

Russian Automotive Market: Marketing Strategy for SKODA auto a.s. in 2016-2017

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Master Thesis
2016

 Tomas Bata University in Zlín
Faculty of Management and Economics

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Faculty of Management and Economics
Department of Management and Marketing
Academic Year: 2015/2016

MASTER'S THESIS ASSIGNMENT

(PROJECT, ARTWORK, ARTISTIC PERFORMANCE)

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Degree Programme: **N6208 Economics and Management**
Degree Course: **Management and Marketing**

Thesis Topic: **Russian Automotive Market: Marketing Strategy
for SKODA auto a.s. in 2016–2017**

Thesis Guidelines:

Introduction

Define the objectives and the application methods used in the Master thesis.

I. Theoretical part

- Compile theoretical information about marketing strategy, international marketing strategy and anticrisis marketing.

II. Practical part

- Conduct analysis of current Russian automotive sector and marketing environment for SKODA auto.
- Prepare marketing plan for the years 2016–2017.
- Submit marketing plan to the Cost, Risk and Time analysi.

Conclusion

Thesis Extent: cca 70 stran
Appendices:
Form of Thesis Elaboration: tištěná/elektronická

Bibliography:


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PERCY, Larry. Strategic integrated marketing communications. 2nd ed. Abingdon: Routledge, 2014, 320 p. ISBN 978-0-415-82208-4.

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Thesis Due: 18 April 2016

Zlín, 13 April 2016


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ABSTRAKT

Jasná a uplatnitelná marketingová strategie je jedním z klíčů k úspěchu v jakémkoli oboru podnikání. Marketingový plán však nabývá na mnohem větší důležitosti, když se ekonomika státu či podniku (state or company) dostane do fáze recese. Rusko je jedním z klíčových trhů pro většinu předních světových výrobců aut. Škoda auto se také řadí mezi tyto světové výrobce. Ruská ekonomika prošla v roce 2015 rapidním úpadkem, a to kvůli poklesu cen ropy. Pokles zaznamenali i výrobci aut, protože došlo k poklesu na straně poptávky. Cílem této práce je analyzovat současnou situaci ruského automobilového trhu a vytvořit tak marketingovou strategii protikrizového opatření pro společnost ŠKODA auto na rok 2016/2017.

Klíčová slova: mezinárodní marketing, automobilový průmysl, marketingová strategie

ABSTRACT

Clear and exercisable marketing strategy is one of keys to the success in any business field. Moreover, the importance of marketing strategy arises when economy enters recession stage. Russia is one of the most important markets for most of the world's leading car manufacturers. SKODA auto is among them as well. Russian economy experienced rapid decline in the 2015 due to the falling oil prices. As a result, car producers saw their sales fall too. The aim of this work is to analyze current state of the Russian automotive market and develop anti-crisis marketing strategy for the SKODA auto in the year 2016/2017.

Keywords: international marketing, auto industry, marketing strategy

ACKNOWLEDGEMENTS

First and foremost, I would like to thank my mother Kornienko Vera and my father Vladimir Kornienko for making this master diploma happen and for all the 2 years that they have been supporting me.

Secondly, I want to personally thank my teacher and scientific supervisor Mr. Jiří Vaněk for all of his help and insights during the course of the degree.

Thirdly, I want to send warm thank you to Pavlína Bujoková for believing in me and providing with words of wisdom.

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INTRODUCTION

According to (Kotler 2015) the company's marketing strategy outlines which customers the company will serve and how it will create value for these customers. It consists of the firm's marketing mix, the set of marketing tools the firm uses to implement its marketing strategy. The concept remains the same in the international environment with a proper adjusting. However, it becomes a challenging task to execute one when given market is in the state of recession. However, downturn economy brings not only problems like declining sales. It can also become an opportunity to increase current market share and expand into new territories.

Russia is one of the TOP 8 major markets for SKODA auto. However, declining economy made it difficult for automakers to operate. While some managed to overcome negative conditions, others pulled their operations.

The aim of this work is to develop marketing strategy that will allow SKODA to improve its current situation in the Russian market. To do so we will compile theoretical information about foreign market operations as well as marketing during downturn economy. Afterwards, we will conduct marketing mix analysis of SKODA and its competitors. In the final part, we will develop actionable marketing plan for SKODA auto in Russia for 2016-2017 and subject it to the time, risk, and cost analysis.

OBJECTIVES AND METHODS OF MASTER THESIS PROCESSING

Objectives of this diploma work were:

- Find, compile and analyze information about foreign marketing operations and international marketing strategy
- Analyze the state of Russian economy and automobile market
- Analyze marketing mix of SKODA auto and its nearest competitors
- Develop marketing strategy SKODA auto in Russian market for the year 2016/2017
- Subject marketing strategy to the time, risk and cost analysis

Methods used:

- Qualitative Research
- Quantitative Research

I. THEORY

1. REASONS FOR FOREIGN MARKET EXPANSION

According to Farhang (2001) the way in which some companies turn from being purely domestic companies in terms of marketing goods and services into international companies, has been the subject of research during the last three decades. Indeed, it is not an easy task to expand into foreign market, especially if it has little or nothing in common with a domestic market. It is a process associated with a great deal of problems and challenges. The reason firms venture abroad is the following: they do so to obtain things that are not available at home. Firms import goods and services, labour, technology, skills and inputs that are unavailable or more expensive at home (Buckley, Ghauri 2015).

(Czinkota 2012) offer two types of reasons for expansion:

Table 1: Reasons for foreign expansion (Czinkota 2012)

Proactive Motivations	Reactive Motivations
Unique products	Competitive pressures
Technological advantage	Overproduction
Exclusive information	Stagnant or declining domestic sales
Tax benefit	Excess capacity
Economies of scale	Saturated domestic markets
Profit advantage	Proximity to customers and ports

2. MODES OF FOREIGN MARKET ENTRY

At a strategic level, manufacturers have several options before establishing a presence in overseas markets. Market entry decisions may relate to exporting, so may concern finding distributors or deciding whether to establish wholly owned distribution (Bradley 2013).

Nevertheless, entering foreign market is tenacious and elaborated process. It affects every organizational level no matter to what extent. Like any other processes, it has several ways of execution.

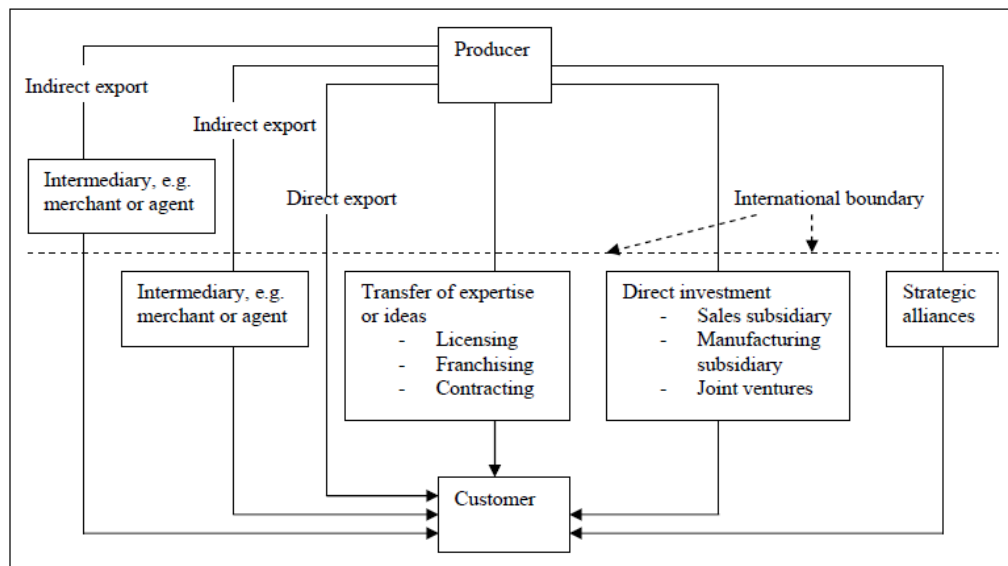
(Cateora, Graham 2007) state that generally, entry can be classified on the basis of the equity or non-equity requirements of each mode. For example, indirect exporting requires no equity

investment and thus has a low risk, low rate of return, and little control, whereas direct foreign investment requires the most equity of the four modes and creates the greatest risk while offering the most control and the potential highest return.

Companies most often begin with modest export involvement. As sales revenues grow, the firms often proceed down through the series of steps: Exporting – Contractual agreements – Strategic alliances – Ownership.

Visually foreign market modes can be depicted the following way:

Graph 1: Modes of foreign market entry (Brassington, Pettitt 2000)



2.1 EXPORTING

Perhaps the most simple and low risk approach, exporting consists of selling of goods and services produced in one country to other countries. There are two main ways of export: Direct and Indirect

Direct exporting

Manufacturer establishes its own export department to sell directly to the foreign market.

Advantages	Disadvantages
Business has control over foreign market operations and can choose foreign representative companies	High starting costs and risks
Better feedback with a target market and closer relationships with the buyers	Requires higher investments of time and other resources because company does most of the operations from scratch

Table 2: Advantages and Disadvantages of Direct Exporting (own source)

Indirect exporting

It is carried out using different types of sales intermediaries so the company does not have to establish its very own overseas sales department.

Table 3: Advantages and Disadvantages of Indirect Exporting (own source)

Advantages	Disadvantages
Saves time and other resources since intermediary takes on most of the problems associated with foreign sales (logistics, warehouses, outlets etc.)	Little or no control over operations: distribution, sales etc.
Low risk exists for businesses who consider their domestic market to be more important and for companies that still develop sustainable operations.	Feedback with market is less transparent as opposed to the direct export.

It is also worth mentioning that (Burnett 2013) offers 3rd way of exporting, which is semi-direct. During which an exporter usually initiates the contact through agents, merchant intermediaries, or other manufacturers in the home country. Such semi-direct exporting can be handled in a variety of ways:

- Combination export manager. A domestic agent intermediary that acts as an exporting department for several noncompeting firms
 - The manufacturer's export agent (MEA) operates very much like a manufacturer's agent in domestic marketing settings
 - Piggyback exporting, in which one manufacturer (carrier) that has export facilities and overseas channels of distribution handles the exporting of another firm's (rider) noncompeting but complementary products

2.2 LICENSING

Licensing is a contractual arrangement whereby one company (the licensor) makes a legally protected asset available to another company (the licensee) in exchange for royalties, license fees, or some other form of compensation (Root 1994). It may include trademark, company name, technological expertise etc. There are two key advantages associated with licensing as a market entry mode.

First, because the licensee is typically a local business that will produce and market the goods on a local or regional basis, licensing enables companies to circumvent tariffs, quotas, or similar export. Second, when appropriate, licensees are granted considerable autonomy and are free to adapt the licensed goods to local tastes (Keegan 2008).

2.3 FRANCHISING

Franchising is a rapidly growing form of licensing in which the franchiser provides a standard package of products, systems, and management services, and the franchisee provides market knowledge, capital, and personal involvement in management. The combination of skills permits flexibility in dealing with local market conditions and yet provides the parent firm with a reasonable degree of control (Cateora, Graham 2007). Perhaps the most illustrative example of franchise would be fast food establishments: Burger King, McDonalds, Subway etc. Selling franchise rights was one of the key factors of their rapid growth. This type of entry has one big advantage: you are buying successful and sustainable business model so it saves a of trouble. On the other side, franchisers often have strict rules regarding business operations so you will not be able to implement your own ideas and approaches.

2.4 JOINT VENTURE

It is a participation of two or more companies in an enterprise in which each party contributes assets, has equity and shares risk (Czinkota 2012).

Joint ventures may be the only way in which a firm can profitably participate in a particular market since many governments restrict equity participation in local operations by foreigners. Through a joint venture, the technology can be used more quickly and market penetration achieved more easily. Joint ventures also permit better relationships with local government and other organizations such as labor unions. Government-related reasons are the main rationale for joint ventures to take place in less-developed countries (Czinkota 2012).

The disadvantages of joint venturing can be significant. Joint venture partners must share rewards as well as risks. The main disadvantage associated with joint ventures is that a company incurs very significant costs associated with control and coordination issues that arise when working with a partner. Another disadvantage is the potential for conflict between partners (Keegan 2008).

2.5 DIRECT INVESTMENT

Multinational organizations may choose to engage in full-scale production and marketing abroad. Thus, they will invest in wholly owned subsidiaries. An organization using this approach makes a direct investment in one or more foreign nations. Organizations engaging in licensing or joint ventures do not own manufacturing and marketing facilities abroad. By establishing overseas subsidiaries, a multinational organization can compete more aggressively because it is "in" the marketplace (Burnett 2013).

A wholly owned subsidiary includes two types of strategies: Greenfield investment and Acquisitions (Hitt 2014).

Greenfield investment	Acquisition
Establishment of a new wholly owned subsidiary. It is often complex and potentially costly, but it is able to provide	It has become a popular mode of entering foreign markets mainly due to its quick access. Acquisition strategy offers the

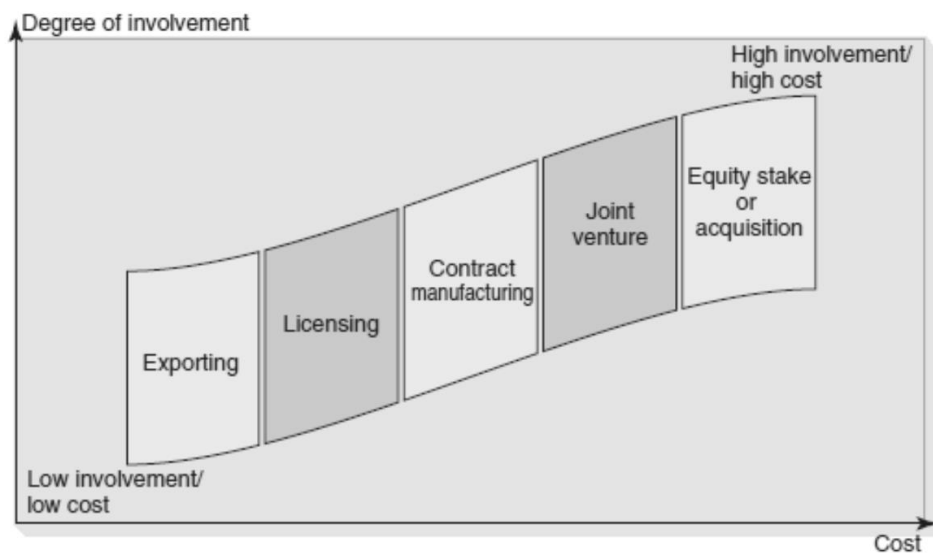
full control to the firm and has the most potential to provide above average return.	fastest, and the largest, initial international expansion of any of the alternative.
--	--

Table 4: Greenfield investment and Acquisitions (Hitt 2014)

It reasonable to say that risk increases as company slowly progresses towards directly investing in overseas operations.

(Keegan 2008) suggests the following graph representing Involvement/Risk/Reward of Market Entry Strategies.

Graph 2: Cost/Degree of involvement of foreign entry modes (Keegan 2008)



2.1 RULES FOR FOREIGN MARKET ENTRY

When it comes to choosing particular entry mode, business should exercise several rules that will help to make the best decision in a given state. (Hollensen 2007) suggests the following:

1. Naïve rule. The decision maker uses the same entry mode for all foreign markets. The companies use this rule as the entry mode selection ignore the differences of individual foreign markets. The performance of this selection could not be calculated, because it highly depends on the luck of the manager
2. Pragmatic rule. The decision maker uses a workable entry mode for each foreign market, which means that the manager use different entry modes depend on the time stage

or the business stage. For example, as the first step to international business, companies tend to use exporting.

3. Strategy rules. This approach means that the company systematically compared all of the entry modes and evaluated the value before any choice is made. This approach is common in large firms, because the research requires resources, capital and time. It is rarely to see a small or medium sized company use this approach.

Besides these three rules, managers have their own ways to select entry modes. If the company could not generate a mature market research, the manager tend to choose the entry modes most suitable for the industry or make decisions by intuition.

2.1.1 EXTERNAL FACTORS AFFECTING MARKET ENTRY

Decision to enter a foreign market depends on two major factors: external and internal environments. (Doole, Lowe 2008) suggest that the following factors fall within the former:

Social/cultural environment

The social and cultural influences on international marketing are immense. Differences in social conditions, religion and material culture all affect consumers' perceptions and patterns of buying behavior.

Cultural factors

Cultural differences and especially language differences have a significant impact on the way a product may be used in a market, its brand name and the advertising campaign.

Social factors

Growth and movement in populations around the world are important factors heralding social changes.

Legal environment

Legal systems vary both in content and interpretation. Legal environment consists of 3 levels:

- *Local domestic laws*
- *International law*
- *Domestic laws in the home country*

Economic environment

It is important that the international marketer has an understanding of economic developments and how they impinge on the marketing strategy. This understanding is important at a world level in terms of the world-trading infrastructure such as world institutions and trade agreements developed to foster international trade, at a regional level in terms of regional trade integration and at a country/market level.

Currency risks

World currency movements, stimulated by worldwide trading and foreign exchange dealing, are an additional complication in the international environment.

Political environment

The political environment of international marketing includes any national or international political factor that can affect the organization's operations or its decision-making.

Technological environment

Technology is a major driving force both in international marketing and in the move towards a more global marketplace. The impact of technological advances can be seen in all aspects of the marketing process.

2.1.2 INTERNAL FACTORS AFFECTING MARKET ENTRY

Internal factors influencing choice of foreign entry modes according to (Brassington, Pettitt 2000). When the company has decided which markets to enter it must then decide how to enter them. A number of factors influence the choice of foreign market entry mode:

- Speed
- Costs
- Compensation
- Long-term objectives

3. ADJUSTING INTERNATIONAL MARKETING STRATEGY

3.1 PRICING STRATEGY

As it is noted by (Kotler 2012) price is the only element of the marketing mix that produces revenue. The other elements produce costs. Prices are the easiest element of the marketing program to adjust; product features, channels, and even communications take more time. Price also communicates to the market the company's intended value positioning of its product or brand. A well-designed and marketed product can command a price premium and reap big profits.

However, with international expansion pricing strategy gets more sophisticated because business has to factor in a lot of new matters: export taxation, currency fluctuations, cost of distribution overseas and etc. International pricing is more complex activity than domestic because of the large number of variables involved and the greater degree of uncertainty. For this reason, international pricing requires more care and effort and approaches that merely extend domestic pricing rarely succeed. The variables are both internal and external (Burca, Fletcher, Brown, 2004):

Internal

Internal variables are those, which relate to the firm's overall strategy and practices. They include corporate goals, the degree to which the firm wishes to control prices charged to the international consumer, the firm's usual approach to costing and the extent to which the company is internationalized.

External

External factors include actions by competitors both in the domestic and in the international markets, the level of demand in both the domestic and in international markets, and legal constraints on price setting. They also include government regulations and imposts on exports by domestic government and on imports by the international governments as well as exchange rates and general economic conditions in the domestic and the international markets.

(Doole, Lowe 2008) offer their own list of factors that influence international pricing strategy. They are the following:

1. Company and product factors

- costs of production
- positioning of the product
- company's objectives
- life cycle, product range, unique features of the product, substitutes
- inventory
- available resources
- shipping costs

2. Market factors

- consumer's perception of the product's image
- purchasing power of the target segment
- competitive position in the market (strategies, strength)
- market growth
- need for marketing mix adaptation
- market structure and distribution channels
- price elasticity

3. Environmental factors

- currency fluctuations
- local inflation rate
- business cycle stage
- employment of non-money payment and leasing
- supply costs

3.2 PRICING TYPES

There are several pricing strategies that company can employ (marketingteacher.com):

Penetration pricing

The price charged for products and services is set artificially low in order to gain market share. Once this is achieved, the price is increased.

Price Skimming

Price skimming sees a company charge a higher price because it has a substantial competitive advantage. However, the advantage tends not to be sustainable. The high price attracts new competitors into the market, and the price inevitably falls due to increased supply.

Psychological Pricing

This approach is used when the marketer wants the consumer to respond on an emotional, rather than rational basis. For example Price Point Perspective (PPP) 0.99 Cents not 1 US Dollar.

Product Line Pricing

Where there is a range of products or services the pricing reflects the benefits of parts of the range. For example car washes; a basic wash could be \$2, a wash and wax \$4 and the whole package for \$6. Product line pricing seldom reflects the cost of making the product since it delivers a range of prices that a consumer perceives as being fair incrementally – over the range.

Captive Product Pricing

Where products have complements, companies will charge a premium price since the consumer has no choice. For example, a razor manufacturer will charge a low price for the first plastic razor and recoup its margin (and more) from the sale of the blades that fit the razor. Another example is where printer manufacturers will sell you an inkjet printer at a low price. In this instance, the inkjet company knows that once you run out of the consumable ink you need to buy more, and this tends to be relatively expensive. Again, the cartridges are not interchangeable and you have no choice.

Product Bundle Pricing.

Here sellers combine several products in the same package. This also serves to move old stock. Blu-ray and videogames are often sold using the bundle approach once they reach the end of their product life cycle.

Premium Pricing.

Use a high price where there is a unique brand. This approach is used where a substantial competitive advantage exists and the marketer is safe in the knowledge that they can charge a relatively higher price.

3.3 PRODUCT STRATEGY

Product positioning is a key element in the successful marketing of any organization in any market. Nevertheless, before an organization establishes a successful position in the marketplace, four key considerations are important: clarity, consistency, credibility and competitiveness (Jobber, Fahy 2009). The 4C positioning framework:

- Clarity - the positioning idea must be clear with regard to both the target market and the basis of competitive advantage
- Consistency - In order to break through the 'noise level of competing messages, a consistent message and image is necessary
- Credibility - the position chosen must be credible in the minds of the target groups
- Competitiveness - Any successful market position is dependent on having a distinctive value proposition which is not being offered by the competition

In developing a positioning strategy, the organization is attempting to create a unique place for its product in the minds of stakeholders. To be successful positioning requires a thorough understanding of the organization's capabilities and the needs of the target market such that a clear differential advantage can be identified and effectively communicated. There are a number of positioning strategies, which an organization can adopt and these may be used independently, or together (Whalley 2010):

Positioning in relation to attributes

This involves positioning the product on the basis of very specific attributes such as performance, durability, quality reliability, style and design.

Positioning in relation to the user/usage

This can involve positioning the product according to the occasions when it is used or commonly in relation to specific types of users or specific user lifestyles.

Positioning in relation to competitors

This approach emphasizes comparison to competing products. Three possible approaches include:

- Positioning directly against competitors
- Positioning away from competitors
- Positioning in relation to a different product class

Positioning a product for international markets begins with describing specific products as comprising different attributes that are capable of generating a flow of benefits to buyers and users. The global marketing planner puts these attributes into bundles so that the benefits generated match the special requirements of specific market segments. This product design problem involves not only the basic product components (physical, package, service and country of origin) but also brand name, styling and similar features.

Country-of-origin effects

The country of origin of a product, typically communicated by the phrase ‘made in [country]’, has a considerable influence on the quality perception of that product. Some countries have a good reputation and others have a poor reputation for certain products. For example, Japan and Germany have good reputations for producing cars (Hollensen 2007).

To capitalize on opportunities outside the home country, company managers must devise and implement appropriate marketing programs. Depending on organizational objectives and market needs, a particular program may consist of these strategies (Keegan 2005).

Table 5: Extend, Adapt, Create: Strategic Alternatives in Global Marketing (Keegan 2005)

Product Communication Extension	Product Adaptation	Product Adaptation– Communication Extension	Product- Communication Adaptation	Innovation
A company that has developed a successful local product or brand can implement an extension strategy that calls for offering a product virtually unchanged.	This involves changing elements of design, function, or packaging in response to needs or conditions in particular country markets.	This approach to global product planning is to adapt the product to local use or preference conditions while extending, with minimal change, the basic home-market communications strategy or brand name.	Both the product and one or more promotional elements are adapted for a particular country or region.	Process of endowing resources with a new capacity to create value.

3.4 SALES CHANNELS AND LOGISTICS STRATEGY

International distribution strategy has a significant impact on the other parts of the international marketing mix (Machková, Král, Lhotáková 2010). For example, high or low price of the product on the foreign market is a result of efficient (or not) logistics and distribution.

In essence, companies have two options when it comes to configuring their international distribution systems (Kotabe, Helsen 2010):

1. A firm may decide to sell direct to its customers in a foreign market by using its own local salesforce or through the internet
2. A firm may decide to use the resources of independent intermediaries, most often at the local level

Regardless of the way the company will decide to pursue, international logistics strategy company should have clear goals, completing which will help to distribute goods in the most efficient way.

(Cateora, Graham 2002) say that organization has five strategic distribution goals: cost, management control, coverage, character and continuity. Factoring them in will enable the company to choose the best distribution network.

When it comes criteria for choosing foreign distribution channels (Usinier, Lee 2013) suggest the following:

- *Consumers and their characteristics.* Some geographical segments in a foreign market may be, for instance, more import oriented. Channels serving these segments should therefore be preferred
- *Culture.* This point has already been considered in relation to Japanese distribution networks. Distribution is the element of the marketing mix what is most deeply rooted in culture, because it is closely related to everyday life and human relationships
- *Character.* It is important that the image projected by the channel, its sales methods, shop locations and clientele as well as appearance, should correspond to the image and character that the product is intended to convey
- *Capital.* relates to the issue of what financial resources are necessary to start and maintain the Channel (e.g. fixed capital, working capital, possible initial losses that will need to be financed)
- *Cost.* This criterion is strongly linked to the previous one, but relates more to trade margins than to overhead costs
- *Coverage.* It is important to cover markets that are widely scattered. Furthermore, markets that are very concentrated tend also to concentrate maximum competition, since demand attracts supply. The coverage in terms of product range, sizes and options must also be considered, especially when channel members look for complementary products, spare parts and so on
- *Continuity.* It is vital that the channel in which investment is to be made does not turn out to be unusable for some reason (e.g. bankruptcy or financial difficulties)
- *Control.* It is vital that the channel in which investment is to be made does not turn out to be unusable for some reason

Regardless of which sales channel company will pursue, one vital question needs to be answered: how International logistics operations will be executed. (Czinkota 2012) offers the following approaches.

Centralized logistics management

A significant characteristic of the centralized approach to international logistics is the existence of headquarters staff that retains decision-making power over logistics activities affecting international subsidiaries. If headquarters exerts control, it must also take the primary responsibility for its decisions. Clearly, ill will may arise if local managers are appraised and rewarded on the basis of a performance they do not control. This may be particularly problematic if headquarters staff suffers from a lack of information or expertise. To avoid internal problems, both headquarters staff and local management should report to one person. This person, whether the vice president for internal logistics or the president of the firm, can then become the final arbiter to decide the firm's priorities. The internationally centralized decision-making process leads to an overall supply-chain management perspective that can dramatically improve profitability.

Decentralized logistics management

When a firm serves many international markets that are diverse in nature, total centralization might leave the firm unresponsive to local adaptation needs. If each subsidiary is made a profit center in itself, each one carries the full responsibility for its performance, which can lead to greater local management satisfaction and to better adaptation to local market conditions. Yet often such decentralization deprives the logistics function of the benefits of coordination. At the very least, local managers should be able to provide input into the logistics decisions generated by headquarters. Headquarters can then either adjust its international logistics strategy accordingly or explain to the manager why system optimization requires actions different from the ones recommended.

Outsourcing logistics services

A third option, used by some corporations, is the systematic outsourcing of logistics capabilities. By collaborating with transportation firms, private warehouses, or other specialists, corporate resources can be concentrated on the firm's core product. Many firms whose core competency does not include logistics find it more efficient to use the services of companies specializing in international shipping.

3.5 INTEGRATED MARKETING COMMUNICATION STRATEGY

International marketing communication should be a continuation of the company's international marketing strategy (Machková, Král, Lhotáková 2010). (Fill 2006) defines marketing communication as a "management process through which an organization engages with its various audiences". By understanding an audience's communications environment, organizations seek to develop and present messages for their identified stakeholder groups, before evaluating and acting upon the responses. By conveying messages that are of significant value, they encourage audiences to offer attitudinal and behavioral responses.

Regardless of the business field, marketing communication will have one ultimate purpose: sell goods or services. Of course, it does more than that as we dive deep into it. Communication or the promotion mix can achieve the following functions (Belch G.E., Belch 2004):

- Information: especially during the produces introductory stage, when it is newly introduced into the market, and the company is trying to establish primary demand
- Persuasion: once primary demand has been established, commercial communication can emphasize persuasion in the struggle for brand supremacy
- Combined promotional information and persuasion: sellers combine information and persuasion in their promotion message, attempting to expand both primary and selective demands at the same time. This, usually occurs when the product is in the maturity or declining stages of their life cycle

Marketing communication is a process that consist from many elements interconnected with each other. Therefore, we must consider as an integrated effort or IMC.

American Association of Advertising Agencies defines IMC is a "concept of marketing communication planning that recognizes the added value of a comprehensive plan that evaluates the strategic roles of a variety of communication disciplines — for example general advertising, direct response, sales promotion and public relations — and combines these disciplines to provide clarity, consistency and maximum communication impact". (ams.aaaa.org)

(Kotler 2003) offers short yet comprehensive definition of IMC as “a way of looking at the whole marketing process from the viewpoint of the customer”

A closer look at the definition helps us to pinpoint vital elements of the IMC (Kayode 2014):

- Integrated marketing communication is strategic. It is strategic in that the content and delivery of all messages are the result of an overall plan. Delivery of messages is synchronized so that synergy can be reached
- Integrated marketing communication is two-way. Integrated marketing communication is a two-way dialogue between the marketer and the target audience. Feedback is shared within the organization for learning purposes so that the strategy can be adapted to fit customer's needs and provide value
- Integrated marketing communication meets customer's needs. Integrated marketing communication (IMC) meets the information needs of the buyer, results in the desired position, and secures the appropriate action at the right time. If IMC does not provide value to the buyer, then the buyer will not participate in the dialogue

IMC typically includes

- Advertising
- Public Relations
- Direct selling
- Sales promotion
- Digital marketing
- Guerilla marketing

The role and importance of specific promotional elements also varies depending on the nature of the product. This variability occurs across stages in a product's life cycle. Early in a product's life cycle, even before its introduction, the heavy expenditures on promotional activities are often a significant drain on the firm's resources. At this stage, it is important to consider these expenditures as investments for the long term because the true impact of the promotional program may not be felt for some time. By the time a product has moved into the maturity phase of its life cycle, the firm can reduce promotional expenditures somewhat, thereby enjoying lower costs and higher profits (Ferrell 2011).

Table 6: Promotional Strategy over the Product Life Cycle (Ferrell 2011)

Introduction	Promotion depends on heavy advertising and public relations to build brand awareness and educate customers on the product's benefits. Personal selling ensures distribution coverage and supply chain cooperation.
Growth	To sustain growth, firms spend heavily on advertising and public relations to build and maintain brand loyalty. Personal selling maintains distribution and supply chain cooperation. Sales promotion activities decline in importance.
Maturity	A firm's use of advertising shifts to emphasize reminding customers of the firm's products. Sales promotion efforts strongly encourage brand switching for both consumers and the trade. P
Decline	Firms begin to drastically reduce their advertising and public relations efforts in an attempt to reduce expenses. Sales promotion and personal selling drop to levels that are just sufficient to maintain product support.

IMC plays vital role in the foreign market expansion. Getting foothold in another country is no easy task to accomplish. It usually takes significant amount of time before overseas operations yield results. One of the key elements of success is consistency. Only by applying consistent marketing effort, you can get noticed by the foreign audience. Right IMC helps not only to increase your brand's awareness but also positions it in the mind of your customers. All these actions have one ultimate goal: create brand equity.

Brand Equity

What is brand equity? While there are almost as many definitions of brand equity as there are people talking about it, almost all will have in common the idea that brand equity represents an added value to a product, a value that goes well beyond the objective characteristics of the product itself (Elliott, Percy 2007). This added value quite literally makes the brand name itself a strong financial asset to the company marketing it. It does this because a strong brand equity means that a brand is well known, is positively associated in the mind's of consumers, is seen as better than other brands, and is likely to have a strong core of loyal users (Aaker 1991). Basically, brand equity is what makes customer use your product/service instead of the similar offered by your competition. Strong brand equity will evolve leading to loyalty that goes well beyond any rational consideration of the product

(Percy 2014). This is what results from truly effective IMC. When BE is strong your company can become a benchmark for the industry or used as an umbrella term for the range of products (e.g. in Russia people use the word «Джип» to name SUV. The word comes from the GM's brand Jeep). Integrated marketing communication plays a vital role in creating Brand equity.

IMC and Corporate Identity

(Dowling 2001) describes corporate identity as the symbols and nomenclature an organization uses to identify itself to people (such as the corporate name, logo, advertising, slogan, livery, etc.) The job of IMC is to build and nurture as consistent an image as possible among the largest number of a company's various audiences. The fact that a company has many different audiences to address (e.g. government regulators, shareholders, employees, consumers) complicates the job, and underscores the need for effective IMC; a centrally managed communication effort in order to project a consistent image (Percy 2014). Moreover, in the recent years there has been trend towards unification of brand communication (Machková, Král, Lhotáková 2010). This is quite reasonable as unified communication helps to convey more consistent, thus more effective brand image.

(Balmer, Greyser 2003) suggest 6 important factors that define corporate image:

Table 7: Factors that Influence Corporate Image (Balmer, Greyser 2003)

Corporate identity	What are the company's distinct attributes
Corporate image	How is the company currently perceived
Corporate reputation	How is the company perceived over time
Corporate communication	What does the company communicate and to whom
Corporate branding	What is the corporate covenant

By addressing each of these questions, business can built consistent image that will prevail in the foreign market and will separate it from the competitors.

4. COMPETITIVE MARKET POSITION

Firms competing in a given target market, at any point in time, differ in their objectives and resources. Some firms are large, others small. Some have many resources, others are strapped for funds. Some are old and established others new and fresh. Some strive for rapid

market share growth, others for long-term profits. In addition, the firms occupy different competitive positions in the target market (Kotler, Armstrong 2006).

4.1 STRATEGIC ALTERNATIVES IN GLOBAL INDUSTRIES

There are a number of basic strategic alternatives in a global industry. The most fundamental choice a firm must make is whether it must compete globally or whether it can find niches where it can build a defensible strategy for competing in one or a few national markets (Porter 1998).

Broad Line Global Competition

This strategy is directed at competing worldwide in the full product line of the industry, taking advantage of the sources of global competitive advantage to achieve differentiation or an overall low cost position. Implementing this strategy requires substantial resources and a long time horizon.

Global Focus

This strategy targets a particular segment of the industry in which the firm competes on a worldwide basis. A segment is chosen where the impediments to global competition are low and the firm's position in the segment can be defended from incursion by broad line global competitors. The strategy yields either low cost or differentiation in its segment.

National Focus

This strategy takes advantage of national market differences to create a focused approach to a particular national market that allows the firm to outcompete global firms.

Protected Niche

This strategy seeks out countries where governmental restraints exclude global competitors by requiring high tariffs and so on. The firm builds its strategy to deal effectively with the particular national markets with such restrictions, and places extreme attention on the host government in order to insure that protection remains in force.

In the conventional marketing strategy, we can define 4 types of competitive positions which company generally occupy.

4.2 LEADER

As it is evident from the name, leader holds the dominant position in the market and oftentimes becomes a benchmark for other companies.

Since a leader has the larger market share, therefore, it usually leads other firms of the industry in price changes, new product introductions, technological advancement distribution coverage, and promotion spending. Consequently, a market leader's approach towards the industry is rich and much wider which aims to attain the following objectives (Musadiq A. Sahaf 2008):

- Expand the total market
- Protect its current market share
- Expand its market share

4.3 CHALLENGER

A challenger is a firm that tries aggressively to expand its market share by going after the market leader.

Market challengers occupy the second, third, or fourth place in market share (depending on the size of the market and the number of competitors). Although not as large as market leaders, these firms are usually quite large in their own right. Market challengers also seek to gain market share. They attempt to accomplish this by frontal assaults or flanking movements specifically against the market leaders. The flanking strategies are generally preferred because they represent a concentration of effort against an identified area of weakness in the leader. Market challengers can also meet their objectives by attacking smaller competitors rather than the market leader. This is sometimes referred to as a "guppy strategy" (Stevens 2006).

A market challenger must first define its strategic objective, usually to increase market share. The challenger must decide whom to attack. (Kotler, Keller 2003) suggest 3 main strategic objectives

Table 8: Challenger's strategic objectives (Kotler, Keller 2003)

Attack the market leader	This is a high-risk but potentially high-payoff strategy and makes good sense if the leader is not serving the market well. This strategy often has the added benefit of distancing the firm from other challengers.
Attack firms its own size	These firms have aging products, are charging excessive prices, or are not satisfying customers in other ways.
Attack small local and regional firms	Several major banks grew to their present size by gobbling up smaller regional banks.

4.4 NICHER

By following a niche strategy, the organization selects a single segment in the market, which represents the best opportunity for the organization to serve customers well and builds a defensible competitive position against new entrants. Organizations following such a strategy often seek dominance through specialization. The key advantage of a niche strategy is that the organization may be able to obtain specialization economies. Niche markets are typified by specialist needs among small groups of customers served by few competitors. To be successful in a market niche the organization must understand the needs of its customers thoroughly. Niche customers are usually very loyal and pay a premium for the attention they receive (Bradley 2003). Niche players focus on specific market segments. They are more specialized in nature and seek to gain competitive advantage by adding value in some way appropriate to specific target groups. Focus strategies, adopted by niche players were outlined in section Focus and commonly involve: geographic, end-user or product line specialization (Drummond, Ensor, Ashford 2008).

4.5 FOLLOWER

The follower aims to develop a product that is similar to the market leaders/challengers, and to remain close to the market leader. However, it does not want to engage in battle: that would be catastrophic for the market follower. Often the market follower will develop an improved product and market it at a lower cost, perhaps into new market segments (Groucutt, Leadley, Forsyth 2004).

(Kotler, Keller 2012) distinguish these follower strategies:

Table 9: Follower's strategies (Kotler, Keller 2012)

<i>Counterfeiter</i>	The counterfeiter duplicates the leader's product and packages and sells it on the black market or through disreputable dealers.
<i>Cloner</i>	The cloner emulates the leader's products, name, and packaging, with slight variations.
<i>Imitator</i>	The imitator copies some things from the leader but differentiates on packaging, advertising, pricing, or location. The leader does not mind as long as the imitator does not attack aggressively.
<i>Adapter</i>	The adapter takes the leader's products and adapts or improves them. The adapter may choose to sell to different markets, but often it grows into a future challenger.

The strategies discussed above have quite general characteristics. However, the strategy is always altered when business enters economic stagnation. In the downturn economy there are several ways how company can execute its operations. (Porter 1998) suggests the following alternative strategies:

Leadership

The leadership strategy is directed at taking advantage of a declining industry whose structure is such that the remaining firm or firms have the potential to reap above-average profitability. The firm aims at being either the only firm or one of few firms remaining in the industry. Once this position is attained the firm switches to a holding position.

Niche

The objective of this strategy is to identify a segment (or demand pocket) of the declining industry that will not only maintain stable demand or decay slowly but also has structural characteristic allowing high returns.

Harvest

In the harvest strategy, the firm seeks to optimize cash flow from the business. It does this by eliminating or severely curtailing new investment, cutting maintenance of facilities, and taking advantage of whatever residual strengths the business has in order to raise prices or

reap benefits of past goodwill in continued sales, even though advertising and research have been curtailed.

Divest Quickly

This strategy rests on the premise that the firm can maximize its net investment recovery from the business by selling it early in decline, rather than by harvesting and selling it later or by following one of the other strategies.

5. MARKETING DURING RECESSION

Recession is a difficult period for both businesses and individuals. Consequently marketing strategy and purchasing behavior changes. It is important for every brand to know the specifics of these processes because it will not only help to retain existing market share but also gain more.

5.1 CUSTOMER BEHAVIOR

It is quite reasonable to expect that during economic instability customers will exhibit specific purchasing behavior. It means that most of them will reconsider spending habits depending on the household income. Ultimately, people will have new list of priorities. In its annual report (Millward Brown) offers typology of purchases that people make during recession:

- *Curtailed purchases.* Luxuries or items that are perceived as "nice-to-haves" are most likely to be eliminated when consumers need to cut spending. Affected product categories range from cruises and designer goods to more mundane categories like insurance or window cleaner
- *Deferred purchases.* Purchases of high-ticket items such as cars and appliances will be deferred when consumers are under financial pressure. People will also reduce the frequency of purchasing in categories such as casual dining and gasoline
- *Traded down purchases.* We see evidence that consumers have reappraised their brand choices in virtually all product and service categories

(Quelch, 2009) suggest that customers prioritize their purchases in the following groups:

- Essentials - are necessary for survival or perceived as central to well-being
- Treats - are indulgences whose immediate purchase is considered justifiable
- Postponables - are needed or desired items whose purchase can be put off
- Expendables - are perceived as unnecessary or unjustifiable

On the company's side, when economy enters recession, we can pinpoint two types of general behavior. To see downturn as a threat or to see it as chance to increase market share.

Offensive marketing response is the firm's development and execution of a marketing plan to capitalize on the perceived opportunities created by the recession. By itself, perceiving the recession as an opportunity is not enough to make a firm proactive—the firm must also be able to develop and implement a marketing program to capitalize on the perceived opportunity. Marketing response to a recession includes both the scope (extensiveness) and speed at which the firm deploys marketing resources (Srinivasana, Rangaswamy, Lilien 2005).

5.2 MARKETING TACTICS

Special times require special measures. It means that marketers start employing techniques that previously have not been used. (Quelch 2008) suggests 8 tactics that company should use during declining economy:

1. Research the customer. Instead of cutting the market research budget, marketers need to know more than ever how consumers are redefining value and responding to the recession
2. Focus on family values
3. Maintain marketing spending. This is not the time to cut advertising. It is well documented that brands that increase advertising during a recession, when competitors are cutting back, can improve market share and return on investment at lower cost than during good economic times
4. Support distributors. Early-buy allowances, extended financing, and generous return policies motivate distributors to stock your full product line
5. Adjust pricing tactics. In tough times, price cuts attract more consumer support than promotions such as sweepstakes and mail-in offers
6. Stress market share. In all but a few technology categories where growth prospects are strong, companies are in a battle for market share and, in some cases, survival. Knowing your cost structure can ensure that any cuts or consolidation initiatives will save the most money with minimum customer impact

7. Emphasize core values. Although most companies are making employees redundant, chief executives can cement the loyalty of those who remain by assuring employees that the company has survived difficult times before, maintaining quality rather than cutting corners, and servicing existing customers rather than trying to be all things to all people

In addition, it should be noted that recession often becomes perfect opportunity to improve loyalty of existing customers and attract new ones. This can be achieved with more personalized communication. (Özgül 2007) states that communication with consumers is of special importance. Lost consumer interest, due to reduced discretionary income, can be reacquired through promotion activities. By this means, companies can also attract floating customers to their brands, since consumers tend to change their brand preferences more frequently during crises than at other times.

SUMMARY

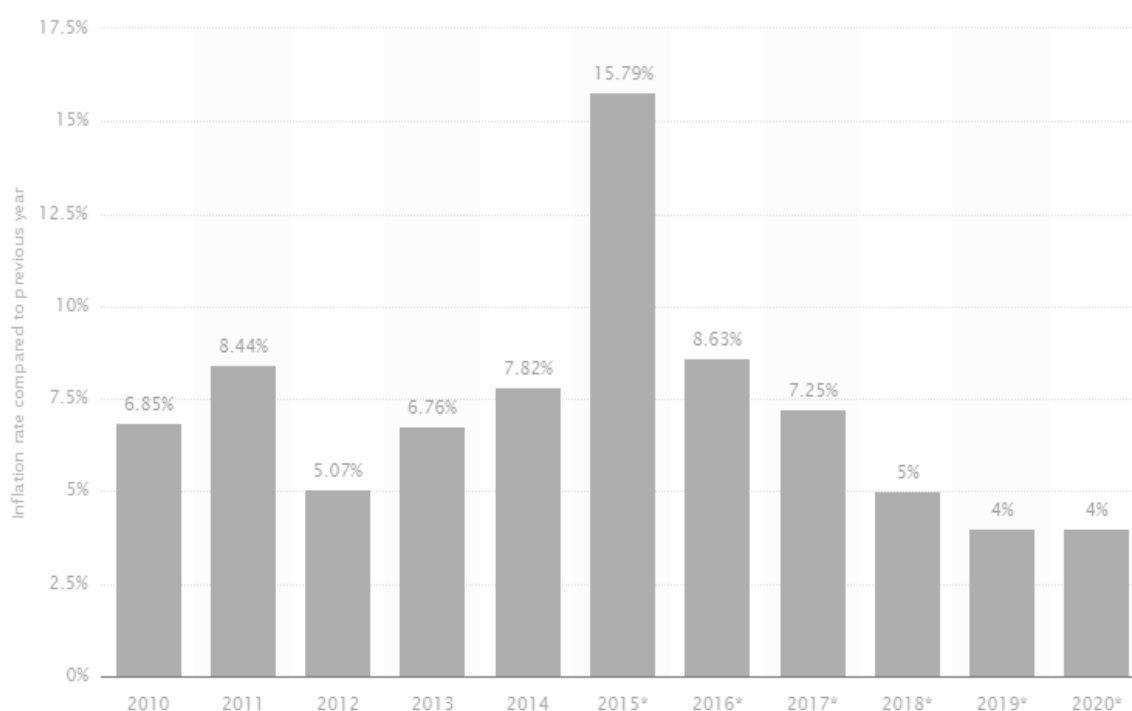
In the first part of our theoretical work we have compiled information about foreign market entry and factors that are influencing this decision. After that, we have analyzed the ways how marketing strategy should be adjusted to the international environment (pricing, product, communication and logistics). Having done that, we proceeded to describing competitive position that company can hold and strategies associated with it. In the final part, we have described the peculiarities of marketing during recession: customer behavior and company's strategy.

II. ANALYTICS

6. RUSSIA'S MACROECONOMIC ENVIRONMENT

In the year 2015 Russian economy has entered recession cycle. There are several reasons for that but among the most crucial we can list 2: decreasing oil prices, sanctions against Russian banks. Like other downturns, this one was characterized by high inflation rate and curtail of household expenditures. The crisis affected consumers, companies, and financial markets. The graph below represents inflation rate from 2010 with predictions until the year 2020.

Graph 3: Inflation rate in Russia + predictions (statista.com)



Since car is not a product of first or even second necessity, it is quite elastic. Meaning that customers react very sensitively to the price spikes. Consequently, car sales in Russia dropped dramatically throughout the 2015. The table 7 shows changes in sales volumes for 10 biggest auto producers between years 2014-2015. Falling real wages and working hours alongside high inflation weighted on consumer purchasing power and confidence led to faster sales declines in passenger cars than in commercial vehicles (bmiresearch.com).

It is interesting to note that if for most car brands recession became a tough period, super luxury brands like Rolls-Royce, Bentley experienced sales increase. For example, Rolls-Royce saw 5% sales spike in Russia compared to the year 2014 (tass.ru). This is most likely

due to the fact that customers who can afford such car are huge businessmen who receive their income in foreign currency. Since ruble depreciated because of inflation, buying goods with a currency became lucrative.

Table 10: Passenger Car Sales in Russia by Brand in 2014 and 2015 (serega.icnet.ru)

Место	Марка	2015 год	2014 год	+ - %
1	Lada	269096	387307	-31
2	KIA	163500	195691	-16
3	Hyundai*	161201	179631	-10
4	Renault*	120411	194531	-38
5	Toyota*	98149	161954	-39
6	Nissan*	91100	162010	-44
7	VW	78390	128071	-39
8	Skoda	55012	84437	-35
9	ГАЗ ком.авт.*	51192	69388	-26
10	Chevrolet	49765	123175	-60

7. PESTEL ANALYSIS

Russia have transitioned from communism regime to capitalism in a very short period. It is important to remember that when analyzing its environment. Mainly because of the fast change, it is still considered a developing country. For international capital country presents a lot of new opportunities as well as subsequent challenges. On the global level, Russia plays an important role in the social and political matters of the world. Russia is the member of different organizations like World health Organization (WHO), United Nation (UN), G8 and G20. This gives Russia a possibility to contribute to the development of the world in terms of social policies, health care, politics and economics. Russia is the biggest country in terms of possessed territory. With more than 140 million of population, it is often considered as the bridge between two continents: European and Asian. It also acts as a trade hub between these two parts of the world. For this reason, most of the successful international businesses have their presence (in various forms) in Russia. Automobile producers are no exception and many of them has their production facilities in Russia. This includes KIA, Hyundai, SKODA, Toyota and others.

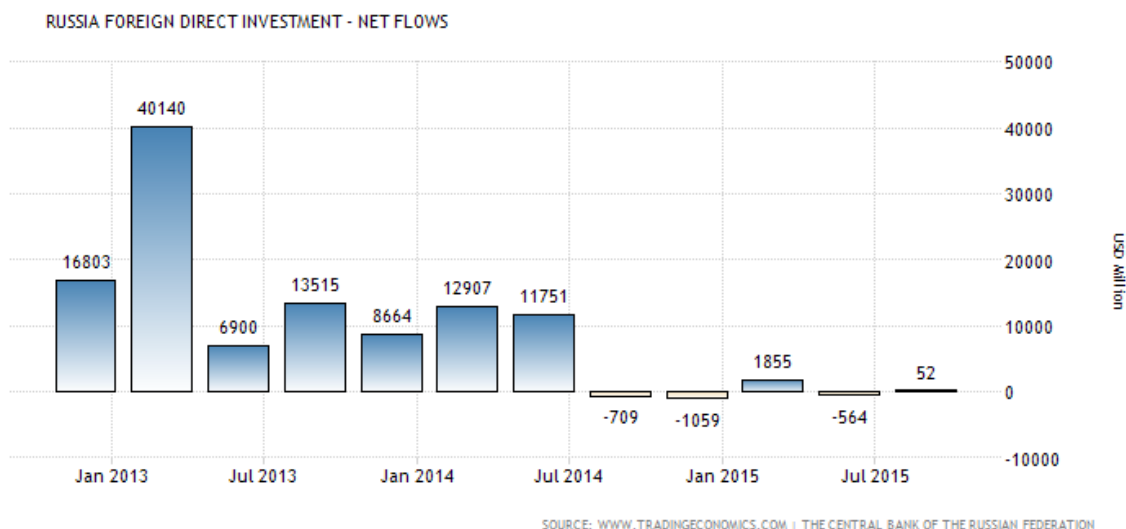
In this analysis, we will go over Russian political, economic, social and other environments to see how and to which extent do they influence foreign businesses.

7.1 POLITICAL ENVIRONMENT

Young democracy. On 12th of December 1993, Russia officially became Russian Federation with semi presidential republic. It is very important to have a stable regime and policy to attract more investors. It is also important to have the policies, which provide various benefits and advantages for people who want to invest or get into the business. It has been noted by many Russian high-ranking officials that the country will not follow Western economic model and will focus on its own path. During this period Russia has been quickly attracting foreign capital because most businesses saw such investment as gaining foothold at either Asian or European markets. Additionally, Russia has diplomatic relations with most of the world's states and has membership in such organizations as: Security Council of the United Nations, UN General Assembly and different forums like Asia-Pacific Economic Cooperation etc.

Freedom and rights. The question of freedom of speech and civil rights in general often becomes a cornerstone when talking about Russia's democracy and political regime. Russia was ranked #152 out 180 countries in the 2015 World Press Freedom Index (index.rsf.org). This of course does not help to keep current investors and at some point deters from attracting new ones. The investor needs to have the impression of safety and security as well as the space for growth inside the country in order to persuade him to invest in the country. Another controversial issue is civil rights. For example, the decision to outlaw same sex marriage has caused a lot of backlash on the global scale. Some people may think of this act as country is going away from the democracy and therefore have less faith in the stable economic development.

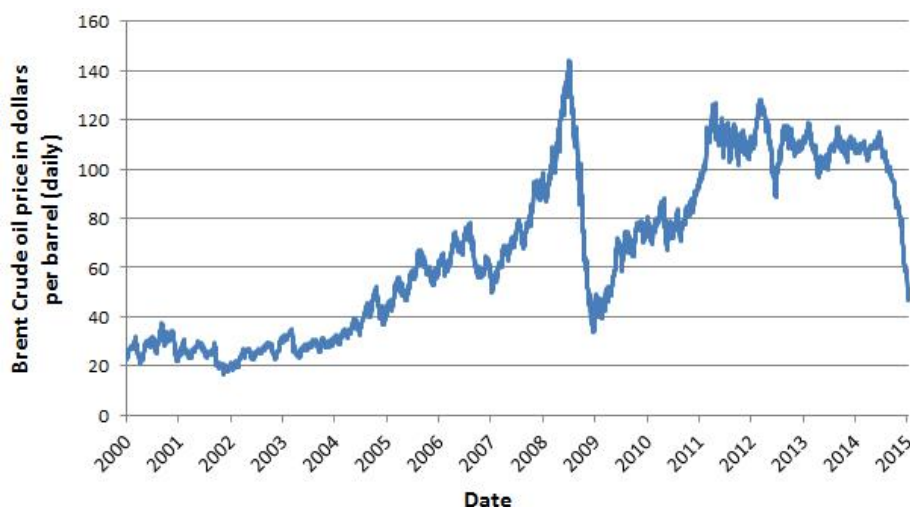
Geopolitical issues. After annexation of Crimean peninsula (which was not recognized by some countries), Russia appeared in the turmoil both politically and financially. One of the consequences was sanctions act that prohibited EU institutions from lending money to Russian financial organizations. In response, Russia banned import of some EU products. As a result, it draw line between you European and Russian businesses. For example, Poland has lost major market for exporting fruits and many farmers either went or were on the brink of the bankruptcy. The tension on the geopolitical level scared many investors and they started to retract their capital from Russia. We can see that amount of Russia's FDI in 2015 compared to other years.

Graph 4: Russia Foreign Direct Investment (trading economics.com)

As of March 2016, the tension loosened a bit and foreign businesses started to slowly gain confidence in Russia again. However, it is not over and it will take several years before things can recover to the pre-crisis stage.

7.2 ECONOMIC ENVIRONMENT

Natural resources economy. Russia has an economic advantage of many natural resources and vast areas for the agricultural activities. According to some researches, Russia possesses around 30% of world's natural resources (Korabik, Williams 1997). Thus, economy of Russia heavily depends on them. Mostly it is oil and gas, which help Russian GDP to be the 10th biggest in the world (imf.org). Despite all the advantage that the country has, its economy is not comparable to other neighboring countries and trade partners. It is because the growth of the economy depends on the price of the natural resources. Since prices for most of them plummeted in the 2015, Russian economy entered recession stage. The outcome became instantly vivid as almost every industry experienced rapid fall of sales due to the decreased income per capita. This became a tough time for many companies because Russian customers represent a huge volume of their yearly sales.

Graph 5: Brent Crude Oil Price in Dollar per Barrel (blogs.lse.ac.uk)

Crony capitalism. The term **crony capitalism** describes an economy in which business depends on close relationships with government officials in order to be successful. This includes: favoritism in government tenders, special grants, taxation and other forms when business gains unfair advantage using political connections. Unfortunately, this situation is quite widespread in Russia. The Economist magazine in its crony-capitalism index placed Russia on the 2nd place.

Graph 6: The Crony-Capitalism Index (economist.com)

This is one of the things that foreign business should now before entering Russian market. In most of the cases, it will be quite difficult to expand without connections/protection of local governmental institutions.

Automobile industry. Automobile production is a significant industry in Russia, directly employing around 600,000 people or 0.7% of the country's total work force. In addition, the

industry supports around 2–3 million people in related industries. Russia was the world's 15th largest car producer in 2010, and accounts for about 7% of the worldwide production (Main 2009).

7.3 SOCIAL ENVIRONMENT

Starting from 1990, with the changes in the political regime, the society stepped forward rapidly approaching democracy and the new style of living associated with it. However, this fast transition to capitalism widened the gap between rich and poor. As a result, new type of rich has emerged, called oligarchs. They ended up in charge of strategic enterprises because of cooperation with governmental institutions. Although heavy industries (gas, oil) are still closely affiliated with politics new generation of businesspersons is quickly emerging that resembles Western capitalist type: independent, progressive, international. All of this brought new trends and ways of thinking into society. Generally, modern Russian society can be described by the following characteristics from the consumer point of view during the crisis:

- Consumer confidence low as a result of economic crisis
- Online shopping is increasing by consumers looking for better deals
- Healthy lifestyle is gaining popularity
- Many people either delaying retirement or not counting on it
- Among other status goods, car perceived is an ultimate status symbol

Table 11: Operational Data on the Natural Movement of the Population of the Russian Federation. (Federal Statistical Agency)

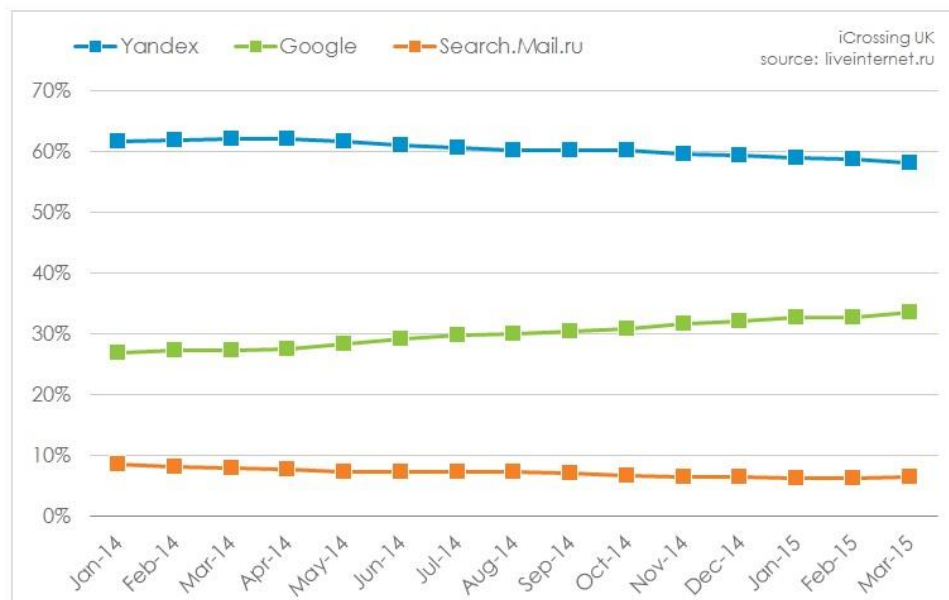
	Thousand people			
	January		Increase Decrease	2015 in % to 2014
	2015	2014	/ - /	
Born	149,3	155,6	-6,3	95,9
Dead	174,7	171,2	3,5	102,0
Natural increase	-25,4	-15,6		
Marriages	58,1	60,0	-1,9	96,7
Divorces	46,2	58,3	-12,1	79,4

Although, population growth rate is still negative, it is on the increase trend, which means that Russian market will become more and more attractive to foreign businesses because high population rate ultimately leads to high purchasing and consumption rate.

7.4 TECHNOLOGICAL ENVIRONMENT

Russia has a long-standing reputation as birthplace of many distinguished scientists and innovators. In January 2016, Russia was ranked #12 among most innovative countries. Russia has the world's 15th highest patent application rate, the 8th highest concentration of high-tech public companies, such as internet and aerospace and the third highest graduation rate of scientists and engineers (bloomberg.com). For example, Yandex and mail.ru are world's leading hi-tech companies, which were founded in Russia. This can be proved by the comparison to Google in terms of search volumes. Their respective market share can be seen on the following graph:

Graph 7: Search Engine Market Share in Russia (icrossing.com)



Government also supports the progress of scientific thought. For this purpose, it initiated Skolkovo Innovation Center. It is a scientific and technological center aimed at the development and commercialization of advanced technologies. Skolkovo residents are eligible for special economic initiatives like tax holidays, grants etc.

7.5 LEGAL ENVIRONMENT

Establishing new business. It takes 10 procedures and 31 days to establish a foreign-owned limited liability company (LLC) in the Russian Federation (Moscow), slower than the other IAB (Investing across borders index) countries in Europe and Central Asia, but faster than the IAB global average.

Table 12: Starting a New Business in Russia (worldbank.org)

Indicators	Country score	IAB regional average	IAB global average
Time (days)	31	22	43
Procedures (number)	10	8	10

Ease of establishment (0=min; 100=max)	68	76.8	64.5
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Length of legal procedures (mecometer.com)

- On the strength of legal rights Russia is ranked #3 out of 10
- On average, it takes 36 procedures to enforce the contract. Top country: Ireland 21 procedures
- Time required to enforce the contract: 270 days. Top country: Singapore 150 days

Corporate tax system. Before establishing foreign business unit, it is essential need to know how the taxation system works in the target country. The table shows Russian corporate tax system.

Table 13: Country Comparison for Corporate Taxation (doingbusiness.org)

	Russia	Eastern Europe & Central Asia	United States	Germany
Number of Payments of Taxes per Year	7.0	28.0	11.0	9.0
Time Taken For Administrative Formalities (Hours)	177.0	260.0	175.0	207.0
Total Share of Taxes (% of Profit)	54.1	40.5	46.7	46.8

7.6 ECOLOGICAL ENVIRONMENT

We must note that environmental protection initiatives in Russia are not very upheld. In the past, many companies either shut down or reduced the installation of pollution control equipment. In some cases, firms shut off pollution controls to save money because of lack of regulation. At the same time, many managers did not report emissions data and refused to give inspectors access to facilities, saying they contain "commercial secrets."

Unfortunately many firms exploited/exploiting natural resources, like oil, gas, forests for their own benefit without implementing programs to preserve them after operations.

Nuclear energy is widely used in Russia, and there are currently over 20 operating nuclear reactors. However, several of these, such as the one at the Kola NPP, are past their lifespan, which can lead huge environmental disasters. (world-nuclear.org)

Inefficient energy usage and the use of fossil fuels is another environmental issue. The Ministry of Fuels and Energy stated that upgrading energy sector equipment could cut carbon emissions by 25%, and the Energy Research Institute predicts that such measures could save up to \$1 billion of fuel every year. However, due the legislative loopholes and lack of control many companies are not upgrading their equipment, which in the long term can have bad consequences on the state of the environment (web.archive.org).

8. RUSSIAN AUTOMOTIVE MARKET

Russian Automotive industry is composed of four types of manufacturers – Domestic companies, Foreign OEM's (Original Equipment Manufacturer), Joint Ventures and Russian companies assembling foreign brands. Trade is important for the automotive industry as imports form a major part of domestic sales. Government of Russia has implemented special initiative for automotive industry to attract foreign OEM manufacturers, which includes tax and customs duties reforms and other concessions. (growthconsulting.frost.com)

The automotive sector continues to receive the highest number of FDI projects in Russia. In 2012, the sector accounted for 21.1% of total projects and 35.9% of the jobs created. The majority of these projects came from Western European companies, particularly from Germany. St. Petersburg and Kaluga proved to be the most attractive regions for investment in the automotive sector. The automotive cluster of Kaluga, following Volkswagen's decision to invest in this geography, positively influenced several other players to join the carmaker. Kaluga now hosts some of the sector's biggest manufacturers, and has successfully transformed the region's industrial complex (Ernst & Young's 2013)

The largest company of Russia's automotive industry is Avtovaz. It is situated in the city of Tolyatti. It employs around 130,000 people, and its Lada models dominate the Russian auto market. By some estimates, Avtovaz models account for about 50% of Russia's total car production. Russia's second largest car manufacturer is Avtotor, is located in Kaliningrad Oblast. It performs SKD (semi-knocked-down), CKD (Complete Knocked Down) or full-cycle assembly of foreign models, such as BMW, Kia as well as former General Motors' vehicles Cadillac and Chevrolet. Before the crisis in 2009, Avtotor produced 60,000 cars and accounted for 10% of Russian car production (rbth.com).

Other important national auto producers in Russia:

- GM-AvtoVAZ (Joint Venture)
- GAZ
- Kamaz

Most of the world's leading automakers have production site in Russia:

- Toyota

- Volkswagen
- General Motors
- Renault-Nissan
- KIA- Hyundai
- Ford
- Fiat-Chrysler

If we look at the Russian auto market in general, this is how market share distribution was in 2014.

Table 14: Passenger Cars Market Share in 2014 by Brands (PWC)

Brand	Market share in 2014, %
Lada	16.2%
KIA	8.4%
Hyundai	7.6%
Renault	8.1%
Toyota	6.9%
Nissan	6.8%
VW	5.6%
Skoda	3.6%
Chevrolet	5.3%
Mercedes-Benz	2.1%
Ford	2.4%
Datsun	0.5%
Mitsubishi	3.4%
Mazda	2.2%
BMW	1.5%
Audi	1.5%
UAZ	0.9%
Lexus	0.8%
Others	14.3%

As we can see, Lada, KIA and Renault were in the TOP 3 with 16.2%, 8.4%, and 8.1% respective market share. However, the situation drastically changed in 2015. Due to the high inflation, car sales plummeted from 2,3 million to 1,3 million (PWC).

As for the market share distribution, here are the main changes:

Table 15: Passenger Cars Market Share Change in 2015 (PWC)

Brand	Market share in 2014, %	Market share in 2015, %	Change in market share
Lada	16.2%	18.7%	↑
KIA	8.4%	11.2%	↑
Hyundai	7.6%	10.2%	↑
Renault	8.1%	8.1%	↔
Toyota	6.9%	6.2%	↓
Nissan	6.8%	5.8%	↓
VW	5.6%	5.5%	↓
Skoda	3.6%	3.6%	↔
Chevrolet	5.3%	3.6%	↓
Mercedes-Benz	2.1%	2.7%	↑
Ford	2.4%	2.4%	↔
Datsun	0.5%	2.2%	↑
Mitsubishi	3.4%	2.1%	↓
Mazda	2.2%	2.0%	↓
BMW	1.5%	1.9%	↑
Audi	1.5%	1.6%	↑
UAZ	0.9%	1.5%	↑
Lexus	0.8%	1.3%	↑
Others	14.3%	7.4%	↓

As we can see, TOP 3 leaders managed to increase their share. At the same time, SKODA was able to maintain its share. On one hand, it is a good sign in the downturn economy. On the other hand crisis is often a good opportunity to improve your market position with a proper anti-crisis marketing plan. Therefore, Skoda can do better.

According to PWC forecast, it will take around 7 years (until 2022) for car sales to match 2012, which is considered the best for auto industry -2,8 million cars.

In the next several years, mainly these factors will determine the demand for passenger cars:


- Oil prices
- Lifting of sanctions
- Inflation level
- Real Household income
- Affordability of car loans
- Government subsidizing of car purchases


As for the government, it can undertake series of actions to ease situation on the automotive market:

- Permit to use “maternity capital” for vehicle purchases. It is a financial incentive (250,000 rubles) that is given to mothers who give birth to or adopt a second, third, fourth, etc. child after January 1, 2007. So far, there are 3 ways to invest maternity capital: to buy housing or make mortgage payments, to sponsor the child’s education. Allowing car purchases in this list seems a good decision because it is quite hard to get around without a car in the family with of two or more children
- Reduce the cost of car ownership. For example, change the way the transport tax is calculated to encourage purchases of cars with low emissions
- Extend government vehicle renewal program. Originally, it was introduced during the crisis of 2008. The idea behind is to accelerate transition to newer cars by utilizing your old vehicle, thereby getting a discount for the purchase of the new one

9. SKODA'S PRODUCT PORTFOLIO ANALYSIS

The following product portfolio represents the cars sold by SKODA in Russia in the year 2016.


Model: Rapid	
Type B	
Initial Price: 569 000 ₺	
Top Price: 763 000 ₺	
Cost of ownership ¹ : 47 180 ₺	
Initial Price in Czech Republic converted in RUB ² : 860,918.23	
Top Price in Czech Republic converted in RUB: 1,038,257.98	
Editions: Monte Carlo	
EURONCAP crush test report	


Model: Octavia	
Type C	
Initial Price: 854 000 ₺ (Active)	
Top Price: 1 076 000 ₺ (Style)	
Initial Price in Czech Republic converted in RUB: 998,855.40	
Top Price in Czech Republic converted in RUB: 1,460,428.48	
Cost of ownership: 55 055 ₺	
Editions: RS	


¹ Cost of ownership is calculated for the 2015 calendar year, Moscow region, smallest powertrain in the line for the particular model. Full cover 1 year insurance is included (under 25 years old with less than 1 year of driving experience)

² Calculated via <http://themoneyconverter.com/> on 11.04.16

EURONCAP crush test report	5/5
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Model: Octavia Combi	
Type C	
Initial Price: 1 105 000 P (Active)	
Top Price: 1 354 000 P (Style)	
Cost of ownership: 89 390 P	
Initial Price in Czech Republic converted in RUB: 1,083,289.50	
Top Price in Czech Republic converted in RUB: 1,558,934.93	
Body types/editions: Combi RS, Scout	
EURONCAP crush test report	5/5

Model: Yeti	
Type J	
Initial Price: 1 031 000 P (Active)	
Top Price: 1 211 000 P (Style)	
Cost of ownership: 50 432 P	
Initial Price in Czech Republic converted in RUB: 1,184,582.28	
Top Price in Czech Republic converted in RUB: 1,485,758.71	
Body types/editions: Monte Carlo, Outdoor	
EURONCAP crush test report	5/5

Model: Superb	
Type D	
Initial Price: 1 249 000 P	
Top Price: 1 610 000 P (Style)/ 1 931 000 P (L&K)	
Cost of ownership: 127 457 P	
Initial Price in Czech Republic converted in RUB: 1,730,617.60	
Top Price in Czech Republic converted in RUB: 2,057,096.12(Style)/2,380,760.17 (L&K)	
Body types/editions: Combi (not yet available)	
EURONCAP crush test report	5/5

VW group, which SKODA is a part of, holds 3rd place in the Russian market with a share of 10,8% (Jan-Feb 2016 Avtostat). However, SKODA's most salable model (Rapid) ranks only 14th place with 3 225 units (Jan-Feb 2016). Among competitors, SKODA has the least number of models available on the market, only 5. For example, KIA has 12.

Unique Selling proposition

More car for less money

9.1 MARKETING MIX ANALYSIS

Product – A lot of emphasis is put on being utilitarian. It means that cars are equipped with wide array of small features that help in everyday usage. F.e. nets, hooks, and the trunk for carrying load or ice scraper on inside of fuel cap.

Price – SKODA positions itself an affordable car for everyday use.

Place – SKODA has 2 production plants in Russia (Kaluga, Nizny Novgorod)

Promotion – SKODA actively invests in sponsorship of hockey events. This is a good strategy because it helps to differentiate from competitors who invest into football.

9.2 SWOT ANALYSIS (own source)

STRENGTHS	WEAKNESSES
Strong brand Part of the VW Offers best in class spaciousness (head, leg room) Cars are equipped with huge number of hooks, nets, holders and other useful features New generation of cars features progressive design Has positive associations with German cars	Some of the models are inferior to the competition Is not present in important segments like: mid/full size SUV Didn't develop car for Russian market
OPPORTUNITIES	THREATS
New design can attract new customers Can leverage its image of affordable and clever car during economic crisis Can analyze competitor's mistakes before entering new segment	High pressure from competition The competitors have better technology thus having better differentiation Recession will continue in Russia

9.3 SKODA's STP

The STP process demonstrates the links between an overall market and how a company chooses to compete in that market. STP stands for:

- Market segmentation

- Targeting
- Positioning

The following table represents segments that SKODA targets in Russia, their characteristics and car positioning.

Table 16: SKODA's STP (own source)

Model	Market segment	Characteristics	Positioning
SKODA Rapid	Young family that is planning or already has a child.	They are looking for affordable and reliable car. Money is tight and they cannot spend too much on it. The car should be "roomy" enough to carry all of the family members + groceries and other load.	Rapid model has variety of small useful features to make everyday life easier: nets, hooks, bottle holders. On top of that it has one of the "roomiest" interiors in the class.
Model	Market segment	Characteristics	Positioning
SKODA Octavia	Middle aged family with 1 or more children.	Family is well-off, meaning that they can spend some money on the car and some additional features. However, they are looking for a smart choice and do not want to spend money just to show-off. The car should be big enough to accommodate 4 + people on the regular basis.	SKODA Octavia's price range is quite extensive as it offers entry C type (with the most basic Octavia) – Upper C type cars (L&K edition). Therefore, it can satisfy various tastes. On the top of that for the audience looking for extra practicality there is a Combi model.
Model	Market segment	Characteristics	Positioning

SKODA Octavia RS	Father of middle aged family who is a motorsports fan and has special affection for SKODA brand/looks for versatility.	Being father is not an easy job. As a head of household, he has special requirements for the family car: practicality, low maintenance cost, durable. Being a motorsport fan, he also wants a car that can give him a real drive. A car in which he can get kids to the school and enjoy driving experience on his way back.	SKODA Octavia RS has the same functionality as regular model but delivers more performance with enhanced characteristics.
Model	Market segment	Characteristics	Positioning
SKODA Octavia Combi Scout	Middle aged family fond of outdoor activities, loyal to SKODA brand.	This family has used SKODA cars before and grew to like them because of versatility and affordable price. Since they spend a lot of time outdoors doing various activities, Combi Scout perfectly suits them.	Combi Scout offers the same functionality as regular Combi but is better equipped for the off-road and outdoor activities.
Model	Market segment	Characteristics	Positioning
SKODA Yeti	Middle aged family with 1 or more children.	The most important trait of this segment is that family lives in Suburbs or goes on active vocations weekly/monthly. Therefore, it is important for them to have not only practical car but also a car for light off-road as they never know where they take the family next. Moreover, during spring and winter	On top of practicality that every SKODA model offers, Yeti is available in 2 versions: city and outdoor. Therefore, it better caters to its audience lifestyle (urban or suburban). In addition, it is has

		some roads are not properly shoveled so they need to be sure that the car is ready for that type of challenge.	4x4 drive so it can be taken to the off-road.
Model	Market segment	Characteristics	Positioning
SKODA Superb	<p>1. Businessman around 30 years old who is not in the prime of his career</p> <p>2. Big company that owns auto park of corporate vehicles</p> <p>3. Middle age family looking for a comfortable yet practical car</p>	<p>1. Since he has not achieved what he is aiming for, he is cautious with money and does not want to spend a fortune on the business class car. At the same time, he is ready to spend certain amount of money for luxurious features, provided they are not overpriced</p> <p>2. It is important for the company to uphold its image and cars in the auto park will represent it. Therefore, they should look respectable and convey successful image. At the same time, company does not have that much money dedicated for maintaining fleet</p> <p>3. For this family it is important to travel with high comfort and have certain luxuries in the vehicle. Still it is will be used a lot for family purposes, meaning that it</p>	<p>1. Superb model has L&K edition, which provides certain amount of business class features for a reasonable price for this segment</p> <p>2. With its new design, Superb model perfectly conveys image of prestige and success. At the same time it remains SKODA, which means that maintenance and cost of ownership is quite reasonable</p> <p>3. Superb offers wide range of configurations so if family is looking for certain business class features, they will find them. At the</p>

		should be versatile enough to serve multiple aims (shopping, road trips)	same time it remains practical enough to cater family needs, especially with Combi body type
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9.1 BENCHMARKING

Based on the data available in the public access we have constructed benchmarking table to see how well SKODA ranks against its biggest competitors.

Table 17: Benchmarking By Brand (Own Source)

Parameter	SKODA	Hyundai	KIA
Price	6	7	8
Number of models	7	9	9
Technology	8	9	8
Promotion (mainly affiliation with sport events)	7	8	8
Market share	6	10	10
Manufacturing facilities in Russia	8	7	7
Brand's strength	8	8	8
Average	7,1	8,3	8,3
10: very good, 0: very bad			

As we can see SKODA loses to its competitors 1,2 points on our scale. The biggest differences are in:

- Number of models in the portfolio
- Market share

These two parameters are closely related since bigger portfolio can potentially (especially in automotive industry) yield bigger market share. Therefore, it is advisable for SKODA to offer wider range of cars. For example, SKODA Roomster has good potential for gaining strong position in the commercial vehicles segment. SKODA Rapid Spaceback is another model that can be sold. Big part of Russian customers choose hatchback body type when buying a new car. This is why both Hyundai and KIA offer this body type with their entry-level models: Rio and Solaris.

Another important factor is price. Since SKODA positions itself as best value car, it is essential to have the most competitive price on the market. Price reduction (at least to be on par with competitors) can be achieved using several ways:

- Decreasing profit margins
- Renegotiating contracts with suppliers
- Economics of scale

9.1.2 BENCHMARKING BY MODEL

Table 18: Benchmarking By Model (Own Source)

Parameter	Rapid	Solaris	Rio
Initial price	8	9	6
Top price	7	9	5
Technology	7	8	8,5
Editions body types	8	9	9
Safety	9	8	9
Average	7,8	8,6	7,5
10: very good, 0: very bad			

Although, SKODA did not develop model specifically for the Russian market, Rapid ranks the 2nd place in the benchmarking.

Parameter	Octavia	i30	Cee'd
Initial price	6	7	8
Top price	7	9	6
Technology	7	8	8,5
Editions body types	7	9	9
Safety	8	7	7
Average	7	8	7,7
10: very good, 0: very bad			

Although, Octavia ranked the last, it should be noted that among its competitors in Type C it has the biggest wheelbase, which explains the price differences. However, it does not have as many body types as KIA does.

Parameter	Octavia Combi	i30 Combi	Cee'd SW
Initial price	6	8	9
Top price	6	8	7
Technology	7	8	8,5
Editions body types	0	0	0
Safety	8	7	7
Average	5,4	6,2	6,3
10: very good, 0: very bad			

Parameter	Yeti	Soul
Initial price	8	7
Top price	8	8,5
Technology	9	7
Editions body types	8	8
Safety	9	8
Average	8,4	7,7
10: very good, 0: very bad		

Parameter	Superb	i40	Optima
Initial price	8	7	7
Top price	7	9	8
Technology	9	8	8
Editions body types	9	8	8
Safety	10	8	10
Average	8,6	8	8,2
10: very good, 0: very bad			

SKODA's business class model ranks best among its competitors. However, both Hyundai and KIA cater to upper business class segment with Genesis and Quoris.

10. INTERNAL FACTORS MATRIX

The knowledge of internal and external factors will enable the firm to formulate strategy. This strategy then needs to be executed and later evaluated to see whether it has provided desired results or not (Buckley, Ghauri 2015).

Table 19: Internal Factor Evaluation Matrix (own source)

Strengths	Weight	Rating	Weighted score
Part of the VW group	0,1	4	0,4
Offers best in class spaciousness (head, leg room)	0,2	3	0,6
Practicality	0,09	3	0,27
Strong brand	0,1	4	0,4
New generation of cars features progressive design	0,08	3	0,24
Weaknesses	Weight	Rating	Weighted score
Some of the models are inferior to the competition	0,2	1	0,2
Is not present in important segments like: mid/full size SUV	0,1	1	0,1
Perceived as a car for seniors	0,05	2	0,1
Didn't develop car for Russian market	0,08	2	0,16
TOTAL	1		2,47

Strengths

One of the major SKODA's strengths is that it is part of the Volkswagen group. It means that SKODA shares platform, engines, transmissions and some exterior/interior parts with the VW models. German automaker is famous for its quality, which means this image is partly transitioned to SKODA cars. Besides, being part of the VW saves a lot of money in Research and & Development because in automotive industry R&D is one of the most expensive and perhaps the most important part. When it comes to innovations, SKODA usually receives upgrades or new technical innovations after they have been tested on the Volkswagen models, which ensures better user quality of implemented solutions. Moreover,

it allows SKODA's customers to shop for certain spare parts together with VW owners. Due to the economics of scale parts and servicing become more affordable which very important for the owners because maintaining car is one important points people consider before actually making a purchase.

Another strength would be offer of best in class spaciousness (headroom, legroom). This is one the selling points that Czech automaker stresses in its marketing communication. Having the most spacious cars not only helps to better differentiate from the competitors but also helps to maintain UPS: More car for less money. It is vital to uphold such selling proposition because SKODA targets middle class customers who are cost conscious.

Third strength is the practicality aspect. SKODA's official claim is Simply Clever. It implies that its cars are equipped with many small but useful features that come in handy in everyday use. For example, ice scraper on the inside of the fuel cap or different hooks and nets in the trunk for holding a load. Since this strength, goes together with previous point, it helps better convey unique selling proposition.

Even before being acquired by VW group SKODA was quite famous and well-known brand. 2015 marks 120-year anniversary of Czech car producer. This fact is also emphasized in current marketing campaign, which helps to increase Brand Equity.

Fourth strong point would be progressive design. In the past, SKODA was sometimes criticized for outdated and boring design. It can be partly explained by the target customers who are not looking for innovations but look for good price and reliability. Nevertheless, having progressive design is important for attracting new audience to the brand, especially young people who may consider SKODA as their first car.

Weaknesses

Although, SKODA is part of VW group and has access to vast R&D possibilities, some of the models are inferior to the competition. It can be partly explained by the fact that some models have received only facelift and new generation is still on the way. For example, this applies to SKODA Rapid or Yeti who are still waiting for the major upgrades. Inferiority is also seen in the pricing decisions. For instance, Rapid model costs more than some of its competitors, which undoubtedly deters some customers, especially during recession.

Another major weakness would be absence in the major car segments like full-size SUV. Although, SKODA has unveiled its prototype for one during 2016 auto show, it will take

same time before the full-scale production. Missing on such a car segment can potentially cost significant market share since SUV segment has been increasing lately (jato.com) Moreover SKODA sales only 5 models in Russian, whereas KIA has 12 models in its portfolio.

When it comes to general perception SKODA is perceived by some groups as a car for seniors. Although, this audience is quite loyal and this somewhat may ensure high retention rate, this will not help the brand grow. Undoubtedly, this perception is not an easy one to change and it usually takes several years to do it. SKODA has taken some serious steps in order to improve it with a new design language.

Since Russian market is a big one, some automakers used R&D capabilities to develop a car specially tailored for the market. For example, VW developed Polo Sedan and Hyundai manufactured Solaris model (which even managed to outsell national automaker Lada with a Granta model for the first time). Although, developing a car specifically for one particular market is expensive, this strategy can pay off, provided it is implemented correctly. In any case huge market size calls for the special action.

11. EXTERNAL FACTORS MATRIX

Table 20: External Factor Evaluation Matrix (own source)

Opportunities	Weight	Rating	Weighted score
New design can attract new customers	0,08	3	0,24
Can leverage its image of affordable and clever car during economic crisis	0,12	4	0,48
Can analyze competitor's mistakes before entering new segment	0,2	4	0,8
Cost conscious customers	0,1	3	0,3
Threats	Weight	Rating	Weighted score
High pressure from competition	0,2	1	0,2
The competitors have better technology and better differentiation	0,1	1	0,1
Recession will continue in Russia	0,1	2	0,2
VW diesel crisis	0,1	2	0,2
	1		2,52

Opportunities

SKODA has refined its design language with a model D prototype, which showcased stylistic elements to be featured in the upcoming models. Changing perception of your brand is a long-shot task but a rewarding one. With current design language, SKODA has a good chance of attracting new customers.

Recession market is a tough one for every company. However, this economic situation presents several opportunities, which, if seized properly, can be turned into the huge advantage. Since SKODA positions itself as a best value car, downturn economy is a perfect chance to strengthen brand's image and capitalize on it.

We have mentioned that SKODA is missing on certain car segments with its current product portfolio. However, there is a positive side in this situation. Entering new segment is a risky

and expensive venture. It is better done after some groundwork has been laid out. It can be seen in the electric-powered car market. Most of the major car manufacturers deployed their E-vehicles only after Tesla motors has broken some ground with Roadster and Model S. Although, battery power cars were long before aforementioned Tesla's model, key auto players were careful with a full-scale production and marketing campaign. It should be noted, that SUV segment is less risky and innovative than e-vehicles but the same logic applies here too. For this reason, SKODA has an upper hand in entering this segment as it has a chance do proper research and work on the competitors' mistakes. We can assuredly say that 2016 is a milestone year for such brands as Bentley, Jaguar and Maserati because for the first time in their brand's history they have released SUVs (cnbc.com). Although, they represent high end of the market, SUV tendency is quite vivid. Therefore, entering this segment is a task of strategic importance for SKODA.

Cost conscious consumers is another opportunity that can be seized. It is a feature that generally characterizes segment that SKODA caters to. During economic downturn, it becomes especially vivid. If SKODA will manage to appeal to these customers with a proper offer, it can significantly increase the market share.

Threats

It has been already noted that some of the SKODA's cars are inferior to the competition. However, even with strong models like Superb it faces tough competition, especially from Hyundai and Kia. Korean automaker (Hyundai-KIA group) is strengthening its positions with every year. KIA already holds 2nd place in the Russian market. In order to keep up with such fierce competition SKODA must come up with strong marketing strategy.

Some of the SKODA cars are not that technologically equipped like its counterparts and it may deter some customers who looking for their car to be up-to-date with current technology.

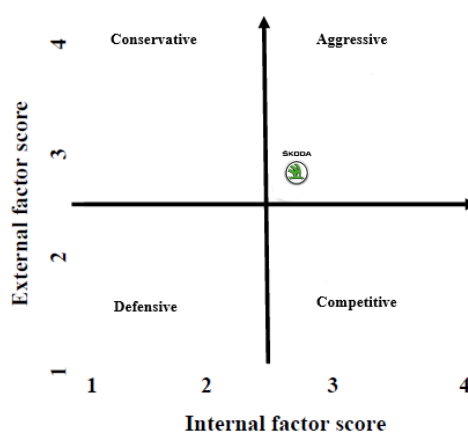
Economic instability can also be a danger to SKODA's sales in Russia. Although this situation will apply to all the automakers on the market, each one of them deals with it in a different way. Therefore, special attention should be directed at economic climate and anti-crisis plan should be constantly revised.

Being part of the VW groups surely has its benefits. However, it has certain threats as well. Being a part of the group means that you share its successes and downfalls. By any account,

VW diesel scandal was one of the biggest crises not only in the automotive industry but also in Volkswagen's history. Since SKODA were using the same diesel powertrains, it meant that it was also involved in the matter, which threatened the sales growth.

12. SPACE MATRIX

Graph 8: Space Matrix (own source)



Based on our IFE & EFE matrixes we now can construct space matrix that will help us to decide which strategy to pursue in the Russian market. In our case, it is aggressive. However, the position is close to the competitive strategy. Therefore, we suggest that company should adopt mixed strategy. Previously we have noted that SKODA should try to gain market share since downturn economy presents a good opportunity to attract new clients. Both aggressive and competitive strategies are proactive and aimed at attracting competitor's audience. The aforementioned combination leaves SKODA in the position of challenger. Since we will be pursuing a mixed strategy, it would be reasonable to deploy encirclement attack on the competitors. It means that the company should not rush into directly attacking competition but should undertake a series of small but powerful actions. In order to achieve this company should invest into areas like customer care, lead management, guerilla marketing. In general SKODA should focus on creating more value for the same (better less) money. Ultimately, it will help to gain market share, especially in the crisis economy.

13. GE MATRIX

GE (General Electric) matrix is a tool used to prioritize investments among different business units. In our case, it will help to decide the best way to utilize disposable resources.

Table 21: Y-axis, Market Attractiveness (own source)

Factors	Weight	Points	Score
Market growth rate	0,13	2	0,26
Market size	0,09	4	0,36
Demand variability	0,12	1	0,12
Competition	0,12	2	0,24
Price volatility	0,1	2	0,2
Political environment	0,08	2	0,16
Economic environment	0,09	2	0,18
Legal environment	0,04	3	0,12
Technological environment	0,07	4	0,28
Social environment	0,12	3	0,36
Ecological environment	0,04	4	0,16
TOTAL	1		2,44

Industry attractiveness shows how hard or easy it will be for a company to compete in the market and earn profits. It is done by multiplying the estimated value of every factor by the factor's weight and finding their sum.

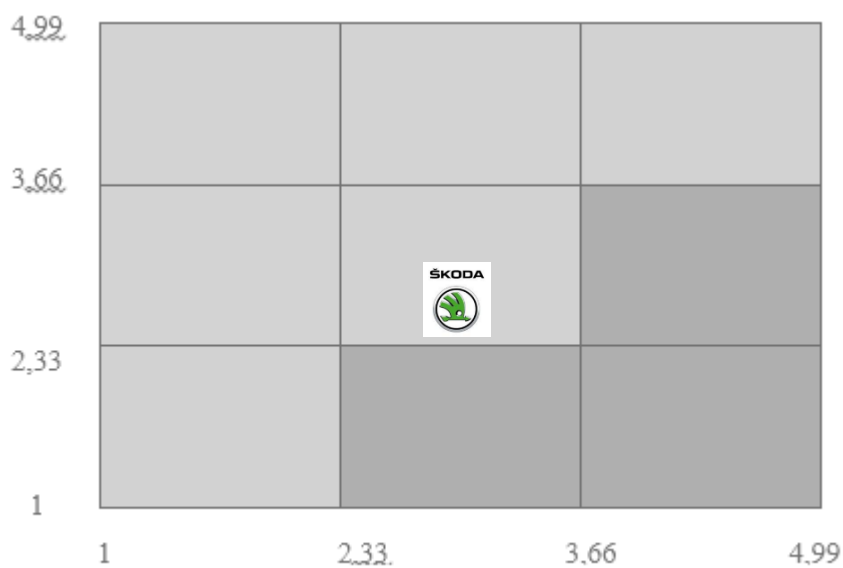
Afterwards we evaluate competitive strength of our business units using the same method.

Table 22: X-axis, Business Unit Strength (own source)

Factors	Weight	Points	Score
Market share	0,1	2	0,2
Market share growth	0,09	2	0,18
Brand equity	0,08	3	0,24
Range of product portfolio	0,09	2	0,18
Price	0,1	2	0,2
Positioning	0,1	4	0,4
Customer loyalty	0,1	4	0,4
Quality	0,09	5	0,45
R&D	0,08	2	0,16
Brand awareness	0,07	3	0,21
Managerial skills	0,1	3	0,3
TOTAL	1		2,92

Once we have our values we can plot them on the axis.

Graph 9: GE Matrix (own source)

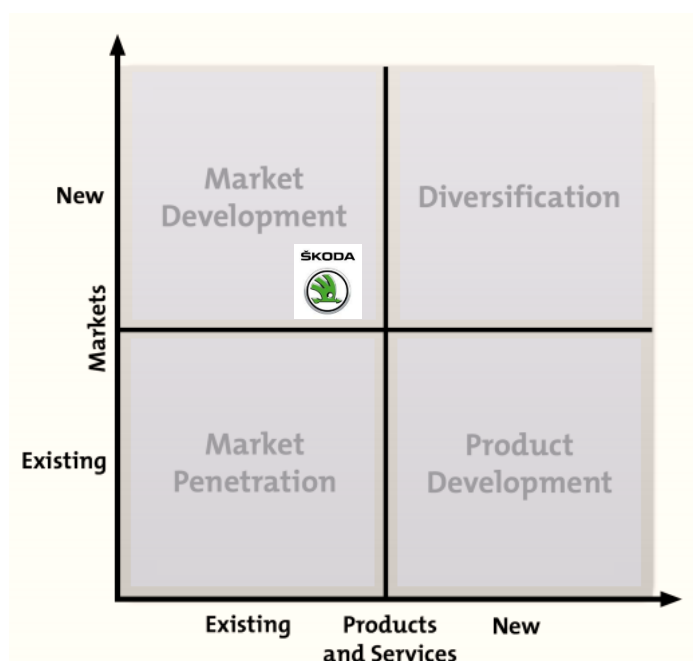


This position places SKODA on the Selectivity/Earnings field. There is usually a lot of ambiguity involved in this sector. It means company should enter the niche with relatively small competition, perhaps create a niche of its own and be the first there. Since creating new niches in the automotive industry is extremely expensive and risky, company can create unique perception of its existing products. We will describe such strategy in detail in the next part.

14. ANSOFF MATRIX

In order to better decide how to enter new segments and niches we will use Ansoff matrix. Generally, it provides a framework to see what will be the best strategy for the future growth. Based on the previous analysis and observations we suggest that the best growth strategy for SKODA auto will be market development. We mentioned that Research and Development of new model is an expensive and risky venture. Moreover, it takes significant amount of time to execute it. For this reason, it makes sense to sell current product into new market segments.

Graph 10: Ansoff Matrix (own source)



Market development

It is a growth strategy where the business seeks to sell its existing products into new markets.

There are different possible ways of approaching this strategy, including:

- New geographical markets;
- New product dimensions (like packaging)
- New distribution channels
- Different pricing policies to attract customers or create new market segments

With a definite growth strategy, we now are able to develop a detailed marketing plan.

15. SKOKDA'S MAIN COMPETITORS IN RUSSIA

Although, every other car manufacturer that is present in Russian market is in competition with SKODA they pose different level of threat. We have identified that the two main competitors are: KIA Hyundai motors. The selection criteria was the following:

- Market share
- Brand's strength on the Russian market
- Product portfolio
- Level of the technology

16. KIA

KIA Motors Corporation – is an automobile manufacturer. It was founded in 1944 and is the oldest car company in Korea. Being part of one of the largest industrial groups in Hyundai-KIA, the company ranks among the world leaders in the automotive industry. Each year ten factories, which are located in five countries, produce more than 2.7 million vehicles. At the end of 2013, worldwide sales totaled 2.746 million. vehicles, which is 1.4% more than in previous year. KIA Motors' dealer showrooms operate in 150 countries. The total number of employees of the corporation is more than 48 000 people, and an annual income of more than \$ 43 billion.

Kia Motors in Russia

In 2005, a group of companies "SOK" organized at the Russian factory "IzhAvto" production of KIA cars Spectra, Rio and a little later - KIA Sorento. (kia.ru “about us”).

Currently KIA offers 12 models on the Russian market (kia.ru)

Model portfolio

Sub-compact

- Picanto
- Rio

Compact

- Cee'd
- Cerato

Minivan

- Venga

Business/luxury


- Optima
- Quoris

SUV's


- Soul
- Sportage
- Sorento
- Prime
- Mohave


16.1 KIA's PRODUCT PORTFOLIO ANALYSIS:


The following product portfolio presents the cars sold by KIA in Russia that are in competition with SKODA auto in the year 2016.

Model: Rio	
Type B	
Initial Price: 601 900 ³ P (Comfort)	
Top Price: 871 900 (Premium)	
Cost of ownership: 48 764 P	
Editions: Hatchback	
EURONCAP crush test report	


³ Based on www.kia.ru


Model: Cee'd	
Type C	
Initial price: 769 900 ₺ (Classic)	
Top price: 1 200 000 ₺ (premium)	
Cost of ownership: N/A	
Editions: GT, pro	
EURONCAP crush test report	N/A

Model: Cee'd SW	
Type C	
Initial Price: 769 900 ₺ (Classic)	
Top Price: 1 249 900 ₺ (GT)	
Cost of ownership: 42 810 ₺	
Editions: N/A	
EURONCAP crush test report	N/A

Model: Cerato	
Type C	
Initial Price: 937 900 ₺ (Comfort)	
Top Price: 1 169 900 ₺ (Premium)	
Cost of ownership: 63 454 ₺	
Editions: N/A	
EURONCAP crush test report	N/A

Model: Optima	
Type D	

Initial Price: 1 069 900 ₺ (Classic)	
Top Price: 1 719 900 ₺ (GT)	
editions: N/A	
Cost of ownership: 69 789 ₺	
EURONCAP crush test report	

Model: Soul	
Type J	
Initial price: 854 900 ₺ (Classic)	
Top price: 1 194 900 ₺ (Premium)	
6 Cost of ownership: 68 126 ₺	
Editions: N/A	
EURONCAP crush test report	

According to the avtostat Hyundai-Kia group holds 2nd place in the Russian market with 20,2% market share (avtostat). The most salable model in Russia is KIA Rio - sold nearly 90 thousand cars in 2013. In November 2014 sales of this model reached a record level - 10 834 pieces, and then the first time in history a model of a foreign manufacturer has become the most popular in Russia (ahead of Korean Hyundai Solaris, which shares the same platform) and domestic Lada Granta. Kia is present in every vehicle class that SKODA targets in Russia: B, C, D, J, D. Additionally KIA is also in the following niches: full size SUV (Sorento, Sportage), Upper business class (Quoris), Mini MPV (Venga).

Unique selling proposition

Quality and inexpensive cars for everyday use

Product – good design and quality combined with a high level of customer service

Price – competitive prices provide an advantage over most of the competitors

Place – KIA uses production plant in Russia for assembly of its models (Kaliningrad)

Promotion – includes sponsorship in cricket and long-term partnerships in football and tennis. For example, Kia is the official sponsor of the UEFA 2016 Euro cup

16.3 SWOT ANALYSIS (mbaskool.com)

STRENGTHS	WEAKNESSES
<p>One of South Korea's largest Automobile producer</p> <p>Among the top 5 Largest Automobile Manufacturers</p> <p>It has strong presence due its sponsorship to events like the Formula 1, Euro Cup etc.</p> <p>Employs around 42,000 people</p> <p>Good product portfolio and strong brand presence</p> <p>Has sales of nearly 1.5 million cars per year</p>	<p>Past recall of critical components like the Braking System was a concern</p> <p>Has not leveraged its presence & recognition globally even as it has created so many sponsorships</p> <p>Has not expanded aggressively in terms of the geographic reach</p>
OPPORTUNITIES	THREATS
<p>Venture into emerging economies which a huge markets</p> <p>It can also enter various where Hyundai is present to fill up gaps in the product offering which Hyundai cannot, e.g. in India Hyundai has failed to attract large numbers for its luxury SUV Santa Fe which may have worked better through the Brand Name of Kia</p>	<p>The Japanese players have made their presence in most of the markets around the world & secured steady market shares</p> <p>The competitors have better design & technology thus having better differentiation</p>

Their all electric vehicles like the Venga & Pop City can open new avenues of business for Kia	
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17. HYUNDAI

Hyundai Motors CIS was founded in Russia in 2007 for the import and distribution of Hyundai vehicles. It guarantees the quality of products for Russian consumers, ensures that customer service high brand standards. Hyundai leading position in the domestic car market - largely the merit of "Hyundai Motor CIS". By the middle of 2008 Hyundai sales in Russia grew by half, and the brand is firmly established among the cars sold in Russia. Hyundai Motor contributes to the solution of social problems, both in Russia and in all regions of operation. The priorities of the company in this area is road safety, the development of professional education, support for vulnerable groups, environmental protection, cultural initiatives, both amateur and professional sports support (hyundai.ru).

Model portfolio

B class

- Solaris

C class

- i30
- Elantra
- Veloster

D class

- I40
- E class
- EQUUS

M class


- H-1


J class

- Tucson
- Santa Fe
- Grand Santa Fe

17.1 HYUNDAI's PRODUCT PORTFOLIO ANALYSIS.


The following product portfolio presents the cars sold by Hyundai in Russia that are in competition with SKODA auto in the year 2016.


Model: Solaris Sedan	
Type B	
Initial Price: 569 900⁴ ₺ (Active)	
Top Price: 704 400 ₺ (Elegance)	
Cost of ownership: 41 802 ₺	
Editions: Combi	
EURONCAP crush test report	N/A


Model: Solaris Hatch Back	
Type B	
Initial Price: 559 900 ₺ (Active)	
Top Price: 701 400 ₺ (Elegance)	
Cost of ownership: N/A	
Editions: N/A	
EURONCAP crush test report	N/A

Model: i30	
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⁴ Based on www.hyundai.ru

Type C	
Initial Price: 799 900 ₰ (Start)	
Top Price: 829 900 ₰ (Classic)	
Cost of ownership: 54 240	
Editions: 3 door	
EURONCAP crush test report	5/5

Model: i30 Combi	
Type C	
Initial Price: 909 900 ₰	
Top Price: 949 900 ₰	
Cost of ownership: 74 297 ₰	
Editions: N/A	
EURONCAP crush test report	N/A

Model: Elantra	
Type C/D	
Initial Price: 909 900 ₰	
Top Price: 949 900 ₰	
Cost of ownership: 63 521	
Editions: N/A	
EURONCAP crush test report	N/A

Model: i40	
Type D	
Initial Price: 1 059 000 ₰	

Top Price: 1 319 000 P	
Cost of ownership: 84 457 P	
Editions: Combi	
EURONCAP crush test report	N/A

Among the competitors, Hyundai brand holds the leading position in the Russian market. Most importantly, its model Solaris is the best-selling car in the segment B in Russia. According to statistics for Jan-Feb 2016 it sold 13 756 cars which ranks the #1 place (avtostat). It is also worth noting that Hyundai Solaris was specially developed for the Russian market, which partly explains its booming popularity.

Unique selling proposition

Plenty of options for not a lot of money

17.2 MARKETING MIX ANALYSIS

Product – Hyundai is present in most of the segments. Undoubtedly, company puts a lot of stress on the ability to cater wide range of customers and cover all middle class segment.

Price – Along with diverse product portfolio, price is one of the biggest competitive strengths. Hyundai offers very affordable prices, which is a key in winning in the middle class segment.

Promotion – Hyundai Motor was one of the general sponsors of the 2013 Summer Universiade in Kazan, providing a fleet of minibuses and tourist buses, which were also used at the 2014 Winter Olympics in Sochi. Company is the official sponsor of the major Russian Football club «CSKA». Additionally, Hyundai is a major sponsor of the UEFA events. In our opinion it is a good strategy to be football sponsor in in Russia because it is one of the most loved and followed games. Therefore, high exposure is guaranteed.

Place – Hyundai has a manufacturing plant, which is located in Russia (near St. Petersburg). It produces strategic model Solaris that is focused on the local market. Factory's capacity is 200 000 units per year (hyundai.ru)

17.3 SWOT ANALYSIS (own source)

STRENGTHS	WEAKNESSES
Strong brand and well-known brand Has manufacturing facilities in: Russia, Czech Republic, Brazil, USA, Korea, Turkey Strong R&D High Revenues	Product recalls Low sales in Korea Low sales in Japan
OPPORTUNITIES	THREATS
Develop fuel efficient cars: Hybrids, electro cars Increase fuel efficiency Use R&D to better tailor models for a specific market	Conflict between south and north Korea Exchange rates Inflation Improved public transport efficiency Increased carpooling and cab hauling services Affordable electric cars

18. MARKETING STRATEGY FOR SKODA AUTO IN RUSSIA

18.1 STRATEGY OVERVIEW

It is quite common that managers and company leaders think that if they cut the costs they can also cut the prices and thereby save the situation. When thinking in this way managers are completely forgetting about the long-term relationship that is supposed to continue when the economy recovers again (Barwise, Styler 2002). We believe that marketing is one of the areas that companies should invest during recession economy.

Millward Brown suggests the following investment revision during declining economy.

Table 23: Investment Revision during Declining Economy (Millward Brown)

<i>Cost Area</i>	<i>Winning Strategy</i>
Innovation	Increase
Marketing	Increase
Customer Preference	Improve*
Relative Price	Maintain*
Administration	Cut
Working Capital	Cut/Maintain
Fixed Assets	Cut/Maintain
<i>Source: PIMS database analysis*</i>	<i>Relative to category average</i>


When the company targets a middle class segment, it puts special stress on the value of its products/services because this group is characterized by the value seeking approach. In the recession economy people experience a radical shift in the buying behavior and best value approach becomes even more vivid. That is why it is extremely important to realize the magnitude of changes in your target audience. Since vehicle is quite elastic product people are extremely sensitive to the price changes. More specifically vehicles can be put in the postponables section. Here is how consumer's behavior is described during different market conditions:

- Stable market – May buy if there is a good deal, otherwise postpone
- Mixed market – Will delay any purchases

- Declining market – Will put off all the durable purchases unless forced to make emergency replacements

In case with SKODA in current Russian market, it falls within the last category.

Table 24: Consumer Segment’s Changing Behavior (Harvard Business Review)

Reaction	Essentials	Treats	Postponables	Expendables	
Slam on brakes	Will seek low cost product and brand substitutes such as private labels	Will deeply reduce or eliminate treats or seek lower-cost substitutes	Will put off durable purchases unless forced to make emergency replacements 	Will eliminate purchases in this category	HIGH
Pained but patient	Will seek out favorite brands at lower prices but settle for cheaper	Will cut back somewhat on frequency and quantity and emphasize value	Will delay major purchases, repair rather than replace, seek value and low ownership costs	WM deeply curtail expendables	BEHAVIOR CHANGE
Comfortably well off	Will continue to buy favorite brands at prerecession levels	Will be more selective in purchasing luxuries	Will seek better quality for the price	Rarely disregard any purchase as unjustified	
Live for today	Will continue to buy favorite brands at prerecession levels	Will continue to buy favorite brands at prerecession levels	May buy if there is a good deal	Reluctant to disregard any customary purchase as unjustified	LOW

For the products in the postponables category the following strategy is advised (HBR):

- Offer layaway plans
- Provide low-cost financing
- Promote exceptional deals
- Challenge penny wise, pound foolish approach

In order to leverage this strategy it is vital to track how customers reassess their priorities, reallocate funds, switch brands, and redefine value.

19. PRODUCT STRATEGY

Since SKODA has only 5 cars present on the market (nearest competitors have more. F.e. KIA has 12). It can leverage this situation to its own benefit by streamlining portfolio. What does it mean? Excessively diversified product portfolio is hard not to mention expensive to maintain. By focusing all efforts on the small product range SKODA can better market it to the target audience. For example, during downturn economy prospective car owners may disregard certain aspects of the vehicle (like technological sophistication) and will prefer lower price or low maintenance cost. With only 5 cars, SKODA can position them more successfully in the minds of the audience as best-value car. Small product range will help to keep audience's focus on spot and the message will be more consistent.

Bottom-line: focus on the "big" and comprehensible product's strengths that easily catch value-seeking customer: low maintenance cost, warranty, safety.

Cater to the fleet segment

One of the ways for SKODA to increase its market share would be to better cater fleet segment. By this segment, we mean vehicles that companies to use as a corporate car. Due to its new design and relatively low maintenance cost SKODA Superb has a good chance to gain a stronger foothold in this segment. Moreover, it has received positive test drive reviews after comparison with one of its main rivals VW Passat. SKODA can also sell Superb to the taxicab parks. Since many of them have business segment vehicles. Apart from the benefits of the model itself (price, lots of legroom), SKODA can foster the transition by offering purchase discounts or discounts to ease maintenance costs (carwow.co.uk).

Bottom-line: Offer volume discounts and special maintenance programs to big buyers.

20. AFTER SALES MANAGEMENT

(Kotler 2015) stated that good customer relationship management creates customer delight. In turn, delighted customers remain loyal and talk favourably to others about the company and its products. Indeed, there is no better advertising that you can receive from your clientele. Therefore, special effort should be put into creating pool of loyal customers.

Bottom-line: one of the ways to ensure and improve brand loyalty of existing customer base is through the special actions that will help to reinforce the idea that SKODA is a best-value car. One of the possible options would be to create strategic partnership with other brands. For example, SKODA can cooperate with gas stations and offer car owners certain discount every time they refuel there. Another way would be to offer Yeti and Octavia Combi owners discount at the sport shops for outdoor products (skis, bikes) since most of them bought this type of car for active lifestyle.

21. PROMOTION

We believe that media spent should not be sacrificed during declining economy. Since SKODA positions itself as a best-value car market conditions become a perfect opportunity to strengthen that image. Therefore, communication becomes a vital element of the anti-crisis marketing plan. Nevertheless, existing communication strategy should be revised in order to be in line with new economic conditions. Since all other automakers will be revising their strategies too it is important to create one that will help to differentiate SKODA from the competition. The key to winning over will be establishing more personal relationships with customers as they become averse towards big purchases. It can be done via:

- Personified direct email/mail campaign (more detailed lead capturing: first name, last name, and place. After that, all contacts with leads can be channeled based on the location of the contact: mall, auto show etc. This way message can be better customized for personified communication.)
 - Better dealer showroom experience
 - Tailored digital campaign (geo and location targeting, partnering with local businesses, retargeting)

Family values

Centering your ATL and BTL communication around family values will work as an extension of the best-value approach.

Bottom-line: for example, any video communication should include family scenes: shopping for goods, spending time together etc. It is also advisable to use more ads specifically created for Russian market than the ones used in the international communication.

Lead management

In the declining market many companies experience lengthening of their sales cycles. In addition, when it comes to purchasing car these cycles can stretch greatly. Therefore, better lead management becomes a cornerstone matter. It is necessary for SKODA to put more effort into lead nurturing compared to the previous years. It means that the whole sales funnel customer journey should be revised.

Bottom-line: dealership staff should be receive new agenda and introduced to the new sales tactics aimed at cost-conscious consumers.

21.1 PROMOTIONAL STRATEGY OVER THE PRODUCT LIFE CYCLE

Each of the products has its own lifecycle. It is usually divided into 4 stages:

- Introduction
- Growth
- Maturity
- Decline

Each of the stages requires special approach since the same promotional technique works to the different extent at the given stage. The following table represents each of the SKODA's models as well as recommendations regarding their marketing.

Table 25: Promotional Strategy Over the Product Life Cycle (Own Source)

SKODA Rapid	<p>Start of production: 2012</p> <p>Last facelift: N/A</p> <ul style="list-style-type: none"> • Rapid has not significantly changed since start of production and new model is still underway. Therefore, we can place it somewhere on the brink of the Decline stage in terms of update • Rapid belongs to the compact segment (Type B). It is a type of vehicle that customers usually look for during the declining economy. Until new generation is released (which probably will cost more) it is advisable to make the most out of current lifecycle stage and to market Rapid as the most money-wise solution for the households. As the matter of the fact, Rapid became a leader in the
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	<p>product portfolio at the end of 2015. (kolesa.ru). Due to this, it will be easier to market model in the future</p> <ul style="list-style-type: none"> • It seems reasonable to target Rapid for the mature audience than since model loses to the competition in terms of design
SKODA Octavia	<p>Start of production: 1996 Last generation: 2013</p> <ul style="list-style-type: none"> • Current generation of Octavia is the 3rd one. New generation is to be released in the upcoming years. It means that this model too can be placed somewhere on the border of decline stage. Since Octavia is the second best-selling model (and the oldest in production) it ranks quite high in terms of awareness, which is good for promotion. • As for the marketing campaign structure, we believe that it would be reasonable to opt for traditional marketing mix (with some anti-crisis amendments) until new model is released. Again, since typical Octavia user is mature there is no need for excessively innovative marketing because it may not reach them
SKODA Yeti	<p>Start of production: 2009 Last facelift: 2013</p> <ul style="list-style-type: none"> • Although Yeti has been in production for more than 6 years, it is still first generation. Since new generation is on the way (2018), we can place the model on the Decline part of promotional cycle. We should note that in this case decline does not necessarily mean low sales volume. We imply that the model soon to be updated • In order to boost interest in the model, special edition of Yeti can be released. F.e. “Russian winter” which will have some useful features for the usage during cold months: heated seats/steering wheel, color scheme etc. The key is not to invest a lot of money into new edition. However, it should have minor amendments because it will be out of production soon
SKODA Superb	<p>Start of production: 2001 Last edition: 2015</p> <ul style="list-style-type: none"> • Superb is the newest model in the SKODA’s carline. It started selling in the Russian market in September 2015. Although,

	<p>business class is not in much demand during recession, they still can be marketed as a fleet cars (corporate vehicles), which is a big segment</p> <ul style="list-style-type: none"> • When released in Russia Superb Combi will be one of the few cars of this body type in the Type D segment. This means that it will be possible to gain the major market share. Since most advertisers will experience decrease in ad sales it might be possible to negotiate favorable deals for the full-scale launch campaign
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21.2 BOSTON MATRIX

Boston or BSG matrix is based on the product's lifecycle and helps marketers to determine which priorities should be given to the product in terms of investment and general promotion. According to it, products are divided into 4 categories (www.oxlearn.com):

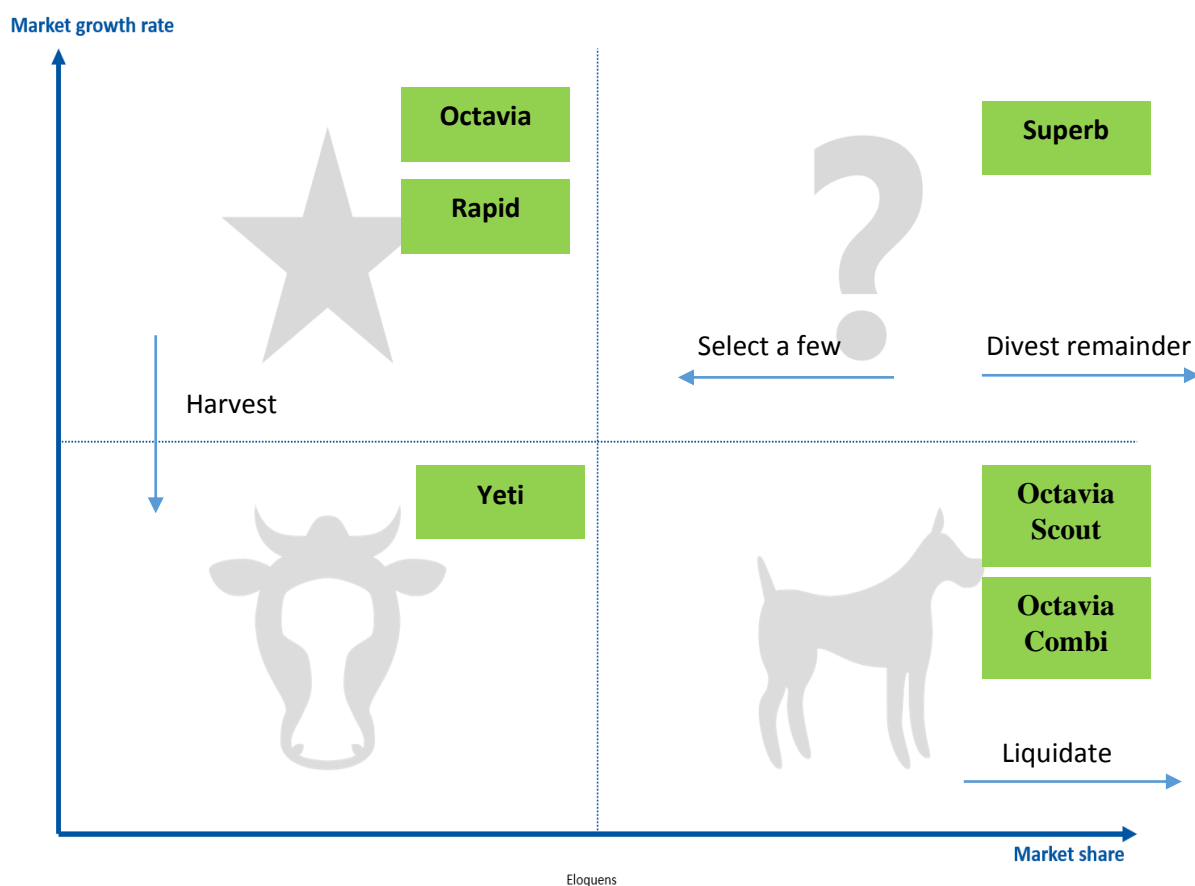
Dogs are confronted with low market share and low market growth problems. They tend to absorb cash rather than generate it and are developing in a slow growing industry.

Cash cows enjoy a high market share in low growing market. These units usually generate cash in excess but opportunities or new investments are limited, due to the low growing market. The aim is to "milk" them as long as possible.

Problem children have low market share in a high growing market. These are products or units that grow rapidly and consume a high amount of resources, but generate low cash because of the low market share. They have the potential to grow market share and generate income thus turning into stars or cash cows when market growth slows, but there is also the possibility of them degrading into dogs with little return and wasted investment.

Stars represent the ideal combination for a company: high market share in a fast growing industry, two elements which generate cash and further opportunities. Based on these characteristics we can put SKODA's current models on the graph:

Graph 11: Boston Matrix (own source)



Octavia and Rapid have the biggest and constantly growing, thus they are **Stars**. Until new generation arrives, they will be slowly moving into **Cash Cow** section.

Superb is placed into the **Question Mark** section because it has been launched not a long time ago but has a potential to grow into the **Star**.

Yeti model is not growing a lot but holds stable 3rd place in the SKODA's portfolio in Russia. Therefore, it is placed in the **Cash cow** section.

As for Octavia Combi and Combi Scout, they have minor share in the portfolio and not growing. Thus, **Dogs**. It makes sense to keep them as long as they generate certain amount of revenue.

22. PRICE STRATEGY SUGGESTIONS

Generally SKODA's cars cost more than nearest competitors' (Yeti > KIA Soul, Superb > Optima). It can be partly justified by the fact that they have longer wheelbase and offer "more car" and cutting costs in the manufacturing process is a difficult task. Nevertheless, SKODA

can improve affordability. Typically, right-away discounts has more effect than postponed value offer. Therefore, such actions like reducing down payment on the car loan or extending credit length can increase perceived affordability.

Accessories

Complimentary products like roof racks, holsters etc. are often excluded from the car configuration during declining market as unnecessary features. One way to market them would be bundle sale. Not only will it keep the price of each item down, bundles can also benefit from the synergy effect, meaning that one will complement the other.

Price reduction

Slashing prices is a difficult strategic move because many factors should be taken into account before making it. First and foremost, price reduction shouldn't harm profit margins. Second, reducing prices may cause your competitors to do so as well. Price wars is an outcome most companies could not afford. Thirdly, company should consider long-term effects of the price cut. Usually such a pricing decision is oriented towards short time period. After it is gone, customers get used to that low price level and rapid increase may deter them from making a purchase.

23. RISK ANALYSIS

Table 26: Risk Analysis (Own Source)

Type of Risk	Description	Mitigation
External	<p>Economic instability</p> <p>The central idea of this diploma work was to find the optimal marketing strategy for SKODA auto in the recession environment. Every anti-crisis plan (no matter how detailed and elaborated) cannot ensure success as it after certain extent we are not able to predict what will happen to the economy. However, we can map out main macro and micro causes to better understand economic environment:</p> <ul style="list-style-type: none"> • Oil price continue to be low/fall. It is one of the major triggers of the current recession. Since Russian economy is mostly natural resource-based rapid fall of oil prices lead to inflation, which subsequently caused auto sales (as well as many other elastic products) to plummet • Financial sanctions. They also contributed to the market decline as EU prohibited Russian banks from access to their credit. Due to the decreased money mass, prices went up 	<p>It is quite hard to prepare for economic type of risk. However, the following actions can be taken:</p> <ul style="list-style-type: none"> • Financial hedging • Diversification • Constant monitoring of micro and macroeconomic environment
	<p>Geopolitical situation will continue to escalate</p>	<p>Since most businesses have no control over politics the following steps can be undertaken in order to</p>

	<p>Politics and economy are often in the casuistic relationship with each other. It means that economic problems are often result of tensions and disagreements on the political level. For example, financial sanctions against Russia were deployed as a result of geopolitical crisis on the international level.</p>	<p>ease influence politics on business environment:</p> <ul style="list-style-type: none"> • Sign long-term contracts with suppliers/business partners in order to ensure certain level of stability • Hedge financial investments • Closely monitor political scene in order not to be caught off-guard
	<p>Competition</p> <p>It is true that declining economy influences every business. However, each one of them experiences it in a different way. For example, for a company that receives most of its revenue in foreign currency (dollar, euro) it is relatively easy to support its business in the environment with depreciated ruble.</p>	<p>Extra attention should be put into business intelligence and monitoring. For instance, before decreasing prices it would be essential to know profit margins of your competitors to see if they will be able to decrease them even more.</p>
	<p>Suppliers</p> <p>Since most of the automakers outsource their operations (they tend to keep only strategic units like marketing and R&D) it can result in some troubles. For example, suppliers will try to break a contract and increase the prices.</p>	<p>Foster good relationships with suppliers and be ready to renegotiate contracts.</p>
Internal	<p>Red tape</p> <p>In many international companies, it becomes difficult to implement a project due to the red tape, overly complicated procedures etc. Undoubtedly, planning and implementing anti-crisis marketing strategy is laborious task, especially for such big market like Russia. That is why it is vital to establish</p>	<ul style="list-style-type: none"> • Keep amount of involved to a necessary minimum so duplicated roles and positions will be avoided • Get on board people who have expertise in dealing with similar matters

	easy and transparent communication chain between all project members.	<ul style="list-style-type: none"> • Use special communication platform that will make it easy to exchange information and collaborate • Assign special right to the top managers of the project so they could sidestep bureaucracy and formalities • Exclude intermediaries/keep to a minimum between managers and their projects
	<p>Insufficient financing</p> <p>Another important factor is financing of the project. It might happen that funds provided for the anti-crisis plan will not be enough.</p>	<ul style="list-style-type: none"> • Use primary market intelligence data to create realistic investment overview • Secure some extra funds for emergency cases
	<p>Lack of contact with a market</p> <p>Whenever operating in the foreign country it is vital to get a realistic view of the conditions. It sometimes happens that managers get incorrect version of the situation.</p>	<ul style="list-style-type: none"> • Makes sure that the number of intermediaries is kept to the minimum • Managers should go to the market themselves more to investigate the situation first-hand

24. TIME ANALYSIS

Whenever implementing a project, it is essential to have a basic timeline of planned activities. This way we can be more exact and take a timely action. In our case, we have separated them into 4 groups:

Preparation

- Discussing and reviewing plan
- Making necessary amendments

- Assigning roles and creating taskforce
- Approval
- Gathering and reviewing first volume of marketing intelligence data
- Visiting SKODA Russia to overview market situation
- Contacting ATL/BTL, digital agencies and briefing them on the new agenda + giving tasks
- Sit-down with the agencies to approve/amend results

Promotion

- Launch new ATL/BTL, digital campaign
- After 6 months review intermediate results/Adjust if necessary
- Launch new ATL/BTL, digital campaign 2.0

Place

- Introduce new Lead gathering and CRM techniques + train staff
- After 6 months review intermediate results/Adjust if necessary
- Launch Lead gathering and CRM techniques 2.0

Price

- Introducing necessary pricing amendments (reductions, new financing terms, discounts etc.)
- After 6 months review intermediate results/Adjust if necessary
- Launching pricing strategy 2.0

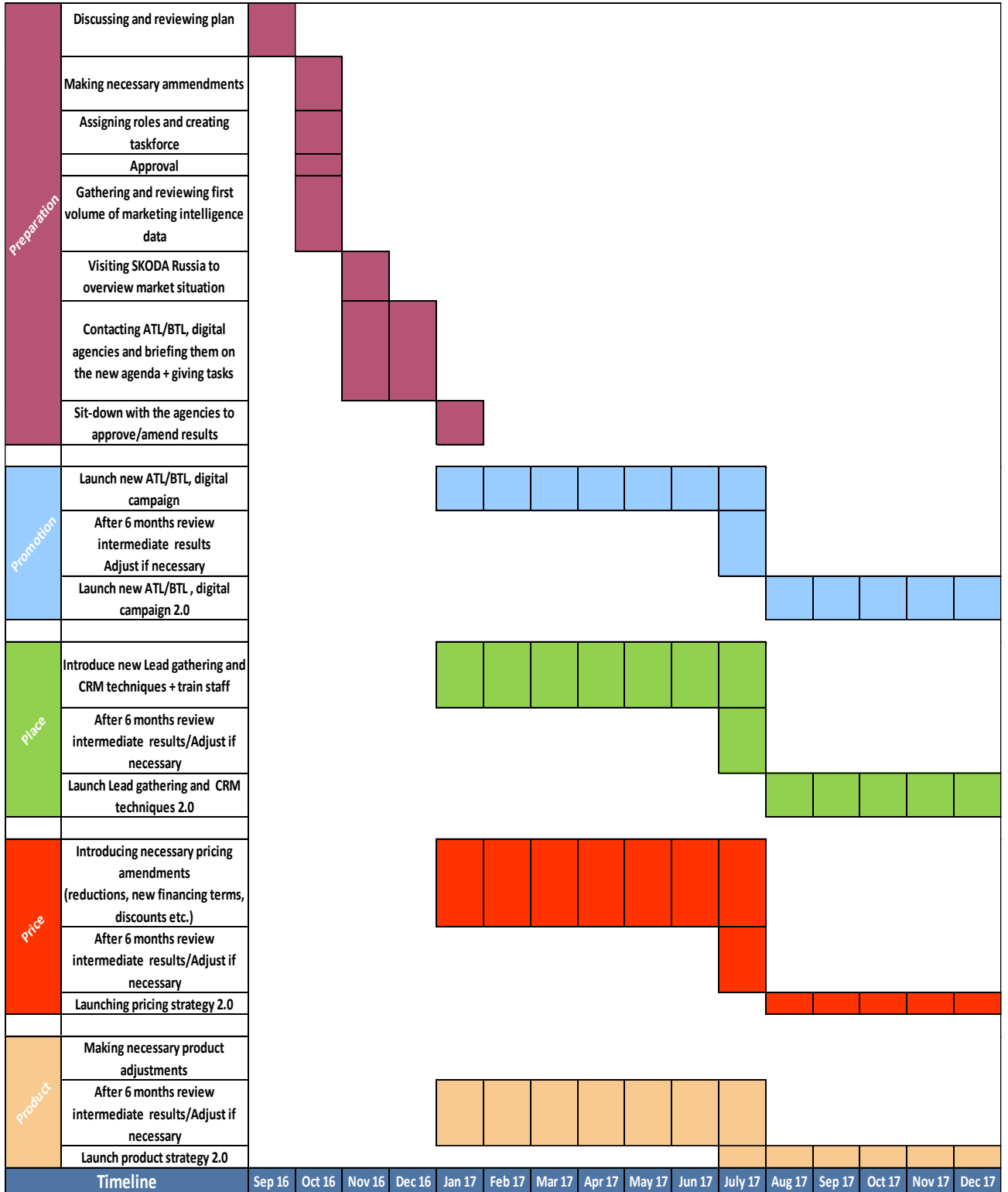
Product

- Making necessary product adjustments
- After 6 months review intermediate results/Adjust if necessary
- Launch product strategy 2.0

On the general level, tasks are divided into 2 groups:

1. Planning, amending, anti-crisis marketing strategy
2. Implementing, reviewing and adjusting actions

Since it is hard to make predictions about market conditions (especially in the downturn economy), we have included **marketing mix review** task after 6 months. This way we can make sure that our strategy accurately reflects current situation and addresses it properly.



Graph 12: Time Analysis (Own Source)

25. COST ANALYSIS

It is impossible to execute anti-crisis marketing strategy without proper financing. Therefore, we need to calculate approximate cost of all the activities involved. The data was collected based on the information provided by Jozsef Keszler – International marketing consultant for SKODA auto.

Table 27: Costs Allocation (Own Source)

Promotion	Price (Eur)
Creating new ATL campaign Billboards, print, radio, TV etc.	2 000 000
Creating new BTL campaign POS materials, Dealership etc.	1 500 000
Creating new Digital campaign Pay pre click ads, Landing pages, graphics etc.	1 000 000
Creating new marketing positioning story (values, customer's personas etc.)	1 000
Sponsorship	1 000 000
Special events	1 000 000
Developing aftersales strategy	1 000
Place	
Developing new sales tactics	2 000
Staff training	50 000
New CRM features/upgrade	80 000
Price	
Developing new financing program	100 000
Developing accessories sale strategy	2 000
Finding new suppliers	unknown
Developing price reduction strategy	unknown
Product	
Developing new car edition. F.e. "Winter"	2500 (per car)

Introducing new accessories	100 000
Unexpected expenses	500 000
Emergency fund	1 000 000
TOTAL	8 336 000

As we can see from the table, the main expenses are associated with developing and executing ATL, BTL, and Digital campaign. It is quite reasonable since costs of printing materials, airtime, and advertising space can be very high depending on the reach (in our case nationwide). Another two big expenses are Events and Sponsorship. However, they can be reduced or even eliminated because we will be conventional marketing techniques, better customer relationship management.

There are also two unknown columns in our table. Finding new suppliers is one of the ways to reduce expenses. However, it is impossible predict the costs and length of such research.

As for the price reduction strategy, we need to know profit margins of each of the cars and profit margins of the competitors based on the business intelligence.

At the very bottom we have unexpected costs section, which refers to the costs that will arise during the course of implementation of ant-crisis plan. Lastly, we have emergency fund that has approximate sum to cover costs associated with the state of emergency.

CONCLUSION

The aim of this work was to suggest proper marketing strategy for SKODA in Russia during recession. Prior to developing a strategy we have analyzed Russian macroeconomic environment and Russian automotive market to see how and to which extent they were influenced by the crisis. After gathering this data, we have conducted Marketing Mix as well as SWOT analysis of SKODA's nearest competitors: KIA and Hyundai. Although, they are not the only competition, they possess the greatest challenge due to their 1) Market Share 2) Brand's Strength 3) Pricing and 4) Level of Technology.

Afterwards we proceeded to the detailed analysis of SKODA's own marketing mix. This allowed us to get sufficient data to construct IFE/EFE and space matrixes. The latter helped us to identify the proper market tactic: mix of aggressive and competitive strategies. The results that we received from GE matrix showed us that in order to gain market share, SKODA needs to enter unoccupied niches and segments. With the help of Ansoff's matrix, we concluded that the best growth strategy would be Market Development: enter new markets with existing product portfolio.

Third part of our work was dedicated to creating marketing plan for SKODA in Russia for the years 2016-2017. We have developed practical suggestions for each part of the marketing mix. In general, it was concluded that current market situation could be leveraged to SKODA's benefit. Since Czech manufacturer positions itself is the best value car, this proposition can become evident in the downturn economy when customers are more than ever looking for best deals. Apart from attracting new customers, SKODA can also improve loyalty of already existing clientele through better CRM and aftersales management.

In the final part, we have conducted cost, time and risk analysis in order to see what may be the main obstacles to implementing our marketing strategy.

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APPENDIX I Consumer Segment’s Changing Behavior (Harvard Business Review)

Tailoring Your Tactics

	ESSENTIALS	TREATS	POSTPONABLES	EXPENDABLES
Slam-on-the-Brakes	<ul style="list-style-type: none"> ▪ Emphasize price; hit wallet-friendly retail price points ▪ Offer smaller pack sizes for less money ▪ Expand retailer private labels ▪ Promote low-cost value products ▪ Introduce fighter brand 	<ul style="list-style-type: none"> ▪ Shrink sizes ▪ Hold prices down ▪ Advertise as a “you deserve it” small indulgence 	<ul style="list-style-type: none"> ▪ Offer layaway plans ▪ Provide low-cost financing ▪ Promote exceptional deals ▪ Challenge penny-wise, pound-foolish behavior (such as dangerously postponing tire replacement) 	<ul style="list-style-type: none"> ▪ Offer do-it-yourself alternatives to doing without ▪ Continue awareness advertising (for instance, for future vacations)
Pained-but-Patient	<ul style="list-style-type: none"> ▪ Offer a lower-priced option ▪ Hit retail price points ▪ Promote bonus packs to encourage stockpiling ▪ Emphasize dependability of branded product or service 	<ul style="list-style-type: none"> ▪ Reward loyal consumers, even if they consume less (for example, offer frequent-patron points) ▪ Advertise products as morale raisers ▪ Advertise products as affordable alternatives to more expensive luxuries 	<ul style="list-style-type: none"> ▪ Offer simpler models, lower prices ▪ Promote lower-operation-cost models ▪ Promote repair services 	<ul style="list-style-type: none"> ▪ Continue awareness advertising ▪ Invest in core product improvements that will accelerate customers’ reentry into the market
Comfortably Well-Off	<ul style="list-style-type: none"> ▪ Continue awareness advertising 	<ul style="list-style-type: none"> ▪ Emphasize outstanding quality ▪ Advertise as a product you deserve because you are successful 	<ul style="list-style-type: none"> ▪ Promote savings from buying now ▪ Advise customers they’re “missing out” by postponing 	<ul style="list-style-type: none"> ▪ Enable discreet purchasing that avoids the appearance of flaunting in front of less wealthy people ▪ Advertise benefits of impressing wealthy friends
Live-for-Today	<ul style="list-style-type: none"> ▪ Continue awareness advertising ▪ Remind consumers, “You can’t live without it” 	<ul style="list-style-type: none"> ▪ Offer convenient automatic credit card billing ▪ Promote as opportunity to seize the moment 	<ul style="list-style-type: none"> ▪ Offer monthly payment plans ▪ Promote quality-of-life benefits of buying now 	<ul style="list-style-type: none"> ▪ Offer exciting new products and promote as “must have” ▪ Advertise as products you can aspire to buy when your income grows