

**Е. В. Колганова  
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**INTERNATIONAL COMMERCIAL OPERATIONS  
AND INTERNATIONAL BUSINESS COMMUNICATIONS**

**Международные коммерческие операции и  
международные деловые коммуникации**

**Textbook  
for undergraduate and graduate students studying Management Science**

**Учебное пособие  
для студентов, обучающихся в бакалавриате и магистратуре  
по направлению «Менеджмент»**

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This textbook is devoted to the main issues of International Management that can cause problems for companies involved in International Business. It includes the basic concepts of International Management that concern International Commercial Operations and International Business Communications. It consists of systematised data on issues of international commercial operations development, on their types and peculiarities as well as basics of barriers and specific traits of international business communications.

This textbook is designed for specialists, professors, undergraduate, graduate and post-graduate students that study Management Sciences and other sciences and interested in International Management, International Business, International Commercial Operations, Business Communications in International Business, Cross-Cultural Management etc.

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## Introduction

Successful international business is associated with the need to gain knowledge and experience in various areas related to foreign economic activity. Frequent mistakes that arise among businessmen and employees of companies engaged in international business are associated with insufficient knowledge of international commercial operations. There are situations when even experienced specialists, engaged only in a certain type of international activity, do not have a clear idea of other opportunities in the sphere of international business and face significant difficulties when it is necessary to apply a flexible approach and restructure the business in accordance with the requirements of the external and internal business environment.

Another serious barrier to prosperity in international business may be the lack of a clear understanding of the specifics of business communications in different countries and cultures. Despite globalization and free access to various kinds of information about any aspect of activity in any country, many specialists lack an understanding of how it is necessary to maintain interaction with companies and representatives of other cultures for mutually beneficial cooperation.

In this textbook, the authors have attempted to bring together the basic issues of international business related to international commercial operations and international business communications.

This textbook is designed for undergraduate and graduate students studying at Management programmes, but it will also be interesting for a wide range of readers.

# Chapter 1. International Commercial Operations

## Definition and Classification of International Commercial Operations

The classical classification of international commercial operations is undergoing noticeable changes today. The conditions of the international business environment are changing under the influence of political, economic, and social factors that are in constant motion. But the most noticeable changes are taking place today under the influence of technological factors that dictate a new social order, which became especially noticeable during quarantine measures during the coronavirus pandemic.

However, in order to talk about what changes are taking place, it is necessary to recall the classical concepts.

The definition of the term "international commercial operations" consists of the basic concepts of "operation", "commercial" and "international". Operations (for the purposes of this textbook) are traditionally understood as actions or their combination taken to achieve a goal. The word "commercial" adds that these actions are aimed at making a profit. And the definition of "international" indicates that entities located in different countries take part in this activity.

Thus, it turns out that **international commercial operations are activities in which participants are entities located in different countries, aimed at obtaining profit or other benefits.**

At the heart of any international commercial operation **export** and **import** are placed. Export refers to the getting anything outside the territory of the country of production for commercial purposes and import, respectively, refers to the getting into the country for commercial purposes of anything that was produced outside the country.

International commercial operations can be classified on various basis.

Firstly, all international commercial operations are divided into two large groups: **the basic (primary)** and **the supporting (secondary)**.

Every international commercial operation is complex in its nature. It includes a group consisting of at least two operations. There is an operation, which is a basic one and is executed by a contract between the seller and the buyer. And there are supporting operations that are designed to create conditions for performing the main operation.

For example, the main operation may be the purchase and sale of equipment between a seller from Russia and a buyer from India. They make an appropriate international agreement for this purpose. But in order to pay for this operation the buyer needs to use some bank services in order to transfer funds to partner's account under the contract. Banks can provide additional guarantees of the transaction as an additional service. In this case the acquisition of these financial services will be a supporting operation in relation to the main operation.

In addition, the goods must be delivered to the buyer. The logistic services of a transport company, which will carry out transportation, also in relation to the main operation will be a supporting operation. The same group can include insurance, storage, customs clearance, forwarding, and so on.

All the above operations being supportive for the one specific contract are at the same time the main ones for their providers. So, this type of the classification mainly used to understand the complexity and interconnectedness of international commercial transactions.

The most obvious basis for classification is the object of the operation.

By object, international commercial operations can be divided into the following groups:

- operations with goods,
- operations with services,

- operations with technologies,
- operations with capital.

According to the method of implementation, operations with goods and services can be divided into **direct** and **indirect**.

Operations with technologies can be divided into **international licenses trading, international franchising, international know-how trading**.

Next, operations with capital could be divided into **direct investments**, a type of which, among other types, **joint production** and **portfolio investments** are.

### Export operations Methods

International commercial operations with goods can also be classified by their implementation method. Thus, the export of goods can be direct and indirect and there is also a separate method of carrying out export operations – "turnkey".

Direct export means that the sales contract is concluded between the seller and the buyer located in different countries and the transfer of ownership of the goods is carried out in accordance with this contract.

Indirect export assumes that the actor of the export-import operation, along with the seller and the buyer, is an intermediary who acquires the goods from the seller for the purpose of subsequent sale to the final buyer. At the same time, this intermediary can be located both in the buyer's home country and in the seller's home country.

Various intermediaries can also be included in the process of direct export operations. For example, a seller may hire an agent for the purpose of finding a buyer. The agent can also provide a service related to market analysis. It is even possible that all payments for the goods and the goods themselves also pass through the agent.

The key difference between direct and indirect exports is that with direct exports the intermediary receives fee for the services rendered, does not become the owner of the goods and, accordingly, does not assume the risks of its sale on the foreign market.

In case of indirect export, the intermediary makes a profit due to the difference in the purchase price of the goods from the seller and the sale price of the goods to the final buyer. The meaning of this operation is that the intermediary assumes all the risks of selling the goods on the foreign market. He can also carry out the sale of a small batch of goods, with which it is traditionally difficult to enter the foreign market independently.

Traditionally, it has been assumed that indirect exports involve much less risks for the seller than direct ones. However, with the development of e-commerce, the situation has changed. The setting of international aggregator companies that provide a platform for selling products to almost everyone on terms of relatively low fees (compared to the costs of "physical" direct export) has opened up new opportunities for direct export and made it much less risky and much more profitable.

In order to sell their products on AliExpress, companies do not necessarily have large production volumes, they do not need significant and especially foreign assets, there is no need to even study the foreign market, since each manufacturer receives maximum market coverage and maximum representation in all countries of the world where the aggregator operates, and this is more than 220 countries out of 258 official regions.

A new concept of "ecosystems" has appeared, which means systems created by companies mainly based on the aggregator platform. These systems create conditions for attracting to the system certain companies that will work in cooperation with each other.



These ecosystems can be both international and national. International systems are aimed at attracting companies from different countries and are focused on international consumers. National systems are oriented to domestic markets.

It turns out that in the conditions of modern reality, direct export can be even less risky operation than indirect. Manufacturers who choose direct export through aggregator companies receive all the benefits of direct export, including:

- pricing control,
- receiving feedback from the consumer,
- the opportunity to promote their products, although limited by the conditions provided by the aggregator, it provides for much lower costs than with independent promotion, etc.

At the same time, there are also advantages of indirect exports associated with low risks of entering foreign markets, including:

- low risks of non-payment for products, since aggregators most often provide a payment system for products that is as safe as possible for both the buyer and the seller,
- the possibility of selling products in small batches without additional costs for the organization of distribution channels;
- there is no need to organize the delivery of products, since this part of the transaction is taken over by the aggregator's partner company or himself, etc.

#### International contract of sale of goods

International sale contracts are regulated both by the national legislation of the country where the parties of the contract are located and by the United Nations Convention on Contracts for the International Sale of Goods (Vienna Convention on International Contracts for the Sale of Goods).

This Convention applies to all international contracts for the sale of goods with the exception of the following cases:

- purchase of goods for personal use under the contract except the cases when the seller under the contract did not know or could not know that the goods were being purchased for personal use;
- purchase of goods at auction;
- purchase or sale of goods by virtue of law or by way of enforcement proceedings;
- acquisition of securities, shares and other financial market instruments;
- purchase of aircraft or water vessels, including hovercrafts;
- purchase of electricity.

The Convention contains a number of articles that describe the structure of an international contract for the sale of goods, as well as prescriptions that can be used in cases where it is necessary to resolve disputes under international agreements. This document may be specified in the contract by agreement of the parties as the basis for arbitration and in this case will be used as a priority even in relation to the law of the States to which the parties to the contract belong.

It should be noted that in accordance with Article 11 of the Convention, an international sale contract can be concluded in any form, not necessarily in writing. And as a confirmation of the conclusion of an international treaty, witness testimony can act.

However, Article 96 states that the provisions of Article 11 are not valid if, according to the national legislation of one of the countries to which the parties to the contract belong, an international agreement can only be concluded in writing.

In relation to the Russian Federation, the Civil Code of the RF prescribes that if the amount of the contract is more than 10,000 rubles, or a legal entity participates in a transaction with one or both parties, then the contract must necessarily be concluded in simple written form.

The main law regulating the purchase and sale at the international level in Russia, along with the Civil Code, is Federal Law No. 164-FZ "On the Basics of Regulating Foreign Economic Activity".

Terms of the contract:

- Mandatory (if one of the parties violates these conditions, the other may terminate the contract and claim damages):
  - Names of the parties
  - Subject of the contract
  - Quantity and quality
  - Payment terms
  - Basic terms of delivery
  - Price
  - Official addresses of the parties and signatures
- Additional terms
  - Packaging and labeling
  - Delivery and acceptance
  - Insurance
  - Transport documents
  - Guarantee
  - Force major
  - Requirements
  - Arbitration
  - Other conditions

Paragraphs of the agreement:

- Preamble – this part specifies the full names of the parties, and how they will be named according to the text of the contract.
- The subject of the contract is the essence of the contract, about which the parties agree.
- Price is the cost of a unit of goods indicated in the currency of the contract price (as agreed by the parties).
- The total amount is the value of the agreed quantity of goods sold, indicated in the currency of the contract price (as agreed by the parties).
- Payment terms mean the form of payment, the currency of payment, payment terms and other conditions relating to payment under the contract.
- Terms of delivery mean the basis of delivery (in accordance with Incoterms, conditions and terms of transportation, etc.).

- The quality of the goods includes technical conditions, specification, indicators of quality control of the goods, standards, etc.
- Packaging and labelling, these are the features of packaging and labelling of cargo in accordance with the properties of the goods.
- Delivery and acceptance of goods include conditions of departure and acceptance of goods, necessary and sufficient documents for acceptance.
- Responsibility of the parties mean what each of the parties to the contract is responsible for, in which cases what sanctions can be applied to a party that has not fulfilled its obligations in full.
- Arbitration regulates in accordance with the legislation of which country or in accordance with which agreements the settlement of disputes under the contract will be carried out.
- Force majeure includes what conditions will apply to force majeure circumstances that are accepted as objective circumstances that prevent one or all parties from fulfilling the contract.
- Warranty means terms and conditions of warranty service.
- Other conditions.
- Details, addresses of the parties, seals, and signatures including up-to-date data on each of the parties in accordance with official documents.

#### Features of international commercial operations with services

International commercial operations with services are more difficult to imagine, since services are intangible. A service is understood as the result of some action that is performed during the interaction of the seller of the service and its buyer. This means that in the process of rendering the service, direct interaction between the buyer and the seller is necessary, what and how does it cross the border in this case? There are actually several possibilities for this. Ways to export services according to the WTO [15]:

- Method 1 – Cross-border delivery of services. Consulting services, information transmission using various means of communication, international financial services, transport logistics services, etc.
- Method 2 – Moving consumers to the exporting country. Tourist services used by a foreign guest in the country of his temporary stay (restaurant business services, local tourist services in the host country, etc.), ship repairs in another country, etc. – the consumer of the service does not need to come.
- Method 3 – Establishment of a commercial presence in the country consuming the service. The opening of a subsidiary or branch in the host country by the service provider company (restaurants, consulting business, banking services, medical services, etc.).
- Method 4 – Temporary relocation of individuals to another country in order to provide services. Arrival of a foreign doctor to provide services, visiting lectures of foreign teachers, invitation of foreign specialists to participate in the project.

The group of services in the country statistics most often includes such an object of international commercial transactions as **work**.

The main differences between the performance of work and the provision of services are as follows.

The purpose of the work is to achieve a certain result that has a material embodiment, implying the creation of something new or a change in the quality of an existing object (building a house, laying water pipes, drilling wells, etc.).

The result of the work may also be something that does not have a material embodiment, for example, work on the creation of a website [13, p. 1 art. 702, p. 1 art. 703]. When it comes to the provision of services, the process of rendering services itself, the activity of the contractor [13, p. 1 art. 779], which does not lead to the creation of a material result, is important for the customer.

In many cases, it can be difficult to separate services and work, for example, what is considered a major repair, work or service? On the one hand, nothing new that has a material embodiment is being created, and on the other hand, during the renovation, it is possible to redevelop the apartment- is this already a change in the quality of the object or not yet? That is why works for statistical purposes are included in the services.

In accordance with the data of the World Trade Organization the services can include [15]:

- business services,
- communication services,
- construction and related engineering services,
- distribution services (including wholesale and retail trade services),
- educational services,
- services related to environmental protection,
- financial services (insurance, banking and securities market services),
- health and social security services,
- tourism and travel-related services,
- services for the organization of leisure, cultural and sports events (except audiovisual services),
- transportation services,
- other services not included in the list (for example, household services).

The special attention should be paid to the following types of the services and works that have a significant impact on the structure of international business today:

- contract manufacturing,
- contract management,
- the lease and leasing contract.

### [International contract manufacturing](#)

International contract manufacturing as an international commercial operation with services means the conclusion of a contract with a foreign counterparty for the permanent production of products for the customer for a certain period in accordance with the customer's specification and often from materials provided by the customer.

This kind of international commercial operation is a basis of the outsourcing and that is why it could be considered as one of the key operations in the international business.

Some of the key points of the manufacturing contract are: product quality, production conditions, quantity, delivery time, certification. In this commercial operation, the contract usually envisages testing of products by the customer in accordance with the specification, as well as the conditions for changing the order, possible compensation and guarantees in case one of the parties violates the contract.

Many companies can feel benefits of using contract manufacturing. Especially this international commercial operation can be effective when used in the following situations:

- shortage of own production facilities;
- significant obstacles to exporting to the specific country or the high cost of exporting;
- lower cost of production in the host country, etc.

There are two types of contract manufacturing:

- the contractor performs some operations within the framework of the production of finished products (produces individual components, for example, in this case, several performers may be involved in the production of finished products);
- the contractor fully manufactures the finished products.

### International contract management

International contract management assumes that the company provides enterprise management services in accordance with the contract and the other party provides the necessary capital.

In order to be able to provide such services the selling company needs to have a sufficient staff of qualified managers and know-how in the field of management. At the same time contract management is impractical from the point of view of the service provider in cases where the independent implementation of such activities by the company would be more profitable or when the management staff is insufficient to manage both the seller and the customer company itself.

An example of the use of this international commercial operation can be the management of various hotels and hotel complexes by the Hilton Worldwide management company.

### International rent and leasing

In the case of international leasing the leasing company provides some tangible assets for rent to a foreign customer for a certain period of time followed by a possible transfer of ownership on agreed terms.

International rent differs from international leasing in that it does not imply the possibility of transferring the rental property to the lessee.

International leasing assumes the presence of the following entities:

- the seller who is the supplier of the leasing object,
- the leasing company which may be a commercial enterprise, a banking or non-banking financial institution,
- the recipient is a natural or legal person who accepts the goods specified in the contract for use in accordance with the terms and conditions specified in the agreement.

Since in the case of international leasing, the entities are residents of different states, in case of disputes, arbitration can be conducted in accordance with:

- with the laws of any country by agreement of the parties to the leasing operation, the choice of country does not depend on the nationality of the subjects of the leasing operation, the analysis of concluded leasing agreements between subjects of different countries shows that the legislation of the UK is most often applied;
- with the UNIDROIT convention in the event that the countries of the subjects of the leasing operation have signed it;

- with the legislation of the lessor country in the event that the UNIDROIT convention cannot be used, and the parties to the contract cannot come to an agreement on the choice of a certain right.

Often, the lease agreement includes clauses on additional services or works carried out before the start of using the object of the leasing operation, for example, maintenance of equipment in order to maintain its operability.

There are several types of international leasing:

- **Financial leasing.** The leasing company acquires ownership of the property for renting it out most often for the entire lifecycle of operation, in this case the lessor gets the opportunity to cover all his expenses, as well as make a profit. In accordance with the terms of the transaction, during the entire term of the contract, the recipient regularly pays the lessor a certain amount for the use of the leasing object.
- **Returnable leasing.** The peculiarity of this transaction is the fact that the recipient under the lease agreement is simultaneously the seller of products that represent the object of the leasing operation. That is, for example, the owner of construction equipment sells it to a leasing company, after which he enters into a contract with this company to lease the same equipment. This type of leasing allows the company to continue its activities in case of a lack of liquidity and inability to keep expensive equipment in the property.
- **Leverage.** This type of leasing is essentially a form of financial leasing and is used for large-scale projects designed for very long periods, calculated in tens of years. The object of such leasing operations can be equipment for mining, hydroelectric power plants, etc. A feature of leverage leasing is the attraction of credit funds, possibly from various banks, insurance of the leased object and the return of lease payments using insurance pools. Thus, many parties are involved in the transaction.

#### International trade in licenses for patents and know-how

The international commercial operation "export/import of licenses" allows counterparties to exchange technologies on a reimbursable basis. A license means a permit that one party to the agreement – the licensor, who is the owner of a patent for an invention, industrial design, trademark or other scientific or technical achievements, or the owner of another intellectual property product that does not have legal protection (know-how) – authorizes the other party to the agreement – the licensee – for what is stipulated in the agreement remuneration and in accordance with certain conditions to use the object of this right or property.

Licenses can be divided into 3 types depending on the amount of rights transferred: simple, exclusive and full.

A **simple license** implies that, in accordance with the agreement, the licensor provides the licensee with the opportunity to use the license object independently for a specified period without the right to transfer the license object to other persons. At the same time, the licensor can implement an unlimited number of the same licenses under the same conditions. This type of license is widely used in the production of mass-demand products. In cases where production volumes are large and demand is constant, the presence of several licensees is not so noticeable as to create noticeable competition between them.

An **exclusive license** implies the transfer to the licensee of exclusive rights to use the object of the license in a certain territory, in a certain industry or in accordance with any other conditions. At the same time, in accordance with these restrictions, the licensor does not have the right to use the object of this license himself, as well as to implement licenses for the use of the same object in a specified territory, industry, etc. But the licensor has the right to independently use the license object and implement other licenses on terms that do not contradict the terms of the license agreement already concluded.

Thus, by acquiring an exclusive license, the licensee acquires an additional competitive advantage stipulated in the license agreement. This type of license is most often used in international trade.

A **full license** implies that for the duration of its validity, the licensor retains only the copyright to the object of this license. The licensor has no right to use it independently for commercial purposes or to implement other licenses for this object during the validity of this license agreement.

The object of the license can be:

- patent;
- know-how;
- the patent and the accompanying know-how.

The license for patent assumes that the licensee has a sufficiently developed technological base in order not only to acquire the right to use any protected technology, but also to be able to use it.

A patent is a document certifying the authorship, priority and exclusive right of the patent holder to the object of the patent – an invention, utility model, industrial design or selection achievement. The patent has a limited validity period, which depends on the country and the object of patenting. A patent is issued by the relevant patent office on the basis of the author's application.

To register a patent, it is necessary that the object of registration corresponds to a number of certain features. For example, in order to register an invention, it is necessary that this invention has a technical novelty, is not obvious, that is, has an inventive level, has industrial applicability.

When registering a utility model, the inventive level is unimportant, industrial applicability and novelty of a set of essential features are important here. The disadvantage of a utility model for a patent holder is that at the slightest change in its utility model by the user, the new product gets out of patent protection and can be used without any restrictions.

Novelty and originality are important for the registration of an industrial design. By itself, an industrial design is an intellectual property object related to appearance, design, ergonomics, etc.

In order to register an object of intellectual property, the patent office is provided not only with the application for registration itself, but also with the basic documentation for the object of patenting. And after obtaining a patent in the registry, it will be possible to find the main documentation for the intellectual property object protected by the patent, just in order to mark the boundaries of protection.

It is obvious that in such conditions it is practically unprofitable to register a utility model, since it is almost the same as just telling everyone about it, and for the registration of an invention, there may not be enough technical novelty. In these cases, companies often prefer not to register an intellectual property object, but to protect information about it by the company, that is, using trade secrets. In this case, this intellectual property object becomes know-how and a license can also be implemented for it.

The agreement on the implementation of the know-how license is protected by a trade secret and involves serious sanctions for disclosure of information by the licensee. Usually, the implementation of know-how is not stipulated by deadlines, since the revocation of the license for the use of know-how does not make sense.

Patent licenses are often implemented together with related know-how, as companies tend to disclose, if possible, not all information about the invention in the patent documentation. In addition, there are nuances of the most effective use of the invention. Know-how can be transferred in the form of documentation, or in the form of consultations.

The license agreement may provide for the possibility for a licensee who has acquired an exclusive or full license to grant sublicenses, which, in terms of the rights granted, will be simple licenses.



The license agreement may also specify separately whether the export of products manufactured using the license is allowed or restricted. Such restrictions, in addition to commercial reasons, may be based on the limited validity of the patent. In some cases, when the author of an invention chooses to register it only in certain countries, in other countries the same invention may be registered to another author. In these cases, a conflict of interests is possible, then it is impossible to import for commercial purposes products created using such a patent to those countries where this invention has a different patent holder.

The license agreement may also provide for the need to transfer information to the licensor about possible improvements to the license object.

### *License payment*

The following types of license fees can be distinguished:

**Royalties** are periodic regular deductions, which are set in the form of fixed interest rates and are based on an assessment of the actual economic result of using the license.

**Lump-sum** payments are a fixed amount paid under the contract as a license fee. This amount can be determined based on the assessment of the possible economic effect or the expected profit of the licensee from the use of the license. The agreement may specify whether the lump sum payment will be paid in a lump sum or in instalments. The advantage of this type of license fee is that the licensor receives the entire amount of license payment in a relatively short time and without any risk.

Combined payments are often used in practice. They are a combination of a one-time lump sum payment and periodic royalty payments.

### *International franchising*

Franchising inherently has a lot in common with license trading. This international commercial operation is also based on intellectual property, but in the case of franchising, this is not a registered or protected by a trade secret technology, but a business model. The seller and developer of this business model – the franchisor – can implement a whole package of licenses and know-how within the framework of this international commercial operation.

The franchise agreement itself includes not only the conditions for the use of technologies and intellectual property, on which the implemented business model is based, but also the conditions for achieving high performance indicators of the company being created, as well as, in most cases, the conditions for supporting the franchisor and interaction within the network, including the franchisor and all his franchise buyers – franchisee.

In fact, franchising is a long-term partnership between a franchisor and a franchisee and between different franchisees of the same franchise.

This international commercial operation can be used by companies to reduce the risks of activities in foreign markets.

In accordance with the franchise, the franchisee acquires the rights to use the franchisor's brand, production and sales technologies, corporate culture, etc. In turn, the franchisee is obliged to create an enterprise in accordance with the strict requirements of the franchise, which prescribes such issues as the location of the enterprise, its area, design, necessary equipment, recruitment procedure, pricing for finished products and the procedure for its sale, etc.

Such strict requirements are due to the fact that for the franchisor the use of this international commercial operation is generally profitable and convenient, but also involves significant risks. These risks are primarily related to the fact that in the eyes of the consumer, legally independent franchisee organizations are associated with the franchisor, since they carry the same trade names, sell the same goods or services. Therefore, the mistakes of one franchisee affect all other franchisees and the franchisor himself.



Of course, among the companies using this international commercial operation, there are also those where the relationship between the franchisor and the franchisee is very conditional, but in the classic version of franchising, the relationship within the franchise network is close and implies a number of serious mutual obligations. For this reason, in such companies, the franchisor carefully selects potential franchisees before concluding a contract with them, since in fact they are future partners.

The obligations of the franchisor under the contract include, among other things:

- providing franchisees with complete information on the organization of the company being created,
- granting franchisees the rights to a full package of licenses and know-how related to the company's activities,
- consulting services on business organization (possibly for an additional fee),
- support for franchisees under the contract,
- providing franchisees with information about the necessary equipment or the equipment itself (for an additional fee),
- organization of advertising campaigns (usually all franchisees make deductions for advertising, which the franchisor is engaged in),
- maintaining the company's reputation at a high level, etc.

The responsibilities of a franchisee include:

- strict adherence to the business organization instructions specified in the franchise,
- payment of remuneration stipulated by the franchise agreement on time and in full,
- contribution to maintaining the reputation of the company,
- maintaining partnerships with the franchisor,
- providing full information to the franchisor about the improvements being introduced in the technologies used within the franchise, before their implementation and further implementation only with the permission of the franchisor, who usually includes such improvements in the franchise and obliges each franchisee to implement them if he finds them useful to the company, etc.

Depending on the franchisor's rights, franchises can be of several types:

- A simple franchise, by analogy with a simple license, is a franchise that is implemented by a franchisee without any restrictions imposed on the franchisor. This means that the franchisor can sell the same franchises in unlimited quantities in any region, regardless of the location of the franchisee, including generating rivalry between their franchisees.

For franchisees, a simple franchise does not provide any special rights. Having acquired a simple franchise, the franchisee can open an enterprise in accordance with it and carry out its activities within the framework of this enterprise in accordance with the franchise agreement.

- The franchise of branch systems or the franchise of the territory developer gives the franchisee the exclusive right to open one or more franchise enterprises in the territory stipulated by the agreement. The franchisor, when implementing this type of franchise, does not have the right to sell other franchises to the same territory.
- The master franchise gives the franchisee the right to implement sub-franchises of a simple type. Thus, in large franchise networks, the franchisor solves the problem of manageability by creating sub-franchisors responsible, for example, for a certain large region.

Remuneration under the franchise agreement is similar to that under the agreement for the international trade of licenses and may take the form of royalties, lump-sum or combined payments.

In Russia, the concept of franchising is not enshrined in law. The Civil Code uses the concept of "commercial concession" instead (chapter 54 article 1027 of the Civil Code of the Russian Federation [13]). In accordance with the commercial concession agreement, the assignment of exclusive rights belonging to the seller to the buyer is provided. The absence of the concept of franchising leads to some difficulties in the design and compliance with international franchise agreements, but the commercial concession agreement is registered with Rospatent, which gives the parties additional guarantees of fulfillment of obligations to each other.

### International commercial operations with capital

International commercial operations with capital are divided into **direct investments** and **portfolio investments**. The first group includes participation in the authorized or share capital of the company in the amount of at least 10% of the share or 10% of the voting shares, respectively, as well as joint production with one or more companies.

Foreign direct investment can be carried out in the following forms:

- acquisition or creation of a foreign subsidiary,
- acquisition or creation of a foreign division in the format of a branch or representative office,
- creation of a joint venture with a foreign partner.

Foreign direct investment as an international commercial operation with capital, like any commercial operation that is the main or initiating one, is rarely carried out independently, usually they are accompanied by a number of supporting operations and operations that are inextricably linked directly to the export of capital in the form of foreign direct investment.

Many operations can act in this capacity, including:

- international license trading operations related, for example, to the creation of a joint venture and the transfer of rights to technologies from one company to another;
- international commercial operations with goods and services of various types, for example, transportation services, export of finished products produced at a subsidiary, consulting, banking and other services necessary for the development of new markets, and other international commercial transactions.

Portfolio investments are best represented by the exclusion method, since portfolio investments represent all investments in debt and equity securities that are not direct investments.

That is, investments in voting common shares in the amount of less than 10% of shares can also act as portfolio investments, since such indicators do not give a real opportunity to influence the decisions taken by the shareholders' meeting, except in cases where, for some reason, the company's capital is so diluted that a given number of shares (for example, 8%) it is the largest package in the hands of a single investor.

In other words, a portfolio of equity securities (ordinary shares) is a portfolio investment when it does not provide an opportunity to exercise effective partial or full control over the issuing company.

Thus, the export of capital in the form of portfolio foreign investments can be carried out by:

- purchase of voting shares in an amount insufficient to be able to participate in the management of the company,
- purchase of preferred shares that do not grant voting rights, but give priority rights to receive dividends and offer increased interest on them,

- purchase of treasury obligations and bonds of the host country,
- placement of bank term deposits in the host country, etc.

### Investment climate assessment

One of the aspects of the international business environment is the investment climate of the country, which allows you to determine the amount of risk of direct and portfolio investments.

Traditionally, ratings compiled on a regular basis by specialized rating agencies, such as, for example, Standard & Poor's, Moody's or Fitch, are used to assess the investment climate.

As an indicator, an integrated rating or one that uses the most effective assessment methodology from the point of view of the decision-maker may be suitable.

Obviously, with the most favorable investment climate, the indicator will be the highest. It is also necessary to take into account the rating class – investment or speculative. Direct investments are recommended when the obtained indicator falls into the investment class. However, situations with a significant sharp increase or decrease in the rating within the same class should be analyzed individually.

Agencies that assess the investment climate of countries do not assign ratings to all countries of the world, and usually, if a country does not have a rating, this indicator is equated to the lowest values for assessing investment risks. However, when assessing the business environment, in order to determine the most effective commercial operations, a real assessment is necessary, which in this case can be carried out both by the company itself and by ordering a separate study from a specialized organization.

It is necessary to pay attention to another approach to assessing the investment climate – the International Country Risk Guide (ICRG) System, which analyzes risk indicators: financial, political, economic. Each of them is evaluated by key components (22 in total for three risks), according to which an integrated rating of the country is compiled as a result, as well as forecasts of its changes. In the integrated indicator, the highest number of points (50) is assigned to political risk. The remaining financial and economic risks are allocated 25 points each. The resulting indicator varies in the range from 0 to 100 points from very low risk (80-100) to very high (0-49.5).

The ICRG risk assessment methodology is publicly available, and users can independently use it for their own risk assessment, as well as modify it at their discretion, depending on specific goals.

Despite the fact that the essence of the ratings of Fitch, Moody's and Standard & Poors is very close, the main factors evaluated in each of the methods are different.

For example, when developing the Fitch rating, the balance of payments of countries and state budgets are analyzed, favorable and unfavorable structural factors of the economy are taken into account, the level of political and social problems in a particular country is assessed.

In turn, Moody's relies more on financial indicators when assessing, when working with which it builds a number of scenarios within which vulnerabilities of both the political and financial and economic situation are identified in relation to various changes taking place in the external environment.

The Standard & Poors methodology has qualitative and quantitative components. On the one hand, a number of indicators of financial and economic activity are analysed. On the other hand, the future potential of public debt servicing is qualitatively assessed.

### Tariff and customs regulation

Obviously, the investment climate ratings do not cover all aspects of the international business environment in a particular country. In particular, none of the ratings assesses the conditions of

customs and tariff regulation or state regulation of international trade, and this factor is one of the fundamental for export operations.

It is important to understand exactly what regulatory measures can be used in a particular country. Tariff and non-tariff instruments of regulation of international trade may be applied in the State.

Tariff instruments of state regulation assume the existence of a customs tariff that regulates payments made by importers when importing goods. At the same time, tariff instruments include:

- customs duties,
- customs quotas.

Non – tariff instruments are divided into:

- quantitative;
- financial;
- methods of "hidden protectionism".

A customs duty is a mandatory payment made by an importer and levied by customs authorities for the transportation of goods of a certain nomenclature group across the customs border. The customs border may coincide with the territorial border of the state, or it may differ from it, for example, when the state is a member of the customs union.

Customs duties are used as an instrument of the country's international trade policy for various purposes, in particular:

- *in order to protect national producers of similar imported goods (protectionism)*. This function applies to import duties. It is possible to import products into the country if its price is lower than that offered by national producers, therefore, in order to preserve domestic production, the state may impose an import customs duty on the import of goods. The importer includes the customs duty paid in the final price of the product. As a result, the product becomes more expensive on the national market, and more domestic producers are able to compete with foreign competitors on price.
- *in order to replenish the state budget*. This function applies to import duties. In addition to protectionism, the state is interested in receiving funds from international trade to the budget, therefore, importers pay a customs duty for the right to trade on the national market, which goes to the state budget. However, despite the fact that the payment of customs duties is carried out formally by the exporter, in fact this is an additional burden for the consumer, who is forced to pay a higher price for the goods. Thus, in reality, the budget is replenished at the expense of the domestic consumer who purchases imported goods.
- *in order to prevent or restrict unwanted exports of goods for which domestic prices are lower than world prices*. This function obviously refers to export duties. In this case, the duty is imposed for companies that can effectively sell their goods on foreign markets, however, this is undesirable for the state for some reason, for example, this product is related to state security issues or involves inefficient sale of the country's natural resources at the state level, etc. Due to the introduction of the duty, it becomes unprofitable for exporters to sell their products in foreign markets, as their effective selling price rises and becomes higher than the global one.

Customs duties in accordance with the commodity nomenclature of foreign economic activity are reflected in the relevant documents. In particular, in the Russian Federation, the Single Customs Tariff of the Eurasian Economic Union acts as such a document, adopted as an annex to the Decision of the Council of the Eurasian Economic Commission of 16.07.2012 No. 54 (ed. of 20.10.2020) "On approval of the Unified Commodity Nomenclature of Foreign Economic Activity of the Eurasian Economic Union and the Single Customs Tariff of the Eurasian Economic Union".

According to the method of collection, customs duties are divided into:

- *Ad valorem* – calculated as a percentage of the customs value of the goods.
- *Specific* – set as a fixed amount to be paid for the import of a unit of goods.
- *Combined* – represent a combined version of the ad valorem and specific duties. Such a duty is established in accordance with two types of restrictions – a percentage of the customs value and a fixed amount. For example, "10%, but not more than 1000 rubles per unit of goods" or "20,000 rubles per unit, but not more than 15% of the customs value of goods".

Depending on the object of taxation, customs duties, respectively, may be:

- import – imposed on imported goods;
- export – imposed on the exported goods;
- transit – imposed on goods transported in transit through the customs territory of the country.

The WTO provides information on customs tariffs applied in a particular country according to the nomenclature of imported products. Every year, the World Trade Organization [15] also issues the document "World Tariff Profiles", in which it provides both summary tables and for each individual country. These profiles contain information not only on customs tariffs, but also on the main export and import partners.

## Chapter 2. International business communications

### The role of communications in international business

In socio-economic systems, communications are an integral part of professional activity, and the ability to carry out business communications is a universal competence of an effective manager.

Numerous studies conducted by various universities and consulting agencies consistently show that managers spend about 70% of their working time on business communications during meetings, negotiations, public speeches, receptions, conferences, presentations, charity and many other events.

A Harvard Business School study based on a survey of the secretaries of the heads of 500 large companies from different countries showed that managers spend about six hours a week working with documents, and the rest of their working time is occupied by business communications. [12]

The famous Canadian researcher Henry Mintzberg claimed that a manager spends 50% to 90% of his working time on communication. [9] The information that the manager exchanges with employees and partners in the process of communication has an impact on all types of management activities, on the implementation of management functions. That is why business communications are the "main connecting process", since information exchange is provided through communication.

Mintzberg's surveys showed that 73% of American, 63% of English and 85% of Japanese executives consider communications to be the main obstacle to achieving the effectiveness of their organizations. At the same time, it should be emphasized that for many managers and employees of companies, by their own admission, business communications and information exchange are a serious problem. [8] Business communication is characterized by a focus on cooperation, the official nature and the presence of regulations, as well as the presence of legal for business communication. [2]

### Types of communications

Traditionally, the following types of communications are distinguished:

- interpersonal and public;
- verbal and non-verbal;
- direct and indirect (distant);
- formal and informal communications;
- internal and external.

Interpersonal and public communications are determined by the number of participants in the communication itself. Public communications are carried out when official information is transmitted to a large number of participants. As a rule, public communications are carried out by a person who has a certain status (official or unofficial but recognized by the communication participants).

In the interpersonal communication we have two participants who are the sender and the receiver at the same moment. The feedback is received by the participants in the process of communication itself.

Verbal communication is done by means of the oral and written speech while transmitting certain information. The information could be transmitted orally during meetings, negotiations, telephone conversations, presentations, etc. Any document (orders, instructions, etc.) with the written instructions or agreements, business correspondence by means of paper or electronic media could be considered the written communication. According to the research of R. Gregory and some other scientists, the weight of the verbal communication does not exceed 10% even though people are constantly communicating with each other.

During the process of communication we receive about 90% of information through the non-verbal channels. In the process of communication the non-verbal signals are considered to be more reliable source of information because they are almost not realized by a sender participant, which means they could be considered more truthful. [4] However, they have an additional meaning just strengthening or weakening the verbal communicative impact. In the communication process the meaning of the non-verbal signals should be interpreted taking into the account the national, cultural, gender and religious affiliation of the participants, as well as the social status and the level of their professional competence. The identification of the true intentions of the participants of a communication process should be based on the entire complex of non-verbal signals during.

It could be said that the direct communication take place when the sender of the message has a direct contact with the audience (negotiations, public speeches, etc.) controlling the information perception of the recipient by means of emotional impact and non-verbal communication.

The indirect (distant) communication is carried out by means different intermediaries or mass media or through the different gadgets (telephone, computer, tablet), which can provide an access to telephone and digital communication – e-mails, chats, social networks. In case of the indirect communication the feedback could be quite difficult.

Formal communication is based on the organization needs, its structure, and it's activities. It is carried by means of different official communication channels, such as: orders, reports, correspondence via corporate mail. Formal communication can be vertical (information moves between different levels of management) and horizontal (the employees or departments are interacting at the same level of the management).

The informal communication could be considered as personal in nature, with no strict rules, models or channels, but at the same time it could be difficultly analysed. Meanwhile, it contains not less amount of the information than official communication channels.

Internal communications are used for the interaction within the organization. External communications ensure the information exchange of the certain organization and external environment by means of the interaction of the company's employees and different business partners and consumers.

### Communication environment of the international business

The interaction between individuals and their groups takes place in a certain space which is called a communication environment.

It should be taken into consideration that during the business contacts in the international management, the communication environment has different contours than during the representatives of the native culture interaction because different features of the national and business cultures of the communication partners make it more complex.

Cultural traditions and norms, which were formed under the influence of geographical location, historical experience, religion, political and economic system, demography and many other factors, reflect a unique way of life and a system of world perception of representatives of different cultures.

The system of cultural values includes attitudes to nature, space, time, society, power, laws, status and style of expression of emotions, which may differ in different cultures. Studying different values of representatives of different cultures could help us understand their true motives and needs, since it is the cultural code embedded in individuals that governs their behaviour. It becomes relevant in terms of the international management during the interaction with business partners from other countries and we are forced to compare our own and their behaviour in various situations of intercultural interaction in order to achieve mutual understanding and effective communication.

American anthropologist Edward Hall has identified differences in the way communication is organized in different cultures. He noted that an important factor in building communications is the

context – certain information that is associated with the message is known to the sender, but not contained in it. E. Hall found has discovered cultures of high and low context, which differ in the information saturation of the messages and the context itself during the process of the communication (Table 1). [10]

Table 1 – Communication features in high and low context cultures

<i>Characteristic</i>	<i>High context culture</i>	<i>Low context culture</i>
Message	emotionally rich, informationally poor, concise	emotionally poor, informative, detailed
Responsibility for the message	the recipient is responsible	the sender is responsible
Communication style	indirect: the use of figurative expressions, direct refusals are unacceptable	direct: an open expression of one's position and point of view
Main communication channel	nonverbal	verbal
The conflict in the communication process	unacceptable	the factor of development and positive changes
Pauses in the communication process	required	optional, rarely used

In high-context cultures most of the information that is associated with a certain event is already known to the participants of the communication process. Thus, the message is perceived as a part of the communication space existing between the communication participants. All you need is a brief verbal message containing some new facts about the event, so that everyone understands the essence of what is happening.

In highly contextual cultures a lot of things are determined by the non-linguistic context: hierarchy, status, appearance, so that additional information which necessary for the interpretation of the message is already embedded in the consciousness of representatives of such cultures.

The characteristics of highly contextual cultures are:

- a big number of figurative expressions with the hidden meaning and numerous pauses in speech;
- lack of redundant information;
- big importance of a non-verbal means of communication;
- the desire to avoid conflict at any cost, therefore direct refusals and expressions of discontent are unacceptable.

Highly contextual cultures are the cultures of most Asian countries – Japan, China, South Korea, Saudi Arabia.

In the low-context cultures most of the information is contained just in a verbal message rather than in the context of a communication space. The message itself is important and it should be totally complete and detailed in order to build an effective communication. Communication participants clearly indicate their positions, openly express their points of view and prefer a direct style of



communication. In the low-context cultures the interpersonal contacts are strictly delimited, so communication participants need detailed information about the event being discussed. They prefer:

- formal relationships confirmed by contracts and instructions;
- distrust silence and long pauses during communication;
- non-verbal communication is less significant than verbal;
- attitude to conflict as a factor of development and favourable changes.

The national cultures of Germany, Switzerland, Canada, and the USA are considered to be the low - context cultures.

For the most of the representatives of highly contextual cultures the manner of expressing their thoughts directly and calling things by their proper names in the process of business communication looks rude and aggressive. In turn, for representatives of low-context cultures, representatives of high-context cultures look indecisive, uncertain and incredibly difficult to understand.

The well-known researcher Richard Lewis has identified the peculiarities of the behaviour of different cultures based on the allocation of the type of their dominant activity in the context of time. His research has shown that all cultures can be more or less attributed to Linear-active, task-oriented, Multi-active, human-oriented, and reactive, interaction-oriented, striving in every possible way to show courtesy and respect for the communication partner (Table 2). [6]

Table 2 – Typology of cultures by R. Lewis

<i>The type of culture according to R. Lewis</i>	<i>Features of the manifestation of the type of dominant activity</i>
Linear-active	performing one action at a specific time systematic planning and execution of plans when making decisions are guided by facts rarely interrupt distinguish between personal and working time
Multi-active	performing several tasks in parallel planning with "large strokes" adjust the facts to the goals often interrupt do not share personal and working time, work when it is convenient
Reactive	react to what is happening in the context of the situation planning on general principles supporters of evolutionary change never interrupt use a flexible schedule

A classic of intercultural studies is the work of G. Hofstede, who defined culture as "collective spiritual programming" that determines the behaviour of individuals. [3] G. Hofstede revealed that cultural values can be divided into four (later two more were added) cultural dimensions (indices): power distance, individualism, masculinity, avoidance of uncertainty:

- **power distance** shows the degree of inequality accepted by society in the distribution of power;
- **individualism** shows the prevailing perception of a person as an independent person or primarily as part of a group;

- **masculinity** shows the cultural distribution of the social roles of the sexes (may be clearly distributed or partially coincide);
- **avoidance of uncertainty** shows the degree of instability that causes discomfort and anxiety.

Differences in the distribution of values, which are reflected in the indices, create additional barriers in the process of business communications in the international business environment. (Table 3).

Table 3 – The value of the cultural indices of G. Hofstede

<i>Index / Value</i>	<i>High</i>	<i>Low</i>
Power Distance	authoritarian management style it is not customary to express open disagreement with the head subordinates work on orders from the management privileges of managers are considered the norm	a democratic or liberal management style is an open expression of one's opinion, even if it does not coincide with the opinion of the head an initiative from subordinates is welcome
Individualism	career growth based on personal achievements orientation to personality and personal achievements high level of freedom of speech	career growth is related to age group orientation and group interests open criticism is unacceptable
Masculinity	career orientation and material well-being – standard of living emphasis on competitiveness even among friends the main method of conflict resolution is force	focus on quality of life, good relationships with others focus on family values conflict-free group work and the ability to find consensus
Avoiding uncertainty	great concern for the future negative hidden attitude towards the authorities distrust of the older generation towards young people trust experts more than common sense low mobility	living "for today" readiness for change willingness to take risks high focus on results delegation of authority high mobility

The knowledge and use of the models mentioned above helps to increase the effectiveness of business communications, avoid misunderstandings and reduce conflict in the practice of international management.

### Negotiations as the main form of business communication in the international business

Negotiations are one of the most popular and most complex forms of verbal communication. A well-known expert in the field of negotiations, V. Mastenbrook, considers negotiations broadly as a style of behavior that people encounter and use daily when they need to agree on something or come to a common opinion on a controversial issue. [7]

The characteristics of negotiations as a form of verbal communication include:

- the presence of a common problem;
- heterogeneity of the positions of the parties (they are not absolutely identical even if they are similar);
- interdependence of the parties (inability to solve the problem alone);

- stages of the negotiation process;
- dialogue, joint search for a solution to the problem.

Negotiations are a process in which two or more participants (parties) with similar or conflicting interests interact in order to reach an agreement.

#### *Stages of the negotiation process*

Traditionally there are four stages of the negotiation process: preparation; the negotiation process itself; reaching agreement; analysis of the results. [11]

*At the stage of preparation* for negotiations the purpose of the negotiations should be determined. It determines all further preparatory actions, such as collecting information about the participants of the negotiations, and also determines the nature of the necessary information; preliminary analysis of the position of the negotiating partner; choice of means of negotiation; analysis of all types of resources and opportunities to attract them; as well as organizational issues related to the venue and conditions of negotiations.

The choice of location is a crucial point since it provides a psychological advantage if the negotiators are "on their own territory". If this is not possible, then a meeting should be held on neutral territory.

After the completion of the preparatory stage the negotiation situation will become more clear and more transparent and forecasts regarding the upcoming negotiations will be more reasonable.

It is important to take into account the protocol aspects *of the negotiation process stage itself*. Organizational preparation for negotiations is usually assigned to the initiator of business communication. The meeting is arranged at least two or three days in advance. It is also necessary to determine in advance the issues that require joint discussion and the duration of negotiations to prepare the negotiations program. You should come to the negotiations strictly at the appointed time, observing the rules of international business etiquette – no need to rely on the cultural traditions of your business partners if they go against the rules of business etiquette. There should be a paper and a pen on the tables in front of each participant of the negotiation. It is also polite to offer tea, coffee, and soft drinks to business partners.

*At the stage of reaching agreement* all possible options for agreements should be identified. Based on them the final solution of problem should be made and formal agreement of the parties is reached.

*At the final stage* the results of the negotiations are analysed from the point of view of the goals achieved. It is also recommended to assess the quality of preparation for negotiations, compliance with the negotiation program, evaluate the negotiation strategy and tactics of your own you're your partners, identify arguments that were most convincing to the partners, difficulties in the negotiation process and assess the prospects for further cooperation.

Another approach to the stages of the negotiation process identification is also popular – the stages of preparation, selection of a negotiation strategy, establishing contact, clarifying the interests of the parties, the stage of argumentation and the conclusion of negotiations (conclusion of agreements) are distinguished.

Regardless of which approach is used in negotiations it necessary to follow the sequence of the stages strictly and be aware of the importance of each stage of the negotiation process.

#### Negotiation strategies

The choice of a negotiation strategy is determined by the purpose or the context of the negotiation situation and the positions of the negotiation parties. With the most general approach, there are two types of negotiation strategies: positional bargaining (positional negotiations) and principled (constructive) negotiations, which are often opposed to each other. [16]

Positional bargaining assumes that the parties are initially aimed at confrontation and are arguing about specific positions. In positional bargaining positions and interests should be distinguished. The position represents the result (what exactly) that the negotiator wants to get. Interests underlie the positions and explain why the parties want to get exactly this result. Usually, positions are openly declared by the negotiators, and interests are usually hidden from opponents.

Features of positional bargaining as a negotiation strategy:

- the desire to realize their own goals does not take into account the interests of other participants in the negotiations;
- the parties seek to conceal information about their intentions;
- emphasis on the differences between the parties, any similarity is rejected;
- the bargaining begins with the nomination of extreme positions that the parties defend in the negotiation process;
- the result of the negotiations most often causes dissatisfaction on both sides because the parties were forced to abandon their original positions.

There are soft and hard styles of positional bargaining. The first style is aimed at reaching an agreement through mutual concessions, the second is focused on the brutal defence of its position with minimal concessions. In the case when the parties use different styles of positional bargaining, the choice of a soft style may weaken the negotiating position too much. At the same time, the rigid style of positional bargaining can lead the negotiation situation to a dead end, then agreements will not be reached at all, and the interests of both sides will not be satisfied.

The limitations of the positional trading strategy should include:

- the rigidity of the negotiating position, which you psychologically want to defend, therefore increases the time of negotiations, and you also need to be prepared for manipulation and deception on the part of the opponent;
- open confrontation as the basis of strategy leads to deterioration of relations with business partners;
- dissatisfaction with the results of negotiations since it is achieved by abandoning the initial negotiating position.

Principled (constructive) negotiations are based on a partnership approach to negotiations, i.e. a willingness to find solutions that take into account the interests of each participant in the negotiation process as much as possible.

R. Fischer, B. Patton and U. Yuri highlights the following features of principled negotiations:

- negotiators strive to jointly solve a common task, interact as partners, not as rivals;
- attention is focused on meeting the interests of the parties, which implies an emphasis on similarities;
- the parties strive to find a rational mutually beneficial solution, so the problem is discussed openly;
- when disputable situations arise, attention is focused on the essence of the moment, not the personalities of the opponents, they try to understand the opponent's point of view, take into account his interests and find the best solution for both sides;
- during the discussion, a respectful attitude towards other participants in the negotiations is demonstrated. [16]

The results of constructive negotiations are perceived as the most fair and acceptable for all participants in the negotiation process, which increases the prospects for further business relations between negotiating partners. In addition, the most acceptable results of negotiations for everyone are in themselves a guarantee of voluntary compliance with the agreements reached.

The limitations of the constructive negotiation strategy include:

- the impossibility of choosing a strategy unilaterally, but only by agreement of the parties;
- when a conflict situation arises within the framework of constructive negotiations, it is very difficult for the parties to return to the course of cooperation again, this requires time, rational and emotional efforts;
- this strategy is hardly applicable if the parties claim to possess a limited resource.

When choosing a negotiation strategy, it is advisable to focus on the desired results of negotiations and the specifics of each of the strategies. As a rule, in the practice of negotiations the described strategies can be used simultaneously.

#### Forms of written verbal business communication

**Business correspondence** includes a group of documents that are most often used in written business communication. Business correspondence can be classified according to various criteria (Table 4). [11]

Table 4 – Classification of business correspondence

<i>Classification feature</i>	<i>Types of business correspondence</i>
by status	official personal
by orientation	external internal
according to the form of departure	by e-mail traditional postal items
by goal	informational advertising
by timing	urgent non-urgent
by data storage	electronic paper
by a functional basis	response letters initiative letters (request, invitation, suggestion, request, appeal, complaint, reminder, confirmation, notification warning, cover letter)
by a thematic basis	commercial (request, offer, complaint, confirmation) business (thank you, guarantee, information, reminder, request, invitation, congratulations, resume)

Business correspondence in the modern practice of business communications is carried out on paper and electronic media. Electronic means of communication ensure the speed of information dissemination, which directly affects the efficiency of management activities.

It should be noted that there is a significant variety of types of business documents, ranging from official and regulatory documents of authorities, official orders and orders of heads of organizations to letters to business partners and clients (Table 5). By the nature of written documents, the quality of their content and appearance, one can judge the seriousness and reliability of the organization as a business partner.

Table 5 – Classification of business documents

<i>Classification feature</i>	<i>Types of document</i>
Personal documentation	autobiography summary statement explanatory note
Organizational and administrative documentation	contract decision order
Information and reference documentation	certificate of reference service note analytical note application note

Business correspondence as an important tool for transmitting official information in an organization has an impact on all aspects of its activities.

Written business communications, unlike oral ones, allow you to correct the content of the message, to which the recipient can return to the study of the document the required number of times to make sure that his perception and understanding of the information received is correct. The recipient can get acquainted with the written message at a convenient time for him, since the information in it is stored for a long time and does not change.

A business letter is a written appeal to an official (an enterprise, organization, institution represented by him), prepared in accordance with the rules of correspondence.

Also, a business letter can be defined as a document used to transmit information at a distance between two correspondents (legal entities and/or individuals). The rules for processing business letters are regulated by State Standards. Business correspondence is usually carried out on paper or electronic forms containing official information about the organization (the name and logo of the organization, postal address, telephone, email address, website address).

The structure of a business letter in various cases is regulated by national and international standards or norms of business etiquette.

A standard business letter has the following structure: address, preamble, main text, conclusion, signature. [11]

Address – for the letters in Russian contains an indication of the position and full name of the recipient in the upper right corner of the page, as well as a few lines below in the centre of the page there is a direct appeal to the recipient in the formats "Dear Name!" or "Dear (s) Mr. (madam) Surname!" adopted in business correspondence. If the letter does not have a specific address, it would be appropriate to address "Dear colleagues!" or "Dear partners!".

If the correspondence is carried out in English, then the appeal should be formulated in accordance with the norms of international business etiquette in the format "Dear Mr./ Ms. Brown,...", "Dear partners,...", "Dear colleagues,...". At the same time, it is customary to write the address Mr. / madam in a letter in Russian in full, and in a letter in English it is customary to use an abbreviated version of the address Mr. / Ms.

The preamble is the introductory part (the first paragraph) of the letter, which specifies the purpose of this message.

The main text of two or three paragraphs sets out the essence of the appeal with an indication of the expected response from the recipient.

A conclusion is a conclusion that contains specific opinions, suggestions, or rejections. In some cases, the letter may consist only of a conclusion.

The signature contains an indication of the sender's position and full name, before which you can write a polite phrase "With best wishes", "With gratitude", "Best regards", etc.

Sometimes you need more detailed explanations about the content of the message, then you can add an appendix to the letter – an additional explanatory document.

It is important not only to adhere to the accepted structure of a business letter, but also to choose the right style of business correspondence.

In business correspondence, the official business style is used – a special functional type of language that serves the sphere of business relations. [11]

Business style has a set of specific features that distinguish it from other styles of language that have developed under the influence of the regulation of information contacts between organizations. In addition, the need for unambiguous interpretation of business letters has led to the standardization of the business lexicon. Also, business letters are characterized by a neutral tone, since the letter should contain real facts, not the author's personal attitude to them, a logical structure and the absence of unnecessary words that do not carry additional meaning. In general, the recipient's interpretation of the content of a business letter should be unambiguous.

The language of business correspondence is commonly referred to as a template. It contains many generally accepted language formulas that are used unchanged and are considered standard for business speech.

If business correspondence is carried out by e-mail, then the language of the letter should not always be dry and official. If possible, evaluate the business partner's writing style and try to use a similar one, then the partner will have the feeling that you are speaking "the same language".

The fields "To", "Copy", "BCC" in the email template contain the addresses of recipients: participants or "witnesses" of the correspondence.

The "Subject" field in official correspondence must be filled in, and the subject must briefly and unambiguously disclose the essence of the letter. It is based on the subject of the letter that the recipient decides on the importance and urgency of this message for him. The theme also helps to quickly find the right letter in a huge stream of messages.

The response to the message is located in the "body" of the letter above the text of the received message. The email also begins with a greeting, then the logically stated information is located, the letter ends with a signature, which is better to configure automatically.

### Some aspects of business communications with representatives of different cultures

In addition to all of the above, we will consider a number of other aspects that need to be taken into account when conducting business communications in international management.

*Centralization-decentralization of power* influences the organization of information exchange and decision-making in different cultures due to the degree of control over both internal information and information coming from the external environment. Thus, in American companies, against the background of centralization of power, a free exchange of information is organized between all levels of the management hierarchy, and in English companies, information exchange is freely carried out within one level of management (horizontal links) with minimal information exchange between different levels (vertical links).

Information at each management level in Chinese companies is strictly controlled, distributed in a dosed manner, and management systems are hierarchical and tightly centralized.

In Italian companies, the free exchange of information is organized within the framework of separate subsystems of the management system, and there is practically no information exchange between subsystems.

In German companies, information exchange is vertically oriented, and information passes through the chain at management levels in strict accordance with the existing hierarchy and rules of subordination.

The success of the team for the Japanese is the highest value. What is in the interests of the collective will be unconditionally accepted and carried out by any means, even not very ethical.

*Organization of business meetings.* Western and Eastern cultures use different approaches to organizing business meetings and negotiations.

Oriental cultures are known for their ritualism, so it is unacceptable to change the pre-planned order of meetings and negotiations. When new aspects appear in the communication process, one should not proceed to their discussion, even if the prospects that open up in this regard are interesting and promising. It is necessary to finish the communication that has begun and then agree about the next stage of negotiations otherwise the Eastern partner will perceive such behaviour as a desire to worsen its position and lose confidence in the partner.

You should also choose the *right place* for business communication and be prepared for some of the peculiarities of organizing business meetings in different cultures. For example, American and German businessmen may be discouraged by the invitation of Latin American colleagues to hold talks in a restaurant, and during the negotiations they will be constantly distracted by phone calls and communication with acquaintances who accidentally entered the restaurant. Or ritual seating in a certain order of Chinese businessmen who believe that the result of negotiations depends on it.

A manager prepared for intercultural interaction will be able to develop the right strategy of behaviour with speakers of other cultures and will calmly respond to such communication features. In this case, the business partner will feel comfortable in the comfort environment which will positively affect his overall impression of communication.

It is important to remember the attitude to time in different cultures: in cultures where time is money it is impossible to be late (as a rule, these are linear-active cultures); in cultures where "there are many different valid reasons for being late" (multi-active cultures) you need to be ready to wait.

*Conversation.* Representatives of different cultures place different accents and use different approaches to conducting negotiations in accordance with the traditions of the host country. The international business protocol changes in a certain way under the influence of different perceptions of space and time, rituals and ceremonies, the distance of power and individualism, the social roles of men and women in society and the willingness to accept changes. But this becomes obvious only in the process of business contact.

As a rule, individuals tend to believe that all "people like them" (for example, representatives of the same nation or profession) perceive the world around them and think the same way. However, the cultural code of each individual "loaded into the subconscious" forms different value attitudes, so the negotiators perceive the same information differently. In addition, the cultural code makes it difficult to recognize the value system and priorities of business partners.

The Germans will ask difficult questions at the very beginning of the negotiations in order to get convincing arguments and guarantees regarding the details of the business partner's proposal. Spaniards will first of all evaluate the business partner himself and will show interest in cooperation only if the partner makes a good impression on them and arouses trust. Scandinavians consider themselves progressive, so they really appreciate innovation and creativity in the projects under discussion. Americans always focus on the financial side of the deal.

*Decision-making.* In each culture, the speed of decision-making and its completeness are different.



Americans make decisions quickly because they are result-oriented. Representatives of Asian cultures do not like to make decisions and cannot express direct disagreement with a partner, because it is not polite. Therefore, negotiations can last for months until the parties come to a consensus on the issue under discussion. Even within a Japanese company, a decision is not made quickly, first there is a multi-stage discussion of the problem until it is unanimously accepted by all employees of the company involved in the decision-making process, and then the head approves the decision.

Also, the decision is not always final. The Germans and the British perceive the agreements reached as an oral contract, which will be issued in writing in the near future. They will not re-discuss the issues on which an agreement has been reached. In Asian cultures, it is not considered unethical to return to discussing decisions that have already been made. Perhaps the circumstances have changed, and the decisions made earlier have lost their relevance.

### Features of business communications with representatives of linear-active cultures

Linear-active cultures are task-oriented, result-oriented. These include Germans, Swiss, English, Americans, Swedes, Norwegians, Danes, Austrians, Irish and a number of others.

We will analyze the behaviour of representatives of a linear-active culture in the process of business communications.

When preparing for communication, representatives of linear-active cultures rely on reliable objective information (facts) obtained from formalized sources. Thus, they seek to exclude the possibility of distortion of information.

As mentioned earlier, linear-active cultures build their activities linearly, i.e. they perform one task at the current time while observing the deadlines set earlier. The task is carried out according to the plan in accordance with the technical conditions or instructions.

The dialogue in the process of business communication is also built linearly, i.e. there is a consistent change in the presentation of arguments and their discussion. Partners rarely interrupt each other, gestures and facial expressions are restrained, respect for the personal space of the interlocutor.

The manifestation of emotions is an indicator of a low level of professionalism. When interacting with carriers of a multi-active culture who vividly show emotions, linear-active individuals experience psychological discomfort.

A linear-active manager expects from his colleagues and subordinates the same attitude to the work performed as he himself: reliance on facts and statistics, compliance with deadlines, following instructions. Representatives of linear-active cultures rationally perceive time, so they immediately move on to the essence of the problem under discussion.

At the same time, Germans usually mark the beginning of business communication with a formal presentation of the participants in the process, while Americans prefer informal greeting and humor. The British begin business negotiations with a formal greeting and a small talk about the weather, which smoothly flows into the business channel.

Linear-active individuals are able to listen to their interlocutors, strive to understand in detail the essence of the problem under discussion, while Americans expect a show, the British humor, the Germans are collecting information.

### Features of business communications with representatives of multi-active cultures

Multi-active cultures include Brazilians, Italians, Spaniards, Mexicans, Greeks, Portuguese, Arabs, Senegalese and a number of others.

Multi-active cultures are human-oriented. They like to receive information during personal meetings, often informal. In the course of their professional activities, company employees also focus on

informal channels for collecting information, use personal relationships to solve business problems, but at the same time take facts seriously.

After establishing a business contact and giving it the status of a personal one, communications can be carried out remotely.

Multi-active individuals do not like to plan, use time irrationally, constantly violate the schedule and time frames for the implementation of projects.

They perceive time subjectively, believing that it can be used at their discretion. The more actively you fill time with various events, the richer life is, so multi-active individuals like to do several things in parallel. Priorities in the performance of tasks are set based on the degree of importance of each business contact. In the process of important communications, multi-active individuals do not keep track of time, but focus on establishing stable interpersonal contact, regardless of how long it takes. In this they are helped by the ability to speak beautifully verbally and convince the interlocutor, emotionally coloring their speech. Multi-active individuals enhance speech using images, active facial expressions and gestures, as well as the ability to apply various tactics. The dialogue is built, as a rule, with a violation of the logic of discussing the problem, "jumping over" to other topics.

Representatives of multi-active cultures consider it impolite to immediately start discussing cases. After the formal presentation, you should tune in for a 15-30-minute conversation about the weather, politics or football. You also need to be prepared for delays and waiting for multi-active communication partners.

Multi-active individuals are less attentive listeners than linear-active ones. Their attention quickly switches to other topics or their own thoughts, so the imagery and emotional coloring of speech is simply necessary. In addition, they quickly lose patience and can interrupt the interlocutor. The personal space of multi-active cultures is shorter than that of linear-active ones: 0.5 m versus 1.2 m, respectively.

Also, multi-active cultures are characterized by nepotism in the business sphere. We are talking not only about family business as a form of entrepreneurship, but also about the desire of a multi-active individual to take care of his family and close friends, and therefore "attaching" relatives to work in his company.

Multi-active managers use an autocratic style of management and decision-making, while focusing not only on the strategic priorities of the company, but also on establishing interpersonal relationships with the right people.

### Features of business communications with representatives of reactive cultures

The reactive cultures of business communication include most of the countries of East and Southeast Asia (Japanese, Chinese, Taiwanese, Singaporean, Filipino), as well as Turkish and Finnish.

The bearers of a reactive culture are focused on maintaining relationships based on respect and politeness.

Formal sources are used to obtain information. Some representatives of reactive cultures are ready to talk for a long time to achieve harmonious communication (Japanese, Chinese), others are laconic (Finns), however, both take into account the opinions and desires of communication partners.

Activity planning is closely related to the cyclical perception of time. Each time cycle is characterized by the same conditions and opportunities, but people become more experienced and wiser with each cycle, so they can use the opportunities more effectively in the next cycle. Thus, you can adapt to time, but not dispose of it.

Communications in reactive cultures are built on the basis of a system of hierarchical relationships, to a certain extent repeating the structure of the family, while building harmonious relationships with partners and colleagues.

The core values of reactive cultures are a sense of duty to the company/family, modesty, and politeness.

The communication scheme can be designated as follows: monologue – pause – reflection – monologue. [5] Representatives of the reactive culture not only never interrupt the interlocutor, but listen carefully and carefully think over everything said by him. Pauses are an important element of communication because the opinion of the interlocutor must be taken seriously.

It is believed that in the process of communication it is impossible to express emotions and gesticulate violently. It is customary to express one's opinion in carefully chosen words and nonverbal signals barely perceptible to foreign partners. It is also customary to avoid direct views. The comfortable distance in the process of communication is 1.2 m.

Carriers of reactive culture proceed from the fact that the partner has all the information about the problem under discussion, therefore they verbally transmit the minimum amount of information, leaving the partner to "complete" the communication space himself.

Business communications of representatives of reactive cultures are very ritualistic. The sequence of communication stages is strictly regulated: formal greeting, seating of participants in accordance with the protocol; tea drinking and small talk (15-20 minutes); negotiations.

Representatives of the reactive culture are the most attentive and patient listeners. They are able to keep their attention on the interlocutor's speech for a long time, not allowing themselves to be distracted.

In reactive cultures, it is customary to take care of employees, listen to their opinions regarding work, and use a paternalistic method of decision-making.

# Case-study: Wizard in India: Chocolate Way to the New Market

## Introduction

The company's entry into the foreign market requires a clear understanding of the goals of internationalization, a thorough analysis of the business environment, including the cultural characteristics of the chosen country, an analysis of the internal conditions of the company. Based on this, the company's management decides, first of all, on the expediency of internationalization in these conditions in general, and if a positive answer is given, then a decision is made on what form of entry into the selected market to choose, what sequence of steps should be taken in order to implement the decision as effective as possible. And there is no unambiguously correct answer here. There is a reasoned opinion of the person in charge or group of persons, as well as the need to convince key stakeholders of the company that such steps should be taken.

The situation below describes the real problem the company is facing at the moment. There is no unambiguously correct solution to this situation. It is necessary to conduct the needed analysis and make a decision on whether this company should enter the Indian market, and if so, how. At the same time, the main thing is that the decision should be reasoned, supported by the results of the analysis, and could convince the key stakeholders of the company to take such a step. To solve this case, it is recommended to pay attention to the analysis of the external and internal environment of the company. You can use additional most relevant information, which will undoubtedly affect the results you get.

The company described in the case, as well as its director, are real, but the names have been changed due to the requirement to preserve trade secrets.

## Main part

Director for PR and advertising of a small confectionery factory "Wizard" Elena Polevaya was sitting at the table thoughtfully looking out the window. The company got into a difficult situation. First there was a pandemic, as a result of which both domestic and foreign sales decreased, now sanctions and many mastered foreign markets are closed. Elena remembered what efforts it cost her to develop and maintain the company's website with an online store, which were hastily developed and implemented in the midst of the COVID-19 pandemic during the most severe restrictions. At that moment, large stores were closed, retail chains were also in process of reconfiguring their business for delivery. Online sales turned out to be the only way out for the survival of the company and employees.

During this period, product distribution errors were very clearly manifested: not all names were presented in stores, the product range was updated slowly and unevenly, brand awareness was very low. Elena had to struggle with these difficulties too, although it would seem that her position did not imply the need to deal with these areas. But in practice it turned out that everything was interconnected. You can hold as many promotions and events of various levels as you like and raise brand awareness in this way, which, in fact, was the direct duties of the PR director, but if products are not available in stores or are presented unevenly or are brought to the store after the promotion has passed, all efforts are useless. So, Elena had to build internal communications and establish processes in the company in order to do her job efficiently. Now the company knows her very well. Production workers, salesmen, financiers – everyone is aware that she knows how to get her way.

At the same time, the company's budget for marketing and advertising was minimal, since the head of the marketing department, as well as the CEO, were firmly convinced that such wonderful products as they had it was not necessary to advertise. It is so good that it will sell itself. Well, doubtfully, especially in the age of insane competition. If the company were the only supplier of chocolate in the region, such a strategy would, of course, work, but the competition in the Moscow market is fierce. There are United Confectioners, which include the largest confectionery factories in Russia, and

foreign giants with billions of global turnover. An average company, which before that was generally a factory of regional significance, must make a great effort to advance here.

However, Elena has something to be proud of. A lot has changed in the years since she came to the factory. The product range has expanded significantly, and almost all of it is being developed for a specific target audience, and, most importantly, falls into this target audience. This is a considerable merit of her, Elena, who in various ways sought to ensure that the principles of the management "I like it, so everyone will like it" changed to "The focus group likes it, so the customers should like it."

And how much effort it took to convince the management, accustomed to acting "the old-fashioned way" to pay attention to what is really important in the market from a modern point of view! But now she has gained a reputation in the company, they listen to her, although not always everything goes smoothly. To be honest, nothing goes smoothly at all, most decisions have to be punched with a fight. The company's management is used to saving on everything that can be saved on, except for the products themselves. There was nothing bad to say, the products were really of very high quality – selected cocoa, strict quality control of both the products themselves and the work of the production line. By the way, the production line was modern and high-performance, a little capricious, but the company had a brilliant master adjuster who was able to negotiate with a capricious machine. The company's products often won prizes at various competitions.

But in everything that did not directly concern production, it was impossible to squeeze even the smallest budget out of the company. The most common way that Elena used to pay off those with whom she held various PR events was to pay with products, here the company did not limit Elena, but not everyone needs chocolate instead of money! She had to get out of it at the expense of her own connections, personal charm, and ability to negotiate.

Elena joined the company about 5 years ago. Shortly before that, the company created its first truffle and realized that despite the high quality and rather low price, for some reason it does not sell itself. So, the company hired Elena, who had a specialized education and background in marketing, and besides, a lot of enthusiasm. The factory was located not far from Elena's house, which was an important aspect when choosing a new place of work. However, the enthusiasm did not last long, having broken down about the unwillingness of the company to realize that the sale does not limit to putting the goods in the store, the preliminary work necessary for the goods to be seen and bought is huge. The enthusiasm disappeared, but the responsibility and work passion to respond to the challenges of the company's management and the environment remained.

Elena had to raise her old connections, learned not only marketing, but also strategic management and finance and later also mastered international commercial activities and established cooperation with the Russian export centre. But first things first.

The Wizard confectionery factory was founded in 1997 in Moscow, Russia. The company specializes in the production of chocolate products, the product range includes more than 50 items in such categories as: Chocolate, Truffle, Candy Boxes, Weight Candies, Fruits in Chocolate. In addition to the production of its own products, the company is engaged in such activities as the production of products under contract under the private label of Auchan, Magnit stores. The number of people working at the factory, including management, is 250 people. The annual turnover of the company is 850 million Russian Roubles.

The company uses a linear-functional organizational management structure. There is a CEO who has full authority over the company, he is subordinate only to the founders of a limited liability company. The company also has departments: Sales, Marketing, HR, Finance and Production.

The Production Department includes the Product Development Unit, which is engaged in the development and testing of recipes and the implementation of their introduction into production. The same department includes the Purchasing Unit, the Product Quality Control Unit, as well as the Production Unit itself. The Production Department also includes a Production Technical Support

Group, which is engaged in setting up and repairing production lines. This is the largest department of the company. 80% of the staff is employed in production.

The Sales Department is engaged in relations with corporate clients, work with retail chains, as well as online sales. The company sells its products directly at retail through its own online store on the company's website, as well as through national Internet platforms. The Sales Department is the second largest in the company. A total of 10% of employees are employed here. There is no internal division of the department into units. Regular customers are historically divided between existing employees, and new customers are handled by the employee who is currently available.

The Marketing Department includes a PR and Advertising Unit, as well as a Marketing Unit which main task is to stimulate demand. The PR and Advertising Unit is also engaged in external communications with foreign customers, participates in exhibitions, including international ones, promotes the culture of chocolate consumption in general, taking a direct part in the creation of the chocolate museum. The main advertising channel is social networks and public events. The Marketing Department employs 5 employees.

The Financial Department of the company provides full financial support for the company's activities in the domestic and foreign markets. The Finance Department employs 12 people.

The HR Department is engaged in the recruitment, hiring and firing of employees, as well as the development of the company's personnel. There are 8 employees in this department.

The company's product line includes several price segments. The premium segment is represented by the brand "Voskhischenie", which includes chocolate and truffles with up to 75% chocolate without additives and with various additives. The price range of products is from 178 Russian roubles per 100 grams to 750 roubles per 100 grams. There are also premium exclusive candy sets priced from 750 roubles per 100 grams.

The middle price segment is represented by a youth line of snack bars, various types of low-weight chocolate, chocolate-covered fruits in the price range of 120-180 roubles per 100 grams.

In the lower price segment, milk chocolate with nuts, candy sets, and some types of chocolate bars are presented in the price range of 90-150 roubles per 100 grams.

Until recently, the company exported its products to the markets of Europe and China. In European countries, especially in Germany, chocolate with the maximum cocoa content was in the greatest demand, it was distributed through pharmacy chains and was positioned as a product for healthy nutrition and raising vitality.

When Elena Plevaya, having come to the position of Director of PR and Advertising, showed her effectiveness in her place, the company's management, in their characteristic manner of saving on everything, suggested that she also would take over foreign markets. In foreign markets, after all, it is also necessary to promote the company's products and brand as a whole, and this is her, Elena's, direct responsibility. And it doesn't matter that this is a separate huge front of work, which requires different competencies than are needed to work in the domestic market.

So, Elena turned out to be globally responsible for foreign markets, and it all started for her with participation in a food exhibition in China. In general, she was not against new responsibilities, as she always liked learning something new, meet new people, but the workload increased. And now, under sanctions, the situation in the company is not very stable. Suppliers of cocoa powder and cocoa butter not only increased prices, but also changed the terms of payment, without providing more instalments on the same terms. The European market is closed to the company, both for reasons of breaks in logistics chains and because of sanctions. Currently, exports are being reoriented to Asian countries. Competition with local and foreign manufacturers in the CIS countries is currently too great, so the company is currently planning to enter the Indian market.

Elena Plevaya remembered that the company had already made an attempt to enter the Indian market with its products, but then she was not engaged in this project. As a form of internationalisation, as

in the cases with other countries, the company was going to use exports. However, in the case of India, climatic conditions, according to the calculations of the company's specialists, significantly increased the cost of the company's products, making it generally not competitive. Refrigerators were required throughout the transportation of products to India. Large manufacturers represented in India can afford significant costs for the transportation of products, since in general these costs will be distributed within a global company, but relatively small companies cannot afford to concentrate on conquering any market at any cost. Nevertheless, the company's management returned to thinking about India again and required Elena to offer options for entering this market.

In principle, Elena understood her managers. The Indian market is one of the most promising today. It is one of the few which shows an increase in the level of chocolate consumption against the global recession due, among other things, to the development of healthy lifestyle ideas.

Elena opened the report and a selection of articles on this topic on her computer. Overall, the numbers weren't very bad. In 2024, the global confectionery market is projected to amount to \$222.5 billion, which is 21.5% more than in 2019. According to experts, the confectionery market in the world will continue to grow with an average growth rate of around 4%. According to the types of products, chocolate confectionery remains the leading segment, the share of which is more than 50% of the total market volume. The expected growth rates of the confectionery market will be due to the rapid growth of consumption in the Middle East and Africa. Saudi Arabia was the leading market in the region. However, the UAE is projected to experience growth rates of over 6% during 2020- 2025. India is also among the leaders in the growth rate of the confectionery market. By 2024, according to Mintel forecasts, it will grow by 6.7%.

India is known for its love of sugar. Sweets play an important role on holidays and family celebrations: gulab jamun (fried dough balls in sugar syrup) and barfi (condensed milk dessert) can serve as popular gifts. The country is considered to be not only the main consumer, but also one of the largest sugar producers in the world.

This love of sweets, as well as the young population, whose well-being continues to grow, forced the world's chocolate producers to pay attention to India. Now Indians consume it ten times less than the average inhabitant of the planet. And the International Cocoa Organization calls the country a potential market No. 1 in the world.

Chocolate (just like ice cream, cupcakes and milkshakes) has already begun to displace traditional sweets from the menu of representatives of the Indian middle class. Now this dessert is not only a gift for a special occasion, for example for a wedding or for the Diwali festival, but also an everyday snack for many Indians.

In the same article Elena drew attention to the fact that the author notes that changes in Indian retail are the main reason for the change in consumption. Although shops within walking distance are still the most popular places to buy chocolate (especially in small towns and villages), however, thanks to the appearance of supermarkets in places like Mumbai, this product is becoming more affordable, says Dhruva Sanyal, Managing director of Barry Callebaut in India. "More and more consumers visit such modern retail spaces as supermarkets and hypermarkets on a weekly or monthly basis," says Sanyal. "This forces retailers to expand their product range, and as a result, products such as chocolate become widely available."

The development of e-commerce and the Internet also contributes to sales growth: manufacturers using popular social networks quickly realized how much the social network can influence the desires of millennials. "What many chefs and enthusiasts do on their social networks contributes to the development of a culture of chocolate consumption in India," Sanyal notes.

There is also growing interest in such premium products as Les Recettes de l'Atelier (a line of expensive chocolate bars from Nestle) and Fabelle Trinity sweets from the Indian conglomerate ITC. The International Cocoa Organization believes that the share of high-quality chocolate on the market

will grow to 80% in the next decade. Now it is 20%. It is assumed that consumers will refuse low-quality chocolate, which is made from vegetable oils.

Elena looked up from reading, this information was interesting and encouraging. It turns out that if their company continues to rely on quality, rather than quantity and price, it will soon be in the trend. Elena returned to the article.

Increasing health concerns and the growing number of vegans in the country are also influencing the formation of a new niche. But one of the main problems for manufacturers may be the price-sensitive market and the presence of a huge number of cheap analogues. They should also hope that scandals like the one that broke out in 2003 will not be repeated: then consumers found worms in Cadbury Dairy Milk chocolate bars produced by Mondelez.

Elena barely remembered this scandal, because at that time she was still studying at the university, but she had read about it, and now from the height of her experience she could imagine what it cost Mondelez to restore its reputation after such a scandal and even stay on the market.

Elena found the opinion of Indian working youth interesting, it was presented in the article by the statement of the sales manager of the insurance company Swagatik Priyadarsani. She noted that she likes dark chocolate more: it's about the taste and lower sugar content. The girl, who is about 20, lives in Bhubaneswar, a city in the eastern state of Odisha. Priyadarsani says she feels safer offering chocolate to younger family members and friends, rather than local sweets.

It turns out that the company has long had products that can now be popular in India, because it was with products for a healthy lifestyle that the company entered the German market at one time. Although in India everything is still not so strict, still here chocolate continues to be perceived as a sweet, albeit healthier, but not as a tonic.

However, competition in the Indian market is also growing. India's largest dairy company Amul is trying to keep up with the trend and is producing more and more bitter varieties of chocolate with a high cocoa content. Now it intends to double the production capacity of chocolate workshops.

Niche varieties of chocolate can also become popular in India due to the many vegetarians, vegans and those who are lactose intolerant. Thus, the start-up Piperleaf India from the city of Gurgaon promotes sweets with a high cocoa content and the addition of "creamy" hazelnut paste as an alternative to traditional milk chocolate. The company also plans to release sugar-free candy bars and candy sets. They want to coincide with Rakshabandhan, a Hindu holiday marking the bond between brothers and sisters, during which it is customary to give sweets.

"We see how consumer preferences are changing in India: more and more citizens are gravitating towards vegan products and taking care of their health," says Piperleaf founder Anshul Agarwal. – The Indian chocolate market will inevitably grow. And although per capita consumption is still low, but incomes are growing, and people are looking for better alternatives."

Elena closed the file with the article and opened the next one. In general, so far she has only been convinced of the prospects of the market and the need to get its share before it is too late. The question of how and at what price remained open.

The following article was devoted to India's own cocoa production. In it, the Deputy Director General of the Indian Council of Agricultural Research (ICAR) called on scientists to focus on promoting suitable cocoa varieties and production technologies in order to reduce its import into the country and eventually achieve self-sufficiency with their own cocoa for production. Speaking via a virtual platform at the celebration of the 105th anniversary of the founding of the Central Research Institute of Plantation Crops (CPCRI), located in Kasaragod district in India, the scientist said that India imports a large amount of cocoa beans and cocoa powder to bridge the gap between supply and demand in the domestic market.

Cocoa production in India in 2019-2020 amounted to about 25,000 tons, which is 7.5% more than in the previous year, but not enough to meet the needs of the domestic market. Despite the growing



demand for chocolate in the region, India imports most of the cocoa. Given the growing number of chocolate factories in the country, the country needs to focus on reducing cocoa imports and expanding cultivation in India. The main cocoa producers in the country are the states of Andhra Pradesh and Kerala.

The head of the Institute urged scientists to focus on promoting the best sorts and production technologies and transfer them to farmers. Currently, cocoa production in the country has very modest volumes in comparison with world production. More than 75% is grown in African countries, mainly in Ghana and Ivory Coast, more than 18% – in North and South America. Asia produces only 5.5%, and India's share in the world is very low. Also, a serious problem for the country's chocolate industry is the rise in prices for vegetable fats, since it uses vegetable fats as a substitute for more expensive cocoa butter, but not in premium quality products.

Elena closed the article. Not even an article, a rather short note that she just read. It suggested thinking about whether it is possible to somehow use this information in the process of entering the foreign market. Elena decided that she would think about it at her leisure and made a note in the diary.

And here is more information. According to the International Cocoa Organization (ICCO), in 2018, the consumption of chocolate confectionery per capita in India was approximately 10% of the global average, Bloomberg reported.

According to experts, by 2023, the average per capita consumption of semi-finished cocoa products used in confectionery, sweet cookies, ice cream and frozen desserts in this country will grow by 36% from the level of 2018 and will amount to 96,735 tons.

"India is the only country where I see the potential for sales growth. This country already has a culture of sweet consumption, unlike China, and this makes it the number one potential market in the future," ICCO CEO Michael Arrion said in an interview with Bloomberg.

In January 2021, the Cocoa Association of Asia reported that the growth of chocolate consumption in India is no longer inferior to Chinese indicators.

In the next article there was information about the Russian market. It is said that the market shows signs of stagnation and even decline, especially in expensive segments. As always in conditions of instability, consumers prefer to save rather than spend.

An article about how chocolate is produced "Bean to Bar" in India seemed interesting. It turns out that in India cocoa beans are grown in several southern states with a predominant amount in the state of Kerala, located in the southernmost point of India. In the north and west of the country, it is difficult or even impossible to find high-quality chocolate! Only chocolate bars from Amul, the largest dairy producer in this part of the country, are found in stores.

Chocolate, which is produced in the south, is much more expensive, as it is a so-called artisan chocolate created using the "Bean to Bar" technology. This technology can be compared to the production of high-quality farm cheese when the producer selects the raw materials himself and fully controls the manufacturing process.

Cocoa beans are fried and ground, then the cocoa mass is conched (actively mixed for several days) to obtain a silky structure. The next stage is the chocolate is tempered (passed through a fine sieve to separate large particles of insufficiently crushed beans from the fluid mass) and poured into moulds. This is the end of the chocolate making process.

Such chocolate is usually produced in small bars and with certain flavours. An error at any stage affects the quality of the bar. In Goa, such chocolate is sold only in a large supermarket, where most of the buyers are foreigners. Putting a piece of chocolate on the tongue and letting it melt, you can better feel its "depth"!

Elena especially liked the moment about the "depth". It turned out that this segment of the market is also quite interesting. However, the company still used cocoa butter and grated cocoa, which it bought from other manufacturers, they did not have their own production of this kind.

Elena opened another folder. It contained information about the cultural peculiarities of India and the rules of business etiquette in the country. There were still fresh memories of how representatives of one of the orthodox Eastern countries did not even want to talk to her at one of the exhibitions, because then Elena, being a young and inexperienced specialist, turned to them and led a dialogue incorrectly. Although, of course, it is possible that the reason for their inadequate, in Elena's opinion, behaviour was something else. In any case, now she wanted to be sure that in case of serious negotiations she would be fully armed.

India is a market where you need to build relationships for a long time and show the locals that you have long-term goals and you can be useful, especially if you are a foreigner. This social capital can then be transformed into useful contracts and investments. It is no coincidence that the concept of "karma" was born in this country. Reputation, decency, and how much you can be trusted are taken very seriously here. Of course, trust is important everywhere, but it is especially important in India.

The Indian market is large, competitive, it has many different players and processes that cannot be seen with a superficial analysis. You need to go to the country and spend at least 30-50% of the time there to feel everything from the inside, to communicate with the founders of companies, competitors, potential customers. This way you can get an idea of how you and your business are perceived and what the local market really needs. This immersion will give an understanding of internal processes: what hypotheses are there on the market, which models compete with each other, who is teaming up with whom and against whom.

Elena looked away from the screen. The advice is undoubtedly wonderful, but not always feasible. Yes, of course, it is necessary to go personally to negotiations with potential partners, perhaps more than once, but even before that, information is needed. And how do you tell the management that you need to go to India just to look around? They will not understand this, they will not pay for a business trip, they will decide that the specialist wants to rest at the expense of the company. Maybe in some other firms and in a different way, but not here. Although the idea is useful. Elena returned to the article.

Another important point is that India is very different. Since the population is high and society is highly stratified, it is necessary to focus on specific niches and work with a well-defined audience. It can be white-collar workers, people who live in villages, the elite, and so on – different rules work for all of them. In India, it is important to feel this difference of people, they are too different from each other.

When you walk through Bangalore, you may get the impression that you are in a very poor, undeveloped country that lags far behind Russia. And the fact that among the passers-by there are a lot of smart, rich, technologically educated people who worked and studied in the States, you will not see during such a walk. Therefore, it is important to go through this upper layer and dig deeper, get in touch, understand how they think and behave.

It is important to always keep in mind that the problem of trust in India is a key one. It runs like a red thread through all areas of business: relationships with customers and employees, partners, contractors, and investors. According to the latest Ipsos study (2021), the level of interpersonal trust in India is the highest in the world at 56%. But this trust must be earned.

At the household level, fraud and deception are very common here. Even interested in an offer from you, a potential client will check absolutely everything about the project, up to the compliance of the entry in the Unified State Register of Legal Entities with the domain of your site. Therefore, any activity that increases trust in the company is very important, starting from free events and webinars with the participation of the founders and ending with active social networks, reviews and publications in the media.

To build partnerships and work with counterparties, it is also worth acquiring a special filter – friends and acquaintances through whom you can reach the contacts you need. This, firstly, will help you not to run into scammers yourself, and secondly, it will simply speed up the work. If there is no such layer in the form of personal acquaintances, you can wait forever for the promised call when filling out the form on the site.

This is interesting, just the sphere of her, Elena's, direct work. Creating a company's image, increasing awareness – these are the areas where she feels absolutely free. But all this will depend on how to enter this market. It's one thing to target your activity at the final client, and quite another – at the investor.

Elena drew attention to an article by representatives of a Russian company who shared their experience of entering the Indian market. The product was completely different, but Elena was interested in their approach to presentation – nothing superfluous, and it also seemed important to get a look "from the inside".

You need to start getting acquainted and meeting funds right away, but, according to our estimates, it is worth talking about the investments at least a year after active work on the market. Investors should see concrete steps.

Despite the fact that there is an investment boom here now (in 2021, more than \$40 billion of investments were attracted to various projects), it is difficult to get financing from Indian funds or angels, and for foreigners it is a task with an asterisk.

Indian investors are looking at the business in the long term. They are less focused on making a profit right now and more interested in the long-term success of the business. This is radically different from the specifics of the Russian venture capital market, where there is some bias towards fast money with less attention to the value of the business in the long term. This does not mean that investors in India are engaged in charity, but their planning horizon is further, it is important for them that the start-ups they invest in grow into large companies in 5-10 years.

Compared to Russian funds, funds in India are much more closed. In Russia, if you have good ideas and a normal background, there are real chances of meeting with people who make decisions. In India, this is more complicated and involves a long evaluation process. There is a big difference between a meeting with a recommendation and without it. Those who come without an intro get 15 minutes for a quick presentation of their idea to an analyst assistant, who, if you are lucky, will redirect you after some time to a meeting with senior analysts. After several such stages with a lot of questions about competitive advantages, the team, and the business model, perhaps you will get access to the manager who makes decisions. If you are recommended, you can immediately count on a meeting with a decision-maker, a long and detailed conversation with him.

First, you need to repeatedly meet with people who are some kind of hubs of the business community. These are the people with the greatest social capital in this community – the heads of large foundations, well-known entrepreneurs, as well as people from the ecosystem hangout who, as a "social glue", connect different people through communities, events, or media. The recommendations of such community leaders will open many doors and bring the conversation with investors to a higher level.

Therefore, ideally, you need to find people who will introduce you to them. For those who are just entering the Indian market, it works in different ways that should be combined. If you have Indian partners, the easiest way is to contact them for help. You need to use connections with the founders of competing companies or those working in related fields that you started building at the stage of entering the market.

The next stage is building relationships. Indians, like many Asians, must first see a potential partner as a human being. It is very important to demonstrate consistency in words and deeds, reliability, and results, especially at the stage of transformation from a pre-seed round to a seed. They filter and check everything very much, and gaining trust takes a lot of time and effort.

At meetings appearance is important. In India there is also an oriental specificity – everything is decorous here. All representatives of companies and representatives of funds are well and neatly dressed and expect this from you. It can be a suit, just trousers with a shirt or a polo, not too athletic sneakers. Of the accessories, they themselves are very fond of watches. In no case should you wear shorts and flip-flops to a meeting, even if it is very hot.

From the point of view of communication, it may be especially worth creating a slightly less rational, but more emotional image of storytelling. You need not bare facts about business, but a story, a colourful story about what a serious problem is in the market and how unhappy Indians are. You will be compared with expressive Indians, against them the Russian representative usually looks boring. From the point of view of our positioning, it seems to us that it is better to enter from a position on an equal footing with the investor or even slightly from above, for example, "that's how cool we are, but how will you help?".

Undoubtedly, the advice of these authors may be useful. But so far, a clear picture in Elena's head did not add up. Elena thought about it. There is a lot of information, but how to do the right thing? Especially considering the previous negative experience.

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