

## **Chapter 2: Foundations of Project Design**

This chapter lays out the background of the research such as the need for this study as well as the aims and questions that need to be addressed. In the first section, the reason for the need of this kind of research is discussed by providing a background of the situation in the market of ferroalloys. Following this, the period and geography of research are discussed to define the coverage of this study. The research questions that will be addressed are also defined to identify what aspects of the topic will be answered through this study. The goals of the study are also identified and discussed before providing a brief discussion on the literature relating to the topic.

### **2.1. The need for the research**

The previous financial and economic crisis, the strongest one in the last few decades, together with the current situation in the political and economic spheres demonstrate a close link between all fields of the world economy. This link is also includes the production and international trade of raw materials.

The analysis by researchers and people in the industry of the tendencies at the market of the ferroalloys during the period 2006-2012 demonstrated that the increases and decreases in their production and international trade were synchronized with the economic trends in the steel production and in the world economy in total. It demonstrates the creation of the global marketplace due to the development of international business which “has grown dramatically in recent years because of strategic imperatives and environmental changes” (Griffin & Pustay, 2005, p. 18).

At the same time, being influenced by the global economic tendencies as any other industry, ferroalloys production and trade are characterized by specific details which make the

market of these products a subject for more careful and detailed investigation. A brief review of the nature of the ferroalloys has been provided, as well as the analysis of their production and export-import during the period of time framed by 2006 – 2012. The set of challenges which traders are facing at the moment in the international ferroalloys market force them to find new ways of performance at the market aiming further development of their companies and trade.

Development of international trade and business became a key turning point for the world economy. Technical progress introduced the world to the new stage of the Information Age when technology became a big thing. This period provided opportunities and possibilities to the international business management. The ferroalloy industry was influenced by technology as well. Since the middle of the nineteenth century, “the ferroalloy industry became fundamentally international in scope, depending on worldwide producers to stabilize the delicate balance between consumption and supply and thereby stabilize prices” (SIC 1061, Ferroalloy ores, para. 12). This explains how ferroalloys came to stabilization.

The new trends in the world economy which were characterized by deindustrialization, with the focus shifting to the service-oriented sectors, can be tracked since the middle of 1980s. This tendency influenced the ferroalloy industry along with other mining industries, and led to a decline in the production level and sales of different kinds of ferroalloys. Still, 1990s and beginning of 2000s could be described as the “golden” era for the ferroalloys industry due to its close connection to the construction sector of the economy. But exactly this close connection led to a tremendous drop of the ferroalloys production and sales since 2008. Thus, the issue of new sales strategy became one of the central for those ferroalloys production and trading companies which survived in the latest economic crisis.

The need for the research is dictated by several factors. First of all, the aim of the research is to provide the overview of the situation at the market of the ferroalloys during a particular period and demonstrate the links between processes in international economy and fluctuations on the market of the ferroalloys. Secondly, the analysis of theoretical aspects of economic science which are applicable to the market of the ferroalloys is needed as most of analytic literature about this market lacks references to the fundamental economic works. It is necessary to analyze the theoretical aspects to have a better understanding of how the market of ferroalloys works. And, at last, directions for development and increment of trading operations based on the analysis mentioned above would be helpful for all stakeholders such as companies, regulators, clients on the market of ferroalloys by providing them information they can utilize to improve the ferroalloy market and trading.

## **2.2. Period and geography of the research**

The period that will be used in this research will be from 2006-current which allows analysis of different periods in the ferroalloy market and development. The period will include a time before the last economic crisis happened where there were growing prices, increasing volume of the ferroalloys production and sales and stability of the business ties in this field of the world economy and the period of 2008-2014 which demonstrated influence of the international crisis on the ferroalloys industry. The research target was to forecast the further development of the ferroalloys industry and international trade in this field along with the recommendations to trading companies and traders for keeping their market shares and enhancing the performance. Through the information from this study on two different periods, companies and traders will have a comparable view of different periods where economic situations were different. This information

will allow them to evaluate how to effectively enhance the performance of their companies and how to keep their share of the market.

This research covers a wide geography including key producers like China, Russia, Kazakhstan, the U.S. and a broad range of the countries which import and export different kinds of the ferroalloys. The coverage of a wide geography is due to the nature of ferroalloys which are standardized materials and are used widely. The research bases as well on the personal experience of the author in the field of the ferroalloy international trade which covers all areas, starting from the negotiating process, including financial and economic issues, logistics, sales and after-deal service. The experience allowed analyzing of the sales methods usually used at the discussed market and working out new recommendation for the sales force in the current economic situation.

### **2.3. Questions and objectives of the research**

The research stated a variety of questions which demand analysis and investigation. Among the research questions the following can be highlighted:

- What are the particular features of the ferroalloys international market?
- What are the factors which impact the production and sales of ferroalloys at the international market?
- How the international crisis and downfall of steel production have influenced the ferroalloys market?
- What methods can be used to increase the sales at the international market of ferroalloys in the current economic circumstances?

There are answers to some of these questions in the overview of the market and trends presented earlier. However, the trading strategies which would bring success to the companies at

the market will be discussed further. The questions stated by the researcher demand to establish a range of the specific objectives which are presented further.

- To provide a detailed description of the ferroalloys production. The description provided information about the world manufacturing of the products and included data published in the industry's magazines and weekly reviews of the situation on the ferroalloys markets.
- To find a range of factors influencing the market of the ferroalloys. The analysis of the factors served the purpose of looking for the best possible sales strategy at the market as per the last objective.
- To offer sales techniques, methods and strategy which serve to the purpose of the sales increase at the ferroalloys market in the current economic circumstances. This step included the suggestions for the development of the sales strategy at the ferroalloys market.

#### **2.4. The aim of the research**

The research aims to analyze the sales patterns in the international trading of ferroalloys. Sales methods and techniques will be analyzed in relation to the literature on the subject. There is a need to do an analysis of the application of the selling strategy and approaches in the particular kinds of the business. Analysis needs to be done due to the specific features of each kind of goods or services which determine the different mix of the selling approaches and techniques. The research aims to add more data to the investigation of the sales development in the field of ferroalloys trading to have a more in-depth analysis and a more overall perspective on the topic. The final purpose of the research is to specify selling methods and approaches which may help the

trading companies acting on the ferroalloys market to find the way of sales increase, and, consequently, further development of the business in current tense economic circumstances.

## **2.5. Literature review**

There is a lot of attention on fundamental works of the researchers in different fields of economics. Theoretical aspects of international business and trade were presented basing on the work of Griffin and Pustay (2005). In particular, the author was interested in their understanding of the international strategy as a key to the strategic planning for the trading companies. Griffin and Pustay (2005) provided a comprehensive scheme of key steps in international strategy formulation for international markets and trading, including the creation of a mission statement for international trading, SWOFT analysis, setting the strategic goals and strategic planning. Griffin and Pustay (2005) underlined the importance of choice between different forms of corporate strategy. The findings of Griffin and Pustay have been also backed by works of such economists as Doctor Mitchell (2012), Professor of California State University, and Doctor Buttle (2000), Professor of Management of Macquarie University, Sydney.

Fundamental work “Management” by Hitt, Black and Porter (2005) provided frame for discussion of such subjects as managing change, strategic management, planning and organizational development. They also draw attention to topic of managerial ethics and corporate social responsibility which cannot be neglected in nowadays business surroundings. The other aspect of management which has been analyzed by Hitt, Black and Porter (2005) is leadership concept which is one of the foundation stones of modern business. Problem of leadership and motivation have been developed in works of psychologist, science journalist and lecturer in Harvard Business School, Doctor Goleman (2000). Psychologists Ryan and Deci (2000), University of

Rochester, have offered their self-determination and motivation theory as logical continuation of the leadership concept. The notion of improving features of leader echoed in work of Winston and Patterson (2006), Regent University, in which they offered an integrative definition of leadership and ways of development of the leadership' vision.

Manning and Reece (2003) helped to understand the value of developing personal selling skills for every member of the team and provided integration of personal selling academic theory and real-world applications what can be implemented by the traders in everyday activity.

One of the engines for successful performance of the company, - key account management, has been described and recommended for implementation on base of works of such authors as Evans and Luskin (1994) and Millman and Wilson (1995 and 1996). Evans and Luskin (1994) offered to the following researchers and market players one of the best models for effective customer management. Millman and Wilson (1995) offered a definition of a key account. Further, Millman and Wilson (1996) developed system of KAM, - key account management which is used by any successful business nowadays. Some ideas and theoretical base for recommendations about building up management control system were adopted from the book of Merchant and W. van der Stede (2003).

## **Theoretical aspects of international trading**

### *Strategic planning*

As it has been underlined, the ferroalloys market is highly competitive due to the very nature of the goods. The previous economic crisis and current tense economic and political situation in Ukraine and Russia added more challenges to the process of the ferroalloys' sales. The trading companies which survived during the most severe 2008-2009 should look for the opportunities of not only keeping the sales at the same level, but of possible increasing them. This

task looks extremely difficult in the nowadays economic situation, as forecasts for the nearest future demand and sales are not very optimistic.

Thus, the task should be presented with the aim to increase the sales in comparison to the period of 2008-2014, but at the moment it would be too unrealistic to say about the increase of the sales comparing to the pre-crisis level.

The company aiming to penetrate the international market cannot move on without formulation of its goals, strategy and steps of achievement the purposes. As Griffin and Pustay (2005) noted the international strategy is a “comprehensive framework for achieving a firm’s fundamental goals” (p. 310).

As Manning and Reece (2003) underlined, development of “a product strategy has become more challenging” nowadays (p. 101) and demands “creating superior customer value and satisfaction” (p. 320).

Any strategic planning starts with the creation of a mission statement which is the statement clarifying “the organization’s purpose, values, and directions” (Griffin and Pustay, 2005, p. 321). The mission statement is an idea which serves as an etalon against which all activities of the company are checked. Any successful international company with worldwide known brand has its mission statement which gives direction of the work for its employees and presents the company to the consumers.

The next key step in international strategy formulation is environmental scanning and the SWOT analysis. SWOT is an “acronym for Strengths, Weaknesses, Opportunities, and Threats” (Griffin & Pustay, 2005, p. 322) and is organized in the form of an environmental scan. It means that the company collects data about all elements of the firms’ external and internal environments,



including markets, regulatory issues, competitors' actions, production costs, and labor productivity as per well known definition of the SWOT analysis techniques.

The company is also recommended to pay attention to such factors as availability of international management and staff and financial resources.

The full scan of opportunities and risks present on the international market, resources and potency of the company will help it to avoid unexpected, unpleasant surprises after it starts to operate in the market. Understanding of the firm's comparative advantages and disadvantages will play a major role in determining the company's competitive strategy and strategic goals overall.

Setting the strategic goals is the next step of the international strategy formulation. Griffin and Pustay (2005) determined strategic goals as “the major objectives the firm wants to accomplish through pursuing a particular course of action” (p. 324).

The strategic goals are reflection of the mission statement of the company in terms of “how much”, “how” and “by when”. They are actually a set of the final results and achievements the company is aiming to reach in a particular period of time by using its financial, labor and other resources.

The strategic goals answer the questions “how much, how, and by then”, but they do not provide the answer for the question “which exact actions are needed to achieve the goals”. Moreover, the strategic goals present the tasks for the senior and up-level management of the company. In order to implement the strategic goals into the real actions, the company should develop set of tactical goals or “tactics” (Griffin & Pustay, 2005, p. 324).

The strategic goals are divided to the tasks and set of the activities which the company should execute to reach the goals.

*Control framework in trading company*

The last key element of the firm's strategic planning is development of a control framework which is "the set of managerial and organizational processes that keep the firm moving toward its strategic goals" (Griffin & Pustay, 2005, p. 324). Indeed, without the carefully elaborated system of feedback and control of the results of the tactical plans' implementation the company would not get a understanding if it is moving into the right direction or needs to correct its plans, ways of action, procedures, etc.

The control framework should include the possibility of control both everyday activity and the results of the company's efforts during particular periods of time. There are many systems devised in fields of engineering, management, finance, human resources, etc. which can be utilized as the basis for the designing of the company's control framework. Its choice depends on the structure, size, quantity of the managerial levels, singularities of the business process, etc. The example of a possible control framework is presented in Figure 1.

The scheme of the strategic planning is common for the companies of any kind of activity, size, country of the location, etc. At the same time, it is necessary to remember, that there is no outsider consultant who can make a strategic plan for a company. "The development of a business strategy is the exclusive responsibility of the top management" (DeReuters Consultancy, 2012, p. 6). The top management should also realize that as long as the corporate strategy of the companies varying in their nature of the business, size, long-term plans, etc. can be different, the components of international strategy will likely vary for different companies.



*Figure 1.* Control framework in the company. This figure illustrates the main components of control in the company and connections between them. (Treasury Board of Canada Secretariat, 2009, p. 1)

Griffin and Pustay (2005) distinguish between three forms of corporate strategy: “a single-business strategy, a related diversification strategy, and an unrelated diversification strategy” (p. 325). But independently on the strategy the management defines as appropriate for the company, the common features can be tracked in all three types of it. As per Mitchell, all of them aim to establish ways to turn business fits into competitive advantages and to define priorities in sales and investment (2012, p. 2).

The company can use the single-business to achieve higher total profitability due to low overhead costs. In case of the focus strategy the company would concentrate its production on particular types of products for known customer groups or regions (Griffin & Pustay, 2005, p. 328). This attitude suits many trading companies on the international ferroalloys market. Polaris

Holding Ltd, for example, is specializing on particular kind of products (big quantities of high carbon ferromanganese) for certain market (Italy) and even certain customers (companies Forsteel Srl and Metco Spa).

At the same time such component of the international strategy as synergy is not likely to be used by the company that follows single-business strategy. Most probably creation of the distinctive competence would be the basis for the corporate strategy in such companies. The companies which utilize the related diversification strategy, are more likely to use the positive sides of the synergy. These companies would use the resource deployment as a component of their corporate strategies, answering the question “how will we allocate our resources” in order to reach the comparative advantage in different directions of their business.

#### *Effective customer management*

The companies presented on the ferroalloys market should not only adjust their strategies and policies in wake of everyday changes, but to found their actions on the business development theory. And one of the theory implementation is accepting policy of customer relationship management which is “the development and maintenance of mutually beneficial long term relationship with strategically significant customers” (Buttle, 2000, p. 2).

There are different models of customer relationships management offered in economic literature which can be used as a base of understanding and implementing of its principles in activity of the company. One of such models for effective customer management (Evans & Luskin, 1994, p. 13) is presented at Figure 2.

Key account management can be viewed as a further development of customer relationship management. Millman and Wilson (1995) offered a definition of a key account as that of “a customer deemed to be of strategic importance by the selling company”. The KAM system urges

the company to define the customers that represent a large volume of business and fit the 80/20 rule as well as customers with whom close long-term relationship has been established (Millman and Wilson, 1996, p. 8). This strategy allows the company to concentrate on the orders and contacts which bring the biggest profit or the possibility of the further development of the sales or increase of the market's share.

### **Relationship marketing inputs**

- Understanding customer expectations
- Building service partnerships
- Empowering employees
- Total quality management

### **Relationship marketing outcomes**

- Customer Satisfaction
- Customer loyalty
- Quality products

### **Assessment state**

- Customer feedback
- Integration

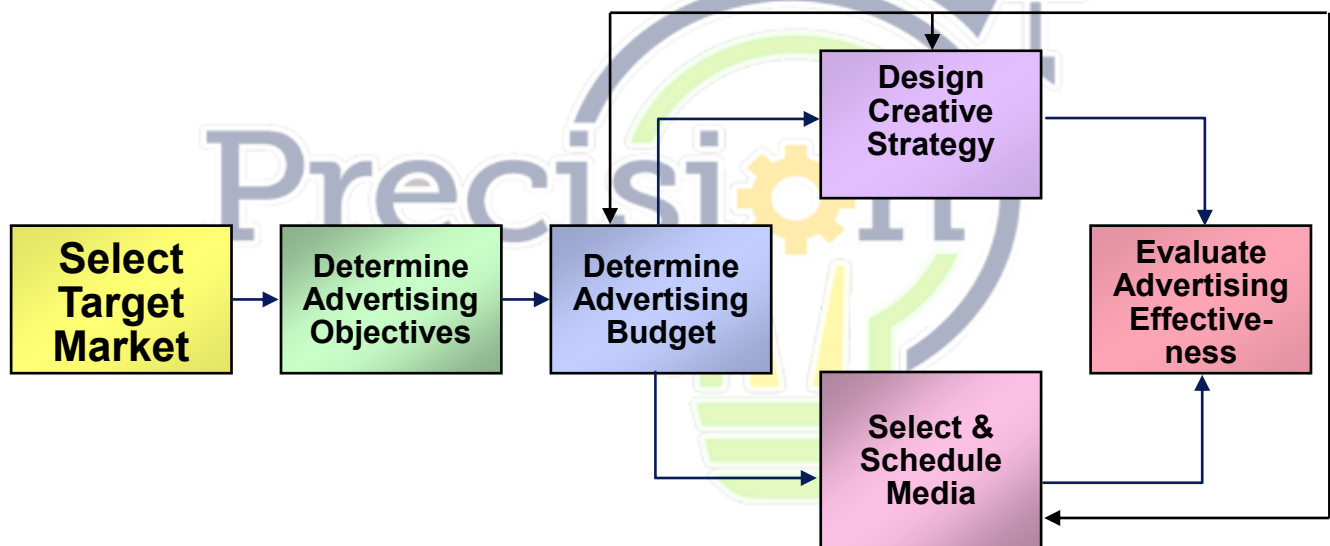


*Figure 2.* Model for Effective Relationship Management. This figure illustrates how effective relationship management should be organized in the company.

Mercon Commodities DMCC, the company which performance will be analyzed later, uses the KAM system for long period of time. The company declined the share of the customers with sporadic and not big purchases and concentrated on increasing the value of contracts with main clients and quality of the service to these buyers as well as established long-term relationship at all levels of the customer companies.

## Advertising

Under the author's review of the market, the advertising techniques were not used by the traders in the sphere of the ferroalloys' sales. The most obvious reason can be the fact that the products are homogeneous and sales persons do not consider that they need to be advertised. But application of basic advertising techniques can improve the company's performance, in the author's opinion. Advertisement placed in the special publications, online market places, leaflets presented in conferences, articles in magazines can increase interest of the potential buyers and make the circle of clients wider. The advertising campaign can be designed and evaluated as per scheme presented at Figure 3 (Illions' first public university, 2015, p. 14).



*Figure 3.* Developing an advertising campaign. This figure provides a framework for efficient advertising campaign.

### 4.1.5. Leadership and crisis management

Building the successful business strategy of a company cannot be fulfilled also without understanding of theory of leadership. The topic of leadership is one of the central topics for researchers starting from time of ancient Greeks. "Republic" of Plato, Aristotle's philosophy

which influenced a self-determination theory of Edward Deci and Richard Ryan (2010, pp. 68-78), Plutarch and his “Parallel lives” are only few examples of ideas given to us by ancient Greeks in the field of leadership’s theory. The Socratic method based on the famous saying “A life un-examined is a life un-lived” derives from idea of asking questions of different levels to help the individual create the implantaion of the ideas in his vision by logics and sounds modern and timely inspite of the fact it has been formulated 2500 years ago (Evans, 2015, para. 3-4).

The problem of the leadership has been developing during all history of the humankind and is relevant to any business area. It attracted attention of numerous researchers among them such names as James MacGregor Burns, Barry Z. Posner, Stephen R. Covey, Warren Bennis, Victor Vroom, etc. Winston and Patterson (2006) presented one of the best integrate definition of leadership, identifying a leader as a person or a group of people who provides all kinds of the support to the followers accordingly to their talents, skills and experience in order to achieve “the organization’s mission and objectives” in such way that the followers “willingly and enthusiastically expend spiritual, emotional, and physical energy in a concerted coordinated effort” (p. 6).

In modern highly competitive market of the ferroalloys role of the leader cannot be underestimated. It demands to distinguish between roles and functions of a leader and a manager. While the leader produces the change, the manager is responsible for providing the order for achieving the final goal of the change. Shortly speaking, the main goal of the leadership is a transformation which “generates awareness and acceptance of the purposes and mission of the group” and induces the employees to put aims of the group beyond their own self-interest (Bass, 1991, p. 21). An owner or a director of a company (especially in the field of trading of the

ferroalloys where companies can be quite small) should combine the managerial and leadership skills in order to lead his or her team to success.

The traders should remember that business during crisis differs a lot from business in a favorable economic circumstances. That is why nowadays there is a growing and stable interest to the area of interpenetration between an efficient leadership and crisis management. According to Harvard Business School professor Daniel Goleman, leaders with emotional intelligence competencies (such as self-awareness, self-management, social awareness and social skills) are “high-impact leaders” (2000, para. 4-5). But at the same time these are the skills which would be essential in crisis management.

During crisis of 2008 and after-crisis period one of the main concerns of a leader in trading companies was to sustain the organization’s credibility and trust among crisis stakeholders. As HR content expert, Nancy P. Lockwood, underlined, “depending on the crisis situation, a leader’s goal is to assist the organization in returning to productivity” (2005, p. 3). On top of it, one of the most important tasks for the trading companies was to protect and sustain the organization’s reputation and, if possible, the share at the market.

Managerial ethics and corporate social responsibility are the key points in order to sustain the reputation of the company as lack of it or poor performance in this areas can “generate negative publicity, hurt a company’s stock price and destroy shareholder value” (Hitt, Black and Porter, 2005, p. 152).

Trading of ferroalloys is not just a mechanical looking for a supplier with appropriate prices and for a buyer who is ready to get the material on the suitable terms. In nowadays complicated high-competitive market where future belongs to creativity and new ideas, a trader should look for new ways of promotion, marketing, dealing with clients, should be aware about new researches in



economic and psychological fields and to find anything useful for his or her particular business in the areas where all these sciences are intersecting.

Analysis of financial performance of Mercon Commodities DMCC (the trading company based in U.A.E.) has been made with assistance of works of Helfert (2001), Horngren, Sundem and Stratton (2001), Clipici and Gadoiu (2010) and Nourayi and Daroca (2001). Regular sources of information about current situation at the market of the ferroalloys, such as Metal Bulletin, U.S. Geological Survey Mineral Yearbook, Metal Expert and RYAN publications, have been widely used in the research as well. Usage of publications was an important part of the research as without constant monitoring the current data no decisions can be made in such mobile and highly competitive market as international market of ferroalloys.

