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TESI DI LAUREA

**"International Marketing: strategies for developing
international markets, the ABB case on Arab
countries"**

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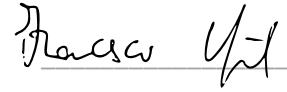
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Firma dello studente

A handwritten signature in black ink, appearing to read "Francesco", written over a horizontal line.

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Introduction

Internationalization is a process that started few years ago and nowadays is strictly connected with the strategy and the management of companies. Compared with the past, companies are forced to find new opportunities in the foreign markets and often they also have an influence in the decisions that managers apply to the national market.

Internationalization is a fundamental step for companies that want to become market leader, have a continuous growth rate and improve themselves in the current changing environment characterized by globalization and increasing competition.

Globalization is currently in a really advanced stage and the different markets are much more interconnect even compared with few years ago. The Internationalization is

In this thesis, we are going to analyze some theoretical aspects starting from the theories about internationalization and the factors that influence the success and speed of the internationalization process. This will put the bases to study the possible company's entry modes and the research of different target market to create a competitive advantage that can ensure a better profitability, increase the market share and develop the market. We will analyze these aspect focusing on the ABB case and in particular analyzing the Arab countries market that will be extensively explained below.

It will be interesting to find out that to trade with these markets the negotiation style is different from the western world, that even the communication style should be reinvented to succeed in business with these markets. With the support of our theoretical findings, we will propose some strategies to develop in the Arab markets that will be also in line with the corporate strategies and my knowledge gained on the company with a focus on that area of the world.

In general countries are approaching globalization eliminating the borders barriers, this trend become faster between 1970 and 2000. But on the other side the introduction of export fees increased the conflicts between the main international actors of globalization: United states and EU.

Globalization is influencing the way of doing business and the business organization of

the companies. The first companies that had to face the challenges provided by the global market were the multinational companies (MNCs). MNCs have always to adapt their profile and strategies to the culture of the target country, sometimes with great business success but also happen that they end up in huge losses and failures.

The connection between economies of different countries underlies the enhancement of the foreign direct investments. Reasons for FDI are currency fluctuation and decrease the entry barriers to other markets.

Because MNCs can bring interesting advantage for a country, like money and job, there are many techniques that governments use to attract the attention of the MNCs, for example, they can offer lower level of taxation or a more flexible job market.

The presence on the international markets is perceived from managers, as an opportunity to increase and maintain their market share, in this way, the target could be also to gain market share faster. Internationalization is also one of the effect given by the input to change for companies, the possibility to strive to obtain new potential demand and keep the current demand, require financial resources investments directly on the factories located abroad.

Go abroad is an extremely difficult process and could be compared with the startup of a brand new company; crucial is the planning of a strategy that if missing, might lead the internationalization project to a sure failure.

Nowadays also the SMEs have the opportunity and the need to do business abroad, they follow the way already traced by the MNCs, because of ABB is present in more than 100 countries, we will focus more on the MNCs approach about the internationalization listing the correct precaution and a good international management and strategy.

The internationalization for a company is a process that takes place with a gradual development with a step by step approach, it is strictly connected with the level of the acquired know how, resources, innovation, technology, etc (Leonidou, 2002)

Because the process is gradual, the internationalization process can be afforded only when the company is well established in the home market and then the foreign markets

are used to growth further.

Moreover it has been observed that companies tends to start their internationalization towards country that they consider closer and more similar, in this way they can mitigate the uncertainty level connected with the new markets (Johanson, 2003)

Whichever the objective of the international development of a company, it should be attributed to the willingness to build, and sometimes recover, its competitive advantage in the international environment, taking advantage of the opportunity offered from the foreign markets.

The International marketing strategies that are treated in this research, become fundamental for the survival of the company, in an environment characterized by a continuous transformation and an increasing inclination towards a higher level of globalization of the markets.

Therefore, is necessary an innovative expansive orientation of the corporate strategy with the objective innovating/adaption of products and processes, combined with an allocation of resources in more profitable markets that often are identified in the emerging countries, in the end we will propose some strategies that can allow ABB to develop its market share continuing following the highest corporate strategies settled in the corporate strategic plan.

It is fundamental for companies a redefinition of their internationalization strategies and a new selection of markets: in this context, they should take into account that the identification of the foreign country and the entry and expansion mode in that country are the most critical strategic decisions that a company can face.

Chapter 1

Globalization and internationalization of markets

We have seen that the context in which companies operates changed radically, the borders of different markets nowadays doesn't correspond with geographical borders, eliminating the barriers that previously separated the competitive space between big and small/medium companies. This was generated by the historical transformation that is commonly known as "globalization" and that leads to the internationalization of markets (Valdani, Guerini, 2000), thanks to which the relationship between companies and environment changed and seems that they both have to change their strategic approach in favor of the creation of alliances to face the new competition.(Hutchinson,2007)

During the years the meaning of the word globalization and internationalization was confused and mixed up, everyone knows to live in globalized world, but the border of this phenomenon and most importantly, the consequences that it brings are not always so evident and homogeneous (Grandinetti, Rulliani, 1996)

It is needed to clarify those terms in order to have a more precise definition.

First of all "Globalization" and "international" are usually treated as equal even if they have completely different meaning.

Globalization describes a process by which national and regional economies, societies, and cultures have become integrated through the global network of trade, communication, immigration and transportation.

According to the economic meaning, the term globalization refers to an integration process that reduce, and eventually eliminate, the obstacles that are between the free circulation of goods and services, capitals, resources and knowledge.

This process creates markets that neglect the national borders and become global. The result is that today companies have to pay attention to their competitors even if they are not part of the same country because the distance is not a factor that can protect against competition.

What's the meaning instead of internationalization, and which are the consequence on companies?

“Firms that seek to derive significant advantages from the use of resources from or the sale of outputs to multiple countries/continents fight from their legal birth” (Madsen, T. K., & Servais,1997) Internationalization is not the mere activity of export, neither the export of goods with the simple location of them inside local stores under the control of the exporter.

It is a process that involve all the steps from the production until the final delivery, attempting to take all the best condition from each market.

In the new scenario, companies that operate only in the domestic markets, have limited develop prospective because they are exposed to the risk of being attacked by the foreign competitors. They might also manage the risk of the change of the competition because they do not diversify the markets in which they operate.

Nowadays this risk is not only up to the company that operate exclusively in the domestic market, but also to that enterprises that barely adopted an internationalization strategy, with a low number of foreign country partner and with a soft level of international operations.

During the '90 the international operations, even if they were undertaken only from the biggest companies, starting becoming more common. (Dawson,1994) To stay competitive the internationalization operations become not only a way to be more competitive but also an obliged action to survive. (Akehurst,1995)

Some of the companies that are now considered most global were not so big at the beginning of their internationalization process, according to Both Hollander (1970) there is not a straight connection between that dimension and the ability to succeed in the international market.

The rapid growth of the economic exchange between countries at the end of the second half of 1900 made the world economy much more open. One of the main reasons of the opening was that economy and politics become much more integrated. For instance, the impact of internal politics of a country, nowadays has always consequences on the world economy.

The concept of internalization is very large and can have several interpretations. The literature about it starts around the end of 1970. These first studies focused on the interdependence between economies, and how some actions on them could affect the trend of all the economies interconnected worldwide.

Among the most important authors, it is important to mention Richard Cooper with his book “The Economics of Interdependence” of 1968. (Cooper, Richard ;1968);

When international marketing reason push a company to tackle a foreign market, there exists different types of internationalization modes:

Supplier Internationalization: takes place when the company has a weak capacity in obtaining and access the market of the raw materials at competitive prices. A company that go international will be able to optimize the expanses, the costs of components and raw material.

Production Internationalization: takes place when the firm decide to locate the production abroad because of investments attraction policy operated by foreign governments or when the firm can use other production factors with more convenient conditions than the national market. In this way, the company can locate their different processes around the world taking advantage of each condition from the other countries.

Commercial Internationalization: takes place when the firm try to increase the potential demand to realize higher production volumes and reach economies of scale, this type of internationalization happen when the company is searching for emerging market with a higher commercial potential.

R&D Internationalization: takes place when the company decide to establish labs for research in more creative and technological advanced territory compared with the native country digging for always more complex innovations. ABB for instance, in Monselice take profit from international excellence of researchers coming from all over the world, this R&D team work to find cutting edge technologies and develop new patents for transformers. Italy has been chosen because of its recognized high level of universities and easy access to best in class brains and engineers.

For what it may concerns to the list above, it's better to specify that among the mentioned internationalization types, only the commercial internationalization is embedded in the field of the international marketing. The production outsourcing for instance, could be considered a mode of commercial internationalization only if the production plant would be devoted to the serve the same market, or at least market that are close.

1.1 Theories about internationalization

One of the first question that comes to mind to analyze the theories of international markets is: why companies should enlarge their operation abroad?

The international competition involves lot of companies and is strictly connected with the choice of internationalize of many industries. One of the factors that has the main influence is the increased level of access to the information, the technological development and the improvement in logistics.

For these reasons, the distance between the producer and the final customer is not anymore a key factor in competition among firms.

Nowadays approaching the international market could be seen as an extension of the success inside the domestic market or a need to remains competitive and survive.

Few years ago, companies did not make any difference between their activity abroad and the activity in their local market.

It's possible to in point out 3 theories to approach the international market:

- The theory of the international market;
- The product life cycle;
- The foreign direct Investment theory.

The authors that support the theory of the international market argue that nations can earn money from the international market from the import and export activities.

The benefits come from the fact that the exported goods have a value higher than the production costs. This advantage usually comes from the natural resources of a country, from a better quality of the climate, labor costs, technological advantage.

The opportunity cost is a crucial factor. Generally speaking, we can assert that countries take

benefit from the international market when they export products in which they are specialized because they have a competitive advantage or because they have it in abundance and import the goods in which they have a disadvantage.

On the base of the different factorial endowment, the traditional theories says that the international trade is divided into sectors, it mean that it works because countries are different in terms of production structure. This international work division increase the wealth of all the countries involved in the trade. (Krugman, Paul, 1991)

The second theory is called foreign Direct Investment (**FDI**). This theory is focus on the MNCs that decide to approach a foreign market and consists in three main factors:

- change in geographical borders;
- the property of a competitive advantage;
- the advantages coming from a specific location of the host country.

Changing geographical borders means that a MNC growth and develop its activities abroad, in this process it realizes the existence of other opportunities that encourage for the ulterior enlargement of its borders.

The property of a competitive advantage refers to a disadvantage that a company experience because it does not have knowledge of the political, economic, legal and social system of the hosting country risks connected with the currency and the language are not well known.

Besides the fact that in a foreign market all the competitors take advantage of preexisting and consolidated relationship with the suppliers and customers.

When a company decide to enter a foreign market, there should be other factors that make the decision profitable, keep the balance and restore the profitability of the deal.

Strategic advantages can be different such as a patent, a brand, some particular market insight.

At the end, there are several reason that can lead a company to the internationalization, and is also true that other international experiences can help and the experience can be used as a toll against competitors. (Moosa, Imad; 2002)

The third theory concerns the product life cycle. This theory was proposed by Raymond Vernon during 1966, Venon theory is focus on the product life cycle from the international point of view, Vernon proposed 3 different phases of the new product's development, he called them Product Introduction, growth phase, maturity phase and at the end standardization phase or decline.

The first phase called Introduction phase refers to the period in which a new product is introduced in the market to satisfy the local market and the international markets that are considered similar in terms of customer's taste, preferences and purchasing power.

Second phase is called growth phase and it leads the product to be well positioned in the market, often happen in this phase that the other competitors start to copy the product taking advantage of the low production cost because they avoid the R&D investment. (Vernon, Raymond, 2007)

The third phase called standardization phase or decline phase refers to the fact that in this step the winner will be the company that will be able to have to lowest production cost

Adler and Ghadar add a fourth phase that takes into consideration other factors like the technological level, R&D costs, the global market and the level of competition among industries.

Adler and Ghadar assume that firms decide to go international because the differences between their local market and the foreign markets became irrelevant. (Adler e Ghadar ; 1990).

The fourth phase is called the internationalization phase and is described telling that the only acceptable standard is the one in which the highest quality is offered at the lowest cost. The competitive advantage comes from the standardization of the product for the highest possible number of customer.

Firms design their products bearing in mind the tastes of customers that are homogenize by the international market. The focus in this phase is only on the cost and on the fastest delivery that could be possible.

This design process require from the company a R&D division, an international marketing department and other support structures. Key factors for the success are flexibility and initiative to challenge the uncertain market conditions.

Vernon said also that the origin of the development usually comes from the most develop country

1.2 The Internationalization Process

Given the complexity of the internationalization process, we will focus on the internationalization models developed by international marketing, this sector is quite poor of literature and the most important contribution comes from the empirical work made on the field.

The reason is because international marketing is still in a young phase and theories are not yet totally developed.

In the following part is explained the different phases that are part of the internationalization process, the different entry modes in the foreign market and the motivations that encourage firms to start the internationalization beyond the national borders.

The next paragraph analyzes all the factors that pull or slow down the internationalization process.

As already discussed above, many companies choose to export instead of continuing in the local market because they believe that this choice can lead to an easier growth of the company that is every day more competitive and crowded.

After the underlined changes, firms decided to accelerate the internationalization to survive in an environment every day more open to the international competition.

One of the main factor that encourages firms to go abroad is the high local competition, firms are then forced to find new markets for their products and new opportunities to increase the profitability.

The international marketing inquiry and develop process that are used for the internationalization, it find new reason and motivations to go abroad. .

Mostly Johanson and Vahlne (1977) have developed the internationalization process; we will talk mostly about it in the following part. In Johanson and Vahlne model the results obtained abroad growth at the same pace with the understanding and knowledge of the international market.

The two variables that determine the economical results abroad are connected with the *market commitment* and *market knowledge*.

Market commitment is related with the integration of the company's resources that are employed abroad with the other resources of the company. The commitment is considered higher if the resourced are specialized, the market knowledge are used to take decisions about the use of the resources.

Companies develop their engagement abroad following this steps:

- In the initial phase only extraordinary exportation are made;
- In the second phase exports increase and are managed by an independent distributor and then by a sale subsidiary;
- The last step is the FDI in the target country.

An Italian scholar Caroli (2008) also theorized the internationalization process. According to Caroli there are four phases:

- 1- Foreign market entry: During the first stage, the company is subject to an international evolution that connect itself to the international market. The financial and human resources investment is limited, the activities abroad are only a small part of the turnover compared with that of the local market.

The structure and procedures are still designed to the local competition, but the understanding of the international market is already in process.

Because there is not yet a structure to manage the international input, every opportunity coming from the international market is analyzed individually. The company check for the available resources, check the compatibility with the corporate strategy and then evaluate the feasibility of the project.

Anyway, these are still considered as extra activities. The lack of competences is filled with subcontracts with external companies that have more expertise in the international environment in order to create more effective marketing strategies.

- 2- During the second stage the company structure improve its presence in the foreign markets, it better defines its organization and start having a good learning level.

In this stage, companies start to acquire competences about international management that allow the company to face situations in which is required international issues. External operations get more importance and need to be coordinated at the same level of the traditional activities.

The autonomy of the internal units decrease, while growth the foreign activities and the relationships with international partners get more and more importance.

- 3- Developing the competitive position. In the third stage thanks to the consolidated position in the international environment , changes the balance of the local and foreign market; the company is more willing to enter and explore new geographic areas so there is the research for new markets.

Foreign operations might become more important than the local operations. The foreign stakeholders take importance and become relevant in terms of resources and strategic relevance.

The firm enters in this stage in a network that push for increase the progress and lay the foundation in the international market. The firm gain an international culture.

- 4- The rationalization of the international positioning. In the last stage of the internationalization process the company needs to rationalize its position among the different geographic areas in terms of cost optimization, competitive advantage, in the different geographic areas.

We can conclude saying that the internalization process finish with a consolidation of the position in all the foreign markets, it requires a complex organization of the markets portfolio and from the other side the determination of the strategic role in the company global strategy.

It needs the organization of the synergies reached with the collaboration between the other international partners. It is evident that the internalization process is the result of several types of problems: organizational, operatives, strategic; the resolution creates new competences for the foreign markets.

1.3 Factors that influence the success and speed of the internationalization process

Three strengths can influence the internationalization process. The strength that push towards the internationalization, also known as push factors. The incentive that pull the internationalization or “pull factors” and the mediating forces of the internationalization.

The impact of these forces is determined by:

- external factors;
- the company's competitive position;
- Internal resources;
- The potential impact on a range of strategic options of the firm;
- from the aptitude of creating and implementing strategies

Push forces

They are generally internal to the company and exert a pressure on the company from inside towards the internationalization. Push factors tend to create innovations and to accelerate the internationalization process, for instance to take profit of the international opportunities

Pull forces

These forces are usually embedded in the environment in which the company operates, so they are external strengths that increase the company's competitiveness and give incentives for the internationalization. Pull factors could also come to light in terms of incentives that attract or even make possible the internationalization process. They can also make the process easier and cheaper.

Mediating forces:

The display of the already mentioned forces depends from the characteristics on the company itself, from the orientation of its entrepreneurs and manager and from the forces that act on the company. Mediating forces refer to the strength coming from the interaction between the active components of the push and pull forces. This interaction determines that encourage or discourage the internationalization. When they encourage, the result is that they speed up the internationalization of the company. The manager of these factors mediates these two opposite forces. The internal dynamics of the companies weaken the mentioned forces, they work like a filter. The continuous knowledge growth of the management, their competences and orientation,

are example of this dynamic internal feedback process that happen inside the company. (Bygrave, William; 2003).

Is the mediating process that influence the actual route of the company internationalization?

For instance, is definitely true that a huge amount of financial resources or the availability of external grants can decrease the barriers to go abroad and that knowledge of the international markets can decrease the uncertainty in the international trade. Nevertheless, in the end, the decision will be always up to the management that with the mediating power will decide the destiny of the company.

Characteristics of the company itself.

The company is the focus of the international activity and it is the entity to whom the above-mentioned forces are applied. The internal decision process, strategy formulation, and implementation dynamics influence the results. For simplicity, we have chosen only two factors.

The facilitating factors that include internal resources like: human resources, capacities, competences, technologies and the human capital.

Deterrent factors that can be scarce financial resources, lack of knowledge of the international markets or customer knowledge, lack of international network.

These influences condition the reply of the company, that is the reason why companies can answer the same situations in different ways. This effect is called intermediation effect and mediate the answer of the management.

The motivations that push companies to the internationalization process are quite complex, each firm has different motivation to undertake this adventure that is usually energy consuming and extremely complicate.

We have seen that the forces that push to go international are both internal and external.

Going a bit deeper and looking to the practical experience of companies' everyday life seems that the main motivations can be categorized into: Factors connected to the company, to the network and to the external environment.

Corporate factors

The growing market globalization and the world-wide competition dictate that companies have to specialize in market niche to find their place in the global market. Only in this way, they could be able to differentiate their product from the competitors and find a profitable market segment.

Only few and very big international companies in the world are able to manage large portfolio of products. In any case, it is better to select a precise customer target and focus all the operations on them.

Because of the always-present problem of the lack of resources, the focus for the internationalization is on the advantages coming from the brand and the product.

The competitive advantage that should be taken into consideration working on the international market are: the lifestyle, the product's image, the brand niche.

Factors connected with the management

Factors connected with the managerial competences, with a corporate and international vision can definitely influence the international process.

To go international is fundamental that the management/ owner of the company has international competences and knowledge, only on this case they can transfer the international strategy in an effective way.

Management skills directly affect company's performance, if there is a lack of knowledge or experience about the international market, it will result in the firm's growth that would be under the expectations.

Usually there are some firms that are disadvantaged in the internationalization process, they are the smaller companies that are not able to find know how as easily as the bigger multinational companies. Although this assumption is not always true, it happen that smaller companies can use the leverage of other factors like their higher flexibility and adaptability to take the opportunities offered by the international markets.

In the market of transformers market seems that smaller firms compete only locally, they are not interested in the international markets because they know that would be impossible to compete with the already existing massive multinational companies.

Network Factors

The competitive advantage is not only comes from the internal resources; it is also the product of the interaction with other companies. Networks accelerate business at international level and allow the entry in new markets far away from the local market.

This expansion is achieved with the use of relationships among the participants of the network.

These relationships offers both the opportunities and the motivations to continue on the way of the international process. The importance of networks can be explained in terms of access to new knowledge that otherwise would be impossible to find inside the company itself.

These relationships are not only formal, for smaller companies, relationships should be intended also like personal and familiar. They can give a new insight of the international environment that can be the engine to go abroad.

From a formal prospective, it is possible to increase networking operations with international exhibits, sharing the same suppliers between buyers and sellers etc.

External Environment

We have seen that companies start searching for international markets as a reaction of the high competition and market saturation of the local market, so it is considered as a reaction.

According to Alexander (2000); the internationalization process often happen more as proactive choice to prevent problems connected with the saturation or any problem in the local market.

The internationalization happen a priori indeed, to find new solutions even if the company is not facing any problem in the local market.

Other external factors influence the internationalization; they are the type of industry, the sector and the products; the different sector implies a different approach to the internationalization.

1.4 Strategies & Entry modes about internationalization

Tab. 1: Export mode

	Indirect Export	Direct export
Description	Based on the collaboration of foreign mediator, it's used when there is an excess of production for which there is not enough demand. Used when there is the possibility to compete on variables like price, technology, quantity, product image	The production remains stable in the original country but the attempt is to get closer to the customers with a direct contact inside the target market.
Investments	Low	Limited
Involvement	Low and connected with intermediaries	Quite low
Control	Limited	Higher than the indirect but still low
Risk	Low and connected with intermediaries	Higher than the indirect
Organization	Based on the Intermediaries (International buyer, import/export companies, distributors)	Flexible and connected with foreign dealers, export offices, stores abroad.
Marketing politics	Not adequate	More active and manageable than indirect export
Strategy	Short period	Long period
Entry Costs	Low	Connected with transport and geographical distance

Source: BERTOLI, (2006).

Strategies of internationalization are based on the strategic planning, it is the tool used to rationalize the operation that needs to be done operating in the international markets.

It is important to make some important consideration approaching a new market:

- Analyze the entry barriers to the new market and then, eventually, estimate the potential

profitability. In this way, a company can choose where an internationalization strategy could be profitable.

- The result of the investment in the new market might become profitable only in the long term. It is a long process that needs patience and several operations like: collecting information, create a network, forecast travel cost in the target country, adapting products and services to the local market (O'Grady, 1996)
- Once a resource is operated is not convenient to go back because it might end up in a huge loss. It is better to carefully evaluate all the investments, bear in mind the opportunity-cost (that is the alternative use of the resource in another way) of every single decision.
- The environment/market change fast so better to forecast all the possibility of changes. Forecasting as much as possible can seriously prevent uncertainty especially in unknown markets where the level of experience is low and the management does not have the ability to interpret the signals of changes.
- Pinpoint the strengths related with some market conditions, potential customer characteristics and competitors weaknesses in order to decide how to enter the new market. These strengths will be the base for the enter strategy, maximizing the likelihood of success of the project.

The most important variable is the dimension of the demand. If there is sufficient demand, with a good forecasted growth rate, it means that there are the conditions for the investment of financial and human resources to design new production plant in the target country or market.

Only after the examination of these economic variables, companies start taking into consideration also other factors that incentivize the location in that specific market, for instance, the labor cost, tax benefits, government support.

The entry modes in the international market are usually identified into export and strategic agreement or collaborations (Bertoli, valdani, 2008)

Each type has different level of interaction with the main actors that operate in the international context, the control level on the competition variables and the correspondence between the economic and strategic results of the foreign operations. These variables identify the degree of embedment in the foreign market.

Choosing the entry mode, there are different factors that should be taken into consideration, they are external and internal factors, the former concern the environment in terms of geographical size, population, development level, product characteristics, competition intensity, and supply structure of foreign competitors.

For what concerns the internal factors, the most important elements are: the expansion strategy, the experience in the international market already acquired, the synergies with the entry modes already existing, the firm size and its financial resources.

1.4.1 Direct export

Direct export activities consist in commercialization with foreign markets, operative units of the export company are directly involved (Caroli, 2008).

For the transformer sector ABB uses most of the characteristics and techniques of this type of export. There is an internal sales force that operates locally on the target market, they are used because they have the highest insight about the specific market, they search for opportunities and information about potential deals. Because they have a proxy for a wide portfolio of products, they need the support of the area managers that supply technical information, support and can sustain the negotiation process. Branches are almost everywhere worldwide and the logic for the country that are not covered is that the project is entrusted to the closest branch in terms of competences, knowledge of the market, languages and culture.

The company can be involved in the export operations at different levels. It can trade directly with the final customer or with the supply chain and wholesaler. In this case, the company should keep good relationships with the supplier. This strategy can be more effective in the following cases:

- High technology production
- Production under order
- Sale of complex machinery

- Market based on tender

The organization of the company that wants to directly export is quite difficult. Direct export is managed with the creation of a sales network designed for the foreign markets.

External personnel or insiders of the company can make it. Smaller companies generally prefer the former option. They take care of all the operation connected with sale. Because their competences are general, people with technical skills might support them.

Sellers' travel costs are quite expansive and they should be carefully considered. For this reason it is better to analyze if it's better to operate with agents instead of direct sellers.

Sometimes might be better to open an office directly on the area of the business. There are three conditions that should be satisfied to proceed with this decision: relevant sales volumes, worthy sales and a business that require the presence on the territory in order to follow the strategy planned.

The representative office abroad has functions like analyzing market data coming from the territory in order to supply data to the headquarter. It also manage the logistics and the relationships with the local actors. **The most advance form of direct export have also sales offices abroad to coordinate the operations directly from the foreign country, it is fundamental to have a straight connection to the market and immediate response for all the situations (Valdani, 2010).**

1.4.2 Indirect export

At the base of the indirect export, there is the fact that the production remain in the origin country, the risks rest on independent operators that works in the same country of the producer.

There are different types of independent operators that differs according to the complexity of the company: single operator or a trading company.

Trading companies are intermediaries that are able to organize both the import and export and supply all the services connected with relevant knowledge in the international market field.

Trading companies can be independent but sometimes, they can be part of producers or financial groups.

The advantages coming from the use of the trading companies are: the big size that allow to benefit of scale economies, the high expertise in the international trade, that gives to the producer also a kind of consultancy services like market analysis, market researches about sectors and profitability of the target country.

The most important advantage is the elimination of the typical risks of export and the commercial transactions. The trading company takes care of the responsibility connected with the international transaction and it is legally and economically bound with it.

Export management companies are intermediary specialized in particular products and geographic area. Their task is to search the counterpart and accomplish all the formalities with due diligence of the contract. They takes care also of the shipping. The producer gives them the goods and then he receive the payment after a certain amount of time.

Big Buyer

They are big foreign companies that buy huge quantity of products and that have their own agents in the production country.

These agents act on behalf of a company and working in another country make researches, take part in exhibitions and other public events searching for new products to insert in their company portfolio.

Export Consortia

They are association of small companies that being together try to face all the problems connected with the internationalization process.

Their function is to put together as much company as possible, reducing the costs and help to realize the internationalization process in a more effective way.

Export consortia can decide if charge on them the commercial risk. In this case, its activity dealt with the research of potential customers abroad or taking the orders on behalf of the associated companies.

If the export consortia decides to take the risk it become similar to an import/export company.

1.4.3 Strategic agreement

Strategic agreements are collaborations of medium/long term that took importance during the last 20 years. They are an entry mode in a foreign country that allow to reach benefit that could not be achieved from a single company.

The collaboration of a foreign company has the advantage of sharing the investments needed to open a subsidiary abroad, reaching faster the efficiency and reaching a breakeven point for costs.

Companies in the agreement can integrate vertically obtaining more flexibility and realize scale economy and experience.

There are different types of agreements that allow to build partnership, below are reported the most important marketing agreement: (Harzing,2002).

- International franchising
- Licensing
- Piggy back
- International joint venture

1.4.4 Marketing agreement

International franchising is a contractual form that nowadays is spread all over the world. It is defined as an agreement for the supply of goods or services using the name of

producer(franchisor) by a supplier and sign the agreement (franchisee). The two parts involved in the contract are legally and economically independent from each other.

The franchising contract allow the Franchisee to use of the know-how accumulated during the years by the franchisor. Obviously, the franchisee is obliged to follow the guideline imposed by the franchisor and to respect the contract.

The advantages of this type of contracts are evident, for the franchisor became extremely simple to go abroad and keeping under his control the critical activities. He can rely on the financial resources and market knowledge of the local entrepreneurs.

Licensing

It's a contract with whom a firm (licensor) grant another company (licensee) the right to use a specific technology, a brand or knowledge relative to a particular process.

Usually the main user of this kind of contract are the small companies that do not have marketing resources to create their own know-how.

Licensing is used for a fast and safe entry in a foreign market, overcoming the problems such as entry barriers, and other obstacles.

There are also risks connected with licensing, providing knowledge to other individuals can create unexpected competitors. Misbehave in licensing might discredit the image or reputation of the company.

Piggy back

In this agreement the local distributor or producer offers to the foreign distributor or producer the services connected with his supply chain.

There are 2 parts: the carrier that is the bigger company already working in the target market, it takes care of the distribution. The rider is the company that wants to enter in that market.

The company that is in charge of the distribution of the product on the market can chose the

product in order to integrate the products portfolio avoiding products overlapping.

This agreement is particularly worthy if it is difficult to enter in the target market; the contact with the foreign customer is only indirect because it is mediated by the carrier on which the rider can not have any influence.

International joint venture

International joint ventures are the most advanced form of strategic alliance. From a legal point of view, a joint venture can be realized with an agreement between two or more parts with the aim of the realization of a specific project.

In the international environment it is more common to have the creation of a new joint company controlled by the parent company.

An international joint venture is a new company created by 2 or more parts of different nationalities with the aim of collaborating for a common target.

There are several models of international joint venture.

-The first one consists of a society formed by a company from a country that supplies resources and competences about the product with the aim of developing the product's market.

The other subjects are local firms that provide knowledge about the local market and the supply chain.

-The second type of international joint venture is formed by two or more companies from different countries that join forces to enter another foreign market. The joined company is created putting together the subsidiary of the parent that is already working in the foreign market.

The benefits of the joint ventures are:

-Reducing the financial investment and complexity needed to enter a foreign market;

-Clear separation of the competitive position in which the joint venture operates from the ones in which the company already operates;

-Creating new opportunities for the development of the controlling companies;

- Obtaining support from the local government that always appreciates foreign investment.

Problems of the international joint venture are instead connected with compatibility problems with the parent companies. A second problem might be related with the joint venture governance and the benefits coming from the parent companies.

Foreign Direct Investment (FDI)

Some firm can decide to expand their presence abroad through the FDI (foreign direct investment), in this way they can reach a competitive advantage decreasing some expenses like the labor costs, the energy and at the same time gaining knowledge of the local markets.

This decision is possible when the value of the final product is untouched if these factors change and the company can only benefit the savings.

The FDI is defined as an international investment made by a subject that comes from a foreign country with the aim of create a long-lasting interest in a local company. The long lasting interest refers to a relationship or to an influence on the management of the company.

The FDI is different from the financial international investment, the latter is a mere speculative investment that usually is traded in a short period with the unique aim of taking profit from loans and risk capitals.

The FDI is more oriented in the long period, it is interested in becoming part of the invested company and sharing the decisions and the management of the company itself. With the FDI is possible to facilitate the internationalization and it might be used as a tool to gain commercial, technical and financial competences about the local market.

Branches abroad can serve for different operations such as: production, delivery, selling.

There are several reasons that incentive to invest abroad, first of all, with the FDI the foreign market become much more close because the access is easier.

A FDI mean also follow cheaper production factors that can reduces the costs of the company in

order to be more competitive.

Delocalization

The globalization allowed markets in reaching a higher efficiency. Because of the increasing level of competition, the work division and the work specialization each market can just focus on its best practice achieving economies of scale and lower costs.

All these better performance have been achieved thanks to the production delocalization process. The relocation of the production process at global level leads to a re-design of the production structure. The new international context shows firms that have more technological competences, less shipping expenses and global market targets.

Delocalization is defined as the relocation of the production of goods and services in other countries, usually they are developing country. It refers to the relocation of the production from factories in the domestic market to others that are located abroad.

The production in these foreign firms is not directly sold to the market but it is purchase by the commissioning firm and then sold again with the new brand. It requires a considerable level of internationalization and skills that can be done with different forms: from the FDI to the already mentioned joined ventures or outsourcing.

The term outsourcing is also used in place of delocalization but its meaning is more general. The goods that come from abroad are also used as production input.

There are different thoughts about delocalization, some scholar think that it deplete the economy of the country, there is the loss of job places and added value. On the other hand, it is considered as an improving process that can help companies to be stronger, an important competitive tool.

There are also risks connected with the production relocation abroad. First of all the macro-economic consequence of the increase of the unemployment.

The quality and level should be monitored because with the delocalization it goes out from the company's control, the decrease of quality can affect the company image with high damages.

The delocalization abroad is not so new, it is a technique that is taking
Importance in the optics of a new internationalized type of company.

Few years ago the most common users of the delocalization were the American companies, in
the last decade it gain importance also in Europe and it is constantly increasing.

Chapter 2

International Marketing: Elements & Techniques

International marketing is defined by the American Marketing Association (AMA) as “The multinational process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives”¹(Srinivasan, 2008).

It is basically the application of marketing concepts to an international environment.

Companies invest abroad for the same reasons that push them to invest in the local market. These reasons can slightly change from one firm to another but basically they can be summarized in the following general objectives:

- Increase the long term growth and the profit;
- Maximize the turnover;
- Take profit from scale economies
- General improvement on the market position

Because most of the national markets are saturated, companies search for new markets to sell their products, new customers, try to increase the margins and a better remuneration of their investments.

Of course international marketing has some part in common with the local marketing, the bases are the same and the concepts are common in both the subjects.

Most of the analysis are made with the same tools like SWOT, positioning, critical success factors.

It does not matter where the company wants to sell, the only important thing is that the marketing plan is build on the base of valuable products or services, that they are sell at a reasonable price carefully calculated according to the target, with efficient marketing campaign and distributed in a well analyzed target market.

In other words, the marketing director is responsible for the national and international variables both on the local and foreign markets.

Also the developing of a marketing plan might be the same for the local and foreign market, but in this case there are some differences that should be taken into account. They concern the degree of strategy and the complexity, international marketing has more variables to take into account. These variables are difficult to detect because of lack of information due to the geographical distance. Practical differences deal with different legal systems that might turn also the simplest operation into troubles.

Each different country requires continue adaptations because the reality in which it is embedded is always changing.

The international marketing is the fundamental tool used during an internationalization process. Companies use this tool as a starting point. First they need to understand and measure if the whole operation is profitable.

Then the research starts with evaluating and searching for the target country, this goes through the planning and the selection of the country that fits best the characteristics of the company.

The internationalization is a process that cannot be accomplished being in the offices of the company, it requires active on site research for partners, location, competitors etc.

People that perform well in the local market is not granted that can perform at the same level in the international market, they need training and time and most of the time are also needed new people that for instance speak more than one language.

The road map is a crucial part of the process; it takes the form of a marketing plan where all the operations are carefully studied.

Given this foreword, in the rest of the chapter we will analyze marketing into an international context. We will talk about differences created by the cultural differences, how to manage them with a proper communication in order to adapt to the local communication. We will have an overview about the behavior to take care of during a business interaction from a practical point of view and a focus on the Arab market that gives information about the behaviors to succeed in a negotiation with managers coming from that area.

Then we will analyze some more technical aspects about internationalization connected with politics, economics conditions and strategies for the international markets.

In analyzing all these areas, the central idea is the understanding of the local cultural context, that is a crucial factor to get good results.

Comparing the problems that a company has to face at local level, international marketing activities result to be much more complex and uncertain.

In a foreign market, usually, the management has less practicality with cultural, political and economic conditions. In addition to these problems, managers have to solve other issues connected with the creation of a larger activity abroad.

In expanding their frontiers abroad, companies are aware that they have to face barriers like linguistic differences and they realize the importance of correctly translating their messages in the local languages. There are also many other difficulties like the selection of advertisement channel and local advertisement agencies.

The selection of the most appropriate media on foreign markets can create problems. Usually media used on the own national market are not available on the international market. Beyond the problem of the availability, there might be also problems because there is lack of information about them.

There is not a service that provide percentages of ad coverage, nor lists of the available media around the world.

Also when there are some information availability, they are unreliable and low quality.

Another important decision is the choice of the agency to use to spread the advertisement campaign. In the last periods there has been much more international agency that take care of international campaigns, they growth hand in hand with the international companies. Among the most important international ad agency 15 are from the USA.

Also in this sector, alliances and mergers incentive the growth of global agencies.

The guide to follow to choose an ad agency are the different:

- The first council is that is better to choose a local agency to spread a message in a given area. The reason is that work for the agency are locals with a high knowledge of the market, this is crucial to adapt the message to the local culture.
- The second is to use an international agency. Coca-Cola for example uses just one agency for the commercials in 80 different nations (Burnett, 1993)

The use of these superagency is growing (at a pace of 30% per year), using this kind of agencies companies can achieve scale economies and increase the efficiency.

Not everybody agree that international agencies are the best, local and small agencies are considered more dynamic and creative than the global agencies. (Burnett, 1993)

Is not clear which is the best choice, both have some advantages compared with the others and both can be applied with good result.

Also the sales promotion can creates some problems and opportunities in doing marketing activities in foreign market.

Campaigns can be really different according with the target market. In the country with a low standard of living, consumers tend to be more interested in saving money that comes from discounts, prizes distribution.

Promotion can also be used to bypass the advertisement restriction introduced in some countries.

2.1 Cross cultural communication and the communication code for the international trade

The national border and language are getting less defined, on the other side the contacts between different languages and cultures are increasing.

The communication of the international company is strictly thigs to the culture; this communication is also characterized by a high cost level, huge effort in reducing the complexity of the international environment and difficulties in the creation of trust. Is also oportune to bear in mind that in international relationships there is a higher likelihood of failure.

For these reasons it is interesting to understand intercultural communication to decrease the risk that exists in trading with countries that are culturally and geographical far from our country.

The reduction of the complexity can be the key for the success in the internationalization process.

Cultural differences are one of the most important barrier in international marketing, and a deep understanding of this issue can represent a competitive advantage in doing international business.

We will focus on cross-cultural problems that usually are faced in international marketing, their solution is crucial to gain the competitive advantage from the company that wants to go international and expand its market abroad.

The globalization creates the issues for companies to understand cultural differences in order to do business in different nations. Managers that want to be successful in an intercultural context must gain skills to communicate cross culturally.

Communication is a basic process of the human life that allow an individual to interact in a given context in which he is embedded.

The international firm is like an individual that has to face an unknown environment and the exchange of information with the market environment through the communication facilitate the adjustment of the company.

The company has to go through three phases in the adjustment to the local communication style: stress, adjustment and growth¹.

Stress happen when an individual receive a message that breaks the internal equilibrium. The incapacity of tackle the stressing situation has two effects: the adaption and the abandon of the equilibrium situation. Because of the incapacity of face the cultural differences, often happen that newcomers prefer to leave the market in favor of a “less distant market”, even if less productive. The tension caused by stress push the company to find new solution for the adaption.

A company that wants to be international should be able to solve the cultural tensions using the communication with the local context, from where it takes the competences to react. The adaptive transformation is one of the principal function that allow the company to evolve and develop.

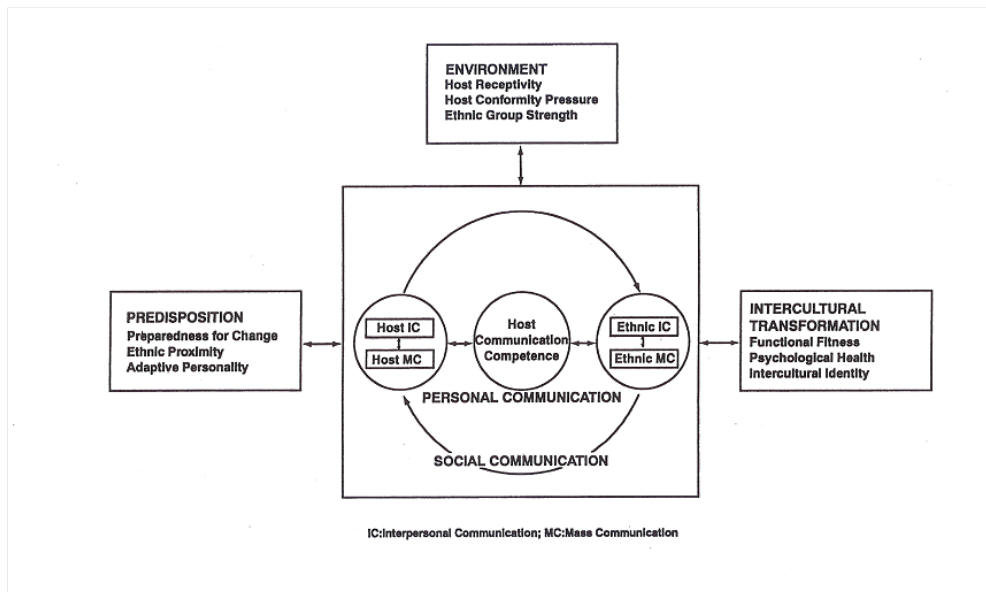
This procedure is cyclical because the adaption is alive until a new shock comes out.

During the process the company decide to embrace the other counterpart culture elements and improve its communicative competences with the local context2.

Adapting its own communication skills, that is the local language and participating in the social life, that the company can better know a culture and be able to locate the marketing tools to the market in which it operate in the most effective way.

The speed and aptitude of an aspiring multinational company to adapt to the local context depends from the communication effectiveness that can be develop taking part in communication events and practicing the speaking with local people. Furthermore, the pressure of a different environment, from one side ease the adjustment to the local context and from the other hand increase the propensity to the change of the business managers.

Fig.1: Commnication in changing environment



Source: Kim (1988).

The communication among local partner takes place mostly through communication, but it is better to underline that the communication can have different types.

Communication can be verbal, non verbal, it means with gestures, sign, posture, facial expression, all elements that change according to the dealing culture.

The awareness and the control of different communication types that can be used by people help managers to correctly understand languages and practices of the local business counterpart.

It is possible to distinguish two types of communications: verbal and non verbal (implicit and explicit)

Communication and context importance level

In culture with high context level, most of the content of the communication is connected with the physical context and with the knowledge of the interlocutors, while the codified part that is told by the message is reduced.

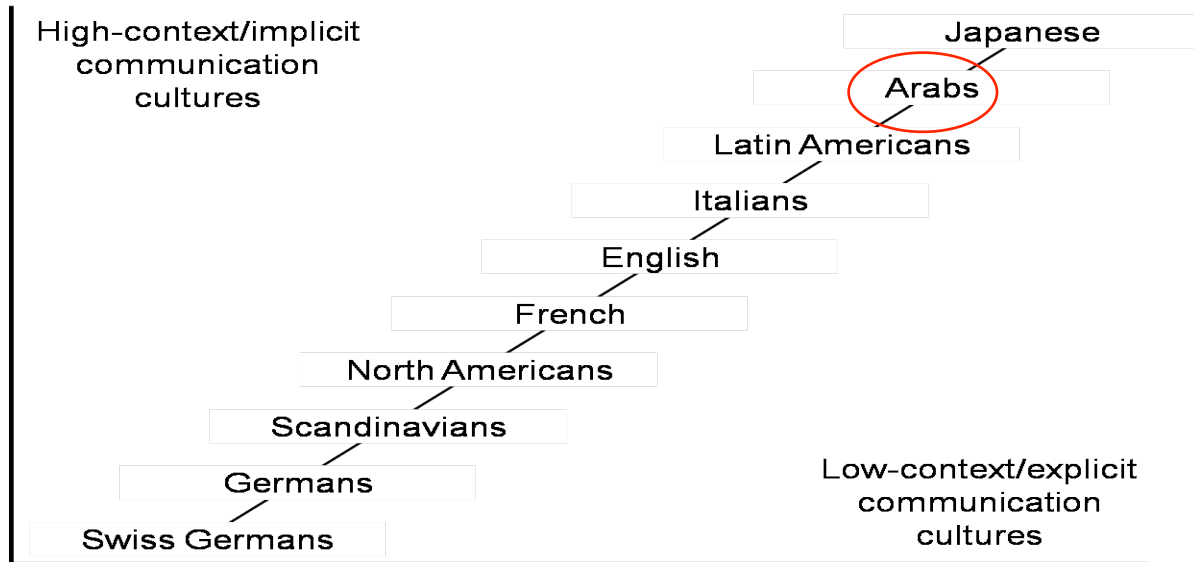
In the low context culture, instead, a consistent part of the information is transmitted by an explicit code.

The use of the language is precise and clear, messages should be perfectly interpreted and are independent from the context and from the information possessed by the interlocutors.

High context cultures are Japanese, Latin American cultures and south Europe cultures. English and French are in the middle of the rank and they are the cultural conjunction with the low context cultures. The low context culture are Swill, Germans, Scandinavian and Americans. (Bennett, Milton J.;1997).

Each culture has a different way of communicating according with the importance of the communication context.

Fig.2: High vs. Low context communication cultures



Source: www.crossculturalindrani.com

High context culture prefers long emotional relationship compared with the American's dynamical and neutral. They spend more time in getting to know each other and invest more time in activities that improve socialization (sport activities, dinners, lunch, visits). There is a possibility of contrast at marketing level when the high context culture search for more relaxed interpersonal relationship, based on the specific context dialogue; while the neutral cultures prefers get to the point faster, without having the necessity of know their business partner.

Culture like Italian, French or English are in the middle because they can adapt their diplomatic skills to the partner with their ability.

These cultures are really appreciated because their diplomatic ability, they can be ideological or pragmatic according to the situation. From the point of view of the business relationships, Italians are quite flexible and open to something new and different and has the capacity of adapting in short time and effectively to the context of the local market.

Non- verbal Communication

Concerning the non- verbal communication, it is the quantity of messages send in a conscious or unconscious way to the receiver, they regards interpersonal distance, gesture, touch, eye contact. Only the 25% of the communication happen through the verbal language, while the remaining 75% is part of the non-verbal communication.

Body management is an inexhaustible source of misunderstandings caused by cultural differences.

These different behaviors can cause uncomfortable moments or even break the relationship.

Can happen that the managers of a company can misunderstood, or totally do not know, the cultural characteristics of a country they are working with. These misunderstanding are created by the certainty that cultural value are universally shared.

The Most common differences between countries concern elements like time, personal distance, property, role in family context, competition, individuality, social behavior etc.

Another source of misunderstandings come from the way in which managers interact with the counterpart. For instance, if they act with superiority with the business partner it might end up in losing the deal, it can creates communication problems fatal for the relationships.

Its fundamental to learn cultures to know how to adapt behaviors to other part of the world to avoid to lose business opportunities.

Anyway, cultural differences should not avoid the penetration of a market just because common thought says that a product cannot be successful because of culture, most of the products can be adapted to foreign markets. (Bonvillian, Gary, and William;1994)

Tab 2: Communication differences in different countries

Body Language
In Indonesia putting hands on hips is considered as a sign of defiance
Talking with the hands in the pocket is really rude in France, Belgium, Finland and Sweden
Physical contact
In oriental culture touching other people is a violation of the privacy, in Arab country it is a sign of friendly relationships
Punctuality
In Denmark and China you must be punctual also for dinner
In Latin countries the guest would be surprised if you are sharp for dinner
Food and cousin
In Sweden, Norway and Singapore is rude to leave something in the plate
In Egypt is rude to do not leave anything in the plate

Source : Stanton (1997)

Talking about the verbal communication, the linguistic element is more critical to manage at international level. Communication is extremely vulnerable to misunderstanding, because the parts know few things about the other culture. In this situations, the risk of reciprocal diffidence is higher and difficulties to cooperate higher. The exchange of information requires a huge effort. To overcome the communication barriers and face the limited availability of information, one of the most effective way is the use of technique that try to make the message as simple as possible to understand for the counterpart.

Some technique to simplify the message are the repetition, the explanation.

Because the complexity of elements that exist in the communication, is needed the accordance between linguistic and cultural code.

Usually happen that difficulties can be overcome with reciprocal adjustment and using reciprocal effort. In the case of scarce resources and low time available a solution might be the cultural mediator, that is a interpreter of the language and culture of one of the involved part, that represent a key figure to cover and complete the existing gaps.

From the previous considerations is clear that a literal translation is not enough to get the meaning of the intercultural communication, to understand the exact meaning of a message we need to know the all the different aspects of a word in order to get the original meaning.

For what concern the linguistic aspect of communication, both verbal and written, there are some interesting consideration regarding the process of a message that goes from a national sender to an international receiver. In addition, the language should be adapted like the other variable already examined, language is not universal accepted so it needs an adjusting process. To be understood it needs a several modification divided into two phases: Internationalization and localization.

The internationalization of the language/text/communication is the generalization process that allow to support and manage multiple linguistic and cultural convention, without the needs of re-projecting everything for each market.

Localization means to the process that make the language/text/communication correct to the local target(nation, region or linguistic area) from a linguistic and cultural point of view.

Internationalization and localization can be considered parts of a wider globalization process, that is the mechanism with whom the language/text/communication become first general (internationalization) and then adjusted to the specific target market (localization). Even if the tendency of globalization is to uniform styles all around the world, in the last period there is the need to adapt messages to the local cultural context.

Of course this process is really expensive, companies need solution that are different from the complete adjustment to the language/text/ communication, for example solutions are the standardization, the use of English as universal language. Another way can be the simplification

o texts from a grammatical and syntactic point of view in order to avoid complexities during the adjustments to other languages. An example is the use of signs and icons when is not possible to substitute the written language.

An idea can be the use of English as a halfway language; the message can be received by specific receiver and then adjusted to the local context.

2.2 The fundamental role of the mediator

To continue this short overview on the elements that characterize international marketing, we can say that, whatever would be the language and location, communication skills of both the parts is the key for the success in business relationships. For these reason, the mediator has a fundamental rule because he has to face the counterpart, thanks to his competences, build, manage and conduce the negotiation process abroad.

The negotiator represents the company; the crucial condition during the negotiation process is based on a mediator crucial aspect: his credibility in the eyes of the counterpart. This aspect depends from three factors: his self-estimation, his capacity and the capacity in controlling the natural environment.

A strong self-estimation is well considered in the individualist culture, less appreciated is in the collectivistic cultures. For instance, an Italian manager that has a high awareness of his own entrepreneurial skills and a good self-confidence about managing external events cannot have a good impression facing a partner coming from a collectivist culture that prefers a more relaxed negotiation style more cooperative and friendly.

Moreover, credibility comes from communication. Managers with a certain experiences in international trade have good skills in managing the communication style. They can also control a certain degree of their non-verbal communication. Because of their past experiences, they can cough some implicit and explicit signals that can tell the credibility level that they reach with the counterpart during the negotiation.

Anyway, the mediators can control not all the elements of the negotiation, but they can be controlled before. Among these elements there are the physical aspects, gender, voice tone and language skills. This means that a good appearance, tall, healthy person has a

good impact on the cultures where a considerable part of the information come from outside. On the contrary, in country here there is a low power distance (especially Anglo-Saxons countries) they consider more people with relevant professional or language skills more than physical appearance.

In culture with a high power distance, the right to take decision is centralized. It means that during the negotiation there will be only one individual that takes decisions for the company, the chief. On the other way around, there might be more experts to take a decision if the culture encourages the tasks division.

We can summarize the consideration made above telling that there are different aspects in the intercultural negotiation process:

-Way of showing the personal status: differences can be noticed when cultures that show personal contact in a different way enters in contact, each country gives to the status a different communicative value. This does not mean that status is not important, but just that is perceived in different manners according to the target country.

-The number of decisional figures: Cultures have different schemes that can change the corporate decision settings. Number goes from one in individual cultures with low power distance until more than one in collectivist cultures with high power distance.

-Decisional process: In individualist cultures the decisional process is immediate, the power is controlled by the negotiator that has the task of bargain, evaluate and take a final decision. In collectivist culture, with high power distance, the final decision is on the shoulder of a group of people.

Because of high variability, in international trade is needed a high level of tolerance and appreciate the difference and build a good relationship with the new culture. The managerial approach is now focus on the cultural sensibility. The awareness of cultural difference can be achieved with the following managerial skills (Cova, Bernard, 2000):

- Flexibility, adapting behavior and other communication style to context and situations;

- Perception: can be improved paying attention in verbal and non-verbal signals and analyzing them according to different cultural context.
- Active listening of the international counter part
- Transparency: explaining what you are going to do , but also how and why you want to do it in a clear way;
- Relational skills: managing communication styles also when they are completely different from your own
- Conflict management: actively modification of your behavior to prevent and manage conflict situation.

Generally speaking, it is all about be available to familiarize with a different culture, it means learn some words of the local language (for example greetings), eating typical food, take part in traditional local events. These are all activity that can have a good impact on learning the counter part and are part of the marketing activities in order to build relationships.

This behaviors are good for a positive mood to the negotiation.

With the knowledge of cultural differences is possible to overcome all the barriers that come out in the bargaining process.

With the aim of establish short or long lasting collaborations, negotiation is based on credibility and trustworthiness.

This elements are built on different components, trust in a person is based is made of components that have a nature that is defined hard or soft.

Soft is for example the corporate culture, the capacity in building personal relationships; hard can be the technology, the organizational structure, strategies, and the turnover. The complexity is high because the negotiation process is both in soft and hard components and works at the same time. Because the negotiation process is based on both cultural and structural problems, is better to make a research to have good results.

Researches can be made using exhibit, fieldtest, mother tongue employees, local subsidiary and Internet.

However should be considered that these tools are not enough because lack in practical activities and focus only on economical aspects.

It is better to bear in mind that intercultural formation is a human science that has nothing to do with economic interest, only with this awareness is possible to fully take profit of the market potential.

To have an effective communication is needed that the message goes through the sender to the receiver; it has to be based on a common language code, which is the true essence of the international business.

Like we have seen before, languages have a great impact on several aspects of international management like: communication, negotiation, knowledge transferring and trust creation. Despite the existing differences, the involved parts tends to undervalue these differences in the international trade. The result is that the communication becomes an incredible high barrier in trading. When companies go abroad they skip the analysis of the language problem, they try to solve it on the way without an appropriate planning. Usually linguistic problems are treated in a superficial way, they are too focused of the business without considering that language is a key resource that might facilitate the negotiation.

Because language skills are connected with people, communication processes are tight to the human resource management.

It is also important that each person have different way of interact with foreign people, talking another language personal relationships are created in a different manner; they can be stronger if the mediator has good interpersonal skills.

This consideration should be seen also in the optics that language is structured into three levels: every day spoken and written language, corporate language and technical jargon. They affect management processes and on international integration processes.

Assuming that language is a tool to transfer information and knowledge, there are different possible uses of language:

- The instrumental prospective: language is a factor that complicates communication and suggests the use of a common corporate language.
- Cultural prospective: the firm is culturally involved and linguistic differentiate so there is the need of different language solutions;
- Political prospective: connects language to power, there is the certainty that is necessary a common linguistic code and language inside the company even though it can creates issue of national prominence limiting the integration possibilities.

The most used common language is for sure English, it has without any doubt all the characteristics voted to this role: it is the most spread language at international level. Anyway it

seems that it is not a universal worthy solution. It for sure facilitate the communication, but it shows some difference in the fluency of the language. English can hide a false communication and a false sharing of the contents.

Therefore the use of a common communication code is a necessary condition but it is not sufficient to reduce the complexity and create sharing, understanding and affinity of parts involved in the communication process.

If it is true that with English is possible to communicate with everyone, on the other side is better to put attention in communication because the counter part has a different culture, it means that he can misunderstood some information. Local language is a sure advantage to involve the counter part in business relationships.

Many companies do not have enough resource and time to dedicate attention to the local culture, it is at least necessary to consider the other culture with due sensibility and flexibility.

2.3 Negotiation in an intercultural context

In this chapter we will give an overview of the negotiation process around the world, then we will focus our attention on the middle East countries and the negotiation with Arab managers that is the focus of our research, given the great importance in the ABB's strategy to develop its market share in this region with a really high potential.

Negotiation is a process that allows two or more parts to find an agreement on reciprocal interest matters. This process is made of different perceptions, elaboration of information and reaction all based on a specific vision of reality, on implicit preconception regarding the issue and social expectations. This is even more evident when the negotiation is embedded in an international context, in this case cultural differences should be managed.

Negotiation is crucial in the B2B sector like the one of transformers, a good negotiation can generate profit to the company in terms of money, in terms of new strong relationships for future business and can be useful to swipe information about competitors. Managers should be well trained to achieve these results.

Negotiation is basically made of two dimensions, substantial and procedural, the last one is irrelevant when both parts comes from the same cultural context, it can be an obstacle when parts come from different countries with different cultures.

In this case is better to plan the procedure to follow before starting the negotiation.

An apparently easy negotiation process becomes way more difficult in a intercultural context, and complications tends to increase exponentially. Actually could be not really smart to negotiate at international level with the conviction that it's the same the whole world over. This mean that even if an foreign individual is wearing western clothes, speaks English fluently, love western food and sports; it could be a big mistake to consider him culture the same as a western person.

When you have to bargain with people that come from different culture, the effective style used during the domestic negotiation cannot be so effective also in international negotiation, it can be also damaging indeed. In negotiating with other cultures are necessary wide openness, attention for details and modification to some behavior that are obvious.

For example, would not be so strange to get an invitation to join a sauna, Finnish people love sauna and usually take important decision or strengthen relationship in this context (that's a reason why there are 1.5 million sauna for 5 million people in Finland).

Different culture determine different negotiation styles, they are influenced by geography, history, politic system.

During the negotiation, parts cannot neglect the counterparty presupposition, stereotypes or any other form of cultural form. In an intercultural negotiation, most of the experience accumulated through the years in the domestic market can be totally useless, especially when some rules are considered unacceptable from the other part.

A great bargainer according to the western standards- persuasive, good speaker, that is able to reply to all the questions effectively- can appear to be too much aggressive, superficial, in the eyes of people from another culture. For an American, honesty and easygoing mood are considered good quality and should be considered as a compliment. It is not the same in England, where for example, the adjective aggressive is considered pejorative, while for Japanese the characteristics that are appreciated in the States denote lack of self-conviction and hypocrisy. In Japan, and in other Asian culture, good meaning have adjectives like reflective, comprehensive, caring and respectful.

Even the meaning of negotiation has different meaning according to the cultures

In the Middle East, the word compromise has a negative meaning. For an Arab person accept a compromise mean a lack of virility.

For Mexicans conceding a compromise is a matter of honor, it means to renounce to their own proud and integrity, both highly considered.

For Russian proposing a compromising it is a symbol of lack, put apart a request already made to the counterpart means submission. On the other way around, when someone propose a compromise to Russian, their reaction is trying to takeover because the compromise proposal is considered a symbol of weakness and then an invitation to launch an attack.

Studies about negotiation at national level focus on commercial relationships, tactics, and negotiation strategy. In an intercultural context, more than the usual rules, it is better to be aware about small differences that come to light in relationships among parts.

2.3.1 The negotiation process around the world and in Middle East countries

In ABB corporate culture the main important issue in negotiation is *Integrity*, all managers must bear in mind the ABB ethical code before starting, and during each negotiation.

Nothing can disregard from ABB Code of Conduct. However, the customer's Code of Conduct may be inconsistent with ABB's. Managers must refer to ABB's Code of Conduct and explain that ABB is committed to ethical behavior and thus a formal submission to the customer's Code of Conduct is not required. If in doubt, managers should contact the local lawyer or integrity officer. ABB's sales contracts and relations with customers have been a source of compliance issues in the past. Area managers have to keep alert for any indications of improper conduct during negotiations.

ABB set some general guidelines to put their negotiators in a favorable position when negotiating contracts with partners.

For significant contracts, consider the following:

- For significant contracts, pass through main contract liabilities.
- Seek an on-demand bank guarantees for advance payment, performance and warranty
- Provide a cushion“ for key deadlines, so that suppliers are required to perform in

advance of your Customer's deadline.

- Try to obtain payment terms which are no less favorable than the ones offered to you

by your own customer. Consider synchronizing payment obligations ("pay when paid"), provided that it is legal to do so in your country.

- Cover potential supplier bankruptcy by early transfer of title and right to take over equipment etc.

According to classical theories, the negotiation process is made of four steps: *Openness, information exchange, persuasion & concessions and agreement.*

Even though these four phases are always present in all the negotiations, strategies, tactics, contents and duration, like also emphasis and importance- given to each phase can present substantial differences in the cultures that face each other on the negotiation table.

Openness is centered on the relationship building process among parts. In this first step information connected with the issue are not considered, the aim of this step is just to get to know each other.

A difference between Americans and Japanese is that the latter gives more importance to personal relationships in working environment, so Japanese put a huge effort and time in this step compared to the firsts. This cultural difference tends to generate conflicts increasing possibilities to do not close the deal.

In Japan the negotiation starts with the introduction of the parts made by the mediator, this figure organize the first meeting. The negotiator usually has good relationship with the buyer so he can influences his decisions: because their relationship is very important, they would always try to agree. The mediator is always present during all the meetings, he intervene in case in cases of problems between the parts and is with them until the signature of the contract.

For some cultures feelings and relationships are more important than business itself: the problem can be often related about the success in obtaining a good relationship with the company and

people more than having economical profits. They know that relationships can be more profitable than a single transaction.

Honesty is an important value that can make the difference in some countries.

Information Exchange consists in supplying information concerning the issue in the object of negotiation. In this phase parts examine the presented information, that can concern the needs and preferences of the counterpart, and its expectations concerning the convenience of the available alternatives.

The important phases for the good result of a negotiation is the collection of information, only when the purchaser feels that a trust relationship is created, he will start bargaining about the deal itself.

It's important to understand the point of view of the counterpart: continue request for information need to understand the needs of both parts. For a deep understanding is better to interpret the information according to the context in which the parts are involved.

Each negotiation phase can lead to questions that is better to answer. The emphasis is on detailed and exhaustive information.

Kick off meeting is useful just to take information, this information will be given to supervisors that will proceed to carefully analyze them.

Before making the offer would be better to know what the other part wants, that's why the first part of the negotiation is always slow. The analysis is to avoid mistakes that can be expensive.

Persuasion is used to change the point of view of the counterpart, in the attempt of getting closer to our point of view there are several persuasion techniques; it is a process that usually takes place at the same time of other negotiation phases.(for example, the persuasion can take place while parts are exchanging information). This phase is delicate because can lead to the failure of the negotiation, if the contract can be closed only with excessive concession the deal would not be convenient anymore for the seller or if the buyer do not receive the expected concessions it will leave the negotiation with the loss of the deal.

The amount of concession and the flexibility of them is connected to the market and to the culture of the country. In the UK for example, negotiations are quite short and at the end they ask

always for a BAFO (best and final Offer), this kind of offer is the type “take it” or “leave it” and will give a considerable saving of time.

Too long negotiation can undermine the harmony of the negotiation, if the customer is important is better to keep a good relationship and avoid losing the face.

If the initial phase is bring ahead with success, there might not be the necessity to bargain the price. Important is to have always alternative solutions.

The conclusive phase is concessions and agreement, it happen there is the agreements between parts that is acceptable for both actors, to achieve it is necessary that they both make concessions.

According to the culture, don't keep a promise is more or less tolerated. Most of the time negotiations end with the signature of the contracts but sometimes things is different. Some culture can give more emphasis on the legal or financial aspect of an agreement, others put the attention on the feasibility of the work, other cultures focus on the practical problems connected with the work, other on the actualization. Americans talk about the deal, Japanese talk about the relationship.

Culture influences the way of see and evaluate the social interaction connected with the stipulation of the contract.

At the beginning of the negotiation French tends to speak just about general condition while Americans tend to start discussing details form the beginning. While the for latters the negotiation is made of concessions and compensations, for French the importance is to set up some general principle that will guide and determine the evolution of the bargain, a sort of frame on which they will build up the contract. In the Arab world the promise given can be binding for a written agreement, to insist on a contract might be considered offensive.

For a Greek the contract is just the declaration of intents for future job collaboration, the negotiation is closed only when the work is done.

Mexicans think the contracts gives the guideline but it can not be used in the real world so the focus only on general issues.

For ABB business, the Arabic country gain more and more importance in the business world, their geographical location and the natural resources found in the Middle East region transform them into key players in the international trade. Cities are building at incredible pace and there is the need to build substation to connect them to the grid, this represent an important market for the electric transformer and a huge ABB's market share. For these reasons became important to understand how business is conducted in that area of the world, researches are mostly focus on others countries like Japan, United States and China and the few researches that already exists are outdated.

Middle East countries nowadays are so rich that started themselves investing in European companies and firms. In this research will be treated issues regarding politics, negotiating process and strategies used by Arabic managers during the negotiation, this will help ABB's managers to decrease the cultural gap during their negotiation.

Negotiation in international context is very complicated because it requires high competences and lots of information for the negotiating party. Area Managers have to know others culture to adapt their negotiation and communication to be effectively and reach their business goals. Negotiation is seen basically in two ways: as social exchange process in which the parties try to reach an agreement that is a win-win situation for both or according to the game theory strategy negotiation is a win-lose game based on strategic and rational interaction among players.

There are 5 main cultural factors in the negotiation process: Judgment and concession making; Motivation; Attributions; Communication; Confrontation.

But how could be defined culture? Scholars suggest that culture has three main characteristics that are:

- Culture is not innate but learned,
- The various facets of culture are interrelated and
- Culture defines different groups.

Hofstede's cultural dimension theory seems to be the most advanced method to identify the

differences among different cultures, it is based on several dimension like: power distance, individualism vs. collectivism, uncertainty avoidance, masculinity vs. femininity, long-term vs. short-term orientation, and indulgence vs. restraint.

In this article we will talking about Arabic world referring to the Arabic speaking nations within the Middle east and North Africa, these areas are interesting because the high level of wealth and because of the Islamic faith is almost unknown for European managers. ABB is highly focus on this region because it wants to expand its activity and market share. Studying the Arabic culture, the most common values are collectivity, honor and hospitality. It was found also that low context- culture people are more explicit than high context-culture people, the second try to build relationship and communicate messages implicitly intact non verbal communication is very important. According to the Hofstede's dimension model the Arabic culture score high power distance, moderate masculinity, high collectivism and scored low for indulgence dimensions and long term orientation.

Ghauri found some factors that can influence international business relations, he decomposes negotiation in three different phase that are: the pre-negotiation phase, the face-to-face phase and the post negotiation phase (Ghauri, 2003). All those phases are influenced by: the background factors, the atmosphere, strategic factors, cultural factors. To better investigate about the negotiation style we take advantage of the research of *Khakhar, P., & Rammal, H.* with the Arab world. We also take advantage from the information provided by the ABB Middle East area manager.

In the research, managers were chosen because of their experiences in international business and in dealing with non-Arab managers.

From the research there were found three factors that influence the negotiation process: trust and relationship:

These two concepts are widely used by Arab managers, because they really rely on long term relationship with their business partners. It was also found that their trust is connected with the size of a company, the biggest the company, the higher the trust. Usually negotiation with Arab manager are build on a base of personal relationship with their counterpart, before starting the

negotiation is usual to have an informal dinner at the private residence of the Arab manager, they believe that this is the best way to reach fair agreement for both the parties.

-Impact of political environment: in the opinion of the ABB manager, Arab managers used some kind of stereotype to try to figure out the main characteristics of their counterparty. Arab managers, especially from Lebanon feel that they have problems in negotiating in their own country because it is evident that it is risky and that there is political instability. When Lebanon managers invite foreign managers to negotiate in their country is not very comfortable, its possible to see tank and check point in the country so foreign managers can really feel the political instability of the country. For these reasons Lebanon market prefers to negotiate in a third country location that such as United Arab Emirates where the environment is still familiar but the situation is much more favorable for negotiate.

-Time sensitivity: Time management is fundamental during negotiation with Arab managers. Negotiation with Arab could be long and time consuming because of the long pre-negotiation and relationship building. The respect of deadline is considered a message of reliability for Lebanon manager, for them is fundamental that if is settled an appointment you have to be on time. For Arab managers is a bit different, they tends to be more relaxed and easygoing.

From the study emerges the importance of “Wasta”, it is considered a very important component in negotiation in the Arab world, it could be seen as a network among Arab managers that allowed the foreign managers to contract with only one managers but actually is like to negotiate with all the network of the Arab manager. It is a worthy feature for the foreign managers because it can build a solid net of contacts just negotiating with one partner, so Arab managers use this as a bargaining tool.

On the other hand Arab managers make great concession to foreign managers because of the political situation is considered risky in countries like Lebanon, Libya and Syria.

2.4 Negotiation Process

The literature about analysis of the negotiation process has quite scientific approach. In “The role of cultural differences in the dynamic of a relationship” Battaglia, Nadin, Gobbini, propose a model that exhibit five phases of negotiation and adjustment to companies in general, in particular to the local cultural context abroad.

The selection of the above mentioned model is justified by the particular focus on the different cultural aspects, object of interest of this chapter.

The five phases of the negotiation process are summarized below:

-Pre-negotiation phase: one of the two actor search for a new partner, the objective is to create a trust environment that will be useful for a future commercial relationship.

In this phase, play an important role the stereotype that can come out from both the parts;

-Inquiring phase: in which both parts want to know the intentions and objectives of the counterpart, the cultural difference is still substantial;

-Developing phase: the negotiation start being more stable, trust is almost earned, cultural differences still persist but are not perceived in terms of difference anymore. Some cultural aspects enter like: modes of defining the contract, type of relationship and the communication style.

- Stability Phase: the cultural problems that affected the trust building are fixed, in this phase enter the problem of keeping an active relationship and attention to the local market. Intermediaries in this phase have a marginal phase and lose importance, the continuity of the relationship and the study of the culture allow to get a certain autonomy.

-Final Phase: the relationship is stationary; no one of the parts is able to offer new stimuli to continue the collaboration. In this phase cultural differences seems to be overcome, even though something does not work: the inquiry of the causes has to be done not only in economic terms but also in cultural terms because most of the failure is due to unperceived cultural aspects that show up at deeper level.

Analyzing the phases described above, it is possible to divide the negotiation process in two bigger moments: the first as a study and approach moment, the second of the real interaction between actors. In the first moment

In the first moment (first two phases of the process) it does not exists yet a business relationship between parts and the negotiation process can not be defined as “in process”. Compaies involved are limited to evaluate the environment to check the feasibility of the relationship and the advantage that they can gain from it, they do not do it directly, but with a remote analysis not on the field.

Starting from the third phase, takes place the relationship building that will lead the parts to interact with each other with the aim of achieving common results.

Obviously, the negotiation process will come to maturity only in the last two phases of the process.

An interesting consideration concern that this model takes into consideration both the possibility from the environment in which companies operate (from national to international environment) and the conditions that are at the base of the relationship.

Furthermore, these five steps are not connected to each other only in a chronological order; there is also a logical connection: each phase is the consequence of the previous one, in particular, of a specific behavior of the involved parts.

The knowledge exchange, the continue flux of information, based on the communication and on reciprocal trust is the key to jump from one-step to the other of the negotiation process.

We can say that this process is just the first step of a much more complicated process, articulated and distributed during the time, made of several meeting between the parts involved. The negotiation process can be thought as the first phase of the internationalization process that we have already discussed in the previous pages. The internationalization process is made of numerous steps, each of them made of meetings between the national and the foreign company.

More than once we said that there is not the possibility of creating international relationship without the creation of international network.

For this reason, each single moment of the relationship building implies the unification of objectives, procedures, communication styles; this harmony can be created only dividing relationships into several smaller moments called negotiation.

The sum, negotiation and positive result of these negotiation processes will lead the company to the international market. Prerequisites are: long lasting relationship based on trust and flexibility to change according to market mutation, not only for economic reasons but also under a cultural point of view.

2.5 Key factors to win in an intercultural negotiation

The obstacles in the success of a negotiation are often cultural more than economic and legal, because each part try to give a meaning on the base of its own experience, often happen that no one understand the reason of the failure. This lack of knowledge concerning the culture and

expectations- always strange and different- of the counterpart that preclude the success of negotiation with people coming from other countries.

The 2 actors of the negotiation differs not only in somatic traits, language and different way of making business, but also for a different way of understanding the world, to find the target, to show feelings and emotion, to display motivation towards interests.

Key factors to win in an intercultural negotiation should be able to understand the other perfectly, to understand what each participant wants to obtain from the other and then reach a convenient solution for both parts.

1-The key word for negotiation is just one “ preparation”. To be prepared is essential if you want to be proactive instead of reactive. Preparation can be demanding even in a domestic negotiation, with the addition of a high number of variables connected with the intercultural context, time and effort needed to plan an international negotiation increase exponentially.

Plan means to get prepared both on the technical and cultural point of view: most of the foreigner that seat at the negotiation table have both technical and operational preparation, they expect the same from the counterpart.

The lack of preparation, beyond being an obstacle to achieve an agreement, can be also considered in a negative way from a cultural point of view: in Eastern countries for example, a lack of knowledge or a rough answer can lead to lose the face. In China and other oriental countries, people are really precise and get prepared especially from a technical point of view, if the counterpart has any lack of knowledge it might be used against the seller.

The likelihood of failure in a business meeting are inversely proportional with the time invested in studying for the meeting and directly proportional with the likelihood in succeeding in the meeting and close the deal. The time needed to close a contract in an international environment usually goes from the double until six time higher than a domestic contract. Invest time in the culture of the people that you are going to meet- usually one week, but it can be also months in case of a really important deal- might be a wise choice. Another good reason to get prepared is because only in this way is possible to get which strategies can create a failure of the negotiation and be prepared to react promptly.

2- Often happen that to succeed in a negotiation is necessary a good work of mediator and collaborators. It can make sense to spend a significant amount of time with personnel of the counterpart to show them the solution and obtain their acceptance before that it arrives to managers, this is necessary in Japanese culture because the agreement is reached only after the shared agreement of the employees and managers.

In many cultures is more important the preparation that there is behind the meeting than the meeting itself, it can be just a formality to close the contract.

3-Knowing the language of the counterpart is always an advantage, even if the negotiation language is English. A foreign language can be an insurmountable barrier: words have more than one meaning and concepts and perception change from one culture to another.

If there are any doubts is better to clarify them immediately, at the same time is advisable to speak slowly, with a clear and strong voice, repeating your own position with different words

It is always preferred to avoid jargon, colloquial expression. Gestures and expression might be useful to highlight an opinion and recover from difficulties due to a different language. The meaning of quotes can change according to the tone and gestures. In all the culture always better to avoid to display anger, The presence of a double language translator always offer concrete advantages; for those that use a translator it gives more time to think about the answer.

It can happen also that a concept cannot be translated into another language, it become necessary in this case to use illustrations and further explanations. The translator can get some shaves thanks to his experience with the language, managing this shaves in the answer can give a fundamental help to the whole negotiation.

4-Because linguistic barriers always exists in all intercultural negotiation, a key for success can be the use of images. Pictures, videos, exhibits, graphs, catalogues and books, should support all the presentation.

The material can be also in English, many cultures have good English skills in reading better than speaking. Should be careful in giving material with images that are not offensive for the other culture or that traits taboo topics. The translator can help in advise about tips on the other

culture about this material. There is always time to edit the materials, while if the mistake is done might be impossible to recover.

5- People that use timing in an effective way are more efficient. Americans are really impatient in the eyes of foreigners, they are always in a hurry and needs to go back home with a signed contract. They can sign a contract just to show to their boss that the meeting was productive, they can even sign contracts that they do not really want just to show that the meeting was not a waste of time. For Chinese patience is a virtue instead, they will try to take more time to carefully evaluate everything.

6- Most of agreements has long-term implication, in many cultures the signature of a contract is not the pick of a negotiation but just the beginning of a long-lasting relationship. This is true especially for Oriental countries that will use the contract just to make pressure for following requests.

When the negotiation is with this type of culture is better to avoid general contracts open to different interpretations, it will be useful to prevent that the other part can use the contract just for his own advantage. It is advisable to write down at the beginning all the details of the contract.

7-In all negotiation it is indispensable to know when to stop because necessity never made a good bargain. It necessary to know that there could be a better opportunity, should be set a point in which is better to leave the bargain in the moment in which it is not convenient anymore. In taking a decision is wrong to think about the already made investment because the upcoming investments might be even more expansive if the decision is to continue.

2.6 Aims and actors of the negotiation process

To activate the relationship is necessary to clarify the objectives and reason that started the negotiation process. The satisfaction level of the parts is connected to their objectives indeed, their expectations depends from them.

Objectives represent also the target that the actors wants to achieve through the negotiation process and need a careful plan activity.

The targets of the negotiation process can be divided into macro-groups. The first is based on the parts interaction principle:

-*Common Objectives*: when parts have common profitable interests to close the bargain;

-*Hostile Objectives*: when parts have other hostile objectives where for example the gain of one implies the loss of the others;

-*Complementary Objectives*: when objectives are different for parts but complete each other.

The second is based on the nature of the objective:

-*Product Objectives*: when the firm needs a new supply or when the previous one is not convenient anymore. The center of the negotiation is a resource;

-*Relationship Objectives*: when the parts reach an agreement, is possible to say that they achieve a relationship that sometimes can be temporary while in other case is the base for longer relationship. The negotiator has not only the interest in closing the contract, but also to put the bases for a long-lasting relationship;

-*Reputation Objectives*: the credibility is at the base of a long lasting relationship because they need to build trust to continue through the years. One of the objectives of a negotiation is to let understand to the other part the respect already acquired to gain credibility. In this case the objectives of the business marketer can be divided into three categories: Personal image, sustain the other part image and undermine the other part image;

-Multiples Objectives: often negotiator multiple objectives for the same negotiation. It is not always decided before but often happen, that is decided in the central phase of the negotiation. Setting multiple objectives complicate the negotiation, it can cause the failure of the negotiation.

In many negotiation objectives are not evident, this means that the interaction not only creates results but also objectives that cannot be controlled in the short term, this lead to a consequence: each negotiation should be planned and have to be plan every single moment of the interaction, from which depends strategies and techniques to reach the targets.

The critical role in an effective cross-cultural negotiation process is occupied by *country managers* and *Regional (or Area) Managers*. Because internationalization is now an imperative for most of organizations, the possibility of using capable international managers represent a factor from which depends the success, or failure of the whole company. Often the internationalization of the management happen consequently, it is the natural development of the company business, or a forced choice coming from the need to compete on international markets. The most common actors in international companies are for example: global managers, expatriate managers, country managers, area managers etc.

The success of an organization, not only depends from the cleverness of the management to open themselves to the international market, the success also depends from the personal skills and personal characteristics of the people that work every day to run the company. Actually, there is not a univocal definition of the of the role of some actors that are part of the company, because their function depends from many variables such as: company type, business internationalization level.

It seems that is not possible to have a “universal global manager”, it is more meaningful to have more specialists categories: business managers, county managers, function managers. They have to cooperate among them and above all, they have to work for a common target.

Talking about the differences between the international manager and the global manager, we can summarize telling that the former is engaged in develop of multidomestic strategies, or in the exchange of good and services between countries. The latter is the coordinator of the activity around the world or the coordinator of the branch abroad.

The employment of these managers is strictly connected with the decision of following some strategies, is from them that become known the different type of managers in the context of the international evolution.

Some companies, that adopted international strategies to build a competitive advantage, started using country managers and regional or area managers, their characteristics come from their target market or from a specific geographical area. These kinds of managers are also defined *expatriate* managers when they have specific cultural origin.

The area manager has the responsibility of taking care of a given geographic area, it has a relevant strategic importance. The area managers can be defined commercial operators, not often resident in the target market, but they have a great knowledge of their market. They are coordinated by the International sales director, together they take part to the definition of the develop of the objectives of the sales plan of the specific area. The activity of the AM coordinated by the international sales, starts from the studies done by the Strategic business development and market studies, that through feedback supply information collected during meetings, exhibits and international events.

It is a complex activity, thigh with many others with the aim of the promotion of new bargains and develop of the existing one. The ABB area managers have functions like collecting information from the market, support new sales plan and more effective strategic objectives, besides:

- Participation in promotional events and launch of new products both on new markets and on the consolidated.
- The presentation of the commercial offer to negotiate the customer specifics and technical/economic needs of both parts;
- The negotiation of the commercial offers with the customer until a shared agreement of the contracts conditions.

It is evident that this wide range of activities, connected with the role of negotiator, requires not only deep technical and economical knowledge of the area managers, but also good relational

skills that help him to manage in the best possible way, the process that goes from the pre negotiation phase to the signature of the final contract.

2.7 Definition of marketing research

The disposal of information is useful to reach a competitive advantage, to the development and reach commercial success of the company. Anyway, knowledge cannot be taken with a general meaning; the firm should follow a direction and get insight only of specific and needed knowledge. There is the need of a tool that set the time and managerial resources required to gain these knowledge.

Might be useful to know opportunities and modes of market research, to select the best tools to use during the research and realize the best decisional results.

There are many definition of marketing research, there was also the superimpose with the meaning of “market research”, actually used improperly to describe all the activities of the marketing research.

The context covered by the marketing research is much wider than the market research, the former can be defined as the set of studies with the aim of detecting the information useful for decisions in terms of products, distribution, promotion and commercial facilitation, selection of the target market and selection of selling methods. Basically, it is connected to all the aspects of the commercial activity, from the idea of the product until the complete customers’ satisfaction.

The definition of marketing research given by the American Marketing Association is: *“Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.”*(Gundlach, Gregory, and William, Wilkie,2007)

The activities of the marketing research are well defined, while the objectives are less defined.

Kotler put the accent on the objectives, with the aim of sustaining management in the decision about the direction of the firm: “systematic planning, collection, analysis and data presentation of relevant information for a specific marketing situation that the company has to face” (Kotler, 2014)

The term marketing research, instead, refers to smaller researches than marketing; they are connected to the individualization concerning a particular market. The help to define a strategy and with more detailed and operating researches.

In the end, both the types of researches are quite similar, they both have the aim of supply meaningful information to develop the decisional process.

Researches are a fundamental tool to decrease (eliminate is impossible) the risk connected to a corporate decision. They are useful especially in synchronizing the market demand and offer, helping the company in satisfying the customers.

Basically market researches satisfy two fundamental needs,

- Make available all the information and statistics data to take a decision;
- Developing new competences

Market researches can be classified into two macro-groups:

- *Qualitative researches*: with the aim of understand a phenomenon through the definition of its concepts and characteristics. Qualitative refers to the term in which results are displayed, they cannot be represented with numbers;
- *Quantitative researches*: with the aim of supply information in a numerical way. They might be affected by a statistical error

From an operative point of view the qualitative research has to satisfy the following objectives:

- Give concepts, expressions, behaviors

Inside the qualitative researches we can find explorative researches, they are used to verify hypothesis. The explorative research is the first step of studies planned to give information and take a decision. It is designed to obtain a preliminary vision of the situation.

The explorative research is based on a flexible method. Is not required the use of specific techniques or experiments. The most common approach for this type of research are:

- Research on academic articles
- Interview to experts
- Group discussion

The explorative research can be also useful to find alternative action plan, with the hope of including the optimum in the alternatives.

Among the qualitative researches, we can include both the descriptive and random researches.

The descriptive research, describe the characteristics of the studied population. The descriptive research is possible when there is already knowledge of the marketing variables.

The research should inquiry the size of the market, on the single brands market share, customer profiles, preferences and customer habits.

Descriptive researches can be done on the events that happen more than one time in a given time period and on the single event that happen just one time.

The objective of a random research is the identification of factors that depends from the market behavior and the evaluation of causes of event on a given population.

2.8 Market research steps

To satisfy the objectives of market research inquiries should be done with a really precise methodology: each research has to be settled with a scheme made of consequent steps. Anyway is better to highlight that market research can not be done following a strict pattern.

After this consideration, the main phases of the process are:

- Definition of the problem;
- Aim and objectives of the research;
- Research plan;
- Economic evaluation;
- Elaboration and analysis of data;

- Final report.

Before trying to find a solution to a given problem is better to define as best as you can: should be explained in all its aspects, in its nature and dimension. With a better understanding of the problem is possible to elaborate a better solution.

Defining a problem requires a perfect understanding of possible objectives and opportunities that might come from it.

The definition phase takes place during the first contact with the customer.

To analyze precisely the phenomenon the situation should be analyzed according to three fundamental elements: object, phenomenon size, timing in which it takes place.

The analysis of the situation is done to obtain news, data and information that are indispensable to know the operating condition of the company.

Only through the analysis of the situation, the researcher can understand the relationships between the company and the market, clarifying the problem in all its aspects.

Often is made a preliminary analysis, it is useful to avoid useless further analysis and leave just the most important. It is useful for at least three reasons:

- Help for a better specification of the research target;
- Highlight the most meaningful variables
- Tells is the model is efficient

This inquiry precedes the actual research, the aim of the explorative research is to better understand the problem and a first classification of hypothesis that are made when it has been classified.

Once that the problem has been recognized, should be defined the aim and objectives of the research.

The aim is a research proposal from the customer. It tells which is the problem, defines what is necessary to know and which decision should be taken to solve it. Is necessary that this aims is clear , sure and approved to avoid to start a useless research. It implies a complete agreement

between parties about three aspects: Problems (and opportunities) that should to be achieved, the alternatives to evaluate, the nature of the receiver of the market research.

When aims are clear they have to be transferred into concrete objectives to follow.

In defining the research objectives it is indispensable operating through different phases:

- The develop of a research hypothesis;
- The individuation of research questions;
- The delimitation of the research sphere.

The formulation of a research hypothesis allows the immediate definition of research questions; they come from a careful evaluation of marketing problems referring the research hypothesis formulated.

With regards the third phase it is essential to consider the set of the elements connected with the study, the characteristics of the research and the accuracy requested for the results.

Consequently the research objectives are needed to define the research objectives, telling the information that have to be develop in the questioner. Each question of the questioner should inquiry about an objective of the research, if this correspondence is not respected there will be the collection of useless information.

Research plan is a simplified representation of all the elements needed to do the problem analysis.

During the planning is also taken the decision regarding the use of external market research specialists. Companies use them in the following circumstances:

- The internal personnel lack of the specific competences or experiences;
- The internal resources can be insufficient to complete the market research within the time limit;
- The external supply, because can take advantage of experiences can be less expensive,
- Political considerations can lead to choice to independent experts.

A research plan can follow these lines:

1. Data precision level;
2. Result type: looking at the research objectives, the company can collect only qualitative information, or both;
3. Fulfillment timing and total costs of the research;
4. Choice of the inquiring techniques and sample study;
5. Test study and questioner;
6. Determination of the elaboration modes of data: informatics procedures to data elaboration;

The definition of a research plan implies, from one side the technical efficiency problem (scientifically level) and from the other an economy problem. That are costs and time connected with the expected results.

The two problems are strictly interconnected and their solution should be searched simultaneously.

The research plan is really important and each element should be taken under control. That's the reason of creating control systems that from one side verify the efficient use of resources implied, that means the correct interpretation and execution of the operations; from the other side verify the correct and continuous application of the plan.

2.9 Localization: the opportunities coming from marketing techniques

Territory system are increasing their value and developing themselves, their competitiveness is giving them new opportunities in terms of localization, they are becoming more efficient in terms of know-how, technology, tangible and not tangible resources, market.

These companies, having the availability of more localization flexibility compared to the past due to better infrastructure for the transport, new information technologies, have to face new challenges concerning location coming from different advantages offered by the territories in competition, the evaluation to take the best choice for the territory is difficult.

The process of the competences among territories, that it was not even predictable few years ago, involves not only states, but also cities, districts and regions that try to attract investments. This competition comes from typical elements existing in the market like the efficiency and the exchange logic.

In the last years seems that is dominant the internationalization logic to gain competences and investments in a faster way.

Some companies for example, are already equipped with territorial characteristics that let them compete at international level, while others can plan some marketing action, finalized to the creation of localization process for the promotion of the current opportunities of the company.

In a recent past, even with a high competitive level, because the low use of competitive leverage, allowed the companies to follow internationalization politics. Recently, the transformations of the strategic management, mostly connected with the globalization process, lead the companies towards complexity and the need of the develop of new skills. Most of the complexity is due to the new mechanism of the competition, the tendency “ realize all the types of projects, for each customer (customization/standardization), in each place (inside the competence area) in each possible quantity and including all the possible services taking into consideration of the environmental compatibility and the profitability”. (Paoli, 1999)

The impact of the complexity on the companies interested to the internationalization translates in different decision of the companies. These decisions can be summarized in the new context of the target market, it is part of the companies itself and of the internal organization.

The process of internationalization interest also the SMEs, in the last years there was an increase of the mini-multinational facilitated by the investment attraction policy of many countries and by a poor domestic market.

These conditions should act like a motivation to encourage to focus on some key factors, for example the R&D, or the internationalization of production and most importantly taking advantage of the networks, advanced corporate function like marketing with an adoption to the local context.

The challenge of the globalization happen at competition level doesn't matter the sustainability of the internationalization form.

As already said, one of the most important variables to take into consideration is the culture, that is an element that works at all the internationalization level, both strategic and operative marketing.

Part of the economics studies underline the importance of the low cultural distance as a criteria to chose the target country, but this is not always true. A superficial insight of the country can hide deep differences among countries. Markets that are ignored because considered distant, can on the other side be great opportunities for the develop that only a careful analysis can shows.

This is to underline that often the choice of a country is usually made with lack of knowledge, that makes the choice even more difficult and increase the perceived risk.

It's from the study of the context and from the no-economical variables that firms are able to divide the market into areas that are more or less cultural alike, with similitudes in terms of languages, religion, economical and political system.

After the study of the cultural environment, economical indicators, demographical data, commercial techniques and local traditions companies can start identify the areas in which they can use marketing techniques similar with the domestic country or decide to make modification useful to localize each single element of the marketing mix, in the respect of the hosting country.

If from one side it is necessary a deep study of the external environment of the company that wants to go international, on the other hand the collected information are the base for an internal adaption.

In the international marketing strategy, firm should use an adaption in two directions: the traditional operative and the localization of the marketing mix, adapting the company's internal resources to the local market.

The local culture of the market, is not only a variable that influences the intercultural business environment but it is also the context in which all the transaction with the company's clientele happen.

The culture is not only a factor among the others that influence the international transaction, but a fundamental variable that influence all the marketing interaction. The culture modify the purchasing behavior, the spreading of innovation, the choice of the product policy, the brand price definition, packaging, website, distribution and promotion.

In the following paragraphs we will analyze these aspects referring the cultural analysis of a country concerning international marketing tools, with the aim of understand the main traits of the marketing mix localization.

The choice between standardized approach and localized/customized approach create quite a lot of problems because of the high amount of factors that should be taken into consideration by the company. There are several decisional model that support the choices of localization, if from one side, the company can think about not modify the physical characteristics of the product (the packaging for example) to keep the price low. On the other hand it can decide modify physical and symbolic characteristics to satisfy the customers' desires even with the increase of R&D costs, projects, marketing and distribution.

In our case, transformers are products that is highly customized and does not give so much space to standardization. Each country has its characteristics both technical (for example in some countries the frequency is 50Hz while in others it is 60Hz) and dictate from traditions (in the UK the shape of transformers is traditionally different from the rest of the world).

Finding ways to standardize parts of the products is crucial to create economies of scale, a considerable part of costs can be saved using projects that have been already completed in the past in order to avoid doing another project starting from a blank paper.

There are several implications coming from these choices, and to better understand what comes from the localization or standardization, we will present the physical attributes, symbolic and service according to the request of the local market and cultural context.

Physical characteristics:

Some form of physical adaptation are really necessary to accomplish to law or national standards. There are many regulations and often they are not about culture but just technical.

The compulsory adaption is less difficult because the technical information are quite easy to find, they are provided by the electricity provider and utilities.

Also the local collaborators and distributors can give information about the local market, telling to the company the specifics that the product must have to be commercialized on the market.

For what concern the forced adjustment, they come from the study on the territory of the culture.

In the different situations that require the adjustment of the product, there exist also favorable conditions to the international standardization. It is the case of the global products and innovations that need a lower adjustment because their international vocation and high level of innovation.

The adaption to the international standards is one of the most important issue in the cost reduction and international spreading of the products, especially for products with high technological contents.

Anyway, it is better to underline that, even if this kind of product are easy to adjust on the physic aspect, the localization should be made in other marketing field like the negotiation or the interaction of the local actors.

Service Properties

The needs about the service are really different from one nation to another. Like for products, also for services, there are some characteristics of the local market that the company has to know to localize and adjust its services to succeed abroad.

For example, in countries where there are shops with opening time not flexible, consumers can find the alternative of on line shops and e-commerce. In this kind of situation, a company should be able to adapt and select marketing tools that fit better the needs of the consumer, using the on line sale or a call center open 24/7 according to the local preferences.

In the same way, for transformers services are perceived in a different way according to the country. In countries that are considered more “technological” a phone or on line customer

services is considered sufficient to solve critical issue, in other countries, like the Arab countries, is absolutely necessary a customer service made of workers that have to reach personally the place in case of problems with the product.

A further consideration concerning the services is the fact that same quality is perceived in a different way according to the target culture. Some cultures for example, prefer a services that is not customized, other prefers a service that are differentiated according to the type of service.

Symbolic Meaning

The symbolic aspects for the customer are important, “the social meaning sometimes is more important than the product itself”. (Usunier, Jean-Claude,1996) In terms of adjustment politics or standardization of the product, colors, shape, materials, components are elements characterizing a product to which is attributed a precise cultural meaning. Symbols are like a language that gives messages.

The images of the product work on the subconscious of the consumer. For these reason is important for the company to evaluate the symbolic elements that are attributed to its product or analyze the existing one by the local population. Firms that have a high local product with strong tradition can leave the product without any adjustment, eventually they just need to check if there are some negative meaning.

The design of a standardized product, has to use a system of universally known symbols that are not object of a different local perception. They are the product that are usually supply around the world. An example is cars, they are universally able to transmit the status of the owner. At the same level, in some countries the brand of the transformer is more important.

In brief, before the launch of each product at international level each PMI should do a study of the symbolic value, verify the compatibility with the local culture and analyze the feasibility on the local market.

Standardization:

For what concern the standardization, there are different reasons that can push a company to choose this strategy instead of the localization, this can be determined by factors like:

- the product type (non-durable products for example need more effort than industrial products)
- The need that it has to satisfy
- The long or short life-cycle
- The use of the product
- The international competition

The choice of many company of selecting the countries that not need the adjustment of the product (shape, colors, components, design and other local specification), is forced especially by the high costs of the R&D concerning the adjustment, and the small dimensions of some companies. In this case, the products that can be easily standardized are the industrial products more than the consumers' products.

There are anyway some obstacles to the standardization, that refers to the habits and to the consumers habits: the products that are culture-bound, the products connected with traditions, they take less advantage from the scale economies and consequently less advantage from the standardization. They are more difficult to commercialize around the world, but not impossible.

The confirmation comes from the fact that the most innovative are the standardized products, they can be fast supplied because of their most recent international trend, the products that are used in a traditional way remain connected to the local culture.

The decision about the adjustment/localization is in the limit of adjustment itself. To make a decision, is important to take into consideration some aspects that regards, especially, the fact that each case have to be evaluated singularly, many traditional consumer product are difficult to standardize had scarce success at a global level. Furthermore another relevant aspect concern the

fact the if the management take the decision of not exporting too much, will be easier to standardize, given the similarities of the same country.

In summary, it is the analysis of the local culture that determines the standardization level of a product, even if it does not shows characteristics that need to be adjusted.

Furthermore in the same study a company is able to select the target market, because analyzing the impact of the relative costs of the adjustments politics, a company can understand the feasibility of the adjustment operations, and evaluate the profitability on the foreign markets.

The success factors of the adjustment come out from a marketing approach that is sensible to the local context, consumer oriented, and with a proactive behavior toward the local system.

Chapter 3

ABB case and strategy

In this study we are going to analyze the power transformer market with a particular focus on the Middle East market, with this definition we refer to the Arab speaking countries such as: Barhein, Qatar, Iran, Iraq, UAE (United Arab Emirates). We will always refers to SPT (small power transformer) from 5 to 63 MVA, that is the size of the product in which we are interested because they are the most sold and because the office for which I'm working for is focused on them.

Through the following chapters, we will analyze the cultural aspects of the negotiation techniques, communication styles to succeed in international business and marketing aspects that allow ABB to outperform in international trade.

Due to the great importance of relationships and trust in the B2B sector, we will carefully examine this soft matter to see how to improve them in order to successfully close a contract gaining an economic profit, but also to take home other intangible values in terms of network with the counterpart.

We will also go through different modes to go international to see which one and why has been used from ABB to approach the Arab markets for the internationalization process. Talking about the internationalization we'll provide some insight about the factors that pushed ABB to move to international markets and gain profitability, of course the choice was carefully planned and in the chapters about internalization process we can understand the reasons that can lead a company like ABB to be present in more than one hundred countries around the world.

The interest in inquiring this market comes from the scarce availability of this kind of information in that specific area, although the cultural differences in the Middle East countries encourage for a more detailed analysis that can be helpful for European managers and firms.

The ABB interest in improving the market share is fostered by the improvement of the global economic outlook and the consequent growth and demand for energy, this will push for the construction of new Oil&Gas plant. The market economies is strengthening, the oil exporters in the current forecast are going to increase to respond to the recovery from the 2008 economic crisis.

The economy of the area is optimistic for the future, there is a large plan of public wage spending that will push consumption, and a plan of public spending that involve the construction of new infrastructure and increasing confidence in political class will foster the consumptions and consequently the demand for energy. A set of reforms in the region will give the green light to several investments that are going to improve social assistance.

During the last years, the economic growth was subdued but in countertrend the sources will broaden. After several years, and for the first time in the Arab awakening, the investments are expected to rise.

Emerging market like the Arab countries represent a great opportunity for building brand new electricity transmission grid, they have to be used for the supply of electricity to cities that have been built in the last decade.

The industry of the tourism is considered really profitable, especially in the area of Dubai and Abu Dhabi, this requires the construction of skyscrapers, each of them for example, requires several power transformers for lighting and cooling systems.

Exports is also forecast to increase because Europe and GCC countries are searching for trading partners.

3.1 ABB company presentation

ABB is a leading power and automation technology company with strong market positions in its core businesses. Core business organized into 5 divisions: Power Products, Power Systems, Automation Products, Process Automation, and Robotics.

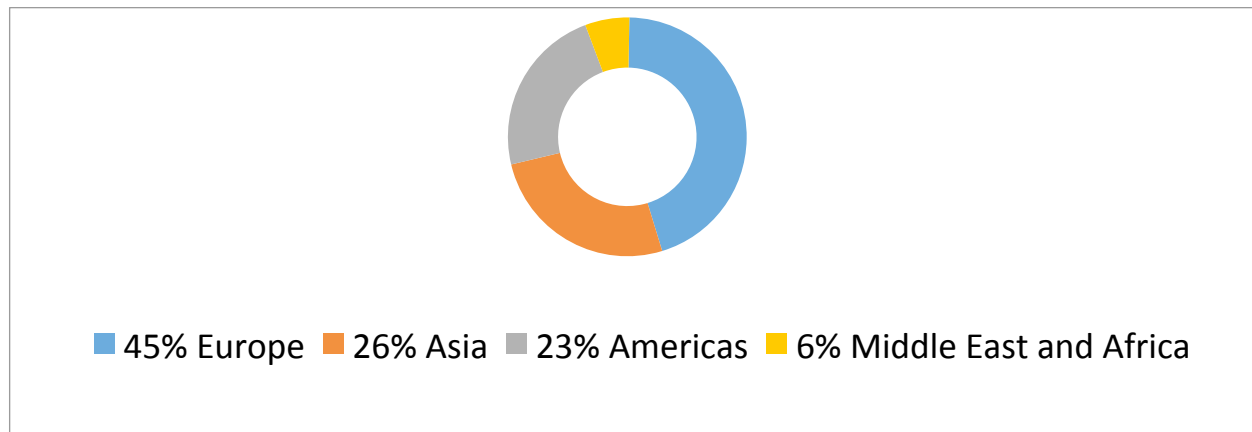
It has its headquarter in Zurich (Switzerland) and employed more than 140.000 peoples in more than 100 countries around the world.

Fig 3: ABB employees



Source: ABB Annual Report, 2014

Fig. 4: Employees by region



Source: ABB Annual Report, 2014

It was formed in 1988 by the merger of the Swiss BBC (Brown Boveri & Cie, 1891) and the Swedish ASEA (1883), now the company is listed in the stock markets of Zurich, Stockholm and New York.

Five divisions collaborate to achieve revenue that are growing every year, in 2013 they were around \$42 billion.

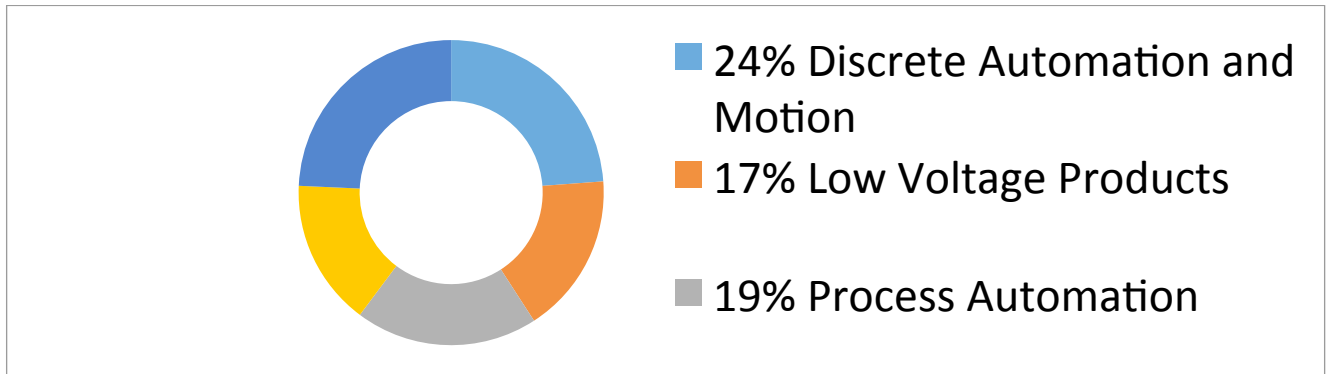
These divisional structure is made of:

- Power Products (Transformers, high and medium-voltage switchgear, breakers, automation relays)
- Power Systems (Substations, FACTS, HVDC, HVDC Light, power plant & network automation);
- Automation products (Low-voltage products, drives, motors, power electronics, and instrumentation).
- Process automation (Control systems and application-specific automation solutions for process industries);
- Robotics (Robots, peripheral devices and modular manufacturing solutions for industry).

Fig 5

Orders by division

Percentage of total orders 2014



Source: ABB Annual Report, 2014

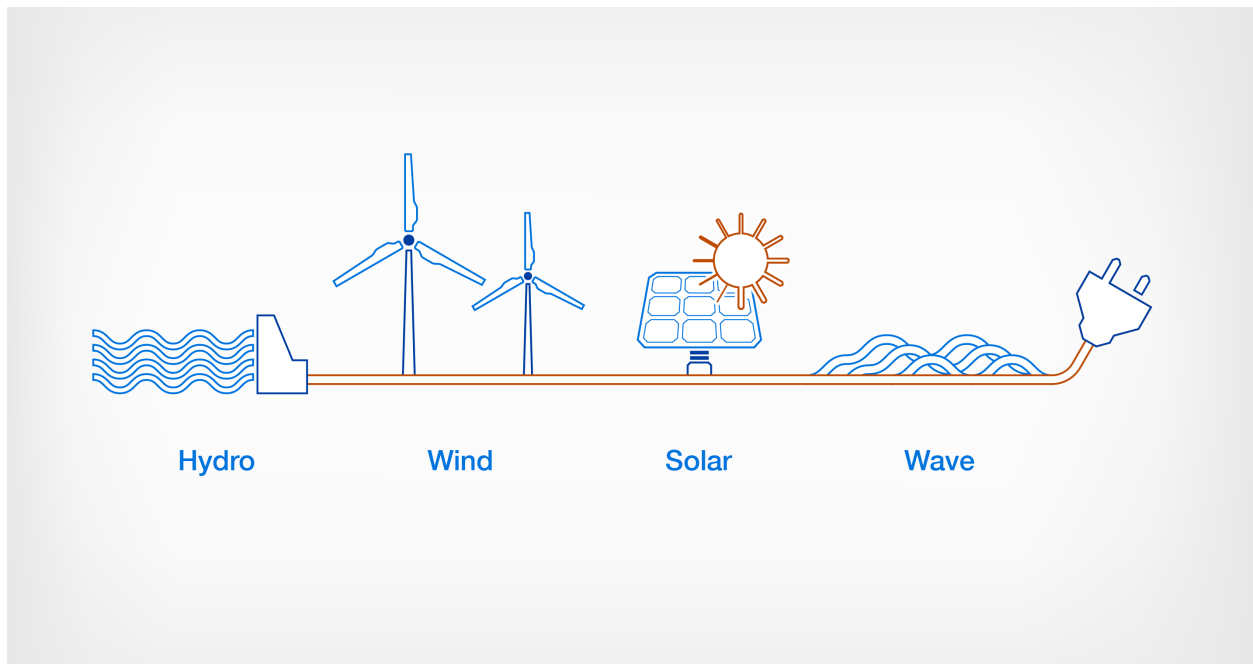
ABB has Market-leading positions in most key product areas such as integrated solutions for grid reliability, productivity and energy efficiency using robust global value chain to serve established and emerging markets through extensive global network of value-added channel partners.

They sold over 1.3 million MVA in power transformer in the last 10 years being the market leader both for technology and quality.

ABB is seriously engaged in environmental issue that find place also in its mission, the focus is on improving its customer operating performance that means increasing the efficiency and reliability of the grid. The direct result will be less energy consumption that can lower the environmental impact.

The importance of the renewable energy is central in ABB strategy, the aim is to increase all the sector of the green energy like hydro, wind, solar and wave.

Fig 6: ABB activities



Source: ABB website

3.2 What is a transformer?

Transformers are really common devices that people need in their lives. They can be really small to make your computer works or much more big to supply electricity to entire cities. We will talk about the second kind of transformers used for the supply of energy.

A power transformer is an electrical device that depends from the Faraday's law of electromagnetic induction, it transfers energy from one circuit (also called winding) to another in order to decrease (or increase) the voltages of alternating current in electric power applications.¹

Transformer are critical for the transmission and distribution of electricity, they can be used as a gear box to increase (step-up) or reduce (step-down) the voltage of alternating current in electric power application like private house or industrial customer.² They are used in many industries

and business and their activity must be continuous without block otherwise there should be serious financial losses.

The typical example of transformer users are industries or electric providers, talking about the former the need for a transformer comes from the necessity to provide electricity to, for instance, a production line. Because the amount of the electricity of a factory is huge, they can decide to buy a transformer and take this energy directly from the grid. The problem is that on the grid the electricity run at high voltage, here comes the function of the transformer, it makes the voltage lower to be employed in the factory.

Concerning electric provider's transformers, they are used next to the power plant to increase the voltage of the electricity just produced. Increasing the voltage on the grid has economic reason: to transport the electricity all over the country is cheaper to increase the voltage on the grid and move the energy from one point to another, for this kind of operations is used a step-up transformer that is able to increase the voltage of the electricity that enters into the machine.

The second possible use of an electric provider is the opposite of the just mentioned operation, with a step-down transformer the electricity is transferred from the grid to the transformer, that decrease the voltage and make it available for normal use like in houses.

3.3 Develop an International market in the transformers sector

Going abroad is an expensive operation; it needs careful marketing research to evaluate the deal. It would be unconceivable to start the internationalization process without the perfect awareness about the threats and opportunities that the company will meet abroad. In this context the word marketing, refers to the set of methods and tools appropriated to unify the market. Each market has to be face in a different way; it requires a different marketing that fits that situation.

In this chapter we will analyze the phase that precede the actual international trade, this steps is extremely delicate. The analysis is made of several types of researches on the target. We will see that researches are needed not only to know market data; during the process the firm will gain precious knowledge for its activity.

We will start with the description of the transformer market that let understand why would be profitable to expand the market in the Arab countries and provide the explanation of the current interest in this part of the globe.

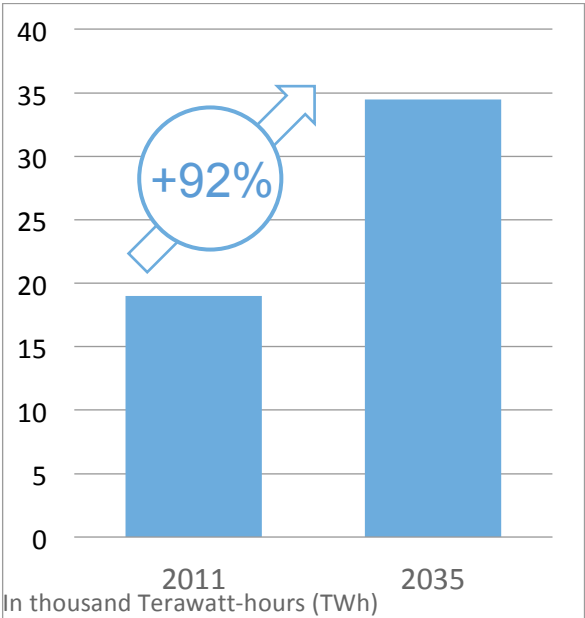
3.4 Description of power transformers market

The power transformer markets is made of a high numbers of competitors. The composition of the competitors is made of few big international companies that compete worldwide with ABB and other smaller local manufacturers that compete nationally for each country.

The energy market is considered extremely profitable because according to the World energy Outlook 2013 it is going to growth 92% until 2035. In particular, talking about numbers and quantity, in the period that goes from 2013 to 2020 the electricity consumption goes from 20,248 Terawatt hours (TWh) to 25,415 TWh. (T&DWorld, 2013). This is important because the transformer market goes hand in hand with the energy market.

Fig 7

Rise in electricity demand by 2035 (under current policies)



Electricity demand is calculated as the total gross electricity generated less own use in the production of electricity and transmission, and distribution losses.

Source: IEA, World Energy Outlook 2013

The biggest seven transformers manufacturers own a market share that exceeds the 50% of the whole market in 2012. ABB is the market leader with the 12%, then Tebian Electric Apparatus with 11%, the German Siemens with 10% and Alstom Grid with 7%.

The main reason of such heterogeneous landscape is due to the product itself, power transformer has not changed in 130 years (Gregory, 2013) the technology is really old and it is easily replicable also in low technology factories. Through the years there have been improvements in efficiency, noise reduction, costs, weight and dimension. With an intense R&D activity ABB become the best in class power transformers producer, being able to dictate the standards for the whole market.

The market can be considered mostly price driven, for this reason the negotiation takes a really important part in taking the orders and a deep understanding of the market made with marketing intelligence is crucial to be competitive. The collaboration with local branches facilitates the task of the area managers that can have more effective insight of the market and receive support for the sales operations.

Most important customers for the Power transformers are the Electricity utilities (35%), then Industries (18%) and EPC (Engineering Procurement Constructor) - 47%, we will see that the last category is wider just because it includes several types of different customers.

Electricity Utilities purchase power transformer for distribution and transmission aims, the former means that they connect transformers to the grid to supply electricity to houses, the latter is a function that is needed to transport the electricity from the power plant to the borders of cities and through the national territory.

Industries needs transformers to supply electricity to their plants, mostly there are big factory in the metallurgy, chemical, mineral sectors.

The Engineering Procurement Constructor are engineering society that buy the transformer as a component of a bigger project, for example they can purchase a transformer to complete an oil plant in the middle of the ocean, this type of projects called Oil&Gas are the majority among the EPC representing the 90% of the market segment.

The remaining 10% is made of projects about renewable energy production plants, like wind and solar farm, that require a transformer for the electricity that is produced and that must be instantaneously transferred to the grid.

It's easy to understand that the transformer market is strictly connected to the demand for energy of the country and consequently to the economic growth.

According to GlobalData, the forecast for the transformers market are optimistic because the market will be dragged in the next years by the emerging market, especially Middle East is the major boost for the transformer's market leading the total market value from \$10.3 billion in 2013 to \$19.7 billion in 2020 with an annual growth rate of the 9.6%.(T&DWorld, 2013)

To better analyze the context and the market in which ABB is working, we will run a SWOT analysis. It is a marketing tool that will help to gain insight about the factors that the company must be into consideration in this international environment.

3.5 The choice of the foreign markets target and the Porter analysis

The target market is represented by the set of customers that a company wants to satisfy, this important choice is a fundamental element of marketing. All the marketing decisions are meaningless without the awareness of which is the target market.

The choice of the target markets is necessary to be more reactive in answering the opportunity that they can offer day by day. They allow the company to focus and monitor the needs of the market in order to satisfy them in reasonable time.

Markets are made of customers; they all have different taste and preferences. The differentiation increase hand in hand with the wealth of the customers, it means that in the most developed countries tastes are much more variegated. In poor countries, there are just primary needs that are uniformed and quite easy to forecast and satisfy.

Target markets should be further analyzed according to different phases:

- Demand segmentation;
- Definition of the target market;
- Product positioning.

A segment should have also four characteristics to be a target market:

- 1- Accessibility
- 2- Importance
- 3- Measurability
- 4- Feasibility

At this point, in the B2B sector we can define a target market as a group of business for which a company designs a specific marketing mix. Businesses are pooled together according to their needs; the final aim is to turn the group profitable to the company offering products and services that they are willing to buy.

Before entering a new market, would be better to analyze the competitive environment according to Porter model. Porter pinpoint five competition forces that operate on each market segment:

1. Threat of new entrants
2. Threat of substitute products or services
3. Bargaining power of customers (buyers)
4. Bargaining power of suppliers
5. Intensity of competitive rivalry

ABB analysis according to Porter forces

1- Threat of new entrants:

Concentration: The transformer market, both globally and in the Arab market, is really fragmented. Few companies own the 50% of the market share while the other half is spread among small company that produce transformer locally given the low level of know-how needed for its construction. The main global competitors are really well known worldwide and are Tebian Electric Apparatus, Siemens, Tamini, Matelec, Alstom, Schneider and Alstom Grid.

Because of this fragmentation, the market is really competitive and there is always a price war. This inevitably erode the sales margins that in this particular market are really low, the skills of the managers are critical to gain margin during the negotiations to gain some profit.

Even if the data says that ABB is the market leader because of its size and biggest market share, it is not able to drive the prices up or down, so everything depends from the business cycles. In periods like the current one, where forecast are positive and prices are expected to grow, the market is experience the entrance of new small local competitors that using the leverage of being free from transport cost can have competitive prices in their production country.

Difference in structure: Also the corporate structures are really different in the market landscapes, the bigger player like ABB have a complex mode of operation. It is made of several corporate layers like sales forces, production, after sales that usually are located in different part of the world and are interconnected by an intricate system of bureaucracy that needs coordinated communication and considerable amount of time. The natural result is a framework that is not reactive to environmental change, for instance, if market prices change the company needs a long time to readapt its cost structure and become competitive again, it might takes months and deal in losses.

In the transformer market the transport costs play a fundamental role. There are international oversize transports that can impact also for the 10% of the total cost, this allow local smaller competitors to be competitive on prices. Multinational companies have to charge costs like insurance and international duty on the final price. Because ABB factory is located in Italy, where besides geographical distance, also labor cost effect negatively the price competitiveness.

With these elements it's trivial to understand that ABB is subject to the competitors price more than be able to dictate it.

Offer differentiation: even if the power transformers are really similar in the market because it is considered a mature product, ABB constantly investing in R&D to improve its performance and increase the gap with the other competitors in order to keep constant the competitive advantage gained through the years.

This effort is not always recognized by customer, most of the time transformers are considered exactly the same and the buyer are not quality sensitive.

In public tenders, that represent an important share of way of selling transformers, there are not parameters that differentiate the product about quality and all the customers are put on the same level.

Production capacity: the production capacity is quite high in the market, companies are always starving of new order to fill their production lines because there are high fixed costs. The factory has to be always at operating speed to keep prices low and it is preferred to have big orders to spread fix costs on a highest price.

A block of the production would be extremely expensive because it means to pay unemployment insurance to the factory workers, with a consequent relevant damage of the image and brand of the company. Competitors that are smaller and more dynamic can lower the price in a reactive way to face the lack of orders because they have a leaner structure than the multinational companies.

Following the ABB corporate mentality, most of the components have to be projected and build inside the company. The fix costs are high and there is the need to achieve high quantity production to reach scale economies.

Because of this structure is not possible to change price form one day to another, and the high costs of the machines inside the factory represent a huge exit barriers that needs to be amortized.

Cost Structure: are really different among competitors, multinational companies like (like ABB) have to sustain an apparatus that have to guarantee certain global standards.

Factories are embedded in a long list of safety procedure that often are time consuming and expansive for the production process.

To keep the quality high, the production processes are more expansive as well compared to the local Arab competitors. Most of them do not have ISO quality certificate that dictate state of the art production process that of course are costly and contribute on the increase of the fixed costs.

2 - *Threat of substitute products or services*

The transformer is a unique and fundamental piece of an electric substation, it is the heart and most expansive component that can not be replaced with alternative products.

The product differentiation is not perceived and we have seen that the ABB price in the Arab market can give a premium price that do not exceed the 5% of the total value, because of its basic functions, transformers are considered almost perfectly interchangeable among competitors.

Even though this great advantage, there is not the possibility to pull the prices up because the high competition.

In Arab countries the fidelity with customer is reached more on the personal level than on the technical level, switching costs are almost non existent even if the product is highly technical and customized for the customer. In every moment the customer can decide to buy a similar transformer from another brand without any impact on the rest of the substation.

3 - Bargaining power of Customer Analysis:

We have seen that customers are mostly divided into Utility, EPC, and Industries. Those that have the biggest bargaining power are the utilities, being the electricity provider of the county need several transformers per tear. They are the only one to create orders that can consist of a number of transformer that exceed the 40 quantities with orders that are around €16million.

These orders can be spread in several years, if awarded can ensure a consistent turnover that benefit the planning, short-term strategy and reassure stakeholder.

Win this tenders require a consistent effort for the company, all the markets player are willing to concede high discount or concede contractual terms and condition that are at the limit of the company possibilities.

These contract called “frame agreement” can impact the turnover of bigger companies for the 10% and even higher percentages for smaller competitors. This type of contract comes form massive plan of public investments of the government.

It should be taken into consideration that these utilities like Kahramaa (Qatar electricity provider) or FEWA (United Arab Emirates electricity provider) are sponsored by the government and are monopoly, this means that they have a great bargaining power and huge availability of found.

Customers Concentration: the number of transformers customer is quite high around the world if all the channels are considered (Utility, EPC and Industry). It became smaller if, for example, we pick up just the utilities because there is almost just one utility for each country (in Italy for example there are monopoly in power transmission and distribution but not in power generation).

In the Arab countries most of the business is made with known customers, excepting for the electricity provider, the others do not have strong bargaining power.

Vertical Integration: fortunately for the transformers producer there is not the risk of vertical integration, the core business of the electricity company is completely different and no one of the purchaser can switch and own its upstream supplier.

The two business are too far and the average life of transformer is so long that it would not be convenient at all to produce them by their self.

Talking about the information availability we come to a paradox, because as already said the transformer are custom made for each customer, the manufacturer are not able to know the price offered by their competitors because they are different every time. During the negotiation, the customer has more information because it can negotiate with each supplier knowing the price of the others.

4 - Bargaining power of suppliers

The most important component of in a transformer are row material like copper and magnetic steel, they are just commodities and the price depend from the market trend. In this case, supplier do not have any power on the final price because the row material price is given by the market.

ABB try to edge the raw material price fluctuation with agreement that block the price for a given period of time in order to not be too much dependent from the market trend. The coverage of the fluctuation can be made anchoring prices to some index like TND, LME, AGORIA that allow the company to buy at a given price.

Politics of just in time supply are applied to most of the production materials so a perfect time management and planning is fundamental for a timely production process.

To achieve discounts from the row material providers, it is possible to stipulate annual supply contracts with determined supplier for high quantity of materials.

Most important instead, is to edge the price effect of this raw material. In an ideal supply management, raw materials should be buy when price are lower to take advantage of the market fluctuation. This is not possible when the manufacturer decide to use a Justin time production.

For some components ABB have done vertical integration acquiring companies that produce smaller parts of the final transformer like COMEM, with this operation it was possible to reduce costs and better control the quality of the components.

5- Intensity of competitive rivalry

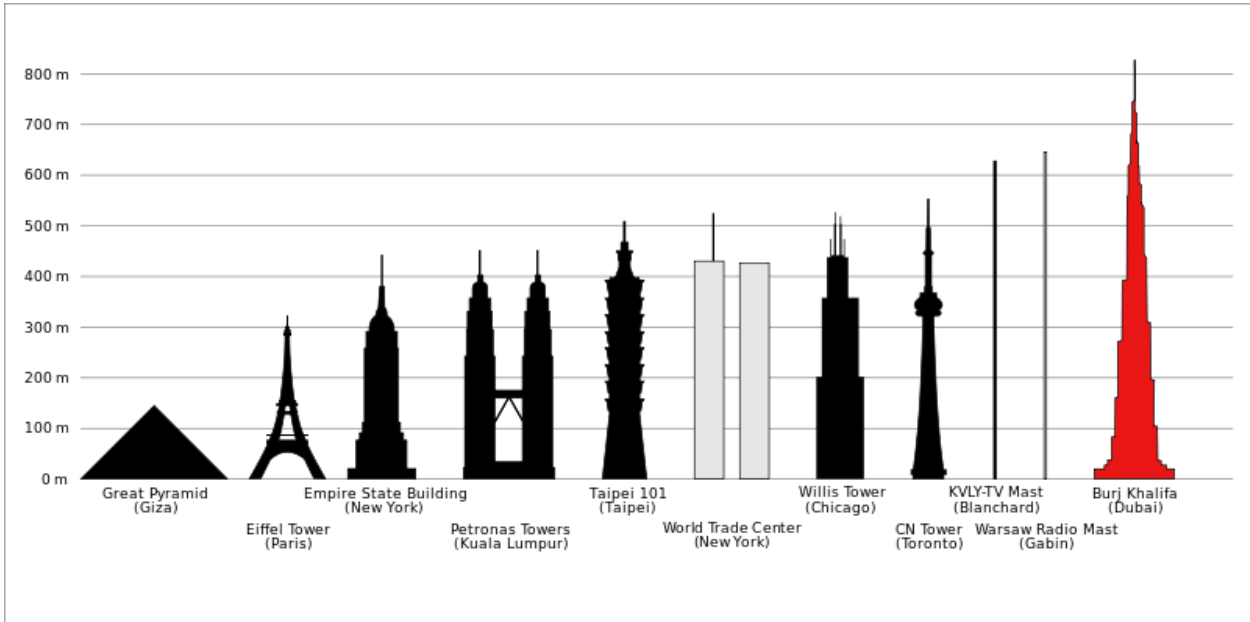
In order to maintain the highest standards, ABB is investing to create transformers that: consume less energy (even if the efficiency is already at 99%); are less noisy, reducing all the time the Decibel to face the demand of customers that want to install the product into residential areas and are smaller (in some projects there are cogent space constraints that needs important engineering effort and competences).

For instance, in the Emirates all these challenges were faced in 2009 during the construction of the Burj Khalifa in Dubai, The building is the tallest man-made structure in the world at 829.8 meters.¹

The most important differentiation provided by ABB comes from the technological side, SmartComponents are an innovation directly studied by the R&D department that consists in devices that can monitor the transformer parameters from remote being followed from remote by a technical customer service that can provide instantaneous assistance in case of malfunctioning.

Although, ABB can provide consulting services for the most challenging and extreme projects, like for the example of the Burj Khalifa, ABB is able to project transformers that have to work in extreme conditions like on the top of mountains or underground, this is possible thanks to the use of the most cutting technologies of engineering.¹

Fig 8: Tallest building in the world



Source: *World's Tallest Building, Burj Khalifa Running on ABB Custom Smart Grid. (2013).*

Following the ABB corporate mentality that most of the components have to be projected and build inside the company the fix costs are high and there is the need to achieve high quantity production to reach scale economies. The factory has to be always at operating speed to keep prices low and it is preferred to have big orders to spread fix costs on a highest price.

Because of this structure is not possible to change price form one day to another, and the high costs of the machines inside the factory represent a huge exit barriers that needs to be amortized.

3.6 Swot analysis

In this part we will accomplish a swot analysis of the company, in particular we will analyze the transformers business unit instead of the whole company and its 5 division that for our aims would be worthless.

As the objective of the analysis, we will set the development of the Arab market, focusing on the strengths, weakness, opportunities and threats that can drive the company to increase the market share.

Strength

-ABB can rely on its objective of improving the market share in that specific country starting from the efficient division of business intelligence that can analyze the market providing new insight about it. These Information can be on: the customers (analyzing their needs, preferences), marketing (that can lead the company to focus more on certain product aspects that is more valuable for final customer) and market research, it can be useful to know the price level of the market and adjust them to not be throw out by the competitors.

-Another strength is the quality of the ABB products, consumers know that transformers are produced with the most cutting edge technologies and the best in class quality standards. More than \$1.5 billion are invested annually in R&D department employing 8.500 scientist and engineers through the side by side collaboration with 70 universities around the world.

The Arab market can be considered a strength itself, because of its really high development pace connected with the increasing demand for infrastructure in that specific area. For example the economy of UAE is going to growth with a pace of the 4.4% per year between 2014 and 2018, the growth will be pulled by both the oil and non-oil sectors. (The economist)

There is already a market presence on the territory, the branch in Dubai can help in providing information and being next to the customer, it can work as a filter between the area manager located in Italy and the local final customer. Branches are competent in the local law, they provides guideline to public tenders published by the electric providers and they help in case of problems with local language in translating documents. Of course, because it is located on the territory it is more market sensitive and receptive of the signals coming from the market.

-The possibility of long term contract offered in this sector can be really profitable. With the so called frame agreement, that are contract about the supplying of transformers for several years (from 2 until a maximum of five). In these contracts there are some parameter that are fixed, for instance, is possible to determine the type of products, the quantity, the delivery dates that usually are long term. In this way it is easier to plan the production for the future and forecast the needs of raw materials, workers and space in the production line. The factory can sign contract for a certain amount of components that with a long-term advice are cheaper.

A really important strength for ABB is the brand image and reputation, it's clear that the brand name is really well known in the sector and inspire reliability for customer, should be inquired how much value it can bring to the product in terms of willingness to pay a premium price.

Weaknesses

-The complex structure of the company can be considered a weakness, in a market that is quite active the high level of bureaucracy and hierarchy makes things slower and less reactive. Every change that comes from the bottom management should go through several stages to be approved, it could takes months with the risk of losing market opportunities.

All the departments are present inside the company (Marketing, Accounting, R&D, HR, IT, Finance) but they mostly work in a closed way, communication among departments is not encouraged. Only in the last years the spaces have been reorganized inside the company with open space to encourage collaboration and improve dialogue among people.

-The market in the Arab countries is highly competitive and the prices are always pushed down, the local competitors are aggressive aim for a low price instead of quality, but this can be a problem in the B2B market because most of the time customers are more price oriented than quality oriented. Furthermore, prices are not fixed but object of negotiation, this erode the margins because the customers are always hardened bargainers that try to extort the lowest possible price.

-Starting from the 1988 ABB absorb the culture of the growth through mergers, ABB itself born in this way and during its history the company expanded with the so called “inorganic growth”. In its history ABB made several mergers, acquisition and take-overs. These expansive operations increased its market power because most of the time it consists in the acquisition of competitors, but on the other hand it decreased the profits because most of the acquisitions were overpaid.

Opportunities

-Most of the opportunities comes from the huge money availability in the Arab countries government, mostly in the UAE and in Saudi Arabia. The opportunities are connected to the investment plan for new infrastructures that will increase the demand for power industry.

-The effort that has been invested in R&D will bring the result in a very next future, in the Arab countries like all over the world, is increasing the demand for smart grid. The smart grid can regulate automatically the quantity of the energy produced in function of the demand in order to decrease the waste of energy and improve efficiency. The old system that regulated the production of the energy was manual, there were operators that communicate each other through telefax and adjust the production according to the demand. ABB improved IT systems that can do these operations automatically with a considerable increase of efficiency.

Because also in the Arab countries renewable energy (like domestic solar panel) are getting foothold, smart grids are even more needed. When also private users are putting the energy that they produce into the grid, it become more difficult to manage the electricity circulating and smart grid are indispensable.

-The company can take profit of its good health and use the high amount of cash flow available. In 2014 the free cash flow was \$2.8 million that represent the 110% of the net income (ABB financial statement 2014). It can be used for several uses, for example in the already mentioned acquisition to expand the market share or to buy new factory and increase the presence in some markets. Cash flow is also used in some financial brokerage operations like the buybacks or simply distributed through dividends.

-The legislation in the Arab countries is changing in favor of environmental issues, so far law was almost ignoring the protection of the environment that now is crucial in the government

plans. Because of these new regulations, companies and utilities have to adapt their plant in order to become more environmental friendly. ABB can provide transformers that have the best standards in these terms that are already in line with the most cogent regulations.

Threats

-Main threat comes from the competitors, especially the locals. They can not compete on the quality side but for sure they are aggressive with the price. The transportation costs being in the same country of production are almost inexistent and they do not have to pay duties that multinational companies have to pay.

- The fluctuation of the currency does not play always in favor of the European countries. In the last period the fluctuation of the currency was very volatile. Taking for instance, the period in which I started working for the company in the half of March, until May, the EUR vs USD changed its value from €1.04 to €1.14 that means approximately 10% (Oanda.com), considering that margins in these market are really low, these fluctuations have a great impact on the profitability of sales.

-Recently has been observed the entrance in the market of new competitors, this besides decreasing the potential market share, has the main effect of pulling down prices in the market.

3.7 Global Price Strategy, brand and national identity

In addition to the product and its components, another marketing mix element is the price, that apparently can be associated to everything excepting the culture because the price is a mere number that is not object of rational economic evaluation.

The price is also an important element of the interaction between seller and buyer because it creates a long or short-term relationship; for the consumer it represents also a measure to evaluate the product in terms of quality and social value. From the previous consideration, we can say that the price has a meaning related to the value of the good, to the money amount that is needed to purchase it, but it depends especially from the evaluation of the local culture.

It is interesting to analyze the price as an element for the negotiation, it assumes relevance in terms of marketing strategies.

The definition of the price depends from the value attributed to the product by the consumer, it means that it is subject to the local market. The perceived value might not match with the actual value of the item, but it can be a general impression of the convenience of the product. It is for this reason that the price might be as close as possible to the customer's expectation.

The perceived price is not the only sacrifice that the consumer has to afford to obtain a certain product or services. It should not be under evaluated other sacrifices, for example, connected with the time savings of this product or service.

In this context, is important to evaluate that in some countries the time has a really high economic importance, the non-monetary price perceived is higher.

On the base of these considerations, the company should decide to enter in markets that match its price request. With the increase of globalization, the company should be able to offer a product that is in line with the customer needs also in terms of price, creating its own market niche different from all the international competitors.

The line that separates the quality and price is really thin; some studies (Usunier, 1996) shows that the 51% of the products have a positive relation between price and quality, the 35% of the products highlight a natural relation and a good quality/price rapport.

The company must choose a price that better shows its relation with the quality of its products to enter the markets. It is also important to evaluate the perception of quality of the local market, to identify the best marketing strategy to highlight the products' qualities.

ABB being the market leader and taking profit of a top in class reputation in the market use a price strategy that allows it to charge a price premium for the brand. This strategy is in a revision phase because in some markets (like Arab markets) and in the B2B sectors customers are not sensible to the brand.

Because of these elements, the strategy to gain market share in the Arab market seems to lower the prices to be more competitive. The main target is to gain competitiveness against the local

competitors that in the last years putted ABB almost out of the market. In this way it will be possible to react to the aggressive newcomers

The price is also a strategic marketing variable effective for the achievement of scale economies, or objectives of differentiation through the product localization.

There are three possible price strategy approaches:

Ethnocentric strategy: just one single global price, shipping costs are on the buyer shoulders. It is the easiest approach in the short term but in the long period it stops the internationalization process.

Polycentric strategy: branches, partners and local agents decide the price according to the local market. It is not so efficient because it does not create an effective global identity of the brand

Geocentric strategy: it is the technique used by ABB, the local actors take into consideration the local competition and try to maximize the revenues through a coordinated price policy. It is the best condition to develop worldwide.

Furthermore, the selection of the price strategy should take into account the problems that happens operating on the global market such as: price competition, unfavorable buyers condition in the market, price manipulation, high inflation rates. For these reason is better if the company plan the strategy to preserve company's interests.

Other aspects that are connected to the product and that can increase its price are the brand and its nationality. Sometimes the nationality of the product is a factor the unconsciously add value to the product, in other case it can decrease the perceived value.

In the transformers market the country reputation is really important. Transformers that are manufactured in countries that are called "low cost countries" (China, Vietnam...) sometimes are automatically excluded from public tenders with a logic that is near to racism.

It is normal practice that customers ask for the components list, also in this case even if the transformer is manufactured in Italy is not accepted that the components with which it is made come from a country that is considered not reliable.

ABB is strategically working to claim the above the average standards of its product to increase the perceived quality and create a difference with the competitors

Several elements will be sponsored more to help ABB to improve the perception of the brand and increase the business:

- The nationality of the company;

- The knowledge of the brand, the national image of the brand is able to change the perception of the product. For example, Swiss products are well known for their executive precision and reliability;

- The national image of the label “made in”;

- The image of the exported product.

Keeping in mind this considerations, there should follow other adjustment/ localization:

- Give importance to the label of the origin country when it is also requested from legal restriction, and especially when there is a good connection between the type of product and the country, for example an Italian firm should highlight the nationality if they sell food.

- The importance of the label “made is” is connected to the consumers of the target market, if for them is important the production country it can be worthy to use the “made in” as a leverage factor.

- It is important to spread with the brand name the factors that are considered locally important. Arab countries have stereotypes that can be used if there might be a profitable connection with the commercialized product (European product are expansive but reliable).

At the base of this consideration, ABB is running analysis of the company’s perception inside the countries into the local market, from this perception depends the decision of using the traditional image of the origin culture or decides to spread an innovative image that depends from the product type and from the local culture.

The use of the “Made in” has a symbolic and communicative value and can be actively used by the producers. With the “Made in” there is an unconscious connection with the perception of the product, origin country and attributed quality.

The product that is associated to the national image that transmits more trust and quality to the product wins against the product that has an image that is less favorable.

Consider the origin country like the only criteria of evaluation has some limits, there are more elements that should be taken into consideration such as the quality price rapport and the use that the consumer wants to do of it.

Another element to take into consideration concern the fact that often the image of the country connected to the label “Made in” goes at the same pace with the stereotypes of that country.

Anyway, the origin country is just one element among the many others that made the product.

The influence of the made in as a valuation model is higher when the consumers are not so familiar with the item, with lack of other information, the consumer tend to use his own knowledge about the origin country to take a decision concerning the purchase of a product.

For these consideration, the company should careful consider the image that is associated to his country in the mind of the target consumer, before use the label “Made in” as a marketing tool and decide which style to use entering the country.

Another important concept that should not be undervalued is the delocalization. An increasing number of companies is deciding of just leave the designing in Italy and delocalize the production phase in countries with a lower labor cost, to offer to the final customer goods with a more competitive price with the same level of technology and quality.

Even if it seems strange, the control on the delocalized production from the Italian management gives a good perception on the final customer in terms of quality, design, standards and it is also appreciated the attempt in reducing costs.

This effect can be explained, supported and mediated through the image of the Italian company model that is considered reliable abroad.

In attributing a marketing communication function to the “Made in” it is important to be aware that the consumer attribute the same value both to the origin country of production and to the brand’s country. To make effective this positive effect it is necessary an extreme transparency at communication level with the customers, concerning the localization, the communication should specify both the Italian origin of the design and the reason of the production abroad, that is the reduction of the expenses in the interaction between company and local market.

Another interesting connection beyond the one between brand and origin country, is the connection between brand and linguistic context.

The majority of brands are designed for a specific national market, for this reason they are tied to a specific linguistic context. Sometime instead, some brands have to be conceived from the beginning with the function of transmitting meaning at an international level.

The brand has also other functions for the final consumer, such as: identity function, practical function, guarantee function, personalization function and cultural function.

Also at an international level, the brand needs to have a long-term orientation that can instill trust in the consumer. The credibility of a brand is based on the image transmitted locally.

The management of the brand is a really difficult function to structure. Sometimes a global strategy cannot respond effectively to the tendency of the local market. On the contrary, a localized global politics, apparently too expensive, can bring economic benefits in the long period more than an ineffective global politics.

These aspects are more evident thinking about a brand full of meaning, it has to be managed bearing in mind the local cultural aspects.

3.8 Strategies to develop the Arab markets

The expansion strategy aims to reach the 37% of revenues from the AMEA area, in this area are embedded the Arab countries.

The leverage from where the company should take profit is the big shift in the electrical value chain. In the last year there is a tendency in the renovation of the grid that with the cutting edge technologies of the last years are getting older at a higher pace.

The renewable share has to be around the 40% of the power generation mix by the 2035, this leads to a problem. Renewable power generation is not constant, that means that the amount of produced power is not always the same but it depends from factors like the strength of the wind, the intensity of the sun etc. Greater volatility is synonymous of less predictability and the consequent need for a grid that can adapt automatically to the variation of electric power.

The increasing complexity of these new systems is suitable more for ABB knowhow than its competitors due to the continuous investments in R&D. The Control of the information flow is a key value driver that can be managed with the last innovative products.

Another very profitable market segment that can be the key of the success in the upcoming years is the energy storage, currently the technological know how about batteries are not adequate to support the use of these systems for the energy supply. The potential of this kind of technologies are anyway really high; an improvement that make batteries available also for this kind of use could revolutionize the power market, especially in the Arab countries characterized by lack of grid in some territories.

ABB has to continue in leading the transition to the digital grid, this is a fundamental point for the expansion in the key markets and following the pace of the technological development.

First of all, to expand in the Arab markets is necessary to beat the aggressive competitors that work in the territory.

This target can be achieved with enhancing the customer value proposition and relevance, the perceived quality of goods and services offered by ABB should be substantially higher than competitors.

Concrete actions might be the support of the sales with consultancy services. The choice of the product should be not only the result of the selection of the customer, but also the shared decision with the support of a technical sales team that can guide the customer to the best solution that will maximize the customer's satisfaction.

The attention on the customer should not finish with the sale of the product, it must continue also to gain market shares for the after sale, the so called "service".

Technological tools like monitoring software are available for this aim, they can offer remote and live support to ensure the fidelity of the customer to the company and keep it as the only landmark.

For the after sales ABB should promote a shift in the behavior from reactive to proactive. To increase the reliability level in the eyes of customers the traditional service function of replacement and repair have to be expanded to Maintenance, Remote Monitoring, Condition

analytics, asset management. All these high value-adding services will improve the perception of ABB brand.

Solar systems deserve a great attention in the Arab countries, environmental sensibility is growing and as a consequence both the government and the utilities are building solar power solutions that always require transformers. DEWA the most important electric utility in Dubai is planning to build new plants by 2020 that will help to prevent 250000 tonnes of carbon dioxide (The National, 2015). The decision of focusing on the solar is part of a strategy that deals with focusing in few high growth segments in an optic of rationalization.

The develop of a specific market should not only aim to the introduction of innovative systems like solar, sometimes the best solution is also the cheapest one. The most valuable resource of ABB are their existing customers, the focus of the company must be kept on them in order to penetrate and take profit from the organic growth momentum. The target on the existing customers is trivially to sale more of the company's existing offering to accessible customers. The expansion through this method besides being cheaper is also useful to reduce the intrinsic business risks. What is known deliver lower volatility, higher predictability and higher margins.

Part of the ABB strategies have always been acquisition to increase the market share and penetrate the market, it could be also a way to develop the Arab market but for sure it is the most expansive. The positive side of acquisitions is that you can gain faster insight about the foreign market and create synergies with the partner companies of the acquired. It is also a way to eliminate potential competitors from the market and accelerate profitable growth, the impact on the created value should be positive.

Especially when the company is working into another country, acquisition can be the key of success to understand the culture of the local market, there are always differences to manage in trading in another part of the world. A specific study about this has been made by Priyan Khakhar and Hussain Gulzar Rammal, in their study "Culture and business networks: International business negotiations with Arab managers" where they says that to enter this kind of market is fundamental to establish a personal relations with the other part in order to succeed in business. Knowing these particulars can determine the success or the failure of the business.

Conclusions

We have analyzed the different entry modes, international marketing techniques and cultural aspects in this thesis to understand the internationalization process that a company should follow to achieve good performance trading abroad.

The internationalization and the integration of markets at global level are the phenomenon that had the major impact on the economy and on the competition among companies.

The modifications to the current economic situation revolutionized the traditions about entering new markets and going abroad. Furthermore the territory is now different, even more differentiated and more centralized for what concern the customer interests. The competition is different according to countries, territories, regions and districts. Territories itself, decide to improve their competitive position opening their borders to the international markets and exactly like companies assuming configuration oriented abroad always open to be international.

For many companies, the internationalization process has been an opportunity to overcome unfavorable national economic, strategic and organizational conditions, at the same time it gave the possibility to diversify their target markets, reorganize the supply chain value, renovate the corporate structure, gain new resources and modify the way of doing business facing new challenges.

The growing economic integration and the forces that push toward the globalization, have been both a restriction and an opportunity to influence the competitive capacities on the market dictating to adjust the company on the strategic level (adjusting the management) and at operative level (adjusting the marketing mix variables, the communication etc.).

With this thesis and with the contribution of the literature, we tried to explain, in the modern economic scenario, the characteristics of the internationalization process. Each chapter represents a phase of the development through stages that once together will lead the company to find its dimension abroad.

As already mentioned above, the approach to the international market may be similar but mostly has huge differences from the approach used in the company's domestic market.

It differs mostly because of the cultural context in which the company operates. Differences increase costs and risks of the operations. One of the most important factors of this process is the mental mood of the managers, their attitude, multicultural skills and management of the vision of the internationalization in analyzing the hosting country.

The internationalization process is made of the company that wants to go abroad, the provenience country of the company, the target country and the internationalization project.

Most of the time the center of the project is the product, this happen when the idea comes from the product and the internationalization process is a way to complete the project.

Other time the target country is the project itself, for instance for economic reason a company wants to go abroad to achieve lower labor costs or to obtain grant from governments. Therefore, the internationalization process can be designed as a sustainable project in the context of cooperation among different countries.

The expansion in the Arab markets is definitely a profitable opportunity for ABB, within this analysis we clearly highlight the potentiality of the geographic area. The high growth potential of the region from an economic point of view should be taken into consideration for the upcoming business plans, following the pace of the UAE at 4.4% until 2018.

On the other side, it is important to monitor the Arab market because given the high level of competition the price are always subject to be brought down, it is advised a reactive organization to be always in line with the market in order to avoid to be always competitive.

This study revealed a discrete margin of new opportunities that comes from government plans in the UAE area, this kind of intelligence analysis is a key factor to succeed with international marketing strategies and to enter in new markets. The attention for the environment in the freshly approved laws creates a room for business opportunities that ABB should catch.

Our findings highlights also the possibility to reach higher market penetration thanks to specific products that the competitors are still striving to offer because do not have an adequate level of know how. Solar panel and smart grid must be used as a wooden horse to penetrate the market, conquer new customer and ensure fidelity to reach higher volumes and profitability. The work of

R&D is essential to provide cutting edge technologies that create differentiation with the local competitors, it is always easier and less risky to enter in a new market if you can offer a product that no one is able to trade.

ABB will use an internationalization process in the focus markets that is sustainable, it won't exploit the resources of developing countries and at the same time would be a marketing operation to provide a good brand image of the company. It is fundamental to have a "win to win situation" that allow a long relationship between the company that wants to go international and the local companies. Following this way ABB will find more customers' willingness to purchase its products, this will lead to a natural and easier expansion of the market that ideally will produce a higher demands for the ABB products, customers in the future will be conscious to chose the best in class transformers.

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