling over price and service quality, protecting from rivals at a certain level in the distribution channels, the orientation of promotion activities to the final consumer. This strategy is also used where the demand is not intensive and reduces the international marketing cost of the manufacturer.[48]

2.3.4.2 Selective Distribution

When one company prefers selective distribution, it tries to improve its distribution capability by increasing its market share. The firm tries to reduce its distribution cost by using fewer international markets. Selective distribution requires the use of a few of them, not all intermediaries that want to deal with the distribution of the product. It is the most suitable distribution method and policy for the products where the consumers' preference is important. Manufacturer firm, with selective distribution strategy, is carrying on investigations regularly to protect prestige and product's image. So the firm wants to sell its product I the markets that will not ruin its image. Goods in the shopping category are generally sold under this policy. [49]

2.3.4.3 Intensive distribution

Intensive distribution is the use of the maximum possible amount of retailers in the distribution of the product. The basis of intensive distribution is the selling of

[48] Luis F. Lages, **"Export Performance as an Antecedent of Export Commitment and Marketing Strategy Adaptation"**, European Journal of Marketing, Vol. 38, No: 9/10, 2004, p.145.
[49] Lages, ibid, p.165.

products wherever the buyer can be found. Consumer goods, consumer-oriented goods and some industrial goods are driven to the market with this policy. The problems in such marketing of the goods are the selection of intermediaries and retailer for distribution and difficulties about the timing of the introduction of products to the market by distributors. Usage of demand enhancement techniques like advertising and etc. are significant for the success of this strategy.

CAHAPTER 3. ANALYSIS OF ENTRY STRATEGIES OF SOCAR IN INTERNATIONAL MARKETS

3.1Establishment and development of SOCAR

3.1.1. History and Characteristics of Azerbaijan Oil and Natural Gas Sector

Information about Azerbaijan's rich oil found its place in the works of medieval travelers. But the real value of the oil started to be understood after 18th-19th century's industrial revolutions when the demand for oil increased and became the top priority strategic product in the development of countries. That is why Azerbaijan attracted foreign investors as the other countries that have petroleum reserves. Baku, which has traditional oil production experience, became the first invention and implementation area for advanced technologies of petroleum production and manufacturing. [50]In the mid-19th century, a first took place in world oil production and in 1847 the first oil wells were drilled using technology in Baku's Bibiheybet and later in Balakhani. In 1901, Azerbaijan was a leader in the oil production with 11.5 million tons, while the USA produced 9.1 million tons. [51]

In 1941, at the record date of Azerbaijan's oil production - 23.5 million tons of petroleum were produced (this record was broken down to 32.2 million tons in 2006) and this was equal to 71.04% of former USSR oil production. Furthermore, for the first time oil started to be mined from the sea in Azerbaijan and "Gurgan-sea", "Pirallahi", "Chilov island" oil fields discovered in the Azerbaijan part of Caspian Sea. On the 7th of November 1949, discovering "Oil Rocks" field that is 40 km far from the coast and 90 km far from Baku made Azerbaijan and the Caspian Sea famous in all over the world. At the end of the 1970s and the beginning of 1980s "Azeri", "Chirag", "Gunashli", "Kapaz" oil fields discovered at an 80-350 meters depth of Caspian Sea.[52]

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[50] M.Y. MirBabayev, **"Azərbaycan neftinin qısa tarixi"**, Azərnəşr, Bakı, 2009, p.15
[51] İ.Əliyev və A.Muradverdiyev, **"Azerbaycan Nefti Dünya Siyasətində"**, Azərbaycan Nəşriyyatı, Bakı, 1997, p.43
[52] MirBabayev, ibid, p.44.

After the disintegration of USSR, Azerbaijan got its independence and also right in the use of their national resources, and consequently, agreed with some international companies in order to operate these resources. On 20th of September, "Development of Azerbaijan sector of Caspian Sea – "Azeri", "Chirag", "Gunashli" fields and Production Sharing Agreement", became known as The Contract of the Century further, signed by the government of Azerbaijan and 11 petroleum companies from 7 different countries. There are 27 agreements signed with 41 international oil companies from 19 countries by this time. According to these agreements, total capital investment for exploration, operation and transport of the oil and natural gas resources is estimated to be around 60 billion USD.[53]

Natural gas industry of Azerbaijan has begun to develop especially during the USSR period. This industry had less importance in the Azerbaijan economy compared with oil sector for long years, but after discovering "Shah Deniz" field that has rich gas reserves, it suddenly gained strategic necessity.[54]

According to calculations, estimated total gas reserves of Azerbaijan are 10.7 billion m^3 by taking into account risk factors. With these reserves, Azerbaijan will take place between natural gas exporter countries besides the oil exporter nations in 10-15 years. According to the Azerbaijan Ministry of Energy, fields covered by agreements have roughly 4-6 billion tons oil and 4-5 trillion natural gas reserves.

Realizing of exportation of oil and natural gas resources depends on the ways and methods to reach these resources to international markets. These ways can be listed as follows for resources of Azerbaijan:[55]

Baku-Novorossiysk pipeline – exporting through this line started in 1997. Daily transport capacity of the pipeline is 105000 barrels. 13.1 million tons crude oil exported by SOCAR through his pipeline between 1997 and 2005. Apart from SOCAR, this line also used by AIOC (Azerbaijan International Operator Company) companies which have investment in Azerbaijan. In 2010, SOCAR and AIOC

[53] president.az :access date :06.05.2018
[54] İ.Əliyev, ibid, p.48
[55] M.Ağayev, **"Azərbaycan Neft İxracatı"**, Azərnəşr, 3-cü nəşr, Bakı, 2011, p.23.

exported 2.2 and 2 million tons of oil respectively through this pipeline. Currently, SOCAR is exporting approximately 1.3-1.4 million tons of oil per year, while AIOC had stopped using this pipeline since 2013.[56]

Baku-Supsa pipeline – Azeri Light brand crude oil of Azerbaijan is delivering to the port of Supsa, which is located in Black Sea coast of Georgia, through this pipeline and exported to international markets by loading onto tankers. The daily transport capacity of this pipeline is 145000 barrels. Crude oil produced according to Production Sharing Agreement is exporting through this pipeline.

Baku-Batumi Railway – as a result of growth in the oil production of AIOC by starting to operate in Azeri field within development project Azeri-Chirag-Gunashli in 2005 and insufficiency of Baku-Novorossiysk and Baku-Supsa pipelines lead to consider Baku-Batumi railway as an alternative in the oil transport. That is why this way has begun to be used from the beginning of June. Exporting of the crude oil transported by this railway is realized by delivering the petroleum to Batumi port, Georgia and loading onto tankers.

Baku-Tbilisi-Ceyhan (BTC) Main Export Pipeline – this pipeline is the main export pipeline used to exporting of Azerbaijan petroleum. It is 1768km long, and its value is 4 billion USD. It passes through 3 countries: Azerbaijan (443km), Georgia (249km) and Turkey (1076km). Transport capacity is 50 million tons per year or 1 million barrels daily. Petroleum produced in Azeri-Chirag-Gunashli fields delivers to the port of Ceyhan through this pipeline. The first oil pumped on 25th of May, 2005 and delivered to Ceyhan on 28th of May, 2006. Kazakhstan petroleum also considered being transported by this line. Companies joined to BTC project, and their shares are mentioned below:[57]

BP (UK) – 30.1%

SOCAR (Azerbaijan) – 25%

Chevron (USA) – 8.89%

[56] Official site of Ministry of Energy of Azerbijan minenergy.gov.az : access date 06.05.2018
[57] SOCAR annual report of 2006

Statoil (Norway) – 8.71%

TPAO (Turkey) – 6.53%

ENI (Italy) – 5%

Total (France) – 5%

Itochu (Japan) – 3.4%

Inpex (Japan) – 2.5%

ExxonMobil (USA) – 2.5%

ONGC Videsh (India) – 2.36%

In 2006, SOCAR exported 1.4million tons of oil, while AIOC exported 6.3 million tons. In 2007, SOCAR and AIOC exported 6.5 and 21.8 million tons of oil respectively.

South Caucasus Pipeline – was built in 2006, in order to deliver a portion of natural gas (7.7 billion m^3) produced in Shah Deniz field from Baku to Erzurum, Turkey. The other name of this line is Baku-Tbilisi-Erzurum. It is 970 km long, with 20 billion m^3 productivity annually. According to contract, Turkey will get 91 billion m^3 of natural gas within 15 years. This line also gives Azerbaijan an opportunity to offer its product to the European market. Moreover, it is also considered that Kazakhstan and Turkmenistan natural gas will be transported through this pipeline in the future. The cost of Shah Deniz project is roughly 4-5 billion dollars. The natural gas produced from this field has a potential to meet the internal demands of Azerbaijan and to allow the production excess direct to export. There was produced 10.1 billion m3 of gas in 2017.

Shah Deniz Stage 2, or Full Field Development (FFD) is a giant project that will add a further 16 billion m^3 of gas production to the approximately 10 billion m^3 produced by Shah Deniz Stage 1. Around $28 billion in capital investment will be required to produce the gas and transport it to the Georgia-Turkey border. From there, additional pipeline systems will deliver 6 billion m^3 of gas to Turkey and a further 10 billion m^3 of gas to markets in Europe, in a route known as the Southern Gas

Corridor. Shah Deniz gas will travel 3,500 kilometers, to elevations of over 2,500 meters, and over 800 meters below the sea.

Shah Deniz Stage 2, one of the largest gas developments in the world, will help increase European energy security by bringing Caspian gas resources to markets in Europe for the very first time.[58]

Co-venturers of Shah Deniz project and their share are as follows:

BP – 28.8%

SOCAR – 10%

TPAO – 19%

PETRONAS – 15.5%

Lukoil (Russia) – 10%

NICO (IRI) – 10%

SGC (South Gas Corridor CJSC) – 6.7%

Petroleum and gas sectors cover exploration, production, transport, refining and retailing activities. Exploration and producing of resources called upstream markets, while the part of distribution and marketing called downstream markets. Exploration and production activities in Azerbaijan are driven by SOCAR and international companies. Refining operations are realized in the 2 refineries owned by SOCAR.

3.1.2 Establishment and Activities of SOCAR

SOCAR, which is the biggest international company of Azerbaijan, established on 13th of September, 1992, on the basis of the Azerneft State Concern and Azerneftkimya Production Association in order to use oil resources in accordance with consistent national policy, improve the management structure of the oil industry, and develop the energy industry. SOCAR is fully-owned government company with 50933 employers.[59]

The activity area of SOCAR covers exploration, development, refining, transport of petroleum and natural gas in the country; selling of oil and gas products

[58] British Petroleum Co official site Bp.com access date: 06.05.2018
[59] SOCAR Official web site socar.az access date 06.05.2018

in both internal and external markets; meeting customers’ needs to these products. The company is also carrying out many scientific investigations.

We can list the institutions affiliated to SOCAR as follows:[60]

"Azneft" Production Union is developing 34 oil and gas fields, 20 of which are onshore and 14 of which are located in Azerbaijan’s sector of the Caspian Sea.

"Azerigaz" Production Union transmits, distributes, and markets natural gas in the Republic of Azerbaijan. The syndicate also transports SOCAR gas to the Islamic Republic of Iran, Georgia, and the Russian Federation.

Baku Higher Oil School –the goal of the BHOS is to meet needs of SOCAR, which expands its activities in Azerbaijan and abroad, and other industries in the country for highly qualified engineers trained in accordance with modern curricula and education technologies, and having an advanced level of English.

Oil Pipelines Department. The Department monitors the metering of oil and condensate produced at the Azeri-Chirag-Gunashli and Shah Deniz oil fields and exported from the Sangachal Oil Terminal.

Marketing and Operations Department was established for the purpose of marketing crude oil and petroleum products for SOCAR in Azerbaijan and foreign countries.

SOCAR’s **Investments Division** is involved in efforts to attract foreign and local investment to Azerbaijan's petroleum industry, make SOCAR investments in foreign countries, draft contracts that meet international standards, negotiate contracts, and arrange for the signature of and monitor the fulfillment of negotiated contracts.

There are also “Azerikimya” Production Union, Oil and Gas Construction Trust, Information Technologies and Communications Department, Environmental Department which operates in the company.

There are 56 fields where SOCAR realize its oil and gas production: 38 of them are on the land section of Azerbaijan and 15 fields are in the sea. SOCAR is also the

[60] SOCAR Official web site socar.az access date 06.05.2018

partner in all agreements made with international companies investing in the Azerbaijan oil and gas sector. 27 of oil and gas related agreements made till that time, 15 of them comprise Azerbaijan sector of Caspian Sea, and 12 agreements cover land areas. [61]

The year of 2006, when BTC pipeline started to operate, was the begging of the new period for SOCAR. It got a chance of easy delivery of Azerbaijan oil and gas resources to international markets through BTC pipeline and then Baku-Tbilisi-Erzurum which is built parallel to this line. This year was also a millennium for SOCAR in terms of international marketing activities. Since 2006, SOCAR has taken a step toward a new internationalization stage. The company which only exported crude oil and petroleum products until 2006, started to enter the international markets by using investment based strategies from the same year. Initially, the company opened up to Georgia by purchasing Kulevi terminal on the shores of Black Sea. Simultaneously, the company has established SOCAR Energy Georgia joint venture which 51% shares belong to SOCAR. This company, firstly, enter into the fuel-oil sector of Georgia.

In 2006, the company established SOCAR & Turcas Enerji A.Ş. Joint Venture group with 51% shares. The initial target of JV was to build the petroleum refinery in Ceyhan. In 2007, the company participated in the tender regarding privatization of 51% public shares of PETKIM as a SOCAR-Turcas-Injaz joint venture group and acquired this petrochemistry company.

Currently, SOCAR has representatives in Georgia, Turkey, Switzerland, Romania, Ukraine, Iran and Germany. These representatives are searching for opportunities in the countries where they are located.

[61] President.az access date: 06.05.2018

3.2. Research proposal

This research, where the international target market selection process international market entry strategies of SOCAR is analyzed, aims to evaluate the company's applications and efforts in related issues in the context of theoretical framework discussed in the first two chapters.

With its foreign investment in recent years, SOCAR proved that it has a potential to be one of the prominent companies not only in Azerbaijan but also in the world oil and gas sector. For this reason, considering the importance of the company in the world and location in the Azerbaijan economy, it is very crucial to analyze its strategies in the subjected field.

3.3 Research methodology

This research was carried out based on case study method which is one of the quantitative methods. As a data collecting method, secondary data collection was chosen, different statistical information, annual reports, and interviews with various media sources gathered for future research analysis.

The reliability of the results is one of the measures of the research. Validity and credibility are two common measures used in the investigations. In this context, in order to maintain the validity and credibility of the research, the parallelism of the collected data with other sources is controlled.

3.4 Research findings

3.4.1 International target market choice of SOCAR

Azerbaijan is known as the specialist country in the oil industry because of development of petroleum industry since the 19th century. Azerbaijan always attracted foreign investors with its rich oil and gas reserves. In the USSR period, Azerbaijan met the large part of union's demands for oil. After disintegrations of USSR in 1991, Azerbaijan attracted foreign investors' interest again and maintained its "specialist country" title. That is why Azerbaijan began to shape its economy based on this sector because of foreign investment to the petroleum sector. For this reason, full publicly-owned SOCAR (State Oil Company of Azerbaijan Republic) established to carry out oil and gas resources in the framework of one government policy. From this point, SOCAR is the key company in the carrying out the economic policy of Azerbaijan.

Within the given task, the company developed its production policy to cover not only domestic market but also international markets. Infrastructure and experience from USSR allowed following this policy. So SOCAR acted export-oriented since the establishment.

3.4.1.1. Factors Affecting the Target Market Selection of SOCAR

The domestic competence, which is one of the main reactive factors in the internationalization, is not relevant for SOCAR because of being the only national company in the oil and gas production and export. From this point of view, proactive factors are more applicable for SOCAR.

As a result of following oil-oriented economic policy, petrol and batural sector always kept its weight in the export and GDP of Azerbaijan. That is why, in 2016, the total share of petrol, petrol derivatives and natural gas in the export was 86.3%. In 2017, oil and gas sector constructed 35.64% of GDP.[62] These numbers demonstrate the dependence of Azerbaijan economy on petroleum and gas sector. All these factors show that SOCAR has a big task in the forming of national income of Azerbaijan.

Following such an economic policy lead the Azerbaijan government to support SOCAR and encourage the company to open up to international markets. That is why domestic political risk has never been an issue for SOCAR which always have government support in the international market entry. Furthermore, the restricted export policy is not a question for the company. As a result of growth in the consumption of petroleum and gas in the world, demand for these products increased and this situation made international markets attractive for oil companies, including SOCAR. The first countries SOCAR invested in - Georgia and Turkey - were attractive markets because of being oil and natural gas importer countries.

[62] State Statistical Comitee stat.gov.az access date 06.05.2018

The rising trend of oil prices leads to growth in the oil companies' revenues. This factor also makes international marketing activities attractive for petroleum companies. This trade shift creates a profit transfer from oil importer countries to oil exporter countries. But the dramatic increase in the oil prices since 2014 has put many oil companies in a difficult situation. In these terms, SOCAR was better prepared to this situation than the other companies from this sector. "Oil companies have decreased their overall investments in the production of oil. But SOCAR has directed its capital to other fields much earlier. We decided to diversify our investments while crude oil prices were high. Those days petroleum companies preferred to invest in oil production, even costly oil fields. But we, according to our formed strategy, put an investment in manufacturing, transport and sales of oil and gas, besides the production, and diversified our investment portfolio. We began searching for new markets from different countries to increase the efficiency and reduce risks. Everyone will the results of strategy after completing our main projects because the stability and sustainability of our profits will be maintained" Rovnag Abdullayev said. [63]

One of the main reasons in the selecting Georgia markets is entering the country the new economically structuring process. Provision new investors with the legal convenience to meet oil and gas demand and following the supportive policy of government were politic-legal factors in the choosing of this market.

The main factors in the choosing Turkish market are one of the strongest economies in the region and suitable for investments that will facilitate the distribution of oil to Europe because of the geographical condition.

One of the factors that affect the opening up to Georgian and Turkish markets by direct investment strategy is that these countries are strategic partners of Azerbaijan. Because of strategic partnership solidified by BTC and Baku-Tbilisi-Erzurum and further SGC, SOCAR had the less political risk during the entrance into these markets.

[63]Interview to bbn.az: date 02.09.2016

3.4.1.2. International Target Market Selection Process of SOCAR

The company started to target market selection process in the same year with deciding to use investment-oriented strategies, in 2006. At this stage, segmentation made covering the markets in the near geographical region; border neighbour countries, like Turkey, Georgia and Russia, determined as a whole market segment, Middle East countries composed another segment and Europe is divided to East and West market segments.

After this segmentation, the company decided to carry out investment-based strategy in all segments except Western Europe for which decided to maintain the export strategy. It is possible to say that the company uses multisegment strategy because of using different strategies for each market planned to invest.

3.4.2. Strategies of SOCAR for Opening up to International Markets

The company realizes its entry strategy through export, joint venture, acquisition and Greenfield investment strategies. We can classify the company's entry strategies as before and after 2006. Till 2006, the company used only export strategy in the international markets, while began to implement other strategies since 2006. The main reasons were:

- The growth of the company and reaching the capacity to use investment based entry strategies
- Opening to use of BTC pipeline
- Development new international marketing strategies by the company

The reasons for selecting the export strategy for initial years were:

- The company didn't have enough resources for other entry strategies in the first stage of internationalization
- The initial purpose of the company was to realize the sales of Azerbaijani oil and natural gas in the global market

- The export strategy is one of the alternatives to gain international market experience

SOCAR started to use investment strategy in the international market entry in 2006. Firstly, Kulevi terminal that is located in the port of Poti on the Black Sea shore of Georgia purchased and completed its constructing. The 13.8 km long Kolkheti-Kulevi railway was also included in this construction. Purchasing of Kulevi terminal is an example of the acquisition strategy.

In 2008, SOCAR put into commission Kulevi terminal with the ceremonial opening. There carried out large-scale reconstruction and modernization works. A to the extent of 380 million USD was invested upon the terminal designated for storage of crude oil and petroleum derivatives and loading into ships. The annual transport capacity of Kulevi Terminal is 10 million tons of crude oil or petroleum derivatives.[64]

In November 2006, SOCAR also entered into fuel sector of Georgia with establishing SOCAR Energy Georgia Joint Venture where it has 51% share. SOCAR is the main supplier of Georgian fuel market now. The company was just exporter of fuel until 2006 when it established its joint venture and entered the market as a retailer.SOCAR gained some advantages with establishing SEG:

- The company gained an opportunity to get more profit from retailing fuel instead of exporting as a supplier.
- The company got a chance of much more control over the fuel market of Georgia
- Acquired experience, market knowledge, distribution system, business culture, connections through local partners of SEG.
- The risk is shared with local shareholders

The company, which has entered into the fuel market with both purchase and investment strategies, has so far bought or built more than 114 fuel stations.

The company got opportunities mentioned below by acquiring fuel stations

- Faster enter the fuel market

[64] SOCAR Annual report 2009

- Access to present customer base
- Having the market share in a short time
- Making the profit in a short time because of having used fuel stations

The company had some advantages in terms of building new fuel stations:

- The company got freedom of place choice. They built their stations in the city sides, especially on highways, instead of crowded city centres.
- By building new fuel stations, the company got a chance to act more flexible. They can configure stations' scheme according to the competitive environment.

In 2012, SOCAR Georgia Petroleum, Ltd was also named the winner in the nomination "The largest taxpayer to the state budget of Georgia", the amount paid by it equalled 105,663,190 USD. In 2013, SOCAR Georgia Petroleum, Ltd as the largest investor of 2013 was also submitted for the nomination "The largest company of Georgia of 2013".To be more specific, investment of SOCAR Georgia Petroleum, Ltd in 2013 amounted to 52,607,944 USD. SOCAR Energy Georgia, Ltd was also named the winner in the nomination "The Best Company of Georgia of 2013".[65]

SOCAR also entered Turkish market through direct investment method. In the last quarter of 2006, the company has signed "SOCAR & Turcas Enerji A.Ş" (STEAŞ) joint venture. The shareholding structure of STEAŞ was as follows:

- 51% SOCAR
- 25% Turcas Petroleum A.Ş
- 24% Aksoy Holding A.Ş

The activity area of STEAŞ defined as all kinds of production, processing, sales, distribution, investment, research and development, export and import activities.

SOCAR achieved following advantages through STEAŞ:

- The opportunity to enter the petroleum and natural gas distribution sector which has potential to make more profit than crude oil and gas export
- Reached to local partners' market knowledge, experience, connections quickly. Turcas Petroleum A.Ş, one of the partners of STEAŞ, is the shareholder of

[65] Official web site of SOCAR Energy Georgia socar.ge access date: 06.05.2018

Shell &Turcas petroleum A.Ş that is one of the main companies of Turkish fuel sector, and fully-owner of Turcas Gaz Toptan Satış A.Ş.

- Had much more control through joint venture compared with the export strategy
- Shared risks with other shareholders

Besides the refinery sector, SOCAR also entered petrochemistry sector.in 2007, STEAŞ attended in the privatization tender of 51% shares of "PETKİM Petrokimya Holding A.Ş.", and had been chosen as a winner company with the offered price (2.04 billion USD). In 2011, Turcas withdrawed from the partnership and 51% shares of PETKIM went to SOCAR Turkey Energy Co.

High and added value of petrochemical products provides with the potential of much more profit compared with crude oil export. That is why SOCAR aims to increase its profit and grow the company by entering into oil and petrochemical products markets.

PETKIM is the main player of the petrochemistry sector. The activity area of the company includes production and trading of intermediate and final petrochemical goods. Market share of PETKIM in the petrochemistry sector was 18% in 2017.[66] SOCAR started the construction of STAR oil refinery in 2011. Planned to start production in 2018, STAR Refinery will be put into service with a total investment of USD 5.6 billion. In terms of the loan volume and term, STAR Refinery's project financing is the largest-size and longest-term loan deal Turkey has closed to date. It is also defined as one of the biggest oil and gas project financing operations in the EMEA (Europe- Middle East& Africa) Region of 2014. Star Refinery will support reducing the foreign-dependency on processed oil products of Turkey by USD 2.5 billion upon its startup in 2018.[67]

SOCAR got the following advantages by acquiring PETKIM

- Entered quickly into petrochemistry sector of Turkey

[66] PETKIM Annual report 2017

[67] Official web site of SOCAR Energy Turkey socar.com.tr access date: 06.05.2018

- High-profit potential
- Reaching to distribution channels
- Reaching present customer base
- Reaching present brand name and reputation
- Getting share in the petrochemical market of Turkey
- Reaching current management experience
- Making a profit in a short time through acquiring currently operating company

SOCAR aims to get much more control over both upstream (exploration and recovery) and downstream (refining, distribution, marketing) markets. For this reason, the company plans to extend its refineries towards Black and Mediterranian seas where it can open up to international markets more easily. So the company will realize distribution and marketing of petroleum derivatives which will bring much more profit. In line with this strategy, SOCAR shifts its international market entry strategy from export to direct investment. SOCAR is assessing the opportunities in the oil and gas sector by opening representatives in different regions since 2006.

"I would like to emphasize the role of "SOCAR Trading" company which we established in Switzerland in order to ensure the direct sale of the SOCAR manufactured products to final consumers and, to optimize revenues derived from this activity. "SOCAR Trading" company, which allows for upgrading of efficiency of oil export operations throughout the Europe and usage of foreign experience, has taken considerable steps in the short run to organize its business structures in other parts of the world for extending the sphere of influence and established its subsidiary enterprise in Singapore in 2009", said Rovnag Abdullayev.[68]

3.4.3 International Markets Marketing Programs of SOCAR

By considering the activities of SOCAR intending to increase the market share in the markets where it entered through the direct investment strategy, we can say that company adopted market share strategy in terms of product. The fact that company

[68] SOCAR Annual report 2010

has the potential to make the largest market share is the main factor that causes the company to move towards this strategy.

In terms of pricing, because of the characteristics of the market, it is imposible to set the special pricing strategy. Prices shaped in the market are accepted by all companies in the sector.

From the promotion standpoint, the company has crucial operations. The most significant of them is advertising activities. Sponsoring the Eurovision Song Contest 2012 took place in Baku, and European Football Championship 2016 took place in France are the most popular examples of the advertising activities of the company trying to increase its international popularity. [69]

In terms of distribution, the company implements selective distribution strategy by using special distribution channels. The company distributes its products through major companies and selects these companies carefully.

[69] SOCAR Official web site socar.az

CONCLUSION

Besides the globalization, both countries and companies want to have much more shares from extending international market through international trade.

There is no doubt true that operating in the international market is the more different case than doing it in the domestic market. Firms face with variables that are more complicated and comprehensive than uncontrollable factors they faced in the local market. These businesses that want to be successful in the international markets have to be structured to adapt to the international markets with examining economic, cultural and legal items that shape the international market environment in detail.

Because of the impossibility of reaching to all consumers in the world, entities that want to operate in the international markets have to set certain regions or countries as a target market according to their potential and goals. Countries that are determined as a target market have to be analyzed in terms of economic, cultural, political and legal environments by the companies operating in the international markets, and market entry decisions and marketing strategies have to be formed based on the results of this analysis.

Firms that determined target markets in the international markets have to follow a certain entry strategy for these markets. This strategy should be of a quality that will lead the company to continuous growth in international markets in the future. Moreover, firm managers ought to plan different entry strategy for each product of each target country separately.

There are many factors that affect international markets entry strategies. The variety of these factors, the difficulty of measuring them and the need to predict the effect of these factors on the entry mode choices in the future, make the entry strategy selection so complicated procedure.

The goals and objectives of the company, resources, the level of use these resources, characteristics of company's goods, profit potential, control, target country market, production, and environmental factors, main country factors influence the entry strategies. Firms with limited resources can open up to the international market through export strategy. If firm's product consists of service, it can't use export strategy. Politic and economic instability in the country make direct investment strategy disadvantageous.

The profit potentials of each entry strategy are various. Indirect export, direct export, joint venture and Greenfield investment are more profitable than each other. Furthermore, the control level of each strategy differs from each other. The more profitable strategies are generally provided with more control level. Besides that, more profit brings higher risk itself.

The strategy that chosen for entry has to be the most suitable and most correct strategy. The process of selecting optimal entry mode begins with controlling of applicability of strategy according to internal and external factors. After determining applicable strategies, systematic comparative evaluation of these strategies is being carried out.

In this study, the analysis of the opening of State Oil Company of Azerbaijan Republic (SOCAR) to the international markets was carried out and finding that support theoretical information has been reached. SOCAR, which is locomotive of not only oil and gas sector but also overall Azerbaijan economy, is the fully publicly-owned company established for the execution of national economic policy. From this point of view, SOCAR is acting with full government support, so there is no political risk for the company. Moreover, there is no domestic competence because of being the only domestic company in this sector. The main factors in opening SOCAR to international markets is high production capacity, company's desire to earn more revenue, government support, high demand for oil and gas in the international markets and etc.

The company used the export strategy for international markets until 2006. Since that time, as a result of starting BTC pipeline to operate and increasing the financial resources of the company, SOCAR began to use direct investment, acquisition and joint venture strategies. The company shifted its strategy from exporting crude oil and gas to producing and trading petroleum derivatives to make more profit. To take part in the international markets more actively, SOCAR aims to extend to Black and Mediterranian seas shores that give an opportunity to open up to European markets.

Especially since 2006, the company didn't use one type of the entry strategies. For example, the company entered into Georgian fuel market with the joint venture, increased the number of fuel station by both purchasing and building the stations. SOCAR acquired Kulevi terminal by direct investment. PETKIM tender is also an example of the joint venture.

Georgia is the key and strategic country for the company in terms of opening up to international markets. BTC and Baku-Tbilisi-Erzurum pipelines, Baku-Batumi railway, Kulevi and Batumi terminals prove this fact. So SOCAR is depended on Georgian market, and it holds itself various risks. From this view, it is better for the company to enhance its distribution channels as much as possible to eliminate these risks.

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