

Tools for creating an international marketing program to Russia

Case Pro-FIT



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The background for this thesis is an EU-supported coaching project intended for small and medium-sized companies in the food and drink industry called Pro-FIT. The name stands for Promotion of Food International Trade. The target market in the project is Russia. Pro-FIT has two main organizers; Laurea University of Applied Sciences from Finland and Competence Center of Food and Fermentation Technologies from Estonia. The objective of the project is to help the participants gain foreign market entries, develop international trade and create collaboration between Finland and Estonia.

Pro-FIT's purpose is to train the participating companies by using different types of teaching methods such as seminars, workshops and independent assignments. The project has three phases that focus on different aspects of internationalization. This thesis focuses on the project's third phase called Footsteps to International Markets by explaining the classical marketing mix and its importance while creating a market entry plan, which is the main objective for the companies.

The pilot phase of Pro-FIT ended in June 2010. For evaluation and development purposes an end interview was conducted. The main questions were how the participating companies evaluate Pro-FIT as a whole and what they had gained from it.

The project was perceived as professional and comprehensive and it had been useful to all the companies in some extent. Because the experience level among the companies varied greatly the benefits of the project were diverse. As a result of the project, a number of the participating companies had reached a stage where planning for international activities could begin. As a pilot the project had some problems, the most significant being technical difficulties. To some the workload Pro-FIT generated was more than had been expected.

The purpose of the interviews was to gain insight on what could be developed. It was noted that the companies should be at the same level of development to be able to focus on content that is significant at that specific stage. There should be more participants and the demands of the project ought to be emphasized to higher extent to prevent any misunderstandings and withdrawals. As a whole the project had given the participants what they had been expecting and what had been possible in such a project.

Key words Market entry, marketing mix, Russia

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Ohjeita kansainvälisen markkinointiohjelman suunnitteluun Venäjälle; Case Pro-FIT

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Tämän opinnäytetyön pohjana on EU:n tukema valmennusprojekti Pro-FIT. Pro-FIT on lyhenne englanninkielien sanoista ”Promotion of Food International Trade”, mikä tarkoittaa elintarvikkeiden kansainvälisen kaupan edistämistä. Projekti on suunnattu pienille ja keskiuurille ruoka- ja juomapuolen yrityksille etelä-suomesta ja Eestistä, jotka ovat kiinnostuneet Venäjän markkina-alueesta. Projektin pääjärjestäjät ovat Laurea - ammattikorkeakoulu ja eestiläinen TFTAK, elintarviketeknologioiden ja käymisprosessien osaamiskeskus. Projektin tarkoituksena on auttaa siihen osallistuvia yrityksiä kansainvälisen kaupan kehittämisessä ja luoda rajoja ylittävää yhteistyötä Suomen ja Eestin välille.

Yrityksiä valmennetaan käyttäen erilaisia opetusmetodeita, kuten seminaareja, työpajoja ja itsenäisiä tehtäviä. Pro-FIT:ssä on kolme vaihetta, joissa keskitytään kansainvälistymisen eri osa-alueisiin. Tämä opinnäytetyö paneutuu projektin kolmanteen osaan; kansainvälisille markkinoille penetroitumiseen selittäen perinteisen markkinointi mix:n ja sen tärkeyden markkinoille tulo-suunnitelmaa tehtäessä. Suunnitelman tekeminen on projektiin osallistuvien yritysten lopullinen tavoite.

Projektin pilottivaihe päättyi vuoden 2010 kesäkuussa. Jotta projektin ja valmennuksen onnistumista voidaan arvioida, yrityksille teetettiin loppuhaastattelu. Haluttiin selvittää, kuinka Pro-FIT:iin osallistuneet yritykset arvioivat projektin kokonaisuutena ja mitä projektista oli opittu.

Pro-FIT koettiin ammattimaiseksi ja kattavaksi. Se oli hyödyttänyt kaikkia osallistujia jossain määrin. Osanottajien kokemus kansainvälisestä kaupasta vaihteli suuresti, valmennuksen hyödyllisyys arvioitiin melko erilaiseksi osanottajien keskuudessa. Projektin ansiosta moni siihen osallistunut yritys oli päässyt liiketoimintansa kehittämisessä vaiheeseen, jossa kansainvälistymistä voidaan alkaa suunnitella. Koska kyseessä oli pilottivaihe, myös ongelmia ilmeni. Suurimmat kehityksentarpeet koettiin olevan teknisessä toteutuksessa. Muutamalle osallistujalle työmäärä, jonka Pro-FIT vaati, oli suurempi kuin kuviteltu.

Loppuhaastattelujen tarkoituksena oli saada tietoa niistä asioista ja osa-alueista, jotka vaativat kehittämistä. Huomattiin, että osallistujien kokemus ja tietotaito tulisi olla samalla tasolla, jotta voitaisiin paremmin keskittyä yritysten spesifeihin tarpeisiin. Myös projektiin osallistuvia yrityksiä tulisi olla enemmän ja projektin vaatimuksia pitäisi painottaa entistä enemmän. Tämän tarkoituksena on vähentää väärinymmärrysten ja projektin keskenjättämisen mahdollisuutta. Kokonaisuutena Pro-FIT:in arvioitiin antaneen yrityksille se, mitä oli odotettu ja mikä on ollut mahdollista tämältyyppisen projektin piirissä.

Asiasana Markkinoille tulo, markkinointi mix, Venäjä

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1 Introduction

1.1 Description of the phenomenon

As a small and open economy Finland is dependent on companies exporting and becoming international. The globalization of the economy and global competition are a reality. Even though globalization brings challenges it also creates opportunities (Vahvaselkä 2009, 15). If the entry to international markets is successful it can offer companies new and potentially more profitable businesses and help the company to increase its competitiveness (Hollensen 2004, 3; Czinkota, Ronkainen & Moffet 2005, 5).

For more than 50 years international trade and investments have been growing in much larger scale than the domestic economies. A combination of domestic and international business seems to have more potential for expansions, growth and income than domestic business alone (Czinkota et al. 2005, 5). International business can potentially give the access to new product ideas, manufacturing innovations and the latest technology. Even though an entry to new markets can create many opportunities for the company, it must be planned out carefully in advance to be successful (Hollensen 2004, 3).

1.2 Background to the thesis

This thesis is part of an EU supported coaching project called Pro-FIT, which stands for Promotion of Food International Trade. “The goal of Pro-FIT project is to help the small and medium size enterprises (SMEs) of food and drink (F&D) sector to gain foreign market entries and develop international trade” (Pro-FIT 2010). Pro-FIT aims to help SMEs to develop their knowledge and skills in internationalization and help the companies taking part of the project identify market opportunities and create collaboration between Finland and Estonia. Another project goal is to give the companies necessary guidance from the leading experts, such as Finpro, Fintra, Laurea and TFTA, Competence Center of Food and Fermentation Technologies from Estonia. Creating contacts with foreign customers and co-operation companies is highly significant to the project. (Pro-FIT 2010)

According to SMESTRADE Pro-FIT is exceptional for two reasons: it is a new solution in developing international food trade; anything like it has been organized neither in Finland nor in Estonia to the date. The other reason is that Pro-FIT offer SMEs an exceptional opportunity to develop their skills for internationalization. (Pro-FIT 2010)

1.3 Need and purpose of the thesis

The Pro-FIT project started in May 2009, when several companies were approached and interviewed whether they would be interested in taking part in Pro-FIT's pilot phase. The companies that took part on the Pro-FIT project were not familiar with international business to the extent that they should be to be able to make a successful market entry. For that reason different sources provided them with lectures, assignments and other tools to help them. Pro-FIT consist of three phases:

Phase 1: Preconditions for Internationalization

- Product & development, choosing the target market, planning for international growth

Phase 2: Market understanding

- General business environment & authorities, regulations and culture, market structure & competition

Phase 3: Footsteps to international market

- Marketing and sales, export logistics, market entry plan & mode

The assignment was to create tools to help the companies achieve their goal, which was creating a market entry plan. The assignment was given to me by Laurea's lecturer Ritva Jäättelä, who was in charge of the content of the internationalization training and also partly responsible for the implementation. It was decided that I would focus on the projects third part "Footsteps to international markets".

The exact content of the third part was the following:

- Planning for market entry
- Business culture, negotiations and contracting
- Marketing and sales at target market
- Export logistics, forwarding and documentation
- Pricing strategies, export financing and methods of payment
- Risk management
- Developing a new product for chosen target market
- Steps to international markets
- Problems and solutions related to international markets

Like mentioned, the end goal for the participating companies was creating a market entry plan, more precisely to Russia. My purpose was to create tools to help the companies know,

what type of things they should have on their market entry plan from the projects final phase. The tools itself were created in December 2009. (Pro-FIT 2010)

1.4 Goals and restrictions

The assignment given was to create tools for the companies' aid in Pro-FIT. The actual tools in the form of PowerPoint and Word-documents were created in December 2009. The base of the thesis was these tools that had already been done. The idea was to concentrate on the key points of the tools in a more comprehensive way. Explain the marketing mix in a way that gave more profound knowledge to parties interested. The theoretical part is in fact the tools that have been created. Therefore this thesis concentrates on the activities of the third phase of the Pro-FIT project. To narrow the theoretical part down it was decided that the focus will on the different components of the marketing mix, which includes most of the activities of the third phase. The perspective will be of international business and internationalization. As the focus will be on the marketing mix, financing and risk management will not be part of this thesis. It will be explained how the different parts of the mix are the core to international market entry plan.

Market mix composes four different elements called the 4P's: product, price, place and promotion. Each part is discussed in more general terms and at the end of each discussion are mentioned the distinctions of Russia. The aim is to combine all the factors that companies should consider while making a market entry plan. The focus will be on Russia as the participating companies have decided to focus their internationalization activities toward Russia. As the companies have already discussed the preliminary conditions of market entry, this thesis will not focus deeply on those. As the companies have already decided which products they are marketing abroad, the product selection will not be discussed in detail.

The aim of the end interview conducted to the participating Pro-FIT companies is to get the end conclusions from the companies. How do they evaluate Pro-FIT as a whole, what was good about it, what could have been developed and what did they gain from it? Based on the answers Pro-FIT can be developed and the different parties can evaluate their success. If the companies found the project useful, maybe something similar can be organized in the future.

1.5 Structure

The first part of the thesis focuses on the pre-conditions of making a market entry. The main objectives, motivations and methods are explained but as Pro-FIT had already covered these areas; they are not a focal point. The second part is Russia as the target market and its specialties and demands. The final theoretical part is the international marketing plan and its content. The theoretical part is followed with a study of the Pro-FIT project on the view point

of the companies taking part on it. The companies are interviewed about their thoughts and experiences about the project.

2 Initiation of internationalization

Internationalization can be defined in many different ways and from many different angles. From the point of view of a company internationalization is comprehensive process where the amount of international business or the participation in international operations increases. (Vahvaselkä 2009, 17) According to Hollensen (2004, 30) internationalization happens when a company expands its Research & Development (R&D), production, selling and other business activities into international markets.

Internationalization of a company can be determined as strategic decisions that modify the procedures of the company to the environment in a way that creates competitive advantage and success in the long run (Vahvaselkä 2009, 19). For small and medium sized companies internationalization is often relatively discrete process, where the management thinks of each internationalization project as distinct and individual (Hollensen 2004, 30).

2.1 Motives for internationalization

Every company has their own reasons to become international; the basic goals can be profit or nonprofit oriented. Profit-oriented reasons can be such as return of investment, return of sales, profit maximization, growth or stability. Nonprofit objectives include for example a desired volume of sale, market share, preservation of status quo serving customers and so on. (Albaum, Duerr, Strandkov 2004, 62) In addition to the basic goals that most companies have, there are specific reasons for exporting that can be proactive or reactive. No matter what the specific trigger for internationalization is, the fundamental reason why companies export is to make money. (Hollensen 2004, 31; Albaum et al. 2004, 62-63)

2.1.1 Proactive motives

Proactive motives represent stimuli to attempt strategy change and are based on the company's interest in finding unique competences and market possibilities (Hollensen 2004, 31; Albaum et al. 2004, 63). Proactive motives are for example profit and growth goals, managerial urge, technology competence/unique product, foreign market opportunities/market information and economies of scale. (Hollensen 2004, 32)

Managerial attitude towards internationalization has a major role in determining the export activities of the firm. Managerial urge is the motivation that reflects the desire, drive and

enthusiasm and commitment of management towards exporting and global marketing activities. In SMEs export decisions might be made by only one person. The choice of the foreign market entry strategy is dependent in the decision maker's perception of foreign markets, expectations concerning these markets and the company's ability to enter them. (Hollensen 2004, 32; Albaum et al. 2004, 64) Albaum et al. (2004, 64) says that there is a distinctive relationship between individual decision characteristics and export behavior. Favorable attitudes towards international activities have been considered as a must before companies can internationalize. The more involved the managers have been with international environment the more open they are to the possibility of going global (Hollensen 2004, 32).

For SMEs that are at the stage of initial interest in exporting, the desire to get short-term profits is very important. To get the company's exporting activities to start the motivation of growth can have a very big influence. As time goes by the company's attitude towards growth will be influenced by their past efforts and the feedback they've gotten from it. What the company has expected to gain from the market entry is quite often very different from the reality. The profitability at the beginning of internationalization can be low and the gap between perception and reality may be very large especially if the company has no previous experience on international operations. The stronger the company's motivation to grow is the greater the activities it generates to find ways to fulfill their growth and profit goals. (Hollensen 2004, 32)

If a company has a truly unique product or technology it can stimulate competitive edge and result in major business internationally. A company producing unique products is more likely to receive inquiries abroad because of the perceived competences it offers. If a company has been able to create unique competencies in its domestic market, it has more possibilities to spread unique assets abroad because of the opportunity costs of exploiting these assets in other markets will be none or very low. (Hollensen 2004, 32-33; Albaum et al. 2004, 65)

The thing to consider is how long a technological or product advantage lasts. Nowadays a company cannot rely on being the sole provider of the product for many years to come due to competing technologies and a frequent lack of international patent protection. (Hollensen 2004, 33)

Finding new market opportunities abroad has often strengthened the company's willingness to export. It is evident that market opportunities act as stimuli to the company only if it has or is capable of securing the resources necessary to respond to the opportunity. Decision makers within the company are likely to consider rather limited number of foreign market opportunities while they are planning a market entry. (Hollensen 2004, 33; Albaum et al. 2004, 65)

Gaining specialized marketing information about foreign customers, marketplaces or market situations can distinguish an exporting company from its competitors. This type of special information may result from particular insights based on company's international research, special contacts the company might have or just being at the right place at the right time. (Hollensen 2004, 33; Albaum et al. 2004, 66)

If scale economies exist in production, advertising, distribution or other areas, a boarded market scope created by exporting can give rise to a decrease in unit costs of product produced. Through exporting fixed cost from for example administration and R&D can be spread over more units. Some companies seek international standardization of the marketing mix by exploiting scale effects to the fullest extent but some companies do not need standardized marketing to gain economies of scale. (Hollensen 2004, 34; Albaum et al. 2004, 66)

2.1.2 Reactive motives

Reactive motives show that a company reacts to a pressure or a threat from the local market. The company adjusts to this situation by changing its activities over time. The most important reactive motives are: competitive pressure, the small size of the domestic market and its saturation, overproduction and excess capacity. Also unsolicited foreign order, extend sales of seasonal products and the proximity to international customers and the psychological distance to them are motives to go international. (Hollensen 2004, 31-32)

Probably the best example of reactive motives is when a company reacts to competitors' pressure. The company might fear losing domestic market share to the competitor(s) that have gained economies of scale from international activities. Another option is that the company fears losing foreign markets permanently to domestic competitors that have decided to focus on those markets, knowing that market share is most easily retained by the firm that had it in the first place. If the company knows that its competitors are going global it might trigger an urge to do the same. Competitors are very important external factors that stimulate companies to internationalize. (Hollensen 2004, 34)

Sometimes a company can be pushed into exporting because there is not much potential to grow at the domestic market. In some cases the domestic market is unable to sustain sufficient economies of scale for the company. These companies automatically include international markets as a part of their growth strategy. This is typical behavior to companies that produce industrial products that have few, easily identified customers located all over the world or for producers of specialized consumer goods with small national segments in many countries. (Hollensen 2004, 35; Albaum et al. 2004, 68)

A saturated domestic market has a similar motivating effect as the small domestic market has. The product the company produces might be at the end of their life-cycle at the domestic market and instead of trying to push back the life-cycle process companies opt to prolong the product life-cycle by expanding to new markets. This was a success when the products were marketed to developing countries, where the customers reached gradually the level of need and sophistication customer in industrialized countries already had. Another outlook to saturation is that home market saturation suggests that unused productive resources exist within the company. Production slack is a stimulus for securing new market opportunities and managerial slack can provide knowledge resource required for collecting, interpreting and using market information. (Hollensen 2004, 35)

When the domestic market is unable or unwilling to absorb the output that the company is capable of producing or is producing at the moment then export markets can serve as outlets for this surplus production or productive capacity (Albaum et al. 2004, 66). According to Hollensen (2004, 35) excess capacity can be a powerful motivation. If production equipment is not utilized to its full potential, companies may see expansion into international markets as an ideal way to achieve broader distribution of fixed costs. Another way is to assign all fixed costs to domestic production and penetrate a new market with a pricing scheme that focuses mainly on variable costs. Although this might not be a good solution in the long run as it may result in the offering of products abroad at a lower cost than at home, which in turn may stimulate parallel importing. (Hollensen 2004, 35)

Many SMEs have become aware of opportunities in export markets because their product has generated interest and enquiries overseas. Unsolicited foreign inquiries can be about product, price or distribution information. The inquiries can result from advertising in trade journals that have worldwide circulation, through exhibitions or by other means. It has been studied that in different countries for the majority of exporting companies their first order from abroad were unsolicited. (Hollensen 2004, 36; Albaum et al. 2004, 67)

Seasonality in demand conditions may be different in the domestic market in comparison to other international markets. Some industries for example clothing, sports equipment, tourism and toys can be less resistant to business cycles than others. By selling seasonal product to countries where the seasons are opposite those at home the company can create stability that wasn't possible before and enables more balanced production throughout the year. (Hollensen 2004, 36; Albaum et al. 2004 66)

Psychological and psychical closeness to the international market can have a big part in the export activities of a company. Those activities might not even be considered as global, merely an extension of domestic activities. In Europe many companies become international

automatically just because they are so close to each other, but physical closeness does not necessarily translate into real closeness to the foreign customers. Sometimes cultural variables make a country that is physically close seem psychologically distant. (Hollensen 2004, 36)

2.2 Choosing the target market

There are approximately 200 countries in the world and with so many options at hand even multinational companies would have difficulties to find resources to develop the markets in all these countries. Therefore the first thing a researcher must do is to scan markets to identify which countries have potential to grow. (Doole & Lowe. 2004, 101-102) According to Czinkota et al. (2005, 318) there is a sequential three step process of researching foreign market potentials. The first stage is a preliminary screening, where the researcher is looking for attractive country markets. The idea of the first stage is to find countries that warrant detailed investigations. After the first stage the countries that are left are the ones the researcher, or at this case the company, finds interesting and has potential. The second stage of the research process is assessing the industry market potential. The key question is: what is the aggregated demand in each of the selected markets? The third and final step is finding out the company sales potential. How attractive is the potential demand for company products and services?

At the scanning process the researcher will look for countries that meet three criteria: accessibility, profitability and market size. At the scanning process finding out the accessibility means assessing things such as tariffs, non-tariff barriers and government regulations. At the profitability stage the researcher should assess things that could make the market unprofitable - for example the availability of the currency or price controls can have a negative influence on the profitability of a market. The third criterion, the market size, is to tell whether the country/market can bear fruit in the future. (Doole & Lowe 2004, 102)

With a target market screening model explained by Czinkota et al. (2005, 472) (See Figure 1.) the data needed goes from secondary data to primary data as the process goes further. The more specific the selection of the countries and markets goes the more specific data is needed. The process starts with all the countries and from those a preliminary screening is done. Here the general country factors and generic product-specific factors are studied. Some countries are rejected based on these information's.

The countries that are left are prospective target countries from which some are again rejected as the market potentials are estimated. The size and the potential of the market are studied. The countries that are left from the second elimination are countries that have high market potential. Here the sales potential for the company's product is estimated by product

comparison, competition, marketing structure, channel structure and final consumers. Again some countries are rejected but some new target markets might occur. Then at the final stage only the country with the highest sales potential is left and this becomes the target market. The segments of the target market are identified and some segments are rejected as they are not suitable for the product. This creates an optimal segment mix in the target market. (Czinkota et al. 2005, 472)

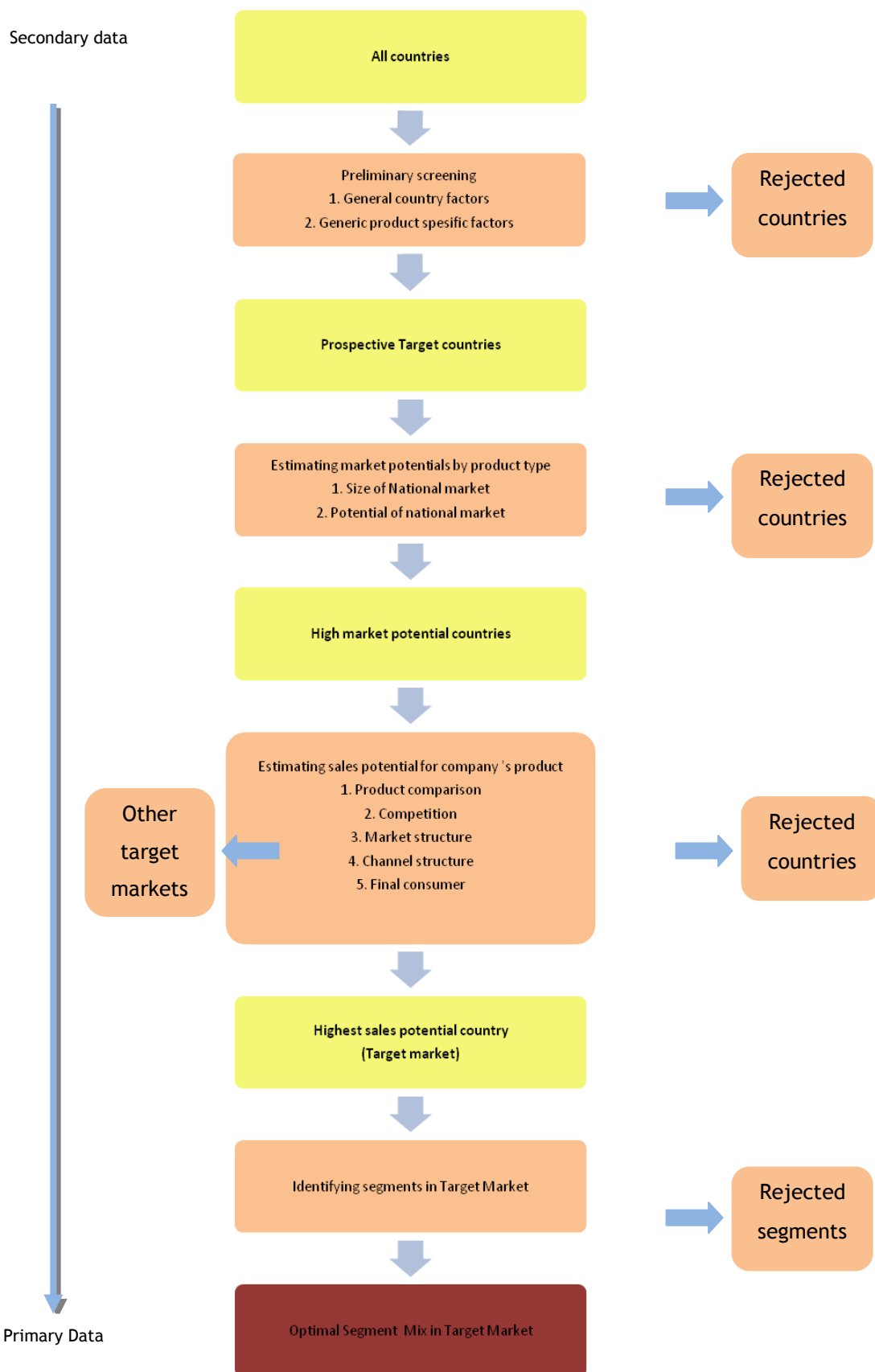


Figure 1. The screening process in target market choice (Czinkota et al. 2005, 472)

3 Market entry modes

It is said that one of the most significant international marketing decisions for a company, is the choice how to enter new markets as it will have an impact on the business for many years. One can make a market entry with very little international involvement to wholly-owned subsidiaries. The most important characteristic of the different entry methods is the level of involvement. The market entry decision is done within the firm and what determines it, are the objectives and attitudes towards international marketing. The most common international entry and expansion strategies are exporting, licensing, franchising and expanding through local presence. There are many ways of implementing these strategies and they often depend on multiple factors like the level of risk and maturity of the company. (Doole & Lowe 2004 217-218; Czinkota et al. 2005, 357; Seristö 2002, 101)

As the involvement of the company is the most important thing in market entry selection it also has an influence on the risk and controlling of the entry. High involvement creates high risks but also greater potential for control. The risk usually comes from the high cost of investment. But as the risks also have an impact on the business in the domestic market the company should answer to some key questions like: What level of control over our international business do we require? What level of risk are we willing to take? And what cost can we afford to pay? Nowadays a popular choice to reduce the risk is partnerships. The risks and the level of control depend on the method of market entry. If the company chooses to enter a new market with indirect exporting, then the levels of control and risk are low. If the method of entry is direct exporting the level of risk is higher but so is the control. In cooperation strategies the level of control is much higher than in exporting and the level of risk is rather low in comparison. The company can have the most control in direct investments but the risks are much higher than in the other options. (Doole & Lowe 2004, 219-220)

The entry modes can be divided into four groups, which are: 1) Indirect exporting which includes piggybacking, trading companies, export management companies and domestic purchasing. The next method is 2) direct exporting that consists of distributors, agents, direct marketing, franchising and management contracts. The third method is 3) cooperation strategies that are joint ventures and strategic alliances. The fourth way of making a market entry is 4) direct investing. This is the method that gives the most control and risk because it means owning a subsidiary in the target market or making acquisitions or owning an assembly line. (Doole & Lowe 2004, 220; Hollensen 2004, 239; Seristö 2002, 101)

3.1 Indirect exporting

Indirect exporting is a good choice for companies that have limited resources or little inclination for international marketing. By definition indirect exporting is having someone else sell the company's products overseas. The main methods of indirect exporting are domestic purchasing, export Management Company or export house, piggyback operations and trading companies. It is the simplest and lowest cost method of market entry but still enables the company to have their products sold overseas. The reason to choose this method can be to benefit from opportunities that may arise without any special effort or to sell excess capacity into foreign markets. If this is the case, the companies often withdraw from the international markets when the sales in the domestic market improve. Indirect exporting has the lowest level of risks of the different types of market entry modes and it creates the least costs in comparison, but gives little control. (Doole & Lowe 2004, 220; Hollensen 2004, 239)

Domestic purchasing is not an active entry strategy as it usually arises when a foreign company approaches the company and shows interest to their products. Domestic purchasing may provide the company with access to limited knowledge of international markets and give the first initiative to start foreign business. (Doole & Lowe 2004, 221)

It is said that piggybacking is an effective way for companies from developing countries to break into markets in developed countries. This is because piggybacking means that an established international distribution network of one manufacturer can be used to carry product of another manufacturer. The second manufacturer is able to ride the reputation of the existing manufacturer and use the contacts and administration of the original manufacturer. And they don't need to make a lot of investments. The carrier is either paid commission or they buy the products outright. In the first option the carrier acts like an agent and in the second option the company is like an independent distributor. The disadvantage of this method is that it often starts as "try and see". This meaning that the arrangements are usually poorly thought through. (Doole & Lowe 2004, 222; Hollensen 2004, 296)

The success of trading companies is based on building long-term relationships. That allows the exporter to use the contacts and networks that the trading company has created over the years. They can benefit from the experience and the knowledge the trading company has on the market. As they are long-time players on the market, they know who to contact and to whom to sell. They understand the way the market works and know the competitors. This enables the exporter to operate in more demanding trading areas. Trading companies also manage countertrade activities and their essential role is to find buyers to the products that have been changed, fast. The downside of trading companies and overall indirect exporting is that it is extremely difficult to develop long-term relationships to the players in the market

as they have no control over the marketing and controlling of the product. It is difficult to get in-depth knowledge about the market as the company lets other work in the target market for them. (Doole & Lowe 2004, 222-224; Hollensen 2004, 296)

Export management companies are specialist companies that work as the export department for different kind of companies. They help SME companies to initiate, develop and maintain their international sales. Using this kind of companies is a good solution, when a company does not have knowledge about exporting and the market they are going to or the market to be penetrated to is difficult one. Then the pros and advantages of this method are used to its potential. As the export house has knowledge about the local purchasing practice and governmental regulations and this gives companies the opportunity to gain wider exposure to their products at lower overall costs. (Doole & Lowe 2004, 221-222; Hollensen 2004, 295)

3.2 Direct exporting

When a company is ready to be committed to international markets and exporting in a smaller scale, then direct exporting can be the best solution. The company must become more proactive through becoming directly involved in the process of exporting. Direct exporting requires commitment from the company and takes time and money for supporting activities. In comparison to indirect exporting direct is the proactive approach that makes it easier to have influence over the methods and ways of exporting. It also gives more knowledge about the market. In simple it has more control over the actions taken, but also has more risks. It takes more money and time and requires knowledge about the market the company is penetrating into. Commonly used methods of direct exporting are the use of distributors, agents, franchising and management contracts. (Doole & Lowe 2004, 224-225)

If a company chooses to export through distributors, it means that they (the manufacturer) sell the products to the distributor and they sell it forward to their own customers. This decreases the risk for the manufacturer as they don't need to worry about unsold products and the costs that might bring. Distributors in general want exclusive rights for certain sales areas, and generally represent the manufacturer in all aspects of sales and servicing in that area. In return the distributors may require capital investment, even more if the product requires some special handling. The most important thing while choosing a distributor is to agree on the territory they have the right to sell. This has become even more important as distributors are becoming bigger and bigger due to acquisition and therefore may sell over their initial territory. (Doole & Lowe 2004, 229; Hollensen 2004, 298)

Agents are often used while entering new markets in the domestic market and abroad. Agents are not employed by the exporting company and they work solely on commission. Because the

agents are not on the payroll of the exporting company it creates less monetary pressure to the company if the exporting attempt fails. Agents are used because they have in-depth knowledge about the market and already have the contacts needed. A key factor is that they know how the business works in the specific market. Agents are usually experts on the products and typically represent numerous manufacturers. And because they only get paid in commission, they usually are highly motivated. But agents are more expensive than regular workers so it can create a lot of costs. The hard part is selecting the right agent for the product, although there are few ways to make it easier. For example the manufacturer can ask recommendations from potential customers or using commercial agencies. (Doole & Lowe 2004, 228-229; Hollensen 2004, 298)

In franchising the franchisor hands over to the user the rights to use a business name or organizational structure and to sell products or services on his account. In return for the idea the franchisee must pay a commission of sale and usually also franchising fee. Usually on this contract there are few aspects mentioned. These are the specific territory the franchisee can use, support from the franchisor (training, marketing campaigns), and the right for the franchisor to check the business of the franchisee. But there is one important thing to mention about franchising, the exclusivity of the territory is not provided. Franchising has quite a few advantages like building up greater market coverage and staying stable. It creates revenue without excessive investments and it can be done in two different ways: Multi- and single unit franchising. In single unit the license to franchise is only given to one unit and in multi unit, there is permission to operate multiple businesses and may be given the right to develop territory. (Doole & Lowe 2004, 229-230)

What management contracts are good for is the training of the staff to take over when contract is completed. Normally they install management operating and control systems in addition to the training. This is often used in construction projects. The other way is that management contract is a part of a deal to sell a processing plant meaning that the plant and management team are provided in the deal so that a firm can set up and run the plant for the first months. (Doole & Lowe 2004, 229)

3.3 Cooperation strategies

In some situations it is more profitable for companies to work together. This might be to reduce risk or take an advantage on the other party's know-how. The methods that are used in this kind of situations are joint ventures and strategic alliances. (Doole & Lowe 2004, 239) In joint venture the ownership of a specially set up new marketing or manufacturing company is shared. It is most common that it is based on the premise that two or more companies can contribute their expertise or resources to the joint company. There are many reasons why a

joint venture can be a good solution, such as the country restricts foreign ownership or that the skills of the partner can lead to new opportunities in existing markets. But the biggest advantage of joint venture is that they have more direct participation in the local market and that way they get firsthand knowledge about how the market . Also financing of the company can be easier and profits bigger and in addition to that the control over the exports is high. The disadvantage of joint venture is that as many parties' there are as many opinions there will be. It can be about the aims and objectives of the company and this often revolves to differences in the strategies they would like to be used. In the worst case these differing opinions can led to delays and to the failure of developing clear policies. (Doole & Lowe 2004, 239-241)

Strategic alliance has been defined as competitive advantage that has been created by two or more companies combining their value chain activities. The alliance can be for example swapping technology or marketing relationship or cross-licensing. One of the most interesting things about strategic alliances is that it is usually formed by companies that would in other circumstances be competitors. Some of the reasons why alliances are formed are insufficient resources, the phase of market diffusion and innovation, the high costs of R&D, government cooperation, the access to the market or self-protection. While making the decision to form an alliance it should be clear weather it is short- or long term strategy. No matter which one it is, the success is based on good management and planning, research, accountability and monitoring. (Doole & Lowe 2004, 242-244)

3.4 Direct investments

When a company is mature enough at the international playground there comes a time to consider more substantial commitment to the individual market or region. The reasons to invest in local operations are for example the desire to gain new businesses, to develop the existing business, to save costs or to avoid government restrictions. The most common ways of direct investment are with own subsidiaries', acquisitions and mergers and assembly lines. As a market entry method developing a wholly owned subsidiary is the most expensive way. It requires a lot of commitment in terms of resources and management and should only be done when the demand seems to be stable. Having a subsidiary in a foreign country indicates a long term commitment, but if there comes a situation to withdraw from the market, it will be very costly. A subsidiary can be anything from a simple assembly plant to a manufacturing facility. (Doole & Lowe 2004, 235-236)

In some situations an acquisition can be the only possibility to penetrate a new market. Sometimes the reasons for acquisitions are not driven by business logic. But usually acquisition strategy is based upon an assumption that there are companies potential for acquisition

but the number of those is limited and then the decision may be made on the basis of expediency rather than suitability. Finding suitable options takes time and research as companies should not make big investment rapidly. But when the target company has been found and acquired it can be a very effective way to develop global business. (Doole & Lowe 2004, 238)

The reason for foreign owned company can be just to assembly components that have been made at the company's home country. Having an assembly line can reduce the effects of tariffs as they are normally lower for components than to finished products. Assembly lines are formed to countries that are close to the target market where cheap labor can be found or inside the target country. It also can give the benefit maintaining economies of scale and gives the opportunity to concentrate know-how and investments. (Doole & Lowe 2004, 236)

4 International trading environment: Russia

A sound understanding of the similarities and differences that occur in all the countries around the world is the base of creating a successful marketing strategy. Every market around the world is subjected to many influences. It is possible to identify the influences that are common to many markets, but the difficulty lies in understanding the specific nature and importance of these influences (Doole & Lowe 2004, 65). The companies operating in international markets are influenced by the host country culture, economic environment, political and legal environment and the business culture. (Vahvaselkä 2009, 67-69)

4.1 Country profile

Russia's official name is The Russian Federation (Rossiyskaya Federatsiya). It is one of the biggest countries in the world based on population and area. The population of Russia is 141,9 million people (2009) and the area is 17 075 400 square kilometers. After the Soviet Union collapsed the 24th of August in 1991, the modern Russia was formed. Russia is neighbored by: Norway, Finland, Estonia, Latvia, Lithuania, Poland, Belarus, Ukraine, Azerbaijan, Georgia, Mongolia, Kazakhstan, North-Korea and China. The official language is Russian and the main religions are Russian Orthodox, Islam, Judaism and Buddhism. Russia's government type is federation. The president is the head of the state and the prime minister the head of the government. Dmitri Medvedev was elected to be the president the 7th of May 2008 and Vladimir Putin became the prime minister a day after that, the 8th of May. The parliament is the Federal Assembly which consists of the State Duma (lower house) and Federation Council (upper house). The term of office in the Federal Assembly is five years. (Tiri 2007, 9-14; Maaraportti 2010; CIA 210)

From the viewpoint of potential exporter Russia has a lot of potential, which makes it alluring to many companies, but it also has weaknesses that should be taken into account. As a potential target market Russia's strengths are: the consumer base of 140 million people and stable political system. Foreign reserves and reserve funds are quite big and the state is revitalizing the economy with different support measures. The price of land and buildings has reduced, and so has the rents - business premises are available at good market places and workforce is easier to get. The weaknesses of Russia are the financial crisis and its negative influences' on the economy. Also the protection over investments and ownership is inadequate. The banking sector and financial system are still under development and inflation is high. There is still a lot of corruption and bureaucracy in Russia. According to International Transparency's evaluation about corruption (2009) Russia is 146th form 180 countries. Other weaknesses/risk are the contradictions of the law, the negative growth rate of population and the underdevelopment of transportation infrastructure. (Maaraportti 2010)

4.2 Socio-cultural environment

The importance of understanding social and cultural factors while doing international business is huge - they have influence in all aspects of consumer and buyer behavior. Social and cultural factors are linked together but they differ from each other. (Doole & Lowe 2004, 65-66) The socio-cultural factors, that have an impact on companies doing international business, include culture, demographic factors, trends, consumer behavior and attitudes (Vahvaselkä 2009, 69). When talking about culture it is important to define it as it can have different meaning in different contexts. One widely accepted definition of culture is that of Ralph Linton: "A culture is the configuration of learned behavior and results of behavior whose component elements are shared and transmitted by members of a particular society". Culture is learned, interrelated and shared. One cannot see all the parts of culture, the visible part of culture is the way people behave; like body language or clothing. Culture is often referred as an iceberg; most of its context is hidden. The hidden parts of culture are values and social moral -like family values, and the basic cultural assumptions. Culture is influenced by language, religion, values and attitudes, aesthetics, law and politics, technology and material culture, education and social organizations. Culture also has different layers; what an outsider can see and what is the core of the culture. (Hollensen 2004, 194-195; Doole & Lowe 2004, 66-68; Mooij 2005, 35)

4.2.1 Language

Language is the key to the culture. It is a combination of verbal and non-verbal language. Non-verbal language is less obvious but still very important -especially in business negotiations and in all business meetings. The main non-verbal languages in international business

are time, space, material possessions, friendship patterns and business agreements. Many times the mastery of the (verbal) language is required when doing business out of the home country. The language capability plays an important role in international business as it serves four distinguish roles. First, it helps in information gathering and evaluation. If the managers understand the language they can see for themselves what is going on and not rely on other people's opinions. In general, people are more comfortable speaking their own language. Second, language provides access to the local society. Third, language capability is becoming more and more important in company communications, whether within the corporate family or with the channel members. Fourth, language provides more than the capability to communicate -it extends beyond mechanics to the interpretation of context that can influence business operations. (Hollensen 2004, 198-200; Czinkota et al. 2005, 40-44; Doole & Lowe 2004, 71-73)

In Russia one can survive with English when everything is going well but when problems arise it would be beneficial to have a common language. Speaking Russia will always bring the best outcome. Learning the basics of Russian is not very demanding and it will be valuable - for example you'll be able read the names of the streets and exchange polite phrases. Learning some phrases will create a positive atmosphere to the negotiations and show politeness. (Tiri 2010, 86)

Body language plays a major role in Russia. Russians use hand's and facial expressions to express ideas and emotions. Through body language a person's intent can be determined without understanding the words. Facial expressions are clues to behavior. Russians tend to start out with harsh faces but when smiled it expresses relaxation and progress in developing a relationship. (Richmond 2009, 118)

4.2.2 Beliefs, values and attitudes

Values are shared beliefs of group norms that have been internalized by individuals and attitudes are evaluations of alternatives based on these values. Values and attitudes help us determine what is right and appropriate, what is important and what is desired. The more rooted those values are in the central beliefs like religion; the more cautious a person needs to be when making business operations. People's beliefs come mainly from their religious training - the relationship between superstition and religion is not clear, still many of people's beliefs are secular in nature. (Cateora & Graham 2005, 111; Hollensen 2004, 203; Czinkota et al. 2005, 47)

Russia has traditionally been considered as an Orthodox country and that is mainly true. Typical to Russian Orthodox mentality is despotism, its own concept of the "good person" and

sense of community. The benefit of the community is more important than benefit of an individual. In every country, regardless of the religion, there are virtues that a good person should obtain. A good person, according to the Orthodox beliefs, should not adore money but if one has it, it should be spent to show that money does not matter. One should be very spiritual and constantly work on their intellectuality -therefore there is a lot of interest in culture and history in Russia. The weakness and the strength of the Orthodox is the collectivism that does not consider the benefit of the individual, but put the well-being of the community and society. The society can be family, friends, company or the whole country. This has an influence on the responsibility of the individual -there is not any. The eldest of the society is responsible for everything and everyone. (Tiri 2007, 119, 122)

For Russians it is obvious that one must go around the law, but breaking it shows tackiness and lack of good taste. The integrity of the Russians, or the lack of it as western people think of it, is not a simple matter. Russians are collective thinkers and consider themselves as the chosen people, like the Israeli people for example. They are polite and do not want to insult anyone. To a question Russian gives an answer they think one wants to hear and what they consider to be the most pleasant thing to hear. Therefore one should not ask direct questions that can be answered simply yes, because that is what the answer will be no matter what you ask. But it is not lying; it's simply the Russian way. (Tiri 2007, 119, 121)

Russians believe that everything has been determined by faith beforehand - Russians are fatalists. They resign themselves to faith and seek security from God, because only God is able to interfere with life and help. From fatalism there is only short road to superstition, which is another Russian specialty. Russians are very superstitious -they believe in signs, omens and paranormal powers, sprites and fortunetellers. Many superstitions are as well known by the academics as common people. Everyone knows what an evil eye is and what it brings. The most important omens or signs are: never bring an even number of flowers; those are only for funeral arrangements. There shall not be an even number of bottles of alcohol on the table and salt that has dropped to the table means tears. One should not be too optimistic with their words, it can bring bad luck. Russians are very wary of life and other people. The root to this is the tragic history of Russia. One should not take the mistrust of the Russians personally because it is national specialty. (Tiri 2007, 120-121)

The concept of freedom is an idealistic thought for Russians, it is the extreme form of anarchy, which is known by all. The Russian education system fights against it from the very beginning of the childhood -the education system is based on discipline and order. If a Russian feels that there is no supervision at the workplace he/she will interpret it as indifference and starts to neglect his/hers responsibilities. There is an interesting phenomenon in the Russian society -power distance. It is compiled between a manager and their subordinates, doc-

tors and their patients, parents and their children. The one with the higher position is not allowed to lose face, show unfamiliarity, weakness or fear in front of the others. (Tiri 2007, 121&123)

The time in Russia goes in circles; time stands still, it does not go forward like for example in Finland where time is considered to be linear. Russians feel that they are unable to be on time and therefore they might go to the airport hours early just to make sure they'll be there on time. If one wants a Russian counterpart or client to come in five minutes, they should be told to come immediately. But never expect beautiful women to be on time, because they will always be late. Russian women are feminine and attractive but more and more often they are at high positions in the business environment and make as much money as the men. But above all, women are still seen as wives and mothers. (Tiri 2007, 121-122; Richmond 2009, 46-47)

4.3 Political/legal environment

The political/legal environment comprises primarily two dimensions, which are shown in figure two. These dimensions are the home country environment and the host country environment. In addition to these two dimensions there is a third: The general international environment. The political environment in the perspective of an international company is complex because of the interaction between domestic, foreign and international policies. While investing in a foreign country companies must be very sensitive to that country's political concerns. The company should have a monitoring system that would allow systematical evaluation to the political risks, like expropriation, nationalization and restrictions against exports/imports. (Hollensen 2004, 167)

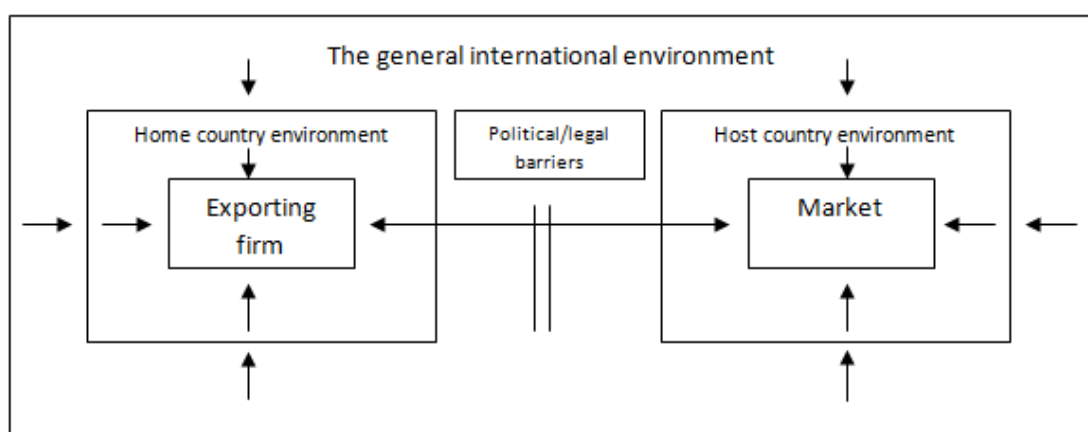


Figure 2. Barriers in political/legal environment
(Hollensen 2004, 167)

The home country's political and legal environment includes all the political and juridical matters that influence the company's international operations. Those can be for example governmental export support or restrictions. The host country's political and legal environment comprises all the legislative and political factors that influence the company while it operates in the host country. The host country can have political risks that need to be taken into consideration. The risks might be about ownership or financing or those can be caused by the government. Risks that the government can control and create are for example import controls, market and price controls and taxation. The government can have barriers and tariffs that make exporting very difficult. (Vahvaselkä 2009, 68; Czinkota et al. 2005, 102-103, Hollensen 2004, 167 & 189)

Russia is a federation and formally a semi-presidential republic, wherein the President is the head of state and the Prime Minister is the head of government. The Russian Federation is fundamentally structured as a representative democracy. Executive power is exercised by the government. Legislative power is vested in the two chambers of the Federal Assembly. The government is regulated by a system of checks and balances defined by the Constitution of the Russian Federation, which serves as the country's supreme legal document and as a social contract for the people of the Russian Federation.

The federal government is composed of three branches: Legislative, executive and judiciary.

- Legislative: The bicameral Federal Assembly, made up of the State Duma and the Federation Council adopts federal law, declares war, approves treaties, has the power of the purse, and has power of impeachment, by which it can remove the President.
- Executive: The president is the commander-in-chief of the military, can veto legislative bills before they become law, and appoints the Cabinet and other officers, who administer and enforce federal laws and policies.
- Judiciary: The Constitutional Court, Supreme Court, Supreme Court of Arbitration and lower federal courts, whose judges are appointed by the Federation Council on the recommendation of the president, interpret laws and can overturn laws they deem unconstitutional. (CIA 2010, Wikipedia 2010)

The legislative is based on civil law system. Russia has not accepted compulsory ICJ jurisdiction to this date. Like mentioned the judiciary branch consists of The Constitutional Court, Supreme Court, Supreme Court of Arbitration and lower federal courts. Judges for all courts are appointed for life by the Federation Council on the recommendation of the president. (CIA 2010, Wikipedia 2010)

Russian legislative have been developed and changed significantly in the past few years. The basic law is starting to be quite comprehensive but the levels of the norms are complex and contradictory. These may lead to misunderstanding of interpretation with the authorities. In addition to the law the guidance, regulations, letters etc given by the authorities must be taken into account. Russia's WTO- negotiations have helped adoption of the international regulations in Russia. Changes and improvements have been done for example in customs and certifications. (Suomalais-Venäläinen kauppakamari 2010)

4.4 Economic environment

For a company planning international business it is important for them to understand the economic developments and how those impinge to their internationalization strategy. This understanding is important in both national and global levels. Companies need to be aware of the economic policies of their prospective target countries to be able to assess whether they are capable of satisfying the demand on the market and compete with companies that are already there. The economic environment is a major determinant of market potential and it also helps to see the opportunities the market can provide. Economic development is the result of one of the following type of economic activities: primary, secondary and tertiary. Primary activities are concerned with agriculture and extractive processes, like coal, iron, ore, gold and fishing. Secondary activities are manufacturing activities. There are many evolutions. Typically countries will start manufacturing through processing the output of primary products. Tertiary activities are based upon services like tourism, insurance and healthcare. When the average family income rises the percentage of income spent on food declines, the percentage spent on housing and household activities remains constant, and the percentage spent on service activities (education, transportation and leisure) will increase. (Hollensen 2004, 177&189; Albaum et al. 2005, 100)

Since the beginning of 1990's Russia's market economy has experienced both the rush of freedom and hyperinflation. The first crash of the financial market is already in the past. Even though Russia's economy and social life has been through big changes in a rapid speed it will still be a combination of old and new for a long time.

4.5 Business environment

There are different layers of culture that determines the individual behavior. These layers are: national culture, business/industry culture, company culture (organizational culture). The national culture gives the overall framework of cultural concepts and legislation for business. The business culture is much related to the branch of business. This culture of business

behavior and ethics is similar across borders. Company culture is the shared values, beliefs and behaviors of members of a certain function in the company. The individual level is influenced by the other cultural levels. The culture is learned, not innate. In figure three is shown a typical negotiation situation between a seller in one county and a buyer in another. The behavior of the individual buyer or seller is influenced by different cultural aspects on different levels, which are interrelated in a compound way. Each level of the culture influences the person's behavior. (Hollensen 2004, 196)

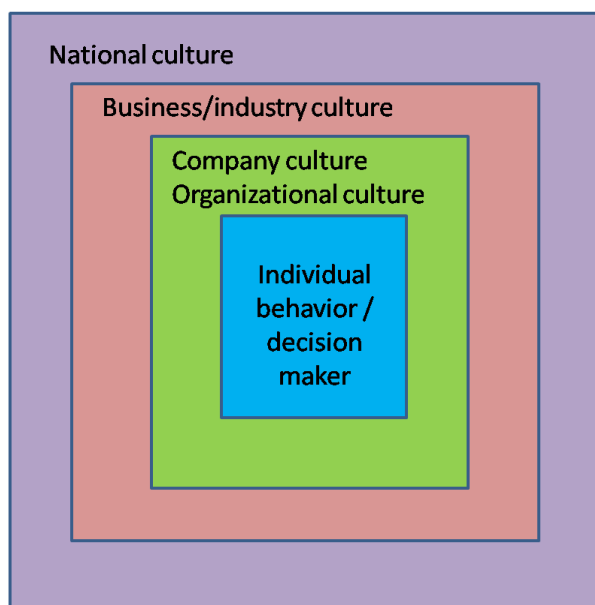


Figure 3. The layers of culture
(Hollensen 2004, 196)

When a company is planning on doing business in Russia there are a few things they should know about their business habits and culture. To begin with, all business meetings need to be scheduled beforehand. When the arrangements are being made, the exact number of people attending the meeting should be known and informed to the Russian counterpart, just like the names of the people. Often the one making the arrangements for the meeting is the secretary and that should be recognized by giving small gifts to them as a thank you. In most official situations Russian's are very polite -if one is known to have good manners at home, they should do fine in Russia. While meeting one should always be on time but they should also be prepared to wait for their Russian counterpart because they might come in late. When meeting Russian business associates for the first time one should be prepared not to have direct eye contact. Direct eye contact from a stranger or someone they don't know well is a sign of threat. The most polite way to address Russians is with a combination of their first name and father's name. Formality in addressing people is a sign of respect. (Tiri 102, 126-127; Maaraportti 2010)

When meeting, hands are shaken, even if you have known each other for a long period of time. Women do not shake hands because it is a manly gesture -sometimes Russian business women may offer their hand to shake, but that is not common. Russian's respect authority and leaders, therefore the people meeting should be at the same hierarchical level. Even the titles have an impact; titles like supervisor are preferred over manager. When the negotiation is over one must be prepared to wait for the results, especially if the one making the final decision is not present at the meeting. A contract should be limited in time, it should be formal, unambiguous and also include for example determination clause. In Russia contracts has to obey the letter of law exactly. Making a contract with Russians can be very difficult or very easy. It depends on the relationship one possesses with them. The contracts should always be in writing, no matter what. Before any contracts are signed, a comprehensive background check should be made because in Russia there is not a register that has information about all the companies that exist -cities have their own registers. (Maaraportti 2010)

Foreign business associates are judged based on their clothing -one should dress well and conservative. For men it means a suit and a tie. Business cards should be both in Russian and English. If there are presentations to be given at the meeting, should they be simple and clear. The presentations should not include many business terms used in the western countries because those can be strange to older generations. While being a host for Russians and about to serve coffee, make sure that is something to eat with it. The drinks should not be served in plastic cups. (Maaraportti 2010)

Invitation to a Russian home is a rarity and it should be accepted as a huge compliment. To a home visit one could bring for example chocolate, good wine (preferably something else to drink than vodka) and the hostess should be given flowers in an odd number. Neutral colors are pink, cream, blue and orange. Avoid yellow flowers and white just to be sure, because some of them have special meanings. If there are children in the family, a small gift for them is desirable because children are respected in the Russian society. Gifts are a part of the business culture. Expensive gifts should be wrapped but cheaper ones can be given without a gift-wrap. (Maaraportti 2010)

Russians tend to give lots of toasts and the guest is expected to give one too. Dining starts after the host has given a toast. Refusing a toast can be interpreted as an insult and lack of respect from the guests side if the host has not been told before hand that sobriety is because of religion, health or something similar. The third toast is held standing up and it is dedicated to women. (Maaraportti 2010)

5 The international marketing program

Philip Kotler and Gary Armstrong (2005, 4) define marketing in its broad sense as “a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging value with others”. Simply put marketing is managing profitable customer relationships. Marketing is the process that companies use to create value for customers and build strong customer relationships in order to get value from customers in return. (Kotler & Armstrong 2005, 4-5) Domestic marketing includes elements like planning, promoting, distributing, pricing and support for the goods, services and information that are to be provided to intermediate and ultimate consumers - International marketing includes the same elements but is typically more intricate than domestic marketing. There are several definitions on what international marketing is. The definition of international marketing at the basic level is the marketing of goods, services and information across political boundaries, which is the definition used on this thesis. In comparison to domestic marketing the international marketer will deal with many more key differences in foreign environment, which makes it more demanding. (Albaum et al. 2004, 5)

5.1 Marketing strategy and planning

The marketing strategy is the plan that defines the company’s overall missions and objectives. Consumer is the heart of the operations - the goal is build strong and profitable customer relationships. The next step is to decide on marketing strategy, it defines the means to achieve the goals. There are means to help the company to decide to which customer is will serve. These means are market segmentation, targeting and positioning. This means identifying the overall market, dividing it into smaller segments and selecting the most alluring one to which the company will focus and try to serve and satisfy the customer’s needs. The strategy helps the company to design a suitable marketing mix that is constructed from thing they have control over, like product, price, place and promotion. (Kotler & Armstrong 2006, 46)

A market consists of many types of customers, products and needs; therefore the company needs to determine which segments offer the best opportunities for achieving the set company objectives. Consumers can be divided into groups based on geographic, demographic and behavioral factors. This process of dividing a market into distinct groups of buyers who have distinct needs, characteristics, or behavior and whom may require separate products or marketing mixes is called market segmentation. A segment consists of consumers who act, buy or respond in a similar way. After the company has defined market segments it can enter one or more of them based on their appeal - the process evaluating each market segment’s attractiveness is called target marketing. The next step for the company is to decide what position it wants at the chosen segment(s). A products’ position is the place the product takes in the

consumer head in relation to the competitor's similar product; therefore the marketers often want to create unique positions. If the product is seen by the consumer exactly like others in the market they will not have any reason to buy it. Market positioning is the act of arranging a product to have a clear, distinctive and desirable place relative to competing products in the minds of target consumers. (Kotler & Armstrong 2006, 47-49; Burk Wood, 2002, 57)

Figure four illustrates the different levels and compounds of planning marketing activities. It shows the different elements and phases are dependent one each other. While planning marketing program it must be remembered that all the factors like culture, law and politics have affected the target market choice and therefore must not be forgotten. As the most potential target market has been found and analyzed marketing strategy can be developed. Strategy should contain the overall target, target groups and position that the company is aiming to. When the company has decided on its strategy marketing planning can be considered. Marketing plan is the different compounds of the marketing mix and budget planning. As the plan has been developed, it is time to put it into action and then control, optimize and adapt the plan if needed. (Boitllehner, I. 2009)



Figure 4. Marketing planning
(Boitllehner, I. 2009)

The company's marketing strategy outlines the target customers and how it will create value for these customers. Once the overall marketing strategy has been decided, the company is ready to begin planning its marketing mix in detail. The marketing mix is one of the major concepts of modern marketing - the 4P's. Traditionally competitive advantage has been divided into these 4P's - product, place, price and promotion, which are shown in figure five. Marketing mix is the set of marketing tools that a company blends to produce the response it wants at the target market. The marketing mix consists of everything a company can do to influence the demand of its products. (Kotler & Armstrong 2006, 50; Vahvaselkä 2009, 180)

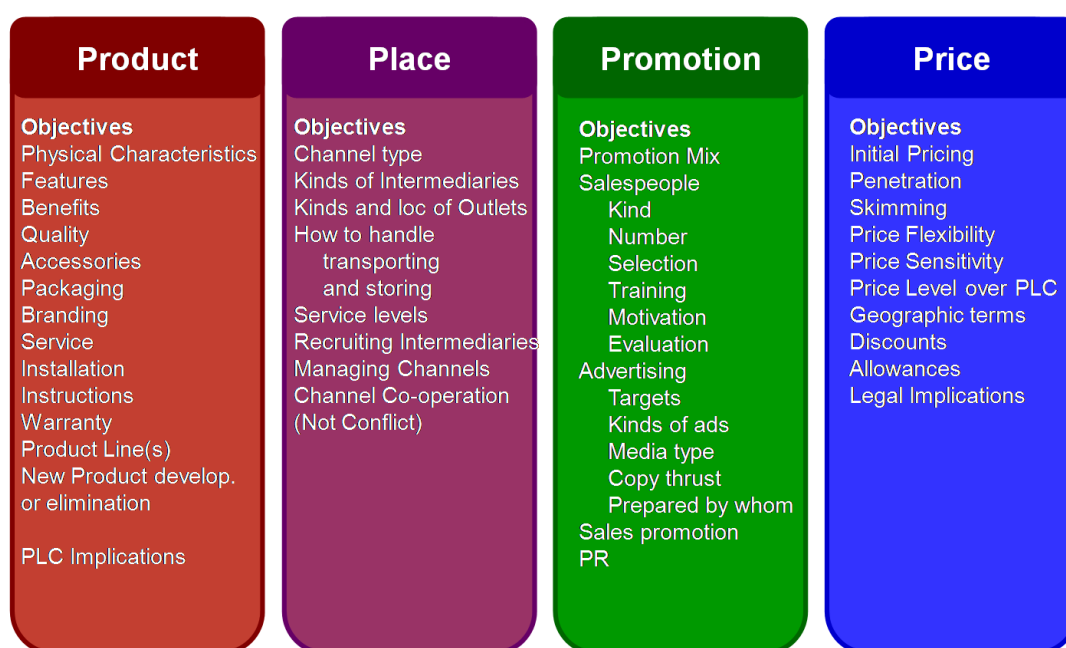


Figure 5. The classical marketing mix
(Boitllehner, I. 2009)

5.2 Product

A product is “the sum of all the physical and psychological satisfactions that the buyer receives as a result of the purchase and/or the use of the product”. (Albaum et al. 2004, 376) The product consists of the physical product core, the product package and supporting service. The product decision is one of the first decisions that a company makes in order to develop an international marketing mix. The product policy for international marketing has two interconnected dimensions -product planning and development and product strategy. The first decision a company must make is to determine what type of product they are bringing to the new market. The product can be developed in different ways to suit the target market. The first option is to create a completely new product. The second option is to modify the existing product to fit the new customers' needs. The third option is to find new users to the

already existing product and the last solution is to eliminate the product. (Cateora & Graham 2005, 342)

While creating a product offer for international markets it is necessary to examine, what contributes to the total product offer. It is suggested that there are five levels of the product offer that should be considered so that the marketer will be able to make the product attractive to the international market. The dimensions of the product are not merely the core physical properties but also additional elements like packaging, branding and after-sales services. These different levels of the product are shown in more detail in figure six. These elements combined make up the total package for the customer. (Hollensen 2004, 449-450)

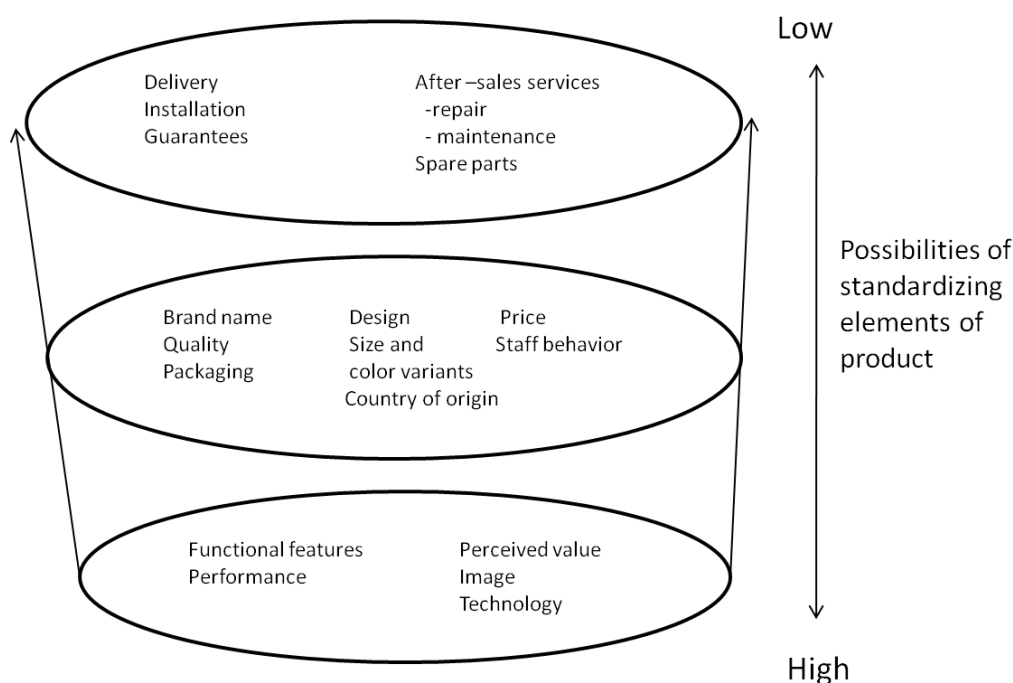


Figure 6. The three levels of a product
(Hollensen 2004, 450)

5.2.1 Product strategy

Product strategy answers to the question: how to get a competitive product offering to the market? The company's growth strategy may call for differentiation and different product lines that help the company optimize profit from the foreign market. Product line is a product group where the products:

- are close to each other functionally
- can be delivered from the same factory

- that have their own customer segments

The same product is not suitable for all markets; therefore a company must adapt the product or the product line to fit the chosen market. The alternative product strategies are the following:

1. The company brings new product to the market without adaptation
2. The company seeks new consumers to the already existing product from abroad
3. The company adapts their product to fit the demand at the chosen market
4. The company develops a new product to fit the demand at the chosen market

The strategy selection bases on market-specific segmentation and to the needs, values, attitudes and consumption habits at the segments. In addition to this, the environmental factors, like competition and demand, and the community factors need to be taken into consideration. It must not be forgotten that the company's own objectives, internal resources and competences influence the product selection also at international markets. (Vahvaselkä 2009, 190-191)

5.2.2 Product life cycle

PLC, short for product life cycle, provides useful inputs into making product decisions and formulating product strategies. The PLC emphasizes the need to review marketing objectives and strategies as products pass through various stages. Each stage is identified by its sales performance and characterized by different levels of profitability, various degrees of competition and distinctive marketing programs. The PLC has four stages: introduction, growth, maturity and decline. (Vahvaselkä 2009, 201; Hollensen 2004, 455; Burk Wood 2002, 82)

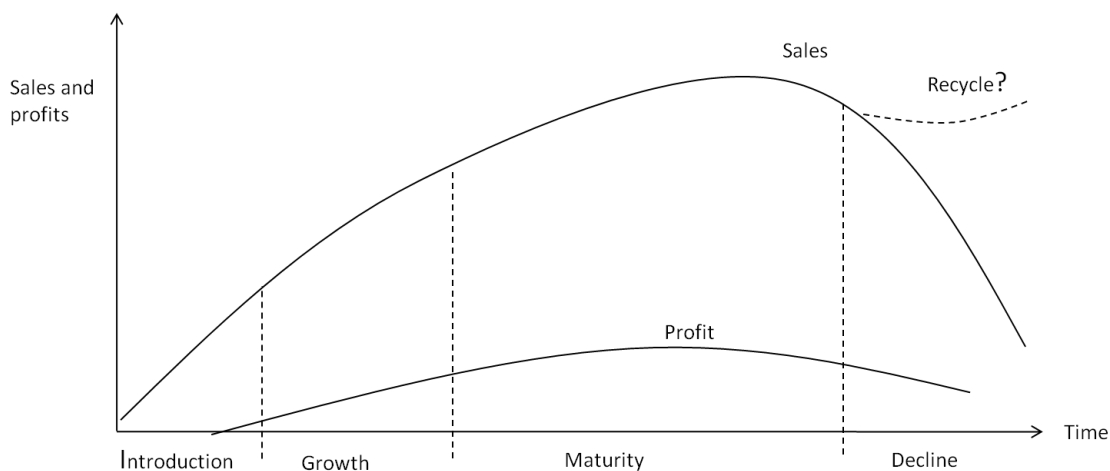


Figure 7. Product life cycle

The product life cycle is a dependent variable that is determined by the marketing mix. It should not be considered as an independent variable to which companies should adapt their marketing programs. Not all products follow the classic PLC curve and if product's sales are declining management should not conclude the brand is in the declining stage. If management withdraws marketing resources from the brand it will create a self-fulfilling prophecy and the sales will go down. (Hollensen 2004, 455)

5.2.3 Product selection in Russia

How to find out if the company's product(s) have any sales potential in Russia? According to Finnish-Russian chamber of commerce the best way to find out the answer to this question is by commissioning a market research per item. The market research can be comparative, as in to find out if there are similar products in the Russian market, domestic or foreign. If there are, the things to find out would be for example the following: what is the price of these products, which percentage of them is imported and domestically produced and how the distribution has been organized. To an analytical research can be included information about the potential consumers and importers - purchasing power, size, purchasing behavior and habits of the potential customers.

Russian consumer does not by a product only for its technical characteristics and quality or design; they base their purchasing decision also to the price, delivery time and good after-sales services. The product must be functional, the taste, quality, design, packaging, brand and after-sales must be desirable to the customer. The seller must have knowledge about the competitive product and analyze their products' pros and cons in relation to the competitive products. This type of comparison might give insightful and important information to the seller, for example it can be found out that the product needs alternation to be suitable for Russian market. The starting point at Russian market is that the consumers demand high quality from the product and from consumer and related services. (Tiri 2009, 89 & 91-92)

5.3 Pricing

Hence pricing is part of the marketing mix, decisions related to price must be integrated with other P's of the mix. The other parts of the mix cannot be changed rapidly without any significant difficulties but pricing can. This fact and the reality that abroad customer can be sensitive to price changes result in the danger that pricing actions can be resorted to as a quick fix instead of changes being made in other areas of the company's marketing mix. Hollensen (2004, 495) says that pricing policy is one of the most important but often too little

recognized areas of the marketing mix. The other P's lead to costs but pricing is where the revenue comes. (Hollensen 2004, 494-495; Kotler & Armstrong 2005, 309)

Often pricing in the domestic market is a straightforward process of allocating the total estimated costs of producing, managing and marketing a product and then adding an appropriate profit margin. In the international markets pricing decisions are much more complex. The reason for this is that they are affected by many more additional external factors like fluctuations in exchange rates and accelerated inflation. Especially for an SME exporting for a first time it is likely that they'll set a price that will ensure that the sales revenue generated will at least cover the costs incurred. The thing to take into notice is that the cost structure of the product is very significant, but it should not be regarded as the only determinant while setting a price. The factors that have an impact on the price can be divided into two main groups - internal and external factors. (Kotler & Armstrong 2005, 309 & 315; Hollensen 2004, 495-496)

In figure eight the internal and external factors that influence the price are shown. Internal factors are firm-level factors and product factors. Firm level factor are for example past and current corporate philosophy, organization and managerial policies. For example the market entry mode affects the pricing decision - a manufacturer with its own subsidiary in a foreign market has more control over the pricing policy that a company that is simply exporting. The most important product factors are for example the unique and innovative features of the product and the availability of substitutes, says Hollensen (2004, 495-497). How much the company needs to adapt its product, and how far in the product life cycle the product is influence the pricing decision. The external price influencing factors are environmental and market factors. The external factors are such that the company has no control over. The strongest environmental factor is the government in that foreign country since they have control over exports and imports. Government may have price regulations, which can also have an impact on the firms pricing decisions. These regulations are most commonly in specific products related to health, education, food and other essential items. Market factors are for example the purchasing power at the market and the competition - these should have critical importance to the company's pricing strategy. (Hollensen 2004, 495-499; Kotler & Armstrong 2005, 309&915; Doole & Lowe 2004, 370-371)

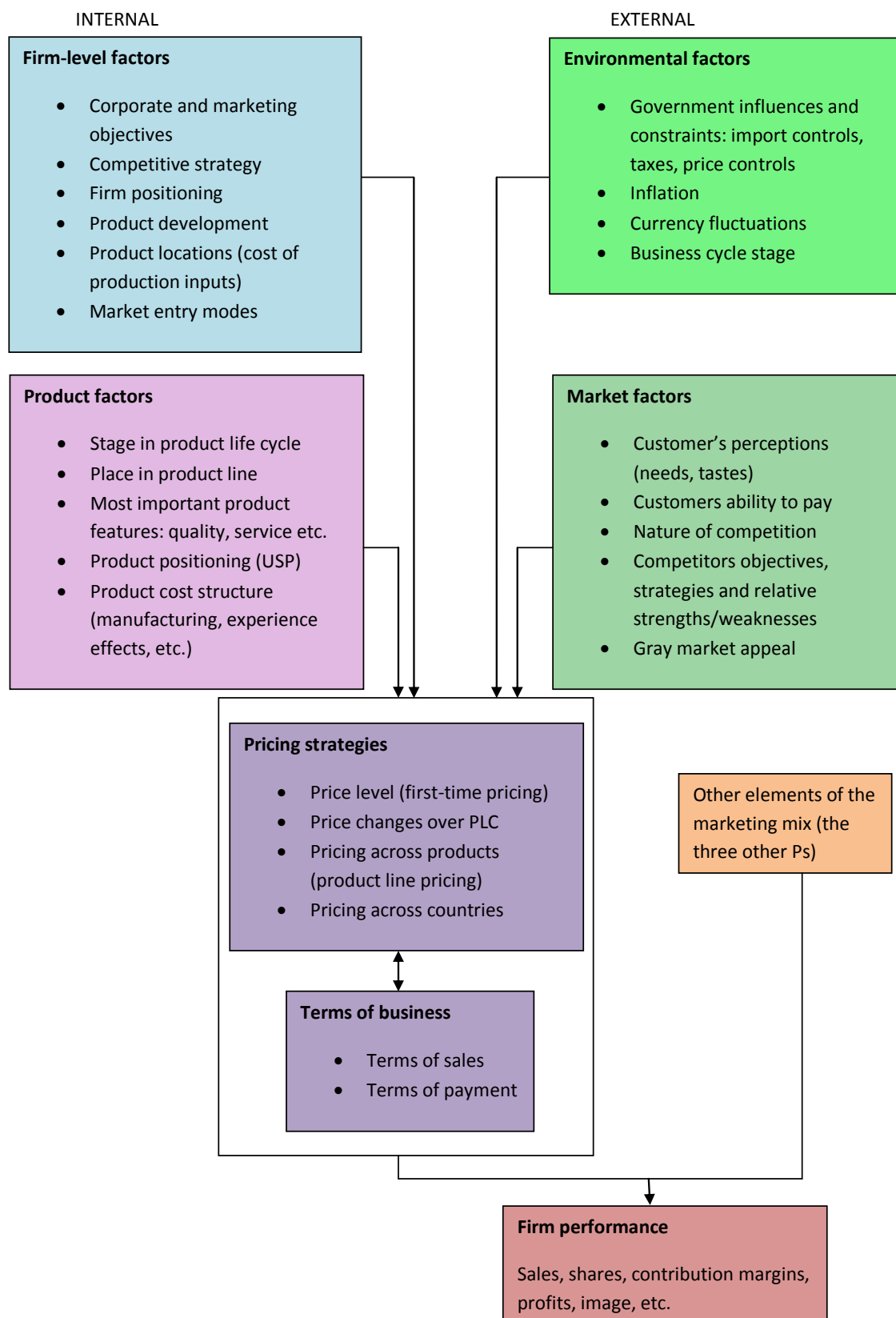


Figure 8. International pricing framework
(Hollensen 2004, 469)

5.3.1 International pricing strategies

There are three commonly used pricing strategies for international markets: skimming, market pricing and penetration pricing. Skimming is used when a company wants the highest possible contribution in the shortest amount of time. The price is set high to “skim the cream” from the top. To be able to use this method of pricing the product must be unique and some segments of market must be willing to pay high price. When more and more segments are targeted and more of the product is available the price is gradually lowered. The success depends on the ability and speed of competitive reactions. Skimming also has some problems:

- Small market share makes vulnerable to aggressive local competition
- Maintenance of high-quality product requires lot of resources and visible local presence
- If the product is sold more cheaply at home or in another country, grey marketing is likely

Market pricing may be used if similar product already exists on the target market. The final customer price is based on competitive prices. To be able to use this pricing method the exporter needs to have thorough knowledge of product costs as well as confidence the product life cycle is long enough to warrant entry into the market. The problems of this method are the fact that it is a reactive approach and the sales volumes might never raise high enough to produce satisfactory profit.

Penetration pricing is used to stimulate market growth and capture market shares by offering products at low prices. It requires mass markets, price-sensitive customers, reduction in unit costs throughout economies of scale and experience curve effects. The reasons to price at low levels are for example intensive local competition from rival companies and the lower income of local consumers. Some say that since their R&D and other overhead costs are covered by domestic sales, exporting represent a marginal activity intended merely to bring in as much additional revenue as possible by offering a low selling price. The problems and difficulties of penetration pricing are the fact that as a method it will fail if the competitors lower their prices to corresponding low levels and consumers may not think the product or the company is credible because of the low prices. (Hollensen 2004, 500-501; Doole & Lowe 2004, 381; Burk Wood 2002, 89)

5.3.2 Setting the price

After the company has determined their pricing strategy for the international markets, it is time to consider how they are going to set individual prices. The company can decide the price based on their knowledge, objectives or situation. The options are cost, market or competition-oriented approach.

- Cost oriented approaches are intended to either:
 1. achieve a specific return on investment; or
 2. ensure an early recovery of either cash, or investments made to enter the market
- Market oriented pricing approaches give the opportunity to:
 1. stabilize competitive positioning within the market
 2. skim the most profitable business; or
 3. penetrate the market by adopting an aggressive strategy to increase market share
- Competition oriented approaches are designed to:
 1. maintain and improve market position
 2. meet and follow competition
 3. reflect the differences in the perceived value and performance of competitive products
 4. prevent or discourage new entrants to the market
- No matter which of these broad strategies are adopted, the process of determining export pricing is the same:
 1. determine export market potential
 2. estimate the price range and target price
 3. evaluate tariff and non-tariff barriers
 4. select suitable pricing strategy in line with the company objectives
 5. consider likely competitor response
 6. select pricing tactics, set distributor and end-user prices
 7. monitor performance and take necessary corrective action

(Doole & Lowe 2004, 382)

5.3.3 Pricing across countries (standardization vs. differentiation)

A significant dilemma for a company is how to coordinate prices between countries. There are two vital opposing forces: standardization and differentiation. In standardization the idea is to achieve similar position in different countries by adopting largely standardized prices. The alternative - differentiation - is used to maximize profitability by adapting pricing in different market conditions. To help determine how far the price should be standardized, there are two basic approaches.

Price standardization is based on setting a price for the product as it leaves the factory. At its simplest it involves setting a fixed price at the headquarters of the company. This chosen price

is then applied in all markets after taking into account factors like foreign market exchange rates and variances in the regulatory context. This is a low risk approach but there is no attempt to respond to the local conditions and therefore there is no effort made to maximize profits. This approach may be suitable to a company that sells to very large customer in many different countries, when there might be pressure from the customer's side to deliver at the same price to every country subsidiary through the customer's multinational organization. Price standardization helps the company to rapidly introduce new products in international markets. (Hollensen 2004, 504-505; Doole & Lowe 2004, 380)

Price differentiation allows each local subsidiary or partner (agent, distributor et al.) to set a price that is considered to be the most appropriate to the local conditions. There is no attempt to coordinate the prices from country to country. The upside of this method is that it is found that there are significant differences in customer characteristics, preferences and purchasing behavior among different countries and this method takes those differences into account. The downside is the lack of control the company has over the price. (Hollensen 2004, 504-505; Doole & Lowe 2004, 380)

In figure nine the structural factors of price standardization and differentiation are shown. The figure states the underlying forces that favor standardization or differentiation.

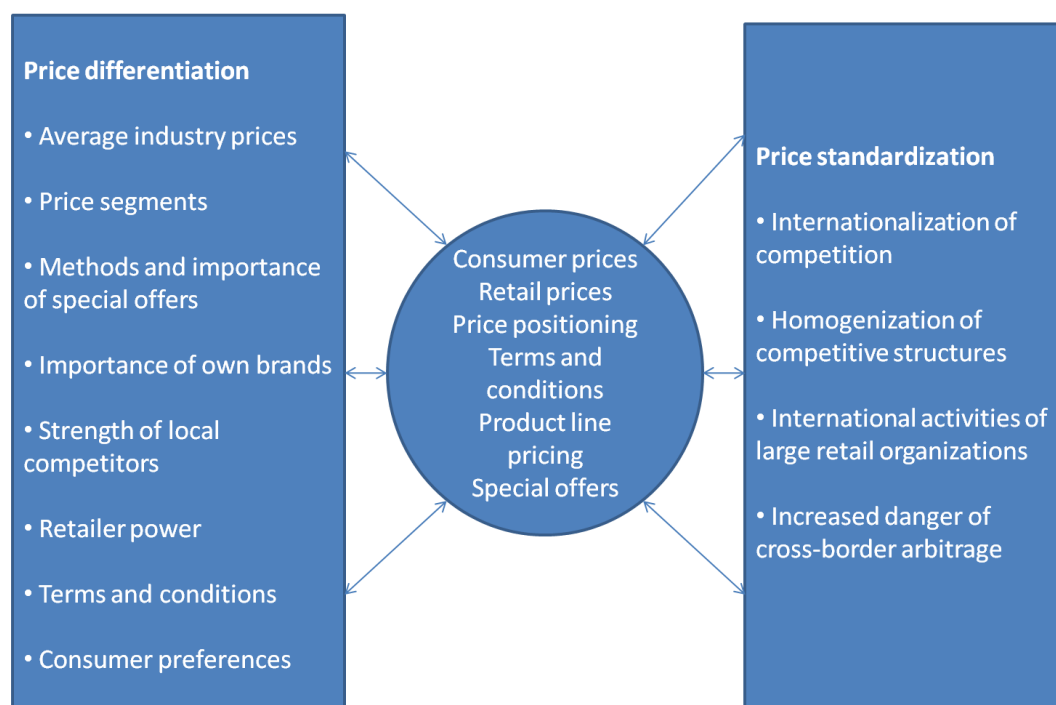


Figure 9. Structural factors of standardized vs. differentiated pricing
(Hollensen 2004, 505)

5.3.4 Price in the Russian market

According to Finnish-Russian chamber of commerce (Tiri 2009, 90) the easiest way to get price information is to compare the prices of similar products that are already at the market. In consumer goods the simplest way is to go into stores to look at the prices and from that evaluate the purchase price. The import and production volumes and values of these products indicate the size of the market and from those volumes the company can roughly evaluate their own sales target.

The price is also influenced by the financing opportunities. The Russian financing is mostly income financing due to the undeveloped banking sector. This also leads to the fact that only large companies fund their purchases with foreign loans. In Russia, like in any other country outside the EU, the final price of a foreign product is a combination of several factors. These factors are the sales price, financing costs, terms of delivery, customs if there are any and transportation costs. In Russia one should also take into consideration the geographical location and the method of importing. The location is an important issue in the price formation if the product is sold to a stock-holder in St. Petersburg or in Moscow who sells it to the other parts of the country - this can easily lead to even 50 per cent price increase. At this equation the costs of the domestic transportation have a noticeable effect to the sales.

The method of import too affects the pricing strategy. If the products are import cleared the price will be higher than a product that has not. On the other hand it needs to be remembered that a price is also a psychological influence. Discounts have more of an impact to the sales of a product, much more than for example in Finland. Regardless, one should be sharp headed while negotiating prices - Russians tend to promise growing sales volumes and based on that they want already at the beginning significant discounts on the bases of the coming larger deliveries. It is wise to stick to the idea that the larger discounts come when the larger purchases come. On the other hand most people have the assumption that when a price is high, the product is of god quality. (Tiri 2009, 90-91)

5.4 Distribution

Distribution channels are the means by which the goods are delivered from the manufacturer to the end users. In addition to the physical aspect of transmitting the goods, distribution channel is also a marketing channel. The more efficient the channel is, the faster the goods are available to the customers - this is a factor that creates competitive advantage.

Some companies own their delivery channels but more often companies rely on others to provide the distribution services. The services that are most commonly performed by other com-

panies include for example the purchase of the goods, holding stock or inventory, promoting the sale of the goods to end users or the physical movement of the goods. In international marketing companies often take advantage of a large number of different organizations to assist the distribution of their goods - this is explained by considerable differences between countries both in their distribution systems and in the anticipated level of product sales. The physical movement of the goods often demands more than one mode of transportation. The choice of the most appropriate distribution strategy to a company is very important decision - product and marketing communications decisions often depend on the distribution channel choice. The choice of distribution channels is significant because it affects the whole international marketing strategy. (Doole & Lowe 2004, 334; Selin 2004, 61)

The objective in building an effective distribution strategy is to build a supply chain to the chosen market that is "a planned and professionally managed vertically integrated marketing system that incorporates both the needs of the manufacturer and the distributors". (Doole & Lowe 2004, 334) The question is how to build up a strategy like that. There are some major areas the decision maker needs to consider: One - the selection of foreign country intermediaries. Should indirect or direct channels be used? What type of intermediaries will best suit the company's needs? Two - how to build a relationship with the intermediaries. Management and motivation play key roles, especially if the company wants to build long-time presence. Three - how to deal with the varying types of retailing infrastructure across international markets? Four - how to maximize new and innovative forms of distribution, particularly opportunities arising through the internet and electronic forms of distribution. (Doole & Lowe 2004, 334; Burk Wood 2002, 85)

5.4.1 Distribution channel choice

When the company has chosen its strategy to get their products to the desired foreign markets, the next challenge is distribution of the goods in those markets. In figure ten the most important questions about channel decisions are shown. (Hollensen 2004, 525)

There are internal and external factors that influence the channel choice. The external indicators are customer characteristics, nature of product, nature of demand (location), competition and legal regulations/local business practices. The internal decisions are of two kind, major decisions and sub decisions. The three major decisions are the decisions concerning structure of the channel, managing and controlling distribution channels and managing logistics. From the external indicators customer characteristics and nature of product influence the major decisions and nature of demand, competition and regulations influence the sub decisions, which are for example the types of intermediaries, screening and selecting inter-

mediaries and the physical movement of goods through the channel system. (Hollensen 2004, 524-525)

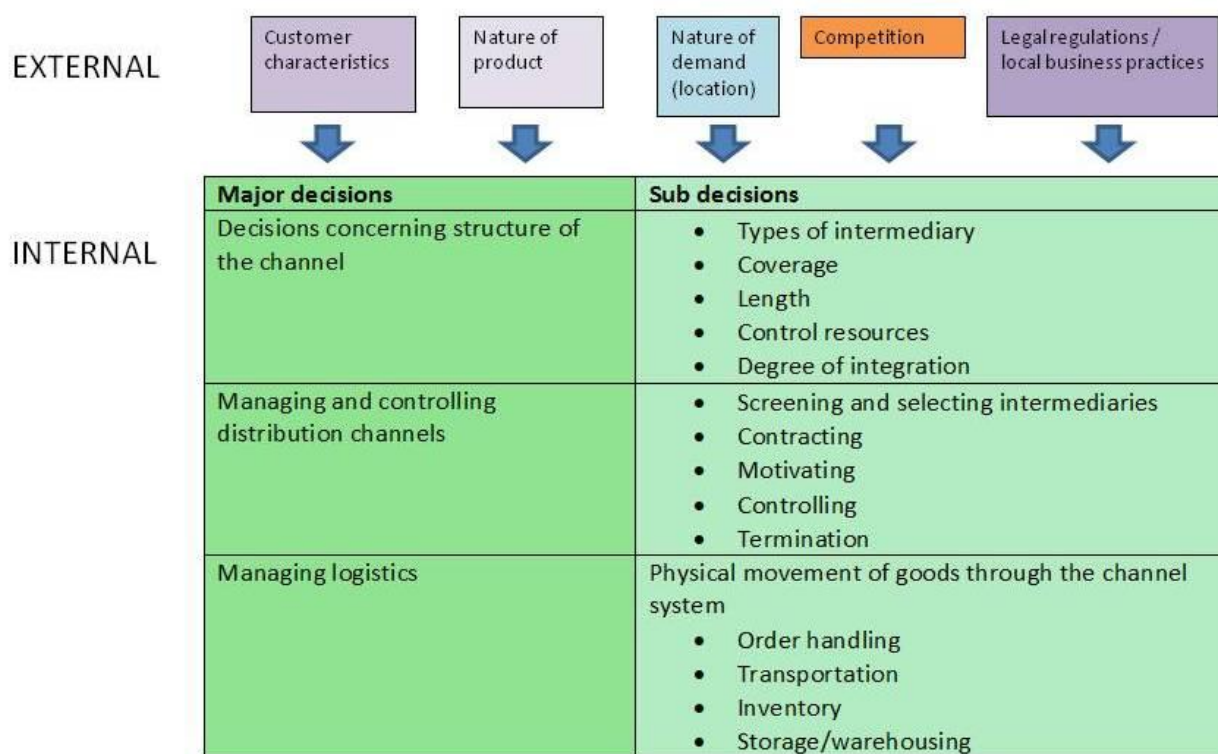


Figure 10. Channel decisions
(Hollensen 2004, 525)

From the external determinants of the channel decision the customer is most important. Consumer product channels tend to be longer than industrial product channels because there are more customers and they are more geographically disperse and they buy in smaller quantities. Shopping habits, outlet preferences and usage patterns vary considerably from country to country and are strongly influenced by the sociocultural factors. Also the product characteristics influence strongly to the choice of the channel. For example low-priced, high-turnover convenience products the requirement is an intensive distribution network. Transportation and warehousing costs are critical issues. Other significant factors are: Durability of the product, ease of adulteration, amount and type of customer service required, unit costs and special handling requirements (for example cold storage). The perceptions that the target market customer has about particular products can force modification of distribution channel. Target customers product perceptions are influenced by: Income, product experience, product's end use, product's life cycle position and country's stage of economic development. (Hollensen 2004, 526)

From the competition's point of view the channels used by competing products and close substitutes are important because channel arrangements that seek to serve the same market often compete with one another. Local and global competitors can have agreements with the major wholesaler in a foreign country that create barriers and exclude the company from key channels. An alternative way is to use a totally different distribution channel and hope to develop competitive advantage. Countries can have specific laws that rule out the use of particular channels or intermediaries and the channel coverage can be regulated by law. Local business practices can interfere with efficiency and productivity, which can cause the manufacturer to employ a longer and wider distribution channel than desired. (Hollensen 2004, 525-527)

5.4.2 Structure of the channel

The amount of market coverage that a channel member provides is important. As a term coverage can refer to geographical areas of country or the number of retail outlets. Regardless how the coverage is measured the company has to create a distribution network to meet its coverage goals. The network consists of dealers, distributors and retailers. There are three different approaches available. Intensive coverage demands the distributing of the goods through the largest number of different types of intermediary and the largest number of individual intermediaries of each type. The selective coverage is choosing a number of intermediaries for each area to be penetrated and the exclusive coverage is choosing only one intermediary in the market. The channel coverage - in other words the width of the channel - can be identified along an assortment ranging from wide channels to narrow channels. (Hollensen 2004, 529)

The channel length is determined by the number of levels or different types of intermediaries. Longer channels tend to be associated with convenience goods and mass distribution. The control of one member in the vertical distribution channel means its ability to influence the decisions and actions of other channel members. This is of critical concern when a company wants to establish international brands and a consistent image of quality and service across the globe. The main decision is how much control the company wants. The decision to use intermediaries or to distribute via company's own sales forces is a trade-off between the desire to control global marketing efforts and the desire to minimize the recourse commitment costs. (Hollensen 2004, 521)

Control can also be exercised through integration. Channel integration is the process of incorporating all channel members into one channel system and uniting them under one leadership and one set of goals. There are two types of integration - vertical and horizontal. Vertical integration seeks control of channel members at different levels of the channels and horizon-

tal integration seeks control of channel members at the same level of the channel. Integration is established either through acquisitions or through tight co-operative relationship. Getting the channel members to work together can be a difficult task but today the co-operative relationships are a must for efficient and effective channel operations. (Hollensen 2004, 531; Ball, McCulloch, Geringer, Minor & McNett 2008, 530)

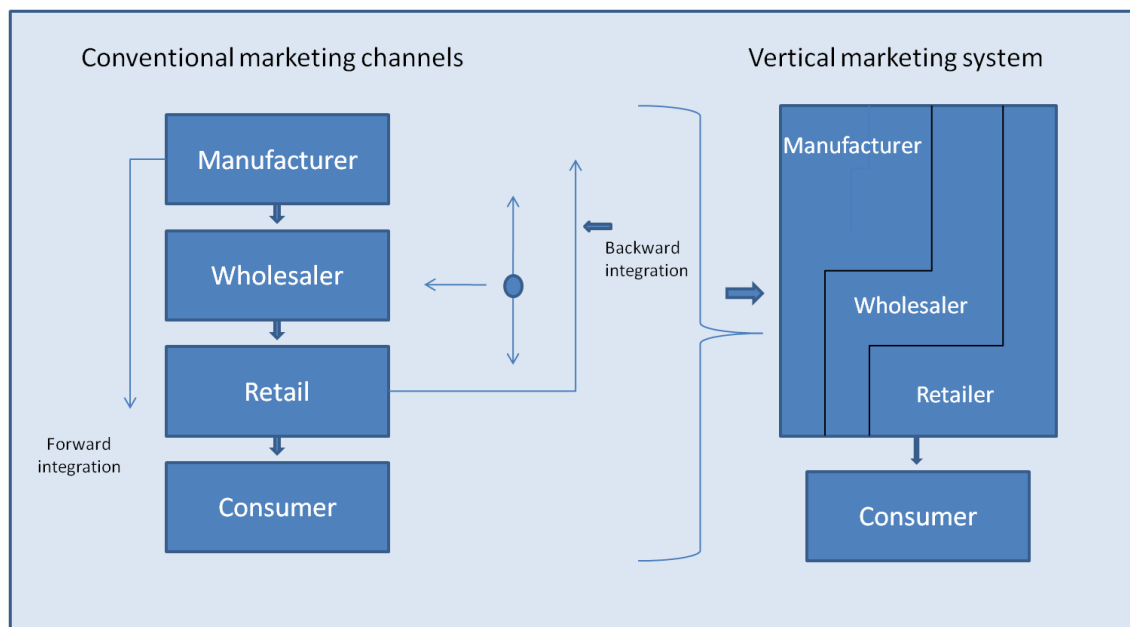


Figure 11. Vertical integration
(Hollensen 2004, 532)

The starting point at figure 11 is the conventional marketing channels, where the channel composition consists of isolated and autonomous participating channel members. Channel coordination is achieved by arm's-length bargaining. At this point the vertical integration can take two forms - forward and backward. The manufacturer can make forward integration when it seeks control of businesses of the wholesale and retail levels of the channel. Backward integration can be made by the retailer while seeking control of businesses at wholesale and manufacturer levels of the channel. The wholesaler has two possibilities - both forward and backward integration. The result of these maneuvers is the vertical marketing system, where the channel composition consists of integrated participant members, where channel stability is high due to assured member loyalty and long-term commitment. (Hollensen 2004, 529-532)

5.4.3 Managing and controlling distribution channels

At this stage it needs to be known what type of distribution is needed. Potential candidates must be compared and contrasted against determining criteria, which depends on the nature

of the company's business and its distribution objectives in given markets. Criteria can be for example financial soundness and depth of channel member. The list of correspond should correspond closely to the marketer's own determinants of success - all the things that are important in beating the competition. (Hollensen 2004, 533)

While contracting a channel member it is important to pay attention to the contract and its content. When a suitable intermediary has been found a foreign sales agreement is drawn up. Before a final contractual agreement is made it is wise to make a personal visit to the prospective channel member. The agreement itself can be relatively simple, but given to the numerous differences in the market environment, certain elements are essential. The following items should be included to an agreement with foreign intermediary:

- Names and addresses of both parties
- Date when the agreement goes into effect
- Duration of the agreement
- Provisions for extending or terminating the agreement
- Description of sales territory
- Establishment of discounts and/or commission schedules and determination of when and how paid
- Provisions for revising the commission or discount schedules
- Establishment of a policy governing resale price
- Maintenance of appropriate service facilities
- Restrictions to prohibit the manufacture and sales of similar or competitive products
- Designation of responsibility for patent and trade mark negotiations and/or pricing
- The assignability or non-assignability of the agreement and any limiting factors
- Designation of the country and state (if applicable) of contract jurisdiction in the case of dispute

The long-term commitments involved in distribution channels can become very difficult if the contract between the company and the channel member is not carefully drafted. For example it is common to lay down a time limit and minimum sales level to be achieved, in addition to the responsibilities of each party. If these conditions are not set and one or more of the channel member aren't working like expected the company may be stuck with partner that's performance is weak and cannot get out of it or it'll be highly expensive to buy out that contract. (Hollensen 2004, 533-535; Doole & Lowe 2004, 357)

The most important things to take into consideration while drawing up a contract are the following: contract duration, geographic boundaries, payment section, product and conditions

of sale and means of communication. Contract duration is important, even more so if the contract is with a new distributor. In general distribution agreement should be for a specific, relatively short period and the initial contract should have a trial-period to see if they can hold up to their promises. Also the local laws may influence the duration of the contract. Geographic boundaries should be strictly determined, especially with smaller companies. Future expansion of the product market might be difficult if a distributor claims the rights to certain territories. The payment section of the contract should specify the methods of payment as well as how the distributor is to draw compensation. Product and conditions of sale need to be set down. The product or the product lines included should be determined. Also the functions and responsibilities of the intermediaries should be agreed upon, like inventory and providing services. Conditions of sale determine which party is to hold responsible for some of the costs involved, like for example marketing expenses. Means of communication between the parties need to be specific in the agreement for the marketer-distribution relationship to be successful. The manufacturer should have access to all the information concerning the marketing of its products in the distributor's territory. (Hollensen 2004, 534-535; Cateora & Graham 2005, 426)

Geographic and cultural differences and distance make motivating channel members difficult. Also the fact that intermediaries are not owned by the company makes motivating hard. Intermediaries are independent companies and sometimes their goals differ from the manufacturers. The manufacturer may offer both monetary and psychological rewards - intermediaries will be strongly influenced by the earning potential of the product, there for if the sales of the product are weak, the intermediary will lose interest in it. It is important to keep regular contact with the intermediaries. A consistent flow of communication will stimulate the interest and the sales performance. (Hollensen 2004, 535)

Problems with control can be reduced significantly by selecting intermediaries carefully. However control should be sought through the common development of written performance objectives. The objectives may include the following:

- Sales turnover per year
- Market share growth rate
- Introduction of new products
- Price charged and marketing communications support

Control should be exercised through periodic personal meetings and the evaluation of performance should be done against the changing environment. If poor performance is established, the contract between the company and the channel member will have to be reconsidered or even terminated. Typical reasons for termination of channel relationship from the manufacturer's side are that they have established a sales subsidiary in the country or are unsatisfied

with the performance of the intermediary. Termination conditions are among the most important considerations in the distribution agreement and the company should find out about local laws and previous experiences from different companies as in some countries the termination process can be time consuming and expensive. (Hollensen 2004, 534-537; Cateora & Graham 2005, 427)

5.4.4 Managing logistics

Logistics is used as a term to describe the movement of goods and services between supplier(s) and end users. It has two major phases: Materials management and physical distribution. The basic goal for logistics management is the effective coordination of both phases and their various components to result in maximum cost effectiveness while maintaining service goals and requirements. The more difficult phase is the physical distribution; order handling, transportation, inventory and storage. (Hollensen 2004, 536)

The purpose of inventory is to maintain product movement in the delivery channel in order to satisfy demand. To help decide the level of inventory there are two factors to consider: order life cycle and customer service level. Besides these two factors International inventories can be used as strategic tool in dealing with currency valuation changes or hedging inflation.

Order life cycle is the total time that passes between the placement of an order by a customer and the receipt of the goods. Depending on the choice of transportation mode the delivery times may vary greatly. As a result the manufacturer needs to keep larger safety stock in order to be able to satisfy demand in any circumstances. Never the less the marketer could attempt to reduce order life cycle by changing inventory locations or shifting order placement to direct computer-order entry. Customer service levels on the other hand are the ability to fulfill customer orders within a certain time. The choice of customer service level for the company has a major impact on the inventories needed. High customer-service levels are costly; therefore the goal should not be highest level possible but rather an acceptable level, based on customer expectations.

At times goods and materials need to be stored in the export market. Often this is not only the storage of the goods but also other activities like assembling, braking bulk shipments into smaller sizes and preparing products for re-shipment. Storage decisions focus on three major issues:

1. Where the firm's customers are geographically located
2. The pattern of existing and future demands
3. The customer service level required (i.e. How quickly a customer's order should be fulfilled)

If the products need to be delivered quickly, storage facilities must be near the customer, but for high-value products (like computer software) the location of the warehouse will not be much of an importance, because these can be air freighted. (Hollensen 2004, 540-541)

The general procedure for order handling, shipment and payment is the shown in figure 12 and it goes according to the following explanation:

1. The sale
 - Importer makes enquiry to potential supplier
 - Exporter sends catalogue and price list
 - Importer requires price quote
 - Exporter sends price quote
 - Importer sends purchase order
 - Exporter receives purchase order
2. Importer arranges financing through issuing bank (their own)
3. Importer's bank sends letter of credit to exporter's bank (the advising bank)
4. Exporter's bank notifies exporter that the letter of credit has been received
5. Exporter produces or acquires goods
6. Exporter arranges transportation and documentation

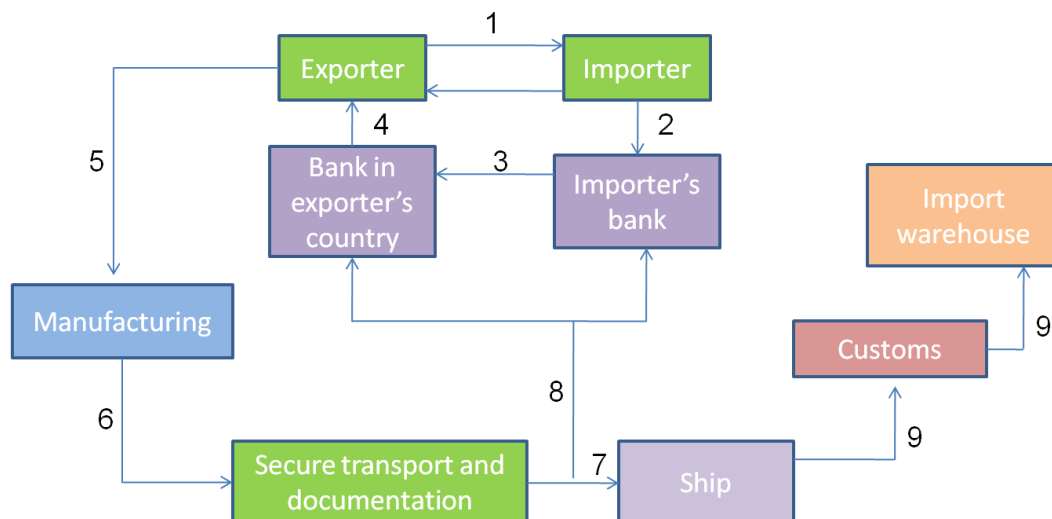


Figure 12. The export procedure
(Hollensen 2004, 537)

The following documents are acquired or produced as required.

- a) Exporter's license
- b) Shipper's export declaration
- c) Commercial invoice

- d) Bills of landing
- e) Marine insurance certificate
- f) Consular invoice
- g) Certificate of origin
- h) Inspection certificates
- i) Dock receipts

(Hollensen 2004, 537)

The most common export documents are transportation documents, banking documents, commercial documents and government documents. The most commonly used transportation documents are bill of landing, dock receipt and insurance certificate. The bill of landing is a receipt for the cargo and a contract for transportation between shipper and a transport carrier. It may also be used as an instrument of ownership. Dock receipt is the document acknowledging receipt of the cargo by an ocean carrier and the insurance certificate is the evidence that insurance is provided to cover loss or damage to the cargo while in transit. The banking documents are letter of credit, which is a financial document issued by a bank at the request of the importer, guaranteeing payment to the exporter if certain terms and conditions surrounding a transaction are met. The second is commercial invoice - a bill for the products from the exporter to the buyer. (Hollensen 2004, 538; Cateora & Graham 2005, 451-452)

The most commonly used government documents are export declaration, consular invoice and certificate of origin. Export declaration includes complete information about shipment, Consular invoice is a document signed by a consul of the importing country, that is used to control and identify goods shipped there. The certificate of origin is a document certifying the origin of products being exported, so that the buying country knows in which country the products were produced. The transportation of the goods usually constitutes 10-15 per cent of the retail cost of imported goods. Main modes of transportation are road, water, air and rail. Transportation mode decision is affected by many things, including the following:

- Cost of different transport alternatives
- Distance to the location
- Nature of the product
- Frequency of the shipment
- Value of the shipment
- Availability of transport

(Hollensen 2004, 538-539; Czinkota etc 2005, 535-538)

5.4.5 Sales terms and conditions

How to determine terms of sales? The things a seller should consider are the creditworthiness of the buyer, previous payment behavior, duration of the business relationship, foreign exchange and licensing regulations, established terms of payment (in the country) and country and political risk. Exporter will consider the following factors in negotiating terms of payment for goods to be shipped: Practices in the industry, terms offered by competitors and relative strength of the buyer and the seller.

There are different terms of payment: cash in advance, letter of credit, documents against payment and acceptance, open account and consignment. Cash in advance is when the payment is done before shipment of the goods. Cash in advance minimizes exporters risk and financial costs. The risks on the perspective of the seller and the buyer are explained in figure 13. Cash in advance is used when exporter lacks confidence in the importer's ability to pay, or political/economical instability. Importers rarely agree to these terms. (Hollensen 2004, 513-514)

	Buyer's perspective					Seller's perspective	
Most advantageous		Consignment					High risk/high trust
		Open account					
		Documents against acceptance					
		Documents against payment					
		Letter of credit					
		Confirmed letter of credit					
		Cash in advance					
Least advantageous							Low risk/low trust

Figure 13. Different terms of payment
(Hollensen 2004, 514)

Letter of credit is very common and important. It is an arrangement by banks for settling international commercial transactions. It provides a form of security for the parties involved and it ensure payment, provided that the terms and conditions of the credit have been fulfilled. Payment as such means is based on documents only and not on the merchandise or services involved

Documents against payment and acceptance: The seller ships the goods and the shipping documents, and the draft (bill of exchange) demanding payment is presented to the importer through banks acting as the seller's agent. Documents against payment means, that the buyer must make payment for the face value of the draft before receiving the documents conveying title to the merchandise. In documents against acceptance credit is extended to the buyer on the base of the buyer's acceptance of the draft calling for payment within a special time and sometimes place.

Open account should be used only with people or companies that are very well known by the exporter. Goods are shipped without documents demanding payment, other than the invoice. It is a simple way but offers no safeguards - goods can be picked without paying first. Consignment is mainly used by companies trading with their own subsidiaries. The exporter retains title of the goods until the importer sells them. The exporter owns the goods longer than in any other method, therefore the risks are at their greatest. (Hollensen 2004, 514-517; Cateora & Graham 2005, 448-451)

5.4.6 Delivery terms

A price quotation describes a specific product, states the price for the product as well as specified delivery location, sets the time of the shipment and specifies the payment terms. The responsibilities of the seller and the buyer should be spelled out as they relate to what is and what is not included in the price quotation and when the ownership of the goods passes from seller to the buyer. Export price quotations are important because they state the legal and cost responsibilities. The most well know terms of delivery are Incoterms. Incoterms are standard trade definitions most commonly used in international sales contracts. Devised and published by the International Chamber of Commerce (ICC), they are at the heart of world trade. Incoterms are a series of international sales terms and widely used in international commercial transactions. They are used to divide transaction costs and responsibilities between buyer and seller and reflect state-of-the-art transportation practices.

The 13 terms contained in Incoterms are the following:

- EXW: Ex-works (...named place)
- FCA: Free carrier (...named place)
- FAS: Free alongside ship (...named port of shipment)
- FOB: Free on board (...named port of shipment)
- CFR: Cost and freight (...named port of destination)
- CIF: Cost, insurance and freight (...named port of destination)
- CPT: Carriage paid to (...named place of destination)
- CIP: Carriage and insurance paid to (...named place of destination)
- DAF: Delivered at frontier (...named place)
- DES: Delivered ex-ship (...named port of destination)
- DEQ: Delivered ex-quay (...named port of destination)
- DDU: Delivered duty unpaid (...named place of destination)
- DDP: Delivered duty paid (...named place of destination)

The delivery terms should always be in a correct order. The correct order is: abbreviation, for example CIF, delivery place and reference to the Incoterms that is used; for example CIF Helsinki Incoterms 2000. In addition to Incoterms there are also other delivery terms. Examples of these other terms are Combaters, Revised American Foreign Trade Definitions 1941, Uniform Commercial Code and Finn terms. (Hollensen 2004, 511-513, Czinkota etc 2005, 541-543, Rätty 2006, 11, 20, 22-25; ICC)

5.4.7 Distribution in Russia

According to Finnish-Russian chamber of commerce a company should be prepared to the fact that finding the most suitable distributors will take time and multiple negotiations' with many different candidates (Tiri 2009, 92). The company should be prepared to attain information from the distributors experience in international business and on know-how on domestic sales, market areas, customer coverage and its development, competitive product-range, human resource and financial recourses and short-term plans. The better the company knows its partner the more they can rely on them to boost their sales volumes.

Russians appreciate the reliability of delivery and the availability of the product. From the sellers point of view the least problematic way is to deliver the goods to the customer by ex-works /FCA-conditions. This method is favored by many to who it is still possible based on their market situation. When competition tightens one must agree on different methods also so that the market share can grow and be devolved. Export deliveries go either directly to the end-users or to middle-men, like stock-holders. Western wholesale system does not work too well in Russia. The importers/stock-holders are rather small and incoherent group of actors. The delivery of singular goods to the end-user is possible only in e-commerce or in mail-order and even those have their problematic. (Tiri 2009, 92-93)

5.5 Promotion

Communication is the final decision that an international marketer must make about their global marketing program. The role of communication is the same in domestic and global business - to communicate with the customer so as to provide information that the buyers need to make their purchasing decisions. The marketer must choose a proper combination of the various promoting tools - advertising, personal selling, sales promotions and publicity - to create images among the intended target audience. Advertising is a one-way communication process that has relatively more "noise" whereas personal selling is a two-way communication process with immediate feedback and relatively less "noise". Personal selling is an effective way to sell products, but expensive one. Advertising is usually the most visible element of the promotion mix, but personal selling, exhibitions, sales promotions, public relations and

direct marketing are also part of a viable international promotion mix. The choice depends on the target audience, company objectives, the product or service marketed, resources available and the availability of promotional tools in that chosen market. The communication mix carries information of interest to the customer, but it is designed to convince the consumers to buy the product. In table one are shown the most suitable promotion tool for different type of objectives and goals. It illustrates the tool, the use and different promotion tools for that use. (Hollensen 2004, 557-558 & 573-574; Czinkota et al. 2005, 495)

Tool	Use	Examples
Advertising	Efficiently get message to large audiences	Television and radio commercials, Internet banner ads, magazines and newspaper et al.
Sales Promotion	Stimulate immediate purchase, reward repeat purchases, motivate sales personnel	Samples, coupons, premiums, contests, games, displays, demonstrations, trade shows et al.
Public Relations	Build positive image and strengthen ties with stakeholder	Event sponsorship, new releases and briefings, speeches et al.
Direct Marketing	Reach target audience and encourage direct response	E-mail campaigns, printed and online catalogues, telemarketing et al.
Personal Selling	Reach customers one-to-one to make sales, strengthen relationships	Sales appointments, sales meetings and presentations

Table 1. Major promotion tools

To communicate in an effective way the sender aka the manufacturer needs to have a clear understanding of the purpose of the message, the audience to be reached and how this audience will interpret and respond to the message. However, sometimes a situation occurs where the audience cannot hear clearly what the sender is trying to say about their products because of the noise of rival manufacturers making similar and often contradictory claims about their product.

Besides the noise also language-, economic-, sociocultural-, legal and regulatory conditions and competitive differences can affect the communication situation. For example a slogan in one language may mean something different in another language. In addition to that also the sales presentation materials and advertisements may have to be adapted and translated when used in foreign markets. Sociocultural differences affect how individuals perceive their environment and interpret signals and symbols - for example the use of color in advertising must be sensitive to cultural norms. These different factors influencing the communication situation are shown in figure 14. (Hollensen 2004, 559-600; Cateora & Graham 2005, 478)

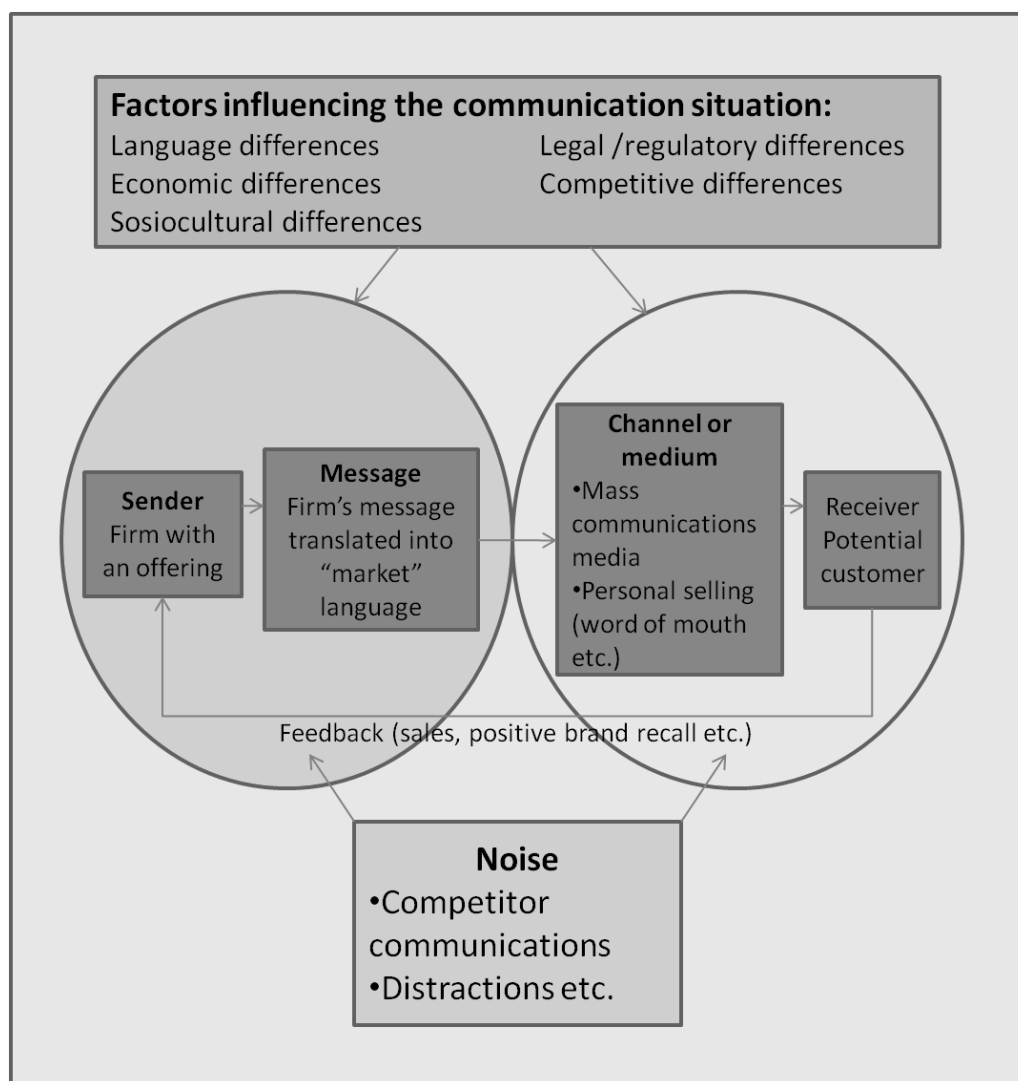


Figure 14. Elements of the international communication process
(Hollensen 2004, 559)

5.5.1 Advertisement

Like mentioned, advertising is one of the most visible forms of communications. Advertising is often the most important part of the communication mix of consumer goods, where there are large numbers of small-volume customer who can be reached through mass media. According to Czinkota et al. (2005, 495) the key decision-making areas in advertising are media strategy, the promotional message and the organization of the promotional program, but according to Hollensen (2004, 561-562) these key areas are objective setting, budget decisions, message and media decisions, agency selection and advertising evaluation, which are shown in figure 15.

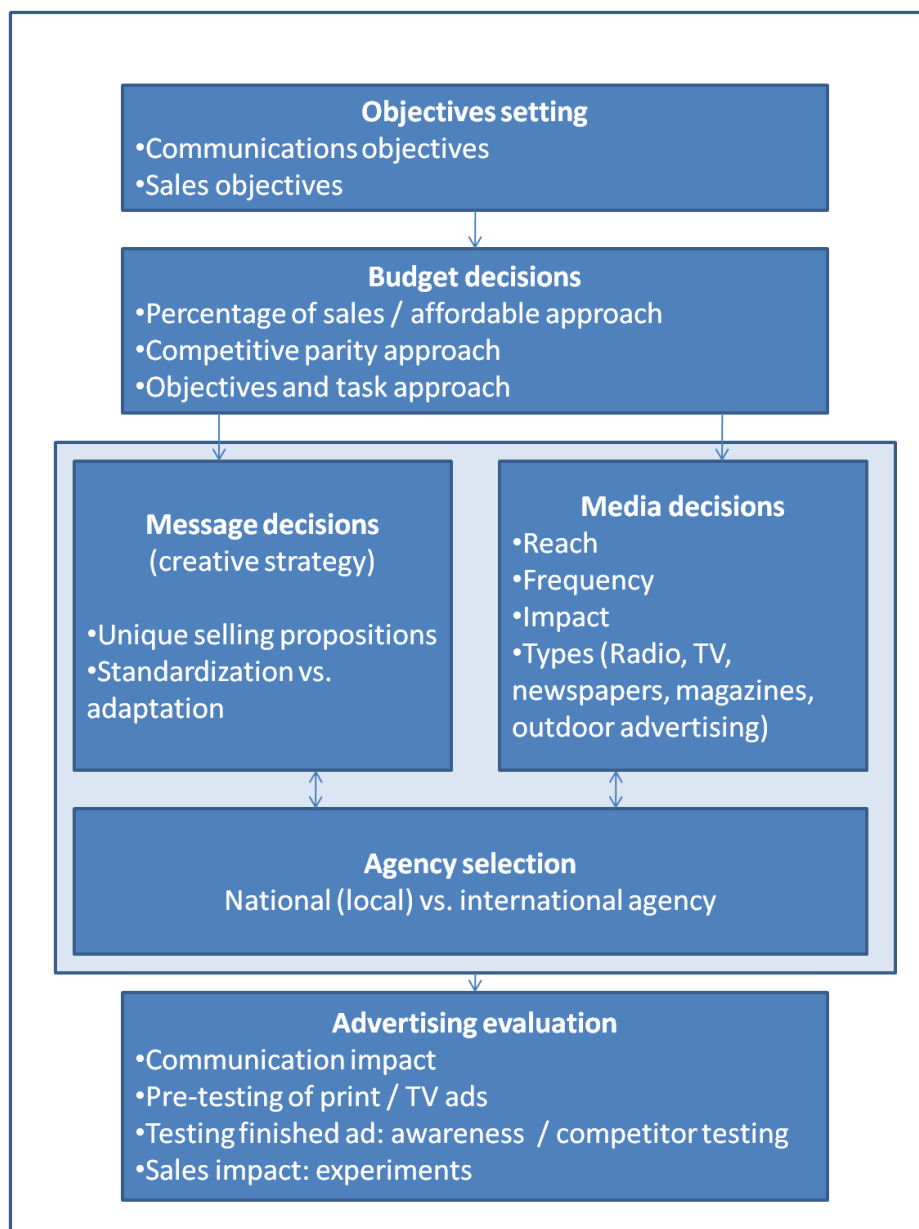


Figure 15. Major international advertising decisions
(Hollensen 2004, 562)

The main objectives in advertising remain the same regardless of the country and the methods, for example the main objectives could be increasing the sales by encouraging customers to purchase the product more frequently new customers or by obtaining new customers by increasing consumer awareness. Other major decision in advertising is deciding the budget and how it will be allocated across market over time. It is said that a company should continue to put more money into advertising because the money spent on advertising returns more than an amount of money put on anything else. Because it is not possible to set an optimum advertising budget, companies have developed practical guidelines for their help. The methods to help the management make their budgeting decisions are affordable approach, com-

petitive parity approach and objective and task approach. The most popular is the affordable approach or also known as percentage of sales because the company automatically allocates a fixed percentage of sales to the advertising budget. The advantages of this method are the following: for companies' selling in multiple countries this method appears to guarantee equality among the markets, it is also easy to justify in budget meetings and it guarantees that the company spends on advertising only as much as they can afford. The downside is that the company uses historical performance as an indicator rather than future. Also sometimes some extra spending might be necessary to boost declined sales. In addition to the mentioned it also does not take into account the variations in company's marketing goals across countries. This percentage of sales -method cannot be used while introducing products to new markets. (Hollensen 2004, 562-563; Doole & Lowe 2004, 310)

The other option is to evaluate how much the main competitors use on advertising. This is not easy abroad because the financial accounts of the competitors may not be open like in the domestic markets and their promotional activities aren't visible till the moment they occur. Another danger in following the competitors is the fact that they might not be right. The third way to determine the advertising budget is the objective and task approach. This begins by determining the advertising objectives and then ascertaining the task needed to reach these objectives. To be able to use this method the company must have in-depth knowledge about the local market. (Hollensen 2004, 562-563)

The message decision concerns about what unique selling propositions needs to be communicated and what the communication is intended to achieve in terms of consumer behavior in the target country. These decisions have considerable effect to the choice of advertising medium; hence other mediums are better equipped to specific creative requirements like the use of color or demonstration of product. An important decision for the company is whether an advertising campaign developed at home can be transferred to foreign markets with only minor modifications like translation. Complete standardization of all aspects of a campaign over several markets is rarely attainable but standardization at some levels can lead to some advantages, such as cost reductions. Standardization at this context means common message, creative ideas, media and strategy. (Hollensen 2004, 563-565)

The selection of the media to be used must be made simultaneously with the development of the message. The key question in media selection is whether to use mass or target approach. The mass media are suitable when significant percentage of the general public is potential buyers. The selection of the media starts with some ideas of the target market's demographics and psychological characteristics, regional strengths of the product, seasonality of sales and so on. "The media selection should be the result of a careful firm of local advertising objectives, media attributes and target market characteristics" (Hollensen 2004, 565). Media

selection can be based on reach, frequency and impact. Reach is the total number of people in the target market exposed to at least one advertisement in a given time-period. Frequency is the average number of times within a given time-period that each potential customer is exposed to the same advertisement. Impact depends on compatibility between the media used and the message. (Hollensen 2004, 565)

The main media types of advertising are television, radio, newspapers, magazines and outdoor advertising. From these TV is the most expensive but commonly used medium in attempts of reaching board national markets. In most developed countries coverage is not a problem, but it is the most regulated of the communications Medias. For example there can be a time limit in how long the advert can be. Radio is lower-cost broadcasting activity than TV. It is often transmitted in local basis and therefore national campaigns need to be built up on an area-by-area basis. Newspapers are accessible to most of the world's population. The problem is choosing the right ones as there are so many options. In most countries there are newspapers that are in national circulation but most of the papers are in local or regional basis. And building a nation-wide advertisement with local papers is not only problematic but costly. Magazines have narrower readership than newspapers and are aimed at specific segments of population. For technical and industrial product magazines can be quite effective. The medium that shows a creative way to sell space to customer is outdoor advertising. This can be posters or billboards, shop signs and transit advertising. (Hollensen 2004, 566-568; Doole & Lowe 2004, 311-312)

Many businesses turn to an advertisement agency for advice and practical assistance because there are so many problematic situations in international advertising. Agencies have access or employ experts that are needed in making a successful advertisement. If a company makes the decision to use external help in advertisement there are some options for them to choose from. The company can use different local agencies at the target market or the services of an international agency that has domestic overseas offices. To help decide on these two options there are some relevant criteria: Does the company have realistic plans for a more standardized advertising approach? What is the nature of the advertising to be undertaken? For corporate image advertisement one agency, that is able to do the advertisement worldwide, might be the best option but to niche markets local agency might be the most suitable solution. The product should not be forgotten in this equation. If the product is to be presented in standardized format, using same layouts and messages in all countries, a multinational company might be the most convenient alternative. (Hollensen 2004, 568; Doole & Lowe 2004, 313)

Advertising evaluation and testing is the final stage of Hollensen's (2004, 562) advertising decision process. Testing is usually more difficult in international markets than in domestic. One of the major reasons behind this is the distance and communication gap between domes-

tic and foreign markets. Many companies end up using sales volumes as measures of advertisement effectiveness, but awareness testing is equally important - brand awareness can be of crucial importance during early stages of new product launch. Testing the impact of advertising on sales is difficult because it is tricky to isolate the advertising effect. (Hollensen 2004, 569)

5.5.2 Public relations

The aim of public relations, also known as PR, is to enhance the corporate image building and influence favorable media treatment. PR is the marketing communications function that carries out programs designed to earn public understanding and acceptance - In other words PR is promoting the company image in people's minds. It should be viewed as an integrated part of the global marketing effort. PR activities include both internal and external communication. Internal communication is important to create an appropriate corporate culture. The target groups for PR are shown in table two. (Hollensen 2004, 570)

The range of target groups is much wider in public relations than it is for the other communication tools. Target groups are likely to include the main shareholder groups of employees, customers, distribution channel members and shareholders - for companies operating in international markets this gives a very wide range of communication tasks. (Hollensen 2004, 570)

In a market-oriented sense, the public relations activities are directed towards an influential, but somewhat small, target audience of editors and journalists who work for newspapers and magazine. Another option is to direct PR activities towards broadcasting that is aimed at the company's customer and shareholders. Since the target audience is small it is relatively expensive to reach. There are several methods that can be used to gain PR, these methods include the following:

- Contribution of prizes at different events
- Sponsorship of events like sports or cultural happenings
- Press releases of news about the company's products, plant and personnel
- Announcements of the company's promotional campaigns
- Lobbying

The degree of control of the PR message is quite different. For example journalists can use PR material to craft an article of so many words as they like. How the given material is used, depends on the journalist and their point of view. Sometimes, not very often, a negative story can result from a press release that was designed to enhance the company image. PR activity includes anticipating criticism, which can range from general ones against all multinational

corporations to more specific ones. (Hollensen 2004, 570-571; Doole & Lowe 2004, 318-319; Kotler & Armstrong 2005, 475-477)

Publics or target groups: Domestic markets	Extra international dimensions: International markets
Directly connected with the organization	
Employees Wider range of cultural issues	Shareholders The degree of remoteness of the corporate headquarters
Suppliers of raw materials and components	
Providers of financial services Providers of marketing services (e.g. marketing research, advertising, media)	Is this to be handled on a country to country basis, or is some overall standardization desirable?
Customers of the organization	
Existing customers Past customers Those capable of becoming customers	May have less knowledge of the company The county-of-origin effect will influence communications
Environment	
The general public Government: local, regional, national Financial markets generally	Wide range of general publics Host governments Regional grouping, world groupings

Table 2. Target groups for PR
(Hollensen 2004, 570)

5.5.3 Sales promotions and direct marketing

Sales promotion is defined as those selling activities that do not fall directly into the categories of advertising or personal selling. Sales promotions relates to so called below-the-line activities like point-of-sale displays and demonstrations, leaflets, free trials, contests and premiums such as get two pay for one. Below-the-line promotions do not earn commission. Above-the-line promotion is for example media advertising. To an advertising agency above-the-line promotion means traditional media for which they are recognized by the media owners, entitling them for commission.

Sales promotion is a short-term effort directed primarily to the consumer and/or the retailer in order to achieve specific objectives.

- consumer product trial and/or immediate purchase
- consumer introduction to the shop
- encouraging retailers to use point-of-purchase displays for the product

- encouraging shops to stock their product

In the past years the sales promotion budgets have grown in Europe and in the United States of America. There are apparent reasons for it. For example the competition is stronger among retailers and the brand awareness has grown among consumers, which has led to the need for manufacturers to defend brand shares. Also improved retail technology has influenced the promotion budget just like the greater integration of sales promotions, public relations and conventional media campaigns. In markets where the consumers are difficult to reach because of media limitations, the percentage of the total communication budget allocated to sales promotions is also relatively high. (Hollensen 2004, 571; Doole & Lowe 2004, 314-315)

To name a few options, a company can use price discounts, catalogues/brochures, coupons, samples, gifts and competitions to promote their sales. Price discounts are very broadly used and there are a variety of price reduction techniques available for the company to use - for example cash-back deals. Catalogues become effective when the buyer in the foreign market is located far away from the closest sales office. The function of the catalogue is to close the gap between the buyer and the seller in a way that the potential buyer is supplied with all the necessary information to make the purchasing decision. This information should include the price, size, colors and quantities, packing, shipping time and acceptable form of payment. Brochures of various types are useful to salespersons, distributors and agents.

Coupons can be distributed to the consumers in different ways: door-to-door, on pack, in newspapers. Coupons are especially popular in the USA but not allowed in all European countries. Samples on the other hand give the potential buyer an idea of the company and quality of product. This cannot be attained by even the best picture. Samples can prevent misunderstandings over style, size, and models and so on.

Most European countries have limit on the value of the premium or gift given - in addition, in some countries it is illegal to offer premiums that are conditional on the purchase of another product. Competitions need to be communicated to the potential buyer, which can be done on the pack, in stores via leaflets or through media advertisement. The success of sales promotion depends on local variation. Major constraints are imposed by local laws; some countries' laws control the amount of discount given at retail level, other permits for local sales promotions and some may not permit premiums or free gifts to be given. As the laws vary from country to country the company should always get in contact with local lawyers and authorities before launching a promotional campaign. (Hollensen 2004, 571- 572; Kotler & Armstrong 2005, 470-473)

Direct marketing has been defined as the total of activities by which products and services are offered to market segments in one or more media for international purpose or to solicit a direct response from a present or prospective customer or contributor by mail, telephone or personal visit (Hollensen 2004, 572). Direct marketing has grown rapidly in the past years. The reasons behind the boom are varying. The following factors have encouraged the growth:

- development of mailing technology, which have reduced the cost of distributing direct-mail literature
- escalating costs of other forms of advertising and sales promotion
- the increasing availability of good-quality lists of prospective customers
- developments in information technology that enable smaller companies to produce high-quality direct marketing materials in-house
- the increasing availability throughout the development world of interactive television facilities (Hollensen 2004, 572-573)

5.5.4 Personal selling

Personal selling is an effective way to sell products, but expensive. It is mainly used to sell to distribution channel members and in business-to-business markets. Nevertheless it is also used in some consumer markets, like cars and consumer durable products. If labor costs are small then personal selling is used in a greater extent than in high-cost countries. If personal selling costs are relatively high in business-to-business markets it is important to realize where personal selling is most useful and use it only at the end of the potential customers buying process. Computerized database marketing, like direct mail, is used in a consumer screening process to point out possible customers. After that the salespersons take over these potential consumers and if they do their job correctly turn them into real customer. (Hollensen 2004, 573)

5.5.5 Promotion in Russia

The large size of Russia means that the larger audience one wants for their promotion activities the more investments it requires. If the product is not for all, then marketing effort must be focused on certain areas and decided target groups in these areas.

Personal selling is highly significant in Russia. It can be done by doing business directly with the customer or indirect by word of mouth. It needs to be taken into consideration that the word sell still has a negative and cheap sound and the word marketing means only marketing actions, campaigns and planning. Because personal selling is so important in Russia, trade fairs are a good solution for the company to promote itself, especially at fairs that specialize in certain products or product groups. To get the best result from the fair marketing needs to

be planned well. Marketing actions should be made before, during and after the fair. The stand at the fair should not be modest. It is very important to be noticed especially at fairs that are directed to consumers. In B2B fairs the quality of the stand is comparative to the company and its products. A high-quality stand gives the impression of solid, noteworthy company and quality product. Therefore both Russian and western companies build big, showy stands. (Tiri 2007, 95-96)

Also product demonstrations are a good tool to get people's attention and convince them of the high quality of the product. Product demonstrations can be in the form of seminar and often there is coffee or other snacks offered. Sometimes even sauna. Product demonstrations should not be considered to be situations where old and secondary products can be sold. The product range needs to be appealing to the Russian buyers and they do not settle for last year's models, lower quality or second-hand products. It is not enough that products demonstrated are alluring, the invitation should be also appealing and promise something the customer desires. (Tiri 2007, 96-97)

Marketing is often considered to be only advertising. In Russia advertising is a fundamental way to promote sales and it should be used if possible. Finnish companies are often criticized on not been seen anywhere. There are many options for media marketing from special magazines to local and national television and radio channels. One very good marketing tool is to pay an expert to write an article. PR-activities are still fruitful way, but only outside Moscow. News threshold in Moscow and St. Petersburg are so high that many times a press conference or -releases done by a Finnish company does not get media-space based on the news value of it. (Tiri 2007, 97)

Billboard marketing is appropriate mainly to consumer goods that has stable delivery channel. The product should be aimed/offered to big groups. The price of billboard marketing is high and it is difficult and expensive to get the permission to it especially in big cities; that's why it easiest to do it by advertising agency. (Tiri 2007, 97)

Internet is a growing channel of advertising. Year 2005 Russia was the 11th biggest internet user in the world and it is estimated that year 2010 there will be 50 million internet-addresses and even more users. Internet sites in Russia have many banners, pop-ups and are very dynamic. If one decides to advertise over the internet, the advertisement should be done by a Russian. Even a small company should have their homepage in Russian as it does not cost much to construct, register (registration with .ru-domain) and maintain it but are very effective and helpful with marketing. The page should have things such as product-catalog, delivery terms, and sales channels and so on. (Tiri 2007, 97-98)

Catalogues, both electronic and printed, are a part of advertising. In Russia there are many catalogues, for example the yellow pages (printed and over the internet) but there are different catalogues in almost anything and the profit of using one should be carefully considered. (Tiri 2007, 98)

Freebies can be used as a bonus in marketing campaign and they can be anything related to the product that has been discovered as interesting and beneficial especially if those spinoffs are considered as the new “hot thing”. For example giving services as a freebie is very popular (e.g. free talk-time on mobile phones) but still the best attraction is to give a product as a freebie (a new mobile phone when buying a mobile phone service). (Tiri 2007, 98)

No matter which form of advertising is used the main focus should be on the advert itself. It should appeal to the Russian psyche and affect the process of deciding to purchase the product. Text, pictures and style need to be formed by the psychological assembly of Russian investment products and commodity not by the manufacturer’s or the service provider’s product idea. As the competition gets stiffer the manufacturers need to know more about the consumers which is why market research has become more and more popular. Market research should be done before planning marketing champagne. (Tiri 2007, 98)

The same rules apply with brochures and business cards as do with advertisements. They need to be made at the point of view of Russian buyer. The quality needs to be good as it reflects to the image of the company. Brochures get more important when targeting areas further away from big cities. The company needs to have brochures otherwise it is not taken seriously and will not even be reckoned with. Business cards are just as important, even more if the information on the other side is with Cyrillic alphabet. Russians can read Roman alphabet but Cyrillic letters are a sign of respect to the Russian customers, which helps to build relationships. (Tiri 2007, 99)

In-store marketing includes demonstration videos, product stands, posters, product demonstrations and samples. In-store marketing has developed rapidly due to the western supermarkets and department stores that have been founded to Russia. This can be an effective way to do an empiric market study or a written opinion poll and execute personal selling. (Tiri 2007, 99)

To promote sales, build and sustain relationships it is smart to organize social customer events. Based on budget those can be visits to the home country of the importer with product demonstrations and lectures about new products combined with free-time activity or the customer event can be held at Russia. If in Russia it can be at the home town of the customer with lunch or dinner party. Free-time activities are not excluded; hunting and fishing trips,

tether and concerts interest people and are appreciated. These types of relationship-building activities are very important in Russia because of its business culture and appreciation of personal communications. (Tiri 2007, 99)

Direct marketing has become more popular but it is somewhat difficult because there are not enough information about the consumers, no data about private people's addresses and irregular post. Direct marketing is mainly directed towards people of whom there is information about e.g. directors of companies. Direct marketing can be also without an address; then an area is chosen and a add goes to every household of that area. One of the most popular methods of direct marketing is to give out flyers at the metro stations. These methods mentioned work towards consumers, not companies. Direct marketing for companies is used quite a lot. Then the methods/tools are fax, e-mail and letters that are not directed towards a specific person. Spam-mail is a big problem in Russia and that's why Russians don't give their personal e-mail address to everyone. What one gets instead is a common address and therefore the impacts of the e-mail ads are not always the expected ones. (Tiri 2007, 100-101)

Telemarketing can be used to give a boost to direct marketing. The target group is chosen via phone. Phone can be used as advance marketing and the receiver is told that there is a delivery coming their way. This makes it more probable that the letter is opened. After the letter has been sent one should make a follow-up call to see that the letter has arrived. Many times it has not and a new letter needs to be sent and then a new follow-up call. The aim for the follow-ups is to decline the amount of letters thrown to the trash and increase the amount of letters opened. Sponsors are highly used to finance seminars and conferences, fairs, TV-programs, and sports- and culture events. Sponsorship is used to enhance the image of the company. (Tiri 2007, 101-102)

6 Evaluation of the tools

It is important to evaluate the tools and the benefits that they have created to the companies taking part in the Pro-FIT project. How useful the information is to an SME aiming to penetrate into the Russian market? The main focus on the evaluation is on the chapters' four and five - Russia as a target market and international marketing program.

For a company that is interested in Russia, it is essential to be aware of the environment they are going into. If one is not informed about the peculiarities, difficulties and special characteristics of the target market it will be difficult or even nearly impossible to make a successful market entry. Russia is a difficult target market with such diverse market areas. Russians like long lasting personal relationships in business and the development of that relationship

can come to an instant stop if the Russians are insulted. Therefore the basic knowledge about their beliefs, values, attitudes and customs are essential.

To be able to create a market entry plan, which is the end goal for the participants, all the basics of the classical marketing mix must be recognized. International pricing scheme differs from domestic in many ways and going global with the domestic strategy can create lot of difficulties. Penetrating new market requires a well thought-out plan that considers the different alternatives and the pros and cons of the strategies and methods.

The product aspect of the marketing mix is slightly less important to the companies because they have selected their product already at the beginning of the project. They companies have been explained how the products should be developed and they have learnt whether their product have sales potential in Russia or not. Even if the companies have selected their products in advance, it is a good reminder to them to see the alternatives they have if the chosen product is not suitable for the target market at the end. Also the perspective of Russia in the product selection is important.

As the companies taking part in the project are small and medium sized, the different ways of developing distribution channels are important. It is not in their interest to distribute the products themselves to Russia, because it is difficult and time consuming. It is important for the companies to understand what types of alternatives are available and evaluate which is the most suitable for their product. For SME's the motivation of the distributor is not so relevant, because small companies might not have a lot of influence to for example major retail chains. Because smaller companies are usually using retailers, it is extremely important to draw up a contract that covers all the important factors, like how much the retailer should sell per year and what happens if the set goals are not met.

For a small company selling their products overseas promotion activities might not be the most important ones. It must be remembered that promotion is key while introducing new products to consumers. The advertisements provide potential buyer with most important information about the product and separates it from similar ones. The place the product takes in the consumer mind is the one that matters. If the consumers don't find the product attractive, they will not buy it.

These all are the type of things that any company going global must consider. Which is the product they are selling, can it be sold like it is, or should it be adapted to the target markets demands. What is the price we are selling the product, should the approach be aggressive or does the price reflect the quality of the product. Can the sales cover for the expenses that arise? Selecting the right partners is highly significant, even more so in Russia. Can they keep

their word and do they give us what we need? Usually the retailer also handles the promotion of the product at the target market, but what they will say is in the hands of the producer. Setting clear advertisement goals and targets are a must. The advertisement should be such that creates positive image to the product and to the company.

The perspective of the Russian market in the marketing mix is the most beneficial to Pro-FIT companies. It is highly significant not to provide assistance only to the companies participating in Pro-FIT, but to be able to provide useful information to anyone interested in international business.

7 Pro-FIT

Pro-FIT is an abbreviation of the sentence: “Promotion of Food International Trade through cross-border collaboration”. In Pro-FIT cross-border collaboration means the different partners from Finland and Estonia that are working together to make the project happen. Pro-FIT is organized by Laurea and TFTAK. Laurea is a University of Applied Sciences from Finland, which operates in the Greater Helsinki Region with seven units located in Hyvinkää, Kerava, Tikkurila, Porvoo, Lohja, Leppävaara and Otaniemi. “Laurea produces new competences in the field of service innovations and carries out professionally orientated education, regional development and R&D activities by following the Learning by Developing (LbD) operational model” Laurea has approximately a personnel of 500 and around 8000 students. The future goal of Laurea is to be an internationally acknowledged university of applied sciences specializing in future expertise and regional development in the metropolitan area by the year 2015. Laurea’s values are Sense of community, Social responsibility and Creativity. (Pro-FIT 2010; Laurea 2008)

TFTAK, Competence Center of Food and Fermentation Technologies from Estonia, was founded on June 15th 2004 by Tallinn University of Technology and six partner companies. Its mission is to carry out the fundamental research in food and fermentation technology. Competence Center of Fermentation and Food Technology is applying and developing modern methods based on physics, chemistry and post-genomic process design to improve food quality, functionality and storage properties of several food products, taking into account detailed molecular/physiological properties of raw materials, additives, starters et al. TFTAK aims to build a strong combination between fermentation and food technologies with modeling at molecular level. A goal for TFTAK is to routinely carry out high-throughput cell physiological studies, using advanced cultivation methods incorporated together with up-to-date analytical base. (TFTAK 2010)

Why should companies take part in Pro-FIT? According to SMESTRADE Food and Drink (F&D) industry is one of the backbones of the European economy. The role of European food and drink on global export market is steadily decreasing. Therefore it is important, that internationalization knowledge and skills of European companies are developed - it's especially important to improve the preconditions of SMEs to internationalize. Up to 99% of the European companies belong to small and medium category (SME). Many of those companies have a great growth potential with very innovative products, but lack of knowledge about foreign markets and export opportunities prevents the companies to increase their exports. Finnish-Estonian SMEs have a wide range of opportunities to increase their export to Russia and Pro-FIT helps them to make use of gained knowledge to turn them into profitable business. (Pro-FIT 2010)

Pro-FIT was aimed at small and medium size companies (SMEs) in food and drink (F&D) sector and related interest groups in Southern Finland and Estonia. Pro-FIT arranged international seminars, webinar and training programs that were open to all enterprises interested in promoting food and drink international trade. Pro-FIT aimed to help SMEs to grow their businesses with activities like four international seminars and specialized training programs such as use of SharePoint for an interactive project management tool for information flow and working platform. (Pro-FIT 2010)

The Pro-FIT pilot phase begun in May 2009 and came to an end in June 2010. The pilot phase was organized with the EU, Central Baltic Interreg 4A, Estonian local and Laurea's R&D funding - participation in activities offered during the pilot phase was free of charge to all participants. (Pro-FIT 2010)

8 Empirical research

8.1 Research problem and objectives

The aim of this research is to get the end conclusions from the companies that took part in the project. How do they evaluate Pro-FIT as a whole, what was good about it, what could have been developed and what did they gain from it? Based on the answers Pro-FIT can be developed and the different parties can evaluate their success. If the companies found the project useful, maybe something similar can be organized in the future.

8.2 Research method: qualitative

Qualitative research method was chosen for this research due to the nature of the project. There were a limited number of companies taking part in the Pro-FIT project and only their opinion was needed. The people to be interviewed were determined beforehand.

The key purpose of a qualitative research is to understand and gain insight. Qualitative research tends to be exploratory and flexible because of unstructured problems - in qualitative research findings are not arrived at by statistical methods or other procedures of quantification. Though it is possible to quantify qualitative data, therefore qualitative and quantitative methods are not mutually exclusive. In qualitative methods the emphasis is in understanding from the respondent's point of view. (Ghuri & Gronhaug 2005, 109-110)

The main reason for using qualitative research and using qualitative methods are the objectives of the research project and the background and previous experiences of the researcher. The three major components of qualitative research are:

1. Data: often collected through interviews and observations
2. Imperative or analytical procedure: the techniques to conceptualize and analyze the data to arrive at findings and theories
3. Report: written or verbal. In the case of students, the report is written in the form of a thesis or a project

Interview is the most commonly used method of qualitative research - the flexibility of it makes it attractive. The interview can be structured, semi-structured or unstructured. For Pro-FIT the choice was a structured interview. Structured interview is done by using a form. In the questionnaire the order of the questions and claims is decided beforehand. (Hirsjärvi, Remes & Sajavaara 2004, 197; Ghauri & Gronhaug 2005, 111)

The aim of the research was to see, how the companies taking part in Pro-FIT had perceived the project and what were their opinions and insights on the project. Therefore qualitative research method was the only sensible research method to this case. The interest was solely on the participating companies' opinion and experience. To make sure that all the companies would be asked the same questions it was decided to make a structured interview.

8.3 Phone interview

As the companies that took part in Pro-FIT were from Finland and Estonia, the only realistic alternative for conducting the interviews fast, easy and affordable way was telephone interview. A questionnaire was constructed together with Ritva Jäätelä, who was in charge of the content of the internationalization training and also partly responsible for the implementation, to make sure that the questionnaire would contain questions about the things that Laurea is most interested in from the point of view of project evaluation.

15 companies started the project, nine from Finland and six from Estonia. Some companies did not finish the project, but they were also interviewed to find out the reason why they dropped out. The interviews were conducted in two different languages, Finnish and English. It was decided that companies from Finland would be interviewed in Finnish and Estonian companies in English. All the interviews were recorded so that the material could be easily processed and analyzed later on. Before each interview started the interviewees were asked whether they would approve the recording. The records are not to be given to anyone.

Before the end interviews were conducted all the companies were contacted by Ritva Jättelä from Laurea or Loreida Timberg from TFTAK to make sure that their contact information could be given away and if they agreed to take time and answer the questions. Not all of the companies were reached and therefore they were not interviewed as they did not give permission. A few that gave the permission to interview were not reached even though called multiple times. Of the 15 companies that started the project 11 were contacted and interviewed - seven companies from Finland and four companies from Estonia. The names of the companies or the contact persons are not to be revealed; therefore the companies are addressed by letter. The letters for the companies are in alphabetical order: A for the company that was interviewed first and K for the company that was interviewed last.

As the interviews were recorded it is necessary to transcribe the material. The transcribing can be done from all of the material or selecting for example different themes. Before transcription can be started it must be known, what type of analysis is in the making. The analyzing process in qualitative research starts already when the information is being gathered. As the interviews were conducted in two languages, the answers of the Finnish companies are translated from Finnish into English by the interviewer. (Hirsjärvi et al. 2004, 210-211)

8.4 Time-table

The interviews started at the 28th of May and the last interviews were conducted at 6th of July, which can be seen from table three.

The interviews were not scheduled in beforehand. Three companies had informed while asking about the permission to interview specific dates and time when they could be contacted. Even though the times were given, it did not suite the interviewees in the end.

Not in all cases the time the first call was made was appropriate; therefore new times were agreed upon. The interviewees were the companies' contact persons.

The company	The date of the interview
Company A (FIN)	28.5.2010
Company B (FIN)	28.5.2010
Company C (FIN)	31.5.2010
Company D (FIN)	10.6.2010
Company E (FIN)	10.6.2010
Company F (FIN)	15.6.2010
Company G (FIN)	6.7.2010
Company H (EST)	6.7.2010
Company I (EST)	6.7.2010
Company J (EST)	6.7.2010
Company K (EST)	6.7.2010

Table 3. Time-table of the interviews

8.5 Validity and reliability

While measuring something, valid results are the goal. However measurements can contain errors. The measurement score may reflect the true score, but may reflect other factors as well, such as: Stable characteristics: the way people respond. Others may use the far ends of the response scale and others tend to center their answers around the mid-points. Transient personal factors also have an impact, transient factors are for example the mood of the respondent. Also situational factors, like time pressure, variations in administration of the measurement and mechanical factors, may falsify the answers. (Ghuri & Gronhaug 2005, 80)

Validity concerns in qualitative research are challenging to handle. In qualitative research the following types of validity are often emphasized:

- Descriptive - refers to the degree to which the actual description holds true.
- Interpretative - refers to how good the interpretation is. Is the expressed interpretation the correct one?
- Theoretical - refers to adequacy of the suggested theory on explanation. Does the suggested theory hold true?
- Generalizable - to what extent the findings can be generalized to other settings?

In qualitative research the reliability of the research is higher when the research process has been in detail. The conditions of the research need to be told accurately and truthfully. In addition the possible distractions need to be mentioned. (Hirsjärvi et al. 2004, 217)

In qualitative research generalization is difficult. In this research the interest was in the participants' opinions. Therefore if the same questions should be asked from different people, the answers would not be the same because they would have not participated in the project. If the questions would be asked again from the participants it can be assumed that their opinion would have not changed. The way of conducting the interview and the analyzing methods have been described and from the answers the same conclusions can be drawn. From 15 companies that started the project, 11 were interviewed - the response rate is 73,33 per cent. The size of the take is big enough to say the responses are valid.

9 Results

9.1 Company backgrounds

Like mentioned there were 15 companies that originally started the Pro-FIT project. 11 of those 15 companies were interviewed. Seven of these companies were from Finland and five from Estonia. All of the companies were small and medium sized companies (SMEs), working in different fields of food and drink -industry. SMEs are companies that employ less than 250 people and whose yearly turnover is less than 50 million Euros. If one needs to separate small and medium sized the definition is the following: A small company is such that employs less than 50 people and whose yearly turnover is less than ten million Euros. The number of employees with the companies in Pro-FIT ranged from 1,5 up to 70. According to the given definition, only two companies in Pro-FIT were medium sized and the rest nine were small, where the number of employees were between 1,5 and 45. Here the number 1,5 in employees mean that there is one full time worker and one part-time. (Tilastokeskus 2010)

Pro-FIT was aimed to SME companies in Food and Drink industry. The most common product among the companies was fish and meat. Five out of 11 companies mentioned either fish or meat, when asked about their products. Only one company was producing drinks. Besides fish and meat the companies were producing or selling bakery products, berries, food supplements, fruits and vegetables, honey and different type of snacks. All of the companies had been in the same field of business since the company was founded. One of the companies was founded in the seventies, year 1976. That was the oldest company that took part in the project. Two companies were founded in the year of 1987, but the other one went through an acquisition year 2003 and was re-established then. Four of these companies were founded between the years 1991-1996 and the same amount was founded between 2005 and 2008.

The participants were asked, whether they had developed their business before taking part in the Pro-Fit program. Only two companies said that they had not. These companies were both from Finland and established in the past few years. Some companies explained in more

detail how they had developed or expanded their business. The ways of development ranged from developing new and old products to taking advantage of excess capacity, some had even exported. The older companies had so many years of experience that the market had changed significantly over the years. The different methods of development had aimed to growing sales and market share.

Many companies said that the initiative for internationalization resulted from the saturated domestic market. There was no place to grow and gain more revenue and they felt they had products that could sell abroad. Some mentioned that internationalization was part of their business strategy and the companies that had already exported outside their home market wanted to try if they could do it in other countries too. All in all the main reason with all of the companies was the fact that there is no room to grow in their domestic market and to be able to expand their business and gain more revenue one must consider exporting.

In table four is shown the companies nationality, year of establishment, number of employees, development of the company before Pro-FIT and weather they were asked all the interview question or not.

Company	Nationality	Founded	Employees	Development	All questions
A	Finnish	1976	70	YES	NO
B	Finnish	2008	3	NO	YES
C	Finnish	2007	5	NO	YES
D	Finnish	1991	25	YES	YES
E	Finnish	1995	1,5	YES	YES
F	Finnish	1987/2003	45	YES	YES
G	Finnish	1987	3	YES	YES
H	Estonian	2007	8	YES	YES
I	Estonian	1992	60	YES	YES
J	Estonian	1996	30	YES	NO
K	Estonian	2005	3	YES	NO

Table 4. Background information

9.2 Participation

The first question the Pro-FIT companies were asked at the end interview was about their participation activity. The companies were asked to evaluate how actively they participated in their own opinion. This first question determined the follow-up questions. If a company did not participate too actively in their own opinion they were not interviewed about the evaluation of the project. This method was decided together with Ritva Jäättelä. The reason for this

was the fact that if a company had not participated more than a few events, they could not answer the questions concerning teaching methods et al. There were three companies that had not participated. If the companies had participated, they were asked what motivated them to participate and if not, what was the reason behind it.

9.2.1 Participation activity

Of the three companies that did not participate one was Finnish and two Estonian. The reasons for the withdrawal were not having enough time and not being interested in target market that was chosen by the other participants. One said that they had all the materials from the program but weren't able to do it together with the rest. Even though these companies had not finished to project, it was important to know, why they had signed up for it and why they didn't stay with it. The Estonian companies both said that they had been contacted by Loreida Timberg. She had proposed to the companies to take part in the project. Both of the companies had been interested in the subject. One brought up his own experience in exporting - to him the method of teaching was interesting and he had hoped to gain some additional value, but unfortunately to him the chosen market was not interesting.

In addition to these three companies, which were asked only the background questions and about their internationalization motivation, was one more company that had not participated much, but was asked all the questions. This was because he had participated very actively in the beginning. Due to the interviewees work situation he wasn't able to participate even though he would have been interested in it.

None of the companies attended all the events, the average was about half. Some had been active throughout the whole project but to some the activity level had been higher in the beginning and as the project went on their interest had decreased and to some the absolute opposite. Motivation to participation for all was the subject of the project. Factors that were mentioned were gaining new information about a possible export market, that they have been aiming recently - the end goal being successful market entry. To Finns the possibility of collaboration with Estonians was an intriguing possibility.

9.2.2 Reason for participation

One of the main questions was why they companies had decided to take part in Pro-FIT and whether they had had any expectations about the project. One interviewee answered the following: "Laurea contacted our company. Apparently Finpro had informed them that we have participated in few of Finpro's project and were interested in the Russian market. Once Laurea had contacted us, we had a meeting and agreed to cooperate. Especially appealing to

us was gaining information and the training that was part of the project. I feel that we have gained significant value concerning exporting. We expected to examine the possibilities that the market has to offer and whether our resources are in accordance with continuing these preparations. I feel that we have gotten what we expected.” (Company E, interview 10 June 2010)

The main reasons for participation were gaining new information, finding out whether their products would have market potential in Russia. Few companies mentioned that initiative came from TEFTAK or Laurea. One Estonian company said that they discussed the topics of the program and it was something they had been thinking about but not acting in that way. Many had been considering international business before but didn't have all the information they needed to act. The fact that this project was free of charge was alluring to some. They felt that there are not many opportunities where one can gain so much and such good quality without paying. Such an opportunity should not be missed out on. For one company this project came at a very good time. They are building up new business and a new enterprise for it and were especially interested in international business and the Baltic Sea region - mainly Russia, Ukraine and Baltic countries.

While asking about expectations towards the Pro-FIT project, the most common answers were about learning new things from the project. Mostly the answers were the same as to the question about why they decided to participate. Few had not had any expectations and one said that the project had been much more work than expected. “We could not really expect much. We didn't know what to expect but in general the program was useful, it had theoretical parts which were combined with some exhibitions and also some practical work at home, which made you think about more our own recourses and so on. Actually we didn't know what to expect but in my opinion the program was useful” (Company H, interview 6 July 2010). One had his doubts about the project being organized by a school - he didn't consider a school as a professional in this type of projects, but found the subject very interesting.

9.3 Recollections of Pro-FIT

It was explored whether the companies would be able to recall some specific things they learned or gained from the project. They were asked to mention three memories or things they've learned. The activities in the project were:

- Preconditions for Internationalization: Product & development, choosing the target market, planning for international growth
- Market understanding: General business environment & authorities, regulations and culture, market structure & competition

- Footsteps to international market: Marketing and sales, export logistics, market entry plan & mode

Not all were able to recall specific things -the answers more about general things, like learning about Russian business culture, development of products and general information about international business and the Russian market.

“We learned quite a lot about the Russian customer base, the regulatory measures, what is needed for registration and certification. And while visiting Russia we were able to see the environment in which we would operate” (Company E, interview 10 June 2010). From Pro-FIT the companies had understood how important it is to pick the right partners, especially while doing business in Russia, and the significance of choosing the right sales channel.

To some the practical measures were the strongest memories. The companies filled out forms which demanded them to think their company strategy more in-depth. Things they had considered self-evident were actually more challenging than imagined and this forced them to really pay attention to them. “When a company is heading to international markets, one should carefully think through what are the opportunities the new market is offering. Which are the risks and which are the benefits and carefully consider what you are doing? You should consider carefully with whom you are dealing with and what type of players are on that field - with whom you should co-operate and with whom not” (Company G, interview 6 July 2010).

The partners of Pro-FIT were also mentioned - both specialists and the other companies that took part in the project. Some gave credit to the practical sources of information, like different web-portals in Russian side and to getting some concrete names of different parties that operate in Russia. An interviewee mentioned that there were a lot of things that came back to him after few years off from eastern trade. The seminars reminded him of the special features that concern eastern trade.

9.4 Teaching methods

Pro-FIT training program focuses on the internationalization training needs of F&D small and medium sized companies. The training directs and supports participating companies' internationalization related development work. The training program leans heavily on the virtual training methods and web-communication tools. The participants can mostly work where and when it is most suitable to them, which is both a challenge and a advantage for the companies. Pro-FIT utilized three different teaching methods: seminars, workshops, virtual studies and independent assignments. The questions about the different methods were the same:

Did you participate in this, if yes how many times? Was there something you found especially interesting or useful?

9.4.1 Seminars

During Pro-FIT four seminars were held:

- Growth through internationalization
- International Competitiveness through Product Development
- Customer and Market Understanding
- Footsteps to International Markets

The seminars were open to all parties interested in developing F&D international business skills. The seminars were designed to open up internationalization related issues and ideas and give framework to the participants' work in the training program.

Company C (interview 31 May 2010) evaluated the seminars as very interesting. He had missed the first and the last, do to time-issues. What he had found particularly interesting, was a seminar held in Tallinn. Professor Toomas Paalme from Tallinn University of Technology had lectured about the most useful sources of information, which are the databases: literature, food composition, food production, statistical databases of different states, patent databases and molecular databases et al. This lecture was mentioned useful by couple of participants. For a few it was difficult to separate the seminars from each other, even when reminded about the contents. One thing mentioned was the repetition in the contents of the seminars, which was found a bit unnecessary.

Company	Participation in seminars
A	0
B	2
C	3
D	4
E	4
F	2
G	4
H	2
I	2
J	0
K	0

Table 5. Participation in seminars

“Yes, I did take part in the seminars. If I remember correctly I attended all of them. I did learn a lot and the hand-out were good, now I can go back to the information when needed. If I had not found them useful, I would not have attended them” (Company E, interview 10 June 2010). Overall the seminars were found useful, some more than others depending on the interviewees own interest.

In table five is shown the companies own evaluation of their participation activity in seminars. The participation activity was quite good in the seminars, because all of the participating companies had attended at least half of them. Four companies had attended two seminars, one company three and three companies all of the seminars.

9.4.2 Workshops

Workshops were used to enhance personal contacts and to enforce collaboration, to open up key issues, to exchange ideas and experiences. Also the aim was to get trainer and peer feedback and contribution and to visit and benchmark successfully internationalized F&D companies.

The participation activity in workshops ranged from none to attending almost all of them. The same companies that actively participated in seminars also took part in the workshops more actively than the others. Again it was difficult for the interviewees to pinpoint any specific things due to the wide field of subjects that were processed in the workshops. From table six can be seen the companies own evaluation of their participation activity in workshops. It was difficult for the companies to recall the exact number of attendance.

Company	Participation in workshops
A	None
B	Half
C	Partly
D	Partly
E	Most
F	Once
G	Most
H	Partly
I	Once
J	None
K	None

Table 6. Participation in workshops

“I did participate to some extent and I did learn many things but I can remember anything on the whole. Many things were extremely useful and gave something to think about“. This quotation by Company D (interview 10 June 2010) sums up the answers that were given to this question relatively well. One participant mentioned the importance of interaction between the companies, which he thought was the most important thing to gain from the workshops. From the interaction one was able to get a larger perception to the things at hand - not only from their own company’s point of view.

9.4.3 Virtual studies

Virtual studies (eLearning sessions) was a way of teaching that was exercised in participants’ individual learning and internationalization planning and collective processing. It included shared thinking, peer/team discussions, guidance and feedback and training development. eLearning was implemented through a SharePoint platform and WebEx online meetings.

eLearning elements included:

- tasks that contributed to the company international planning
- planning tools, worksheets and forms, checklists
- support materials and links (videos, documents, links to external sources)
- team discussions
- WebEx training sessions and tutorials
- private working areas for each company in SharePoint
- participant portfolios
- collective development and knowledge creation: help requests, feedback, new ideas and useful sources

Based on the interview it was evident that virtual studies were not as attractive to the companies as seminars and workshops. The participation activity in virtual studies is illustrated in table seven. The companies found it difficult to have the time to do the exercises. “I did do some virtual studies, but those were the most challenging to get done. Somehow I didn’t have enough time or activity“ (Company G, interview 6 July 2010).

From table seven can be seen the participating companies own evaluation on how actively they had participated in the different virtual assignments that were given.

The companies that took part in the virtual studies said they were quite good and the ones that didn’t said that they should have. One mentioned that it was interesting to find out that nowadays it is possible to have meeting and conferences without traveling to a different location.

Company	Participation in virtual studies
A	None
B	Some
C	Some
D	None
E	Most
F	None
G	Some
H	3-4 times
I	Half
J	None
K	None

Table 7. Participation in virtual studies

9.4.4 Independent assignments

Independent assignments go to the same category with virtual studies based on participation activity, which was not high. Independent assignments were considered to be the most difficult to do and time consuming. The participants didn't have the time to do them. Some criticized the SharePoint platform: it was too difficult to use. On the upside the assignments questioned things that the companies considered to be easy and simple. The assignments forced the companies to really think about the subjects they were dealing with. This was considered to be very important as there was room for improvement.

Company	Participation in individual assignments
A	None
B	Some
C	Some
D	Few
E	Most
F	None
G	Some
H	None
I	Half
J	None
K	None

Table 8. Participation in individual assignments

From table eight can be seen the companies evaluation on how actively they had participated in the different independent assignments. Again the companies were not able to remember the exact number how many times they had done the individual assignments.

"I did individual assignments too. Those made you go deeper in to your own company's situation. Those were good update sessions. You were able to clarify to yourself what is the current situation with your own company" (Company E, interview 10 June 2010)

9.5 Evaluation of the training and the methods

The participants were asked to sum up their thoughts about the training and the methods that had been used. What had been useful and unnecessary in their opinion and how the training could be developed? According to the participants, sometimes the topics were little overlapping. Different lecturers talked about the same subject, which was found tiresome - though this was more of an exception than a rule.

One participant said that as a whole it was very useful, no doubt. There might be need for development on telecommuting sessions. He felt that the technology didn't work fully, like it was supposed to. The main development area for would be the technology but he believed that surely it will function properly in the future. According to the interviewee the emphasis was quite balanced but he would have hoped for more interaction with the potential business associates and potential partners. Russia was visited only once during this project - there could have been more of that. The participants gave credit for providing useful links and databases, where they could gain more in-depth information if needed based on their own interest. Company D said that they benefited from the project by getting more knowledge and knowhow. But the angle and perspective should have been more practical and the needs of each participant should have been taken more into consideration.

Company G (interview 6 July 2010) stated, that as a whole the project was valuable but the home assignments were difficult to carry through while working full time at the same time. It was difficult to find the time to do the assignments. He said that for sure the assignments would have been helpful - when the same subjects are studied for example at seminars one remembers those things better when they have worked on it on their own too. When asked, what should be developed, many mentioned SharePoint. It was too difficult and it was a challenge to go and look for the assignments from there - it was somewhat confusing. Even if one had the time to go look for the assignments in SharePoint, they weren't able to find the right ones. One stated that the participation activity in independent assignment might have been greater if the assignments had been given in paper or send to their personal e-mail.

The content of the project wasn't criticized much. One said that it focused too much on business in general even though the companies' interest was in Russia, penetrating target market and internationalization. Yet the general information wasn't completely useless in their opinion - it brought up new ideas. Then on the other hand one participant would have hoped for more general information about other countries too - though the reason for this was that the company had reached a decision, that they would not be penetrating into Russian markets. Some would have hoped for more compact project because in its current state the content was too comprehensive. They would have liked more compact presentations about the key-issues.

One company criticized the use of the budget. In their opinion only a small part of the budget was aimed towards the participants. It was mentioned that targeting most of the budget towards the participating companies would create maximal benefit. Now administration consumed the majority of the funds. The fact that the companies were given links and tools to help them in their internationalization process was good, but if one wanted to utilize those links, they needed to pay for it. Even though nothing is for free, the commercialism was considered to be against the nature of the project. One figured that even if the lecturers were professional and good, they could use their presentation as a platform for marketing their own services.

A Finnish company said that they were disappointed by the participation activity of the Estonians. They would have been interested in learning something new from them. For them there wasn't anything to learn from the Finnish companies. In this participants outlook "the training was homespun for the obvious reason". This person had already at the beginning of the interview mentioned that he had had his doubts about the project and the professionalism of it because the main organizer was a school. Regardless of the reservations the interviewee had, he had found Pro-FIT useful in some parts. Especially practical things that involved Russian counterparts or participants from different organizations were considered helpful. The project also refreshed his memory about things he had forgotten.

All in all, every participant had gained something useful from the project. How much they gained depended on their previous experience on the field of international business. Each person had their own agenda to start with and everyone's interests and learning habits differed from each other.

9.6 Arrangements and co-operation

Laurea and TFTAk were also interested in knowing, if the Pro-FIT companies were satisfied with the arrangements such as information flow, timetables, technical things, space/room

and transportation. In every participating company's opinion all the arrangements were pulled through well or very well, though few development ideas were given. Some technical difficulties were brought up; there had been concern about the database, where all the participants' information was gathered. The main concern was the safety of it. They were worried weather outsiders or other participants were able to see each other's development strategies. The database had not always functioned properly and to some it was difficult to use. For example it was mentioned that the information about the timetables and seminars were difficult to find.

The companies were asked whether they would work with Laurea or TFTAK in the future and if they'd recommend the project to others based on their experience in Pro-FIT. Each said they would, though some with bit of reverse - they would check before hand how much work and time it would take, and if it'd be as time consuming they would not. Pro-FIT was considered to be lucrative co-operation - "- this was the first time I'd taken part in Laurea's projects and in my opinion it went really well. They had set goals and thought through what they were doing. I cannot see any reason, why I wouldn't participate in something like this in the future" (Company C, interview 31 May 2010). Some said that they would participate if there was an interesting subject and they would have enough time. "I was overly optimistic when I signed up for this. I didn't assume it would take as much time as it did. I would have expected to manage with less time" (Company F, interview 15 June 2010). One Estonian company said that they would participate in something similar like Pro-FIT but they were not pleased with Laurea's project management, because there were many delays and sometimes lack of information. In their opinion it could have gone better.

9.7 Cross-border collaboration

Pro-FIT was organized by Laurea University of Applied Sciences, Finland and TFTAK, Competence Center of Food and Fermentation Technologies, Estonia. The co-operation between these institutions was the starting point of cross-border collaboration. The project also introduced the participant to specialists that could help them at their path to international business. As there were companies from Finland and Estonia, the idea was to introduce these companies to each other and promote the possibility of co-operation.

The idea of collaboration was considered to be potentially profitable and interesting but no co-operation between the companies came to life during the project. As the reasons for this were mentioned too different type of products, the lack of Estonian companies (opinion of Finnish companies), no opportunities to develop co-operation and different types of interest. One company said that they hardly ever saw the Estonian companies and they didn't even know what type of collaboration could have been developed. The thought of collaboration

didn't even cross their minds and there wasn't time or place where this type of ideas could have been brought up. Some had ideas of collaboration in the future, but those were still at planning phase.

The fact that there had not been many Estonian companies was mentioned by the Finns occasionally. There had been many companies that had signed up in advance for the project but ended up dropping out. This was considered to be a shame as many had been looking forward to meeting these companies. The main complaint was that there just weren't enough companies with whom collaboration could have been developed. Also the experience in international business of the companies varied hugely, and the more experienced felt that they could not gain anything from the other companies.

Even though no collaboration between the participating companies came to life, many were interested in using the specialists later on. If they'd need information about the Russian market they would know to whom to turn to for advice. For example Finpro and Finnish-Russian chamber of commerce (SVKK) were mentioned as interesting collaboration partners to the participants. One interviewee summed up the importance of collaboration by saying that the idea was that if they'll go to the Russian markets it would be beneficial to have a local business partner who knows about the tricky juridical factors and about the paperwork that is required while sending merchandise across the border. The way of doing business is so much different in Russia that an expertise advice is needed.

9.8 Future actions

How did the companies evaluate their internationalization knowledge after the project has finished? Did they feel they'd be ready to penetrate to new markets with the information they gained from Pro-FIT or were there some areas that need more support?

Company G said that there had been a lot of talk about this subject. Within the limits of a project like this as much information had been gained as possible but in the future more concrete information and contacts would be needed. The interviewee made a remark that based on the available resources the project had to stick with teaching and generating knowledge - he would have wanted guidance and consultation. More support would be needed according to Company D (interview 10 June 2010). They felt that Pro-FIT had brought them to such state where planning for internationalization could be started. In another participant notion the capability of going global is more a personnel question. In his opinion their staff would be able to pull off internationalization on their own but the benefit of the project was questioning their preparedness and values. He said that he felt that their company would have been able to do business abroad even without the project and therefore Pro-FIT didn't help them

to go further in internationalization. The main thing in internationalization in his opinion was finding the customer and presenting their business.

Many said that they might be able to penetrate new markets with their current knowledgebase if they would have to. “No, I’m not ready. But if I would have to, I feel that I’d have enough knowledgebase to be able to focus on the right things“ (Company B, interview 28 May 2010).) Another upside of Pro-FIT was gaining the information to know where to ask for help and advice if they’d noticed lack of knowledge in some areas.

One participant was looking forward to continuing their activities in internationalization, but could not do that because all their documents and information were in WebEx, which was closed when the program ended. They had been promised to send the information to the participants but at least in June this had not happened yet. Another participant had come to the conclusion that they were not ready yet to enter new markets but later on when internationalization would come a current issue, the information that they had gained from Pro-FIT would come in handy.

9.9 Challenges in internationalization

Each participant was asked what they found the most difficult thing in internationalization. The most common answer was finding the right partners. Especially while penetrating in Russia finding reliable business partners was considered as a must. Finding the right contacts and partner with whom one can work well together. Also the company’s inner recourses like financing and finding the right people for the job were mentioned as challenges.

“For SME’s it is the financial resources. It is financial resources and it is also human resources. It is time consuming to prepare your company to a new market. You must have sufficient funds available to be able to wait to make the decision because every new market entry has the costing worries” (Company H, interview 6 July 2010).

As an industry F&D has strict regulations and bureaucracy. The challenge of knowing all the regulations and things that come with, it like labeling were mentioned as the challenges of internationalization as they vary from country to country.

Another challenge for a small company was the capacity. For a small company that is interested in countries like Spain or Italy it is difficult to rise up to the capacity demands. For example they would need 20 tons a week but the capability of the company is only 4-5tons, which creates problems. (Company K, interview 6 July 2010) Also the selling of the product

and the act of market penetration were found demanding - "It is easy to sell once but selling again and keeping that customer is challenging". (Company C, interview 31 May 2010)

9.10 Pros and cons

The participating companies had already had a possibility to evaluate the training as a whole, but to get more information the participants were given a chance to say anything about the project, what they like and disliked and how it could be done better.

Most of the companies gave credit to the content of the project and to the teachers/lecturers and their professionalism, although one participant said that in his opinion the professionalism level wasn't high enough for his liking. He did give credit for trying. It was mentioned that especially good about the project had been the detailed way the different parts had been planned and carried through. One development idea was to making the project more practical.

"In general I would say that the project was very well built up. It had these training lessons and it had these visits to exhibitions and some seminars and some travelling, visiting other companies. I think everything was well balanced and very good. Maybe there was sometimes a lack of follow up, it was after some workshops and seminars there was something left as homework, the next time there wasn't any follow up that have you done it and would you like discuss it and so on. Maybe this was something that could be done better the next time. But the topic itself... the market entry and how to place your products at the new market is just very good idea. And very good program. I was wondering many times why so few Estonian companies took part in that program as there was actually not so high cost involved on the company's side. And that was also very good and useful. Other way it's very costly to and especially for small and medium sized companies, to first of all get all this information and on the other hand have it very systematic way and understand it means to do it in a new market ." (Company H, interview 6 July 2010)

10 Conclusions

Based on the interviewees' answers, the Pro-FIT project had been useful to all of the participants to some extent. It had been perceived as comprehensive and professional by most. The content of the project wasn't criticized much and it was commented as well-thought out and comprehensive. Some would have wished for a more compact presentation of the key-points and would have liked if the focus would have been more in Russia and not in the general matters of international business. Few felt that they would be able to make a market entry with the knowledge they had gained from the project. To others the value of the project was more

on learning where to find information if needed and building up their knowhow to the point that actions towards market penetration could be considered.

Most of the companies had been developing their business before taking part in Pro-FIT. The aim of internationalization was to gain more revenue and expand their business because for many participants their domestic market was saturated and didn't have room for expansion. Therefore international business was the natural move - though the knowledge and experience levels of the participants varied hugely. Some had been focusing on international business for years in different companies and therefore the starting point wasn't the same. To the most experienced once the profit of Pro-FIT came from recalling and updating their knowledge, especially about Russia.

The most motivated participants were the ones whose motive for internationalization had been internal, the desire to grow and develop themselves. For some the reason for considering international business came from the small or even niche market in which they were operating in.

As this project had been a pilot, there was also room for improvement. The stumbling block had been the technical tools that had been provided for the companies. SharePoint wasn't working well and there was concern about the safety of it. To some the workload Pro-FIT generated was more than what they had been expecting - it was found difficult to find the time to do the independent assignments.

The lack of Estonian companies was mentioned by both Finnish and Estonian companies. Finnish companies had been looking forward to meeting the Estonians and understanding their perspective for international business. As there weren't many Estonians the possibility of cross-border collaboration diminished and with the companies that were attending there weren't many possibilities to getting to know each other. To some it would have been difficult to create any type of collaboration due to the differences in the products and interests.

Originally Pro-FIT was intended to companies that were interested in Russia and/or Germany. During the project it became evident that most of the companies wanted to focus on Russia. Therefore all the focus was aimed towards it. To some Russia wasn't appealing and therefore they had dropped out at the beginning.

While asked about what the participants found to be the most challenging part in internationalization it was noticeable that they had paid attention to the project. Most of the answers were about finding the right partners and having enough finances to see the market entry through. These are the main difficulties which are mentioned in literature.

11 Development ideas

In the pilot phase of Pro-FIT the participating companies were at very different stages of development and the knowledge level among the participants was very diverse. The focus could not be on one specific group and their needs as the companies had very different demands - startup companies have very different needs than companies that have been in business for 30 years. Therefore it might be beneficial the next time to have companies that are at the same level in development and knowledge. Then the project could focus more on the specific needs that type of companies would have. The topics could be discussed in more detailed way instead of telling general information without focusing in the companies' actual needs.

To save the companies from misunderstandings about the demands of the project it would be beneficial to go those through in more detail. How much time will it take, what type of independent assignments there are and what type of time consumption is needed. How much they need to do on their own? As the participants are in working life at the same time, the assignments should be such that are possible to do besides work. Also the technical tools like SharePoint should be tested beforehand to make sure they work properly. The malfunctions create difficulties for the companies for example in finding the given assignments. If the technology cannot be fixed or even if it is working properly it could be useful to give the timetables and assignments on paper or send them via e-mail. This way finding the right papers and exercises wouldn't take time from doing them.

It became evident that even if many companies sign up for the project some will drop out. It could be considered that in the next Pro-FIT the number of companies would be higher. When some would withdraw themselves from the project there would still be enough companies so that collaboration might be possible. It might be good if the participants would get to know each other better for example in more relaxed situations. The companies would be able discuss about their companies and products and see if they had any common interests. To be able to create collaboration it would demand companies that had somewhat similar products. In the pilot phase the diversity of the products was quite big even if there weren't that many companies.

Also the execution of the end interview could be better. It was noticeable that Finnish companies gave longer and more detailed answers than the Estonians because they were able to answer in Finnish. It would be better that each company could be interviewed in their native language or only in English. This way the significance of the opinions would be in better balance. In addition it would be good if the interviewees could see the questions beforehand. They would have time to think about the questions and really think through their answers.

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How actively did you participate in your own opinion?

- If not at all or little: Why?
 - Because of the content? What would you have needed from the project?
 - The way the project was implemented?
 - Their own situation (work/the company's situation)? Is there something Tftak could have done to make participation possible?

Evaluation of the PRO-Fit project:

Why did you decide to take part in the Pro-FIT program? Was there something that was especially appealing to you?

If you had any expectations, how did it match them?

Can you name three (3) memories or things you learnt?

SEMINARS: Did you take part in the seminars? How many times? Were they useful to you? Can you remember something that stuck with you from those?

- Growth through Internationalization
- International Competitiveness through Product Development
- Customer and Market Understanding
- Footsteps to International Markets

WORKSHOPS: Did you take part in the workshops? How many times? Is there something you found especially interesting or useful?

VIRTUAL STUDIES: Did you take part in the virtual studies? How many times? Is there something you found especially interesting or useful?

INDEPENDENT ASSIGNMENTS: Did you take part in the independent assignments? How many times? Is there something you found especially interesting or useful?

As a whole, how useful the training was for you? Was there something unnecessary? How could it be developed?

How were the arrangements for the Pro-FIT program? (information, technical things, space and transportation)

What types of measures are necessary for you to make a market entry to international markets? (Are you ready to make a market entry with the knowledge you have now about internationalization or are there something you would need more support with?)

Based on this experience, would you work with TFTAk in the future?

Would you recommend the program or TFTAk?

Was there any type of cross-border collaboration your company and the other F&D companies, Laurea/TFTAk and/or internationalization/product development experts?

YES

- What type of collaboration and with whom?
- Possibility of collaboration in the future?
- Which factors motivated to collaboration? Any benefits?

NO

- Which factors prevented or made cross-border collaboration difficult?
- Were there enough support towards collaboration and what type of assistant would have been needed to activate the collaboration between:
 - Finnish and Estonian companies
 - Companies and PRO-Fit partners (Laurea/TFTAk)
 - Companies and Finish/Estonian experts

In general, what was good about the project? What should be developed?
Any comments, ideas, improvements?

Background questions:

Nationality

Number of employees

Position in Finland/Estonia

- When was the company founded?
- Exact line of business and products
- How long have you been in this branch of business?
- Has your business developed/expanded? How?

What motivated you to take part in the project and what triggered the decision to go global?
In your opinion, what is the most difficult part about going into international markets?