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COMPANIES' MARKET PENETRATION AND ACTIVITY PATTERNS IN EUROPEAN MARKET

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Abstract: The strategy type at the company level has an impact upon the selection and implementation of the strategy at the business level. The international strategy at the company level is different from the international strategy at the business level through the diversification extension degree (both under the products aspect and under the geographic area aspect). The need to adopt an international strategy at the company level appears when the products or services level increases in the sense of incorporating products that belong to several activity branches and that address to multiple markets. In this case, the company's strategy is conducted by the managers from its headquarters and not by the area managers or business managers.

Keywords: international strategy, company's international objectives, internationalization forms, markets, operation methods.

The adoption of an international strategy is based on the incentives that the perspectives offered by international markets represent for the companies, as well as on the complex problems generated by such companies management (taking international strategic decisions, choosing the way to enter the international markets, approximating the influence that the economic and political risk has upon the performance level and innovating power of the respective companies, etc.).

While adopting an international strategy, companies must proceed as follows:

- identify the international perspectives regarding increasing the market position, dimensional economies, location generated advantages;
- elaborate international strategies based on available resources and competences;
- establish the penetration pattern on the international markets in order to take advantage of the own essential competences;
- try to acquire strategic competitiveness based on the managers' ability to efficiently manage complex companies with subunits location in several countries, taking into consideration that the economic and politic is very increased.

The issuing the internationalization strategy is based upon the results of the opportunities or risks analysis and diagnosis analysis previously made.

Its issuing includes four stages:

1. Defining the company's international objectives;
2. Establishing the internationalization;
3. Selecting the markets and partners;
4. Establishing operating methods.

1. Defining the company's international objectives

These objectives come from the base operations of the internationalization strategy which reflect the company's finality. The concrete internationalization objectives may be formulated under the form of indicators:

- profitability of the invested capital and expected profit level;
- collected turnover and reachable market quotas on the whole and for every country;
- predicted development rhythm;
- the share of goods and services made abroad in report with the internal production;
- the level of internationalization of the capital structures and financial resources;
- human resources internationalization degree.

2. Establishing the internationalization forms

The international strategy at the company's level ahs the following forms:

a) *Multinational strategies* consists in that strategic decisions and operational ones are decentralized at the level of strategic business units of the company in every country, with the purpose of adapting the products and services to the local markets needs.

The characteristics of this strategy are the following:

- the business strategic units from different countries are considered independent;
- markets are supposed to be different, being able to be differentiated by national borders;
- the accent is on the competition in every country;
- products and services may be adapted to the need of every market;
- because of product adaptation to specific needs, obtaining dimensional economies is not possible.

Among these strategies we can include:

- *The strategy of the source subsidiary (classic strategy)* – proposes to development of the advantages offered by the resources endowments in the host country or by reducing costs categories.
- *The strategy of the functional autonomy subsidiary* – implies creating productive structures in implanting countries, having the same nature as the nature company, the subsidiaries are autonomous, and control is exercised both through property relations and through supplying technology or production factors by the mother company.

b*) The global strategy* consists of the fact that the offered products are standardized disregarding the market they address to, and the decisions regarding adopting business level strategies are centralized at the company's headquarters with a global sight, a world vision upon the market and competition. This type of strategy is specific to the companies from the fields based on peak techniques where obtaining added value is accomplished by locating activities in countries where they are most profitable.

Among these strategies we can include:

- *The technical-financial strategy* – it overcomes the horizon of the initial strategy and pursuits the valorization of technical trumps and some financial possibilities of the conglomerate type. They are characterized by several aspects: passing

from direct investments to subcontracting; increasing the implication in the research-development filed; seeking speculative profits out of operations on the globalizing financial market.
- *Strategic alliances* – licensing, subcontracting, industrial cooperation, joint companies, all of them give birth to multinational networks (alliances between mother companies). Within this multinational framework, transnational companies may be, at the same time, competing for some activities and partners for other activities (research-development, for example).

The characteristics of this strategy are the following:
- the business strategic units from every country the company is are considered independent;
- the company's headquarters tries to accomplish integration among different businesses and national markets;
- it gives the possibility of obtaining some dimensional economies;
- it creates bigger perspectives for the innovations from a country to be used in other countries also;
- management difficulties appear due to the necessity of coordinating strategies and decisions regarding the company's functioning in several countries;
- it requires a higher degree of centralization and a control exercised at the company's headquarters.

c) *Transnational strategy* seeks to accomplish both a global efficiency and a national markets requirements adaptation.

Among these strategies we may include:
- *complex integration strategies* – have the defining element the production internationalization and of the other functions of the company, any subsidiary being able to fulfill a certain function (the research-development function, personnel function, financial-accountant function)
- *production international integration* – a process that has been growing in the developed countries for the last 15 years, based on matrix-type connections (vertical and horizontal connections), implying not just reports within multinational between mother company and subsidiaries, but also strategic alliances and cooperation with the companies that belong to another multinational, creating the so-called *network companies*.

The main characteristics are:
- implementation difficulties due to simultaneous requirements for a powerful central control at the company's headquarters and an efficient coordination (specific aspects to a global strategy), respectively a flexibility and a decentralization that could answer to the national markets needs (specific aspects to multinational strategy);
- the coordination mechanisms must be flexible in order to implement this strategy.

3. Selecting the markets and partners

This stage is accomplished in report with the opportunities that they offer for the companies that want to internationalize:

a) *Market selection* – supposes locating different geographical areas. This locating is accomplished by taking into consideration several criteria:

- the activity character (international, transnational, global);
- economic considerations (the market potential and its favourable evolution, advantageous conditions of business development (good and cheap human resources, well defined distribution network, acceptable infrastructure), access to financial sources);
- judicial, administrative and fiscal considerations (respecting the ownership right, regulating the services and goods free circulation, rate of exchange, fiscal administration operation mode, fiscal facilities);
- considerations connected to the business risk (country rating, the respective country's debt level, commercial risks (connected to price, rate of exchange, the instability of the financial-banking system)).

b) *Partners selection* – when making this selection there are taken into consideration business criteria like:

- their experience in international businesses;
- the existence or inexistence of some previous business relations with the company that internationalizes itself;
- the technologic level and the commercial potential of the company;
- their economic-financial system;
- the risk degree (insolvability risk, technologic risk).

4. Establishing operation methods:

This stage represents the choosing of different forms of business internationalization. In this sense, the company may choose different forms of commercial operations, for abroad implantation actions, in order to accomplish strategic alliances, cooperation.

The main modalities for the companies to penetrate external markets are:

1. *Export* which is a commune penetration form on external markets and consists of the sale of the products from a country to other countries' markets. The main elements that characterize it are:

- the companies that export must not create production facilities in other countries;
- exporters must have distribution channels, which supposes establishing some contractual relations with companies from the countries they export to in order for them to distribute and sale their products;
- transportation costs are high;
- the exporters have a reduced control upon marketing and product distribution;
- the distributors need to be paid a tax or have the possibility to increase the products price in order to cover the costs and obtain a profit;
- it is difficult to satisfy the requirements of the local markets from different markets.

2. *Countertrade* is an operation group where import is conditioned by export, or other way round. It has several forms:

- compensation between companies (barter – price payment is done in nature and not with money);

- parallel operations – they are a transaction packet where two opposed commercial operations are contractually and economically connected, the export is conditioned by import;
- product countertrade – the export payment of some equipment goods, whether partially or totally, is done by goods delivering as a consequence of equipment productive use by the importer.

3. *Technologic transfer operations* in report with international sale (requests) – they suppose not the finished product export but also the development by commercializing a company's strategic advantage, under the form of patents, marks, technical survey. The reports between the parties are not placed only within commercialization, but they also imply the partners' production systems:

a) *License granting* consists in that a company authorizes a company from another country to produce and sale its products on an external market. This is possible by selling the usage right of the technical knowledge patented by an exporter to a foreign beneficiary in exchange of a price that will be paid through a lump sum (previously established) or royalties (periodical payments).

- the company that authorizes asks for a sum (fidelity tax) for every unit of finished and sold product;
- the company that received the authorization takes all the risks, makes investments within the production range, pays the marketing and distribution costs;
- it is the cheapest international expansion form, because the company that authorizes must not invest in different countries;
- the company that authorizes has a reduced control upon the products production and distribution on external markets;
- it has the least profit potential because the profits must be split among the two parts involved (the company that authorizes and the company that receives the authorization);
- it has the highest potential risk, in the sense that the company that receives authorization will acquire the fabrication technology, so that after the expiration of the license period it will be able to become a powerful competitor of the company that authorized it.

b) *The franchise* represents the commercial technology transfer right to the beneficiaries, through the right to develop economic activities 9production and services) under a well known mark belonging to the exporter.

c) *Subproduction or subcontracting* – it mainly leaves from the requirements of creating competitive advantages by valuing partners complementarities: the exporter transfers production of a finished product (quality subproduction or subcontracting) or of components and subassemblies (specialty subproduction or subcontracting), towards the importing company which benefits from more favourable production conditions (cheaper work labour, cheaper material resources, investment facilities). The importer has access to the exporter's fabrication technology (technical documentation, managerial structures, managerial strategies), being able to value its production factors.

4. *Industrial objectives export* is the most complex form of the internationalization strategy. Even if the ground contractual relation is one of creditor-debtor type, these operations have features that differentiate them from the proper exports. Therefore, the

contracting method is a specific one, it is often used the import auction system, with the direct implication of the state organs from the importing countries, and international organizations (mainly BIRD). The contractual ground is more extended, and reports are established between:

- the different export participants (product suppliers, services suppliers, specialized construction-assembling companies)
- exporter-beneficiary reports, under the form of separate contracts (providing assembly equipment, functioning equipment, industrial constructions), and a contract is signed with the general entrepreneur. The financing form is complex, implying the participation of several banks (banking syndicates), guarantees and assurances from the private banks and state;

5. *Strategic alliances*, also named joint ventures give the participating companies the possibility to share the risks and necessary resources in order to penetrate the external markets.

Most of the strategic alliances are formed between a foreign company which offers access to products and new technologies on the one hand, and a company from the country where the products are to be solved (and which knows the market requirements and the socio-legal rules), on the other hand.

6. *International companies acquisitions*, a method that gives companies the possibility to penetrate the external markets in the fastest way. In comparison with the acquisition of the companies from the same country, this form as several disadvantages like:

- the negotiations are more difficult and more complex due to the legal regulations from different countries and the difficulty to gather information;
- there are significant differences between the cultures and the practices of the companies in different countries.

7. Direct implantation abroad – it is a way of the company external increase, in comparison with the internal increase (which is done by capital accumulation). It is done directly through direct investments abroad and leads to the apparition of different organizational structures (overseas branches and subsidiaries).

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