
International Marketing

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Within the discussion surrounding the Hidden Champions (HCs) from Central and Eastern Europe (CEE), this chapter will offer a brief international marketing perspective. Seeking to draw valuable conclusions from research that was conducted for more than 2 years in 17 CEE countries the authors will bring a blend of academic and business theory into a single workable frame of reference. The most prevalent and outstanding anomalies of this CEE HC cohort that have been studied in depth during this research will be emphasized and discussed in detail. This chapter will give a brief outline of major business environment dynamics in the last 25 years in CEE countries. It will demonstrate that this part of the world has become a popular source of business opportunity because of its emerging markets. The HCs support the argument that the business communities of the CEE countries' consist of emerging companies that are becoming a threat to existing successful organizations.

Following this contextual outline, the discussion will move to international marketing strategies, as many of the HCs have internationally orientated business strategies. In essence, we will examine what HC require for success and the core elements of their marketing strategies. Moreover, many of the HCs have a very specific target group of customers. Following this, the discussion will go further and analyze the specificities that draw customers towards these niche markets. Marketing analyses indicate that the four Ps (product, price, place and promotion) are of great importance. Therefore we will discuss marketing strategies surrounding product or service development, price choices, distribution markets and promotion options.

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1 Dynamic Environments

The last 25 years have been turbulent for the CEE countries. Most countries experienced significant political changes and upheavals involving social and economic adjustments, which continue to the present day.

Following the dissolution of the Eastern Bloc in 1991, all of its former members became independent states (Kenney 2006). This made communism redundant as a political and social ideology, although it had been followed for 50 years, or longer in the case of the Soviet Union. The one-party system was dismantled and many countries distanced themselves politically from Russia, introducing a Western-style democratic republican system. Nevertheless, Henderson and Robinson (1997) argue that the change in the political system was an easier undertaking than the economic changes required for this new system. In economic terms, each individual country was required to transform its national economy from centrally planned to market-oriented (Parker et al. 1997). The first step was privatization of state-run companies. These companies were generally not market-oriented. They were an instrument held by the communist governments of the Eastern Bloc countries. This lack of a market economy drive indicated a lack of Western business practices and knowledge in the business communities of CEE. By now, the privatization process has been completed more or less successfully and it appears that CEE has gained a critical dose of modern business knowledge.

Globally Information Technology (IT), and in particular the Internet, developed rapidly. These changes were embraced by the business sector (Ognjanov 2002). This means that companies in the ex-communist countries had to deal not only with the social upheaval and reorientation, but also with the lack of technological infrastructure in CEE. Because of insufficient financial resources, technological improvement was stagnant during the last years of communism. The CEE countries struggled with bad macroeconomic indicators, such as low incomes and inflation (Henderson and Robinson 1997). To keep up with the competition in domestic and international markets, CEE companies had to find a way to utilize their IT and at the same time modernize their production facilities.

2 Market Segments

The concept of marketing is based on the notion that companies regard their markets through the segmentation lens. Customers are grouped according to their demographical, psychological and behavioural characteristics. These groups are called market segments. By targeting individual groups, companies can offer better and more tailored products or services (Kotabe and Helsen 2010).

When it comes to geographical segmentation, this research has shown that HCs follow a variety of logics and strategies. While some HCs place their main focus on Western markets because of their higher purchasing power, others focus on emerging markets. One of the key characteristics of HCs in Simon's research is that these organizations seek to stay close to their customers. This study replicates

his findings. Understanding customers, satisfying their needs, and customizing a product or service are of the same importance to the HCs of CEE as it is to those in Simon's sample. But each HC has different views on the best financing strategies, penetration of new markets, methods for launching new products, and a plethora of other business concerns. Nevertheless, they agree on one thing: the need to remain as close as possible to their clients. Each HC operates within different markets and with different goals customization appears on different levels. Product customization differs as a fully customized product requires a different marketing strategy compared to a partly customized product. The point that we are making is that it is necessary to understand the clients, know their preferences, and explore what needs to be done to satisfy them in the best possible way. Following this logic, Mr Cimbalak, founder and CEO of Slovakia's ACE Enterprise, argues that his company is successful because it analyses its customers in depth and the problems that they face. The company has managed to address these issues by becoming an essential part of the clients' daily routine. Mr Cimbalak firmly believes that his Slovakian HC has secured this important marketing achievement by becoming intertwined with its customers' behaviour.

The fact that the CEE's HCs are excellent marketers can also be seen in their devotion to creating loyal customers. Not only do they seek to satisfy their clients' needs, but they also appreciate the relevance of their customers' loyalty. HCs understand that client loyalty is highly cost-effective. An example of this type of company, fostering loyalty, is Grapefruit—a branding company from Romania that pays special attention to its loyal and passionate customers as a key strategy for business development.

Another marketing issue that is unique to HCs is the focus on marketing niches. As most HCs are small or medium-sized companies that do not have sufficient resources at their disposal, they tend to focus on one particular product market or niche. The development of a market niche requires customization as niche clients have specific needs, and therefore require greater attention than the average customer who is content to purchase from more mainstream companies. Although the interaction with these clients can be time and resource-consuming, these challenges stimulate the HCs to develop their product expertise which has been shown to have a positive impact on the bottom line. This is demonstrated by Estonia's Tallink Group, one of the world's top players in sea transport provision for passengers. The Tallink Group began small and focused on a narrow market place. This specialization has allowed the company to become globally renowned for its mini-cruise ferry operations and consequently the profits have shot through the roof.

Market niches do not always remain small; they often evolve into large market segments. This is a lesson that Latvia's, MÁDARA Cosmetics is now learning. That company offers eco-cosmetics. The need for such products is created by the increasing number of women who are environmentally aware and seek cosmetic products in line with their philosophy of acquiring aesthetic beauty in an environmentally friendly manner. At this point, MÁDARA Cosmetics has no significant competition; low competition is another specific trait of market niches. This is likely to change as potential competitors recognize the growing need of this group of customers.

Finally, many HCs have a strong focus on business-to-business marketing. This focus upon the B2B market may be the reason that many companies are less known outside of their industry. In particular Slovenian HCs are narrowly focused on the business-to-business market with specific and often highly customized solutions for their clients.

This research has shown that HCs use the whole range of different market entry modes. The rule of thumb is that companies rely on export when they start doing business in a specific market and in cases of high-risk environment. As time goes by and the business expands, HCs move to more hierarchical modes of market entry, i.e. they form joint ventures or establish own full subsidiaries abroad (Hollensen 2011).

3 Marketing Mix

The subsequent sections discuss the specific decisions that CEE's HCs have made concerning four important issues, known as the four Ps: product, price, place, and promotion. When deciding what market entry strategy should be followed, Johansson (2007) asserts that companies need to pay great attention to their marketing mix as each of these business elements becomes an essential message that the HCs send to the market about their company.

3.1 Product

The current findings are consistent with Simon's original research which indicated that HCs relied upon high-quality products to enter and conquer markets. For example, Bodren Ltd. in Croatia produces high-quality sweet and ice wine. Its distinct competitive advantage is the consistent development of the quality of their wines. Bodren achieves this by engaging the best wine connoisseurs in the region. Likewise, the high-quality of the products distributed by Ukrainian's Kakhovka Plant of Electric Welding Machines (KZESO) has allowed it to build an impressive 97 % market share in welding equipment. The longevity of a company has often been perceived as a guarantee of quality. A considerable number of HCs support this view, be they a food-processing company in Macedonia (Vipro) or an oil-processing firm in Estonia (Eesti Energia). Each HC believes that experience and maintaining tradition has helped it to create and offer a superb quality product, recognized by the market.

Product uniqueness requires product quality (Stark 2007) and many CEOs indicated that this product specialization was highly relevant to their company's success. Thus Venice Art Ltd., an Albanian company that manufactures carnival masks, has never produced two identical masks. The need for a carnival mask is specific; therefore the management believes exclusiveness is essential. This is achieved by manufacturing hand-made products with a unique design pattern, allowing the workers to express their creativeness.

And what about products, like oil, that are not in a niche market? Two Estonian companies, Enefit Energia and Viru Keemia Grupp, have found that there is more

than one way to satisfy the need for oil. Envisaging a high demand for shale oil in the near future, these companies are focusing on improving and expanding their production. Crude oil is currently the most used kind, whose derivatives are used in vehicles and boilers. Yet, these Estonian companies are focusing their energies on shale oil, which they believe is a good substitute for crude oil. It appears that the prospects for shale oil are bright as its quality is equal to that of crude oil. At the current time, reserves for shale oil are 3.5 times larger than those of crude oil. Production is costly; however Enefit Energia and Viru Keemia Grupp aim to decrease production costs. They are exploring various ways in which shale oil can substitute the commonly used but potentially scarce crude oil.

However not all HCs rely solely on high quality or uniqueness to gain clients. Among others, Turkish companies regularly utilize the quality/price ratio strategy to attract more customers. We will discuss this strategy in more depth in the price section. In addition, successful products from CEE's HCs rely on some specificities. One successful practice involves paying attention to global social trends. For example, there has been a dramatic increase in the number of people attempting to become physically fit for personal, social or health reasons. People are also becoming increasingly aware that fitness and a healthy diet go hand in hand. As a result, this social trend has led to a range of bio products, all intended to help consumers stay fit and healthy. The Albanian essential oil producer Xherdo is successfully capitalizing on this trend by being one of the leading companies in West European countries, such as Germany and France. But it gets even better! This trend is creeping into each pore of our everyday lives. Consumers are rapidly becoming attached to the idea of eco and bio products and even the popularity of eco-cosmetics is rising.

The research on CEE's HC has highlighted the ability of these companies to offer products in highly competitive markets. What attracts customers to choose the HC's products over those of their competitors? We believe the answer lies, in part, in the constant improvement and development of the products. This is how the Bosnian-Herzegovinian producer of underwear, Alma Ras, has achieved a regional brand status in a record period. When asked what the secret to success is, Alma Ras CEO Rasim Memagić states: "You see, it's all about details. It's the small pieces that need to be put together in order to achieve success". Hungary's Energotest, a leading company dealing with modular, network-integrated technical testing stations in the car diagnostic industry, is another HC that is tirelessly devoted to the constant development of its electronic, mechanical and software solutions to retain its leading position.

However many of the HCs have limited financial resources to invest in extensive research and development (R&D). As a result, some companies have innovatively developed a new solution to offering scientifically backed products and they work alongside scientists and scientific institutes. For example, Russian scientist Viktor Bykov led a research project in 1990 resulting in the establishment of Nanotechnology MDT. The company launched an electronic and scanning probe microscope, which nowadays holds a fifth of the global market in zoned microscopes. Another example is the Slovenian Geneplanet Ltd. which offers services based on cutting-edge science. Based on a genetic analysis, Geneplanet provides advice on the

prevention of potential curable diseases. The point we are making is that HCs are innovative with the scarce resources that they have and must provide quality products.

To attract and keep customers, HCs often design all-encompassing products for their clients, particularly in the B2B market where extensive knowledge of products is needed. Serbia's RT-RK is a company that offers both software and hardware solutions for functional testing of multimedia devices, such as top boxes and TV sets. Feal is an aluminium company in Bosnia and Herzegovina whose history goes back to 1976. They both combine design and production in one place to satisfy their customers. Feal's product is highly customized and brings up a particularly interesting question: is standardization necessary when entering an international market? It is common practice for companies to customize to a certain point. However there is no best practice or clear answer to the question. Some HCs from CEE have even ignored the common recommendation for standardization when doing business internationally. As discussed previously, there are companies that rely on high product customization and many examples demonstrate that customers continue to be loyal despite the slightly higher prices of customized products.

It is usually argued that a product represents a solution to solving a particular problem or is a means to satisfying a particular need. This implies that one product can be used to satisfy one specific need. This study argues that some HCs find ways to extend a product's usage and operate in a number of markets. In other words, one product can be applied in different ways to satisfy a variety of different needs! Tulpar-Intech in Kazakhstan has patented a video-gram metric track-measuring system. It is a non-contact serial instrumentation system for railways. Tulpar-Intech is expanding the usage of this technology to the health sector, geological prospecting, agriculture, and construction.

The previous section discussed a variety of products produced by HCs in CEE. Many of them are savvy high-technology products. The need for constant technological innovation has been noted by Slovenia's Tajfun Planina Ltd., one of the world's leading producers of forestry equipment, specializing in logging winches and firewood processors. Mr Špan, a member of this family-owned business, notes:

"If you want to be competitive, you need to have your own effective R&D or you have to be cheaper than the Chinese. We will never be cheaper than the Chinese, so we need to be best in technological innovation".

The classic question of price or product differentiation arose several times in the research process. The majority of CEE's HCs prefer product differentiation, being aware that price competitiveness is difficult to achieve because of the strong international competition on price coming from Asia.

3.2 Price

In the previous section, we touched on the fact that price is a crucial in the creation of a successful product. The price must be economically profitable so that it covers expenses and it must be accepted by the target market. While cost cutting may be

economically profitable, it is always a risky endeavour. Customers may be willing to accept a higher price as the reputation of many HCs rests on quality and the provision of unique products. This has been highlighted as being of great importance to clients (Cateora et al. 2011).

The Selena Group of Poland was mindful of the price/product dichotomy when it conquered the world with its polyurethane foam. The company offers an appealing price-value ratio which it found to be of crucial importance to its customers. The managers of Selena Group have realized that the right price-value ratio will not only attract customers to buy their product but also enable their sales force to offer additional products to the clients once they have had a satisfactory experience with Selena Group.

The research has shown that some HCs rely on the cost leadership strategy, well known to the business world. Lower your costs to keep your price down and you will stay above water. Kazakhstan's Tulpar-Intech manages to keep its R&D costs considerably under those of Western companies, which makes it capable of achieving a lower price on the market. Cost efficiency is pursued also by the Hungary's Energotest. The constant development of its products has helped the company offer a highly marketable product at a lower price.

To achieve lower prices, companies sometimes accept lower quality, as do customers. Turkey's Kanca Company, a producer of hand tools and forged parts, has realized this. It is strongly focused on achieving the right price-quality ratio. As a result, the company is a leader in Europe.

However some HCs have found another way to offer their products at a good price to their customers; they have simply increased their output and achieved economies of scale. Peter Hunt, the supervisory board manager of Wendre, an Estonian bedding manufacturer, believes that large production quantities are the key to achieving the right price-quality ratio.

All price issues are common dilemmas in the world of business. The HC research has discovered that companies are increasingly exploring less conventional ways of financing their business. Croatia's Durante M-KVADRAT is the only licensed credit reporting database in Europe and is successfully securing capital by charging the full price before even delivering the product. However, it is questionable whether holding this monopolistic position is the only reason that this model is working and if it would be sustained in the face of stronger competition.

3.3 Place

Due to its nature, distribution is highly dependable on company-specific international strategy. Of the four marketing mix elements, distribution is the one that the company is least able to control. While a company has full control of production, price and promotion, distribution is usually provided by other companies, argues Rakita (2005). However this study found that HCs seek to control the distribution system that they use, even if they cannot do that directly.

Therefore it comes as no surprise, that most of the HCs expressed their intention to gain a tight control of their distribution channels. The Ukrainian Beer Company Group (UBC Group) produces equipment for beer producers all over the world. This company also manufactures cooling equipment, as well as wood and cork, paper and paperboard, containers, and all other products necessary for beer producers. When asked about the competitive advantage of UBC, the corporate management named strict control over the distribution channel and customer orientation.

Nevertheless tight control over the distribution system is not always possible, particularly for newly founded companies. Latvia's Aboards Ltd. specializes in manufacturing kite boards and associated equipment. This company is a potential HC that has 5 % of the global market only 4 years after its establishment. According to founder Kriss Spulis, one of the reasons for this enormous success is the creation of a strong distribution network. Yet Aboards Ltd. does not have full control over its distribution network.

Most HCs are aware of the need to create distribution networks to leverage the connections of their company in their favour. This drives the integration of a distribution network within the value-chain framework. Mare Adriatika Ltd. is an Albanian fish-processing company that specializes in the processing of anchovies and sardines from the Adriatic Sea. After years of focusing on fish-processing, the company decided to expand its business and build its own distribution networks. This has been done with the aim to reduce distribution costs but, more important, to get full control of them so as to enhance performance.

3.4 Promotion

Research findings regarding promotion are mainly related to brand and reputation building. The values of these strategic assets are based not only on promotional activities, such as public relations (PR) or advertising, but also, and mainly, on business interactions with customers and suppliers. While this research did not focus in depth on promotional activities, the implications are striking. No matter how small or new the HCs are, each is well aware that brand building is crucial to its success. This finding is noteworthy because companies usually take a strategic approach to brand building only after years of doing business, when they believe that their existence is secured (Keller 2003). Most newly formed HCs have begun this practice early on in their company development. Similarly, Croatian, Latvian and Serbian B2B companies focus on building a strong brand and a positive reputation, and these are now paving the way to regional and global success.

Building a brand takes time. It takes even longer to maintain a well-known brand, and build and retain a good reputation (Argenti 2003). Data from this study indicates that HCs are able to secure a quality brand position without the usual trade-off between rapidity and quality. Creating an excellent image on the market in a short period has been achieved by transferring brand values from their partners to their own brands. This is very similar to what brands usually aim for when they hire

famous people to advertize them (De Pelsmacker et al. 2010). An example is Louis Vuitton, which has an ongoing advertising campaign with a range of famous people to transfer their popularity to its own brands. The HCs are following this manner of doing business with world-class branded companies, and they communicate this to their client base. This is how they attract attention, popularity and even customer loyalty from the beginning. This is also how they communicate the reliability and quality of their products.

For example, Euro Plus Ltd. is a small Slovenian company, yet a global leader in the design and printing of labels with bar codes and radio-frequency identification. It has rapidly increased its market share in recent years. One of the major reasons for that is the fact that the company acts as a strategic partner to some of the extremely well-known companies around the globe. Euro Plus constantly communicates these names to the market.

Some HCs do not stop there, Lumen and Alma Ras, both from Bosnia and Herzegovina, are conscious that a good brand cannot remain valuable if there is not a quality product behind it. This is the reason that the transfer of know-how is an important part of the branding strategy of these companies. In other words, besides the transfer of brand values by their world-famous partners, they also accept their partners' know-how, and communicate this, too!

Conclusion

The intention of this chapter was to discuss, from a marketing perspective, the major findings concerning the HCs of CEE. The overriding question was how do these organizations compete internationally in terms of marketing? In general, CEE's HCs do business in a well-known manner, yet this is true only to a certain extent. It is striking that they also utilize uncommon methods to solve their international marketing dilemmas. One of the key findings of this research is that HCs in CEE not only explore new ways of doing business within emerging markets but also push the boundaries of marketing practices internationally and create their own marketing strategies. These companies do not only offer unique products; they market them in unique ways. Therefore, the conclusion will briefly reiterate these interesting findings.

As we pointed out, CEE has experienced large ideological and structural changes in the past two decades. This shift, combined with the IT revolution, made the transition challenging and had a strong impact on the business communities of the affected countries. This history has resulted in a completely new approach to doing business in CEE. It did not work for some companies but opened up opportunities to new businesses and markets for the HCs. The capitalistic approach to business, as opposed to the dismissed communist approach, had an important and immediate influence on CEE: Its companies began to operate on an international scale, targeting Western consumers with attractive disposable incomes. Therefore, CEE's HCs can be categorized as oriented toward Western or emerging markets.

Overall, CEE's HCs resemble those in Simon's original research in 1996. They focus largely on B2B markets and market niches. Yet, they do not stop

there. These niches evolve to big market segments, leading to the HCs' strong growth. The magic of CEE's HCs is in the marketing mix, particularly in product development and production. Products are of high quality, unique and innovative. In combination with this innovativeness, HCs draw upon a tradition that helps them produce quality products and gain customer loyalty. The interviewees in the HC research emphasized that their success is not a result of big, world-changing innovation. Their achievements are the small, step-by-step improvements of products, offers and business processes. Scantiness creates creativity! This is one of the major findings of this research.

HCs usually begin by offering a product that demands high expertise. Yet, as time goes by, they aim to expand and develop their product and the markets in which they operate. This happens because these organizations become experts in their business fields. On the other hand, sometimes HCs have products that are technologically perfected to such an extent that a common person can hardly understand what they are supposed to do. In any case, HCs hold a great amount of expertise. The astonishing understanding of the products and their usage has led to another important finding: A product's usage effectiveness. Some HCs have created products in such a way that they can be used for several purposes. This seems like a clever way to increase the potential market.

High customization of the product leads to a more satisfied customer, which results in higher customer loyalty. In terms of finances, customization has a direct and positive impact on the corporate balance sheet. The price domain demonstrates minimal differences with respect to other companies. While cost cutting is usually a good thing, it should never endanger the overall quality of the product, or the brand name of the company. Customers are willing to pay more for a better quality. They are price-sensitive, yet they are more quality-sensitive. When asked about their competitive advantages, the HCs most commonly answered that it was their product. Yet a surprisingly high number of managers said that their success clearly depended on their tight control over the distribution system. This explains why many HCs seek to achieve forward integration of their value chain.

Finally, one of the impressive revelations of this research was the HCs' deep understanding of the strategic relevance of promotion. We found it surprising that most HCs are well acquainted with the brand and reputation concept and its relevance to business success. The majority of companies apply these practices from the first day of their foundation, which is quite unusual for start-ups. A number of these organizations even go a step further, as demonstrated by the Bosnian or Slovenian examples. They have found an interesting and financially less demanding way to brand their names by communicating their large clients' names to the market. In doing this, they offer a subtle guarantee to new customers that their products have passed the rigorous criteria of global companies. Each of these factors, in conjunction with the transfer of know-how from their big global partners, places the small-to-medium-sized HCs of CEE in an adequate position for the global battle in a dynamic business environment that will last well into the future.

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