

**Kyiv National University of Trade and Economics**  
**Department of Foreign Economic Activity of Enterprise**

**FINAL QUALIFYING PAPER**  
**on the topic:**

**“Market selection strategy in the implementation of foreign economic activity of the enterprise”**

**(based on data of One Love LLC, Kyiv)**

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## INTRODUCTION

**Relevance of the research topic.** The strategic development of the enterprise is a complex problem, which has a relevance for any enterprise that is planning to enter a new market. The efficiency of the external economic activity of the enterprise depends directly on the optimally planned and organized work on entering the foreign markets in the long run with the development of the strategy and tactics of the enterprise. Thus, the development of foreign economic activity strategy can be considered as a vital element of the management policy of any enterprise entering the international market.

Currently, there is virtually no industry that does not have direct or indirect contact with external markets. Direct relationships are rapidly developing, joint ventures, licensing and franchise become an important stage of any development of the enterprise. In these circumstances, the issues of efficiency of foreign economic activity are becoming increasingly important.

The need for strategic planning of foreign economic activity is determined by significant changes in the structure of the world market and attempts of enterprises engaged in foreign economic activity, by trial and error, to develop adequate measures to guarantee their protection against excessive losses as a result of incorrect actions or misperceptions about economic prospects.

Conducting effective foreign economic activity of the enterprise is based on careful consideration of numerous factors of the external and internal environment. Rapid changes in technology, economic uncertainty and high levels of competition create the conditions for an organization to constantly analyze its current position and, based on this analysis, develop and implement various strategies aimed at ensuring the successful operation of the enterprise in the market.

The decision of these issues was undertaken by Ukrainian scientists Zagorodniy A., Koch, A.J, Zabelin P.V., Afanasyev M.P., Gradov O.M., O. Kirichenko, V. Reshetov, V.I. Morgunov, I.M. Boychik, V.V. Kozik, L.A. Pankova and foreign researchers P. Kotler, M. Porter, S. Zou and T. Cavusgil.

Entering a new market is a complex problem, which requires fundamental

standards and methods for organizing international business. Traditional market selection analysis relies on purely macroeconomic and political factors and fails to account for an emerging market's dynamism and future potential.

**The purpose and objectives of the study.** The purpose of this work is to develop a strategy of market selection for One Love LLC into a foreign market and the successful implementation of a coffee store within it.

In accordance with the stated goal, the following research objectives were identified:

- 1) Analyze the essence and main directions of foreign economic activity of the enterprise;
- 2) Analyze the current foreign economic activity of One Love LLC;
- 3) To determine the peculiarities for developing a strategy for entering a new market, taking into account the external economic activity of the enterprise;
- 4) Consider the main strategy for the company's activities in the foreign market;
- 5) Develop a set of measures and recommendations to optimize market selection strategy;
- 6) Forecast the effectiveness of performance of One Love LLC on the international market.

**The object** of the research is the foreign economic activity of One Love LLC.

**The subject** of the study is the process of developing a market selection strategy for One Love LLC to enter into United Arab Emirates market.

**Research methods.** The research paper uses a wide range of generally accepted research methods based on a systematic approach. In the study of foreign economic activity of One Love LLC the methods of analysis and synthesis, abstraction, scientific-analytical, comparison, generalization of scientific publications and information databases were used.

In the construction of tables were used general scientific and special methods, such as abstract-logical, graphical, empirical and statistical. The calculation and constructive method were used to substantiate ways of increasing the efficiency of the import operations of the enterprise. The scenario method is used for the forecasting of

the import and economic activity of the enterprise.

The information is based on a primary research of the topic: researches and scientific-methodical literature, statistical information, resources of the Internet, and as well on a secondary research conducted by the author in a form of a survey. The processing of actual data was carried out using economic and statistical methods, as well as using a program MS Excel.

The main tasks of the paper determined its structure. The work consists of an abstract, content, introduction, main part which consists of two sections (each containing three paragraphs, conclusions to them), conclusions and recommendations, a list of bibliography and appendices.

## **SECTION 1. GENERAL ANALYSIS OF MARKET SELECTION STRATEGY IMPLEMENTATION OF ONE LOVE LLC**

### **1.1. The characteristic of financial and economic activity of One Love LLC**

One Love LLC is a chain of coffee shops that has four locations in city center of Kyiv, main information of the enterprise is represented in Appendix A. There are two main activities of the enterprise:

1. ONE LOVE Coffee - coffee houses that use specialty class coffee to prepare high-quality and delicious coffee.
2. ONE LOVE coffee shop is an online store where it is possible to buy high-quality light and freshly roasted coffee beans with delivery throughout Ukraine for home or office and get information about alternative methods of making coffee.

ONE LOVE Coffee is one of the few coffee houses where it is possible to try coffee in an alternative way: Chemex, V60 and Aeropress pour-overs. ONE LOVE Coffee is one of the world's top coffee shops according to Big 7 Travel (it was ranked as 28<sup>th</sup> in the world) [3].

The unique feature of One Love coffee stores is a specialty class coffee. Specialty coffee is a high-quality Arabica grain, which is selected according to the standards created by the international organization Specialty Coffee Association (SCA). This grain is one of the most expensive and of the highest quality that exists on the world coffee market [19].

The founders and barista of ONE LOVE coffee are active members of SCA Ukraine. The barista Chef is the winner in the Ukrainian Barista Championship nomination organized by SCA Ukraine in 2018 [20].

The company imports green coffee beans, roasts on its own in Kyiv and estimates the flavour profile by tasting and sets up a quality assessment using the SCA Standards. Unique Selling Point is the quality assessment that the company indicates on the label. Even though specialty grain has a quality rating starting from 80 points, One Love LLC

imports only specialty green arabica grains with 86 points.

One Love LLC works with producers of coffee of the TOP-countries from Bean Belt region known for the best specialty coffee in the world (Appendix P). Namely: Brazil, Ethiopia, Kenya, Rwanda, Burundi, Bolivia, Guatemala, Colombia and Peru.

The company has been working for many years with the same suppliers, as each of them passed a special quality and certification test. ONE LOVE Coffee shop sells packages of two sizes: 250 grams and 1 kilogram. Selling branded coffee packages gives approximately 20% of profit to the company every year.

The main problem of the further development of the enterprise is the rapid growth of opening cafes in Ukraine. Even though the company already exists in the market for 5 years and has gained a reputation among residents, a one of the coffee houses in city center of Kyiv was closed after 6 months since the opening. This situation refers to two main problems:

1. The Kyiv market is oversaturated with specialty coffee stores [7].
2. 60% of Kyiv citizens are not willing to buy coffee for more than 40-50 UAH per cup (the results are based on the questionnaire, Appendix S).

For a further analysis of the enterprise and the choice of a strategy for entering a new market, an analysis of the financial and economic activity of the enterprise over the past 5 years has been conducted using the Company's Income Statement (Appendix C).

According to the results Appendix D, the net income from the sale of products of One Love LLC decreased for the whole analyzed period by 24.59% (by UAH 10963 thousand). At the same time, it should be noted that the cost of sales increased from 2015 to 2018 and resulted to UAH 28003 thousand, which is by 153% more than in 2014 (or UAH 16939 thousand more).

As a result, the gross profit of the enterprise decreased every year and amounted to UAH 5618 thousand in 2018. Overall, it has dramatically decreased by 83.24% or by UAH 27902 thousand throughout the analysed period.

Despite the high level of expenditures during 2014 – 2018, the activity of the company remained profitable and the financial net profit is positive. However, it has decreased by 68.77% in 2018 comparing to 2014. The structure of net income by the sales

volume of imported products and domestic good is shown in the table 1.1.

*Table 1.1*

**Dynamics of the net income from sales of products by the One Love LLC for 2014 - 2018, thousand UAH**

Indicator	2014	2015	2016	2017	2018	Relative deviation			
						2015/ 2014	2016/ 2015	2017/ 2016	2018/ 2017
1	2	3	4	5	6	7	8	9	10
Net income (revenue) from sales of products (goods and services)	44584	44584	45770	40085	33621	1.00	1.03	0.88	0.84
Sales volume of imported products	35876.75	32786.43	36955.91	33534.12	21643.73	0.91	1.13	0.91	0.65
Sales volume of domestic products	8707.25	11797.57	8814.09	6550.88	11977.27	1.35	0.75	0.74	1.83

Source: developed by the author

The structure of net income of One Love LLC is represented in a diagram below (figure 1.1).

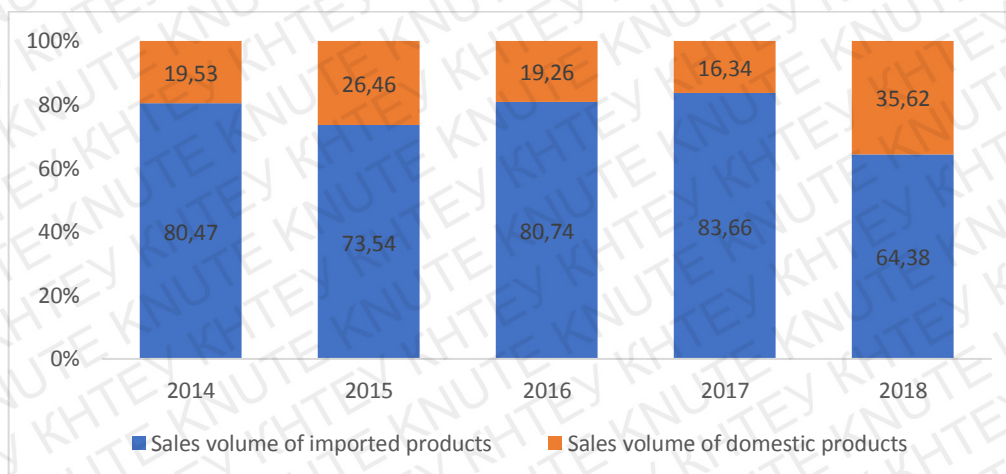


Figure 1.1. The structure of net income of One Love LLC for 2014 – 2018, %

Source: developed by the author

Achieved results of the dynamics of assets of One Love LLC (Appendix E)



demonstrate that in the first year of the period under review, the total value of assets was UAH 5040 thousand. Initially, assets grew by 166.11% and 155.64% in next year following years. This fact indicates that the enterprise has the potential to generate profit, since the amount of assets involved in the production and financial process is growing.

Intangible assets had grown by 74.20 % throughout the analyzed period due to the growth of fixed assets. The enterprise does not invest in long-term material assets and financial assets, which is explained by the form of incorporation and the activity of the enterprise. Since the amount of incomplete capital investment and investment property is zero, can be claimed that the One Love LLC did not invest in the property for further leasing, leasing or resale. However, current assets had a significant growth in 2018 which has increased by 1226.23 % comparing to 2014. This growth can be explained by the dramatical increase of current financial investments during the analyzed period (which is 7082.86 % more than in 2014). The amount of cash in hryvnia constantly fluctuates in the checking account and cash desk, which is normal for any enterprise.

Looking thought the dynamics of liabilities of One Love LLC (Appendix F), can be noted that in 2014, the authorized capital amounted to UAH 160 thousand. From 2015 to 2018, the registered capital was unchanged. The amount of additional invested capital and reserve capital is zero, because the enterprise does not have additional invested capital. Although, in 2014, the amount of retained earnings amounted to UAH 175 thousand. In 2015, the indicator increased by 3971.43% compared to the previous year.

The positive value of the indicator is a good phenomenon, which shows that the growth of the equity of the entity is due to the effective work of management. At the end of 2018, retained earnings amounted to UAH 56.310 thousand (by 295 times more than in 2014).The company had no long-term financial obligations throughout the period. However, in 2014, the amount of accounts payable for goods and services amounted to UAH 4705 thousand. In 2015, the amount decreased by 56.77% compared to the previous year. The following year, there is a decrease, but at the end of 2017, the number of payables amounted to UAH 11557 thousand, which is 516% more than the

previous year. During the last year, the company managed to repay loans and the amount of accounts payable decreased by 78.37% and amounted to UAH 2500 thousand.

The profitability of the implementation characterizes the profitability of the main activity of the enterprise - the higher the profitability ratio, the more efficient the entire management process is [34]. Below in the table 1.2 the liquidity indicators are demonstrated.

*Table 1.2*

**Dynamics of profitability indicators of One Love LLC  
for 2014 – 2018, %**

Indicator	2014	2015	2016	2017	2018	Absolute deviation			
						2015/ 2014	2016/ 2015	2017/ 2016	2018/ 2017
1	2	3	4	5	6	7	8	9	10
Profitability of product sales	75.18	48.37	32.69	23.42	16.71	-26.82	-15.67	-9.27	-6.71
Cost-effectiveness	302.96	93.68	48.57	30.59	20.06	-209.29	-45.10	-17.99	-10.52
Overall profitability	35.08	36.84	50.43	77.95	94.31	1.76	13.60	27.51	16.36

Source: calculated by the author according to Appendix B

According to the table 1.2 the enterprise improved its overall profitability every year. During the first year since the opening, the profitability of product sales was the highest 75.18% and shows that One Love LLC had a strong position on the market in 2014. However, by 2018 it has a dramatical decline to 16.71%, which is explained by a decrease in revenue from sales by 16.12% comparing to the previous year. The cost-effectiveness has decreased to 20.06% in 2018 due to the decrease of cost of sales by 8.77% and gross profit by 40.16% comparing to the 2017. Overall, One Love LLC showed a positive result of profitability during the analysed period.

General profitability indicators of the enterprise are calculated for the period of

2014 – 2018 (table 1.3). However, 2014 year is not represented in the table 1.4 because One Love LLC was opened in 2014. Thus, the profitability for 2014 is not shown because there is no financial statement for 2013 year, as an average indicator is needed.

*Table 1.3*

**Dynamics of profitability indicators of One Love LLC for 2015 – 2018, %**

System of indicators of profitability of the enterprise					Absolute deviation		
Indicator	2015	2016	2017	2018	2016/ 2015	2017/ 2016	2018/ 2017
1	2	3	4	5	6	7	8
Return on Assets	228.75	135.32	70.86	51.71	-93.43	-64.46	-19.15
Profitability of Current Assets	246.98	137.76	72.20	52.82	-109.22	-65.56	-19.38
Return on Equity	431.05	152.83	83.59	58.55	-278.22	-69.24	-25.04

Source: calculated by the author according to Appendices B and C

During the first analysed year, profitability indicators were extremely high, it is explained by a growth of total assets by 2 times (by UAH 4279 thousand). As it can be observed, in 2018 the current assets of One Love LLC had uneven growth due to increase of current financial investments (by 71.82 times since 2014). This can be explained by the fact that 2 more locations of coffee store were opened in Kyiv. Thus, the company's assets in 2018 decreased by 6.54%, current assets - by 6.22%, while net income - by 16.13%.

*Table 1.4*

**Dynamics of business activity indicators of One Love LLC for 2014 – 2018**

System of indicators of business activity					Absolute deviation, %		
Indicator	2015	2016	2017	2018	2016/ 2015	2017/ 2016	2018/ 2017
1	2	3	4	5	6	7	8
Asset turnover period	160.62	271.39	514.55	681.95	110.77	243.16	167.40

Turnover period of current assets	148.76	266.58	504.98	667.57	117.83	238.39	162.59
Period of turnover of intangible assets	52.81	26.08	17.78	18.91	-26.73	-8.30	1.12

*Continued table 1.4*

1	2	3	4	5	6	7	8
Repayment period of accounts receivable	6.12	1.76	49.71	50.52	-4.36	47.95	0.81
Asset turnover rate	2.24	1.33	0.70	0.53	-0.91	-0.63	-0.17
Current asset turnover rate	2.42	1.35	0.71	0.54	-1.07	-0.64	-0.17
Intangible assets turnover rate	6.82	13.80	20.24	19.04	6.99	6.44	-1.20
Accounts receivables turnover rate	58.84	204.79	7.24	7.13	145.95	-197.55	-0.12

Source: calculated by the author according to Appendices B and C

This group of factors in the table 1.4 indicates to the effectiveness of using the assets of the enterprise, the sequence of policies for managing inventories and stocks of finished products, etc. Increasing the intensity of using key assets is a positive trend, since the released part of the financial resources may be directed in other directions.

Asset turnover has grown in 4.2 times in 2018 since 2014. The high value of period turnover indicates the intensive work of the enterprise. The period of turnover of intangible assets has declined during the 5-year period (from 53 to 19 days).

The turnover rate of intangible assets indicates the effectiveness of the current stock management policy. Achieved results show the thoughtfulness of the tactic's formation of production stocks and stocks finished products [33]. The ratio of turnover of receivables indicates the intensity of the rotation of debtors' debts before the enterprise. The low value (-5.94 % in 2018) of the indicator indicates an unsuccessful policy of managing relations with suppliers.

Profitability of an enterprise is not an indicator of the company's ability to meet its obligations. Even if the company's profitability is high, it may not have enough cash to respond to the most urgent obligations. A company with negative profitability can often still maintain solvency. This is the main reason why it is important to calculate indicators of liquidity of One Love LLC.

The table 1.5 shows that in 2015 the company improved its liquidity indicators compared to the previous year, all indicators are within the regulatory values (the value in the range 1-3 is normative, but the value 2-3 is more desirable). However, 2014 is not represented in the table 1.6 because One Love LLC was opened in 2014. Accordingly, it is impossible to calculate indicators of liquidity as financial statement for 2013 does not exist.

Table 1.5

**Dynamics of liquidity indicators of One Love LLC for 31.12.2014 – 31.12.2018**

System of indicators of liquidity						Absolute deviation, %			
Indicator	31.12. 2014	31.12. 2015	31.12. 2016	31.12. 2017	31.12. 2018	2015/ 2014	2016/ 2015	2017/ 2016	2018/ 2017
1	2	3	4	5	6	7	8	9	10
Total Coating Factor	0.93	4.38	13.11	5.36	20.90	3.45	8.73	-7.75	15.54
Intermediate Coefficient of Coverage	0.42	3.14	12.41	5.17	20.47	2.71	9.27	-7.24	15.30
Absolute Liquidity Ratio	0.34	3.07	12.36	4.44	20.24	2.74	9.29	-7.92	15.80

Source: calculated by the author according to Appendix B

To sum up, since 2015 all indicators have an enormous growth. This is due to the significant increase of current financial investments (up 9.2 times in 2018 compared to 2015). As a result, in 2018 the company can pay off its current liabilities.

Table 1.6

**Dynamics of financial sustainability indicators of One Love LLC for 31.12.2014 – 31.12.2018**

System of indicators of financial sustainability of the enterprise						Absolute deviation, %			
Indicator	31.12. 2014	31.12. 2015	31.12. 2016	31.12. 2017	31.12. 2018	2015/ 2014	2016/ 2015	2017/ 2016	2018/ 2017
1	2	3	4	5	6	7	8	9	10
Financial Autonomy Rate	0.07	0.78	0.92	0.82	0.95	0.72	0.14	-0.11	0.14
Debt Coverage Rate	0.07	3.58	12.22	4.49	20.31	3.51	8.64	-7.73	15.83

Long-term Commitment Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
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Source: calculated by the author according to Appendix B

The indicator of financial autonomy is one of the most important coefficients of financial sustainability (see table 1.6). Even though the profitability rates and liquidity indicators have a negative trend, by 2018 financial autonomy rate of One Love LLC has grown to 0.95. The value of the indicator of financial autonomy above 0.6 demonstrates that the company does not use its full potential.

One Love LLC was opened on its own private equity and continues to work without long-term or short-term bank credits. Due to this long-term commitment rate is zero.

## 1.2. Foreign economic activity analysis of the enterprise One Love LLC

Foreign economic activity of One Love LLC is represented by the import operation. The only product the enterprise imports is green bean coffee from the Bean Belt countries mentioned in the paragraph 1.1. The responsibility of the import operations takes the Procurement Manager. His main task includes directing purchasing agents and buyers throughout the process of evaluating suppliers, conducting interviews with vendors, negotiating supplier agreements and managing supplier and vendor contracts. One Love LLC works with long-established coffee suppliers. The company repeatedly travels to exhibitions around the world to find unique coffee farmers and to investigate new specialty arabica beans.

Green coffee is usually stored and transported in a vacuum sealed bag. Vacuum packing removes all air from the packing bag and preserves coffee flavour for longer, while keeping beans protected from water and other outside influences that affect quality. Often bags are packed in boxes between 10 – 20 kilograms. Furthermore, products are shipped by airplane and comply with the FCA requirement.

For goods according to UCG FEA 0901 21 00 00 (Coffee, roasted or not roasted, with or without caffeine; coffee shells and casings of coffee beans; coffee

substitutes with coffee content in any proportion: coffee roasted, with caffeine) under the Customs Tariff Law Of Ukraine full and preferential customs duty is 5% and is valid from 01.01.2014[40].

In order to fulfill more in-depth analysis of foreign economic activity of One Love LLC it is appropriate to investigate the dynamics of the volume and structure of foreign economic activity of the One Love LLC (table 1.7).

*Table 1.7*

**Dynamics of import of green coffee beans of One Love LLC for 2014 - 2018**

Years	Import of coffee, thousand UAH	Absolute increment, thousand UAH		Growth rate, %		Rate of increase, %		Absolute value of 1% increment, UAH
		basic	chain	basic	chain	basic	chain	
1	2	3	4	5	6	7	8	9
2014	509.81	-	-	-	-	-	-	-
2015	496.49	-13.32	-13.32	97.39	97.39	-2.61	-2.61	5.10
2016	487.35	-9.14	-22.46	98.16	95.59	-1.84	-4.41	5.10
2017	465.39	-21.96	-44.42	95.49	91.29	-4.51	-8.71	5.10
2018	543.73	78.34	33.92	116.83	106.65	16.83	6.65	5.10

Source: developed and calculated by the author

The table 1.7 shows an absolute growth by the basic method from a negative figure in 2015 (UAH 13.32 thousand) during the 2015 – 2017 years tended to decrease, but in 2018 the situation significantly improved, and the increase amounted to UAH 78.34 thousand.

There is a tendency to decrease in the volume of import of the enterprise and in 2017 it decreased by 4.51% according to a basic method. However, in 2018 the volume of import increased by 16.83% (or by UAH 78.34 thousand) compared to 2014 and by 6.65% (or by UAH 33.92 thousand) compared to 2017. Absolute value of one percent increment over the 2014 – 2017 years remained unchanged.

Below in the table 1.8 is shown the geographical structure of the import of green coffee beans for One Love LLC during 2014 – 2018 period.

According to the achieved results, the record value of growth rate is observed in 2017 for Colombia with 147.37% (or UAH 17.31 thousand). This is due to the fact in 2017 the company expanded its product line with specialty coffee from Colombia. The volume of imports from Brazil decreased from UAH 170.82 to 153.28 thousand between 2014 and 2017, but in 2018, Brazilian coffee had the largest import volume in general. Furthermore, imports from Ethiopia have also one of the largest volumes which during the estimated period had a slight fluctuation, but in 2018 it amounted to 175.21 thousand UAH (or by 10.05%). The import of coffee from Kenya also gradually decreased from 123.90 thousand UAH to 88.42, but in 2018 it increased significantly by 57.44 % (or by UAH 50.79 thousand) comparing to the previous year.

Table 1.8

**Dynamics of import by geographic structure of One Love LLC for 2014 - 2018**

Country	Import, thousand UAH					Growth rate, %			
	2014	2015	2016	2017	2018	2015/ 2014	2016/ 2015	2017/ 2016	2018/ 2017
1	2	3	4	5	6	7	8	9	10
Brazil	170.82	176.33	167.54	153.28	186.42	3.23	-4.98	-8.51	21.62
Colombia	12.92	11.82	12.08	29.89	15.06	-8.51	2.20	147.43	-49.62
Ethiopia	173.51	160.29	187.31	159.21	175.21	-7.62	16.86	-15.00	10.05
Kenya	123.90	116.27	97.62	88.42	139.21	-6.16	-16.04	-9.42	57.44
Others	28.66	31.78	22.80	34.60	27.83	10.89	-28.26	51.75	-19.57
Total	509.81	496.49	487.35	465.39	543.73	-2.61	-1.84	-4.50	16.83

Source: developed and calculated by the author

The above figures indicate that in 2018 Brazil, Ethiopia and Kenya are the most important partner countries in terms of absolute value of import. Respectively, Brazil has 34%, Ethiopia – 32% and Kenya – 26%. The lowest share has Colombia – 3% and other countries with 5% which are Rwanda, Burundi, Bolivia, Guatemala and Peru. The share of each market that One Love LLC cooperates with is demonstrated in the table 1.9.

Table 1.9

**Dynamic of import shares by regions of One Love LLC for 2014 – 2018, %**



Indicators	Year					Absolute deviation			
	2014	2015	2016	2017	2018	2015/ 2014	2016/ 2015	2017/ 2016	2018/ 2017
1	2	3	4	5	6	7	8	9	10
Brazil	33.51	35.52	34.38	32.94	34.29	2.01	-1.14	-1.44	1.35
Colombia	2.53	2.38	2.48	6.42	2.77	-0.15	0.1	3.94	-3.65
Ethiopia	34.03	32.28	38.43	34.21	32.22	-1.75	6.15	-4.22	-1.99

*Continued table 1.9*

1	2	3	4	5	6	7	8	9	10
Kenya	24.30	23.42	20.03	19	25.6	-0.88	-3.39	-1.03	6.6
Others	5.62	6.4	4.68	7.43	5.12	0.78	-1.72	2.75	-2.31
Total	100	100	100	100	100	-	-	-	-

Source: developed and calculated by the author

As from the opening of One Love LLC in 2014, the main partners were Brazil, Ethiopia and Kenya. Only in 2016 and 2017 Ethiopia had overcome Brazil and had a bigger share, 38.43% in 2016 and 34.21% in 2017. In terms of any significant changes, other Colombia, Kenya and other countries remained stable (figure 1.3). It is possible that during the next few years, Ethiopia will overtake Brazil in terms of import volume and will have 50% of shares. Recently, One Love LLC has been actively expanding the origin of the coffee and has discovered a few new authentic coffee farms in Ethiopia.

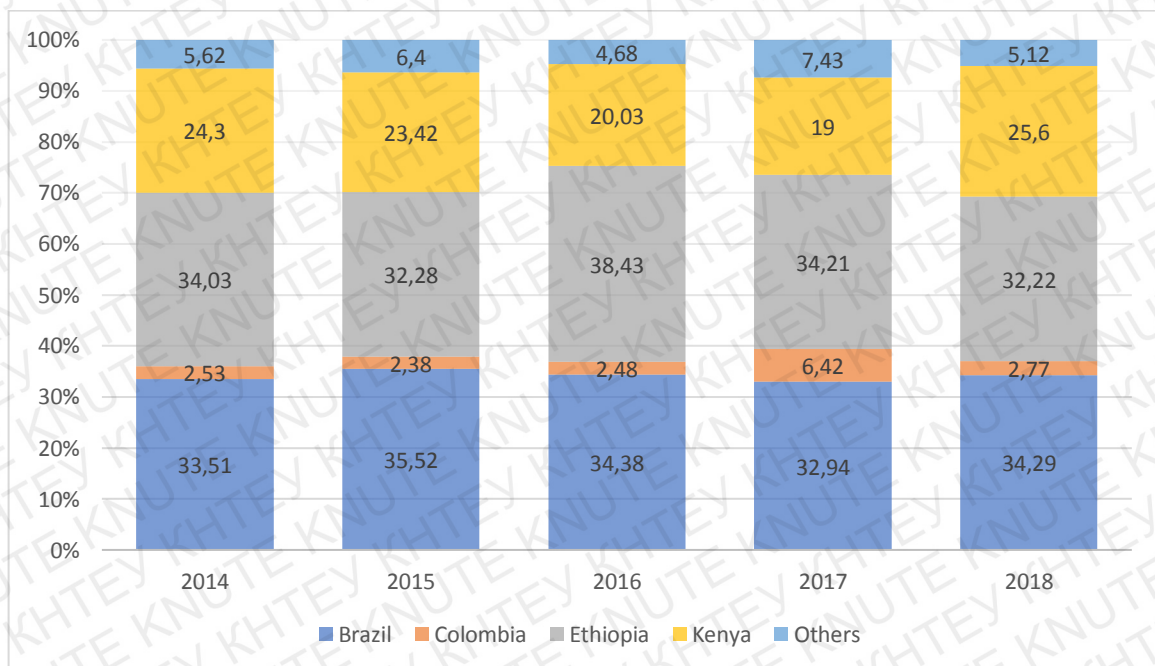


Figure 1.3. Geographical structure of import of One Love LLC for 2014 – 2018, %

Source: developed by the author

One Love LLC has 18 different assortments of specialty coffee from countries mentioned above. The detailed analysis of the import volume by assortments is presented in the table 1.10.

Table 1.10

**Dynamics of import volume by assortment of coffee of One Love LLC for 2014 - 2018**

Items	Import volume, thousand UAH					Growth rate, %			
	2014	2015	2016	2017	2018	2015/ 2014	2016/ 2015	2017/ 2016	2018/ 2017
1	2	3	4	5	6	7	8	9	10
<b>Kenya</b>									
Kenya Karinga PB	38.63	35.88	27.85	23.76	42.42	-7.12	-22.38	-14.69	78.54
The Coffee Collective Espresso Halo Beriti	34.78	31.7	25.43	23.56	35.92	-8.86	-19.78	-7.35	52.46
The Coffee Collective Kieni, Nyeri, Kenia	50.49	48.69	44.34	41.1	60.87	-3.57	-8.93	-7.31	48.10
<b>Ethiopia</b>									
Ethiopia Reko	69.74	53.77	61.89	59.53	69.88	-22.90	15.10	-3.81	17.39
Ethiopia Dimtu	41.06	39.08	40.02	38.44	40.71	-4.82	2.41	-3.95	5.91
The Coffee Collective Halo, Yirgacheffe, Ethiopia	38.98	42.08	49.64	36.43	40.21	7.95	17.97	-26.61	10.38
The Coffee Collective Akmel Nuri, Jimma, Limu, Ethiopia	23.73	25.36	35.76	24.81	24.41	6.87	41.01	-30.62	-1.61
<b>Brazil</b>									

Brazil Combara, Carmo de Minas	92.32	108.75	94.92	83.79	112.64	17.80	-12.72	-11.73	34.43
Brazil Ipanema Dulce RFA	78.5	67.58	72.62	69.49	73.78	-13.91	7.46	-4.31	6.17
<b>Colombia</b>									
Colombia Recolectores	6.27	6.23	6.44	13.93	7.17	-0.64	3.37	116.30	-48.53

*Continued table 1.10*

1	2	3	4	5	6	7	8	9	10
Colombia San Fermin, Tolima	2.76	2.83	2.89	9.12	4.21	2.54	2.12	215.57	-53.84
Colombia Jaime Casallas, El Prado, Huila	3.89	2.76	2.75	6.84	3.68	-29.05	-0.36	148.73	-46.20
<b>Others</b>									
Rwanda Mahembe	6.21	7.83	4.27	7.99	6.44	26.09	-45.47	87.12	-19.40
Burundi BuziraguhindwaMuruta	2.91	3.26	2.97	5.86	4.69	12.03	-8.90	97.31	-19.97
Bolivia Finca Buena Vista	5.41	5.25	4.98	5.34	4.38	-2.96	-5.14	7.23	-17.98
Finca Vista, Hermosa	6.91	6.79	4.82	8.63	5.74	-1.74	-29.01	79.05	-33.49
Peru Nueva Tierra De Canan	7.22	8.65	5.76	6.78	6.58	19.81	-33.41	17.71	-2.95

Source: developed by the author

To sum up, fluctuations in all types of coffee from all markets during the analyzed period are observed. The most imported products are from Brazil: coffee “Brazil Combara, Carmo de Minas” with UAH 492.42 thousand and “Brazil Ipanema Dulce RFA” with UAH 361.97 thousand in total throughout 2014 – 2018. Considering the range of imported goods, the activation of import activity in 2018 is clearly traced, as an evidenced there is a growth of good assortments from Kenya, Ethiopia and Brazil. The most popular coffee that is served in ONE LOVE Coffee “Brazil Combara, Carmo de Minas” had increased by 34.43% and “Ethiopia Reko” from Ethiopia had an increase

by 17.39%. As well, can be seen a record growth rates for goods such as “Kenya Karinga PB” (by 78.54% compared to the previous year) and “The Coffee Collective Espresso Halo Beriti”(by 52.46% compared to the previous year). The coffee assortment from Colombia, and other countries such as Rwanda, Burundi, Bolivia and Peru demonstrated a decrease in 2018, which can be explained that in 2017 One Love LLC purchased a lot of coffee from those regions, but products were not sold and were deposits in the warehouse.

### **1.3. Assessment of the current selection strategy efficiency in main markets of One Love LLC**

The main condition for conducting import activity of One Love LLC is its efficiency. In order to evaluate the import performance indicators of One Love LLC the formulas from Appendix G are used.

As shown in the table 1.11, the efficiency ratio of import operation was higher than 1 and the effect has a positive figure during the whole period which proves that import of green coffee beans to Ukraine was fully justified and can be considered as an effective procedure. During the analyzed period, the efficiency had some fluctuations due to higher retail price of the coffee per kilogram and lower total cost of the import operation (Appendix I). At the same time, the higher indicator of import efficiency is observed in 2016 and amounted to 1.209 while the economic effect amounted to UAH 6397.99 thousand.

*Table 1.11*

#### **Dynamics of current selection strategy efficiency in main markets of One Love LLC for 2014 – 2018**

<b>Indicator</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Growth rate, %</b>
						<b>2018/ 2014</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>
Net income from sale of imported products, UAH thousand	35876.75	32786.43	36955.91	33534.12	21643.73	-39.672

Invoice value, UAH thousand	29670.07	27048.80	27162.59	27229.71	17921.90	-39.596
Total import costs, UAH thousand	3708.76	3381.10	3395.32	3403.71	2258.16	-39.113
Transportation costs to the border, UAH thousand	2225.26	2028.66	2037.19	2042.23	1309.73	-41.142
Insurance costs, UAH thousand	1038.45	946.71	950.69	953.04	654.87	-36.938

*Continued table 1.11*

1	2	3	4	5	6	7
Cost of loading, UAH thousand	445.05	405.73	407.44	408.45	338.72	-23.891
Economic effect of import operation, UAH thousand	2497.92	2356.52	6397.99	2900.70	1463.67	-41.404
Efficiency of import	1.075	1.077	1.209	1.095	1.073	-0.214

Source: developed and calculated by the author

With the aim of analyzing two main import markets of One Love LLC which are South Africa and Latin America, the efficiency of the import operation under current strategy of One Love LLC is calculated (table 1.12, table 1.13).

Consistent with achieved results, the import operation from South Africa was effective during the analyzed period (table 1.12, Appendix J). The higher result was reached in 2016 with efficiency of 121.6%, while the economic effect was UAH 3835.88 thousand. Hence, the efficiency has increased by 3.39% in 2018 since 2014. However, the growth rate has a negative trend among all other indicators which highlights that if One Love LLC will operate under selected strategy, it will decrease the net income and other indicators in perspective.

*Table 1.12*

**Dynamics of current selection strategy efficiency in South Africa of One Love LLC for 2014 – 2018**

Indicator	2014	2015	2016	2017	2018	Growth rate
						2018/ 2014
1	2	3	4	5	6	7
Net income from sale of imported products, UAH	20929.57	18263.04	21606.34	17842.83	12515.81	-40.20

thousand						
Invoice value, UAH thousand	17329.68	15067.01	15880.66	14488.38	10050.20	-42.01
Total import costs, UAH thousand	2166.21	1838.17	1889.80	1753.09	1226.12	-43.40
Transportation costs to the border, UAH thousand	1299.73	1102.90	1133.88	1051.86	919.59	-29.25
Insurance costs, UAH thousand	606.54	514.69	529.14	490.87	282.01	-53.51

*Continued table 1.12*

1	2	3	4	5	6	7
Cost of loading, UAH thousand	259.95	220.58	226.78	210.37	196.18	-24.53
Economic effect of import operation, UAH thousand	1433.68	1357.86	3835.88	1601.36	1239.49	-13.54
Efficiency ratio	1.074	1.080	1.216	1.099	1.110	3.39

Source: developed and calculated by the author

Another analysis of efficiency of import operation from Ethiopia was carried out to understand the dynamics such factors as price per unit, selling price and difference between the expenses of the operation. The contract of importing green coffee beans during 2014 – 2018 years, in the amount of 30 kilograms from Ethiopia is used for the analysis. Achieved results are summarized in the Appendix H.

Latin America is another major partner of One Love LLC. Overall, the import operation is justified as during the analyzed period it is higher than 1 (table 1.13, Appendix K).

*Table 1.13*

**Dynamics of current selection strategy efficiency in Latin America of One Love LLC for 2014 – 2018**

Indicator	2014	2015	2016	2017	2018	Growth rate, %, 2018/2014
1	2	3	4	5	6	7
Net income from sale of imported products, UAH thousand	12930.30	12424.76	13620.64	13198.21	8020.12	-37.97
Invoice value, UAH thousand	10706.29	10238.00	10011.17	9476.31	6664.72	-37.75

Total import costs, UAH thousand	1338.29	1259.27	1271.42	1222.44	813.10	-39.24
Transportation costs to the border, UAH thousand	802.97	755.56	762.85	733.47	585.43	-27.09
Insurance costs, UAH thousand	374.72	352.60	356.00	342.28	187.01	-50.09
Cost of loading, UAH thousand	160.59	151.11	152.57	146.69	130.10	-18.99
Economic effect of import operation, UAH thousand	885.73	927.48	2338.05	2499.45	542.30	-38.77

*Continued table 1.13*

1	2	3	4	5	6	7
Efficiency ratio	1.074	1.081	1.207	1.234	1.073	-0.095

Source: developed and calculated by the author

As follows, the higher result was achieved in 2017 and the efficiency was 123.4% with an economic effect UAH 2499.45 thousand. However, One Love LLC in 2018 has been importing green coffee beans from South Africa more than from Latin America. This is explained by the fact that One Love LLC decided to remove from sale roasted coffee beans in packages for retail sale in the coffee house. This served as a factor in the drop of net profit from sales by 37.97% compared to 2014. As a result, the current selected strategy for One Love LLC will negatively affect the economic indicators.

To continue, the analysis of currency efficiency is another important indicator in the analysis of efficiency of the import operation (table 1.14). According to the data in the Appendix G it is possible to evaluate the currency efficiency for 2018 as the most recent date.

*Table 1.14*

**Data for currency efficiency analysis of import operation by One Love LLC for 2018**

Name	Amount
Wholesale price coffee beans in Ethiopia	25.4 USD per kg
Wholesale price coffee beans in Ukraine	732 UAH per kg
Quantity of goods	30 kg
National Bank of Ukraine exchange rate for the time of making payments USD / UAH	1 USD = 25,73 UAH [34]
<b>Calculation</b>	
1) Wholesale price in Ukraine in USD = 732UAH : 25.73 UAH = 28.44 USD	

$$2) E_{im} = \frac{732 \frac{UAH}{kg} \times 30 \text{ kg}}{25.4 \frac{USD}{kg} \times 30 \text{ kg}} = 28.82$$

If the currency efficiency ratio exceeds the exchange rate, then the import operation is considered effective. The obtained result should be compared with the currency on the moment of operation which is USD 1 = UAH 25.73 [39]. According to this, the currency efficiency of import is considered as effective ( $28.82 > 25.73$ ).

The analysis of the level of fulfilment of the import liabilities under import contracts with foreign partners is carried out in order to assess the level of quality of performance of the obligations under contracts with foreign partners (full analysis of 2014 – 2018, Appendix L). It is important to mention that the company imports only green coffee beans, which is a one product group. Therefore, the following calculations are distinguished not by a product and product groups, but by country of origin of green coffee beans.

The results of the calculations show that in 2018 cost-to-performance ratio was not reached only by 2 out of 5 imported goods, namely from: Colombia (0.58) and Ethiopia (0.90). However, the total ratio by the cost reached 1.08 which means that the company has exceeded its commitments by 8%.

The physical volume performance ratio was not reached as well by Colombia and Ethiopia, with 0.48 and 0.90 respectively.

As for the price performance ratio, the company fulfilled all the liabilities on the price of all goods within each exporting country, except Brazil (0.99). The highest price performance ratio has Colombia (1.20) in 2018. Analysing the previous years, can be observed that cost-to-performance ratio of imports in total was 1.13, 1.13, 0.74, 1.49 in 2014, 2015, 2016 and 2017, respectively. This indicates that the company has fulfilled its obligations throughout the analysed period except in 2016.

As already mentioned, One Love LLC imports its products from 9 countries in South Africa and Latin America, namely: Brazil, Ethiopia, Kenya, Rwanda, Burundi, Bolivia, Guatemala, Colombia and Peru. Furthermore, shipping from the Asia region could be considered as a future partner to expand the product line of brand One Love.



Table 1.15

**Express analysis of potential markets for the products of One Love LLC  
based on a point evaluation**

Market characteristics section	Factor	Factor assessment y, bj	Weighting factor, aj	Vietnam	India	Indonesia
1	2	3	4	5	6	7
1. Trade and political situation	The Commonwealth Agreement is absent, trade contacts are minimal.	0	0,15			

Continued table 1.15

1	2	3	4	5	6	7
	Commonwealth agreement exists, trade contacts are weak.	1				
	Good trade contacts.	2			+	
	Stable trade relations.	3		+		+
2. Trade restrictions	The embargo	0	0,15			
	There are no restrictions	1		+	+	
	The mode of greatest assistance	2				+
3. Competition	Strong	0	0,20			+
	Average	1		+	+	
	Weak	2				
4. Quality requirements	High	0	0,10	+		+
	Moderate	1			+	
	Below the world standards	2				
5. Conditions of sale	Market monopolization	0	0,20			
	Oligopoly of the market	1		+	+	
	Competitive environment	2				+
6. Relations with potential buyers	No trade in the past	0	0,10	+		+
	Minor trade	1			+	
	Episodic agreements	2				
	Stable business relationships	3				
7. Effectiveness of communication	Low	0	0,05		+	
	Moderate	1		+		
	High	2				+

activities						
8. Access to information	Absent	0	0,05			
	Fragmentary (unreliable)	1			+	
	Enough (reliable)	2			+	+
<b>Total points</b>			<b>1</b>	<b>1,15</b>	<b>1,1</b>	<b>1,35</b>

Source: developed by the author

The table 1.15 summarizes the characteristics of the three countries in the region that can be considered as potential markets - Vietnam, India and Indonesia. The full algorithm is shown in the Appendix M.

Since the most attractive is the market with number  $i$ , for which the condition  $R_i = \max\{R_j\}$ , is fulfilled, can be concluded that the leader of the express-analysis of potential markets for the products of One Love LLC is Indonesia. According to 8 marking criteria, Indonesia has the highest score – 1,35.

Indonesia remains as one of the largest trading partners of Ukraine in the region of Southeast Asia. According to the State Statistics Service of Ukraine, foreign trade turnover between Ukraine and Indonesia in 2018 amounted to USD 876 million and increased by 33% compared to 2017 [37]. Thus, the achieved result of express analysis suggesting Indonesia as a potential market is justified.

## CONCLUSION TO SECTION 1

Firstly, based on the analysis of financial and economic activity of the company, the company is decreasing its business volume every year, as an evidence in company's assets in 2018 decreased by 6.54%, current assets - by 6.22%, while net income - by 16.13%. As well, financial investments showed a significant growth by 71.82 times since 2014. However, the operational activity of One Love LLC increased by 2.1 times from 2014 to 2018. The liquidity ratios of 2018 showed a significant growth which proves that One Love LLC can meet its current liabilities. Overall, One Love LLC showed a positive result of profitability during the analysed period.

Secondly, import is an essential activity of the One Love LLC which year by year expand its import volume and discover new markets. Throughout the analysed period, more than 30% of the enterprise's import in absolute value had Brazil and Ethiopia, making them the most strategically important product group. In 2017, the company expanded its product sales geography and improved cooperation with Kenya, as evidenced by the increase in Kenya's share by 6.6 % in the geographical structure of enterprise imports and growth by 78.54% of “Kenya Karinga PB” coffee. The most popular coffee served in ONE LOVE Coffee remains “Brazil Combara, Carmo de Minas” with UAH 492.42 thousand of import volume during 2014 – 2018 years.

Thirdly, finalizing the analysis of import activity, it is important to mention that during 2014 – 2018 the volume of imported goods was slightly increasing and only one type of the product was imported – green coffee beans. The import operation for the Ukrainian market is justified and efficient, which is proved by the positive figure thought the analysed period. However, the import efficiency has slightly decreased by 0.21% during the analysed period.

To conclude, to expand One Love's product line with specialty coffee from different origin of top-producing countries, an analysis of three main coffee exporting countries in Asia region was fulfilled. As a result, Indonesia was chosen as a potential future partner.

## **SECTION 2. RATIONALE OF MARKET SELECTION STRATEGY TO IMPLEMENT FOREIGN ECONOMIC ACTIVITY OF THE ENTERPRISE ONE LOVE LLC**

### **2.1 Proposal for the enterprise One Love LLC to enter a new market**

Regarding the above problems of the enterprise, namely: Kyiv market is over saturated with specialty coffee, 60% of Kyiv citizens are not willing to buy coffee for more than 40 – 50 UAH; it is proposed to offer the company to enter a new market.

According to analysis of financial statement, the company is decreasing its business volume every year and financial investments showed a significant growth. It is important to mention that One Love LLC was opened in 2014 and was one of only coffee houses in Kyiv. Coffee culture in Ukraine was pulled forward for the period 2014 – 2018. Moreover, the quantity gradually turned into quality: the largest increase in sales can be seen in the category of "natural coffee" (12% in natural and 8% in monetary terms) [7]. In the period of 2017 – 2018 there were new 42 coffee houses with natural coffee in Kyiv. This fast-speed trend of opening cafés in Kyiv creates a higher competition in the market, consequently the market become over saturated.

Due to extensive growth of coffee stores market in Ukraine and high competitiveness, One Love LLC tried to have a major share of specialty coffee stores on the main locations in Kyiv. However, during 2018 – 2019 years the enterprise took a decision to close them down due to low traffic of people and economic situation of citizens.

According to research, the global specialty coffee shops market is expected to accelerate at a Compound Annual Growth Rate (CAGR) of over 10% between 2017 – 2021 as the market is projected to reach USD 121.02 billion by 2021 [26].

It was already mentioned that ONE LOVE Coffee is already a well-known brand on the European market. However, specialty coffee stores are not a hot trend in European countries. This can be explained that coffee stores around Europe are already famous for its history, quality and reputation [13].

Right after Europe, the highest expectation of coffee consumption lies with the Middle Eastern countries owing to high per capita income as well growing millennial population. Below is shown the comparison of the Gross Domestic Product (GDP) between two regions, Europe and Middle East (table 2.1).

*Table 2.1*

**GDP and real GDP growth of Europe and Middle East for 2015 - 2020**

	Europe		Middle East	
	GDP per capita, current prices, U.S. dollars per capita	Real GDP growth, Annual percent change, %	GDP per capita, current prices, U.S. dollars per capita)	Real GDP growth, Annual percent change, %
2015	25975.334	1.4	10849.05	2
2016	25932.691	1.8	10624.06	6
2017	27490.808	2.5	11217.74	0.8
2018	29534.737	2.2	12175.51	0.4
2019	29409.245	1.6	12066.23	0.3
2020	30693.433	1.8	12406.26	2.9

Source: developed by the author using IMF data [15]

The table 2.1 indicates that even though European region has a twice higher GDP per capita, the real growth of GDP in Middle East and Europe is quite stable and Middle East can be considered as a potential market (Appendix O).

The Middle Eastern region exceeds consumption of hot beverages amongst other countries in the world and thus, same is the case with coffee consumption in the market. The coffee industry in the Middle East is expected to see a growth of USD 4.4 billion by 2021 which is a proof of the fact that the consumption is only going to climb in the future. Starbucks, Dunkin' Donuts and Coca-Cola owned Costa Coffee are the three biggest coffee players in the Middle East with the region boasting over 9,000 coffee shops in 2018 [26]. Today, the Middle East represents a world of opportunity for coffee businesses around the globe. Allegra research shows the branded coffee shop market grew by 7.3% in 2018 and is forecast to reach 12,720 outlets by 2023 [27]. Aspirational coffee brands have rapidly gained momentum among consumers, while a burgeoning specialty sector is ushering a new era of coffee excellence across the region.

Furthermore, among Middle East countries, United Arab Emirates (UAE) has the highest rank of Ease of Doing Business which is 11 out of 190 countries. UAE is classified as a high-income country with a population of 9.4 million people.

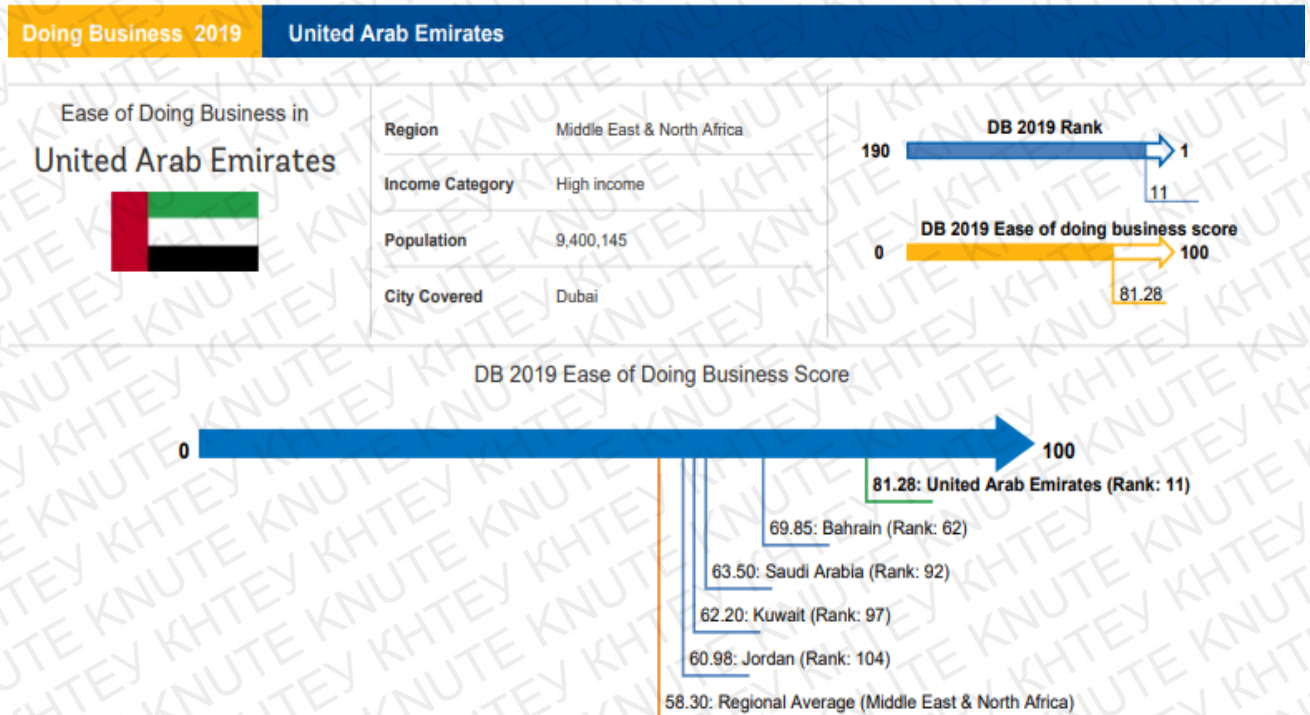


Figure 2.1. Highlights of Ease of Doing Business in United Arab Emirates

Source: [8]

The UAE is the heart of coffee consumption in the Middle East and Dubai is the core of coffee innovation in the region. The cultural diversity and the energetic young workforce in the country are only a few reasons why coffee is a preferred beverage for the people of Dubai. A global hub for commerce and innovation, Dubai is a major focal point for the Middle East’s coffee evolution.

In the Roast Coffee segment, the revenue is expected to amount to USD 2639 million by 2020. The dynamics of revenue of the roasted and instant coffee in UAE for the period 2015 – 2020 is demonstrated in the figure 2.2 [24].

The chart demonstrates that roast coffee consumption in UAE has grown by 11.22% during the 2015 – 2019 period. Moreover, the revenue of roast coffee shows a positive trend throughout the period with a growth of 1.5 – 2% yearly.

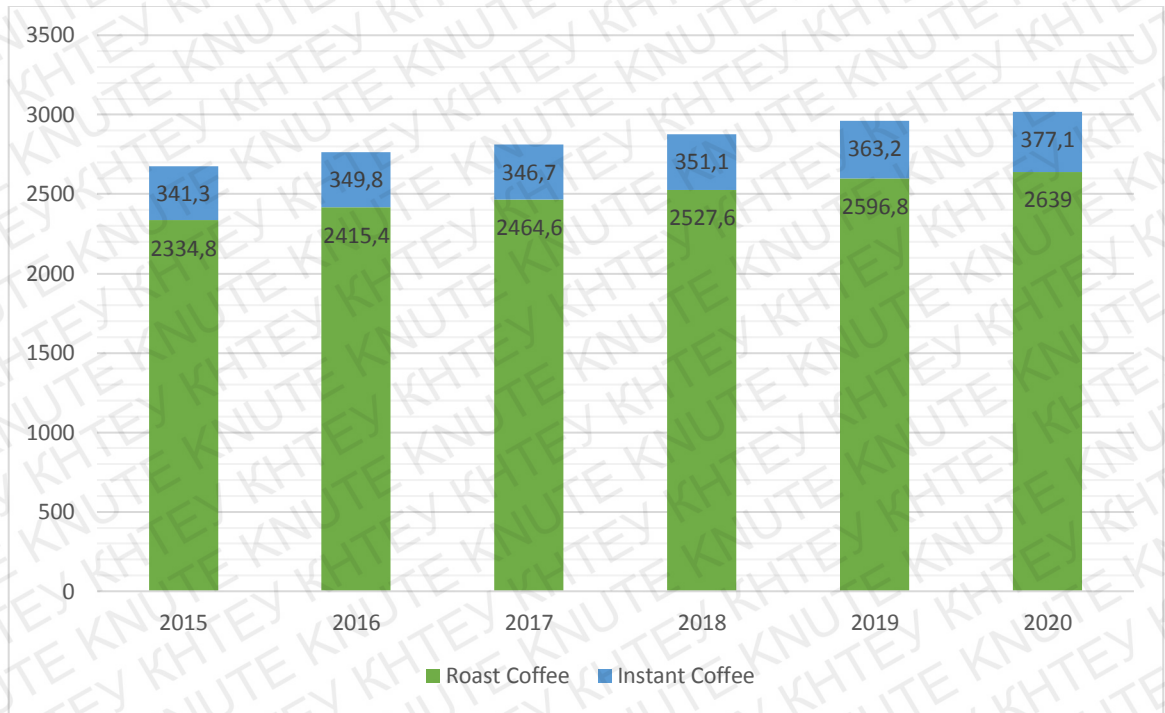


Figure 2.2. Revenue of Coffee segment in UAE for 2015 – 2019, USD million

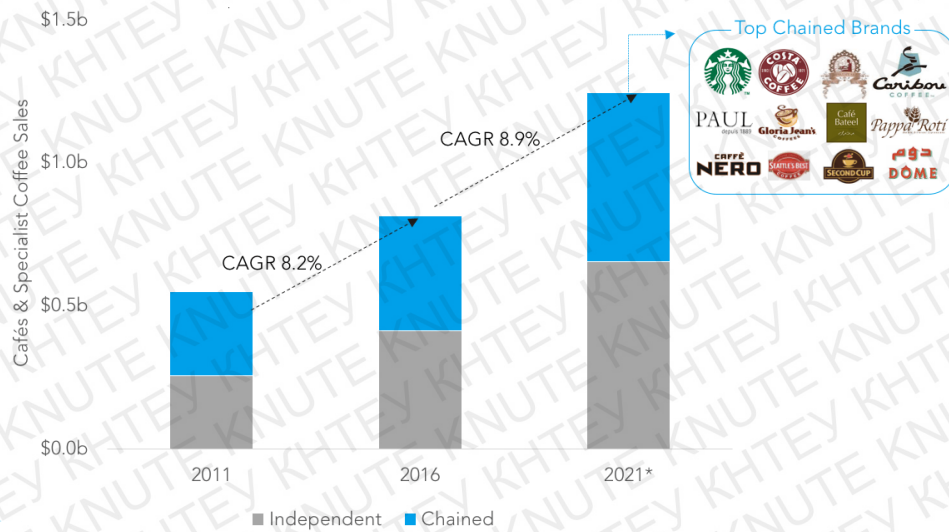
Source: developed by the author [24]

In recent years, there has been a general increase in quality, as well as a rapid growth in specialty craft coffees in Dubai. Coffee sales in Dubai are very strong and grow every year (table 2.2). Mass produced chain coffee shops will always have an important role to play for mainstream coffee drinkers. However, discerning consumers are shifting towards something more refined, and less mass-market. Demand for speciality coffee continues to grow as younger drinkers search for new styles, with 48 per cent of US millennials reporting that in the past 24 hours, they had drunk a cup of coffee they considered to be gourmet, according to a recent National Coffee Association (NCA) survey [19].

The UAE's Café Market is expected to grow by over 30% in the next five years, while the country's trading hub emerges as a key supply cog in the global coffee supply chain. Euromonitor International says the UAE sits at the centre of a region that now accounts for 9.2%, (or USD 6.5 billion), of the USD 85 billion global consumer spend on coffee [11].

Table 2.2

### Coffee Sales in UAE by Top Chained Brands



\*Top brands based on GBN shares in chained cafes higher than 1.5%

Source: [1]

Furthermore, the average retail price per 1 kg of roasted coffee in UAE amounted to USD 74.25 in 2019, while in Europe is USD 57.49. In order to understand why UAE is a more perspective target market for One Love LLC than Europe, the comparison of retail prices of 1 kg of roasted coffee between Europe and UAE is exposed in the figure 2.3.

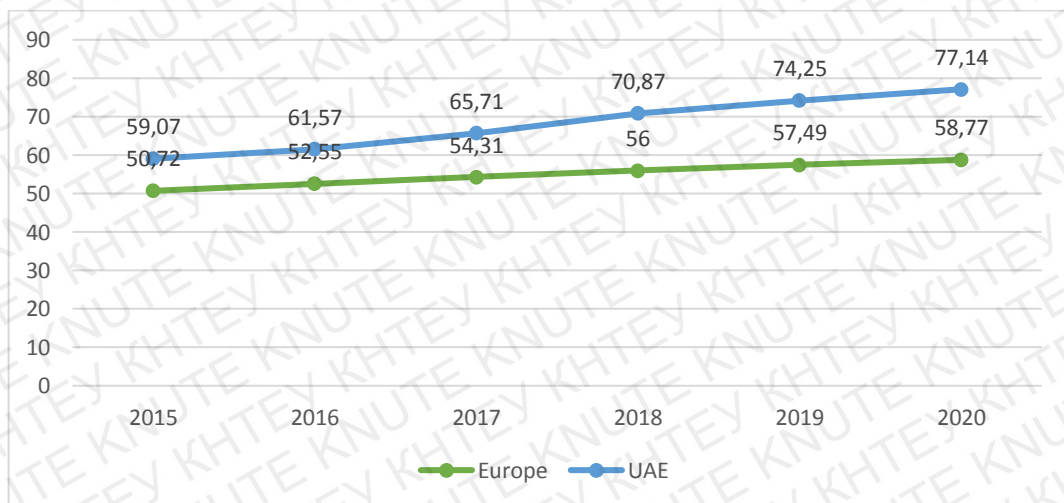


Figure 2.3 Price per 1 kg of Roast Coffee in Europe and UAE in USD [23].



The chart above indicates that in 2019 the retail price of roast coffee per 1 kilogram in UAE exceeds Europe by 1.2 times. Due to that, can be concluded that releasing imported coffee in UAE would be more profitable than in European countries.

As follows, Middle East and especially UAE has a huge potential, excellent opportunities to capitalize on the flourishing food and beverage industry. Moreover, the food and beverage industry in Dubai is continuously rising. The retail distribution and consumption of coffee and tea is at an all-time high with domestic demand continuing to trend upwards.

UAE is a highly developed country with economic and politically stable potential market for all industries, including restaurants, food retail and coffee chain market. A focused blend of significant value, market and geographical advantages makes Dubai a perfect and appealing venture place for nearby and foreign businesses.

Besides, there is no corporate and personal tax, which makes Dubai one of the most popular tax-free jurisdictions among businessmen nowadays. From one perspective, tax-heaven permits to maximize revenue and profits, while in the meantime minimizing the bureaucracy process of tax reporting for fiscal institutions. Consequently, this is a great motivation for any business to open a business in Dubai.

The macro analysis of the UAE has a wide range of opportunities to be considered as a target market. PESTEL analysis (Appendix N) helps to investigate all the factors that can affect the opening of a new company in the UAE [18]. The key factors are:

- Political stable country;
- In the TOP – 10 of Economic Freedom Index countries (table 2.3);
- Easy to open a business (Appendix O);
- High investments in Coffee Market;
- Prominent level of employment in the service sector;
- 0% tax on income.

The United Arab Emirates' economic freedom score is 77.6, making its economy the 9th freest in the 2019 Index (table 2.3). Its overall score remains unchanged from 2018, with higher scores for property rights, judicial effectiveness, and

government integrity offset by a sharp decline in fiscal health. The UAE is ranked first among 14 countries in the Middle East and North Africa region, and its overall score is above the regional and world averages.

Table 2.3

### Economic Freedom Index of UAE

Indicators	Index
1	2
Total Score 2019	77.6
Property Rights	81.8
Judicial Strength	87.1
Government Integrity	78.8
Tax Burden	99.2
Government Spending	68.8
Fiscal Health	88.9
Business Freedom	79.9
Labor Freedom	81.1
Monetary Freedom	80.9
Trade Freedom	84.4

Source: developed by the author [14]

One of the biggest advantages of opening a coffee shop in Dubai is the cost factor. It is the most cost-effective business idea among all the food and beverage businesses in Dubai. Below a comparison between rental prices of Ukraine and Dubai is demonstrated (table 2.4).

Table 2.4

### Comparison of commercial properties 200 – 300 sqm

Indicator	Kyiv	Dubai
Price per year, USD	120 000 – 175 000	130 000 – 200 000
Location, surroundings	Mainly city center, close to the business centers [29].	Dubai Design Center, one of the main destination of tourists, neighbor for art, restaurants and local artists[12].

Source: developed by the author

Summarizing the table 2.4, can be noticed that the difference between the prices of rental property is not that high; One Love LLC will be able to rent a commercial unit in Dubai Design Center with an excellent view and good location for the same price as

it can rent in Ukraine. Moreover, a high salary in Dubai approximately 4000 USD per month will allow workers to buy a ONE LOVE's cup of coffee few times a week [22]. The analysis of specialty coffee in Dubai indicates that the frequency of purchase of a cup of coffee in a specialty coffee store is 1 – 3 times a week (table 2.5).

Furthermore, the price of a cup of coffee in the Dubai market is in 2.5 times higher than in Ukraine. As well, there is no need in changes of packages, the only requirement in to add a sticker with translation in Arabic language. For ONE LOVE Coffee it is important to save the Ukrainian origin of the brand, so the Ukrainian language on the package will remain the same.

*Table 2.5*

**Summary of sales analysis of specialty coffee of in Dubai**

<b>Factor</b>	<b>Characteristic of the factor</b>
Size of the potential market, million USD	Revenue in the Coffee segment amounts to 2.960 million USD in 2019. The market is expected to grow annually by 1.2% (CAGR 2019 - 2023). The market's largest segment is the segment Roast Coffee with a market volume of 2.597 million USD in 2019.
Dynamics of sales of the product, %	8.9 % (CARG in 2019)
Market outlook for the next 5 years	High (growth of the market)
Seasonality of the product	The product in not seasonal and it is imported all the time
Product price per 1 cup on the UAE market	The same as other specialty coffee stores in UAE (AED 20 – 30 = USD 5.4 – 8.16)
Frequency of purchase of goods	1 – 3 times a week
Package	Can be used without changes, only add description in Arabic language
Type of competitor's activity	Not active marketing campaigns through social media, no special coffee events
Required volume of market research for product adaption	1 – 2 months

Source: developed by the author

To conclude, Dubai is a perfect combination of business opportunities and expanding coffee market that makes it a good strategical market to enter for the enterprise One Love LLC.

## 2.2 Development of a set of measures to optimize strategy selection to enter the new market for One Love LLC

In order to have greater control over sales and to interact directly with the clients direct exporting entry mode will be implemented.

The administration team of One Love LLC consist of Chief Executive Officer, Logistics and Procurement Manager, Marketing Director, Chief Accountant and Chief Barista (figure 2.4). In the organizational structure of One Love LLC, Logistics and Procurement Manager is responsible for foreign distribution, logistics, supply chain and invoicing. In the new market the organizational structure will be the same as in Ukraine, only a new position Customs Broker will be requiring, as a coordinator of transporting goods and specialist of customs documentation in accordance with UAE law.

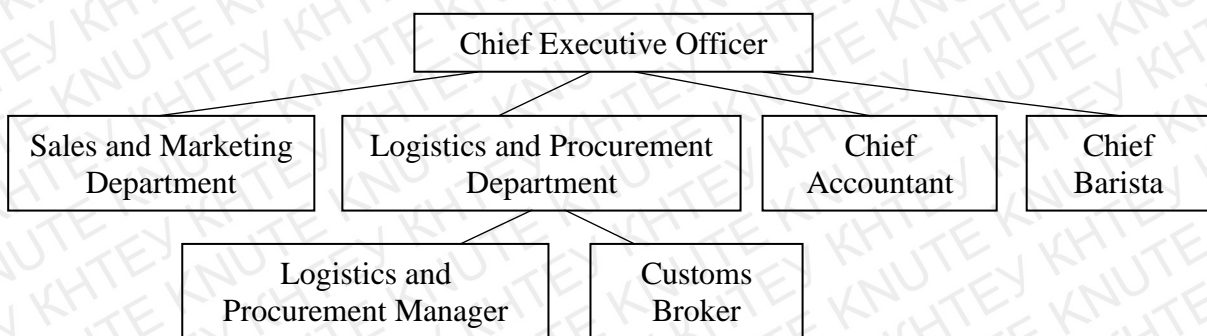


Figure 2.4. Proposed organizational structure of One Love enterprise in the UAE office

To develop a set of measures it is significant to analyse requirements of opening a business in UAE. Thus, the report on Ease of Doing Business 2019 highlights the main advantages of doing business in UAE [8]:

- The UAE made starting a business easier by improving online registration.

- The UAE made getting electricity easier by eliminating all costs for commercial and industrial connections of up to 150 kilo-Volt-Amperes (kVA).
- The UAE made registering property easier by increasing the transparency of the land administration system.
- The UAE strengthened access to credit by introducing the possibility of granting a nonpossessory security right in a single category of movable assets without requiring a specific description of the collateral, by allowing out of court enforcement of the security interest, and by establishing a unified and modern collateral registry.

All companies in the UAE can be divided into onshore, which are allowed to conduct activities in the territory of the UAE, and offshore, which are prohibited from entrepreneurial activity in the Emirates [25].

The most popular onshore legal forms are the following:

- 1) Limited Liability Company (LLC) (registered in partnership with a UAE citizen in the territory of the emirate, where a UAE citizen owns 51% of the company's shares).
- 2) Free Trade Zone (FTZ) Company (is 100% foreign ownership).
- 3) Sole Proprietorship (a company is registered in the emirate, but a foreign person can own 100% of the capital. It is important to note that in this case the liability is unlimited, i.e. if the company has debts, and the company's assets are not enough to repay it, the missing funds will be sought from the personal assets of the owner of the company).
- 4) Employee / Freelancer License (permits are issued by a number of free economic zones).

Opening a company in free economic zone would be a perfect choice, as a firm in a free economic zone can:

- Business offices / premises provided by a Free Zone can be customized to suit your needs or provided in ready-to-move conditions.
- Flexi desk / office facilities are ideal business solutions for companies looking for a fast and cost-effective business set-up, however, are limited

by visas requirements for shareholders or managers of the new entity.

- Various warehouses suitable for storage of goods, light manufacturing and assembly, available for lease on a year-round or limited time basis. Warehouses can be ready move in or can be customized to suit your needs.
- Different plots of land, designated for industrial, logistic and service industry purposes are offered for short or long lease terms.
- Labour Accommodation can be provided by a Free Zone authority on special price and conditions.

Every company operating within Free Zone is required to obtain a business license. A business license (also known as a trade license) is a time-limited permit granted to a company to undertake commercial, consulting or industrial activities within the FTZ [25].

The following license types are available in the free economic zones of the UAE: General Trading License (allows trading with a wide range of goods); Trading License (allows trading only those products that are listed in the license); Industrial License / Industrial License; License to provide services / ServiceLicense [10].

An important indicator when choosing a free economic zone is the requirement to submit annual audit reports. While the free economic zones of Dubai necessarily require audit reports, which is associated with certain expenses, most of the free economic zones of other Emirates do not require or cancelled the annual audit reports in order to attract customers.

An important feature is the size of the registration fee for opening a company. As a rule, in the case of a search for a more economical solution, it is most reasonable to register a company in another emirate. In Dubai and other UAE emirates, the following forms of enterprises can be registered: New company; Company branch; Subsidiary [10].

In the case of corporate shareholders and the opening of a branch or subsidiary, properly certified / legalized corporate documents will be required. Due to the fact that the UAE is not a party to the Hague Convention and, accordingly, does not recognize

the apostille, legalization is required to recognize official documents in the UAE. Legalization includes notarized translation and its certification, certification of documents in the country of issue, in the UAE embassy in the country where the company is registered, and further certification in the UAE MFA. The cost of certifying one corporate document in the UAE MFA is subject to state collection in the amount of AED 2000 [10].

To open a company in the UAE requires the formation of authorized capital. As a rule, the standard size of the authorized capital is 50,000 dirhams [25].

Upon the registration of a company in Dubai or in another emirate, the owner of the company receives the following documents (we draw your attention to the fact that, depending on the free economic zone, the names of documents may vary):

- Certificate of Registration (Certificate of Registration / Incorporation);
- License;
- Company Charter (Memorandum and Articles of Association / Articles of Incorporation);
- Share certificate.

In case of opening a branch of the company, the charter of the company is not issued.

After obtaining a license for a company, the owner or manager of the company must apply for an immigration card (Establishment Card). The application is submitted through the administration of the free economic zone to the immigration service of the relevant emirate. In turn, the immigration service opens the file to the company and issues this card. Without its presence, a company cannot hire employees and obtain resident visas for them. This card must be renewed annually in a timely manner, otherwise penalties are imposed. The cost of the card, as a rule, is about AED 460. The same amount must be paid annually to renew it. The Establishment Card is also called the Company Immigration Card (CIC) in some free economic zones [25].

Registration fees vary from zone to zone, from emirate to emirate. As a rule, the costs amount to about USD 6.700 to USD 11.000 for registration and the same amount for the annual maintenance of the company.

Benefits of registering your business in the free trade zones (FTZ) of the UAE:

- 0% personal income tax;
- 0% corporate tax;
- no taxes on re-export;
- 100% foreign ownership;
- 100% repatriation of capital and profit;
- lack of customs duties upon import into the FTZ.

Dubai Design District is the latest of Free Zone business parks and the heartbeat of the design scene in Middle East, the Dubai Design District offices now cater to design, fashion and luxury industries around the world. The vision of creating a world class creative community that engages, nurtures and promotes local, regional and global design talent is what makes Dubai Design District the map of innovation.

Dubai Design District issues commercial or service license as Free Zone licenses. Commercial licensing means that your company may either be registered as a Free Zone Limited Liability Company (owned by a natural or a corporate) or a Branch Company (a branch of either an existing UAE company or a foreign company). Freelance permits enable individuals to work as a sole proprietor for the specified activity. The following segments are available for the license obtained in Dubai Design District: Marketing Services, Fashion, Luxury, Design, E-commerce, Ancillary services, Beauty care, Event management, Media & Marketing services, Freelancer, Service provider, Consultancy and others. Fee structure in D3 is shown in the table 2.6 [25].

*Table 2.6*

**Fee structure in the Dubai Design District for 2019**

<b>Fees</b>	<b>First year</b>	<b>Second year</b>
Registration fee	AED 3.520	-
License Cost per Segment	AED 15.020	AED 15.020
Additional Cost to Add Manufacturing (if available within the chosen segment)	AED 5.000	AED 5.000
Additional Cost per Additional Segment	AED 15.020	AED 15.020

Source: developed by the author [25]



Share Capital Minimum of AED 50.000 to 100.000 (depending on the chosen segment) must be deposited to company bank account before License of the company will be released. Free Lance Permit does not require capital. Fees are the subject for additional 5% Value Added Tax (VAT).

Available facility in D3 is physical office space only, min. size depends on the current availability. One visa eligibility is equivalent to 9 sq. ft. There will be 25 – 30 employees during the first year in One Love LLC. This number of employees requires minimum 270 sq. ft. office.

Establishment Card is a necessary document to enable the company register in Residency Department. The price of the Establishment Card is AED 1.770 and with a Standard Processing procedure AED 500.

Residence Visa in Dubai Design District is valid for 3 years the fees are shown in the table 2.7. Cost of each visa varies depending on the status of an applicant's current location, whether application is taking place inside or outside the UAE. Amendment of visa can be done only if the applicant has cancelled his previous Residence Visa or is transferring within Dubai Design District.

*Table 2.7*

**Visa fees in UAE for 2019**

<b>Services</b>	<b>Fees, AED</b>
Employment Visa Outside the Country	3.280
Employment Visa Inside the Country without Status Change	4.120
Employment Visa Inside the Country with Status Change	4.910
Visa Guarantee deposit	2.500
Medical Test, Emirates ID and Photo	1.240
MBC Service Fee	2.500

Source: developed by the author [25]

In the case of opening a Limited Liability Company, the cost will be AED 0. However, the 51 % of the company has to own a UAE citizen. Another advantage is that entrepreneurs do not need to have a company lease or location during the first year. However, when it is time to renew the license a year later, they need to submit a document proving they have a location and a lease contract.

To reserve a company name ONE LOVE, notarize Memorandum of Association

and Apply for registration at the Department of Economic Development is required. To obtain a general trading license and register an LLC, the entrepreneur must complete an online application using the Instant License service (figure 2.5). This application is launched through the e-services website of the Dubai Department of Economic Development [10]. Upon completion of the online application, One Love LLC will automatically receive an establishment card reference number from the Ministry of Human Resources and Emiratization. One Love LLC will be also automatically registered for membership at the Dubai Chamber of Commerce and Industry.

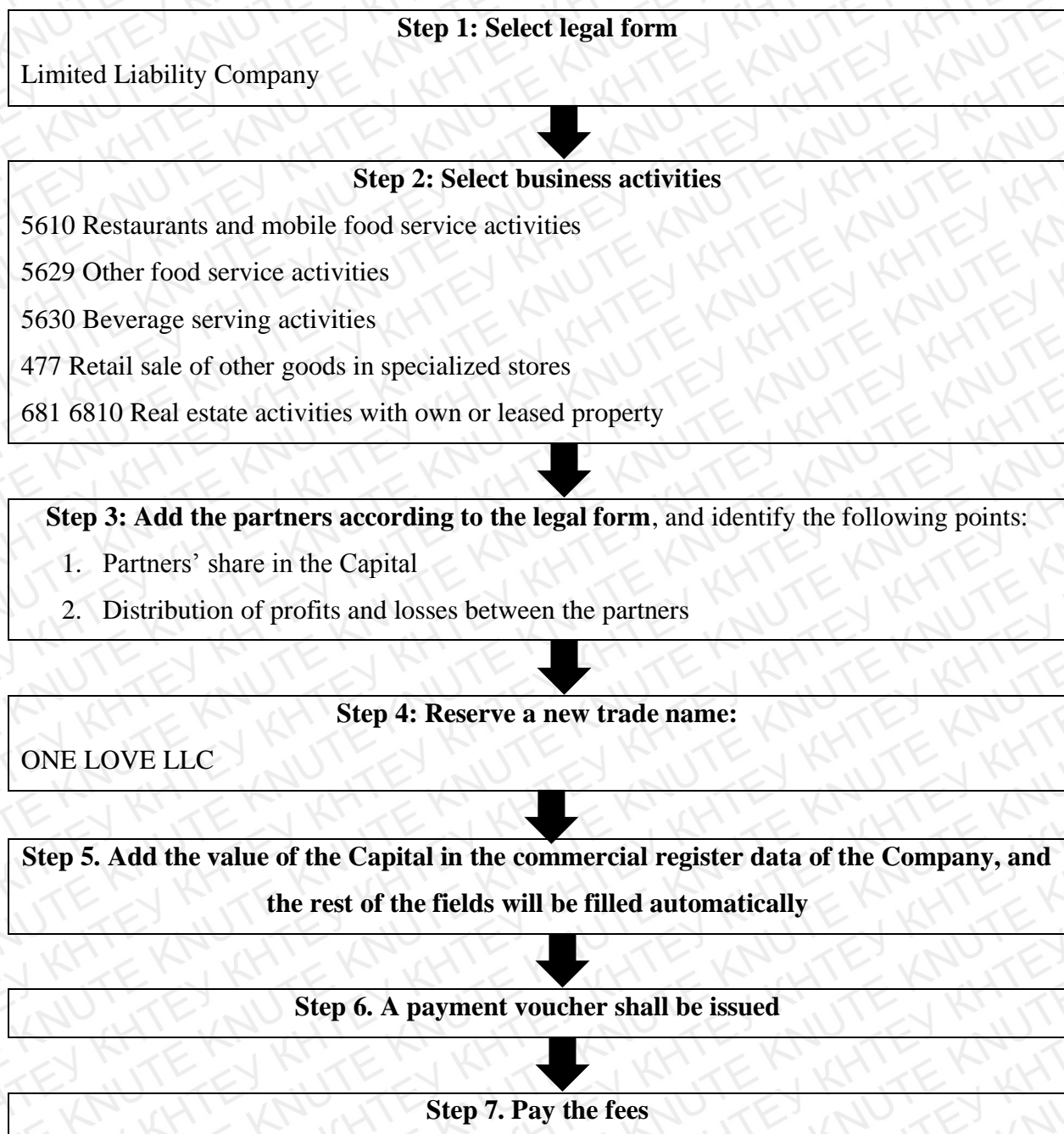


Figure 2.5. Steps of Instant License application for One Love LLC in UAE

Source: developed by the author according to [10]

Secondly, the following fees must be paid as part of the Instant License application:

1) Department of Economic Development fees: AED 600 (commercial license fee) + AED 100 (preliminary approval fee) + AED 600 (trade name reservation fee) + AED 2,000 (foreign name containing numbers fee) + AED 15 000 (general trading license issuing fee) + AED 30 (government cultural fee) + AED 30 (Innovation Dirham fee) + AED 50 (administrative services fee) + AED 350 (trade name advertisement fee);

2) Dubai Municipality fees: AED 10000 (market fee) + AED 1000 (public waste-related services fees) + AED 80 (service improvement fees);

3) Dubai Chamber of Commerce fees: AED 1200;

4) Ministry of Economy fees: AED 3000;

5) Local trade license fees: AED 100;

6) Commercial License - Tejari fees: AED 200;

Total fees: AED 34 340 (approximately USD 9348.9 [5])

Thirdly, One Love LLC will have to register native workers with the Ministry of Human Resources and Emiratization and with the General Authority for Pension and Social Security.

Although, UAE is an offshore zone with a low tax territory, for any medium-size company there are taxes and mandatory contributions that must be paid, as well as the administrative burden of paying taxes and contributions and complying with postfiling procedures (VAT refund and tax audit). The table 2.8 compares the paying taxes in UAE and comparator economies.

Table 2.8

**Tax payments for One Love LLC in UAE and comparator economies in 2019**

Indicator	United Arab Emirates	Middle East & North Africa	OECD high income	Best Regulation Performance
Payments, number per year	4	17.7	11.2	3 (Hong Kong SAR, China)

Time, hours per year	12	196.7	159.4	49 (Singapore)
Total tax and contribution rate	15.9	32.7	39.8	26.1% (32 Economies)
Postfiling index (0 – 100)		50.08	86.41	None in 2017/2018

Source: developed by author according to [8]

There are only 4 tax payments: Employers paid – Social security contribution (online payment 12.5%), Land transfer / Registration fee (2% payable by the buyer and the seller – total 4%), Trade license renewal fee (AED 48 000 approximately), Vehicle registration fee (AED 1 000 per vehicle). However, One Love LLC is considered as a small enterprise with less than 50 employees in the office and one coffee store, if One Love LLC will be successful in the Dubai market it will expand to few coffee stores and the number of employees will grow to 100 employees. The UAE levies corporate tax on oil companies and foreign banks only. It has not yet applied corporate tax on other industries. Businesses registered in the free zones are exempt from corporate tax for certain time and such time can be extended [25].

The business of One Love LLC is built on import of green coffee beans. When developing a set of measures to start a business in a new market it is essential to know the time and cost associated with the logistical process of exporting and importing goods. The first step for starting any import or export activity in Dubai is to register with the Dubai Customs. This procedure implies obtaining an importer or exported code from the authority. The company must submit its registration documents with the Customs Authority in Dubai. The procedure of obtaining an import-export license in Dubai is quite simple and can be completed online.

The following conditions must be respected by companies importing and exporting goods in, respectively from Dubai:

- the company must submit its importer/exporter code when shipping goods;
- the commodities must be the same as those mentioned in the import/export license;
- the products must reach their destination within 72 hours after being shipped or received;

- the same requirements apply to free zone trading companies in Dubai [8].

Dubai imposes a maximum import duty of 4% of the CIF value of products (including prices, premiums and freight). Food, pharmaceutical products and other necessities are exempt from tax. Importers are only allowed to import items related to the business sector listed in the license issued by the local authorities. The total cost and time of import is shown in the table 2.9 below.

*Table 2.9*

**Import time and costs for One Love LLC in UAE and comparator economies in 2019**

<b>Indicator</b>	<b>United Arab Emirates</b>	<b>Middle East &amp; North Africa</b>	<b>OECD high Income</b>
Time to import: Border compliance, hours	54	105.4	8.5
Cost to import: Border compliance, USD	678	536.0	100.2
Time to import: Documentary compliance, hours	12	75.5	3.4
Cost to import: Documentary compliance, USD	283	169.0	24.9

Source: developed by author according to [8]

As main components of the border compliance there are: clearance and inspections required by customs authorities (USD 220), port of border handling (USD 333.3). However, those figures are related to the company that is not located in the Free Trade Zone.

In order to decide which option fits into the interest of One Love LLC, the comparison of two business types is designed (table 2.10).

*Table 2.10*

**Comparison of fees for FTZ Company and LLC in Dubai**

<b>Free Trade Zone Company (FTZ)</b>	<b>Limited Liability Company (LLC)</b>
1	2
100% owned	51% owned by UAE citizen

Registration fee of FTZ company: AED 3,520	Registration fee of LLC: AED 0
License Cost AED 15,020	License Cost AED 34 340
Lack of customs duties upon import into the FTZ	Import cost for every operation: AED 3529
Establishment card: AED 650 a year	Establishment card: AED 5,000 per 3 years
0% personal income tax 0% corporate tax no taxes on re-export	5 % income tax

*Continued table 2.10*

1	2
Share Capital Minimum of AED 50,000 100% repatriation of capital and profit;	51% of shares owned by a UAE citizen
<b>Total Cost</b>	
<b>AED 68 920</b>	<b>AED 39 340</b>

Source: developed by the author

Analysing the table 2.10, the total cost of registration, licensing and visas for employees for FTZ is higher 1,75 times due to the Share Capital Minimum of AED 50,000 that must be paid to register a company. However, registering as LLC company, 51 % of the company will be owned by UAE citizen, while 100% of shares will be owned as a FTZ company. Moreover, there is no duty taxes into the FTZ, while AED 3529 has to paid for every import operation. As well, there is 5% taxes on income for a Limited Liability Company.

Concluding, the most suitable option for One Love LLC is to register as a Free Trade Zone company in Dubai, implement a direct exporting entry mode, have a 100% of owned shares and 0% corporate, income and duty taxes.

### **2.3 Forecast of effectiveness evaluation and the impact of proposed measures on performance of enterprise One Love LLC**

The analysis of the efficiency of importing green coffee beans to Ukraine

demonstrated positive results. However, the performance of One Love LLC could be improved by implementing the strategy of entering the Dubai market. In order to analyze the import and economic activity of One Love LLC before and after the implementation of proposed measures, it is necessary to carry out the forecast of the enterprise's activity using the forecasting method.

An extrapolation method is used to predict import performance without applying the proposed strategy. This method allows to calculate the future indicators by applying the averaged trends of previous periods into the future [28].

For the purpose of analysis, it is necessary to calculate the weighted average of net income from sales of imported products, the invoiced value of imports and the total costs of the import operation [31]. Based on the obtained indexes, the forecast indicators for 2020 – 2022 were calculated. For the base year, data from 2019 obtained at the enterprise is used. Such indicators as the effect of import operation and efficiency ratio have been calculated since only net income, total import costs and invoice are appropriate for forecasting.

In the case that the strategy will remain unchanged in the next 3 years while operating only in the Ukrainian market, the enterprise will expect a dramatical decrease of import activity indicators. If the trend remains unchanged by 2022, the level of import efficiency will be 1.05, which is lower by 37% comparing to 2018 (table 2.11). Hence, the economic effect of the import operation will decrease by 31.41% during the observed period. If the company does not implement a new strategy for entering a new market, the company will suffer serious losses. According to results, net income from sales of imported goods will decrease by 35.65% by 2022.

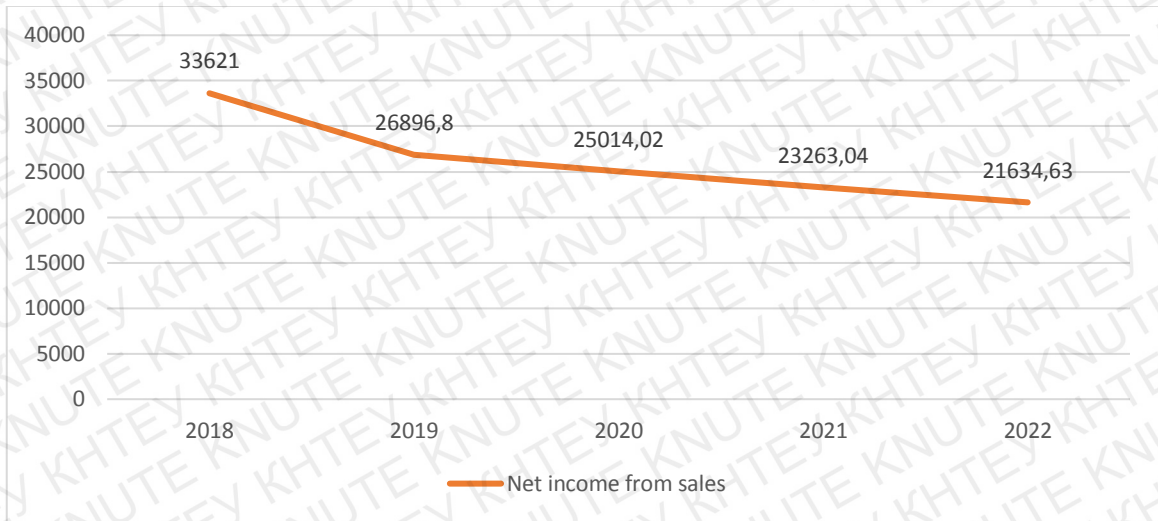


Figure 2.6 Net income from sales forecast for 2019 – 2022 of One Love LLC under unchanged strategy, UAH thousand

The figure 2.6 demonstrates the negative trend of the forecasted net income of sales for One Love LLC if the enterprise will undergo with the unchanged strategy.



Table 2.11

**One Love LLC import forecast for 2020 – 2022 under unchanged strategy**

Indicator	2018	Preliminary data 2019	Average grow rate 2018/2014	Forecast			Absolute deviation			
				2020	2021	2022	2019/2018	2020/2019	2021/2020	2022/2021
Net income from sale, UAH thousand	33621.00	26896.80	0.93	25014.02	23263.04	21634.63	-6724.20	-1882.78	-1750.98	-1628.41
Invoice value, UAH thousand	17921.9	14337.52	0.87	12473.64	10852.07	9441.30	-3584.38	-1863.88	-1621.57	-1410.77
Total import costs, UAH thousand	2240.24	1792.19	0.92	1648.81	1516.91	1395.56	-448.05	-143.38	-131.91	-121.35
Transportation costs to the border, UAH thousand	1344.14	1075.31	0.91	978.54	890.47	810.33	-268.83	-96.78	-88.07	-80.14
Insurance costs, UAH thousand	627.27	501.81	0.97	486.76	472.16	457.99	-125.45	-15.05	-14.60	-14.16
Cost of loading, UAH thousand	268.83	215.06	0.89	191.41	170.35	151.61	-53.77	-23.66	-21.05	-18.74
Economic effect of import operation, UAH thousand	13458.86	10767.09	0.95	10228.74	9717.30	9231.43	-2691.77	-538.35	-511.44	-485.86
Efficiency ratio	1.67	1.33	0.92	1.23	1.14	1.05	-0.33	-0.11	-0.09	-0.09

Source: developed and calculated by the author

In the case of not applying a new strategy, the company will have tremendous losses and will have to take a long-term loan to pay off the expenses of the enterprise. Furthermore, the average salary is growing unstable by 1 – 3% every month across Ukraine, which will mean the increase of payroll payment [38]. Furthermore, the Ukrainian market is becoming over-saturated with specialty coffee stores and the competition is becoming more tough, prices of goods in ONE LOVE Coffee can't grow up. Based on the achieved data, the company will not be able to afford to enter a new market, if it is not accomplished by the coming year.

In order to analyze an effective strategy for the use of goods on the Dubai market, One Love LLC will import green coffee beans from the same partners they have been working for the past 4 years: Ethiopia, Kenya, Brazil, Columbia and others. Taking into account, the recommendation of starting business in United Arab Emirates, it is appropriate to analyze first the efficiency of importing green coffee beans from the main partner of One Love LLC which is Ethiopia.

According to the calculations in Appendix Q, the efficiency of the import operation will be 117.73%. The effect of this operations is USD 282.85. Comparing to the result of the same import operation in 2018 from Ethiopia to Ukraine, the efficiency ratio to UAE is 1.11 times higher, while the profitability is 3.86 times higher.

The import operation from Ethiopia and the same amount of goods quantity of 30 kg will bring to One Love LLC USD 198.2 more profit when importing to UAE (Appendix Q). Such a high profitability of the import operation is due to the 0% customs duty and 0% corporate tax in the UAE Free Trade Zone. The strategy of entering a new market will bring 3.34 times more profit to the enterprise, and as a result create more net income for further expansion of ONE LOVE Coffee in the UAE market.

Assessing possible changes in import indicators in the event of recommendations are implemented, it can be assumed that, compared to the base year, the volume of purchases will increase by an average of 20%. At the same time, by given the characteristics of the market, it is necessary to increase the price of imported goods based on the target level of efficiency. Thus, the expected growth rate of net profit from sales is 26%.

Table 2.12

**One Love LLC import forecast for 2020 – 2022 in case of proposed measures implementation**

Indicator	2018	Preliminary data 2019	Forecast			Absolute deviation			
			2020	2021	2022	2019/2018	2020/2019	2021/2020	2022/2021
Net income from sale, UAH thousand	33621.00	26896.80	33889.97	37278.96	41006.86	-6724.20	6993.17	3389.00	3727.90
Invoice value, UAH thousand	17921.9	14337.52	17205.02	18925.53	20818.08	-3584.38	2867.50	1720.50	1892.55
Total import costs, UAH thousand	2240.24	1792.19	2150.63	2365.69	2602.26	-448.05	358.44	215.06	236.57
Transportation costs to the border, UAH thousand	1344.14	1075.31	1290.38	1419.41	1561.36	-268.83	215.06	129.04	141.94
Insurance costs, UAH thousand	627.27	501.81	602.18	662.39	728.63	-125.45	100.36	60.22	66.24
Cost of loading, UAH thousand	268.83	215.06	258.08	283.88	312.27	-53.77	43.01	25.81	28.39
Economic effect of import operation, UAH thousand	13458.86	10767.09	14534.32	15987.75	17586.52	-2691.77	3767.23	1453.43	1598.77
Efficiency ratio	1.67	1.33	1.75	1.84	1.95	-0.33	0.42	0.09	0.11

Source: developed and calculated by the author

In addition, a change in trend is expected from a decrease to an annual increase in imports, according to the implementation of recommendations for entering the Dubai market. As a result, by 2022 the net income will reach UAH 41 million which is 21.9% higher than the base year (table 2.12). The efficiency ratio will grow slowly to 1.95 in 2022 which is 16.77% higher than before implementing the strategy.

In order to understand the influence of implemented strategy on the net income and total import costs of One Love LLC, those indicators are compared with the result of unchanged strategy (figure 2.7). Despite that the total import costs will be higher under implemented strategy, the net income from sales in 2022 will increase by 89%. To sum up, the implementation of the developed strategy will positively affect the sales and performance of One Love LLC.



Figure 2.7. Trends of net income from sales and total import costs under unchanged strategy and implemented strategy of One Love LLC for 2020 – 2022, UAH thousand

For the forecasting of the activities of One Love LLC exponential smoothing method is proposed. According to the method of exponential smoothing, the formula for calculating the forecast is:

$$U_{t+1} = \alpha y_t + (1 - \alpha)U_t \quad (2.1)$$

Where  $t$  is the period (up to the forecast);  $t + 1$  is the forecast period;  $U_{t+1}$  is the predicted indicator;  $\alpha$  is the smoothing parameter;  $y_t$  is the actual value of the indicator for the period (up to the forecast);  $U_t$  is an exponentially weighted average.

A necessary step of exponential smoothing prediction is to calculate the average relative error by the formula:

$$\varepsilon = \frac{1}{n} \times \sum_{i=1}^n \left[ \frac{|y_f - y_h|}{y_f} \times 100 \right] \quad (2.2)$$

The main reason to calculate the relative error is to measure the uncertainty of measurement compared to the size of the measurement. It's used to put error into perspective.

According to the exponential smoothing method (net income forecasting), the average relative error is 16.82 by the first method and 17.59 by the second method (table 2.13). In the table 2.14 is calculated the projected cost of sales of One Love LLC.

*Table 2.13*

**Net income forecasting of One Love LLC for 2019 – 2020  
(based on exponential smoothing method)**

№	Period (year)	Net sales ( $Y_t$ )	Exponentially weighted average ( $U_t$ )		Average relative error	
			First way ( $U_0=31719,49$ )	Second way ( $U_0=35876,75$ )	First way ( $U_0=31719,49$ )	Second way ( $U_0=35876,75$ )
1	2014	35876,75	31719,49	35876,75	11,59	0,00
2	2015	32786,43	32907,28	35876,75	0,37	9,43
3	2016	36955,91	32872,75	34993,80	11,05	5,31
4	2017	33534,12	34039,37	35554,40	1,51	6,02
5	2018	21643,73	33895,01	34977,18	56,60	61,60
6	2019	29520,00	30394,65	31167,62	2,96	5,58
7	2020		30144,75	30696,87	84,08	87,95
Average relative error					<b>16,82</b>	<b>17,59</b>

According to the method of exponential smoothing (forecasting the cost of sales), the average relative error is 42.88 by the first method and 33.87 by the second method.

Table 2.14

**Cost of sales forecasting of One Love LLC for 2019 – 2020  
(based on exponential smoothing method)**

№	Period (year)	Costs of sales ( $Y_t$ )	Exponentially weighted average ( $U_t$ )		Average relative error	
			First way ( $U_0=19780,69$ )	Second way ( $U_0=8969,19$ )	First way ( $U_0=19780,693$ )	Second way ( $U_0=8969,19$ )
1	2014	8969,19	19780,69	8969,19	120,54	0,00
2	2015	17048,94	16691,69	8969,19	2,10	47,39
3	2016	24760,46	16793,76	11277,69	32,18	54,45
4	2017	25821,27	19069,96	15129,91	26,15	41,41
5	2018	17964,30	20998,91	18184,58	16,89	1,23
6	2019	24120,00	20131,88	18121,65	16,53	24,87
7	2020		21271,34	19835,46	214,38	169,34
Average relative error					<b>42,88</b>	<b>33,87</b>

The forecast of net income and costs of sales by the main markets South Africa and South America are demonstrated in Appendix R. Based on the achieved results of exponential smoothing method, the profitability of sales from South Africa market is 30.36% by the first method and 36.41% by the second method, while the profitability of costs is 43.60% by the first method and 57.26% by the second one. As for the Latin America, the profitability of sales is 28.24% and 44.41% by the first and second methods respectively; while the profitability of costs by the first method is 39.36% and by the second – 79.89%.

At the next stage of forecasting, it is necessary to carry out a forecast of the overall financial results of the One Love LLC. The index method is also applied, as in the case of forecasting import operations [33].

A scenario approach is used to forecast indicators of economic activity. Scenario

analysis is a method for predicting future values based on potential events. In other words, it is a method of assessing what will happen if an event occurs or does not happen. In this case, if:

- 1) The company will continue to operate in the Ukrainian market in accordance with market trends;
- 2) The company will change its strategy and enter the UAE market.

If the analysis of the scenarios shows that the changes are too risky and the indicators are falling, then a change of strategy may not be suitable for the company. An analysis of the scenarios also predicts what will happen to the company, given the natural changes in the economy, which will allow managers to better learn about how these changes will affect the company's performance.

In the first scenario, the company undergoes changes in the local market. As already mentioned, the coffee market in Ukraine is growing due to small coffee stores with low prices. Even though the number of coffee shops is growing from year to year, ONE LOVE Coffee is losing customers due to the huge number of competitors and not competitive pricing. These factors strongly affect sales and consequently the financial performance of the company. This is the reason that in this scenario is considered falling economic performance of the company.

By analysing the One Love LCC financial results' forecast for 2020 – 2022 under unchanged strategy, over the past 5 years, the company's net income decreased by an average of 6.5% per year, other operating income - by 35.9% per year, while other income increased by 10%. As well, costs demonstrated an increase by 33% per year, and other operating expenses by 58.1% (table 2.15). Based on the calculated trends, can be expected a drop in the revenue over the period 2020 – 2022. If compared with the base year, then revenue will fall by 2022 by 63.4%. Thus, even if there are no improvements, by 2022 the net income will decrease to UAH 21 million, and the net profit of the enterprise will decrease from UAH 4.8 million to UAH 1.7 million (by 64.5%).

Table 2.15

**One Love LLC financial results' forecast for 2020 – 2022 under unchanged strategy, UAH thousand**

Indicator	2018	Preliminary data 2019	Average grow rate 2018/2014	Forecast			Absolute deviation			
				2020	2021	2022	2019/2018	2020/2019	2021/2020	2022/2021
Net income (revenue) from sales of products (goods and services)	33621.00	26896.80	0.93	25014.02	23263.04	21634.63	-6724.20	-1882.78	-1750.98	-1628.41
Cost of sales of products (goods and services)	28003	22402.4	1.33	29795.2	39627.6	52704.7	-5600.6	7392.8	9832.4	13077.1
Gross profit (loss)	5618.00	4494.40	0.64	2876.416	1840.906	1178.18	-1123.60	-1617.98	-1035.51	-662.726
Selling expenses	26754.00	21403.20	0.73	15624.34	11405.77	8326.209	-5350.80	-5778.86	-4218.57	-3079.56
Profit (loss) from sales	5618.00	4494.40	0.64	2876.416	1840.906	1178.18	-1123.60	-1617.98	-1035.51	-662.726
Income from participation in organizations	15.00	12.00	1.03	12.36	12.7308	13.11272	-3.00	0.36	0.3708	0.381924
Interest receivable	5.00	4.00	1.02	4.08	4.1616	4.244832	-1.00	0.08	0.0816	0.083232
Percentage to be paid	0.00	0.00	-	0	0	0	0.00	0.00	0	0
Other income	372.00	297.60	1.1	327.36	360.096	396.1056	-74.40	29.76	32.736	36.0096
Other expenses	-84.00	-67.20	1.58	-106.176	-167.758	-265.058	16.80	-38.98	-61.5821	-97.2997
Profit (loss) before tax	5926.00	4740.80	-	3792.64	3034.112	2427.29	-1185.20	-948.16	-758.528	-606.822
Current income tax	-972.00	-777.60	-	0	0	0	194.40	777.60	0	0
Net profit (loss)	4870.00	3896.00	-	2999.92	2309.938	1778.653	-974.00	-896.08	-689.982	-531.286

Source: developed and calculated by the author



Considering an optimistic scenario, it addresses such factors as:

- 1) Since the opening of a new coffee store in the UAE costs are approximately the same as in Ukraine, although the profitability of the import is 3.86 times higher.
- 2) The company will incur high costs due to opening, investing into a new business, conducting a marketing campaign in order to attract customers and increase brand awareness, at the same time One Love LLC will continue the business activity in Ukraine.
- 3) There is a high demand of specialty coffee in the Dubai market during the analysed period which will lead to an increase of sales.

It is assumed that the company will spend UAH 50 thousand in 2020, 30 thousand in 2021 and 20 thousand in 2022 to implement the proposals.

The company is offered to start implementing recommendations based on a budgetary approach, choosing which measures to implement based on financial constraints (table 2.15).

In the optimistic scenario, it is assumed that the incurrence of costs by the enterprise would not lead to a decrease in revenue. During the first year of opening a new coffee shop in Dubai, the company suffers enough losses due to the high investment in rent, registration, analysis of the market, competitors, evaluation of logistics and transportation and a marketing strategy. The company in 2019 is profitable, but in comparison with the previous year, net profit will decrease by UAH 20 million. It is projected that One Love LLC will achieve a growth of 140% by 2022 during the analyzed period and the net profit will grow to UAH 76 million (table 2.16). This growth can be explained by the fact that the enterprise in 4 years of successful operation on the market will gain popularity due to the convenient location of the coffee shop and a modern concept that will successfully accompany the fast-developing environment of Dubai.

The probability of development under the optimistic scenario is quite high, since all proposed measures correspond to the current market conditions. The change of the strategy will completely affect the performance of One Love LLC.



Table 2.16

**One Love LLC financial results' forecast for 2020 – 2022 in case of proposed measures implementation (optimistic scenario), UAH thousand**

Indicator	2018	Preliminary data 2019	Forecast			Absolute deviation			
			2020	2021	2022	2019/ 2018	2020/ 2019	2021/ 2020	2022/ 2021
Net income (revenue) from sales of products (goods and services)	33621.00	26896.80	20172.60	40345.20	80690.40	-20172.60	6724.20	20172.60	40345.20
Cost of sales of products (goods and services)	28003.00	22402.40	16801.80	33603.60	67207.20	-5600.60	-5600.60	16801.80	33603.60
Gross profit (loss)	5618.00	4494.40	3370.80	6741.60	13483.20	-3370.80	1123.60	3370.80	6741.60
Selling expenses	26754.00	21403.20	372.00	744.00	1488.00	178.00	194.00	372.00	744.00
Profit (loss) from sales	32372.00	12948.80	19423.20	38846.40	77692.80	-19423.20	6474.40	19423.20	38846.40
Income from participation in organizations	15.00	6.00	9.00	18.00	36.00	-9.00	3.00	9.00	18.00
Interest receivable	5.00	2.00	3.00	6.00	12.00	-3.00	1.00	3.00	6.00
Other income	372.00	148.80	223.20	446.40	892.80	-223.20	74.40	223.20	446.40
Other expenses	-84.00	-33.60	-50.40	-100.80	-201.60	50.40	-16.80	-50.40	-100.80
Profit (loss) before tax	32680.00	13072.00	19608.00	39216.00	78432.00	-19608.00	6536.00	19608.00	39216.00
Current income tax	-972.00	-777.60	-793.15	-951.78	-1142.14	194.40	-15.55	-158.63	-190.36
Net profit (loss)	31708.00	12683.20	19024.80	38049.60	76099.20	-19024.80	6341.60	19024.80	38049.60

Source: developed and calculated by the author

Table 2.17

**One Love LLC financial results' forecast for 2020 – 2022 in case of proposed measures implementation (pessimistic scenario), UAH thousand**

Indicator	2018	Preliminary data 2019	Forecast			Absolute deviation			
			2020	2021	2022	2019/ 2018	2020/ 2019	2021/ 2020	2022/ 2021
Net income (revenue) from sales of products (goods and services)	33621.00	26896.80	32276.16	22593.31	9037.32	-6724.20	5379.36	-9682.85	-13555.99
Cost of sales of products (goods and services)	28003.00	22402.40	26882.88	18818.02	9409.01	-5600.60	4480.48	-8064.86	-9409.01
Gross profit (loss)	5618.00	4494.40	5393.28	3775.30	1887.65	-1123.60	898.88	-1617.98	-1887.65
Selling expenses	26754.00	21403.20	25683.84	17978.69	8989.34	-5350.80	4280.64	-7705.15	-8989.34
Profit (loss) from sales	32372.00	12948.80	15538.56	10876.99	5438.50	-19423.20	2589.76	-4661.57	-5438.50
Income from participation in organizations	15.00	6.00	7.20	5.04	2.52	-9.00	1.20	-2.16	-2.52
Interest receivable	5.00	2.00	2.40	1.68	0.84	-3.00	0.40	-0.72	-0.84
Other income	372.00	148.80	178.56	124.99	62.50	-223.20	29.76	-53.57	-62.50
Other expenses	-84.00	-33.60	-40.32	-28.22	-14.11	50.40	-6.72	12.10	14.11
Profit (loss) before tax	32680.00	13072.00	15686.40	10980.48	5490.24	-19608.00	2614.40	-4705.92	-5490.24
Current income tax	-972.00	-777.60	-933.12	-653.18	-326.59	194.40	-155.52	279.94	326.59
Net profit (loss)	31708.00	12683.20	15219.84	10653.89	5326.94	-19024.80	2536.64	-4565.95	-5326.9

Source: developed and calculated by the author

Table 2.18

**One Love LLC financial results' forecast for 2020 – 2022 in case of proposed measures implementation  
(probablesenario), UAH thousand**

Indicator	2018	Preliminary data 2019	Forecast			Absolute deviation			
			2020	2021	2022	2019/ 2018	2020/ 2019	2021/ 2020	2022/ 2021
Net income (revenue) from sales of products (goods and services)	33621.00	26896.80	29586.48	32545.13	35799.64	-6724.20	2689.68	2958.65	3254.51
Cost of sales of products (goods and services)	28003.00	22402.40	24642.64	27106.90	29817.59	-5600.60	2240.24	2464.26	2710.69
Gross profit (loss)	5618.00	4494.40	4943.84	5438.22	5982.05	-1123.60	449.44	494.38	543.82
Selling expenses	26754.00	21403.20	23543.52	25897.87	28487.66	-5350.80	2140.32	2354.35	2589.79
Profit (loss) from sales	32372.00	12948.80	14243.68	15668.05	17234.85	-19423.20	1294.88	1424.37	1566.80
Income from participation in organizations	15.00	6.00	6.60	7.26	7.99	-9.00	0.60	0.66	0.73
Interest receivable	5.00	2.00	2.20	2.42	2.66	-3.00	0.20	0.22	0.24
Other income	372.00	148.80	163.68	180.05	198.05	-223.20	14.88	16.37	18.00
Other expenses	-84.00	-33.60	-36.96	-40.66	-44.72	50.40	-3.36	-3.70	-4.07
Profit (loss) before tax	32680.00	13072.00	14379.20	15817.12	17398.83	-19608.00	1307.20	1437.92	1581.71
Current income tax	-972.00	-777.60	-855.36	-940.90	-1034.99	194.40	-77.76	-85.54	-94.09
Net profit (loss)	31708.00	12683.20	13951.52	15346.67	16881.34	-19024.80	1268.32	1395.15	1534.67

Source: developed and calculated by the author

The pessimistic scenario is based on the increase in the company's costs due to high investments into a new business and market research. At the same time, it is expected that the coffee store will be successful during the first year, the volume of purchases will grow by an average 10%, net income of the enterprise by an average by 15%. However, during the next two forecasted period the enterprise will have significant losses.

Thus, with a pessimistic approach by 2020 net income will be UAH 32.3 million which is already 4% less than the base year. As well, the net profit will decrease by 52% to UAH 15.2 million in 2020 (table 2.17). After three years of operating on the market, net income will dramatically decrease by 72% since 2020 and will be only UAH 9 million. Net profit will drop from UAH 15.2 million to UAH 5.3 million which is 65% less. The pessimistic scenario shows an unsuccessful implementation of the strategy and the company will incur dramatical losses.

In the most probable scenario, the indicators of the economic activity of One Love LLC are expected an increase of an average 10% per year with a corresponding increase in the volume of costs (table 2.18). This scenario demonstrates a continuous growth of the enterprise. Hence, after losing UAH 19 million of profit in 2019, One Love LLC will stabilize by 2022 and the net profit will grow by 33.1% to UAH 16.9 million, while the net income will increase to UAH 35.8 million.

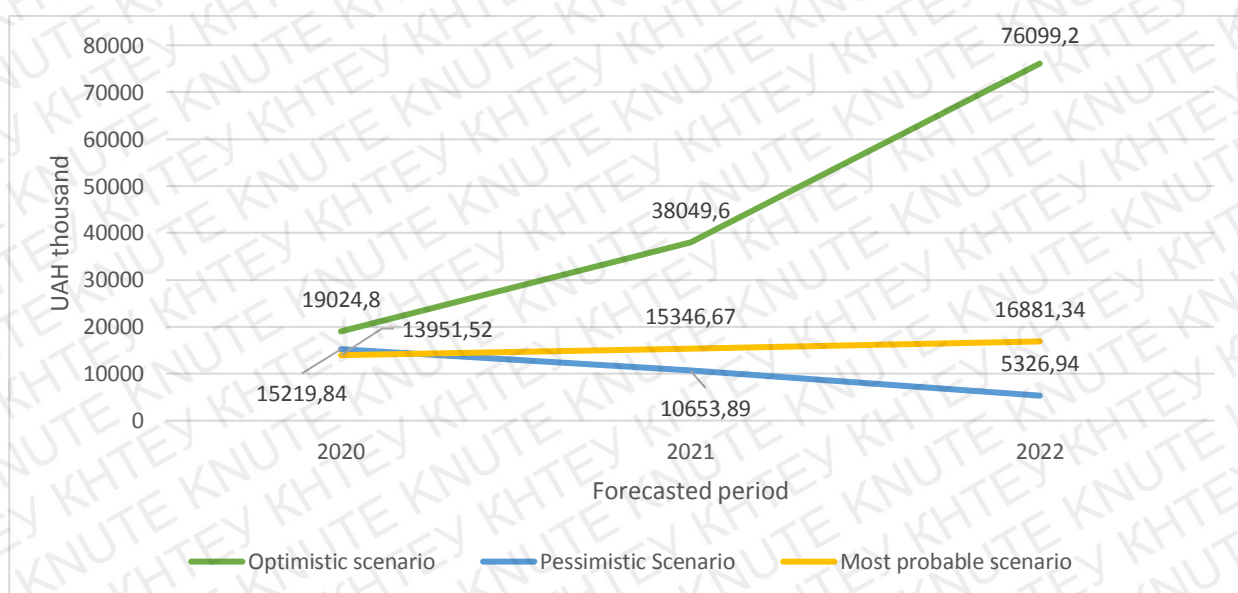


Figure 2.8 Net profit of One Love LLC for 2020 – 2022 under three scenarios: optimistic, pessimistic, most probable, UAH thousand

The calculations of three different scenarios indicate the feasibility of implementing the proposal to change the strategy of the One Love LLC. By analyzing the comparison of three scenarios (figure 2.7), the most probable and optimistic scenarios demonstrate an increase of the net profit, which indicates that the implemented strategy will positively affect the performance of One Love LLC.

Even in changing external conditions, including the difficulty of the restaurant business, exchange rate, which significantly affects the efficiency of import operations, and the changes in the coffee market, which affects the consumers behavior, the company will remain profitable. Even if the conditions will be worse and the company will expect the pessimistic scenario, One Love LLC funds will allow to find a source of the financing the proposed measures.

To conclude, continuous analysis of the import and economic activity of One Love LLC will help to improve approaches to the management of import operations and identify the prospects for the development of the enterprise according to the latest trends on the market.

## CONCLUSION TO SECTION 2

Firstly, an extensive growth of coffee stores market and high competitiveness in Ukraine, a decision to enter a new market was made due to global specialty coffee shops market expectation to accelerate at a CAGR of over 10% between 2017 – 2021. A global hub for commerce and innovation, Dubai is a major focal point for the Middle East's coffee evolution. The Roast Coffee segment, volume is expected to amount to 51.2 million by 2020 and the coffee consumption to grow by 240% throughout 2015 – 2019 years. Consequently, Dubai was chosen as a potential and strategical market for One Love LLC.

Secondly, direct exporting entry mode will be implemented in order to have greater control over sales and to interact directly with the clients. By conducting an analysis of two types of business registration in Dubai: Limited Liability Company or Free Trade Zone company, the second was selected. Free Trade Zone company will allow One Love to have various benefits, such as: low registration fees, 0% of income and corporate taxes, as well as lack of customs duties.

Thirdly, the analysis of efficiency of import operation to Dubai shown positive results. The strategy of entering a new market will benefit One Love LLC performance and help to achieve a growth of net income from sales of goods by 140% by 2022 during the analysed period. As a result, it will create more net profit for further expansion of ONE LOVE Coffee in the United Arab Emirates market.



## CONCLUSION AND RECOMMENDATIONS

ONE LOVE Coffee is a famous Ukrainian coffee house with its own branded specialty coffee created by the enterprise One Love LLC. The coffee has received recognition not only among domestic customers but also in Europe. Since 2014 ONE LOVE Coffee has been participating in the European ratings of the best coffee shops in Europe, baristas took part in international competitions, which creates a positive reputation on the international arena.

Being introduced on the Ukrainian market since 2014, One Love LLC established relations on import of specialty coffee with such countries as: Brazil, Ethiopia, Kenya, Rwanda, Burundi, Bolivia, Guatemala, Colombia and Peru. The enterprise imports 18 assortments of Arabica coffee and it has 3 coffee houses in the heart of city centre of Kyiv.

After conducting the financial analysis, we can conclude that the company has sufficient financial stability in 2018, as the liquidity ratios of last analysed period demonstrated a significant growth which proves that One Love LLC can meet its current liabilities. However, the company had a decrease of its business volume every year, as an evidence in company's assets in 2018 decreased by 6.54%, current assets - by 6.22%, while net income - by 16.13%. According to that, the financial condition of One Love LLC in the period of 2014 – 2017 can be specified as fairly stable.

By analysing import activity of the enterprise, the import operation for the Ukrainian market is justified and efficient, which is proved by the positive figure thought the analysed period. The import efficiency has even increased by 5.16% during 2014 – 2018.

For the further development of One Love LLC and improvement of its economic activity, a strategy to enter a new market was proposed. After conducting the PEST analysis, it was proposed to bring the company to the perspective United Arab Emirates (UAE) market, namely to Dubai. The Middle East represents a world of opportunity for coffee businesses around the globe which is proved by a growth of 7.3% of branded coffee shop market in 2018.

By registering a Free Trade Zone company that will allow One Love LLC to

have such benefits as: 0% personal income tax; 0% corporate tax; 100% foreign ownership; 100% repatriation of capital and profit and lack of customs duties upon import into the Free Trade Zone. Thus, based on the results of the conducted research of One Love LLC, it is recommended to use the strategy of penetration into the UAE market through direct export and creation a coffee house in Dubai. This will allow the enterprise to enjoy the effect of direct presence on the market and to control sales.

Also, by calculating the effect and efficiency after the implementation of this strategy, we can conclude that it is quite effective, since the enterprise's profit will be about UAH 80 million, and the efficiency level of importing goods to Dubai will be 117%. Hence, despite the costs that the company will incur during opening a business in a new market, due to special customs clearance and taxation, importing to the selected country is quite effective.

In order for to identify ways to improve the efficiency of foreign economic activity of One Love LLC in the UAE market, it is necessary to investigate the dynamics of development of foreign economic activity of the enterprise: constant control by employees of the Logistics and Procurement Department on the account of goods, volumes of imports, search for new suppliers, new markets for import new types of specialty coffee. The UAE is a market that is constantly changing, so the need to keep up-to-date on trade facilitation and customs duties is required.

Furthermore, it is necessary to analyse the rational use of all resources, consumer interest in the products of the enterprise in the foreign market [41]. Hence, businesses should carry out a detailed analysis of consumer demand and consumer preferences to identify the resources needed to meet consumer demand, as well as direct investments in various management and control mechanisms that have a direct impact on consumer demand satisfaction. It is also advisable to conduct market research to identify the needs and tastes of consumers, evaluate the activities of suppliers (determine the quality of raw materials and the level of prices for it in the industry) [32].

Marketing component of the foreign economic activity is a vital part for One Love LLC to survive on the new market. For this purpose it is necessary to carry out

effective marketing measures, which include:

- 1) Social Media Management – creating of social media presence on all platforms such as Facebook, Instagram, Pinterest and Twitter [16];
- 2) Direct mail - mailing for potential customers in the form of advertising materials of the enterprise (list of products and services with prices for them) in the form of business offers;
- 3) Participation in foreign exhibitions - distribution of advertising materials of the enterprise to all visitors and participants of the international exhibition: the world greatest show - EXPO 2020 will take place in Dubai, and once a year there is a coffee festival Dubai International Coffee & Tea Festival.

Continuous analysis of the efficiency of the enterprise will help to identify the prospects for the development of One Love LLC. Furthermore, by researching the market, consumer behaviour and the best locations, One Love LLC main goal to open few more coffee stores in the United Arab Emirates market will be achieved.

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