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Graduate School of Management

**Megamix’s entry strategy into the Kazakhstan market**

Made by

the 4th year student of bachelor program

group International Management

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# Introduction

**Goal and objectives**

The paper is a consulting project for LLC Megamix. In this paper, the Russian company Megamix is analyzed for future international expansion to the Kazakhstan market. LLC Megamix — leading Russian production enterprise for premixes and protein-vitamin-mineral concentrates for all kinds of farm animals (including poultry) and pets. The company is B2B because they deliver their products to corporate clients.

Adequate nutrition is a critical factor to achieve high productivity of agricultural livestock and poultry. Activities of Megamix allow its partner companies to produce competitive products, improve health of their livestock and poultry, maintain the best efficiency parameters and provide consumers with high-quality and environmentally safe food products.

Megamix plans to expand its business by exporting to foreign markets. At the moment, the company sees Kazakhstan as one of the most attractive markets. Megamix aims to expand abroad with the purpose of increasing profits, getting recognition in the foreign market and increasing competitiveness. So, Megamix’s management has intention to understand whether the company has required resources, capabilities and competences for international expansion.

The **goal** of the bachelor thesis is development of a set of recommendations for the company's entry into the Kazakhstan animal feed market. This will be achieved by analyzing the current activities and position of Megamix on the Russian market as well as by analyzing the agriculture industry in Kazakhstan.

The formulated goal involves addressing the research **objectives** that are listed below:

* To describe Megamix products and activities and to state managerial problem
* To identify managerial tools used for the foreign market analysis
* To analyze the external factors of the Kazakhstan animal feed market
* To identify the optimal entry mode strategy for Megamix company
* To develop recommendations on entry strategy into the Kazakhstan animal feed market

The object of the research is the company Megamix, while the Megamix entry strategy into Kazakhstan animal feed market is the research subject.

**Research methodology**

This project was conducted using the research methodology that consists of primary data, secondary data and key instruments. As for primary data, it was obtained from the semi-structured interviews with the representatives of the company — Viktor Stenko, Export Service Development and Dina Napalkova, Personnel Training and Development Manager. The semi-structured interview was conducted in order to gain certain insights and in-depth information about the company and industry in general. During the interviews, Viktor Stenko informed about the choice of the type of entry mode and potential country that the company has chosen as the most optimal one. Dina Napalkova informed me about the company’s history, activities, resources, and partners. Regarding secondary data, I have reviewed scientific articles and other academic literature that would provide a deeper understanding and insight into a model or framework, market reports and statistical databases that would demonstrate the changes over time and trends in the industries, news articles that contributed to evaluation of the actual conditions of the political, economic, production and other fields, and the official documents and website of Megamix to search for the information regarding the company. And key instruments that were applied are business model canvas, PESTEL analysis, Porter’s Five Forces analysis and SWOT analysis.

**Description of the paper structure**

The bachelor thesis includes 3 chapters. In the first chapter I will provide a description of Megamix company including a brief overview of its history, description of its business and products, its business model canvas, its position on internal market. Also, I will mention reasons for internalization of the company and rationale for country selection. In the second chapter I will focus on analyzing the foreign market which Megamix plans to enter. I will conduct PESTEL analysis and Porter’s Five Forces analysis of animal feed market to assess the influence of external factors. In addition, I will use SWOT analysis. And finally, the third chapter reviews the choice of foreign market entry mode: I will explain the most typical modes of entry and select the most optimal way of international expansion for Megamix. Then, I will provide recommendations on market entry strategy. Strategic recommendations related to list of products for international expansion, transportation method, and creation of new job position are made in the Chapter 3. At the end I will make a conclusion outlining the key points made in each chapter of the bachelor thesis.

# Chapter 1. General characteristics of the organization and the market it operates in

In this chapter I will provide the general information regarding the Russian company Megamix. I will briefly introduce the history of the company, description of its business including its products and activities. After that, I will provide the business model canvas of Megamix with detailed comments on each block. Also, I will mention the position of Megamix on Russian animal feed market and a brief comparison with its competitors.

## 1.1 History of Megamix

The company has been successfully operating on the market since 1999. From the very beginning the goal of Megamix was to produce animal feed and feed additives at a high technological level.

At the initial stage there was premix production in Volgograd that was launched in 2009. The plant was built according to a unique concept developed jointly with BASF SE (Germany) and Ottevanger Milling Engineers (Netherlands). Fully automated production guarantees a mixing accuracy of 1:100,000, which is confirmed by the IFF test report No. 2.435 issued by the International Research Institute for Feed Technology (Braunschweig, Germany). Now it also exists.

The second Megamix premix plant was launched in the 4th quarter of 2015 in the Lipetsk region on the territory of the Terbuny special economic zone. It is the largest and most high-tech production and distribution center for premixes and feed additives not only among premix producers in Russia, but also in Europe (according to the rating of the independent portal FeedInfo News Service "Top Russian premix producers in 2017"). [[1]](#footnote-1)The capacity of the enterprise is 140,000 tons of premixes per year.

Then a feed mill appeared in the Moscow region in 2019 and has a complete feed production capacity of 120 000 tons. Megamix Kombikorm in Moscow produces Megakorm. "Megakorm" is an exclusive trademark of the group of companies Meganix. It is a complete compound feed, which is produced from high-quality vegetable, animal raw materials, as well as raw materials of microbiological synthesis. A series of complete feed "Megakorm" fully meets modern requirements and industry standards. Megakorm is designed for the following types of animals: broilers, laying hens, quails, turkeys, waterfowl, rabbits, pigs, cattle.

Then Cheboksary agroholding was acquired in 2021. Cheboksary agroholding includes Mega Yourma production unit with a capacity of 50 000 tons of poultry meat annually (which is equal to 75% of total poultry meat production in the Chuvash Republic) and Alatyr feed mill which has a capacity of 240 000 tons of compound feed annually. Production of Cheboksary agroholding is certified under environmental standard by German certification company DQS. Products that are made at Cheboksary agroholding are supplied to top 4 retailers in Russian Federation: X5, Magnit, Lenta, VkusVill 35 own branded grocery stores.

Below I will briefly outline the key events and achievements that Megamix had experienced in certain years.

**Table 1.1 Events and achievements of Megamix in 1999-2020**

|  |  |
| --- | --- |
| **Year** | **Events/achievements** |
| 1999 | LLC Megamix was founded. Since the very beginning the goal of the company was to produce premixes at a high technological level. |
| 2000 | The company began to make first steps. Russian premix equipment was purchased, and the first certificate of conformity for premix production was acquired. |
| 2002 | Megamix for the first time participated in the Russian exhibition for agriculture (was held in Stavropol city) and purchase of storage facilities (100 m2). |
| 2005 | 0.6 hectares of land for the construction of premix factory were purchased. The company participated in the international exhibition “MVC: Cereals-Mixed Feed-Veterinary" in Moscow for the first time. |
| 2006 | Small-size packaging line launched. The company introduced feed additives in small packages under the trademark “Selskiy Dvorik” TM to the market. |
| 2007 | Conceptual design of the new plant finished, and equipment purchase contract with “Ottevanger Milling Engineers” (Netherlands) signed. |
| 2008 | Construction of the first premix plant in Volgograd city completed. It was designed by engineers of Megamix together with BASF SE Group (Germany). |
| 2009 | New plant commissioned; production capacity increased by more than 5 times. By the end of the year the company became the biggest premix producer in southern Russia. |
| 2010 | Megamix LLC took part in the largest international exhibition “EuroTier-2010” (Hanover, Germany). It is the first participation of a Russian premix producer in the history of the exhibition. Megamix LLC quality management was certified according to the international standard ISO 9001:2008. Megamix production facilities were tested by International Institute for Feed Technology IFF (Braunschweig, Germany) to confirm homogeneity of mixing and mixing accuracy of 1:100,000. |
| 2011 | The company continued to expand its geographical presence: representative office in Belgorod was opened. Kachalino feed mill acquired, and reconstruction project started. |
| 2012 | First international conference "Russian Poultry Industry" was organized by Megamix and BASF SE. Bar-coding system was implemented to guarantee complete traceability of the production process. |
| 2013 | According to the results of ethical audit, Megamix was deemed compliant with the requirements of Nestle company in respect of goodwill, social working conditions, occupational safety and environmental protection, based on the SMETA approach. Roll-out of the construction project of a second premix plant with an annual production capacity of 140.000 MT. Modernization of the existing premix facility in Volgograd to increase production capacity by 25%. Production output grew by 57% by 2012. — 2014: 15th Anniversary of the company Megamix once again confirmed compliance with ISO 9001:2008 requirements. 3-rd International Conference "Russian Poultry Industry" was successfully conducted. Participation in the International Exhibition “Euro Tier 2014” in Hanover, Germany. |
| 2015 | The company confirmed compliance with ISO 9001:2008 and passed the assessment audit according to new standard DIS/ISO 9001:2015. The Fourth International Conference "Russian Poultry Industry" was successfully held. In Q4 2015 the unique premix plant in the Lipetsk region was put into operation. |
| 2016 | Presentation of Megamix premix plant in the Lipetsk region take place at the exhibition “Cereals-Mixed Feed-Veterinary 2016" on January the 27th. May 26 - is the date of the official opening of the production in Lipetsk. Megamix testing laboratory was accredited by the AAC "Analytica" on compliance with the requirements of ISO / IEC 17025: 2005. The group of companies Megamix has confirmed the compliance with the international Standard ISO 9011:2009. In September the V International Conference "Poultry farming in Russia" took place successfully. In November the company took part in the exhibition "Euro Tier 2016". According to the year results the company becomes one of the biggest distributors of amino acids. |
| 2017 | Megamix Group participated in the exhibition "Cereals-Mixed feed-Veterinary" in Moscow. Megamix’s nutritionist was granted the Russian Federation Government Award for R&D. 9 million tones of compound feed based on Megamix premixes were manufactured in 2016. |
| 2018 | Over 30% of domestic feed is produced on the basis of Megamix premixes. |
| 2019 | Acquisition of a feed plant in the Naro-Fominsk district of the Moscow region. |
| 2020 | Development of the Company's product portfolio, creation of a wide range of special products for various livestock industries and specialized services. |

*Source: made by author*

## 1.2 Company overview

Megamix is the leading Russian production enterprise for premixes and protein-vitamin-mineral concentrates for all kinds of farm animals, including poultry. The company has been successfully operating on the market since year 1999. The customer base includes both large-size agricultural holdings and middle-size agriculture businesses that are spread from the northeastern part of Russia to the Urals. The mission of Megamix is “Setting the standard for the animal nutrition industry, we care about people's well-being every day. We feed those who feed us.”

Megamix’s expertise base includes 54 000 unique recipes, on the basis of which it can produce any premixes on individual order. Megamix successfully achieves this goal due to the unique concept was developed in cooperation with BASF SE, Germany, and Ottevanger Milling Engineers, the Netherlands. According to expert assessment, premix production at such a high technological level is unique on the entire territory of the Russian Federation.

The production capacity of the company is two premix plants (Volgograd and the Lipetsk region), two feed mills (Moscow and the Chuvash Republic). An accredited analytical center tests raw materials and feed base for more than 280 quality indicators. The company has more than 23,000 m2 of class A warehouses and its own fleet of vehicles, which guarantees high-quality storage and timely delivery of finished products to the buyer.

The head office is located in Volgograd, separate subdivisions are located in Moscow, Saint Petersburg, Lipetsk, Belgorod, Chelyabinsk, and Orenburg. The company has distributors in Belarus, Kazakhstan, Tajikistan, and Uzbekistan.

Below is the figure that represents revenue growth of Megamix from 2015 to 2021.

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Автоматически созданное описание

**Figure 1.1 Revenue growth of Megamix**

*Source: company data*

As it is seen from the graph, the company’s revenue increased by 94% from 2015 to 2021. In 2015 the revenue of Megamix was approximately 90 mln euros and was increasing with each year expect 2019. In the year 2021, the company’s revenue amounted to approximately 175 mln euros. In 2022 the company’s target increase in revenue was by 26%.

**Megamix’s products description**

The company produces mixtures for feeding different types of animals: cattle, pigs, laying hens, broilers, turkeys, quails, waterfowl. The composition of each product corresponds to the biological needs of a particular animal species. For use in some branches of agriculture, the company produces several types of Megakorm. Each of the products is intended for feeding animals of a certain sex and age. The difference lies in the balance of proteins, fats and carbohydrates, the amount of additives. Megamix also produces universal feed for animals and poultry. For the manufacture of products, the company uses only high-quality raw materials. The grain and other ingredients for production are being bought in Germany, Switzerland, the USA, Spain, Bulgaria, South Korea, Finland and other countries. However, at the moment, due to the influence of the political and economic situation, the supply chains of components from some countries have been interrupted or restructured. Supply logistics has experienced interruptions since the beginning of the COVID-19 pandemic in 2020, and since February 24, 2022 challenges with supplies of raw materials have intensified. The economic sanctions imposed against Russia by Western countries in connection with a special military operation did not affect the required volumes of supplies, however, the company was forced to change the direction of purchasing the main components for the production of premixes. If earlier a significant share was purchased from European suppliers, now the company has almost completely reoriented to Asian (mostly Chinese) manufacturers. Despite this, the required volumes of supplies of raw materials are fully provided.

In addition to complete mixtures, the company produces premixes. These are supplements, which include biologically active substances to enrich the diet.Premix is a concentrate of vitamins, macro-microelements, amino acids. They are mixed with the main food for farm animals and birds to enrich their diet with nutrients, vitamins, and minerals.The product is introduced into the diet of animals to make it more balanced and improve the absorption of nutrients. Premixes contain biologically active components in a concentrated form. It is enough to add an average of 1–5% of premixes to the main feed to provide the animals with all the necessary nutrients and achieve:

* improving survival rates
* acceleration of weight gain
* strengthening immunity
* increasing reproductive activity
* increase the nutritional value of the final product

The introduction of premixes into the diet of animals is also expedient from an economic point of view. The cost of their purchase pays off by reducing the amount of consumed grain forage and vegetable feed and increasing the productivity of the livestock. Farm animals and birds get sick less, grow faster, bring more offspring. The cost of their breeding is reduced, and the profitability of the enterprise increases by an average of 15%.

The company also provides consulting services for organizations operating in the agricultural sector. Consulting services of specialists of the Megamix support department help companies increase the competitiveness of their business in the agricultural products market and reduce production costs. Megamix experts regularly improve their skills abroad, exchange experience with leading world experts and have extensive knowledge of scientific agricultural developments.

MegaConsult is a set of services for professionals in the field of animal husbandry.

The **main activities of MegaConsult** are:

1. **Laboratory analytics and quality control of feed and feed additives**: Megamix Group consists of four laboratories equipped with modern equipment, where both arbitration control in accordance with GOST standards and express analysis, including NIR analytics, are carried out.

2. **Quality control of mixing and transfer residue of compound feeds and premixes**: the use of microtracers allows you to evaluate the uniformity of mixing of ingredients, which is critically important for proper nutrition of animals and avoiding deficiencies or excesses in nutritional components. With the help of microtracers, you can also understand the level of cross-contamination.

3. **Specialized service for poultry farmers**: an electronic egg with sensors helps to identify problems in the egg collection system, improving the quality of the shell by tracking pressures and rolling on transport routes.

4. **Cloud Farm IT platform**: allows you to collect and analyze farm data, providing reports on production results and helping to identify bottlenecks in the production process to optimize profits.

5. **Management consulting**: specialists of Megamix Group are ready to help solve complex problems in the field of livestock and poultry farming, including issues of feeding, veterinary medicine, management and economics of the enterprise.

The company provides expert advice on optimizing the diet of poultry, cattle, small cattle, pigs, and fish. Additionally, companies will be able to:

* improve the technological parameters of livestock keeping
* receive recommendations on the use of veterinary drugs specifically for your company
* improve production and economic performance

In order to develop an effective livestock feeding program individually for each company, Megamix support department conducts a comprehensive analysis of the enterprise, taking into account regional characteristics:

* microclimate parameters - temperature, humidity, illumination, air exchange
* livestock health status
* used veterinary drugs
* production indicators - feed conversion, average daily weight gain, livestock safety
* economic efficiency

As a result, companies will receive an individually developed diet for all groups of animals and birds kept at the enterprise, as well as recommendations for improving the company's work in each of the areas.

## 1. 3 Megamix’s business model

In this section I will introduce the business model canvas of Megamix company. After describing each block of the business model, I will present a visual diagram that makes it easy to present all the key elements of the business model.

**Customer segments**

Megamix is B2B company. Its client portfolio includes more than 600 Russian companies, including the largest Russian agricultural holdings that produce meat, eggs, and milk. The company’s customer segments are categorized by agriculture industry segments. Customer base of Megamix includes companies from the following industries:

* **Dairy industry**

The dairy industry involves processing raw milk into products such as consumer milk, yogurt, butter, condensed milk, dried milk (milk powder), ice cream and cheese. Animals that are used in dairy industry are mainly cows.

* **Poultry industry**

Poultry industry involves raising and commercializing birds for meat, eggs, and feathers. Most typical birds that are used in poultry industry are chickens, ducks, turkeys, and geese.

* **Pork industry**

Pork industry involves raising and commercializing live pork, pork meat and other by-products.

* **Small ruminant industry**

Small ruminant industry involves farming sheep and goats for their meat and dairy products.

* **Cattle industry**

Cattle industry is concerned with the production, management, slaughter, and sale of many bovine animals, which are farmed for their meat, hides, dairy, and other essential cattle-based commodities.

* **Fish farming**

Fish farming involves commercial breeding of fish to be sold as food. Megamix offers premixes for the carp, salmon, sturgeon and other fish species.

**Value propositions**

Value proposition of Megamix is improving the efficiency of domestic livestock and poultry enterprises. Megamix provides its customers with a wide range of animal feed products. They include premixes, functional components, feed additives, and compound feed. The company assures the quality of its goods and carefully calculated proportions of components in premixes and additives. Also, MegaConsult service (another product of Megamix) is intended to improve the efficiency of livestock and poultry companies. By cooperating with Megamix specialists within the framework of the MegaConsult service, companies receive the following benefits:

* Consultations from experienced specialists in maintenance and feeding, microclimate, as well as veterinarians.
* Recommendations on the application of modern technical and organizational solutions in your company.
* Increase productivity by improving feed absorption and animal health.
* Reducing treatment costs by improving animal immunity.

**Channels**

One of the channels through which Megamix reaches its customer segments is website. The website is the most informative channel: there clients can find general information about the company, its products description, contact information, news, links to all other channels, etc. Other channels are social networks (Telegram, YouTube, Vkontakte). The company has a telegram channel where it posts information about recent and upcoming events (for example, seminars and exhibitions). Also, it is possible to find news related to animal feed market and information regarding the correct feed for certain animal categories. Vkontakte group contains the same posts as in Telegram channel. As for YouTube channel, there you can find recordings of interviews, information about animal farming, overview of the company’s activities, recordings from conferences and exhibitions, etc. Moreover, the representatives of the company attend exhibitions, forums, and tenders, where they can present the products and show the samples of product assortment. Usually, potential customers reach the company themselves after reviewing the information obtained at exhibitions and forums.

**Customer relationships**

The customer relationship is providing high quality and safe premixes and feed additives. The company improves the efficiency of domestic livestock and poultry enterprises by providing them high quality and safe premixes and feed additives.

**Revenue streams**

Revenue streams of the company comprise of sales of products and services. Products of the company are feed additives, premixes, and compound feed for various types of animals. And also, the company has income from MegaConsult service. The products and service of Megamix were described in detail in the section 1.2 “Company overview”.

**Key resources**

**Physical resources of Megamix include premises, equipment, and machinery that are essential for producing animal feed. The company has 2 premix plants and 2 feed mills, own fleet of more than 60 vehicles and a wide range of equipment and machinery that is used in production of premixes and feed additives.** Intellectual resources of the company are presented by trademark: name of the company, its slogan and logotype**. Human resources are employees of the company — nutrition specialists, company veterinarians and holding managers with many years of experience and a wide area of expertise. They regularly improve their skills both in Russia and abroad. Many of them have scientific degrees. At the moment, Megamix has 463 employees. As for financial resources, the company possesses its own capital and also borrows loans.**

**Key activities**

Key activities of Megamix are production of premixes, feed additives and animal feed, sell of products and services, and Research and Development. Products and service that the company offers are premixes, feed additives, animal feed and consulting services. In the production of Megamix’s premixes, only high-quality raw materials of world leaders are used: BASF SE (Germany), Lonza (Switzerland), DSM (Switzerland), Lohmann Animal Nutrition (Germany), CJ Corporation (South Korea), Lucta (Spain), Huvepharma (Bulgaria), Pancosma (Switzerland), Alltech (USA), Evonik (Germany), Eppen (China), Novus (USA), Biochem (Germany), Danisco (Finland), Elanco (USA). Megamix provides an individual approach to each client, the company’s assortment comprises of more than 30 thousand unique recipes The company provides consulting support, attracting leading experts from around the world on animal feed production, feeding and maintenance of all types of farm animals and poultry. Detailed description of the company’s products can be found in the section 1.2 “Company overview”.

As for Research and Development, the company demonstrates constant striving for development. Following the path of high technologies, Megamix conducts various researches and develops new products aimed at increasing the efficiency of animal husbandry.

Another activity of the company is promotion of its products. Representatives of the company frequently visit various forums, exhibitions and conferences that are related to agricultural business. At such events they present the products of the company informing about the features and advantages, thus potential clients become interested in buying Megamix’s products or in becoming the company’s partners as for example investors or distributors.

**Key partnerships**

Partners of Megamix are suppliers, investors, and distributors. The company’s suppliers of raw materials are leading global producers such as BASF, Elanco, Alltech, Lonza, etc.

Another group of partners are distributors of the company’s products. Distributors of the company’s products operate in a number of countries: Belarus, Kazakhstan, Tajikistan, and Uzbekistan.

**Cost structure**

For Megamix cost structure includes:

* Salaries and other staff costs — these costs include salaries, various bonuses and awards.
* Rental of premises and equipment — premises and equipment are essential resources for the company in order to produce animal feed. So, one of expenses that is inquired by Megamix is rental of premises and equipment.
* Maintenance and repair of premises and equipment— from time to time the company spends money on renovating premises and equipment or reparation of them in case of brokage.
* Raw materials purchase — the company buys components that are needed for the production of premixes, animal feed additives, and animal feed.
* Taxes and other payments— Megamix pays various taxes, for example, income tax, transport tax, etc.
* Inventory losses — this type of expenses happens when an item that is intended for sale is not sold. Losses can occur for a number of reasons. Sometimes the product becomes expired or damaged.
* Marketing and promotion — the company spends money for promoting its products.
* Logistics — this type of expenses implies all the costs incurred by the company that are required to manage its logistics. For example, transportation, warehousing, distributing.

For more convenient visual representation of business model canvas, I have created a table that summarizes the key points of each block of business model of Megamix.

**Table 1.2. Business model canvas of MEGAMIX**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Key partners**  Suppliers of raw materials  Investors  Distributors | **Key activities**  Production of premixes, compound feed and protein-vitamins-mineral concentrates  Sell of premixes, compound feed and protein-vitamins-mineral concentrates  Providing consulting services for organizations operating in the agricultural sector  Research and Development  Promotion of the company’s products | **Value proposition**  Improving the efficiency of domestic livestock and poultry enterprises | | **Customer relationships**  Providing high quality and safe premixes and feed additives | **Customer segments**   1. Companies from the dairy industry 2. Companies from the poultry industry 3. Companies from the pork industry 4. Companies from the small ruminant industry 5. Companies from cattle industry 6. Companies from the fish farming |
| **Key resources**  Physical resources: premises, equipment, and machinery  Human resources: Employees  Intellectual resources: trademark: name of the company, its slogan and logotype  Financial resources: loans | **Channels**  Website  Social networks (Telegram, YouTube, Vkontakte)  Exhibitions, forums, conferences |
| **Cost structure**  Salaries and other staff costs  Rental, maintenance and repair of premises and equipment  Raw materials purchase  Taxes and other payments  Losses/inventory  Marketing and promotion  Logistics | | | **Revenue streams**  Sales of products (premixes, feed additives, compound animal feed)  Sales of services (MegaConslult) | | |

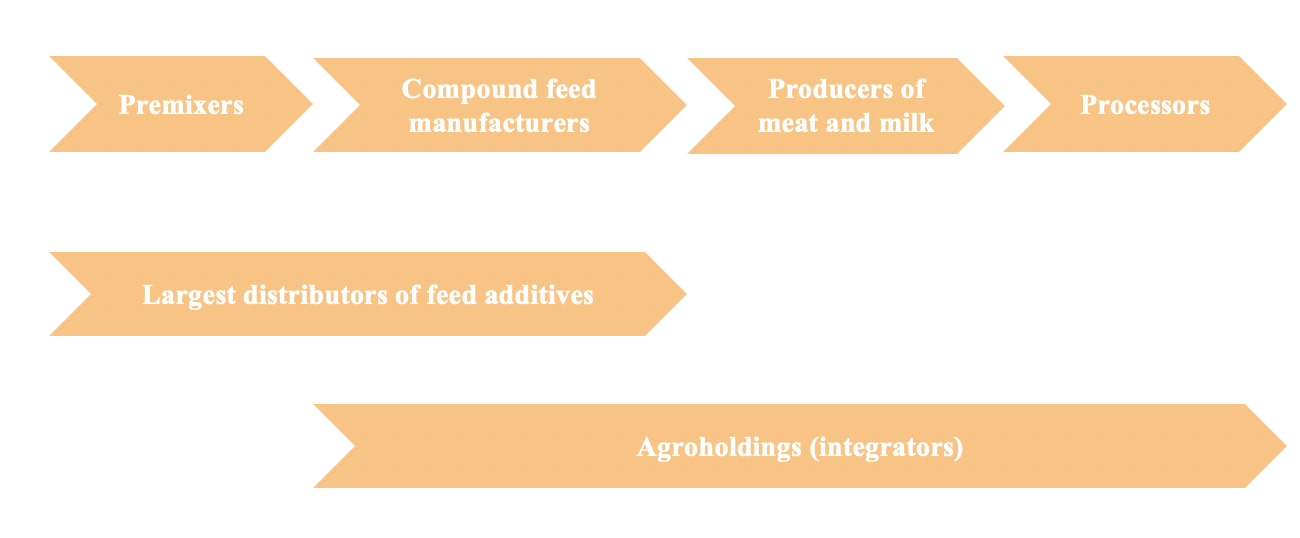
*Source: made by author*

Next, in Chapter 3, I will compare this business model with the situation in the target market in order to understand whether it should be adapted. In the section 3.3 “Business model canvas adaptation” I will explain which segments of the business model will undergo changes, and which will remain the same as for the Russian market.

## 1.4 Situation on Russian animal feed market and position of Megamix on it

Megamix operates in animal feed market. Animal feed market is a part of agriculture industry. The feed industry is the most important link in the system of providing the population with livestock products and food security, the issues of which, against the backdrop of the economic crisis, have acquired unprecedented significance. The abundance of livestock and poultry in the agricultural sector has created a demand for animal feed. However, there is an apparent shortage of nutrients for farm animals, which negatively affects their growth and well-being, and leads to an increase in the need for fortification of the nutrition of farm animals and birds, which is most often used as a nutritional supplement in feed.

Below is the structure of animal feed market with a brief description. This structure applies to any feed market, not necessarily the Russian one.

**Figure 1.2 The structure of animal feed market**

*Source: made by author*

Premixers — companies that produce premixes. Ingredients that are used in the production of feed, some ingredients are used in very small quantities, premixers mix these ingredients in the right proportions. Their recipe is developed to solve specific problems and takes into account the type, age, direction of animal productivity. The production of premixes requires a serious scientific and technological base. For each category of animal and for its age, certain proportions of vitamins, calories, proteins, fats, carbohydrates, etc. are required. And all this is carefully calculated by premixers. Each category of animal has its own formula with different proportions. The resulting premixes are required for the production of animal feed. Compound feed manufacturers add grain to premixes and thus produce compound feed for farm animals or feed for non-productive animals (animals that are not purposefully used to obtain livestock products, in other words, pets). This feed is then passed on to meat and milk producers. The resulting product is then sent to processors. The product can already be presented to the buyer in this form. For example, milk, eggs or cut meat. But processors also produce meat and dairy products such as sausages sausage cutlets and so on.

Agricultural holdings integrate the chain in the opposite direction: that is, they are both processors and producers of meat, milk, eggs and animal feed. But very rarely they are premixers. Among the most famous agricultural holdings that have all stages of the chain are Miratorg and Cherkizovo. Regarding the company Megamix, it has a premix production and produces feed. The company also already has a broiler poultry farm and processing (Chuvash broiler poultry farm acquired in 2019). Thereby that Megamix is also an agricultural holding, but however, they focus most of all on the production of premixes and animal feed.

The Russian feed market includes three basic segments:

1. **Feed —** Designed for feeding animals, birds, and fish. Feed can be both industrial production and made directly on the farm.
2. **Functional components, feed additives —** Vitamins, minerals, amino acids, probiotics and prebiotics, organic acids and enzymes, yeast cultures and bacteria, antioxidants, and other components, as well as complexes of several components that solve a particular problem.
3. **Premixes —** Mixtures for balancing the diets of animals, birds, and fish. Premixes may contain various functional components, in most cases vitamins and minerals are present in the composition, but complex premixes also include amino acids, feed enzymes (enzymes), probiotics, prebiotics, flavoring additives, antioxidants, toxin sorbents, etc.

In addition, there is another segment, which is, as it were, between ready-made feeds and premixes are feed concentrates (protein mineral and vitamin supplements, protein-vitamin-mineral concentrates, vitamin-mineral concentrates, BMVD, BVMK, VMK).

Below is detailed overview of each segment of Russian feed market.

**Feed**

The Russian feed market for farm animals has changed significantly in the last decade. Main trends:

*Transfer of production compound feed inside farms*

Feed production to a large extent concentrated in the hands of livestock farmers. Own productions have not only agricultural complexes, but also many enough large independent farms. At present time from ~ 240 factories and mills producing compound feed, total ~ 10% - independent, and this share is declining. It is expected that the market will remain only those who can effectively diversify production and offer a niche product, in particular for aquaculture and small cattle, to establish cooperation with large livestock breeders, offer cost-effective solutions for private and farms.

*Self-sufficiency in compound feed*

Import of animal feed does not exceed 1%. Only niche continues to be imported and specialized products. Export extremely small and one-time deliveries to neighboring countries abroad. Prerequisites for building up no import or export.

If we talk about specific indicators, then in 2019 the volume of Russian production of compound feed for farm animals amounted, according to Rosstat, 29.6 million tons. Over the past 10 years, output has been growing at a significant pace: CAGR(2010-2019) = 6,7%. [[2]](#footnote-2)

Изображение выглядит как линия, снимок экрана, диаграмма, График

Автоматически созданное описание

**Figure 1.3 Production of animal feed in Russian Federation (in mln tons)**

*Source: Techart*

It should be noted that the feed market has slowed down since 2017. CAGR = 2.8%. This is due to outbreaks of African swine fever and bird flu, a sharp rise in the cost of vitamins and some other imported feed components (fire at BASF, China's "clear sky" policy), soybean meal, feed grains. The reasons in the complex led to a reduction in demand from livestock, an increase in prices for feed components and, as a result, to a decrease in the profitability of production, further “washing out” of individual players from the market.

In the output structure, 51.8% falls on compound feed for poultry. This is due to the fact that all large farms feed poultry exclusively with compound feed, which, given the significant number of livestock, determines the demand. In second place in terms of production of feed for pigs - almost 40%.[[3]](#footnote-3)

Изображение выглядит как текст, снимок экрана, число

Автоматически созданное описание

**Figure 1.4 The structure of the production of compound feed for farm animals by purpose in 2019**

*Source: Techart*

Among the largest producers of compound feed are the main Russian agricultural holdings: Miratorg, Resource, Prioskolie, BEZRK-Belgrankorm, Agro-Belogorye, Charoen Pokpand Foods, Agrocomplex of Tkachev, Rusagro, Velikoluksky SK, Siberian agrarian group, Prodo, Cosmos Group, Agroeco.

The main problem of the domestic feed market is dependence on foreign supply of feed components and technological solutions for the construction of new and reconstruction of existing feed mills.

**Feed additives**

Feed additives are an essential part of any comprehensive diet. The market offers both individual functional elements (vitamins, minerals, enzymes, amino acids, antibiotics, proteins, etc.) and complexes of several elements. Feed additives are used by producers of compound feeds, concentrates and premixes, and by farms for their own introduction into the food supply.

At the beginning of March 2021, Rosselkhoznadzor registered 3,153 feed additives, of which 633 (20%) were domestically produced. In total, ~160 domestic manufacturers and more than 700 foreign ones are represented on the Russian feed additives market. Russia is highly dependent on imported supplies of feed additives, since our country does not have domestic production of many components, or existing production cannot satisfy domestic needs. The Ministry of Agriculture provides the following estimates of import dependence by segments of the feed additives market: vitamins - 100%, microelements - 90%, feed amino acids - 80%, enzymes - 70-90%, mycotoxin neutralizers - 80-85%, feed antibiotics - 85-95%.

The need for feed additives is increasing, which is due to both a natural increase in the consumption of feed and premixes due to the growth of livestock and intensification of agriculture, and trends in livestock farming: increased competition (due to globalization and the opening of borders, it is necessary to compete not only in the domestic market) and the importance of efficient organization of production (due to the same competition, decreased profitability, economic instability, etc.), as well as, as a consequence, the use of animals and birds with high genetic potential, for the implementation of which modern high-quality feed is required.

Import dependence determines the acute reaction of the market to changes in external conditions and the high dependence of prices on economic and political factors. Among the latest events that led to a sharp reaction from the Russian market:

* a significant increase in prices in 2017 in the feed vitamins segment due to the fire at BASF and the shutdown of a number of Chinese manufacturers;
* retrospective additional assessment of value added tax to suppliers of feed additives in 2019;
* shortages and significant increases in prices for vitamins and other supplements due to coronavirus and ruble devaluation in 2020.

**Premixes**

In Russia, only 50 companies produce premixes, which is due to the manufacturability and science-intensiveness of production. In addition, the construction of premix plants requires large material costs. In the production of premixes in the Russian Federation, independent enterprises are leading, as well as those that are part of agricultural holdings. The share of premixes for poultry accounts for 42.7% of the total volume of premixes produced in our country, for cattle - 28.1%, for pigs - 22%. Manufacturers of premixes are completely dependent on suppliers of vitamins, microelements, amino acids, etc. (the main components of premixes), producers of feed and concentrates, as well as farms, are completely dependent on suppliers of premixes and (or) feed additives, which is due to the peculiarities of feeding the livestock.

The share of imported premixes in consumption in 2019 was estimated ~ 6% in kind expression (against 46% in 2010). The indicator is declining, it is expected that soon the country will be able to fully meet its needs in premixes. Note that speaking of Russian production, we mean, among other things, localized production, plants with foreign participation.

The export of premixes is more situational, the volume of external supplies varies from year to year. Russian manufacturers have ambitions to increase foreign sales of their products. According to experts, domestic premixes have high quality indicators, however, they are not always competitive in price, since up to 90% of those used in their production components are imported, which determines the dependence of prices on a large number economic and political reasons. So, in 2017, after the increase in prices for vitamins (fire at BASF, the policy of "clear skies" in China), Russian premixes have risen in price by 1.5-2 times.

Thus, the main problem of the premix industry, as well as other segments of the feed market, is dependence on the supply of raw materials and technologies (the equipment used in production is mainly imported).

Among largest premix producers in Russia are: MEGAMIX, Koudice MKorma, Mustang Feeding Technologies, Vitomek, Miratorg, Premix Plant No. 1, DSM Nutrition, Products Rus, Kuzbass Poultry Farm, Kursk Bakery Plant, Luga Feed Mill, Luzinsky Feed Mill, Nikomiks, Yuzhnaya Korona - BKZ.Feed additives.

In 2020, the physical volume of the Russian market of feed for farm animals amounted to 36.6 million tons of products. Over the six years, the market has grown by 37.3% - from 26.7 million tons in 2015.[[4]](#footnote-4)

The Russian feed market is developing dynamically – the cumulative average annual market growth rate CAGR 2015-2020 was +6.5%.

Below is the figure that represents the dynamics of the Russian compound feed market by segments in real terms (production, import, export) from 2012 to 2019.

Изображение выглядит как текст, линия, диаграмма, снимок экрана

Автоматически созданное описание

**Figure 1.5 Dynamics of the Russian compound feed market by segments in real terms (production, import, export), 2012-2019, %**

*Source: SSNAB*

In 2018, based on the data of Rosstat, 28.9 million tons of feed were produced in Russia, in 2017 - 27.6. The increase was 4.7%, although in 2017 this figure was about 7%. During that period, the situation was influenced by the development of poultry farming. It should be noted that this particular segment has a great influence on the compound feed market, since it acts as the main consumer (more than half of the total volume). In 2018, poultry production increased by less than one percent. As a result, the feed industry also slowed down. Even a 5.5% increase in pig production could not improve the situation.

Among the reasons for the slowdown in market progress, experts identify a slowdown in the development of animal husbandry and an increase in the cost of animal feed, due to an increase in prices for some components necessary for their production.

The domestic feed market is characterized by a number of features. In particular, the main distinguishing feature is that the top positions in the ratings are occupied by vertically integrated full-cycle companies. These agricultural producers grow crops themselves, produce feed from them, and are able to independently produce livestock products. Last year, the 25 largest compound feed manufacturers occupied more than half of the market in physical terms. At the same time, eighty percent of the largest and most significant companies are vertically integrated agricultural holdings. The remaining twenty are independent manufacturers.

In recent years, the market has seen a trend towards self-sufficiency of livestock companies. This solution contributes to stability and cost reduction, and this becomes especially important in a highly competitive environment. It becomes more difficult for self-sustaining independent enterprises to sell products, as consumers of compound feeds prefer better offers. Their existence depends on this, because small companies compete with enterprises of agricultural holdings.

Recall that the main consumers of independent feed mills are small and medium-sized farms. The stable development and increase in production volumes of the latter can be a significant support for the further fruitful work of independent feed manufacturers. The development of the sector as a whole can be affected by government support. The development of exports, the search for specialized niches can also contribute to progress.

However, over time, the influence of agricultural holdings will only increase. To stay afloat, self-employed farms are encouraged to retain their customers, including with the help of profitable offers for the cost. For many factories, the guarantee of stable operation is remoteness from regions where the influence of agricultural holdings is strong. In particular, independent enterprises may be in demand in the Urals and the North-West. In some regions, animal husbandry is developing, but their enterprises for the production of animal feed are not represented. There are very few such areas left. The most stable option, according to experts, is to work in partnership with holdings, while remaining legally independent.

Domestic animal husbandry continues to increase the volume of meat production, as evidenced by the growth of indicators. Thus, according to the analytical company Feedlot, in January-March 2022, Russian farms produced 2 million 562 thousand tons of meat in slaughter weight, which is 5.8%, or 141.5 thousand tons, more than in the same period in 2021. At the same time, most of the total production is occupied by poultry meat - 47.9%, pork accounts for 38.5%, beef - 12.5%, lamb and goat meat - 1.1%. Naturally, at the same time, the production of feed for farm animals is also increasing. Summing up the results of the first quarter of 2022, Feedlot analysts recorded an increase in feed output by 7% compared to the same period last year (up to 9.7 million tons).

Summing up, we can say that the enterprises of the industry (in particular, we are talking about feed factories and livestock representatives) will continue to consolidate. There will be even fewer independent producers, since there will not be enough demand for their products. So far, experts see no prerequisites for improving the situation of independent farms. The market will be increasingly concentrated in holdings.

Competitive advantages of Megamix are the following:

* Unique recipes of premixes

Specialists of the Megamix company create original recipes for premixes and protein-vitamin-mineral complexes.

* Effective logistics

Own logistics complex ensures timely delivery of products to partners of the company. This allows to optimize the delivery process and minimize the risk of delays, which is an important factor for partners.

* The most high-tech production in the industry

Megamix is the only Russian premix enterprise with two production facilities with a total capacity of 180,000 tons of premixes per year.

A number of technological solutions used in the implementation of the production are unique not only for Russia, but also on the world market:

* own modern testing laboratory
* the height of the production building is 46 meters
* two separate, absolutely independent lines, one of which is intended for the production of premixes with drugs
* one-time loading of up to 96 components
* a unique automated packaging line Behn&Bates (Germany), consisting of 2 independent lines, each of which is designed for 450 bags per hour
* total area of warehouses of class "A" - 13,000 sq.m
* The most effective quality control system in the industry

Realizing the importance of food security, the Megamix group of companies has created a modern accredited analytical center that exercises full control not only of incoming raw materials, but also of finished products, and also provides services to partners. Each production batch of raw materials is subject to mandatory control before being transferred to production.

Analytical Center Megamix is the first in Russia to be accredited in accordance with the requirements of the International Standard ISO/IEC 17025:2017, which proves the quality and reliability of the research results.

## 1.5 Methods and tools for analysis

When entering a new market, companies need to carefully assess its attractiveness and competitiveness. To do this, there are many tools and models that can help in the analysis. In this section I will introduce instruments that are applied in the paper and reasons for using them within the framework of analyzing the Kazakhstan market for Megamix’s entry.

One of the tools that is applied in the paper is Business model canvas. It is a tool that helps to structure and visualize the key elements of a business model. It is a schematic representation, which is divided into 9 blocks, each of which describes a certain aspect of the business.

This is what the blocks of the canvas business model are:

1. *Consumer segments* - companies that may be interested in the value proposition of the enterprise, the core values of the company, which determine the fundamental offer of the company, which it tries to give to its customers,
2. *Channels* - various structures and methods that are used to deliver a complete company offer to its customers,
3. *Customer relationships* - various types of customer interaction,
4. *Revenue streams* - description of the company's cash flow sources.
5. *Key resources* - assets necessary for the functioning and implementation of a value proposition,
6. *Key actions* - specific activities or tasks that are fundamental to the functioning of the business.
7. *Key partners* are companies with which the company cooperates to create strategic relationships,
8. *Cost structure* - a description of the company's expenses for its operations.

**Advantages** of using the business model canvas:

* *Visual representation*: It makes it easy to present all the key elements of the business model.
* *Structured approach*: Helps to systematize and analyze all aspects of the business.
* *Exchange of ideas*: It makes it easy to discuss the business model with colleagues and investors.
* *Mistakes detection*: Helps to identify weaknesses in the business model.
* *Adaptation*: Makes it easy to adapt the business model to changing conditions.

Next, we take a look at the instruments that assist in analyzing the potential foreign market which Megamix plans to enter. One of the most effective methods of analyzing the market situation is PESTEL analysis. This analysis is intended for strategic forecasting, identification, and assessment of influence factors. Among the factors, that are considered within the framework of PESTEL analysis, there are political, economic, social, technological, environmental, and legal factors.

**Advantages** of PESTEL analysis are described below:

* *Improved understanding of the external environment*: Helps to assess the main factors that can affect the business.
* *Early warning of risks*: Helps identify potential threats and develop a risk mitigation strategy.
* *Improved strategic planning*: Helps to develop more effective business development strategies.

Another instrument that will be reviewed in the paper is Porter’s Five Forces analysis. Porter's Market Forces model is a concept of a market competitive strategy. Porter's model can be applied to any segment of the economy to understand the level of competition in the industry and increase the long-term profitability of the company. The model is often used to measure the intensity of competition, attractiveness, and profitability of an industry or market. Porter's model studies five key factors — Porter's forces:

**Competition in the industry**

The first of the five forces is related to the number of competitors and their ability to undermine the company's position. The greater the number of competitors, as well as the greater the number of equivalent products and services of competitors, the smaller the company's strength. Suppliers and buyers are constantly looking for competitors of the company. If competitors can offer a better deal or lower prices, then suppliers and buyers choose them. Conversely, when competition is low, the company has more opportunities to set high prices and dictate the best deal terms for itself to achieve higher sales.

**The emergence of new players in the market**

The strength of a company depends on the strength of new entrants in its market. The less time and money it takes for a competitor to enter the market, get used to it and become a more effective competitor, the more weakened the position of an established company in this market. An industry with strong barriers to entry is ideal for existing companies in this industry, as the company will be able to set higher prices and negotiate better deal terms.

**The market power of buyers**

The ability of buyers to lower prices for goods or services is one of the five strengths of the Porter model. The more alternatives there are on the market, the higher the purchasing power. The factors of influence may be the number of buyers in relation to the number of firms, the degree of dependence on existing sales channels, availability of information about the buyer and its importance and value to the company, how much will it cost the company to find new customers, availability of existing substitute products, buyer's sensitivity to price, the advantage of the "uniqueness" of the company's products in the industry, social and fashion trends.

**The market power of suppliers**

The next factor in Porter's model is how easily suppliers can increase the cost of supplied resources: raw materials, services, labor and other resources. The fewer suppliers there are in the industry, the more the company will depend on them. As a result, the supplier is endowed with more power, can influence the costs of the company and have other advantages. On the other hand, when the number of suppliers is large, the company can reduce its production costs and increase its profits. The factors of influence may be the number of suppliers of the main resources of a product or service in relation to the number of firms, the uniqueness of the resources provided, how much will it cost the company to switch to another supplier, solidarity of the workforce, for example, the activities of trade unions, competition within the suppliers themselves, speculation on the cost of raw materials and raw materials in relation to the selling price of the product in the company.

**The emergence of substitute products**

The last of the five forces focuses on substitute products. Substitute goods or services that can be used in place of the company's products or services pose a threat. Companies that produce goods or services for which there are no close substitutes will have more opportunities to raise prices for their products and conclude more favorable sales conditions. Potential influencing factors may be the buyer's propensity to replace. If a customer is loyal to a particular brand, it will be difficult to attract them to another similar product. Another influencing factors are availability and amount of similar substitute products on the market, the perceived level of differentiation of the substitute product by the buyer, a lower price for a substitute product, which will entice a certain proportion of buyers. One more influencing factor is the costs of switching consumers. If such costs are high or switching is difficult to arrange, then buyers will not switch to substitutes.

For each force in the market demand model, you can ask questions and generate a list of parameters that determine the effect of this force. The table shows an example of the parameters for evaluating each force:

**Table 1.3 Parameters for evaluating Porter’s Forces**

|  |  |
| --- | --- |
| **Porter’s Forces** | **Evaluation parameters** |
| Industry rivalry | * Number of players * Market growth rate * The level of product differentiation * Restriction on price increases |
| New players | * Number of potential players * The quality of potential players * The level of investment and costs to enter the industry * The speed of market conquest * The level of product differentiation |
| Buyers | * Strong brands with a high level of knowledge and loyalty * Product differentiation * The willingness of existing players to reduce prices |
| Suppliers | * Number of suppliers * Limited supplier resources * Costs of switching to other suppliers * Priority of the direction for the supplier |
| Substitutes | * Market share of availability * Access to distribution channels * Product differentiation |

*Source: alt-invest.ru*

**The advantages and disadvantages of the Porter model**

This technique allows you to evaluate a business and its development prospects for a long period, for five to ten years or more, which is its undoubted **advantage**. In particular, the Porter model will be relevant for launching a new product or business development strategy. Startup owners who want to assess possible risks in the long-term development of the project will highly appreciate this concept. Porter's model helps you make informed and rational decisions. For example, the closure of an enterprise in order to exclude bankruptcy and debts in the future, when the strategy is obviously unprofitable.

The **disadvantage** of Porter's model is unrepresentativeness and inefficiency for quick decision-making in the shortest possible time, literally here and now. [[5]](#footnote-5)SWOT analysis is more likely to be suitable for such an assessment. Thus, additionally to Porter's model I will also apply SWOT analysis.

SWOT analysis is a strategic planning method used to competitively evaluate a company and develop an organizational strategy. SWOT analysis evaluates internal and external environmental factors, as well as the current and future potential of the organization.

The **main components**:

**Strengths** describe the advantages of the company, its strengths, and competitive advantages. All internal factors influenced by the company itself: a leading and strong brand, unique production technologies, operational efficiency, stable balance sheet, good reputation, high market share.

**Weaknesses** describe the vulnerabilities of an organization. All internal factors that can be influenced by the company itself: unknown brand, operational inefficiency, unstable balance sheet of the company, high debt burden, scandalous reputation, low market share.

**Opportunities** give an idea of favorable external factors that can affect a company's competitive advantage. For example, the possibility of developing new markets, positive changes in the state's trade policy, and the emergence of new technologies.

**Threats** relate to external factors that can worsen the company's position in the market. For example, a recession or crisis in the economy, growing competition, social changes, fashion trends, market trends.

**Advantages** of SWOT analysis

SWOT analysis is a universal method of analysis in many areas. It is easy to use and accessible to most researchers and analysts. The main advantages of SWOT analysis:

* It can be used without having a narrow profile knowledge.
* It can be used in various economic and strategic spheres.
* It can be used in various areas of analysis, as an express assessment of the current situation, and as a long-term planning strategy.
* Promotes group discussion of strategic issues and their further development. It is possible to use creative methods of participation: brainstorming, group meetings, which allow you to create a pool of knowledge in various fields of activity.
* It is combined with various theories and decision-making tools. For example, Porter's Five Forces Model, the Delphic Model, the balanced scorecard of Kaplan and Norton, and others.

**Disadvantages and limitations** of SWOT analysis

SWOT analysis, like any method of analysis, has its limitations and disadvantages, and can present information rather narrowly, without taking into account different views on the data. The main disadvantages and limitations of SWOT analysis:

* It does not provide a picture of the analysis in dynamics.
* Gives little specifics, provides more general factors.
* The method is subjective, it depends on the knowledge and vision of the situation of the one who conducts it.
* It requires the involvement of a large amount of information in various fields to conduct a qualitative analysis.
* SWOT analysis factors have no priority, and there are no different views and decisions based on data and analysis.
* Strict division into sections, although one factor can be attributed to different sections.
* There are not enough quantitative indicators for comparison with competitors and benchmarking.[[6]](#footnote-6)

## 1.6 Conclusion to the Chapter 1

The first chapter of the bachelor thesis was dedicated to the description of Megamix company and the market it operates in. Throughout the years, Megamix was showing a successful performance on Russian market. Now, the company established itself as undisputed leader in production of premixes among Russian companies.

By analyzing the company’s performance and position in the internal market, we can conclude that Megamix has required resources and capabilities to enter the international market. By developing a clear strategic plan for expansion, it might have high chances to successfully enter new foreign market such as Kazakhstan.

Kazakhstan has the most attractive market for Megamix internationalization. The need for feed will grow as dairy cattle breeding and poultry farming have been actively developing in the country in recent years. However, a detailed analysis of the Kazakhstan economy and animal feed market is required, and it will be provided in the next chapter — Chapter 2.

# Chapter 2: Target market analysis

This chapter reviews the analysis of foreign market that Megamix plans to enter – Kazakhstan. General analysis of Kazakhstan economy and feed market will be provided. PESTEL analysis will be applied to assess external factors that may affect the company's operations and develop strategies to adapt to these changes. PESTEL analysis is commonly used in conjunction with SWOT analysis. So, for more comprehensive result, I will also conduct SWOT analysis which will help identify Megamix's competitive advantages and develop strategies to exploit opportunities and overcome threats. Moreover, conducting Porter's Five Forces analysis will assist in understanding how attractive the market is for entry and identifying strategies to increase competitiveness.

## 2.1 General analysis of Kazakhstan economy and animal feed market

Since the 2000s, Kazakhstan has seen impressive economic growth driven by the first generation of market-oriented reforms, abundant mineral resources extraction, and strong FDI. Sustained economic growth has transformed the country into an upper middle-income economy, commensurately raising living standards and reducing poverty.

Agriculture plays an essential role in Kazakhstan’s economic, social, and environmental development. Animal husbandry is an important economic activity with around 75 percent of all agricultural land used for grazing. While sheep breeding dominates the sector, cattle, pig, horse, and camel production are all important sources of food and income.

In 2021, the agricultural sector accounted for approximately 5.1% of Kazakhstan’s economic production. Approximately 45% of the country’s population lives in rural areas, and incomes of almost 30% of the economically active population are generated by employment in the agricultural sector. According to the Statistics Committee of the Ministry of National Economy, out of the total number of 8.5 million employed, two million people work in the agricultural sector. Approximately 75% of the country’s territory is suitable for agricultural production, but only about 30% of the land is currently under agricultural production.

The total value of Kazakhstan’s agricultural output was approximately USD 8.4 billion in 2021. This was a decrease from the 2020 output value, which is believed to have been caused by the COVID-19 pandemic, as well as a drought.[[7]](#footnote-7)

Kazakhstani producers are investing more resources in modern breeding techniques, such as utilizing artificial insemination, sexing of embryos in dairy cows, and importing high-quality imported genetics to increase poultry, beef, dairy, and egg production. They are also searching for high quality animal feed and feed additives to improve animal health and meat yields.

According to National Agricultural Sector Development Project Plan 2021-2025, the government plans to increase average cattle weight, increase average milk yield per cow, and increase domestic production of several “socially significant food products,” including poultry.

Kazakhstan recorded 3.2% GDP growth in 2022. Kazakhstan Gross Domestic Product (GDP) per capita reached 11,229.000 USD in Dec 2022, compared with 10,369.900 USD in Dec 2021.[[8]](#footnote-8)

Изображение выглядит как диаграмма

Автоматически созданное описание**Figure 2.1 GDP per capita in Kazakhstan from 2011 to 2022**

*Source: ceicdata.com*

Below is the chart that represents forecasted data on GDP per capita in Kazakhstan from 2023 to 2028.

Изображение выглядит как диаграмма

Автоматически созданное описание**Figure 2.2 Forecasted GDP per capita in Kazakhstan from 2023 to 2028**

*Source: statista.com*

The gross domestic product per capita in Kazakhstan was forecast to continuously increase between 2023 and 2028 by in total 2,733.7 U.S. dollars (+22.21 percent). The GDP per capita is estimated to reach 354.67 billion U.S. dollars and therefore a new peak in 2028.[[9]](#footnote-9)

The feed market in Kazakhstan has good development prospects. The total need for prepared feed in the Republic of Kazakhstan is about 4 million tons per year. To date, there are 70 feed production facilities in the Republic of Kazakhstan with a total capacity of 2.4 million tons per year, the rest of the feed is produced by their own feed mills of livestock and poultry farming entities.[[10]](#footnote-10)

Since we are considering the production of premixes, compound feed and feed additives for animals kept on the farm enterprises, it is necessary to take into account the issue of the dynamics of the number of livestock and poultry in Kazakhstan. Since the larger the number of livestock and poultry, the more animal feed is needed. In recent years, dairy cattle breeding and poultry farming have been actively developing in the Republic, so the need for feed will grow. The lion's share of compound feed is consumed by the poultry industry (53%), followed by pig breeding (39%), as well as cattle and small cattle (5% and 2% respectively).[[11]](#footnote-11)

In Kazakhstan, the number of livestock and poultry is increasing at a stable pace. Below is the figure that presents the number of livestock and poultry in Kazakhstan from 2013 to 2022.

Изображение выглядит как текст, число, снимок экрана

Автоматически созданное описание

**Figure 2.3 Number of livestock and poultry in Kazakhstan from 2013 to 2022**

*Source: kz.kursiv.media*

At the beginning of 2023, statistics recorded 8.4 million heads of cattle, 19 million sheep, 3.8 million horses, 2.3 million goats, about 700 thousand pigs, 250 thousand pigs in farms and peasant farms, households and agricultural enterprises. camels and 49.5 million birds.

In Kazakhstan, the number of horses increased by 7.7% over the year, the number of camels (+4.6%), poultry (+3.8%), cattle (+2.5%), sheep (+2.3%) also increased). The number of goats decreased slightly (-0.8%), but the number of pigs continues to decline, in 2022 the number of these farm animals decreased by 9% compared to 2021.[[12]](#footnote-12)

## 2.2 PESTEL analysis

Next, we apply PESTEL analysis to the Kazakhstan feed industry to identify which external factors influence the market.

**Political**

1. *Trade agreements between Kazakhstan and Russia*

At present, trade and economic cooperation between Kazakhstan and Russia plays a key role in the economy of both countries. Since the collapse of the USSR, the countries have been the main partners in many areas of the country's activities. Trade and economic relations between the Russian Federation and the Republic of Kazakhstan are distinguished by a high level of comprehensive partnership, both within the framework of bilateral dialogue and in multilateral formats such as the Eurasian Economic Union or the CSTO. Currently, it unites Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan. The EAEU (Eurasian Economic Union) is an international integration economic association, which includes five countries: the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic and the Russian Federation. The EAEU ensures the freedom of movement of goods, services, capital and labor, as well as the implementation of a coordinated, coordinated or unified economic policy in order to comprehensively modernize, cooperate and increase the competitiveness of national economies in the interests of raising the living standards of the member states. CSTO (Collective Security Treaty Organization) is a regional international organization created to protect the independence, sovereignty and territorial integrity of its member states. Currently CSTO unites Russia, Armenia, Belarus, Kazakhstan, Tajikistan and Kyrgyzstan.

1. *Government support for the agro-industrial complex*

The Kazakhstan government creates conditions for sustainable growth of agricultural production and development of the agro-industrial complex overall. The government approved the national project for the development of the Agro-industrial complex of the Republic of Kazakhstan for 2021-2025. The purpose of developing a national project is to create a competitive agro-industrial complex by increasing labor productivity by two and a half times, doubling the export of agro-industrial complex products and providing socially significant food products of domestic production.

Also, The Ministry of Agriculture presented a draft of a new National Project for the development of the agro–industrial complex "Strong agro-industrial complex" for 2024-2028 with a total amount of financing of 15.7 trillion tenge. It is planned that in five years Kazakhstan should increase production of products, for which there is still a high proportion of import dependence. To this end, starting this year, both concessional lending and subsidizing of the industry will be increased. According to the Ministry of Agriculture, currently livestock production in Kazakhstan is characterized by low productivity. Average milk yields, egg production and average live weight of cattle are significantly lower than in neighboring countries. For example, the average yield per head of the Republic of Kazakhstan in Kazakhstan is 2,395 kg, the average live weight is 339 kg, egg production is 205 pieces. The reason for this is called a weak food supply, insufficient genetic potential of farm animals and low financing of the industry. The Ministry of Agriculture estimates the lost profit in animal husbandry at 30% for these reasons.

**Economic**

1. *Positive trend in GDP per capita*

As we have already seen previously (Figure 2.1 and Figure 2.2) there is a positive trend in GDP growth in the Kazakhstan Republic. Statista stated that GDP per capita is constantly growing last decades, meaning that the economy increases its production and consumption results.

1. *Decrease in consumption of meat and dairy products*

Consumption of meat and meat products has been declining in Kazakhstan for the second year in a row. Consumption of milk and dairy products fell by 6.9% (from 243.2 to 226.4 kg). Consumption of meat and meat products decreased by 5.0% (from 82.3 to 78.2 kg).[[13]](#footnote-13)

**Social**

1. *Preferences in meat consumption*

Population of Kazakhstan consumes pork meat in much less amount than other types of meat, for example beef and chicken meat. Pork consumption in Kazakhstan declines with each year. Such trend is explained by the fact that overwhelming part of Kazakhstan population are Muslims and pork is forbidden food for people who profess Islam. What is more, people in Kazakhstan tend to consume horsemeat in greater amounts than people from other countries. Producers should take into account this information and produce the appropriate proportions of a particular type of feed and feed additives.

**Technological**

1. *Innovation in feed manufacturing*

Advances in feed manufacturing technologies such as modern equipment, automation and computer systems are improving the efficiency and quality of feed production. The creation of advanced technologies helps optimize production processes, reduce costs and provide higher quality feed.

1. *Application of biotechnology and bioengineering*

Biotechnology and bioengineering play a significant role in the modern feed industry, bringing innovation and opportunities to improve feed production efficiency, animal nutrition quality and industry sustainability. Through biotechnology, companies can create new feed additives that improve the nutritional value of feed, promote animal growth, improve digestion and immunity, and lead to increased livestock productivity. Biotechnology and bioengineering also contribute to the development of business sustainability. Biotechnology helps create innovative waste management methods and efficient processing systems for raw materials in the feed industry, which helps reduce the harmful impact on the environment. In addition, biotechnology and bioengineering make it possible to reduce the consumption of natural resources. Thanks to biotechnology, it is possible to create feeds with higher nutrient digestibility, which reduces feed consumption and reduces the burden on the environment. Using bioengineering, scientists are developing new ways to improve the quality of feed, creating innovative formulas and additives that promote optimal growth and development of animals.

**Environmental**

1. *Legislation in the environmental sphere to regulate the activities of agriculture enterprises*

In Kazakhstan, the activities of the feed industry are regulated by a number of legislative acts in the field of environmental protection. Here are some key laws and regulations that are relevant to the feed industry:

* Environmental Code of the Republic of Kazakhstan

This legislative act is the main one in the field of environmental protection. It contains standards for the prevention of environmental pollution and the rational use of natural resources, including water and land resources.

* Law on Environmental Protection

This law regulates the principles and mechanisms of environmental protection in Kazakhstan. It establishes rules for waste management, protection of natural ecosystems and minimization of the negative impact of production on the environment.

* The Law on Food Quality and Safety

This law defines the legal framework in the field of food quality and safety, including animal feed.

* Regulations in the field of veterinary medicine

Veterinary legislation is also important for the feed industry, as the quality and safety of feed directly affect animal health. Regulations in the field of veterinary medicine set standards for the production and use of feed.

**Legal**

1. *Licensing and certification of products*

The production and sale of feed products requires mandatory certification and licensing in accordance with legislation on quality and compliance with standards.

1. *Taxation*

The tax system, including tax rates, tax incentives and special tax regimes, also affects the economic efficiency and competitiveness of companies in the feed industry.

1. *Customs and import legislation*

Regulations on the import of feed ingredients, customs duties, and rules for the import and export of goods can affect the pricing and availability of raw materials for feed production.

And for greater convenience, below is a table with political, economic, social, technological, environmental, and legal factors that influence animal feed market in Kazakhstan.

**Table 2.1 PESTEL analysis of Kazakhstan feed industry**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Political** | **Economic** | **Social** | **Technological** | **Environmental** | **Legal** |
| -Trade agreements between Kazakhstan and Russia | -Positive trend in GDP | -Preferences in meat consumption (low consumption of pork due to religious views, high level of horsemeat consumption) | - Innovation in feed manufacturing | -Legislation in the environmental sphere to regulate the activities of agriculture enterprises | -Licensing and certification of products |
| - Government support for the agro-industrial complex | -Decrease in consumption of meat and dairy products |  | - Application of biotechnology and bioengineering |  | -Taxation |
| -Political stability |  |  |  |  | -Customs and import legislation |

Source: made by author

In the table 2.1 “PESTEL analysis of Kazakhstan”, each factor has one of the following colors: green, red, yellow. This was done in order to demonstrate the impact of a particular factor on the feed industry in Kazakhstan. Green means that a factor has a positive effect, red - negative, and yellow - neutral. The vast majority of factors have either a positive or neutral influence, which allows us to conclude that favorable conditions exist for feed manufacturers on the market. It should be noted that the only factor that has a negative impact is a decrease in consumption of meat and dairy products, since this implies a decrease in demand from meat and dairy producers for feed and feed additives. On the political side, there is a favorable situation: all factors have a positive impact on the activities of feed companies. Talking about preferences of Kazakhs in consumption of certain types of meat, there is neither positive nor negative influence on feed industry. However, the feed producing companies must take into account that Kazakhs consume pork in much less amounts than other types of meat due to religious views. Also, people in Kazakhstan tend to consume horsemeat in greater amounts than people from other countries. In consideration of these statistics, producers should make the appropriate proportions of a particular type of feed and feed additives. Legal side of PESTEL analysis has neutral effect, companies must comply with all the laws and regulations of the republic of Kazakhstan in the field of environmental protection. Speaking about technological factors, innovations in feed manufacturing and application of biotechnology and bioengineering positively influence feed industry by introducing new ways to improve the quality and nutritional value of feed, creation of new formulae of feed additives, and minimizing harmful impact on environment.

## 2.3 Porter’s Five Competitive Forces analysis

In this section the competitive environment of Kazakhstan is analyzed using Porter’s Five Forces Analysis. Porter's model will allow to get a comprehensive view of the competitive environment and identify potential threats of the Kazakhstan feed industry.

**1. Threat of new entrants**

Barriers to entry into the feed industry are high. The main limitation for feed enterprises is the need for *significant initial capital investments* to enter the market: the purchase of machinery, warehouses, equipment, etc. Another barrier to entry is *high prices for raw materials and energy resources*. It can be concluded that the threat of new entrants is low. The rating is 2.

**2. Industry rivalry**

The feed industry in Kazakhstan is characterized by *high level of competition*. There is a large number of manufacturers of premixes, feed additives and feed in the Kazakhstan feed market. The largest producers in Kazakhstan are Agrovit LLP, Kormovik LLP, Viamin LLP. Agrovit is one of the main players in the feed additives market in Kazakhstan. Agrovit is an enterprise with a 25-year experience that provides a full range of services for the organization of feeding of farm animals, marals, birds, ostriches, fish and fur-bearing animals.[[14]](#footnote-14) Another significant player is Kormovik LLP, whose main activities are the production of premixes and concentrates, the preparation of feeding rations for all types of agricultural animals and birds, as well as the production of compound feeds under its own brand.[[15]](#footnote-15) Another competitor is agricultural holding Viamin that entered the market in 2002. The company produces many products under its own trademarks and has managed to gain the trust of customers and the respect of partners both in Europe and Asia.[[16]](#footnote-16) One more feature of the Kazakhstan feed industry is *high* *level of differentiation*: In general, the products (feed, feed additives, premixes) differ in additional benefits. Also, the market is characterized by *high dependence on raw materials*. Prices of raw materials such as grains and vitamins can fluctuate significantly, making the industry vulnerable to risks. After considering all of these factors it can be concluded that the industry rivalry is high. The rating is 5.

**3. Threat of substitutes**

Substitutes on the feed market are natural feeding such as grain, hay, grass etc. However, all of them are much inferior in terms of nutritional value and balance of nutrients. With each year, popularity of natural feeding reduces. This is due to the fact that producers of compound feed, feed additives and premixes offer accurately calculated ratio of necessary nutrients for each category of animal (considering its type, age, sex, disease and other factors). The composition of each product corresponds to the biological needs of a particular animal species. And this allows to reach more effective results, rather than with natural feeding. From all of the above, it follows that the threat of substitute products does not cause concern. After considering all of these factors it can be concluded that the threat of substitutes is low. The rating is 1.

**4. Bargaining power of suppliers**

One more factor that can be analyzed is *the importance of the supplier’s product for the market players.* In case of feed industry, the supplier's product are various ingredients that are necessary for producing a final product — premixes, feed additives and feed. The supplier’s product is significant for market players because without required raw materials the feed and other products cannot be produced. The *number of suppliers* of components for the production of premixes, feed additives and feed is limited, so they can dictate their terms on the market. We can conclude that suppliers can significantly influence the efficiency of enterprises in the industry. After considering all of these factors it can be concluded that the suppliers’ power is high. The rating is 4.

**5. Bargaining power of buyers**

Megamix’s customers are companies from agricultural industry, mainly meat processing enterprises and dairy products producers. The number of such buyers is limited. The company produces *products that are identical* to competitors, product differ slightly, there is no significant differences. Buyers can easily switch between different feed manufacturers. Considering all of these factors it can be concluded that bargaining power of buyers is moderate. The rating is 3.

Thus, the analysis of competition according to Porter's five forces model made it possible to make the following conclusions:

1. The threat of new players entering the market is low, since the animal feed industry is quite specific and requires large initial investments, therefore entry barriers are high.
2. Industry rivalry is high. There is a big number of firms, high switching costs, products are standardized in terms of key properties, but differ in additional benefits.
3. Threat of substitutes is low as nowadays companies prefer to use compound feed with feed additives rather than only natural feeding grain, hay, etc.
4. The power of suppliers is high, as they dictate the prices of inputs and materials. And what's more, the number of suppliers is limited and their product is highly significant for market players.
5. The power of buyers is moderate since there is a big number of buyers (producers of meat, dairy products and eggs) and switching costs are quite high.

Based on the presented data, it is possible to make a petal diagram that will visually present the extent to which each of the five Porter’s forces influences on the enterprises of the feed industry in the Republic of Kazakhstan.

**Fig. 2.6** Porter’s Five Forces analysis for Kazakhstan (made by author)

## 2.4 SWOT analysis

SWOT analysis of Megamix was compiled with a goal to study the strengths and weaknesses of the company, identify opportunities and threats for the further development of the organization, and analyze the data obtained.

**Table 2.2 SWOT matrix analysis of Megamix company**

|  |  |
| --- | --- |
| **S-strengths**   * High tech production * Availability of unique products * Continuous Research and Development * High quality * Wide range and high production capacity | **W-weaknesses**   * Lack of experience in the Kazakhstan market * Lack of brand awareness * Dependence on import supplies of components for the production of feed and feed additives |
| **O-opportunities**   * Growing demand for meat and dairy products | **T-threats**   * New players enter the animal feed market * Limited access to foreign materials |

Source: made by author

**Strengths**

1. High-tech production

A number of technological solutions used in the implementation of the production at Megamix’s plants are unique not only for Russia, but also on the world market. They include:

* own modern testing laboratory
* the height of the production building is 46 meters
* two separate, absolutely independent lines, one of which is intended for the production of premixes with drugs
* one-time loading of up to 96 components
* a unique automated packaging line Behn&Bates (Germany), consisting of 2 independent lines, each of which is designed for 450 bags per hour

1. Availability of unique products

Megamix plans to enter the Kazakhstan market with a certain list of products: INNOVIT E60, MEGABOOST RUMEN, DIAREND, DIASPAS. These are feed additives, and they have unique recipes that were developed by the company’s specialists.

1. Continuous Research and Development

Research and Development department of Megamix is constantly working to improve the range and quality of its products. Megamix uses cutting-edge technology and knowledge to offer clients innovative solutions that meet their needs.

1. High quality

The system of full traceability of raw materials and finished products is one of the key strengths of Megamix. The company guarantees product mixing accuracy in a ratio of 1:100,000, which ensures high quality of the final product.

1. Wide range and high production capacity

The Megamix feed company has enormous production capacity that can satisfy the needs of any livestock complex or poultry farm. The company’s plant in the Lipetsk region produces up to 180,000 tons annually, which corresponds to 900 bags every hour.

**Weaknesses**

1. Lack of experience in the Kazakhstan market

Since it will be first time when Megamix targets Kazakhstan market, it can face a number of challenges: unexpected market changes, transportation risks, legal problems, etc. With little or no experience, the company can lack competences and knowledge that are required for a specific market, these competences cannot be predicted and can be gained only through the acquaintance with the new market.

1. Lack of brand awareness

Megamix has strong brand awareness on Russian market, however for the Kazakhstan customers the company is unfamiliar. Megamix may find it a challenging task to compete effectively against better-known competitors who have successfully established their brands in the Kazakhstan market. For the company probably it will be more difficult to attract new clients in order to build long-term partnerships.

1. Dependence on import supplies of components for production of feed and feed additives

Megamix is highly dependent on imported supplies of feed additives, since there is no domestic production of many components in the Russian Federation, or existing production facilities cannot satisfy domestic needs.

**Opportunities**

1. Growing demand for meat and dairy products

It is expected that in Kazakhstan demand for meat and dairy products will constantly grow during the nearest years due to population growth and increase in incomes. Against the background of growing demand for these product categories, production will also grow; consequently, meat and dairy producers will request a larger volume of premixes, feed additives and feed.

**Threats**

1. New players enter the animal feed market

In case if new players appear at the animal feed market of Kazakhstan, it will increase competition in the industry. Appearance of new players also reduces market share, so existing customers may lose customers to new competitors. Moreover, price wars and increased marketing expenses can cut into profits.

1. Limited access to some foreign materials

In the section “1.2 Company overview”, it was mentioned that the supply chains were interrupted due to sanctions against the Russian Federation. The company had to find new suppliers from other countries. In the future, such a situation is possible that the current suppliers will also stop cooperation with Russia. And Megamix is extremely dependent on the supplier of raw materials, since the Russian market does not have the required raw materials for the production of premixes, feed additives and animal feed.

## 2.5 Conclusion to Chapter 2

Having evaluated the macroeconomic environment of Kazakhstan and the current situation in the animal feed market by application of PESTEL analysis and Porter’s Five Forces analysis we concluded that entering the Kazakhstan market is quite perspective, despite the fact that the company will encounter difficulties due to low brand awareness and lack of international experience. The results of the analysis showed that the Kazakhstan economy demonstrates growth in GDP, also the Kazakhstan government supports agricultural sector, which also positively affect feed industry. According to the competition analysis by Michael Porter, it can be said that the main influence on the feed industry is exerted by three factors (buyers’ power, suppliers’ power and rivalry among competitors). The remaining two factors (threat of new entrants and threat of substitute products) have little impact on competition in the market. Therefore, Megamix needs to pay special attention to three factors that have the greatest impact on the activities of feed and feed additive manufacturers. Moreover, the market analyses didn’t reveal any significant threats or barriers that Megamix cannot overcome considering the technological and price advantage of its product. Hence, we conclude that it would be very beneficial for Megamix to enter the Kazakhstan market.

# Chapter 3: Development of a strategy for entering the Kazakhstan market

In this chapter, firstly, I will review the potential entry modes through which Megamix can reach foreign market. I will provide the description of potential entry modes indicating advantages and disadvantages of each entry mode. After that I will argument why the entry mode that was chosen by the company is the most optimal to enter animal feed market in Kazakhstan. Afterwards, I will create a roadmap for entering Kazakhstan market. I will mention consequent steps that should be undertaken by the company to successfully start operating in the chosen foreign market.

## 3.1 Types of entry modes, advantages and disadvantages

There is a range of entry options that a company can choose in order to enter foreign market. Firms must analyze the market opportunity as well as their internal capabilities to determine which entry mode will be the most appropriate. The different modes of entry differ in degree of risk they present, the control and commitment of resources they require and the return on investment they promise. The most common market entry strategies are outlined below.

**Exporting**

The easiest way to enter the international market is exporting and many companies start with it when expand internationally. The process of producing goods in one country and selling them to another is known as **exporting**. There are two main types - direct exporting and indirect exporting.

Direct exporting is a type of exporting where the company directly sells products to overseas customers. All the deals are done directly between the companies without any intermediaries. This way, the companies have more control over the processes. Direct exporting also increases profits as the intermediary is eliminated, reducing costs. Direct exporting also creates a stronger bond between the supplier and the buyer, and maintaining business relationships is crucial for business success. Despite the advantages mentioned above, direct exporting also demands more resources from the exporting company. This exporting type requires more personnel, resources, and time than it would if the export process were to happen through an intermediary. Direct exporting is the best strategy for companies trying to penetrate new markets globally for the long term.

Indirect exporting is a type of exporting practiced by companies that sell products to other countries with the help of an intermediary. The company has various intermediaries, such as foreign agents, export merchants, expert management companies, etc. Here, businesses have lesser control over the processes. The intermediaries are present in the country producing the product. They are responsible for sending the products to the customer's country and finishing all the paperwork, transport, and marketing. The first intermediary may sell directly to the customer or the customer's intermediary. Indirect exporting is less expensive than direct exporting. It is easier to cancel indirect exports than direct exports. The main disadvantage of indirect exporting is the transfer of power to the intermediaries. As a result, companies may lose the opportunity to build long-term relationships and offer after-sales services to customers. Indirect exporting is a strategy best suited for companies trying to increase profits quickly.

**Licensing**

Under a licensing agreement, a firm (licensor) provides a product to a foreign firm (licensee) by granting that firm the right to use the licensor’s manufacturing process, brand name, patents, or sales knowledge, in return for payment. The licensee obtains a competitive advantage in this arrangement, while the licensor obtains inexpensive access to a new market. Scarce capital, import restrictions, or government restrictions often make this the only way a firm can market internationally. This method does contain some risks. It’s typically the least profitable method for entering a foreign market, and it entails a long-term commitment. Furthermore, if a licensee (franchise) fails to successfully reproduce a licensed product, or if the licensee markets licensed products ineffectively, it could tarnish the original product’s brand image.

**Joint venture**

A joint venture is a partnership between a domestic and foreign firm. Both partners invest money, share ownership, and share control over the venture. Generally, the foreign partner provides expert knowledge regarding the new market, business networks and connections, and access to other in-country elements of business such as regulatory compliance and real-estate. Joint ventures require a greater commitment from firms than other methods because they are riskier and less flexible. Joint ventures may afford tax advantages in many countries, particularly where foreign-owned businesses are taxed at higher rates than locally owned businesses. Some countries require all business ventures to be at least partially owned by domestic business partners. Joint ventures may also span multiple countries. This is most common when business partners team up to conduct business in a world region.

**Foreign Direct Investments**

Multinational organizations may choose to engage in full-scale production and marketing abroad by directly investing in wholly owned subsidiaries. As opposed to the previously mentioned methods of entry, this type of entry results in a company directly owning manufacturing or marketing subsidiaries overseas. This enables firms to compete more aggressively abroad because they are literally “in” the marketplace. However, because the subsidiary is responsible for all the marketing activities in a foreign country, this method requires a much larger investment. It’s also a risky strategy because it requires a complete understanding of business conditions and customs in a foreign country.[[17]](#footnote-17)

**Table 3.1 Advantages and disadvantages of entry modes**

|  |  |  |
| --- | --- | --- |
| **Type** | **Advantages** | **Disadvantages** |
| Exporting | Fast entry, low risk | Low control, low local knowledge, |
| Licensing | Fast entry, low cost, low risk | Less control, licensee may become a competitor, |
| Joint venture | More control, acquiring local knowledge, low political risk | High cost, high risk due to misunderstanding of local culture |
| FDI | More control, | Substantial investments, political risk |

*Source: made by author*

It can be noted that the most favorable option to enter the Kazakhstan market for Megamix is export. It implies the least costs, all marketing functions will mainly be performed by intermediaries. When exporting using brokers, the company minimizes its efforts linked with promoting goods to foreign market, and therefore this option is especially useful for companies that are just starting to expand internationally. In the case with Megamix, the company does business with a broker located in the Kazakhstan market. The key advantage of this type of exporting is that the company is able to avoid all the challenges associated with the delivery of goods abroad, tariffs, foreign laws and other problems. All these responsibilities are transferred to the intermediaries. What is more, the risk for the company is minimal and significant investments are not required. In addition, such export creates wide opportunities for the company to leave the market if the profits do not live up to expectations or the market conditions become unfavorable.

At this stage of the work, we established that the most favorable mode of entrance to the Kazakhstan market is export, hence further we need to determine which type of export is suitable for Megamix, by considering the necessary conditions and studying some examples of such export. There are two types of export flows: direct and indirect.

## 3.2 Export as an entry strategy

The most favorable option to enter the Kazakhstan market for Megamix is export. It implies the least costs and risks as compared to other entry modes. What is more, the company has stated that it plans to enter the foreign market through export.

In order to successfully expand to the Kazakhstan market through export strategy the company Megamix will have to undertake a number of steps. They are described below:

1. **Finding a customer**. There are two possible ways it can be done: the customer on its own finds Megamix and contacts it (the company Megamix is represented on various forums, exhibitions, and conferences); or Megamix, while taking part in an international conference/forum/exhibition related to agriculture, contacts different companies and offers its products.
2. Determining a **list of products** with which the company can start international expansion to Kazakhstan. Since Megamix is not familiar with the foreign market, it needs to supply only one category of its goods and to understand whether the market will accept it.
3. **Request and receive certifications** on the product for the export. Certificate of origin of goods form ST-1 is a document that proves that a certain batch of products originates from a member country of the Union of Independent States. The presence of this document influences the application of measures of tariff and non-tariff customs regulation. In relation to goods, the free trade regime can be applied in the customs territories of the states-participants of the Agreement (Kazakhstan is one of members of this agreement).
4. Sign a **contract** with all the specifications, terms and details of the export (delivery) process. Due to the fact that the companies are situated in different locations (countries), the primary negotiation will take place remotely with a help of Information and Communication Technologies (if the client company’s representatives are not present in Volgograd), then the originals of contracts are signed in two exemplars.
5. Receive an **advance payment** (30% of the total price). This is not certain, but preferred by Megamix.
6. Request the services of a **customs representative** (broker) in order to get customs clearance (declaration on goods, examination and monitoring of goods).
7. **Ship the goods** to the destination agreed in the contract with a control over the transportation. Megamix has agreements with transportation services in the Russian market, however, in order to perform the transportation to Kazakhstan, it has decided that the client will be responsible for paying the transportation costs. In case the supplier refuses to use its own transportation, Megamix can change its policy and become responsible for goods delivery through outsourced transportation. In addition, the contracts and the certificates of the origin are sent with the freight. It is done in order for Megamix to minimize expenses (the delivery services will not be engaged in this process).
8. Receive the rest of the **payment** (70%).

## 3.3 Business model canvas adaptation

In the section 1.3 “Megamix’s business model” I have applied such tool as Business model canvas, each block was reviewed. However, the business model of Megamix will incur changes due to the Kazakhstan market entry. The changes are described as follows:

1. **Customer segments**

The customer segment itself is not going to be altered a lot: it will be the companies from agriculture industry that are interested in improving the productivity of livestock animals and poultry. However, now it is going to be the Kazakhstan companies that may speak different language.

2. **Value proposition**

Megamix is going to start its expansion with delivering a certain list of products that are intended to improve the health and productivity of animals, thus the buyer companies will be able to improve its performance and achieve higher results. It means that the low price and economies of scale will still take place, however, the wide assortment is moved to the background. In order to successfully perform on the Kazakhstan market, Megamix will offer a wide range of products that will be introduced gradually. That is why, for the beginning of its expansion, the company will offer only a certain list of products (INNOVIT E60, MEGABOOST RUMEN, DIAREND, and DIASPAS).

3. **Channels**

Megamix uses direct marketing as one of its main channels and it has decided not to use any other marketing strategies because it can lead to addition of a large amount of costs that would have a negative effect on the final price of the product. Thus, Megamix, through a new employee (client manager whose focus is on the Kazakhstan market), is going to contact with potential customers at international forums, conferences, and exhibitions.

4. **Customer relations**

The relations with customers are going to remain the same – negotiating, ordering, price negotiation, contracting, order tracking. However, in order to find and maintain relations with the Kazakhstan customers, the company needs a client (sales) manager that is well familiar with the market and might have foreign language efficiency (in case the Kazakhstan customer is non-Russian speaker).

5. **Revenue streams**

In general, revenue streams are going to be the same – the company will receive payments in RUB through the bank transfer. After the contract is signed, Megamix receives 30% of the total amount stated, then the goods are shipped and upon the arrival to the final destination Megamix receives the rest of the payment (70%).

6. **Key resources**

The most significant change will take place at the Human Resources department as the company will need to hire an export manager who will be strictly working with the Kazakhstan market. This manager will be responsible for the search of potential clients, communication with them, registration and certification, shipment and control of this direction. The required competences include: experience in sales of animal feed and related products, knowledge of the Kazakhstan animal feed industry.

7. **Key activities**

The activities performed by the company will be expanded to the Kazakhstan market; this includes: increase of production volume, and extension of customer service and performance control through the introduction of a new employee. The control over the Kazakhstan market is not needed since a new partner will be responsible for the further retail of the product.

8. **Key partners**

The company Megamix will continue ordering raw materials from its usual suppliers; the production facilities will also stay unchanged. As for transportation services, Megamix will be responsible for transportation and bearing shipment costs. Thus, it use the services of transport companies.

9. **Cost structure**

The company’s costs before the expansion to the Kazakhstan market can be found in the Business Model Canvas in the Description of the company, whereas now they will change in the following way (can be found in the table 16):

- Increase in labor costs since a new employee will be hired. This employee will be responsible for the Kazakhstan direction;

- Slight increase in production costs, for instance, increased labor activity (employees at the production facility will have to manufacture larger volumes of goods), is going to take place due to increase in employees salaries;

- Registration fees for the certificates of origin;

- Customs clearance, insurance and broker fees – customs clearance is paid by the importer, but, broker fees can be paid by Megamix. The process includes tracking goods and checking / filling in codes, payment of fees, declarations. The very fact of concluding a contract relieves the client of the responsibility for customs clearance and entrusts him to an experienced competent specialist. Risks in this case are covered by an insurance policy, the presence of which is considered mandatory.

- freight, storage and distribution; IT-related costs (maintenance of software, technical support). However, there is a chance that the customer will not agree to pay for the transportation, thus, Megamix will have to pay the shipment costs and control the transportation processes.

## 3.4 Strategic recommendations

For successful internalization, various aspects should be carefully designed. Below strategic recommendations regarding the Kazakhstan market entry.

**List of products for export**

Products with which Megamix plans to enter foreign market includes feed additives INNOVIT E60, MEGABOOST RUMEN, DIAREND, DIASPAS. Below is a brief overview of these four products:

**INNOVIT E60**

INNOVIT E60 is a dry vitamin E with an active substance concentration of 60%. Vitamin E performs several functions, including the role of an intercellular and intracellular antioxidant, and also participates in the formation of structural components of biological membranes. Vitamin E plays an important role in the growth and structure of muscles and in the reproduction processes of dairy cattle. It has been found to stimulate the immune system of cows and help prevent mastitis. The addition of vitamin E to the feed increases the activity of neutrophils and enhances the production of immunoglobulin.

**MEGABOOST RUMEN**

MEGABOOST RUMEN is an activator of cicatricial digestion. This feed additive stimulates the growth of appetite during the new year period. As a result, voluntary consumption of pig feed is increasing. It increases the amount and activity of the microflora of the rumen, thus increasing the digestion of raw fiber in the diet, both NDK and CDK. It helps cows in moments of reduced immunity and is especially necessary for the adaptation of the animal in the event of various stresses.

Purposes of use:

* Increases the microbiome of the scar
* Increases the consumption of the SV diet to 2.5 kg per head per day
* Increases the digestibility of dietary fiber
* Improves feed conversion
* Increases milk productivity
* Reduces the loss of body weight in the first month of lactation
* Reduces the impact of STRESS factors
* Increases the immunity of animals

**DIAREND**

A feed additive for the treatment and prevention of diarrhea and restoration of water-electrolyte balance in calves.

Purposes of use:

* Prevention of diarrhea
* Treatment of mild diarrhea
* Prevention of stress during thermal, post-vaccination, transport and stress during regrouping and weaning from milk/whole milk substitutes

**DIASPAS**

DIASPAS is a special solution for the treatment and prevention of diarrhea, and post-weaning stress in piglets.

Purpose of use:

* Restoration of the water-electrolyte balance in piglets, for the purpose of prevention or in conditions associated with fluid loss (diarrhea), dehydration during thermal, post-vaccination, transport and stress during regrouping.[[18]](#footnote-18)

The reason why these products are chosen is that Megamix will need to evaluate whether its performance on the foreign market will be profitable. Moreover, for each category of product the strategy needs to be unique and financial indicators need to be corrected. What is more, exactly these products are chosen since they are not widely presented on the market. Kazakhstan has its local producers of classical premixes and that would be difficult to compete with them since usually companies already have a formed client base that purchases their products for long period of time. However, these Megamix’s products have unique recipe formula and direction of action, it is assumed that foreign producers of meat, milk, and eggs will be interested in the feed additives of Megamix since they understand that with the help of INNOVIT E60, MEGABOOST RUMEN, DIAREND, and DIASPAS they would be able to improve the health of livestock and poultry and consequently increase the quality of products and efficiency parameters. Lack of such products on the Kazakhstan market makes it possible for Megamix to take the niche and become an exclusive supplier of the above-described feed additives.

**Transportation**

Cargo transportation on the Russia - Kazakhstan route is carried out by three main modes of transport: road, rail and air. For transportation to Kazakhstan, it is necessary to perform certain customs and documentation procedures, such as: registration of relevant documents, payment of customs duties and taxes, compliance with export and import rules. Compliance with all requirements will help to avoid delays and problems during transportation to Kazakhstan. The list of documents required for the transportation of goods and cargo for legal entities includes:

* consignment note (3-4 copies)
* invoice (3-4 copies, stamped)
* copies of certificates, declarations of conformity, etc. (depends on the nature of the cargo)[[19]](#footnote-19)

Below is the table that presents assessment of different modes of transport which is analyzed by several parameters.

**Table 3.2 Assessment of different modes of transport by main factors**

|  |  |  |  |
| --- | --- | --- | --- |
| Factors influencing the choice: | Type of transport | | |
|  | **Automobile** | **Aviation** | **Railway** |
| The speed of delivery | Average | Very fast | Fast |
| Regularity of transportation | On schedule and on demand | Depends on the weather | On schedule |
| Route flexibility | High | Depends on the availability of the airport | Depends on the availability of the railway |
| Transportation distance | Near and far | Far and especially far | Far |
| The ability to transport different loads | All types of cargo | It is difficult to transport an oversized | Limited by the doorway of the carriage |
| The cost of transportation | Low | Very high | Average |
| The preferred nature of the goods | All types of cargo: from food, machinery, equipment and consumer goods to oversized and dangerous goods. | Perishable products, urgent, valuable and expensive goods. | Large shipments, containers, minerals, non-metallic building materials, raw materials, chemicals, cars and special equipment. |

*Source: made by author*

Looking at the table, it can be stated that air transport is the most expensive type of transport: the cost of air cargo delivery to Kazakhstan will be about 5 times higher than the delivery of the same cargo by road. Another disadvantage of air transportation is the restriction on weight and size: heavy and oversized cargo will not be accepted on board the aircraft. Air transportation is economically justified for small valuable cargoes.

The main advantages of rail transportation are the low cost of delivering especially large batches of bulk or bulk cargo over long distances, safety, and lack of dependence on weather conditions. But it is important to remember that the cargo path does not end at the railway station. To deliver it to the final recipient, you will need a truck, and this is an additional expense. Taking into account all costs, shipping cargo to Kazakhstan by rail costs 1.5 times more than by car. The cargo journey from Moscow to Kazakhstan by train takes 3-4 days, it is faster than by car, but at the same time it is necessary to take into account the time for loading and unloading, possible delays on the way, which increase the delivery time. In addition, transport companies have to focus on train departure schedules, unlike motor transport, which is much more flexible in terms of schedules and routes.

Trucking is perhaps the most optimal way of delivery to Kazakhstan for Megamix. Heavy-duty vehicles and trailers are designed specifically for the transportation of bulky and heavy cargo. In terms of the speed of delivery to Kazakhstan, motor transport is not much inferior to rail transport: from Moscow to Astana, the car takes 5-6 days, a little longer than the train. For example, the cost of delivering cargo with a total weight of 3,000 kilograms from Moscow to Almaty for three types of transport is as follows: Air transport: 240,000 rubles. Railway transport: 100,500 rubles. Road transport: 63,000 rubles.[[20]](#footnote-20)

**New job position**

In order to conduct export activities to the Kazakhstan market, Megamix requires creating a new job position — export manager. The company needs to appoint an employee who will be responsible for carrying out exports to Kazakhstan. Megamix may appoint a person from the current staff to a new position, and it is also recommended to hire a new person for the company with relevant experience in the field of feed production. The best option would be to send Megamix employee on a business trip to Kazakhstan, where during personal meetings he will bring a new specialist up to date regarding activities of the company. And the new employee will share his knowledge of the Kazakhstan market and the feed industry in particular. The main duties of the employee will include searching for potential customers, concluding contracts, collecting necessary documentation, logistics, solving emerging issues regarding exports, interaction with customers, negotiations, control of shipments, monitoring of the competitive environment and price positioning of products, preparing reports on the work done. Based on average salary of export manager in Kazakhstan, recommended salary for new Megamix employee is 450 000-500 000 tenge which is approximately 91 710-102 050 rubles (Data on the exchange rate of the Central Bank of Russia (CBR) as of May 22, 2024).**[[21]](#footnote-21)**

## 3.5 Conclusion to the Chapter 3

In this chapter potential entry modes through which Megamix is able to entry the foreign market were reviewed. For the company, export is considered the most optimal entry mode due to least costs and risks associated with setting up production in the foreign market. In addition, it was described how business model canvas of the company will be adapted due to expansion to Kazakhstan. Moreover, strategic recommendations were provided regarding list of products, transportation method, assigning a new job position — export manager.

# Conclusion

Megamix has a great potential for development and expansion to a foreign market which have been identified through careful analyses of its performance and market position. Thus, the company has decided to increase the scope of its operations and selected Kazakhstan as one of the markets where its products could be demanded by local agriculture companies.

The vast majority of factors within the framework of PESTEL analysis indicates that there are many prospects for development in the Kazakhstan market. The need for feed will grow as dairy cattle breeding and poultry farming have been actively developing in the country in recent years. Factors that have positive impact are trade agreements between Kazakhstan and Russia, government support for the agro-industrial complex, positive trend in GDP, Innovation in feed manufacturing and application of biotechnology and bioengineering. Social, environmental, and legal factors have neutral influence. And the only factor that has a negative impact is a decrease in consumption of meat and dairy products, since this implies a decrease in demand from meat and dairy producers for feed and feed additives

It is expected that Megamix will encounter difficulties regarding lack of international experience. Moreover, since it is typical for a feed industry company to establish long-term cooperation with partners who are producers of meat and meat products and dairy products, in this regard, it will be difficult for Megamix to find potential customers.

The most optimal way for Megamix to enter the Kazakhstan market is exporting. For this entry mode only a few initial investments are required. In general, the costs will grow insignificantly and will be minimized, which will allow the company target Kazakhstan customers and carry on low-cost strategy while offering the clients high quality products. The expansion to the Kazakhstan market will be conducted through a certain list of goods: INNOVIT E60, MEGABOOST RUMEN, DIAREND, DIASPAS. After conducting assessment of different modes of transport, it was decided that automobile transportation will be the most optimal for Megamix considering costs, delivery time, size and volume of cargo, etc.

The results of the analysis showed that the Kazakhstan economy demonstrates growth in GDP, also the Kazakhstan government supports agricultural sector, which also positively affect feed industry. According to the competition analysis by Michael Porter, it can be said that the main influence on the feed industry is exerted by three factors (buyers’ power, suppliers’ power and rivalry among competitors). The remaining two factors (threat of new entrants and threat of substitute products) have little impact on competition in the market. Therefore, Megamix needs to pay special attention to three factors that have the greatest impact on the activities of feed and feed additive manufacturers. Nevertheless, the market analyses didn’t reveal any significant threats or barriers that Megamix cannot overcome. In future the company can add more products for exporting to Kazakhstan. It would be rational to do so in case if the primary list of products will have success on the Kazakhstan market.

I believe this paper achieved its goal of developing a set of recommendations for the Megamix's entry into the Kazakhstan animal feed market. Moreover, there was given a detailed description of the company and its competitive advantage. The managerial problem was defined as well as the methodology. There was provided the rationale for selection of entry mode to the Kazakhstan market. To sum up, the choice of the foreign market and the optimal entry strategy on the foreign market for Megamix has been justified through a number of analyses, deep research in the industry and application of managerial knowledge and skills.

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