

BUSINESS MODELS OF INTERNATIONAL COMPANIES IN EMERGING MARKETS

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Abstract

The purpose of the research is to study strategic decisions of international companies in emerging markets and strategic business models in foreign markets.

The paper presents the analysis of modern theoretical approaches to the development of business models and marketing strategies of international companies. The authors refer to the works of such famous American scientists as Michael Porter, Igor Ansoff, Ricky W. Griffin and Michael W. Pustay, an Australian researcher Christopher Bartlett and an Indian scholar Sumantra Ghoshal.

While selecting research methods, the results of marketing research on international companies which are described in the works of such Russian scientists as N. K. Moiseeva, V. I. Cherenkov, S. V. Karpova were taken into account.

The paper shows that the diversity of business models allows international companies from the USA, Germany, France, South Korea to move successfully into the Russian market and win new customers. Despite economic sanctions against Russia and tense geopolitical situation, international companies continue their expansion in the Russian market. It is proved by the increase in French investment in many sectors of the Russian economy. For example, Renault and Peugeot invest in the Russian car industry, Societe Generale – in banking services, Danon and Bonduelle – in the food manufacturing industry and Auchan – in retail trade.

Practical aspects of the research are carried out on the example of the French company Schneider Electric. The company has more than two hundred factories all over the world including Russia where it has six own manufacturing sites. Being emerging market, the Russian market is a strategic segment for Schneider Electric. The company has invested in Russian production capacity over one billion U.S. dollars. The analysis of the Russian segment confirms the attractiveness for Schneider Electric to do business in this country. The study of business solutions of Schneider Electric allows the authors to conclude that the French company implements the transnational strategy. This strategy provides business with the optimal combination of efficient business activities due to globalization of operations and adaptation to local

conditions.

The authors have conducted the study of the work of the plant "Potential" which is one of the Russian production sites of Schneider Electric. Special attention is paid to the analysis of marketing tools of the plant and intercultural communication. SWOT analysis of the work of the subsidiary of the international company has allowed the authors to identify the strengths and weaknesses of its production activities. The influence of the activities of the plant "Potential" on the local market in the town of Kozmodemyansk in the Mari El Republic is studied. The positive and negative factors of the work of the French company in the local market are highlighted. Recommendations to improve the efficiency of doing business are made in the conclusion.

Keywords: international business, marketing strategy, business communication.

1. INTRODUCTION

Currently, there is a deep integration of international business in emerging market. The increasing role of international companies in emerging markets leads to the fact that they begin to define not only economic, but also technological, social, cultural characteristics of these markets. The purpose of the research is to analyze business models in foreign markets and strategic decisions of international companies in emerging markets.

We define international business as business cooperation between companies from different countries, the main purpose of which is to obtain profit by doing international business operations. The way to make a profit through the use of the advantages of going beyond national borders and the use of resources of the foreign markets is considered as a sign of international business (Bagadiev, 2009). International business is a kind of entrepreneurial activity that always aims at making a profit. When choosing a way to enter a foreign market, international companies can focus on carrying out export-import operations, establishing overseas branches, the network of subsidiaries and dependent companies, signing a franchise agreement, establishing joint ventures and others. The variety of business models allows international companies from the USA, Germany, France, South Korea to move successfully into the Russian market, the potential of which far exceeds the potential of "old" markets.

Despite economic sanctions against Russia and tense geopolitical situation, international companies continue their expansion in the Russian market. The top five largest foreign companies in the Russian market include Groupe Auchan (France), Metro Group (Germany), Japan Tobacco International (JTI) (Switzerland), Philip Morris International (Switzerland), Toyota Motor (Japan). Thus, the study of activities of international companies in the Russian market in changing conditions is of practical interest.

2. RESULTS

2.1. Theoretical description of models of international business

Modern economic science and practice demonstrate the variety of models of international business. Some models that are most widely used by international companies while promoting in emerging markets are highlighted below.

First, models of international business are considered from the position of strategic decisions. Ricky W. Griffin and Michael W. Pustay single out the strategy of duplication of the national business model, multilocal, global and transnational strategies. The problem of global strategies and the importance of the national environment are studied in the works of Robert Grant, an expert in the field of strategic management and Professor of Management in Georgetown University (USA). Michael Porter is one of the most famous researchers known for his theories on business strategy (Porter, 2007). Carrying out practical research on activities of large transnational corporations (Procter and Gamble, Unilever, General Electric, etc) Christopher Bartlett (Australia) and Sumantra Ghoshal (India) proposed several strategic alternatives for international business (Bartlett, 1989). The results of their research are presented in the matrix "global integration – taking into account local conditions" (Table 1).

Table 1. Matrix “global integration – taking into account local conditions” and four strategic alternatives for international companies.

The need to improve efficiency through globalization of operation	<i>High level</i>	<p>Global strategy</p> <p>The world is a single market.</p> <p>The main aim of business is to produce standardized products that meet the requirements of consumers all over the world</p>	<p>Transnational strategy</p> <p>Optimal combination of getting benefits from improving efficiency through globalization of operations and adaptation to local conditions</p>
	<i>Low level</i>	<p>Duplication of a business model</p> <p>The use of specific advantages achieved in the home market as a means of competition in foreign markets</p>	<p>Multilocal strategy</p> <p>A system of relatively independent subsidiaries, each of which serves any home market</p>
		<i>Low level</i>	<i>High level</i>
The need to provide flexibility and adaptation to local conditions			

The company that uses international strategy of duplication of a business model offers customers in all countries standardized product partially adapted to local conditions (global differentiation). The parent company transfers its core competencies to subsidiaries. An example of this kind of strategy is the activity of the Daimler-Benz company, initially focused on high-yield segment of customers in Germany and an excellent reputation in its home market.

The global strategy assumes that the parent company focuses on standardized products/services that meet the requirements of most consumers and seeks to use the benefits of placement. The configuration of activities is designed in such a way that all stages of the production process are carried out in the countries with low cost of production to reduce production costs for the goods that are manufactured for consumers in different countries (the company uses the competitive advantage of low costs). Key competencies of the company can be located in different countries. The examples of global companies are Boeing (one model of aircraft is manufactured for airline companies in different countries), the mobile manufacturers like Apple, Samsung (one basic phone model and software for it – for different foreign markets).

International company that implements multilocal (multinational) strategy adapts its products to customer requirements in each country where it competes using the advantage of local differentiation. The company organizes production and sells its goods in those countries where it carries out its operations. A typical example of such company is Nestle (Switzerland) that has a decentralized structure and a widely diversified product range adapted to specific needs of customers in different countries (e.g. in Switzerland and the countries of Western Europe they produce more milk chocolate as it is preferred by the majority of consumers, and in the Russian market the company successfully promotes dark bitter chocolate).

A transnational strategy is implemented by companies that face a need for taking into account local conditions and coordination and integration of business operations. The company aims to achieve the advantages of low costs (through optimizing the placement, economies of scale and learning effect) and differentiate their products to take into account national differences, that is, they try to achieve the advantages of both multilocal and global strategies. The example of the company that uses a transnational strategy is Microsoft company. Although the development of new software products is carried out in the USA, the responsibility for their distribution is transmitted to local markets where foreign subsidiaries, that are better familiar with national characteristics of various markets, are located (besides basic version they produce versions in various languages adapted to the linguistic characteristics of different countries) (Karpova, 2009, p. 206).

It is impossible to maintain high level of competitiveness of the goods and the company if management does not focus on development. One of the most famous matrices of the business strategy is the matrix created by Igor Ansoff. However, Vasant V. Bang, Sharad L. Joshi and Monica C. Singh offer an improved

classification of a potential customer as a real customer or non-customer of food category (Vasant, 2014). Real customers are additionally classified as above ordinary customers and below ordinary customers (Table 2).

Table 2. Alternatives for marketing strategies in emerging markets.

Comparative accent	Category of real customers		Non-customers
	Above ordinary customers	Below ordinary customers	
Primary demand	The strategy of market modernization Customers move to leading positions	The strategy of volume expansion Increase in the volume/ intensity of consumption	The strategy of market expansion Conversion of non- customers into customers
Selective demand	The strategy of meeting requirements Meeting customers' needs is paramount		

The structure offers four different strategic alternatives. The first kind of marketing strategy, modernization strategy, is targeted at the average customers of a selected product category. In this case, the task of marketing is to motivate customers to move to a leading position.

The second strategic alternative, the strategy of volume expansion, focuses on increasing norms of consumption per capita instead of attempting to convert non-customers into customers of a product category. This can be achieved by motivating customers to buy more and/or more frequent. In the case of long-term implementation, this strategy is the promotion of various forms of ownership.

The third strategic alternative is aimed at the transformation of non-customers of a product category into customers. This strategy is called "the strategy of market expansion". The strategy of market expansion does not seek to increase the number of customers in the market unlike two previous strategies which focus on the target customers.

The fourth strategic alternative focuses on the meeting requirements arising from customers' needs and a natural increase in demand. Unlike the fourth alternative, the first three strategic alternatives are aimed at the creation of new primary demand for the product category.

The choice of strategic alternatives of international business development is determined by many factors, including the principles of management system, the level of the development of strategic planning at corporate and divisional levels of the international company (Kotler, 2007, p. 53).

Depending on the peculiarities of the management system, the relationship between subsidiaries of an international company, there are three models of international business. The first model involves the close control of a parent company over dependent foreign subsidiaries. Practice shows that it is a widely used management model in emerging markets. The second model involves the control of a parent company over independent foreign subsidiaries. The third model is based on the possibility to control the activities of subsidiaries locally.

The next classification of the models of international business is based on the kind of ownership of capital. In accordance with this classification, there are two models of international business: Model 1 - international business with a full 100% foreign ownership; Model 2 - international business with home and foreign ownership. Modern national legislation of many countries, in response to the processes of economic integration and globalization, allows setting up companies, the assets of which are 100% foreign ownership. According to Model 1, an international company grows into the home economy actively shaping the business communication with national financial institutions, tax authorities, the national energy suppliers, etc. This model of international business has its advantages from the point of view of management, it has 100% control over the assets, so it is widely used including the Russian market. Studies show that in companies with 100% foreign ownership investment processes are more intense, they have less restrictions on financial resources for development than companies that are in joint ownership.

Model 2 describes international companies whose assets include home and foreign ownership. These are joint ventures where a national company and a foreign company combine their assets to create a new entity. The advantage of this model of international business is the possibility to use business communication of partners, which significantly reduces business risks in the new market. However, the existence of local partners leads to a decrease in the degree of freedom of international management, since even small home shareholders can appeal to their governments lobbying their economic interests, conflicts can arise between the partners due to differences in solving operational and strategic issues, for example, in determining the amount of dividends and profit sharing.

To access a new market, an international company can use one of two alternatives. An international company can be registered as a new company or buy a local business. Experts believe that the establishment of a new business abroad is usually the most expensive variant. It requires a significant investment of time and financial resources; it is rather risky in foreign market. To establish a new business abroad, it is important to know local conditions and characteristics of the market. A foreign country can encourage a company to establish a business on its territory supporting its project and providing subsidies and tax privileges. In this case, an international company does not inherit the problems of the existing local firms, such as debts, out-of-date equipment, and staff reduction.

The second alternative for promotion of international business by buying a local business is more widely used in modern conditions. Taking over foreign companies allow a company to accelerate access to another market, make profits, prevent the actions of competitors. Its advantages are real customers and well-studied market by local companies. Buying existing business gives a foreign investor the opportunity to enter local business communication at once, use contacts and authority of the company. In this case, international company starts operating without any delay; there is no need for bureaucratic operations connected with registration and organization of a new company. International business practice shows many examples of the implementation of the second variant of entering a new market. For example, a German automaker Volkswagen took over the Czech company Skoda and the Spanish company SEAT. Another German company BMW bought the Rover group. If we consider the issue of sharing and taking over companies at the international level, we should admit that it is a traditional strategic decision that accompanies the activities of the largest transnational corporations in emerging markets.

2.2. Models of international business in the Russian market

Russia with its largest resource market, the market for the sale of products, production platform for creation of goods and services is the largest emergency market for international business. The activity of international business in the Russian market will be examined in relation with two indicators:

- the number of registered enterprises with Russian and foreign ownership (joint ventures);
- the number of registered companies under foreign ownership.

The period of the analysis is 2012-2016, and we will use the official Russian statistics presented on the site <http://www.gks.ru/>

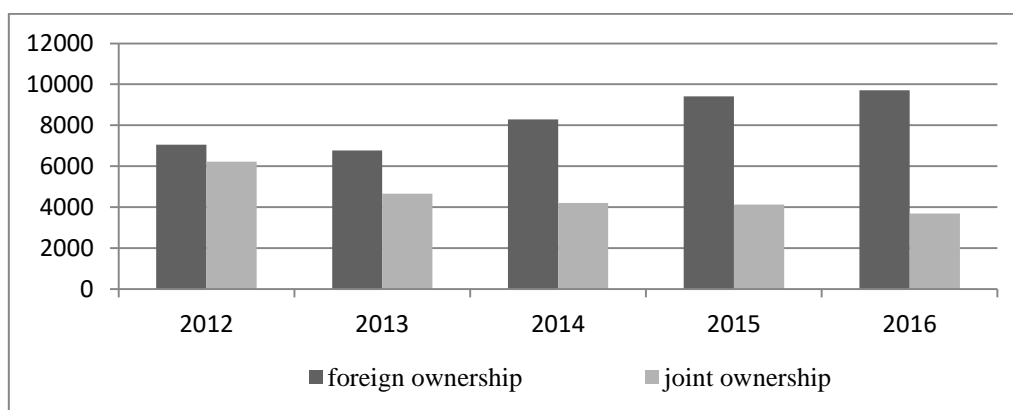


Fig. 1. The number of registered companies.

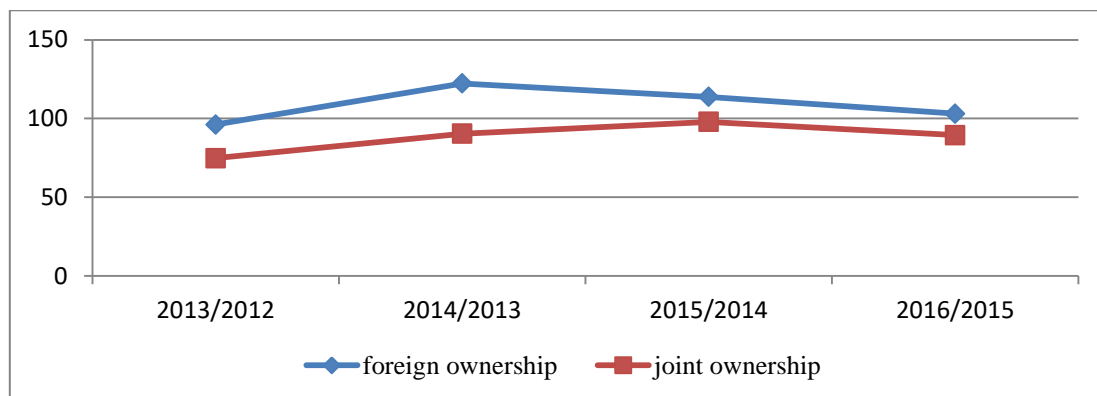


Fig. 2. Chain growth rates of registered organizations in Russia with foreign and joint ownership

The analysis shows the increase of Russian enterprises under foreign ownership in 2014, but the number of joint ventures is declining. From our point of view, it can be explained by the geopolitical factor and the desire of international business to reduce its risks in the Russian market. According to the Russian statistics, international companies with 100% foreign ownership, as shown above, have a high attractiveness for investors.

French companies are successfully doing business in the Russian market operating in various areas of the Russian economy such as natural resource extraction, advanced branches of engineering and services. Automotive concerns Renault and Peugeot-Citroen invest in the Russian auto industry; in the food industry - "Danon", "Bon-duelle"; in the iron and steel industry - "Arselor"; in the production of building materials - "Saint-Gobain", "Lafarge"; in the tire industry - "Michelin"; in retail trade - "Auchan"; in the hotel industry - "Accor"; in the banking sector - "Societe Generale". On the one hand, these facts confirm the attractiveness of the Russian market for international capital, and on the other hand reflect the growing global economic ambitions of the French business.

French company Schneider Electric, which is one of the leaders in the field of energy management and industrial automation, is actively promoted on the Russian market of electrical products. International business of Schneider Electric is based on active business communications with Germany, France, Czech Republic, Latvia, Lithuania. The corporation owns assets of several absorbed companies as American Power Conversion (USA), Invensys (Britain), Merlin Gerin (France), Telemecanique (France).

For twenty years of work Schneider Electric has deeply integrated into the Russian economy, and it invested more than \$ 1 billion in acquiring and building production facilities for the production of world-class products, and technologies. More than ten thousand employees are employed in Russian enterprises. The international business model of Schneider Electric in Russia has good strategic prospects, as it pays much attention to the scientific development. The company is promoting eco-friendly technologies as the part of the infrastructure project for construction of 156 filling stations for electric vehicles in Moscow.

Schneider Electric actively cooperates with the Ministry of Energy of Russia on energy efficiency and technology issues. The French company is a member of the Foreign Investment Advisory Council, which allows investors to exchange opinions and make more informed decisions on business development in Russia (<http://www.rbplus.ru>). In April 2017 the company became a member of the National Association of Industrial Internet Market Participants, which is an important event for the development of the domestic industrial Internet market, and it will provide the Association with the opportunity to access and directly apply advanced international experience in the field of industrial Internet in the Russian market (<http://www.schneider-electric.ru/russia/ru>).

Based on the theoretical models of international business classifications considered above, we will describe the model of Schneider Electric's international business on the Russian market. In accordance with the criteria of the matrix "global integration - taking into account national conditions" Schneider Electric leads transnational business strategy which provides an optimal combination of the advantages of globalization of operations and the advantages of adapting to the Russian market of electric equipment. According to the property criterion, Schneider Electric realizes the business model as a company with 100% foreign ownership. When forming assets in the Russian market, Schneider Electric purchases the existing property complexes, enterprises, which functioned in Soviet times. Currently, Schneider Electric owns the Scientific and Technical Center "Mekhanotronika" (St. Petersburg), the plant "ElectroMonoblock" (Kommunar Leningrad region), the plant "Potential" (Kozmodemyansk, the Republic of Mari El), the plants "Electroshield"

and "Russian Transformer "(Samara).

Let us consider the activities of the plant "Potential" for the production of wiring products, which is a structural unit of the French company Schneider Electric. As an independent business unit, the plant was established in 1966 as a manufacturer of component parts for capacitors and resistors, since 1990 electrical installation products have been produced. Becoming a part of the international company Schneider Electric in 2008, the plant "Potential" received new development impulses.

At present it is a small, very dynamic enterprise with a turnover of about 300 million rubles a year. For eight years, "Potential" became one of the leaders of the domestic market. The Russian enterprise obtained access to European technologies for equipment and modern materials. Produced outlets and switches have a European level of design and quality. Studies have shown that the products of the Potential plant are approximately three to four times lower than the West European counterparts (Obodkina, Tsvetkova, 2016).

Experience and high professional skills of the employees ensure the high competitiveness of the products of the plant «Potential», which is in demand by large industrial companies, organizations of mass housing construction and individual consumers. For example, double corner outlet "Etude" series became the winner of the contest "100 best goods of Russia-2016", electrical outlets PC16-105, PC16-108 were awarded in the nomination "Innovation-2016".

An analysis of Schneider Electric's advertising communications revealed that the company uses the goods, the organization itself and the territory as promotion objects, but does not use the advertisement with the organization's head. Advertising boards, transport, Internet sites, media channels are used as advertisement sources. Let's imagine the flap chart of the evaluation of advertising activity by Schneider Electric in Figure 3.

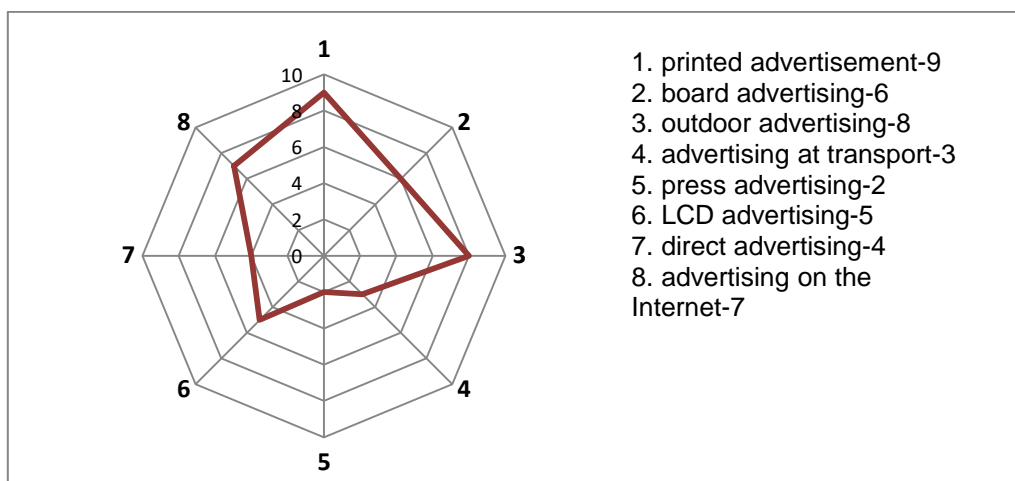


Fig 3. The radar chart shows the effectiveness of advertisement use by Schneider Electric

The presented diagram shows that Schneider Electric Corporation uses all formats of advertising, however the degree of activity of advertising communication tools is different, this can be explained Features of b2b market and marketing strategy of business.

Thus, the analysis showed that the plant "Potential" as a structural subdivision of Schneider Electric has a certain balance of strong and weak sides (Table 3). On the one hand, joining Schneider Electric provides "Potential" with a fairly stable business environment, which is reflected in the provision of production targets, guaranteed sales of products. On the other hand, speaking at the production site of the French company Schneider Electric, the plant loses its independence in making many strategic and operational decisions, which is not only a weakness, but also a threat as an independent business unit.

Table 3. SWOT–analysis of the plant «Potential»

Domestic environment characteristics	Changes in external environment of the enterprise	
	Capabilities:	Threats:
	1. Entering new market segments. 2. Increasing the range of products. 3. Innovations in technologies for the production of wiring products.	1. Emergence of new competitors with aggressive strategy. 2. Demand decrease due to insolvency of consumers. 3. Rising prices for raw materials.
Strengths: 1. Production wiring accessories of high quality 2. Low price products 3. Qualified staff 4. Management System of international business	- increase in sales due to the development of new market segments; - increase in the market share due to the sale of products for low price; - growth of business efficiency due to low labor costs; - increase in efficiency through the use of innovations and management practices of international business.	- access to new European markets; -increase in the level of competitiveness of products due to the low price; - reduction of the cost of manufactured products due to low costs on the staff.
Weak points: 1. Dependence of the production program and assortment on the tasks of the parent company 2. Low level of autonomy in marketing and advertising activities 3. Low level of equipment change	- development of new models of electrical installation products; - Increase of marketing activity and advertising activity at promotion of new products; - introduction of innovations in the technological process.	- разработка маркетинговых программ по стимулированию сбыта продукции; - модернизация производства; - use of benchmarking tools for updating the range of products; - development of marketing programs to stimulate sales of products; - modernization of production.

3. CONCLUSION

Models of promotion of international companies to emerging markets integrate the accumulated experience of doing business in developed countries and local practices. Currently, there is a wide range of strategic alternatives to the development of international business. The choice of the international business model requires consideration of many internal and external factors as political and economic risks and uncertainty of demand, the level of competition. Emerging markets for international companies are a different legal and sociocultural environment that requires consideration of local features. The study of Schneider Electric activities in the Russian market showed that the company is implementing a transnational business strategy that provides an optimal combination of the benefits of globalization of operations and the benefits of adaptation to the national market. In Russia, Schneider Electric is a company with 100% foreign ownership. The study showed that Russian companies absorbed by international companies gain advantages in the

form of access to investment resources, modern technologies, and obtaining international management practices. Local production and adaptation of the product, innovation and service organization are the factors of the success of international business promotion in the Russian market.

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