

Internationalization: Entering the Russian Market

Case: Company X

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ABSTRACT

In a rapidly globalizing world, internationalization has become a vital aspect in the business world. As companies seek growth, they look to foreign markets. The rapid development of technology in recent decades has revolutionized the global market, enabling businesses to expand with ease. International markets provide endless opportunities, but thorough market research of the target market is crucial to conduct, in order to complete a successful entry to the foreign market.

The thesis was commissioned by a case company. The objective was to conduct a comprehensive internationalization review, combined with a target country and industry analysis. Based on the findings, conclusions and suggestions in regards to their internationalization aspirations were presented to the case company.

Qualitative research was the research method used in the thesis. The primary sources for data collection were studying and analysing books, reports, journals, articles, and such official data sources. The theoretical part of the study examined internationalization as a concept, and the different entry modes available when considering going international. In addition to this the country analysis methodology, that was later used in the empirical part, were presented. The empirical part formed around the foreign target market research, as well as analysing the target industry. The purpose of conducting the study was to offer the case company insights for their plans to expand to the target market Russia.

The main findings of the empirical part show that Russia and the case company's senior care target industry offer potentially great opportunities for the company. There are, however, potential risks, which are outlined. Based on the large and growing senior population, government reforms, and growing middle-income class, opportunities are present in the target industry. Based on the theoretical part, suggestions were made on how and why the company should enter the target market.

Key words: entry mode, internationalization, Russia, senior care industry

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TIIVISTELMÄ

Nopeasti globalisoituvassa maailmassa kansainvälistymisestä on tullut yksi olennaisimmista käsitteistä bisnesmaailmassa. Teknologian nopea kehittyminen on mullistanut maailman markkinat, mahdollistaen ja tehden yritysten kansainvälisen laajentumisen helpoksi. Yritykset etsivät kasvua ulkomaisilta markkinoilta, jotka tarjoavat loputtomia mahdollisuuksia. Perusteellinen markkinatutkimus kohdemarkkinasta on kuitenkin tärkeä suorittaa, jotta onnistunut etabloituminen ulkomaisille markkinoille on mahdollinen.

Tämä opinnäytetyö suoritettiin toimeksiantona yritykselle. Työn tavoitteena oli suorittaa kokonaisvaltainen kansainvälistymiseen liittyvä katsaus yhdistettynä kohdemaaj- ja toimiala-analyysiin. Tutkimuksen löydösten perusteella työn toimeksiantajalle esitettiin johtopäätökset ja ehdotukset heidän kansainvälistymisprosessiinsa liittyen.

Opinnäytetyö suoritettiin kvalitatiivisena tutkimuksena ja aineistoa kerättiin laajasti erilaisista lähteistä; kirjoista, raporteista, tutkimuksista, artikkeleista, sekä vastaavista virallisista lähdekohteista. Työn teoreettinen viitekehys tarkastelee yrityksen kansainvälistymistä konseptina, sekä kansainvälistymisen eri etabloitusstrategioita. Toimeksiantajan kohdemarkkina-analyysi ja kohdetoimiala tutkimus esitetään työn empiirisessä osiossa. Työn kokonaisvaltaisena tavoitteena oli auttaa toimeksiantajaa muodostamaan kokonaisvaltainen käsitys kansainvälistymisestä ja heidän kohdemarkkinastaan Venäjältä.

Työn päälöydökset osoittavat, että Venäjä kohdemaana, sekä toimeksiantajayrityksen vanhustenhoitoon liittyvä kohdetoimiala tarjoavat mahdollisuuksia, mutta myös potentiaalisia riskejä. Suuren ja jatkuvasti kasvavan ikääntyvän väestön, hallituksen esittämien uudistusten, sekä kasvavan keskituloluokan vuoksi kohdetoimiala voidaan nähdä potentiaalisena kohteena. Teoreettisen viitekehysten löydösten perusteella pystyttiin esittämään ehdotuksia siitä, miten yrityksen kannattaisi kohdemaahan etabloitua.

Asiasanat: kansainvälistyminen, kansainvälistymisstrategia, vanhustenhoito toimiala, Venäjä

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1 INTRODUCTION

1.1 Background and objectives

Internationalization, as a concept, has become a vital term in the rapidly globalizing world. There are various reasons for organizations to expand their processes internationally, the main reason commonly being the seek for growth (Kotler 2012, 584). In order for an expanding company to achieve a positive outcome when entering the international market, a thorough market research of the target market, and an assessment of the internationalization processes and the target territory should be conducted in advance (Hollensen 2012). According to one of the most cited international business theories, Uppsala model, companies seeking to expand their operations from domestic markets to a foreign market commonly first expand to geographically close countries (Kontinen & Ojala 2012, according to Johanson & Vahlne 1977). For Finnish companies, its vast neighbouring country Russian Federation provides significant growth opportunities. This study is conducted for a Finnish case company's purposes, that is looking to expand its processes to Russia. Based on these factors, the internationalization as a concept combined with a thorough market research is conducted, aiming to help the case company in its future internationalization process.

The study was commissioned by a case company, which as a request from the CEO of the company, will from now on be referred to as case company X. The Finnish based case company manufactures and designs high-quality senior care equipment, goods, and services, for the elderly or disabled living at home, institution, care home, or nursing home. The case company's senior goods and services are designed and manufactured to meet the various needs of elderly people, making their, as well as their professional and unprofessional caregiver's, everyday life easier, safer, and more comfortable. The company is looking to expand its operations abroad, Russia being set as the company's target market.

The objective of the thesis is to conduct a case study, in which a target

market research will be completed, potential and possibilities of the target market will be examined, and internationalization as a concept will be examined. The objective is to gain understanding on internationalization as a concept, by providing the reader with a pragmatic internationalization package. The internationalization package introduces the different market entry strategies and defines the most important issues a company should consider when planning on going international. In addition to this, a thorough market research of the case company's target market Russia will be conducted. The market research covers a PESTEL analysis of the target country Russia, as well as a SWOT analysis of the target industry. By studying and researching the target market's situation and the industry's possibilities and potential, the paper aims to provide the case company with vital information considering the target country and its market situation.

Briefly, the main objective of the thesis is to conduct a thorough, overall market research of the target country and market, and a paper that answers the basic questions of internationalization. In order to understand why these subjects are worth studying, it should be highlighted that the study is conducted for the case company's purposes. The paper aims to answer the basic questions of internationalization and examines the target market's situation, in order to help the case company in its future process of executing its internationalization plans.

1.2 Research questions

As stated in the previous chapter, the thesis aims to provide case company X with an overall internationalization package with all the vital information needed to complete a successful market entry to the target country Russia. In order to provide the case company with all the relevant and required information, the objective is to gain an answer to the basic but important key research question: what to expect when entering the foreign target market Russia? In order to conduct a thorough study and gain an answer to the key question, the following sub-questions will be

researched:

- What is internationalization?
- What are the different internationalization entry modes?
- What is the target market Russia like?
- What is the target market segment like?

1.3 Research methods

The primary purpose of research is the quest for information, “investigating something in a systematic manner” (Merriam 2014, 3). When conducting any kind of research, it is vital to choose a study design that corresponds with the study question. Selecting the right research methodology that is the most suitable one to answer certain questions can be challenging.

The two dominant research methods today are qualitative and quantitative research designs. The goal of a qualitative research is to gain understanding and to explain the phenomenon with words and pictures (Merriam 2014, 15), whereas quantitative methods approach the research mainly by explaining and analysing the collected factual numbers and statistics (Hogan 2009). Though quantitative methods are measurable based on numeric and can be propagated by other researchers - and can therefore be often seen as more reliable - qualitative research methods can be more sense making and give a better understanding of the study subject (Pathak, Jena & Kalra 2013). The main differences between qualitative and quantitative research methods are their analytical objectives, the types of data collection, and the types of questions posed (Qualitative Research Methods Overview 2016).

As Hogan (2009) states, qualitative research is mainly direct observation of case studies, experiences, introspection, and an examination of relevant texts, documents, interviews, and such sources, rather than trying to transform verbal symbols into numerical ones like in quantitative approaches. Qualitative research approaches deal with basic generalisation and interpretation of the certain matter; analysing and

understanding the meaning of the collected information rather than numbers. (Hogan 2009.) A good qualitative study helps the reader to generate understanding: understand an otherwise confusing situation (Golafshani 2003). Qualitative research method was seen as the most suitable method for this case study, and therefore the one being used in the thesis.

There are different qualitative data collection methods that exist. There are interview-based and non-interview-based approaches: interviews, observation, and studying and analysing documents. Studying documents refers to studying and analyzing data such as memos, case records, personal documents, videos, case studies, manuals, handbooks, files and other official documents. Once data collection is completed, the researcher has a journal of observations, transcription of interviews and multiple official documents and data to work with. (Farber 2006). Studying and collecting official documents and data, and the use of official documentary sources are the primary sources of data used in the thesis. The primary sources for collection methods are books, journals, reports, articles, and such official data sources.

1.4 Research limitations

This qualitative study will be conducted to be a vital source for the case company in its internationalization process. It is set to answer the basic questions of internationalization: what to expect when entering a foreign target market and what to take into consideration. However, only the most relevant strategies and findings of the target market will be discussed and examined in the thesis. The empirical part's research is external, this means it does not take into account the potential customers or competitors. In addition to this, the author will not have access to, for instance, production costs and profit margins, therefore, predicting profitability in the target market will not be examined in the thesis.

1.5 Structure of thesis

The thesis consists of two parts, - theoretical and empirical. The theoretical part explains internationalization as a concept, aiming to draw an overall picture of internationalization, motives behind it, and factors affecting the internationalization decision. In addition to this, the theoretical part presents the different international entry strategies and modes, as well as the analysing tools PESTEL and SWOT used in the thesis. The empirical part forms around the foreign market research findings. The detailed research findings of the Russian country analysis are presented through a PESTEL method tool in Chapter five. In addition to this, the Russian business environment will be examined in the same chapter. Following this, a target segment research of the senior care market in Russia will be examined and then presented through a SWOT analysis in Chapter six. The last chapter of the thesis consists of the conclusions of the study. The findings are presented from the author's view, and suggestions for future research and for case company X are discussed.

2 INTERNATIONALIZATION

In today's constantly globalizing world, the term internationalization has become a vital concept. From national to local firms and from SME's to huge international enterprises, the business environment across the world is being affected by globalization (Cherunilam 2009, 1).

The main reason behind the rapid globalization in the last couple of decades, is the improvement of technology. The constant development of technology enables more efficient transportation, communication, and financial flows. (Geetanjali 2010; Kotler 2012.) From 1990 to 2011, the number of multinational companies around the world has more than doubled (Kotler 2012, 574).

When a company is planning on going international, terms such as internationalization, marketing, and international marketing are vital, and therefore shall be defined. According to Hollensen (2012, 10), the term internationalization refers to "...doing business in many countries of the world, but often limited to a certain region (e.g. Europe)." Marketing, as a concept, according to Geetanjali (2010, 12), is to systematically sell goods while striving to make a profit. Albaum (2008, 11), describes international marketing as marketing of goods, services, and information across political boundaries. Basic marketing elements are thus being conducted as in domestic marketing, but in more than just one country. Different markets, however, require different strategies, and therefore the marketing strategies used in a domestic market, may not be efficient in the foreign market (Geetanjali 2010, 10).

2.1 To internationalize or not?

When companies decide to expand their business operations, there are several issues to take into consideration before deciding on the market entry strategy. Whether to internationalize, which markets to enter, how the entering should be done and what the proper entry mode could be, what the marketing programs and organizations should be, short – and

long-term, and for example the desired foreign sales volume, as well as implementing the internationalization, are just a few examples of the issues to be considered (Kotler 2012, 576). These stages mentioned in the previous sentence and in the same order, are also the most common stages most SMEs go through when they go international (Hollensen 2014).

When expanding to a new territory, a detailed research and assessment of the target area should be done in order to tailor a successful entry plan. It is vital to be aware of the new market area's culture, business etiquette, available market channels, demand, needs, corruption, rules, customs, and laws (Albaum 2008, 11). International trade systems (e.g. The World Trade Organization, regional free trade zones), economic, political, and legal factors, as well as cultural conditions affect the choice of the marketing strategy plan used in a foreign market (Geetanjali 2010, 10). The internationalization process should be thoroughly planned in advance in order to achieve a positive outcome (Hollensen 2012).

The motive behind the international expansion is usually the desire for profit and growth, and the general growth opportunities the foreign markets can provide (Kotler 2012, 584). Host government's incentives, new markets, increase in the company's competitiveness, and new product ideas and innovations can be other reasons for internationalization (Hollensen 2012; Internationalization of Service Firms 2007).

2.2 Factors affecting the decision

There are several factors that affect a company's decision of the entry strategy. Factors to be considered vary with the market, market situation, and the company in question. The amount of risk the company is willing to take, the desired amount of control and flexibility, and, for instance, transportation and marketing costs, are just some examples of the factors that should be considered. The most suitable and appropriate method will depend on the business itself, its products, profit goals, a detailed

marketing environment analysis and the firm's marketing plan. (Hollensen 2012.)

Hollensen (2012, 222) argues that there are four main factors affecting the decision of the entry mode. These are *internal factors* (e.g. firm size, international experience, product differentiation advantage), *external factors* (e.g. trade barriers, market growth and competition), *desired mode characteristics* (e.g. control, risk, goals), and *transaction-specific factors* (e.g. tacit know-how).

When planning on expanding abroad, the target market's macro environmental factors have to be carefully identified. These factors consist of, for instance, political, legal, and economical environment in home country, host country, and the general international environment. Political environment factors that should be taken into consideration, consist of, for example, restrictions, tariffs, trade barriers, government stability, foreign investment attitudes of the host country, and the host country's relationships with other countries. Population characteristics, incomes, wealth, economic development stage, and measures, such as GNP and GDP, are just some examples of economic environment determinants (Hollensen 2012, 144). In-depth examining of these factors can help to evaluate potential sales and profits of the target market (Geetanjali 2010, 10).

When the target market has been determined and the necessary research has been done, the question is, which entry strategy is the best and most appropriate one to choose. There are several ways for companies to enter a foreign market. It is crucial to understand there is not one specific entry mode available that works for all international markets. One company might adopt a different strategy in a different market and different companies might choose different strategies in the same market and same territory. One business may decide direct exporting is the most appropriate strategy in one market, when in another market, they would choose setting up a joint venture. (Hollensen 2012.)

2.3 Finnish organizations supporting internationalization

There are several organizations in Finland that support Finnish companies in their internationalization processes helping the businesses to succeed in the foreign markets. These organizations offer different kind of services, such as funding, market research, loans, market access programs, and such support. The organizations are briefly presented below, aiming to provide the reader with brief information on available help and support for Finnish companies looking to expand internationally.

Finnish-Russian Chamber of Commerce (FRCC), Finnvera, Finnfund, Tekes, and Finpro can be mentioned as examples of influential organizations that can help Finnish businesses that are planning on expanding their operations to Russia. FRCC is a non-profit organization, that aims to promote the economic relations in Russia and Finland by offering services, such as market research, consultation, information, and export promotion (SVKK 2017). Finnvera is a state owned, official Export Credit Agency of Finland. Finnvera's broad range of services help the Finnish companies with loans, guarantees, and export guarantees for export financing and against credit losses, sharing the risks with exporters and banks. (Finnvera 2017.) Tekes is a publicly funded Finnish funding agency organization for innovation, research, and development, that provides funding for start-up companies, internationalizing SMEs, as well as research projects of mid cap -and large enterprises (Tekes 2017b). Finnfund, owned by the State of Finland (93.4%), Finnvera (6.5%), and Confederation of Finnish Industries (0.1%), provides long-term risk capital financing for projects in Russia and developing countries (Finnfund 2017). Finpro is a public Finnish organization that help Finnish SMEs go international, consisting of Export Finland, Visit Finland, and Invest in Finland (Finpro 2017).

3 ENTRY MODES

3.1 Groupings

Based on several sources (Hollensen 2012, Kotler 2012, Geetanjali 2010), there are different opinions on how the main entry modes are divided. The different entry modes, no matter how they are divided, all vary in terms of the wanted degree of resource commitment, risk, profit, and control. The desired level of these factors all depend on the company's internal factors, country-specific factors, as well as factors related to the industry the company is in. (Pan & Tse 2000.)

According to Kotler (2012), and Geetanjali (2010), the key approaches for entry modes are exporting, joint venturing, and direct investment, and the different subcategories of these options. Hollensen (2012), divides the main entry modes into three different groups: *export modes*, *intermediate modes* and *hierarchical modes*. These modes are later divided into subcategories. Hollensen's main entry modes and the subcategories of these modes will be the ones examined in this thesis.

3.2 Three broad groupings: export, intermediate, hierarchical

Export modes in general include high flexibility, low risk and less control (Kotler 2014; Hollensen 2012). Major types of exporting are indirect export, direct export and cooperative export (Hollensen 2012).

According to Hollensen, *intermediate entry modes* are "somewhere between using export modes (external partners) and hierarchical modes (internal modes)". Intermediate modes typically include shared control and risk, and split ownership. Intermediate modes can be divided into contract manufacturing, licensing, franchising, joint ventures and management contracting. (Hollensen 2012.)

Hierarchical entry mode in general includes high risk, high control and low flexibility and it is divided into five different modes. Modes include

domestic-based sales representative, foreign sales, branch sales and production subsidiary, region centres, acquisition, transnational organization, and wholly owned subsidiaries. (Hollensen 2012.)

Figure 1 demonstrates the main entry mode categories and subcategories. Entry modes will be examined in more detail in the following chapters.

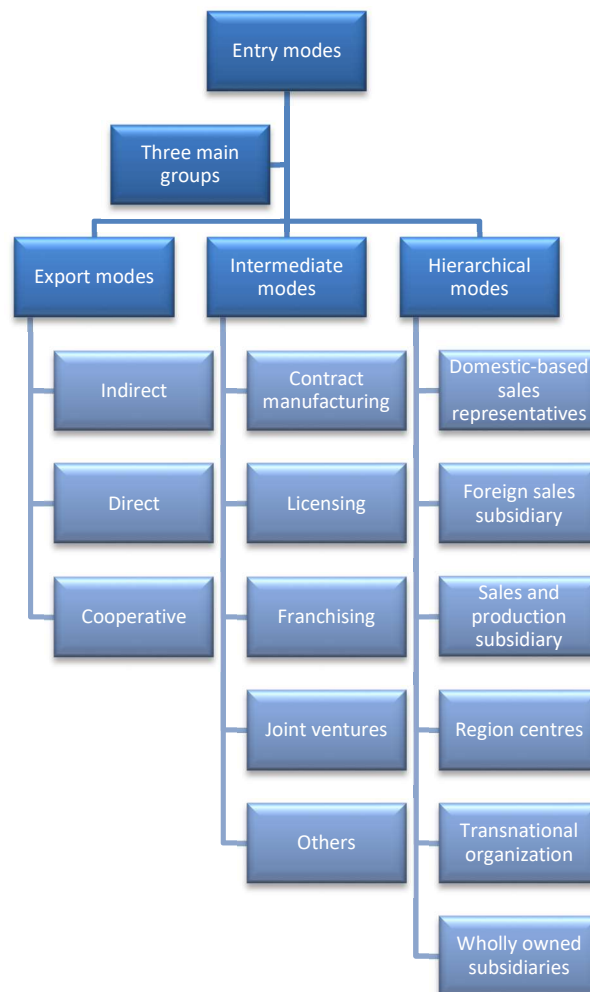


Figure 1 Entry modes (Hollensen 2012)

3.3 Export modes

Exporting, according to Albaum (Albaum & Duer 2008, 10), is the most common way for both SME's and large enterprises to expand their businesses abroad. Kotler (2014, 585) highlights the simplicity of exporting.

In exporting, the expanding company keeps its manufacturing in its home or local market, but the sales activities, distribution, or marketing are managed in the export market. This is commonly done by an intermediate organization, such as an agent, distributor or an importer. Therefore, from the manufacturer's point of view, there is a limited need for knowledge of the foreign market, risks are lower compared to other options, costs are lower and it is quite flexible. (Hollensen 2008.) Even though the risks and costs of the internationalization are shared in export modes, there is a risk of an unbalanced relationship (Hollensen 2012, 268).

When finalizing exporting channels, decisions of internally managed functions and the use of external agents has to be determined. As Hollensen (2012, 233) states, indirect, direct, and cooperative export are the three major export marketing groups.



Figure 2 Export marketing groups (Hollensen 2012, 233)

The export marketing groups are divided into three main categories, as demonstrated in Figure 2 above.

3.3.1 Indirect export

In indirect export the manufacturing firm does not take direct care of exporting and is not usually involved in its product's foreign sales. The manufacturer chooses an independent export organization usually located in the target country, who then performs and takes care of the exporting activities carrying the products or services abroad. (Hollensen 2012, 235.)

According to Hollensen (2012, 236), the main categories of indirect exporting are as seen in Figure 3 below.



Figure 3 The five main categories of indirect exporting (Hollensen 2012, 236)

Indirect exporting includes many risks. By using an agent or an export management company to carry the products abroad, there is a lack of contact between the manufacturer and the market. There, for instance, is no control over marketing mix elements, other than the product itself. Therefore, the reputation of the product can be damaged due to several reasons, for instance, poor service, poor sales support, under - or over pricing or bad marketing. (Hollensen 2012, 236.)

The use of indirect export modes can be suitable when the firm's international sales are viewed as marginal, or for example, when a company's internationalization objectives and devotion are limited. This could be the case, for example, when a business wants to internationalize gradually and therefore test the markets with, for instance, surplus production. Testing the market with indirect export mode includes minimal risks and costs (Kotler 2014, 586), but does not however allow the company to develop contacts in the target country, since another independent organization carries the products abroad. Therefore, in case of expanding the sales, the manufacturing firm has very limited information of the potential of the country and an efficient expansion plan can be hard to design. (Hollensen 2012, 235.)

Export buying agent

Export buying agent, or export commission house, acts as a representative of a foreign buyer. The export buying agent or the commission house is responsible for, for example, identifying potential sellers, bids, and determining the terms and price of the purchase with the foreign buyer. The buyer pays the export buying agent a commission. (Hollensen 2012.)

The use of an export buying agent when making foreign sales can be seen as a simple, risk-free option. Export commission house takes care of the marketing, selling, physical movements of the products, and determining the terms with the buyer, and therefore, the manufacturer just has to fulfil the order as required. The negative part of this indirect export mode is, that the manufacturer does not gain an understanding of the foreign market, and hardly has any control over its marketing mix elements. (Hollensen 2012, 236). This can make long-term success and expanding plans challenging.

Broker

A broker's objective is to help businesses to link the product or service with the foreign buyer (Geetanjali 2010, 173). A broker therefore acts as an agent for the seller or the buyer, and receives a commission once the contractual function has been performed and the buyer and the seller have been brought together (Hollensen 2012, 236).

Export management company

Export management company (EMCs) is an independent company, that acts as an export department for the manufacturer, in between the seller and the buyer (Hollensen 2012, 237). The EMC represents the manufacturer's company, and offers services such as contract negotiations, necessary documentation, market research, handling logistics in the target country, and legal trade advice. The EMC, however, is not responsible for what happens after the transaction. The foreign buyer's payment of the good is, for example, at the manufacturer's own risk. (Geetanjali 2010, 173.)

EMCs have the knowledge of the local market situation, potential of the market, and for instance the prevalent practices and regulations. Using an EMC can therefore open more doors and lower the costs of expanding sales abroad, compared to what the costs would be if done on manufacturer's own resources. Selecting of the EMC should be performed carefully, since there are risks included when choosing the wrong type of EMC (Geetanjali 2010, 173; Hollensen 2012, 237). According to Hollensen (2012, 237), the EMCs may carry and promote competitive products, may carry too many products (lack of attention and effort on some products), commission may lead for aiming for quick profits instead of long term success, or the EMCs specialization area (e.g. product or customer type) is not the best for the manufacturer.

Export trading company

Export trading companies, ETCs, offer services such as general deal making, shipping, warehousing, financing, regional developing, and many more (Hollensen 2012, 238). The agent working in between the seller and the buyer, purchases the goods from the manufacturer, and as a trading company, finds a buyer for the product. The manufacturer therefore receives the compensation of the product when the trading company buys it, which makes the risks related to the use of an ETC as an indirect exporter fairly low. (Geetanjali 2010, 173.)

Piggyback

In piggyback exporting, an independent company – the 'carrier' that already has international distribution operations, experience and systems in foreign markets, acts on behalf of the SME that is looking to export to these new markets (Geetanjali 2010).

The carrier can act as an agent between the buyer and the seller with a commission, or act as a distributor by purchasing the goods from the manufacturer and subsequently sells them forward. In some rare cases, the carrier can put its own labels on the product after purchasing them from the manufacturer. (Hollensen 2012.)

Piggybacking allows the SME to start exporting without establishing and investing on its own distribution systems. This type of indirect exporting is not considered risky from the manufacturer's point of view, even though it commonly does include the loss of control over the product and lack of contact with the market. (Hollensen 2012, 239.)

3.3.2 Direct export modes

According to Hollensen, direct export happens, when "a manufacturer sells directly to an importer, agent or distributor located in the foreign target market" (Hollensen 2012, 239).

Direct export can be seen as an option, when the exporter wants to handle their own exporting functions. The sales profit possibilities grow when choosing direct exporting instead of indirect exporting. Direct exporting also allows the manufacturer's global know-how and foreign market knowledge to grow, while allowing a greater control over its marketing mix elements and processes, in addition to closer contact to the market in general. (Hollensen 2012; Geetanjali 2010.)

Direct export does, however, require more resources, time, and personnel, than indirect options do. Foreign market research, creating contacts, price and promotion strategies, handling international export documentation and shipping are just a few examples of the tasks that the manufacturer would have to undertake. (Geetanjali 2010, 178.)

Manufacturers can conduct direct export directly to an importer, or through an agent or a distributor. Whichever the chosen intermediary is, it is crucial to design a detailed contract with the intermediary, and measure and evaluate the intermediary's performances once the contract is in action (Hollensen 2012).

Agents

An agent acts as the exporting company's representor, selling its products to the importing country's wholesalers and retailers. An agent rarely stocks

or touches the product, since the exporter handles the marketing mix elements. The agent is familiar with the local market and can therefore boost the exporter's sales in a foreign market. An agent receives a commission from the manufacturer for its services. (Hollensen 2012, 240.)

Distributors

According to Hollensen, a distributor as a direct export option is a broad concept consisting of several options. Generally, an independent distributor stocks the manufacturer's goods and choose their customers. Many distributors have their own warehouses, and wholesale or retail facilities. Distributors get, instead of a commission, the profits from the difference of the selling price and the buying price from the manufacturer. (Hollensen 2012.)

3.3.3 Cooperative export

Cooperative export commonly refers to export marketing groups. Group marketing is common among SMEs entering a foreign market for the first time (Hollensen 2012).

A furniture manufacturer can be used as an example of the use of an export marketing group. Different, independent furniture manufacturers want to export different product lines. They decide to export in cooperation, since together their product range is wider and therefore, attracts larger buyers. (Hollensen 2012, 244.)

3.4 Intermediate modes

Intermediate modes are similar to export -and hierarchical modes. Export modes use external partners, while hierarchical modes can be described as internal modes. Intermediate modes are somewhere between these two.

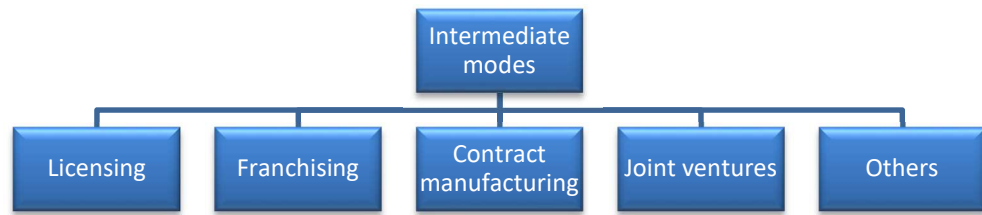


Figure 4 Intermediate modes (Hollensen 2012)

Intermediate modes, according to Hollansen (2012), can be divided into five sub-categories, as shown in Figure 4 above. These intermediate sub-category modes are described in detail below.

Contract manufacturing

In contract manufacturing, the manufacturing has been outsourced into the export country. As Geetanjali (2010, 212) states, contract manufacturing deletes the import, tariff, and shipping expenses, eliminates delays in production, and adds speed to market in general. The production is being conducted by an external partner, but the firm still has a control over all the other processes, such as marketing and distribution, except for the manufacturing itself. IKEA is a well-known example of a company that relies on contract manufacturing. (Hollensen 2012.)

As a conclusion, contract manufacturing is flexible and cost-efficient offering several advantages. The main risks relate to the manufacturer: the contract has to be detailed and the manufacturer's performances have to be monitored in terms of for instance quality standards. (Hollensen 2012; Geetanjali 2010; Kotler 2014.)

Licensing

Kotler (2014, 586) highlights the simplicity of licensing from the manufacturer's point of view. For a payment, the licensor sells the right to use the company's trademark, product or process, manufacturing processes, or other valuable function or item, to the licensee. With licensing, the firm can enter the foreign market without any capital investment. The licensor commonly receives a royalty or other payments

from the licensor, while the licensor performs the agreed activities in the foreign, licensee's country. (Kotler 2014, 586; Hollensen 2012, 247.)

Coca-Cola is a well-known example of a company, that licenses bottlers internationally and provides the special syrup for the licensees (Kotler 2014, 586). It is vital to be aware that by licensing, the firm gives the licensee an access to sensitive information, that can be used later on, once the contract ends, against the licensor. This can be seen as a major disadvantage. Also, the profits from the royalties or other fees are not as high as they could be, if the firm used just its own operations. (Kotler 2014.)

Franchising

According to Hollensen (2012, 249), in franchising the franchisee pays the franchisor, for the right to use a ready-made business concept and the brand, while being part of the chain.

Franchising has seen a rapid growth in the last decades. As Kotler notes, most businesses are franchised nowadays (2014, 368). Franchising is very similar to licensing. In fact, according to Kotler, licensing is one of franchising's subcategories: a manufacturer-sponsored wholesaler franchise system, referring to Coca Cola's syrup concentrate licensing systems.

It is, however, possible to differentiate licensing from franchising. The easiest way to differentiate these two concerns the extent of the agreement. Franchising concerns the whole business concept, whilst licensing commonly refers to just one part of the business, for instance, the product itself. (Hollensen 2012, 251, according to Perkins 1987; and Young et al. 1989.)

Joint venture and strategic alliance

In joint venture and strategic alliance, a partnership is created between two or more parties. Joint venture commonly refers to equity or contractual non-equity joint venture, whereas in alliances there is usually no equity put

into it. A new, joint business, with its own identity and shared ownership between the local and foreign investors, is created in an equity joint venture. In a contractual joint venture, a new enterprise is not being formed. Instead, an association between two or more companies that share the decision making, costs, risks, and profits, is created. (Hollensen 2012, 253). In short, in joint venture, parent firms A and B (or more), form a new joint venture enterprise C. In non-equity venture, - strategic alliance -, company A and B create a partnership in between the already existing companies.

Joint ventures can be chosen in several cases. Businesses from mature economies can accelerate the speed of their entry into a foreign market by finding local partners in emerging economies, such as Russia. These partners can help with factors, such as production and distribution in the export country. New opportunities from joint venture's complementary technology or other skills can also be a reason for a joint venture (Hollensen 2012, 253). Joint ventures and alliances allow companies to, for example, share costs and risks, save money and time, obtain resources, and transfer knowledge (Benavides 2011).

3.5 Hierarchical modes

As noted before, hierarchical entry modes in general include high control, high risk, and low flexibility.

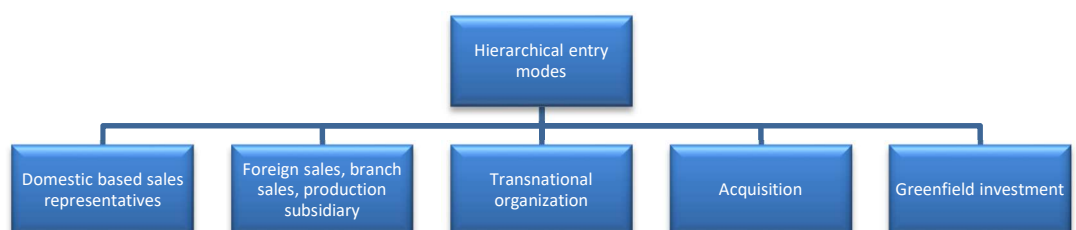


Figure 5 Five subcategories of hierarchical entry modes, according to Hollensen (2012)

Hierarchical entry modes, according to Hollensen (2012), can be divided into five subcategories, as Figure 5 above suggests. These sub-categories are presented in more detail below.

Domestic based sales representatives and e-commerce

Instead of using independent intermediaries, a company can use its home country's own employee as a sales representative, who travels to the export country to perform sales functions when required. Domestic based sales representatives allow close contact with the customer and a control over marketing mix elements. (Hollensen 2012, 259.)

Through an e-commerce channel the foreign customers can be reached via the Internet. Manufacturing and storing of the goods can happen in the exporter's home country or in the target market, but the product is offered on the market through the Internet. This can be seen as a suitable option, if, for example, a domestic based sales force is not financially viable. (Hollensen 2012, 259.)

E-commerce as an entry mode should be highlighted here. E-commerce is presented as one of hierarchical modes' sub-categories in this thesis, based on Hollensen's book from the year 2012. As mentioned earlier, hierarchical modes in general include high control, high risk, as well as low flexibility. This, however, is not the case with e-commerce in today's business world. The strengthening, importance, and international growth of the Internet, e-commerce and social media in recent years has entirely reshaped the way businesses and consumers communicate and trade. As opinions on e-commerce technology evolve with the advancements in technology, it introduces completely new aspects and avenues of different entry modes and internationalization in general, as also highlighted by Hollensen in his newest edition from 2014. (Hollensen 2014.) The Internet enables SMEs with limited resources to go international and reach and communicate with consumers around the globe, while being an efficient, low-cost and low-risk option (Awiagah 2016).

Resident sales representatives, foreign sales branch, foreign sales subsidiary

In these cases, the sales functions and performances are, instead of domestic sales forces, transferred to the export market (Hollensen 2012, 259). Sales branch refers to an extension of a company; a branch opened in the export country, that usually employs a local sales force. In this case, profit taxation happens in the manufacturer's country. Foreign sales subsidiary refers to a local company located in the export country, that is being ran by that country's laws and taxation, even though owned by a foreign enterprise (Hollensen 2012). Having the taxation in the sales subsidiary's country can be seen as a huge profit, especially if the headquarters are located in a high-taxation country and the sales subsidiary can be formed in a country where business taxation is low (Hollensen 2007, 359).

Sales and production subsidiary

Establishing a production subsidiary - a production base - in a foreign market is considered a slow process. A production base can be seen as an option, if there is a long-term market potential and demand for the company's products in the foreign market. This kind of strategy is time consuming, requires great financial investments and commitment, and is considered risky. Saving costs, gaining new business, defending existing business, and avoiding government restrictions, such as restrictions of imports and exports, can be reasons for setting up a local production subsidiary. (Hollensen 2012, 261.)

Transnational organization

Transnational organization mode is common for multinational enterprises. According to Boudreau (1998, 121), every activity of the organization is being performed where it can be best accomplished; in different, global locations. Aiming for global competitiveness and success, the multinational organization strives to integrate and cooperate its many operations in different territories across national boundaries. (Hollensen 2012, 264.)

Wholly owned subsidiaries – acquisition and greenfield investment

Wholly owned subsidiaries do not require investment in foreign-based facilities, and therefore differ from other hierarchical modes (except for domestic-based sales representatives) examined in chapter 3.7 (Hollensen 2012).

Due to, for example, a highly competitive market, entry barriers, and lack of room for a new entrant, an *acquisition* may be the right option when entering a foreign market. According to Hollensen (2012, 265), access to, or already existing distribution channels and customer bases, a prompt entry to a foreign market, and in some cases, for instance, an already existing brand name and reputation, are just some advantages of this entry mode.

Greenfield investment is a slower process than acquiring, but may be considered when acquisition options are not available or are too expensive. Building a plant from the ground up, - a greenfield investment -, can often be motivated by the host country's incentives. The chance to shape the local firm from the beginning into its own requirements, instead of changing the old, complex traditions and habits of the acquired, local firm, can also be seen as an advantage, when comparing to acquisition. (Hollensen 2012, 265.)

4 COUNTRY ANALYSIS METHODOLOGY

Chapter four, being the last theoretical chapter of the thesis, presents the country analysis methodology used later in the empirical part. The PESTEL -and SWOT analysis tools are explained below.

PESTEL, as a methodology, refers to an analysis tool that is commonly used to measure market potential. When using the PESTEL analysis tool to analyze a firm's external environment while conducting, for instance, research reports, marketing planning, or strategic developing, the six different aspects of PESTEL, - political, economic, social, technological, environmental, and legal factors -, are being analysed. The tool can be useful for, for example, measuring market potential and its opportunities and suitability, when a company has decided to expand its operations to new countries and markets. The PESTEL analyses findings provide an overall logical picture of the researched market area, assisting in the company's market entry decision making process. (Halik 2012.)

A SWOT analysis tool is one of the most known and widely taught strategic tool that can be used to analyze a company's current situation. The tool was first introduced by Harvard researchers in the 1960s. In recent decades, it has been widely criticized due to its limitations, as it provides its users with very concise and narrow viewpoints. However, the tool is still widely used for, for example, in case analysis (Novicevic 2004).

The SWOT tool is divided into four components: strengths, weaknesses, opportunities, and threats. The strengths and weaknesses focus more on the internal analysis: these components examine what the current strengths and weaknesses of the researched case are, while opportunities and threats examine the external area. The tool aims to analyze the current situation, while defining what the future challenges, opportunities, and threats could be. (Richards 2013, 239.)

5 EXTERNAL RUSSIAN MARKET ANALYSIS

Based on the theoretical background, it can be noted that a thorough market analysis should be conducted, in order to execute a successful entry to the foreign target market. The following chapters five and six consist of the empirical part of the thesis, forming around an external Russian market analysis. Chapter five presents PESTEL analysis findings of the Russian Federation, as well as an overview of the Russian business environment. Chapter six focuses on the senior care segment overview and its SWOT analysis.

In order to understand why the following Russian market research and senior care segment analysis are worth conducting, the case company shall be presented in more detail. The case company of this thesis was briefly mentioned in the first chapter of the study, and as noted, the company is looking to expand its operations from Finland to the neighboring country, Russia. The case company X provides interior design solutions for the elderly and disabled living at home, institution, or care home. The company's comprehensive services include every step from assessment to project management to manufacturing and implementation, taking into account the diverse needs of seniors and disabled citizens. The interior design services aim to provide solutions for safe and comfortable living for its senior and disabled customers. The company's assessment and implementation offer cost efficient and manufacturer independent solutions to private operators, public sector, developers, and investors. The consulting firm's simple goal is to help the aging, elderly and disabled live comfortably and safely in their day-to-day lives. Russia, as Finland's neighboring country and one of its key trade partners, provides Finnish companies with great growth opportunities, based on both geographical and demographical factors. This is one of the reasons why the case company is planning on expanding its operations to Russia, and why the research is being conducted. The case company's prior experience in the Russian market persuaded them to seek an update on the current situation and any advancements in the Russian business environment. Any new avenues on internationalization and how it is done could prove

helpful to the case company, therefore being one of the main reasons why the research was commissioned by the case company.

As noted in the introduction, the PESTEL analysis tool will be used in the thesis to conduct a thorough external research of the Russian market and its general characteristics. Chapter five aims to present an overall market analysis of the company's target market Russia. Political, economic, socio-cultural, technological, environmental, and legal factors of the Russian federation will be examined. The goal is to draw an overall picture of the Russian Federation with the six perspectives of the PESTEL analysis, in order to help the case company to make a successful entry to the target market, as well as open the conversation for further discussion, questions, and decision making.

5.1 PESTEL: political factors

Since Russian Federation's current president Putin first came to power in 2000, the country's politics and policies have seen many changes, and the country has been active on the international stage. Putin's Russia's political actions can sometimes be seen non-logical, unpredictable, and irrational, and some of the country's political decisions, domestic affairs, and foreign policies can be hard for other countries to understand. Russia's geographical location, wealth in natural resources, military capability coupled with some geopolitical tensions with other countries, as well as the fact that the country is Finland's neighbouring country and its vital trade partner, make it crucial for foreign companies, - especially Finnish firms -, to be aware of Russia's political factors: possible uncertainties and unstableness its government's political decisions may pose to the businesses. (Monaghan 2016.)

The Russian Federation is a federal presidential republic, where the political and legislative power is centralized and shared between the president and prime minister, and Federal Assembly; the upper house Council of the Federation, and the lower house State Duma. The presidential elections in Russia are held every six years (Kremlin 2017)

and parliament State Duma election of 450 deputies every five years, the latest State Duma election being held in September 2016 (OSCE 2016). With the 2018 presidential elections approaching and the potential new leadership following, - it is still unsure if Putin will run for the 4th time (TASS 2017) -, policies and the business environment are at risk of changing. Businesses operating in Russia should therefore be aware that there are unknown risks and possible changes to its current government and business policies and regulations that come with the uncertainty of the 2018 presidential elections.

In addition to the uncertainties of Russia's political atmosphere, corruption is a factor that should be taken into account when doing business in Russia. According to the Global Competitiveness Report 2014-2015 (Schwab 2014, 320) by The World Economic Forum, corruption was seen as the most problematic factor for doing business in Russia. In the 2015-2016 report, the situation had improved as corruption was seen as the third most problematic factor (Schwab 2016, 306). However, according to several sources, bureaucracy and corruption, as well as irregular payments and bribes can be continued to be seen as high level risks in all levels of government, public, and private sector, such as for example health care, social welfare, judicial system, law enforcement, commerce, and education (Schwab 2016; BTI 2016; Radziwill & Vaziakova 2015; Bureau of Democracy, Human rights, and Labor 2015, 46).

5.2 PESTEL: economic factors

Russia's economy, much like its government, can be characterized as highly volatile and unpredictable. Russia's economy is highly dependent on oil prices. With the 2008 global economy crisis and continuous deep declines in oil prices, in addition to trade wars and sanctions brought by geopolitical tensions with Europe and the U.S., Russia remained in recession in 2014 and 2015. (BOFIT 2016.) Russia is considered to be a developed country, although many of its economic parameters are

inefficient, such as labor productivity, when compared to other Western countries (Medvedev 2015).

According to BOFIT (2016), as for September 2016, low oil prices, as well as geopolitical tensions and international sanctions that closed access to capital markets caused Russia to remain in recession. However, the economic contraction compared to 2015 and 2014 was rather mild, as it was softened by the rebound in oil prices, exchange rate flexibility, banking sector capital, liquidity injections, rescue funds, as well as a weak ruble that led to a significant decline in imports. (BOFIT 2016; Schwab 2016.)

The unemployment rate in Russia has been quite steady in between 5-6 percent since 2012. By means of comparison, Finland's unemployment per cent of total labor force was 8.6. (The World Bank 2017.) Russia's low unemployment rate can be surprising when taking into account the country's economic crisis in recent years. The low numbers are only possible due to a government policy hiding the unemployment numbers and avoiding severance payments with, for example, wage reductions, unpaid wages, unpaid leaves, unwanted holidays, and shortened working weeks. (The New York Times 4/2015; Dokuchaev 2015; Bloomberg 2015.)

The following figures 6, 7, 8, and 9 demonstrate Russia's basic economic data: GDP growth per cent, inflation per cent, imports and exports to all world, and the imports and exports to and from Finland.

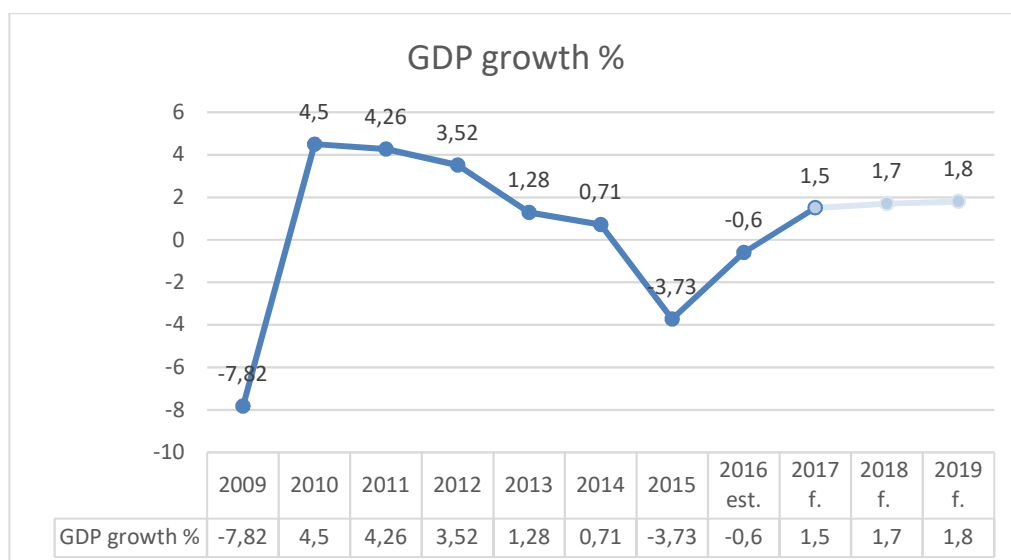


FIGURE 6 Russian Federation annual GDP growth % 2009-2015, estimated 2016, and 2017-2019 forecast. (World Bank 2017).

Russia's economy was heavily hit by the 2008 global financial crisis. When the annual GDP growth per cent in 2008 was at 5.248%, nearly identical to Finland's, in 2009 it drastically decreased to -7.281% (The World Bank 2017). However, quick government and Central Bank action steadied the rapidly decreasing economy until 2014, when oil prices plunged. In 2015 the GDP growth was first said to have shrunk down to -3.73 per cent, but Rosstat later revised the growth to -3 per cent (The World Bank 01/2017, 2). The World Bank and International Monetary Fund (IMF 2016) both forecast the GDP growth to resume in 2017. Gross national income, GNI (US \$) per capita steadily grew from 9,230 US dollars in 2009, to 14,810 US dollars in 2013. In 2014 it started decreasing, falling to 11,450 US dollars in 2015. By means of comparison, the same indicator in Finland in 2015 stood at 46,550 US dollars. (The World Bank 2017.)

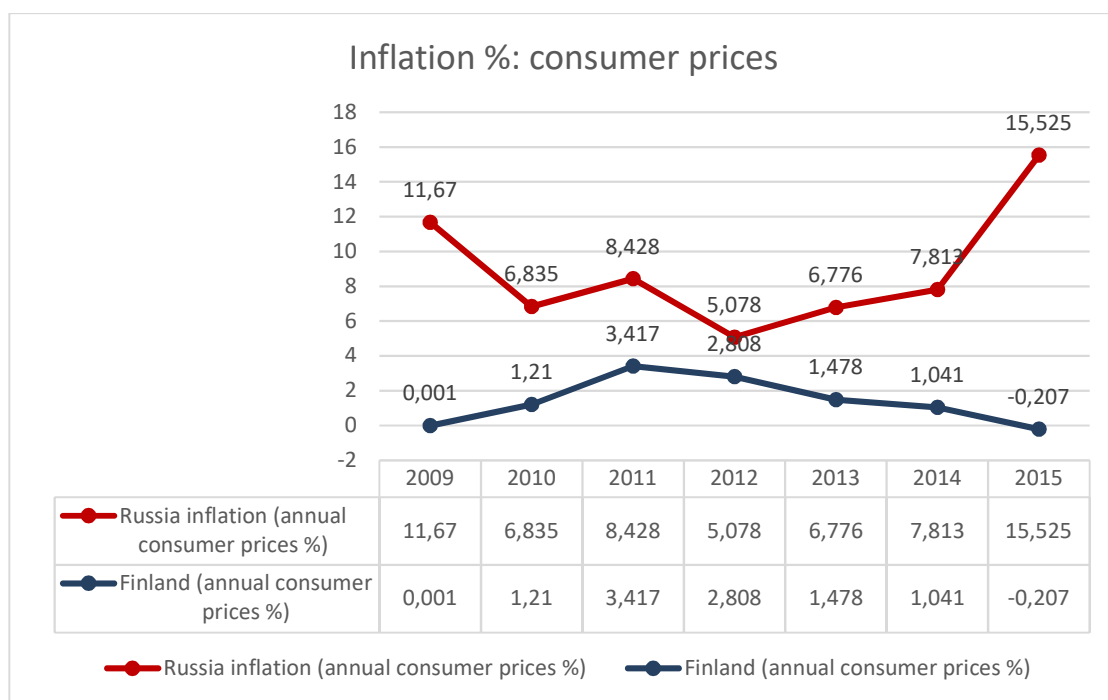


FIGURE 7 Inflation (annual consumer prices %): Russia vs. Finland 2009-2015 (World Bank 2017)

Figure 7 above presents a comparison between Russia and Finland's inflation as per annual consumer price per cent. Consumer price index, CPI, refers to inflation measured by the prices and annual percentage change of a fixed basket of domestic and foreign goods and services bought by consumers (World Bank 2017). As can be seen, Russia's inflation rate as compared to Finland's has fluctuated drastically in recent years. However, Russia's floating exchange rate helps to adapt to external shocks stabilizing the inflation (IMF Moscow 2016). The Central Bank of Russia has been trying to cut the high inflation by keeping the key rate high: 10% as of December 2016. The Bank of Russia's target is to reach 4% inflation at the end of 2017. Reaching the inflation target may however be challenging due to some domestic uncertainties and risks, such as, for example, exchange rate volatility and household saving behaviour. (CBR 12/216.) According to Dokuchaev (2016), the inflation rate and price growth in 2016 was showing signs of slowing and stabilizing. This was mainly due to the tight monetary policy of The Bank of Russia, coupled with drops in real income and therefore weakened customer purchasing power, as well as ruble's strengthening.

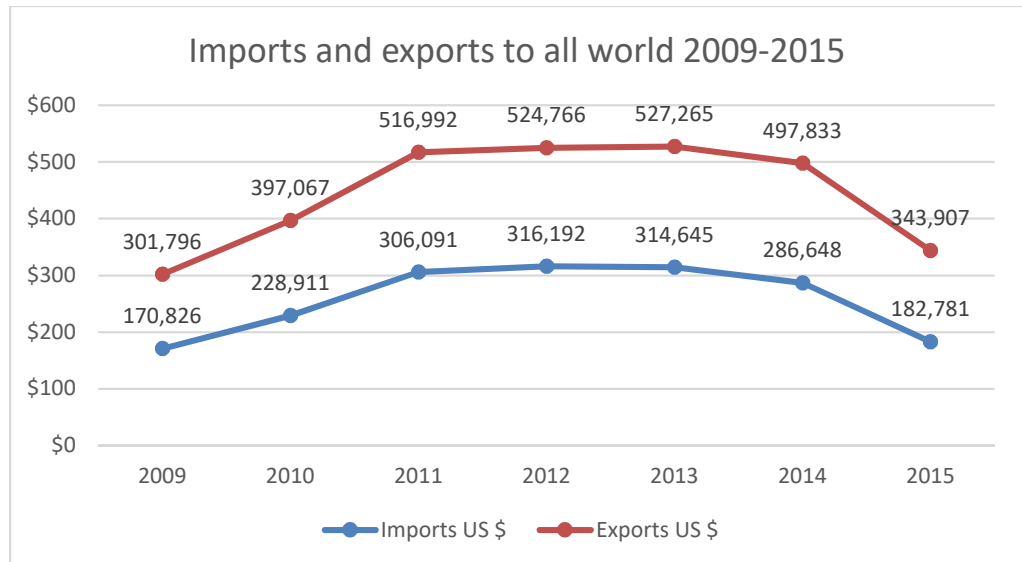


FIGURE 8 Russian Federation imports and exports in US \$ (billion) 2009-2015 to all world (WITS 2017)

Figure 8 above presents the development of Russia's imports and exports in years 2009-2015. As can be seen, the economic crisis that hit Russia heavily in 2013, shows a decline in both imports and exports. Russia's economy and GDP are highly dependent on its energy exports: oil and gas industry accounting almost 60 % of its exports. Main imports are food and ground transports, pharmaceuticals, textile and footwear, plastics, and optical instruments. (Focus Economics 2017.) In the third quarter of 2016, exports grew and imports continued to decline (World Bank 2017).

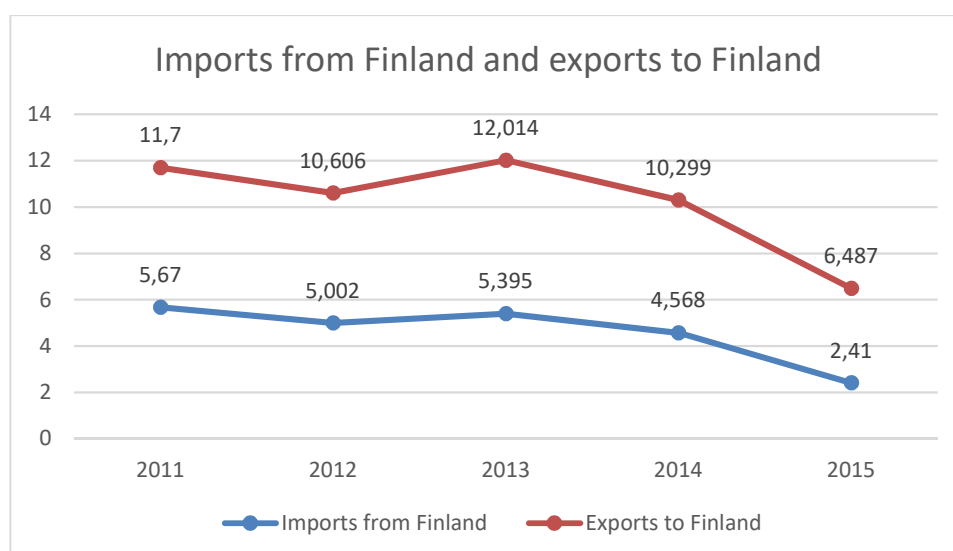


Figure 9 Russian Federation: imports from Finland and exports to Finland in years 2011-2015 in US \$ (billion) (WITS 2017)

Figure 9 above demonstrates how the trade between Russia and Finland has changed in years 2011-2015. Russia's economic issues have significantly affected the trade between Finland and Russia. According to the Bank of Finland, Russia was Finland's largest export and import trading partner until 2008. However, as of 2015, Russia is Finland's 5th largest export partner, and 3rd largest partner in imports, but the country remains as one of Finland's key trade partners. (Bank of Finland 2015). Although Finnish exports and imports to and from Russia have sharply decreased in recent years, the year 2016 showed positive signs when both imports and exports began to grow moderately (Finnish Customs 2017). In 2016, 6 % of all Finnish goods exports ended up in Russia. Finnish goods imports from Russia continued to grow in the same year. (BOFIT 9/2017.) According to the Ministry for Foreign Affairs of Finland (2016), more than 400 Finnish firms operate in Russia, and there are 11-12 billion euros of Finnish investments in the country.

According to The World Bank, as of January 2017, the financial sector in Russia has stabilized and it seems the domestic business confidence is slowly growing. However, the demand for loans is still low and asset quality is weak. Banks are performing financially better, possibly due to the cleaning of the banking sector: as of January 2017, there are 110 less

banks in Russia compared with the same month of the previous year. (World Bank 2017, 2). As the Bank of Russia had forecasted (2016), the economic activity is progressing towards recovery, the household spending is expected to grow, and business activity in services is increasing (CBR 2016). The Bank of Finland (2016) forecasts the Russian GDP will slowly recover in 2017, and due to the economic recovery, Russian exports and imports will grow. Oil prices, government finances, and imports continue to be seen as risks, according to the same source. (BOFIT 2016). In addition to these, corruption is a widespread problem in the country (BTI 2016, 29) and can affect the economic growth and development.

5.3 PESTEL: socio-cultural factors

Socio-cultural factors can be seen important when considering the senior care segment in Russia. Different demographic factors such as, for example, lifestyle changes, population growth rate and age profile, society's health and education levels, as well as for instance living standards, can all be seen closely related to the case company's senior care market segment.

Russia as the world's largest country, with a total land area of approximately 16 million square kilometers bordering several countries, and an approximate population of 144 million, can be described as a country of long borders and distances, different climates and time zones, infrastructural challenges, and living standard inequalities (World Bank 2017).

Russia suffers from major differences in population density levels with very low population density levels in some areas, as the population is concentrated in the southern and western parts of the country (Medvedev 2015, 111). Basic administrative and infrastructural services are in place in the country, although for instance corruption and the lack of modernization affect the quality of these services in many regions (BTI 2016, 7). Due to Russia's land mass and therefore geographical challenges, the country's

physical infrastructure, - referring to for example transportation networks such as rail, roads, and airports, federal facilities, and postal and telecommunication services -, is considered inefficient and poor in some parts. In 2015's Global Competitiveness Index, Russia placed 35th out of 139 countries in terms of infrastructure, the quality of overall infrastructure being on the 74th spot. Quality of roads, according to the same study, is poor ranking 123rd out of 139 countries. (Schwab 2016, 307.)

Infrastructural problems limit connectivity and therefore affects income opportunities, economic growth, labor mobility, and overall well-being negatively, especially in regions in eastern side of the country that are not close to the main trade centers. (World Bank 2016, 19.) Therefore, the author sees that it is recommended for businesses to focus on big regions, such as Saint Petersburg and Moscow, when first entering the Russian market.

The average life expectancy in 2016 was rather low at 70.9 years (World Bank 2016, 21), but the number is expected to increase (Hansl, Levin & Shaw 2015). Changes in annual population growth per cent have been very moderate in recent years. In 2015 the percentage was low at 0.193, decreasing a little from previous year (World Bank 2017). The demographics in Russia are changing, aging and decrease in the working population being the two major issues (Nelleman, Podolskiy & Levin 2015, 4).

Russian society's health levels among 50-79 year olds are affected negatively by different health conditions, diseases and depression, heavy smoking and drinking, not exercising and unhealthy eating habits, leading to shortened working lives and unproductivity (Hansl et al. 2015, 39). It is also the younger population that is affected by these factors, but the well-being and other health factors vary significantly in different regions. According to the OECD, - The Organization for Economic Co-operation and Development -, the public health spending average is 6.5 per cent of GDP. In Russia, the public health spending in 2013 was only 3.2 per cent of GDP, and the health spending funding, - as well as education funding -,

is focused more on the richer parts of Russia, such as Saint Petersburg and Moscow regions. (World Bank 2016, 24-25.)

An upcoming demographic crisis due to population aging in Russia is something that should be highlighted when examining Russia's socio-cultural factors. As of 2015, 13.4 % of the Russian population are 65 years old or older (World Bank 2017). As the approximate total population the same year was around 144 million, the number of 65-year-olds or older is around 19 million. Population aging can be seen as a global trend. Significant aging is expected to happen among Russian population over the next few decades (Hansl et al. 2015, 7; Nelleman et al. 2015). The statutory retirement age in Russia for women is 55, and for men 60 years. Therefore, the retiring people born in the 1950s, as well as declining fertility and increasing life expectancy will shrink the working age population in the near future. By 2030, the working-age population is expected to drop to by 11 million people, when compared to the year 2015 (World Bank 2016, 23). By 2050, in worst scenario, the Russian labor force is expected to shrink by 20-23 million workers (Hansl et al. 2015, 12). Population aging and declines in working-age population can commonly be seen as risks and challenges for the country's social and economic factors, as it for instance increases public expenditures (Hansl et.al 2015). The demographic crisis in the upcoming decades in Russia is therefore the decline in Russia's total population, as well as the significant increase in the share of elderly population (World Bank 9/2015, 42).

Russia is considered a growing middle-income economy (World Bank 2016, 15) with an educated workforce: from all 25-64-year-old Russians more than 50 % have a tertiary education (BTI 2015, 25; World Bank 2016, 22). However, according to Ross stat, in 2015 more than 20 million Russians were living below the poverty line, meaning their monthly income was less than \$ 140 US (The Moscow Times 2015). Equality of opportunities, - for example living standards, wages, health, and education -, vary significantly from one region to another (BTI 2016, 22). The Russian Orthodox Church has a long history in the country, influencing many of the traditional Russian values and beliefs, as well as the

government even today, while Roman Catholic Church and Islam can be mentioned as two examples of the minority religious groups (BTI 2016, 6). With free health care and education, several different types of subsidies, and a number of big state owned enterprises as well as a large public sector providing jobs, the Russian social security system has seen improvements, but some parts of it suffer from corruption and inefficiency, as well as significant inequality (World Bank 2016, 17; OECD 2014, 122).

5.4 PESTEL: technological factors

World Bank's report (2016, 15) notes that the key for a company's productivity growth is the ability to innovate and use new technologies. According to the Global Competitiveness Report, Russia's technological readiness places 62nd out of 138 countries, innovation placing 56th (Schwab 2016, 306). Russia in general performs poorly at main innovating, if its successful software exports are excluded. According to the World Bank's report, only 10 % of Russian companies reported technological activity, which is significantly less than in other OECD countries. One reason for this could be the fact that the state-owned enterprises, SOEs, block competition since they dominate most sectors and industries, and private businesses are lacking the required skills or finance for innovation and growth. (World Bank 2016, 15-17.)

Although Russia has high tertiary education rates, the Russian state education system quality has not reached the European level, excluding a few institutes in Moscow and St. Petersburg that have been performing well. The results indicate the country's education is below the OECD average, in terms of research and development, R&D. The country has also suffered from top personnel mass emigration. R&D and innovation has been mentioned to be one of the top priorities of the government, but the recent economic turmoil has affected this development in a negative way. Strategies, such as "Innovative Russia 2020", innovation technology centers, foundations, and other government expenditures and funding such as Russian Venture Company RVC government fund aiming to

attract Russian and foreign players (RVC 2017) and Foundation for Assistance to Small Innovative Enterprises FASIE, have been implemented in order to support overall innovation and therefore economic growth in Russia. These policies are mainly focused on supporting high-tech, technology innovations. (OECD 2014, 118-122; BTI 2016, 24; Tekes 2017.)

As noted in the theoretical part, digitalization and an explosively growing Internet have completely changed the traditional way of doing business. This, and the endless opportunities it provides for businesses, can be seen as a crucial technological factor that should be highlighted when conducting business in Russia. According to AKIT, the Association of Online Retail Companies, over 70 million Russians use the Internet monthly. Nearly 100 % of 16-29 year-olds, over 80 per cent of all 30-54 years-olds, and nearly 30 % of 55 year-olds or older, use Internet in Russia. The Russian online retail market turnover has been steadily growing, accounting for 920 billion rubles in 2016. A survey conducted in 2016, pointed out that 43 % of the surveyed Russian Internet users purchase in foreign online stores, and the number of users that prefer foreign retailers is increasing. Russian cross-border trade turnover in imports, a number that has significantly increased since 2013, accounted for a little over 300 billion rubles. This accounts for more than 30 per cent of the overall online market. (AKIT 2016.)

As a conclusion, it can be drawn that there is room in Russia for R&D, innovation and new technology, as well as skills and expertise, and that the government and institutions have the development of these factors high on the priority list. Institutions such as for instance RVC, FASIE, and the annual Startup Village, are implemented to encourage innovations and the economic growth in Russia. The use of Internet, online shopping, and e-commerce is a relatively new trend in Russia, compared to some other Western countries, and is rapidly growing in popularity.

5.5 PESTEL: environmental factors

With an enormous land mass, Russia is extremely wealthy in oil, gas, unique forest assets, mineral, and fresh water resources, these natural resources being a crucial driver for the country's economic growth providing almost endless opportunities. According to the World Bank's report (2016, 173), environmental challenges, such as air and water pollution, effects of global warming such as dangerous weather events, and natural resource base degradation, pose a significant risk for Russian's natural resources. Low water quality, poor agricultural practises, floods, large share of global carbon emissions due to poor energy efficiency, weather hazards, as well as inefficient use of natural resources, poor environmental management and waste, chemical exposure, pollution and overall climate changes, are major threats for the environment and sustainability in Russia. Climate change, environmental issues and sustainability have been addressed by the Russian government, but unless they show clear, financial short-term advantages or other rewards, they are rarely enough motivation for the government to take action. (World Bank 2016, 173; BTI 2016, 23.)

5.6 PESTEL: legal factors

The independence of law and the strength of the rule of law are poor in Russia (OECD 2014, 58). According to BTI's report, the Russians consider their courts biased. The judiciary suffers from state interference and corruption, and the country has the third most cases pending at the European Court of Human Rights. Since 2014, according to the Constitutional Court, the international court decisions can be overruled if they do not correspond to the constitution of Russia. (BTI 2016, 11.) Corruption is considered a major widespread problem in the country, and the third most problematic factor for doing business in Russia. Inter-firm court rulings are considered more fair than those against state agencies. (Schwab 2016; World Bank 2016; BTI 2016). In the World Economic Forum's Global Competitiveness Report (Schwab 2016, 307) several

factors related to legal factors performed poorly. Out of 138 countries, Russia performed rather poorly in indexes such as judicial independence (95.), irregular payments and bribes (83.), burden of government regulation (103.), property rights (123.), protection of minority shareholders' interests (116.), auditing and reporting standards (103.), reliability of police services (109.), and efficiency of legal framework in settling disputes (82.). In addition to this, according to the same report, tax rates as well as tax regulations were seen among the top five most problematic factors for doing business in Russia. (Schwab 2016, 307.) Political and economic issues, such as sanctions and tensions with other countries, can also pose a risk to companies operating in Russia, in terms of possibly changing legislation. It is noteworthy that Russian legislation and regulation related to business environment has seen some rapid changes in recent years, and can change course quickly without the approval of the justice system. These policy, legislation, and regulation changes, such as import substitution policies, aim to reduce Russia's dependence on foreign goods and services and aim to favor Russian companies and diversify their own production. (Ministry for Foreign Affairs 2016, 7.)

Based on these findings, it is vital for foreign companies operating in Russia to be aware of the possible inefficiency and corruption of the legal and regulatory issues and judicial system in Russia. However, the corruption has been addressed by the government, and anti-corruption programs and laws have been implemented. For instance, The Russian Federal Anti-Corruption Law and Bribery Act require businesses operating in the country to implement certain anti-corruption measures and programmes. (GAN 2017.) In addition to this, "Development of the Judicial System in 2013-2020" has been set up to improve the judicial system in Russia (OECD 2014, 58).

5.7 Doing business in Russia

There are around 500 Finnish companies operating in Russia, whose combined investment total in Russia is around 12 billion euros. Although the Russian Federation finally joined the World Trade Organization WTO in 2012, it is still considered a country that has not fully integrated into the world trade system. Russia's accession to WTO has so far lead to several disputes and complaints, and has not brought along the expected positive effects yet. (Ministry for Foreign Affairs 2016, 4-7.) The country ranks poorly in both domestic market access (112/136) and foreign market access (129/136) in World Economic Forum's enabling trade report. According to the report, the country's level of openness is rather poor, and the tariff structure is complex. (World Economic Forum 2016.)

The World Bank's Doing Business economy profile 2017 for Russian Federation examining the ease of doing business, ranks the country 40th of all 190 countries, with a score of 73.19. To give a better understanding, a small comparison to other notable countries shall be considered: China ranked 78th (64.28), Canada 22nd (78.57), Finland 13th (80.84), U.S. 8th (82.45), and Turkey 69th (67.19) just to give a few examples. Doing Business study's results are based on measurements and indicators that focus on regulations affecting SMEs, such as starting a business, getting credit, and trading across borders. Russia has been advancing in the rankings in recent years in many indicators, despite the geopolitical tensions and sanctions. The World Bank's figures put Russia at 26th place with a score of 93.57 on Starting a Business-indicator, advancing 11 spots from the year 2016. On the same Starting a Business-indicator, by comparison, U.S. ranks 51st (91.23), Finland 28th (93.13), China 127th (81.02) and New Zealand 1st (99.96). On the Distance to Frontier-rank, which measures the gap between Russia's doing business performance and the highest possible performances of all countries over time on a scale 0-100, Russia has been steadily improving its performances from 54.32 in 2011, to 73.20 in 2016. Registering property (9th), enforcing contracts (12th), starting a business (26th), getting electricity (30th), getting

credit (44th), and paying taxes (45th) were Russia's top six rankings on Doing Business-indicators. (Schwad 2016.)

However, there are some areas that require improving. Trading across borders-indicator (140th), as well as Dealing with construction permits-indicator (115th) rank relatively low. (World Bank 2017.) The World Economic Forum's Enabling Trade index from 2016 ranks the most problematic factors for importing. Tariffs and non-tariff barriers, burdensome import procedures, domestic and international transportation delays and high costs, corruption at the border, and domestic technical requirements and standards are the top five most problematic factors for importing. The World Economic Forum's executive opinion survey also highlights some problematic factors for doing business in Russia. According to the survey, inflation, tax rates, corruption, access to financing, and tax regulations are the most problematic factors in the Russian market, as well as policy instability and inefficient government bureaucracy. (Schwad 2016, 322.)

The following factors are also noteworthy when planning on operating in the Russian market. During the economic crisis, the Russians have increasingly favoured local domestic production and products, which can possibly affect the foreign company's success in the Russian market. In addition to this it is crucial for foreign companies operating in Russia to note, that the Russian society changes rapidly. The regulations and certain formalities, such as permits, certifications and other business related documents and processes change fast. It is therefore vital for businesses to constantly monitor these changes. When choosing the entry mode and the Russian business partner or agent, it is recommended to aim to keep the distribution chain rather short to avoid problems. A thorough research on the business partner should be executed, and the contracts between the company and all parts of the distribution chain should be detailed. Regular contact with the different distributors is important. The constantly growing importance of social media and the Internet should be utilized in the Russian market, and to bear in mind that Russian culture, consumers and customers value everything extravagant:

whether it is the product, company's social media, marketing tricks, employees, or brand image. (Ministry for Foreign Affairs 2015.)

Based on these indicators, Russia's business environment has been improving and it can be seen rather favourable, even though some aspects can still be problematic and have room for major improvements.

6 SEGMENT ANALYSIS

Chapter six focuses on the Russian senior care goods and services segment. The first sub-chapter covers the overall senior care industry outlook, and the second sub-chapter presents a SWOT analysis on the author's findings of the senior care segment in Russia.

6.1 Industry outlook: senior care

Based on the PESTEL analysis findings of the Russian Federation, population aging, and therefore changing demographic structure in Russia is a fact. According to Hansl et al. (2015, 22), population aging can directly affect the demand for publicly provided health care, as well as long-term care goods and services. The information on Russian senior care available is limited. World Bank's 2016 overview report of the population aging, made with Russian academics and consultants, focuses mainly on the macroeconomic impacts of the population aging, leaving subjects such as reform of senior health care services for future research. It is yet to be seen how the Russian government reacts to the aging of the population, and whether possible changes will bring along some institutional reforms, new policies, pension changes, and such reforms. (Hansl et al. 2015.) Reforms and changes in regards to senior health care goods and services could have major impacts on the senior care market, on both goods and services.

The Russian government has introduced some policy changes since 2006 in order to lengthen working lives and fight population aging. Larger childcare benefits, child-related tax deductions, and such family growth support policies have been set to encourage fertility growth and fight the upcoming demographic crisis caused by the population aging. In order to lengthen working lives, pension reform providing additional pension benefits was introduced in 2015, encouraging the Russians to continue working past the statutory retirement age. As stated in the PESTEL analysis earlier, the statutory retirement age in Russia is 55 for women, and 60 for men. (Hansl et al. 2015.)

The results of the pension reform are yet to be seen, but the author sees the population aging and different policy reforms, together with the improving economic outlook, as a major opportunity, since it can possibly add spending on the senior care industry. There was no information available on forecasted personal and private spending on senior care, but according to Hansl et al. (2015, 24), by 2050 alone the Russian government's health care spending will increase about three percentage points due to aging and rising incomes. Therefore, for the senior health care market, consisting of both senior care goods and services, the trend of Russian population's significant aging over the next few decades can be seen as a major opportunity, since the aging could most likely increase spending and demand on the senior health goods and services.

6.2 SWOT: senior care segment in Russia

The following subchapters present an external SWOT analysis on the senior care segment in Russia. Based on the author's research of the case company's senior care target market, the most important findings are presented below. The goal is to draw an overall picture of the current strengths, weaknesses, opportunities, and threats of the Russian senior care segment, in order to help the case company to get familiar with its target market.

6.2.1 Strengths

The population aging in Russia is an inevitable fact. The old-age dependency ratio, a ratio demonstrating those elderly people that are estimated not in the labor force, is expected to grow by more than 50 per cent by year 2050. A significant increase in the share of elderly population commonly brings along, for instance, economic problems and can therefore be seen as a demographic crisis, for the senior care goods and services the significant population aging can be seen as the market segment's biggest strength. The population aging in the upcoming years in Russia can be seen as a socio-cultural factor that will likely drive change

for the Russian senior health care segment. When the number of elderly people increases, a demand for health care commonly rises, and consequently the spending on elderly health care, goods, and services also increases. (World Bank 9/2015.)

In addition to the aging demographics of Russia, and the perks and possibilities it will bring along for senior care businesses, there is one other factor that can be considered as a notable strength for the Finnish companies planning on operating in Russia. Finland as a brand has a good reputation in Russia. The country's products and services are valued high, and Finland's healthcare goods and services are considered high quality. (Export Finland 2015.)

As noted in the PESTEL analysis, Russia is considered to have a wealthy middle class that is increasing in urban areas. In addition to this, the inevitable, rapid aging of the population providing the senior care market with millions of new possible consumers in the upcoming years add a major strength- factor for the senior care market. Highly valued Finnish healthcare products and services, together with a possible niche discussed in the following subchapter should also be mentioned in the strengths. Therefore, it can be concluded, that Russia provides a senior care good and service provider with a big metropolitan area's increasingly wealthy middle class, and a large, rapidly growing, aging senior consumer base, that is combined with a target country and market that commonly value Finnish brands, - including healthcare goods and services -, high.

6.2.2 Weaknesses

Although the health care in Russia is free, by WHO's (World Health Organization) standards, the public expenditure on healthcare is considered relatively low and underfunded at 3.7 % of GDP. The recommended level by WHO is 6 %, and the OECD average 6.5 %. (World Bank 2015c, 36; World Bank 2016, 19.) This should be acknowledged when operating in the senior health care market. The health expenditure OOP spending, referring to out-of-pocket money, - the expenses paid

directly by the consumer -, has been increasing, but focuses mainly on the big metropolitan areas (World Bank 2016, 19). Therefore, the poor areas of the country, as well as rural regions, may not benefit from the OOP healthcare spending.

Social protection spending, mainly referring to pensions and social assistance, is considered rather high in Russia: 12.3 % of GDP (World Bank 2016, 134). However, overall inequality, inequality of opportunity, regional inequalities, rural regions and poverty, as well as social exclusion and large number of homeless people, are a common problem in Russia (BTI 2016, 22; World Bank 2016). The corruption problem affects the efficiency of the social security system negatively, and unemployment benefits and pension pay-outs do not always cover basic needs, making the inequality one of the country's weaknesses (BTI 2016, 21). The number and quality of social protection programs in Russia have increased in recent years, but they, for instance social assistance, are considered rather complex and do not necessarily contribute the beneficiary that much (World Bank 2016, 20). The rural areas of the country can be considered to be at a disadvantage, when it comes to receiving healthcare. The number of hospital beds in 2014 in rural areas was 37.7 per 10,000 people, and their overall access to healthcare is significantly smaller than those living in urban areas. (World Bank 2016, 124.)

The specialist care, hospitals, as well as the overall healthcare system in Russia is considered rather inefficient, inadaptative, and ineffective. The number of hospital beds is 1.6 times higher than the EU average. The average length of stay in a healthcare institute is also longer than the EU average, and can be linked to the ineffectiveness of the system. The Russian health care system is overall considered underdeveloped, in terms of its inadaptativeness to the patient needs and not preventing and promoting health issues. (World Bank 2016, 19.) The current rather poor state of the overall healthcare system in Russia can be seen as a major weakness, but also as an opportunity for the senior care businesses, since this also provides a possible niche and need for these kinds of services.

6.2.3 Opportunities

According to the World Bank's report (2016, 121), the out-of-pocket OOP health expenditure spending in Russia is high and increasing, especially in richer areas of the country. These richer areas, referring to St. Petersburg and Moscow regions, can therefore offer great opportunities for companies operating in the health and senior care market.

The same World Bank report (2016, 18) notes, that there is a considerable erosion of health among older workers. As the Russian population is aging rapidly and a vast number of older workers will retire in the upcoming years, it poses great opportunities for the senior care market goods and services, since the number of people using these services will increase rapidly. In addition to the growing customer base and the growing demand for nursing homes, the middle class in Russia is growing and considered one of the largest in the emerging world (Poghosyan 2015, 8), and therefore there will be more people that can afford spending on senior care services. Old family values are important for Russians, and a tradition of caring and supporting for ageing relatives still exists. (Export Finland 2015.)

In Russia, a university degree and other vocational or secondary education is related to an increased probability of working past retirement age. In addition to this, the government has recently launched several pension reforms and other initiatives for older people to encourage them to work longer. The government's pension reform from 2015 added pension points and other pension benefits for those who continue working past retirement age. Many Russians already continue to work past the statutory pension age, which is considered rather low. (Hansl et al. 2015, 35). These factors suggest that these people working longer can possibly afford and could be willing to spend more income on senior care goods and services, and therefore can be segmented to be a vital customer target and seen as a major opportunity.

The World Bank report (2016, 123) notes that due to the rapid aging of the population in Russia, there is an urgent need for increasing the quality, distribution, and effectiveness and an overall level of public health spending. The outpatient services in Russia are considered underdeveloped. This concerns especially day -and home care, and nursing care. (World Bank 2016, 124.) As noted in the “Weaknesses” subchapter, the overall healthcare system in Russia is rather inefficient. Based on this it could be concluded that there is possibly a niche and need for different types of healthcare, as well as senior goods and services.

According to Team Finland’s article, especially the Moscow region’s online shopping habits provide Finnish companies with great possibilities, as its around 20 million people high-earning consumer base has great purchasing power. Highly valued Finnish products, combined with right price and high quality, as well as rapidly expanding e-commerce needs, provide great opportunities for Finnish companies that want to expand their business to the Russian market by offering its products for sale online. (Marketopportunities 2016.) As mentioned in both the theoretical part and PESTEL analysis, the use of the Internet, online shopping, and e-commerce are rapidly increasing. This opens doors and therefore opportunities to other regions than just the rich economic centers St. Petersburg and Moscow. As of 2015, in smaller cities and regions, where the long distances and limited selections bring challenges to consumers, the smaller cities accounted for 70 per cent of online orders (Export 2016b). These facts are not directly linked to the senior care sector, but should however be acknowledged as a possible business channel.

6.2.4 Threats

The significant differences in life expectancy in Russia are related to, for example, regions and socio-economic situations, but the average life expectancy is relatively low at 70.9 years. The health outcomes around the country also vary significantly. The number of pensioners unable to meet

the requirements for full old-age pension are at risk of increasing, therefore forcing these pensioners to rely solely on social pension (World Bank 2016, 21). This could be seen as a threat for the senior care market, as these pensioners would have less out-of-pocket income to spend on senior care goods and services.

In recent years, Russia has set several import replacement plans and public procurement bans, in order to encourage the domestic production and support industry growth in different fields. Pharmaceutical and medical industry, and about 40 healthcare medical equipment and devices are included in these plans and bans. For instance, foreign made pharmaceutical products and medical devices are banned from the public procurement in case there are two or more Russian made similar products available offered in the same procurement bid. (Ministry for Foreign Affairs of Finland 2016, 8.) Medical equipment and devices in these strategic import replacement plans however refer to equipment such as for instance X-ray equipment, cardio pacemakers, and prostheses (Export 2016), and are listed in detail in the annex to Resolution 102 (McDonald 2016). Therefore, these import replacement plans and bans do not, as for now, directly affect the case company, but it is good to be aware of the overall prospects and plans of the target market industry closely related to the case company's goods and services.

In addition to the factors discussed above, there are some social norms and perceptions typical for the Russians, that can be considered as weaknesses in terms of seniors and elderly people. Based on these norms, older people should not keep the younger ones from finding a job, referring to the perception that younger people deserve the job more than elderly people. In addition to this, there are negative attitudes and perceptions towards older workers. Older workers can be commonly considered less productive, and some tensions between older and younger Russians exist. These norms and perceptions can affect the length of the working lives negatively, pushing the older workers out of the labour market early. (Hansl 2015, 35.) This again can have a negative

impact on their incomes and therefore negatively affect the senior care goods and services sector.

7 CONCLUSION

The objective of the thesis was to complete a comprehensive theoretical outlook of internationalization as a concept, followed by the empirical market research of the target country, as well as the target industry. The thesis was commissioned by Case Company X, as it prepares for possible expansion to the Russian market. The case company's focus was on the Russian senior health care market and innerworkings of doing business in Russia. Along with internationalization in general, the goal of the thesis was to gain knowledge of the target market. Based on the research findings the aim was to offer the commissioner of the thesis insights in expanding to Russia, and if it is a viable option. It is important to highlight the fact that the empirical research on the Russian market and senior care industry was external. This refers to the fact that the analysis does not cover factors such as competitors or potential customers. The study focuses more on generalization of the researched matter.

7.1 Answers to research questions

The two sub-questions of the research, - what internationalization is and what the different entry modes available are -, were answered in the theoretical part. Essentially the theoretical framework of the thesis forms around internationalization as a concept and different internationalization entry modes. Internationalization was studied to simplify and organize internationalization as an overall concept, to benefit any company planning on expanding internationally. Based on the author's qualitative data collection findings, internationalization as a concept can be defined as the process of finding the most suitable way to expand one's company internationally. The different paths different companies choose when they go global, varies depending on their needs and the desired outcome. The different internationalization entry modes in the thesis are divided into three broad groupings, and presented in detail. In addition to this, the country analysis methodology later used in the empirical part is briefly being presented.

The empirical part focuses more on the key research question of the thesis. In order to conduct a thorough study and provide the case company with all the vital information of the target country, the objective was to gain an answer to the key research question: what should the case company know about the target market before entering? Sub-questions, - what are the target market Russia and target industry like -, were set in order to specify the key question and therefore help to lead the author to the final conclusions.

In order to find answers to the key research question and conduct a thorough empirical study, a country analysis of the target country Russia was completed through a PESTEL analysis tool. The Russian business environment was then researched, and an overview and SWOT analysis were conducted on the target industry, senior care goods and services market. As for the empirical part of the thesis, the author is aware of the fact that the findings were rather limited. In addition to this the author was struggling with linking the theoretical and empirical part together. However, as for an overall internationalization assessment and Russian market research, the study does answer the set research questions. The findings of the empirical part, and the answer to the key research question are discussed in more detail in the following sub-chapter.

7.2 Findings

The most significant finding was the fact that due to the vast, rapidly aging Russian population and changing demographics, the country does indeed offer great opportunities for a senior care good and service provider. In 2015, more than 19 million people were 65 year olds or older. The changing demographics and aging population will force the government to increase spending on senior health care. With that number growing there are growing needs and demand in the senior care market. The middle-income population in Russia is also growing fast, increasing the number of potential private customers with sufficient income. In addition to this, the recent pension reforms encourage people to work longer, thus possibly

accumulating more income to spend on senior goods and services. The country is vast in size and population, and especially its large metropolitan areas, such as St Petersburg and Moscow regions, offer opportunities to the case company. Transportation and other demographic factors pose risks for investment in far reaching regions of Russia. Russia's political outlook is stable but unpredictable. Policies, regulations, laws, as well as the business environment are unpredictable and can change fast, as well as be inefficient, and for example the upcoming presidential election could drastically change the business environment in Russia. Corruption is a significant aspect that should be considered when conducting business in Russia. Political tensions and sanctions, coupled with the economic crisis have shrank the Russian economy. Russia's economy and the overall outlook is highly dependent on oil prices, and therefore highly volatile and unpredictable. However, despite the economic turmoil and disappearing foreign investment in recent years, the economy is forecasted to slowly recover. Household spending, business activities especially in services, and exports and imports are forecasted to grow moderately. Russia has finally joined WTO, and its overall "doing business" environment ranking has slowly improved in recent years. Despite several factors that require improvements, such as trading across borders, tariff barriers, corruption, and bureaucracy, Russia still ranks rather high, 26th on World Bank's Starting a Business- indicator. With already around 500 Finnish companies operating in Russia, and several Finnish organizations available for helping to expand to Russia offering funding, expertise, and consultation, gives reassurances of a smooth entering to the Russian market.

7.3 Suggestions for future research

The author was struggling to find internal information and data on Russia's senior care market. The data findings only generalized the senior care industry. Therefore, some suggestions for future research can be drawn. As the research conducted in this thesis was more external, future research is suggested to focus more on internal research. Factors such as competitor analysis, examining the senior care market in more detail, as

well as, for instance, price comparisons would provide great research opportunities for the future. Current senior facility statistics, locations, numbers, and cost of senior goods and services, as well as senior good and service customer surveys, could be some suggestions for what the future research could examine.

7.4 Suggestions for the case company

Based on the findings of the thesis, the author concludes that despite more internal research recommended, the Russian market offers opportunities for the case company. A significant increase in the share of the elderly population in the upcoming years, the number in 2015 being 19 million, provides millions of potential customers. The economic crisis from recent years is moderately progressing towards recovery, encouraging foreign investment. Finland, as a brand, is highly valued in Russia, and Finnish goods and services are viewed as high quality. However, corruption, inefficiency, overall instability and unpredictability of the country, as well as constantly changing laws and regulations are factors the case company should be aware of when pursuing Russian expansion.

The author concludes that exporting can be seen as the most suitable option for the SME case company to expand their business to Russia. Based on the theoretical framework of the thesis, there are three broad groupings of entry modes - export, intermediate, and hierarchical - that are divided into subcategories. Exporting is considered flexible, low risk and cost option, and there is a limited need for knowledge of the target market. The company plans to keep its own Finnish, independent manufacturers. In exporting, the company maintains its manufacturing in its home market. External agents in exporting refer to, for example, distribution and sales activities, that are commonly performed in the export market. Exporting is, based on the theory, divided into indirect, direct, and cooperative export.

The author's findings conclude that direct export agent and cooperative export would be suggested as the two most viable options for expanding to Russia. A direct export agent works for the case company as its

representor and seller, allowing the case company to handle the marketing mix elements. A direct export agent is familiar with the local Russian market, know-how, and overall market knowledge, which would benefit the case company and be passed on to the case company over time. With the case company's limited knowledge of the senior care industry in Russia, and the lack of internal market research on this thesis, the agent would have the needed expertise in finding the proper avenues for distribution and sales. In addition to this, a cooperative export should be presented as an opportunity worth to consider. In cooperative export, two or more manufacturers decide to export in cooperation, in order to attract more buyers with a broader product selection. If an opportunity presented itself to join one or more other furniture, health care, or senior good and service provider, it would showcase the case company's products and services to the target consumers and possibly provide great opportunities.

The author suggests the company should first focus on the St. Petersburg region, due to its size, growing middle-income class, and its close proximity to the Finnish border. However, the Moscow region, with around 20 million consumers, provides great purchasing power. In addition to this, the rapid increase in the popularity of e-commerce and online shopping, and the overall usage of the Internet and consequently social media in Russia, provide the case company with endless opportunities. As noted in the empirical part's research, online shopping is a rapidly growing trend in smaller regions, due to the limitations of the selection their local markets present. This opens the entire Russian market for the case company, with the simplicity of a Russian language website. In addition to the study's findings, the author would like to note that the importance of Finnish companies professional, high-quality company websites that are available in Russian, was repeatedly highlighted by the Russian professors from the Saint Petersburg State University during a Business in Russia- seminar week in St. Petersburg in Spring 2015. Therefore, it is highly suggested, that the case company would develop a fully functioning Russian web page of its products and services, with possibly a Russian agent operating it as the Finnish company's representative.

7.5 Validity and reliability

Validity as a concept refers to the measuring of the quality and meaning of the text. “If the use of this test for the purpose I am using it for were challenged in court, do I have sufficient evidence to persuade the judge or jury and win the case?”, as stated by Lissitz (2009, 31), explains the concept of validity sufficiently. To put it briefly, the test is valid if it measures what it was intended to measure. (Lissitz 2009).

Reliability can be seen as a consequence of the validity of the study (Golafshani 2003, according to Patton 2001). Trustworthiness and generalizability of the study is crucial, when measuring reliability and the quality of a qualitative study (Golafshani 2003). One source defines reliability as follows: “...The extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable” (Golafshani 2003, according to Joppe 2000).

The objective of the thesis was to study internationalization as a concept, and conduct a market research of the target market. These factors were studied to help the case company in its future international expansion to the studied, foreign target market. The primary data for the research was collected from books, journals, studies, reliable articles, reports, and such official data sources. Although the data findings were somewhat limited, it can be seen that the research is trustworthy and generalizable, and answers the set research questions. Therefore, the author sees the study as valid and reliable.

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