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CHOICE OF MARKET ENTRY MODE, CASE STUDY: KADANT JOHNSON

Bachelor's Thesis 2010

## ABSTRACT

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Nepomilueva, Daria      CHOICE OF MARKET ENTRY MODE, CASE STUDY:  
KADANT JOHNSON

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This thesis describes the factors that should be considered in a company's internationalization process. It gives information on different market entry modes as well as the factors that influence entry mode selection. The thesis focuses on the Russian corrugated cardboard market and defines the main market characteristics. The idea was to find out the optimal market entry mode for Kadant Johnson in the Russian market.

The material for the theoretical part concerning research fields in internationalization process was gathered from books, journal articles, research studies and Internet. The information for the case study originated from various press sources in the field and articles. The empirical part is based on phone interviews with potential customers located in Russia.

The research findings provide the company with a list of potential customers. It also concludes main advantages and disadvantages in the market and gives suggestions for the market entry mode that can be used when entering the Russian market. According to that, the company should use an agent as the entry mode at the beginning, but with the demand growth and stability, market expertise, knowledge and contacts, perception can change to foreign sales branch or subsidiary mode.

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## 1. INTRODUCTION

Nowadays, the globalization forces companies to take part in international business activities and expand their operations across national borders to be able to respond to increased competition locally and internationally. In order to be able to go international, a company should take into consideration several important factors such as the characteristics of the foreign country and industry which is chosen for entry, the company's product specifications, company's goals and objectives all play a crucial role in the entry mode selection and ways of doing business. Therefore analysis of the country environment, market opportunities and the existing demand have to be carried out before taking actions in order to ensure success of business operations in the target market.

This thesis studies the possible market entry modes for Kadant Johnson in the Russian market. This topic arises from the company's interest in sales increase of their primary product to the Russian market in the time when I have been on the specialization training in the company. Personally for me it was interesting because I am originally from Russia and in my background some relatives are working in the paper and cardboard industry. For Kadant Johnson this thesis can help to create and develop operations in Russia and assume the potential demand for their product. It is also beneficial for the company that the thesis has been provided by the person from the target market, because contacting of potential customers in Russia would be difficult to complete without language knowledge.

### 1.1 Research objectives

Due to the fact that globalization is affecting all types of business, it is very important for the company to choose carefully the target market for its operations, as well as market entry strategy and choice of market entry mode.

The objectives of this thesis are:

- 1) to describe and elaborate the main market entry mode options
- 2) to define the most suitable market mode for the particular situation and market conditions
- 3) to collect empirical data through interviewing potential customers for Kadant Johnson on the Russian corrugated cardboard industry
- 4) finally, to propose market entry mode for Kadant Johnson, by combining theoretical framework, companies product characteristics, market conditions and responses of potential customers.

The research problem is based on the case study presenting the real problem of market entry mode selection for Kadant Johnson. Therefore, the research is answering the following question:

*What market entry mode has to be chosen by Kadant Johnson when entering Russian corrugated cardboard market?*

The research results are significant for development and expansion of Kadant Johnson operations.

## 1.2 Research method

Research methods of this thesis included literature review in order to collect information and material the theoretical framework is based on. Qualitative research method has been used for the empirical part of this thesis and it is based on phone interviews with 53 Russian corrugated cardboard producers. The questionnaire that interviews were based on is enclosed as Appendix 1.

Using phone interviews was chosen for several reasons. Firstly, the distance, Kadant Johnson European office is located in The Netherlands and respondents are in Russia. Secondly, the nature of the product required survey of professionals (chief and mechanical engineers) due to

that fact the phone interview was the easiest and fastest way to gather their contact information because web pages could not provide it. Thirdly, the interviews were semi-structured because the questionnaire included open-ended questions that lead to deeper understanding of production processes and materials in the company. And fourthly, higher respond percentage than in for example mail survey.

### 1.3 Structure of the thesis

This thesis is divided into five chapters. The first chapter describes the main objectives, sources of information and research methods used in the thesis. It is followed by theoretical framework that includes the definition of term internationalization; explanation of the main internationalization theories, definition of research fields that are influencing internationalization process (location and timing factors), as well as detailed information on market entry modes reviewing their description, advantages and disadvantages. The theoretical framework is finalized with introduction of factors influencing entry mode selection as well as examples of market entry mode choice in particular conditions.

The third chapter named 'Case Study: Kadant Johnson Europe Entry Options In Russia' includes the target market general overview based on political and economical situations, as well as the target industry analysis with threats and opportunities predictions. It also provides information on the company and product that current study was made for.

The research and data collection process is described in the fourth chapter, as well as analysis of received information from the interviews. The conclusions and suggestions on market entry mode selection for the company and future studies are presented in the fifth chapter.

#### 1.4 Main sources of information

The main sources used for theoretical framework are various books, publications and articles concerning international business, marketing and management as well as studies on international market entry modes strategies. For the Case Study mainly were used internet sources, various news and company brochures. Information for the empirical part was collected by personal interviews with Russian corrugated cardboard producers by phone.

## 2. THEORETICAL FRAMEWORK

When company goes international, it should consider several questions before starting operations in a new foreign market. The questions are: 'Why to internationalize? When to internationalize? Where to internationalize?', and finally, 'How to internationalize?' (Buckley & Ghauri 2002, 83-96). There exist plenty of theories and approaches in order to answer those questions and it will be impossible to describe all the variations, but the thesis will present the main and the most popular ones.

### 2.1 Defining company internationalization

Before starting to answer or identify the strategies, theories and terms of these four questions mentioned previously it will be necessary to define the term internationalization firstly.

The world economy has rapidly been integrating during the last few years. Global or multinational enterprises undeniably increased their level of international investments (Aaltonen-Forsell 1999, 1). Many companies turned to the internationalization of their activities. The internationalization of the company is closely related to its own resources. As Johanson and Mattsson (1988, 310, quoted in Orava 2005, 35) defined: *Driving forces for increased internationalization are that the firm wants to utilize and develop its resources in such a way that its long-run economic objectives are served.* According to Root (1995, 201, quoted in Ahokangas 1998, 62), an international company is an *interdependent resource stock that is dispersed geographically* over at least two countries.

There are many different definitions of internationalization as well as plenty of internationalization strategies and processes models, that tend to define firms' motivations to start activities abroad.

Scandinavian researchers' defined internationalization as a process of firm's growing participation, involvement and collaboration in the shares of foreign markets (Karppinen-Takada 1994, 31). Johanson and Mattsson (1988, quoted in Ahokangas 1998, 43) see internationalization as a combined process in which the network relationships are progressively established, developed, maintained, and attenuated in order to achieve the goals of the company.

Later on, Johanson and Vahlne (1990) define internationalization as development of business relationships networks in other countries through extension, penetration, and integration. The difference in terms extension, penetration and integration lies through the companies level of involvement in foreign market activities, if it is a new market or already familiar market and difference in firms position at the market.

Beamish (1990, quoted in Ahokangas 1998, 62) defined internationalization as the process by which companies increase their possession of information on the influence of international deals on their future, and establish and accomplish deals with other countries.

Concluding previously reviewed definitions of "internationalization" it is possible to describe that it is a process of company's integration and adaptation of its operations into foreign market in order to gain knowledge and information, to achieve goals and objectives of the firm. The integration can be into a new or old developed market for a company, and it should be at least in two countries.

When knowing the definition of internationalization appears the question 'Why companies internationalize?'. It defines company's motivations and reasons for internationalization. There are various reasons for companies to perform international transactions (Lam & White, 1999). Some companies are following their globalized competitors or customers (Ohmae, 1990), the others are having intentions to multinationalism (The

Uppsala model), firms that are having too small domestic market, due to personal reasons or just by coincidence and etc (Studentbibliotek, nd).

Internationalization gives an international company certain advantages such as opportunities for utilization of internal economies of scope and scale, through cross borders co-ordination and control (Johnson & Turner 2003, 110), exploration of new markets and possibility to get hold of new customers (Nakos & Brouthers 2002).

Internationalization process requires responds to four main questions company supposes to answer before starting to enter a new market or expand their operations abroad. The first question is 'Why companies internationalize?'. In order to answer to that question there were originated many different models of companies' internationalization, internationalization process and motives to internationalize. In this study will be introduced two theories: OLI model by John Dunning and Uppsala model (with Network approaches).

#### OLI model or paradigm by John Dunning

The OLI model or eclectic paradigm combines elements from various theories and approaches, theory of the firm, organization theory, and trade and location theory (Aaltonen-Forsell 1999, 9). It embodies John Dunning's view that:

*It is not possible to formulate a single operationally testable theory that can explain all forms of foreign-owned production.... At the same time ... we believe that it is possible to formulate a general paradigm of MNE activity, which sets out a conceptual framework and seeks to identify clusters of variables relevant to an explanation of all kinds of foreign-owned output.... Within this framework, we believe that most of the partial micro- and macro-theories of international production can be accommodated. (Dunning 1992, 68, quoted in Johnson & Turner 2003, 110-111.)*

John Dunning's framework concentrates on three factors, i.e. Ownership advantage, Location advantage and Internalization advantage that are influencing a choice of entry mode to a foreign market (Dunning, 1981, quoted in Aaltonen-Forsell 1999, 2).

The Ownership advantages are the company's specific resources or capabilities, advantages over their competitors in the market of location or in which they tend to locate. These advantages can include intangible assets, knowledge, managerial skills, innovations, technologies (Johnson & Turner 2003, 111) or unique product and manufacturing process (Marrewijk 2002, 302). The ownership advantages can strongly affect the choice of entry mode depending on, if this advantage can lose its value while transferring it to a new location, the amount of resources to be transferred internationally, the firm's international experience and specification of a product (Nakos & Brouthers 2002).

The Location advantages include in general external factors or target country's specific conditions that can be at the same time harmful or beneficial for a firm's performance at the market. These location advantages can include labor and wages, availability and volumes of raw materials, country's economical, social, legal and political environment (Nakos & Brouthers 2002), amount of trade barriers, taxation and subsidies, infrastructure, culture and language (Aaltonen-Forsell 1999, 12).

The Internationalization advantages are related to the ambit of ownership and control, the stimulus for the firm to internationalize their activities (Aaltonen-Forsell 1999, 14) and to avoid a market failure and imperfection (Johnson & Turner 2003, 111) or the possibility to avoid contractual risks (Nakos & Brouthers 2002).

There are reasons why Dunning's model cannot be considered as the main in a choice of entry modes. First of all companies diverse from each other and as so their decisions on alternatives can vary. Second is that

there can be other than the OLI parameters for company to perform. Third is the company's willingness to internationalize. (Dunning 1988; 1993, quoted in Ahokangas 1998, 36-37). As well as time and other change variables that Dunning did not concentrate on enough (Ahokangas 1998, 36-37).

### The Uppsala model

The Uppsala model of internationalization includes four stages of establishment, extension and development of the firm's activities. It is also called "the establishment chain" (Johnson & Turner 2003, 114), it is displayed in Figure 1. The first stage is defined as no export or occasional export sales. The second stage is characterized as systematic export via independent representatives (agents). On the next, the third, stage the firm establishes a sales subsidiary, and at the final stages a production or manufacturing unit. (Ahokangas 1998, 38-39.)

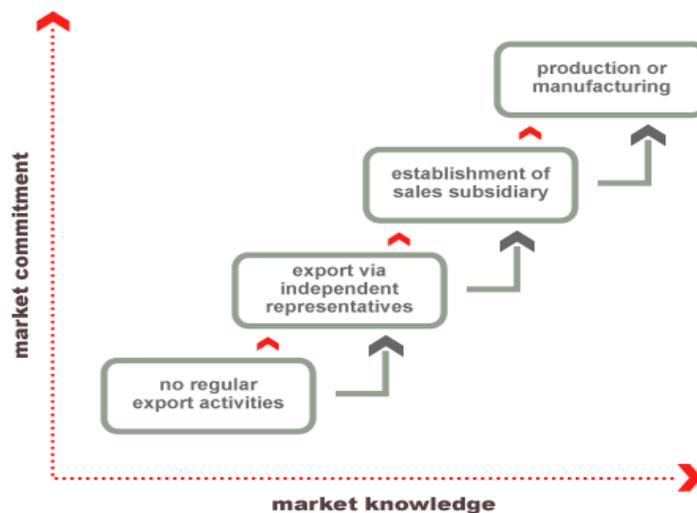


Figure 1. The Establishment Chain (Provenmodels, nd).

Uppsala model refers to knowledge being the main factor for a company's movement through all the stages. For example, on the third stage it is assumed that a firm has a lack of knowledge of the market and any company can reach the final stage just when having the international

experience and specific knowledge of location. It is also mentioned that in some cases firms may jump over some stages and this movement can be influenced by the firm's expertise on other foreign markets so they can jump to the fourth stage even with a lack of knowledge about location. (Johnson & Turner 2003, 114.)

#### Network approaches to internationalization (based on Uppsala model)

Network approach is based on Uppsala model that views internationalization process through extension, penetration and integration of business networks, and shows a company's learning process concerning the market. When a company enters and invests to new networks, defined as extension. Penetration is when a company invests to a network that is already known and the firm has some position in a network. Finally, integration is when the company co-ordinates and manages different networks. (Orava 2005, 35; Karppinen-Takada 1994, 40.)

Both theories describe and give quite clear picture of the company's motivations to internationalize, but they are not explaining the process of internationalization. In relation to that there is still several important questions companies' face. Questions related to the internationalization process are 'Where to internationalize? When? and How?'. The following chapter will provide the main factors to consider when choosing the location for a foreign operation and will give guidance for the company in order to answer the first question of internationalization process 'Where to internationalize?'.

## 2.2 Research questions in internationalization

### Location factors

In order to define the answer for the question 'Where to internationalize?', there are established two different approaches to market selection process: reactive and proactive, the difference lies in the activeness of the exporter. The reactive market selection approach characterizes to be passive, meaning that the exporter does not put effort to find new orders or customers, he is waiting and responding to the requests from the foreign buyer, such approach leads to unsystematic and occasional export. (Albaum, Duerr & Strandskov 2005, 171; Chaiwun 2004.) It is used for short term profit and mainly by small or medium size companies (Holborncollege, nd, 9).

On the contrary, the proactive approach characterizes by active, systematic and continuous search for new markets or customers and further market segmentation from the exporter and international experience from the personnel. The proactive approach can also vary by being formal (based on regular market research and visit potential markets) or informal (based on the executive's intuition or opinions of business friends that have market knowledge). (Albaum, Duerr & Strandskov 2005, 171; Chaiwun 2004.)

In the process of internationalization the same company may apply both approaches: proactive to the primary market and reactive to secondary market (Holborncollege, nd, 10). The target market selection is strongly influenced by psychical distance between domestic and target countries because it is affecting on the information flow between countries (Karppinen-Takada 1994, 37). Companies tend to enter the first market with shorter psychical distance to the home market. Despite that, nowadays the development of international communication, infrastructure, transparency and internet makes it easier for companies to enter long psychically distant markets. (Vincze 2004, 73.)

When the company uses the proactive approach in market selection, it can apply two types of methods: expansive and contractible (Albaum, Duerr & Strandskov 2005, 171-172).

The expansive methods in general is an experience-based approach that could be described as a market selection method based on countries similarities (Holborncollege, nd, 18) such as political, economical, social or cultural, so that it is easier to expand with minimal alteration for the company and product (Carter 1997), usually such similarities exist between geographically neighboring markets (Albaum, Duerr & Strandskov 2005, 173; Luostarinen & Welch 1997, 253).

It is also a method of clustering or grouping of markets with one base market that can have the company's main marketing or export center. Markets clusters or groups can differ depending on the compound variables important for the company. For example variables proposed by Papadopoulos and Jansen (1994, quoted in Albaum, Duerr & Strandskov 2005, 174) are *political stability, market opportunity, economic development and performance, cultural unity, legal barriers, physiographic barriers, and geo-cultural distance*.

The contractible methods characterized to be the elimination of less promising market from the large number of markets (Holborncollege, nd, 19) that are divided into area groups such as political, economical, social etc, in order to define market with the best opportunities (Kuada 2002, 26). This division and elimination reached by the regular researches on all markets is based on two types of factors: *general market characteristics and specific product characteristics* (Albaum, Duerr & Strandskov 2005, 174-175). The whole method requires completion of three stages: (1) the list of countries and preliminary criteria for survey need to be defined, (2) country peculiarities and their value for the market examination need to be determined (country risks, market potential, costs and competition), (3) country's examination and ranking based on scores of survey (Market selection, nd, 20; Albaum, Duerr & Strandskov 2005, 175-176).

Generally, it is difficult to advise to the company which is the best and most effective strategy to enter particular market, but it is possible to list the most important criteria to be considered when planning and creating the entry strategy from the market point of view:

- The political and legal environment can influence both positively and negatively on the company by creation of new laws and regulations;
- The economic environment influences on the company performance and its further operations development and expansion;
- Cultural aspect (Branch 2006, 472) affecting on the ways of doing business and establishment of business contacts;
- Competition (Terpstra & Sarathy 2000, 214) influencing the company's performance on the market and market share;
- Infrastructure important when choosing mode of transportation and companies location;
- Market size (Czinkota, Ronkainen & Moffett 2003, 334) and purchase power can predict the possible demand;
- Product features can have influence on entry and transportation mode choice as well as on market share;
- Barriers to market entry affect on market entry mode choice and may cause extra expenses for the company;
- Costs (labor or transaction etc.);
- Market transparency influencing the level of market knowledge;
- Climate (Economy-point, nd) affect on transportation mode choice.

After the target market has been selected it is important to define the proper time to enter the market. The approaches to better timing of entry will be explained in the following chapter.

### Timing of entry

Timing of entry determination is a very important issue when entering a new market and in a choice of entry mode, such determination is mainly influenced by the company's product. The distinct between early and late

movers are the level of risks, volume of return and opportunities. (Sinha & Noble 2005.)

The early mover is the company that takes action towards pioneer competitive advantage. The advantages received by the early mover are the following: (1) high volume of return and market share, because of the lack of competition; (2) the possibility to develop own standards and customers loyalty. In accompaniment to strong advantages there also intense disadvantages like: high risks, high demand uncertainty and high costs of development (Claude-Gaudillat & Quelin 2006, 3; Agarwal, nd).

The late mover is the company that follows the early mover by copying or imitating his first actions. There are several advantages that late mover can get over early mover, they are the following: (1) lower demand uncertainty; (2) knowledge from early mover success or obstacles; (3) longer time for development of better product; (4) better market and customer knowledge. The disadvantages of late movers are less extreme than for early mover, but they still exist: (1) less opportunity to set own standards and brand loyalty; (2) loss of competitive advantage; (3) reduced market share (Agarwal, nd).

When knowing “Why, Where and When?” companies are internationalizing it is important and necessary to define “How?” they internationalize. In order to answer this question in the following chapter will be explained the importance of entry mode selection and possible modes to enter a new market.

### 2.3 Market entry modes

The next step in a firm’s integration process is the choice of entry mode; it appears when company moves from the first stage of Uppsala model, mentioned previously, to the other stages of internationalization establishment (Johnson & Turner 2003, 114). It is very important to

choose the proper entry mode for the further company's appearance on the international market.

Root (1994, quoted in Ekeledo & Sivakumar 2004, 68) says that *an entry mode is an institutional arrangement that a firm uses to market its product in a foreign market in the first three to five years, which is generally the length of time it takes a firm to completely enter a foreign market*. The choice of entry mode is related to control that determines the level of relation between buyer and seller, as well as risks and profits (Blomstermo, Sharma & Sallis 2006, 212).

An inappropriate entry mode may limit opportunities and strategic options that could have been open to the company (Alderson 1957) and it can lead to high financial losses to the company or even exit from the foreign market.

An inappropriate choice of entry mode can lead to company's failure. The same company may use different entry modes for different or the same markets, it depends on product, knowledge, resources, management, capital etc. Firm's entry modes can also vary with time going on; they may change later when the company gains information on the market or the company may use different modes at one time.

In order to make it easier to choose the international market entry mode their advantages and disadvantages should be defined and discussed. Entry modes can vary from straight forward sales to the buyer from the domestic facility up to the settlement of fully owned facility, and they can be divided into contractual and equity based modes. Contractual entry methods are made for a specific period of time and with the use of intermediary, cheaper to establish. The equity-based methods give the company more control and greater involvement in the market. (Johnson & Turner 2003, 114.) Figure 2 displays market entry modes.

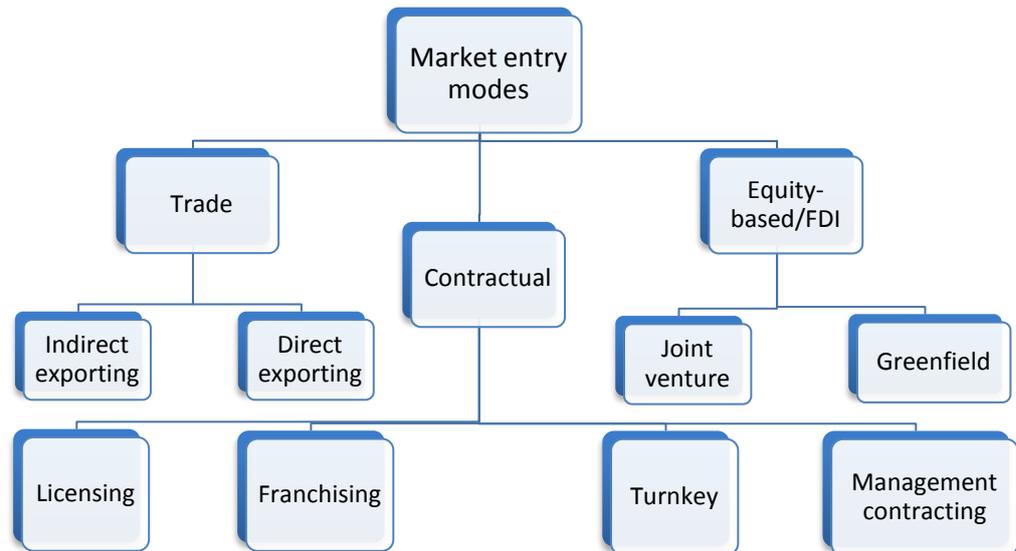


Figure 2. Market entry modes (Johnson & Turner 2003, 116).

### 2.3.1 Exporting

Most of the companies are starting to invest in exporting because they believe that it will increase their income, competitiveness and image (Ramberg 2008, 18). Exporting is considered as a low risk, cheap, fast and simple entry strategy to enter foreign markets. This method has two forms indirect and direct. (Johnson & Turner 2003, 115.) The main difference of these two categories is how the transaction flows between the exporter and importer or buyer are carried out. As it is defined by Albaum, Duerr & Strandskov (2005, 280) the decision involves determination of the level of control required by the exporter, there is a need to consider two different costs: the costs of actual functions and costs of the organization of contracting with the other party.

#### Indirect exporting

The company is an indirect exporter when it is not taking direct care of exporting activities but selling to the intermediary company or contacting it in order to handle export transactions, the intermediary is situating in the exporter's country (Albaum, Duerr & Strandskov 2005, 282), practically the

manufacturer's duties are the same as in domestic business (Luostarinen & Welch 1997, 22). It is the fast way of entering a new market (Terpstra & Sarathy 2000, 378), do not require big investments and in turn the losses are minimal. There is a big variety of indirect exporting mode options.

Export merchant basically buys the product in the ownership and making all the marketing, advertising, transporting, selling and service activities on his own (Trismax Inc 2004). The manufacturer takes part in international marketing only when it requires some product, package or unit modification, and he receives just manufacturing profit. The main drawback for the manufacturer in using export merchant is that he is interested mainly in staple product that does not require high service, advertising and sales effort (Albaum, Duerr & Strandkov 2005, 283). Accordingly, this type of intermediary does not suit the company with very unique, specific and unknown product.

The other type of a merchant is the export desk jobber or export drop shipper that carries out the same operations and functions as the export merchant besides few differences: he works with raw materials and the ownership lasts a short period. The transportation and other documents are handled by the manufacturer (Albaum, Duerr & Strandkov 2005, 286-287). This type of intermediary acts as a negotiator between the buyer and the seller (Waheed, nd).

Export commission house is a buyer's purchase agent in the exporter's country. He is arranging the shipment and insurance, confirming contracts on the buyer's behalf (Branch 2006, 485), working on the basis of orders or the purchasing offers on the conditions defined by the buyer therefore the export commission house receives payments in the form of commission from the buyer (O'Connell, nd). From the exporter perspective it is an easy way to export, because there is no complications with delivery and transportation, but at the same time the exporter cannot control the international marketing of its' product (Albaum, Duerr & Strandkov 2005, 288).

The resident buyer is the other type of intermediary it is very close in functions to the previous one. The main difference is that he is permanently employed by the buyer so it gives the opportunity to the exporter to build up steady and strong business relationship with the foreign buyer and to avoid cultural barriers. (Albaum, Duerr & Strandskov 2005, 288-289; Zimmerer, Scarborough & Wilson 2008, 569.)

As well as the export commission house, the confirming house assists the foreign buyer (Branch 2006, 483) and brings buyer and seller together (Johnson & Turner 2003, 115) and all the contacts go through the confirming house. The main principal of work is the following: it confirms the buyer that the order is already placed and when the goods are shipped it sends the payment to the exporter (Albaum, Duerr & Strandskov 2005, 288).

Export management company (EMC) is working on behalf of the exporter, it is specializing on international marketing services (Czinkota & Ronkainen 2001, 286) and can perform as an agent (receives the commission from the producer for the service) for one client and as distributor (take the ownership of the product and operate on its own) for another or in some situations as both for the same client (Czinkota, Ronkainen & Moffett 2003, 284), it is export department of one or several noncompeting producers (Albaum, Duerr & Strandskov 2005, 289). It means that the EMC may present the whole line of complementary products (Daniels, Radebaugh & Sullivan 2009, 550). The EMC can be the representative of 3-4 or even 50 companies that in turn can influence the quality and success of performance for particular client (Terpstra & Sarathy 2000, 380).

This type of intermediary usually specializes in a particular international business (Czinkota, Ronkainen & Moffett 2003, 283) or geographical region (Czinkota & Ronkainen 2001, 286); therefore for wider global market coverage there is a need to use several EMC's (Terpstra & Sarathy 2000, 380). The functions of EMC include the choice of appropriate

market, distribution channel, advertising and promotion campaign (Daniels, Radebaugh & Sullivan 2009, 550), collection of the information on the credit of foreign customer as well as legal support (Albaum, Duerr & Strandskov 2005, 290) and assistance in establishing other forms of doing business (Daniels, Radebaugh & Sullivan 2009, 550). The manufacturer gets the possibility to enter the foreign market faster (Albaum, Duerr & Strandskov 2005, 290) and to receive the market knowledge through the experience and know-how of the EMC (Terpstra & Sarathy 2000, 380).

Another type of indirect exporting is piggybacking, it is when manufacturer (the rider) uses already established distribution channels in the international market by the other company (the carrier) (Johnson & Turner 2003, 116) to export its' product alongside (Albaum, Duerr & Strandskov 2005, 292), and one product is promoted against the background of the other one (Branch 2006, 496). The products suitable for piggyback marketing rather to be noncompetitive, complementary or unrelated than competing (Albaum, Duerr & Strandskov 2005, 292).

The carrier is usually a large company that owns the distribution channel, has the location and customer expertise (Branch 2006, 496) and actually carries out the exporting. For the carrier the main reason to use piggybacking lies in the possibility to fulfill own product line with ready product. The main drawback for the carrier is the lack of control over the product quality. (Terpstra & Sarathy 2000, 383-384.) For the rider, piggybacking gives easy, fast and low-risk entrance to a new foreign market (Albaum, Duerr & Strandskov 2005, 294). The obstacle can arise if the carrier will not give attention to the rider's product to the right degree (Johnson & Turner 2003, 116).

Regarding the fact which companies name will be used to sell the product there can be different ways: give the product carrier's name and sell as its' own (Terpstra & Sarathy 2000, 384), to use manufacturer's name or make a new label, or to use the better known company name (Albaum, Duerr & Strandskov 2005, 293-294).

## Direct exporting

Direct exporting is a proactive and deeper company's level of involvement into sales and distribution to the foreign market (Johnson & Turner 2003, 116) than indirect exporting. In direct exporting the company sells directly to the customer in the target market, the customer can be the local importer or buyer (Albaum, Duerr & Strandskov 2005, 295), and manufacturer actually makes some sales and marketing activities or takes care of exporting techniques (Luostarinen & Welch 1997, 25). In comparison with indirect exporting this type of international market entry mode requires better market and customer knowledge, higher capital investment and expertise on physical distribution from the exporter (Terpstra & Sarathy 2000, 385). At the same time the return on the investments are also higher: increase in sales and control over the product appearance, better knowledge of customer needs (Luostarinen & Welch 1997, 27) and demand (Terpstra & Sarathy 2000, 385), closer relationship with the target customer and more effective after sales services (Johnson & Turner 2003, 117). Direct exporting entry modes can be both home-country and foreign-country based.

The built-in type of exporting organization is home-country based and consists of the full or part-time export sales manager with few assistants having the main functions to sell and manage product selling, and its coordinating operations with domestic department (Woznick 2000, 27). This type is considered to be the easiest in establishment, but there can appear some complications or misunderstanding while the export manager needs to coordinate sales with domestic market-oriented department that may not give enough priority to the export marketing and do it when there is time available. The built-in department can be suitable for a new and relatively small company with small to moderate expected sales volume or with not fully used resources in domestic market. (Albaum, Duerr & Strandskov 2005, 297.)

The further step in direct export is the set up of home-country based separate export sales department. It is usually established when the sales are continuously increasing and it can help to avoid the obstacles related to the communication between domestic and international sides of the company, because it is coordinating operations with company's president (Woznick 2000, 27). There is also the advantage of location in comparison with built-in department the export department can be located, for example, in the main center of international business. The main drawback that can appear is the distribution of resources and finances between international and domestic departments. (Albaum, Duerr & Strandskov 2005, 297-298.)

The similar type to separate export department is the home-country based export sales subsidiary the difference is that the export sales subsidiary is the separate company, but owned and controlled by the parent company. Being a separate company, the subsidiary needs to purchase products from the parent company and it requires the development of internal transfer pricing system within the manufacturer. There are also other benefits of the export sales subsidiary establishment compared to export department such as unified control that helps to avoid problems or conflicts in communication between domestic and international departments; cost and profit control; more complete line of products gives a possibility to fulfill the product line by buying from outside sources; tax advantages. (Albaum, Duerr & Strandskov 2005, 298-299.)

Sales subsidiary can be also foreign-country based, it carries out the same functions as home-country based (Albaum, Duerr & Strandskov 2005, 300), but the reasons for its establishment are different: the tax advantage for companies with headquarters in high tax countries and business environment (Koch 2001, 358; Albaum, Duerr & Strandskov 2005, 300), the advantage of direct contact with the final customer (Luostarinen & Welch 1997, 167) and easier way to provide after-sales service (Johnson & Turner 2003, 117).

Similar to foreign sales subsidiary approach to direct exporting is the establishment of sales branch in the target country (Johnson & Turner 2003, 117). It is very costly activity so it should be occurred when the company is sure that the future sales volume will maintain or grow (Albaum, Duerr & Strandskov 2005, 299). Main purposes of sales branch establishment are illustrative to get the possibility to display and promote (Luostarinen & Welch 1997, 166) part or product line for the customers, and service to be able to provide the after sales product service for the customers. The main issue that can give a concern is personnel. In some countries the authorities require some particular percentage of citizens working for the sales branch (Albaum, Duerr & Strandskov 2005, 299-300). It means that company may need to organize extra training for the citizen employees.

The other type of market entry mode that can be involved in exporting activities is sales representative. He can be either from home country (usually used for high value products) or from target market, but they are both employed by the exporting company (Johnson & Turner 2003, 116). The home-country based representative can perform as the traveling salesperson whose duties involve travelling from home country to abroad to perform the sales of the product (Albaum, Duerr & Strandskov 2005, 301; YourDictionary, nd).

There are three main functions that must be performed by the foreign salesperson, their priority can vary depending on the product to be sold and the market where it should be sold, they are the following: (1) the actual selling activity (receiving the orders, message the product information to the customer), (2) maintenance and development of relationships with customers (when the customer relations are extremely important usually used the local salesperson with language and culture knowledge) (Marketing Mimi, nd), (3) knowledge provider (collecting and deliver the information on customers, competitors and product performance).

The next type of direct exporting mode is via foreign based agents or distributors. In many sources the 'agent' and 'distributor' used as interchangeable terms, but there exist certain differences (Albaum, Duerr & Strandskov 2005, 303-304).

An agent performs as exporter's representative that does not take the product ownership and accordingly does not carry the inventory, importation is the responsibility of the buyer (Albaum, Duerr & Strandskov 2005, 304), and the main distinction with distributor is that an agent is paid by the commission from the volume of sales, number of orders or contracts (Branch 2006, 475).

The distributor, on the other hand, is a merchant that purchases exporter's goods, carries out the inventory and import of the goods (Branch 2006, 478) and resells them to the final customer (Ramberg 2008, 126). The distributor's income comes from the discount received from the exporter for the bulk of purchased goods (Albaum, Duerr & Strandskov 2005, 304).

In some cases the agent and distributor functions could be performed by the same company but for different products. When products are unique, complicated or expensive and require more specific service or maintenance, it is more likely to use the agent. The distributor is used when large stock is required. (Ramberg 2008, 126.)

Usually both the agent and the distributor are the exporter's exclusive representative or importer in the market meaning that they can offer just non competing products (Branch 2006, 475). They are given the sole rights for the sale of producer's products in particular region and it is mentioned in the agreement (Farlex Inc. 2010). This ensures that the agent or distributor will put the extra effort to sell and promote the producer's products that in result may increase the commission profit. The agent or distributor can also provide the facilities, personnel and materials when the after service is required for the product. (Albaum, Duerr & Strandskov 2005, 304-305.)

When choosing the particular foreign market entry mode it is very important to define the main advantages and disadvantages related to particular type. Why to use the exclusive agent or distributor? When producer prefers to export directly this type of entry mode is the easiest, less costly and the most capable of development (Albaum, Duerr & Strandskov 2005, 305). When the manufacturer does not have much experience in direct exporting, agent or distributor may bring the needed market knowledge, access to different sources and useful contacts (political, social, economical etc.) (Ramberg 2008, 125).

There are a few reasons for the manufacturer why not to use agent or distributor in particular area. They can vary from disinclination to share the control over the marketing channel up to absence of the capable agent or distributor that will be able to handle all necessary duties and tasks (Albaum, Duerr & Strandskov 2005, 306) or if the representative will not consider the exporter's product as the main priority and will not give enough effort for its sale or promotion.

### 2.3.2 Licensing

Licensing is a market operation or establishment of foreign production with low capital involvement. It is an agreement between two parties' licensor and licensee (Branch 2006, 491). The licensor grants the licensee the right to use its intellectual or industrial property (Albaum, Duerr & Strandskov 2005, 348; Luostarinen & Welch 1997, 32) on some territory, over specific time, the licensee on its behalf should pay the licensor a payment for usage of this property, usually an up-front payment and royalties (Johnson & Turner 2003, 117). Under the licensing agreement can be product or design, brand name or trademark, technology or manufacturing process, knowledge or processes (Albaum, Duerr & Strandskov 2005, 348), patents or inventions (Daniels, Radebaugh & Sullivan 2009, 586), secret know-how (Luostarinen & Welch 1997, 32), marketing skills (Czinkota &

Ronkainen 2001, 293). There are various advantages of use of licensing market entry mode depending on the party:

For licensor:

- Cheap foreign market entry mode with reduced transportation costs and tariffs (Terpstra & Sarathy 2000, 392) as well as with little amount or no requirements of resources and market knowledge (Johnson & Turner 2003, 117);
- Favorable mode from the host country government point of view (Terpstra & Sarathy 2000, 392), so gives the possibility to avoid restrictions concerning company's entry (Johnson & Turner 2003, 117);
- Compare to manufacturing facility mode licensing considered to be less risky in capital losses (Albaum, Duerr & Strandskov 2005, 349-350) or investment confiscation (Terpstra & Sarathy 2000, 392) and when market is hardly predictable (Daniels, Radebaugh & Sullivan 2009, 586);
- Entry mode with continuous reception of benefits till the end of agreement (Czinkota & Ronkainen 2001, 293) and fast way to gain market presence (Johnson & Turner 2003, 117).

For licensee:

- Lower costs of establishment than a development of a new product or process on its own (Daniels, Radebaugh & Sullivan 2009, 586).
- The advantage of using a well known and established brand name or product. No need to create image.
- Less risky and requires shorter time for application (Luostarinen & Welch 1997, 36)
- Avoidance of research and development costs by establishment of know-how (Branch 2006, 492).

There are also disadvantages concerning this entry method that can become vital for the licensor. The main of them is that licensor can create a competitor on the market (Johnson & Turner 2003, 117). There is also

lack of control over the licensee that can lead to small coverage of the market (Albaum, Duerr & Strandskov 2005, 350), the licensor will not receive the ample market expertise (Czinkota & Ronkainen 2001, 295), weakening of image and quality (Terpstra & Sarathy 2000, 393) or simply disagreements between parties (Branch 2006, 493). The licensing returns are also limited, usually 3-5 percent of licensee's sales (Terpstra & Sarathy 2000, 393).

### 2.3.3 Franchising

The other entry mode that is considered as a form of licensing is franchising. The main difference between these two modes is that franchisor does not only provide the right of use of its property but also continuously assists in the business performance (Daniels, Radebaugh & Sullivan 2009, 587) like marketing planning, quality control and relationships with both ways communication (Luostarinen & Welch 1997, 73) and the possibility to sell on the franchisor's name (Branch 2006, 486). In the other sources franchising was defined as the method of giving the right (franchisor's product, name, production, business model etc.) from franchisor to franchisee to perform in the established manner (Czinkota, Ronkainen & Moffett 2003, 289). Beside the right to use the brand name or the product, the franchisee can also receive the instructions on how to maintain and manage the franchise, basically the financial or managerial support from the franchisor (Johnson & Turner 2003, 117). This support helps to provide greater control for franchisor and reduce the uncertainty of franchisee performance in the market.

### 2.3.4 Joint venture

Joint venture is a long-term establishment of an agreement and separate company (Branch 2006, 490) by two or more companies, usually local and international (Albaum, Duerr & Strandskov 2005, 354), for some particular

purpose (Johnson & Turner 2003, 121), all the collaborative companies bring in assets and share risks (Czinkota, Ronkainen & Moffett 2003, 296). Two different types of joint venture exist: (1) contractual (co-operation without equity sharing) and (2) equity (co-operation with equity and risks sharing) (Luostarinen & Welch 1997, 158).

There are several reasons to establish the joint venture, if to compare with fully owned facility they are the following: (1) easier and faster mode to enter new location and achieve objectives than to make it on your own (Johnson & Turner 2003, 121), (2) the reduction of risks concerning the failure (Terpstra & Sarathy 2000, 396) or the host country restrictions compare to the fully owned ownership (Albaum, Duerr & Strandkov 2005, 355), (3) companies in joint venture benefit from each other (market knowledge, technology, capital etc.) (Czinkota, Ronkainen & Moffett 2003, 296).

There is no market entry mode having only advantages for the international company, and joint venture is not an exception. There are not so many disadvantages but they can be very powerful: (1) the cooperation between the partners, problems in management style and strategy (Czinkota, Ronkainen & Moffett 2003, 297), shares of responsibilities and profits (Johnson & Turner 2003, 121), product design and quality standards (Terpstra & Sarathy 2000, 396), different objectives (Luostarinen & Welch 1997, 160), (2) the profit is smaller than in fully owned facility mode, because it should be shared between partners (Albaum, Duerr & Strandkov 2005, 355). It is possible to avoid the problems between partners and be more successful if both parties will work with trust and meet own commitments (Czinkota, Ronkainen & Moffett 2003, 297) and if partners will make an agreement about joint venture purposes, strategies, structure and involvement before organizing the company (Johnson & Turner 2003, 121).

### 2.3.5 Turnkey operations

Turnkey operations is the type of collaboration when the international company contracts the other company to build the operating production (Daniels, Radebaugh & Sullivan 2009, 589) meaning that contractor setting up the facility and starting the operation (Luostarinen & Welch 1997, 126), the contractor just need to “turn the key” for ready facility. Usually this type of entry mode used in industrial projects for large constructions such as *power plants, dams, airports, oil, refineries, roads, railways, seaports, telecommunication systems* and just few companies or government can pool this market entry mode (Johnson & Turner 2003, 119), because the contracts require large investments (Daniels, Radebaugh & Sullivan 2009, 589).

### 2.3.6 Management contracting

Contract is used to receive the management activity from another company in host country to operate the foreign facility (Johnson & Turner 2003, 118) and perform necessary managerial functions (Luostarinen & Welch 1997, 93); these functions include product management, recruiting, financial management and training (Johnson & Turner 2003, 118). Management contracting agreement is usually made for the fixed time (Luostarinen & Welch 1997, 93) of three – five years and paid by the fixed fees or fees based on volume (Daniels, Radebaugh & Sullivan 2009, 588). Companies use this foreign market entry mode when they believe or know that the local management firm will be able to manage operations more efficiently (Daniels, Radebaugh & Sullivan 2009, 588), bring in their market knowledge, expertise and experience, skills and know-how (Johnson & Turner 2003, 118).

### 2.3.7 Contract manufacturing

It is another type of contractual arrangements and it refers to the contract between international and local company to manufacture goods, the international company retain the responsibility for marketing (Terpstra & Sarathy 2000, 391) and distribution (Albaum, Duerr & Strandskov 2005, 351). The main reasons for contract manufacturing are the minimum capital investment and costs, the reduction in transport costs, increase customers trust as the locally produced product, avoidance of labor problems (Terpstra & Sarathy 2000, 391), faster and safer new market entry (Albaum, Duerr & Strandskov 2005, 352) in contrast to the establishment of own production facility. There are also some disadvantages concerning the contract manufacturing such as: profit is split between the contract companies, difficulties in controlling the quality (Terpstra & Sarathy 2000, 391-392) and loss of know-how knowledge over the product (Albaum, Duerr & Strandskov 2005, 352).

### 2.3.8 Fully owned facility

It is a final stage of Uppsala model establishment chain (Johnson & Turner 2003, 122) and it is referring to 100 percent ownership (Czinkota, Ronkainen & Moffett 2003, 298) by international company. There are few advantages over this type of entry mode that international company can benefit from and they tend to be very strong. The first one, is the return on investment, it means that if the ownership is full so the profit will go fully to the owning company (Terpstra & Sarathy 2000, 400). The second one is the full control (Terpstra & Sarathy 2000, 400) over the facility and its operations, avoidance of argues and conflicts with partners (Johnson & Turner 2003, 123) concerning operations, transactions, equipment, labor etc. The third is that the fully owned company may get support from the host country government, because it provides new work places (Johnson & Turner 2003, 123) and of course the greater involvement to the market and the market experience (Terpstra & Sarathy 2000, 400).

There are also few disadvantages concerning fully owned facility entry mode. It requires building new facility with large capital investments (Terpstra & Sarathy 2000, 400), it is time consuming (Johnson & Turner 2003, 123), and highly risky (Koch 2001, 356). The government can be also an obstacle by creation of new regulations or restrictions (Czinkota, Ronkainen & Moffett 2003, 299) and overall company should get familiar with new legal system (Johnson & Turner 2003, 123), market and culture.

## 2.4 Choice of market entry mode

According to the fact that choice of market entry mode has strong affect on company's internationalization process, there were developed several approaches concerning the factors influencing market entry mode choice. First, the stage of development model proposed by Johanson and Wiedersheim (1975), this approach explains the market entry mode choice based on company's development stage. The second is transaction cost analysis by Anderson and Gatignon (1986, quoted in Zhao & Decker, nd, 5) where entry mode choice is based on the optimal level of control and it should consider transaction specific assets, external and internal uncertainty, and free riding potential. The third approach is the organization capacity model by Aulakh and Kotabe (1997) where market entry mode selection is based on the development of the company's capabilities and organization efficiency. And finally the decision making process model by Root (1994, quoted in Zhao & Decker, nd, 9) where the choice of market entry mode is depending on several factors such as the company's goals, market conditions, and risks and costs of market entry.

In order to conclude previously mentioned theories and market entry conditions, it will be important to define which entry mode will be suitable in the particular situation and under particular factors. Figure 3 will display the factors influencing on the market entry mode selection.



Figure 3. Market entry mode selection factors (Koch 2001, 353).

There are various internal (  ), external (  ) and internal/external (  ) factors that can influence on the choice of market entry mode. The internal factors are company experience and size, company capital, nationality and targets, cultural distance. The external factors are competition, market size and demand, as well as market conditions, industry and expenditures on research and development (Karppinen-

Takada 1994, 49; Koch 2001). Each of these factors can significantly affect on the entry mode selection.

At the same time the choice of market entry mode is strongly related to the level of control over specific entry option, it secures achievement of the company's goals and purposes, it determines risks and returns, the level of relationships between company and customer as well as company's performances in the market (Blomstermo, Sharma & Sallis 2006, 212).

With a growth of level of control the commitment, risk and profit potential growing as well (Karppinen-Takada 1994, 53). Figure 4 displays the increase of all those factors by each stage of entry mode.

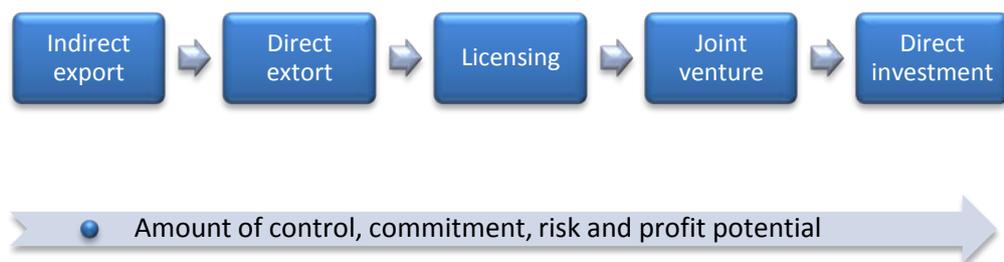


Figure 4. Level of control growth over market entry modes (Ahokangas 1998, 40).

The level of control can be divided into high and low control entry modes. Table 1 presents the level of control associated with specific entry mode option as well as relation friction and commitment (Blomstermo, Sharma & Sallis 2006, 214).

Table 1. Level of control related to market entry modes (Blomstermo, Sharma & Sallis 2006, 214).

Entry mode	Form	Control	Relational friction	Commitment
<b>Fully owned subsidiary</b>	Subsidiary	High	Low	High
<b>Partly owned subsidiary</b>	Minority/majority ownership, affiliates, etc.	High/moderate	Low/moderate	High/moderate
<b>Contract, alliances</b>	Relationship	Moderate	High/moderate	Low
<b>Market</b>	Exports	Low	High	Low

Company's international experience in use of particular entry mode and its success rate can affect strongly on their choice of entry mode (Koch 2001, 357). The more experience company gains; the greater confidence, will to expand and to bear risks it receives (Koch 2001, 354; Blomstermo, Sharma & Sallis 2006, 215). Companies with international experience tend to use high control entry modes, like subsidiary or fully owned facility (Karppinen-Takada 1994, 50-51; Blomstermo, Sharma & Sallis 2006, 215). For example, substantial region knowledge will lead to usage of business ventures rather than contractual modes (Koch 2001, 357). The company's size also can influence market entry mode choice. The smaller company with limited resources and management potential may not be able to invest and bear risk of fully owned subsidiary or joint venture (Koch 2001, 356), so they may use the lower control entry modes.

It is contradictory how the company's capital affects selection of entry mode. There are several researches that proved that it is not always true that the greater the capital the higher controlled entry mode choice. On the other hand, companies with greater capital size tend to use acquisition rather than fully owned facility. (Karppinen-Takada 1994, 51.)

Company's targets in the foreign market will affect on entry mode choice. If company intends to increase and maximize the market share it will be reasonable to create or develop own distribution and service channel and use fully owned subsidiary. On the other hand, if company would like to increase and maximize export sales revenues over some period of time, it will use indirect exporting entry modes. (Koch 2001, 357.)

The strong influence on entry mode choice has company's uncertainty over target market characteristics and conditions. The cultural distance, if it is big between home and host country, the company will preferably choose the lower degree of control entry mode like an agent or distributor, licensing or franchising (Karppinen-Takada 1994, 51-52). The cultural distance includes the strength and length of business and cultural links between countries, as well as employee's familiarity with the target market (Koch 2001, 355). Company's nationality also affects entry mode selection. Scandinavian, French and Japanese prefer joint ventures, German tends to fully owned sales subsidiary, and British prefer acquisition while Americans lean towards full ownership (Karppinen-Takada 1994, 52).

The target market conditions have a strong influence on entry mode selection. The political or legislation system of a country may exclude some entry mode options like a fully owned subsidiary or joint ventures. The labor regulations and costs as well as level of skills may also be an obstacle in establishing a subsidiary or a joint venture. On the other hand, in some markets it will be preferable to establish subsidiary in order to avoid customs duties and to apply favorable taxation system. The unavailability or lack of information can make it difficult or impossible to compare entry modes and consequently to choose the proper one. (Koch 2001, 358.)

The other market condition that may have a significant influence on entry mode choice is the market and demand growth rate. Indirect and direct exporting will be wise to use in fast growing market rate but without the

same steady tendency over several years. If the demand rate assumed to be big in several years it will be better to establish own subsidiary. (Koch 2001, 359.)

The company's industry of operation has an influence on entry mode decision. In pharmaceutical, electrical and non-electrical machinery industries more often used joint ventures. Natural resources, financial services and miscellaneous manufacturing industries tend to acquisitions. Fully owned facilities mode mainly used in chemical and electrical machinery fields. (Karppinen-Takada 1994, 52.)

If research and development expenditures tend to be high, it is more preferable that company will use fully owned subsidiary or licensing (Karppinen-Takada 1994, 53).

There are plenty of different options and ways to enter the foreign market. In most cases this choice will depend on the product, the target market, company's capital and assets, the company's politics and top managers, the ability to take risks, company's knowledge and expertise. In the following part will be described in detail the company and its product, and further about the foreign market company (Kadant Johnson) planning to enter.

### 3. CASE STUDY: KADANT JOHNSON EUROPE ENTRY OPTIONS IN RUSSIA

The first important issue in entering the new foreign market is company's and product characteristics. The following chapter will describe the Kadant Johnson and its primary product, rotary joints, as well as the main competitors.

#### 3.1 Company profile: Kadant Johnson Europe

Kadant Johnson Europe with center in Weesp, the Netherlands is the part of Kadant Inc. that is on its turn the worldwide leading producer of products used in various processing industries from paper and cardboard production to tires, metal or textile. Since May 2003 company's common stock listed on the New York Stock Exchange under the symbol "KAI" (Kadant Inc a, nd). Kadant working in the market more than 100 years and at the moment employs 1600 people worldwide. Company provides their products and services through subsidiaries and representatives all over the world in the North and South America, Europe and Asia (Kadant Inc b, nd). Kadant Inc. has 16 manufacturing centers, 20 sales service centers and over 50 representatives and distributors to be able to serve customers in each location in the world (Kadant Inc. 2008 a, 15). Figure 5 shows the change in company's revenues and debts in three years (2005-2007).

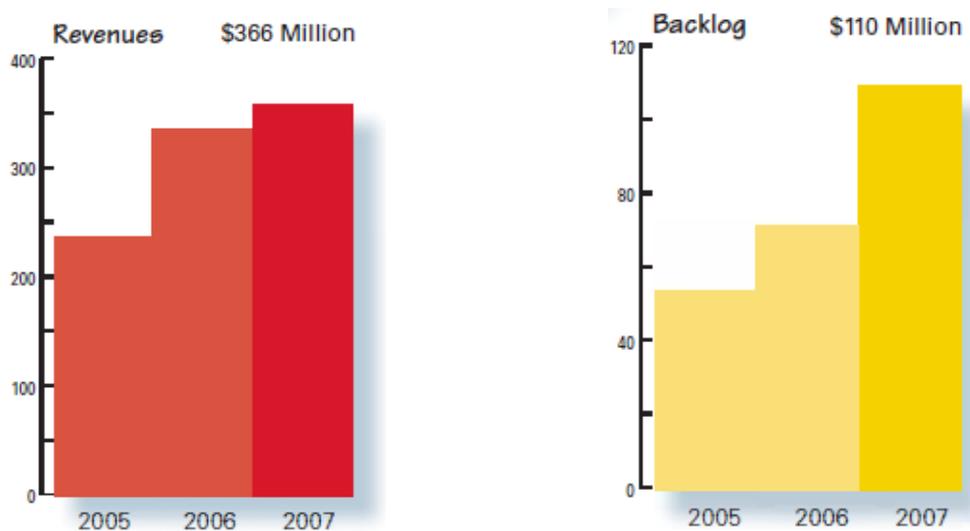


Figure 5. Kadant revenues and debts (Kadant Inc. 2007, 2).

As it can be seen from the figure, in 2007 company debts increased significantly more than in 2006 compared to revenues that slowed down its growth in the same period.

Kadant Johnson got its name on 11<sup>th</sup> may 2005 when Kadant acquired The Johnson Corporation (Kadant Inc. 2007, 14). Kadant Johnson producing products for fluid handling (rotary joints, precision units and fluid handling solutions) that are used in different industries especially in paper and cardboard production. Rotary joints are mechanical seals that connect rotating cylinders to stationary supply piping to transport steam, water, coolant and oil into and out of the roll. (Kadant Johnson, nd, 3-4.) Figure 6 displays the revenues percentage of Kadant Inc. by each product line for year 2007.

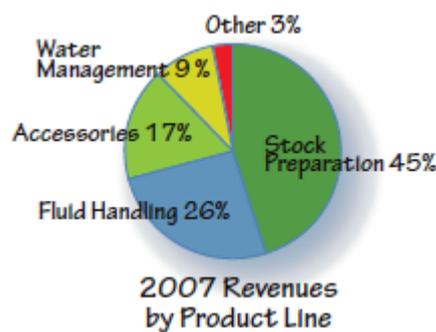


Figure 6. Kadant revenues percentage by product line (Kadant Inc. 2007, 5).

As it can be seen from the figure, fluid handling products, that include rotary joints produced by Kadant Johnson, account for 26 % of total company revenues and have the second place after stock preparation products.

Kadant Johnson produces three types of rotary joint units for corrugated cardboard industry, the difference is in the supporting technology to

rotating cylinder (Kadant Inc. 2008 b, 4-7) and the amount of flows going through the joint (single-flow, dual-flow or multi-passage joints) (Kadant Inc. c, nd). These product features affecting the price that can vary from 2000 up to 3500 euro per joint.

The main competitive advantages of Kadant Johnson are quality materials, product life cycle, advanced technologies, process knowledge, experience, supply of auxiliary products, support in installment and maintenance, and after-sales service (Kadant Inc. 2008 b, 2). Kadant Johnson rotary joints are used by such world leading paper and cardboard machine builders as BHS, Fosber and Voith.

There are also several competitors in the market of rotary joints such as Deublin Company that was found in 1945 with the main office in USA, several distributors and subsidiaries in Europe and Asia, but without representatives in Russia (Deublin Company 2010). The other Kadant competitor in rotary joint production is Barco Company was found in 1908 in the USA, having distributors in the South America, Europe and Asia without office in Russia (Barco 2009).

Christian Maier GmbH & Co.KG having 50 years experience in rotary joint production, by these days having distributors worldwide with one distributor located in Russia, Saint-Petersburg (Christian Maier GmbH & Co.KG 2007). And Duff-Norton Company that is operating since 1883, have two offices in USA and France (responsible for all European sales) (Duff-Norton). Kadant Johnson has four main worldwide competitors and some local competitors, because the market spread unevenly. (Kadant Inc. 2007, 18.)

### 3.2 Russia as a target market

It is difficult to describe the Russian market from all the possible angles. This study will concentrate on the Russian market from doing business

point of view, describing mainly economic issues related to the market and further on all the characteristics will be ranged by the significance for the company entering the market.

Russian economy currently considered to be in growing and developing stage. Such growth in a large scale depends on the natural resources export (oil, gas, metals etc.) it assumed by different sources: 80% (Glass 2006) or 65% (Nichol et al. 2010, 15) of all country's export. It means that the Russian economical situation strongly depends on the world oil prices, if prices drop down it has significant influence on the growth of economy by slowing it down. At the same time the political stability and tendency to the consumer driven economy strengthening the Russian market, was claimed by Robin Geffen, chief investment officer at Neptune Investment Management (Glass 2006).

Russia has been ranked the 8<sup>th</sup> among the 10 most attractive markets for investment mainly because of macroeconomic stability and tax reforms (Metal.Com Trade system, nd). It was also told on 5<sup>th</sup> June 2009 on the conference 'Russian market entry: Establishing and Expanding Your Business' in Frankfurt that the Russian market considered to be very attractive market for foreign investments. The main requirement for foreign investor is to have professional managers, consultants and lawyers. On the same conference Thomas Gebhardt the chief of business communication department of Hochtief company said that the main problem for their company was the lack of qualified labor, but he also claimed that the professional and experienced partner will be helpful in such situation. (ICC Russia, nd.)

In terms of current financial crisis Russian economic development slowed down but there exists a reason for investors and newcomers to enter Russian market: due to the crisis most of the main market leaders in many industries weakened, that creates opportunities for newcomers (Global Intelligence Alliance 2009); and the other important factor is cheap labor force (PricewaterhouseCoopers 2009). Even though the growth of Russian

economy strongly declined in time of financial crisis, The Central Bank of Russia predicts moderate recovery and growth of GDP (Shabanov 2010).

The main drawbacks and challenges when doing business in Russia are related to the market and these factors include: the shortage of information and transparency in most industries; unreliable statistics; corruption and bureaucratic level (Global Intelligence Alliance 2009); great government involvement in the economy; the infrastructure (Pechersky 2009).

In terms of corruption, it depends on the industry how high is that level. Table 2 provides the data on corruption perceptions index of Russia from year 2000 till 2009.

Table 2. Corruption perceptions index of Russia (Transparency international).

Level of transparency in Russia		
Year	CPI	Place
2000	2,1	82
2001	2,3	79
2002	2,7	71
2003	2,7	86
2004	2,8	90
2005	2,4	126
2006	2,5	121
2007	2,3	143
2008	2,1	147
2009	2,2	146

The table displays the Russian corruption index ranged from 0 to 10 and a place in account of 180 countries sample. 0 or more close to 0 means high level of corruption and 10 or close to 10 minimum corruptions. As it can be seen from the table Russia remains on the high level of corruption over decades and this level has slightly grown over last two years.

Even with such high corruption level it is sometimes possible to avoid bribes but it will be time consuming, another option is to use local partner that is familiar with the market. But not just corruption can be an obstacle; the infrastructure is another very important issue when doing business in Russia. The location of business units is important because the infrastructure over different regions is very poor, it is not always possible to take straight flight between cities; it often should be through Moscow even if both cities are located in Siberia. (Pechersky 2009.). Table 3 provides the rank of Russia from 183 countries on different sides of doing business.

Table 3. Ease of doing business in Russia (Doing Business).

Ease of...	Doing Business 2010 rank	Doing Business 2009 rank	Change in rank
Doing Business	120	118	-2
Starting a Business	106	88	-18
Dealing with Construction Permits	182	182	0
Employing Workers	109	104	-5
Registering Property	45	49	+4
Getting Credit	87	109	+22
Protecting Investors	93	88	-5
Paying Taxes	103	108	+5
Trading Across Borders	162	160	-2
Enforcing Contracts	19	19	0
Closing a Business	92	92	0

As it can be seen from the table the overall Russian rank of ease of doing business in the country is very low, it takes 120st place from 183 sample countries. It shows that drawbacks and obstacles that were mentioned previously are strongly affecting on the process of doing business in the country.

There exist some other obstacles or complications, for example, before selling any product in Russia, there should be paid the customs duties, value added tax, excise tax and customs clearance fees to the Russian Customs in order to be able to get a product to the country. The fees and

charges that have to be paid are chosen depending on the nature of the product and the final destination. (Nowek 1997.)

The other important issue when doing business in Russia is a product certification, it is required for both foreign and domestic products for safety and quality reasons, and in accordance with Russian standards (Robinson, nd), it is considered to be long time process (Certification in Russia, nd). It is complicated for a foreign company that is entering the Russian market to do all certification procedures and paper work on its own without connections and with language barrier.

The language is also considered as a barrier when doing business in Russia. Even though it is compulsory at schools and in the biggest cities like Moscow and Saint-Petersburg is easy to manage with English, it is still not widely spread in the provinces.

The main reasons of the Russian market attractiveness for Kadant Johnson consists of macroeconomic stability in the country, rapidly growing big sized market with relatively political stability and with the geographical proximity because company is located in The Netherlands. On the other hand company can face some complications with entering Russian market such as high level of corruption, customs regulations and restrictions, products certification and the very important fact that the state is above the law.

### 3.3 Narrowing the market scope: Russian corrugated cardboard industry in focus

At the moment Russian corrugated cardboard industry is weaker and less developed than, for example, in Europe mainly because of the quality factors and production volumes per capita (Russian forestry newspaper 2007). But the production volumes are growing every year as it was estimated by WCO (Abercade 2009) there will be 6,5-7 % cardboard consumption growth in the Russian market. Mainly due to the fact that

cardboard package very useful in supermarkets because it is protecting product while transporting, it also works as means of promotion and easy way of product display. Company M-Real claimed that European trends of using corrugated cardboard packages will soon come to the Russian market (Russian forestry newspaper 2007). It will be important to describe the industry from several points of view: the industry location, the current trends and situation, factors influencing on industry, and future perspective.

### The industry location

Location factor is extremely important when it comes to corrugating industry, mainly because it is unprofitable to transport corrugated cardboard for more than 500 km, in company IlimPulp they compare it with *transportation of air*. It means that production should be located next to the main consumers (65% of all cardboard consumed by food production industries, 20% by pharmaceutical and dry-salter productions and 10% for tobacco and cosmetics productions). (Russian forestry newspaper 2007.)

Due to the reasons mentioned previously the corrugated cardboard production located unevenly along the Russian territory and concentrated in several regions. According to Commercial and Industrial chamber (Russian forestry newspaper 2007), *the biggest volume of corrugated cardboard production is concentrated in Privolzhsky federal district - 15%, afterwards comes Northwest - 13%, Northern Caucasia - 11%, Siberian - 7%, Ural - 6% and Far East - 1%.*

### Current situation in industry

The main weakness of Russian corrugated cardboard is the quality it is considered to be worth than western. Producers don't have quality stability and cardboard has insufficient durability. Besides, the majority of the Russian producers make a brown corrugated cardboard that makes it not suitable for press drawing, it can be used for narrow variety of purposes.

The main reason for such lower quality is the lack of the modern equipment in most productions. Only several large producers that are usually constructed or bought by the foreign companies have the modern equipment for production of a qualitative corrugated cardboard. More than 50 % of the total volume of corrugated products accounts for the seven largest Russian manufacturers. The share of the companies with the absolute foreign capital makes of them around 15 %. Seven leaders: Arkhangelsk PPM with branch in Podolsk, Kartonno-paper industrial complex (Naberezhnye Chelny), JSC GOTEK, JSC Kartontara (Maikop), JSC Gofron (Kashira), Selenginsky PCM (Ulan-Ude), Union PEF (Moscow). (Russian forestry newspaper 2007.)

The world financial crisis affected differently on corrugated cardboard producers, some are expanding their production and some were closed due to impossibility to pay debts. This way IlimPulp Group and Yaroslavskiy Cardboard producing new kinds of corrugated cardboard products (Melovka 2009 a; Abercade 2009); “Yuzhniy Ural” in Bashkortostan, “AKKART” in Krasnodar region and “YuzhUralKarton” in Chelyabinsk region are opening new corrugated cardboard productions (AlianceMedia 2010, Unipack 2009 a; Abercade 2009); “Mondi Syktyvkar” increased production capacities (KomilInform 2009) and Kamenskaya Paper-Cardboard factory modernizing production line (Abercade 2009). When ones are developing the production, two producers in the Northwest region “Veresk-1” and “Ankora” closing their production due to high debts said in RBK daily (RBK Daily SPb 2009), and one of industry leaders, Arkhangelsk Pulp and Paper Mill cut down production capacities due to reduction of world and domestic prices for cardboard (Lesprom 2009).

#### Factors influencing industry

Corrugated cardboard industry depends very much on consuming industries especially food production as it was mentioned previously. It means that cardboard producers need to follow changes and trends in food production industry in order to be able to adjust own production

depending on the food producer's demand. (Russian forestry newspaper 2007.)

Regional competition is the other factor but mainly it is influencing market newcomers. It is considered being very hard to enter market because the production establishment is very expensive and difficult to compete with industry leaders. Usage of alternative product can also have influence, but at the moment it is very low. Corrugated cardboard package is very beneficial in cost for the consumer and as a means of transportation package with no similar alternatives and accordingly it is becoming preferable package in comparison with plastic or wooden packaging. (Abercade 2009.)

Industry leaders believe that main factors affecting industry growth dynamics are: general economic growth and consumers' expenses, development of retail trade and technologies, increasing role of package in marketing and logistics, warehousing conditions (Abercade 2009).

#### Future perspectives

The worldwide consumer survey that was carried out by Freedonia group (Melovka 2009 b) expect growth of demand for corrugated cardboard products by 3,4% each year mostly in developing countries and in Eastern Europe. The same trend can be seen in prices for corrugated cardboard. The FOEX (Unipack 2009 b) say that European prices in October 2009 grew by 8,5% and they will retain on the same level in 2010. Of course, it has affected on the Russian industry and most of the producers increasing prices for corrugated cardboard, such growth draw up 5-9%. It is assumed to be the only way for producers to come out from crisis in current economic conditions. (Unipack 2009 c.)

Company M-Real says that corrugated cardboard market is new for Russia but very perspective. Producers believe that corrugated cardboard and product made from it will become very popular package material.

There are several reasons for such a trend: (1) establishment of new production or increase of production capacities will be important for government, in order to increase timber processing in the country, (2) market predictability and (3) possibility to implement modern and advanced technologies in production. (Russian forestry newspaper 2007.)

Corrugating industry is still poorly developed industry in Russia, but the majority of experts expect growth of demand of corrugating packing and accordingly the growth of manufacture of a corrugated cardboard. It is also given more attention by the consumers to the quality of corrugated products that would lead to wider usage of quality production equipment.

## 4. COLLECTING EMPIRICAL DATA

### 4.1 Research method

Kadant Johnson Europe is interested in entering the Russian corrugated cardboard market with their primary product, rotary joints with auxiliary products. To be able to choose the proper entry mode strategy the company needs to make a research on the market potential for sales of their product. It includes interviews with potential customers on their production and usage of products in order to estimate the potential demand and to provide the list of interested customers. The list of questions that were asked is enclosed in Appendix 1.

The first step in the research was to create the list of Russian corrugated cardboard producers. The main complication was to find one full updated database of producers, because most of databases on the internet were either not full or having producers that do not even exist anymore. So the final list of cardboard producers was put together from several on-line databases and some just from the on-line search directory.

The second step of the research was to contact manufacturers and find out who is responsible for rotary joints purchase or maintenance, and to get name and contact information from the secretary. Due to the fact that rotary joint is a very specific product and used in actual production, all of the secretaries were not familiar with it and they could not decide who can be responsible for its purchase or maintenance. That is why the way to final interview could have gone through 5-6 people. In most of the companies' such interviewer was chief engineer or technical director. Even when knowing names and contact information it was difficult to reach potential interviewee, the research was made in summer, so most of them were on vacation, this fact slowed down the research process. Another difficult issue lies in the fact that interviewees were professionals in their field and sometimes were asking the product characteristics and usage, so it required the detailed knowledge of product and process were it used.

When all the data and interviews were completed the next step is to process all the responds, provide the list of potential customers and to make conclusion on choice of entry mode. The following chapter will include data analysis.

## 4.2 Data analysis

The scope of the inquiry included 53 corrugated cardboard producers. There were 49 responds received from which 7 companies' uses electrical corrugating machines where rotary joints are not exploited. It means that research is based on 42 responds.

Data has been divided into 4 groups from 1 to 4 by the level of interest from respondents about Kadant Johnson products. Number 1 indicates the high level of interest and number 4 no interest at all. Figure 7 provides the amount of producers in each group.

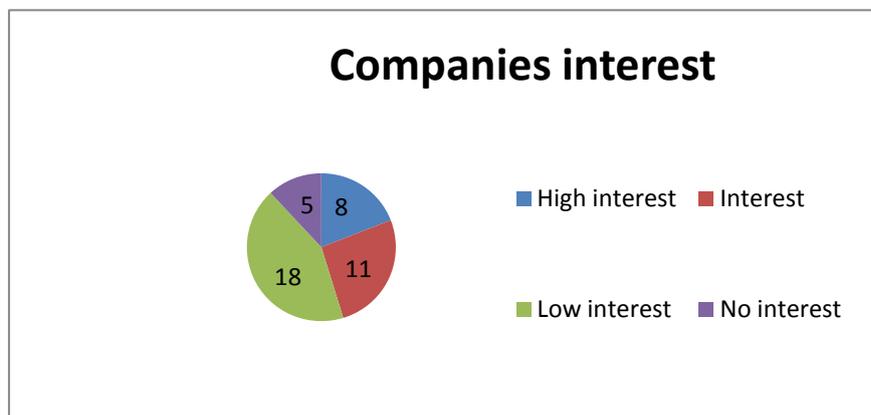


Figure 7. Companies interest to Kadant Johnson product.

The reason to divide producers into 4 groups was related to their answers and requests. The first group with high interest includes producers that would like to change or replace their rotary joints and would like to get information as soon as possible or producers already using Kadant Johnson rotary joints, but ordering them from somewhere else.

The second group includes companies that shown interest, the producers comprehended in this group do not need to change product at the moment but will be interested in getting information and make a decision later on depending on the quality and price.

The third group combines producers with low interest that would like to get information for the future, but at the moment do not have plans to change the product or supplier, or producer using very cheap products, and Kadant Johnson rotary joints will be too expensive.

And final fourth group includes manufacturers that shown no interest. It means that they are not interested even to get the information or just hangs up the phone.

Table 4 is showing the amount of rotary joints used by producers within each of 4 groups as well as the number of manufacturers that were not able to provide the information on amount of products used in their production.

Table 4. Number of rotary joints used within interest group.

	Level of interest	Companies	Rotary joints amount	Companies, no info on number of rotary joints
1	High interest	8	69	3
2	Interest	11	108	3
3	Low interest	18	564	7
4	No interest	5	3	4

The information in this table can be helpful in estimating the possible volumes of potential sales. For the same purposes the information on corrugated machine builders used by manufacturers is important and it is presented in Figure 8.

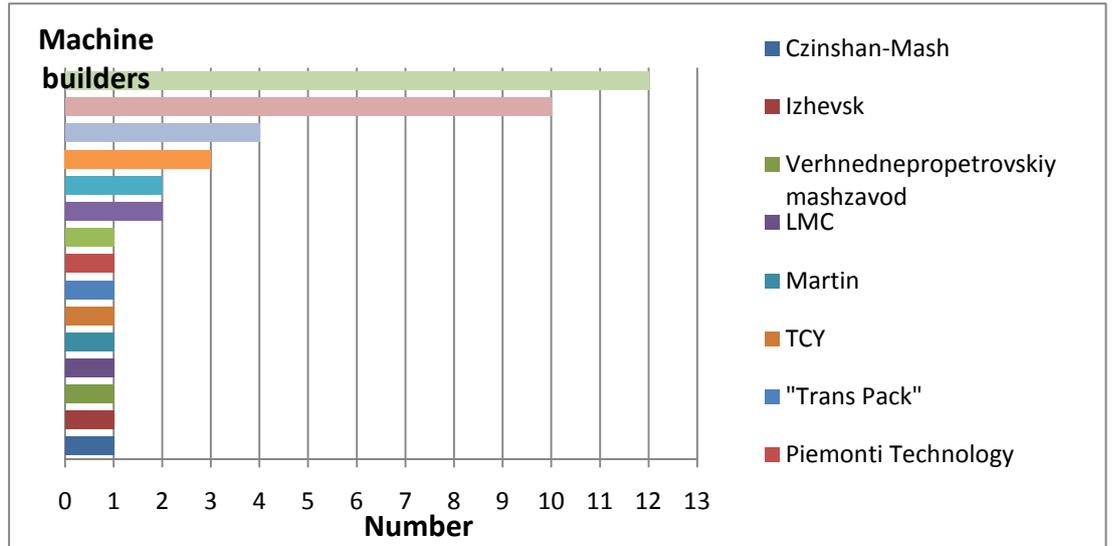


Figure 8. Number and machine brand within the market.

Concerning the machine builders preference is given to company BHS (12 companies) and to the Russian machine builders (9 companies). One of the 42 companies was not included into that chart as it has an electric line at the moment, but would like to replace it in the future. It can be concluded from the figure that there is high potential for Kadant rotary joints sales because company claimed that BHS and Fosber machine builders use their product.

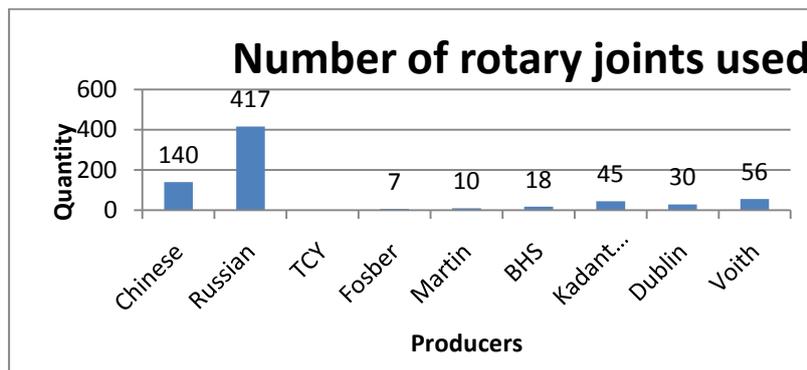


Figure 9. Number of rotary joints used within the brand.

Figure 9 provides the information on the quantities of rotary joints used within the joint producer. Data is based on 24 responds, and 18 couldn't answer how many rotary joints they use in their production.

It is obvious that mainly manufacturers are using rotary joints from Russian producers, and the main reason is that the product is cheap and easy to maintain, and has low delivery costs. The second comes rotary joints from Chinese producers the main advantage that was mentioned by the respondents was very low price of the product, cheap to replace if it gets broken.

Kadant Johnson, BHS, Fosber and Voith are split because companies were not sure which brand of the joint they are using in the production. Due to the fact that BHS, Fosber and Voith applying Kadant Johnson rotary joints, it is possible to cumulate it as 126 KJ products used.

It was possible to receive just 10 answers concerning the rotary joint lifetime:

- 6 companies using rotary joints for 1-5 years;
- 4 companies using rotary joints for around 20 years, it is Russian produced rotary joints (243 rotary joints);
- 7 companies couldn't answer because their production line is new.

The next step in data analysis will be the description of each of the 4 groups of the cardboard producers more in detail in order to define which producers will be potential for Kadant Johnson.

First group includes enterprises with high interest for Kadant Johnson products. The list consists of 8 companies from which: 3 companies use BHS machines, 4 the Chinese machines and one doesn't have information on the machine builder. The Total number of rotary joints used in this group is 69 the amount is based on 5 responded companies. It means that the potential number of rotary joints could be bigger.

ZAO "GOTEK", Fabrika Soyuz and Gofra-Dmitrov order products from BHS that on its turn ordering products from Kadant Johnson. From this point of view the potential lies in the possibility to purchase the product from the producer, meaning Kadant Johnson. Gofra-Dmitrov have

problems as the joints break each 2 months, presumably because of water in the area, it means that Kadant can provide analysis and improve own product or suggest other high quality material substitute depending on the model currently used in production. Companies that are using Chinese machines are highly interested in replacing not satisfactory existing products by more high quality joints, but at the same time they are more anxious about rotary joint price. Finally, the company without data (Mariyskiy PPM) on production line but with high interest from purchase department.

It is possible to consider all these companies as the potential customers for Kadant, but companies with BHS machines can be considered as more priority as they are familiar with the product and paying more attention to the quality rather than to the price.

The second group includes companies that have shown interest. There are 11 companies and 5 of them use BHS machines, 3 Russian machines, 2 machines Fosber and 1 Martin. The Total number of rotary joints used within the group is 108 from 8 responded companies.

Concerning the companies that using BHS machines, ZAO "GOTEK – Centr" orders joints from BHS gives the potential to purchase from producer. The other company (StoraEnso, Arzamas Mill) purchase Kadant joints from a Russian company (cannot open a name) with delivery and customs clearance. StoraEnso Lukhovitsy Mill and OAO "Ilim Gofra" have new production line and there was no necessity for replacement of joints, there is a potential for Kadant in the future. And at fifth, company (Arkhangelsk PPM) with no data on production line, but on account of APPM is also engaged in manufacture of a paper and familiar with company Kadant it can be considered as a potential.

As to the companies with Russian machines, 2 of them (Bryanskaya Paper Mill and OAO "Karavaevo") have requested company and product information with price list, it means that they may consider Kadant as a

potential supplier in the future. And Klinskiy Mill of Cardboard Packaging for a long time has been using own made rotary joints that were not satisfactory and easily breakable, at the moment producer would like to replace rotary joints and looking for the supplier.

The Companies with machines Fosber (Permskiy PPM, Factory JuzhUralCardboard) and Martin (Kilchen) have requested the information on products and price list. The decision made based on the price vs quality, but due to the fact that Fosber uses Kadant joints it is more likely company will purchase from the producer.

Among the companies, which have shown interest, there exists a the possible potential for the future, at the moment these companies have no need in joints replacement, but claimed that may consider Kadant product for the future.

The third group includes companies with low interest for Kadant Johnson products. There are 18 companies from which 3 use BHS machines, 6 Russian machines, 4 Chinese, 1 TCY, 1 Trans Pak, 1 electric device, 2 is unknown. The Total number of rotary joints used is 564 from 10 responded companies.

Regarding the companies that are using BHS machines, StoraEnso Balabanovo Mill uses Kadant joints, but already has the steady route of delivery and has not shown any interest in purchasing straight from Kadant. The other company (ZAO "GOTEK NorthWest") is not engaged in purchases (purchases are on responsibility of the main office), so they could not provide the information on the product they use in production. Kyiv Cardboard and Paper Mill producing own rotary joints and are not interested in purchasing product from the other company.

Companies that are using Russian and Chinese machines have the biggest concern that is the price. They would rather sacrifice the quality but better buy cheaper product, in this case Kadant Johnson rotary joint is

too expensive. The company with electrical machine (Promtara) was interested to receive the information on a case if in the far future they will change the machine. As a whole in this category the majority of the companies using Russian and Chinese machines, and the major factor when choosing the production equipment is the low price.

The fourth group consists of companies, which have not shown any interest, Yaroslavskiy Cardboard is familiar with Kadant products and even tried to purchase product few years ago but it was too expensive. The other company (OOO "GofroStandart") buys the Chinese products and replaces them every two months. They claimed that Chinese products are cheap around 1000 rubles per joint and that it is easier to buy new than to repair. And KrivbassTara is temporarily closed.

According to data analysis the list of the potential Kadant Johnson customers will include manufacturers which are already using Kadant products and familiar with them or other big producers that are ready to spend for a more expensive product in order to receive better quality.

The proposed list of corrugated cardboard producers that can be considered as potential Kadant Johnson customers as well as their location is enclosed in the Appendix 2 and Appendix 3 correspondingly.

The following chapter will provide the prospective strategy in market entry and market entry mode for Kadant Johnson in Russian corrugating market based on theoretical framework, product characteristics, on market and industry conditions and on potential customers' data.

## 5. CONCLUSION

The market entry mode selection influenced by the variety of factors, such as market characteristics and competition, company expertise and knowledge, company targets and purposes that were mentioned previously in the theoretical framework.

According to the case study, company Kadant Johnson is entering market that is considered be at the moment rapidly developing and growing but with several obstacles such as language, bureaucracy and the governance. Authorities have a strong influence on the legal, economical and social market conditions, and market transparency. This factor makes it difficult for the company to plan long-term strategy regarding business activities in the market. The other important factor concerning particularly the Russian market is the language and culture. In order to operate successfully it is important to do business, create and maintain business contacts in local language. The bureaucracy can make company's establishment time consuming.

The corrugated cardboard industry, according to the factors mentioned previously, is yet poorly developed, but with a high long-term potential. At the moment just few market players have high quality machines and technologies, but due to the fact that cardboard packages is becoming more popular and widely spread, it is assumed to increase the demand for quality machines and technologies in cardboard production process. As it was mentioned previously, it is difficult to select the entry mode based just on market conditions, because company features and goals as well as product are also having strong effect on the choice.

As described in the case study Kadant is a multinational enterprise (MNE) with several production facilities, sales branches and subsidiaries, sales representatives and agents worldwide. One of the branches, Kadant Johnson, on which present study is based on involved in the production of very specific product (rotary joint) that also requires installment,

maintenance and after-sales service. Referring to the previously stated facts in theoretical framework such company characteristics as high international expertise and unique product lead to the use of high control entry mode that could provide product service locally.

As it was mentioned previously the market entry mode can change during the time depending on market demand, market characteristics and company goals. Combining the wisdom of various theories with the results of the collected empirical data the following table provides a summary of the suitable for Kadant Johnson market entry modes with their corresponding advantages and disadvantages.

Table 5. Suggested market entry modes.

<b>Entry mode type</b>	<b>Advantages</b>	<b>Disadvantages</b>
Indirect exporting	<ul style="list-style-type: none"> <li>• Cheap in establishment,</li> <li>• Minimal losses.</li> </ul>	<ul style="list-style-type: none"> <li>• Low level of control,</li> <li>• Do not provide market knowledge,</li> <li>• Low profit,</li> <li>• Cannot provide product service.</li> </ul>
Direct exporting	<ul style="list-style-type: none"> <li>• Cheap in establishment compare to contractual or equity based modes,</li> <li>• Close relations with the customer,</li> <li>• Provide market and demand knowledge,</li> <li>• Higher profit than in indirect exporting.</li> </ul>	<ul style="list-style-type: none"> <li>• Require physical distribution expertise,</li> <li>• Lower level of control compared to contractual or equity based modes.</li> </ul>
Contractual/equity based modes (licensing, franchising, joint venture, fully owned facility etc.)	<ul style="list-style-type: none"> <li>• Provides high level of control,</li> <li>• Close relations with the customer,</li> <li>• High market involvement,</li> <li>• High return on investment.</li> </ul>	<ul style="list-style-type: none"> <li>• Expensive in establishment,</li> <li>• Require market and customer knowledge and expertise,</li> <li>• High risks of losses or failure.</li> </ul>

Company's goals in the market are increase of sales, together with the market and demand uncertainty it gives the possibility to eliminate

contractual or equity based modes establishment in the country. At the same time company would like to establish and develop long term business contacts, company's product require after-sales service and company intends to work from its own name. Based on that reasons the direct exporting modes will be most suitable for Kadant Johnson compared to the indirect exporting.

There are different varieties of entry modes that are considered as direct export. Therefore it is important to consider market conditions to choose the proper one for the company. According to the fact that it is very important to serve customers in local language and fact that Kadant product require installment and after-sales service, the foreign based department in direct sales will be preferable. The department in target country makes it easier for the company to provide required service, maintain and develop contacts. And based on case study most of the producers had concerns about the location and were asking if company is located in their area.

Table 6. Direct exporting entry modes.

<b>Entry mode</b>	<b>Advantages</b>	<b>Disadvantages</b>
Sales representative	<ul style="list-style-type: none"> <li>• Provides product service,</li> <li>• Holds market knowledge,</li> <li>• Provides market and competitors analysis,</li> <li>• Low cost of establishment</li> </ul>	<ul style="list-style-type: none"> <li>• Doesn't carry out product transportation</li> </ul>
Sales branch or subsidiary	<ul style="list-style-type: none"> <li>• Close to target customer,</li> <li>• Provides product service,</li> <li>• Possibility of product display</li> </ul>	<ul style="list-style-type: none"> <li>• High cost of establishment,</li> <li>• Require steady demand,</li> <li>• Influenced by market uncertainty</li> </ul>
Agent or distributor	<ul style="list-style-type: none"> <li>• Provides market knowledge,</li> <li>• Provides product service,</li> <li>• Paid based on the sales volumes,</li> <li>• Cannot sell competing products,</li> <li>• Low cost of establishment.</li> </ul>	<ul style="list-style-type: none"> <li>• The risk of low effort for product sale and promotion</li> </ul>

There are three different options for a foreign-based department in export sales. The sales representatives, for example, could be suitable for Kadant Johnson because representative can provide the product service, holds the product and market (if domestic sales representatives) knowledge, and makes market and competitors analysis for the further company development. Despite that, the main disadvantage is representatives operations include just sales and product promotion but the transportation should be handled by seller or buyer. Most of producers that were interviewed prefer the easiest way for them meaning that the seller or intermediary handles all the transportation documents flow and costs. Referring to the disadvantage of sales representatives and target customers requirements this direct export entry mode does not suit the Kadant Johnson.

The next foreign-based direct export entry mode that could be considered as a potential for the company is sales branch or subsidiary. The advantages of closer location to the target customer, illustrative product possibilities and service provision are weakened by high costs of establishment. To be able to establish sales branch or subsidiary Kadant Johnson should be confident about the product sales volumes, its maintenance or growth for the future. According to the fact that company does not hold the information on demand and sales volume and that at the moment it can just assume the potential volumes, the establishment of sales branch or subsidiary can be nonperforming for the company.

The last direct export mode is the use of intermediary such as an agent or distributor. The main advantages for the company regarding this entry mode option are the market knowledge carried by an agent or distributor, the establishment of supply chain and delivery organization, the product promotion and service provision. Despite all advantages in use of an agent or distributor for the company the main distinct between those intermediaries (the payment, product ownership and effort in product sales) can be vital for the company decision on an agent or distributor to use for market entry. As it was stated previously in the theoretical

framework the distributor buys product on its own account for further sales, there exists the risk of low effort from the distributor for the product sales and promotion if it is not a prior product for them. It means that such intermediary does not suit Kadant Johnson that would like to increase the market share and product sales.

Thus the most suitable entry mode for Kadant Johnson could be identified as selecting an exclusive agent on the market because exclusive agent cannot offer the competing product and they are given the sole right for the sales of Kadant rotary joints in the Russian market. In order to make sure that the agent will give enough effort for product sales he should be paid by the commission from the sales volumes or number of contracts. It can also secure the company from large losses compare to sales branch or subsidiary if the demand for the product is low. The other important fact why to use an agent is the after sales service that he can provide for the product buyer and he can help to avoid market and demand uncertainty. When with time business contacts are established, market knowledge has received, and if market demand and sales volumes will be steadily growing and assumed to be high, Kadant Johnson can change the market entry mode for higher controlled mode and establish sales branch or subsidiary.

#### Suggestions for further studies

Despite the fact that there is lots of information on company internationalization process, entry modes and factors which company should analyze before entering new market, it is impossible to consider all the factors in one study. Current research concentrating and making conclusions mainly based on target market conditions, nature of the product and potential customers needs. Therefore it will be important to make further studies on the financial aspects of Kadant Johnson entry to the Russian corrugated cardboard market, company location in the market and organizational set up inside Kadant.

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## Appendix 1 Questionnaire

- If you are familiar with company Kadant Johnson and its product?
- If you are using rotary joints in your production?
- If, yes. Which brand of rotary joints used?
- How many joints used in production?
- What is the average lifetime of joints?
- If you are satisfied with product you are using at the moment?
- What kind of service require from rotary joint supplier?
- If you are interested in receiving the information about Kadant Johnson product?

Appendix 2 List of potential customers

Company name	Machinebuilder	Rotary joint	Number of rotary joints	Life time (years)
ZAO "GOTEK"	BHS	Kadant Johnson (purchase from BHS)	14	
Kartontreid		Chinese		1
Mariyskiy Pulp and Paper Mill				
Fabrika Soyuz	BHS	Ordering from BHS		
Shebkarton	LMC	Chinese	10, 12	
Gofra-Dmitrov	BHS	Ordering from BHS	10	
AO BumSnab	Chinese producer	Chinese	26	
GofraPack	SRPack (Chinese producer), copy of BHS	SRPack (Chinese producer)	8	
Arkhangelsk Pulp and Paper Mill	BHS			
Bryanskaya Paper Mill	AO "Petrozavodskbummash"	AO "Petrozavodskbummash"		
ZAO "GOTEK - Centr"	BHS	BHS	8	1
OAo "Karavaevo"	AO "Petrozavodskbummash"	Russian	37	
Kilchen	Martin	Martin	10	4,5
OAo "Ilim Gofra"	BHS	corrugator working 1 year	10	new
Permskiy Pulp and Paper Mill	FOSBER			
StoraEnso, Arzamas Mill	BHS	Kadant Johnson	23	1; 3
StoraEnso, Lukhovitsy Mill	BHS	BHS	7	new
Factory JuzhUralCardboard	FOSBER	Suppose Fosber	6, 8	new
ZAO "GOTEK NorthWest"	BHS			

### Appendix 3 Location of potential customers



- Displays the location of the corrugated cardboard producers with high interest for Kadant Johnson product
- Displays the location of the corrugated cardboard producers with interest for Kadant Johnson product