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UNIVERSITY OF APPLIED SCIENCES

The Ukrainian Market as a new Export Destination

-case study Dieta Oy

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2012 Laurea Leppävaara

The Ukrainian Market as a New Export Destination -case study Dieta Oy

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Business Administration
Bachelor's thesis

April, 2010

Nyirenda, Anastasia

The Ukraine as a case study

Year 2011 Pages 53

Entering a new export market is quite challenging in that most companies are not willing to invest in unless they are sure that profits will be gained according to their predictions. The degree of risk is always high especially if your target market has an unstable as volatile economic.

The main objective of this thesis is to provide an insight into the steps to take when consider doing business in Ukraine. This thesis also contains basic theoretical knowledge for new investors to guide them when choosing Ukraine as a new market. Since the target company here is Dieta, the author has provided an overview of Ukraine's economy, business culture, potential opportunities and an introduction to other relevant issues. Dieta will find the data to be useful because most of it is practical information that can be taken into consideration immediately.

The research contains detailed information using the PEST analysis providing key issues and information for Dieta. During the research, it was observed that Ukraine has significant economic potential as a result of its well educated labour force, low income, large domestic market, availability of vast natural resources including its strategic location connecting Europe, Russia and the Asian markets. Whilst considering such an opportunity, the author has further described the difference in the business community of Finland compared to that of Ukraine as a post soviet union country.

The theoretical section contains the country analysis and the approach used to evaluate current conditions of the Ukrainian market. The approach evaluates the country by comparing exports from Finland, Germany and Italy as these are the main competitors for Dieta. The results section is another vital source of information as it explains and recommends that the Agent-Contract channel is the best resolution for Dieta. The results further observe that it is important to first check the Agents connection to the industry, government, and other relevant authorities. Checking the financial situation and its partners has also been recommended as a number one priority as this will help to avoid long and short term risks.

Key words: Professional kitchens, Ukraine, Dieta, target markets, PEST analysis, products, import and export

Table of Contents

| | | |
|-------|---|----|
| 1 | INTRODUCTION | 5 |
| 2 | THEORETICAL BACKGROUND | 7 |
| 2.1 | Internal readiness | 7 |
| 2.2 | Competitiveness | 9 |
| 2.3 | Competitive advantage | 10 |
| 2.4 | Criteria in choosing market entry | 12 |
| 2.5 | Internal criteria | 13 |
| 2.6 | Market entry strategy | 13 |
| 2.7 | Entry alternatives | 14 |
| 2.8 | Agent | 14 |
| 2.9 | Collection of information | 15 |
| 2.10 | PEST analysis | 15 |
| 3 | UKRAINE AS A TARGET MARKET | 16 |
| 3.1 | Political factors | 17 |
| 3.1.1 | General knowledge of labour law | 17 |
| 3.1.2 | Working permits | 18 |
| 3.1.3 | Economic crimes during the 2008 recession | 20 |
| 3.1.4 | Competitiveness of the Ukrainian market | 21 |
| 3.2 | Economic factors | 23 |
| 3.2.1 | Political situation | 23 |
| 3.2.2 | Inflation | 25 |
| 3.2.3 | Reforms in the banking sector | 25 |
| 3.3 | Social factors | 26 |
| 3.3.1 | Workforce | 26 |
| 3.3.2 | Population | 26 |
| 3.3.3 | Culture | 26 |
| 3.3.4 | Age distribution | 27 |
| 3.4 | Technological factors | 28 |
| 3.4.1 | Internet connection | 28 |
| 4 | EXPORTS TO UKRAINE | 31 |
| 4.1 | Product classification | 31 |

| | | |
|-------|---------------------------------------|----|
| 4.2 | Comparison with other countries | 32 |
| 4.3 | German exports..... | 33 |
| 4.4 | Italy | 34 |
| 4.5 | Finland | 36 |
| 5 | DIETA OY AS A CASE STUDY | 38 |
| 5.1 | Case study assumptions | 38 |
| 5.2 | Company presentation | 38 |
| 5.3 | Sales channels..... | 40 |
| 5.4 | Ecology..... | 41 |
| 5.5 | Product types..... | 41 |
| 5.6 | Dieta Oy overall turnover | 43 |
| 5.7 | Questionnaire..... | 43 |
| 5.7.1 | Aim of the survey..... | 43 |
| 5.7.2 | A profile of Juha laukkanen | 43 |
| 5.7.3 | Expansion..... | 44 |
| 5.7.4 | Financial goals | 45 |
| 5.7.5 | Entering the Ukrainian market | 46 |
| 5.7.6 | Product pricing | 46 |
| 5.7.7 | Company competitiveness | 47 |
| 6 | CONCLUSION..... | 47 |
| 6.1 | Recommendations..... | 50 |

1 INTRODUCTION

Ukraine is often considered to be a high risk market due to its economic and political instability, slow reforms, corruption and its unique relations with the former Soviet Union. A well-educated low-income population and unique location bordering Europe and Russia makes Ukraine an important economic zone both to east and western European countries. This thesis introduces some of the features that make Ukraine attractive to foreign companies hoping to start up businesses or invest in this vast country. Further in the thesis, the current economic situation of Ukraine will be discussed and how the country has transformed itself after the collapse of the Soviet Union.

The thesis is divided into six chapters. The second chapter covers the theory section introducing a Political, Economic, Social, and Technological (PEST) analysis. PEST is a useful tool to evaluate information on a country's economic situation and in this thesis Ukraine is under evaluation. The third chapter covers Ukraine in detail using the four different perspectives introduced in PEST.

The second chapter discusses further possible theories that can be used by companies when searching for investment or targeting Ukraine as a suitable market. Here Dieta Oy a Finnish company has been used as a case study as it is planning to expand its business into the Ukrainian market. Hence the research will answer questions such as whether it is profitable for Dieta Oy to start exporting to Ukraine and what kind of market entry strategy is correct for the Ukrainian market.

The third chapter discusses the export capabilities in general of the three countries Finland, Germany and Italy. The idea is to analyse the export situation of Germany and Italy for products similar to those manufactured by Dieta and compare their likelihood for success on the Ukrainian market. The current situation of Finnish exports of commercial kitchen equipment to Ukraine will be evaluated through the export statistics. It is presumed that Germany and Italy are the strongest competitors due to their large markets and product dominance in the EU and elsewhere. The statistics on their exports will

help to analyse the path that Dieta should take based on the current market situation of the Ukraine.

The fourth chapter analyses exports to Ukraine in general while the fifth chapter examines Dieta as an import-export company. The chapter discusses further the company's products as well as the vision of its management on Ukraine. The chapter discusses the company's operation capabilities on the commercial kitchen equipment market. Furthermore, the chapter presents perspectives on the future of the company's expansion program towards Ukraine in the form of a questionnaire. The Chief Operations Officer (COO) answers questions and discusses the company's internal and external readiness about entering the Ukrainian market.

2 THEORETICAL BACKGROUND

Concept Strategy is a military term that is now used in modern entrepreneurship. War's battle is a term of leadership and order of any battle according to Carl von Clausewitzin often referred to as a "philosopher of war". The term battle has a complex meaning and it consists of many smaller parts that are at the same time connected to each other but are separate from one another. There are two processes of maintaining a battle, first by keeping the order and leading each one of the small battles but also connecting all of them together to serve the original plan.

In the business vocabulary war's battle can be seen as achieving a company's goals that have been set before. For the company, it means operating on fast changing and competitive markets and trying to maintain the company as a long-term goal. This can be described best as: the aim of a business is to earn a return on capital, and if in any particular case the return in the long run is not satisfactory, then the deficiency should be corrected or the activity abandoned for a more favourable one. Kansainvälisen liiketoiminnan käsikirja 2002.

The strategic thinking of the company means finding a balance between its resources and the possibilities offered by the market and its limitations, while the company is achieving its goals. On the planning stage of the company, the decision making process is mostly based on the external factors rather than on the internal ones through analysing the intentions and goals. (Kansainvälisen liiketoiminnan käsikirja 2002, Page 60)

2.1 Internal readiness

When preparing for internationalisation a company needs to evaluate its internal capacity and willingness to be international. It is important for the management to analyse the background of the company to understand how the company was established. Secondly, it is also important to know its main historical events and how its business operations have been achieved in its own country including its main successes and failures. The vision, mission, values of the company and its culture, region or area of operations on which the

emphasis have been made contain very important information during the strategic decision making process.

Therefore when evaluating the company's willingness to become international, the management need to establish its own standards for the general readiness, export eligibility of products and market demand for the product. The readiness of the company's personnel, technology and production processes have to be evaluated. This is done in order to find out whether the company's internal factors are sufficient to the framework required to operate internationally.

The general readiness of the company indicates whether the company's plans related to its future financial expectations were objectives for expansion. The strategy used to expand and its potential for becoming international, have been well defined to avoid long term financial risks. The company's property and financial structure now and in the future, and its ability to produce enough goods for the international market are issues that have to be solved. The management of the company has to have the necessary experience of doing business internationally: and for example by creating possible potential networks of relationships locally and internationally as these links might prove necessary in the future.

The company has to compare its own products on the market to other similar products to evaluate its potential position on the target market. This evaluation process is a helpful tool to establish the requirements in foreign market as there might be different from the requirements in the domestic markets.

The product on the foreign market might have different features or be completely different from the domestic product. This usually occurs when there is a difference in culture or in consumption habits, and also technical requirements might be different, such as weight and standard requirements. In this respect, the success of the company on the international market is based on the uniqueness of its products and every outer feature distinguishable from other products. Having or selling too similar products on the market to that of

other companies is one of the main reasons why many companies fail to achieve their intended goal in the new market.

Product concept building is a necessary step involved in the planning process. All the requirements mentioned above to operate on the international market are important for the company. They are achieved through the evaluation of targeted customer groups and the customer benefits that could be created and offered to the chosen customer segment. The desired benefits that the company would like to offer to its customers determine the features of the product and the product production. The level of complexity of the features of the product and the number of layers the service will have, the final product is determined.

At this stage, the company's product cannot have average features but must have something above that as the features the final product need to be differentiated from other competitor's products. This is why the market has to be well segmented for the company to position and differentiate its product targeted for a specific customer group. (Kansainvälinen liiketoiminta & markkinointi 2009, pages 106-109).

2.2 Competitiveness

Competitiveness can refer to several concepts. It can be used when comparing two different countries and their abilities to compete on the global market or different trading areas to discover where to invest. As a result there are many different standards on how to discover and evaluate differences in the world.

There are two sides to a company's competitiveness that help to analyse its ability to compete: firstly, the point of view on the study conducted on the competitiveness and secondly, the view of all the participants in this study have to evaluate. Between the buyer and the seller, the buyer's interests take place if the seller's offer is more competitive than his competitor's offer. Often buyers choose the seller because the product they have on offer is popular that is why the buyer's perspectives on the seller's products is also a measurement of competitiveness.

It is often concluded that the price level always determines the final costs but that is not accurate because in this case a non-price factor is forgotten. The standard for the comparison of competitiveness exists and is divided into two parts such as real competitiveness and price-based competitiveness. The product itself is the real object of comparison and the product's place on the market defines how competitive its position is. The connection between the company's final product and the target customer group defines the price-based comparison.

In the business world, it is considered that these two standards for comparison have to be separated during product evaluation but in practise these two comparisons are always linked together. In the long run, the product's price level will not be affected if the profit of the product does not exceed the manufacturing costs. This implies that the product's sales are enough a company achieves its competitiveness through the pricing of goods at a low level but at the same time enough to cover the total unit costs. (Kansainvälisen liiketoiminnan käsikirja 2002, page 68)

2.3 Competitive advantage

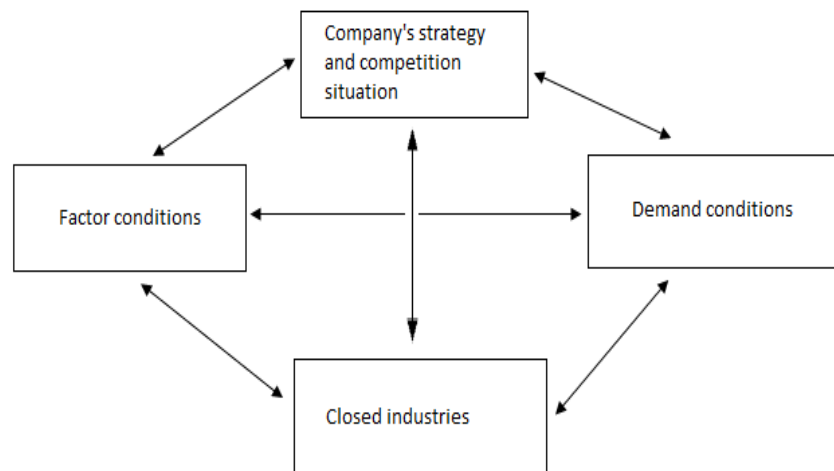
The competitive advantage of the company is usually measured through the Competition Diamond Diagram (CDD) that was developed by one of the world's leading authorities on marketing Michael E. Porter. According to Porter and other related studies suggest that there are four factors of the company's external and internal environment that either promote the development or hold it back.

The first factor of the diamond diagram concerns the existing conditions do not depend on the market or the country where the company is located. These factors could be the skilled workforce which leads to innovation or the existence of competition. The second factor is demand conditions and the company's product on the domestic market. The third factor is the supporting industries where the main focus is on how developed these industries are to support the company to become competitive on the foreign market. The last factor is the firm's strategy that is the structure and competition situation that shows the company's level of competition on the domestic market. The above

factors reflect the condition and internal environment of the company on the market.

These factors affect the environment that companies are operating in but the combination of these factors also defines the level of competition. The economies of countries are considered more developed where industries or segments of all four factors are combined in the cheapest possible way.

The factors mentioned above are mostly company related ones and if figure 1 below is selected on a country basis then two other factors would be included such as coincidence and government. In most cases the coincidence factor cannot be predicted and the possibility of them occurring is difficult to predict. Coincidence factors include such events as technical breakthroughs, wars, political events and changes on foreign market demand. These events bring changes that sometimes shift the structure of the industry to another or completely new level and create opportunities for some countries to develop faster than others.



The basic elements of interests

Figure 1 Competition diamond diagram

In the company's development scheme, the governments of countries have the biggest role. It is in the power of authorities to improve the security of the

country or to make it worse. The extent of influence can be seen the evaluation of governments using the competition diamond diagram. (Kansainvälisen liiketoiminnan käsikirja 2002, page 70).

2.4 Criteria in choosing market entry

When a decision is to be made concerning a company's entry into a new market, there are criterias that include external and internal factor that are of great help during the decision making process.

External criteria comprise eight points for evaluation purposes of which entry strategy is most suitable for this particular market. Generally, the company has to go through all of them even though it is not always necessary unless defined.

The degree of risk differs from market to market. In the risk evaluation processes of a market, the higher the risk the less the commitment companies prefer to make while entering the market. In such circumstances low-risk strategies are chosen involve the use of commissioners, exclusive agents, or distributors. Other approaches take place when the company does not enter the market just on a trial bears only then larger and longer-term commitments are perceived.

Different countries have different level of competition and the entry strategy depend on what kind of decisions the company makes related to the market entry. A Low-risk strategy would be chosen by the management in cases where the product is not intended to be on the market for a long period of time and when the product has to be recognised a high-risk entry strategy will be chosen for the market.

Political conditions and the country's stability have a great influence on a company's decision in choosing how committed its strategy should be. This mainly depends on how stable the political situation is in the target country.

Market conditions consists of important information for the company's management about the market situation in the target market and if the market conditions are stable then the management is more willing to take steps toward long-term commitment.

The future market potential has as even greater effect on the management's decisions than the market conditions hence companies select high-risk entry strategies if there is a greater chance; of rapid growth of the market.

(International marketing planning and practice 1993, pages 201-203)

It is necessary for companies to have long-term commitments and high-risk entry strategies to ensure the availability of desired distribution outlets in the target market. In this case this means that there is no desired distribution organisation in the target market and the company would like to open outlet stores, which involves a high-risk strategy. This is why the process of building a new distribution organisation or recruiting another company is a complicated and costly process.

There is hidden potential in the company's capital venture investments when investing to boost the company's development through capital venture investments. This is done to help it establish its position in the chosen market. The company's management is usually ready to implement long-term commitments usually through franchising when there is a suitable capital venture available in the target market.

The availability of know-how conditions means combining many steps of product manufacturing such as this manufacturing process and distribution. The existence of know-how in the target market makes the decision-making process of the company easier and faster.

2.5 Internal criteria

Time orientation, the need for control, the degree of internationalisation, urgency of going international and the ability to handle international risks are the internal factors that any company has to consider. These factors were discussed previously in the section internal readiness.

2.6 Market entry strategy

After the assessment of international capabilities and the evaluation of international market potential a company's management is ready to plan and implement a strategy for a chosen target market. Due to the fact that the step

of entering the target market is risky companies prefer to enter international markets slowly and through exporting operations.

During the process of operating the company and gaining the necessary experience on how to become successful in the international market, companies implement strategies toward long-term involvement by tightening control over their operations. The company's long-term perspectives and transformation from just exporting operations toward other entry strategies requires total support from the management. This in term brings permanence, more competitive power, more control, and greater long-term profits. (International marketing planning and practice 1993, page 191)

2.7 Entry alternatives

There are thirteen entry strategies for foreign markets, which are represented in Figure 1 page 11 and which differ in their complexity. Risk and control are two dimensions that were used to arrange this graph. It is assumed that the degree of risk increases from the left side to the right side along the horizontal dimension. Due to the increasing risk control over operations increases on the vertical dimension as well.

The importance of control is greater where risk is involved between these two dimensions interaction. The greater the control of the process the greater the risk: for example when a company exports products to a foreign market it cannot have full control and decide when and where the exporting company is going to sell products. In the case of a fully owned subsidiary with home-country management it then has full control over its operations.

2.8 Agent

During this phase, choosing a suitable market entry strategy is important as the company's management has to make sure that the decision be made wisely. The management has to make sure the company will not be affected by poor management decisions. Therefore the management has to evaluate the degree of involvement in international operations that it would like to have. This is achieved by choosing an appropriate method for target market entry by considering all available alternatives.

Agents are independent individuals or firms who act on behalf of exporters on a commission basis. This form of market entry does not require high-cost involvement in the foreign market. Preparation of forecasts, development of strategies and tactics based on an agent's experience of the market are just some customer's expectations from their agents. (International marketing strategy 1994, page 261)

2.9 Collection of information

There are predictions concerning the future of the company that the successful company management is simply the management that collects necessary data required to effectively carry out its duties. This fact finds its confirmation in the rapidly changing external environment of companies where data is a vital source of development. It becomes more important for companies to recognise the signs (factors) of rapid environmental change and this process of recognition requires the collection of market information. This in turn helps the company management during the planning and decision-making process. (Markkinatieto yrityksen kansainvälistymisessä 2001, page 21).

2.10 PEST analysis

The PEST analysis is used for conducting a market research to get an overview of different macro-environmental factors used in the market research. This is used as a strategic tool to understand the market conditions and whether there is economic growth or decline, business positions, potential and possible future operation directions. This model consists of four factors: political, economic, social and technological.

The political factors review the degree to which a government intervenes in the economy. Governments regulate laws in all countries and these measures affect the everyday life of ordinary people and businesses at large.

Government interventions are felt in such areas as tax policy, labour and environmental laws, trade restrictions, tariffs, and maintaining political stability. It is the responsibility of Governments to have control and influence over a nation's health and education system but also the infrastructure of the country.

Economic factors are mostly related to business operations in the country. They are economic growth, interest rates, exchange rates and the inflation rate and their influence has greater impact on the business operations. These social factors affect the level of demand for a company's products hence making it difficult to determine its future path in that country. The cultural aspects, health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety attributes to social factors.

Technological factors include ecological and environmental aspects, automation, technology incentives and the rate of technological change. The economic situation of the country defines how technologically advanced it is, which is a base for innovation. The level of market entry in the country can be seen through how much the country's technology is developed because it might slow down or speed up the market entry process. Technology development might slow down or speed up the market entry process hence it is important to know its condition for future purposes. (Wikimedia Foundation, Inc. 2010)

3 UKRAINE AS A TARGET MARKET

This chapter discusses Ukraine as a country in general while focusing on its imports. To better understand this chapter the author has considered the evaluation through a framework of macro-environmental factors called PEST. The PEST analysis was discussed in chapter two.

3.1 Political factors

3.1.1 General knowledge of labour law

The government's obligation is to constitute the labour laws that regulate the relationship between the employee and the employer to make it fair and clear but also to settle their rights and obligations. All employment regulations required by Ukrainians and foreign nationals can be found in the Labour Code of Ukraine. During the time the Labour Code was constituted the Ukraine used to be a part of the Soviet Union and the emphasis was mostly made on the protection of employee's side rather than the employer's. This is one of the reasons why the Ukrainian Labour Code is not clear and straightforward even though the government attempted to change it but with the current political situation it seems not to be possible.

According to the labour law every company has the right to employ the employees who are felt to be necessary regardless of their qualification. Different requirements have to be applied when a foreign company opens a representative office in Ukraine whereby it has to be predetermined in its own legislation application. It is obligatory for every representative office to register the company and to determine in its application the accurate number of employees to be employed.

An employment agreement is the basis of the employment relationship and it can be made in written or verbal form. It is obligatory for a foreign national to have the employment agreement in written form because every year it has to be presented when obtaining a work permit. Working obligations included in the working agreement can be freely stipulated between the two parties but additional obligations cannot be imposed further than it is mentioned in the Labour Code. (Losevska & Hodakovska 2009)

A company is entitled to settle a probation period for its employees that could be up to three months and the same probation period applies to both national and foreign employees. During the probation period the employer has the right to terminate the employment contract within one day of notification.

According to the law the employee's salary is based on such variables as professional skills, education and working results. Any discrimination based on race, nationality or gender is strictly prohibited. A working week in Ukraine is 40-hours or 5-days a week although different working hours can be established depending on the business field. Double pay is required for all hours that exceed the 40-hour limit because this is considered as overtime.

In cases where an employment agreement has to be terminated due to certain circumstances such as economic crisis, the law requires that the employee be notified at least two months in advance. A strict list of grounds for the termination of employment relations can be found in the Labour Code. There is a different time period for an employee with a permanent employment agreement for resigning from a company with two-week's advance notice.

According to current regulation, if a Ukrainian company employs a foreign national a work permit has to be provided to the employee by his/her employer. (Kadibash & Tazhnianska 2009).

3.1.2 Working permits

The labour law is based on the Soviet labour code and no changes have been made for a long period of time. Despite the fact that changes were expected after Ukraine became a member of the WTO there are still different interpretations of the rules that can be applied in the labour legislation.

In theory the labour legislation says that the procedure for legal employment in Ukraine has to be the same in respect to all foreign individuals planning to work in the country. In practice there are several procedures in place for different types of organisations which are regulated by the Employment Authority.

It is allowed that the representative offices of foreign companies can make a special arrangement termed accreditation with the Ministry of Economy of Ukraine. This gives the rights for each foreign national assigned to work in the representative office to have a service card valid up to three years. The service card is the working permit that is preferred by most foreign firms working in Ukraine.

When a company has not arranged accreditation with MEU another way to obtain the work permit requires submitting 10-12 documents and as the result the work permit is valid up to one year. This leads to the conclusion that is it easier for the representative office to have “accreditation” with MEU rather than applying and obtaining work permits for every foreign individual separately.

According to the Cabinet of Ministers of Ukraine all foreign nationals coming to Ukraine for work purposes are required to have working permits based on the Rules for obtaining work permits Resolution 2028. The company’s obligation is to obtain the work permits for the foreign individuals before commencement of employment. But according to the current legislation when a company is applying for work permits, the foreign employees should have been receiving a salary in Ukraine at the time of application. The requirement is complicated when it comes to new foreign employee as they cannot be paid without the work permit.

Changes in the labour legislation might take place only after the Ukrainian government will make changes according to WTO norms. The Ukrainian authorities claim that these changes in the current legislation might happen with possible work permits valid for up to five years. Even though it is already mentioned in the current legislation that some categories of foreign nationals might have permits for the duration of their employment. In practise, there are no cases yet known where the employment authorities have issued them yet. (Kadibash and Tazhnianska 2009)

3.1.3 Economic crimes during the 2008 recession

During the recession of 2008 PriceWaterHouseCoopers conducted a survey on global economic crime and as a part of this survey a report was done on Ukraine too. This report is based on a survey conducted with 65 of the largest companies. It was observed from the survey's results that the recession had a negative influence on the level of economic crises in Ukraine. It was observed that in the past twelve months 45% of the representative companies were victims of economic crimes.

This statistic indicates that the level of economic crimes has increased and thus the detection and prevention of frauds is vital for Ukrainian companies especially during times of recession. More than half of all economic crimes are identified through a system of corporate control such as internal security even though methods of fraud confrontation are just in their early stages.

A company's crimes related to internal audit fraud are detected with a 7 % rate, which is quite low compared to the 17% standard in the world (Krasnyansky 2009). In the developing countries the company's internal audit is subject to the Supervisory Board or Shareholders but in Ukraine the audit is done under the supervision of a company's executive. The executives of Ukrainian companies suspect their top and middle managers of fraud in comparison with the western companies where frauds involving top management are more often detected. The purpose of the control system in western companies is to decrease the rate of stealing among employees.

One of the effective methods of fraud resistance is to invite outside specialists to conduct corporate investigations. This way it is done in foreign companies that open their representative offices in Ukraine. Ukrainian companies do not find this method effective because the costs of losses are considered smaller than the cost of methods for corporate investigations.

There is a historical explanation why the executives of companies assume that the method of control is so expensive. Its own method of control exists in post-Soviet companies where the executive manager has two employees for each important position in the company. The most important point here is to have

employees at the same position that do not like each other so the executive manager will receive information from two different sources. This method of control is very effective in Ukrainian companies but it requires twice the resources for two employees' salaries, which is a luxury during both economic growth and recession.

There are more effective procedures for preventing economic crimes such as double signatures or corporate decision-making where important decisions require all the top managers' opinions and signatures.

During the recession, a company management's poor decisions are not a reason for detection and prevention of frauds. In these circumstances corporate investigations and certain internal methods of preventing economic crime would help to avoid losses that are not necessary. (Krasnyansky 2009)

3.1.4 Competitiveness of the Ukrainian market

Competitiveness is often associated with separate companies competing amongst themselves but there are other levels of competitiveness. One of such forms is competitiveness between countries. Countries might be compared through different methods but one of the most important is from a company's point of view where a country's ability to attract investment is observed. Investments help to develop the economy of the country, create job places, which in the long run increase the quality of the lives of ordinary people.

The company's level of competitiveness is important to both internal and external investors. Internal investors in Ukraine have noticed a positive change toward the increase of competitiveness but more effective changes have to be done to convince external investors as well.

Table 1. Benchmarking of Ukraine's ranking in doing business 2011 as compared to different countries

| Rank | Doing Business 2011 |
|---------------------------|----------------------------|
| Ease of Doing Business | 145 |
| Starting a Business | 118 |
| Dealing with Construction | 179 |
| Registering Property | 164 |
| Getting Credit | 32 |
| Protecting Investors | 109 |
| Paying Taxes | 181 |
| Trading Across Borders | 139 |
| Enforcing Contracts | 43 |
| Closing a Business | 150 |

Every year the World Bank publishes the report, Doing Business about the economic and business situations of different countries. According to its report, Ukraine occupies a lower number on the list. As part of the same research the World Bank ranks the countries on how easy it is to do business there, to get loans from different financial institutions or to pay taxes. Figure 2 and Table 1 present information contained in the Doing Business report 2011 where Ukraine was ranked number 145th out of 183 countries in their latest countries compiled by the World Bank assessment report 2011 (The International Bank for Reconstruction and Development, 2011). In starting a business it was ranked number 118. Even though the tax rate is included as one of the categories and Ukraine has a low tax rate this did not improve the overall assessment. There are two important categories where Ukraine lacks points in the number of the yearly amount of tax payments that a company has to pay and the time when these payments have to be paid. The change in these two major categories would improve both the Ukrainian government's and the taxpayers' situations.

Eventually the country's rate would be higher and the mechanism of tax payment would be more efficient.

At the height of an economic crisis, it is the best time for a country to improve its country economic rating. At the time of economic growth it is not easy for any particular economy to make a difference to become from other economies. It is now up to the government to make the right decisions and implement improvements to attract external investors into the country in the future which might bring finances to the existing businesses. (Krasnyansky 2010)

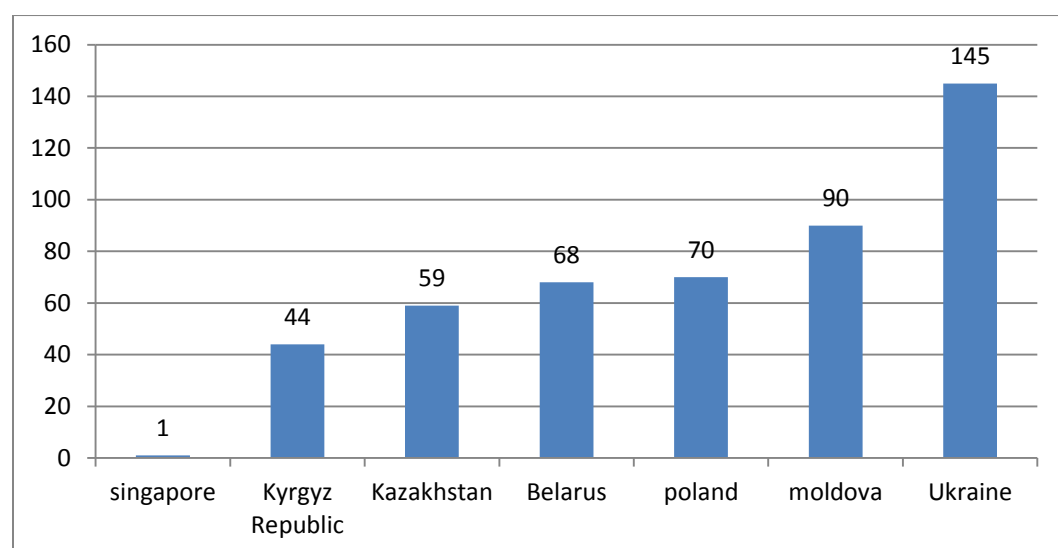


Figure 2 Benchmark of Ukraine on doing business. (IBRD, 2011)

Figure 2 shows the cumulative benchmark of Ukraine in the overall ratings for doing business in Ukraine as compared to other countries. (IBRD, 2011)

3.2 Economic factors

3.2.1 Political situation

The government of Ukraine has a parliamentary-residential system with separate executive, judicial, and legislative branches. The president nominates the defence and foreign ministers, and the Prosecutor General and Chief of the State Security Service only with the confirmation by the parliament. The Ukrainian parliament is a coalition that nominates the prime minister who chooses other ministers' candidates. The Supreme Rada (the Ukrainian

parliament) is the initiator of legislations, ratifications of international agreements and approval of the budget.

A new constitution of Ukraine was adopted in 1996 that guarantees the political system with the protection of basic human rights and liberties. According to the current legislation there is no formal state religion and without the state religion the government guarantees the freedom of religion. The Ukrainian language is the only official state language even though in some parts of eastern Ukraine the Russian language is permitted as the official local language.

Officially the freedom of speech and press is guaranteed by the constitution but in practise authorities often influence the news media through intimidation and other forms of pressure. This example by the government was perfectly demonstrated during Ukraine's difficult period of political chaos in the Orange Revolution that happened in 2004.

A new presidential election was organised in Ukraine in January 2010. According to foreign and domestic observers this election was assessed as first largely free and fair election ever to happen in Ukraine. After the second round of elections, Viktor Yanukovich had won the election with 49 % of the vote ahead of the then Prime Minister Timoshenko. The Prime Minister Timoshenko and the entire cabinet of ministers were nominated Azarov was appointed as the new Prime Minister of the country by conformation from the Supreme Rada. (Bureau of European and Eurasian Affairs 2010)

3.2.2 Inflation

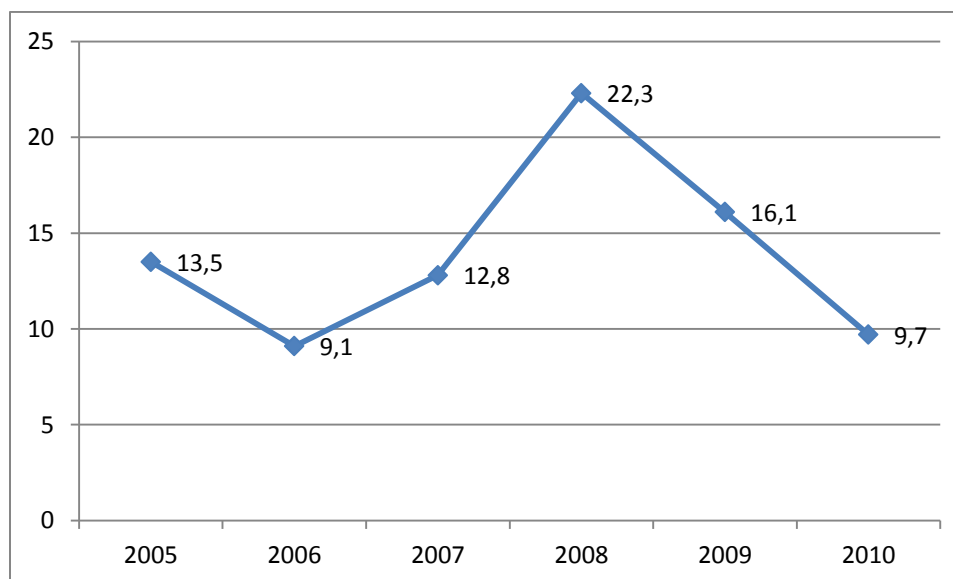


Figure 3 Ukrainian inflation between 2005-2010. (Finpro Country Report, 2009)

Figure 3 shows that the level of Ukraine's inflation was about 9-22% between the years 2005 to 2010. The inflation rate level started to change when prices of consumer goods rose as a result of increased prices of provisions and fuel. The maximum level of inflation was reached in 2008 with the average rate of 22.3% in five years. The figure further shows a decrease in the inflation rate indicating that the economy of the country is recovering from the recession of 2008. (Finpro 2010, 13)

3.2.3 Reforms in the banking sector

Ukraine has received loans of more than \$5 billion since it joined the World Bank in 1992. The World Bank further approved loans after Ukraine's sharp economic downturn in 2008 with a \$16.4 billion package. This package needed to be implemented with World Bank recommendations on reforms in the banking sector through adjustments in fiscal and monetary policies. The World Bank and Ukrainian government have had several projects but the country failed to maintain its economic situation; hence the projects were suspended. After the presidential elections in 2010, Ukraine has restarted the negotiations

with the IMF over the lending and continuation of previous projects. (Bureau of European and Eurasian Affairs 2010)

3.3 Social factors

3.3.1 Workforce

Ukraine is a country with a highly educated population and it has low workforce costs. The average monthly salary was \$211 in 2008, \$242 in 2009 but in 2010 the average salary level decreased by 10% compared to the previous year. The salary variations are huge whereby the salary level of the wealthy population greatly exceeds the average salary. The highest salaries are paid in the banking sector exceeding two times the average salary level. (Finpro Maaraportti 2010)

3.3.2 Population

There are two major ethnic groups in Ukraine. Ukrainians make up 77.8% and Russians are 17.3% of the population. In the 1980s a demographic crisis started in Ukraine. It is considered one of the highest in Europe with a high mortality rate exceeding a low birth rate.

Environmental pollution, poor diets, widespread smoking, extensive alcoholism, and deteriorating medical care are just some of the factors that affect the nation's health. A high mortality rate is the result of long-term health neglect. The demographic situation started to change in 2008 when the mortality rate dropped from 10.4 deaths to 8.9 per 1000 children less than one year of age. This positive change happened after four years of 20% increase between 2004 and 2008 year.

The government is trying to improve the birth rate by supporting mothers with child support payments. The amount of money paid to a mother increase each time a new baby is born in the same family. This measure has encouraged mothers to give birth and the population has been growing steadily since 2001. (Wikimedia Foundation 2010).

3.3.3 Culture

Christianity is the dominant religion in Ukraine that has had a great influence on the life and culture of the people. The Christian traditional way of thinking

where the father is the head of the family is still common among Ukrainian families. The grandparents have an important role in their grandchildren's lives compared with Western countries.

The Ukrainian eastern and western neighbours have influenced the culture and this is seen through its architecture, music and art. The art and writing was greatly affected during communism after Stalin made socialist realism state policy restricting ways of producing art and writing in 1930s. As a result it led to less willingness on behalf of artists to publish or even not to publish their works at all.

In the 1980s, the political situation of the Soviet Union started to change allowing writers and artists to express themselves more openly. This meant more freedom to express, produce art and writing freely even though it was just the beginning of breaking the barriers that were built during the communistic regime. (Wikimedia Foundation 2010).

3.3.4 Age distribution

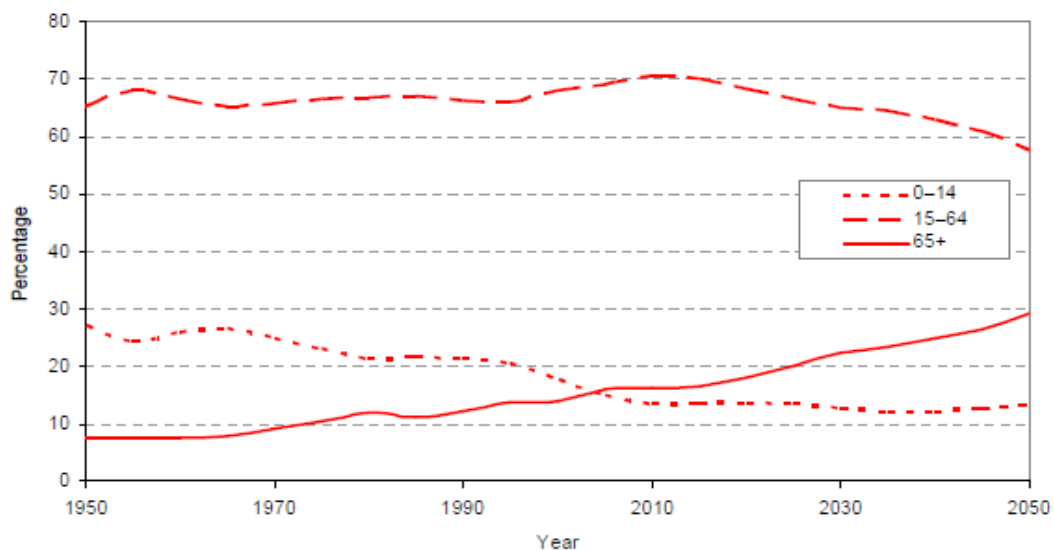


Figure 4 Age structure of the Ukrainian population, (World Health Organization 2006)

According to 2003 statistics, the population of Ukraine was about 48 million people. Figure 4 shows a decline in the age group of 0-14 years old in 1980s and

this tendency still continues. The age group of 65 years and older has steadily remained the same and it is expected by 2030 to increase by 22%.

3.4 Technological factors

3.4.1 Internet connection

The geopolitical situation of Ukrainian is affected by economic factors including technology and scientific advancement as the bases of industrialization. In the Ukraine the government is not doing much to improve the existing technologies, techniques and methods and by consistent implementation of principally new scientific knowledge and technologies. International technological and scientific exchanges, transfer of intellectual potential are subject to central government intervention.

For example, the Ukrainian Union of Entrepreneurs and Industries (USPP) introduce all proposals on telecommunications issues to the government. In 2009, the government accepted new plan on the development of the network, the development of human potential and the propagation of information technology up to the year 2015. One of the improvements is to improve the computer literacy of the nation and to create better environments for the global network.

The Internet Association of Ukraine and the Wireless Internet Association are the organisations responsible for the Internet connection in the whole country. Their main responsibility is to protect Internet users and their rights. They also take care of new legislations and maintain a balance between existing and future regulations. The government makes an effort in wireless Internet services promotion by introducing new services and supporting the promotion process with all the necessary regulations.

After the Orange Revolution, interactions between the government, public sector and businesses community have increased bringing better understanding of how all parties can benefit from this collaboration. This collaboration creates an opportunity to open dialog where by the government gets the necessary information on all topics in question.

The current situation of electronic commerce is weak with approximately 13% of users in the country. The problem is the low level of Internet penetration that does not allow developing e-commerce to a larger extent. Another problem is that the government is trying to resolve the legal framework for Internet connections where no regulations exist. Furthermore, the penetration process is tightly controlled but not done efficiently.

The Ministry of Transport and Communications has had a program for developing information and communication technologies in central governmental bodies. This process of development means that this ministry is responsible for the online services provided to the citizens and business community. The online services have to be developed to help the current situation with services in the government bodies and this measure will help to reduce bureaucracy too.

There is a governmental portal for easy access to all web sites of various government departments in Ukraine. According to the law, it is obligatory for the departments to publish information about their activities online. The problem is that only 12% of city authorities have websites even though it is obligatory for all departments to have websites. Another difficulty is that the availability of websites does not mean anything unless information on these websites is published to provide users with necessary information. The current websites of the departments do not provide that information but it is mostly focusing on information about departments, its leaders and operational procedures.

There are no nationwide programs governing the use of software in public administration. The situation was partly resolved when the government and Microsoft signed a long-term agreement to provide software to government institutions at one-third of the market price.

Ukrainian government has had attempts to develop e-health services. The result is a telemedicine website maintained by the Donesk Institute of Traumatology and Orthopaedics. This website provides information on telemedicine centres, e-consultation institutions and online pharmacies.

The European Union has issued an action plan to address the development of e-learning in Ukraine. The Academy of Personnel Management is the only member of the European Distance and E-Learning Network in the whole country. The EU has funded programs to help to develop e-learning in Ukraine and something has been done to establishing a program in Electronic Media Resource Centre.

The nation's poor computer skills are rooted in the educational system. According to current statistics, approximately 52% of secondary schools have computer equipment and only 14% of these schools have Internet access. (Pazyuk 2010)

4 EXPORTS TO UKRAINE

4.1 Product classification

As one of the European Union member countries, Finland abides by the laws and regulations set by the European Union. The regulations concern every area from micro to macro businesses making sure there is a fair and free trade zone within all member countries. Therefore those are some of the factors uniting all these countries into one European economic zone.

The trade regulations are just a small part of all regulations that the European Union has agreed upon. There is a particular system established for trade operations. Combined Nomenclature (CN) is a system used for the classification of goods that cross the borders. CN classification is used to divide the goods into categories in such a way that every good has its own number. The CN classification monitors and regulates the imports and exports transactions of member countries.

For example if a company would like to find out how much a certain type of product is imported into the country, the company can find the products or goods by checking their CN numbers. Then it has to contact the official statistical centre in its region. The statistical centres or the customs office gather such information for further use such as financial flows of certain goods. It is obligatory for the customs of every country to register every good that is crossing the borders whether it is import or export.

The CN classification level may be different depending on data requirements. The levels might be 8-digit level, 6-digit level, 4-digit level and 2-digit level. The choice of a particular level depends on how specific the commodity statistics have to be. For example at the 8-digit level, the information is so specific that each commodity is counted independently.

In this thesis, the 4-digit level classification is used. In the 4-digit level, products are divided into various categories. The main focus here is upon the eight different product categories for which the data will be presented. The eight groups represent the products in demand that the company Dieta sells to its customers. All of the products will be from the category of commercial

kitchen equipment. The equipment is intended for mass food production in restaurants, hotels, public or private schools or just in the big kitchens.

The CN numbers that will be used are: 8418, 8419, 8420, 8422, 8438, 8479, 8516 and 9403. Group 8418 represent refrigerators, freezers and other refrigerating or freezing equipment. Group 8419 represent machinery, plant or laboratory equipment and 8420 is for catering or other rolling machines. The group 8422 represent dishwashing machines, machinery for cleaning or drying bottles or other containers. Machinery for industrial preparation or manufacture is in group 8438. Group 8479 represent machines and mechanical appliances having individual functions that are not specified or included elsewhere in this chapter. The group 8516 includes electric instantaneous or storage water heaters and immersion heaters, electric space-heating apparatus. The last group 9403 represent furniture and parts thereof.

The Finnish statistics centre has information on Finnish export and import flows with other countries around the world. Apart from choosing product classification other important factors can be specified. The time period can be from one particular month up to several years. The Finnish trading partner can be chosen from a total of 242 countries. Sometimes the necessary statistics have to be shown not in monetary values but, for example, in terms of quantity. It is possible that the information will be shown in quantity that was moved across borders during a specified time period.

4.2 Comparison with other countries

Dieta is a Finnish company that sells products mostly in Finland but also in the Baltic region and Russia. It is important to analysing the export situation between Finland and Ukraine before Dieta starts doing business in Ukraine. This measure will help to understand Finnish and Ukrainian current market situations from the export and import point of views. Of course the aim is to focus mainly on commercial kitchen equipment.

Dieta has many competitors in Finland and also in other countries. There are many other kitchen equipment producers that sell similar products to Dieta locally and internationally. In this case, it is important to carefully analyse the

market situation to scrutinize possible foreign competitors of Dieta in other regions and countries. In this case the focus is on exports to Ukraine concentrating on the products mentioned above.

Two countries were chosen, Italy and Germany, for comparison reasons with Finnish in terms of foreign exports to Ukraine. These countries have been chosen due to their strategic economic cooperation with Ukraine mainly concerning their exports to that country. It is in the interest of Dieta to analyse the export situation of these countries to Ukraine before entering that market. Dieta is quite familiar with these countries market targets and their exports which in every way are assumed to be the strongest competitors to them on the Ukrainian market.

4.3 German exports

Germany is not rich in its own raw materials yet it is well known to be very innovative in terms of producing affordable high quality products. German imports most of its raw materials elsewhere. This has never affected German economic growth as evident in global export statistics that shows that it is the largest national economy in Europe. In fact Germany is the fourth-largest economy by nominal GDP in the world. This country is relatively small by size when compared to all other larger economies in the world but yet it is the world's second largest exporter with \$1.120 trillion of export in 2009. (Wikipedia foundation, 2011)

One of Germany's strongest sides has always been its engineering and innovation. German companies are famous for the production of automobiles, machinery, metals, and chemical goods. (Wikipedia foundation 2011) This means that as a country, Germany has established a good reputation in quality products. Finland also has a high reputation for its quality products, which makes these two countries equal competitors. Dieta's main business partners are German companies mainly due to their high German quality. Their largest exporter status is considered one of Dieta's strongest competitors in the commercial kitchen equipment specifically in the machinery product categories.

To better understand the German export situation, it is necessary to know how much the annual export is for those eight main products that were chosen earlier. The author of this thesis found it easy to collect data on Germany due to the fact that the European Union has one system for monitoring and collecting information on export and import data flows. The Finnish custom's statistics have the same standard as the one used in Germany and the same standard of gathering information is also compulsory for every country in the EU.

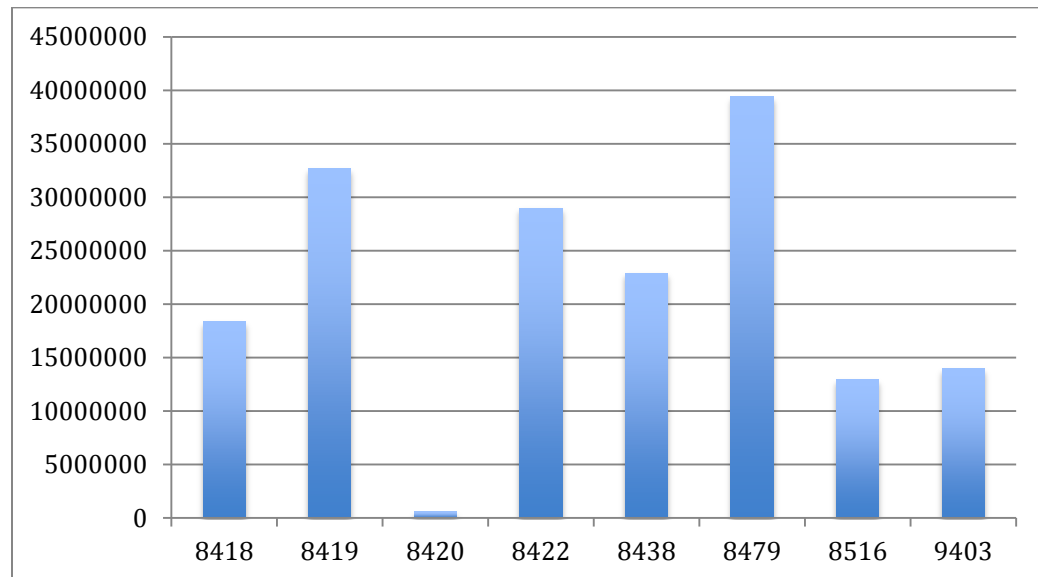


Figure 5 German exports to Ukraine, (Source: Eurostat)

As can be seen in Figure 5, German companies actively sell their products on the Ukrainian market. The assumption was that companies would mostly export goods that represent the category of machinery. These estimates proved to be correct with the largest export of approximately 40 million Euros for the product number 8479. The time period used in the Figure is from January to November 2010. A significant point to make is that seven out of eight product groups are valued above 10 million Euros for eleven months.

4.4 Italy

From the beginning comparing Italy's export situation to that of Germany's is very significant to establish which of the two countries export more to Ukraine.

Figure 6 below shows the same eight products that Italian companies exported to Ukraine during eleven months of 2010.

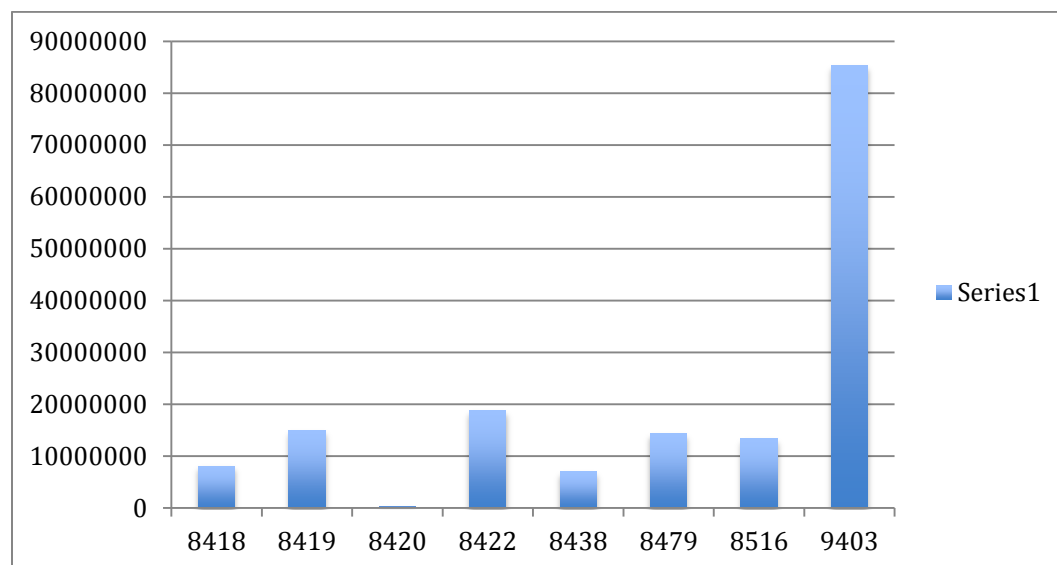


Figure 6 Italian export to Ukraine (Source: Eurostat)

The similarity with the German export situation can be distinguished where of eight product categories five have exports worth more than 10 million in eleven months. It is important to mention that most of the kitchen furniture that Dieta buys comes from Italy. Dieta's strong purchasing from Italy finds its conformation in the Figure whereby the highest export is the furniture category.

The weekly newsmagazine, The Economist, ranks countries according to their standard of living. Italy has eighth position in the Economist's list of quality of life. The country enjoys a high standard of living even though it does not have much of natural resources like Germany. Despite the problems that the country faces it has one of the European Union lowest unemployment rate of 8.5%. (Wikipedia foundation 2011)

Italy, like Germany, produces a lot of machinery. The only difference is that Italian labour among the European countries is considered to be less expensive compared to Germany. The cost of labour makes the final product's price less expensive and more than attractive to customers. The other character that

Italian companies are renowned for is their ability to create modern products that look stylish.

4.5 Finland

Finland's role is important in this thesis because the whole research is related to the Finnish company. It is necessary to establish how much Finland's export on the Ukrainian market at the moment. The Finnish export situation will also be compared with two other countries' exports for better understanding of the competitors' exports. In previous sections Italian and German exports were analysed and in this section Finnish exports will be analysed using the same product categories that were chosen before.

Finland is a highly industrialised country that can be compared in its development to countries like France, Germany, Sweden or the United Kingdom. It is the only country in the Nordic region that is a part of the Eurozone. Denmark and Sweden are in the European Union but they do not use the Euro as their currency. Norway does not belong to the European Union at all. (Wikipedia foundation 2011)

The second largest sector of the Finnish economy is manufacturing and refining at 31.4%. Machinery, vehicles and other engineered products are the main manufacturing productions. (Wikipedia foundation 2011) Dieta has a small part of the Finnish manufacturing due to its own kettle production. The kettle production is the largest and most significant for Dieta so than the company has patented its kettle technology. The most significant point to make is that Dieta's kettles are so unique that the company has patented as its own.

The statistics of the chosen eight products that Finland exports to Ukraine is represented in Figure 7 below.

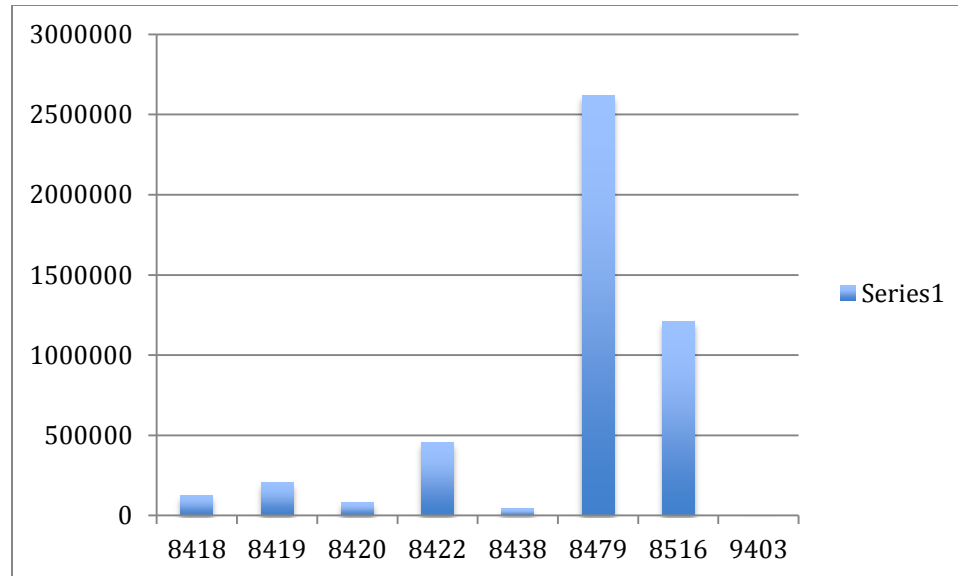


Figure 7 Finnish export to Ukraine, (Source: Uljas 2011)

It is obvious from Figure 7 above that Finland's export is much less than Italy's or Germany's. In six product categories figures are below half a million in eleven months. According to the statistics this is due to the few companies that actually operate in the Finnish commercial kitchen equipment market. The fact that not many companies exist in the field in Finland leads to the conclusion that not many companies are ready to go international. In Figure 7 the highest export figure belongs to the machines and mechanical appliance used for individual functions.

It is clear that Dieta has potential on the Ukrainian market should the company's management decide to operate in Ukraine. In Figure 7 product group 8438 contains kettles to which Dieta belongs to.

5 DIETA OY AS A CASE STUDY

This chapter discusses Dieta Oy as the second biggest commercial kitchen equipment manufacturer after Metos. The company makes and sells commercial kitchen equipment including kitchen utensils. The two parts combination of kitchen equipment and utensil manufacturers makes Dieta's sales policy strategy unique and successful.

5.1 Case study assumptions

The company should be a private limited company, which is located in the capital city of Finland Helsinki. It conducts its general commercial activities in Finland and abroad and has a turnover of more than One million euros. It should also have at least more than 20 employees and does not qualify for investment incentives or special benefits to make it commercially viable. Lastly, it should operate as a real time commercial company.

5.2 Company presentation

The official name used in the case study Dieta Oy and it is also known as Dieta and Heres. Its business description involves catering, food processing machinery and equipment manufacturer, trade import and export, consulting and other services. Its areas of operation are both the domestic and international markets. The company headquarters are in Helsinki and it employees about 100. The company's main office is located in Helsinki and it has subsidiaries in Russia and Estonia. The company's management, the central warehouse and sales exhibition take place in the main office. It also has representative offices elsewhere in Finland to make the company's operation more efficient and closer to the customers. The official company language is Finnish. Its Chief Executive Officer (CEO) is Mr. Söderström Jan Patrick and the Chief Operations Officer is Juha Laukkanen. The official company website is www.dieta.fi.

Dietas' product range covers more than 10000 product names, which makes it the largest product range in the country. The company's selling concepts includes that a customer may come to Dieta and buy everything required for their kitchen at one go. The concept strategy is from the beginning until to the

end intended to cover the most complicated equipment of the kitchen down to the simple but important dishes.

The company's management has tried to find ways to create better, efficient and faster means of serving customers. The solution was in establishing an online operation that would be easy to use and a faster way for a customer to purchase products. The online service provides the same customer service as that of the personal service. The online shop has approximately 2300 product names.

Dieta's main policy is to effectively and efficiently serve its customers in the best possible way by providing the best personal selling service to its clients. The company's policy is to meet the customer personally to build customer relationships but also to fulfil the customer's requirements. The salesmen help to create a kitchen that is designed according to the requirements of customers. Usually the kitchens are designed in such a way that is specific so as to equip a kitchen with all the required appliances. All Dieta's salesmen have the experience and education that is vital in this work that help to guide the customer in the complicated world of commercial kitchen equipment.

Dieta's price level policy is that the company does not try to be the cheapest on the market and not the most expensive while selling their equipment at the most affordable competitive price. When a new product or a business partner has to be chosen, Dieta carefully considers their catalogue by making sure that it will contain the finest and most reliable products. The final product is based on many things but the main emphasis is not just the cost but on the quality of the equipment, environmental friendliness and efficiency.

Customers have a right to return Dieta's products within fourteen days if they are not satisfied. The system of product returns concerns everything they sell whether bought on the Internet or from the warehouse. They have a dedicated team that tries to operate as fast as possible to provide the service within the agreed time. The team is made up of 20 employees were employed by Dieta to make sure that the service centre takes care of the services professionally without delays.

Furthermore, Dietas' business is also based on efficient delivery and logistics which happens in real-time. The term real-time means that products are stocked at the warehouse and the customer can be notified about the time of delivery. In case some product is not at the warehouse Dieta will contact its foreign warehouses to deliver the product as fast as possible. (Dieta 2011).

5.3 Sales channels

Every new kitchen is always different from the previous one meaning that every kitchen is customised according to the needs of their clients. Dieta's four selling channels are based on the principle of different kitchens for every customer with different demands. The services are delivered according to customer segments so each segment has its own way of service delivery.

The most recent service channel is the online shop. The idea is that the customer can access the shop at any time and order a particular product. The advantage of the online shop is that all products can be delivered within 5 working days because they all are stocked at the warehouse.

One of the customer segments is the customer that would like to order a single product, dishes or just some parts. To serve this customer segment, Dieta has established a Call Centre. This is a convenient way if the customer is in need of single a product that has to be delivered quickly. It is possible to collect the product the same day from Dietas' warehouse in person. The other function of the Call Centre is to answer questions the customers might have related to price, product's availability or real-time delivery.

The main selling channel is face-to-face selling. At Dieta, the face-to-face selling policy is encouraged as it helps to create a longer term relationship between the selling company and the customer. Dieta tries not to sell single products because there are hidden problems related to this single product selling. It might be the customer's ignorance about how to use the product or possibility buying a wrong product type. Therefore, it is in their interest to sell and implement projects for customers that either, as a full package or almost a complete package. This includes heavy equipment, furniture and utensils that would be included in the kitchen. It should also be mentioned that Dietas

projects and working system is divided into sectors: public and private sectors. This system includes sales persons that also are divided into public and private sectors.

Finally the customer project management. Many customers are interested in opening a new place or refurbishing their entire old kitchen with new equipment. Such project types are usually the most demanding for the whole sales personnel but also costly for the customers. Dieta's sales team is a group of professionals who are not only willing to work with customers but also provide advice during the whole project to make sure the customers' vision is realised. The project cared for by Dieta minimizes the overall costs and adds more value to the kitchen. (Dieta, 2010)

5.4 Ecology

Today, climate change in the world is forcing companies to consider how to minimize the environmental damages caused by their products during the whole product cycle. Dieta is no exception and the company takes care of its environmental responsibilities carefully.

Kettles are some of the products manufactured by Dieta. The company's management makes sure that the components and materials used in the production are environmentally friendly. The company makes sure that all materials used in the production can be recycled and that the products use less energy, chemicals and water. All products fulfil CE high hygiene, ergonomics and safety requirements.

The salespeople often attend various training programs about how to use new equipment so they are able to guide their customers effectively. The purpose of personnel training is to insure that they provide adequate information to customers on equipment operations when there are handed over to them. (Dieta 2010)

5.5 Product types

Dieta uses different sales methods in the product sales. These usually involve carefully considered methods before entering a new market because eventually

the chosen method determines the company's success in that market. The methods that Dieta has can be combined together or used separately.

As mentioned earlier, Dieta has business partners abroad but the company has domestic partners too. These are reliable business partners that are well known and trust worthy in the commercial kitchen equipment market such as Porkka. It is also important that Finnish companies should cooperate to introduce their products in one package. One of Dieta's local production advantages is that good quality Finnish products would be sold first in Finland and then elsewhere.

Dieta also has business partners abroad whose quality standards are not lower than its own. These are companies that are worldwide famous for their products that can also be purchased in Finland through Dieta. They also present products to the customers that are manufactured by its partners but under their flagship label. The sales purpose is to use the same production logo as the company uses in its own. The company advertises products and equipment as their own produced by other companies that also have CE certificates.

The products produced by Dieta are of high quality and unique in their nature. For example no other company offers kettles with the same cooling system as in Dietas commercial kettles. They invented a unique cooling system and the system got patented so no other company can produce the same type of kettles which are of quality and environmentally friendly. Otherwise other companies would have similar kinds of kettles on the market but their size and quality differ from the kettles that Dieta produces. According to Dieta's vision, one of their advantages is its own products it manufactures. (Dieta 2010)

5.6 Dieta Oy overall turnover

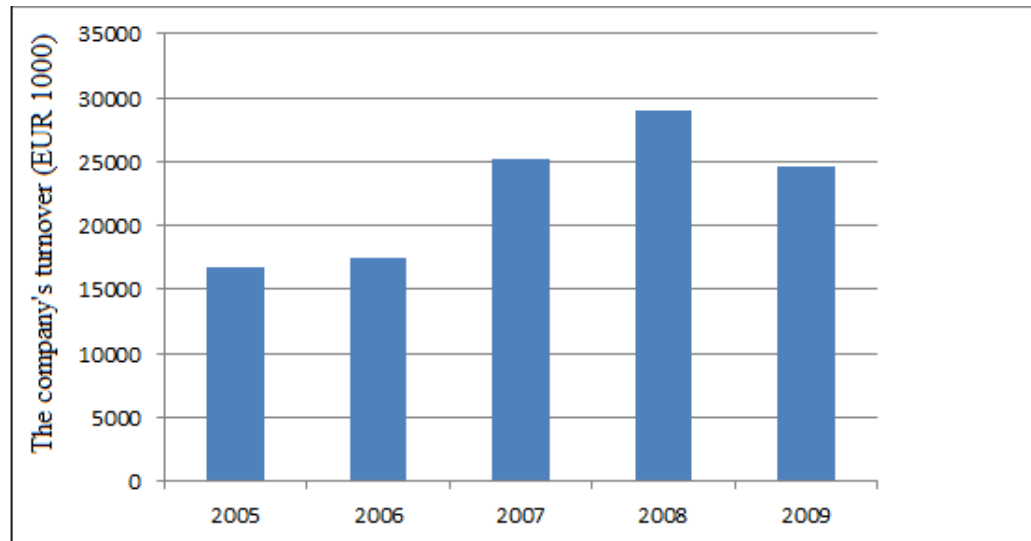


Figure 8 Dieta's turnover growth in euros, (Source: Suomen asiakastieto, 2010.)

The Figure presents the company's financial information between 2005 and 2009.

5.7 Questionnaire

5.7.1 Aim of the survey

It was necessary to conduct a survey to better understand the company's future plans related to foreign markets. Different kinds of possibilities were considered for the purpose of acquiring more information about the company such as whether to conduct a survey of many employees of the company or just few of them. The conclusion was that the (COO) of the company would be enough for obtaining such information.

5.7.2 A profile of Juha laukkanen

Juha Laukkanen was chosen for this purpose to answer questions related to Dieta Oy in this survey as he has been working in the company since its foundation in 1989. Juha graduated in 1991 from Aalto School of Business formally the Helsinki School of business. Two years before his graduation he started working for Dieta which was then known as Grillipalvelu. In the

beginning, he did different tasks for Grillipalvelu where he learned about the commercial kitchen equipment world. In ten years, Juha had become so experienced that when the then CEO of the company decided to sell the company he advised his successor to keep Mr Laukkanen as assistant director. The outgoing CEO thought that the company could not operate efficiently and effectively without the help of Mr Laukkanen.

In 2000, Mr Söderström J. Patrick became the new owner of the company. The company's name was then changed from Grillipalvelu to Dieta and Mr Laukkanen stayed on to work in the newly formed company. He says some years of the company were memorable such as the development of the kettle which marked the beginning of Dieta in 1993. This fact is remarkable because it signifies the time when Dieta invented their own kettles and today now they are only modified depending on customers' specification.

5.7.3 Expansion

In 1995 the company rose to another level when it decided to include the public and catering sectors. Before that the company's major priority has been the private sector excluding public institutions. The company's growth has been steady throughout the years both financially and in terms of market value (see Figure 1.) This later led the company to expand further by entering the international market. In 2000 it opened up its own sales dealerships in the Estonian and Russian markets. At that time the sales market only consisted of commercial kitchen equipment without kitchen utensils which meant that there was little difference between Dieta and its competitors.

In 2006, Dieta had an open opportunity to expand in a way that was different from what other companies were offering. This opportunity included the purchasing of a company called Heres, which sold. Heres is responsible for kitchen utensils for commercial purposes and the idea of combining it with Dieta was beneficial to Dieta and since then Dieta has been able to cater to all the needs of commercial kitchens. Today, the company employs about 100 people and this includes people from the 5 service centres it operates around Finland.

5.7.4 Financial goals

According to the company's management, its financial goals are to be among the top three commercial kitchen equipment manufacturers in Finland. In this case Dieta should maintain about 25% of the commercial kitchen equipment market share in the customer and product segments. All products that the company delivers to the customers have to be of top quality. This is what Dieta's management has chosen as its priority. The quality of its products comes from a combination of openness, honesty, simplicity and teamwork. The collaboration of businesses and people together makes the company what it is today. The company's management and employees are proud of what they are and what the company represents on its market in Finland and internationally.

One other important question concerned the competitive advantage that the company has compared to other companies in the same business. The COO explained that Dieta's products are the most advanced for kitchen equipment both on the domestic and international markets. Foreign products that have been imported are from the widest range of equipment and accessories that any company can manage to offer. The product's price quality ratio is competitive as compared to other businesses on the market. The main advantage is that everything for any kitchen can be purchased from the same source.

The company sells actively in Estonia and Russia. The general principle for selling to the Russian market is to export the products through agents. The sales channel for Dieta kettles is via agents globally selling products produced by Dieta. The export of Dieta's own products makes the sales competitive.

For every new market, the company has to choose its own separate market entry. This process depends on the market in question, for example on the Estonian market, kitchens and equipment development depends on both the agent's sales channel and projects. Sometimes the Estonian customers would like to order as a project. In practice this means that Dieta would plan and implement everything for the customer's kitchen. At the end of the kitchen's project the customer receives the kitchen as a ready-made kitchen and detailed instructions on how to use the installed equipment.

5.7.5 Entering the Ukrainian market

The company's situation is such that it is ready to expand further internally on the international market and Ukraine is under consideration. At the moment the management considers that it is more profitable to sell internationally products produced only by Dieta. The project business is not considered as an option because it is not usually profitable in a new market.

Currently they have chosen to expand further by first entering the Middle European countries and Ukraine is been considered as one of the options. The problem starts with searching for agents in every intended new market. It is especially difficult to find a good agent abroad in countries which are non EU members and it is challenging for Dieta since it has not hired an export agent yet.

The Ukrainian market has been under careful consideration as an export option for Dieta. Research has shown that after the economic recession in 2008, the country's economic situation has not yet stabilised. As a result the only possibility for operating there at the moment would be through agents. The same situation applies to the Latvian market where Dieta is trying to sign an Agent Contract.

5.7.6 Product pricing

Dieta's products are priced in such a way that: in the beginning Dieta imports its business partner's products to Finland so that they can be sold to the customers. On top of the product itself, the company adds a profit margin so the actual price of the product plus the profit margin plus VAT is the final price. This way the final price is too expensive for most foreign customers in such markets hence it is simpler for them to contact Dieta's business partners directly without involving Dieta in the process. This way the customers would have gotten the product without extra costs.

It is understandable that the Dieta's management is aware that project business is often not profitable and changes the strategy into agent contracts with certain markets depending on the markets themselves. Mr Laukkanen as the COO understands very well how internally prepared Dieta is at the moment.

He says the main areas include internal financial situation, personnel training and production.

5.7.7 Company competitiveness

The Finnish magazine Kauppalehti reported that during 2009 Dieta like other companies experienced a downturn in its turnover by 24, 9% in comparison with the year before. Figure 1 shows that in 2009 it made a total of 7. 7 Million Euros less than the year before. (Balance Consulting, 2010)

Due to the downturn, the turnover of the company's performance also incurred losses of about 40% when compared to the previous year. Regardless of the financial losses that the company has experienced during the recession period in 2009 its profitability is evaluated as excellent. (Balance Consulting 2010)

The COO further explained that at the moment Dieta has enough employees to cover the sales to the Ukrainian market. If the decision were made regarding exports to Ukraine, the company would just have to hire an export director to be responsible for export activities. The company is ready to cover the production and delivery logistics of its products to the customer as fast as possible if necessary.

6 CONCLUSION

The purpose of this research was to find the correct method to follow when investing in Ukraine. These findings were developed through the process of analysing various methods and a suitable one was chosen according to the needs of Dieta. The Diamond Diagram was considered as one of the methods. **The Porter's diamond diagram model in chapter two provides a simple perspective for Dieta Oy to assess and analyse its competitive strength and position as a manufacturing and international company.** As expected the conclusion drawn from this research is that: Dieta should first enter the Ukrainian market through an Agent until such a time when demand for its goods and services has increased that it can then open its own office there.

The Porter's diamond diagram model presented four factors on which this conclusion is based on. The Closed Industry Factor explains below the steps Dieta Oy has to undertake when entering the Ukrainian market. The Ukraine has recently been under transition changes creating an unstable economic situation and is still recovering from the recession of 2008. Although foreign investment has increased, there is a lot to be done in the way national projects are conducted and the efficiency of the National Agency for Foreign Investments and Development in carrying out its duties. According to the country's demographical situation at the moment the mortality rate exceeds the birth rate. Bureaucracy and corruption at different levels tend to slow or even stop the country's development process.

Regarding the Factor Conditions, despite of all the negative factors, it has a great potential for direct investments. Ukraine is Europe's second largest country by land with a population of approximately 45 million people. It is also the second most important economy after Russia in the Commonwealth of Independent States (CIS). Each year the country attracts more foreign companies that would like to do business there. The market consists of an educated workforce with a low-income wage in comparison to Western countries.

Dieta Oy is a Finnish company that is interested to start its operations in the Ukrainian market. The company management has decided on the best possible export alternatives and has chosen an agent business as its path for entering this particular market. The other alternative that has been taken into consideration was a project business that did not find a conformation for entering the Ukrainian market.

The evidence suggesting that the project business would not be profitable for Dieta were presented through the analysis of the current export situations. The analysis has shown that the amount of Finnish exports to Ukraine is little as compared to Italy and Germany. These countries have been actively exporting to Ukrainian market in the products category of commercial kitchen equipment. The author has also noted that investments in the food industry have increased by more than 25 per cent since 2006.

The Diamond diagram also explains further other important factors such as Company Strategy and competition situation. In this situation Juha Laukkanen has participated in the questionnaire that was concerned with to Dieta's future plans regarding the Ukrainian market. According to Laukkanen the company's history of performance has been excellent due to the fact that Dieta has been exporting its own products. The "Demand Conditions" factors explain the company's readiness to enter Ukrainian market are competitive and innovative products and the qualified personnel that have experience in sales for many years. After the customer has purchased any Dieta's product the product has a service guarantee of one year. The company also pays close attention to production processes and materials that are used in producing their own products. The foreign products and Finnish products produced by Dieta's partners are chosen carefully to fulfil modern requirement of being eco-friendly products. **In this case the diamond diagram provides a self-explanatory as it analyses the existing competitive rivalry between suppliers, the threat of new market entrants, bargaining power of buyers and suppliers.**

6.1 Recommendations

The market entry method suggested in this thesis is that the company Dieta would choose an agent market entry from all possible alternatives due to its product category. **Dieta should consider the diamond diagram before entering Ukraine as it addresses factors conditions such as: skilled labour, logistics and infrastructure. Demand Conditions such as the extent and nature of demand within the nation concerned for the product or service. The related Industries such as the existence, extent and international competitive strength of other industries in the nation concerned that support or assist the industry in question.**

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Questionnaire:

1. What is your name?
2. Where do you work?
3. What is your position in the company?
4. For how long are you working there?
5. What kind of the company Dieta is?
6. What does Dieta value?
7. What are the company's financial goals?
8. What is the strength of Dieta's products? What is so special about its products?
9. Where else except Finland does the company operate?
10. Is Dieta ready to go international?
11. If yes, where to?
12. Are there any plans concerning entering the Ukrainian market?
13. How about financial possibilities of Dieta in case if the company will enter the Ukrainian market? (the company's readiness financially)
14. Are Dieta's products ready for going international or to Ukrainian market?
15. How about internal readiness of personnel? Is the company ready in terms of personnel?
16. Is the company ready to supply its customers in case if the product has to be delivered in short term?