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RECOMMENDATIONS FOR THE
DISTRIBUTION STRATEGY IN
CHANGING MARKET
ENVIRONMENT

Case: Belgian Brewery Van Honebrouck in
Russia

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DESCRIPTION

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Name of the bachelor's thesis Recommendations for the distribution strategy in changing market environment. Case: Belgian brewery Van Honsbrouck in Russia.		
Abstract <p>The efficient distribution strategy formulation becomes vital to the success and survival of any organization, especially when it is involved in international trade. Today's world is particularly challenging due to rapidly changing market conditions. Therefore, in order to be able to compete, satisfy customers, and meet the needs of other stakeholders profitably, it is crucial for any company to make profound market environment analyses, react to changes in the market and adjust strategies accordingly. Otherwise they will significantly affect the company's performance.</p> <p>Belgian Brewery Van Honsbrouck, the case company for the research, exported its beers to Russia. The demand was high, and the company set its hopes on Russian market. At the same time, the marketing conditions in Russia were getting unstable, and they were expected to have a negative impact on the company's performance. Consequently, the objective of the thesis was to analyse the current distribution strategy and market situation, and give recommendations for the distribution strategy of the brewery Van Honsbrouck in changing market environment in Russia.</p> <p>The theoretical part of the thesis was formed on basis of the studied theory regarding the position of distribution within international marketing strategy, distribution management, development of channels of distribution, as well as various environmental forces affecting company's performance. The structure of the empirical part is based on the developed theoretical framework. Primary and secondary data was collected and analysed. The valuable results were produced. Semi-structured interview conducted with the case company revealed the details of the present distribution organization. The interview with the company's distributor gave clear understanding of the distributor's operations and its collaboration with the brewery. Their opinions on the market situation and the beer industry in Russia were collected. The review of electronic sources revealed the extreme complexity of the macro-environmental and the beer industry situations in Russia. Some growing tendencies were identified. Based on market segmentation and targeting, the ultimate customers were profiled and the geographic locations where they can be found were identified.</p> <p>The gained knowledge gave the insight into the current marketing situation and the beer industry in Russia, present distribution organization and its effectiveness. The recommendations for the distribution strategy are reasonable suggestions that can be adopted by the brewery to react to the changes.</p>		
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1 INTRODUCTION

Globalization makes the world a smaller place (Arnold 2010, 770). Being involved in international trade, firms have to deal with a number of activities and decisions, which vary in both complexity and scope, such as intricacy and fickleness of foreign market environment, cultural differences, transportation challenges, etc. (Doole & Lowe 2012, 1). For many years companies have been giving the least attention to the issues related to distribution. Nowadays, they start realizing that the efficient distribution strategy formulation is vital to the success and survival of any organization, especially if it is involved in international trade. (Cateora & Graham 2007.)

Today's world is challenging due to rapidly changing market conditions. Therefore, in order to be able to compete, satisfy customers, and meet the needs of other stakeholders profitably, it is crucial for any company to make profound market environment analyses, and react to changes in the market accordingly, otherwise they will significantly affect the company's performance.

Belgian Brewery Van Honsebrouck is the case company for the research. The brewery produces specialty beers which are exported to different countries all over the world. Russia has been one of the export destination since 2012. Until now the demand has been high, and the company sets its hopes on the Russian market. At the same time, the marketing conditions in Russia in general, and in beer market in particular, have become less favourable for beer companies due to new anti-alcohol policies, complicated political and unstable economic situations. These and other issues are expected to have a negative impact on the company's performance.

Consequently, with the idea to strengthen the market position of the brewery, the objective of the thesis is to give recommendations for the distribution strategy of the Belgian brewery Van Honsebrouck in changing market environment in Russia. The general research focus question is: "*How should the company organize and manage export to and distribution of its products in Russia?*". In order to be able to answer the general research focus question and, accordingly, give recommendations, a thorough study must be done and the following research questions must be answered:

1. What is the case company's current distribution strategy?

2. How efficient is the distribution strategy?
3. What is the macro-environmental situation in Russia?
4. What is happening in the beer industry in Russia?
5. Who are the potential customers?
6. What channel conflicts might arise and how to minimize them?

When the outcomes listed below are attained, the general research focus question can be answered and recommendations for distribution strategy can be given.

- Have a clear view on the case company, its current distribution strategy in Russia and its performance;
- Understand the changes taking place in the macro-environment and in the beer industry in Russia, and their possible future impact on the company;
- The end-consumers are profiled, and possible geographic locations where they can be found are identified;
- The channel conflicts and the ways they can be minimized are presented.

The findings of the research can be used by the brewery Van Honsbrouck, and they will give the company the insight into the current market environmental situation and the beer industry in Russia, present distribution organization and its effectiveness, and give more detailed target audience profiling. The result of the research, recommendations for the distribution strategy, can be used by the company as a well-thought out suggestions of distribution organization of the exported beer brands in Russia that will lead to strengthening of the company's market position and increase of sales.

The theoretical framework is based on the review of business literature and thorough study of the following subjects: international marketing strategy, distribution strategy, distribution management, international business management, and marketing management. On the basis of the developed theoretical framework, the empirical part of the research was structured. The research methodology and design justify the choice of research methods, and illustrate the step-by-step process of data collection and analyses. The obtained research results are presented thematically. Based on them the answers to the research questions are given. As the required outcomes are attained, the researcher answers to the general research focus question, which is: *"How should the company organize and manage export to and distribution of its products in Russia?"*, and gives the

recommendations for the distribution strategy of the Belgian brewery Van Honebrouck that exports its beers to Russia.

2 INTERNATIONAL MARKETING

Any company in the world desires to achieve its business objectives; broadly speaking, they are to maximize sales volumes and profits, increase productivity, enhance customer satisfaction, and etc. In order to achieve these goals, a company has to take into account a lot of aspects of such topics as product development, price setting, organization of distribution, and promotion activities selection. (Ferrell & Hartline 2011; Kotler et al. 2012.) As product, price, place or distribution, and promotion – the components of international marketing strategy – are interrelated, decisions on distribution cannot be made without taking into consideration the other components. Additionally, operating in international environment, a company has to consider numerous forces that may have impact on its performance. (Ferrell & Hartline 2011.) Therefore, the purpose of this chapter is to define distribution strategy, identify its importance and position within international marketing strategy, present factors that affect company's performance, and establish the role of target audience identification.

2.1 International marketing strategy

Czinkota and Ronkainen (2012, 5) argue that “international marketing consists of the activity, institutions, and processes across national borders that create, communicate, deliver and exchange offerings that have value for stakeholders and society”. Depending on the organization's internal circumstances, external influences, and strategic plans, it can have different stages of involvement in the international marketplace (Paul & Kapoor 2008, 6). Only limited number of companies begin in international marketing, generally they start operating in a single country – domestic marketing, and then, gaining experience, companies gradually change strategies and tactics and get involved in international marketing activities (Cateora & Graham 2007, 18). Hence, stages of international marketing involvement can be identified. Table 1 illustrates these stages.

TABLE 1. Stages of international marketing involvement (adapted from Paul & Kapoor 2008, 7; Dutta 2010, 31 - 32; Cateora & Graham 2007, 19 - 20; Doole & Lowe 2012, 5)

Stage	Meaning
<i>No Direct Foreign Marketing</i>	The main focus of the company is on the home country market. The products can reach foreign markets via domestic wholesalers who sell abroad without explicit engorgement or even knowing the producer.
<i>Infrequent Foreign Marketing</i>	The main focus is kept on the national market. Goods are sold abroad when they are available. These operations have temporary nature. Foreign sales are terminated, when domestic demand increases.
<i>Regular Foreign Marketing</i>	The primary focus is on the domestic market, company has a permanent production of goods that will be marketed overseas.
<i>International Marketing</i>	Company is fully involved in international marketing activities: it looks for markets all over the world. Profits gained from outside national borders are the results of company's strategic planning activities. It takes into account customer needs in more than one country.
<i>Global Marketing</i>	Company does not do segmentation on national borders, and it treats its domestic market and the world as one global market. The goal is to achieve operation synergy and global competitive advantage.

Some companies go beyond national borders to increase their profits, other companies go international in order to survive. Broadly speaking, factors motivating companies to go outside domestic markets are push and pull factors. *Push factors* are compulsions of the domestic market that force the company to go international (reactive reasons), for example, domestic market saturation, taught domestic competition, change of tastes, and etc. *Pull factors* are forces of attraction that pull the company to foreign markets (proactive reasons), for example, profit advantage, tax benefit, economies of scale, and etc. (Sinha & Sinha 2009, 227 – 228.)

When a company wants or it has to go beyond the domestic market, it needs formulate an *international marketing strategy*. It is an integrated set of actions, which is aimed at building the long-term well-being of the firm through securing a sustainable advantage with respect to competition in serving customer needs in domestic and international markets. (Bradley 2005, 5.) It involves selection and analyses of target markets and creating a marketing mix strategy, which includes product, price, distribution, and promotion strategies to satisfy the needs and wants of those target markets (Ferrell & Hartline 2011, 45; Bradley 2005, 5). The figure 1 illustrates the elements of international marketing strategy and their interrelation.



FIGURE 1. International marketing strategy and its components (adapted from Ferrell & Hartline 2011, 45)

Distribution strategy, an element of international marketing strategy, concerns activities involved in process of making goods and/or services available for the right customers at the right time and in the right place (Doole & Lowe 2012). It was revealed that for many years companies had been giving the least attention to the issues related to distribution, placing emphasis on the other components of international marketing strategy such as product, price, and promotion. Nowadays, everything is changing: companies realize that an effective distribution strategy formulation is vital to the success and survival of every organization. (Cateora & Graham 2007; Ferrell & Hartline 2011.)

With a solid distribution strategy, which means careful selection and management of channel relationships to deliver value to customers, a company can overcome some imperfections in product, pricing, and promotion. On the other hand, a poor distribution strategy will definitely undermine a company's efforts to market a superior product at a competitive price, applying effective marketing communications. (Ferrell & Hartline 2011.) Even though, distribution strategy selection is a challenging task, it cannot be left out by a company (Cateora & Graham 2007).

Additionally, comparing distribution with other elements such as product, price and promotion, it offers a more favourable basis for developing a sustainable competitive advantage, because advances in distribution cannot be easily copied by competitors. Combination of superior strategy, organization, and human skills and capabilities enable to consider distribution strategy as a means for overcoming competitive parity. (Rosenbloom 2011, 159.)

In a strategy planning process, it is crucial for any company to make profound marketing environment analyses of the country or countries where it is going to be present. Without these analyses, it does not matter whether the company goes to a foreign market due to proactive (e.g. economies of scale) or reactive factors (e.g. domestic market saturation), for certain it will not be able to achieve its objectives. (Kotler et al. 2012; Richter 2012.)

2.2 Marketing environment

Any company does not function in vacuum, therefore there are numerous forces that have impact on a company and its marketing activities. They can be divided into two groups: controllable and uncontrollable elements. *Controllable elements* are elements that come under company's influence, such as product, price, promotion, and distribution. Whereas *uncontrollable elements* cannot be changed by company, these are competition, laws, politics, consumer behaviour, and etc. When a company operates in a foreign market, the management of marketing environment elements becomes especially challenging due to unfamiliar problems and unusual market behaviour. However, if it does not react to changes in the market, they will significantly affect the company's performance. (Cateora & Graham 2007, 9; Kotler et al. 2012, 174.)

The detailed marketing environment analyses can be made by splitting the environment into three parts: the internal, the micro- and the macro-environments. (Nieuwenhuizen 2007, 7; Management Class Global 2014; Kotler et al. 2012, 332.) The figure 2 illustrates them and shows which of them are controllable or uncontrollable, and presents the frameworks that can be used in analyses.

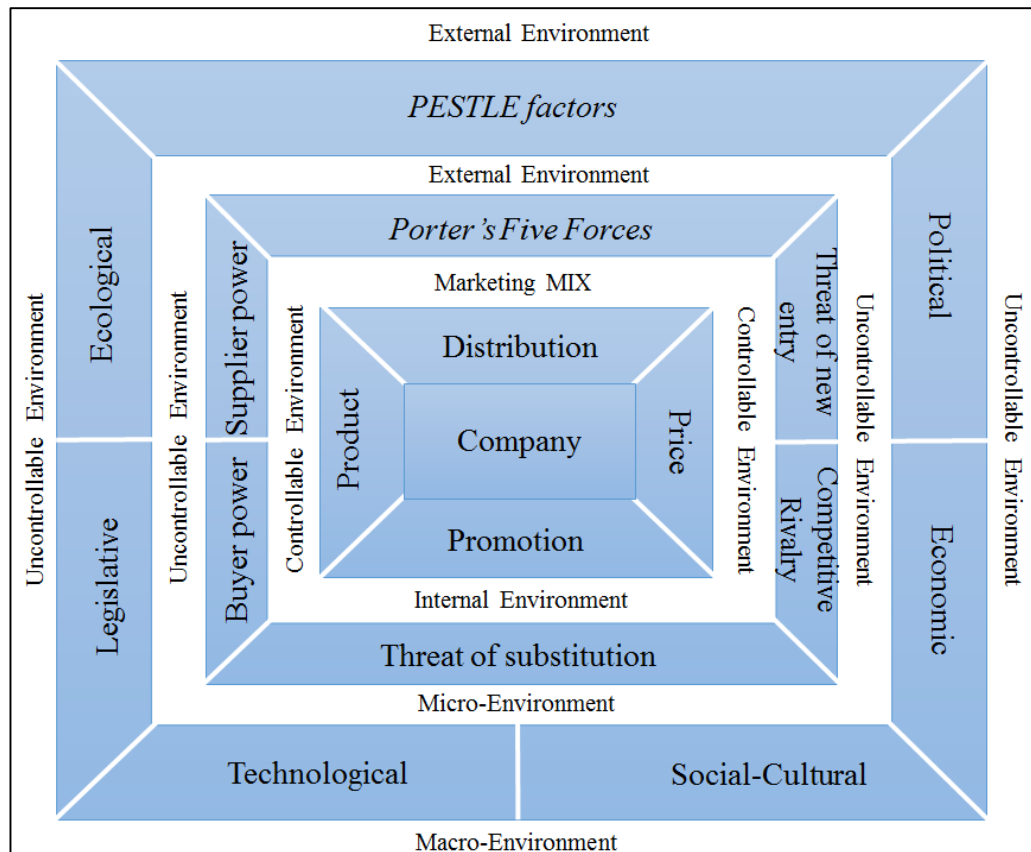


FIGURE 2. Marketing environment (Kotler et al. 2012, 332; Nieuwenhuizen 2007, 7)

Farther, each of the environments are presented and explained. The frameworks that can be applied for the analyses are demonstrated.

2.2.1 Macro-environment analysis

PESTLE, the acronym for political, economic, social-cultural, technological, legislative and ecological aspects of the wider environment, can be effectively applied to identify and examine various forces in the macro-environment that are currently affecting the business, and the ones that might influence it in the future (Allen 2001, 54). Examples

of the influences, and the way they can be classified using PESTLE framework are presented in the table 2 (PESTLE analysis 2014).

TABLE 2. Examples of macro-environmental forces (Strategic management analysis 2014)

Factors	Examples
<i>Political factors</i>	Trading policies, export/import policies, war and conflicts, international legislation.
<i>Economic factors</i>	Inflation, unemployment, economic growth, interest and exchange rates.
<i>Social-Cultural factors</i>	Life-style trends, buying access and trends, demographics, advertising and publicity.
<i>Technological factors</i>	Communications technology, R&D activities, access to the Internet, rate of technological change.
<i>Legislative factors</i>	Consumer protection, taxation, employment law, insurance.
<i>Ecological factors</i>	Waste management, food and drink safety, climate change, air and water pollution.

Macro-environment analysis is highly important: having a clear overall picture of company's surroundings will help it not only to take opportunities, but also to defend against threats better than its competitors (Strategic management analysis 2014).

2.2.2 Micro-environment analysis

Micro-environment is the environment made up of factors that are very close to the organization, which may interact with the firm (Xu 2005). The five forces model, developed by Michael E. Porter, which is applicable in any industry, can be used to analyse the company's position in the industry and evaluate its competitiveness. The model helps companies to assess the nature and understand dynamics of an industry, and formulate sound strategies and compete effectively in the marketplace. (Chartered Global Management Accountant 2014; Entrepreneurial insights 2014.) The figure 3 demonstrates the framework and interrelation between the elements.

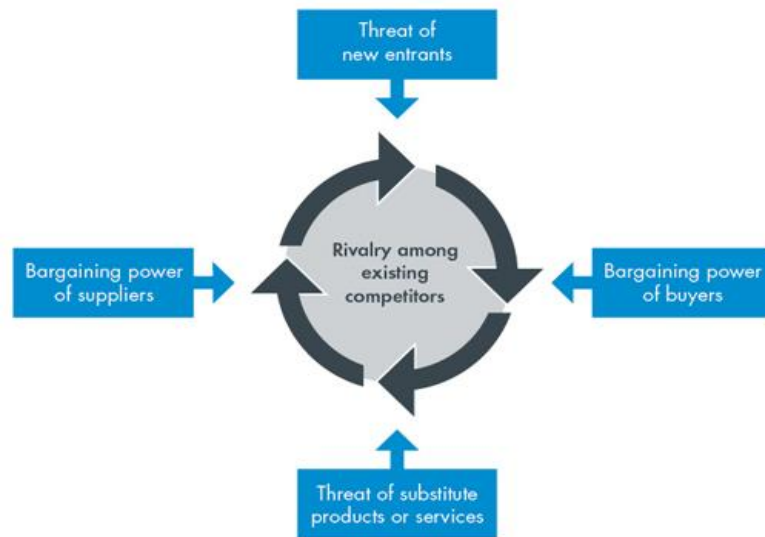


FIGURE 3. Porter’s Five Forces model (adapted from Chartered Global Management Accountant 2014)

These five forces include competitive rivalry, threat of new entrants, threat of substitute products or services, bargaining power of buyers, and bargaining power of suppliers. Farther, each of these forces is presented and explained.

Force 1: Competitive rivalry

The intensity of competition including number, strength, aggressiveness of competitors in an industry is the force number one influencing on an industry’s attractiveness (Kotler et al. 2012, 332). The competitive rivalry is considered to be high when similar-sized companies present in the same market, they have similar strategies, offered products have similar features and the benefits that the customers get from companies’ products or services are alike, growth in the industry is slow, exit barriers are high and entry barriers are low. In that case, prices, profits and strategies are driven by high competitive pressure. Whereas in case of competitive rivalry absence, a company can freely set prices and profit margins without being threatened by strong competition and fear to lose its customers. (Entrepreneurial insights 2014.)

Force 2: Threat of new entrants

Threat of competition might be caused not only by the existing players in the market but also by the risk of new entrants (Entrepreneurial insights 2014). The threat of new

entrants mostly depends on the market entry barriers. When the segment is attractive, and entry barriers are low, new firms enter the market and competition increases. The worst case scenario, when entry barriers are low, and exit barriers are high, results in chronic overcapacity and limited earnings for all the players in the market. (Kotler et al. 2012.) The barriers to enter the market may arise from the following: high initial investment required, government regulations, economies of scale, patents, difficulty in accessing distribution channels, etc. (Chartered Global Management Accountant 2014).

Force 3: Threat of substitute products or services

Porter defines substitute products as products that exist in another industry but may be used to fulfil the same need. More substitute products exist – larger the competitive environment of the organization is, and the chances that customers will switch to a substitute product as a respond to the increase of price are higher. Generally the threat of substitutes is affected by the following factors: brand loyalty, switching costs (the costs are higher, when it is more difficult to execute a switch from one product to another), prices, trends and fads. (Chartered Global Management Accountant 2014; Entrepreneurial insights 2014.) The segment is considered unattractive when there are many actual or potential substitutes for a product or service (Kotler et al. 2012).

Force 4: Bargaining power of buyers

Analyses of bargaining power of buyers show how easy the buyers can affect prices in the industry. The most important determinants of buyer power are the number of buyers in the market, importance of each individual buyer to the company, buyers cost of switching from one supplier to another (bargaining power is higher when switching costs are low). (Chartered Global Management Accountant 2014; Entrepreneurial insights 2014.) In order to protect themselves, companies should develop superior offers, build strong brands, and etc. The segment is unattractive if the buyers possess strong or growing bargaining power. (Kotler et al. 2012.)

Force 5: Bargaining power of suppliers

Suppliers that provide raw materials needed to produce goods or services possess power to raise prices or reduce volumes of supplied goods in accordance with industry dynamics. Suppliers have this power especially when there are not many suppliers in the market, switching costs to another supplier are high or there are no alternatives, supplier holds a patent or has proprietary knowledge. (Entrepreneurial insights 2014.) The best defence of a company can be building win-win relationships with suppliers and/or use multiple supply sources (Kotler et al. 2012).

2.2.3 Internal environment

In case a company is already present in a market, its internal environment must be analysed before external market analyses (Ferrell & Hartline 2011, 93). Internal environment, i.e. environment within a firm, includes factors that are controllable by the company. These factors are company objectives, strategies, decisions regarding marketing mix, management and employees, physical resources including infrastructure, vision and mission, research and development activities, working conditions, etc. (Jain et al. 2010.) The task of a company is to organize these controllable elements in the way that they benefit the company, and do adjustments in respond to changes in the external environment (Cateora & Graham 2007, 11).

With the purpose to analyse the internal environment, first of all, the company's current marketing objectives must be reviewed, they must be consistent with the company's mission and external environment. Second, the complexity of the strategic planning process, i.e. the process of identification and establishment of a company's corporate strategy, marketing goals and plans should be considered. The complexity or straightforwardness of the process depends on a company's size and structure, for example strategic planning for large multinational corporations is very complex, whereas planning for a sole proprietorship is rather simple. (Pride & Ferrell 2014, 47.) Third, the current and anticipated organizational resources should be reviewed. These include the examination of financial and human resources, relations with supply chain members and other partners. (Ferrell & Hartline 2011, 92-95.)

SWOT analysis is the overall evaluation of an organization's strengths, weaknesses, opportunities, and threats. These are visualized via SWOT Matrix, demonstrated in the figure 4. Based on the internal analysis, the company's strengths and weaknesses are identified. Whereas, the external analyses allow the company to formulate its opportunities and threats. (Kotler et al. 2012, 111.) This is a helpful tool for the company to structure and assess the fit between what it can and cannot do (strengths and weaknesses), and the external conditions that work for and against it (opportunities and threats) (Ferrell & Hartline 2011).



FIGURE 4. SWOT Matrix (adapted from Kotler et al. 2012, 112)

It can be beneficial to assess the matrix quantitatively. First, it is necessary to quantify the magnitude of each element, i.e. the significance of each element's impact on the company. For example, a scale of 1 – low, 2 – medium, 3 – high magnitude for each strength and opportunity, and –1 – low, –2 – medium, –3 – high for each weakness and threat can be used. Next, the importance of each element must be rated: 1 (weak importance), 2 (average importance), or 3 (major importance). Then, the magnitude ratings are multiplied by the importance ratings. The highest total ratings (positive or negative) are the most important for establishment of the company's focus or direction. It is important to notice that the ratings of magnitude and importance should be influenced not only by the manager's but also by customers' perceptions. (Ferrell & Hartline 2011; Kotler et al. 2012.)

In fact, the overall international marketing strategy and each of its four elements – product, promotion, distribution, and price strategies – depend on the target customer. This interrelation is shown in the figure 5. Therefore, selection of target market is an important decision, and without a clear focus, nothing can ever be achieved. (Sarin 2013, 20.)



FIGURE 5. Interaction between target customer and the strategies (adapted from Sarin 2013, 20)

As any market – domestic or foreign – is a collection of buyers with different preferences, needs and wants, thus it becomes necessary to identify and profile groups of customers to plan the right combination of product, price, distribution, and promotion strategies, and achieve maximum penetration of the market (Ferrell & Hartline 2011, 152; Doole & Lowe 2012, 104). This becomes possible with market customization, i.e. segmentation, targeting and positioning (Kotler et al. 2012, 395). The next subchapter concerns these issues.

2.3 Marketing customization

According to Kotler et al. (2012, 367), effective target marketing includes the following steps: (1) identify and profile distinct groups of customers (market segmentation); (2) select one or more market segments to enter (market targeting); and (3) for each target segment, create and communicate the distinctive benefits of a firm's offering (market positioning). Farther, these steps are presented.

Market segmentation and market targeting

Market segmentation is the process of dividing of the total market for a product or product category into segments that are homogenous to some extent. However, in reality the most fundamental decision a company has to make is whether to segment the market at all. The majority of companies do segment the market, and target one or more segments, because of the belief that they can achieve a success when they have a clear focus: they deliver the product that fits specific needs of people in the defined segments. There are two major segmentation approaches that it can apply if it decided to segment the market: differentiated and niche marketing. (Ferrell & Hartline 2011, 167.)

Differentiated marketing. It is means dividing the total market into customer groups who have similar needs, but these needs differ among other groups. There are two sub approaches: multi-segment marketing and market concentration. *Multi-segment marketing* is attracting buyers in more than one segment by offering varieties of a product that appeals to different needs. For example, a company sells coffee under different brands and with different positioning strategies to satisfy different needs. *Market concentration* is used by a firm that focuses on a single market segment and tries to maximize its market share in that segment, but by “putting all of its eggs in one basket”, firm gets vulnerable to segment changes. (Kotler et al. 2012.)

Niche marketing. Companies focus on small and well-defined market segments or niche. The customers share unique and special needs, and they are ready to pay higher prices for the products or service that can satisfy them. An attractive market niche has its growth and profit potential, and it does not appeal attractive to competitors. (Ferrell & Hartline 2011.)

In order to segment a market, the company needs to identify the most important traits of customers and consider the nature of the market. The major categories of segmentation bases that can be used by the company to cluster the market are geographic, demographic, behavioural, and psychographic variables. (Kotler et al. 2012; Doole & Lowe 2012.) The segmentation bases with examples are presented in the figure 6.

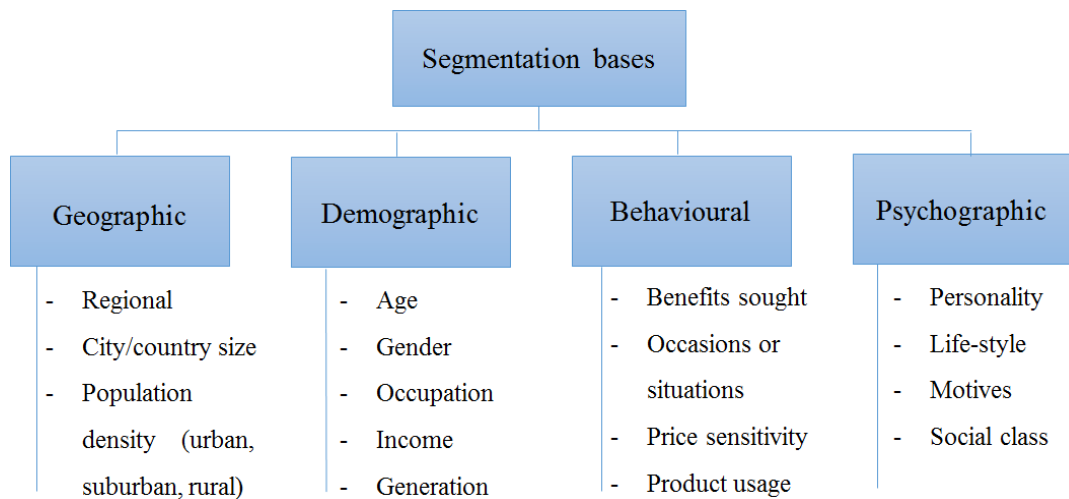


FIGURE 6. Customer market segmentation bases (Kotler et al. 2012)

According to Kotler et al. (2012), not all segmentation approaches are useful, thus in order to be able to profoundly assess the effectiveness of market segments, the company should assess them on the following criteria:

1. Measurable. Characteristics of the segment's members must be measurable, including size and purchasing power.
2. Substantial. The segment must be large and profitable enough, so that potential profits are greater than costs needed to create a marketing program.
3. Accessible. The segment must be effectively reached in terms communication (advertising, mail, telephone, and etc.).
4. Differentiable. The segments are distinguishable and they respond differently to various marketing mix elements and programs.
5. Actionable. The formulation of effective marketing programs to attract and serve the segments must be feasible.

Evaluating the market segments, the company has to look at the potential segment attractiveness, and its objectives and resources. Once the different segments are evaluated, the company should consider five patterns of target market selection. (Kotler et al. 2012, Ferrell & Hartline 2011.) These are illustrated in the figure 7.

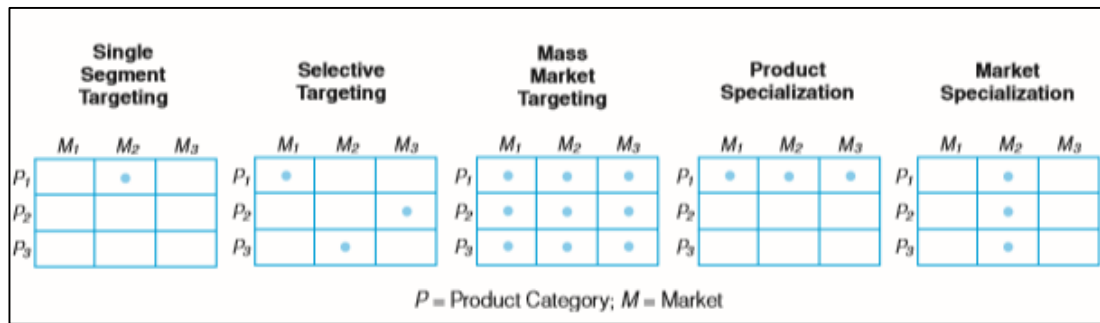


FIGURE 7. Five patterns of target market selection (Ferrell & Hartline 2011, 182)

1. Single segment targeting. A company that applies single segment targeting focuses on satisfying needs of a specific market segment. It has better understanding of the segments' needs and preferences, but still the company gets vulnerable to competition and decreasing profitability of that segment.

2. Selective targeting. A company chooses to operate in a few market segments, which it finds attractive and where its capabilities match customers' needs. There might be synergy between segments. This strategy's advantage is diversification of the risks.

3. Mass market targeting. Only large companies are able to do mass market targeting. There are two types of mass market targeting: (1) *Undifferentiated marketing*, when a company ignores segments' differences and trades with a single offer; and (2) *Differentiated marketing*, when a company develops multiple marketing programs in order to serve each of the segments in the market.

4. Product specialization. A company develops a single product that can be sold in many different market segments. It adapts product specifications in order to match the diverse needs of each customer group. The possible risk is development of new technology that will make a product or service offering unattractive.

5. Market specialization. A company focuses on serving many various needs of a defined customer group. It creates customized marketing programs that help not only to deliver a product or service but also provide solution to a customers' problem. This way the company builds a strong reputation in serving this specific group of customers. (Ferrell & Hartline 2011, 181 – 183.)

Market positioning

When the company selects the market(s) it wants to target, then the important task is to formulate the value that this product offers to each group of customers, in other words, the company should create and maintain a desired position for a product in the minds of its target market. This can be achieved through *positioning*, which means placing a brand in a defined part of the market where it will be more favourable in comparison with competing products. Positioning creates mental image of a product or service and its differentiating features in consumers' minds, and this mental image can be based on real or imaginary benefits of the offering. (Ferrell & Hartline 2011, 209.)

The process of creating a favourable position includes identification of product characteristics and attributes that are valuable to the customers; examination of the distribution of these attributes among various market segments; comparison of the position of the product with positions of its competitors in regard to product attributes, needs, wants and benefits desired by the target market; and identification of the unique position of the product, which is based on match between product characteristics, their distribution among segments and the positions of the existing brands. (Doole & Lowe 2012; Ferrell & Hartline 2011.)

Depending on the company's goals and overall strategy, it may have one brand placed in one or more market segments or a few brands placed in different segments. When a company positions *a single brand*, it can either associate itself with the core segment in the market where it can dominate and stand competition, or try to cover the whole market with a single brand without any differentiation. However, in order to achieve tactical flexibility and growth by offering a variety of products in diverse market segments, a firm can introduce *multiple brands*. Then the brands must be diligently positioned through design and promotion so that they uniquely fit a certain segment. (Kapferer 2008.)

The right positioning is beneficial not only to internal but also to various external stakeholders such as customers, suppliers, distributors, wholesalers and retailers. The positioning is perfect when the seller supplies the right offering, and the buyer finds the right offering. (Kotler et al. 2012; Ferrell & Hartline 2011.)

3 DISTRIBUTION STRATEGY DEVELOPMENT

Marketing professors Onkvisit and Shaw (2004, 345) draw a parallel between blood diamond and other products, and argue that “any products, no matter how good they are, are unlikely to gain market acceptance without being made available at a time and place that are convenient for final users.” This chapter concerns channels of distribution, their development and management, factors influencing these decisions, as well as organization of physical distribution of goods.

3.1 Channels of distribution: selling channels

Channels are well-organized structures of buyers and sellers that bridge the gap of time and space between the manufacture and the end customer (Doole & Lowe 2012). *Selling (can also be called marketing) channel* represents a system of marketing institutions through which products, resources, and information flow from the producer to the end user. This channel is concerned with non-physical aspects of the transfer such as negotiations, the purchasing and selling of the product, and the ownership of goods as they are transferred through various distribution systems. (Ferrell & Hartline 2011, 265.)

Whereas *physical distribution* means coordination of the information and goods flow among the involved parties of the channel, in the way that the goods are available in the right places, at the right time, in the right quantities, and in a cost-efficient manner (Ferrell & Hartline 2011, 265). It involves not only physical movement of goods, but also location of plants, warehousing (storage), transportation, inventory quantities, etc. (Cateora & Graham 2007, 453).

It is important that manufacturers, who want their goods to be available in foreign markets, define the *channel objectives*, before ‘building’ a channel between them and the end customers. Based on these objectives the most appropriate distribution channel structure can be developed. The main goals may be the following: product availability and visibility for the customers, mutual cooperation between the manufacturer and the intermediaries, the end-users receive desired level of service, distribution costs are minimized, the desired information flow is achieved (e.g. number of sales, inventory, etc.). (Onkvisit & Shaw 2004.)

The fundamental issue of distribution planning is a company's choice of a distribution channel. Two principal channels when marketing abroad are indirect and direct selling. (Onkvisit & Shaw 2004, 346 - 349; Doole & Lowe 2012.) Table 3 summarizes the main characteristics as well as advantages and disadvantages of indirect and direct selling channels.

TABLE 3. Direct and indirect selling channels (Onkvisit & Shaw 2004, 346 - 349; Doole & Lowe 2012)

<i>Indirect selling channel</i>	
<i>Characteristics</i>	Indirect selling channel can also be called as the local or domestic channel. It can be applied when a manufacture wants to employ a domestic sales intermediary, which acts as the manufacturer's external export organization and is responsible for export of goods.
<i>Advantages</i>	The channel is simple and enables reduction of exporting costs. The manufacturer incurs no start-up costs for the channel, and it is not responsible for physical movement of goods overseas.
<i>Disadvantages</i>	The company has little control over how, when, where and by whom the products are sold. If products stop being profitable, or a competitive product offers a better profit potential, the channel intermediaries can stop the contract.
<i>Direct selling channel</i>	
<i>Characteristics</i>	It is employed when a manufacturer develops an overseas channel. It deals directly with the foreign party: sets the channel, takes care of the international activities, is responsible for physical distribution, exports through its own internal export department.
<i>Advantages</i>	Direct selling channel enables active marketing exploitation, greater control over the market and elements of marketing mix, improved feedback about the performance of the exported goods, and the manufacturer does not have to agree transaction with middlemen.
<i>Disadvantages</i>	It is a difficult channel to manage due to unique and unfamiliar foreign market traits. It is an expensive and time-consuming channel, which cannot be affordable without large sale volumes.

Having considered pros and cons, the company gets an idea of the selling channels. Then an important step is to consider the types of intermediaries that can be involved in the process of distribution. (Doole & Lowe 2012, 326.)

3.1.1 Types of intermediaries

Nearly every international company is forced by the market to use at least some middlemen in its distribution arrangement. The structural arrangements of domestic and foreign distribution might seem alike, but this is misleading. Companies should understand various intricacies of distribution patterns in a foreign country, and take the country's unique characteristics into account when choosing a selling channel and intermediaries. Various types of middlemen can be involved in distribution process. (Cateora & Graham 2007, 405; Onkvisit & Shaw 2004, 349.) Figure 8 illustrates direct and indirect selling channels and lists different types of intermediaries.

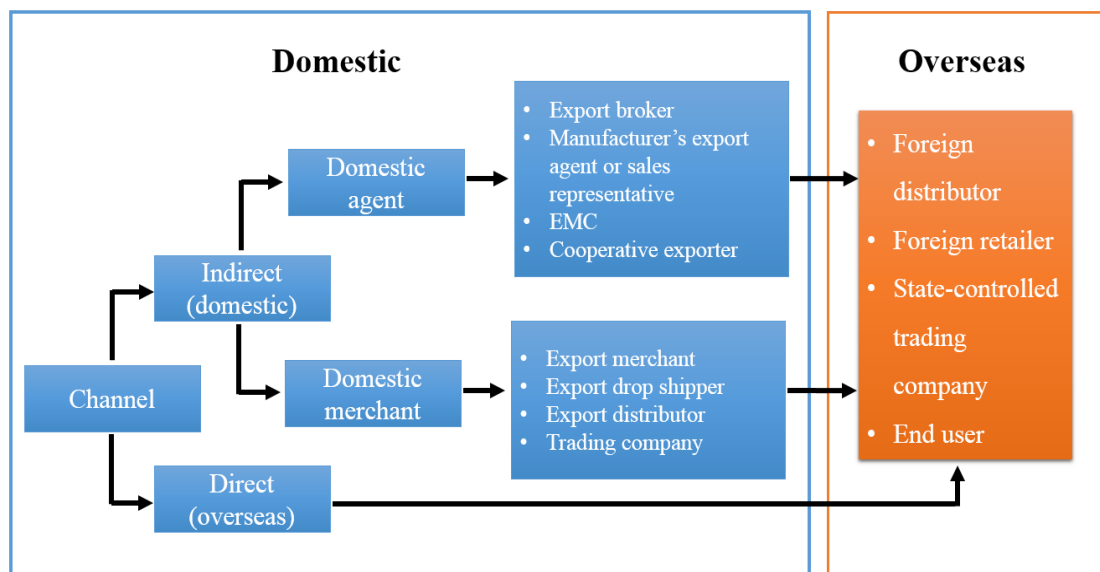


FIGURE 8. International channels of distribution (adapted from Onkvisit & Shaw 2004)

When a company builds a *direct selling channel* to a foreign market, it can distribute its goods to the following parties:

1. **Foreign distributor.** Distributors buy products from the manufacturer at a discount and then resell or distribute them to retailers or end-users. The contract established

between them is renewable as long as the conditions are beneficial for both. The distributor is a merchant who buys and maintains merchandise in its own name, and this simplifies the credit and payment activities for the manufacturer.

2. **Foreign retailer.** Manufacturers and retailers engage in direct trade relationships to decrease costs and personally discuss prices and other issues. Generally, manufacturers that produce very expensive and large products prefer to work without intermediaries.
3. **State-controlled trading company.** Special products, for example telecommunication equipment, agricultural machinery, and technical instruments, must be sold only to state-controlled companies. These companies have monopoly in buying and selling a set of specific goods, and they are controlled by the government's policies and regulations.
4. **End user.** For some manufacturers, that for example produce costly industrial products, it is reasonable to sell directly to the end-users. The difficulties that might arise are duty and clearance problems, for example when a customer orders goods without understanding of his/her country's import regulations. (Onkvisit & Shaw 2004; Cateora & Graham, 2007.)

Choosing an **indirect selling channel**, manufacturers collaborate with one or more domestic intermediaries, which move and sell the goods to foreign parties or end-consumers. All the local middlemen can be divided into two broad categories: *domestic agent* – it represents the manufacturer, and it can make contracts on its behalf, but it can never take title to goods; and *domestic merchant* – it represents the manufacturer's goods and takes title to those goods, but it has no power to make contracts on behalf of the manufacturer. (Onkvisit & Shaw 2004; Rushton et al. 2014; Cateora & Graham 2007.)

Domestic agents:

1. **Export broker.** This is an individual or organization that operates under its own or manufacturer's name in one or more markets, negotiates the most favourable conditions for the manufacturer, but cannot conclude the deal without the manufacturer's approval. The broker performs only the contractual function. It gets paid for any action performed.
2. **Manufacturer's export agent or sales representative.** This is an independent external person, who works on the permanent basis, but does not operate under the

manufacturer's name. The task is to make potential buyers interested in the manufacturer's products by presenting literature, products' samples, and other materials.

3. ***Export management company (EMC)***. EMC is an organization that is responsible for the whole manufacturer's export program as well as for programs of other manufacturers as long as the exported goods do not compete against each other. It performs activities under the manufacturer's name, and it makes arrangements starting from promotional activities to export documentation.
4. ***Cooperative exporter (piggyback exporter or export vendor)***. This is an organization which in addition to manufacturing acts as an export agent, it is responsible for organizing shipping. Cooperative exporter can have goods in possession but not the title. The business objective of this exporter is to decrease own costs by sharing them with other companies which want to sell their products in the same market(s). (Onkvisit & Shaw 2004; Rushton et al. 2014.)

Domestic merchants:

1. ***Export merchant***. This is an independent organization, which goal is to make profit. The task is to look for the unmet needs in a foreign market and fulfil the needs with products purchased from manufacturers in its home country. The merchant can possess the goods and resell them in foreign markets under its own name.
2. ***Export drop shipper***. This intermediary receives an order for a foreign buyer, places order for a manufacturer and informs where to 'drop shipped' directly to the overseas buyer.
3. ***Export distributor***. This distributor, located in the manufacturer's country, can represent it and sell goods in foreign market(s) under own or the manufacturer's name. The export distributor organises shipment and selling of the goods abroad, and it takes the risks.
4. ***Trading company***. Generally, it is a large company which buys and sells goods, engages in production, goods accumulation, physical distribution channel development, marketing planning arranges transportation and prepares documents for customs, searches for buyers and etc. It does not represent manufacturers or buyers, it can take title to goods. (Rushton et al. 2014; Cateora & Graham 2007.)

In some cases, the manufacturer may use both indirect and direct selling channels simultaneously. The decisions on using a direct or indirect selling channel and type of intermediaries is influenced by a number of factors. (Onkvisit & Shaw 2004.) Farther, these are presented and explained.

3.1.2 Distribution scope

A manufacturer has three strategic alternatives in terms of market coverage. It can pursue: exclusive distribution, selective distribution or intensive distribution. (Kotler et al. 2012.) The explanations, their advantages and disadvantages, and examples are presented in the table 4.

TABLE 4. Distribution scopes (Ferrell & Hartline 2011, 270; Kotler et al. 2012, 707)

<i>Distribution scope</i>	Exclusive	Selective	Intensive
<i>Explanation</i>	A particular retailer sells a product to a specific market segment in a defined geographic area. High price, high margin and lower sales volumes are traits of exclusive distribution.	Several retailers have the right to sell the products in specific area. Customers compare these goods on price/quality basis.	A product is available at maximum number of retail outlets, carried by numerous retailers in a defined area. Products are visible in as many places as possible.
<i>Advantages</i>	Dealer loyalty, better sales forecasting and inventory control, high level of customer service.	High sales volumes can be generated by a relatively small number of retailers.	High sales volumes and high product visibility, impulse buying.

[Continues]

[Continues]

<i>Distribution scope</i>	Exclusive	Selective	Intensive
<i>Disadvantages</i>	Sales volume might be easily lost. When sales are depressed, the retailer can dictate terms to the other channel members.	Risk of inadequate market coverage and choice of retailers and outlets. Retailers can influence producers to reduce the number of retail outlets.	Products are low-priced and low-margin, thus fast turnover is needed. Due to many retailers, manufacturers give up good control over pricing and product display.
<i>Examples</i>	Jaguar, Gucci, Rolex.	Clinique cosmetics.	Bic pens, Lay's chips.

Additionally, the issues such as of degree of coverage, degree of control, cost of distribution, dealer support and training are important issues that should be considered by a manufacturer choosing its distribution scope (Paley 1999, 301). These are illustrated in the figure 9.

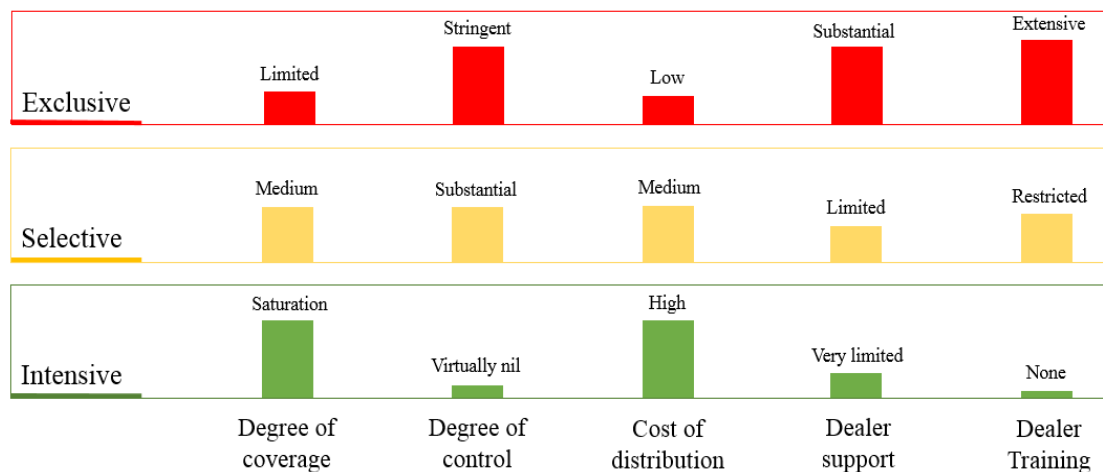


FIGURE 9. Considerations in choosing distribution scope (Paley 1999, 301)

Distribution is quite inflexible, thus the decision regarding distribution scope must be done accurately. However, a company can pursue a specific distribution scope, but in

reality there are numerous firms that do not *exactly* belong to one of the scopes. (Ferrell & Hartline 2011.)

3.1.3 Channel decisions

Making a distribution strategy for operation in a foreign or domestic market, three important decisions regarding distribution channels must be made by a manufacturer: channel length and width, and number of channels of distribution (Onkvisit & Shaw 2004, 361).

Channel length means how many times the product changes hands among middlemen before it reaches the end-user. If the product has to go through a few intermediaries, then the channel is considered long. The channel is short when the manufacturer moves its product through one or two intermediaries. In case the product is sold directly to the end customer, the distribution channel is direct. (Sb.) Generally, the relationship between channel length and size of purchase is inverse: bigger purchase – shorter channel (Cateora & Graham 2007, 406). Whereas *channel width* is concerned with the number of intermediaries at a particular phase in distribution channel. More middlemen at a particular point of distribution – wider and more intensive the channel becomes. The channel is selective if a few qualified intermediaries are used. The channel is exclusive if only one specific intermediary carries the product. The channel is intensive if many intermediaries are involved in distribution. (Onkvisit & Shaw 2004, 362.)

In some circumstances, it may be beneficial for a manufacturer to use a *number of distribution channels*, i.e. multichannel strategy. With the purpose to satisfy needs of different segments, manufacturers can deliver goods through diverse channels, which can be classified as complementary and competitive channels. When complementary channels are used, different noncompeting products or market segments are handled by different channels. For instance, a company can serve another market segment through an additional distribution channel. In case the same product is sold through different but competing channels, competitive channels strategy exists. For example, when two or more retailers must compete against each other. The idea that use of competitive channels leads to sales increase is debatable. (Doole & Lowe 2012; Onkvisit & Shaw 2004.)

3.1.4 Determinants of channel types

On the whole, the choice of a selling channel depends on different factors, they can be grouped into product, market, company and middlemen considerations (Rushton et al. 2014; Cateora & Graham 2007). These determinants are presented in the table 5.

TABLE 5. Determinants of channel types (Rushton et al. 2014; Keegan 2001; Cateora & Graham 2007)

<i>Determinant</i>	<i>Explanation</i>
<i>Product</i>	<ul style="list-style-type: none"> • Depending on the product image, the manufacturer may choose to distribute the product in a particular way (e.g. exclusive versus intensive distribution) • Product characteristics influence the way goods are distributed (e.g. a low-priced product with high turnover requires an intensive distribution network) • Transportation requirements (some products require a special physical distribution, e.g. frozen food, glass) • Complexity of a product (for complex products direct selling is preferable)
<i>Market</i>	<ul style="list-style-type: none"> • Consumer or industrial market (a product for industrial market is recommended to be distributed through a short channel) • Market size and spread from geographic point of view (e.g. if the market is large and widespread, the company has to use a long channel) • Shopping habits of buyers • Size of order (e.g. longer distribution channels are preferred if customers buy in smaller quantities and frequently) • Local laws can limit choice or forbid some types of channels or middlemen, influence channel width and scope of distribution (e.g. exclusive distribution), force a firm to go through a local agent or distributor

[Continues]

[Continues]

<i>Determinant</i>	<i>Explanation</i>
<i>Company</i>	<ul style="list-style-type: none"> • Size and financial strength (only large companies can afford own warehouse and transport facilities) • Past experience with a particular channel • Reputation • Company's strategic goals
<i>Middlemen</i>	<ul style="list-style-type: none"> • Availability in a specific area and experience • Services provided by intermediaries • Increase of number and widening of channels lead to competition among channel members and possibility of conflicts • Channel cost (costs to develop and maintain the channel) • Levels of control (price, volumes, promotion, etc.)

Summarizing, there are numerous factors affecting channel decision, and some of them are interrelated. Onkvisit and Shaw (2004, 366) argue that overseas distribution channel choice is especially influenced by foreign culture. In case a manufacturer wants to have a good level of control over its product, it has to shorten and narrow the distribution channel, which is a quite challenging task when the product is distributed overseas. (Sb.)

3.1.5 Channel structure

Marketing/selling channels may involve many diverse players at different levels of distribution that have their own goals (Ferrell & Hartline 2011, 272). Four types of channel structures can be identified, where various levels of control and management are exercised through integration. These four types include conventional marketing channel, vertical horizontal and multichannel marketing systems. (Hollensen & Opresnik 2014, 253.)

The traditional marketing channel, i.e. *the conventional marketing channel*, can consist of independent manufacturer(s), distributor(s), wholesaler(s), and retailer(s). Responsibilities of each member are limited to its task, for example, manufacturer worries about making products, and retailer – selling the products. None of them has significant control over each other. Their goals are to maximize own profits and minimize own

costs even if some of their action are harmful for the system as a whole. Evolution of this marketing channel led to development of three marketing systems: vertical, horizontal, and multichannel marketing systems. (Kotler et al. 2012, 716; Hollensen & Opresnik 2014, 253.)

Vertical marketing system (VMS) includes the manufacturer(s), wholesaler(s) and retailer(s) who act as a unified system. In VMS one of the members can own the others, franchise them or possess so much power that the other members find it beneficial to cooperate. The strongest member attempts to control the channel, and it tries to eliminate conflicts over other members, i.e. independent organizations perusing their own goals. (Kotler et al. 2012, 717; Panda 2009, 442.) VMS can be classified into three types:

1. **Corporate VMS.** Successive stages of production and distribution are combined under the single ownership.
2. **Administrated VMS.** A dominant, in regard of size and power, member of the channel coordinates stages of production and distribution.
3. **Contractual VMS.** A number of independent companies get involved in the process of production and distribution. They integrate their programs on contractual basis in order to achieve more economies or sales impact, than they could achieve on their own. (Kotler et al. 2012, 717.)

Horizontal marketing systems (HMS) is a type of channel arrangement, where two or more different independent organizations join their forces and combine their resources to exploit a new market opportunity. These organizations can work either on permanent or temporary basis. Generally, companies get involved in HMS for lack of capital, knowledge, marketing resources or production capabilities, or in case they are afraid of taking a risk on their own. This is an opportunistic arrangement. Each company has identified the strength of the other that it can utilize to its own advantage, as a result, both of them can achieve better results and beat the competition. (Panda 2009, 443; Kotler et al. 2012, 718; Havaladar & Cavale 2006.)

Multichannel marketing systems (MMS) occur when a company employs two or more channels in order to serve one or more customer segments (Hollensen & Opresnik 2014, 260). The number of companies adopting this system is increasing. The main reasons

of that phenomenon are the possibility to increase market coverage, lower channel costs, and organize more customized selling. The consequences of having multiple channels are complexity of channel management, control, and cooperation, as well as high chances of channel conflict. Thus, before implementing MMS or adding an extra channel, companies should carefully plan their channel structures identifying which functions each channel should perform. (Panda 2009, 443; Doyle & Stern 2006, 335.) The presented and explained four types of channel structures are illustrated in the figure 10.

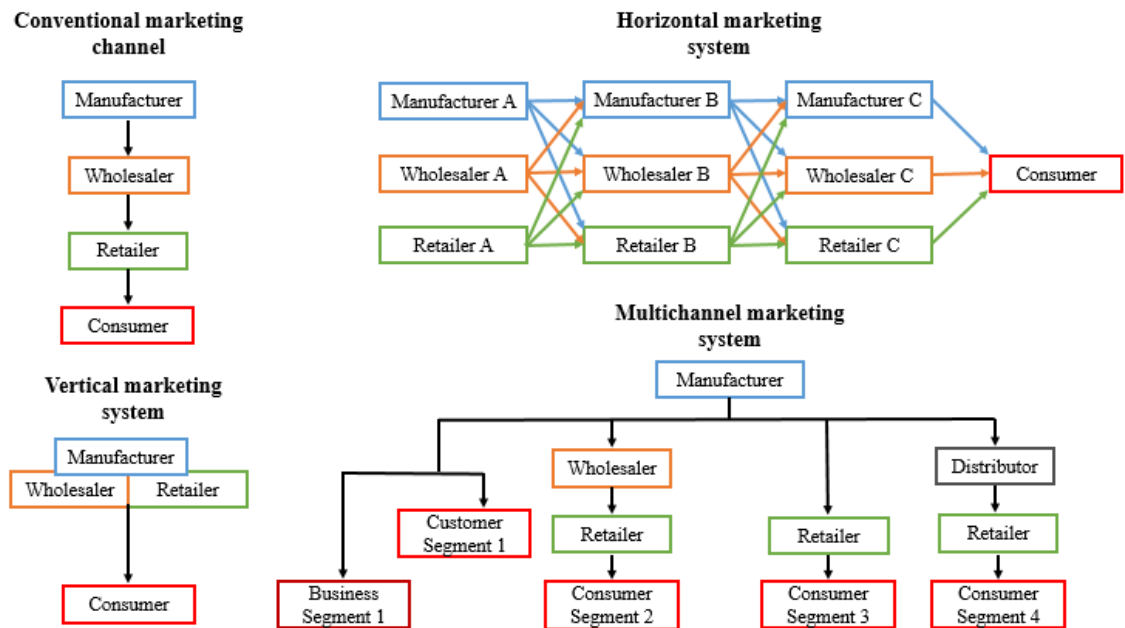


FIGURE 10. Conventional marketing channel, vertical, horizontal and multichannel distribution systems (Kazmi 2007; Panda 2009)

Summarizing, with the passage of time significant changes have taken place in business environment. These changes have made a serious impact on distribution organization, making distribution channel structure more complex, and relationships between the parties involved in the process more valuable. (Kazmi 2007; Panda 2009.)

3.1.6 Channel conflict

Channel conflict is a situation in which actions of one of the channel members prevent another member(s) from achieving its goals. Even if channels are well-organized and managed, a conflict may still occur. Depending on a marketing system employed by a company, the possibilities of its channel(s) conflict can be higher or lower. (Kotler et

al. 2012, 722.) The goal of the company is to achieve “win-win” collaborative approach, in which channel members have a strong will to work together to increase profits with respect to other members, reduce costs and channel inefficiencies, and satisfy the ultimate customers. (Ferrell & Hartline 2011, 272.)

Three types of the conflicts, which may occur between channel members, are horizontal channel, vertical channel and multichannel conflicts, may arise (Kotler et al. 2012, 722; Kazmi 2007, 460). These are presented in the figure 11.

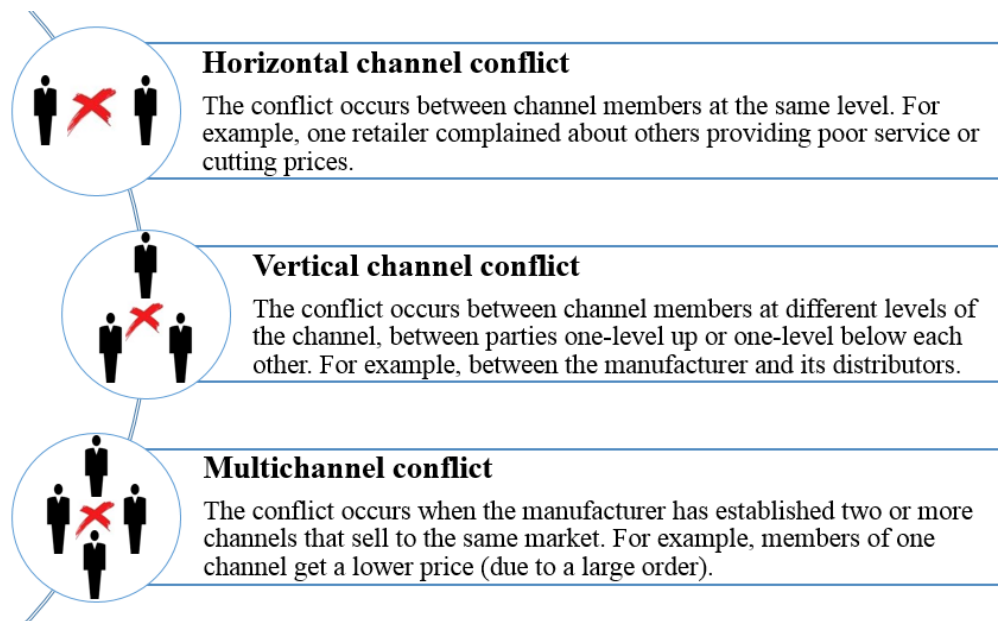


FIGURE 11. Types of channel conflicts (Kotler et al. 2012, 722; Kazmi 2007, 460)

The causes of channel conflicts are diverse. Some of them can be easily resolved, others cannot be resolved at all. Four main *causes of conflicts* can be identified, they are the following: (1) goal incompatibility (the manufacturer’s long term plans may not coincide with dealers’ plans, pursuing short-run profitability); (2) unclear rights and responsibilities (lack of detailed information in contracts between channel members); (3) differences in perception (disputes arising between a manufacturer and its distributors regarding future market demand and the need to increase the inventory); (4) intermediaries’ dependence on the manufacturer (manufacturers’ decisions to increase price may not be desirable by their middlemen). (Kotler et al. 2012, 723.)

Some of the mechanisms for effective conflict management are the following:

- *Strategic justification.* Justification that channels serve distinctive segments, and different brands are distributed through different channels can reduce chances on conflicts.
- *Communication.* Regular communication between the manufacturer and the channel members regarding changes in the market, product performance, company's plans and etc. The information can be communicated with, for example, an in-house newsletter.
- *Fundamental goal.* The manufacturer and the channel members come to an agreement on a superordinate goal which is sought by everyone. For example, high customer satisfaction.
- *Diplomacy, mediation and arbitration.* When every involved party is willing to mutually resolve a conflict, then diplomacy takes place. Sometimes a conflict can be resolved only through arbitration (the conflicting parties present their arguments to an arbiter) and mediation (third party conciliates the interests of conflicting parties). (Saxena 2010, 462; Kotler et al. 2012, 723.)

Channel conflicts are diverse, and not all of them have negative impact. In some cases, a conflict can contribute to the channel adaptation to a changing market environment. Thus, the task is not to eliminate all the conflicts but to manage them effectively. (Saxena 2010, 462.)

3.1.7 Channel evaluation and modification

Before modifying its distribution channels, i.e. adding, eliminating or changing a channel, a manufacturer should make an appropriate evaluation of the current channel and/or a possible new channel of distribution. The evaluation includes criteria such as cost of distribution, market coverage and penetration, customer service, communication with the market, and control of distribution networks. (Cateora & Graham 2007.)

Criteria 1: Cost of distribution. First of all, a manufacturer should calculate the costs involved in distribution through a specific channel. The list of costs may include packaging, shipping, inventory, warehousing, advertising, customer service, and other

groups of costs. A correct assessment of the cost of distribution is indicative when a manufacturer has distributed its goods through a particular channel for a few years.

Criteria 2: Market coverage and penetration. Market coverage is the number of active retail and/or wholesale outlets that sell the company's defined brands in a specific market. Market penetration shows the percentage of the target market that consumes the product. These measures are not precise enough, thus customers of a manufacturer need to be organized in groups and then classified as large, medium or small. The basis for classification can be annual turnover, number of clients, etc.

Criteria 3: Customer service. Different types of businesses provide customers with various levels of customer service. In order to satisfy diverse consumer segments, the information regarding the services they may require must be gathered. A scientific approach is to list all the desirable services, give them weight (value), and rate channels in regard of ability to provide these services. As a result, a manufacturer can rank the channels.

Criteria 4 and 5: Communication and control. In this context, control means a manufacturer's involvement in the process of distribution to achieve the desired results together. Communication is the information flow between the manufacturer and its intermediaries. Each channel should be rated according to its willingness and capabilities in providing the manufacturer with desired sort of information (new products and promotional activities of competitors, customer attitudes, reasons of success of a specific product or line of products, etc.), which should be accurate and relevant. (Cateora & Graham 2007; Doole & Lowe 2012.)

Based on the channel(s) evaluation, if the results of this evaluation are unacceptable, the manufacturer should consider channel modification. However, even when the results of the channel evaluation are acceptable from the manufacturer's perspective, still the manufacturer should definitely reconsider its distribution channel structure and make appropriate modifications if there are changes such as the manufacturer's financial situation, decrease in sales volumes of the current products in the market, macro-environment factors (e.g. changes in political situation), product (e.g. new product launch), etc. (Onkvisit & Shaw 2004.)

3.2 Physical distribution

Physical distribution is coordination of the information and goods flow among the involved parties of the channel, so that the goods are available in the right places, at the right time, in the right quantities, and in a cost-efficient manner (Ferrell & Hartline 2011, 265). It involves not only physical movement of goods (transportation), but also location of plants, warehousing (storage), inventory quantities, etc. (Cateora & Graham 2007, 453). With an effectively organized physical distribution system, a company can optimize its transportation costs, levels of inventory, volumes of production, and labour force (said book, 456).

International physical distribution of goods is more complicated than domestic distribution due to increased distance (e.g. increased transport time, cost, and inventory), higher number of various transportation modes to consider (with their specific documentation and packaging), and greater market complexity (e.g. language differences, documentation and formalism). Planning international physical distribution, a company needs to consider (1) availability of transportation modes, (2) services of freight forwarders, (3) export documentation required, (4) packaging requirements for transit, (5) export sales contract. (Doole & Lowe 2012, 347.)

3.2.1 Transportation modes

The main transportation modes are water, air, road, and rail transportation (Onkvisit & Shaw 2004, 388). They are demonstrated in the figure 12 and compared on type of shipment and goods, and operating characteristics such as availability in different locations, speed, frequency, and cost.

	WATER	AIR	ROAD	RAIL
Goods	Large shipments, heavy products	Small shipments and light goods	Medium shipments, heavy goods	Large shipment, heavy products
Availability in different locations	Limited	Average	Very extensive	Low
Speed	Slow	Very fast	Fast	Average
Frequency	Low	Average	High	Low
Cost	Very low	Very high	High	Average

FIGURE 12. Four transportation modes (Onkvisit & Shaw 2004, 388; Boone & Kurtz 2011, 438)

In addition, presence of transportation and market location are important aspects considered by a company. Due to remote location or other reasons, many companies have to use a few transportation modes. (Onkvisit & Shaw 2004, 388.)

3.2.2 Services of freight forwarders

Freight forwarder is a company that offers transportation by land, water or air. Freight forwarders arrange cargo transportation to a required destination, prepare and process the documentation (depending on the origin and destination of the shipment), provide warehousing, and perform other necessary activities. In other words, they deal with three parallel flows: physical goods, information and finance. The examples of these forwarders are UPS, DHL, Kuehne & Nagel and FedEx. (Doole & Lowe 2012; Rushton et al. 2014.)

In the example, shown in the figure 13, freight forwarder arranges overseas transportation of goods from the shipper (company 1, manufacturer) to the consignee (company 2), where it outsources carriage of the cargo at the sea to a shipping line (The seven steps of international shipment 2014).

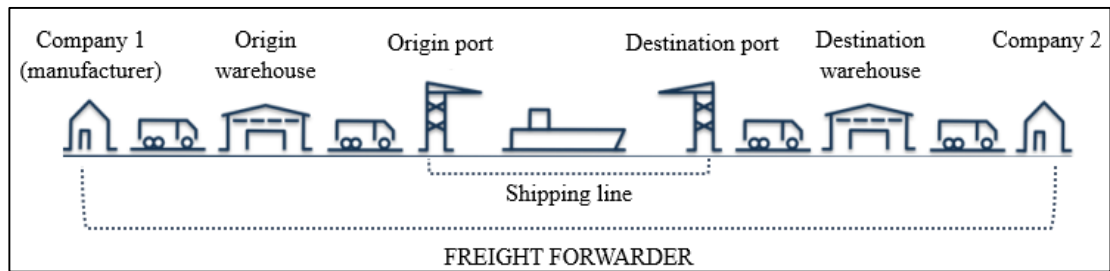


FIGURE 13. Example of marine transportation using services of a freight forwarder (adapted from Transporteca 2014)

Summarizing, services of freight forwarders facilitate the distribution task of any company, especially when it needs to deliver the goods to a foreign country (Doole & Lowe 2012, 347).

3.2.3 Export documentation

The success or failure of an export operation depends on securing orders for buyers, delivering goods in good condition at the right time and to the right place, and receiving the payment. In other words, it depends on correctness of export documentation while handling export procedures. Mistakes in the documents may lead to delays, fines, losses, or even violations of laws of foreign countries. (Cateora & Graham 2007, 435.)

It is important to notice that customs and export documentation are not the same in every country. Therefore, an exporting company must examine all export documents and regulations in order to meet legal requirements involved in moving goods from one country to another. (Sb.) In spite of many kinds of export documents that may be required by different countries, there are some documents that are commonly used (Onkvisit & Shaw 2004). These are presented and explained in the table 6.

TABLE 6. Common documents used in export shipments (Onkvisit & Shaw 2004; Cateora & Graham 2007)

Export document	Brief description
Bill of lading	Contract between shipper and transport carrier regarding the carrier's receipt and transportation of the cargo. This is document of title.
Export declaration	Includes detailed information about the shipment, thus it can be used as export control document.
Certificate of origin	Official document that informs the buying country about the origin of the exported products, i.e. where the goods were produced / cultivated.
Commercial invoice	An invoice, i.e. a bill, issued by the exporter to the buyer. It provides description of merchandise, price, quantity, and payment terms.
Hazardous certificate	Document is issued when dangerous goods are transported. The type of goods, weight and volume are stated in the certificate.
Insurance certificate	The document proves the insurance, which covers the loss or damage of the cargo while in transit, has been issued.

In case that the exporter/seller finds the preparation of export documents too complicated, it can contact a freight forwarder which can take over aspects of documentation (Onkvisit & Shaw 2004).

3.2.4 Packaging

The purpose of packaging in physical distribution is not just to protect the merchandise during the transportation, but also to economize shipping space, prevent pilferage, and insure the lowest assessable customs duties (Onkvisit & Shaw 2004, 394). The main factors influencing the choice of the type of packaging are the transported products, length of journey, destination regulations, heat and moisture conditions during the transportation, and transportation mode. When the decision regarding the packaging is made, the proper labelling should be done. Transportation companies, customs authorities and importers are interested parties in this matter. In some cases, they may have different

requirements, thus the manufacturer or exporter must make sure that it meets the requirements of all of them. In general, labels should include information concerning the country of origin, number of packages in each box, destination, and special handling instructions. (Albaum et al. 2002, 595.)

Probably two biggest threats of any manufacturer, when exporting overseas, are damage and pilferage of the merchandise. The length of a transit and environmental factors can have a significant impact on the transported goods and may cause its damage. Distribution organized with a number of various intermediaries involved in the process may increase chances of theft or loss of the goods. (Doole & Lowe 2012, 352.) A special transportation insurance, which covers all the risks that may occur during the physical movement of the goods, should be used. Generally, this insurance is secured by exporter, and it can be adjusted depending on the organization of the transportation (transportation mode, middlemen involved in the process, etc.). (Albaum et al. 2002, 593.) Most of the goods are transported in containers (Onkvisit & Shaw 2004, 396). Figure 14 demonstrates a container, how goods should be wrapped and marked, and where the seal is placed.

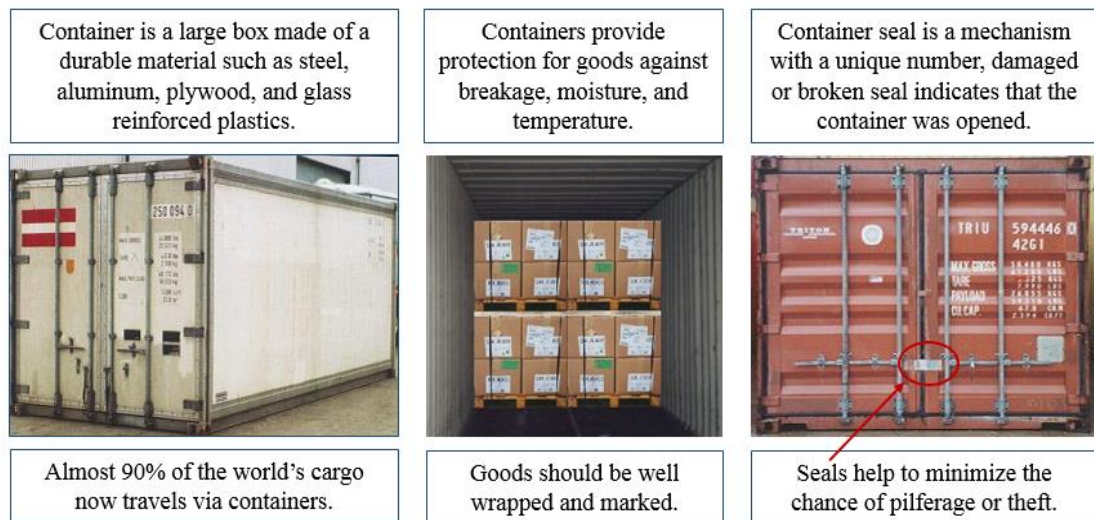


FIGURE 14. Container usage, damage and pilferage prevention (Onkvisit & Shaw 2004, 396; Container Handbook 2014)

As shown in the figure 14, in order to minimize the chances of a pilferage and loss, the manufacture, exporter or importer should think over the usage of the following techniques: (1) shrink wrapping, seals, or strapping, (2) marking (used in order to identify

shipments, however, it must not reveal information about the contents, trade and consignee names), and (3) prompt pickup and delivery (Onkvisit & Shaw 2004, 396).

3.2.5 Export sales contract

Export sales contract is an important document that contains terms for delivery of goods in international trade. The International Chamber of Commerce has developed internationally recognized trade terms – Incoterms that can be used in order to reduce these uncertainties. (Doole & Lowe 2012, 352.) Professors Graham and Cateora (2007, 445) state that Incoterms “indicate how buyer and seller divide risks and obligations and, therefore, the costs of specific kind of international trade transactions”. The latest edition of the Incoterms was brought out in 2010. It includes 11 rules or terms divided into two categories: rules for any mode of transport and for sea and inland waterway transport. The most commonly used Incoterms rules are Ex Works (EXW), Free On Board (FOB), and Cost, Insurance and Freight (CIF). (Doole & Lowe 2012, 353; International Chamber of Commerce 2014.) These are briefly explained in the table 7.

TABLE 7. Three most common Incoterms rules (Doole & Lowe 2012, 353; International Chamber of Commerce 2014)

Ex Works (EXW)	The exporter / seller makes the goods available at its premises or at another named place (factory, warehouse, etc.) at the agreed time. The seller / exporter does not need to load the goods or clear them for export. The importer prepares all the required documents and bears all risks since the goods have left the exporter / seller.
Free On Board (FOB)	The seller / exporter delivers the goods on board the vessel nominated by the buyer / importer at the named port of shipment. Since that moment, the buyer / importer bears the risks of loss or damage.
Cost, Insurance and Freight (CIF)	The seller / exporter delivers the goods on board the vessel, contracts for and pays the costs and freight, and arranges and pays marine insurance in order to bring the goods to the seller / importer.

There are three uncertainties exist in the international export sales contracts: reliability of information, interpretation of diverse trade terms, and legal system that will be used

to adjudicate the contract. The Incoterms rules can effectively help to minimize the uncertainties that may arise in international trade. (Doole & Lowe 2012; International Chamber of Commerce 2014.)

4 CASE COMPANY PRESENTATION

In this chapter the Belgian brewery Van Honsbrouck, the case company for the research, and the case product – specialty beers – are introduced. The general description of the company's operations including its export activities is given. The background information for the study, regarding the brewery's experience in exporting to Russia, its expectations and challenges, are provided in the chapter as well.

4.1 Introduction of the case company and the case product

The Belgian Brewery Van Honsbrouck is the case company for the research. This is a 100% family owned company located in Ingelmunster, Belgium. Founded in 1900 as Sint-Jozef Brewery, it was renamed to Brewery Van Honsbrouck in 1953. At this company the beer brewing was passed from generation to generation. With Xavier Van Honsbrouck, who is the current CEO of the company, the fifth generation takes over the brewery. (Castle Brewery Van Honsbrouck 2014a.) Nowadays, Van Honsbrouck can pride itself in being in the top ten breweries of Belgium (Schrauwen 2014a).

The company produces high quality specialty beers, which are brewed in the traditional Belgian way. The four basic ingredients of the beers are water, malt, hops and yeast. To certain beers spices, sugar, liqueur and fruit are added. The basic steps of the beer brewing process are malting (malt is mixed with water to germinate), brewing (malt is crushed and mixed with water again, filtered out, and what remains is wort), boiling (the wort is boiled for an hour and hops and spices are added), fermenting (yeast is added), aging (when beer can rest and age for a while), filtering (removing yeast), and bottling. Depending on desired type of beer, the brewery uses one of the three fermentation methods: top fermentation, spontaneous fermentation and combined fermentation. (Castle Brewery Van Honsbrouck 2014b.) In total there are four fermentation methods, the fourth one is bottom fermentation. It is used for lager style beer brewing.

(Rabin & Forget 2014, 51.) The final result depends on specific procedures, temperatures, fermentation periods, etc. Undoubtedly, there are some brewing secrets that Van Honsebrouck is not revealing. (Castle Brewery Van Honsebrouck 2014b.)

The brewery Van Honsebrouck has seven beer brands: Kasteel, Cuvée du Château, Trignac, Passchendaele, St-Louis, Brigand, and Bacchus. The brands and their varieties are schematically presented in the figure 14. The detailed illustration of each beer is in appendix 1. These are specialty beers that have unique and deep taste, rich colours and quite high alcohol content (up to 12% Vol.). (Castle Brewery Van Honsebrouck 2014c.)

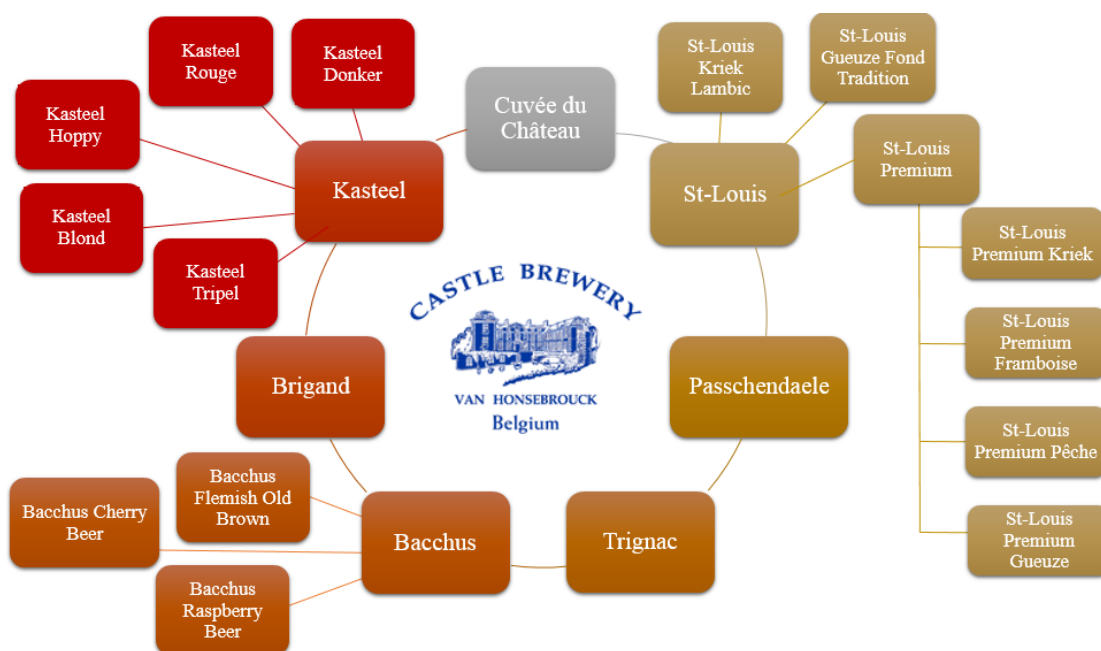


FIGURE 14. The brands and varieties of the beers (Castle Brewery Van Honsebrouck 2014c)

For more than 20 years the company was exporting its beers to France and the Netherlands. Rising interest in Belgian beers, mainly caused by the company AB InBev market internationalization and promotion of Belgian specialty beers in foreign countries, set the brewery thinking of additional export destinations. Additionally, the declining beer consumption in Belgium and production overcapacity gave a powerful incentive to search for extra export destinations. Nowadays, the brewery exports to 45 countries, where the top five export destinations are France, The Netherlands, The UK, Israel, and The USA. (Schrauwen 2014a.)

The production of authentic Belgian beers allowed the company to become one of 20 members of the non-profit organization Belgian Family Brewers (BFB) that promotes the historical and independent family breweries (Castle Brewery Van Honsebrouck 2014d). The BFB quality label, which is present on each beer bottle produced at the brewery, guarantees genuinely original and traditional Belgian beer. Thus, people who buy the beers all over the world have no doubt about the products' Belgian origin. (Belgian Family Brewers 2014.)

4.2 Exporting to Russia: expectations and challenges

Since 2012 Russia has become one of the export destinations of the brewery Van Honsebrouck. There the company has two distributors: Bairos located in Moscow, and Astonex located in St. Petersburg. From the beginning, the demand has been high, and the volume of export doubled each year. Stable relationships with the partners in Russia, growing demand, product newness in the market (specialty beers) make the company to strongly rely on the Russian market. (Schrauwen 2014a.) The strategic plan of the company is to grow volume of production by 25% and increase the volume of annual export up to 70% of its total production within next five years. Consequently, it counts on the Russian market, and expects to have it in top five export countries in 2015.

At the same time, the conditions in Russian beer market have recently become less favourable for beer companies: anti-alcohol policies, including heavy alcohol products taxation, advertising and selling restrictions, and complicated political and unstable economic situations. These and other external factors may have a negative impact on the business' performance in Russia. Additionally, aiming at increasing of beer export to Russia, the efficiency of the current distribution strategy should be considered. In case of less favourable or even unfavourable environmental conditions and slowing down growth of the distributors' demand, the brewery has to know how it can keep its position in the Russian beer market.

5 METHODOLOGY AND RESEARCH DESIGN

After the setting or background information regarding the case company, the product, and the current state of affairs is presented, it is necessary to formulate how the research should be undertaken, i.e. how information should be gathered and analysed. The chapter contains the clear research objective and the research questions, research design and research methods, and how the data is collected and analysed in this particular research. First, it is important to clarify the difference between the terms methodology, research methods, and research design. *Methodology* refers to the ways in which knowledge, concerning how research should be conducted, is acquired. It includes ideas and theories that underpin research methods. (Daymon & Holloway 2011, 100; Saunders et al. 2009, 3.) Whereas *research methods* refer to step-by-step procedures or techniques that are used for doing the research, i.e. to gather and analyse data (Saunders et al. 2009, 3). *Research design* is the general plan or framework for data collection and analysis (Ghauri & Gronhaug 2005, 56).

5.1 The research objective and questions

The objective of the thesis is to give recommendations for distribution strategy of the Belgian brewery Van Honebrouck that exports its beers to Russia. The general research focus question is: “*How should the company organize and manage export to and distribution of its products in Russia?*”. In order to be able to answer the general research focus question and, consequently, give recommendations, a thorough study must be done and the following research questions must be answered:

1. What is the case company’s current distribution strategy?
2. How efficient is the distribution strategy?
3. What is the macro-environmental situation in Russia?
4. What is happening in the beer industry in Russia?
5. Who are the potential customers?
6. What channel conflicts might arise and how to minimize them?

When the outcomes listed below are attained, the general research focus question can be answered and recommendations for distribution strategy can be given.

- Have a clear view on the case company, its current distribution strategy in Russia and its performance;
- Understand the changes taking place in the macro-environment and in the beer industry in Russia, and their possible impact on the company;
- The end-consumers are profiled, and possible geographic locations where they can be found are identified;
- The channel conflicts and the ways they can be minimized are presented.

The findings of the research can be used by the brewery Van Honsbrouck, and they will give the company the insight into the current market environment in Russia and beer industry, present distribution organization and its effectiveness, more detailed target audience profiling. The result of the research, recommendations for the distribution strategy, can be used by the company as a well-thought out suggestions of distribution organization of the exported beer brands in Russia that will lead to strengthening of its market position and increase of sales.

5.2 Research design and research methods

The purpose of empirical research is to answer or elucidate the stated research questions. In order to be able to effectively produce desired information and, consequently, answer the questions and solve the research problem in the best possible way, the research must be properly designed. It is important to notice that the research questions and the objective must be well-formulated, otherwise the research design will be misguided. Research constraints such as time, financial resources, skills, etc. should be taken into account. (Ghuri & Gronhaug 2005, 56; Saunders et al. 2009, 137.)

The purpose of a research can be *exploratory* (finding out what is happening, trying to get insight into a problem, ask questions and clarifying the understanding of phenomenon), *interpretive or descriptive* (accurate description of a situation, person, or happening in order to expand the understanding of something), or *explanatory* (studying a problem with the purpose to explain the relationships or dependencies between variables). However, sometimes a research can be both descriptive and explanatory. (Saunders et al. 2009, 139 - 140.)

The current research has descriptive and explanatory purpose. The attempts of the research are to explore the situation and study it in detail, while providing new additional information to the topic. Here as much information as possible is collected. The questions stated in the research are more often what? and how?. (Education Portal 2014.)

When the research purpose is identified and the research questions are listed (p. 42), a broad methodological approach or research design can be revealed. The *case study* research design is appropriate for the current research. Case study research is focused on an in-depth investigation of the phenomenon within a particular context, including holistic explanation of how multiple processes and influences fit together in the particular case (Daymon & Holloway 2011, 114 - 115.) Multiple sources of evidence of a phenomenon are used in this research design, which allow to gather detailed information from different angles (Saunders et al. 2009, 146).

Case study research design incorporates multiple research methods (Daymon & Holloway 2011, 114). *Research methods*, i.e. techniques and procedures used to gather and analyse data, include quantitative (statistical) and qualitative (non-statistical) collection and analysis techniques, as well as questionnaires, observations, surveys, interviews and other methods, where primary and secondary data can be collected (Saunders et al. 2009).

The original data gathered by a researcher, which is specifically tailored for his/her research project at hand, is *primary data*. This first-hand data can be collected by conducting interviews, making surveys and experiments, etc. The process of this data gathering is generally longer and more expensive, thus before engaging in primary data search, it is beneficial to exhaust readily available secondary data that can be useful for the work. *Secondary data* is information that has been collected earlier by somebody else and for some other purposes. This type of data includes both raw data (with a little or no processing) and compiled data (processed and/or summarized information). Secondary data can be gathered in magazine articles and newspapers, management reports, and on websites with statistical information, etc., then this data can be described and interpreted from the researcher's own perspective and of his/her own research interest. (Cavusgil & Riesenberger 2009; Saunders et al. 2009; Daymon & Holloway 2011.)

Two broad methods of data collection techniques and analysis procedures are qualitative (non-numeric) and quantitative (numeric). *Qualitative research* is concerned with qualitative phenomenon. It makes it possible to engage with people and reveal in depth human dimensions and communicative interactions through a researcher's engagement. Some of the important traits of this research are: inductive approach is taken by researchers, the context of the study is taken into account (e.g. physical location and conditions in which the research is made), sample is rather small, information is interpreted through cultural meanings, more subjective. (Daymon & Holloway 2011; Kotler et al. 2012.) *Quantitative research* is concerned with phenomena that can be expressed in terms of quantity (Kumar 2008, 8). In order to convey meaning and be useful to people, qualitative data in row must be processed and analysed. Quantitative analysis techniques such as graphs and charts help to explore, examine, and present the data. Some of the important traits of this type of research are: deductive approach is taken by researchers, sample can be large, the research is more objective. (Daymon & Holloway 2011; Saunders et al. 2009.)

The methods of qualitative data collection can be formed into two groups: (1) interviews, including structured, semi-structured, and unstructured interviews, focus groups, case studies, and (2) observations, including participant and nonparticipant observations. Additionally, analysis of documents and other materials is also a way of qualitative data collection. *The methods of quantitative data collection* can be formed into three groups: (1) self-completion surveys, including mail surveys, (2) interview-completed surveys, including telephone surveys, and (3) observations. Additionally, the data can be collected by doing content analysis and reviewing official statistics. (Hair et al. 2011, 187.) Professors Tashakkori and Teddlie (2003) argue that qualitative and quantitative techniques do not exist in isolation. Therefore, in a business research it is highly recommended to use both qualitative and quantitative techniques and procedures and also primary and secondary data (Saunders et al. 2009, 151).

In the context of this thesis the following research methods are used: semi-structured interview and review of electronic sources. The chosen methods are relevant for answering the stated research questions, and they can provide the necessary information to solve the research problem in the best possible way.

Semi-structured interview is a type of qualitative research interview, where the researcher has a list of themes and questions to be covered but the order of questions goes with the flow of the conversation. Additional questions may be asked in order to explore a topic deeper. The relevant data can be recorded by note taking or audio-recording. (Saunders et al. 2009, 320.) Professors Eriksson and Kovalainen (2008) argue that the advantage, which can be gained by conducting semi-structured interviews, is the possibility to set informal and conversational tone of the interview.

For the current research the semi-structured type of the interview is the most suitable. Due to multidimensionality and complexity of the study, the researcher finds it beneficial to make a list with the topics and main questions to be covered at the interviews. Then during the process of interviewing the researcher can ask more questions to get deep understanding of the subject gradually proceeding from one issue to another in a friendly and comfortable manner.

Review of electronic sources has intrinsic value for researchers in today's world. Electronic sources can be reviewed by conducting an 'electronic research'. Eriksson and Kovalainen (2008, 97) define it as "research activities that rely on communication that is mediated through computers and other new technologies". The research can be formed into three main groups: (1) research literature published on the Internet, (2) materials available on the Internet (e.g. company's reports), and (3) materials produced by means of internet technologies (e.g. e-mail interviews, electronic focus groups). The major advantages of this research are ease and economy of data collection. (Eriksson & Kovalainen 2008, 97; Hughes 2012, 196.)

In order to reach the aim of the current study, the researcher is sure that the review of electronic sources is of absolute necessity. The research literature published on the Internet and the material available of the Internet are to be mainly used for the environmental analyses (market and industry research), and segmentation and targeting. The researcher believes, that in today's world the review of diverse internet sources gives the researcher the significant advantage in the collection of the most accurate and latest possible information that can help to answer to the research questions in the effective and efficient way.

5.3 Data collection and analysis

The step-by-step representation of data collection procedures, such as interviewing and reviewing of electronic sources, used in the research, and the difficulties occurred in the process, together with the detailed data analysis are presented in this section. Even though this section is divided into two parts: Semi-structured interviews and Review of electronic sources, where the processes of data collection and data analysis are described, it does not mean that they are not interrelated. Per contra, the processes of data collection and analysis are very interactive, because analyses may occur as during data collection, as after it. Although two separate data collection methods are used, they still have influence on one another: analysis of one data shape data collection of another data. (Saunders et al. 2009, 488.)

Semi-structured interviews

The interviews were conducted during the research process. The case company's representative and the company's two distributors in Russia were intended to be interviewed. The general information about all the interviews is presented first, and then the process of data collection and analysis is described.

With the purpose to be knowledgeable about the topic, during preparation for the interviews, in addition to literature review, the information available on companies' websites was reviewed, and some subject related articles were revealed. The list with themes and initial questions in logical order was prepared. Before the interview started the interviewees were informed about the purpose of the research and the use of information. During the interviews no audio or video recording was used; the interviewer was collecting relevant data by note taking. Right after each interview, a full record of it was compiled. The interviewees allowed the researcher to indicate their names and professions.

Semi-structured interview with the company's representative

The interview with the Commercial Director of the case company – Marc Schrauwen – was conducted at 2 p.m. on the 7th October 2014 in a café in Mechelen, Belgium. The

interviewee works side-by-side with the CEO of the brewery in development and implementation of business strategies, including work with foreign partners – beer importers. The language of the interview was English. The decision on the interview time and location was made based on its convenience for the participants, and where the interview was unlikely to be disturbed. It is important to mention that the interviewee and the interviewer have met before and in the same place, namely when the possibility of research making for the company was discussed.

The interview on the 7th October started with a short opening conversation to make the atmosphere more friendly. As the interviewee had received the interview topics and main questions in advance, in addition to being prepared for the discussion, he brought some figures with detailed information. The interviewer was not only controlling her own gestures and tone of voice to encourage the flow of discussion, but also paying attention to the interviewee's non-verbal communication and tone of the voice. In addition to asking extra clarifying and specifying questions, the interviewer was an attentive listener and in order to minimize misunderstanding once in a while some answers and explanations provided by the interviewee were summarized.

The objective of the interview was to collect relevant data regarding some organizational issues, the company's process of internationalization and the current distribution strategy. It was intended to find out how the distribution of the company's products to Russia is organized: selling/marketing channels (the way the goods are brought to the market), and physical distribution of the products. The topics of the interview and main questions are listed in the appendix 2. On the whole, the interview was conducted successfully. The interviewee was enthusiastic about the discussion and demonstrated willingness to clarify any aspects when needed. Moreover, extra detailed and unexpected information was collected.

Semi-structured interviews with the distributors

The interview with the brewery's distributor in St. Petersburg – *Astonex* – was conducted at 1 p.m. on 29th October 2014. Evgenia Kovchinnikova, a manager in *Astonex*, was the interviewee. The interview was conducted in Russian language. Due to the distance: the interviewee was in St. Petersburg, Russia, and the interviewer was in Mechelen, Belgium, the interview was conducted via Skype call to the company's telephone

available on its official website. First, a receptionist of the company answered the phone, and because she was not well-informed regarding the subject, she called Evgenia to the telephone. After the researcher's introduction and explanation of the research purposes, the interview started. The list with the topics to be covered and main questions, prepared in advance, was used by the interviewer during the conversation as a guide. The interviewer was taking notes. The fact that it was not possible to witness the non-verbal behaviour of the interviewee, the researcher paid especial attention to the tone of the voice of the participant.

The purpose of the interview was to get clearer understanding of the organization of the distributor's operations and the company's collaboration with the brewery, as well as to get the distributor's opinion on the beer market situation and its influence on the business enlargement. The conduction of a semi-structured interview and the interviewee's willingness to participate allowed the researcher to gather extra interesting and relevant information. The list with topics and main questions is in the appendix 3.

The interview with the case company's distributor in Moscow – *Bairos* – was planned to be conducted at 10 a.m. on 30th October 2014. The researcher contacted the company via Skype call to the distributor's telephone available on its official website, from the receptionist the call was redirected to the marketing department. After the researcher's introduction and explanation of the research purposes, a manager from the department was not willing to be interviewed via phone (due to busyness), and she asked to send the questions to the given e-mail address. The topics planned to be covered were the same as for the interview with the manager from Astonex, but the questions were slightly different, they had been adjusted based on the information available on the distributor's website.

Due to the fact that the interview could not be semi-structured anymore but structured, the researcher included clarifications to some questions, where the interviewee from Astonex had asked for some explanation, and added extra questions such as "If yes, why yes?", and "If no, why not?" where they were appropriate. After a couple of hours, the researcher received the e-mail with the refusal to answer to any of the questions due to confidentiality of the information that could be disclosed by uploading the thesis on the website www.thesis.fi. The list with topics and main questions, planned to be covered, is in the appendix 4.

Semi-structured interviews: Data analysis

Qualitative research has adaptable nature, where the results of one analysis interact with the following data collection. This gives an advantage to adapt questions of the subsequent interview(s) (or even a data collection method) based on the results of the ongoing analysis. (Daymon & Holloway 2011, 303.) In the current research, when the first interview (with the company's representative) was conducted, and the full record of it was compiled, the researcher inspected among the notes and identified the main patterns. The data was categorized. Not everything that was necessary to be studied could be known by the case company's representative, thus, the themes that required further exploration were taken into account and put into the list of questions for the interviews with the distributors. When the second interview was conducted (with the distributor in St. Petersburg, Astonex), the answers to the prepared questions and to the questions raised during the interview were compiled. The researcher reviewed the gathered information and identified the main topics. Then it was found beneficial to reorganize the data collected during both interviews and design a suitable matrix based on the key themes. That allowed the researcher to get deeper understanding of the subject and gain new insights within the existing categories. These gave grounds to extra topics to be studied via reviewing electronic sources.

Review of electronic sources

In order to achieve greater data triangulation, i.e. increase the validity of the research using various sources of information, in addition to conduction of the interviews diverse electronic sources were reviewed. Data, collected by reviewing electronic sources, included both written materials such as organizations' websites, articles, government publications, industry reports, and etc., and non-written materials such as pictures and graphs. The gathered data was both qualitative and quantitative. Due to the specificity of the research, data was collected in both English and Russian languages. With the purpose to have an efficient review of electronic sources, the researcher prepared the list with main topics before the search. The list included the following:

- Review of the available information about the case company and its distributors on their official websites;

- The current macro-environment situation in Russia (applying PESTLE framework), and the government's prognosis;
- Micro-environment analysis of the beer industry in Russia (applying Porter's Five Forces model) and its trends;
- Data needed for market segmentation and targeting (mainly Russian official statistics).

Maximally reliable electronic sources were reviewed. The researcher tried to gather data on the state's official websites as far as possible. The publication dates were always checked, and the most recent information was collected. In addition to compiled data, some of the collected information was in a raw form and needed to be processed. Even though the process of data collection was extremely complex and time consuming, the researcher put all the efforts to collect the most reliable and useful information for the study. The review of the electronic sources and conduction of the interviews were happening together.

Review of electronic sources: Data analysis

As the review of electronic sources had to cover a number of topics, the analysis of each topic happened separately, but on the whole the analyses were interrelated. The revelations in one topic influenced the process of data collection of another topic. In other words, even though several subjects were researched by reviewing diverse electronic sources, the whole process was very interconnected. The data collected on the websites of the case company and its two distributors was the primary information in textual form, which gave the basic understanding of the companies and was taken into account while planning and preparing for the interviews. The data collected in order to make macro- and micro-environment analysis was both qualitative and quantitative, and in both raw and compile form. Thus, the qualitative data was classified into categories, and analysed through the use of conceptualization. In quantitative data analysis, where it was necessary, the researcher made graphs (e.g. to show proportions) and some calculations in order to explore, analyse and present data in a meaningful way.

6 RESEARCH RESULTS

In this chapter the facts discovered during the research are reported. As two research methods have been used, in order to structure the findings in a clear, logical, and easily understood manner, the researcher finds it beneficial to integrate the results and present them thematically. The factual information presented in this chapter is used for answering the research questions and giving a recommendations for the case company's distribution strategy. Tables, figures, and quotes from the interviewees are used to illustrate the findings.

6.1 The current situation

This subchapter concerns the research results regarding the case company's current situation. First, the internal environment of the brewery is presented. Then, the brewery's two distributors in Russia are introduced, and the current distribution organization is demonstrated.

The internal environment

Internal environment consists of factors that can be controlled and managed by the company (p. 11). In order to analyse the internal environment of the case company – brewery Van Honsebrouck – controllable factors such as company's objectives, decisions regarding product mix, decision making process, human resources, physical resources including infrastructure, research and development activities, and etc. are studied.

For more than 20 years the brewery has been exporting beer to France and The Netherlands. However, exporting became the priority seven years ago. Declining consumption in the Belgian beer market and, consequently, overcapacity forced the company to consider possibilities of internationalization. Today, with 80 persons working at the company, the annual volume of production is 96 000 hectolitre of beer. Almost a half of the volume (45%) is being exported to different countries all over the world. In total, the brewery exports to 45 countries, where the top five export destinations are France, The Netherlands, The UK, Israel, and The USA. These top five countries represent 80% of the total export sales. Since 2012 Russia has become one of the export destinations of

the brewery Van Honsebrouck. (Schrauwen 2014a.) The export to all the countries is organized on Ex Works Incoterms rule.

At present time, a new brewery is being built. This new brewery, which will be finished by 2017, will have a capacity of 200 000 hl, i.e. the production capacity will be doubled in comparison to the current one. (Castle Brewery Van Honsebrouck 2014a.) Thus, it will be necessary for the company to increase the number of personnel. The main company's objective is to grow volume of production by 25% and increase the volume of annual export up to 70% of its total production within next five years.

Concerning the product mix, i.e. range of products offered by the brewery, the company has seven specialty beer brands: Kasteel, Cuvée du Château, Trignac, Passchendaele, St-Louis, Brigand, and Bacchus. In the specialty beer production, the brewery Van Honsebrouck uses high quality ingredients. The main (water, malt, hops, and yeast) and additional ingredients (sugar, spices, fruit, and liqueur, etc.) are gotten by the company from both home country suppliers (Belgium), and from abroad. (Castle Brewery Van Honsebrouck 2014b.) In total, the company has 150 suppliers.

The beer brand Kasteel is the number one, it represents 65% of the total volume of production. Having a look at export, Kasteel dominates there as well: 70% of the exported beers is the Kasteel brand, from where Kasteel Rouge – a variety of the Kasteel – takes 50% of the volume. However, the research and development (R&D) activities for new product development are continued, because the company finds product diversification highly important in today's world. Changing market preferences and desire for new and different flavours, together with shorter product life cycle of specialty beers (than lager beers), and export activities when the product goes to a foreign market with other tastes motivate the brewery to diversify the production and create new beers. With the purpose to satisfy a wider group of beer drinkers, the brewery makes beers with diverse alcohol concentration which varies from 6,5 to 12% Vol., classic blond and dark beers, sour lambic beers and sweet fruit beers (e.g. St-Louis). The prices of specialty beers are generally higher than lager beers. Not the same product mix is exported to all foreign countries, on the contrary, for every export destination the company tries to find the perfect fit of the beers with consumers' preferences.

The brewery has its own website. In order to get to the web-site, each visitor has to select a language (Dutch, French, English, or Spanish) and confirm that he/she is of legal drinking age. The history of the company, the brewing process, the beer brands, etc. with pictures and videos are presented on that website. Besides that, the company has created additional websites for some beer brands (e.g. Passchendaele).

The strategic marketing planning concerns the identification and establishment of the company's corporate strategy, and goals and objectives. In the case of the brewery Van Honebrouck, which does not have a complex company structure with numerous divisions, the strategic marketing planning is a straightforward process. The operational responsibilities are delegated to the management of the company. All propositions are discussed in two meetings: commercial and technical. The final decision is made by the CEO of the company.

The distributors and the current distribution organization

This part concerns the case company's distributors (or beer importers) in Russia, and the current distribution organization. First, the brewery's two distributors in Russia, namely Astonex and Bairos, are introduced. Then, the organization of the beer export to Russia is demonstrated. The results presented in this section are mainly based on the data collected by interviewing the company's representative and the distributor from St. Petersburg, but also by reviewing of the companies' official websites.

Astonex, St. Petersburg

Astonex was established in 1995, and originally it was working only with foreign beer produces: it was importing beers from abroad and distributing and promoting them in St. Petersburg. Now the company is also working with the Russian brewing company Baltika, which belongs to Carlsberg Group. (Astonex 2014a.) Looking for Belgian specialty beers, mainly diverse fruit beers, in 2012 Astonex directly contacted the brewery Van Honebrouck and held out the hand of comradeship. Nowadays, it imports beers from four countries: Belgium (breweries Van Honebrouck and Silly), Great Britain (brewery St. Austell), Germany (brewery and monastery Andechs), and Czech Republic (brewery Zatecky Pivovar) (Astonex 2014b).

Bairos, Dolgoprudny (Moscow region)

Russian company Bairos, established in 2000, distributes unique and exclusive beers of premium class from Europe (Bairos 2014a). The company imports the beers from Germany, Austria, Czech Republic, Great Britain, Belgium, The Netherlands, Luxemburg, and Italy (Bairos 2014b). The product assortment can be divided into three groups: bottled beers, beer on draught, and beer gift packs (Bairos 2014c). Bairos distributes the beers from numerous breweries through off-trade (various supermarkets, specialty retailers, boutiques, etc.) and on-trade (cafes, restaurants, pubs, etc.) distribution channels. In 2012 through a Belgian intermediary, Bairos found the brewery Van Honsbrouck. It was also looking for Belgian specialty beers, mainly fruit beers.

Making of contract

Choosing a brewery overseas, Astonex considered the producer's product assortment, especially sorts of fruit beers, quality of the product, and the type of packaging provided by the brewery. At the moment, when the case company was contacted, it was successfully exporting the beers to many foreign countries. Therefore, after careful evaluation of the offer, the brewery agreed to cooperation. The most important distributor's characteristics considered by the brewery were overall sales, customer support capabilities, and knowledge of local markets.

Each distributor has a contract with the brewery, which is valid for five years. In this contract, in addition to the rights and obligations of the parties, there are exact minimal volumes of goods that must be ordered by a distributor each year within the defined time frame (five years). Supplemental Agreement on the extension of the contract made between the brewery and one of its distributors in Russia is presented in the appendix 5. Due to demand fluctuations, the goods are ordered approximately ten times per year. The orders are made via an e-mail or a phone call to the brewery.

Marketing activities such as advertising are not included in the contract, but they can be discussed and planned with the distributors. Annually the brewery's representative visits the partners in Russia. During that time, the representative can visit pubs and shops where the beer is sold, and the places where the beer can be sold in the future.

The product

The brewery Van Honsebrouck exports its beers to 45 countries, and it knows very well how diverse consumer tastes and preferences can be. In order to find out what brewery's beers Russians prefer most of all, in the very beginning the brewery exported its specialty beers with different tastes, styles (e.g. blond, fruity beers) and alcohol concentration. With the time, it has become clear which beers Russian love the most. Figure 15 demonstrates the change of the volumes (in hectolitre) of the brewery's beers exported to Russia per year. The data for 2012 and 2013 is for the whole year, and the data for 2014 is the period from January and until July 2014 (the year 2014 has not ended yet). Due to a large range of the quantities, a logarithmic scale is used.

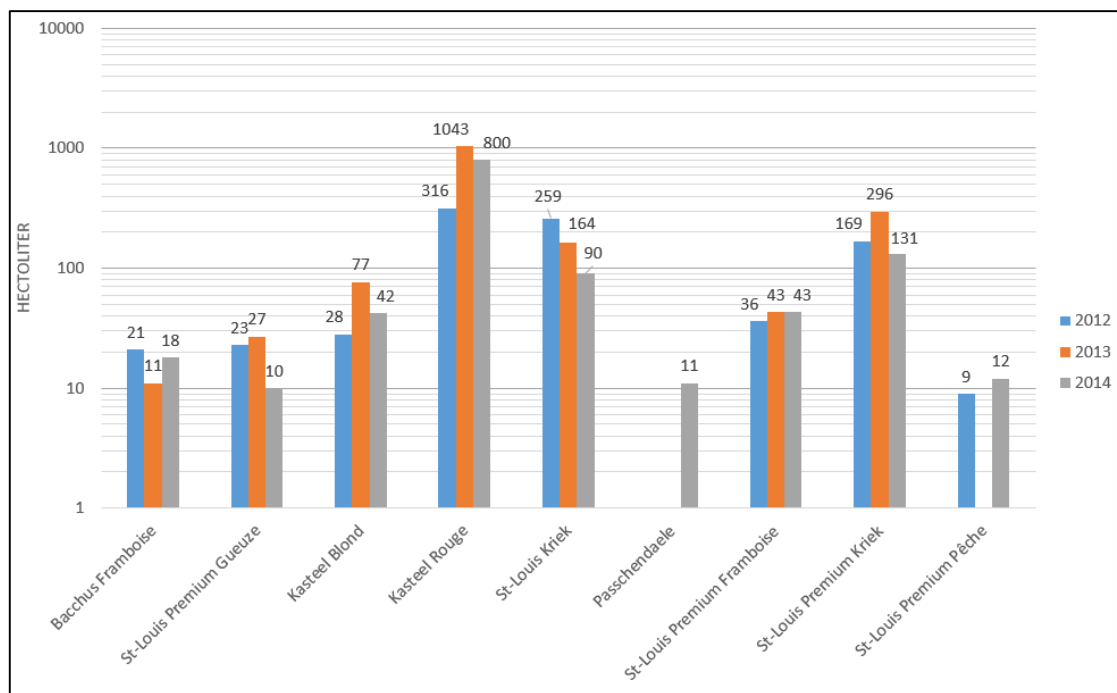


FIGURE 15. The volumes of the brewery's beer export to Russia (adapted from Schrauwen 2014b)

It is clear that Kasteel Rouge, a unique blend of Kasteel Donker (dark beer) and a sweet cherry liqueur, is in the greatest demand in comparison with the brewery's other beers in Russia. In 2012 this beer constituted 36,7% to the total amount of the export (861 hectolitre), and in 2013 - 62,8% (1662 hectolitre).

It is important to notice that different product packaging is used: glass bottles and kegs. The decision on the type of packaging is made by the distributors. If the beer is planned to be sold in the off-trade, then the packaging is glass bottles, and if the beer is planned to be sold in the on-trade, then the packaging is kegs. However, the beer in glass bottles can also be sold in the on-trade, for example when a glass of beer and the beer bottle are served together in a pub.

Distribution

Astonex distributes the imported beers mainly to St. Petersburg, but also to Moscow and Tula. It distributes 90% of the imported beers from the brewery through the on-trade channel (e.g. pubs), and 10% - through the off-trade channel (e.g. shops). Whereas Bairos distributes the beers not only to Moscow and Moscow region, but also to many other Russian cities (Bairos 2014d). It distributes 90% of the beers through off-trade channel, and 10% - through the on-trade channel. Choosing the retailers, Astonex values the quality of service that the retailers can provide to the end-customers. This means that the quality of the beer is kept under control, i.e. the conditions and temperature of storage, and the overall level of customer service.

Regarding the product and information flows, the products move from the manufacturer to each of the distributors separately, then they distribute the goods to the retailers, and the latter sell the products to the end-customer. With the purpose to make an order, the information flow goes bottom-up: retailers send orders to the distributors, and the distributors place orders to the manufacturer. Direct communication regarding the product quality and other issues is done between the manufacturer and the distributors, and between the distributors and the retailers.

Concerning physical distribution, the brewery and its distributors conform to an Incoterms rule, and that helps them to clearly indicate how risks and obligations are divided between the parties. The Incoterms rule, followed by them, is Ex Works. The exporter makes the goods available at agreed place for the buyer, who arranges the pickup and transportation of the goods, prepares the documents, and bears all the risks (p. 38). When the brewery's goods are sold to a foreign partner (partner in any country but Belgium), the export is always organized under the Ex Works rule. According to the

manager in Astonex, all the breweries, with which Astonex works, conform to Ex Works rule.

For physical distribution, the brewery uses two types of packaging: returnable and one-way packaging. For Belgian partners, and partners from the neighbouring countries (France, Germany, The Netherlands, and Luxemburg) the brewery uses returnable packaging, which gets returned to the producer. Due to greater distances and higher transportation costs, the company uses one-way packaging for all the other countries.

The transportation modes, which are used by Astonex, are road and water. The beer is transported in large quantities, thus the shipment is generally large and heavy. From the producer the cargo is transported to the port by truck and then loaded on vessel. Generally, the container is fully loaded by the goods of one consignee. In the case of Bairos, it organizes the physical transportation of goods via an intermediary. This intermediary consolidates the orders from Bairos, i.e. picks up goods from a number of breweries in Belgium and arranges transportation of the goods. The transportation modes used are mainly road and sometimes water. The transit time from the origin to the place of destination can be a couple of weeks. Therefore, in order to keep the product safe, it is properly packed (kegs and cartons) and placed in the metallic container(s). The cargo safety (e.g. use of seals), marking (according regulations), and prompt pickup and delivery are the importers' concern (Ex Works Incoterms rule).

Market situation in Russia

The case company as well as its distributor in St. Petersburg – Astonex, find the overall market situation very complex. They admit that it is extremely difficult to predict what is going to happen, and what impact it may have on their businesses. Evgenia Kovchinnikova, a manager in Astonex, says that political and economic instability will have a notable impact on Russian companies that import products from abroad, as well as foreign firms exporting their goods to Russia. Moreover, nowadays the government is putting pressure on the beer industry and that will complicate the situation even more. The possibility of the business enlargement at this moment is very questionable.

Difficulties and recommendations

To the question if the distributor faced any difficulties working with foreign breweries, Astonex responded that once there had been a problem with a British brewery. The beer prepared by the brewery was of low quality, and that was discovered only when the product arrived to St. Petersburg. After the ascertainment of the facts, the producer accepted their mistake and transported the goods back to the brewery.

The distributor Astonex could not give an immediate answer to the questions: “Assuming a foreign brewing company is planning to go to Russian market, what can you advise that brewery? What does the brewery should be beware of?”. The manager commented that she is not able to give a well-thought out answer, and it is necessary to think of it for quite a while.

6.2 The environments of the Russian market

As it has been discussed earlier, in addition to the internal environment of the company, it is surrounded by uncontrollable macro- and micro-environments (p. 7). In order to accomplish the purpose of the research, PESTLE framework has been used to analyse the macro-environment of the case company in its export activities to Russia. Moreover, the micro-environment of the brewery, i.e. analyses of the beer industry in Russia by using Porter’s Five Forces model, has been researched. The results of these researches are presented in this subchapter. The research method was the review of electronic sources.

The macro-environment

PESTLE is a framework that can be effectively applied to make macro-environmental analysis. It helps to identify external forces that currently affect the business and that are likely to have impact on it in the future (p. 7). The specificity of the beer industry is taken into account, and the key factors that are likely to have an impact on the case company and the industry on the whole are identified. Even though the factors are presented separately, they are very interrelated.

Political factors:

- The government type of Russia is federation, where groups of subjects have independence in internal affairs and are under control of the central government (Central Intelligence Agency 2014). The President and the Prime Minister have executive power (Russiapedia 2011).
- The Russia's role in the Ukrainian conflict has led to strained relations between Russia and the European Union and sanctions against each other (European Union External Action Service 2014). The sanctions of Russia against the EU has concerned agricultural products (fruits, vegetables, and dairy products and etc.), where, for example, alcoholic beverages are not on the list (Arguments and Facts 2014).
- Due to the World Trade Organization tariff obligations, Russia will reduce the customs-tariff: it is 7,54% in 2014, and it will be 7,06% in 2015, 6,61% in 2015, and 5,83% in 2017 (weighted average annual rate) (Ministry of Economic Development of the Russian Federation 2014).
- The EU sanctions may be eased against Russia in mid-2015 (The Economist 2014).
- In 2009 the government has developed the concept to reduce alcohol consumption, which is valid until 2020. It includes the general intentions of minimizing alcohol consumption such as improvement of alcohol market regulation, change the pattern of consumption, and increase social awareness of the problem. (The Federal Agency on alcohol market regulation 2014.)

Economic factors:

- The Gross Domestic Product (GDP) is expected to grow each year (in comparison with the previous year) by 6,5% in 2015, 7,4% in 2016, and 8,2% in 2017 (Ministry of Economic Development of the Russian Federation 2014).
- At the moment, the inflation rate is 6.28%, and at the end of the year 2014 it will be probably more than 7,5% (RIA News 2014). This year the rate will be higher than during last three years. According to the data provided by The Bank of Russia (2014), the inflation rate was 6,10% in 2011, 6,6% in 2012, and 6,5% in

2013. Russian Ministry of Economic Development (2014) prognoses decline of the inflation rate: it will be 5-6% in 2015, 4-5% in 2016, and 3,5-4,5 in 2017.

- Since 2009 (after the peak of the economic crisis of 2008) the unemployment rate in Russia has been decreasing. According to Russian Federal Statistics (2014), the unemployment rate decreased from 8,3% in 2009 to 5,5% in 2013. Due to Russian large territorial and sectorial heterogeneity, in some regions the unemployment is higher and in others it is lower. The lowest unemployment rate is observed in The Central and The North-Western Federal Okrugs. (Federal State Statistics Service 2014.)
- Oil and gas production, and export of gas, oil and oil products are expected to stay at approximately the same level as now. Whereas gas prices are expected to slightly decline, oil prices will perhaps stay at the present level. (Ministry of Economic Development of the Russian Federation 2014.)
- Russian Ministry of Economic Development (2014) prognoses stable increase of the exchange rate US dollar (USD) to Russian rouble (RUB). The ruble will devalue, the value of USD 1 will be RUB 35,7 in 2014, RUB 37,7 in 2015, RUB 38,7 in 2016, and RUB 39,5 in 2017 (average annual rate). The average exchange rate USD to EURO (EUR) in 2014 is USD 1,34 to EUR 1, next year the rate will be USD 1,30 to 1 EUR, and it is expected to stay at the same level until the end of 2017. (Ministry of Economic Development of the Russian Federation 2014.)
- Russian Ministry of Economic Development (2014) prognoses the improvement of the general macro-environmental situation in Russia in 2016.
- The doubled excise tax on Russian beers in 2010 has led to constant beer price increase and yearly loss of beer market positions by Russian beer produces. As the prices of beers produced in Russia keep on increasing, the price differences between imported beers and beers produced in the country are vanishing. That makes it practically impossible for the Russian beer brands to compete against the imported beers. (Food Newsweek 2014a.)

Social-cultural factors:

- At the moment, there are 143.7 million citizens in Russia. The population is expected to grow: by 2017 there will be 144.3 million people living in the country. (Ministry of Economic Development of the Russian Federation 2014.)
- The growth of the income per capita will most likely slowdown in 2015, and that will restrain the consumer demand. As the inflation rate decreases and the general macro-environment situation improves (expected in 2016), the consumer demand will increase. (Sb.)
- According to Ministry of Economic Development (2014), consistent investments in the human capital (increase in wages of social workers, improvements of social welfare, stimulation of population mobility, etc.) are planned by the state for the next three years.

Technological factors:

- Investments in the high-technology developments will be increased by 3,6% on average each year in the period from 2014 to 2017 (Ministry of Economic Development of the Russian Federation 2014).
- The current condition of the transport infrastructure is abnormal: 29% of the federal roads are overloaded, and 76% of the regional roads do not comply with the state's specifications and technical documentation (Transproekt 2014).
- In the coming years, the Russian government plans to work on improvement and development of transport infrastructure (air, land, and water transportation), transport safety increase, construction of toll roads (Ministry of Economic Development of the Russian Federation 2014).

Legislative factors:

- Obligatory licensing for production, storing, procurement, and sale of beer. By 1 March 2015 practically any business related to beer will have to have a license. (The Draft of the Federal Law 2011.)
- TV alcohol commercials are now prohibited, this will be eased on the threshold of the Football Championship in 2018 (RG 2014).

- The government has made time restrictions for off-premise (e.g. in shops) alcohol selling, which forbids alcohol selling from 11 p.m. until 8 a.m. local time (The Draft of the Federal Law 2011).
- The state limits advertisements of alcohol products in public places (sb).
- The places where alcohol can be bought and consumed are limited. Alcohol-containing drinks cannot be bought near some public places such as child care centres, schools, and hospitals. The drinks cannot be consumed near the above mentioned places and blocks of flats, children's playgrounds, etc. (Sb.)
- New packaging restrictions are introduced: from 1 January 2015 until 30 June 2015, if beer is sold in polyethylene bottles then the maximum volume is 1,5 litre and alcohol concentration must be under 6% Vol.; from 1 July 2015 until 31 December 2015, if beer is sold in polyethylene bottles then the maximum volume is 1 litre and alcohol concentration must be under 5% Vol.; from 1 January 2016, if beer is sold in polyethylene bottles then the maximum volume is 0,5 litre and alcohol concentration must be under 4% Vol. (Vesti Finance 2014.)

Ecological factors:

- Russia presents large territory with wide range of temperatures. Most of the European part of the country has continental climate with quite cold winter and warm summer. The access to some areas can be limited due to weather conditions or their geographic locations. (Climate of Russia 2014.)
- Russians are quite suspicious of green or bio products, and most of them still prefer products produced according to GOST (product certification developed in the Soviet Union). However, with the time green products will win the people's confidence. (Green World 2014.)

The major macro-environment factors presented in-detail earlier are briefly summarized in the table 8.

TABLE 8. Briefly summarized results of macro-environmental analyses

<p><i>Political factors</i></p> <p>The EU may ease sanctions against Russia in the mid-2015. Russia will reduce the customs-tariff. Developed in 2009 concept in reduction of alcohol consumption will be valid until 2020.</p>	<p><i>Economic factors</i></p> <p>The GDP is expected to grow each year. The rouble will keep on devaluating. The inflation rate will be more than 7,5% this year, but it will be lower in the coming years.</p>
<p><i>Social-cultural factors</i></p> <p>The growth of the income per capita will slowdown in 2015, and consumer demand will be restrained. In 2016 the situation will get better, the consumer demand will increase.</p>	<p><i>Technological factors</i></p> <p>The state plans to work on improvement and development of the transport infrastructure, transport safety, and construction of toll roads.</p>
<p><i>Legislative factors</i></p> <p>A new legislative proposal is being considered: obligatory licensing for production, storing, procurement, and sale of beer. There are time restrictions for off-premise alcohol selling, and limitations where alcohol products can be bought and consumed. Alcohol commercials on TV are forbidden and advertisements of alcohol products in public places are limited.</p>	<p><i>Ecological factors</i></p> <p>Large territory with wide range of temperatures may cause limited access to some geographic locations. The Russians distrustfulness to green products will change with the time.</p>

Summarizing, Russia presents large territorial and sectorial heterogeneity, with high complexity of the economy and energy sector prevalence in the state's exports and GDP, which makes it vulnerable to trade shocks. However, the economy of the country is expected to grow slowly but steadily for the next five years. (International Monetary Fund 2014.)

The micro-environment

Michael E. Porter's five forces model is used to analyse the company's position in the industry and evaluate its competitiveness. The five forces are rivalry among existing

competitors, threat of new entrants, threat of substitute products, bargaining power of buyers, and bargaining power of suppliers. (p. 9). Belgian brewery Van Honebrouck produces a variety of specialty beers. Specialty beers ('speciaalbier' in Dutch) are any beers where fermentable sugars, grains and starches are used in the brewing process and contribute to higher alcohol content (World Beer Cup 2014). In other words, these are any beers but lager style beers. For this particular research, the results of the Russian beer industry analyses, with the maximal possible extent to imported specialty beer market, are presented. The limited amount of reliable industry information available on the Internet was the limitation for the research.

First of all, it is important to have a look at the Russian beer market as the whole. Between 1996 and 2007, there was a 'perfect storm' or 'beer boom' in Russia. Various factors combined together around 1996 led to increase in beer consumption and decrease in vodka consumption. A strong increase in vodka prices and bans on its commercials pushed people to change their drinking habits. In the meanwhile, large beer companies started investing in the improvement of the beer production technology and marketing campaigns. (Swinnen 2011, 305.)

Nowadays, Russia is one of the largest beer markets in the world. The Russian beer industry is comprised of a few, namely four, large firms. They are Danish Carlsberg Group, Russian branch of Belgian-Brazilian multinational beverage company Anheuser-Busch InBev – Sun InBev, Dutch Heineken International, and Turkish Anadolu Efes. (Puzirev 2014.) Market shares, presented in the figure 16, clearly show the dominance of these four players. The independent Russian beer producers have 18% of the beer market, and 2% of the market are taken by the imported beers.

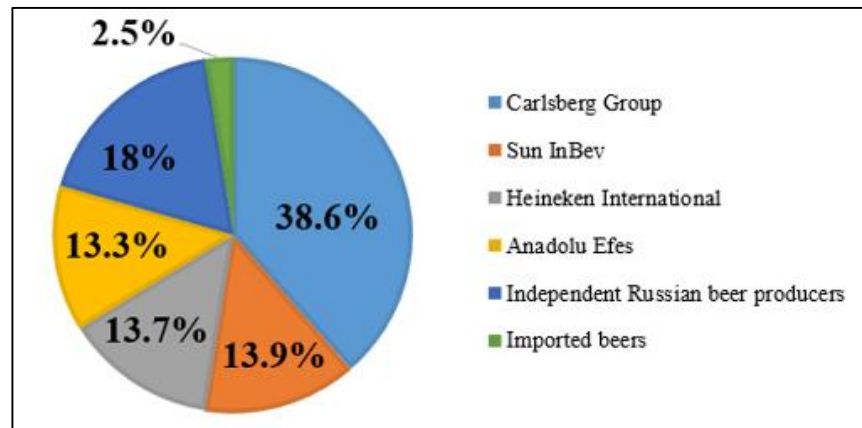


FIGURE 16. Market shares in the Russian beer market, 2013. (adapted from Puzirev 2014)

By using The Four-Firm Concentration Ratio, which, according to Investopedia (2014), “consists of the market share of the four largest firms in an industry”, it is possible to say that the concentration level of the overall Russian beer industry is rather high (79,5%). The concentration level is considered high when the total market share of the four largest firms is more than 80% (AmosWeb 2014).

Force 1: Competitive rivalry

The Russian market of imported beer can be split into two categories based on the beer retail price and the place of production. The first category includes *lower premium, mainstream and economy segments*, which are served by producers from near-abroad countries such as Ukraine, Belarus, and Armenia. Russians do not find these beers special, and consider them as the Russian beer alternative. The second category includes *premium and super-premium segments* that are occupied by producers from other foreign countries, mainly from the European Union. These beers are mainly specialty beers, which are much more expensive than the other beers in the market. While the volume of beer import from the near-abroad countries stay more or less at same level, the beer import from far abroad keeps on increasing. (Pivnoe delo 2013; Pivnoe delo 2014.) The blue diagram in the figure 17 illustrates the growth of the beer imported to Russia from far abroad (million litres). The red diagram shows the top countries from far abroad from where the specialty beers are coming, and their share in the total amount of the Russian beer import in the first half of 2014. In descending order, they are (1)

Germany, (2) Czech Republic, (3) Belgium, (4) Great Britain, and (5) Ireland. (Food Newsweek 2014a.)

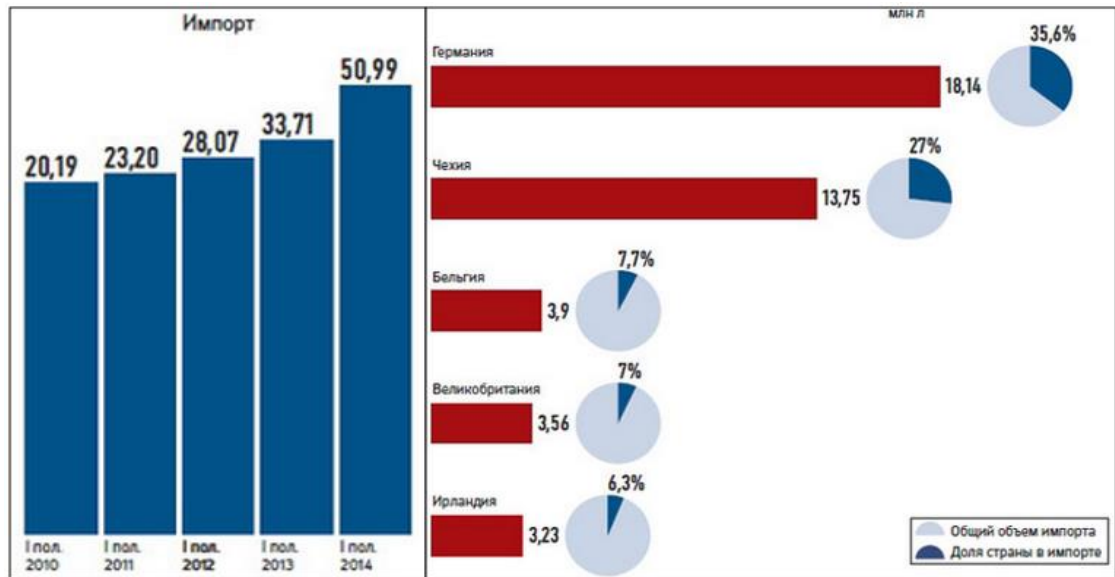


FIGURE 17. Growth of beer import to Russia and the top countries-importers (Food Newsweek 2014a)

On the whole, the beers that are imported to Russia from far abroad can be characterized as high-quality specialty beers (not lager style beers) with special taste, and higher alcohol concentration. These beers are sold at higher prices, and generally their brands are positioned as ‘luxury’. (Pivnoe delo 2014.) The Russian beer consumers start finding the taste of the beer, place of production, story behind the brand and its uniqueness more and more important. Therefore, they are even ready to pay more for these beers. The Russian specialty beer market is still young, and the demand on these beers is expected grow, however, the steadiness of the growth will mostly depend on the economic situation in Russia. (Food Newsweek 2014a; Food Newsweek 2014b.)

Force 2: Threat of new entrants

As it has been mentioned, the specialty beers from far abroad are getting more and more popular among Russian consumers, and the industry is growing. Consequently, there can be a threat of new entrants such as foreign specialty beer producers that want to export their beers to Russia. Moreover, due to the Russian government’s regulations,

aimed at decreasing alcohol consumption, such as increased excise-tax, outlet regulations (time and place of beer selling), advertisement restrictions, and new packaging regulations, etc., that had a significant impact on the producers, some of the four market leaders started importing specialty beers from abroad. For example, Belgian beer Grimbergen is now imported to Russia by Carlsberg. (Puzirev 2014.)

Forces 3: Threat of substitute products

According to Porter (p. 10), substitute products are products that exist in another industry but may be used to fulfil the same need. Due to the fact that it is possible to separate specialty beer industry from the whole beer industry, the other type of beer (lager) can be considered as a substitute product. First, the four Russian market leaders are briefly presented in the table 9.

TABLE 9. Beer market leaders in Russia

<i>Company</i>	<i>Brief description</i>
Carlsberg Group	In 1990 Baltika Brewery was founded, and since 1992 the half-owner of it was Carlsberg Group, and in 2012 the brewery became fully owned by the Group. Currently, Carlsberg has ten breweries in Russia, where 20 different beer brands are produced. The top brand is Baltika. (Carlsberg Group 2013a; Carlsberg Group 2013b.)
Sun InBev	The Russian brunch of Anheuser-Busch InBev company – Sun InBev – was established in 1999. Sun InBev owns six breweries in Russia, where 20 brands of beer are produced. The top brands are Bud and Stella Artois. (Sun InBev, 2012; AB InBev 2014.)
Heineken	The company is present in Russia since 2002. At the moment, Heineken has eight breweries. Heineken Russia owns 30 beer brands including international brands such as Heineken and Amstel. (Heineken Russia 2014.)
Anadolu Efes	Since 1999 the company has been present in Russia. Now it owns five breweries in the country, where 23 different beers are produced. The top beer brands are Efes and Miller. (Anadolu Efes 2013.)

These four companies have come to the market at the perfect time ('beer boom' period), made serious investments and established own breweries, where they have been producing a large variety of beers: internationally popular beers and national and even regional beers. Even though the companies have a lot of diverse beer brands, the major type of their beers is lager. (Puzirev 2014.)

Regarding the independent Russian beer producers, nowadays in addition to regular beer production, some small and medium beer producers are brewing 'craft' or 'home-made' beers. These beers are brewed all over the country, and in each city or region the beer is adapted to the local tastes and preferences. An important outlet for local 'craft' beers are 'special beer points of sale' or beer shops, which have become popular after the ban on selling beer in stalls or kiosks in January 2013. (Panin 2014; Pivnoe delo 2014.) On the whole, the local specialty beers are still gaining popularity and do not have a significant impact on the beer market as the whole (Puzirev 2014).

Concerning the overall beer industry, the main substitutes are other alcoholic beverages such as wine and distilled spirits, and soft drinks. The fact that beer is potentially addictive, like other alcoholic beverages, has an impact on its consumption and demand. Price is generally one of the strongest influencers for a product switch. Price elasticity of consumption varies from -1.0 for wine, -1.8 for vodka, to -3.0 for beer. That means the changes in price on beer, in comparison to wine and vodka, have a relatively small effect on the quantity of the product demanded. (Swinnen 2011.) However, the constantly increasing beer prices have been stimulating people to switch to spirits, namely vodka (Panin 2014).

Force 4: Bargaining power of buyers

Most of the specialty beers from far abroad are exported to and consumed in Moscow and Moscow region (Pivnoe delo 2013). Even though these beers belong to the same beer type 'ale', there are enormous varieties of them: different tastes, styles (e.g. blond, dark, fruity beers), and alcohol concentration. Therefore, it is quite true to say that the product is highly differentiated. Due to specificity of the product, the most popular packaging used is glass bottles, then metallic cans and kegs, the latter is used to sell beer in the on-premises, i.e. in HoReCa (hotels, restaurants, and cafes). (Pivnoe delo 2014; Pivnoe delo 2013.) Thus, buyers purchase this product in rather low volume.

Generally, people who prefer specialty beers are quite well-educated regarding the product, and they have expectations for it. As the specialty beer serves premium and super-premium segments, the buyers have a greater potential to become very loyal customers and they are less price sensitive, than the buyers of the other type of beer. (Panin 2014.)

Force 5: Bargaining power of suppliers

For production of specialty beers, in addition to carefully selected main ingredients (water, malt, hops, and yeast) additional ingredients that may be used in beer production, such as sugar, spices, fruit, and even liqueur, should be also provided by suppliers. Due to high standards, uniqueness of some ingredients, suppliers' specific expertise may be required, and higher switching costs, may lead to quite high bargaining power of suppliers. Undoubtedly, in this type of business it is not possible to eliminate bargaining power of suppliers, but by having a number of suppliers and building win-win relations with them, a company can keep the bargaining power of its suppliers under control. (Swinnen 2011; Pivnoe delo 2013.)

6.3 Segmentation and market targeting

As it has been discussed earlier, the specialty beers exported by the brewery to Russia are mostly fruit beers. For the target audience analyses, the exported beers are divided into two categories: fruit and non-fruit beers (by beer sweetness and bitterness). The latter includes Kasteel Blond and Passchendaele beers. According to the case company's representative, Marc Schrauwen (2014a), the target audience for the fruit beers is the young people of the age 20-35 years old. Moreover, due to the specific sweetness of these beer, the most expected consumers are the females. Whereas, the non-fruit beers are aimed at the slightly older people of the age 30-45 years old. Bitterness, dominating in flavour palette of these beers, is more preferable by the males.

Based on the age of the target audience, it is possible to identify the types of the generations. According to Kotler et al. (2012, 180), the young people of the age 20-35 belong to Generation Y, and the older people in the age 30-45 belong to Generation X. The Russian society has been developing differently, Elena Omelchenko (2014) argues: "young people born from the end of the '80s to the beginning of the '90s can be, to a

large extent, included as those belonging to Generation X”. Thus both target audiences refer to Generation X. The characteristics and life-style of Generation X include balancing family, life, and work. They want high-quality products and messages to be uniquely designed. Generation X is the most price conscious, and it has low price sensitivity. They value honesty, and word-of-mouth recommendations from their circle. (Williams et al. 2010.)

As specialty beers from far-abroad are 3-4 times more expensive than domestic beers and beers from near-abroad countries, and the average price is RUB 250 per bottle/glass of a specialty beer, thus the income class of the target audience is middle class (and higher) living in urban area (Pivnoe delo 2013; Infovert 2014). The Russian Institute of Contemporary Development (2014), argues that according the official statistics 20% of the total population (approx. 28 mli. people) belong to the middle class, but in reality only seven percent of the Russian population (about 10 mli. people) is the middle class. Their average monthly salary is RUB 250 000 (approx. EUR 4 300 at the current exchange rate) per head. The majority of the people with this monthly income are concentrated in the biggest Russian cities. (Institute of Contemporary Development 2014; Forbes 2012.)

Due to the high price of the product, the segment(s) must be large and profitable enough, so that potential profits are greater than costs. First, by using a geographic segmentation base, number of people living in urban areas – either towns or cities, is used to identify the Russian cities that have population of more than a million of people. There are 15 cities that meet this condition. (Statdata 2014.) They are listed in the table 10. In order to minimize the chance of selling channels conflict (when two or more distributors serve the same market), the cities, where the current distributors of the case company are present, are eliminated.

TABLE 10. 15 Russian largest cities by population on the 1st January 2014 (Stat-data 2014)

Rank by population	City name	Population	Served by the current distributors (Astonex, Bairos)
1	Moscow	12 108 257	Astonex, Bairos
2	St. Petersburg	5 131 942	Astonex, Bairos
3	Novosibirsk	1 547 910	Bairos
4	Yekaterinburg	1 412 346	Bairos
5	Nizhny Novgorod	1 263 873	-
6	Kazan	1 190 850	Bairos
7	Samara	1 172 348	-
8	Chelyabinsk	1 169 432	Bairos
9	Omsk	1 166 092	-
10	Rostov-on-Don	1 109 835	Bairos
11	Ufa	1 096 702	-
12	Krasnoyarsk	1 035 528	Bairos
13	Perm	1 026 477	-
14	Volgograd	1 017 985	Bairos
15	Voronezh	1 014 610	Bairos

As a result, there are five cities, namely Nizhny Novgorod, Samara, Omsk, Ufa, and Perm, which can be possible future extra export destinations for the brewery. An interesting fact was dug up, two out of five selected cities, namely Nizhny Novgorod and Samara, are on the list of the Russian cities where FIFA World Cup takes place in 2018 (Itar-tass 2014). During the games the visa requirements for foreigners will be temporarily stopped, and beer advertisements will be allowed, and sale of beer will be permitted in some, prohibited at the moment, places (Gazeta 2014).

6.4 Additional results

During the research process, additional results have been generated from the qualitative data. Reviewing electronic sources, on the official website of one of the case company's distributors, namely Bairos, the researcher has discovered that some breweries from far-abroad countries make special beer gift packages. These packages include a beer bottle

or bottles and a unique beer glass or some accessories, for instance a pen. Three examples of these gift packs are illustrated in the figure 18.



FIGURE 18. Beer gift packages (Bairos 2014b)

Further research regarding the gift packs and the Russians' attitude towards them has shown an interesting tendency. As a present for family members, friends, and colleagues Russians prefer to give diverse gift packages, for example, sweets, cosmetics, coffee and tea packs. The beer gift packages, especially packs of imported beers, has been recently gaining more and more popularity. The price of the package is high, thus people prefer to give it as a gift instead of buying it for themselves. (RG 2013; Yarmarka 2008.) The possibility of making a special beer gift package was discussed with the case company's representative during the interview on 7th October. The company does not eliminate the possibility of making a special package. However, a profound research has to be made, and this issue is necessary to be discussed with the distributors.

Another interesting and unexpected information was generated in the process of interviewing the manager of Astonex, a distributor of the case company. After the manager's answer to the first question, regarding the criteria used by Astonex for the brewery selection, the manager expressed her opinion regarding the experience of the work with the brewery Van Honsebrouck. It was not planned by the researcher because it might have caused an embarrassing situation. However, according the manager, it is a great pleasure to work with the brewery: there have been no problems with the quality of the goods and the packaging, the brewery always responds promptly.

7 CONCLUSIONS

This chapter presents conclusions and discussions of the ideas formulated on the base of the research results and in compliance with the theoretical framework. The purpose of the study was to consider the distribution strategy of the case company in its export operations to Russia, to identify its elements and forces influencing the operation, and to give recommendations for organization and management of the case company's distribution to Russia in changing market environment. In order to do that, based on the reviewed theoretical literature and the results of the research, the detailed answers to the research questions are given. Then, the recommendations are made by the researcher.

7.1 The current distribution strategy and its efficiency

The brewery Van Honsbrouck employs *direct type of selling channels*, as it does not have a domestic sales intermediary, which acts as the brewery's external export organization, and which is responsible for export of goods. On the contrary, the company makes contracts with its foreign partners itself, and it exports through an internal department. Generally, there is a number of factors that should be considered by a manufacturer determining its distribution channel type. These can be the company's goals, exported product characteristics, market size, customer shopping habits, local laws, etc. In the case of the brewery Van Honsbrouck, it was contacted by the distributors that proposed cooperation. Consequently, the brewery did not have to work on the development of a channel structure or analyse numerous channel alternatives. Instead, it had to evaluate the proposed options and agree with potential partners on some aspects. The main characteristics of the distributors, considered by the company, were the potential distributors' overall sales, customer support capabilities, and knowledge of the local market.

These partners, Astonex and Bairos, are *foreign distributors*, who buy products from the brewery at a discount, maintain the merchandise in their own names, and then resell or distribute the goods to retailers. The company relies only on these two distributors to carry the product – the specialty beers, as in terms of market coverage in Russia, the brewery pursues *selective distribution scope*. Moreover, Marc Schrauwen, the case company's representative, believes that “*distributors are necessary, due to their*

knowledge of the local market". Thus the brewery puts trust in Astonex and Bairos' knowledge of the market, and ensuring adequate market coverage for the premium class beers.

These distributors form *two selling channels* employed by the brewery. These channels are *complementary*, because they serve noncompeting market segments in different geographic locations. In its operation in Russia, the case company is pursuing the involvement of the least number of middlemen before the product reaches the end-user. In the current distribution strategy, *the channel is considered short*, because the manufacturer moves its product through two intermediaries. First, the product is sold to a distributor, and then to a retailer. Regarding the channel width, each distributor employs a variety of retailers, thus the end part of *the channel gets wide or intensive*.

With the purpose to satisfy the needs of diverse target markets in Russia, in the contracts between the brewery and each of its distributors, it is stated in what geographical areas and through what channel (on-trade and/or off-trade) the goods may be distributed. Astonex distributes through the on-trade channel (90%), and it mainly focuses on St. Petersburg, whereas Bairos distributes through the off-trade channel (90%) and in addition to Moscow it distributes to other Russian cities. They have a number of outlets where the product can be sold. The manufacturer has restrained degree of control over the further distribution of the product (after a distributor receives the goods), and the brewery can know only where the product may be distributed, but not the exact places where the product is eventually sold.

In the current distribution strategy, the case company's distributors (or Russian importers) take care of the aspects such as the market analyses, planning physical distribution in accordance with the product characteristics, taking all the risks since the moment the goods leave the manufacturer (in accordance with Ex Works Incoterms rule), operation according to the law, determination of order sizes, search for retailers, and etc. Additionally, the contract between the brewery and each of the distributors contains the minimal total volumes of the goods that must be ordered by a distributor per year (as long as the contract is valid, i.e. five years). This gives the brewery confidence in the sale of the defined amount of the product in Russia. Based on all these findings, the researcher believes, that from the manufacturer's perspective, it has been the simplest and safest way to enter the Russian market.

For visualization of the current distribution of the goods to Russia, namely the selling/marketing channels, it is more comprehensive when these channels are illustrated within the whole distribution system of the case company. It is schematically demonstrated in the figure 19.

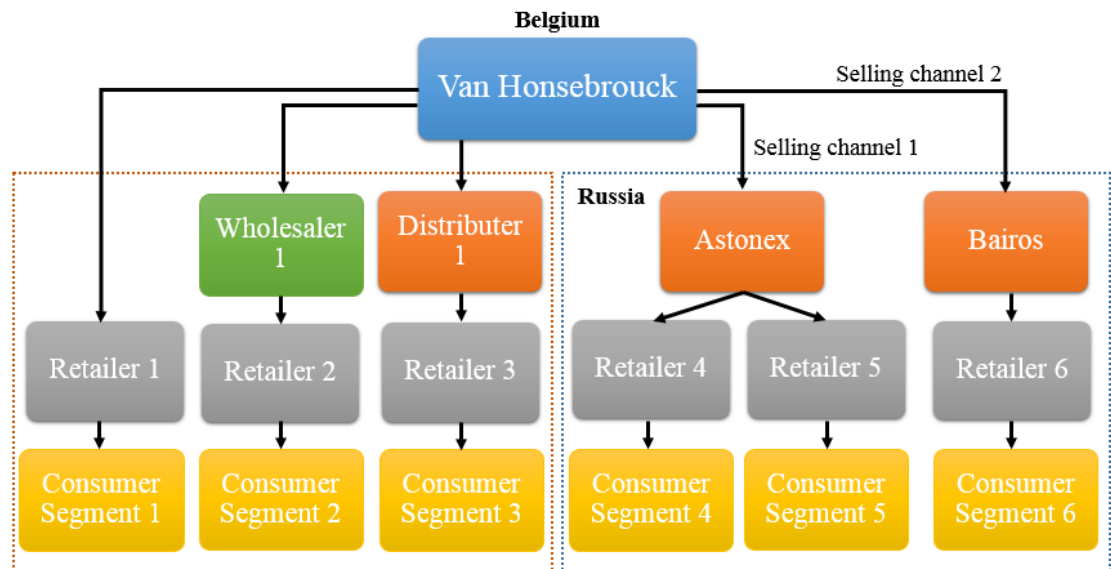


FIGURE 19. The distribution system of the brewery Van Honebrouck

It is clear that the brewery employs *multichannel marketing/selling system*, i.e. it manages a number of various channels to reach diverse customer segments. The orange square in the figure includes three types of selling channels commonly used by the brewery to distribute the goods within Belgium and other countries. Whereas, the blue square includes the two selling channels used by the company to export the goods to Russia. The products are distributed there through two *conventional marketing/selling channels*, where independent intermediaries (distributors and retailers) are involved in the process, their responsibilities are limited to their tasks, their goals are to make profits, and they do not possess much power over each other.

As the company employs two channels, *the multichannel conflict* can occur. In the current situation, the possibility of it is minimized thanks to strategic justification, where the distributors in Russia are focusing to the greater extent on different geographic areas and channels (off-trade and on-trade). Within each of two channel a *vertical conflict* may arise, for example between the producer and the distributors. Even though the chances are small, in the current distribution system a *horizontal channel conflict* may

also occur. This conflict arises between channel members at the same level, for example, between retailers. The prevention of the conflict at this level should be monitored by the distributors, as the manufacturer cannot control the retailers in the conventional channel structure.

However, the manufacture tries to eliminate conflicts as much as possible. The rights and responsibilities between the brewery and each of its distributors are clearly stated in the contracts. There are no disputes between them concerning the product demand, it is agreed to adjust the export volumes to the market demand fluctuations, consequently, the goods are ordered about ten times a year. Regular communication takes place between the parties.

Five criteria for channel efficiency evaluation

Based on the five criteria for channel evaluation presented in the theoretical part, the efficiency of the current channels of distribution is evaluated. These five criteria include cost of distribution, market coverage and penetration, customer service, communication, and control (p. 31 – 32). The structure of two distribution channels used by the case company to export its goods to Russia are identical. The brewery plans the export with its distributors directly, thus the *cost of distribution* is reduced by exclusion of any domestic intermediaries that could have been involved in the process. The researcher does not have access to the detailed information on the distribution costs, therefore a detailed numerical assessment cannot be made.

Market coverage and penetration cannot be estimated by the researcher due to restricted access to the needed data. It is important to analyse the market coverage and penetration provided by the distributors, the researcher believes that the manufacturer's high awareness of the exact number of the active retail outlets, where the product is sold in different parts of Russia, number and personality types of clients, as well as the percentages of the target markets that consumes the product, would allow the manufacture not only evaluate the channels' efficiency, but also plan efficient marketing activities.

When a special product, and the specialty beer speaks for itself, is sold at a high price, a buyer expects a decent level of *customer service*. Therefore, for the manufacture it is vital to make sure that the end-customer of its product is satisfied with the level of

provided service. For example, now Bairos, one of the case company's distributors, organizes trainings for the salespeople, who have direct contact with the end-customers.

The *communication* between the manufacturer and its distributors is at a good level. Their share information that may be relevant for each other. Annually, the case company's representative visits the distributors in order to discuss business related issues personally. Marketing activities aimed at the end-customers can be planned together with the distributors. Concerning the retailers, there is no direct information flow between them and the manufacture. The distributors can provide the manufacture with the desired sort of information on the retail but only on a limited scale.

In the current distribution channel structure (conventional selling/marketing channel), the manufacturer has limited level of *control* over its channels. On the one hand, it can be considered as a disadvantage. However, even when the manufacturer cannot have close control itself the channel, it still can monitor it to a certain degree. The establishment of good relationships with its partners/intermediaries can deepen the trust in each other, and contribute to achievement of the desired results together. Anyhow, the end-buyer is the only source of revenue (Chopra & Meindl 2013).

For better perception of the information, the main aspects of current distribution strategy are summarized and presented by the researcher in the table 11.

TABLE 11. The key aspects of the current distribution strategy

Key aspects	Clarification
<i>Cost of the distribution</i>	Direct work with the foreign distributors and no involvement of domestic middlemen contribute to moderate costs.
<i>Channel width and length</i>	The manufacturer has two distribution channels, where it provides its two distributors with goods, and they deliver the goods to retailers. Thus the channels are short, and the costs are reduced to a minimum. Narrowness of the channel at the beginning (two distributors) enable close work with partners, and wideness of it at the end contributes to greater market coverage.

[Continues]

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Key aspects	Clarification
<i>Risks and responsibilities</i>	The manufacturer and the distributors conform to Ex Works Incoterm rule, thus the producer bears practically no risks. First it receives the payment and then the goods can leave the brewery. The distributors arrange physical distribution, prepare the documents, and take the risks.
<i>The contract</i>	The contract between the brewery and the distributors is made for five years, it can be extended at the expiration of the period as long as the conditions are beneficial for the parties. It includes the exact minimal volumes of the beer that must be ordered each year, which give the confidence to the brewery.
<i>Communication</i>	The level of communication between the brewery and the distributors is at good level, the producer has no direct contact with the retailers or end-users.
<i>Control</i>	The manufacturer has limited level of control over the distribution in Russia.
<i>Reliance</i>	The brewery places its reliance upon the distributors and their experience and knowledge of the market. They make decision on the retailers. As the distributors import specialty beers they are picky and exacting to the retailers. To some extent, they can check the retailers ability to provide a decent level of service to the end-customers.
<i>Marketing activities</i>	Marketing activities aimed at the end-user can be discussed with the distributors, and they in turn agree upon that with the retailers.
<i>Conflict of interests</i>	The chance of the multichannel conflict is minimized as the distributors serve distinct markets. The vertical conflict is unlikely due to clear division of responsibilities, set goals, regular communication, and mutual interest in success. The risk of the horizontal conflict should be monitored by the distributors.

Based on the information presented in the table, a comprehensive picture of the current distribution strategy of the case company can be developed. It is possible to notice the

strengths and the weaknesses of the strategy. In addition, a very important aspect, which, according to Kumar (2009, 351), is a widely used criteria for evaluation of overseas distribution, is the sales volumes. This criteria is considered, and the sales volumes are shown in the figure 20.

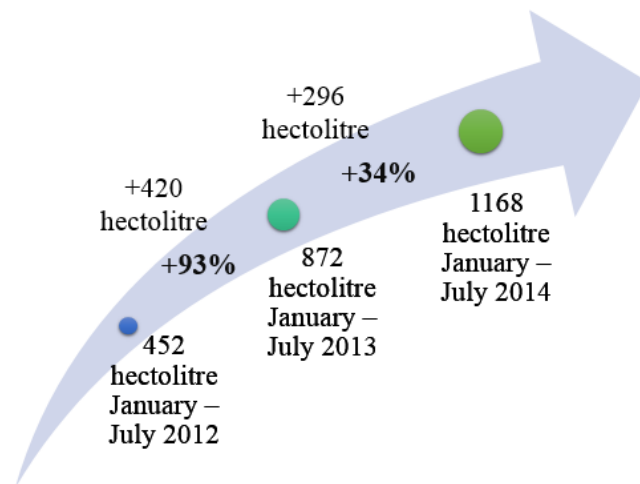


FIGURE 20. The sales volumes of the export to Russia

This is obvious that the sales volumes are increasing. The same time frames (the data from January till July) are used in order to make the correct comparison. For the same period of time, the sales volumes in 2013 almost doubled in comparison to the sales volumes in 2012. In 2014 the growth is not as significant as in the previous year.

7.2 The macro-environment of Russia

The present macro-environmental situation in Russia is quite severe. The strained relations between the country and the European Union in general, and sanctions against each other in particular have an adverse effect on the economies. Besides the sanctions, the overall Russian economy is shaky at the moment. The recent significant devaluation of the rouble, which exceeds the prognosis, creates a serious problem for the foreign exporters and Russian importers. Most likely this will give an advantage to Russian producers that export their products, however, this will have a short-term effect. At present, the growing inflation rate will lead to rise in product prices, and as the salaries do not increase as fast as the inflation, the income coming from the labour will decrease, consequently lowering the consumption.

The researcher believes that these macro-environmental factors form one out of two groups that will have the strongest negative impact on the case company. The other group includes the state's actions aimed at the reduction in alcohol consumption. The governmental current actions are described in the research results (p. 62 – 63). The obligatory licencing for production, storing, procurement, and sale of beer will be another reason (in addition to increasing inflation rate) of beer price growth. Moreover, there is a strong possibility of new legislative regulations.

On the positive side, as it has been demonstrated in the research results, Russia will reduce the customs tariff. That will help to reduce the costs of the Russian importers. According to the prognoses of Russian Ministry of Economic Development (p. 61), the improvement of the general macro-environmental situation and decrease of the inflation rate in 2016 will contribute to the increase of consumer demand.

The researcher recommends not to undertake any significant actions in the year 2015. During the unstable and indeterminate market situation the producer should better keep the current state of affairs unchanged. In case the situation starts improving, it is expected to happen in 2016, the brewery can implement the ideas that may be developed during the year 2015.

7.3 The beer industry in Russia

Based on the previously presented results of the micro-environment analysis (p. 65-70), the researcher has summarized own view on the industry situation using Porter's Five Forces model (table 12).

TABLE 12. The researcher's view on the industry situation

Force 1: Competitive rivalry

The competition in the specialty beer market is rather perfect due to a variety of companies and their origins. At the moment, competitive rivalry is not high because the market is still new and growing, entry barriers are not low and exit barriers are not high.

[Continues]

[Continues]

Force 2: Threat of new entrants

The growing market and not high entry barriers make a threat of new entrants, however not high exit barriers will make it possible for weaker companies to leave the market without resulting in chronic overcapacity and limited earnings for the players in the market.

Force 3: Threat of substitute products

Market leaders. The threat of lager beers as substitute products for specialty beers is quite limited. The current specialty beer trend attracts people to switch from lager to specialty beers, and if the people switch to them and become loyal to the brand(s), the threat of this substitute minimizes. The independent Russian beer producers. At the moment, they possess a limited threat. In long-term outlook local ‘home-made’ beers may pose a threat. Other substitutes. In case of specialty beers, the specificity of the product is a ‘protection’ against substitutes, and when it is managed appropriately, no substitute product can be good enough to be a real threat to it. On the whole, the economic situation (e.g. price fluctuations) may pose a threat of substitute products.

Force 4: Bargaining power of buyers

In the case of specialty beers, the bargaining power of end-buyers is closer to moderate.

Force 5: Bargaining power of suppliers

The brewery receives ingredients from both home country suppliers (Belgium), and from abroad. In total, it has 150 suppliers. In general, for specialty beer producers, bargaining power of suppliers may be high, the suppliers of Van Honsbrouck do not pose a threat.

At the moment, the overall beer industry in Russia undergoes numerous restriction and limitations that diminish its attractiveness. However, during the time when the main pressure was on the companies that brew and sell beer in Russia, foreign exporters and/or Russian importers took the advantage of that, as the governmental main regulations have not had a notable negative impact on them. The foreign exporters are mostly small and medium beer producers that brew diverse beers but mainly the specialty beers and export them to Russia. The foreign beer producers do not need to set up a factory or even open an office in Russia, and this is their serious advantage over the other beer

companies. Among the foreign firms there is no strong market leader in Russia, and the competition is rather perfect.

The specialty beer market is still gaining popularity, thus with the time it will attract new entrants. The ultimate customer in the beer industry possess low bargaining power. Having a look at the specialty beer consumers, they have not a lot but more power as they are mainly concentrated in big cities, they are quite aware of the product they are buying, and the switching costs are low. These buyers are less price sensitive, they purchase the product in low volumes, and expect good customer service. In spite of the state's pressure on the beer business, the specialty beer industry can still be considered attractive.

7.4 The potential ultimate customers

As it has been discovered and presented in the research results, there are two target audiences developed based on the brewery's beer flavour palette. The target audience for the fruit beers is the young people, mainly the females, of the age 20-35 years old. Whereas, the non-fruit beers are aimed at the slightly older people, mainly males, of the age 30-45 years old. These people possess quite high level of income, and they belong to at least the middle class. The income becomes an important aspect due to high prices on specialty beers. The majority of the Russian middle class is concentrated in the biggest cities of the country.

Planning its marketing activities, the case company should take into account the fact that the target audiences belong to Generation X. They value high-quality products and uniquely designed messages. Honesty is important to them, and they rely a lot on the word-of-mouth recommendations from their circle. It is important that the company communicates to the target audiences and tries to build the ultimate customers' loyalty. This can be achieved through providing the desired customer service: the manufacture should discuss with its distributors the quality of service provided to the end-customers by the retailers, the trainings organized by the distributors to the staff of the retailers who have direct contact with the customers. At the moment, Bairos arranges these type of trainings. It may be beneficial for the brewery to consider provision of customer incentives such as rebates, buy two and get one free, and small gifts. Moreover, it has been revealed that Generation X has comparatively low price sensitivity. Thus when the

target audiences are loyal to the company, even the increase of prices will not have significant impact on the demand, because these people will still keep on buying the product.

As a very important trait of the target audiences is their income, and the Russian people with high incomes (middle class and higher) are concentrated in the largest cities, 15 cities with population over one million of people are identified and listed in the research results. Out of those cities, the researcher revealed five cities, namely Nizhny Novgorod, Samara, Omsk, Ufa, and Perm, where the potential customers can be found. Thus they can be considered by the manufacturer as possible future export destinations.

7.5 Channel conflicts

In the theoretical part three types of conflicts that may occur between channel members have been presented and explained. They include horizontal, vertical, and multichannel conflicts. On the whole, a conflict arises when actions of one channel member prevents another channel member from achieving its goals. The type of conflict depends on the channel structure employed by the manufacturer. The case company has two channels, where the type of each channel is conventional. Therefore, both vertical channel conflict and multichannel conflict that may occur. However, even though the chances are low, in the current distribution system a horizontal channel conflict may also occur. This conflict arises between channel members at the same level, for example, between retailers. The prevention of the conflict at this level should be monitored by the distributors, as the manufacturer cannot control the retailers in the conventional channel structure. (p. 29-31.)

Vertical channel conflict arises between members at different levels of selling channel. For example, this conflict arises between the manufacturer and its distributor when the distributor resells the goods to an off-site company located outside Russia, which is not allowed according to the contract between them. Whereas multichannel conflict occurs between members of two or more separate channels established by the manufacturer. For instance, this conflict can occur if the manufacturer builds two separate channels that serve the same target market, and their actions are not coordinated. As a result, they may end up competing against each other. An interesting fact is that a conflict can be

beneficial for the channel as the whole, but this is rather an exception than a rule. (p. 29 – 31.)

The main causes of the conflicts include (1) *goal incapability* (the manufacturer's long term plans may not coincide with dealers' plans, pursuing short-run profitability); (2) *unclear rights and responsibilities* (lack of detailed information in contracts between channel members); (3) *differences in perception* (disputes arising between a manufacturer and its distributors regarding future market demand and the need to increase the inventory); (4) *intermediaries' dependence on the manufacturer* (manufacturers' decisions to increase the price may not be desirable by their middlemen). (p. 30.)

The mechanisms that can be used to resolve a conflict include the following: (1) *strategic justification* (justification that channels serve distinctive segments can reduce chances on conflicts, as well as different brands are distributed through different channels); (2) *communication* (regular communication between the manufacturer and the channel members regarding changes in the market, product performance, company's plans and etc.); (3) *fundamental goal* (the manufacturer and the channel members come to an agreement on a superordinate goal which is sought by everyone, for example, high customer satisfaction); (4) *diplomacy, mediation and arbitration* (when every involved party is willing to mutually resolve a conflict, then diplomacy takes place, sometimes a conflict can be resolved only through arbitration (the conflicting parties present their arguments to an arbiter) and mediation (third party conciliates the interests of conflicting parties)). (p. 31.)

Summarizing, there is no unique receipt exist for avoiding and/or resolve any channel conflict. The researcher believes, that the manufacturer should keep in mind the presented above four main causes of conflict, and try to minimize the chance of their occurrence. Moreover, the researcher is sure that when any conflict arises the first step that has to be taken by the manufacturer is to conduct talks with the channel's members.

7.6 Organization and management of distribution

With the purpose to give recommendations for organization and management of the case company's distribution to Russia in changing market environment, the distribution strategy and forces influencing the company's operation have been studied, and the

opinion to the results has been given by the researcher. Based on that, the researcher identifies the case company's strengths, weaknesses, opportunities, and threats in its operation in the Russian market (table 13).

TABLE 13. SWOT of the case company

<i>Strengths</i>	<i>Weaknesses</i>
1) Construction of a new brewery with doubled production capacity enable the company to handle growing demand; 2) Wide range of high quality specialty beers; 3) Continuous R&D activities for new product development; 4) The company regularly communicates and makes annual visits to the distributors; 5) The company has practically no risks and responsibilities in export (Ex Works rules); 6) The brewery restrains the distribution costs by working directly with the distributors located overseas; 7) Marketing activities can be discussed and planned together with the distributors; 8) The target audience is with high incomes, and low price sensitivity; 9) Focus on the largest Russian cities.	1) Large investments required for building the new brewery, hence, less money may be spend on other needs, e.g. marketing; 2) The company has to manage the distribution in Russia remotely; 3) Communication with the distributors: cultural differences, e.g. language; 4) The manufacturer cannot select, manage, and control the retailers; 5) The use of Ex Works Incoterms rule gives the brewery no physical control over the goods after they leave its warehouse; 6) Strong reliance on the distributors (e.g. selection of retailers, storage of goods, etc.).

[Continues]

[Continues]

<i>Opportunities</i>	<i>Threats</i>
<p>1) Improvement of Russian economy, expected in 2016, with price deceleration, and increase of the consumer demand will lead to the company's sales growth;</p> <p>2) Specialty beer market is still new, the brewery can try to gain a bigger market share;</p> <p>3) The company may invest in marketing activities aimed at the end-customers to increase the company's brands awareness;</p> <p>4) The company can search for new geographic locations within Russia;</p> <p>5) A new product packaging development, for example, a gift beer pack.</p>	<p>1) Complication of the political situation: strained relations with the EU (sanctions) have negative impact on the countries' economics and trade;</p> <p>2) Rouble devaluation and high inflation level will restrain consumer demand;</p> <p>3) Obligatory licencing, restrictions and other the state's limitations related to beer business will lead to increase of prices and that may decrease the demand;</p> <p>4) The four Russian beer market leaders start importing specialty beers;</p> <p>5) As a reaction to increased prices on specialty beers people may switch to substitutes;</p> <p>6) With the time the competition in the specialty beer market will increase.</p>

The elements listed in the SWOT table are rated by the researcher and demonstrated the SWOT Matrix in the appendix 6. The researcher rated the magnitude and importance of the elements based on the manager's perceptions taking into account the ultimate customers. The elements with the highest results are presented farther.

Strengths:

- The brewery restrains the distribution costs by working directly with the distributors located overseas;
- Marketing activities can be discussed and planned together with the distributors;
- The target audience is with high incomes, and low price sensitivity;
- Focus of the largest Russian cities.

Weaknesses:

- Strong reliance on the distributors (e.g. selection of retailers, storage of goods, etc.).

Opportunities:

- Improvement of Russian economy, expected in 2016, with price deceleration, and increase of the consumer demand will lead to the company's sales growth;
- The company can search for new geographic locations within Russia.

Threats:

- Rouble devaluation and high inflation level will restrain consumer demand;
- Obligatory licencing, restrictions and other the state's limitations related to beer business will lead to increase of prices and that may decrease the demand.

Based on these elements and the answers to the research questions presented earlier in this section, the researcher gives recommendations on how the case company should export to and organize distribution of its products in Russia. The recommendations given to the brewery are divided into two parts by the time period: from now and until the end of 2015, and from 2016 onward.

7.6.1 From now and until the end of 2015

The researcher believes that the present organization of distribution is right and suitable for the case company. On the one hand, the strategy restrains the company from some aspects, for example, deep control over its distribution channels, choice of retailers, and direct communication with them. The manufacturer has to repose trust in its distributors in issues such as control over the proper physical distribution of the goods (for instance, heat has negative impact of the product quality), selection of the retailers, and others. However, having a look from the other perspective, the manufacturer is located overseas, and it manages the export of goods not only to Russia but to more than 40 other countries. Thus, this is practically impossible to profoundly manage the export of the goods to all of these countries from an internal department of the company with 80 employees. Consequently, in this circumstances, the reliance on the partners becomes the necessity.

The brewery prefers to work not with domestic intermediaries but with foreign partners even if it is a more challenging task. In spite of language and other cultural differences,

the company gets closer to the market where it is present and builds business relationships with its distributors. The decision on conforming to Ex Works rule is wise, because the brewery can decline own responsibilities on the product transportation from its warehouse to the warehouses of the Russian distributors, as well as preparation of the documents which is a very complex and time consuming task. Moreover, the distributors know the market specifics and trends better than the manufacturer, as they present operate only in Russia and for quite a while, this makes it beneficial for the brewery to rely on them.

More importantly, with the current strategy the brewery achieves extremely good results in the volumes of sales in the Russian market. Thus the researcher supposes that the present performance of the distribution strategy is high. The fact that the manufacturer has moderate amount of responsibilities, and it relies enough on the distributors, while increasing the sales, enables the researcher to believe that the current distribution strategy is efficient. The researcher reckons that the strategy is eminently suitable under the case company's internal circumstances. Therefore, *at this moment it is recommended to the case company not to change the distribution strategy*. The discussed farther macro- and micro-environmental stimuli support the given recommendation.

The present macro-environment situation in Russia is not favourable for the brewery and its distributors. The research has demonstrated unstable economic situation. The rouble devaluation makes the exported products sold in Russia more expensive. As the salaries do not increase as fast as the inflation rate, the income coming from the labour will decrease, consequently lowering the consumption. New obligatory licencing for production, storing, procurement, and sale of beer will also contribute to beer price increase. The increased beer prices, and decreased income may lead to decline of demand.

The present contracts between the brewery and each of its Russian distributors are valid until 2018. The manufacture can be sure that the stated (minimal) volumes of goods will be exported to Russia during that period. However, in order to give a boost to demand or at least keep the consumption at a good level, *it is recommended to the case company to consider sales promotion activities, which can be aimed at the distributors and/or the ultimate customers*. These promotions will support the company's partners and help them to increase or keep the sales at the desired level.

Due to the fact that the brewery has no direct contact with or control over the retailers, the researcher recommends the case company to “*sell*” or *prove the value of its partnership with the distributors*. The company’s supply of the distributors with *sales materials* will be welcomed by all the channel intermediaries. When the distributors value the work with the producer, who provides them with high-quality products, works without delays, and supports them with sales materials, the distributors will be more eager to promote the product to the retailers and stick to the producer during difficult times.

The case company’s target audiences are middle-class people. These people are ready to pay for the desired product a comparatively high price, but they also expect decent *level of service*. As the specialty beers are served in unique glasses, at the defined temperature, and with the right amount of foam, it is recommended to the case company to discuss these small but very important and valuable by the ultimate customer issues with the distributors. In their turn, they should make sure the requirements are met, because eventually the end-consumer is the source of revenue of all the involved in the process parties.

On the whole the year 2015 is going to be difficult and ambiguous. Thus, the researcher recommends not to undertake any significant actions (such as addition, modification or elimination of selling channels) during that period, and keep the current state of affairs unchanged. However, in the meantime it would be beneficial to *consider and evaluate the possibility of entering new geographic locations*. The researcher has identified five Russian cities that may be attractive destinations to the brewery. These are Nizhny Novgorod, Samara, Omsk, Ufa, and Perm. It is believed that they are big and profitable enough to be suitable of the case company. The possibility of the area coverage should be first discussed with the distributors, as the process of development and management of an extra channel is time-consuming and complex. In case the distributors are not willing to serve the area, the manufacturer can think over another (extra) channel of distribution. Four out of five cities, namely Nizhny Novgorod, Samara, Ufa, and Perm, are located comparatively close to each other. Therefore, the chance that the brewery will find one distributor that can cover these four cities is high.

Another important aspect that is recommended to be weighted by the manufacturer and thought over with the distributors during the year 2015 is *a new product possibility, namely a beer gift package*, which can be sold through the off-trade channel (e.g. in a

shop). In case of the current distributors' disinterestedness, the manufacturer can consider contacting a retailer. Direct partnership with a retail chain will give the case company greater awareness over the places where and how well the product is sold.

7.6.2 From 2016 onward

As it has been mentioned earlier, the strategic plan of the company is to grow volume of production by 25% and increase the volume of annual export up to 70% of its total production within next five years, where the brewery counts on the Russian market. The results of macro-environment analysis has shown that the situation in the market should improve in 2016. Therefore, if the situation starts getting better, the company can implement the plans developed during 2015.

If the manufacturer chooses to employ another (extra) distributor and/or a retailer, it is important to minimize the chances of a conflict that may arise between the channels. The researcher recommends to *take into account the ways the risk of conflicts can be lowered*. The establishment of a fundamental goal of the manufacturer and the channel intermediaries is highly important. Strategic justification that channels serve distinctive segments can also reduce chances on conflicts, as well as when different brands are distributed through different channels. Regular communication between the manufacturer and the channel members regarding changes in the market, product performance, and etc. are the necessity especially when the parties are located not in the same country.

Based on the results of the industry analyses, it is expected that the specialty beer market in Russian will attract new foreign beer producers, the competition will increase. The increase will not be significant in the coming year (2015) as the overall marketing situation is difficult. However, in order to meet the competition, *the case company should develop positioning strategy and based on it – design its marketing communications*. This will help it to make the target audience aware of the brands, present and reinforce another approach to beer drinking, where the purpose is to enjoy the time spent with friends while having a glass of a great beer rather than getting drunk. The brewery's slogan which is: "Beer brewed carefully, to be consumed with care", can be used in promotion of responsible drinking (Caste Brewery Van Honsebrouck 2014a). The company' efforts to get closer to the ultimate consumers and earn their loyalty will help to reduce the buyers' bargaining power and threat of substitute products. These incentives

will be welcomed by both distributors and retailers, and they will help the case company to ‘stand out from the crowd’. All the recommendations are summarized in the table 14.

TABLE 14. Recommendations for the case company’s distribution strategy

<i>From now and until the end of 2015</i>
<ul style="list-style-type: none"> • Keep the current distribution strategy unchanged; • Consider sales promotion activities, which can be aimed at the distributors and/or the ultimate customers; • “Sell” or prove the value of its partnership with the distributors; • Discuss with the distributors the level of service provided by the retailers to the end-customer; • Consider and evaluate the possibility of entering new geographic locations; • Think over a new product development, namely a beer gift package, which can be sold in the off-trade.
<i>From 2016 onward</i>
<ul style="list-style-type: none"> • The decisions and plans made in 2015 may be implemented in 2016 if the market situation in Russia improves; • If the case company chooses to employ another (extra) distributor and/or a retailer, it should take into account the ways the risk of conflicts can be lowered; • In order to meet the increasing competition, the case company should develop positioning strategy and based on it – design its marketing communications.

Some of these recommendations have direct impact on the company’s distribution strategy, some – indirect such as recommendations for sales promotion activities. However, all these suggestions are believed to be the most suitable and right for the case company’s export to and operation in Russia in the coming years. Additionally, it is important to notice that the recommendations have relative timing accuracy. The favourable prognosis for the improvement of Russian market situation in 2016 may have some timing variations.

7.7 Quality of the research

The theoretical part of the thesis was formed on the basis of the studied theory regarding the position of distribution within international marketing strategy, distribution management, diverse decisions concerning channels of distribution development and management, as well as various environmental forces affecting these decisions and channels' performance. On the basis of the developed theoretical framework, the empirical part of the research was structured. The researcher applied the theory in a clear and logical manner. The achieved results are consistent with the theory. Concerning quality of the research, the research was based on the analyses of both interviews and data collected by reviewing electronic sources. The main focus was kept on the qualitative research, however, for deep and profound examination of the topic quantitative techniques were used in the study.

The quality of the primary and secondary data collected in *qualitative research* via conducting semi-structured interviews and doing content analysis is judged through trustworthiness using alternative criteria: credibility, transferability, dependability, and conformability (Daymone & Holloway 2011, 85). *Credibility* of the research was achieved by conducting two semi-structured interviews and reviewing electronic sources. The sufficient data was collected. Moreover, 'member check' was undertaken. During the interviews the researcher was summarizing information and asking the interviewees' interpretation of some data in order to let the participants to comment, give feedback, and avoid misunderstanding of words of the participants. The researcher was familiar with the topic to some extent due to the professional internship that had taken place in a Belgian freight forwarder.

Concerning *transferability* to other situations or settings, it is hardly applicable as the findings are context-specific, and there is no similar research available to compare the results. *Dependability* is demonstrated by the logical structure of the study. The findings are dependable, accurate and consistent. The processes of data collection and analysis are described in detail. The decision-making process is clear, and its dependency on the findings is evident. The researcher has demonstrated *conformability* of the study through clear linkage between findings and interpretations to the data in the way that it can be easily understood by others.

Regarding *quantitative research*, the secondary data obtained by reviewing official statistics and doing content analysis, has limitations such as control over how that data was collected and analyzed. Therefore, it is difficult to assess the reliability and validity of the information. However, the researcher tried to use only trustworthy sources, and the publishing date was always checked so that the findings could represent the current and/or most recent situation. The quantitative research based on the secondary data can be considered reliable, as the same results can be achieved under the same conditions and with the same subjects. The study accurately assessed the phenomenon the researcher intended to assess, thus the research is valid.

On the whole, the researcher reckons that the right research methods have been used. They enabled to collect the relevant information that was properly analysed and allowed the researcher to answer the stated research questions and solve the problem in the best possible way. However, it is important to mention that during the research process some limitations have been faced. Limited access to the case company's numerical data that could have been used to evaluate its distribution channels' efficiency made the precise evaluation impossible. Due to privacy concerns, Bairos denied being interviewed, thus detailed information regarding this distributor could not be generated. The micro-environment analysis of the beer industry in general, and specialty beer in particular was limited because of small number of reliable sources of information. The detailed industry information can only be bought from the qualified Russian research agencies. Therefore, there is a room for further study.

7.8 Suggestions for further research

Based on the research findings and the fact that the research had some limitations, suggestions for further research can be developed. *The precise and numerical evaluation of the current distribution channels* is suggested for further study. The researcher believes that it should be made by the case company's employee because then there is access to the needed data, and practically no risk of confidential information disclosure. The evaluation of opportunities regarding *exporting only fruit beers or addition of other sorts of the brewery's beers* can be made. However, most likely the detailed industry information, needed to make that evaluation, can be gathered only by professional research agencies, thus the brewery might find it beneficial to buy this type of research report.

The development of the beer gift package should be considered and evaluated by the case company, as it can be a valuable addition to the company's products that are sold in the off-trade (e.g. shops and boutiques). This issue should be discussed with the current distributors because their experience may be useful in the package creation and design. Another issue that should be thought in depth is *the marketing activities* aimed at the end buyer. The positioning strategy should be developed, as well as the ways the manufacturer can communicate to its ultimate customers about itself and the product should be studied.

The identified by the researcher *possible future export destinations* are recommended to be evaluated. The possibility of exploration of new geographic areas by the current distributors and/or the chance of development of a new channel that can serve those areas and its type should be studied.

8 CONCLUDING REMARKS

The process of thesis writing was challenging, and it required a lot of dedication and persistence since the moment I started looking for the case company. The theoretical knowledge acquired during the studies in Mikkeli and the exchange period in Antwerp (Belgium) as well as the experience gained during the practical training in a freight forwarder were very helpful and valuable to me in the research work. It is absolutely true to say that during the thesis writing process I have significantly extended my knowledge in the area of distribution organization. I have also acquired a lot of new skills in collecting, sorting and prioritizing the information, applying techniques to data analysis, and generating new and valuable knowledge. Conducting the interviews I have practiced communication skills. Researching and analysing the results I have improved my analytical and critical thinking.

Moreover, it has been a valuable learning experience to get involved in business operations of the Belgian company and its Russian partners. I have had a great opportunity to link the theoretical knowledge to its practical application in the evolving market environment, and I have had a unique chance to realize the complexity and riskiness of the international business. Overall, the knowledge and skills acquired during the process have made a priceless contribution to my professional development.

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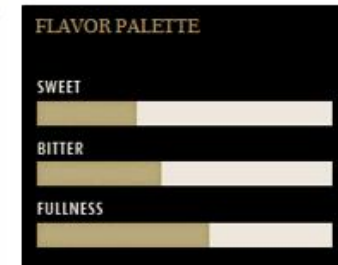
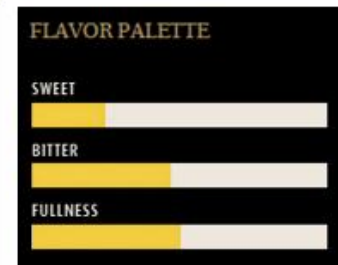
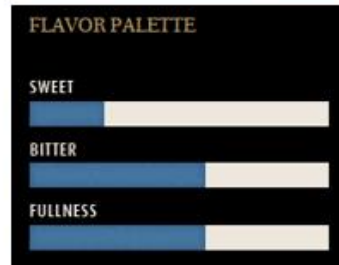
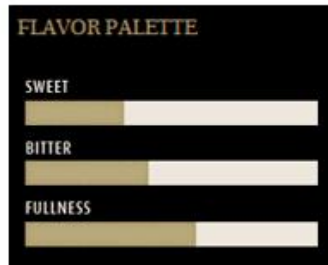
APPENDICES

APPENDIX 1 (1).

The brands and varieties of the beers (Castle Brewery Van Honsenbrouck 2014c)



APPENDIX 1 (2).



APPENDIX 1 (3).



APPENDIX 1 (4).



APPENDIX 2 (1).

Outline of the interview with the case company's representative

Interviewee: Marc Schrauwen, Brewery Van Honsebrouck

Date and place: 7 October 2014, Mechelen, Belgium

<i>Topic</i>	<i>Examples of questions</i>
Organizational issues	<ul style="list-style-type: none">• What is the company's mission and vision statements?• What are the company's strategic goals in Russia?• How are the strategic planning and decision making process organized?
Internationalization	<ul style="list-style-type: none">• What were the reasons of internationalization?• To what extend was the company involved in international marketing activities? How was it organized?• Why did the company decide to go to Russian market in 2012?
Market analysis	<ul style="list-style-type: none">• Were any environmental analysis made by the company before exporting to Russia?• What were the strategic goals and expectations of the export activities?• Were the analyses regarding potential customers made (before exporting)?• What was the decision regarding the distribution scope?
Selling channels	<ul style="list-style-type: none">• Why did the company decide to work with distributors? How were they chosen (what criteria was used)?• How are the relationships with the middlemen organized? How often does the company communicate with them?• What is the contract between them? What does it include?• To what extend does the company possess control over the distributors' operations?

[Continues]

APPENDIX 2 (2).

[Continues]

<i>Topic</i>	<i>Examples of questions</i>
Selling channels	<ul style="list-style-type: none">• May the brewery be interested in adding an extra selling channel? How often are goods being ordered? In what volume?• What packaging is used (bottles, kegs, cans)?• Have there been any conflicts between the distribution channel members?
Physical distribution	<ul style="list-style-type: none">• What is the transportation mode used? (water, air, road, rail)• How are the goods packed and transported?• Who is responsible for physical distribution and preparation of export documents?• Does the company use services of freight forwarders? (if yes: how often? (every time) what services are the most valuable?)• Does the company use Incoterms rules? (if yes: which one(s) and why?)• What are difficulties in exporting to Russia?

APPENDIX 3.

Outline of the interview with the case company's distributor in St. Petersburg

Interviewee: Evgenia Kovchinnikova, distributor Astonex

Date: 29 October 2014

<i>Topic</i>	<i>Examples of questions</i>
Organizational issues	<ul style="list-style-type: none">• What criteria does the company generally use in order to select a brewery located overseas?• In case a foreign brewery contacts Astonex itself, what are Astonex' requirements to that brewery?• By what means and how often does Astonex communicate with its foreign partners?• In what sequence are orders placed? (Astonex takes orders from its clients, then it contacts breweries overseas and places orders for beers, then when the goods arrive, Astonex picks them up and places in its warehouse until they are received by the clients)
Services	<ul style="list-style-type: none">• What services in the Russian market does Astonex offer to foreign breweries?• In what geographic area are the goods being distributed?
Retailers	<ul style="list-style-type: none">• What types of companies are the clients of Astonex?• What are requirements to a possible client (e.g. pub, restaurant, retailer) to start run a business together?
Beer business in Russia	<ul style="list-style-type: none">• In what phase is the Russian beer market at the moment?• Do you expect it to grow?• How can a foreign brewery strengthen its position and expand the business in Russia?• What are the current limitations for beer business growth in Russia?• Assuming a foreign brewing company is planning to go to Russian market, what can you advise that brewery? What does that brewery should be beware of?

APPENDIX 4.

Outline of the interview with the case company's distributor in Moscow

Interviewee: distributor Bairos

Date: 30 October 2014

<i>Topic</i>	<i>Examples of questions</i>
Organizational issues	<ul style="list-style-type: none">• What criteria does the company generally use in order to select a brewery located overseas?• In case a foreign brewery contacts Bairos itself, what are Bairos' requirements to that brewery (e.g. sales volumes, origin)?• By what means and how often does Bairos communicate with its foreign partners (e.g. e-mail, telephone, personal visits)?• In what sequence are orders placed? (Bairos takes orders from its clients, then it contacts breweries overseas and places orders for beers, then when the goods arrive, Bairos picks them up and places in its warehouse until they are received by the clients)
Services	<ul style="list-style-type: none">• What services in the Russian market does Bairos offer to foreign breweries (e.g. marketing activities)?
Retailers	<ul style="list-style-type: none">• What are requirements to a possible client (e.g. pub, restaurant, retailer) to start run a business together?
Beer business in Russia	<ul style="list-style-type: none">• In what phase is the Russian beer market at the moment?• Do you expect it to grow? If yes: why yes? If no: why not?• How can a foreign brewery strengthen its position and expand the business in Russia?• What are the current limitations for beer business growth in Russia?• Assuming a foreign brewing company is planning to go to Russian market, what can you advise that brewery? What does that brewery should be beware of?

APPENDIX 5 (1).

Supplemental Agreement on the extension of the Contract (Schrauwen 2014c)

<p>Дополнительное соглашение № 01/B о пролонгации Контракта № 11/4-2 от «15» апреля 2011 г.</p>	<p>Supplemental Agreement № 01/B on the extension of the Contract № 11/4-2 of "15" April 2011</p>
<p>г. Санкт-Петербург Дата: « 17 » ноября 2013 г.</p>	<p>St-Petersburg Date: November, 17 2013.</p>
<p>«Броуверей Ван Хонсебрук» Б.В.Б.А., юридическое лицо, созданное и действующее в соответствии с законодательством Бельгии, именуемая в дальнейшем "Продавец", в лице Генерального директора Ксавье Ван Хонсебрук, действующей на основании Устава, с одной стороны, и ООО [redacted] общество с ограниченной ответственностью, созданное и действующее в соответствии с законодательством Российской Федерации (код 643), именуемое в дальнейшем "Покупатель", в лице Генерального директора [redacted], действующего на основании Устава, с другой стороны, совместно именуемые далее по тексту "Стороны", а каждая в отдельности "Сторона", заключили настоящее Дополнительное соглашение к Контракту № 11/4-2 от «15» апреля 2011 г. о нижеследующем:</p>	<p>«Brouwerij Van Honsbrouck» B.V.B.A., company incorporated and existing under the laws of Belgium, hereinafter referred to as "the Seller", represented by Xavier Van Honsbrouck, acting on the basis of General Director, on the one part, and [redacted] incorporated and existing under the laws of the Russian Federation (code 643), hereinafter referred to as "the Buyer", represented by General Director [redacted] acting on the basis of the Charter, on the other part, hereinafter jointly referred to as "the Parties", and separately as "the Party" have concluded this Supplemental Agreement to the Contract No 11/4-2 of "15" April 2011 on the following:</p>
<p>1. п.1.2 Контракта № 11/4-2 от «15» апреля 2011 г. Читать в следующей редакции: «Стороны независимы друг от друга. Представитель является самостоятельным юридическим лицом, независим от Компании в своей деятельности. Представитель действует от своего имени и на свой риск. Представитель не имеет полномочий действовать от имени Компании. При этом Представитель имеет право представляться на Территории как «эксклюзивный представитель» Компании на территории Российской Федерации.»</p>	<p>1. Point 1.2 Contract No 11/4-2 of "15" April 2011 read as follow: «The Parties are independent from each other. The Representative is an independent legal entity, and is separated from the Company in its activity. The Representative operates on its own behalf and risk. The Representative does not have powers to operate on behalf of the company. Thus, the Representative has the right to be represented as "the exclusive representative" of the Company in the Territory of the Russian Federation.» <i>with the exception of the Russia district</i></p>
<p>2. п.2.1 Контракта № 11/4-2 от «15» апреля 2011 г. Читать в следующей редакции: «Компания предоставляет Представителю эксклюзивные права на представление ее интересов на территории Российской Федерации (в дальнейшем Территория) по распространению Товара Компании – разливного пива.»</p>	<p>2. Point 2.1 Contract No 11/4-2 of "15" April 2011 read as follow: « The Company gives to the Representative an exclusive rights to representation of the Company's interests in the territory of Russian Federation (hereinafter referred to as the Territory) for propagation of the Goods of the Company – draft beers.» <i>of the Kasteel brand.</i></p>
<p>3. п.3.1 Контракта № 11/4-2 от «15» апреля 2011 г. Читать в следующей редакции: «Настоящее Соглашение вступает в силу с даты подписания и действует до 31.12.2018 г.»</p>	<p>3. Point 3.1 Contract No 11/4-2 of "15" April 2011 read as follow: « This Contract comes into force on the date of its signing and is valid until December 31, 2018.»</p>
<p>4. п.5.1.8 Контракта № 11/4-2 от «15» апреля 2011 г. Читать в следующей редакции: « В течение действия настоящего Договора Представитель должен достигнуть следующих объемов выбранного товара: [redacted] Гл пива Компании за 2014 год, [redacted] Гл пива Компании за 2015 год, [redacted] Гл пива Компании за 2016 год, [redacted] Гл пива Компании за 2017 год, [redacted] Гл пива Компании за 2018 год.»</p>	<p>4. Point 5.1.8 Contract No 11/4-2 of "15" April 2011 read as follow: « During this contract the Representative has an object to reach following volumes of the Goods: [redacted] Hectoliters of beer of the Company in 2014, [redacted] Hectoliters of beer of the Company in 2015, [redacted] Hectoliters of beer of the Company in 2016, [redacted] Hectoliters of beer of the Company in 2017, [redacted] Hectoliters of beer of the Company in 2018.»</p>

APPENDIX 5 (2).

<p>настоящим Дополнительным соглашением остаются в силе.</p>	<p>affected by this Supplemental Agreement shall remain in force.</p>
<p>6. Настоящее Дополнительное соглашение составлено в двух экземплярах на русском и английском языках, по одному для каждой из Сторон. При этом оба экземпляра имеют одинаковую юридическую силу.</p>	<p>6. This Supplemental Agreement is signed in two counterparts each made in English and in Russian. One for each of the Parties. Both counterparts of the Supplemental Agreement are equally legally binding.</p>
<p>АДРЕСА И ПЛАТЕЖНЫЕ РЕКВИЗИТЫ СТОРОН.</p>	<p>ADDRESSES AND PAYMENT DETAILS.</p>
<p>КОМПАНИЯ/THE COMPANY:</p> <p>[REDACTED]</p>	<p>ПОКУПАТЕЛЬ/BUYER:</p> <p>[REDACTED]</p>
<p>Генеральный директор / General Director OOSTROZEBEK STR. 43 [REDACTED] Van Honsbrouck /</p>	<p>Генеральный директор / General Director [REDACTED] / [REDACTED]</p>

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*I.o. René Schmauwer
 W 719 2661*



APPENDIX 6 (1).

The case company's SWOT Matrix

M = magnitude of the element, I = importance of the element, R = total rating of the element. Magnitude scale ranges from 1 (low magnitude) to 3 (high magnitude). Importance scale ranges from 1 (low importance) to 3 (high importance).

<i>Strengths</i>	<i>M</i>	<i>I</i>	<i>R</i>
1) Construction of a new brewery with doubled production capacity enable the company to handle growing demand	2	3	6
2) Wide range of high quality specialty beers	2	3	6
3) Continuous R&D activities for new product development	2	2	4
4) The company regularly communicates and makes annual visits to the distributors	2	3	6
5) The company has practically no risks and responsibilities in export (Ex Works rules)	2	3	6
6) The brewery restrains the distribution costs by working directly with the distributors located overseas	3	3	9
7) Marketing activities can be discussed and planned together with the distributors	3	3	9
8) The target audience is with high incomes, and low price sensitivity	3	3	9
9) Focus of the largest Russian cities	3	3	9
<i>Weaknesses</i>	<i>M</i>	<i>I</i>	<i>R</i>
1) Large investments required for building the new brewery, hence, less money may be spend on other needs, e.g. marketing	-2	3	-6
2) The company has to manage the distribution in Russia remotely	-1	1	-1
3) Communication with the distributors: cultural differences, e.g. language	-1	2	-2
4) The manufacturer cannot select, manage, and control the retailers	-2	2	-4
5) The use of Ex Works Incoterms rule gives the brewery no physical control over the goods after they leave its warehouse	-2	1	-2

[Continues]

APPENDIX 6 (2).

[Continues]

<i>Weaknesses</i>	<i>M</i>	<i>I</i>	<i>R</i>
6) Strong reliance on the distributors (e.g. selection of retailers, storage of goods, etc.)	-3	3	-9
<i>Opportunities</i>	<i>M</i>	<i>I</i>	<i>R</i>
1) Improvement of Russian economy, expected in 2016, with price deceleration, and increase of the consumer demand will lead to the company's sales growth	3	3	9
2) Specialty beer market is still new, the brewery can try to gain a bigger market share	2	3	6
3) The company may invest in marketing activities aimed at the end-customers to increase the company's brands awareness	2	3	6
4) The company can search for new geographic locations within Russia	3	3	9
5) A new product packaging development, for example, a gift beer pack	1	2	2
<i>Threats</i>	<i>M</i>	<i>I</i>	<i>R</i>
1) Complication of the political situation: strained relations with the EU (sanctions) have negative impact on the countries' economics and trade	-2	3	-6
2) Rouble devaluation and high inflation level will restrain consumer demand	-3	3	9
3) Obligatory licencing, restrictions and other the state's limitations related to beer business will lead to increase of prices and that may decrease the demand	-3	3	9
4) The four Russian beer market leaders start importing specialty beers	-1	3	-3
5) As a reaction to increased prices on specialty beers people may switch to substitute products	-2	2	-4
6) With the time the competition in the specialty beer market will increase	-2	2	-4