

Saimaa University of Applied Sciences
International Business, Lappeenranta
Master's degree Programme
International Business Management

Ekaterina Marova

Development of business strategy for company X

Thesis 2014

Abstract

Ekaterina Marova

Development of business strategy for company X, 67 pages

Saimaa University of Applied Sciences

International Business Lappeenranta

Master's Degree Programme in International Business Management

Master's Thesis 2014

Instructors: Senior lecturer Leena Laari-Muinonen, Saimaa University of Applied Sciences

The purpose of the study was to develop a business strategy and functional strategies: marketing, sales, human resource management (HRM), logistic, financial, accounting and information technology strategies for the case company.

Empirical data for this study were collected by access to company's internal database and from the researcher's professional experience inside the case company. The theoretical information was gathered from literature, scientific articles and the Internet.

The final result of this thesis was a formulated written business strategy and functional strategies. The outcome showed that the business strategy and functional strategy take place though they were not formulated in writing by company's management in the face of the managing director. The business strategy is aligned with existing environmental issues except growth aspect. Functional strategies mostly follow the main stream of the business strategy. Company problematic points' solutions might be found in development of policies, programs, procedures, performance evaluation and control. All these areas can become a subject for future research.

The results can be applied in the case company and for further research of strategic issues in small and medium enterprises.

Further study is required to study case company's policies, the formulated business strategy and functional strategies' implementation, evaluation and control.

Key words: Strategy formulating, Logistics, Small and medium enterprises

Table of contents

1	Introduction	5
1.1	Background	5
1.2	Objectives and delimitations	6
1.3	Research question	7
1.4	Research method	7
1.5	Structure of the study	8
2	International logistics	10
3	Case company description	13
3.1	Temporary warehousing services.....	14
3.2	Transportation services	14
3.3	Documentation service	15
3.4	Customs procedures and shipments inside Russia.....	17
4	Strategic management, corporate strategy	18
4.1	Directional strategy	19
4.2	Directional strategy for the case company	23
4.3	Portfolio analysis	24
4.4	Portfolio analysis for the case company	25
4.5	Parenting strategy	28
4.6	Summary	28
5	Strategic management, business strategy	29
5.1	Business strategy for the case company.....	31
5.2	Summary	31
6	Environmental analysis	32
6.1	SWOT for the case company	33
6.1.1	Strengths	34
6.1.2	Weaknesses	36
6.1.3	Opportunities	37
6.1.4	Threats.....	37
6.2	SFAS Matrix for the case company.....	38
6.3	PESTEL analysis for the case company	41
6.4	Porter's five forces model	42
6.4.1	Current rivalry among existing firms	42
6.4.2	Potential entrants	43
6.4.3	Bargaining power of buyers	43
6.4.4	Bargaining power of suppliers	44
6.4.5	Substitute products.....	44
6.5	Porter's five forces for the case company	44
6.6	Summary	47
7	Strategy formulation.....	49
7.1	Mission.....	49
7.2	Objectives.....	50
7.3	Strategies	51
7.4	Strategy formulation for the case company	51
8	Special issues of strategic management for small sized companies.....	54
9	Functional strategies	56
9.1	Marketing strategy.....	56
9.2	Sales strategy	58
9.3	Human resource management strategy	59
9.4	Logistic strategy.....	61

9.5	Financial strategy	62
9.6	Accounting and Information technology strategies	62
10	Conclusion.....	63
11	Figures	65
12	List of references.....	66

1 Introduction

1.1 Background

In this thesis I plan to work on strategy of business development for company X. The company is located in South-Eastern Finland. It provides international logistic services for mainly customers from Russia.

Company X is striving to provide wide range of services such as cargo delivery from all over the world to Russia via Finland and vice versa from Russia to Finland and other countries; international transport and customs documentation handling and temporary warehousing. The company has a warehouse, around 100 m² in South-Eastern Finland where European cargos can be stored. Practically this is a transit warehouse where cargos from EU are coming and then are moving towards Russian border. The company has a contract with a transit customs warehouse so company X provides to its clients a service for non-EU cargos handling and storage as well.

There are five employees in the company; the annual turnover is not more than ten million euro and the company meets the criterion on independence, so it can be treated as a small enterprise according to Statistics Finland. (Statistikcentralen – Concepts and definitions – Small and medium sized enterprises).

How typical for a small sized company to have a strategy that is not formally written but still there is one. However it's critically important for company's future development to have a formulized strategy written on the paper. When the strategy is defined in writing all employees can be acquainted with it, so they know where the company is moving to. And this fact enhances motivation and consequently it increases work efficiency. Employees' involvement in the strategic management process is crucial in a small sized company especially in the logistic service sector where employees are one of the most valuable resources and competitive advantages.

Besides that, a formulized strategy gives a manager a clear understanding of the current situation in the firm and it gives a tool to realize not just operative day-to-day running of the company but also to lead a company to its strategic goals. Unfortunately many leaders of small sized companies do not pay enough attention to strategic management due to such reasons such as lack of time, knowledge and managerial skills. The leaders in small sized companies are usually heavily involved in routine

operations and are not aware of strategic management techniques and of benefits that the company can gain when they are applied.

Practical need of strategic management implementation in this company is conditioned by company's growing. The number of employees and the turnover increased significantly. Those rules and work organization that were in use initially do not fit anymore. From the foundation, the company was providing 2PL (Second Party Logistics) services. Now it's aiming to become 3PL or even 4PL service provider, and some steps in this direction have been already done. Several additional services were developed by customers' requests, and some online promotion was done, but those steps are not systematic and do not follow any strategic decision (Search for "1PL", "2PL", "3PL", "4PL" | Logistics Glossary).

Further I'd like to clarify the terms mentioned above. There is a classification dividing all logistic services providers into four groups: from 1 to 4PL depending on the list of services that the company is able to provide. First party logistics (1PL) means the company -cargo owner does all needed logistic operations on its own. Second party (2PL) logistics supposes traditional transportation and warehousing services. Third party logistics (3PL) company has capabilities to offer wide range of additional services. And fourth party logistics (4PL) provider integrates logistic services of all companies involved in the whole logistic chain, and such a firm may take full logistics outsourcing according to strategic logistic targets of a client.

This study will try to formulize the current strategy of the company, to analyze company's market and business environment, to evaluate risks and key success factors and based on that to confirm or to correct or offer a new, more suitable strategy for company X business development.

The hope is that the results of this study will find practical application in the company.

Here I'd like to underline an importance of strategical planning in any company and also a necessity to coordinate all company's activities according to the chosen strategy and to align functional strategies with business strategy.

1.2 Objectives and delimitations

The objectives of this thesis are the following:

- to learn theoretical issues regarding strategic management in small sized companies

- to analyze company's internal and external environment according to the chosen methodology
- to define company's existing business strategy
- to define company's current functional strategies
- to find out if functional strategies are aligned with business strategy

Delimitations:

I will focus on studying just one case company. I will not study other companies in this field such as company's competitors, and I will look at the company from the angle of strategic management.

In this thesis, I plan to concentrate on internal and external environmental analysis, business strategy formulation, and functional strategies formulation, current business strategy evaluation, and evaluation of degree of alignment between business strategy and functional strategies. Such issues as strategy implementation and strategic control will be left out of this research.

1.3 Research question

The research question of this study can be formulated so:

- What is the best strategic choice for company X based on internal and external organizational analysis?

The sub-questions are:

- What is the current strategy of company X?
- What are its advantages and disadvantages?
- What corrections shall be made and why?

1.4 Research method

The method of this study is case study based on one company case since the strategy development is going to be made for one certain company. Case study research is a very popular approach in social sciences and especially in business studies. This thesis will consist mainly of qualitative research.

The empirical data will be taken from the case company that is the subject of the research and where the results of the thesis may be applied. One source for the empirical data is the company's software database, registering inbound and outbound operations, customers, issued invoices, cargos. Another source of information is the author's professional experience in the company. Both primary (directly from case company) and secondary data (from published sources) will be used.

To fulfill company's internal and external analysis I plan use such techniques as:

- PESTLE analysis
- BCG matrix
- SWOT analysis
- M. Porter's five forces model

PESTLE analysis is a method of market research that includes several issues: Political, Economic, Social, Technological, Legal and Environmental.

BCG growth share matrix is a tool created by Boston Consulting Group. It helps to analyze and better understand company's product or service place on the market. It breaks down products/services into four categories: dogs, cows, stars and "unknown".

SWOT analysis covers Strengths, Weaknesses, Opportunities and Threats as a part of firm's internal and external analysis.

Named after Michael E. Porter, five forces model identifies and analyzes five competitive forces that shape every industry, and helps determine an industry's weaknesses and strengths:

1. Competition in the industry
2. Potential of new entrants into industry
3. Power of suppliers
4. Power of customers
5. Threat of substitute products (Porter's five forces definition | Investopedia)

1.5 Structure of the study

This paper starts from introduction, the basic part includes both theoretical and empirical knowledge, and the last part is conclusion.

As a theoretical framework for the thesis I plan to use previous studies in the field of strategic management and strategic management in small sized companies. I will search for techniques of strategy formulation, methods of internal and external analysis. The aim of theoretical points' description is to create a good basis for empirical research.

As a practical part I'm going to provide information about the company to describe its activities. Then based on obtained theoretical knowledge I'll try to analyze its internal and external environment using the methodological tools mentioned above, to formulize its current functional strategies and finally to formulize its current business strategy. Then I will assess it and to give recommendations how to correct it, improve it or align it better with functional strategies if I suppose it's needed.

Even though some theoretical blocks of information are separated from empirical issues, several chapters consist of mixed knowledge including interconnected theory and practice.

In this study, as the author and an employee, I will keep in mind a need to be objective for research purposes. This involvement gives obvious advantages like direct inside information availability. Meanwhile one of disadvantages might be a too narrow look at things.

2 International logistics

All international trade is based on the recognition that an organization can buy things from a supplier in one country, use logistics to move them, and then sell them at a profit in another country. Efficient communications, transport, financial arrangements, and trading agreements allow materials to be moved long distances at relatively low cost; then international logistics adds value by increasing place – and possibly ownership – utility. (Waters D. 2009, p. 165).

International logistics is very complicated and involves plenty of problems for managers responsible for it. The complexity of activities related to international logistics include international financial operations with respect to currency exchange rates, one government's regulations on exports and another government's regulations on imports, customs clearance with duties and taxes, transport arrangements in both countries, crossing border issues, translations of documents written in different languages, legal checking of contracts and conditions, insurance and so on.

Many problematic issues of global logistics arise at borders where goods are leaving one country with its regulations and enter another with its own rules. Each border defines diverse conditions and limitations on movements and tariffs that should be paid. Paying such tariffs can be also difficult due to wide range of taxes, duties and its rates.

For instance, materials entering the European Union might have to pay customs duty, excise duty, import VAT, countervailing duties, antidumping duty, common agricultural policy levies, and compensatory interest. (Waters D. 2009, p. 189).

International borders carry out the following functions:

- stop undesirable goods from entering the country
- protect domestic producers from foreign competitors
- create additional income for country's budget
- provide trade statistics

It makes life of companies involved in international trade much easier when they outsource logistic functions realization to a logistic company that takes care of all these procedures. There are two types of intermediaries that help to arrange international logistics:

- companies that realize actual movements of cargos: international transport operators, sea shipping lines, port operators, airlines, export packers, public warehouse operators etc
- firms that do not move cargos but assist its smooth flow somehow: brokers, freight forwarders, agents etc

The case company is combining these two types of operations participating in actual goods movements as a public warehouse and being responsible for customs operations and freight forwarding at the same time.

There are several types of warehouses according to the level of operational automatization: manual warehouses, mechanized warehouses and automated warehouses.

All operations with goods are done manually at manual warehouse. There may be some aids, perhaps hand trucks for moving pallets, or carousels to bring materials to pickers but, essentially, people control all aspects of movements. This type of warehousing is still quite popular especially in small and medium enterprises. It's suitable if the items are not too heavy and shelves are not too high.

Mechanized warehouses mean that some machines replace manual operations but still these machines are driven by people. Typical examples of equipment for mechanized warehouse are fork-lift trucks, reach trucks, order-picking machines, cranes or turret trucks, towlines, conveyors, tractors, carousels.

Automated warehouses mean that mechanized operations are transferred to a computer and are driven by a computer operator. Such warehouses have sense to be managed if the warehouse space is huge, number of simultaneously stored items is large, manual work costs are high, fast speed of warehousing operations is required. To launch automated warehouse heavy capital investments are needed. It takes time to repair, maintain or make changes into this system. It requires regular upgrading to avoid obsolescence what demands excess financing (Waters D. 2009, p. 391).

Company X warehouse can be related to manual type with minimum helping equipment. This looks to be enough since the space is small, targeted throughput is comparatively low, and loads are usually small.

As it was mentioned above several kinds of intermediaries help with cargo movement administration. One of them is freight forwarders.

These are people who collect part loads and consolidate them into full loads travelling between the same points. This reduces unit costs and gives faster delivery. Freight forwarders take responsibility for the movement including all the administration, documentation, chartering space on vessels, customs clearance, insurance, expediting, arranging further transportation and so on. (Waters D. 2009, p. 427).

3 Case company description

As has previously been mentioned in the introduction, company X is serving customers who have a need to transport goods from EU and all over the world to Russia and vice versa. The company is providing consolidation, transportation and forwarding services for such clients. For the purpose of the thesis, consolidation is receiving goods from a wide range of suppliers at a warehouse for its further transportation through the border within mixed cargo shipments.

For the purpose of the thesis consolidation is receiving goods from a wide range of suppliers at a warehouse for its further transportation through the border within mixed cargo shipments.

Consolidation warehouses appearance in South Karelia is related to several factors:

- closeness to the Finnish-Russian border
- free circulation of goods within European Union
- clear and easy customs procedures in Finland
- Many suppliers all over the world especially internet shops can't ship goods directly to Russia but they are able to ship it to Finland.
- huge consumer market of Russia

Consolidation in Finland makes sense for comparatively small shipments when several parcels can fit in one consolidated truck and move further through the border. It is cheaper when customs formalities on the Russian side are done for the whole truck rather than for one small shipment.

Other popular consolidating points in EU are Italy and Germany where similar companies exist. Lots of goods are purchased by Russian customers in Italy and Germany, that's why there is a demand for such temporary warehousing services there.

Another way around is when a customer comes to Finland and picks up his shipment by himself being responsible for customs procedures on the border if they are needed. In this case we are providing just warehousing services and documentation services and pick up from supplier if it's required.

Besides forwarding on the way to Russia the case company is also dealing with forwarding for goods moving to Europe, mainly to Finland. In this case company X offers door-to-door service as well including export procedures in Russia, transportation, import procedures in Finland and insurance.

Company X is a young but constantly developing company that has existed six years on the market. During these years the company has created and promoted its web-site and on has implemented electronic workflow. Active presence on the internet let the company attract new customers. Electronic workflow makes the customer serving quicker, summarizes all the operations done and gives wide analytical opportunities that are not used in the full volume unfortunately.

Further I'd like to describe in more details the services that company X offers to its clients.

3.1 Temporary warehousing services

Temporary warehousing is actually accepting cargos for a short period of time, some cargo treatments like consolidation, packaging, checking etc and then sending it further according to its route. The main operations at a temporary warehouse are unloading/loading, registering and storage of cargos. Sometimes customers are also asking about additional actions like checking cargo integrity, repackaging, weighing etc.

Company X is not allowed to deal with transit cargos coming from non EU countries. To get a status of transit warehouse it's necessary to keep a deposit at Finnish customs to ensure that customs clearance payments would be covered in case any transit cargo stays in Finland instead of moving out of EU according to its transit plan. Thus a warehouse accepting transit cargos takes responsibility for its further treatment. Now when a part of transit cargos is getting larger a need to obtain transit warehouse rights arose so company X is working towards this aim. However to eliminate this gap the company uses resources of another warehouse eligible to deal with transit goods by reselling its services meaning both warehousing and transit documents handling.

3.2 Transportation services

The second service is transportation. Company X is specialized in transportation services according to the following directions:

- from Finland to Russia
- from Russia to Finland
- from EU and worldwide to Russia via Finland
- from Russia to EU and worldwide via Finland

Mainly the company serves small cargo parcels from 1 kg (and even less) up to 1-3 tons. To carry out transportation Finland-Russia or Russia-Finland company X obtains several minivans and it also borrows transport means (mostly trucks) from several partner companies. Company X is not dealing with hazardous cargo neither in terms of warehousing nor in terms of transportation. Transportation service Finland – EU, Finland – worldwide and vice versa is realized by transport companies that are taking care of mixed cargo shipments within Europe or worldwide. So eventually company X just resells services of European forwarders to create complex transportation service from door to door including Finnish-Russian border crossing.

3.3 Documentation service

Besides warehousing and transportation company X provides international documentation service as well. The company offers handling of the following documents that might be required in the process of transportation and border crossing: CMR, TIR Carnet, export declaration (EX1), import declaration, AREX and transit passport (T1).

CMR is a standardized document for cross-border transport of cargo by road, based on UN recommendations for uniform international rules and in force in the European Union. (What is CMR? Definition and meaning).

The TIR Carnet is a customs transit document used to prove the existence of the international guarantee for duties and taxes for the goods transported under the TIR system, within the limit of the amounts specified by the contracting parties and under conditions stipulated in the TIR Convention. (IRU – The TIR Carnet).

Export declaration is a customs form completed and submitted by an exporter at the point of export to serve two main purposes: to provide information on amount, nature and value of export to statistics and to serve as an export control document.

Import declaration is a document that declares customs entry for imported goods from the third countries, made and submitted by an importer or by a forwarder on the importer's behalf.

T1 document allows goods that are not in free circulation in the European Community to move between two points within the Community without being subject to import duties and other charges. (Transports Friend - International Customs Documentation).

According to tullifi the AREX service of Finnish Customs is used for submitting declarations for third country goods and Community goods arriving in Finland. In addition, the AREX service is also used for submitting declarations for Community goods that will exit Finland and for third country goods that have been in temporary storage and are to be reloaded (so-called transshipment goods). (Tulli – Web AREX).

Those documents mentioned above can be prepared on the basis of information taken from four sources: documents from sender, from forwarding company that delivered the cargo to a warehouse, mean of transport documents and driver documents.

Usually there are one or several documents from sender available such as commercial invoice, packing list, certificate of origin.

Commercial invoice specifies terms of trade, what goods are carried, and its value. It's a tool for cargo transportation and customs clearance and at the same time it shows how much and when the customer shall pay for the goods sent to his address.

Packing list describes contents of each package in the shipment in details providing information about weight, volume of cargo, number of loading places, it informs whether the cargo is palletized and what kind of package is used.

Certificate of origin contains information about country of origin for transported cargo, it is issued by governmental authorities in the country of origin upon a request of supplier – sender.

The main document issued by transport company is waybill (bill of lading). It is a contract for carrying materials, defining legal responsibilities, and is used to transfer ownership to named parties. (D. Waters 2009 p.187)

By the mean of transport documents we usually mean registration certificate for a car or a lorry (Company X provides documentation service for such mode of transport as road transport, the most widely used in EU according to D. Waters). And driver provides his passport and driving license information.

Then there are forms and standards approved by international organizations to be used in documents handling. Prepared customs documents (all the listed above except CMR) employees of company X send to Finnish Customs for approval and then receive back after approval. After that the service is ready and can be provided for a client.

Transit document T1 can be issued by customs warehouse only, so company X usually asks a customs warehouse – partner to prepare such documents.

3.4 Customs procedures and shipments inside Russia

To provide such services as import customs clearance or export declaration in Russia the case company is purchasing these services from a Russian partner company and then reselling it.

After the goods are delivered and cleared by customs in Saint-Petersburg company X offers its further shipment to other Russian cities by ordering this service from forwarders dealing with mixed cargo shipments inside Russia.

4 Strategic management, corporate strategy

According to Mary Coulter strategies are defined as organization's goal-directed plans and actions that align ("match") its capabilities and resources with the opportunities and threats in its environment. (M. Coulter 2010, p. 5).

And strategic management is a process of analyzing the current situation, developing appropriate strategies, putting those strategies into action, and evaluating and changing those strategies as needed. (M. Coulter 2010, p. 5).

These definitions are very close to the main stream of this thesis.

Strategic management comprises all the functional organizational areas. At the same time it has external and internal focuses. Strategic decisions are based both on internal and external factors analysis.

Strategic process can be shown as on the figure 1:

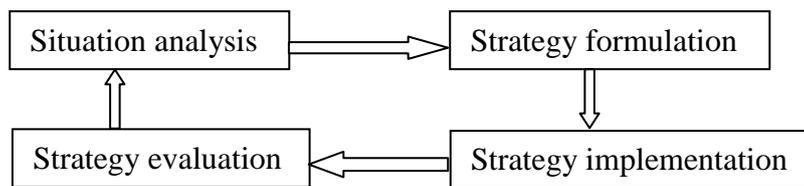


Figure 1. Basic activities of strategic management. (M. Coulter 2010, p. 6)

In this paper I will concentrate on situation analysis, existing strategy formulation and strategy evaluation.

A situation analysis involves scanning and evaluating the current organizational context, external environment, and organizational environment. (M. Coulter 2010, p. 7).

Strategy formulation is developing and then choosing appropriate strategies (as guided by the results of the situation analysis). (M. Coulter 2010, p. 7).

I will concentrate on defining the existing strategy for the case company and its conformity with the organizational situation.

Strategy evaluation implies evaluating both the outcomes of the strategies and how they've been implemented. If they don't measure up to expectations or strategic goals,

then the strategy itself or its implementation may need to be modified. (M. Coulter 2010, p. 8).

Functional strategies (also called) operational strategies are the goal-directed plans and actions of the organization's functional areas. The most common functional areas include production-operations (manufacturing), marketing, research and development, human resources (HR), financial-accounting, and information systems technology and support. (M. Coulter 2010, p. 7).

The most important functional areas for company X are sales and marketing, HR, logistics (that is linked with company's services creation). So I'm going to take a closer look at functional strategies in these areas. The other areas like financial-accounting and information systems of course have their places in the company's activities but strategies in these directions can be described in a few words.

Corporate strategies are goal-directed plans and actions that are concerned with the choices of what business(es) to be in and what to do with those businesses. (M. Coulter 2010, p. 8).

According to T.L. Wheelen and J.D. Hunger corporate strategy deals with three key issues facing the corporation as a whole:

1. Directional strategy that is the firm's overall orientation toward growth, stability or retrenchment.
2. Portfolio analysis that means the industries or markets analysis in which the firm competes through its products and business units.
3. Parenting strategy implying the manner in which management coordinates activities and transfers resources and cultivates capabilities among product lines and business units (T.L. Wheelen, J.D. Hunger 2012, p.230).

Corporate strategy issues are true regardless of company's size; it's the same for both small companies and multinational corporations.

4.1 Directional strategy

Growth strategies shall expand company's activities (T.L. Wheelen, J.D. Hunger 2012, p.231). According to Mary Coulter a company may choose between several growth

strategies options: concentration, vertical integration, horizontal integration, diversification, going international.

Concentration means that a company focuses on its main business direction trying to enlarge its core business. Three combinations of concentration exist as shown on the Figure 2:

		Product(s)	
		Current	New
Customers	Current	Product-Market Exploitation	Product Development
	New	Market development	Product-Market Diversification

Figure 2. Concentration strategy options (M. Coulter 2010, p. 193)

Product – market exploitation is a strategy when a company is targeting to increase sales of its current product/ service on its current market.

Product development is a type of concentration strategy when a company is developing a new product/ service or is modifying an existing product/ service for its current customers.

Market development means that a company is attempting to enter new markets with its current product/service.

The advantage of the concentration strategy is that an organization becomes very good at what it does. (M. Coulter 2010, p. 194). This is especially important for small companies that usually have limited resources and they can't diffuse it into several businesses.

Another growth strategy is vertical integration. Vertical growth can be achieved by taking over a function previously provided by a supplier or by a distributor. The company, in effect, grows by making its own supplies and/ or by distributing its own products/ services. (T.L. Wheelen, J.D. Hunger 2012, p.232).

The goals of vertical integration might be costs reduction, control over resources, quality guarantee or access to potential customers. Vertical growth can be realized by internal expansion or by acquisitions. There might be backward (suppliers' functions taking) or/ and forward (distributors' functions taking) integration.

A firm can achieve horizontal growth by expanding its operations into other geographic locations and/ or by increasing the range of products and services offered to current markets. (T.L. Wheelen, J.D. Hunger 2012, p.235).

Vertical integration and horizontal integration strategies imply that the company stays in the same industry that's why some authors like T.L. Wheelen and J.D. Hunger classify these strategical types as concentration strategic choice.

In the case when a company goes to win its share in a new industry it's called diversification strategy. Diversification might be related (when this new industry is somehow related to the company's core business) and unrelated (when new industry choice is not connected to the current main business stream). To be able to carry out diversification plan a company shall obtain enough resources. And it makes sense to start unrelated diversification if it's obviously seen that there is no potential for growth in the current industry.

Going international can be related to horizontal strategic direction. However some authors like M. Coulter allocate it as a separate strategical direction since company's internationalization is a peculiarly wide field for research.

International entry can be executed by exporting, licensing, franchising, joint ventures, acquisitions etc.

Although it may seem odd that an organization might want to stay as it is, there are times when its resources, distinctive capabilities, and core competencies are stretched to their limits and growing might risk the organization's competitive advantage. It's times like these when strategic managers may decide it's best for the organization to stay as is. The stability strategy is one in which an organization maintains its current size and current activities. (M. Coulter 2010, p. 202).

There are several typical cases when stability strategy is appropriate:

- uncertainty situation: industry changes, political changes etc
- slow or no grow opportunities
- a period after growth when it's necessary to manage better what have been already done
- maturity stage of the industry life cycle

- Small business owners are satisfied with what they have and it meets their personal goals.

Stability strategies are presented by pause/ proceed with caution strategy, no-change strategy and profit strategy.

A pause/ proceed with caution strategy is typically conceived as a temporary strategy to be used until the environment becomes more hospitable or to enable a company to consolidate its resources after prolonged rapid growth. (T.L. Wheelen, J.D. Hunger 2012, p.241).

A no-change strategy implies a decision to continue current operations and policies without any changes. This strategy is usual for small companies unless a new aggressive competitor appears on the market.

A profit strategy means that company's top management is trying to support profit level artificially in a difficult situation and is not doing anything new to improve the situation.

A company may select one of retrenchment strategies if performance is declining and company's competitive position is weak.

According to T. L. Wheelen and J. D. Hunger there are four retrenchment strategies types: for turnaround strategy, captive company strategy, sell out/ divestment strategy, bankruptcy/ liquidation strategy.

Turnaround strategy offers to optimize company's activities to make it more efficient when the situation is not critical yet. It's the most favorable strategy for a company being in a difficult situation. The implementation of this strategy includes two basic stages: contraction (first fast and sharp steps to turn the company to a new direction) and consolidation (afterwards actions to make the situation stable).

Captive company strategy implies searching for a long term contract that will make a company dependent on just one customer but secure in its future sales.

Sell-out/ Divestment strategy means that top-management has no other way around than to sell the company. This strategy is suitable if it's still possible to get a good price for this company and employees could keep their work places. Another company that

intends to buy the company might have enough resources to return it to profitability or it might use the resources of the purchasing company for its own needs.

Bankruptcy/ liquidation strategy is applied as the last possible action of a weak company with a poor competitive position and no future prospects.

4.2 Directional strategy for the case company

Company X is six years on the market and all these years it was growing. So I guess the strategic idea was to stick to the growing direction by the combination of several strategies.

First it's a concentration strategy and namely product – market exploitation. The customers' number was growing by selling company's current services on its current market. There was not much of services development recently. Market development has not been implemented yet. Company X is working on the market of Russia, mainly with customers from Saint-Petersburg and Moscow and is not going to other markets now.

Secondly there are opportunities for vertical integration for company X both backward and forward.

Now company X warehouse can accept cargos arrived from EU only, and to accept transit cargos (from non EU countries) the company uses another warehouse that is allowed to get such parcels. By getting permission from customs to accept transit cargos the company would realize backward integration strategy. This step requires financial deposit and more responsibility for a warehousing employee. However it would significantly save costs and it would positively affect services quality for transit cargos since the warehouse providing these services for company X now is not giving good customer service.

Forward integration can be done by selling services directly to the final customers. Now most of clients are reselling company's services or using it as a part of door-to-door logistic chain.

Thirdly horizontal growth strategy took place due to increasing of the range of services. For example since this year the customer can not only use the address of company's warehouse to receive parcels from abroad but also he can use company's account to

pay for his/her purchase to supplier. The price policy and the way of realization for this service is determined, so it's ready for use and clear new service.

It's an interesting fact that company X physically located in Finland is dealing on the market of Russia. So it can be seen as its domestic market. And opening an office in Moscow or Saint-Petersburg for example can be considered as going international from one side or as additional service development for customers' convenience on the other side.

4.3 Portfolio analysis

The second aspect of corporate strategy can be determined by its portfolio analysis that is a combination of products/services and business units that enables a company to be competitive on the market. The most common tools for portfolio analysis are BCG (Boston Consulting Group) Growth-Share Matrix and GE Business Screen.

I have already mentioned BCG matrix as an analytical tool in the introduction of this paper. In this chapter I would like to discuss this method a bit deeper.

BCG matrix can look like it is shown on the Figure 3:

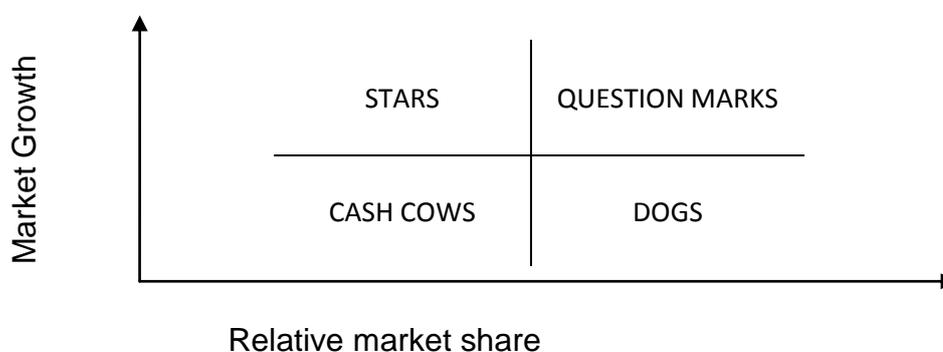


Figure 3. BCG Growth-Share Matrix (Adopted from BCG Growth-Share Matrix .L. Wheelen, J.D. Hunger 2012, p.245)

BCG matrix is quite similar to product life cycle. A product/ service is moving through its life cycle and in the same way the products/ services according to BCG are categorized into four types:

Question marks (sometimes called “problem children” or “wildcats”) are new products with the potential for success, but they need a lot of cash for development (T.L. Wheelen, J.D. Hunger 2012, p.246).

Stars are market leaders that are typically at the peak of their product life cycle and are able to generate enough cash to maintain their high share of the market usually contribute to the company’s profits. (T.L. Wheelen, J.D. Hunger 2012, p.246).

Cash cows typically bring in far more money than is needed to maintain their market share. In this declining stage of their life cycle, these products are “milked” for cash that will be invested in new question marks. (T.L. Wheelen, J.D. Hunger 2012, p.247).

Dogs have low market share and do not have the potential to bring in much cash. According to the BCG Growth-Share Matrix, dogs should be either sold off or managed carefully for the small amount of cash they can generate. (T.L. Wheelen, J.D. Hunger 2012, p.247).

Of course the BCG Matrix has its limitations like for example correlation between market share and profitability (low share products/ services might bring profit and be successful). Even though this tool provides one more opportunity to classify products / services that a company produces, and it adds some structure in manager’s head that definitely effects positively on further managerial decisions.

GE Business Screen is another very popular tool for portfolio analysis. Actually it was developed on the basis of the BCG matrix by General Electric with the assistance of McKinsey & Company.

GE Business screen includes nine cells based on long-term industry attractiveness and business strength competitive position. (T.L. Wheelen, J.D. Hunger 2012, p.247).

This thesis will not concentrate on this tool since all company’s services belong to the same industry. GE Business screen fits the companies producing its products/ services for different industries.

4.4 Portfolio analysis for the case company

When the case company was founded in 2008 there were several options of business areas to choose besides logistics. Other business directions might be consulting

business for Russians visiting Finland or immigrating to Finland and cottages and plots reselling.

But later on the decision was made to concentrate on logistic services. There were just a few customers for those alternative directions. At the same time logistic services customer numbers was increasing. Thus company X became a single-business organization that is operating in one industry. Since company's foundation some other business ideas were appearing but there were no sources and knowledge in those new fields to start a new business direction.

BCG matrix can be a useful tool to implement portfolio analysis of services for company X. It is harder to determine stages of life cycle and product type according to the BCG matrix for services rather than for products. Companies dealing with products are able to separate one product from another and see the borders within which a product is at one stage or at another. Thinking of services I would say that a new service is developing from the previous one. And this new updated service is staying on the previous step of service life cycle while the old one goes to the next stage.

Despite this I'll try to define who are question marks, stars, cash cows and dogs for company X. My brief analysis won't be based on real market share data since those data are not available, it's basically my professional experience about company's services type relying on some facts.

There are two blocks of services that I would put in the category "question marks". These are mixed cargos shipments by our own and the own warehousing services for non-EU cargos. At the moment the company is doing reselling of both services. This is a question if it should invest to create these services by its own. There are several pros and cons about going in this direction.

Setting up company's own warehousing services for non-EU cargos means getting permission from customs to accept such cargos. To get this permission several requirements shall be met one of which is a financial deposit freezing as a guarantee that all accepted non-EU cargos will leave Finland or will be cleared by customs.

I see two main reasons why the company shall not produce a service of customs warehouse by its own:

- Quite large amount of money will be frozen.

- Customs will do warehousing checking more often.

However the pros are rather important for company's development:

- a possibility to set up freely price policy
- profitability level increasing
- quality control strengthening

A warehouse for non-EU cargos that the company uses now is not flexible at all in its price policy. For example price level for very small cargos is the same as for bigger ones. There is a high minimum fee, so it's hard to attract customers with small cargos offering such prices. Besides that, the services quality is not satisfactory, and that affects on service level that company X provides in terms of non-EU cargos.

The second service related to "question marks" category is own mixed cargo delivery. This service developing would also increase profitability level and would provide the same advantages as own warehouse for non-EU cargos. However the company has found recently an attractive partner whose services it can resell in quite a comfortable way with enough margin and high quality of service. Besides that it is easier to change partners providing this type of service than changing a warehousing partner. Clients got used to send non-EU cargos to a certain address, and it's undesirable to change it often. A shipper who is doing mixed cargos deliveries doesn't affect customers at all so it's pretty easy to vary it.

Door to door shipments, full complex of logistic services and import shipments that company X started to produce relatively recently could be attributed to stars. This service has a potential for further development and brings profit now.

Export shipments of mixed cargos to Russia and warehousing services are seen as cash cows. These services are successful now but they are starting to decline becoming a part of door to door shipments.

Documentation services for trucks and transportation services by trucks are definitely company's "dogs". It's connected with the fact that market situation has been significantly changed in the past few years in this aspect. Price level of Finnish logistic companies offering transportation by trucks has been increased in **comparison** with the Russian providers due to high cross rate, and at the same time price level of Russian providers was decreased due to general cargo reduction and competition strengthening.

Thus the gap between Finnish and Russian truck providers is huge now while company X was reselling Finnish companies services adding documentation service.

There is no need to sell off these “dogs”. However in this complicated market situation it’s still possible to have a certain amount of customers at least for documentation services by reconsidering price policy and managing appropriate marketing.

4.5 Parenting strategy

The third key issue of corporate strategy is parenting strategy.

Corporate parenting views a corporation in terms of resources and capabilities that can be used to build business unit value as well as generate synergies across business units. (T.L. Wheelen, J.D. Hunger 2012, p.251).

Parenting strategy is relevant mostly for multibusiness companies. Company X is a single business company, consequently I’m not going to consider deeply this aspect of corporate strategy.

4.6 Summary

Concluding this chapter I can see that corporate strategy for the case company is growing through concentration on increasing sales of current services in the current market. There are opportunities for vertical integration backward to setting up own customs warehouse and forward to the final customers avoiding intermediaries. Horizontal growth took place by increasing range of services.

5 Strategic management, business strategy

In the previous chapter I was discussing corporate strategy issues. In this chapter I am going to write about business strategy. For the single business company corporate strategy usually equal business strategy. So I could start theoretical part of my thesis straight from business strategy discussion remembering that the case company is involved in one business area. But in my opinion it is good to clearly define first some aspects of corporate strategy such as directional strategy and overall firm's orientation.

Business strategy focuses on improving the competitive position of a company's or business unit's products or services within the specific industry or market segment that the company or business unit serves. (T.L. Wheelen, J.D. Hunger 2012, p.207)

In case if company owns just one business unit, as is true for company X then business strategy is covering the whole company's products/ services competitive issues.

Business strategy can be competitive meaning that a company is fighting with all competitors and/or cooperative implying cooperation with one or several competitors to battle with others.

Michael Porter offered four types of competitive strategies: cost leadership, differentiation, cost focus and differentiation focus.

Cost leadership strategy implies that a company is offering lower prices than its competitors; it's oriented on mass markets and requires strict costs control and its minimization. Organizations following this strategy win large market share and get strong bargaining power towards their suppliers since their orders are huge. Low prices can work as a barrier for new entrants on the market and will require from new entrants high initial investments and very strong management.

Differentiation strategy is also directed to mass market covering, however the product/service should be perceived as unique due to its brand image, unique production technology, special features or way of distribution or/and particular customer service. Differentiation strategy does not suppose large market share but it provides high margin level. Product/ service uniqueness creates high entry barrier.

Cost focus strategy is a combination of low cost products/ services and a narrow focused market. It might be for example a limited geographic market or specific customers' group.

Differentiation focus means offering a unique product/ service for a special group of buyers. (T.L. Wheelen, J.D. Hunger 2012, p.212)

Focus strategy (both cost focus and differentiation focus) lets a company to be closer to its customers, to know very well their needs and to respond quickly to customers' requests. A weak side of this strategy might be that economy of scale effect won't be reached, so the costs could be relatively high. However nowadays when computer and information technology are affordable it is possible to manage costs efficiently even for small quantities. Another risk for those company that have chosen focus strategy is that their clients niche can change their tastes or/and needs and it will be hard to change a niche quickly and easily. (Coulter M. 2010, p. 169)

According to M. Coulter the final aspect of Porter's generic competitive strategies is the concept of being stuck in the middle when an organization hasn't made a choice towards low cost or differentiation. In this case costs are too high to compete with low-costers and product/service is not differentiated to fight with companies following differentiating strategy.

Henry Mintzberg has created his own classification of competitive strategies that is developing Porter's competitive strategies concept further. He considers low cost strategy as differentiation on the basis of price and offers the following structure:

1. differentiation:
 - a. by price
 - b. by marketing image
 - c. by product design
 - d. by product quality
 - e. by product support
2. undifferentiated (Coulter M. 2010, p. 172)

I suggest it's a very true classifications reflecting increasing complexity of competitive environment.

5.1 Business strategy for the case company

Company X is combining both competitive and cooperative strategies. However with further development it goes in some aspects away from cooperation to more independence. For example the company was renting its warehouse premises together with another company providing delivery services. But recently the decision was made to have a separated warehouse. The agreement was done that the second renter will move out soon to other premises. It was advantageous to share rental costs, however it was hard to keep order and divide responsibilities when two companies are using the same premises at the same time.

As it is seen for me company X follows focused differentiation strategy on the basis of service support and service quality. There is a geographical strategic focus. The company is dealing in the logistic segment: Russia-worldwide through Finland and vice versa worldwide-Russia through Finland.

The differentiation is realized by high customer service level. Customers' price requests are handled within one or two business days depending on request complexity. Most of requests are answered within couple of hours. The company is following individual clients' needs in terms of delivery terms, prices, and special services. A client can always know the current status of the cargo. Customers are asked to give feedback after the service is completed and based on their feedback the corrections are made if needed. Most of customers give positive feedback. It seems that all these things are very essential and normal to provide adequate customer service but in real life just a few other competitors are able to do the same. Some customers are coming from company's direct competitors complaining about low customer's service and lack of individual approach. High customer service is especially vital for the Russian customers since the customer service level in Russia is generally very low and some clients are ready to pay more to get better service.

5.2 Summary

To summarize business strategy chapter I have to repeat that company is moving from mixed cooperative/competitive to more competitive strategic choice. Competitive strategy is realized through differentiation by service support and service quality: reliability, following initially agreed terms and dates, save operations with cargoes.

6 Environmental analysis

Strategy formulation process shall be guided by the results of external and internal environmental analysis.

In this chapter I will discuss and then apply to the case the following methodological approaches:

- SWOT analysis
- SFAS matrix
- PESTEL analysis
- Porter's five forces model

Before starting to tell about above listed methodology I would like to define case company's resources, the tangible and intangible assets that the case company has at its disposal at the moment. The resources are a base that I can rely on applying diverse methodological tools.

The intangible assets can be even more important for a company providing services rather than tangible ones.

For the case company intangible resources are:

- clients database
- company's name as a responsible company among its clients
- human resources
- established operations: well developed logistic chains and relations with suppliers in EU, Finland and Russia
- some experience and knowledge

The tangible include:

- warehouse for accepting EU cargos
- office
- several minibuses

Company's resources are founded on the basis of its strengths and weaknesses.

Over the years SWOT analysis has been the most popular analytical technique for situational analysis in strategic management. SWOT analysis implies such issues of external scanning as opportunities and threat and aspects of internal analysis: strengths and weaknesses.

Regardless of its prevalence in environmental analysis SWOT has its limits. And it doesn't give an answer to the question: should we invest in our strengths to make them even stronger or should we invest in our weaknesses to at least make them competitive? (T.L. Wheelen, J.D. Hunger 2012, p.200).

There are other disadvantages of SWOT analysis: it might create long lists of environmental factors with no priorities, it's based on opinions not approved by facts and analysis with no straight connection with strategic issues.

To try to answer the questions left after SWOT analysis such tool as Strategic Factors Analysis Summary Matrix (SFAS) was created. The SFAS is uniting strategic factors by combining external and internal factors. The SFAS requires using not more than 10 strategic factors. The most important factors shall be gathered. Each factor shall have its weight that reflects its priority according to T. L. Weelen and J. D. Hunger.

Further I consider that it's needed to present SWOT analysis for the case company and then based on it to implement SFAS Matrix for the case company.

6.1 SWOT for the case company

The SWOT table for company X looks like that:

<i>Strengths</i>	<i>Weaknesses</i>
Focus on excellent customer service	No right to accept non-EU cargos and handle transit documentation
Door-to-door services	Low level of management
Optimal combination of transit time and delivery costs	Not enough knowledge and experience in some questions
Flexible and fast reaction to customers' requests	Low possibilities to control quality when reselling services
Appropriate online marketing	No own trucks
Clear pricing	No reliable and affordable way for
Multilingual communication	

Responsible approach	transportation from Asia
<i>Opportunities</i> Possible export increasing from Russia Customers are searching for new logistic solutions nowadays Private customers sector development	<i>Threats</i> Political risks Strong competition

Figure 4. SWOT analysis for company X

6.1.1 Strengths

Focus on excellent customer service:

This issue was discussed in business strategy chapter and it will be discussed further in sales strategy chapter. In my opinion it's a significant advantage of the company and the main reason why lots of customers contact the company again to get the service for the second time and then become regular customers.

Door-to-door services:

The company is able to provide wide range of services: payments to suppliers, pick up goods from any destination all over the world to Finland, shipments from Finland to other countries, warehousing services, all kinds of import and export documentation, transportation services from Finland to Russia and vice versa. Thus a full logistics chain is provided from a supplier abroad (from Finland, EU or other countries) to a recipient in Russia (mostly in Saint-Petersburg and Moscow). A customer can also order just on part of the chain, it's not necessary to order full service. This opportunity is interesting for other logistic companies – resellers which for example would like to resell our warehousing services. So the company can deal with both final customers and resellers.

Optimal combination of transit time and delivery costs:

The transit time for cargo movement from the point A somewhere in EU or all over the world to the point B in Russia can be calculated by summarizing transit times on the following parts of the route: from point A to Finland, from Finland to Saint-Petersburg, from Saint-Petersburg to the point B if the point B is outside Saint-Petersburg. Since the case company has several alternatives for the attracted transport suppliers it can offer the fastest transit time for the whole route if we are talking about delivery through

Finland. Direct shipment through express couriers might be faster, but the price is often too high. Thus the combination of transit time and price occur that is optimal for most of company's customers.

Flexible and fast reaction to customers' requests:

The company is ready to adapt for specific clients' requirements. Since it is very small and it doesn't have strict corporative rules it's able to reply fast and in a flexible way according to clients needs.

Appropriate online marketing:

Company's services are promoted in the internet via web-page, specialized logistic forums and social networks. There are many logistics companies dealing in the same Finnish-Russian segment but not many of them are presented and promoted in the global network especially if we are talking about warehouses. At the moment the web-site is in the top position (first page of searching engines google.ru and yandex.ru) according to some requests, but not according to all requests. However, it seems to be enough to provide the number of inquires that the company is able to handle.

Clear pricing:

It's important for customers that initially given prices are the same as actual. Corrections might be made in case of cargo weight or volume change but not in case some additional costs arise that are dependent on sender or receiver.

Multilingual communication with customers:

The staff speaks Finnish, English and Russian languages. That's significant for full logistics chain services when it's necessary to negotiate with parties from different countries.

Responsible approach:

It's very important to keep the words and to treat each cargo in a responsible way. Many companies in Russia do not provide a responsible approach to every customer; their idea is that the market is huge, some new customers can appear instead of the previous ones. This is somehow true when the market is growing. However nowadays when recession is almost everywhere some customers leave the market and those who stay

are trying to find better terms of cooperation. Under these circumstances this a strength of company X and one of its competitive advantages.

6.1.2 Weaknesses

Not enough knowledge and experience in the field of international logistics and customs operations:

There are no really experienced people among company's staff. When some new tasks or situations arise it takes some time to collect information and solve the issue. However this weakness is not critical. With every new task or/and situation the staff is getting more experienced. Though some minor mistakes might occur in this process.

No right to accept non-EU cargos, transit warehouse services reselling:

This issue was already discussed within corporate strategy chapter and will be further explained in the company description part

Low level of management:

The director is involved in sales and coordinating work and is not doing analytical and strategic work that is so necessary for future development. Financial management is not realized systematically.

There are no own trucks, minibuses only:

In many cases the company borrows transport from other transport companies. So like any resell it doesn't give an opportunity to set prices freely and to manage completely service quality. However this fact can be seen at the same time as strength. Having its own wide transport park requires dealing with such things as repairs, necessity to load the cars all the time, cooperation with drivers etc. All these operations require additional human and financial resources.

No reliable and affordable way for transportation from Asia:

The company has just one partner – Finnish company that provides sea and air freights from Asian countries. Asian transport direction is the most popular among Russian customers. Usually it's cheaper to order freight from the side of sender. So it would be

great to find a partner who is located in Asia and who could provide affordable price level and who would be reliable and clear at the same time.

6.1.3 Opportunities

Customers are searching for new logistic solutions nowadays:

The market of logistics services related to transportation from and to Russia is now very changing due to complicated political situation. It might look now that there are no opportunities for future development under the current circumstances. However this is not completely true. Of course the market is generally suffering from total recession, but still there is a certain amount of clients on the market and they are trying to find new cheaper and more effective logistics ways. Customers pay more attention at market prices monitoring. Earlier it was hard to attract a customer who is already dealing with one logistic company because they trust this company and slight price fluctuation was not significant. Now it's a bit different what creates additional opportunity for new clients' attraction.

Possible Russian export volume increasing connected with current euro/ruble cross-rate and low ruble value:

Russia could compete with China in some categories of goods and try to sell it in EU. And there is a chance for company X to provide logistic services for the Russian customers involved in export operations.

Private customers' sector enlargement:

To get a small cargo in Russia from abroad is a complicated process, even if a person gets it for personal consumption. That happens mainly because of customs bureaucracy. But many people are interested in buying directly from abroad, e.g. from international web-portals like amazon.com. And it's a cheap and easy way to send an order to a warehouse in Finland and then pick it up or ask for a delivery. As for express post services like DHL, TNT, UPS etc it's usually even more expensive than a way to Finnish border and back.

6.1.4 Threats

Plenty of competitors:

Lots of other warehouses work in Lappeenranta, Kotka, Helsinki and other towns of Finland; and enormous amount of companies offer transportation services on the Russian market

Political risks:

Strengthening of import restrictions from the side of Russian government; due to complicated international relations and to support own producers Russia might set up new import barriers. Recently in summer 2014 after the Russian government made food embargo for some kinds of European goods many logistic companies serving these businesses got huge losses.

6.2 SFAS Matrix for the case company

As it was told before the SFAS matrix is going to be implemented to supplement and deepen the results of SWOT analysis.

Further I chose nine the most important in my opinion strategic out of seventeen from SWOT analysis factors and placed it in SFAS matrix as is shown in Figure 5. Then the weight for each factor was attributed. The rating is reflecting the degree to which company's management reacts to a strategic factor. The column duration shows if the factor is going to be actual during short (less than 1 year), intermediate (1 to 3 years) or long (over 3 years) time periods. The comments are made based on the weighted score and factors duration.

The outcome of the SFAS matrix is the following:

- Such strategic factors as focus on excellent customer service and appropriate online marketing has high priority and are long lasting and they need more attention from company's management side.
- Door-to-door services are treated well, however it can be not so important in the future if most companies in Russia will be forced to do customs procedures by themselves due to customs law changes.
- Optimal combination of transit time and delivery costs is crucial for most customers. Case company's ability to meet the requirement creates company's core competence together with excellent customer service and door-to-door shipments.

- The weakness: no right to accept non-EU cargos and handle transit documentation is going to be handled in the nearest couple of months.
- Low level of management is a problematic side of the company and it's not clear how to deal with that.
- Possible export increasing from Russia is a very questionable issue. Not only ruble value effects export increasing, also goods quality, service level and other things might encourage or retard export development.
- Customers are searching for new logistic solutions nowadays. Company X is using some chances to start cooperation with such "searching" customers, but it might work better in this way.
- Unfortunately it's rather hard to predict political risks, so even though it's a very significant strategic factor the company can't respond it.
- The company should not be afraid of strong competition if it is very efficient and customer oriented.
- The case company's total weighted score equal 3.4 while average firm in the same industry result is always 3.0. So it's a little higher than average result.

Strategic factors	Weight	Rating	Weighted score	Duration			Comments
				Short	Intermediate	Long	
Focus on excellent customer service (S)	0,12	4,00	0,48			X	Long term factor needs more attention
Door-to-door services (S)	0,10	5,00	0,50	X	X	X	This factor might be not important in the future
Appropriate online marketing (S)	0,12	4,00	0,48			X	Long term factor needs more attention
Optimal transit time	0,12	5,00	0,60			X	This creates company's core competence
No right to accept non-EU cargos and handle transit documentation (W)	0,12	5,00	0,60	X			Will be handled in the nearest future
Low level of management (W)	0,12	2,00	0,24		X		A problematic weak point with no clear perspectives
Customers are searching for new logistic solutions nowadays (O)	0,10	3,00	0,30	X			The company uses some chances
Political risks (T)	0,12	1,00	0,12	X			We can not predict it
Strong competition (T)	0,08	1,00	0,08	X	X	X	Not that strong factor if the others are managed well
	1,00		3,40				

Figure 5. SFAS Matrix for company X

6.3 PESTEL analysis for the case company

Another popular tool of environmental scanning is PESTEL analysis that was developed from PEST analysis by adding two additional factors. PESTEL analysis covers political, economic, social, technological, ecological and legal environmental issues that may affect company's activities. PESTEL analysis is focused on external general environment.

Further I'd like to describe briefly existing and possible influence of PESTEL factors on the case company.

As I have mentioned in the SWOT analysis political situation affects directly company's activities and especially international relations of Russia and EU.

Economic factors impact can be seen mainly in euro/ruble cross rate fluctuations. High euro value makes company's services more expensive for the Russian clients; at the same time low ruble value might be additional motive for export development from Russia to EU;

Social issues such as lifestyle changes, career expectations, rate of family formation, age distribution of population, pension plans, birth rates and others do not affect significantly company X business situation. I guess companies dealing with consumer goods are sensitive to social changes more than companies operating in business-to-business segment where the case company is.

Technological factors include research and development issues, patent protection, new products development, internet availability etc. Company X faces technological aspects in the form of customs electronic system changes and internal registration system improvements. At the moment the company is working on own software creating to meet specific organizational needs.

Ecological solutions are more vital for companies owning vast truck park. Company X has in its disposition just two minibuses that are ecologically friendly.

Legal factors especially customs law changes both in Finland and in Russia influence case company's operations that should be adjusted according to such possible changes.

6.4 Porter's five forces model

Porter's five forces model offers a way how to analyze specific industry related external environment. This model consists of the following parts:

- current rivalry among existing firms
- potential entrants
- bargaining power of buyers
- bargaining power of suppliers
- substitute products (Porter's five forces definition | Investopedia)

6.4.1 Current rivalry among existing firms

To analyze current rivalry on the market it's necessary to determine how intensive the competition is at the moment. Competitive environment is quite intensive if companies constantly are trying to take customers away from each other for example. Usually more profitable industries are very intensively competitive.

Porter suggests that there are 8 conditions for extensive competition among existing rivals:

1. plenty of competitors in the industry or equally balanced competitors owning equal resources
2. slow industry growth
3. high fixed costs or/and high storage costs
4. Lack of differentiation or switching costs. If a product/service is not unique then customers make a purchase decision relying on price and service what makes competition stronger. If switching costs when going from one company to another are zero or low then it also makes rivalry more intensive.
5. Considerable capacity increasing. In industries where capacity enlargement gives economy of scale effect a moment of overcapacity can come, this will force companies to reduce prices and will intensify rivalry.
6. diverse competitors in their strategic approaches, philosophies or circumstances
7. high strategic goals when a company is ready to sacrifice short-term profitability
8. high exit barriers

Porter defines exit barriers as “economic, strategic, and emotional factors that keep companies competing in business even though they may be earning low or negative returns on investment”. Examples of exit barriers include highly specialized assets that can’t be used in other ways or that have low liquidation value; labor agreements that must be honored; or management unwillingness to leave a business because of pride, fear, or other psychological reasons. (M. Coulter 2010, p. 71).

6.4.2 Potential entrants

The threat of new entrants depends on the presence of entry barriers and the reaction that can be expected from existing competitors (T.L. Wheelen, J.D. Hunger 2012, p.135).

An entry barrier is an obstacle that doesn’t let or makes it complicated for a new company to enter the market.

There are several factors that can work as entry barriers: economy of scale, highly differentiated products, high capital requirements, high switching costs for customers, government policy (e.g. licensing), obstructed access to distribution channels, cost advantages of existing companies based on the fact that their operations are already well established.

6.4.3 Bargaining power of buyers

Buyers own strong bargaining power if the following issues come true:

- One customer is purchasing most part of company’s products/ services.
- A buyer can easily realize backward integration and produce the product/ service by itself.
- There are many alternative suppliers and the product is standard, not differentiated.
- Switching costs are low.
- A buyer is highly price sensitive.
- The product/service can be simply substituted.
- A buyer has low profit level, so even little price fluctuation would be significant.
- Customers are well informed about prices and market situation, and they can use this knowledge for bargaining.

6.4.4 Bargaining power of suppliers

To determine if suppliers are powerful in the industry there are several signs:

- Just a few companies work as suppliers in the industry.
- The product/ service is unique or/and it implies high switching costs.
- Not enough possibilities for substitution.
- Suppliers can do forward integration and produce their customers' product/service.
- Companies in the industry are buying just a small portion of suppliers' goods and that is why it is unimportant for supplier.

6.4.5 Substitute products

Substitute products are those that can satisfy the same needs as a product/service produced in a specific industry.

To the extent that switching costs are low, substitutes may have a strong effect on an industry. (T.L. Wheelen, J.D. Hunger 2012, p.136)

6.5 Porter's five forces for the case company

First of all I'd like to define that company X industry is limited by those companies providing logistic services connected with transit through Finland for cargos moving to Russia or from Russia.

Competition:

The direct competitors of company X are warehousing logistic companies located in South-Karelian region of Finland (in Lappeenranta first of all) that have similar strategies, resources and customers. I see 3 main competitors, their sales and marketing steps, resources and clients are resembling to company X ones.

To the group of indirect competitors can be related warehousing logistic companies located in other regions of Finland (primarily Hamina, Kotka, Helsinki) dealing with international transportation through Finland and also logistic companies inside Russia providing such services.

Participating in daily life of the case company I have an impression that rivalry among its direct competitors is not very intensive. This is conditioned by the following facts:

Each warehousing company has its own clients' database and it's mainly serving customers within this database. Companies are not trying to steal customers from each other.

Companies on this market do not have very high fixed costs and do not have any storage costs since they are selling services, not products. Fixed costs consist of rental costs, staff salaries and office expenses.

Logistic services are designed individually for each customer, its needs and requests. Customers do not have any direct financial switching costs, but it's not comfortable for them to change a forwarding company because it's a question of trust, time and efforts, besides that some failures usually arise during the first time with a new forwarder due to many details that shall be considered.

The exit barriers are not high in most cases. If a warehousing company feels that's not the right business it can leave the market comparatively simply.

Potential entrants:

I think that threat of potential entrants is medium. Some obstacles exist that prevent entering this market, at the same time some favorable factors take place that might stimulate new entrants to come.

The main advantage in my opinion that makes the industry attractive for new entrants is that it doesn't require much capital investments in compare with production facilities for example. The switching costs are medium for customers. So if a new company would offer much lower price level and would promote itself very well then some part of customers could come to try their service.

Economy of scale effect is not significant for existing companies, so they don't win much in this sense.

There are some governmental issues that shall be considered by new potential entrants. It's first of all customs licensing for being a customs warehouse. However this permit is not needed to keep EU community goods. Additional permits are needed in case if a warehouse would like to accept dangerous cargos, alcohol and some other

specific cargo groups. Though not all existing on this market companies have these licenses.

The main barrier for new entrants is that logistics services are differentiated for each customer. And the best possible service is created in the process of work with each customer by adopting the service according to customers' specific requirements.

Bargaining power of buyers:

I suppose that bargaining power of buyers is rather strong for the case company in the above mentioned industry. It is conditioned mainly by plenty of alternative suppliers of logistic services. Another factor that enhances buyers' ability to bargain is the fact that logistic services and customs clearance costs take often significant portion of client's final product costs i.e. costs of imported goods. That is why buyers are trying to find the cheapest way of goods delivery. The main factor limiting buyers bargaining power is that logistics is a very specific area requiring lots of knowledge, skills and experience. and if something made wrong in the process of delivery and customs clearance it might cause very high additional costs, for example customs penalty, transport delay fees and others. That is why usually companies do not try to integrate backward and to do logistic services on their own. Also, some switching costs may appear.

Bargaining power of suppliers:

There are several types of suppliers for company X:

- forwarders providing delivery services within Europe
- forwarders providing delivery services from Finland to non EU countries and vice versa
- companies providing delivery services within Finland
- customs warehouse accepting non EU cargos for the case company

An ability to bargain for companies supplying delivery services within Europe and to/from non EU countries is limited due to large amount of such providers (mixed cargo shipments providers, express couriers, post services), little or zero switching costs and standardized service. Those companies are specialized in their business area and have no wish to integrate forward and to prolong delivery to Russia since it's connected with border crossing. However the industry where the case company is operating composes

just a little part of its total sales, so some of such companies are not very interested in cooperation because of low purchasing volume.

Companies providing delivery services within Finland are not as plentiful as in the previous category, but the demand is not that large either. All in all, their bargaining power is not very strong. The switching costs also tend to be zero, the service is standardized and they are wishing to realize forward integration even less than the previous group of companies.

Bargaining power of customs warehouse is stronger than those related to other case company suppliers. The main factor here is high switching costs for company X connected with address change and a risk that some customers might stay there.

Substitute products:

If we look at company X industry as at the market of logistic companies specialized in deliveries through Finland then we can see that substitute products are logistic services including another logistic chain. It might be direct supply from European and Asian countries to Russia. There are many consolidating warehouses in Germany and Italy, from those consolidating points goods move to Russia directly, mainly to Moscow. Very popular logistic services are air deliveries from Asian country, primarily from China to Moscow.

6.6 Summary

Based on theoretical points and empirical issues described in this chapter here are environmental scanning outcomes for the case company:

External environment: general environment:

General environment of the case company is characterized by strong influence of political economic and legal factors in the form of international relations of Russia and EU, euro/ruble cross rate fluctuations and changes in customs rules and procedures in Finland and Russia.

External environment: specific environment:

The specific environment is quite stable with not very intensive rivalry among existing companies in the market. The threat of potential entrance is medium; bargaining power

of buyers is strong while bargaining power of suppliers is low. Substitute services take places and are able to compete with companies services.

Internal environment:

The recourse base of the case company is enough for future growth and development. However, some important problematic issues should be solved. They are the low level of managerial skills, a need to enhance online promotion and constant work required towards excellent customer service.

7 Strategy formulation

Strategy formulation is the development of long-range plans for the effective management of environmental opportunities and threats, in light of corporate strengths and weaknesses (SWOT). It includes defining the corporate mission, specifying achievable objectives, developing strategies, and setting policy guidelines. (T.L. Wheelen, J.D. Hunger 2012, p.41)

According to Analoui F. and Azhdar K. the result of research projects in the field of strategy formulation in small and medium enterprises (SMEs) collectively indicate that the SMEs that have been involved in formulating strategy for their firm, either formally or informally, are more likely to be successful than the firms which ignore the strategy-making task. (Analoui F., Azhdar K. 2003, p. 110)

7.1 Mission

The corporate mission statement reflects company's purpose and explains why it exists, the nature of the business it is involved in and the kind of customers it seeks to attract, serve and satisfy.

According to Ackoff (1986) a good mission statement should have five pertinent characteristics:

- defining the business which the firm wants to be in
- differentiating the firm from its rivals
- enabling the firm in formulation of objectives
- exciting and motivating
- It is relevant for all stakeholders inside and outside the firm (Analoui F., Azhdar K. 2003, p. 114).

In obedience to Analoui and Karami research (2002) the main reasons of formulating a mission statement in SMEs are the following:

- developing and planning business strategies
- increasing profit and growth rate
- promoting a sense of shared expectations among entrepreneurs and all employees

- providing clarity of direction for all categories of employees including entrepreneurs

Generally a mission statement in a SME typically contains: long term profit, survival and growth; customer satisfaction; core technology; market; company philosophy and values; product and services quality; public image; geographic domain; self-concept and concern for suppliers as main concerns for the CEOs involved. (Analoui F., Azhdar K. 2003, p. 121).

7.2 Objectives

The second step in strategy formulation is specifying achievable objectives. The objectives transform general issues of mission statement into specific commitment for the firm. Objectives could include profitability, employees' job satisfaction, production efficiency, organizational effectiveness, customers' satisfaction, social responsibility and technology development.

In small firm there is a danger that objectives are developed based on the owners personal aims and preferences that are highly subjective and may not fit business reality.

The strategic objectives should answer four basic questions:

- What are the results?
- Who are target groups or markets?
- When the objectives should be carried out and under which conditions?
- How the objectives fulfillment can be evaluated?

The developed strategic objectives ought to be specific, measurable, achievable, realistic and time bound.

Strategic objectives could be set either quantitatively or qualitatively. The objectives for financial indicators will be quantitative while such subjects as effective performance or job satisfaction can be measured in a qualitative way. Usually strategic objectives are long term and can be achieved within a period of three to five years. However it has been observed that SMEs are seldom concerned with long term objectives.

7.3 Strategies

The third step in the process of strategy formulation is developing strategies. Competitive advantage is a base for good strategy and in turn a good strategy should produce a competitive advantage. (Analoui F., Azhdar K. 2003, pp. 129-130).

Considering the majority of works in strategic planning in small businesses two distinct schools of thought are identifiable: rational and intuitive.

The rational approach implies formal strategy formulation with the focus on the external environment.

The intuitive learning model relies on internal organizational factors such as culture, leadership, human resources considering innovation and flexibility as the main points for survival.

According to Analoui F. and Azhdar K. research in the small firm literature focuses on the personal characteristics of the founder while entrepreneurs are rarely strategists acting according to rational principles.

There is no one optimal strategy common for all small firms because of variations in culture, personalities, experiences and goals of companies' owners.

Formal strategic planning positively affects organizational performance and growth.

7.4 Strategy formulation for the case company

For any enterprise the need for outside finance creates a requirement to produce a convincing strategic plan. There was no need to attract outside financing for company X at the moment of its foundation. That was one of the reasons why real strategic issues were not formalized from the beginning. Just something that looks like a business plan was created for founding papers. Until now the company has no formalized mission, strategic objectives and business strategy.

At the moment the case company's strategic model is very close to the intuitive approach. However, I'm convinced that the rational planning needs to be implemented due to company's growth, probably with respect to some issues from the current intuitive model. Company's mission statement, strategic objectives and business

strategy shall be formally defined even though the strong focus on the internal environment will be kept.

Here I will try to formulize existing mission statement, current objectives and business strategy that is now in force for the case company.

The suitable mission statement could be formulated as following:

To help companies and individuals involved in international trade between Russia and other countries to fulfill all the logistic operations regarding goods transportation, documentation and customs matters in the best possible way in terms of time and costs by investing unique knowledge, skills and experience of our employees in the field of logistics and doing our utmost to provide high quality customer service and individual approach to customers' needs.

It is hard to define long term strategic objectives for several years in advance since there are no long term contracts and the political and the economic situation is not stable. But it's necessary to formalize strategic goals for shorter period of around one year. And those objectives should be regularly updated, for instance once a three months or once a half year.

Strategic objectives for the nearest one year could be the following:

- to cover managerial gaps regarding general issues and financial management
- to monitor suppliers' offers and competition level
- to react fast and adequately on the fast changing external environment
- to provide excellent customers services
- to follow optimal combination of transit time and price level
- to increase profit

According to the mentioned above strategic objectives the operational goals for the nearest three months could be:

- to implement the system of staff personal assessment
- to divide responsibilities clearly by formulizing working instructions for each position
- to realize backward integration by getting permission from Finnish customs to handle non EU cargos

- to allocate responsibility for financial management, probably a part time worker or an outsourcing company
- to enhance online promotion

Business strategy for the case company can be based on the several core competences that are excellent customer service, optimal combination of transit time and costs and door-to-door shipments.

Finally the existing business strategy for company X can be defined as following:

To provide excellent logistic services for customers involved in international trade between Russia and other countries carrying out required tasks in the best possible way in terms of time and costs with respect to required profit level staying flexible and adaptive to customers' requests and the quick changing business environment.

The differentiation aspect through company's core competences combination is clearly seen in the strategy. That is a positive side of the business strategy.

Internal and external environmental factors are taken into consideration.

Nothing is said about the future growth opportunities in this business strategy even though the case company has been growing since its foundation. I could explain it so that the growth was not a goal itself but it was a result of intention for doing the right things.

Meanwhile it's important to fix company's direction towards growth in the business strategy so that everyone in the company would understand that it's a strategic intention and company's activities would be planned and realized according to this direction.

The case company has enough capabilities for growth in the form of its human resources that are not utilized in the most efficient way and there are opportunities on the market to attract more customers. So it's important in my opinion to orient the company towards growth, to add this intention to the business strategy, to set quantitative strategic objectives concerning sales and/ or turnover increase and to align the functional strategies with upgraded business strategy.

8 Special issues of strategic management for small sized companies

Alistair R. Anderson and Martin H. Atkins in their article Business strategies for entrepreneurial small firms proposed that small companies often face uncertain environments. To cope with unpredictable future Meta strategies can become appropriate. The authors offered four Meta strategies: robustness, flexibility, the “butterfly” strategy and the “lottery” strategy.

Robustness implies that providing outcomes that are within reasonable limits. The boundaries are set by the resource availability or the performance specifications determined internally or imposed externally.

Flexibility means the absence of an ultimate goal. The following facts can be a sign that a company is following flexibility strategic approach:

- Employees are accepted on trial periods before their contracts are confirmed.
- Test marketing is undertaken before deciding to launch full scale production.

The idea of flexibility is that costs of change are reduced.

The “butterfly” strategy is a deliberate attempt to experiment with the rise situations, scenarios or systems with the intention of learning from each instance to gain a wider understanding of the general situation. “Butterfly” behavior may be random but it is only random in terms of its action and not its intent. What is critical to the definition above is the intention to learn and it is this aspect of the strategy that classifies it as deliberate.

The “lottery” strategy suggests experimenting with the arising situations, scenarios or systems by random selection of actions. What clearly distinguishes this form of behavior from the “butterfly” is the absence of deliberation and organizational learning.

The article “Do SMEs need to strategize” by Sharma, Govinda is telling about strategic options to deal with resource disadvantages to compete with large rivals. The author of this article considers three strategies:

- The “niching” strategy implies feeling market gaps by offering products differentiated from (but substitutable to) that of bigger rival’s.

- The free-riding strategy is exploiting the market development efforts of the bigger rivals by offering products identical to theirs.
- Forming strategic alliances is needed to gain competitive advantages over the bigger rivals and / or deter them from adopting aggressive competitive actions against the SMEs.

The concluding remark of the paper says that SMEs need to strategize in order to survive and flourish in the competitive environment unleashed by the liberalization and globalization process.

According to Tetteh E. and Burn J. and the article “Global strategies for SME – business: applying the SMALL framework” SMEs have wide opportunities for global development using internet – based information technologies without significant additional investments. The two important conditions for that are enough skills and infrastructure adaptation.

The authors of the article “Strategic planning in growth oriented small firms” suggest that an owner-manager’s capacity to learn and develop their managerial competence, deal with change and think and act strategically is an important point of focus when seeking to understand small firms’ growth processes.

Most small firms do not have written business plans and many owner-managers lack business-planning skills. However, owner-managers are strategically aware and realize the consequences of their decisions. One explanation for this counter-intuitive finding may be that successful entrepreneurs are extremely sensitive to the perishable nature of the opportunities they identify in a rapidly changing environment. To take the time to plan under conditions of high uncertainty may result in the loss of that opportunity.

9 Functional strategies

According to M. Coulter functional strategies are divided into three types: product strategies, people strategies and support process strategies. To the category of product strategies can be related production, marketing, research and development strategies. People strategies are concerned with human resource management. Support process strategies are connected with functional areas that serve the main business stream.

The functional areas for the case company are marketing and sales, human resource management (HRM), services production, logistic, financial, accounting, information technology. Product strategies are referred to marketing and sales, services production and logistic fields. HRM strategy is people strategy and support process strategies are connected with financial, accounting and information technology areas.

9.1 Marketing strategy

Marketing strategy is dealing with 4P marketing mix: product, price, place and promotion.

Product/service means the general policies for product and service deletions, modifications, additions, design, packaging, etc.

Price includes the general pricing policies to be followed for product/ service groups in market segments.

Place is connected with the choice about channels and intermediaries.

Promotion implies the general policies for communicating with customers under the relevant headings, such as: advertising, sales force, sales promotion, public relations, exhibitions, direct mail. (Frow, P., Payne, A., and McDonald, M. 2011, p. 203).

According to Analoui F. and Karami A. marketing plan is crucial for small businesses; otherwise they won't be able to survive. Successful small businesses are sticking to their marketing strategy and focus on the customer's needs. An effective marketing strategy in SMEs is concerned with:

1. determining the needs, demands of the customers
2. identifying target market of the business

3. creating competitive advantages of the firm
4. choosing a marketing mix

To define marketing strategy first of all it's necessary to answer a question: who are company's customers and what are their needs?

Customers of company X are organizations or individuals who have a need to transport goods from abroad to Russia and from Russia to abroad.

There are two categories of case company clients: final customers and intermediaries. Final customers are cargo receivers and intermediaries are reselling organizations providing one or several company's services for the third party that is the final customer or another intermediary.

The main needs of the targeted customers can be listed as following:

- to get goods from point A all over the world to point B in Russia
- to get these goods as fast as possible and as cheap as possible, practically at optimal combination of time and costs
- to be sure that the goods will be transported safe and treated well
- to be sure that customs formalities will be honored
- to get a good customer service
- to know price and conditions beforehand
- to get consulted about the service
- to track cargo location in the process of its movement
- to get additional services e.g. submitting payment for the goods
- to be able to choose appropriate payment method

The easy thing about defining customers' demand for the case company is that there is a direct large communication between the company and its customers, and the customers point out their needs neatly.

The next question is what is the targeted market?

As it was already mentioned in the part of the thesis dedicated to PESTEL analysis for the case company, the market where company X is operating consists of firms providing logistics services connected with transit through Finland for cargos moving to Russia or from Russia.

Competitive advantage for the case company consists of the mix of excellent customer service, optimal combination of transit time and costs and door-to-door shipments.

Further I will briefly discuss actual marketing mix for company X:

- product: wide range of logistics services up to door-to-door delivery; in-time services realization according to initially agreed terms
- place: direct sales and/or through intermediaries
- price: average price level and optimal in terms of transit time
- promotion: web-page, on-line advertising at specialized logistics forums

Marketing strategy for the case company is:

To satisfy customers' needs in the best possible way to build long-term relations and to work continuously on new customers' attraction by continuous online promotion and adding systematic direct sales activities.

9.2 Sales strategy

There is just one way how the company sells its services: passive sales: dealing with incoming emails and phone calls mainly from potential clients visiting the company's web-site. The office workers are getting orders that come via emails and phone calls.

The company is applying operational excellence strategy what is expressed in the following steps:

Company X offers average price level, the team is working hard to provide higher than average quality of customer service. Also the company tries to provide ease of purchase. The services that the company sells are quite specific and require special knowledge in the field of logistics. But often the clients do not obtain such knowledge. To provide ease of purchase there are detailed explanations of services and pricing in company's price-list and on its web-site. There is a calculator option on the web-site to count easily storage and documentation costs. Besides that the personnel is always ready to answer all the questions that appear from customers' side and provide detailed consultation.

For selling its services the company chooses both direct and indirect intensive channels. Company X sells its services directly to final consumers and to intermediaries – other logistics companies as well.

The company is trying to develop sales both intensively and extensively. Each company that needs logistics services has its own unique requirements based on peculiarities of their product or service that's why a logistics service should be highly customized. And the person who sells this kind of service has to be highly professional and educated in the area and has to control the whole process.

To make a clear picture how the sales can be increased I have used butterfly strategy in my work as a sales and marketing person, trying to attract various customers with diverse requests to learn how the process of producing not standard or new for our company services is going.

The sales strategy for the case company is to reach maximum efficiency of incoming inquiries by negotiating individual terms for each customer meaning price, payment terms, transit time and additional services if needed.

The weak point is that active sales are not included in the sales strategy. However if the company does not include growth orientation in the business strategy then active sales as a strong tool for growth is logically missing.

9.3 Human resource management strategy

According to Analoyi F. and Karami A. the strategic importance of functional strategies in HRM has become more widely accepted in recent years. The human resources that are available in an organization actually determine the manner in which the enterprise can implement its strategies.

Human resource strategies in SMEs can be divided into 4 parts: recruitment and selection, training and development, retention and evaluation and control.

Recruitment and selection strategy should answer the question what key people a needed and how can the firm recruit them.

Training and development strategy should explain how the business can help its employees to develop the capabilities and competences.

Retention and compensation strategy gives information how the business motivate the employees through an effective payment system.

Evaluation and control strategy is related to the question: how can the firm improve its performance through an effective evaluation and control system.

As it was mentioned in the introduction there are five people employed in the case company: managing director, a forwarder, warehouse person, sales and marketing person and a driver. All the employees are subordinated to the managing director who is running the company.

A forwarder is responsible for cargo expedition, documentation handling and coordination matters. A warehouse person is dealing with incoming and outgoing cargos, its registering and further handling. Sales and marketing person is responsible for customers' inquiries, pricing and marketing issues. A driver is realizing cargo delivery in case if the company uses own transport.

All the staff is employed on the permanent basis what gives certain positive and negative outcomes. The positive side is high motivation, focus on long term working relations and understanding that personal future depends on company's future as well. The negative side is inability to reduce fixed term costs in the form of salaries in case of sales decrease and financial troubles.

The strategic intent of the managing director in terms of HRM is to hire people who do not necessarily have relevant experience and knowledge but who are able to be integrated in the corporate culture, then to educate them from the position of company's needs. The area of search for new employees is limited by director's personal contacts. From one point of view this is the correct approach resulting in very motivated employees. However I assume that there might be more suitable people found in case the search area is enlarged.

As a small enterprise company X provides wide opportunities for personal professional development first by learning from more experienced colleagues, secondly by personnel interchangeability which means that being in a certain position an employee shall know other employees work and replace it for a short period of vacations or sick leave if needed and thirdly by general manager openness towards initiative for improvements or new business direction opportunities.

The HRM strategy the case company can be formulated so:

To hire culturally appropriate employees, to provide wide opportunities for personal professional development building long-term working relations for highly motivated and highly skilled team creation.

The HRM strategy doesn't contain performance appraisal and evaluation issues as well as compensation based on personal performance; and actually there is no performance appraisal and evaluation system which reduces employees' motivation reached by other HRM tools. The employees' compensation based on personal performance is applicable to sales and marketing person only. Besides that the chosen HRM strategy makes it hard to react on changing business environment by HR capabilities reduction. These are weak points that the company is recommended to work with. The strong side is that such strategy allows to develop high customer service and to support high quality of services.

9.4 Logistic strategy

Logistics strategy deals with the flow of products into and out of the manufacturing process. Three trends related to this strategy are evident: centralization, outsourcing and the use of the internet. (T.L. Wheelen, J.D. Hunger 2012, p.270)

Centralization means keeping logistics function inside a company. Outsourcing implies transferring logistics function to a specialist in this field outside company. Many companies are using Internet to simplify the logistics by creating online systems for their partners such as retailers and suppliers.

Logistic outsourcing is the business field for the case company. Choosing this option many companies find that it reduces costs and improves delivery time.

For the case company logistic strategy mainly answers the question: when do we choose this or those transportation supplier and when to use own transport.

So the logistic strategy for company X consists of two parts:

- to use own transport (minibuses) in case of cross-border deliveries for private customers within affordable free of duty customs limits or in case of transportation within EU
- to use borrowed transport for mixed cargo shipments and single cargo deliveries when a truck is required both towards company's warehouse and outwards it

9.5 Financial strategy

Financial strategy includes such issues as financial sources, managing costs structure, loans need, planned investments, cash flow, taxation affect on price policy etc.

According to Wheelen T. L. and Hunger J. D. any SMEs especially family-owned try to avoid all external sources of funds to keep control over the company.

The owner who is at the same time a managing director of the case company also has made a choice in favor of own funds instead of outside financing from bank sector, governmental institutions or private creditors.

This is the only thing that I could state about financial strategy of company X since I have no other available information.

9.6 Accounting and Information technology strategies

The strategic choice for serving areas such as accounting and information technology is done in favor of outsourcing. There is an outside company Bisoft serving firm's software that allows to register cargos and handle all the required operations with cargos. The contract signed between company X and accounting organization, so they are fully responsible for accounting issues. If some failure occurs in hardware work then a freelance technician is invited. The outsourcing accounting company was changed recently due to high tariffs. So the strategy for serving areas is to outsource at the minimum price.

10 Conclusion

The initially set goals of the thesis were connected with learning of theoretical issues concerning strategic management in small sized companies, environmental scanning for the case company, formulation of business strategy and functional strategies and defining the alignment of functional strategies with the business strategy.

The outcomes of this research are:

- Some interesting facts about strategic management in small firms are found that also relevant for the case company.
- Internal and external environmental scanning was carried out following the proposal in the beginning methodology of the research. An additional method of SFAS matrix that was not declared in the introduction was applied as well.
- Case company's business strategy is formulated in writing on the paper. Strong and weak sides of the strategy are briefly discussed.
- Functional strategies concerning the main company's functional areas are formulated.
- Consistency of business strategy with company's environmental issues is defined as well as functional strategies alignment with the business strategy.

The study result showed that the business strategy and functional strategies take place though they were not formulated in writing by the company's management. The business strategy is aligned with most existing environmental issues except growth aspect. Functional strategies mostly follow the main stream of the business strategy. However HRM strategy shall be changed to meet external environment requirement of flexibility or another way around the business strategy might be changed towards growth, in this case the current HRM strategy would be suitable and aligned with the business strategy.

The research question of the study was about the best strategic choice for company X based on internal and external organizational analysis. As a result of the research I propose that the optimal strategy would contain growth orientation besides those components that it has now.

Solutions for case company weaknesses elimination might be found in development of policies, programs, procedures, performance evaluation and control. All these areas can become a subject for future research.

I hope that the results of my study will find application in the case company for the purpose of its future development.

11 Figures

Figure 1. Basic activities of strategic management, p. 9

Figure 2. Concentration strategy options p. 10

Figure 3. BCG Growth-Share Matrix p.15

Figure 4. SWOT analysis for company X p.22

Figure 5. SFAS Matrix for company X p. 27

12 List of references

Analoui, F. & Karami, A. 2003. Strategic management in small and medium enterprises. London: Thomson.

Anderson, Alistair R; Atkins, Martin H, 2001. Business strategies for entrepreneurial small firms. Strategic change 10, pp. 311-324.

Coulter, M. 2010. Strategic management in action. New Jersey: Pearson

Frow, P., Payne, A., and McDonald, M. 2011. Marketing Plans for Services : A Complete Guide (3rd Edition). Hoboken, NJ: John Wiley & Sons

IRU – The TIR Carnet

http://www.iru.org/en_iru_tir_tircarnet

Accessed 08.11.2014

Mazzarol, Tim; Reboud, Sophie; Soutar, Geoffrey N, 2009. Strategic planning in growth oriented small firms. International Journal of Entrepreneurial Behaviour & Research 15.4, pp. 320-345.

Porter's five forces definition | Investopedia

<http://www.investopedia.com/terms/p/porter.asp>

Accessed 29.09.2014

Search for "4PL" | Logistics Glossary

Search for "3PL" | Logistics Glossary

Search for "2PL" | Logistics Glossary

Search for "1PL" | Logistics Glossary

<http://www.logisticsglossary.com/>

Accessed 13.11.2014

Sharma, Govinda 2011. Do SME need to strategize? Business strategy series 12.4, pp. 186–194.

Stacey, R.D. 2011. Strategic management and organizational dynamics: the challenge of complexity. Essex: Pearson

Statistikcentralen – Concepts and definitions – Small and medium sized enterprises

http://www.stat.fi/meta/kas/pienet_ja_keski_en.html

Accessed 30.09.2014

Tetteh, Emmanuel; Burn, Janice, 2001. Global strategies for SME-business: applying the SMALL framework. Logistics Information Management 14.1/2, pp. 171-180.

Transports Friend - International Customs Documentation

<http://www.transportsfriend.org/int/docs.html>

Accessed 08.11.2014

Tulli – Web ARES

http://www.tulli.fi/en/businesses/eServices/web_arex/index.jsp

Accessed 08.11.2014

Waters D. 2009 Supply Chain Management An Introduction to Logistics Palgrave Macmillan

What is CMR? Definition and meaning

<http://www.businessdictionary.com/definition/CMR.html>

Accessed 08.11.2014

Wheelen, T. L. & Hunger, J. D. 2012. Concepts in strategic management and business policy toward global sustainability. New Jersey: Pearson