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BUSINESS SCHOOL

FINAL THESIS REPORT

**Internationalization of Finnish SMEs to Russia: A Case of
Jalas**

Vygantas Galinis

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Supervisor: Marita Tuomala

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Author: Vygantas Galinis
Degree Programme: International Business
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ABSTRACT

This thesis was done for Urho Viljanmaa Oy. Urho Viljanmaa Oy is the middle size Finnish company which is interested in entering Russian market. The first part of the research was to research Russian safety and work shoe market to find out about main players, producers, distributors, potential competitors' quality and price level. Because of the sensitive nature of this research parts of the research are made confidential and the names of the potential partners will not be mentioned.

The second part was to examine entry modes and to suggest the best suitable entry mode for Urho Viljanmaa Oy to enter Russian safety and work shoe market. The best entry mode based on production and market factors appeared to be direct exporting via agent or distributor. The third part was to make a screening and pre-selection of potential partners (agents or distributors) to Urho Viljanmaa Oy in Russia.

Theoretical part of this thesis introduces entry modes from operations perspective and discusses the factors affecting the entry mode decision. Entry modes specific to Eastern Europe are discussed. Further on, basics of marketing research are discussed as part of the theoretical framework for the Russian safety and work shoe market research author has undertaken. And Russia as a target market is introduced.

After discussing and selecting entry mode- direct exporting via agents, introducing stages and techniques of marketing research process, conclusions of the interviews with two potential partner companies in Russia are presented. This part was very important for Urho Viljanmaa Oy and gave the very valuable information about the insights of the market.

Key words: Entry Mode, Marketing Research, Russia, Distributors

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1 Introduction

According to Confederation of Finnish industries (EK) at the moment there are about 15100 small and medium sized enterprises in Finland. Many of those have already reached saturation point in the domestic market. Also they face increasingly high competition and in order to continue growth they are forced to look for markets abroad. Quite many Finnish companies choose Sweden and other Nordic countries as their first foreign markets, later comes Germany and other European countries.

But as Russia is a close neighbour and its economy is revitalizing itself after decline in post Soviet era, increasingly many Finnish companies are seeking their market there. Due to the size of the market and closeness to home Russia is seen as a very attractive market opportunity. According to Finnish customs report small and medium-sized Finnish firms are active in exporting to Russia. About a quarter of Finnish SME's involved in exporting business export to Russia. (Bank of Finland 2006). And Russia is getting a more and more significant trading partner for Finland. According to Finnish customs Russia was the biggest export market for Finnish firms in 2005.

1.1 Background

In autumn 2005 I contacted Finnish company Urho Viljanmaa Oy with a proposal to write my final thesis for them. They were looking for a Russian speaking student to make a marketing research for them, because the company had a goal to start exporting to Russia in two years time.

Therefore they had an aim to research/explore Russian safety and work shoe manufacturers, distributors, to find out price and quality level of the competitors and maybe to find potential partners.

The research part of the thesis was done in cooperation with a student from Helsinki Business Polytechnic Anastasia Bobrova.

1.2 The research problem

The aim of this thesis is 1) to make a research of Russian safety and work shoe market, to find out about main players in the market: producers, distributors, importers, main competitors' quality and price level and 2) to suggest the best suitable Entry Mode for Urho Viljanmaa Oy and after making the decision 3) to make screening, pre-selection for the possible potential local partners for Jalas.

For a reason that part of the information is sensitive for a company and might be valuable for its competitors first part of the research about producers, distributors, importers and competitors quality and price level is considered confidential and will not be available for the public. Instead more general characteristics of the target Russian market are presented: retail sector, logistical environment and exporting procedures are described.

2 Urho Viljanmaa Oy

2.1 From past to present

Jalas is a trademark of the Finnish company Urho Viljanmaa OY. The company is located in the south west of the country in the Ostrobotnia region. The company is family owned and it is established in 1916.

The story starts in 1916 when the farmers Juho and Matilda Viljanmaa bought a tannery at Jokipii in Jalasjärvi (Finland). When they retired, the management was taken over by Juho's son Urho, and after him by his son-in-law Väinö Suokko and son Olavi Viljanmaa. At present, the family business is run by the fourth generation of the Viljanmaas. It has not always been easy: the family business has seen the shortage of materials and labour in the war years, the industrialization and mechanization of the leather business, depressions at various times and sharper competition. In the 1960's Urho Viljanmaa Oy manufactured shoepacks, polyamines, sandals, winter shoes, low oxford shoes, and ski boots. This range of products was found too wide and the production was rationalized. The footwear which required in-house expertise and specialization were selected as the main products. From the early 1970's, the company started specializing in sports shoes, and as early as in the 1980's they were already using state-of-the-art technology. (Jalas 2006)

Now it is a fourth generation of Viljanmaa family running the company. Urho Viljanmaa has about 180 employees in the Jokipii factory. The company heavily invested in automation of manufacturing in 1980 and 1990. As well, certification of quality, environmental, management, and occupational safety systems were also regarded as important part for the company. For instance, Urho Viljanmaa OY was the first company in its branch in Europe to have gained a certified ISO 9001 quality system.

2.2 Urho Viljanmaa Mission and Vision

The Mission

The mission of the Urho Viljanmaa Oy- Jalas was chosen to successfully develop, produce, market and sell incomparable work-, safety- and special shoes and services connected to them internationally, to contribute to welfare

and safety of our product users and be a model of socially lasting development. (Jalas Marketing Material: 2006)

The Vision

The vision of the Company is to develop, produce, sell and market customer oriented incomparable work-, safety- and special shoes and services connected to them reliable co-operation with customers and partners.

The company aims to achieve this by:

- Developing products which are superior in market for its protection and usage qualities
- Serving best price-quality relation and service in chosen marketing segments
- Creating a model to manufacturing and logistic chain so that the best productivity, profitability and then reliable working environment are achieved. (Jalas Marketing Material: 2006)

2.3 Main products

The company produces occupational and safety footwear as well as sports footwear, particularly skiing and orienteering shoes. Although the company's main focus at the moment is occupational and safety foot wear. In Figure 1 you can see the examples of Jalas' safety shoes.



Figure 1 Examples of the safety shoes (Jalas 2006)

Eighty five percent of the Company's turnover is professional shoe wear as you can see in Figure 2. Sports, skiing and orienteering shoes comprise 15 percent

as company is focusing on the core competence- occupational and safety footwear.

Urho Viljanmaa Oy

Special expertise, products

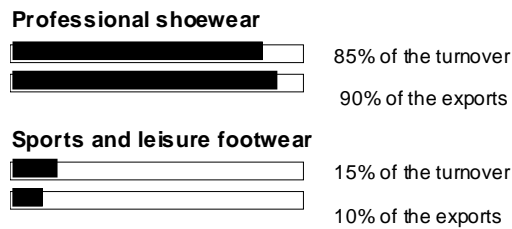


Figure 2 Urho Viljanmaa Oy Main Products. (Jalas Marketing Material: 2006)

2.4 Exporting

Last year alone the company sold more than 600 000 pairs of shoes and about 70 percent of the shoes are sold abroad. The company's turnover is about 27 million euros.

Occupational and safety footwear

Sales

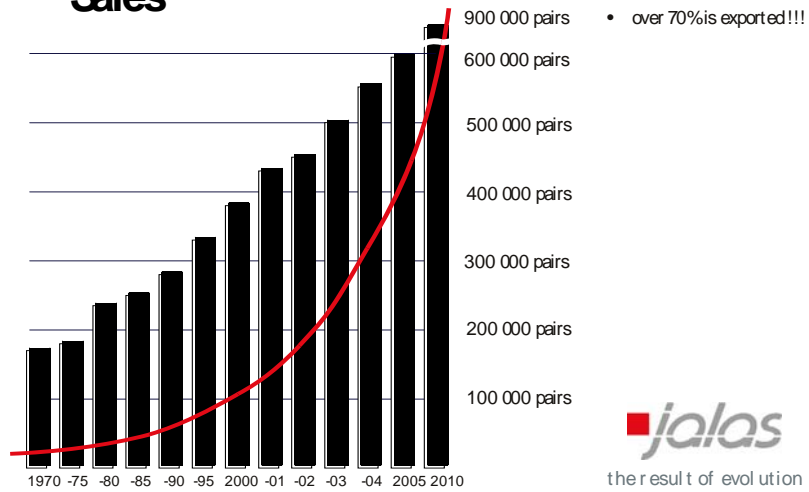


Figure 3 Sales volume

As you can see in Figure 3 Jalas exports has raised year by year and the company's aim is to sell more than one million pairs of shoes by year 2010. (Jalas Marketing Material 2006)

From the Figure 4 you can see that the company's turnover is steadily rising and the company plans to achieve 30 mln. Euro turnover in a year 2010.

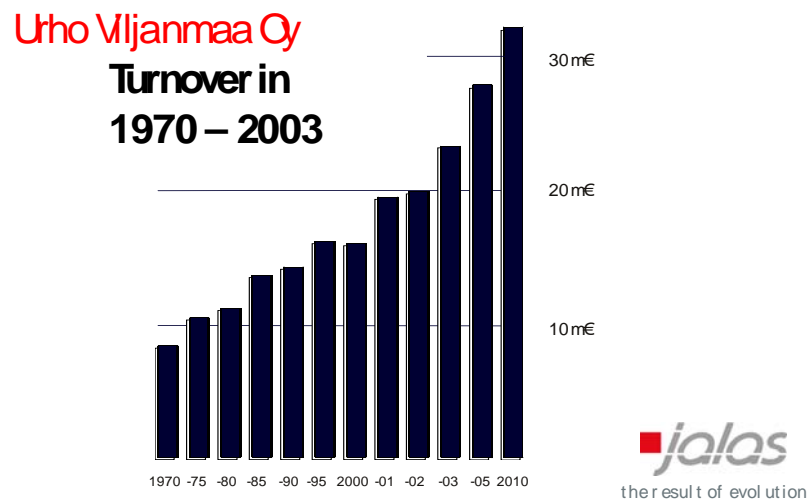


Figure 4 Rise of turnover (Jalas Marketing Material 2006)

2.5 Market share

At present Urho Viljanmaa- Jalas is exporting its shoes to Scandinavian countries: Sweden, Norway and Denmark and it is also trying to increase export to Germany.

As you can see in Figure 5, its market share in Finland in occupational and safety shoes market was about 55 percent. In the Scandinavian countries the market share was as follows: Sweden 28 percent, Norway 7 percent, Denmark 6 percent and Central Europe including Germany about 50-60 thousand pairs.

Occupational and safety footwear

Market share

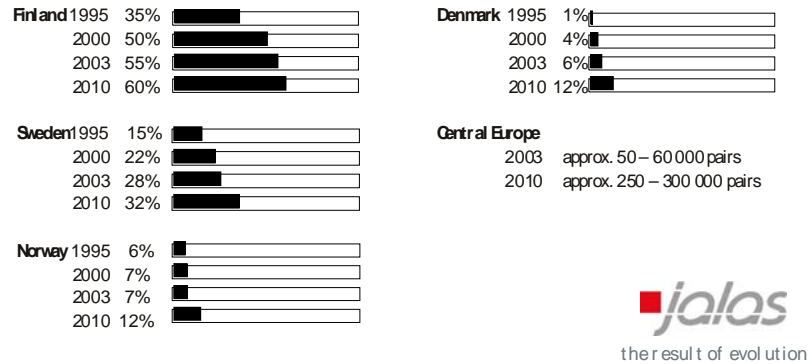


Figure 5 Market shares of Urho Viljanmaa products (Jalas Marketing Material 2006)

The main Urho Viljanmaa customers for occupational and safety shoes in Finland are: ABB, Finnair, Nokia, Metso, Securitas, UPM- Kymmene, VR and others.

In Sweden: Saab, Sandviken, Scania, Volvo and others.

In Norway: Elkem A/S, Norsk Hydro A/S, Norske Skog, Raufors A/S and others.

Special boots and shoes are produced for Armed forces, postal service, railway companies.

The Company's aims:

As we can see from the Figure 5 the company already has quite a strong place in the Scandinavian market as well it is building its presence in Central Europe, Germany in particular and it is only natural that the company is also interested in the neighbouring Russian market. In fact Jalas Company started to think about an entry to Russian market in two years' time.

3 Internationalization and entry modes

3.1 Market Entry

According to F. Root (1994: 3) the constituent product/ market entry strategies require decisions on 1) the choice of target market 2) the objectives and goals in the target market 3) the choice of an entry mode to penetrate the target country 4) the marketing plan to penetrate the target market and 5) the control system to monitor performance in the target market.

To managers in small and middle-size companies, planning entry strategies may appear to be something that only big companies can afford to do. These managers identify such planning with elaborate research techniques that are applied by specialists to a massive body of quantitative data. But this is a misconception of the entry planning process. What is truly important is the idea of planning entry strategies. Once management accepts this idea, it will find ways to plan international market entry, however limited company resources may be. To say that a company cannot afford to plan an entry strategy is to say that it cannot afford to think systematically about its future in world markets. (Root 1994:3)

From economist's perspective company can only export its products to the foreign market or second to transfer technology, capital, enterprise abroad and start manufacturing and selling the products there.

3.2 Entry Modes

From a management/ operations perspective, these two forms of entry break down into several distinctive entry modes, which offer different benefits and costs to the international company. The classification of entry modes used in this text is as follows:

1) Export Entry Modes:

- Indirect
- Direct agent/ distributor
- Direct branch/ subsidiary
- Other

2) Contractual Entry Modes:

- Licensing
- Franchising
- Technical agreements
- Service contracts
- Management contracts
- Construction/turnkey contracts
- Contract manufacture
- Co-production agreements
- Other

3) Investment Entry Modes:

- Sole venture: new establishment
- Sole venture: acquisition
- Joint venture: new establishment/ acquisition
- Other

3.3 Factors influencing the entry mode decision

There are different factors influencing Entry Modes decision: the main categorization is internal and external.

3.3.1 External Factors

Target Country Market Factors. The present and project size of the target country market is an important influence on entry mode. Small markets favour entry modes that have low breakeven sales volumes (indirect and agent/distributor exporting, licensing and some contractual arrangements). Conversely, markets with high sales volumes can justify entry modes with high breakeven sales volumes (branch/ subsidiary exporting and equity investment in local production).

Another dimension of the target market is its competitive structure: markets can range from atomistic (many non dominant competitors) to oligopolistic (a few dominant competitors) to monopolistic (a single firm). (Root 1994:8)

An atomistic market is usually more favourable to export entry than an oligopolistic or monopolistic market, which often requires entry via equity investment in production to enable the company to compete against the power

of dominant firms. In target countries where competition is judged too strong for export and equity modes, a company may turn to licensing or other contractual modes. (Root 1994:9)

Another dimension of the target country market that deserves mentioning is the availability and quality of the local marketing infrastructure. For example when good local agents or distributors are nonexistent, an exporting company may decide that market can be reached only through a branch/subsidiary entry mode. (Root 1994:9)

Target country production factors

The quality, quantity and cost of raw materials, labour, energy, and other productive agents in the target country, as well as the quality and cost of the economic infrastructure have an evident bearing on entry mode decisions. (Root 1994:10)

Target country environmental factors

The political, economic, and sociocultural characters of the target country can have a decisive influence on the choice of entry mode. One of the most important here are governmental policies and regulations pertaining to international business. (Root 1994:10)

Home country factors

Market, production, and environmental factors in the home country also influence a company's choice of entry mode to penetrate a target country. Conversely, companies in small-market countries are attracted to exporting as the way to reach optimum size with economies of scale.

The competitive structure of the home market also affects the entry mode. Firms in oligopolistic industries tend to imitate the actions of rival domestic firms that threaten to upset competitive equilibrium. Hence, when one firm invests abroad, rival firms commonly follow its lead. (Root 1994:12)

3.3.2 Internal Factors

How a company responds to external factors in choosing an entry mode depends on internal factors.

Product Factors

Highly differentiated products with distinct advantages over competitive products give sellers a significant degree of pricing discretion. Consequently, such products can absorb high unit transportation costs and high import duties and still remain competitive in foreign target country. In contrast, weakly differentiated products must compete on a price basis in a target market, which might be possible only through some form of local production. Hence high product differentiation favours export entry, while low differentiation pushes a company toward local production.

A product that requires an array of pre- and post-purchase services makes it more difficult for a company to market the product at a distance. Ordinarily, the performance of product services demands proximity to customers. (Root 1994:14)

Resource/ Commitment Factors

The more abundant a company's resources in management, capital, technology, production skills, marketing skills the more numerous its entry mode options. Conversely, a company with limited resources is constrained to use entry modes that call for only a small resource commitment. Hence company size is frequently a critical factor in the choice of an entry mode.

Although resources are an influencing factor, they are not sufficient to explain a company's choice of entry mode. Resources must be joined with a willingness to commit them to foreign market development. A high degree of commitment means that managers will select the entry mode for a target country from a wider range of alternative modes than managers with low commitment. Hence a high- commitment company, regardless of its size, is more likely to choose equity entry modes. (Root 1994:14)

Dynamics of Entry Mode Decisions

Increasingly companies would choose entry modes that provide greater control over foreign marketing operations. But to gain greater control, the companies will have to commit more resources to foreign markets and thereby assume greater market and political risks.

3.3.3 The International Marketing Plan

The design of a company's market entry strategy for a given product/target country requires the formulation of a marketing plan as well as the choice of an entry mode. The entry mode is intended to penetrate the foreign target country; the marketing plan is intended to penetrate the foreign target market.

The foreign marketing plan is an action program that specifies marketing objectives and goals; and a time schedule. The plan also includes an analysis of the target market, a description of the market environment, a competitive audit, a financial analysis, and a control system.

Plan objectives may include objectives for sales volume, market share, profits, and return on investment, and objectives for marketing effort as setting up a distribution network, researching and advertising goal, positioning the product, and so on.

The foreign marketing plan is related to the entry mode. Most significantly, the entry mode determines the degree of a company's control over the marketing program in the target country. The foreign marketing plan becomes, therefore, a critical input to the entry mode decision. Decisions on the entry mode and marketing plan are truly joint decisions. (Root 1994:18)

3.4 Entry modes to Eastern Europe

Empirical evidence of firms' internationalization models suggests that companies tend to enter international markets concentrically starting from geographically close countries that are also perceived as psychologically/culturally close and similar to the firm's existing markets. Internationalization process models suggest that a firm proceeds abroad through temporally defined, sequential, and stage-wise process, and that foreign expansion is incremental and dependent on a firm's experiential learning. The models predict that over time as experiential knowledge increases, firms escalate their commitment to international markets. (Larimo & Nieminen 2002:109)

Entry modes

Internationalization theories suggest that internationalization is a process of increased resource commitment and knowledge development. In more detail, firms tend to start their internationalization with entry modes that minimize risks and do not involve large amounts of company resources (e.g. export operations). Given the undeveloped market conditions together with fast and unpredictable changes, it seems reasonable to expect the majority of companies to choose low commitment forms (exporting, licensing, subcontracting etc.) to

enter these markets. These entry modes are characterized by low risk and low resource commitment. Although large multinationals often look for high risk entry modes (e.g. local manufacturing via acquisitions and wholly-owned companies) in order to capitalize on the suddenly opened huge markets, it is likely that most foreign companies still use arm's length operations or cooperative modes while entering Eastern European (EE) countries. These companies operate "from the outside" and are not established in EE through their own company. (Larimo & Nieminen 2002:110)

Low commitment forms of entry are most often used at the time of entry and especially when business conditions in the target market differ considerable from domestic market. Thus it is expected that firms have used mainly low commitment forms when entering EE markets. The gradual increase in foreign market involvement is in accordance with the gradual approach theories of internationalization. (Larimo & Nieminen 2002:111)

Furthermore, it may be expected that market specific experience will lead to better performance. Firms having little EE specific experience may easily make mistakes because of limited or total lack of knowledge of cultural differences and/or other important factors influencing the success of operating in the target country. By operating in foreign markets firms learn how to operate in foreign markets, learn about various types of specialties related to operation (e.g. about cultural characteristics), and can try to transfer these experiences from one market to other markets. Based on this market specific experience firms learn the optimal level of operation in the market required to reach desired performance level. Although the empirical results in export marketing studies have been mixed, a positive relationship is expected between are specific experience and performance in EE markets. (Larimo & Nieminen 2002:112)

Some studies suggest that market pioneers or early entrants can generate substantial entry barriers by establishing a strong brand image, increasing customer switching costs, or by pre-empting distribution channel, resulting in good performance, others however, suggest that market pioneering does not always lead to superior performance. In particular, first mover firms that are unsuccessful may exit the market, and hence, studies of pioneers will only include the successful "survivors". Empirical studies with regard to the impact pioneering are, however, conflicting. But a positive relationship between pioneering entry and performance in EE markets may be expected. (Larimo & Nieminen 2002:113)

The research by Larimo also showed that large firms have showed only somewhat better performance than small and medium enterprises in Russian and EE markets and the differences were not statistically significant, therefore there is no evidence to conclude that greater financial and human resources would make a difference.

4 Marketing Research Process

4.1 Marketing Research

The American Marketing Association defines marketing research as the function that links an organization to its market through information. This information is used to identify and define marketing opportunities and problems; generate, refine and evaluate marketing actions; monitor marketing performance; and improve the understanding of marketing as a process. Marketing research specifies the information required to address these issues; designs the method for collecting information; manages and implements the data collection process; interprets the results; and communicates the findings and their implications.

Marketing research can be thought of as the application of scientific disciplines to the collection of market data for use in making marketing decisions. It is the means by which marketers obtain marketing function and a useful managerial tool and can be viewed as management's attempt to bring science to marketing. International marketing research is any one or more of the previous activities conducted in one or more foreign countries. Traditionally, international marketing research has been defined as research conducted to assist decision making in more than one country. At the simplest level, international marketing research involves studies in a single market outside the firm's domestic market. (Market Research Portal 2007)

4.2 Marketing Strategy Formulation

Marketing strategy decisions will be based on information about market potential, customer requirements, industry and market trends, present and future competitive behaviour, expected sales, market segment size and requirements, and sales and profit performance for customers, products, and territories. The market decision process for each target customer at the strategic business unit level would involve:

1. the analysis of demand (customer's requirements)
2. the analysis of competition offerings (differentiation analysis)
3. the settings of objectives (market share, volume, profit) and so on.

Formerly, the basic role of market research was "fact finding", but as it is called on to furnish more and more qualitative and analytical information, its function

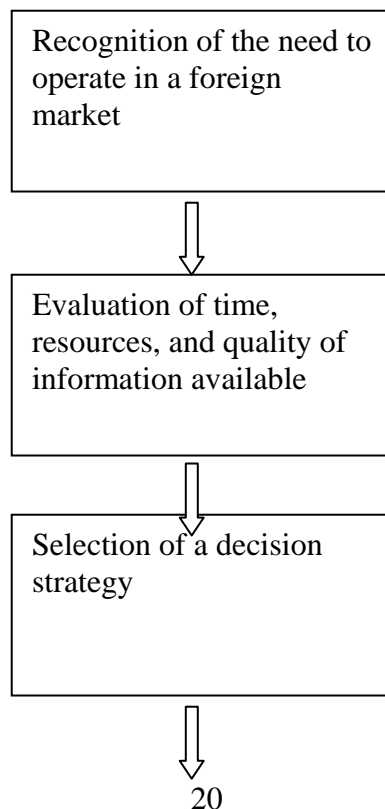
will be finding solutions to problems. This calls for a transition to strategic marketing research. The market researcher should therefore become a source of actionable marketing information with the capability to respond promptly to information requirements of marketing managers and to perform a marketing consultancy function by advising management on actions to be taken. (Market Research Portal 2007)

4.3 International Marketing Research Process

International marketing research provides a systematic, planned approach to the research project and ensures that all aspects are consistent with one another. Research studies evolve through a series of steps, each representing the answer to a key question. Some of the questions that the firm or the research should ask include the following:

1. Why research should be done?
2. What research should be done?
3. What information is needed?
4. How should the necessary information be obtained?

Preliminary Stages of the Research Process



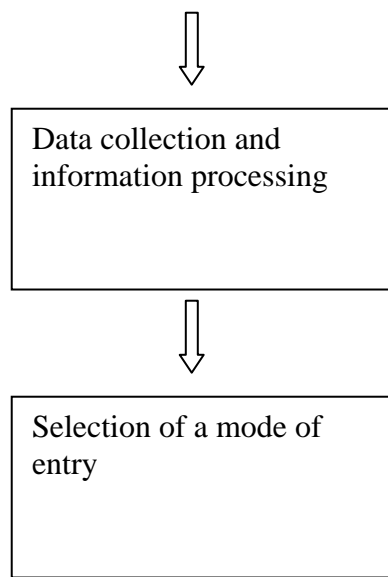


Figure 6 Preliminary Stages of the Research Process
(Kumar & Subramanian 1997)

4.4 Research techniques

Market research is a systematic, objective collection and analysis of data about a particular target market, competition, and/or environment. It always incorporates some form of data collection whether it is secondary research (often referred to as a desk research) or primary market research which is collected directly from a respondent. There are two basic techniques used to make marketing research. That is quantitative and qualitative. (Market Research Portal 2007)

Market Research is either quantitative, qualitative or combination of both.

4.4.1 Quantitative research

Quantitative market research is numerically orientated, requires significant attention to the measurement of market phenomena and often involves statistical analysis. For example, a bank might ask its customers to rate its overall service as excellent, good, poor or very poor.

This will provide quantitative information that can be analyzed statistically. The main rule with quantitative market research is that every respondent is asked the same series of questions. The approach is very structured and normally involves large number of interviews/questionnaires.

Perhaps the most common quantitative technique is the "market research survey". These are basically projects that involve the collection of data from

multiple cases- such as consumers or a set of products. Quantitative market research surveys can be conducted by using post, face-to-face, telephone or web techniques. (Market Research Portal 2007)

4.4.2 Qualitative research

Qualitative market research provides an understanding of how or why things are as they are. Unlike quantitative research there are no fixed set of questions but, instead, a topic guide (or discussion guide) is used to explore various issues in depth. The discussion between the interviewer (or moderator) and the responded is largely determined by the respondent's own thoughts and feelings. (Market Research Portal 2007)

There are various types of qualitative market research methodologies. Research of this sort is most likely done face-to-face. One of the best-known techniques is the market research group discussions (or focus group).

In addition, qualitative market research can also be conducted on a "one on one" basis i.e. an in-depth market research interview with interviewer and one respondent. (Market Research Portal 2007)

4.5 The Research Process

Our research process for this thesis closely resembles Figure 5 in page 20-21. First Urho Viljanmaa Company recognized their need to start exporting to Russia. Then they contacted me and Anastasia and we got a time frame and resources allocated. The time frame was to make research of the market ready by 31.12.2005 (we started at around 31.09.2005). After that to make pre-selection of potential partners and interviews by 01.02.2006.

Then we had a meeting and consultations by email on defining more precisely company's needs and what we as a researchers could offer for the company. After defining company's needs we made decisions about how to segment the market and what key factors are important in the market. We decided to start our marketing research by finding about 1) local producers 2) foreign players in the market-companies either exporting to, or producing in Russia, 3) we decided to look at the quality and price ratio of potential competitors 4) on companies request we decided to look for a potential partner(s) being it an agent or distributor for Jalas and to make an interviews with them. The

interviews were made during my trip to St. Petersburg on 15-16.1.2006. The interviews will be discussed in more details in Chapter 7.

We used both quantitative and qualitative research techniques. For quantitative research we relied heavy on the Internet visiting web pages of Russian companies and browsing through their production catalogs and for qualitative research we used interviews which gave us invaluable information and insiders look at the market.

The research process was quite complicated because of different physical location of the researcher and Urho Viljanmaa Company. The Company has a headquarters in Jokipii near Seinäjoki. I was located in Tampere and my research partner Anastasia in St. Petersburg. That constituted in quite big flow of emails and influenced the actual structure and clearness of the structure of the research.

5 Target Market

5.1 Russia- general information

Geography

Russia is the largest country in the world. Spanning two continents—Europe and Asia—it has a total area of 17,075,200 sq km, and a total land area of 16,888,500 sq km, equivalent to about one ninth of the world's land area. Moscow is the capital of Russia, see map of Russian Federation in Figure 7.



Figure 7 Map of Russia (University of Texas Libraries 2007)

Population

With a total population of about 146 million (53.24% women and 46.73% men, in 2004), Russia is one of the world's most populous countries. 18,6% of the population are under working age (>16), 60,7% are in working age (men 16-59 and women 16-54) and above working age are 20,6% of the population. St Petersburg is the country's second city. It is situated on the Gulf of Finland, a leading port and a primary industrial centre, and has a population of 6, 4 million, which represents 4% of the whole population.

Russia and International Organizations

Russia is a member of the United Nations (UN), the Arctic Council (AC), the Black Sea Economic Cooperation Pact (BSECP), the Commonwealth of Independent States (CIS), the Council of Europe (CE), the Council of the Baltic Sea States (CBSS), the Organization for Security and Cooperation in Europe (OSCE), the Partnership for Peace (PFP), Asia-Pacific Economic Cooperation (APEC), the Shanghai Group (SG), the Northern Forum (NF), the International Whaling Commission (IWC), the Group of Eight (G-8), and the Group of Twenty (G-20) (Microsoft Encarta Encyclopedia 2003 - Russia).

The Growing Importance of EU for Russia

38% of Russian goods imports came from the EU in year 2003 and the share of the ten new EU member countries was 8% of Russian goods imports. Therefore, EU enlargement means that the EU will account for nearly half of Russian's foreign trade goods. On the other hand, Russia continues to be a comparatively small trading partner for the EU. During recent years, EU exports to Russia have accounted for some 3-5% of total EU exports, and Germany, Italy and the Netherlands are the undeniable leaders in EU exports to Russia. In relative terms, the biggest exporters to Russia are Finland (6% of total Finnish exports in 2001), Greece (3%) and Germany (2%). (Goskomstat, Bank of Finland Russia review 4/2004)

5.2 Retailing sector in Russia

The pace of economic growth in Russia is increasing. The Interactive Research Group (Retail Sector Overview) has estimated that the Russian GDP will reach a USD 1 trillion mile stone in 2008 and thus Russia will become the **8th largest economy in the world**. Major economic growth driver is emerging consumer demand of Russians. Retail turnover and consumer incomes are growing at 8-10% y-o-y in real terms. During 1999-2003 the Russian consumer market increased more than two times and projected to double again in the following 5 years (in dollar terms). The Interactive Research Group's research shows a dynamic growth in sales of residential property, cars, furniture, PCs and notebooks, consumer electronics, clothes, cosmetics and perfumery, and many more. Hence, the share of durables and services in total consumer spend is increasing while expenditures on food are going down (see *ibid*).

GDP per Capita in different regions

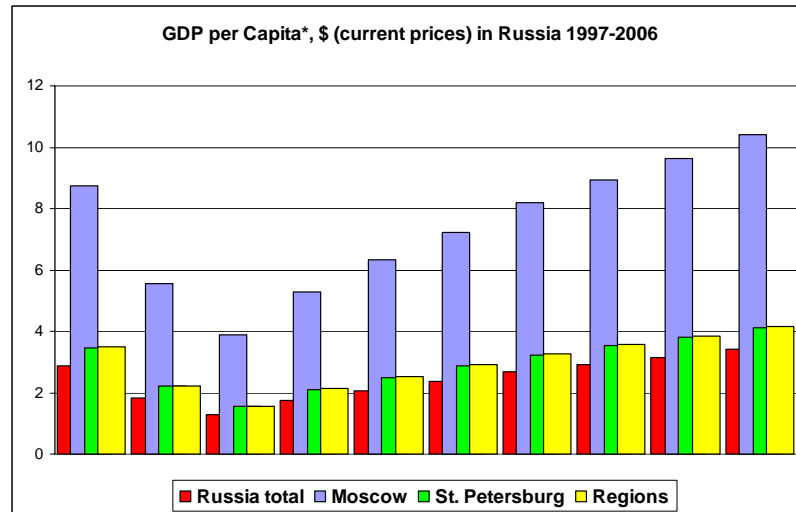


Table 1 GDP per Capita in different regions
(Doing Business with Russia, 2002, 165)

Retail sector

Retail market is growing even faster than the whole economy. The Interactive Research Group has estimated that from 1999 to 2008 the dollar retail turnover will grow up more than 3, 6 times. The Russian market is much far from saturation. The share of modern formats is less than 7% for Russian and 17% for Moscow. Small ineffective traditional retail outlets still dominate the market. However, the retailers will continue to develop different formats of their stores in order to stand growing competition. Small retail chains will be bought by larger chains. Along with growth of incomes consumers seek for higher quality and wider assortment and therefore redirect to modern retail formats. In addition, cancellation of sales tax and VAT reducing in 2004 provides another incentive for retail development (Retail Sector Overview: 2004).

The retail chains continue their regional expansion and the main destinations are cities with population over 1 million. Also the expansion of foreign retailers is continuing and will intensify over the following 2-3 years. The large formats of retail trade, for example trade centers and hypermarkets will have the greatest development (Retail Sector Overview: 2004).

The main barriers for development in retail sector

- Lack of investments for domestic retail chains development
- Low income of most population in Russia
- Lack of space suitable for new stores construction. Good personal contacts of retail chain with city government create more favourable opportunities to obtain better retail space.
- Competition with unorganized trade and open markets
- High prices to rent or buy real estate that is available on the market
- Bureaucracy. To collect all necessary documentation for construction or renovating of the store takes up to 1, 5 years. (Retail Sector Overview, 2004)
- Corruption is central to business life in Russia. The level of it varies from small fees requested to bypass low-level bureaucracy to fines imposed by traffic police for a trumped-up motoring offence to huge fees requested by government officials to approve large-scale business deals (Doing Business with Russia 2002, 58-59).

Attitude towards Russian brands

Two major driving forces are noticeable in prompting a Russian customer to choose a Russian brand: price and perceived image (including stereotypes). First, local brands can be considerably cheaper than their foreign counterparts. Second, consumers feed their patriotic feelings when buying Russian brands — original or perceived. Local products are also believed to be healthier than international in that they are usually made of domestic ingredients, which are presumed to be healthy and habitual for local consumers partly because they contain fewer or no preservatives. (Consumer behaviour in Russia: highlights on consumer segments, brand perception, advertising, and channels)

The following two tendencies can be used to characterize general attitude towards Russian (or perceived to be Russian) brands. It seems to be that local brand loyalty is increasing and at the same time the quality of domestic goods is improving. Consequently, local manufacturers win the “good quality for money” perception battle. However, many lose ground in marketing as it is common for Russian firms to restrict resources dedicated to creativity, advertising and market research. As a result, consumers may not accept a domestic brand name or a certain package design. Nonetheless, there are an increasing number of Russian companies developing and using successful marketing approaches even as product and packaging quality are improving. (Consumer behaviour in Russia: highlights on consumer segments, brand perception, advertising, and channels).

Attitude towards international brands

Many foreign companies in Russia have decided to launch “Russian” brands by creating own national brands which gained popularity among consumers almost as fast as local brands. These brands have a vivid Russian image and can be positioned as Russian national quality brands. Through this new strategy foreign manufacturers are able to compete with local producers using the same set of tools.

Meanwhile, as incomes began to grow, consumers started to turn back to international brands, keeping the same positive attitude towards local brands intact. Consumers again have an opportunity to keep their savings in the banks and insurance companies and to return to their pre-crisis purchasing habits. It is also worth noting that promotion and advertising activity of international brands has increased. Aggressive advertising plus promotion policy and a slight decrease in prices are currently the three most important factors shaping consumer choice. It is a challenge for the marketers to create an image of low price but high quality (Consumer behaviour in Russia: highlights on consumer segments, brand perception, advertising, and channels)

Perception of advertising in Russia

Russian consumers are aware of strict product-oriented advertising and dislike rough emphasis on product characteristics. An ideal commercial in today’s Russia should be humorous, bright, and beautiful, based on unexpected or intriguing plot, featuring elements of acting and combining image and product qualities easily. Nowadays is common to show product and brand benefits subtly accompanied by a typical atmosphere, mood, and finally – a consumption style sketch. Appetizing elements such as ingredients, flavour, and product outlook are also likely to be a part of a visual message. (Consumer behaviour in Russia: highlights on consumer segments, brand perception, advertising, and channels)

5.3 Logistical environment

The division of use of various transportation modes

The Russian transport network is partly state-owned and nationally integrated. The infrastructure eroded seriously in the late Soviet period and requires much modernization and reform. The Soviet government considered transport

expenditures as an unproductive but necessary part of the economy. Emphasis was therefore placed on the types of facilities that move the greatest amount of goods and people at the least cost, often sacrificing convenience to the consumer in order to maximize efficiency. The transport network is dominated by railways; motor traffic plays a minor role. A great network of oil and gas pipelines facilitated the rapid expansion of the oil and natural-gas industries also maritime shipping has facilitated the growth of foreign trade. (see Microsoft Encarta Encyclopedia 2003 - Russia).

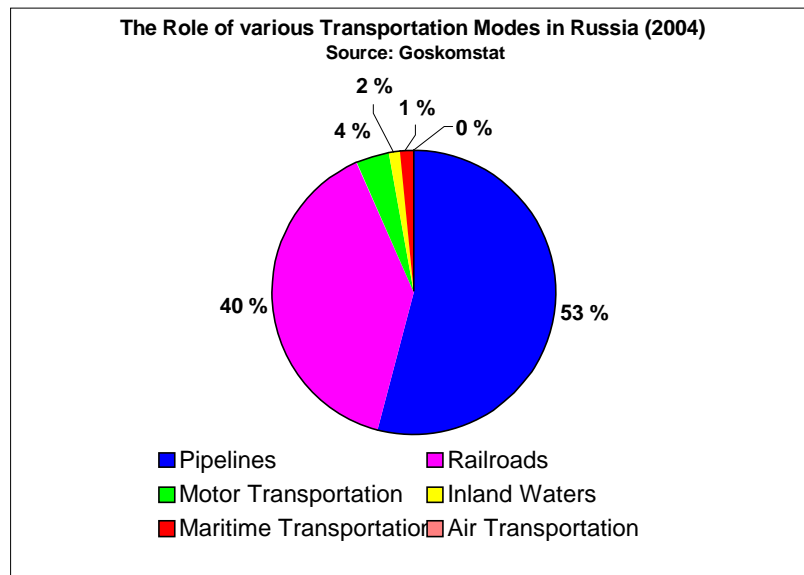


Figure 8 Logistical environments in North-East Russia

The development of an logistical infrastructure in North-East Russia have been very fast since transport companies opened daily road freight express delivery services between Helsinki and St. Petersburg. The infrastructure is already so developed that companies can offer the same special services as they provide in Western Europe. (Gateway Finland 98) As in addition to St. Petersburg, Moscow is one of Russia's most important transportation hubs, facilitating a significant share of the county's international trade, Finns have very good advantage that can easily be used effectively. Because of Finland's eastern trade experience and geographic proximity, Finnish authorities and companies have been able to speed up border crossing procedures, build safe warehousing and develop information exchange(see Gateway Finland 98). Finland is also the only EU country with the same rail gauge as Russia. No reloading at the border is required and the cargo will reach its destination uninterrupted all the way. Transit time by rail from Southeast Finland to Moscow is between 2-3 days. During the busiest periods, over 1000 rail wagons cross the Finnish-Russian border a day. (Straightaway: 2004).

Choosing the route of shipment depends on whether the cargo should be delivered to Moscow or to St. Petersburg. Nearly 80% of freight in Russia is carried by rail and there are good railway connections from Finland both to St. Petersburg and Moscow. There is also a project for construction of a fast railway link between Helsinki and St. Petersburg. The Finnish side has already completed the technical evaluation of the project and is awaiting a similar evaluation from Russia. The estimations show that construction of the fast railway link will decrease the travelling time from the current 5.5 hours currently to 3.5 hours. (See Bisnis 2004)

In St. Petersburg, which is one of Russia's main import-export hubs, a lot of transportation-related business has developed in the past ten years, including agents of the shipping lines, customs brokers, freight forwarders and logistics companies, chartering and shipbrokers. Competition between market participants brings associated benefits to exporters and importers, allowing choosing the most efficient transportation partners. Northwest Russia is a natural export-import hub for Russian international trade as this region has road and rail links with Finland and the Baltic countries. Over 70% of Russia's international cargo (export and import) flows through the Greater Port of St. Petersburg. The ports of Finland and the Baltic countries are the primary competitors of the Northwest Russian ports. Their competitive advantage is based on several factors, including modern port facilities and easy access for ocean-type vessels with maximum draft, the ability to process cargo quickly and with fewer formalities. However, these advantages will diminish as Russia pursues its policy for development of its own export-import transportation complex. Simplification of customs formalities expected in 2004 will also attract more cargo directly to the Russian ports. (Bisnis 2004)

However, basic transportation infrastructure in Russia is quite worn out and requires significant modernization and improvement. New infrastructure projects are carried all the time and they aim to create outer circles of transportation routes around St. Petersburg and Moscow and remove transit traffic and transport flows from the residential areas of the cities. The By-Pass Road, development of the Great Port of St. Petersburg, the Flood Protection Barrier (encompassing port and road projects) and some other projects of smaller scale (like new warehouse terminals, railroad cargo stations and truck reloading terminals, etc.) are the focal point of the attempts to ensure that both cities will be able to handle growing volumes of Russia's international trade. (Bisnis 2004)

St. Petersburg is included in the trans-European transportation corridor #9, passing through Helsinki to Moscow. Significant cargo flows come in the south-north direction and in the east-west direction. It is clear that the trend towards growing weight of St. Petersburg in international trade of Russia is to continue in the future

Urho Viljanmaa export to Russia

If Urho Viljanmaa decides to export to Russia, the easiest way for organizing the logistical activities is to outsource them and use forwarding companies. The main border crossing points between Finland and Russia in the Southeastern Customs District are Vaalimaa, Nuijamaa and Imatra which are open 24 hours a day ensuring a safe and fast border crossing. The E18 road effectively connects Southeast Finland with Russia as the E18 follows the coastline of Finland and passes only a couple of kilometres away from the Ports at Kotka and Hamina. The driving distance from Helsinki to Hamina is about 150 km and from Hamina to St. Petersburg 250 km and to Moscow 950 km, which allow cargo deliveries to reach St. Petersburg within 6 hours and Moscow within 24 hours. (Straightway 2004).

5.4 Exporting to Russia

Documents Required for Shipment

Urho Viljanmaa will most probably transport its goods in parcels to Russia due to the small size of the products. The parcels are subject to the same customs limitations as all other shipments and customs forms must be filled. Each of Urho Viljanmaa's shipment must be accompanied by a contract, commercial invoice (can be used as a contract), packing list, certificate of origin and transport documents (waybill, CMR waybill, CARNET TIR book). All these documents have to be translated into Russian language.

First of all company will make a contract with the Russian buyer. The contract should contain terms and conditions of delivery; full names of the exporter and the importer; legal addresses (if the legal address of the Russian Company differs from its mailing address, the rental agreement has to be submitted).

The Russian Customs Code

The Russian customs requires documents from the recipient, including some prepared by the recipient along with the submission of the Customs declaration for dutiable shipments. The freight forwarders and courier services can provide clearance services and Jalas, as suggested, should use a shipping company like Transpoint or TNT or any other to make the export process easier. Clearance-related documents can be faxed initially, but the originals are necessary for completion of clearance.

Import duties are levied according to the type of goods imported and their origin. Duties are normally expressed as a percentage of the value of the goods imported ("ad valorem" duties). However, they may also be expressed as a set amount of euros per unit or kilogram or as a combination (the greater of the two).

With effect from 1 January 2001 a new system of tariffs was introduced. There are now five rates: 5%, 10%, 15% 20% and 25%. Certain goods may also be imported duty free.

A customs processing fee of 0.15% of the cost is also levied. Customs duties are payable in rubles at the current exchange rate. According to customs regulations, processing should take no longer than one month. If goods are refused entry by Russian Customs, regulations call for their return to the country of origin.

Customs clearance procedures are longwinded and complicated. Clearance can only be completed by the consignee who must be a company registered in Russia. All duties and VAT have to be paid to Customs prior to release of goods. (See UK Trade & Investment)

In Russia, importers are required to use "Import Passport" to document payment of the import transaction (Shipping Guide to Russia: 1997).

Russia and Future Trends

Russia as a potential new market is rather challenging, the changes that the country, its market, currency and political stability has gone through during the last years have not been providing much more than great risks. Russia's economy has stabilized after the crisis of year 1998 and devaluation of ruble and now enjoys its strongest economic growth in a decade. Same time Russia provides a whole new market of 150 million people with great investment opportunities. Especially improvements in international networks as well as in inland transportation infrastructure are needed and therefore Russia provides valuable investment opportunities, this need of improvements and need of promoting strategic foreign investment opportunities is also recognized by the Russia Government. (Business Events Management 2004) Besides transportation and logistical opportunity, the growing and now blooming telecommunication industry provides not only markets for mobile phone manufacturers but for accessory manufacturers as well.

The trend shows that Russia has been strengthening its role in developing the transportation routes between Europe and Asia. The improvements do not only attract foreign investors as investment targets and in that way bring remarkable

incomes but also serves Russia's own purposes in order to diminish the inland transportation costs, to assist Russia's own export transportation. (Compiler 2004)

At the moment the transportation costs in Russia are high, the transportation is slow and somewhat unreliable. However these are things that can / will be improved and diminished in the future, only long distances remains as given factors. The coordination in logistical management has also some weaknesses; the situation is not better with the condition of the trucks and transportation systems either – the technical condition is not good, however these can / will be remedied with the help of future foreign investments. (Compiler 2004)

6 Entry Strategy of Urho Viljanmaa Oy to Russia

6.1 Entry mode selection

In Chapter 3 different Entry Modes were presented. Among different Entry Modes direct exporting via agent or distributor was mentioned. Exporting and more precise direct agent/distributor channel would be best to use for Urho Viljanmaa to break into Russian market.

To prove that let me come back to the factors influencing the entry mode decision described in Chapter 3.

6.1.1 External Factors

Size of the market

Though Russia geographically is a huge country. The market for safety and work shoe production is not that huge and it is untapped for Urho Viljanmaa-Jalas. According to our interviews and research we got the opinion that Jalas products are of the very high quality but as well of high price and therefore not affordable to every company. As well some industries in Russia are not considered very rich or privileged as gas or oil industries, therefore companies in those, like light industries or medicine would not be willing to spend big money for safety equipment.

Competitive structure of the market

Though our research find Russian market by structure being atomistic it still had a few dominant competitors who were supplying mostly state owned big oil and gas companies, therefore we think that it would be difficult for Urho Viljanmaa to start there without agent/distributor which has a better knowledge and connection in the market.

6.1.2 Internal Factors

Product factors

As Jalas products are highly differentiated with distinct advantages over cheaper and not so qualitative local production. Hence high product differentiation favours export entry. Though Jalas production had a higher price than the locally produced shoes, but the quality advantages were recognized by both interviewed companies (see Chapter 7 Interviews).

6.2 Exporting

Technically, exporting means the sale in foreign market of an item produced, stored or processed in the supplying firm's home country, as opposed to the supplier being involved in foreign manufacture or processing of goods. In practice, however, the distinction between pure "exporting" on the one hand and wider foreign operations on the other has become increasingly blurred as businesses increasingly internationalize their activities.

Small and medium-sized companies that want to develop export without making a substantial commitment of management or financial resources can employ export management companies. These companies arrange the mechanics of exporting, identify markets, find potential buyers, and select distributors. Ultimately, however, as these markets develop, direct contact will need to be established with a separate sales organization for international markets. This then takes over all the complex problems of research to determine which markets to enter, and with what strategy.

(Bennett 1998:15)

6.3 Approaches to exporting

Some companies see exporting as little more than a convenient way of increasing domestic sales; others regard the export function as a critical element of overall corporate strategy and accord exporting a status equivalent to any other field of operation within the firm. Passive exporting occurs when a firm receives orders from abroad without having canvassed them. Active exporting results from business developing policies for setting up systems for organizing the export function and for dealing with export logistics, documentation and finance. Foreign demand for imports may arise from a variety of sources, including:

- non-availability of products possessing certain desired features and/or quality levels from domestic producers;
- price differentials between imported and locally supplied items;
- exotic images attaching to foreign products;
- inefficiency in local distribution systems, political disruptions, strikes and other forms of industrial action that prevent local firms from supplying goods

A product that has reached the end of its lifecycle at home may have a fresh lease of life if introduced in another country. There might be a little competition in certain foreign nations, easy access to major customers (via centralized buying by government agencies or retail consortia, for example), and it may be possible to shift slow-moving stock that, while not having succeeded in the home market, might nevertheless be attractive to purchasers abroad. And, of course, exporting will increase turnover, hence spreading overheads over a greater number of units of output. Exporting can be undertaken directly or indirectly. (Bennett 1998:16)

6.4 Direct versus indirect exporting

Direct sale in foreign markets cuts out expensive intermediaries and allows absolute control over export marketing techniques and strategies. The exporter assumes responsibility for shipping, customs clearance, internal distribution, local advertising, price policies and final sale. This work may be undertaken within an export department, or through establishing a branch office in the foreign country.

Cultural differences, technical and language problems frequently induce exporters to use intermediaries, based either in the home or foreign country. Let's name a few:

6.4.1 Indirect exporting:

Export merchants

Export merchants reside in the exporter's country, acting as principals in export transactions (that is, buying and selling on their own accounts). They are wholesalers who buy goods in the supplying firm's country and resell them abroad. (Bennett 1998:18)

6.4.2 Direct exporting:

Confirming houses

Confirming houses exist to represent, as principals, foreign buyers who are not sufficiently well known for home firms to supply them on credit terms. The confirming house finances the transaction and thus assumes the risk if customer default. In return it charges the buyer a commission. (Bennett 1998:18)

Export management companies

There exist firms of specialist export managers who offer comprehensive exporting services that cover all aspects of the exporting function. The export manager will use the exporter's name, but may act as a principal, financing transactions and accepting part of their risks. By employing an export manager the firm, in return for a commission and normally a fixed annual fee, secures a complete export service. (Bennett 1998:19)

Agents and distributors

The difference between an agent and a distributor is that whereas the latter actually purchases a supplying firm's products (assuming thereby full responsibility for their condition, sale and any bad debts), agents put their clients in touch with third parties but then "drop out" of resulting contracts, so that the agreements are between the agent's client and third parties, without the agents being further involved. Export agents charge commission to home based firms. An agent will find foreign customers for a company's products, but if goods are defective, damaged or delivered late it is the client and not the agent who is responsible. (Bennett 1998:67)

Distributors assume full responsibility for selling the item. As well responsibility to provide after sales service. Distributors typically demand exclusivity. Clearly the distinction between an agent and a distribution agreement can be blurred, especially if the agent is acting as a factor. (Bennett 1998:68-69)

One of the Urho Viljanmaa Company's goals presented to us was to try to find potential partners in Russia. That we achieved and will present the summary of interviews with managing personnel of two Russian companies will be presented in Chapter 7.

6.5 Benefits and problems of exporting

Exporting has a number of advantages as a means for selling abroad when compared with more extensive foreign operations. There is no risk of the failure of direct foreign investments; the revenues from foreign sales accrue entirely to the exporting company (rather than it having to repatriate profits from foreign subsidiaries); experience of international marketing is gradually and systematically acquired; and the firm builds up a network of contacts with foreign agents, distributors, retail outlets, etc. Exporting is relatively cheap and convenient. Direct exporting provides total control over the selling process, avoids the need to share know-how with foreign partners, and enables the exporter gradually to acquire an inventory of knowledge about export techniques and foreign markets.

Exporting can be highly profitable and greatly strengthen the potential of a business. (Bennett 1998:18)

7 Interviews: Potential Partners

In the end of our research two potential partners were interviewed. The interviews helped as to gain very valuable information and gave us better insight to the market.

In addition to our secondary research we received information from Finnish-Russian Chamber of Commerce in St. Petersburg about Russian companies which expressed interest in cooperating with Finnish companies.

The lists contained information about the companies which were producing or distributing work shoes, clothes of other safety equipment. From the list of 33 companies we selected 5 companies which we contacted by email. From 5 contacted companies we got replies from 3 companies. One company later dropped out, but eventually we got interest and scheduled interviews with the remaining two.

We had some basic questions prepared about information we wanted to find out. As well we already had some background information from the Chamber of Commerce about those companies.

We wanted to find out: the size of the company, revenues, market share, and distribution channels. Also, we asked were they having their own production or do they only sell foreign production. As well we had a price list and some brochure prepared from Jalas to show them. For a questions asked pls see Appendix.

We asked the questions during the interview and based on the answers we got we drew conclusions which we presented to the Jalas company. The summary and the conclusions of the interview will be presented here. For the reasons that this information is sensitive to the company the interviewed companies will be introduced as company A and company B.

Company A

Company A has been around six years in safety goods business. The company doesn't have own shoe production. Instead they have their own safety clothing production and sell safety shoes from other Russian shoe manufacturers. Therefore they think that foreign quality shoes would enrich their assortment to offer for customers.

Though the company's management was disappointed about the high prices, they would like to cooperate. They would need samples in the beginning and

some brochures and promotional materials. Company A didn't promise big quantities of sales initially.

Company A wished that promotional material should show that the quality is superior or that nobody else makes this kind of model.

Company A would use their resources for promotion. They can market goods together with their own company promotion or separate. Company A's main marketing is done through exhibitions, catalogs.

The main partners of Company A at the moment are building-construction and oil companies. (Kazakevich 15.01.2006, interview)

Company B

Company B is a private company. It is rather small in size. Company B sells only foreign production, special cloths and footwear. Company A sell cloths from the Czech company KROK and shoes from PRABOS (former CEBA) and Swedish shoes ULLFROTTE ORIGINAL.

The director of the Company B stressed the importance of the personal contacts in Russian business and tried to convince me that she has those contacts. The director stressed the contacts in oil industry.

Company B was interested to collaborate and to start they would need a contract and informational material (preferably in Russian language). (Bystrova 16.01.2006, interview)

General information-impression about the market

The selling price of J alas production was considered high in both A and B companies, but it was stressed that these shoes are more of the future product when companies in Russia have more money and at present the start would be slow.

From the interviews we got the information that not all industries have money. Medical, food and light industries were considered not being able to buy J alas production at the moment. The main potential customers were considered oil, gas, atomic energy industries as well as building-construction industry. The most interesting products were boots or shoes with high leg.

The interviewed were aware that there are companies selling foreign production in Russian market, but they all stressed that they are not sure how much of it they sell and said that distributors make most of their money from selling

Russian products. Russian labour being cheap there was no need for expensive footwear.

Common practice

Company B said that quite common practice in safety shoe sales is that 2-3 examples are given to the company. Then workers wear the shoes for a month or so and after that write the report. If the report is positive then the order is made.

There are a lot of problems with orders. The main is that some kind of manager in the office makes the decision to buy shoes, but then there is another person in the central office who has to approve the order to be paid for. If he/she doesn't sign the order, then the order can not be processed. That means that until the person in the central office didn't sign, the order is not really valid. This kind of system creates a situation for corruption.

The interviewed also said that Russian industries are not requiring European certificates for the safety products they use. Only Atomic energy industry is required to use EU standard certificates for safety footwear.

Recommendation for pre-selection of the companies

Company A being bigger is more attractive as a partner; on the other hand Company B showed more enthusiasm and long term commitment. Also Company B was exclusively concentrating on foreign made shoe sales, Company A selling Russian made shoes. But both companies would be eligible for starting partnership negotiations with Jalas.

Company A was a mid size and Company B a small size company. Regretfully the author of the report was not able to get to the giants of the market. The main reason why they are giants is that they get the state owned companies orders. And a lot of oil, gas companies is state owned in Russia.

8 Conclusions

The aims of this thesis were 1) to make a research of Russian safety and work shoe market, to find out about producers, distributors, competitors, price and quality level (research part about producers, distributors, price and quality level was consider business sensitive and is not available for the public) 2) to suggest the best suitable Entry Mode for Urho Viljanmaa Company 3) to make screening, preselection for the possible potential local partners for Urho Viljanmaa Oy.

The research of the Russian safety shoe market was made and the researchers found out about the main players in the market. Main producers, distributors, foreign importers, potential competitors were researched. General characteristics of target market, retail sector, logistical environment, exporting procedure were presented. Shoe production, quality and prices were researched and compared. Our research received a positive feedback from the Urho Viljanmaa Company. Because of the business sensitive information, part of the research about main market players: producers, distributors, competitors and they price and quality level is not available for the public.

In Chapter 3 different Entry Modes and Factors which were influencing Entry Mode selection for the company were presented. It was discovered that there are external factors that deal with the market, production and environmental issues in the home and target country and internal factors which deal with the company's ability to respond to external factors. Entry Modes to enter Eastern European markets specifically were discussed.

In Chapter 6 exporting was selected as the most suitable entry strategy for Urho Viljanmaa Oy. Exporting with a help of agents or distributors was chosen to be the best channel based on market and production factors. Russian safety shoe market is unknown and untapped for UrhoViljanmaa. Though our research found Russian safety shoe market by structure being atomistic it still had a few dominant competitors, therefore it would be difficult for Urho Viljanmaa to start without agent/distributor which has a better knowledge and connections in the market. Jalas production was found of superior to local quality therefore with the knowledge of local agent/distributor it could easier find a high quality for higher price niche market. Further more direct exporting would provide Urho Viljanmaa control over the selling process, there would not be a need to share know-how with foreign partners, and would enables Urho Viljanmaa to gradually to acquire knowledge about Russian market.

In Chapter 4 Marketing Research process was introduced as a theoretical background for the research that was undertaken. Main research techniques

were discussed. Both quantitative and qualitative techniques were used for this research: quantitative technique for “desk” research of the market and qualitative for the interviews.

In Chapter 5 Russia as a target market was introduced. The information about the market included basic information about the market, Russia’s retail sector, information needed to start exporting to Russia such as documents required, customs code and the best way to organize logistical activities.

After discussing and selecting entry mode- exporting, introducing stages and techniques of research process in Chapter 7 conclusions of the interviews with two potential partner companies in Russia are presented. This part was very important for Urho Viljanmaa Company and gave the very valuable information about the insight of the market. Both of the interviewed companies expressed interest in further cooperation with Urho Viljanmaa. Company A being bigger and having more experience is maybe more attractive partner for Urho Viljanmaa, but Company B being more enthusiastic and stressing contacts in the market makes them both possible potential partners and the future is up to further negotiations to decide.

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Interviews

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Bystrova, Vera. Company B, Director. Interview on 16th of January, 2006. St. Petersburg

Appendix

Appendix 1: The list of questions

Do director or management personnel speak English?

Do you have safety equipment/ shoes produced in your own factory?

Do you sell safety equipment/ shoes which are produced in Russia?

Do you sell safety equipment produced abroad?

For which industry are your goods sold?

Do you produce some safety equipment yourself?

What is your turnover (in 1000\$ a year)?

What part of your sales is work, safety shoes?

How many people work in your company?

What is your Company's market share from St.Petersburg working equipment/ shoes?

How long is your company operating?

What do you think of Jalas production?

Would you like to cooperate?

What kind of promotional material would you need?

What kind of promotion do you use?

