CHAPTER 5

MARKETING PERSPECTIVES IN EAST EUROPEAN COUNTRIES

The gradual increase in the volume of trade between the East European countries and the rest of the world has generated keen interest among business circles in the specific features and techniques for entering and developing the East European markets. Particular attention has been attached to the procedures employed in the East European countries for making decisions about imports, and to ways and means available for overseas traders to influence the decision making with a view to promoting sales.

While some traders who carry out extensive business with East European countries have already gained relevant information, but the developing countries are rather newcomers, interested in this trade and not yet possessing enough knowledge to be able to participate in it effectively. Moreover, owing to current misconceptions about trade with East European countries, newcomers are often misled into choosing a wrong approach to their efforts to promote trade with the East European countries.

1. In particular, the mistaken idea that end-users cannot influence the voluntary management of the import trade by central authorities.
In order to elucidate this question, the UNCTAD Secretariat has prepared a study which aims at analysing the interdependence of central management and end-users in decision making in respect of imports in three selected socialist countries of Eastern Europe: the German Democratic Republic, Hungary and Poland. An additional reason for making the study is that economic reforms now proceeding in the East European countries have introduced innovations in the planning and techniques of foreign trade, the result of which is to transfer decision making to a lower echelon and to multiply the number of enterprises authorised to deal with foreign markets. The analysis covers the entire vertical chain of decision making from the elaboration of import plans to the placing of import orders. A description of how persons and bodies dealing with imports in East European countries may be approached is of special interest for the countries like India.

Planning Imports

The modern growth strategy in the East European countries attaches particular importance to foreign trade. The inadequacy of domestic resources, the race for efficiency in the deployment of investments and manpower and the efforts to keep pace with the changing world economy

1. UNCTAD, TD/8/341.
and to benefit from the contemporary scientific and
technical revolution have all underlined the advantages
of the international division of labour and inevitably
led to the formation of economic structures permanently
in touch with foreign markets. Accordingly the expansion
of export capacity measures to ensure an economically
justified composition of imports have been considered
among the principal tasks of the planning authorities.

Meanwhile, the Governments of East European countries
have launched management reforms aiming at improving the
climate for economic initiatives and innovations. The
partial transfer of the decision making authority to
a lower echelon, price reforms, gradual operational and
financial independence and material incentives have stren­
gthened the ability of enterprises to run profitably and
to maintain a forward-looking technical policy.

These are the reasons why the procedure for elabo­
rating import plans in the East European countries now a
days, characterised, first of all, by the combines efforts
of the central planning authorities and end-users. They
work out an optimal import schedule giving due weight
to the genuine needs of all the national economy, world
market conditions and balance of payments stability.

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1. Government planning bodies as well as planning units
inside the Ministries of foreign trade and enterprises
ministries.
Because there are some significant differences in national practice, what may be said about one country does not necessarily apply equally to another. In general, however, these goals are usually attained by an integration into the final import schedule of the two flows of planning elements: the centrally determined guide lines (conceived macroeconomically and passed down from the top planning authority) and "counterplans" reflecting microeconomic needs and features and suggested basically by industrial, trade and service units as well as by foreign trade organisations.

In these circumstances, the end-user industries have two main means of influencing the design of the foreign trade plan; by supplying to the planning authority at an early stage with basic information concerning their import needs and performances, and by the coordination and integration of the central guidelines and their own "counterplans". The first influence is brought to bear mainly during the stage of working out the centrally determined guidelines within planning bodies. Industrial, domestic, trade and service organisations submit their preliminary requirements and production schedule to the planning authorities who use this information as the basis for planning. Then after the national needs and resources (including goods available for export) have been compared, a draft import plan is prepared which — being an integral part of the general plan
-deals with the external environment and defines the contribution to be made by foreign trade to national production, investment and market supply. Thus, it is predominantly the central authorities who work out the major import trade guidelines, they have their origin in the data submitted by the end-users and the statistics recording their business activity.

Certain series of data must be submitted, but the planning authorities usually need and welcome additional information, especially an analytical model showing the comparative advantages offered by prospective imports. Thus, in addition to official requests, special questionnaires are sent to endusers (Hungary) and branch research units are invited to put forward their suggestions and opinions (Hungary, Poland). In soliciting this information, the planning authorities are usually interested in receiving particulars concerning three main topics: past experience in a particular sector of production or services; developments abroad and international comparisons; conclusions and suggestions for the national industry and foreign trade. This procedure is common in all three countries GDR, Hungary and Poland.

The opinion of various research bodies weigh even heavier in the planning of consumer imports which involve
the aggregation of millions of individual needs and preferences and working out of typical trends from the aggregates before the opinions are submitted to the planning authorities. The ministries concerned with domestic trade usually provide these authorities with current records of the retail trade, but this information is now considered insufficient for scientific planning. Accordingly special units or institutes dealing with internal market research have been set up in these countries in order to study trends in personal consumption and consumer preferences, and the planning authorities have paid due attention to their findings and factual information, especially taking into account the growing demand for consumer goods and certain recent deficiencies in supply which are to be remedied through imports and in many other ways.

There are, for example special market research units inside the ministries of domestic trade in GDR and Hungary but Polish experience appears to be of particular interest to us. Internal market research is conducted in that country by the Institute of domestic trade by means of both regular reports (sent to planning authorities and the Ministry of Domestic Trade) and analytical studies. The Institute arranges consumer opinion polls and has under permanent observation 4,000 families representing various strata of Polish society who inform it regularly of its purchasing intentions and actual purchases, household budgets and post-purchase opinions. Accordingly, Institute is in a
position to carry out representative analyses, such as studies concerning the saturation of the Polish market with durable consumer goods and income elasticities with respect to certain products, and to make projections of consumer demand, which are now in preparation - until the year 2,000.

The Polish Institute regularly sends to the superior bodies its findings concerning market conditions and its recommendations for annual and five year plans. For the year 1975-80, in particular, it forecasts a shift in consumption to more sophisticated and high-caloric food - meat, fish, eggs, fruits, fats, butter, coffee, cocoa - and expects a decrease in demand for bread, potatoes, cabbage and margarine. Many of its conclusions have received official recognition; for example a proposal has been made for upgrading the quality and enlarging the ranges of textiles and clothing offered on the domestic market, both through the adjustments in national production schedules and increasing imports.

As regards the planning procedure itself, the calculation of national commodity balances illustrates how this fundamental information concerning the requirements of end-users is transformed into basic matrices for planning, including import planning. When the aggregated requirements of end-users are compared with the national
Production of particular commodities, these balances clearly show the demand/supply situation for the planning period; any resulting deficits or surpluses enable the planners to evaluate the volume of exportable goods or necessary imports.

The UNCTAD study\textsuperscript{1} for the three countries revealed that these balances during recent years showed an inevitable deficit of oil, gas, base metals, ores, rubber, hides and skins, textile raw materials, fodder, wool and phosphates and one may notice a growing increase in imports of these commodities to meet endusers requirements as reported to the top planning authorities. In a similar way, the basic information received from end users is processed for the elaboration of economic forecasts and the end-users are invited to offer their opinions thereon. In Poland, for example, this is the practice, and these opinions are taken into account in estimating future demand for oil, iron ore, manganese, cobalt, nickel and asbestos.

Whereas the net deficits or surpluses shown by the balances mentioned above are basic, they are not the only yardsticks for foreign trade planning. Modern growth strategy demands that planners should not look upon foreign trade as merely a means of overcoming natural supply difficulties. Seeking efficiency, now a days, they have

\footnotesize{1. UNCTAD Study, TD/8/341.}
a more dynamic approach to imports and envisage buying, in addition to essentials that are not available within the national economy, certain goods with comparative advantages over like products of national origin (which are being or might be produced) in order to raise productivity and minimise production cost.

Here again information relating to the requirements of end-users, especially of an analytical type, and the findings of the research institutes and the foreign trade organisations are a basis for deciding whether the product should be made or the technology in question should be developed domestically, or whether cost-benefit considerations and the period involved make it advisable to import the product or the technological know-how. This is the approach which prevails in case where planners deal with quantitative matters like comparative advantages, machinery and equipment, but it is applied in other fields as well. For example, Poland is not going to intensify the output of some types of machine tools and some textile semi-manufactures that are now being imported, and Hungarian economists advocate an increase in imports of certain types of textiles and paper rather than an expansion of marginal domestic production of these goods and recommend an increase in imports of consumer goods so as to stimulate healthy competition on the home market.
As a result, the import guidelines passed down to the lower echelons by the planning authorities reflect in general the quantitative and the qualitative requirements reported by end-users. The latter have one further opportunity of defending their interests in practice during the second stage of foreign trade planning, namely the coordination and integration of the central directives and the "counterplanes" in the final version of the import schedule. In the GDR, the preliminary directives are further examined at a lower echelon (enterprises, associations, ministries) and only after mutual understanding is the final version of the import schedule allowed to be adopted. In Poland, planning commission checks general directives ag against "counterplanes" drawn up by foreign trade enterprises and their clients, and only then is the final version submitted to the Parliament. In Hungary, the procedure is even simpler, because the targets fixed in the foreign trade plan for the enterprises are not mandatory but indicative, and moreover, the end-users may apply in addition for currency credits or allocations from the central foreign exchange fund on the basis of investment priorities.

At the same time, however, the fact that end-users have these prerogatives does not mean that the planning authorities accept every request submitted. Because the planners are responsible for the overall balancing of exports and imports and for ensuring balance of payments
equilibrium and a judicious inter-locking of foreign trade with other segments of the plan, their legal powers are unimpaired and they are vested with the necessary authority to reject, curtail or modify any import applications submitted or to suggest alternative sources of supply.

The usual balance-of-payments considerations are not the only ones affecting the treatment of such applications; the modification of import applications and switching to alternative sources of supplies often take place in order to ensure the implementation of commitments given to trade partners and embodied in trade and economic agreements. The planners usually favour such arrangements, especially long term ones, because they tend to ensure a certain stability in the level and composition of foreign trade and consequently they insist on their due implementation.

These commitments in fact, also have their origin in the estimates of requirements given by end-users, and the latter are invariably parties to the trade negotiations at the intergovernmental level, influencing accordingly the provisions of the agreements concerned. In Poland, for example, the industry always requests more imports of long staple cotton instead of medium staple and prefers the better known Finnish and the Swedish pulp to the Canadian pulp, and these wishes are reflected in the recent trade arrangements.
However, the commitments in question and the current end-users preferences may not happen to coincide, because:

(a) the commitments are not entered into exclusively in the light of end-users' interests only, but constitute compromises with partners who defend their own interests;

(b) even where clearing accounts exist, the socialist country may have an excessively large surplus to be sent or on the contrary, purchases may go far beyond export proceeds, with the consequences that imports have to be curtailed.

In such circumstances, it is not surprising that planning or operational authorities should intervene, through licences or indirectly, for example, to adjust the current foreign trade performance and to switch import business to the appropriate sources. In this connection, informed sources in the East European countries do not hesitate to say that this adjustment procedure is applied most often to counter the end-users historical preferences for supplied from the developed market economy countries, especially in respect of latter's "non-traditional"exports.

In Poland, for example, whereas the end-users had applied for imports of fabrics from Western Europe, some of the imports were instead obtained from Colombian and Pakistani sources. Likewise, whereas in 1969, Hungary increased its consumer imports from other East European countries by 14 per cent and from the developed market countries by 28 per cent, its imports of consumer goods from the developing countries rose by 125 per cent.
The measures described above should not, however, be interpreted as constituting intervention by the superior authorities in any particular deal, on the contrary, the central authorities observe the foreign trade flows, in general, and once the aggregated schedule has been determined the plan allocations and quotas are then flexible enough to allow the importers to satisfy their needs and preferences. In Finland, for example, the plan directives are expressed in terms of value (except essentials such as oil, ores, grains, cotton etc., for which value-volume quota is fixed) in order to ensure maximum flexibility in the execution of the plan. Moreover, excess imports are now allowed subject to over-fulfilment of the export plan. In the GDR also, only for the major items are imports fixed in terms of value-volume and the imports of the others including machinery and durable consumer goods are expressed in terms of value only with the result that an appropriate selectivity is possible. In Hungary, only indicative targets for imports are fixed according to national plans and balance-of-payments considerations, and within these limits imports are mainly regulated indirectly.

The interdependence of the central management and the end-users is not, however, limited to mutual cooperation in foreign trade planning; this planning is only the top link in the entire vertical chain of decision making in respect of imports under the socialist system of foreign trade. Once fixed, import targets and commitments have also
to be administered accordingly, and different problems of interdependence, this time at the operational level, arise at the stage of the second link in the "chain" which is the relationship between the end-users and the institutions legally managing imports—ministries of foreign trade and specialised foreign trade organisations.

It is thus wrong to believe that exporting to the East European countries is by and large a matter of filling orders for goods emanating from these countries and as such does not provide sufficient scope for marketing and promotional activities. Under the changing circumstances, such an impression is erroneous. Rising affluence and increased trade with the free market economies has drawn considerable attention on consumer preferences in the decision making process as to the variety and quality of products to be offered to industrial as well as household sectors of the market. The economic development plans embarked upon by the East European countries hark a great deal on improving the standard of living of the people and providing them with a life-style befitting the modern trend. This is sought to be achieved among other things, by giving the consumer a wider choice of product assortment and emphasising product differentiation to meet distinct preferences of different segments of customers. In deed various promotional devices are used for developing and encouraging consumer preferences in order to improve the quality of consumption and living standards. The emphasis is fast shifting towards the
concept of "offering satisfaction" to consumers rather than mere 'selling of utilities'. In short consumer preferences and exercise of a discriminating approach towards selection of goods and services of their liking is giving rise to a marketing mechanism that is fairly akin to what is obtaining in the market economy countries.

The growing importance of giving the consumer what he wants is warranted by the growth in purchasing power and changing purchasing behaviour of the consumer who no longer feels obliged to accept whatever is offered but would prefer to shop around for something he really wants and can afford. The exercise of consumer 'right' of rejection of shoddy and unattractive merchandise and its recognition by the planning authorities is an important milestone in the evolution of modern "marketing concept" in the East European countries.

It is of interest to mention here that some years ago Polish government imported large quantities of shoes from North Africa as the result of a trade deal. The early purchases found to their dismay that the shoes leaked and fell apart with alarming rapidity. The news spread in no time. The people rejected the quality of these shoes and refrained from buying them. Weller concludes here, "The initial official reaction to this and several similar incidents was to condemn the citizens for their far energetic consumer attitudes. Authoritarian remonstrances fell on obstinate ears, and, however, it was eventually
accepted that unless consumers' attitudes and interests were respected, grave political troubles might well arise. ¹

The phenomenon of demand differentiation and emphasis on wider product assortments in East Europe needs to be studied and understood by the Indian exporters in order to appreciate the underlying forces in import marketing practices and import policy guidelines in these countries.

Market Research Activities

The end-users marketing presupposes keeping in constant touch with the changing pattern of consumption habits and consumer purchasing behaviour as one of the criteria for determining the basis for allocation of resources and width and depth of product assortment and policy formulation including what is to be manufactured domestically and what is to be imported. The market research organisations in the East European countries carry out economic and market surveys not only to keep in touch with the changing market trends and consumer preferences but also to predict the likely pattern of future market behaviour in respect of various market fields and services.

The importance of marketing communication and sales promotion activities like advertising, trade fairs and exhibitions, public relations, technical seminars and other modern forms of market promotion is being increasingly recognised in the East European countries. A wide variety of modern marketing techniques and promotional measures are applied in order to provide product information as well as to educate and influence consumer choice. There are special foreign trade organisations charged with the responsibility for carrying out promotional activities on behalf of their foreign clients.

In addition to carrying out promotional campaigns through the usual media of advertising such as newspapers, magazines, radio, television, and direct mail, considerable importance is being attached to exhibitions and trade fairs as well as organisation of technical seminars. In most cases, international exhibitions are considered as an important source of new product identification as well as suitable venue for business deals. The foreign sellers also get an opportunity to find out what exactly is required by their prospective customers.

In all the countries of Eastern Europe, special exhibitions are held at different times of the year. For example, in Hungary, the Budapest International Spring Fair is the specialised fair for technical goods and the Budapest International Autumn Fair is for consumer goods. The national Agricultural and Food Industrial Exhibition is held every
five years in Budapest. There are special foreign trade organisations in all the countries responsible for organising international fairs and exhibitions. The fair authorities and other marketing services normally render a range of jobs to the foreign exhibitors such as assistance in respect of designing and construction of pavilions and stands for exhibits or special display equipment, furniture, installations and decorations, etc. as well as other forms of promotional activities.

Similarly there are professional advertising and public relations agencies, which render all kinds of advertising and marketing services to foreign exporters to these countries. In addition, these agencies also render assistance in organising exclusive exhibitions for products from a particular foreign company or country and technical seminars usually for machinery, equipment and other technical goods. Technical seminars in particular are considered as one of the most important means of introducing new products to the East European countries. In Czechoslovakia, the foreign trade organisations as well as internal manufacturing and trading enterprises attach a good deal of importance to technical seminars, where representatives of buyers and sellers meet and exchange views about various aspects of products displayed at these seminars. The technical seminars offer an opportunity to the exporting organisations to explain and introduce their products directly to the end-users. Normally the potential buyers from the internal manufacturing and
trading organisations are invited to these seminars and mini-exhibitions along with the representatives of the foreign trade companies are held so that the prospective buyers are exposed to the range of the products offered and the foreign sellers can also have a dialogue with buyers. In this way the product can be effectively brought to the attention of the internal customer in an effort to influence their buying decision.

Normally, the foreign exporters to East European countries do not have an opportunity of establishing direct business contacts with the domestic buyers, as they are required to negotiate business only through respective foreign trade organisations. This kind of arrangement naturally creates a lot of communication gap and the foreign sellers do not get an opportunity to have direct sales talk with their ultimate customers. In order to bridge this communication gap between foreign sellers and domestic buyers, foreign trade representation organisations have been set up in these countries. These organisations act in almost the same fashion as commission agents do in free market economies and render various kinds of services to their foreign clients.

Need for Marketing Effort by Indian Exporters

The above features of marketing in East Europe reveal the fact that the new marketing philosophy is fast gaining ground, which is not quite dissimilar from what is obtaining elsewhere. The consumer sector - industrial as well as
household is playing an increasingly important role in overtly expressing their preferences for specific categories of goods and services. On the other hand, planning authorities are also paying greater attention to the need for enhancing consumer satisfaction and standard of living by providing a wider assortment of quality goods in consonance with the requirements of the different segments of the market.

This aspect of the marketing reality needs to be properly grasped and viewed in the right perspective by Indian exporters for lasting marketing success in East Europe. It must be appreciated by Indian exporters and policy makers that criterion of favourable economic and trading conditions for gaining easier access to the East European markets through bilateral and preferential arrangements does not necessarily ensure consumer's acceptance of products. In a situation of growing competition, the product has finally to be sold through the process of marketing.

Inadequate Product Information

The internal manufacturing and trading organisations which actually make buying decisions reportedly know very little about the wide range of non-traditional products India is in a position to supply. Apparently, the internal trade organisations in most of these countries continue
to group India along with other developing countries as one of the prime sources of raw material supply. The need to establish appropriate communication channels to inform and influence the internal trading enterprises is underscored by the fact that in their requisition to foreign trade companies these enterprises sometime specify products of specific countries or even specific companies that they want to buy. Creation of favourable disposition towards Indian manufactured goods in the minds of the actual end-user in these countries is, therefore, of great importance for new product introduction. In order to rectify the communication gap between Indian suppliers and internal organizational buyers in East European countries, the following suggestions are made:

(a) Selling effort by Indian businessmen in the East European countries is reportedly far from satisfactory. Unlike other countries, mail enquiries and correspondence generally do not elicit adequate response. In this connection it would be worthwhile to note the manner in which some of the western countries mobilise their sales effort in these markets through convening technical seminars, participating in trade fairs and exhibitions, appointing representation agencies and making frequent visits to these markets. Compared with this, visits by Indian business men are few and far between.
(b) So far only a few Indian exporters are known to have made use of the services of representation agencies. It is almost unavoidable to engage representation agencies for carrying out effective marketing operations including establishing direct contacts with domestic end-users, distributing promotional and informative literature, collecting information regarding buyer's requirements for products and services, helping in business negotiations and ensuring after-sales services and all other kinds of promotional activities. Indian exporters should seriously think of making more effective use of marketing services offered by representation agencies.

(c) The importance of participation in trade fairs and exhibitions does not appear to be fully realised by the government of India as well as the Indian business community. It is through such participation that extensive direct contacts can be established with the end-users of industrial and consumer goods, officials of testing laboratories and foreign trade organisations as well as representatives of various facilitating agencies. Apart from understanding the need pattern of buyers in these countries, participation in exhibitions by the Indian companies would enhance their reputation among the end-users, who are the originators of all import activities. In fact, it is reported that more often than not several long term sales contracts
are formally signed at international trade fairs even if
deals do not originate at the fairs.

(d) Technical seminars are effective and widely used
means of introducing machineries and technical goods to
East European countries. The buyers of technical equipment
and machines are to be convinced about the special features
and technical properties of the products offered and the
competitive advantages of buying such products from a
particular source. Since India may be trying to sell engi­
neering goods in increasing volume in the future, it would
be desirable to convene technical seminars periodically
in selected centres for customer information and initial
introduction of the product.

**Bridging Information Gap**

One of the problems in approaching the East European
countries is lack of adequate market information. In order to
overcome this shortcoming and establish a continuing
process for collection and analysis of market data, it
may be desirable to monitor market intelligence through
commercial sections of Indian embassies in these countries.
At present, the Indian businessmen are made aware of the
buying intentions of the East European customers mainly
through the latter's trade mission or through their buying
agents operating in India. It would be desirable if such
information can be monitored on a regular basis for wider
dissemination through Export Promotion Councils and other
expert promotion agencies to the interested Indian suppliers.
For this purpose, the commercial sections of the Indian embassies should consider employing, to begin with, trade analysts with sufficient experience in foreign trade structure and practices in East European countries. The proposed trade analysts should be sufficiently proficient in local languages, because most of the commercial and economic literature in these countries is published in local languages. The trade analysts will maintain continuous touch with business activities of foreign trade companies as well as other service organisations and study their buying programmes as well as competitive activities.

Simultaneously, it would be helpful if a Cell is created in the EastEurope Section in the Ministry of Commerce to receive and arrange follow up information transmitted by the trade analysts. The Cell in addition to other activities, make quarterly review of the trade plan performance, where relevant, and analyse reasons for shortfall of targets if any and suggest remedial measures.

**Trade Balancing at the level of Foreign Trade Organisations**

Individual foreign trade companies generally seek to balance their import purchases with export sales in respect of product groups earmarked to be handled for export and import by a particular company. An export offer would perhaps receive more favourable consideration, if the concerned foreign trade company can get an indication of what will be bought from it in return by the exporter's
country. Indian exporters may consider possibilities of coordinating their export programme with Indian importers of machinery and equipment or other goods of interest to India.

In conclusion, it is emphasised that Indian exporters interested in promoting stable markets for their products in East European countries will need to take a more active interest in promotional activities rather than passively waiting for the East European customers to knock at their doors. Special attention needs to be given to developing the channels of communication to inform, convince and persuade the East European buyers to make their buying choice in favour of Indian goods. The ultimate marketing success will depend on how best the Indian exporting community can make effective use of marketing facilities provided to foreign exporters in the East European countries.