Adaptation of International Business Marketing Strategy Between Emerging Markets

Case of CCI in Turkey and Kazakhstian

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Finally, we would like to say a special thanks to our families and friends who have always contributed their time, energy and supports for us.

Sinem Temiz  Tatsiana Yaroshyk
ABSTRACT

**Purpose:** The purpose of this thesis is to investigate how a multi-national company can adapt its business marketing strategy to emerging markets.

**Methodology and research approach:** The research approach of the thesis was a case study of CCI in Turkey and Kazakhstan to see how the company can adapt its international business marketing strategy to conditions of local market. The study was done by identifying the current situation on the emerging markets and the company and by describing external environment and institutional factors within emerging markets. Analysis of current elements of international business marketing strategy and environmental factors that have affected it was done by applying theoretical framework to the case study. The last step was to give recommendations for the company to adapt or standard international business marketing strategy and importance of analyze external environmental factors for the international business marketing strategy for the emerging markets. Data for the thesis was collected from primary sources through interviews and secondary data through company’s presentations and articles, internet sources.

**Findings:** The study showed that CCI enters each new market with standard brand portfolio tries to make adaptations of promotion and communication strategies to conductions of local market and to get external fit which will bring competitive and societal advantages for CCI on those markets where company operates. We have identified number of external environmental factors in Kazakhstan that have a certain influence on CCI’s operations. Economical situation has largely affected CCI’s operations and activities in Kazakhstan. This factor directly affects consumption level and purchasing power and behavior of local consumers. The legislation has obviously affected the company as well,
resulting in local production. Cultural issues are also influenced CCI operations in Kazakhstan. That expressed through difference in consumption preferences of local consumers, which were directed aside traditional drinks.

**Recommendations:** In the end of the thesis some recommendations are given. Among the most important are – to balance between standard brand portfolio and adapt communication and distribution strategies according local environmental factors; to identify which environmental factors can affect the company, which will require adjustments, and which can be influenced by the company; to effort developing personal relationship with customers, distributors, retailers in order to increase the competitive advantage and gain an increased loyalty among them.

**Key words:** International business marketing strategy, Adaptation, External environmental factors, CCI, Emerging markets, Kazakhstan, Turkey
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<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATL</td>
<td>Above the Line</td>
</tr>
<tr>
<td>BTL</td>
<td>Below the Line</td>
</tr>
<tr>
<td>BMS</td>
<td>Business Marketing Strategy</td>
</tr>
<tr>
<td>CCAB</td>
<td>Coca - Cola Almaty Bottlers</td>
</tr>
<tr>
<td>CCI</td>
<td>Coca - Cola Icecek</td>
</tr>
<tr>
<td>CIS</td>
<td>Commonwealth of Independent States</td>
</tr>
<tr>
<td>CSDs</td>
<td>Carbonated Soft Drinks</td>
</tr>
<tr>
<td>EBITDA</td>
<td>Earnings Before Interest, Taxes, Depreciation and Amortization</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>IBMS</td>
<td>International Business Marketing Strategy</td>
</tr>
<tr>
<td>IBS</td>
<td>International Business Strategy</td>
</tr>
<tr>
<td>IMSA</td>
<td>Istanbul Beverage Industry</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>MNC</td>
<td>Multinational Corporation</td>
</tr>
<tr>
<td>NCBs</td>
<td>Noncarbonated Beverages</td>
</tr>
<tr>
<td>POP</td>
<td>Point of Purchase</td>
</tr>
<tr>
<td>POS</td>
<td>Point of Sale</td>
</tr>
<tr>
<td>TCCC</td>
<td>The Coca - Cola Company</td>
</tr>
<tr>
<td>WWF</td>
<td>World Wild Fund</td>
</tr>
</tbody>
</table>
1. INTRODUCTION

The purpose of the introduction chapter is to provide a background for the problem definition, the research purpose and delimitations. The chapter also contains a brief introduction of the case company Coca Cola Icecek and to end with, the outline of our thesis will be defined.

1.1. Background

The term ‘globalization’ has become a very important issue since the beginning of the 1980s. Globalizing means homogenizing on a world-wide scale. With growing globalization differences between countries are getting smaller but still exist. The trend towards globalization and internationalization of business has strong impact on companies’ strategy. Due to increasing globalization and global competition MNCs are faced with a very important marketing decision between standardisation and adaptation of marketing strategy.

There are two different perspectives on the international business marketing issue. On the one hand, supporters of the standardisation point of view argue that a single and standardised marketing strategy should be used in international markets to minimise total costs and promote a global corporate image. On the other hand, supporters of the adaptation point of view argue that there is the need for marketing adaptation to fit the unique dimensions of each local market.

According to Levit (1983) markets are becoming more similar; tastes, preferences and price-mindedness are becoming increasingly universal, he believes that the key for survival is a company’s ability to globalize. However, languages, cultures, economic situations, infrastructures, rules and regulations differ across national borders. Due to increasing globalization, global
competition and their importance on international business marketing strategy, we found importance of choosing right strategy according to standardization versus adaptation issue.

The decision between adaptation and standardization of international business marketing strategy is also a key issue in doing business in emerging markets. The high growth often found in emerging country markets makes them lucrative or potentially lucrative markets for MNCs. Emerging markets are defined as growing markets that are being transformed from a pre-market stage (either a non-pecuniary and traditional economy or a centrally planned economy) to the market stage of the mature Western capitalistic economy, by way of integrated and successful structural reforms of companies, markets and society (Jansson, 2007). Because of these reasons we decided to focus our attention on the adaptation issue between the emerging markets.

As stated by Isobel and Lowe (1999) the development of successful international business marketing strategies is based on a sound understanding of the similarities and differences that exist in the countries around the world. Therefore, it would be useful to identify the external environment in order to improve MNC’s international business marketing strategy. Business marketing strategies may need little or no adaptation, if external environment is similar with the home country, and more adaptation in others whose dissimilarities are obvious.

There are different types of business marketing strategies for getting competitive advantage in foreign markets. In this thesis, international business marketing strategy is considered mainly in three dimensions: firstly, product strategy deals with the specifications of the actual goods or services, how it matches product and brand with market place and how it relates to the end-user’s needs and
wants; secondly, distribution strategy refers to how the product gets to the customer and what kind of channels will be efficient in foreign market? Thirdly, promotion/communication strategy includes advertising, sales promotion, publicity, and personal selling, sponsorships etc. We focus much more on sponsorships and sales promotion such as below the line marketing. It includes methods of promoting the product and brand. These are useful methods, which let managers understand concept about being with right product, in right place.

With an increasing number of firms expanding beyond their domestic borders, firms are faced with a challenge of modifying their existent strategies to gain and sustain their competitive advantage in a rapidly changing environment. To sum up today’s changing dynamics in the world market point out importance of adaptation and modification of business marketing strategies between foreign countries.

1.2. Problem discussion

Within the field of international business marketing, decision of standardization or adaptation issue is one of the longest debates. The differences between MNCs’ home markets and the emerging markets in external environment could make different of international business marketing strategy and influence performance of MNCs. As advocated by Jansson (2007) it is not possible to separate the world of business from the social side, as for example the world of politics or ethics. Therefore MNCs should find out how they must adjust a business marketing strategy in order to best fit new market demands, suit local tastes, meet special market needs.
To be successful and competitive every firm has to use special policy and strategy for each market. Positioning of the product and brand, channels of distribution, types of promotion, and identification of customer need to be matched in different markets.

Consequently, this research seeks to identify those external factors and examine how they affect MNC’s standardization and adaptation strategy between emerging markets.

1.3. Problem definition

**MAIN RESEARCH QUESTION**

*How an MNC operating in the beverage industry can adapt its international business marketing strategy between emerging markets?*

This main research question is further divided into three sub questions. In our opinion the best way to answer the main research question can be achieved by learning from both sub questions. In this sense the answer to the main research question will be more persuasive.

**SUB RESEARCH QUESTION 1**

*What does the MNC’s existing international business marketing strategy look like while comparing one emerging market to another?*

To be able to investigate in which way the MNC could adapt the international business marketing strategy between emerging markets we first have to define the existing international business marketing strategy in the target markets. In
In this sense we will focus on product, promotion/communication and distribution strategy of MNC. We can then move further on and distinguish what kind of local external factors on the target market that could affect the MNC’s operations in this country, which leads us to sub research question 2.

**SUB RESEARCH QUESTION 2**

*What kind of factors in the external environment may influence MNC’s international business marketing strategy on the target market?*

The MNC’s marketing policy and implementation often differ between different countries. The MNC are surrounded by external environments that have an influence on the business marketing strategy. In this sense analyzing of external environment and institutional factors could be an important issue for formulate and improve the international business marketing strategy between the different emerging markets.

By outlining the specific factors in the external environment in the target market, we can understand in which way they have influenced the MNC to make adjustments on this market, and how the adjustments have been carried out.

**SUB RESEARCH QUESTION 3**

*What kind of local adaptations has the MNC made in its international business marketing strategy on the target market?*

We will investigate local adaptations that have been made in product, promotion and distribution strategies in Kazakhstan market.
1.4. Research model

In order to answer our main research question, we have divided it down into three sub questions that have to be answered. Our research model represents the concept of the thesis.

![Research Model Diagram](image)

*Figure 1.1 Research model (Temiz and Yaroshyk, 2008)*
1.5. Purpose

The purpose of this thesis is to investigate how a multi-national company can adapt its business marketing strategy between emerging markets. This will be done by identifying of the current situation on the emerging markets and the company and by describing external environment and institutional factors within emerging markets. The CCI will be the major practical tool for our investigation. Turkey and Kazakhstan were selected as target markets of case study. Through the comparison of the similarities and differences between these emerging markets, we aim to formulate certain guidelines for CCI to run a successful adaptation of international business marketing strategy and improve their competitive advantage.

In this sense, this study intents to bring awareness of adaptation issue in the international business marketing strategy and to provide a better understanding of the factors that influence MNCs.

1.6. Delimitations

- In this master thesis we will investigate CCI and its intrenational business marketing startegy. The industry that we are going to focus our research on is beverage industry.
- Concerning the geographic delimination, we will study Turkey and Kazakhstan markets as an example of how CCI perfomed in some specific emerging markets. It may be different in other emerging markets.
- Our thesis deals mostly with B2C market therefore, main focus will be put on the end consumers of beverage. The reason for this choice that CCI is a consumer oriented company.
1.7. The case company- Coca-Cola Icecek (CCI)

CCI is the largest producer, bottler and distributor by the full beverage portfolio of The Coca-Cola Company in Turkey. CCI offers a wide range of beverages including carbonated soft drinks (CSDs) and noncarbonated beverages (NCBs) (a category that includes juices, waters, sports drinks, energy drinks and iced tea). The core brands in all markets are Coca-Cola, Coca-Cola light, Fanta and Sprite.

Coca-Cola was first produced, distributed and sold in Turkey in 1964, when The Coca-Cola Company awarded the first franchise to a company based in Istanbul, called IMSA. Further Coke franchises were awarded to companies owned and managed by members of the Ö zgörkey family and the Has Group, which owned IMSA. In 1988, TCCC set up a manufacturing firm in Turkey and six years later was operational in Turkey with two manufacturing and two distribution companies.

In 1996, TCCC formed a joint venture with Turkey’s Anadolu Group, which bought a 33.3% stake in the US soft drinks giant’s interests in Turkey. Two years later, the joint venture was expanded to encompass one manufacturing and two distribution companies owned by members of the Ö zgörkey family.

Today, TCCC owns a 20.1%, Ö zgörkey Holding owns a 5%, public traded owns a 24.6% and Turkish drinks group Anadolu Efes owns a 50.3 % majority interest in the CCI.

CCI moved from being a Turkey-only player to a regional bottler following the acquisition of Efes Invest at the end of 2005. The acquisition is a key milestone in the history of CCI. Efes Invest was the largest carbonated soft drink system operating in Central Asia. Hence, this acquisition has expanded the geographic scope of CCI into new territories across Southern Eurasia and the Middle East.
CCI operates today in 9 countries with population 170 (millions), number of plants is 12 and employees are 4,882, includes Kazakhstan, Kyrgyzstan, Azerbaijan, Turkmenistan, Jordan, Iraq, Tajikistan and Syria in addition to Turkey.

1.8. Thesis outline

As illustrated in below in figure 1.1, there are four main parts of the thesis: in the first part, the research problem, the brief background of the research areas, the purpose and motives of writing the thesis are presented, as well as case company. In the second part consists of methodology and theoretical framework, which constitutes the tools guiding our data collection and empirical analysis. The following part consists of the empirical and analytical part, where the empirical data is analyzed. In the final part of the thesis, the conclusion will be drawn and relevant recommendations will be given.

![Figure 1.2 Thesis outline](image-url)
2. METHODOLOGY

In this methodology part it will be described what kind of research method has been used and how the data has been collected. It will be also motivated why certain approaches and methods were chosen in order to answer our research questions.

2.1. Research strategy

There are several research strategies to choose among them when answering different research questions in implementation of social science research. According to Yin (2003) there are five different main strategies to use when collecting and analyze empirical evidence. The major strategies are: experiment, surveys, archival analysis, history and case studies. There are both advantages and disadvantages with each strategy, which depends on three different conditions: the type of research question, the required control over behavioral events, and the focus on contemporary as opposed to historical phenomena. To select the most suitable research strategy for the dissertation, researchers need to appreciate the differences. The following table 2.1 presents available research strategies and under which circumstance they are most appropriate.

<table>
<thead>
<tr>
<th>Table 2.1 Relevant situations for different research strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategy</strong></td>
</tr>
<tr>
<td>Experiment</td>
</tr>
<tr>
<td>Survey</td>
</tr>
</tbody>
</table>
2.1.1. Case study defined

According to Yin (2003), the first and most important condition for differentiating among various research strategies is to identify the type of research question being asked. Yin (2003) defines case study as an empirical inquiry that investigates a contemporary phenomenon within its real life context, especially when the boundaries between phenomenon and context are not clearly evident. He further argues that case study, as a specific research strategy, is of distinctive advantages when a ‘how’ and ‘why’ question is being asked about a contemporary set of events over which the investigator has little or no control. Merriam (1998) states case study should increase an in-depth understanding of the situation and the meaning for those involved.

Due to our research area and research questions, represented by how and what questions we believe that a case study is the most suitable research to perform. We want to increase understanding of how MNC’s international business marketing strategy can be adapted between emerging markets and consequently which factors that is affecting the adaptation. We also think that our possibility to receive information from different people, in different areas within CCI has contributed to a total range of data that had not been reached if we had used another research strategy. We are investigating a contemporary phenomenon within its real-life context, and are trying to see if and how boundaries look like between the phenomenon and the context.
2.1.2. Criticisms of case study

There are however traditional prejudices against a case study research method. According to Yin (2003) the case study is a distinctive form of empirical inquiry, many research investigators nevertheless disdain the strategy, in other word, as a research endeavor, case study have been viewed as less desirable form of inquiry than either experiments or surveys.

The first concern is over the lack of rigor in the case study research. For other research strategies, the existing numerous methodological texts have formulated strict procedures for researchers to follow, while few texts (if any) can provide case study methods in similar manner. The second critical aspect is that case study can provide for scientific generalization. Case studies are generalizable to theoretical proposition but not to population and universe. Thus, the goal for researchers is to do a “generalizing” and not a “particularizing” analysis. The third critic commonly against case study is that it takes too long time to deliver the result in massive and unreadable documents.

While writing the thesis, we kept the disadvantages and delimitations of case study in mind. Despite the mentioned criticism against case study research we still find it the most appropriate method in order to answer our research questions.

2.1.3. Case study design

There are, according to Yin (2003), four types of case study design based on a 2x2 matrix: holistic single-case design, embedded single case design, holistic multiple–case design and embedded multiple-case design. As can be seen in figure 2.1., the investigator could choose to perform a single-case study or multiple-case study, which further on can be either holistic or embedded.
Figure 2.1: Basic types of designs for case studies  

The matrix first shows that every type of designs will include the desire to analyze contextual conditions in relation to the “case”, and the dotted lines in between indicate that the boundaries between the case and the context are not likely to be sharp. The matrix then shows that single- and multiple-case studies reflect different design situations and that within these two variants, there also can be a unitary unit or multiple units of analysis.

What type of research will be chosen depends on the number of case studies that are included, and the number of units involved in the research.

Since our purpose is to investigate how MNC should adapt their international business marketing strategy between emerging markets, we have chosen to use embedded, single-case design. It seems to us as more suitable design to use. Because only one company CCI is taken for consideration (single-case design).
In addition, our case study involves marketing in such countries as Turkey and Kazakhstan, which makes design embedded and not holistic.

2.2. Research approach

There are three different research approaches when conducting a case study. It is the purpose of the study that is to decide which of the three approaches that is the most appropriate one. According to Yin (2003) a case study can be viewed in a pluralistic way, in order to be used for three different purposes. These are the explorative approach, the descriptive approach or the explanatory approach.

The main intention to conduct an explorative research approach is to collect as much information as possible within a given area, in order to serve as a foundation with material and also to generalize ideas. These might further on to be used in following studies. Its starting point is often within an area where the relationship or phenomenon studied often is party or totally unknown (Albertsson and Klingenstierna, 2002).

The main purpose when implementing a descriptive research approach is to describe and achieve a clearer picture concerning a phenomenon, since the problem already is clearly structured. In these cases there are already exists knowledge within the certain area investigated. However, the research still includes devoted investigations in order to generate mapped out aspects at a specific points in time (Ericsson and Linden, 2005).

The third study approach is the explanatory research approach, where the purpose is to explain a particular occurrence or specific set of events. As in the descriptive approach, the problem is already structured. However, the differences between these two are that the aim of the explanatory approach is to
ascertain the causal connections between the different variables within the research, instead of just describing those (Malhotra and Birks, 2003).

We decided mainly to implement explanatory case study, since our main problem and research questions are represented by how and what questions. But in fact we will use two other approaches as well. In empirical part we give a presentation of CCI’s current IBMS in Turkey market and also describe the situation in the Kazakhstan market. As stated before we intend to study how CCI’s IBMS has been adapted to the specific needs of market in Kazakhstan, also what local factors that influenced these decisions. In addition, we believe that the explanatory research approach is necessary to use in order to explain and formulate how MNC’s should adapt its IBMS between emerging markets, and give further recommendations.

2.3. Research procedure

When conducting a case study, one of the main tasks of the researcher is to effectively apply abstract theory to describe real conditions. A prerequisite for accomplishing this is that the appropriate research procedure is employed. Various literatures state that the most influential factor when deciding on the suitable procedure is the level of development of the existing theoretical framework. According to Yin (2003), three different procedures are often employed for case study conduct: inductive, deductive and abductive. Inductive is an approach when the writer starts with empirical observation, after which he/she tries to find pattern in the reality observed and moves to broader generalizations and theories. In inductive reasoning he/she begins with specific measures and observations, begins to detect patterns and regularities, formulates some hypotheses that he can explore, and finally ends up developing some general conclusions or theories.
Deductive is the opposite approach to inductive where the writer starts from the more general to the more specific, from existing theories to application of these theories to empirical findings. The goal is to see whether theories are confirmed by reality. Writer might begin with thinking up a theory about his topic of interest. Then the writer narrows that down into more specific hypotheses that can be tested. After that the narrowing down comes even further when he/she collects observations to address the hypotheses.

Abductive is a method which combines features of both inductive and deductive approaches (Mishakov and Olofsson, 2007).

The research procedure of our thesis is of abductive nature: the topic and our research problem for our thesis comes from the reality that our case company currently faces on the foreign market. On the basis of this we have applied relevant theories and create a theoretical framework for our research problem. Next step in the process has been to proceed with empirical data collection, after that we structured and analyzed the data collected by the use of theoretical framework developed before. This structure shows that, in our thesis we are using both inductive and deductive procedures. Therefore by combining these two approaches we applied abductive procedure to our research.

2.4. Research method

There are two different main research methods to use when analyzing the social reality: qualitative and quantitative methods with special characteristics and different knowledge purposes. According to Yin (2003) a case study can be based on a combination of these evidences, and one type of research does not exclude the other one. The difference between these two ways of knowing presented in comparison model (Lichtman, 2006).
<table>
<thead>
<tr>
<th>Theoretical</th>
<th>Qualitative</th>
<th>Quantitative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nature of Reality</td>
<td>Multiple realities. Reality is constructed by the observer.</td>
<td>Single reality. In a well-designed study, a reasonable approximation of reality can be observed.</td>
</tr>
<tr>
<td>Objectivity/Subjectivity Dichotomy</td>
<td>Subjectivity based on role of researcher is expected. Objectivity is inconsistent with the idea of a constructed reality.</td>
<td>Objectivity is critical in a scientific approach to acquiring knowledge.</td>
</tr>
<tr>
<td>Role of researcher</td>
<td>Researcher is central to any study. Interpretations are based on researcher’s experience and background.</td>
<td>Researcher tries to remain outside of the system, keeping biases to a minimum.</td>
</tr>
<tr>
<td>Ways of knowing</td>
<td>Multiple ways of knowing, we can learn about something in many ways.</td>
<td>Best way of knowing is through the process of science.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Practical</th>
<th>Qualitative</th>
<th>Quantitative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>Understand and interpret social interaction.</td>
<td>Test hypotheses. Look at cause and effect. Prediction.</td>
</tr>
<tr>
<td>Group studied</td>
<td>Tends to be smaller, non-random. Researchers may get involved in lives of those studied.</td>
<td>Tends to be larger, randomly selected. Anonymity important.</td>
</tr>
<tr>
<td>Variables</td>
<td>Study of the whole rather than specific variables.</td>
<td>A few variables studied.</td>
</tr>
<tr>
<td>Type of Data Collected</td>
<td>Emphasis is on words. Increasing interest in visual data.</td>
<td>Emphasis is on numbers.</td>
</tr>
<tr>
<td>Type of Data Analysis</td>
<td>Coding and themes. Some use computers.</td>
<td>Statistical analysis. Computer.</td>
</tr>
<tr>
<td>Writing Style</td>
<td>Less formal, more personal.</td>
<td>Scientific and impersonal.</td>
</tr>
</tbody>
</table>

*Source: Lichtman (2006)*
We have used mainly qualitative method, since the aim is to gain a profound understanding of how external factors can affect our case company’s IBMS in such big emerging markets like Turkey and Kazakhstan. Some of the data that is used in our thesis is however quantitative, because we wanted to gather as much information as possible in this area and relevant to our topic. Therefore, our thesis only constitutes a qualitative research method. Our qualitative empirical data is collected through interviews. These interviews with our secondary data, have endowed to a mix of information that have provided a foundation, suitable when answering our defined main and sub-research questions.

2.5. Data collection

Data collection can be seen as a fundament of all research. There are two different ways of data to be collected: primary and secondary. Primary data is referred to as data collected by the researcher, while secondary data is information collected for another purpose. Primary data is data that writer collects himself, specifically for the current research, using such methods as direct observation, surveys, interviews and logs. Secondary data is collected from external sources such as:

- TV, radio, internet
- magazines, newspapers
- reviews
- research articles
- stories told by people writer knows (Mishakov and Olofsson, 2007).

Yin (2003) mentions several sources of evidence that are most commonly used when doing case studies and these are: documentation, archival records, interviews, direct observations, participant observation and physical artefacts.
Merriam (1998) presents three data collection techniques, namely interviewing, conducting observations and ‘mining data from documents’.

According to Yin interviews are one of the most important sources of information in case studies (Yin, 2003).

There are three kinds of interviews:

- Personal interview
- Telephone interview
- Mail interview.

According to Yin (2003) the most commonly used interview method in case studies are personal interviews with often open-ended nature. In this form interviewee acts more like an informant rather than a respondent.

The opposite to open interviews is the more structured one, which looks more like a formal survey.

Personal interviews include some features of direct observation method where interviewer also has to observe the interviewee facial expression, emotions, body language, mimics etc.

Merriam (1998) mentions that there are tree type of interview to use: highly structured that are questionnaire-driven interviews; semistructed interviews with mix of more- and less-structured questions; and unstructured, that have open-ended, conversational formats.

Yin (2003) considers the comparative strengths and weaknesses of interviewing and documentation as sources of evidence (Figure 2.2).

<table>
<thead>
<tr>
<th>Documentation</th>
<th>Strengths</th>
<th>Weaknesses</th>
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<td></td>
<td>Stable</td>
<td>Low retrievability</td>
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<tr>
<td></td>
<td>Not created as a result of the case study</td>
<td>Biased selectivity when collection is incomplete</td>
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<td></td>
<td>Exact</td>
<td>Reporting bias reflects unknown bias of author</td>
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<td>Broad coverage</td>
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We have used interviewing as the main source of the data collection, in combination with supplementary sources, such as documentaries. In our thesis we used personal, telephone and mail interviews. The personal and telephone interviews were performed according to a mixture between open-ended and structured ones. Several personal and telephone interviews with two different respondents from the case company were made. The respondents were chosen on the basis on who had the best appropriate knowledge about our specific country market, and thus able to give us the best possible answers for our questions. The respondents had different positions in the company, and thus the interviews were slightly modified to fit the respondent. One of the respondents worked in the central CCI’s office in Turkey and had the following position international services business support analyst. The second respondent was country marketing manager in Kazakhstan. Some problems were encountered when were making the phone interview to Kazakhstan, due to the fact that we could get very limited access to information concerning certain subjects, due to self-censorship and reluctance of the respondent to answer question regarding sensitive topics. In order to get access to this specific information it would have been better with personal interviews.
The secondary data was collected from various channels including online database, journals, articles, books, previous master thesis with relevant topics, internet source, internal materials from CCI and CCAB and companies homepages. Since secondary data was not specifically collected for this thesis, when used, a critical view has been taken to minimize the risks of misleading.

2.6. Quality of research

In order to achieve high quality results when conducting a research, measures must be taken to ensure the applicability and dependability of the findings. Yin (2003) presents four tests that can be used to establish the quality of any research and are applicable to case studies: construct validity, internal validity, external validity and reliability. We will further describe them and their application in our case.

2.6.1. Validity

Validity concerns whether the developed theoretical framework is a relevant representation of reality and concerns how empirical data and theory are connected. Three different tests are used to test the validity. They are construct validity, internal validity, and external validity (Yin, 2003).

*Construct validity* can be defined as an establishing correct operational measures for the concepts being studied (Yin, 2003). There are some critics of case study that often state to the fact that case study researcher fails to develop a sufficiently operational set of measures and that “subjective” judgments are used for data collection. Yin (2003) presents three available tactics to increase construct validity when doing case study. The first is the use of multiple sources of evidence, in a manner encouraging convergent line of inquiry, and this tactic
is relevant during data collection. A second tactic is to establish a chain of evidence, also relevant during data collection. The third tactic is to have draft case study report reviewed by key informants.

In our thesis we have used all three methods for construct validity increasing, we have been using multiple sources, we had key informants in the company and we have tried to establish a chain of evidence to support the results and conclusions of the study.

*Internal validity* is establishing casual relationships, whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relationship (Yin, 2003). According to Merriam (1998) internal validity deals with the questions of how research findings match reality. How congrumen are the findings with reality? Do the findings capture what is really there? Are investigators observing or measuring what they think they are measuring? Internal validity in all research thus hinges on the meaning of reality.

There are four tactics available for increase of internal validity, first one is a pattern matching, second is explanation building, third one address rival explanations and fourth one is use logic models (Yin, 2003).

In our thesis we tried to build internal validity by attempting to create logic image of the problem areas, which we think are realistic and have lead to relevant conclusions.

*External validity* deals with the ‘generalizibility’ of the researcher’s findings (Yin, 2003). Merriam (1998) describes external validity is concerned with the extent to which the findings of one study can be applied to other situations. That is, how generalizable are the results of a research study. There is one method according to Yin (2003) to increase external validity which is use of theories in single case studies. We believe our thesis is valid for other MNCs who operate or plan to go to emerging markets and more specifically for Eurasia, our
problem concerns influence of external environment on international business marketing strategy and therefore it could be applicable in other consumer product industries as well.

2.6.2. Reliability

Reliability is a demonstrating of fact that the operations of a study – such as the data collection procedure – can be repeated, with the same results. The goal of reliability is to minimize the errors and biases in a study (Yin, 2003). Merriam (1998) mentions reliability refers to the extent to which research findings can be replicated. In other words, if the study is repeated will it yield the same result? According to Merriam (1998) this can be problematic since human behavior is never static.

There are two methods to increase reliability: use case study protocol and develop case study database (Yin, 2003).

In our thesis we tried to clearly describe our research approach and how data will be collect, in order to increase our thesis reliability and to make able for other researchers to repeat the procedure in the same way. And we believe that other researchers can reach the same results as we in the case if they will follow our research methods.
3. THEORETICAL BACKGROUND

In this chapter we will present our theoretical framework that further on will serve as a guide for the collection and analyzing of the empirical data. International business marketing strategy including product, distribution and promotion strategies will be discussed. This will be following by external environmental factors that affect the MNC, and then adaptation of international business marketing strategy for local market will be brought up. The chapter will end with the summary of our theoretical background.

3.1. International business strategy model

International business strategy model presents combination of international business strategy of the company and factors influencing the strategy (figure 3.1)

![International business strategy model diagram](source: Jansson (2007))

Figure 3.1 The international business strategy model Source: Jansson (2007)
Among the internal factors influenced international business strategy are resources and capabilities. It is important to distinguish between the resources and the capabilities of the firm: resources are the productive assets owned by the firm; capabilities are what the firm can do. Individual resources do not confer competitive advantage, they must work together to create organizational capabilities (Grant, 2005). It is capability that is the essence of superior performance.

According to Grant (2005) there are three types of resources and to analyze these resources and capabilities is also important for understanding the potential of creating competitive advantage.

Figure 3.2 shows the relationship among resources, capabilities, and competitive advantage.

Figure 3.2 The links among resources, capabilities, and competitive advantage
Source: (Grant, 2005)
As stated by Jansson (2007) to achieve an internal strategic fit for IBS, it needs to be based on an appropriate combination of recourses and capabilities, so it can be executed. Still, it is not enough just to have such a well-functioning link between strategy and the internal environment – it also needs to be effective; that is, the strategy is valuable to customers, and it competitive. Here, the connection with the external environment becomes critical, particularly with regard to customers and competitors in the market. So, to achieve a sustainable competitive advantage, an external strategic fit is also required, meaning that there is a fit between the international business strategy and the external environment of the MNC.

External environment can be viewed from an institutional perspective, it is defined as the external institutional setting (Jansson, 2007). This setting is divided into two major parts: organizational fields and societal sectors. Understanding of the international business strategy model could be a vital issue for successful activities on the emerging market and obtaining competitive and societal advantage over main competitors. International business strategy is about finding relevant mix of international marketing strategy with internal and external factors that influenced on it, where the internal strategic fit is achieved through suitable combination of local and global resources and capabilities of the company. This strategic fit also connects with a dilemma of local adaptation or standardization of international strategy. However, strategic fit can be gotten if a suitable competitive advantage is achieved in the external setting of organization fields and societal sectors. That means if there is also an external strategic fit. In emerging markets to gain a suitable competitive advantage can be accomplished through having a suitable mix of competitive and societal advantage.

Further we will explain the international business marketing strategy and external environmental factors which influence on it. Finally, we will discuss dilemma MNCs face between local adaptation and global integration.
3.2. International business marketing strategy

As it was noted previously external environment impacts a lot on MNC’s performance. This is especially relevant for the complex and dynamic business environment of emerging markets. It is important to establish appropriate business marketing strategy to handle this influence. From this point of view international business marketing strategy can be considered as a link between MNC and its environment.

International business marketing strategy covers a comprehensive field like branding, positioning, product, price, distribution channel, promotion and etc. In our research, we will focus on the product, distribution and promotion strategies.

3.2.1. Brand and product strategies

Branding
Solomon et al., (2008) describe the brand that is a name, a term, a symbol, or any other unique element of a product that identifies one firm’s product(s) and sets it apart from the competition.

Brands provide a mean by which a manufacturer can augment its product in such a way that buyers can differentiate the product, recognize it quickly and make purchase decisions that exclude competitive products in the consideration set, develop loyalty to product and deter market entry by others, in other words, act as a market entry barrier (Fill, 2005). Briefly, we can say branding is a method of separation and positioning relative to other brands.

Additionally brand may bring out a whole range of feelings, such as status, being fashionable or possessing good judgment by purchasing a particular brand.
As stated by Fill (2005) brands consist of two main types of attributes: intrinsic and extrinsic. *Intrinsic attributes* refer to the functional characteristics of the product such as its shape, performance and physical capacity. *Extrinsic attributes* refer to those elements that are not intrinsic and if changed do not alter the material functioning and performance of the product itself: devices such as the brand name, marketing communications, packaging, price and mechanisms which enable consumers to form associations which give meaning to the brand.

All brands consist of a mixture of intrinsic and extrinsic attributes and management’s task decide on the balance between them. Indeed, this decision lies at the heart of branding in the sense that it is the strategy and positioning that lead to strong brands.

Buyers often use the extrinsic attributes to help them distinguish one brand from another because in certain categories it is difficult for them to make decisions based on the intrinsic attributes alone.

According to Fill (2005) marketing communications plays a vital role in the development of brands and is the means by which products become brands. Buyers make associations immediately they become aware of a brand name. By communicating the key strengths and differences of a brand, by explaining how a brand brings value to a customer and by reinforcing and providing consistency in the messages transmitted, a level of integration can be brought to a brand, or rather the way it is perceived by the target market. Therefore, successful branding is partly the result of effective marketing communications.

Part of the essence of marketing communications is that all tools used to support a brand. The advertising will be used to transfer ideas and messages, create and maintain brand associations. It may provide emotional selling points which can enable consumers to make positive brand associations. On the other hand, merchandising activities, packaging, POP and the brand name itself are
substitute for advertising. Below-the-line route needs to achieve a transfer of image and messages as well as advertising.

*Product*

The product itself is at the heart of brand because it is the primary influence on what consumers experience with a brand, what they heard about a brand from others, and what the firm can tell customers about the brand in their communications. Designing and delivering a product or service that fully satisfies costumer needs and wants is a prerequisite for successful marketing, regardless of whether the product is a tangible good, service, or organization. To create brand loyalty, consumers’ experiences with the product must at least meet, if not actually surpass, their expectations (Keller, 2003).

Success in international marketing depends to a large extent upon satisfying the demands of the market and ultimately, on whether the product or service offered is suitable and acceptable for its purpose (Doole and Lowe, 2004). Kotler et al. (1999) suggest three essential aspects of the product offer in order to meet consumer needs and wants:

*Product benefits*: the elements that consumers perceive as meeting their needs and providing satisfaction through performance and image.

*Product attributes*: the elements most closely associated with the core product, such as features, specifications, styling, branding and packaging.

*The marketing support services*: the additional elements to the core product which contribute to providing satisfaction, and include delivery, after sales service and guarantees.

We can divide products and services into two parts according to the purpose for which the product is purchased; consumer products and industrial products. Consumer products are bought by final consumers for personal consumption.
Industrial products are bought for further processing or for use in conducting a business (Kotler et al., 1999).

Consumer non-durable products generally show the sensitivity toward differences in national tastes and habits. Contrary to consumer non-durable products that consumer durable are subject to for more homogeneous demand and more predictable adjustment.

In understanding how products can provide satisfying experiences and benefits for people, it is necessary to clearly identify and understand the target consumers. The international marketer has to evaluate and decide the amount of change needed to modify the existing product, or to develop new products.

Product strategies
According to Carter (1997) there are five major product strategies in international marketing.

Product communications extension - This strategy is very low cost and merely takes the same product and communication strategy into other markets. However it can be risky if misjudgments are made.

Extended product - communications adaptation- If the product basically fits the different needs or segments of a market it may need an adjustment in marketing communications only. Again this is a low cost strategy, but different product functions have to be identified and a suitable communications mix developed.

Product adaptation - communications extension- The product is adapted to fit the local needs and usage conditions but the communication stays the same and has achieved international appeal. The assumption is that the product will serve the same function in foreign markets under different usage conditions.

Product adaptation - communications adaptation- Both product and communication strategies need attention to fit the peculiar need of the market.
Doole and Lowe (2004) states this strategy is often adopted by firms when one of the previous three strategies has failed, but particularly if the firm is not in a leadership position and, instead, must react to the market or follow the competitors.

*Product invention*- This needs a totally new idea to fit the exclusive conditions of the market. This is very much a strategy which could be ideal in a Third World situation. The development costs may be high, but the advantages are also very high.

*Image*

According to Doole and Lowe (2004) product image is one of the most powerful points of differentiation for consumers. The aspiration and achiever groups of purchasers wish to belong to particular worldwide customer segments and are keen to purchase products which are associated with that group. On the other hand, company image is becoming increasingly important in creating a central theme running through diverse product ranges that reinforces the vision and the values of the company which can be recognized by employees and customers alike. For this reason many companies have spent considerable effort and resources on controlling and enhancing the corporate identity through consistent style and communications.

3.2.2. **Marketing channels and distribution strategy**

A good product may not be accepted by a market if it is not properly made available. All products need competent distribution (Onkvisit and Shaw, 1993). Every company must manage distribution, or the flow of products to the end consumer.
Marketing channels can be viewed as sets of independent organizations involved in the process of making a product or service available for use or consumption. However marketing channels does not mean only to satisfy demand by supplying goods and services at the right place, quantity, quality, and price, but they also stimulate demand through the promotional activities of the units (e.g., retailers, manufacturers’ representatives, sales offices, and wholesalers) comprising them. Therefore the channel should be viewed as an orchestrated network that creates value for user or consumer through the generation of form, possession, time, and place utilities (Stern and El-Ansary, 1988).

Marketing channels comprise a host of different institutions and agencies. Among the most prominent of these are retailers, wholesalers, common and contract carriers, distribution centers, and public warehouses. By using various types of middlemen, MNC can utilize to deliver a product to consumers.

The international marketer can be faced with the problem of designing and implementing a distribution strategy because of different geographic areas, the varying expectations of distribution partners, differences in competitive structure, and the dimensions of the macro-environment, such as legal regulations, culture-specific buying habits or the level of economic development, relevant to the company’s business (Mühlbacher et. al., 1999).

**Type of Distribution Channels: Direct and indirect channels**

There are two ways to distribute goods; directly to the final customer or indirectly through a more complex system that employs intermediaries. Direct channels involve selling through personal contacts from company to prospective customers by mail, phone, and personal visits. Indirect channels involve selling through third party intermediaries such as agents or broker representatives, wholesalers or distributors, and retailers or dealer.
Wholesalers buy products to make them available for retailers and sell products to other channel members. Retailers handle transactions with final consumers.

Direct channel facilitates corporate control and motivation of system members. A member who is a company employee can monitor distribution activities and use the authority of the company to influence the behavior of distribution personal. In contrast to direct channel, indirect channel are not directly controlled by the company. The company uses intermediaries to contact with the final customers.

International marketing managers need to find the optimal distribution channel to match the firm’s unique competitive strengths and weaknesses with the requirements of each national market it serves.

The structure of the channel
The decision of the number of intermediaries which will carry the products within a given market is important to meet company’s goals and to fit the demand and market coverage.
In this sense Hollensen (2007) describes three different approaches:
Intensive distribution refers to distribute the product through the largest number of different types of intermediary that will stock and sell the product. It is suitable for products that consumers quickly consume such as soft drinks, milk, bread etc. It is necessary for availability of these kinds of products.
Exclusive distribution means choosing only one intermediary to distribute the product in a market. Marketers use this strategy with products that are high priced and have considerable service requirements and when there are limited numbers of buyers.
Selective distribution means choosing a number of intermediaries to distribute the product. Marketers use it when market coverage is less than intensive
distribution but more than exclusive distribution. They are suitable for so-called shopping products, such as household appliances and electronic equipment for which consumers are willing to spend time visiting different retail outlets to compare alternatives.

Additionally Gorchels (2004) explains two arrangements within a manufacturer distributor relationship. These are **exclusive dealing** and **tying arrangements**. Exclusive dealing is the requirement by a manufacturer that a distributor not carry competing brands. Tying is an arrangement to sell one product (i.e., the tying product) to distributors on condition that they buy a different product (i.e., the tied product). The concern with tying arrangements is that manufacturers who have market power may be able to refuse to sell a popular product unless the distributor agrees to buy another product. In that case, an antitrust issue may be raised.

**Managing channel relationships**
Managing the relationships with the selected channel members is crucial for successful international business marketing. International marketers need an appropriate organizational structure, as well as a bundle of tools for effective communication, motivation and control. Geographic and cultural distance can make difficult the process of motivating channel members. Since intermediaries are independent firms they will seek to achieve their own objectives, which will not always match the objective of the manufacturer. In this sense, international marketer may offer both monetary and psychological rewards (Hollensen, 2007). Intermediaries can concentrate upon products with a more rewarding response to selling efforts. Channel intermediaries can act individually. A high degree of independent behavior on the part of individual channel participants serves as a detriment to
the viability of the total channel network (Stern and El-Ansary, 1988). Control should be exercised through periodic personal meetings.

**Network capability profiles**

Jansson (2007) mentions that behind international business marketing strategy lies the MNC’s resource/capability constellation in the country or within the group outside the country. The MNC needs to have certain resources and capabilities localized in the country to be able to effectuate the IBM strategy there. The capability profile describes the mix of capabilities found at a local company for a certain IBM strategy, for instance knowledge and skills. Jansson (2007) presents network capability profiles (figure 3.3), which show a company’s ability to handle various types of networks and linkages.

According to this model, Jansson (2007) makes a distinction between two main types of solutions: those that satisfy specific customer needs (*customer specialist*) and those that satisfy general customer needs (*product specialist*).

Second distinction is made between how to needs and solutions are bridged, that is if it takes place through direct linkages between buyer and seller or indirectly through a third part. The profiles of product and customer specialist are both oriented towards problems solving through direct contacts between two parties. Where intermediaries are involved, the linkages of the supplying company with customers are indirect. In this case, independent intermediary is the major customer interface and plays a major role in solving customer problems as a dealer. To handle this situation, the MNC needs to have a capability to market the product/service through the intermediary. Such a capability to handle linkages primarily through intermediary networks rather than with final customers directly is called a *distributor network specialist*. A profile, on the other hand, that is specialized at the MNC being the intermediary itself by having the distribution network “in home”, is called a *distribution specialist*. It deals with customers both directly and indirectly through a distribution network.
3.2.3. Promotion strategy

The goal of marketing communication or promotion is to communicate with customers, to influence the attitudes and to persuade customers to buy products and services which will meet their requirements. In this sense, effective promotion requires an understanding of the process of persuasion and how this process is affected by environmental factors.

Several sales promotion tools are available. Marketers use these different kinds of tools for a wide of easons. It can be targeted: consumers, intermediaries, and the manufacturers. Advertising, sales promotions, personal selling, publicity (public relations), sponsorship and direct marketing are part of promotional tools.
The 2Ps of marketing communication strategy

The promotion tools are influenced by whether the company chooses a push or pull strategy.

Push and pull relate to the direction of the communication down through the marketing channel. A push strategy refers to promote the product or service to retailers and wholesalers in order to create consumer demand for a product. A pull strategy refers to communicate with the final consumer to attract them to the retailer or distributor to purchase the product. In this case mass advertising, sales promotions and point of sales promotions are the most obvious promotional methods. In domestic markets firms realize the need to have a combination of push and pull strategies including both encouraging the intermediaries to stock the products and attracting end users to buy.

Communication tools

Advertising

Advertising is one of the most visible forms of communications and is often the most important part of the whole strategy for consumers’ products in countries with a well-developed media industry (Doole and Lowe, 2004). Advertising is better for creating awareness and can be used to build up a long-term image for a product. There are various delivery mechanisms for advertising which are television commercials, magazines, newspapers, radios, billboards and posters, logos on clothing and internet web sites.

Public relations

Public relations are the communication function that seeks to build good relationships with an organization’s publics; these include consumers, stockholders, legislators, and other stakeholders in the organization (Solomon et al., 2008).
Public relations are concerned with communicating news stories about the firm, its people, products and services through the media without charge in order to develop relationships, goodwill and mutual understanding between the firm and its stakeholders (Doole and Lowe, 2004). The consequence of effective public relations is a general belief that the firm is good ‘corporate citizen,’ which it is reputable, and that it can be trusted.

**Sponsorship**
Sponsorship is another important communication tool which a company provides finance, recourses and supports for an event, activity, person or product. According to Fill (2005) there are both primary and secondary objectives associated with using sponsorship. The primary reasons are to build awareness, developing customer loyalty and improving the image held of the brand or organization. Secondary reasons are more contentious, but generally they can be seen to be to attract new users, to support dealers and other intermediaries and to act as a form of staff motivation and morale building.

**Sales promotions**
As advocated by Fill (2005) sales promotions offer buyer additional value, as an inducement to generate an immediate sale. These inducements can be targeted at customers, distributors, agents and member of sales force. A whole range of network members can benefit from the use of sales promotion.

Sales promotion is commonly used to obtain an increase in sales short term (Fill, 2005). It consists of a wide range of tools and methods such as coupons, point of sale, sampling, premiums, incentive programs, bonus offers (e.g. buy one get one free), combined offers (e.g. buy one product and get another product free of charge) and trade shows. Unlike mass media like television, radio, newspaper
etc. which are part of above-the-line, sales promotion also relates to so-called below-the-line activities.

Sales promotion activities focus on wholesalers and retailers are designed to increase the number and commitment of these intermediaries working with the firm. These activities also help to manufacturers win valuable shelf space and assist retailers to attract increased levels of store traffic and higher utilization of limited resources (Fill, 2005).

**Point of Sale**

Point of sale (POS) or point of purchase (POP) refers to in-store displays or signs. Point-of-sale brings together three of the four key elements of marketing, allowing the marketer to showcase the product through various forms of promotion in the place where the consumer makes the purchase.

POP displays are vibrant communicators of a brand’s story and values to consumers, while clearing the way for a brand to stand out from competition occupying the surrounding shelf space. According to the Point-of-Purchase Advertising Institute, 67% of purchase decisions are made in store, thus making it critical that brands give consumers as much product information as possible on the shelf (GCI, 2007).

Attractive, informative and well-positioned point-of-sale displays are very important part of the sales promotional activity in retail outlets. POS displays can get the consumers to buy a specific product.

**Point of sale materials**

Points of sale materials are important because they communicate with consumers at the time and place that they are ready to make purchasing
decisions. They are designed to inform, remind and encourage customers toward the promoted product (Egan, 2007).

Merchandising means that featuring and displaying the product(s) at the point of purchase. It is largely about product placement, the where and how of arranging goods on a shelf or rack. Merchandising is the final step in ensuring that the consumer sees the product and is tempted to buy it. Good merchandising is about the impact the product has on the consumer, it is about using the product itself to stimulate the customer to buy.

As stated by Egan (2007) increasing the self space given to a brand and/or placing merchandise at the optimum height (eye-level) both noticeably improve sales. Merchandiser is also responsible for ensuring goods make it rapidly to the shelves. Failure to keep shelves stacked can lead to poor sales. In this sense, merchandising is the key to growing and developing sales volume.

In store displays are designed to direct customers toward products and include; brand display unit, show cards, posters, video and sampling.

**Packaging**

The most basic (and often underrated) marketing communication tool is a product’s packaging. Attracting various descriptions such as the ‘least expensive form of advertising’, the ‘five-second commercial’ and the ‘silent salesman’, it should not be forgotten that although packaging serves to protect, contain and offer convenience to the purchaser it is also a major communications device (Egan, 2007).

According to Egan (2007), packaging helps ‘brand-loyalists’ identify the product and more generally, assists brand choice decisions. Size and presentation can be a feature. Different sizes may aim at different marketplaces.
On the other hand, colors give different messages and emotion to prospective buyers.

3.3. The external environment

As mentioned by Jannson (2007) MNC strategy is influenced by rules within the MNC as well as by rules of institutions outside it. Therefore MNCs need to understand the dynamic nature of the global marketplace and the external environment. A failure in understanding of these results creates failures in international business. At this point, our purpose is to identify and analyze the external environment. In this part, we will use the Hans Jansson’s model to examine how the external environment influences MNC’s business marketing strategy. The model will be modified and we will use the most relevant institutions for our case.

3.3.1. The basic institutions model

The company operates in an environment consisting of internal factors such as strategic planning, and on the other hand, external factors such as market structure, cultural factors, consumer motivations. All these factors influence the company and affect the way in which company operate on the market.

Jannson (2007) presents the basic institutions model, illustrated in figure 3.4, to examine how societal institutions and organizational fields influence the multinational company or international business strategy.

The first main characteristic of institutions is their rule-like or organizing nature. They have an ability to facilitate and constrain the relations among individuals and groups. Institutions are also characterized by predictability and standardized behavior. Uncertainty is reduced by anticipation of repeated behavior. Since institutions result in established patterns of behavior they are also stable.
Because of these factors, the institutions can be used to describe, explain and predict organizational behavior, and thereby reduce uncertainty and risks in international business (Jansson, 2007).

The basic institutions model (Jansson, 2007) comprises institutions making influence on the MNC in the emerging market. According to this model, society is divided into different social groupings characterized by different regularities or rules. These groupings are embedded into each other, forming a multi-layered system of institutions. Therefore, how one part of the society is organized is influenced by how other parts of the society are organized. This institutional world is, according to the basic institutions model in figure 3.4, divided into three levels of description for the rules; micro institutions (i.e. MNC,), meso institutions (organizational field), and macro institutions (societal field).

![Figure 3.4 The basic institutions model](Source: (Jansson 2007))
As said by Jansson (2007), the business environment in emerging markets differ a lot from the Western economies, and each market is unique because of its varying institutions linked to each other. This fact leads to a need of local adaptation of the marketing strategies.

**3.3.1.1. The societal sector**

In this sector, we will examine cultural, business mores, religion, and family, educational, economic, political and legal factors that influence the MNC to adapt its business marketing strategy.

**Culture**

Ghauri and Cateora (2006) state that culture is the human-made part of the human environment – the sum total of knowledge, beliefs, art, morals, laws, customs and any other capabilities and habits acquired by humans as members of society. Further they claim that culture is everything that people have, think and do as members of their society. Culture is also defined as inherited ethical habit, consisting of values and ideas. Ethical systems create moral communities because their shared languages of goods and evil give their members a common moral life. The authors mention that culture is pervasive in all marketing activities – in pricing, promotion, channels of distribution, product, packaging and styling – and the marketer’s efforts actually become a part of the culture. Market and markets behavior are part of country’s culture.

According to Hollensen (2007) culture has three characteristics: it is learned – acquired by people over time through their membership of a group that transmits culture from generation to generation; it is interrelated – one part of the culture is deeply connected with another part such as religion, marriage, business and social status; it is shared – tenets of culture extend to other members of the group.
To understand all this differences and their influence on company’s marketing strategy is becoming a critical issue for companies when they are going abroad.

**Language**

The importance of understand the language of country where the company plan to do business cannot be overestimated. A country language is the key to its culture and can be describe as the mirror of the culture. Language capability plays four different roles in international marketing: it is important in information gathering and evaluation efforts; it provides access to local society; it is important in company communications, whether within the corporate family or within channel members; it extends beyond mechanism to the interpretation of context (Hollensen, 2007).

**Education**

Ghauri and Cateora (2006) mention how important to know the role and level of education in particular market. It would influence the marketing strategy and techniques used. Which type of advertisement and communication is used depends highly on the level of education. Training programmers for a production facility take the education backgrounds of trainers into account. Product adaptation decisions are often influenced by the extent to which targeted customers are able to use product or service properly.

**Religion**

Religion has an impact upon people’s habits, their outlook on life, and the product customers buy, the way they buy them. Acceptance of certain types of food, clothing and behavior are affected by religion, and such influence can extend to the acceptance or rejection of promotion messages as well. What might seem innocent and acceptable in one culture be considered too personal or vulgar in another.
**Politics**

Ghauri and Cateora (2006) set at the top of the list of political conditions that concern foreign business the stability or instability of prevailing government policies. Government might change or new political parties might be elected, but the concern of the MNC is the continuity of the set of rules or code of behavior – regardless of which government is in power.

Hollensen (2007) shows the importance of monitoring the government, its policies and its stability to determine the potential for political change that could adversely affect operations of the firm. There are three main types of political risk according to Hollensen (2007): ownership risk, which expose property and life; operating risk, which refers to interference with the ongoing operation of a firm; transfer risk, which is mainly encountered when companies want to transfer capital between countries.

There is a varying range of political risk in all countries, but in general the risk is lowest in the countries with a stable and consistent history. Political risk can be the result of government action, but it can also be outside the control of government.

**Legal system**

When doing business in more than one country it is important to remain alert to the different legal system. All countries have laws regulating marketing activities in promotion, product development, labeling, pricing and channels of distribution. In some, there may be only a few laws, with lax enforcement; in other, there may be detailed, complicated rules to follow that are sprightly enforced (Ghauri and Cateora, 2006).

To control their foreign trade countries have trade barriers (often tariffs). It is a trade law that favour local firms and discriminate against foreign ones. Product and trade regulations and standards, as well as preferences for local suppliers, also have an impact on foreign company’s operations. The government can
influence on the international business through its investment policy. A range of both direct and indirect trade barriers will have impact on the company and force it to adjust marketing strategy according to local market (Hollensen, 2007).

3.3.1.2. The organizational fields

There are four major institutions in the organizational fields namely, the product/service market, financial market, labour market and the government. All these institutions directly influence MNC.

Product market
The analysis of the product market can be developed by dividing this large organization field into smaller organization fields such as sub-markets(industry), or by subdivision according to stakeholder (one competitors’ field, one intermediaries’ field, one customers’ field and one suppliers’ field) (Jansson, 2007).

Economy
The economic environment is a major determinant of market potential and opportunity. Significant variations in national markets originate in economic differences. Population characteristics represent one major dimension. The income and wealth of the nation’s people are also extremely important because these key figures determine people's purchasing power. Countries and markets can be on different stages of economical development, each stage having different characteristics. The level of economic development has large affect on the consumption pattern in a country, including customer’s wants and needs (Hollensen, 2007).
**Government**

Government as a one of the major organizational field consists of ministries and authorities that share common frame of references and ways of acting typical of this field. According to Jansson (2007) government is normally the most important stakeholder in the social environment of emerging country markets. The main objective of having relationship with government for foreign company is to achieve societal advantage.

**Labour market**

It is very important issue for international company decided to dial internationally to find skilled workforce in the emerging market. A constant advance of knowledge and skills is required, since the tempo of technology development is increasing. These make it necessary for the MNC to locate itself in a favorable place, where the most suitable workforce can be found (Jansson, 2007).

**3.3.2. Process of institutional analysis**

The institutional approach to environmental analysis according to Jansson (2007) is divided into four stages:

Identification of institutions – in this stage we will scan and monitor environment for institutions that have the biggest impact on the company in Kazakhstan.

Descriptive of institutions – institutions identified on first stage will be described in more detail in relevance to CCI.

Explanation of institutions – in this stage we will study the influence of identified institutions on each other and on CCI.
Prediction of institutions – we will try to predict the performance and development of the institutions and according to this future development give some recommendations for CCI how to perform in Kazakhstan market.

3.4. Adaptation of international business marketing

Within the field and literature of international marketing, when a MNC decides to begin marketing products abroad, the decision to use a standardized marketing strategy all countries or to adjust the marketing strategies to fit the unique dimensions of each local market is too important.

Some researchers see markets as becoming more similar and increasingly more global and believe that the key for survival is companies’ ability to standardize. In order to standardize the marketing strategy, the strategy needs to group countries by social, cultural, technological, political and economic similarities. On the other hand, internationalization involves customizing marketing strategies for different regions of the world according to culture, regional and national differences to serve specific target markets. Question about local adaptation or global integration for MNC is also investigated by Jansson (2007).

Local adaptation is a degree to which business is adapted to the specific circumstances of the entering or entered foreign market. Another strategic question is how much knowledge is needed about the local market environment to be able to make the right adaptation.

Global integration is about to what extent the MNC integrates its business operations between different national markets. Usually there is some integration, since the MNC does not have completely separate and localized activities. According to Jansson (2007) the strategic dilemma between local responsiveness and global integration is also a key issue in doing business in
emerging country market. Most products are adapted in one way or another to the greatly varying market demands. This variation is also true for other MNC operations than marketing, for example production, purchasing and financing, as well as for how MNC acts toward government in different countries. We will further investigate existing theories in sphere of adaptation/standardization of business marketing strategy as a whole and its separate parts, such as product, promotion and distribution strategies.

3.4.1. Adaptation versus Standardization of international business marketing strategy

Theodosiou and Leonidou
According to Theodosiou and Leonidou (2002) recent decades have witnessed a dramatic globalization of the international business scene due to: increasing liberalization of trade policies; growing stability in monetary transactions; creation of regional economic integrations; uninterrupted flow of goods due to relatively peaceful world conditions; and revolutionary advances in transportation, communication, and information technologies. All these factors have led to the rise of fierce competition, with the participation of a wide array of firms of different size, industry, and national origin. Theodosiou and Leonidou (2002) explain that this has particularly concentrated on whether firms, irrespective of the foreign market entry mode chosen, should standardize or adapt their marketing strategy in overseas markets.

Proponents of the standardization approach according to Theodosio and Leonidou (2002) view the globalization trends in the world as the driving force behind greater market similarity, more technological uniformity, and higher convergence of consumer needs, tastes, and preferences. They also claim that standardization is further facilitated by the growth of international communication channels, the emergence of global market segments, and the
appearance of the internet. They posit that such a strategy can offer a number of benefits: (a) significant economies of scale in all value-adding activities, particularly in research and development, production, and marketing; (b) the presentation of a consistent corporate/brand image across countries, especially in light of the increasing consumer mobility around the world; and (c) reduced managerial complexity due to better coordination and control of international operations.

Theodosio and Leonidou (2002) state that advocates of the adaptation approach argue that, despite increasing globalization tendencies, variations between countries in such dimensions as consumer needs, use conditions, purchasing power, commercial infrastructure, culture and traditions, laws and regulations, and technological development are still too great, thus necessitating the adjustment of the firm’s marketing strategy to the idiosyncratic circumstances of each foreign market. In particular, they criticize strategy standardization as a new kind of marketing myopia, representing an oversimplification of reality, and contradicting the marketing concept. They also stress the fact that the ultimate objective of the firm is not cost reduction through standardization, but long-term profitability through higher sales accrued from a better exploitation of the different consumer needs across countries.

Continuing the discussion, Theodosio and Leonidou (2002) mention that to overcome the above polarization, a third group of researchers offer a contingency perspective on the standardization/adaptation debate. In their view: (a) standardization or adaptation should not be seen in isolation from each other, but as the two ends of the same continuum, where the degree of the firm’s marketing strategy standardization/adaptation can range between them; (b) the decision to standardize or adapt the marketing strategy is situation specific, and this should be the outcome of thorough analysis and assessment of the relevant contingency factors prevailing in a specific market at a specific time; and (c) the appropriateness of the selected level of strategy standardization/adaptation
should be evaluated on the basis of its impact on company performance in international markets. Hence, the challenge for the international firm is to determine which specific strategy elements are feasible or desirable to standardize or adapt, under what conditions, and to what degree.

A conceptual model on international marketing strategy standardization/adaptation is shown in figure 3.5.

**Figure 3.5 A conceptual model on international marketing strategy standardization/adaptation**  
*Source: Theodosio and Leonidou (2002)*

Theodosio and Leonidou (2002) mention that antecedent factors refer to all those background forces that influence the firm’s decision to standardize or adapt its international marketing strategy.

*Environmental factors* consist of a broad spectrum of economic, sociocultural, political-legal, and physical forces which have an influence, either direct or indirect, on international business operations. In fact, these factors can severely
restrict the firm’s ability to develop and implement a standardized strategy, even in cases when this choice is deemed desirable.

*Market characteristics* refer to those factors that determine the level of sophistication and development of a particular foreign market, including its marketing infrastructure, advertising media availability, distribution structure, and market size.

*Customer issues* focus on the characteristics/behavior, tastes/preferences, and usage patterns of customers in overseas markets.

*Competition*-related factors include the structure (i.e., monopolistic vs oligopolistic), nature (i.e., price vs nonprice), and intensity (i.e., mild vs fierce) of competition in foreign target markets. In the majority of cases, the structure/nature of competition did not have a serious impact on the decision to standardize or adapt the various marketing strategy elements.

*Product and industry* factors refer to the type of the product (i.e., consumer or industrial), the technology orientation of the industry (i.e., technology-intensive or “old-line”), and the stage of product life cycle (i.e., early or mature).

*Organizational factors* focus on internal company characteristics and consist of four items: (a) the nationality of the parent company; (b) the nature of company ownership; (c) the firm’s international experience; and (d) the foreign market share position.

The final set of antecedent factors refer to *managerial* attitude toward international operations, and include the degree of centralization of decision-making (i.e., centralized vs decentralized) and corporate orientation (i.e., the extent of management’s willingness to accommodate foreign perspectives).

According to Theodosio and Leonidou (2002) marketing strategy is the central construct in the standardization/adaptation debate and has traditionally been defined as the statement of how the company is going to achieve its marketing objectives. This is particularly expressed in terms of product, price, distribution,
and promotion aspects, which are blended for the purpose of achieving a specific marketing objective.

The ultimate relevance of the marketing strategy standardization or adaptation depends on its performance outcomes, that is, the economic or behavioral payoffs derived from its implementation (Theodosio and Leonidou, 2002).

Szymanski, Bharadwaj and Varadarajan (1993)

Szymanski et al. (1993) discuss an issue on whether a business should pursue a strategy that is standardized across national markets or adapted to individual national markets.

Szymanski et al. (1993) state a business should first develop an understanding of the nature of the underlying relationship between competitive strategy variables (e.g., advertising, personal selling effort, etc.) and performance (e.g., market share and profitability) to determine whether the patterns of these relationships are similar across national markets.

The marketing strategy formulation process in multinational firms can be viewed as comprising a series of decisions pertaining to the business's (1) strategic orientation (standardization vs. adaptation), (2) desired degree of standardization of the strategic resource mix (i.e., pattern of resource allocation among advertising, promotion, personal selling, and other marketing mix variables), and (3) the desired degree of standardization of the strategy content (i.e., decisions on product positioning, brand name, appropriate media, content of advertisements, etc.) (Szymanski et al. 1993).

Making effective decisions relating to strategic orientation, resource allocation across strategic variables, and strategy content with respect to individual marketing mix elements, in turn, can be viewed according to Szymanski et al. (1993) as being contingent on managers' understanding (derived from sources internal and external to the business) of relationships among strategic levers (i.e., marketing mix and other competitive strategy variables under the control of
the business that impact performance and also are impacted by performance), industry drivers (i.e., industry structure variables that impact performance and in turn can be affected at times by a business's performance), drivers (i.e., the characteristics of the firm and business unit, such as firm-specific and business-specific skills and resources that can impact the strategic levers), and business performance.

3.4.1.1. Adaptation versus Standardization of product for international markets

Calantone et al. (2004) describe two divergent international marketing strategies-standardization versus adaptation of the product offerings. Standardization means selling essentially the same product in all markets. The advantage of this strategy is lower costs due to economies of scale and experience that accrue from designing, manufacturing, and distributing identical products in multiple countries. Nevertheless, offering the same product can be undesirable due to differences in the legal environments, distribution channels, climates, topography, levels of market and technological development, and competitive and cultural factors. Since customers in different countries may have different requirements and may use conditions, a standardized product may not satisfy all customers.

At the other extreme according to Calantone et al. (2004), product adaptation refers to the degree to which the physical characteristics or attributes of a product and its packaging differs across national markets. Though modifying products for different markets increases costs, the adapted products may fit the needs and desires of consumers in different countries better, may command higher margins, and may generate much greater revenues.

Marketing managers need to understand the circumstances where adaptation is a better strategy and whether it leads to positive performance outcomes.
Leonidov (1996) claims that most multinational companies offer products to overseas markets that are fairly standardized, and that in those cases where adaptations were made, these were an obligatory nature in the sense that the management was unable to avoid them, while discretionary adaptations, that is those that the company chooses to make itself, were generally minimal.

Leonidov (1996) states that the degree of standardization/adaptation tends to vary in accordance with the specific product element. Specifically, the product area receiving most changes in overseas markets was that relating to product characteristics, namely design, quality, and features. Packaging was the second area most frequently subject to alterations, followed by labeling. Multinational firms tend to adapt those product dimensions that involve minimal costs and are easier to make, aiming to maintain price competitiveness and market share overseas.

Albuauam et al. (2005) argue that there is no common solution for resolving problem of adaptation or standardization of product. They mention that at one extreme a company will standardize by offering only one version of a product and this may be essentially the same product as that marketed in domestic market. This approach is the essence of what is called a global product strategy. At the other extreme, adaptation can be carried to the point of individualization whereby a company customizes products or services to meet the unique needs of individual buyers or groups of buyers in foreign market.

From the company standpoint it is often possible to reduce the cost because of standardization of the product. Additionally there are two critical assumptions when it comes to the question whether to standardize or adapt the product:
1. Homogeneity of world wants, and increases in the number of global market segments.
2. People are willing to sacrifice preferences in product features, functions, design, and so on for lower prices at higher quality (Albuauam et al., 2005).
According to Theodosiou and Leonidou (2002) product-related issues exhibited the most standardization, probably due to: (a) the greater incentive to reap the benefits from economies of scale in research and development and production; (b) the desire for rapid diffusion of new products in the market, especially in light of the fact that product life-cycles are increasingly becoming shorter; and (c) the need to achieve better coordination through the application of more uniform internal production controls and quality standards.

3.4.1.2. Adaptation versus Standardization of distribution for international markets

According to Theodosiou and Leonidou (2002) the greatest degree of adaptation is a result of differences in: (a) the special documentation and ordering procedures required in international product shipments; (b) the availability of transportation facilities to carry goods to and within foreign markets; (c) the number, type, and technology of the warehouses abroad; and (d) the level of inventories needed to be maintained in overseas markets, usually determined by territorial size, infrastructural facilities, and purchasing/consumption habits. Notably, designing a physical distribution system for international markets requires continuous adjustments because market, competitive and transportation conditions are constantly changing.

Kale and McIntyre (1991) claim cultural difference would have considerable impact on marketing channels as they exist and operate in various countries. They state that distribution channels have to be adapted to the country’s culture and to already existing channels on it.

Seifert and Ford (1989) continue that domestic channels differ from distribution channels using when firm going to export. One explanation it can be that domestic distributors don’t have correct knowledge and contacts for foreign market.
Intuitively it seems reasonable that the longer a firm has been exporting, the greater its overall satisfaction with its distribution system would be since the firm has had time to make necessary adjustments if a particular distribution channel has not been effective (Seifert and Ford, 1989).

3.4.1.3. Adaptation versus Standardization of promotion for international markets

Albuam et al. (2005) argue that there has been a great dial of discussion and research about adaptation or standardization of advertisement, but no consensus for an answer. At one extreme is the belief that basic human needs, wants, and expectations today transcend national, geographical, and cultural boundaries. At the other extreme different culture create different needs, this means that people may not satisfied with similar communication appeals and approaches. Each person is a cultural communicator and a cultural preceptor (Albuam et al., 2005).

Albuam et al. (2005) continue to describe that the appeal of standardization of advertisement give some opportunities for company:
1. Present a worldwide company/product/brand image.
2. Lower cost of preparing of advertisement and implementing an advertisement program.
3. Reduce message confusion in areas where there is media overlap.

Melevar and Vemmervik (2004) describe three main approaches in sphere of advertisement as standardization, adaptation and combination of both. The decision to standardize or adapt advertising is based on the different views of the world. Those who prefer standardization are mainly concerned with reduction of advertising costs and consistent brand image worldwide while proponents of adaptation point differential advantage through local adaptation. The two major benefits of standardization of advertising are cost reductions and consistent
brand image. Cost reductions from standardization of advertising mainly originate from economies of scale and scope. Standardized advertisement themes provide consistent brand images worldwide. Another benefit of standardization is consistent positioning arguments throughout the world. Other benefits of standardization include sharing of experience, effective use of advertising budget, consistency of communication, less duplication of effort and pre-selling of the company’s products (Melevar and Vemmervik, 2004).

According to Melevar and Vemmervik (2004) the purpose of adaptation is to gain differential advantage by adapting the advertisement to gain maximum effectiveness in terms of response and sales. Adaptation of advertising is usually linked with a decentralized advertising function. The advantage with a decentralized advertising function is that it allows responsiveness and adaptation to culture, infrastructure and competition. The visual and verbal parts of advertising are particularly sensitive to adaptation and use of local language, models and scenery increases the probability for the advertisement to be effective.

Melevar and Vemmervik (2004) describe six variables that affect the degree of standardization or adaptation of advertising (Figure 3.6). These variables are:

1. product variables – the degree of universality of the product;
2. competitive variables – the structure of the competitive environment;
3. organizational experience and control variables – the level of organizational experience in the corporation;
4. infrastructure variables – the degree of similarity of the media infrastructure, for instance, media, advertising agencies and production facilities;
5. governmental variables – the restrictions on mass-communication; and
6. cultural and societal variables – the cultural differences between the home and export markets.
There are according to Melevar and Vemmervik (2004) three contingency variables that have been given extra attention. These variables are:

(1) product related factors;
(2) customer segments; and
(3) organizational factors.

Papavassiliou and Stathakopoubs (1997) explain that proponents of the standardization approach argue that a single advertising message with only minor modifications can be used in all countries to reach consumers. The rationale behind this position is that buyers everywhere in the world share the same, or very similar, wants and needs and, therefore, can be persuaded by universal advertising appeals. There are four main reasons supported this point of view. First, it allows the multinational corporation to maintain a consistent image and identity throughout the world. Second, it minimizes confusion among buyers who travel frequently. Third, it allows the multinational company to develop a single, co-ordinated advertising campaign across different markets. Finally, this approach results in considerable savings in media costs, advertising production costs, and advertising illustrative material.
In contrast, opponents of the standardization approach argue that separate messages should be used to reach buyers in different markets by fitting the message to each particular country. According to this approach, insurmountable there are differences (e.g. cultural, economic, legal, media and product dissimilates) between countries and even between regions in the same country. Furthermore, these differences necessitate the adaptation or development of new/different advertising strategies. In addition, anecdotal evidence seems to challenge the basic assumption of the standardization approach by suggesting that assuming similar buying motives for consumers across foreign markets may, at best, be simplistic and, at worst, dangerous (Papavassiliou and Stathakopoubs, 1997).

According to Theodosiou and Leonidou (2002) sales promotions were subject to adaptations, often attributable to variations in legal restrictions, cultural characteristics, competitive practices, and retailers’ capabilities in foreign markets. These adjustments were also observed in the case of publicity/public relations, caused mainly by variations in the degree of company involvement, the nature and importance of publics, and availability of public relations agencies abroad. Finally, personal selling has also undergone mild adaptations in international markets, particularly as regards the recruitment, training, motivation, and control of the salesforce and the way the selling task is performed.

### 3.5. Summary of theoretical background

In order to solve our main research question how an MNC operating in the beverage industry can adapt its international business marketing strategy between emerging markets, we have divided this chapter into three parts.
• International business marketing strategy

Complex, dynamic and unstable external environment of emerging markets has a great impact on performance of MNC. It is important to establish appropriate international business marketing strategy to handle these influences. In this sense we concentrated on brand, product, distribution and communication/promotion strategy of MNCs which they operate in the emerging markets.

International business marketing strategy can be considered as a link between MNC and its environment. External environment consists of different institutions and IBMS can be viewed from institution perspective. It is important to understand which environmental factors influence IBMS and what company can make to fit these external changes in brand, product, distribution and communication/promotion strategy.

• External environment

Jansson (2007) argues that markets and societies in emerging markets are defined an institutional perspective, which means that transformation process in emerging markets is about changes in institutions. This corresponds to the institutional network approach, which takes institutional perspective as a base for environmental analysis. It is impossible to separate world of business from the social side because of the simple reason that business is a social activity and therefore social environmental issues are important strategic issues. Therefore it is important for companies to take it into consideration when analysing external environment according to this new strategic perspective.

We have focused on the basic institutions model (Jansson, 2007) in order to get profound understanding of environment and to examine how the external environment influences MNC’s business marketing strategy.
• **Adaptation versus Standardization of international business marketing strategy**

According to Jansson (2007) the strategic dilemma between local responsiveness (adaptation) and global integration (standardization) is also a key issue in doing business in emerging market. Global integration is about to what extent the MNC integrates its business operations between different national markets. Local adaptation is a degree to with business is adapted to the specific circumstances of the entering or entered foreign market. Another strategic question is how much knowledge is needed about the local market environment to be able to make the right adaptation.

Jansson (2007) argues that local adaptation is the primary issue, and that the global integration issue is viewed from the perspective of local responsiveness. It is based on the view of that the major sources of competitive advantage of the MNC are found at its home base. The responsiveness issue becomes a question of leveraging this competitive advantage developed at home over the various markets, where it operates.

Based on the theoretical background we presented our own research model illustrated in Figure…..
MAIN RESEARCH QUESTION
How an MNC operating in the beverage industry can adapt its IBMS between emerging markets?

- What does the MNC’s existing IBMS look like while comparing one emerging market to another?
- What kind of factors in the external environment may influence MNC’s IBMS on the target market?
- What kind of local adaptations has the MNC made in its IBMS on the target market?

Theoretical background

IBMS ↔ External environment ↔ Adaptation of IBMS

• CCI’s IBS
• CCI’s BMS in Turkey and Kazakhstan
• External environment of Kazakhstan
• CCI’s adaptation to Kazakhstan market

Analysis
Based on Theoretical Background and Empirical Findings

Conclusion And Recommendations

*Figure 3.7 Research model (Temiz and Yaroshyk, 2008)*
4. EMPIRICAL RESULTS

In this chapter we will present our empirical data that we have received in this case study. Firstly, CCI’s market situation and their strategy in Turkey and Kazakhstan will be presented; secondly the external environment of the Kazakhstan market will be described. In third part the local adaptations the company has made on Kazakhstan market will be described. The chapter will end with a summary of the essentials of our empirical findings.

4.1. CCI’s international business strategy

Coca-Cola Icecek (CCI) has a vision to be one of the leading bottlers of alcohol free beverages in Southern Eurasia (which they define as Turkey, the Caucasus and Central Asia) and the Middle East. They intend to achieve their vision by pursuing a strategy with three key elements: driving sustainable and profitable growth and enhancing their competitive position in their markets; leveraging their key capabilities and best practices (including procurement, production, supply chain, sales, distribution and IT) throughout the combined operations and expanding into new territories. Company business is to produce, sell and distribute carbonated soft drinks (CSDs) and noncarbonated beverages (NCBs), primarily brands of The Coca-Cola Company, in Turkey, Kazakhstan, Azerbaijan, Jordan and Kyrgyzstan. CCI also has a 33.3% interest in Turkmenistan Coca-Cola Bottlers Ltd., the Coca-Cola bottler in Turkmenistan. In addition, CCI is a party to joint venture agreements that have the exclusive distribution rights for brands of The Coca-Cola Company in Iraq and Syria and has the option to become the sole Coca-Cola bottler in Iraq and Syria.
Aside from consistently growing their business in Turkey, they are generating healthy international sales, profit and they are attaining stronger positions in all of their markets. Today, in Central Asia and the Middle East they have six production plants, more than 2,000 employees and more than YTL 300 million in sales. This is only the beginning, as they expect international expansion to be an additional key driver of sales and profitability for them in the years ahead.

CCI is now ideally positioned as a regional bottler with a healthy portfolio of brands, a strong market position, balanced geographic coverage and excellent management team. CCI operates in 9 countries with population 170 (millions), number of plants is 12 and employees are 4,882.

CCI has a strategic and operational alignment with The Coca-Cola Company. They have strong marketing teams that work closely with The Coca-Cola Company to develop local marketing strategies and programs. Additionally CCI purchases shares’ of the bottling companies from the The Coca-Cola system and puts them together under the CCI’s umbrella.

CCI’s international markets have high future growth potential with their demographic structure and per capita soft drinks consumption levels. The economic growth also contributes significantly to the increase of consumption in these territories. The growth in the gross domestic product in recent years results in a shift of consumer demand to premium products in addition to increasing the total consumption.

As we can see on the figure 4.1 Turkey is the main home market for CCI. Kazakhstan is a largest market for CCI among international split of sales volume. These are two top priority markets for company.
Figure 4.1 CCI’s international split of sales volume

Source: Annual report of CCI (2007)

Further we will explain their marketing strategies and adjustments that has done by CCI in Turkey and Kazakhstan.

4.2. CCI’s business marketing strategy in Turkey

Turkish market is the 4th largest within Europe and 13th largest in the World in terms consumption of Coca-Cola trademarked products. However, per capita consumption levels that are still below comparable averages as well as the high ratio of young population, indicates the potential for growth of Turkish soft drinks market.

In 2007, the Turkish business achieved strong double-digit volume growth with an increase of 11% to 382 million unit cases, a 15% increase in net sales totaling 1,600 million YTL, and a 29% increase in EBITDA to 284 million YTL. Company’s strategy is to grow CSD brands ahead of GDP and strengthen their position in NCBs. Also the aim of company is continue to drive and lead core categories’ growth while improving their leadership position.
CCI’s sales and marketing strategy is to drive profitable volume growth by creating and fulfilling demand for the products they sell and, in particular, by increasing the number of occasions during which consumers can enjoy them. Company aims to reach consumers wherever they are, with the right mix of brands, in the right packages and with a meaningful brand message. With effective segment based pricing and packaging, CCI augmented revenues from consumer’s at all socioeconomic levels.

Also CCI concentrates on executing marketing activities at the customer level, involving the development of the relationship with customers, occasion-based marketing at the point of purchase and carrying out other promotional activities to build a strong presence in the marketplace. Company also sponsors sports, cultural and community activities.

**Product strategy**

CCI operates with six bottling plants (Çorlu, Ankara, İzmir, Bursa, Mersin, Sakarya) and five warehouses which is the largest bottler and distributor of non-alcoholic beverages in Turkey. CCI's wide product portfolio consists of two main categories: carbonated and non-carbonated beverages. Their leading CSDs in Turkey are Coca-Cola and Fanta. Other key brands in the Turkish market, where CCI is the market leader in CSDs, are Coca-Cola Zero, Coca-Cola light, Sprite, Schweppes, and Sen Sun. Their non-carbonated beverage (NCB) range of beverages include fruit juices and nectars (Cappy), iced tea (Nestea), iced coffee (Nescafe Xpress), sports drinks (Powerade), energy drinks (Burn) and waters (Turkuaz and Damla).

**Current Brand Portfolio**
- CSDs: Coca-Cola, Coca-Cola Zero, Coca-Cola light, Fanta, Sprite, Schweppes, Sen Sun;
CCI’s strategy is to grow CSD brands ahead of GDP and strengthen their position in NCBs. Most of the brands are presented to consumers in specific countries, some of them in only a single country. The simple reason behind this brand diversification is that, different people like different beverages at different times for different reasons.

In 2006, in order to better meet consumer preferences, CCI launched "100% Citrus", "100% Apple & Blackberry" and "100% Orange & Grape" as the new tastes of "Cappy", the premium brand targeting middle to high income groups. Coca-Cola Zero was launched in 250 ml glass, 330 ml can, 450 ml, 1L and 1,5L Pet bottles in February 2008.

**Innovation**

Due to accelerating GDP growth, company is gaining new consumer every day. In addressing the needs and demands of these new consumers, brand, package and product innovations remain at the core of portfolio strategy. The success of natural source water brand Damla is an excellent example of innovation for CCI. By the end of the year Damla has grown to be second largest water brand in Turkey. The installation of an aseptic line is now complete and operation in Çorlu plant. This aseptic line, which allows company to offer high quality, preservative-free products with a superior taste profile, is a first in Turkey. With the addition of aseptic line in Çorlu factory, in addition to existing portfolio, CCI is offering Cappy, Powerade and Nestea in PET packages.

**Packaging**

In 2007, new packaging solutions in CSDs like Coca-Cola Pet 450 ml grip bottle and 1.5L were introduced to broaden CCI’s product portfolio and to address
evolving consumer preferences towards increased convenience. CCI’s core strategy in the fruit juice and nectar segment is to continue to build on our leadership position by introducing new flavors and innovative packages. With the addition of aseptic line in Çorlu factory, we are now offering Cappy in PET packages. In six production facilities, nine new production lines were installed in 2007. A total of 39,000 new coolers were placed in the Turkish marketplace, increasing the cooler doors per 10,000 people to 5L.

**Distribution strategy**

CCI have close to 400,000 customers in nine countries, where they operate. Whether directly delivered or not CCI carries the world’s most precious beverage brand in thousands of Coca-Cola branded vehicles. Their distribution networks reached more than 90 percent of all future consumption outlets in Turkey.

CCI’s distribution network in Turkey services their customers through their direct distribution system and through independent distributors. They endeavor to use the most cost-efficient method of delivery for each customer. They use direct distribution in Turkey primarily for key accounts such as hypermarkets, supermarkets and fast food restaurants. In addition to direct distribution, they increasingly sell products indirectly through distributors. CCI’s team of distributor advisors is responsible for transferring their know-how and processes to their exclusive distributors, providing extensive training and support to distributor owners and personnel to ensure that distributors meet CCI’s delivery and merchandising standards. There is exclusive dealing arrangement between CCI and its distributors. It is the requirement by CCI that a distributor not carry competing brands.
CCI’s international sales organization differs based on the geographic size of each country, the population density and the business opportunities. While integrating CCI’s operations, company has to leverage know-how and expertise in Turkey to further develop their sales systems in other countries.

CCI also concentrates to develop close relationships with its distributors and retailers by offering some incentives such as wholesale discounts of approximately ten percent on bulk orders of products and free products.

CCI’s future consumption customers include hypermarkets, supermarkets, discount stores, "mom and pop" stores, kiosks, specialty food stores and open markets. Company’s immediate consumption markets include restaurants, hotels, cafes and bars.

CCI was the first bottler in The Coca-Cola System to implement BASIS, a web-based tool developed by The Coca-Cola Company to enable our independent distributors to order products, track shipping and access their accounts with us.

Figure 4.2 Retail volume by channel  Source: CCI analyst meeting (2008)
Distributors that use the BASIS program can also access sales statistics for their territories. In 2007, in Turkey, a distribution IT system was implemented in 250 distributors throughout the country that allows for 97% coverage of the sales of 260,000 of CCI’s customers.

Handheld terminals for sales teams that take sales orders from customers are used by CCI. These terminals are also used for providing recent historical information about the outlet being visited, equipment, accounts receivable and consignments of the outlet. Company uses this information to perform a comprehensive and detailed analysis of the purchasing patterns and preferences of various groups of soft drink consumers in each of the types of channels where they might potentially purchase beverages. Based on this analysis, CCI tailors their product, pricing, packaging and distribution strategies to maximize the growth potential of each distribution channel. And CCI’s use of information technology allows company to react quickly and effectively to consumer trends, which may differ in each channel.

**Promotion strategy**

While TCCC is interested in above the line marketing in all of the countries in which they operate, CCI concentrates below the line marketing. They undertake promotional activities both to increase the number of sales points for their beverages and to increase the attractiveness of their products at the point of sale. In this sense, merchandising is one of their most important performance indicators, along with volume growth and market share.

**Merchandising**

Widespread availability of CCI’s products is one of the key factors for success. CCI provides creative displays and point-of-sale materials as well as specifically
designed coolers to their customers. CCI integrate this merchandising with promotional activities tailored to the market to deliver consistent messages to consumers. CCI differentiates its products from others by marketing them in an appealing and relevant way at the point of sale.

Company also evaluates their execution in terms of conformity to merchandising goals in all of the countries in which they operate. Company believes that their local sales management is in the best position to evaluate the particular circumstances of each market and address its particular needs.

According to annual report 2007, beverages for immediate consumption – those served in single-serve packages and fountain products usually generate relatively higher margins than multi-serve packages sold for future consumption. This is primarily due to consumers’ willingness to pay a premium to purchase their products chilled, in a convenient size and at a convenient location. Consumers prefer to drink CCI’s immediate consumption beverages chilled. Therefore CCI continues to invest in cooler equipment. Today they serve 170 million consumers with more than 350,000 coolers and 39,000 new coolers were placed during 2007 in Turkey.

**Social responsibility**
CCI marks that financial performance is only a partial measure of a company’s success. From consumers’ or society’s perspective, financial success often has a secondary priority to a company’s behavior or to the way it responds to society’s concerns and expectations. They give bid attention to social activities. The Coca-Cola System in Turkey is working with WWF to expand the scope of its existing partnerships through WWF Corporate Club membership and a project to raise awareness of environmental issues.
The “Life Plus” Youth Program, a three-year-old partnership between the United Nations Development Program and Coca-Cola Turkey, recently selected nine projects to be carried out in 2007-2008. The program supports innovative, creative and participatory projects that are designed and implemented by young people. CCI also sponsors sports, cultural and community activities.

4.3. CCI’s business marketing strategy in Kazakhstan

Kazakhstan is one of the core growth countries for CCI and since its inception in 1995, has maintained strong growth numbers.

The Coca-Cola Almaty Bottlers is the strong market leader in CSDs. CCAB was established in 1995 as joint venture the Kazakhstan Company Tone, Turkish Efes Invest and American The Coca-Cola Company, and became the first producer of The Coca-Cola Company’s products in Kazakhstan as of 1996. It is impossible to tell, that in Kazakhstan before did not know Coca-Cola at all. But when the well-known drink has received a local registration, Coca-Cola became accessible to all Kazakh.

In Kazakhstan, TCCC’s brand managers exist to manage brand and create brands strategies. Together with TCCC they work at the same building, develop marketing plans that are tailored for Kazakhstan market and promote and market brands. TCCC also manages their Azerbaijan and Uzbekistan markets from Kazakhstan department.

CCI had share 87.61 % of Coca-Cola Almaty Bottlers and during the second quarter of 2008 they planed to buy the outstanding shares in Coca-Cola Almaty Bottlers from The Coca-Cola Export Corporation, a fully-owned subsidiary of The Coca-Cola Company. Nowadays by following the completion of the share
purchases, CCI's share account for 99.5% of CCAB and it will help to gain full control of this bottler in Kazakhstan.

CCAB is the market leader in CSDs where Coca-Cola and Fanta continue to remain as favorites of Kazakh consumers. In spite of some capacity constraints in early 2007, and economic slowdown in the latter part of the year, Kazakhstan sales posted double-digit volume growth of 18% versus 2006.

The company has come on the market of Kazakhstan in difficult times for a national economy when the country still tested a shock from a hyperinflation and the general decline of manufacture. Having constructed manufacture, and having departed from principles of simple import, the company initially positioned itself as socially responsible brand. With opening manufacture the company promoted the decision of many socially significant problems of that time: creation of new workplaces, attraction of additional investments, increase of taxable base, maintenance of the population with high-quality production of the international standard.

"It is made in Kazakhstan" - this slogan popular nowadays, was enough unusual occurrence when the market has been flooded by import production. Occurrence of the international brand stimulates development of business since the bright example of successful business is one of impulses for activity of business.

The management of CCAB has made a decision on construction of one more factory which on July, 10th, 2005 has been put successfully into operation. With commissioning a new factory the volume of manufacture has increased more than twice. At factories of the company the system of management of environment ISO14001:1996, the international system of quality management ISO
9001:2000, the special control system of quality - "System of quality Coca-Cola" is introduced.

In December, 1999 the company receives a rank "The Best tax bearer of year in Kazakhstan". In December, 2003 CCAB receives the Government award “The Best investor of year in the food-processing industry”.

Investment activity of the company is not limited to investments in business-projects. The company pays the big attention of charity: sponsors various cultural projects and sports actions, promotes preservation of a national cultural heritage of the country.

Coca-Cola in Kazakhstan is the corporate citizen of republic because together with people solves problems of the country and actively participates in its life - revives a spiritual heritage, cares about health and formation of young generation.

**Product strategy**

From the period of establishment of the CCAB huge demand for production has caused not only increase in capacity of manufacture, but also has caused expansion of assortment of soft drinks.

*Current Brand Portfolio*

- CSDs: Coca-Cola, Coca-Cola light, Fanta, Sprite, Schweppes
- Non-CSDs: BonAqua (water), Cappy, Piko (nectar), Nestea

Today CCAB supplies Kazakhs consumers with brands including Coca-Cola, Coca-Cola light, Fanta, Sprite, Schweppes in the CSD segment, ‘Cappy’ and
‘Piko’ in fruit juice segment, ‘BonAqua’ in water segment and ‘Nestea’ in iced tea segment.

In 2003, to satisfy consumer tastes and preferences TCCC has acquired the Piko juice brand from Food Master, a Kazakh dairy producer. It was the first sale of the Kazakhstan brand to the international company. Thus CCAB is marketing Piko that suit local tastes in Kazakhstan.

As said by Kemran new production lines were fully operational in Kazakhstan in 2007, in line with strategy to increase capacity ahead of volume growth. To satisfy changing consumer trends towards segmentation in the juice category and to build on the success of company’s existing juice brand Piko, CCAB has expanded juice business with introduction of Cappy juice and nectars with eight flavors in the premium juice segment. After these developments CCAB strengthened their CSDs, juices, nectars, iced teas and water portfolio.

**Innovation**

In addition to new flavors of Cappy, some innovations were made in packaging of Nestea. Since June, 2006 this product can packing in 330 ml spreads. Consumers can try of tree new kinds of Nestea in new packaging: with taste of a lemon, a peach and a berry.

**Distribution strategy**

Distribution network of the company covers 96 % of territory of Kazakhstan, therefore products of CCAB are on sale practically in all wholesale and retail shops.

CCI’s distribution in this country has focused on tailoring distribution systems to the local market through a combination of direct delivery and independent
distributors. Having a direct delivery system provides a competitive advantage by enabling a closer customer relationship and providing greater influence over how products are presented to customers. CCAB uses their direct distribution channels to deliver their products to big key accounts such as hypermarkets and supermarkets.

But in Kazakhstan there is a relatively less developed distribution structure and a fragmented retail sector that emphasizes small retailers. There are only several big key accounts such as hypermarkets, supermarkets so generally the company’s customers are traditional groceries, kiosks, cafes and restaurants. The lack of infrastructure is the main reason why company has to concentrate their activities on using indirect distributors in Kazakhstan.

In Kazakhstan, CCAB uses three different types of indirect distributors. The first one generally distributes to open bazaar wholesalers, remote and long distances and to small accounts such as kiosks. They are very efficient and useful especially in handling bazaars. Their activities are monitored and advised by special sales representatives and supervisors from CCAB. Second one generally handles exclusively assigned small territories with small population. They are monitoring and advising is handled by CCAB area sales supervisors with no direct interference from CCAB side. Last one operates in more growing and potential areas. All sales and marketing management are handled by CCAB managers with direct involvement. Other operations logistics, warehousing, financing and external relations are distributors’ responsibility. They are most effective and productive one up to date. These indirect distributors also carry other products for cost optimization according to their agreements with the company.
CCAB use key account management to build and reinforce strong relationships with their major customers. Key account managers work with customers to increase sales volume, revenue and category profitability by sharing their expertise in merchandising and supply chain management, and by helping customers through developing tailor-made promotions. Additionally the company offers some incentives to their distributors and retailers same as Turkey market such as wholesale discounts of approximately ten percent on bulk orders of products and free sampling and products. CCAB also considers developing close relationships by motivating and supporting customers.

**Promotion strategy**

CCAB gives big attention to promotion of brand in Kazakhstan. CCAB concentrates below the line marketing. They aim to increase the attractiveness of their products at the point of sale. In this sense they provide creative display stands and point-of-sale materials, as well as specifically designed coolers, to their customers to increase their presence. All these activities provide instant product identification and stimulate to buy.

In 2007 CCAB launched campaign “For the Moms who know” for Piko. Their strategy was to capture much more interest of “moms” and influence the young generation. Additionally they expanded Cappy Life with Citrus Mix -first 100% Vit C fortified product in Kazakhstan. They aimed to own breakfast occasion instead of traditional drink tea and increase brand awareness among health conscious. In this sense they launched Cappy 100% Citrus Mix - 100 % RDA of Vitamin C in a one glass.

CCAB gives big attention to merchandising and social activities as methods of creation brand and product awareness.
CCAB sponsors a number of cultural projects and sports actions, participates in various social programs and promotes preservation of a national cultural heritage of the country.

CCAB takes part in national holidays and the actions spent in the country. Spends children's programs in parks of rest cities: Almaty, Karaganda, Shymkent. Spends and supports youth actions at schools and universities. Company provides support of the organization "Special Olympics” - to Movement of sportsmen-invalids. CCAB supports to children's homes, societies of veterans, invalids and other organizations.

Also company supports political and cultural actions. (The Euroasian Media Forum, an annual retro festival "Almaty - my first love").

In February, 2001 by company have been begun joint with the Ministry of culture. "Asyl Moore's" is large charitable noncommercial humanitarian project on preservation of a musical heritage of Kazakhstan to the future generations.

Since 2003 Children's Coca-Cola Internet Center successfully works owing to it more than 5000 pupils and their teachers not only city Almaty, but also many regions of Republic were trained.

Working with The Coca-Cola Company, their football grassroots - Bylgary Dop 2007, reached over 5,150 schools involving 1.5 million students, and was recognized by UEFA as being the “Most Valuable Grassroots Football Event.”

Another successful grassroots activity was done in the music platform with Coca-Cola Music Planet, hosting a combination of well-known and rising Kazakh and Russian stars. The Coca-Cola Music Planet reached more than 80,000 people in six cities throughout Kazakhstan in 2007.

TCCC is the first-ever sponsor of Olympic Games of 1928 and from those tries traditionally participates in sponsorship of Olympiad. Since 1992 Coca-Cola is also the sponsor of relay race of Olympic Fire.
Count down to Beijing Olympics 2008, the official Olympic Torch relay has been done in Almaty, Kazakhstan in April 2, 2008. Coca-Cola Almaty Bottlers focused on excellence on market activation and execution around the Olympic Torch relay in Almaty. CCAB prepared outdoor advertising by using billboards at 11 locations on the Olympic Torch relay rout, using bus stops at 20 locations in the city and 5,000 posters were distributed in universities and stores on the rout. Additionally they prepared Coca Cola sampling activities.

4.4. External environment of Kazakhstan

4.4.1. Societal institutions

Culture
Before the Russian conquest, the Kazaks had a well-articulated culture based on their nomadic pastoral economy. The Russian conquest wreaked havoc on Kazak orthodox culture by making impossible the nomadic pastoralism upon which the culture was based. Many individual elements survived the loss of the lifestyle as a whole. Many practices that lost their original meanings are assuming value as symbols of post-Soviet national identity.

The collapse of the Soviet system with which so many of the Kazakh cultural figures were identified left most of them in awkward positions. Most of the books that Kazakstanis buy are about business, astrology, or sex; the movies they see are nearly all American, Chinese, or Turkish adventure and action films; most concerts feature rock music, not in often accompanied by erotic dancing; and television provides a diet of old Soviet films and dubbed Mexican soap operas. Thus, cultural norms are determined predominantly by Kazakhstan’s increasing access to global mass culture.
Ethnicity. Kazakhstan's ethnic composition is the driving force behind much of the country's political and cultural life. The ethnic Kazakhs represent 59.2% of the population and ethnic Russians 25.6%, with a rich array of other groups represented, including Tatars, Uzbeks, Bashkirs, Uyghurs and Ukrainians.

Class and Castes. Kazakh capitalism has been a free-for-all, with a few people grabbing almost all of the power regardless of who suffers. The terms "New Kazakh" or "New Russian" have been used to describe the nouveau riche in Kazakhstan, who often flaunts their wealth. This is in contrast to the vast number of unemployed or underpaid. A culture of haves and have-nots is dangerous for a country composed of many different ethnic groups used to having basic needs met regardless of who they were or where they came from. Poverty and accusations of unfair treatment have raised the stakes in tensions between Kazakhs and non-Kazakhs, whose interactions until recently have been peaceful.

Symbols of Social Stratification. The symbols of stratification in Kazakhstan are much like they are in many developing countries. The rich drive expensive cars, dress in fashionable clothes, and throw lavish parties. The poor drive old Soviet cars or take a bus, wear cheap clothes imported from China or Turkey, and save for months just to afford a birthday party or a wedding (Kazakhstan resource page, 2008).

How it was mentioned above after getting independence Kazakhstanians started to absorb European and American tendencies. Coming of TCCC to Kazakhstan market was an example of adaptation Kazakhstanians to new style of life.
**Language**
Kazakhstan is a bilingual country: the Kazakh language, spoken by 64.4% of the population, has the status of the "state" language, while Russian, which is spoken by almost all Kazakhstanis, is declared the "official" language, and is used routinely in business. Russian, spoken by almost everyone, enjoys equal status under the Constitution and is a means of inter-ethnic communication in Kazakhstan. In fact, most business transactions take place in Russian. Part of this is because Kazak was outlawed as a language during the Soviet Era (Travel document system, 2008)

**Education**
A very structured and uniform educational system exists in Kazakhstan. All ethnicities, whether urban or rural, study a similar curriculum. Thus, students throughout the country share the same education. Education through secondary school is mandatory and free, and that citizens have the further right to compete for free education in the republic's institutions of higher learning. Private, paid education is permitted but remains subject to state control and supervision (Kasakhstan resource page, 2008).

**Religion**
The country has historically hosted a wide variety of ethnic groups with varying religions. Tolerance to other societies has become a part of the Kazakh culture. It is necessary to note that Kazakhstan has never been a country affected by particularly strong religious sentiments or powerful religious forces. Religious organizations have always been rather passive and do not claim any political role in the state.
According to the CIA World Factbook and other latest sources from U.S. Department of State; 47% of Kazakhstan's population follow the Islam (mostly
Sunni Muslim), 46% are Christians (including Russian Orthodox 44%, Protestant 2%) and other 7% (Yellow pages Kazakhstan, 2008).

**Political system**

Kazakhstan has been ruled by one person, Nursultan Nazarbayev, since before the collapse of the Soviet Union in 1991. The country’s political system hinges largely on a patrimonial disbursement of power, privileges, and preferences to a small group of kin clients and cronies and a topdown management of economic and political interests (Kazakhstan, Nations in Transit, 2007). Nazarbayev installs friends and family in key positions and allows the parliament and judiciary little autonomy from the executive. The elites surrounding the president are engaged in a constant struggle to influence the president and advance their interests.

Overall political stability is generally assured with opposition to the government highly fragmented and ineffectual; while Nazarbayev exerts inordinate control over the country, he also brings stability.

**Legislation**

Kazakhstan is in the process of negotiating terms of accession to the World Trade Organization (WTO).

The average-weighted import tariff in Kazakhstan is approximately 10 per cent. Goods imported for short-term use in Kazakhstan under the temporary import regime can be fully or partially exempt from duties, taxes and non-tariff regulations. Goods not eligible for duty exemptions have traditionally included food products, industrial wastes and consumables.

The present system of Metrology, Accreditation, Standards and Quality (MAS-Q) in Kazakhstan is weak and fragmented. Many businesses complain of mandatory certification requirements that have no technical basis or aim. The Committee on Standards, Metrology and Certification (Gosstandart, the national
governing body operating under the Ministry of Industry and Trade) has frequent management changes that make stable, long-term progress difficult. Government observance of existing standards, testing, labeling and certification requirements continue to be uneven.

The Law on Certification requires that all imported products subject to mandatory certification be accompanied by documents identifying the producer, the date of production, the expiration date, storage requirements and the code of use in both the Kazakh (state) and Russian languages.

Many companies report significant logistical difficulties serving the Kazakhstan market. In addition, there is a burdensome tax monitoring system for all companies operating in Kazakhstan (U.S. Commercial Service, 2008).

4.4.2. Organizational fields

Economy

Following independence in 1991, Kazakhstan was one of the earliest and most vigorous reformers among the countries of the former Soviet Union. In the early years of transition, prices were liberalized, trade distortions reduced, and small- and medium-scale enterprises (SMEs) privatized. The treasury and budget processes were significantly improved (The World Bank, 2008). First among CIS (Commonwealth of Independent States) countries, Kazakhstan was granted "market economy status" by the EU in 2001 and by the USA in 2002.

Kazakhstan has enormous economic opportunities. The projected expansion of oil production, an abundance of other natural resources, strong oil prices, responsible macroeconomic policy, and other policy improvements set the stage for a very promising future. However, the country also faces significant risks, both in the shorter and medium term (maintaining macroeconomic and financial sector stability) and for the longer term (increasing Dutch disease complicates diversification) (The World Bank, 2008).
The economic growth in Kazakhstan was 10.6 per cent in 2006. Kazakhstan’s GDP grew by 9.7% in the first nine months of 2007. Kazakhstan’s growth is expected to slow from an estimated 9% in 2007 to an average 8.0% annually in 2008-2009, due to rising inflation and banking sector liquidity problems. Due to this economic improvement, there is a gradual shift in consumer profile in urban areas. Because of their new income level and purchasing power, they are willing to preferences in higher quality products and to pay a little bit more for them.

The Kazakhstan market is dynamic and changing. Since the independence from the Soviet Union in 1991 the market has been engaged still ongoing series of reforms. Wages increases and substantial expansion of bank credits have fueled private consumption spending. Local markets are of growing interest as consumption and buying habits changed (Mirola, 2007).

In spite of rising in income level, the income difference between the poorest and richest households is relatively high. According to agency of statistics of the republic of Kazakhstan (2007), the average monthly income per capita in the richest 20% of the households about 100 euros while the poorest 20% of households earned only about 20 euros per capita per month.

Like other former Soviet republics, Kazakhstan’s infrastructure is a nightmare, especially roads, transportation (U.S. Commercial Service, 2008).

According to National Economies Encyclopedia, Kazakhstan's railway system was integrated into the Soviet system. Connections allowed for shipment of freight throughout the Eurasian landmass. However, the access to markets in Europe, the Middle East, and the Far East is through rail connections that now pass through the territory of Russia. And as mentioned by Earnst & Young (2006) underdeveloped infrastructure has been one of the major restrictions on the development of the national economy.
Financial market and investment environment

The banking sector has substantially increased external borrowing to finance the surging domestic credit demand, leading to a deterioration of external debt indicators. The ensuing liquidity problems, rapid economic expansion and high food and energy prices have also pushed up inflation, and present the main challenge to monetary authorities (The UN Economic and Social Commission for Asia and the Pacific, 2008).

Although rising inflation and banking sector liquidity problems, Kazakhstan has a favorable investment climate. It has specific investment legislation that establishes the legal and economic basis for the stimulation of investment, guarantees the protection of the rights of investors, and establishes measures for state support of investments and the procedure for the resolution of disputes with investors. It will come as no surprise that investment and tax concessions in Kazakhstan, including those available in special economic zones and sectors with special concessions, are geared towards the Government's goals of accelerating the development of the regions, new technology, export oriented production, the manufacture of new types of products, the attraction of investments, the development of normal market relations, the introduction of the latest methods of business administration and management, and also the resolution of social problems.

The Law on Investments provides the legal framework for both foreign and domestic investment in Kazakhstan. This law provides for the organizational and legal types of entity in which companies can invest and the general rights and guarantees of the investor. The Investment Law does not differentiate between the rights of domestic and foreign investors and introduces preferences that may be used by either (Earnst & Young, 2006).
There are some structural barriers to investment in Kazakhstan, a lack of effective judicial process for breach-of-contract resolution, and an unwieldy government bureaucracy. The Kazakhstan Government's top priority is to further development and encourage more foreign direct investments into industry, agriculture, innovation and processing sectors. In the first nine months of 2007, the economy attracted about US$6 billion of FDI compared with total inflows of US$6.2 billion in 2006. Annual FDI inflows will remain strong in the coming years and are expected to average around US$7.5 billion in 2008-2009, given the need for foreign machinery and equipment.

Product market
Beverage industry is sub-industry in Kazakhstan which does not play main role in the Kazakhstan economy. Traditional drinks in Kazakhstan often include black tea and traditional milk-derived drinks such as ayran, shubat and kymyz.

Retailers
Take in consideration those facts that big retailers are the most potential customers of CCAB that’s why we have to focus our attention on retail market situation in Kazakhstan. According to report of annual Russian retail forum consumer behavior in the CIS countries (Kazakhstan is a member of CSI since 1991) can be characterized as:
- stronger price sensitivity due to generally lower income –only selected niches for valueadded retailing;
- purchases in most of CIS countries is done at the street markets;
- higher share of daily shoppers due to expenditure limits and missing storage opportunities.
Consumer behavior in CSI countries is likely to change slowly in terms of price orientation, mobility and sopping patterns. There is prediction of a very fast
development of retail life cycle in CSI countries (Retail markets in the CIS and Baltic States: main characteristics and the future trends, 2005).

**Government**

Kazakhstan is a constitutional republic. The president is the head of state. The president also is the commander in chief of the armed forces and may veto legislation that has been passed by the Parliament (Wikipedia, 2008).

In Kazakhstan’s unitary administrative framework, the central government exerts top-down control over regional and local levels, with the president exercising authority to appoint all heads (akims) of regions and districts. Power in Kazakhstan firmly resides with President Nursultan Nazarbayev, who has been president since the dissolution of the Soviet Union in 1991. President Nursultan Nazarbaev has facilitated considerable social and ethnic stability through a mix of top-down control and the promotion of economic well-being at the cost of political freedoms. The Europe-oriented authoritarian-patrimonial regime of Nazarbaev has allowed an inner circle of close family, friends, and business associates to exert formal and informal influence over vital economic resources and political positions, rapid career mobility to technocratic elites and top-level government bureaucrats (Nations in Transit, 2007).

**Corruption**

Corruption is the most problematic factor, followed by inadequately educated work force taxation factors. Corruption, which increases the cost and difficulty of doing business for foreign and local firms alike, especially as it relates to customs. It remains widespread, and the judiciary is often perceived as an arm of the executive branch rather than as an enforcer of contracts and guardian of property rights. Kazakhstan ranks 150th out of 179 countries in Transparency International’s Corruption Perceptions Index for 2007. They were ranked 107th in 2005. (U.S. Commercial Service, 2008)
The president regularly launches anticorruption programs and appoints anticorruption bodies that comprise members of the financial police who report to the president. The government has invested some effort in developing civic awareness about corruption and also increased salaries of public sector employees as long-term solutions to tackle the problem of corruption.

**Labor market**


Women are less competitive in the labor market than men and experience more unemployment. The government notes that women’s unemployment is at critical levels in rural areas and small towns and that targeted programs are required there. They have more difficulty finding employment than do men; earn less; and have to absorb, through their own unpaid labor, cuts to social services such as child care.

There are difficulties in finding highly skilled local labour in Kazakhstan, particularly those with engineering and management skills. This hurts local companies in two ways. On the one hand, they may have difficulty finding local engineers who are qualified in the technical disciplines needed to supply the oil and gas sector. On the other hand, it raises the price of skilled labour. When a particular skill is in short demand, workers with this skill will demand higher wages and are more likely to be poached by firms looking for that this skill.

Training workers would be very expensive for firms, because they may have difficulty retaining there workers (The UN Economic and Social Commission for Asia and the Pacific, 2008).

The minimum wage for 2006 has been set at 9,200 tenge (approximately USD 69). Kazakhstan legal entities may only pay their employees, who are citizens of Kazakhstan, in tenge.
4.5. CCI’s adaptation to Kazakhstan market

Coca-Cola is one of the best well known brands whole over the world. A recent The Coca-Cola Company annual report reported that the second most recognized expression in the world after “ok?” is “Coca-Cola.” This extremely recognizable branding is one of Coca-Cola's greatest strengths. Additionally, Coca-Cola's bottling system is one of their greatest strengths. It allows them to conduct business on a global scale while at the same time maintain a local approach.

Think local, act local. It is the present slogan of TCCC, which confirms necessity of local adaptation even such well known brand as coca-cola. From the world's largest cities to its most remote villages, the bottling system is made up of locally rooted enterprises committed to quality. The Coca-Cola Company bottling partners are always local businesses, exerting a strong influence on economic development and actively participating in community life through local events and philanthropic activities.

According to Michael A. O'Neill, Chief Executive Officer of Coca-Cola Icecek, CCI is ideally positioned as a regional bottler with the The Coca-Cola Company brands, market leadership, balanced geographic coverage and an exceptional management team (Annual report, 2007).

Adjustments to local market

Compare two markets Turkey and Kazakhstan there are difference consumer preferences. In Turkey market Coca-Cola products present already 50 years and in Kazakhstan market Coca-Cola came fifteen years ago. Even the culture of soft drinks consumption differs in Kazakhstan and Turkey markets, segmentation groups are also different. Although in Turkey Coca-Cola is a habitual and common soft drink for usual meals at home or away from home
meals with friends, in Kazakhstan we have another situation. In Kazakhstan people prefer their traditional soft drinks, as tea, milk. CCAB gives more attention for young generation of Kazakhstan. Children’s Coca-Cola internet centre operates in Kazakhstan capital. Also Coca-Cola is a sponsor of young football team in Kazakhstan.

In sphere of education company contributes to society by opening class of Coca-Cola in economic college.

**Product strategy**

The main strengths of CCI is well known brand. So company prefers to use standard brand portfolio in all countries, where they operate. In Kazakhstan market CCI’s brand portfolio presents by all general product of TCCC. Additionally company gives big attention to analysis of target groups and differentiation of product.

CCI does not only promote their own brand, but also popularizes local. Kazakhs brand Piko was purchased by TCCC. Brand Piko is one of the most popular and favorite products among local consumers and has huge potential to become a leader brand in the market.

**Distribution strategy**

Distribution network has been more subject adaptation. Such factors as less developed distribution structure in Kazakhstan market and a fragmented retail sector that emphasizes small retailers created necessity for CCAB focus more on indirect distribution. Generally products of CCAB are delivered indirectly to small shops, bazaar wholesalers and kiosks, which take the biggest volume in distribution channel. While direct distribution is a priority in Turkey market, in Kazakhstan the preference of indirect distribution have made according to local
needs. Basically big key accounts such as supermarkets in Kazakhstan are a part of direct distribution system in Kazakhstan.

**Promotion strategy**

Concerning the promotion strategy there have also been some local adjustments to Kazakhstan market. CCI promote their product with slogan “It is made in Kazakhstan”. In Kazakhstan CCAB declare to be a Kazakhstanian company, which bring new progressive values to the country by creating popular products. Main attention is given on fact that these popular and well known international products are manufactured in Kazakhstan; by developing new workplaces, they created positive image among the local population. That was very critical issue in the period of entering Kazakhstan market, when economical situation was unstable in the country. In this time CCAB was associated in society as a well established example of Western companies. The majority of potential consumers perceived the company and its production as “unlocal”, as American brand. That way company to increase brand loyalty among local consumer had to contribute to society. CCAB sponsored a number of cultural projects and sports activities, participated and promoted preservation of a national cultural heritage of the country. And they still continue to be part of society.

**4.6. Summary of empirical findings**

**4.6.1. CCI’s strategy in Turkey**

CCI is the largest bottler and distributor of non-alcoholic beverages which operates with six production plants and five warehouses in Turkey

- **Current Brand Portfolio**
  - CSDs: Coca-Cola, Coca-Cola Zero, Coca-Cola light, Fanta, Sprite, Schweppes, Sen Sun;
- Non-CSDs: Cappy, Damla, Turkuaz, Nestea, Burn, Powerade.

Company put big attention to innovation. The success of natural source water brand Damla is an excellent example of innovation for CCI. Also new aseptic line installed in Çorlu plant, which allows company to offer high quality, preservative-free products with a superior taste profile, is a first in Turkey.

  - **Distribution network**

CCI’s distribution network reaches more than 90 percent of all future consumption outlets in Turkey and services customers through their direct distribution system and through independent distributors. CCI’s consumption customers include hypermarkets, supermarkets, discount stores, "mom and pop" stores, kiosks, specialty food stores and open markets. Company’s immediate consumption markets include restaurants, hotels, cafes and bars.

  - **Promotion**

While TCCC is responsible on above the line marketing in all countries which they operate, CCI concentrates on below the line marketing. In Turkey CCI uses several promotional tools with focusing on merchandizing and public relations.

### 4.6.2. CCI’s strategy in Kazakhstan

Kazakhstan is one of the core growth countries for CCI and since its inception in 1995, has maintained strong growth numbers.

  - **Current Brand Portfolio**

– CSDs: Coca-Cola, Coca-Cola light, Fanta, Sprite, Schweppes
– Non-CSDs: BonAqua (water), Cappy, Piko (nectar), Nestea

  - **Distribution network**

Distribution network of the company covers 96% of territory of Kazakhstan. In Kazakhstan there is a relatively less developed distribution structure and a fragmented retail sector that emphasizes small retailers. There are several big
key accounts such as hypermarkets, supermarkets so generally the company’s customers are traditional groceries, kiosks, cafes, restaurants, and open markets. Company prefers to use indirect distributors when they deliver to open bazaar wholesalers, long distances and to small accounts such as kiosks.

- **Promotion**

Merchandising, sponsorship, public relation as methods of creation brand and product awareness are used by CCAB. Company sponsors a number of cultural projects and sports actions, participates in various social programs and promotes preservation of a national cultural heritage of the country.

### 4.6.3. External environment of Kazakhstan

#### Societal institutions

- Culture can be characterized as a mix of old traditions and norm of global mass culture.
- The Kazakh language has the status of the "state" language, while Russian, which is spoken by almost all Kazakhstanis, is declared the "official" language, and is used routinely in business.
- Kazakhstan is not affected by particularly strong religious sentiments or powerful religious forces.
- Kazakhstan has been ruled by one person, Nursultan Nazarbayev, since before the collapse of the Soviet Union in 1991. While Nazarbayev exerts inordinate control over the country, he also brings stability.
- Logistical difficulties serving the market and burdensome tax monitoring system still exist in Kazakhstan.

#### Organizational field

- In area of investments Kazakhstan has specific investment legislation that establishes the legal and economic basis for the stimulation of investment,
guarantees the protection of the rights of investors, and establishes measures for state support of investments and the procedure for the resolution of disputes with investors.

- There are some structural barriers to investment in Kazakhstan, a lack of effective judicial process for breach-of-contract resolution, and an unwieldy government bureaucracy.
- There are increases in income level and living standards. In spite of rising in income level in Kazakhstan, the income difference between the poorest and riches households is relatively high.

### 4.6.4. CCI’s adaptation to Kazakhstan market

- CCI prefers to use standard brand portfolio for all countries, which they operate. More specifically they expand their brand portfolio by applying local adjustments to local market preferences, such as local juice Piko in Kazakhstan.
- While direct distribution is a priority in Turkey market, in Kazakhstan the preferences have made to indirect distribution according to local needs. Production of CCAB is delivered indirectly to small shops, bazaar wholesalers and kiosks.
- CCAB promote their product with slogan “It is made in Kazakhstan”. In Kazakhstan CCAB declare to be a Kazakhstanian company, which bring new progressive values to the country by creating popular products.
5. ANALYSIS

In this chapter we will combine empirical findings with our theoretical framework in order to make comprehensive analysis of our research questions. Analysis will cover the following three areas presented earlier in theoretical framework and empirical findings –international business marketing strategy, external environment, and local adaptation. The chapter will end with a summary of the essentials of our analysis.

5.1. CCI’s international business marketing strategy

We try to explain how CCI has built up its international business marketing strategy in Kazakhstan market. We also try to present CCI’s international business marketing strategy as a link between company and its environment.

Brand and product strategy

According to a recent Coca-Cola annual report that the second most recognized expression in the world after “ok?” is “Coca-Cola”. Intangible assets as a company’s reputation are most important asset. In this sense we can say CCI's most important resources and valuable wealth is the "Coca-Cola" brand. On the other hand, product reliability is another important intangible asset that the company’s brand presents very important qualities such as its esteem with respect to honesty and reliance.

In our theoretical chapter we highlighted that brands consists of two types attributes: intrinsic and extrinsic. As we mentioned before buyers often use the extrinsic attributes to help them distinguish one brand from another because in certain categories it is difficult for them to make decisions based on the intrinsic
attributes alone. CCI focuses on both of these attributes when developing strategy in Turkey and Kazakhstan markets. As proven by the theoretical as well as the empirical chapter, marketing communications plays an important role in the development of brands. CCI stressed the importance of marketing communications to provide emotional selling points which can enable consumers to make positive brand associations. CCI’s message is communicated through different communication channels such as merchandising activities, packaging, display stands and point-of-sale materials.

When we compare two different country markets, the company uses the similar tools to support brand in both emerging countries. And their successful branding is partly the result of effective marketing communications.

The company uses the extended product-communication adaptation strategy in Kazakhstan market. According to this strategy the product basically fits the different needs or segments of a market; it may need an adjustment in marketing communications. As we mentioned in our empirical chapter most of the brands are presented to consumers in specific countries, some of them in only a single country. In this sense when we compare Turkey and Kazakhstan markets, brand portfolios are different in these markets.

Based on Kotler’s three essential aspects of the product offer in order to meet consumer needs and want, CCI’s success is attributed to meet their customer’s needs and innovate new product offerings. CCI changes, improves and develops new drinks to appeal to local tastes. Also its branding and packaging are closely associated with the core product.

The empirical data points towards differences in brand portfolio and promotion strategy in Kazakhstan. The core of brand portfolio of the company is presented
in Kazakhstan market, such brands as Coca-Cola, Coca-Cola light, Fanta, Sprite and etc. CCAB also uses product invention strategy. New brand was presented in Kazakhstan market – juice Piko. BonAqua and Piko are produced for Kazakhstan market while Sen Sun, Damla, Turkuaz, Burn, Powerade are produced for Turkey market. CCAB uses local adjustment in promotion strategy to fit needs of local consumers.

As said in the theoretical chapter product image is one of the most powerful points of differentiation for consumers. CCI creates competitive advantages through its intangible image. We can say it may be the only way to distinguish different brands in a product category.

**Distribution**

CCI aims to reach its consumers wherever consumers are, with the right mix of brands, in the right packages, with effective segment based pricing and packaging. In this sense developing international distribution channels and distribution strategy are important to meet company’s goals and to fit the demand and market coverage.

As proven by the empirical chapter, CCI’s distribution network in Turkey and Kazakhstan services their customers through their direct distribution system and through independent distributors. Their distribution networks change according to key accounts and potential of the areas. They prefer direct distribution while it is profitable for company. They use direct distribution primarily for key accounts such as hypermarkets, supermarkets and fast food restaurants. When we compare with Turkey, there is a relatively less developed distribution structure and a fragmented retail sector that emphasizes small retailers in
Kazakhstan. Therefore CCAB more prefers to use indirect distribution network to deliver their products to end consumers in Kazakhstan.

In our theoretical chapter we mentioned about structure of the channel. And according to three different approaches CCI uses intensive distribution to deliver their products in each emerging countries. We can note, in Kazakhstan there are also selective distribution according to second and third kinds of distributors. Managing the relationship with distributors and retailers is important issue in their operations. They use key account management to build and reinforce strong relationships with their major customers. The company offers some incentives to their distributors and retailers to develop close relationships and to motivate them. These incentives may be put some pressure on CCI’s profit but in the long turn they provide good relations with CCI’s intermediaries. On the other hand, company use distributor advisors in both emerging country to be able to monitor and support their distributors and to ensure that distributors meet CCI’s delivery and merchandising standards.

On the basis of the network capability profile, we believe that CCI has a product specialist profile that satisfies specific customer needs. On the other hand, CCI has both distributor network specialist and distribution specialist profiles in each emerging markets. Because company has marketing capability thereby using direct networks and intermediary networks. They deal with customers both directly and indirectly through a distribution network.

**Promotion**

In our theoretical chapter we highlighted two types communication strategy that companies use to create consumer demand for a product. In this sense CCI uses a combination of push and pull strategies including both encouraging the
intermediaries to stock the products and attracting end users to buy in each emerging countries.

The emotional factors play important role in consumer buying. Therefore sales promotion activities are main communication tools for company to communicate with customers, to provide instant product identification and to encourage them to buy their products. Our empirical data showed that they try to increase the attractiveness of their products at the point of sale. In this sense they provide creative display stands and point-of-sale materials. For increase their presence they continue to invest in cooler equipment and provide designed coolers in Turkey and Kazakhstan markets.

As we mentioned before product’s packaging is the most basic marketing communication tool which serves to protect, and also helps ‘brand-loyalists’ identify the product and offer convenience to the purchaser. Hence company creates new packaging solutions for each market.

Company gives big attention to merchandising, social activities and sponsorships as methods of creation brand and product awareness. They actively participate in community life through local events. Company integrates merchandising activities tailored to the market in each country to deliver consistent messages to consumers.

5.2. Environmental analysis

In this part we will provide the analysis of the external environment for Kazakhstan and ways of how the different institutions influence international business marketing strategy.
As pointed in theoretical chapter, companies have to look at environmental factors such as culture, economy, government, political structure and legal considerations, when they are making decisions on operations. Uncertainties regarding the economical, political, legal, tax and/or regulatory environment, including the potential for adverse changes in any of these factors, could significantly affect the CCAB’s ability to operate commercially.

5.2.1. Societal institutions

*Culture*

According to our empirical data, cultural situation in Kazakhstan can be characterized from two different perspectives. From one hand after getting independence Kazakhstan got access to global mass culture, which caused to create new values and norm among society. From other hand, Kazakhs put big attention to cultural traditions which they lost during the Soviet period. This cultural situation influences consumption of CCAB products in Kazakhstan.

Traditional drinks often include black tea, milk-derived drinks such as ayran, shubat and kymyz and juice in Kazakhstan. According to this fact brand portfolio of CCAB was expanded by Neste in iced tea segment, Cappy and Piko in fruit juice segment, to satisfy traditional preferences in consumption of soft drink in Kazakhstan market.

The fact of increasing interest to global mass culture and Western style of life also influenced the company performance. CCAB’s main product is Cola, the best well known American brand, that associate with western style of life. This fact creates awareness among young generation, which more subject to influence from one point of view, and also is the most preferable target group in consumption of carbonate soft drinks.
**Language**

The importance of understand the language can’t be overestimated. Our interviews showed that in Kazakhstan there is lack of language skills, making it necessary for CCI to conduct majority communications in Russian. Only managers of CCAB can communicate in English. Also those facts that there are two official languages influence the performance of CCAB, adjustments in product labeling were made. All information on labeling is in Russian and Kazakhstan languages.

**Education**

Kazakhstan has developed structure of education system that they got in the inheritance from Soviet period. In some areas CCAB affect education by providing training programmers for their workers. Also CCAB established Cola class in Almata economic college and Children’s Coca-Cola internet centre operates in Almata to provide free internet access for children.

**Religion**

It is necessary to stress that Kazakhstan has never been a country affected by particularly strong religious sentiments or powerful religious forces. According to this fact there is no big impact on CCAB’s performance.

**Political system**

Concerning political situation in Kazakhstan, it seems that there is no important affect for CCAB in any great extent. That fact, while that president exerts inordinate control over the country, he also brings stability. This is important for CCAB as it provides a relatively stable environment.
Legislation

As proven by the empirical chapter, legislation is probably one of the external factors that have a large impact on CCAB’s activities in Kazakhstan market. CCAB has to adapt all their operations to legislation system that exist in Kazakhstan. The Law on Certification requires that all products subject to mandatory certification that must be accompanied by documents identifying the producer, the date of production, the expiration date, storage requirements and the code of use in both the Kazakh (state) and Russian languages. Also quality of production should correspond to requirements of Gostandart (Committee on Standards, Metrology and Certification).

From another hand Kazakhstan has specific investment legislation that create basis for the stimulation of investment, guarantees the protection of the rights of investors, and establishes measures for state support of investments and the procedure for the resolution of disputes with investors. Also the Law on Investments provides the legal framework for both foreign and domestic investment in Kazakhstan. These factors positively effect the decision of foreign companies to invest in Kazakhstan.

5.2.2. Organizational fields

Economy

In our empirical chapter we highlighted that Kazakhstan’s GDP grew by 9.7% in the first nine months of 2007. Rapid economic growth has helped to raise the living standards and consumption spending in Kazakhstan. These positive improvements affect to increase sales of CCAB. On the other hand, when we compare economic situation with 2006, there is still a slowdown in the economy due to rising inflation and banking sector liquidity problems. This economic slowdown also affected their sales negatively according to their annual expectations. But in spite of this negative effect, Kazakhstan sales posted growth
of 18% versus 2006. A positive future development on economy can enable a great opportunity for CCAB in the Kazakhstan.

Our empirical data showed that the most problematic factors of doing business in Kazakhstan are corruption and underdeveloped infrastructure. Corruption causes to increase the cost and difficulty of doing business for foreign and local firms alike. On the other hand Kazakhstan as a landlocked country, transport is important to improve access to international markets. Underdeveloped infrastructure has been one of the major restrictions on the development of the national economy. Poor development of infrastructure in rural areas makes its negative influence on development and attractiveness of this industry for entrepreneurs. Undeveloped infrastructures and accordingly operations in Kazakhstan might carry risks for CCAB. By improving infrastructure, the demand can increase as well. This could also be an opportunity for CCAB to influence the market.

**Government**

In Kazakhstan economy is more hospitable for foreign investment because of the government. The Kazakhstan Government's top priority is to further development and encourage more foreign direct investments into industry, agriculture, innovation and processing sectors. As we mentioned in our empirical chapter Kazakhstan has specific investment legislation that establishes the legal and economic basis for the stimulation of investment, guarantees the protection of the rights of investors, and establishes measures for state support of investments and the procedure for the resolution of disputes with investors.

**Product market**

The future of the beverage market in Kazakhstan depend on improving standards of living in the country, the increasingly hectic lifestyles in urban
areas, and the growing of the country’s population. These factors will give soft drinks the greatest boost, with a notable increase in sales of them expected in coming years.

As explained in the empirical chapter, in spite of rising in income level, the income difference between the poorest and richest households is relatively high. This is one of the important factors that affect the purchasing behavior in Kazakhstan. Big part of Kazakhs buys core products to survive and prefer cheapest traditional drinks; tea or milk instead of soft drinks.

As we mentioned in our empirical chapter, local juice brand ‘Piko’ had acquired by TCCC in 2003. By this way TCCC brought high-quality production of the international standard to Kazakhstan. Now juices and the nectars which are let out under brand Piko, will be made not only under international standards GMP (good manufactured practice) as it was earlier, but also in conformity with standards of company Coca-Cola, ‘which are one of the highest all over the world’.

*Labour market*

We can note that situation in labour market hasn’t big impact on operations of CCAB in Kazakhstan. From other hand we can say that CCAB contribute in society by providing new workplaces that can positively affect labour market and decrease the unemployment level in country.

5.3. CCI’s adaptation to Kazakhstan market

The question to use a standardized marketing strategy for all countries or to adjust the marketing strategies to fit the unique dimensions of each local market for MNC by doing business abroad is widely discussed within the field of international marketing.
CCI does not institute a uniform marketing programme in each of its markets. The company often tailored the flavor, packaging, price, advertising and distribution to match the needs in specific markets. Perhaps the most standardized element of CCI is its product appearance. Coke essentially keeps the same basic look and packaging of the product everywhere.

**Product strategy**

In our theoretical chapter we described two divergent international marketing strategies—standardization versus adaptation of the product offerings. CCI uses combination of standardization and adaptation issues in product strategy.

CCI prefers to use standardization of brand portfolio. They entered to Kazakhstan market with the core products such Coca-Cola, Fanta, Sprite, because brand is a main strength of the company. CCI also adjusted their brand portfolio to Kazakhstan market by including new juice brand Piko.

As explained in the theoretical chapter packaging is the second area most frequently subject to alterations, following by product. Some inventions and adjustments were made in packaging of Nestea in Kazakhstan market. This product can packing in 330 ml spreads. Consumers can try of three new kinds of Nestea in new packaging: with taste of a lemon, a peach and a berry.

As explained in the theoretical chapter adaptation can be mandatory or voluntary. Adaptation that was made in area of product and packaging had voluntary character. The main reason of this adaptation was to fit needs of end consumers. In the area of labeling adaptation was mandatory according to requirement of local legislation system, where all information in packaging have to be on state language.
Distribution strategy

According to our theoretical part distribution exhibited the greatest degree of adaptation. Domestic distribution channels differ from foreign distribution channels when company goes abroad. And our empirical findings confirm these facts. In Kazakhstan CCI uses local distribution system, which is different from distribution network in Turkey. Distribution network in Kazakhstan is very wide and different, because of the size of the country, underdeveloped infrastructure conditions in Kazakhstan, and lack of big retailers, especially if we will compare to Turkey market. All this facts have led to necessity to adapt CCI’s distribution strategy to conditions of Kazakhstan market.

Distribution strategy can be defined according to how customers want to buy and shop. Taken this definition in consideration we can say that distribution networks in Kazakhstan were adapted according to customers’ preferences in the way of their buying habits. In Kazakhstan there is lack of big retailers, traditional groceries, bazaars and small kiosk is the habitual places for purchasing. That way CCI has collided with necessity to change their distribution strategy focused basically on direct distribution to big key account such as big retailer system in Turkey aside the indirect distribution to reach traditional preferences in method of purchasing of end consumer in Kazakhstan market.

We also want to add that our empirical findings show changing in customer profile from traditional open-markets to organized trade especially in urban area in Kazakhstan. The recent trend of these changers have led to a restructuring of channel system in main cities to aside of direct distribution what is more profitable for CCAB.
Promotion strategy

In area of promotion activities such as below the line marketing CCI generally uses standard strategy. According to theoretical chapter there are four main reasons supported this point of view. First, it allows the company to maintain a consistent image and identity throughout the areas of operation. Second, it minimizes confusion among buyers who travel frequently in area of operation, in our case this are is Eurasia includes such as Kazakhstan, Kyrgyzstan, and Azerbaijan. Third, it allows the company to develop a single, co-ordinated advertising campaign across similar markets (Kazakhstan, Azerbaijan, and Kyrgyzstan). Finally, this approach results in considerable cost savings in advertising illustrative material.

From another point of view CCAB adjusts its promotion strategy to local market in the area of BTL promotion. “It is made in Kazakhstan” – became the popular slogan in Kazakhstan nowadays. That way company define themselves as a local company and contribute to society by sponsored a number of cultural projects and sports activities, participated and promoted preservation of a national cultural heritage of the country. As we presented in our empirical chapter, CCAB lunches campaigns according to market potential such as much more attractive for young generation.

5.4. Summary of analysis

5.4.1. CCI’s international business marketing strategy

- Company’s reputation, the "Coca-Cola" brand and product reliability are most important intangible assets for CCI.
CCI focuses on both of brand attributes: intrinsic and extrinsic, when developing strategy in Turkey and Kazakhstan markets. Marketing communications plays an important role in the development of brands. Regarding to our empirical data, CCI’s message is communicated through merchandising activities, display stands and point-of-sale materials in both emerging countries. And their successful branding is partly the result of effective marketing communications.

The company uses the extended product-communication adaptation strategy as well innovate new product offerings to meet their customer’s needs in Kazakhstan market. CCAB has different brand portfolio and promotion strategy in Kazakhstan.

CCI’s distribution network in Turkey and Kazakhstan services their customers through their direct distribution system and through independent distributors. Key accounts and potential of the areas determine the kinds of distribution channels.

Company use distributor advisors in both emerging country to be able to monitor and support their distributors and to ensure that distributors meet CCI’s delivery and merchandising standards. They also offer some incentives to their distributors and retailers to develop close relationships and to motivate them.

CCI has both distributor network specialist and distribution specialist profiles in each emerging markets. Because company has marketing capability thereby using direct networks and intermediary networks.

CCI uses a combination of push and pull strategies including both encouraging the intermediaries to stock the products and attracting end users to buy in each emerging countries. They try to increase the attractiveness of their products at the point of sale. In this sense they provide creative display stands and point-of-sale materials.
Merchandising, social activities and sponsorships are the other methods of creation brand and product awareness.

5.4.2. Environmental analysis

Through our analysis of our empirical material and theoretical framework we obtained that the different institutions in the external environment influence international business marketing strategy. Economical situation directly effects CCI’s operations and activities in Kazakhstan. Culture also influences CCI operations through difference in consumption preferences of local consumers, which were directed aside traditional drinks. The legislation obviously affects the company as well, resulting in local production. On the other hand government, politician, education and religion have not much impact on CCI’s operations in Kazakhstan.

5.4.3. CCI’s adaptation to Kazakhstan market

The company often tailored the flavor, packaging, price, promotion and distribution to match the needs in specific markets. CCAB adjusted their brand portfolio to Kazakhstan market by including new juice brand Piko. Company define themselves as a local company and contribute to society by sponsored a number of cultural projects and sports activities, participated and promoted preservation of a national cultural heritage of the country. CCAB also lunches campaigns according to market potential such as much more attractive for young generation. Due to the size of the country, underdeveloped infrastructure conditions in Kazakhstan, and lack of big retailers, especially if we will compare to Turkey market, CCI adapts distribution strategy to conditions of Kazakhstan market.
6. CONCLUSIONS

In this chapter we will present our conclusions that are gotten from the study. This chapter will provide answers to our research questions, as well as our main question.

Research question 1

What does the MNC’s existing international business marketing strategy look like while comparing one emerging market to another?

We find that our case company is the ten largest bottlers with respect to sales volume, within The Coca-Cola System which is ideally positioned as a regional bottler with a healthy portfolio of brands, a strong market position, balanced geographic coverage and excellent management team. CCI’s core elements of international business strategy are:

• Drive long-term, sustainable and profitable growth,
• Enhance competitive position through best practices implementation,
• Leverage key capabilities and best practices (including procurement, production, supply chain, sales, distribution and IT) across all operations,
• Expand into new territories.

Company’s business is to produce, sell and distribute carbonated soft drinks and noncarbonated beverages in Southern Eurasia (Turkey, the Caucasus and Central Asia) and the Middle East.

Brand/product strategy

In area of product/brand, CCI’s strategy is to grow CSD brands ahead of GDP and strengthen their position in NCBs. Most of the brands are presented to consumers in specific countries, some of them in only a single country. The simple reason behind this brand diversification is that, different people like
different beverages at different times for different reasons. To gain the needs and demands of these new consumers, brand, package and product innovations remain at the core of product/brand strategy.

We find that CCI focuses on both of brand attributes: intrinsic and extrinsic, when developing strategy in Turkey and Kazakhstan markets. Marketing communications plays an important role in the development of brands. Regarding to our empirical data, CCI’s message is communicated through merchandising activities, display stands and point-of-sale materials in both emerging countries.

In Kazakhstan market, company uses the extended product-communication adaptation strategy as well innovate new product offerings to meet their customer’s needs.

**Distribution strategy**

According to our findings in empirical part in Turkey and Kazakhstan, CCI’s distribution network services their customers through their direct distribution system and through independent distributors. Their distribution networks change according to key accounts and potential of the areas.

Company use distributor advisors in both emerging countries to be able to monitor and support their distributors and to ensure that distributors meet CCI’s delivery and merchandising standards.

We find CCI has both distributor network specialist and distribution specialist profiles in each emerging markets. Because company has marketing capability thereby using direct networks and intermediary networks.

**Promotion strategy**

In the area of promotion strategy, CCI uses a combination of push and pull strategies including both encouraging the intermediaries to stock the products and attracting end users to buy in each emerging countries. Also company gives
big attention to merchandising, social activities and sponsorships as methods of creation brand and product awareness.

Research question 2

What kind of factors in the external environment may influence MNC’s international business marketing strategy on the target market?

According to our study we can identify number of local external environmental factors in Kazakhstan that have a certain influence on CCI’s operations in the country. This influence is not equal, some environmental factors influencing more than others. Economical situation has largely effected CCI’s operations and activities in Kazakhstan. This factor directly effects consumption level and purchasing power and behavior of local consumers. Rapid economic growth has helped to raise the living standards and consumption spending in Kazakhstan. These positive improvements effect to increase sales of CCAB.

The legislation has obviously affected the company as well, resulting in local production.

Cultural issues are also influenced CCI operations in Kazakhstan. That expressed through difference in consumption preferences of local consumers, which were directed aside traditional drinks.

Otherwise government and politicians have not much impact on CCI’s operations, on the contrary stable political situation in country provides relatively stable environment for business.

We can draw a conclusion that no environmental factors created any big problems for CCI operations in Kazakhstan. However, some of the environmental factors influence company activities and it resulted in local adjustments in the business marketing strategy.
Research question 3

What kind of local adaptations has the MNC made in its international business marketing strategy on the target market?

Our study has shown that CCI does not institute a uniform marketing programme in each of its markets. The company often tailored the flavor, packaging, price, advertising and distribution to match the needs in specific markets. Perhaps the most standardized element of CCI is its product appearance. Coke essentially keeps the same basic look and packaging of the product everywhere.

According to our empirical findings distribution exhibited the greatest degree of adaptation. Distribution network in Kazakhstan is very wide and different, because of the size of the country, underdeveloped infrastructure conditions in Kazakhstan, and lack of big retailers, especially if we will compare to Turkey market. All this factors have led to necessity to adapt CCI’s distribution strategy to conditions of Kazakhstan market.

Also in promotion strategy, they made some adjustments according to local needs. CCAB adjusts its promotion strategy to local market especially in the area of BTL promotion. “It is made in Kazakhstan” – became the popular slogan in Kazakhstan nowadays. That way company defines themselves as a local company and contributes to society by sponsored a number of cultural projects and sports activities, participated and promoted preservation of a national cultural heritage of the country.

Adaptations that were made in product strategy were voluntary, such as updating of brand portfolio with juice Piko (local Kazakhstani brand), Cappy and also production of Nestea in new packaging. Also in area of labeling adaptation was mandatory according to requirement of local legislation system, where all informations on packaging have to be on state language.
Main research question

_How an MNC operating in the beverage industry can adapt its international business marketing strategy between emerging markets?_

We can draw a conclusion that our case company prefers to use methods of adaptation to the local market in area of promotion and distribution strategies for full satisfaction needs of end consumers in each market where it has operations. At the same time such core resource as brand, company prefers to keep standard. Realizing those facts, that the company conducts operations in developing markets where the environment is unstable, complex and unpredictable, CCI understands the necessity of detailed studying and analysis of an external environment with the purpose to define factors which in a greater degree can affect operations of the company. With aspirations to be one of the leading bottlers of alcohol free beverages in Southern Eurasia and the Middle East CCI enters each new market with standard brand portfolio tries to make adaptations of promotion and distribution strategies to conductions of local market and to get external fit which will bring competitive and societal advantages for CCI on those market where company operates.

In Kazakhstan we should note such external environmental factor as economy, legislation and culture, which have influenced on international business marketing strategy of CCI. It is important for company to understand costumers, their habits, traditions and conductions of living to develop good relationships with them and offer correct and necessary product which will satisfy customers’ needs and expectations.

Today multinational companies are realizing they must develop long-term, mutually beneficial relationships throughout the company and beyond. In short, multinational companies are developing orientations that focus on building collaborative relationships to promote long-term alliances, and they are seeking
continuous, mutually beneficial exchanges instead of one-time sales or event. Based on this relationship perspective marketing process and marketing strategy can be viewed from the institutional network approach. In this way the MNC’s marketing strategy is integrate with the network perspective, which facilities the adaptations of the international business marketing strategy to the needs of each specific emerging market.
7. RECOMMENDATIONS

In the final chapter we will provide our recommendations based on our findings of the thesis. We think that our suggestions will help CCI and also all other MNCs to improve their international business marketing strategy in Kazakhstan, and possibly other similar emerging markets.

Adaptation vs standardization

The companies should simultaneously focus their attention on aspects of the business that require global standardization and aspects that demand local responsiveness. Operations in local market necessitate the maintenance of the appropriate local flexibility. Making differentiations and adjustments in business marketing strategies among markets can give profits and be proper way to maintain competitive and societal advantage. In this sense balance between standardization and adaptation is critical issue in international business marketing strategy. In Kazakhstan market, CCAB’s success depends on combination of adaptation and standardization in their operations. We recommend CCI to balance between these two aspects and develop their strategies according to differences among all countries which they operate.

Analyzing external environment

For the companies, it has to be essential to realize, how important is to examine of local market prior to a new establishment. Identifying which environmental factors will affect the company, which will require adjustments, and which can be influenced by the company.

Situation in emerging markets is unstable, this markets is in transition process, in under development. After establishment it is highly necessary to follow this development carefully and identify early ongoing trends on the market. Changes in economy, financial market, political system and legislation can
rapidly affect the consumers’ buying behaviors. Therefore CCI should follow
the development of the markets which they operate in order to be able to
successfully position themselves and their strategy.
On the other hand while companies bring new values to local market to get
profit and to increase their position in the market, they also have to influence
positively local society by providing benefits for them such as supporting social
activities and contributing society. In that way, they can be more close to local
society and to present company like a local.
CCI should continue to participate in community life through local events such
as social activities and sponsorships. As it was found through our research in
Kazakhstan beverage industry is not play big role in economical life of country.
CCI also should support the development of business events and exhibitions
related to beverage industry in the local market to increase the role and
importance of soft drink position in the beverage industry among potential
customers.

**Building strong and long-term relationships**
In order to increase the competitive advantage and gain an increased loyalty
among the customers, distributors and retailers, companies need to effort
developing personal relationships with them. Through the Turkish and
Kazakhstani experiences, we deduced that motivations and incentives play
crucial role for CCI. They must use these kinds of motivations and incentives
for their customers, distributors and retailers for each country where they
operate.

**Successful international business marketing strategies**
- Marketing communications play an important role in the development of
  brands and product awareness. It provides emotional selling attributes
  which can enable consumers to make positive brand associations and to
affect buying behavior. In our opinion, spending time on deeper understanding communication activities and way of using them can be useful for CCI.

• CCI may also develop cooperative advertising campaigns or provide advertising allowances to encourage retailers to promote their product. It is also useful to strengthen relationships between CCI and retailers.

• CCI place much emphasis on product differentiation through flavour, packaging and display of products in the supermarkets etc. CCI should continue to be creative and innovative by innovating in terms of product development and packaging.

• Kazakhstan is a big potential market for CCI with young population. We deduced that their drinking norms are more close to traditional drinks such as tea and milk. In this sense the process of getting the products especially juice segments which are healthier, to the end consumer is too important. CCI should make products widely available in all children’s environments such as preschools, schools and after school to be able to attract more young population.

• Considering the fact that retailers sector is growing up in Kazakhstan CCAB has to change their preferences from indirect to direct distribution and to focus on building strong and long-term relationship with retailers.
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**Interviews**

Kamran Iskenderov, country marketing manager, Kazakhstan, telephone and mail interviews, frequent contact during whole thesis writing process

Mert Yilmaz, international services business support analyst, Turkey, personal, telephone and mail interviews, frequent contact during whole thesis writing process

Respondent 1, telephone interview, frequent contact during whole thesis writing process
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