The Main Strategic Directions in Improving of Export Development in Lithuania

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The article deals with the main problems of strategic directions of export selling and promotion. The export development factors and their economic impact as well as efficiency of export enhancement and promotion tools up to now have not been examined enough from the viewpoint of strategy, though the special investigation of the effectiveness of segregated export promotion tools are badly needed. Thus the different concepts on strategies, competitive advantages, marketing and international marketing are analyzed. The best practice on export enhancement and promotion used in different countries and published in scientific articles and books are overviewed. The analysis of the main statistical data on Lithuanian export has been provided in the form of figures and diagrams. The analysis led to the conclusion that Lithuanian exports after Lithuania’s entering EU were growing up and structure has been changed from export to Eastern markets to Western ones faster. The problems discovered are the structure of goods exported: 25 percent of export remains on export of oil refining products, which heavily depends on Russian oil supply, composition of Lithuanian exports by technology level: high technology goods amount less than 10 percent and just about 20 percent of it is attributed to the high and medium quality products. The causes of such situation were weakness of Lithuanian Economic Development Agency (LEPA), not enough information on foreign markets, low value added of exported goods, unwillingness of managers to take risk, lack of funds, very few logistic centers abroad, dependence on foreign distributors, intentional delays and underdevelopment of export insurance and export enhancement and promotion framework. Lithuania’s membership in EU crashed barriers for Lithuanian goods composed by Russia. The export of goods and services from Lithuania to Russia has been growing successfully from 2005. The most interesting and new export promotion tools used in Germany, Austria, Pakistan, India Sweden and other developed countries has been analyzed as to compare with measures and weaknesses of tools used in Lithuania. The gap between developed and developing countries like Lithuania remains significant in the development of new products, quality, structure of goods exported, performance of environmental and safety requirements. As the result of the research the main strategic directions for export development and promotion for Lithuania are suggested.

Keywords: competitive advantages, strategy, strategic directions, marketing, international marketing, export promotion.

Introduction

Having entered the EU Lithuania received additional opportunities for industry and trade globalization and entered into global market through multinational corporations. The main task of small country’s industry and trade is to develop distribution channels for selling products. The main weakness of the new EU countries is their weak experience in international marketing. The tasks for developing internal markets are not simple because of technological, financial, and human resources. Moreover, the Government policy is not adequate to well developed countries.

The objective of the article is to formulate suggestions for export development and promote strategic directions based on the analyses of the main theoretical concepts of strategic and international marketing as well as statistical data on Lithuanian exports and best practice in different countries on export promotion.

The methodology of research was based on logic content analysis of nonfictions on strategy and international marketing, studies of the best export promotion practice in different countries and on analysis of Lithuanian export data, as well as the results of implementation of former export promotion programs. The research was provided by the group of scientists under the leadership of the author according to the agreement between Vilnius Gediminas technical university and Lithuanian Ministry of Economy. The unconstancy of the research was that the author of the article has been working for eight years as a chief of Strategic department at the Ministry of Industry and Trade and the first Export promotion strategy and program for 1995-2000 has been elaborated under the leadership of the author. Thus the integrated studies of strategic and marketing theories and best practice of the developed countries on export development and promotion as well as the history and statistic data on Lithuanian export has been implemented in research. The results of research were accepted by the Ministry of Economy in 2005 without animadversion.

Audit of the main strategic and marketing theories

The content of numerous analyses of studies presented by scientists of different countries shows that there are still many theoretical and practical problems to be solved in the area of the development of export enhancement and promotion strategies. Different authors presented different strategy determinations as well as the
strategic factors, elements and driving forces of trade internationalization. For example, K. Andrews (1994) defines strategy as an aggregation of long-term decisions. According to S. Hoffer and D. Shendler (1978), strategy defines possible problems and makes decisions to solve them, while H. Mintzberg (1962) presented three definitions of strategy: A – accentuates creativity, B – emphatic striving of objectives, C – “cunning lie“. M. Porter (1998) defines strategy from the competition point of view. According to him, competitive strategy is the strategy aligning aggressive or defensive ingredients. He extricates three main competitive strategies: cost leaders’, differentiation and concentration strategies and five basic competitive forces that exporters are forced to overcome to be competitive in the international market, i.e. suppliers, buyers, industry competitors, potential entrants, and firms producing substitute products. According to T. Grundy and L. Brown (2002) strategy – half existing ideas that it covers only few are not enough developed and matched ideas. McDonald’s (1993) emphasizes that strategy is the composition of environmental factors, objectives, opportunities, and actions. J. Schumpeter (1942) grounded dynamics of development while I. Ansoff (1976) – mutual interdependence of product and market (Ansoff’s matrix).

A. Chandler (1962) emphasized the interdependence between the strategic behavior of the entities (strategy) and the enterprise structural changes (structure). Chester Barnard (1948) thought that there was impossible to develop all success factors at once and there must be priorities nominated. A. Branch (1994) designates four main factors that must be appraised in market selection: market potential, common market and promotion factors, market accessibility and capital payback. M. Czinkota (1994) stresses the need for exporting goods to be modified in accordance with foreign market requirements: characteristics of market, attributes of product and enterprise conditions. P. Ghemawat (1991) suggested the model of seven forces (market forces, competitors, organization by itself, buyers’ full satisfaction, learning, authorization and leadership). He stresses also six main entry barriers to be overcome. S. Majaro (1993) refers to 4 factors that must be taken into account while preparing strategy for entry into foreign market: objectives, market demands, resources available, and product. H. Chee and R. Harris (1994) suggested pay most attention to level of risk and market control. There are few Lithuanian authors also analyzing the problems of strategy formation. Observation of strategies made by R. Ćasas (1999), contributions of J. Bivainis (2005) to strategic modeling, methods on measurements in marketing research suggested by V. Pranulis (1998), contribution of R. Virylaitė (2000) on market research and A. Vasiliauskas (2004) in strategic planning had a positive impact on the research.

The analysis of the situation in Lithuania shows the concepts and problems studied are in some ways appropriate for nowadays Lithuania. Lithuanian export meets some tendencies and problems now as it was in developed countries few decades ago. But Lithuania as other countries in transition has met much more difficulties and specificity in marketing and export development because of monstrous resistance of Russian Government for import and because huge multinationals have occupied the markets worldwide. The specificity of the situation still remains and it is not well discovered. The research of marketing strategies, and export development and promotion problems of countries also remains not investigated enough. In spite of openness of Lithuania for World Bank and International Monetary fund for assistance in gaining economic independence from Russia, the results of investigations of World Bank and International Monetary Fund provided periodically have to be estimated critically because their had their own tasks and are not so much interested in export promotion of Lithuanian goods and services. The main task of WB and IMF is to save the solvency of the country to refund WB and/or IMF loans while the main task of Lithuanian researchers is to look for the prosperity of the country. Nowadays Lithuania is more interested in gaining bigger market share in world market and to attract newest technologies than to have positive balance of payments. The different tasks dictate different approaches to the investigation of the problems and it has been taken into account in the research.

One of the simplest in theory but quite complicated in real life is the question how to select and combine marketing objectives. According to I. Ansoff (1976), an objective contains three elements: the particular attribute that is chosen as a measure of efficiency; the yardstick of scale by which the attribute is measured; and the particular value on the scale which the firm seeks to attain. Thus, the product-market strategy represents a commitment to a future direction for the firm. According to the matrix, proposed by I. Ansoff there are four possible strategic options: selling existing products to existing markets, extending existing products to new markets, developing new products for new markets, developing new products for existing markets;

Adam Smith (1817) developed the theory of absolute advantage, which reasoned that nations absolute advantage, would gain from free trade, as long as each partner had an absolute cost advantage in producing some product. The comparative cost theory of international trade, as developed by Ricardo and refined by Heckscher, Ohlin, and Samuelson (Grosse, Kujawa, 1992) states that a country will gain from international trade if it specializes in the production and export of products that require relatively more input of its abundant production factors. Most of the newer studies are still based fundamentally on the backgrounds developed by D. Ricardo (1817), who stressed out that there still might be global efficiency gains from trade if countries specialize in those products that they can produce more efficiently than other products. Reasonable changes occurred during the centuries. Transport costs, mobility of resources and people, trading in services, technological complexities, information technologies international economic and trade alliances, like WTO, EU, NAFTA, ASEAN, have essentially changed the international trade conditions. According to new conditions, M. Porter (1998) stresses out that the way a competitor can avoid loses in a battle with competitors is by taking one of two actions: to be the low cost supplier or by differentiating the products to be able to sell products at high prices.
Knowledge of country conditions, managerial experience, and skill in managing a multi-country production remain an important factor of export. The large MNEs usually hire high skilled managers, marketing and selling experts. The firms with managers who possess such skill obtain better results. Competitive advantages of multinational enterprises in international trade are presented in Table 1.

Table 1

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Description</th>
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<tbody>
<tr>
<td>Proprietary technology</td>
<td>Product, process, or management technology held by a firm, which others can obtain only through R&amp;D or contracting with the possessor</td>
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<tr>
<td>Goodwill based on brand or trade name</td>
<td>Reputations for quality, service, etc., developed through experience</td>
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<td>Scale economies in production</td>
<td>Large-scale production facilities that lower unit costs of production</td>
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<tr>
<td>Scale economies in purchasing</td>
<td>Lower costs of inputs through purchasing large quantities</td>
</tr>
<tr>
<td>Scale economies in financing</td>
<td>Access to funds of lower cost for larger firms</td>
</tr>
<tr>
<td>Scale economies in distribution</td>
<td>Shipments of large quantities of products/inputs to necessary locations, lowering unit shipping costs</td>
</tr>
<tr>
<td>Scale economies in advertising</td>
<td>Sales in several markets, allowing somewhat standardized advertising across markets</td>
</tr>
<tr>
<td>Government protection</td>
<td>Free or preferential access to a market limited by government fiat</td>
</tr>
<tr>
<td>Human resource management</td>
<td>Skill at fostering teamwork among employees and optimizing productivity</td>
</tr>
<tr>
<td>Multinational marketing capability</td>
<td>Knowledge of and access to markets in several countries</td>
</tr>
<tr>
<td>Multinational sourcing capability</td>
<td>Reliable access to raw materials, intermediate goods, etc., in several countries that reduces single-source cost</td>
</tr>
<tr>
<td>Multinational diversification</td>
<td>Operations in several countries so that country risk and business risk are reduced</td>
</tr>
<tr>
<td>Managerial experience</td>
<td>Skill for managing multi-country operations</td>
</tr>
</tbody>
</table>

Very general guidelines to help in thinking about competitive strategies suggested by Malcolm McDonalds (1993): know the terrain on which you are fighting (the market), know the resources of your enemies (competitive analysis), do something with determination that the competitors aren’t expecting are still very important for international market research.

In order to implement these general guidelines, it is necessary to analyze the market and competitors in details and very carefully.

Export market research theories and Lithuanian exports

A fundamental point in export marketing is the need to supply the overseas consumer with the product to accord with their taste, fashion, specification, design, and price and to reflect local training regulations. Very often it requires modification of the products to meet the overseas consumer needs: reasonable price, built-in acceptability in terms of its quality, durability, performance, availability at the right time and place, honest and accurate information on the product, reliability of supplier on delivery promises and after sale services, assistance with the stock turn-over.

Alan Branch (1994) considers the right selection of foreign market as one of the main tasks of marketing departments and experts. Market potential for product to be solved, as measured by market share, competition, tendencies in market changes, level of market development, political and economic stability in the country, state regulations and price to quality ratio are very important for market research. M. Czinkota (1994) suggests three criteria for comparing foreign markets: 1) physical criteria (geographical location of the enterprise); 2) psychological criteria: cultural, language, traditions, habits in the country; 3) economic criteria (differences in economic conditions in the countries involved). Kotler, R. Zentes (Czikota, 1994) have classified the methods of selection markets into 2 groups: analytical (decision tree) and heuristic (associative). M. Czinkota suggests analytical methods as: 1) analysis of overall demand; 2) distressful dependence between revenue and demand, 3) multifactor indexes in comparison with analogies, 4) cost-revenue analysis (Czikota, 1994).

Marketing research can be defined as the systematic gathering, recording, analysis, and interpretation of data on problems relating to the marketing of goods and services. Gorton and Doole (Grosse, Kujawa, 1992) suggest the OPAR model for helping the researcher ensure a systematic approach to the steps of information. Downham (Grosse, Kujawa, 1992) has defined international marketing research as the research carried out in a country other than that of the sponsor. Such an information system would have to identify and analyze potential markets. Johanson (International Business, competing in the market place) stressed out, that uncertainty in international activities and the lack of market knowledge is the greatest obstacle to the trade in foreign markets. There are primarily three functions to carry out: scan international markets to identify and analyze the opportunities; build marketing information systems to monitor environmental trends; and carry out detailed studies for the development of marketing strategies.

After Lithuania’s independence from Russia and the Russian crisis roughly a half of the total export was to the EU and only about 15% to CIS countries. The analysis shows that the breakthrough of Lithuanian exports took place in 1999 when foreign trade turned away from Russia and other CIS countries to the EU area. In 1996 and 1997, 39-42% of total exports of Lithuania were to CIS and 37-38% to EU countries.

The EU membership had a significant impact on the further dynamics of Lithuanian foreign trade. Since the EU accession, the exports of goods excluding fuels have been accelerating. Average annual export growth rate reached 14% in 2004 and jumped to 27% in 2005. The EU membership has lead to more favorable trade conditions with the EU countries due to the removed trade barriers. After Lithuania has become a EU member-state, the
share of exports to EU-25 increased from about 60% to 65% at the end of 2005. Exported domestic production grew at a faster rate compared to the production sold in the domestic market. This was particularly evident in the industry sectors of food, chemical products and plastics. In addition, the introduction of EU export subsidies had a positive effect on exports of food and chemical products to the non-EU countries, in particular CIS.

Lithuanian exports are gaining market shares most dynamically in EU members, such as Spain, Belgium, France, Sweden, also in the USA, Estonia, and Poland. In these countries annual export from Lithuania increased by 40-80% in 2005.

The biggest export markets for Lithuania are the nearby countries: Russia (10.4% of total exports), Latvia (10.3%), and Germany (9.4%). The increase in export of goods was mostly determined by sales of mineral products to foreign partners. In 2005 it went up by more than 40% and accounted for nearly a half of the total export growth.

The bulk of Lithuania’s exports consists of products of the low and medium technology industries (Figure 2).

![Figure 2. Composition of Lithuanian exports by technology level](image)

Low technology industries exports, that include food products, beverages, tobacco, textiles, leather, wood, paper products, and basic metals, accounts for more than a half of total exports. Recently share of this group has been gradually diminishing. According to the UN statistics, about 40% of Lithuania’s low technology industry export is of the highest quality.

Exports of medium technology industries are chemicals, plastics, and rubber. During 1999-2005, oil products accounted for 20-25 % of the total Lithuania’s exports and their role is substantial for overall export growth performance. On average it contributes nearly 5 percentage points to the total export growth. High technology industries products including machinery, electrical and optical equipment, and transport equipment, amount to less than 10 percent of the total county’s exports and just about 20 percent of it is attributed to the high or medium quality products (Figure 3).

![Figure 3. Composition of Lithuanian high technology exports by quality](image)

**International marketing segmentation and export promotion**

At the scanning stage, the manager researching international markets is identifying and then analyzing opportunities, to evaluate which markets to prioritize for further research and development. To do this, managers need to divide markets into groups, so they can decide which markets to give priority.

Market segmentation is the strategy by which a firm partitions a market into sub-markets or segments likely to manifest similar responses to marketing inputs. The aim is to identify the markets on which a company can con-
centrate its resources and efforts, so that they can achieve maximum penetration of that market. The Pareto law usually applies to international marketing strategies with entire strength. The most broad-based and well-established international firms find that 20 per cent of the countries they serve generate at least 80 per cent of the results (Koch, 1998).

International research is, in many cases, a complex, expensive and time-consuming task. Because most Lithuanian enterprises are small and medium for these reasons, as research shows, many SMEs fail to research markets to the extent that is really necessary. The key tasks for the Lithuanian researchers are to scan markets, to identify and analyze opportunities, build up comprehensive market profiles and carry out detailed market studies for a very few markets.

Studies of scientific literature and information available on internet on economics, legal issues, and statistical data of Lithuanian exports as well as the existing government policy and export promotion programs, provided by the author allowed to classify some countries according to the best achievements in export enhancement and promotion and identify the weaknesses of Lithuanian system of export development and promotion (Table 2).

<table>
<thead>
<tr>
<th>No</th>
<th>Criteria</th>
<th>Best achievements</th>
<th>Countries of achievement</th>
<th>Weaknesses in Lithuania</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Market forces</td>
<td>Market information systems and entry conditions</td>
<td>USA, Canada, Germany, Finland</td>
<td>Weaknesses of LEPA agency. Not enough information on markets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Market selection based on certain criteria</td>
<td>Finland</td>
<td>Low attitude by managers, insufficient offensiveness, unwillingness to take risk, lack of funds</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Market entering conditions</td>
<td>Germany, Great Britain</td>
<td>Failure to draw up the program of services, incentives and guarantees</td>
</tr>
<tr>
<td>2.</td>
<td>Product development</td>
<td>Newness of products.</td>
<td>Japan, Germany, USA, Austria</td>
<td>R&amp;D, and regional programs are implemented with difficulty</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Quality assurance system</td>
<td>Japan, Germany, Austria</td>
<td>TQM system, ISO 9000, and EN 14000 have not been implemented in most enterprises</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Product labeling</td>
<td>Germany, India</td>
<td>The labels such as CE, EN, KALEEN and other have not been obtained</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Product packing</td>
<td>World Packers’ Association</td>
<td>Design, ecological and utilization characteristics</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Logistics</td>
<td>Denmark</td>
<td>Risks related to the product storage, protection and supplies</td>
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<tr>
<td></td>
<td></td>
<td>Behavior of competitors</td>
<td>USA</td>
<td>Low quality of competitors’ analysis</td>
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<td></td>
<td></td>
<td>Trade conditions and after-sales service</td>
<td></td>
<td>Very few logistics centers abroad and weak warranty service</td>
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<td></td>
<td></td>
<td>Quality-price ratio</td>
<td>Austria</td>
<td>Low quality, and low value added</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trade missions, representative offices, exhibitions</td>
<td>Great Britain, Denmark, Finland, Germany</td>
<td>Rare, weak support</td>
</tr>
<tr>
<td>3.</td>
<td>Product delivery</td>
<td>System “Just in time”</td>
<td>Japan, Germany, Austria, Sweden</td>
<td>Dependence on foreign distributors and intermediaries</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Distribution system</td>
<td>Great Britain, Austria, Germany</td>
<td>Incapability to verify distributors and agents</td>
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<tr>
<td>4.</td>
<td>Payments’ conditions and state support</td>
<td>Solvency of the clients, export and investment insurance</td>
<td>Japan, Germany, USA, Pakistan, Czech Republic, Finland</td>
<td>Low purchasing power, insufficient development of insurance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Payment arrears</td>
<td>USA, and almost all Europe</td>
<td>Intentional delay</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Experts, trade officers, diplomatic and trade offices</td>
<td>Denmark, Finland, USA, Czech Republic</td>
<td>Lack of experienced experts. Very few trade offices abroad.</td>
</tr>
</tbody>
</table>

Table 2

The results of the best practice studies and weaknesses of Lithuanian practice

Composed by the author in Research report 2005 on “Strategic directions for export development and promotion of Lithuanian goods and services”, led by the author, presented to the Ministry of Economy [28; www.ekm.lt]
As we can see from the research results (Table 2), there is a lot to be done to reach the developed countries in export enhancement and promotion area.

The regression analysis showed close relations between GDP growth and exports, external (international) environment, as well as the cultural differences and exports. The analysis also revealed that many Lithuanian enterprises do not pay enough attention to cultural differences of importing countries.

As a result of research the main directions of export development and promotion of Lithuanian goods and services as well as the directions for export enhancement and promotion strategy and programs were formulated and presented to the Lithuanian Ministry of Economy.

The main directions were suggested for medium term and adopted by the Ministry were as follows:

1. Safeguard friendly legal and economic environment against export.
2. Warrantee exporters with information about niches in foreign markets, as well as the permanent and quality learning.
3. Develop the information framework of Lithuanian exporters and existing foreign, latent and incipient markets.
4. Ensure the competitiveness of goods and services of Lithuanian origin on international level.
5. Develop trustworthy export enhancement and promotion infrastructure and establish close cooperation between Governmental and business institutions.

Conclusions

Research provided by the author and the team on the main problems of composition of export enhancement and promotion strategies shows that there are quite different approaches to strategic analysis, marketing research, and export enhancement and promotion tools. Investigation led to the conclusion that there are some important problems in export development and promotion in Lithuania. 25 percent of exports depend on Russian oil supply, non-effective composition of Lithuanian exports, high technology goods amount only less than 10 percent, just about 20 percent of it is attributed to the high and medium quality products. There are problems concerning the information about foreign markets, lack of funds, not enough developed market research institutions, very few logistic centers abroad, etc. Export promotion tools used in foreign countries like Germany, India, Great Britain, Denmark, Pakistan, showed that there is enough space for Lithuanian enterprises and Government to improve export enhancement and promotion framework.

As a result of research five main strategic directions have been suggested for the Ministry of Economy in export enhancement and promotion in Lithuania: safeguard friendly legal and economic environment against export; warrantee exporters with information about niches in foreign markets; develop information framework of existing foreign, latent and incipient markets; ensure the competitiveness of goods and services of Lithuanian origin on international level; develop trustworthy export enhancement and promotion infrastructure as well as certain close cooperation between governmental and business institutions.

References


Česlovak Purlys

Pagrindinės strateginės kryptys gerinant eksporto vystymą Lietuvoje

Struirka

Straipsnyje atlikta įvairių požiūrių į strategijas ir strateginį valdymą analizė. Išanalizuoti užsienio šalių ir Lietuvos autorų moksliniai darbai apie strateginį valdymą, strategijų pasirinkimo būdus, tokiu kaip I. Ansoff, K. Andrew, General electrik, Bostono konsultavimo

Statistinių duomenų analizė rodė, kad naudojama daug įvairių įvairių užsienio šalių ekspoto rėmimo strategijų analizė rodo, kad naudojama daug įvairių iki šiol netaikytų Lietuvoje ekspoto rėmimo formų, ir kad esama galimybės tobulinti Lietuvos ekspoto rėmimo sistemą (straipsnyje pateiktų lentelė).

Analizuojant ekspoto apibūdinančius statistinius duomenis susidura su kai kuriais sunkumais: 1) statistika neišskiria eksporto apimties įmonių dydžio, nors netiesioginiu tyrimu nustatyta, kad apie 90 procentų eksporto apimties sudaro 100 vidutinio dydžio įmonių eksporto; 2) pastaraisiais metais sparčiai auga paslaugų eksporto, tačiau nėra duomenų apie jų įgyvendinti lėšų efektyvumą.