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EXPORT OF FINNISH PAINTS AND VARNISHES TO RUSSIA-CASE GVK

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Abstract

The Russian economy is recovering from past crises, and, despite a difficult politic and economic situation, the market of the Russian Federation is becoming attractive to foreign companies again. This includes the case company. The major threats of the market are the instability of the Russian ruble, the crisis situation in the country, import substitution and corruption. Another predicament is instability in consumer preferences.

The aim of the present research is to identify the possibility of GVK entering the paint and varnish market of the Russian Federation with its products for wood protection. The study analyzes the market, the industry, and the business environment in Russia with various market tools. The study includes also a description of the case company's strengths and weaknesses that might affect its performance.

According to the results of the survey, professional players of wooden construction market are not ready for cooperation with suppliers. Due to the unlikelihood of reaching professional customers, the paper provides GVK with recommendations and directions for further research.

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1 INTRODUCTION

1.1 Introduction of the case company and description of products

GVK is a painting and coating industry company from Finland. It is the second oldest (after Tikkurila Ltd. - 1862) and the third biggest Finnish paint producing factory, founded in 1946. In the beginning it was a part of the Swedish Geveko AB concern, but since 2013 it has belonged to a Finnish owner. (GVK 2014.)

At the moment the turnover of the company is between 4-5 million euros. The company has 22 employees and 84 retailers all over Finland. It belongs to the segment of medium sized enterprises. In 2014 the company exported 30% of the volume of domestic sales. (Seppinen 2017.)

The company's major specializations are water borne industrial coatings, DIY coatings and water borne road marking coatings. The company produces outdoor, indoor and industrial paints. Moreover, the company is willing to create tailored products following the need of particular customers, in contrast with Tikkurila or Teknos, which currently are not customizing their own products. (Seppinen 2017.)

1.2 Aim of the study

This research focuses on the market potential for paints, especially for waterborne industrial coatings, in the area of Leningrad Oblast and Russian Karelia. The core customer segment is companies that manufacture wooden-element houses and are searching for comprehensive solutions to the protection of their products. GVK is aimed at future operations on the paint market in the Russian Federation. The company is more interested in cooperation with the large company chains operating not only in the mentioned area, but in other regions of the country.

The aim is to study the characteristics of the market of premium quality industrial coatings in Russia, such as major operators, competition and the business environment. Furthermore, the study recommends marketing methods as well as possible business partners in the chosen areas of operation.

1.3 Methodology

In order to provide relevant and reliable data as well as competent recommendations which could be implemented by GVK on the Russian market, research was conducted. Both primary and secondary data sources were employed.

Primary data was gathered with the help of interviewing GVK and its potential customers. This category includes a database of possible customers in the area of Saint Petersburg and Karelia. For more effective gathering and analysis of primary information, two questionnaires were designed. The first one was designed for interviewing GVK representatives, and the second one- to receive data from potential customers in Russia (Appendix 2). Later, due to the reluctance of Karelian companies to answer the business-related questions, a customer approach was designed. The interviewing was conducted from a potential customer's perspective. It included some questions from the survey for potential customers (for instance, questions 1, 2, 3, partly 4 and 8) as well additional questions (about price and possible professional advice).

Secondary data was collected from the reliable sources, such as *Росстат* (Federal service of governmental statistics of Russian Federation). Some secondary information was gathered from the web site of the company and its core competitors (such as Tikkurila and Teknos). Statistics and data from the World Bank Group were used in terms of analyzing the business environment of Russia.

1.4 Outline of the thesis

This thesis includes four major parts. The first part is an analysis of the business environment in Russia in general and in terms of painting materials with the help of a PESTEL analysis. The second part consists of analyzing the industry and the paints and varnishes market of the Russian Federation. The third part includes a survey among wooden construction producers in Russian Karelia and Saint Petersburg (Lenoblast). In this chapter the aims and methods of interviewing are described, as well as results of the survey. The last part is a marketing strategy which consists of the recommendations for GVK in terms of possible actions on the market according to results of the interviews.

2 BUSINESS ENVIRONMENT OF PAINTING MARKET IN RUSSIA

In the chapter below, the business environment of Russian Federation is reviewed in terms of political, economic, social, technological and legal trends, which might affect business of the case company within the country.

2.1 Political environment

One of the crucial modern political trends in the Russian business environment is import substitution, which applies to all core areas of the economy. Import substitution is the process of replacing goods produced in different countries with the ones produced within the Russian Federation. The president of the Russian Federation, V.V. Putin, stated that import substitution has three major goals. (Putin, V. 2016) The first of them is the production of goods which are competitive on the global level. The second goal is increasing the amount of non-primary exports. The last one is supporting domestic companies to become equal members of global production and technological alliances. (RIA-news 2016.)

The tendency of import substitution started in 2012, but a decree on the creation of the Governmental commission on import substitution was created only on 4.08.2015 (decree № 785 «О создании правительственной комиссии по импортозамещению»/ *O sozdanii pravitelstvennoi komissii po importozamesheniu*). Since the commission's creation, the Government identified a strategic list of core areas of the economy in which import substitution is implemented firstly. The mentioned areas are: agriculture, industrial production, and communication and telecommunications. However, according to the report of Centrlak in 2016, there are no straight settings for conversation on domestic paint and varnish materials, as well as domestic suppliers in the industry. The report states that foreign companies are strengthening their positions on the market. (Centrlak 2016.)

In conclusion, due to the World Bank Group's *Doing Business Report* (an annual research of the World Bank Group, which is ranking the ease of operating in 189 countries of the world with the help of 11 indicators), the Russian Federation occupies the 40th position in 2017, a noticeable improvement in comparison to previous years.

Positive dynamics within the past five years have been a significant factor in overviewing long-term trends of the business environment of Russia. The country improved in terms of the legerity of doing business and the overall business environment from the 124th position in 2012 up to the current 40th with the support of Governmental efforts (World Bank 2016, 191).

2.2 Economic Environment

There are two major characteristics influencing the industry of paints and varnishes as well as the most of the industries in Russia. The first one is the crisis situation within the country. The second one is the instability of the domestic currency, which is reflected in inflation and the fluctuating exchange rate, which affects foreign businesses within the country.

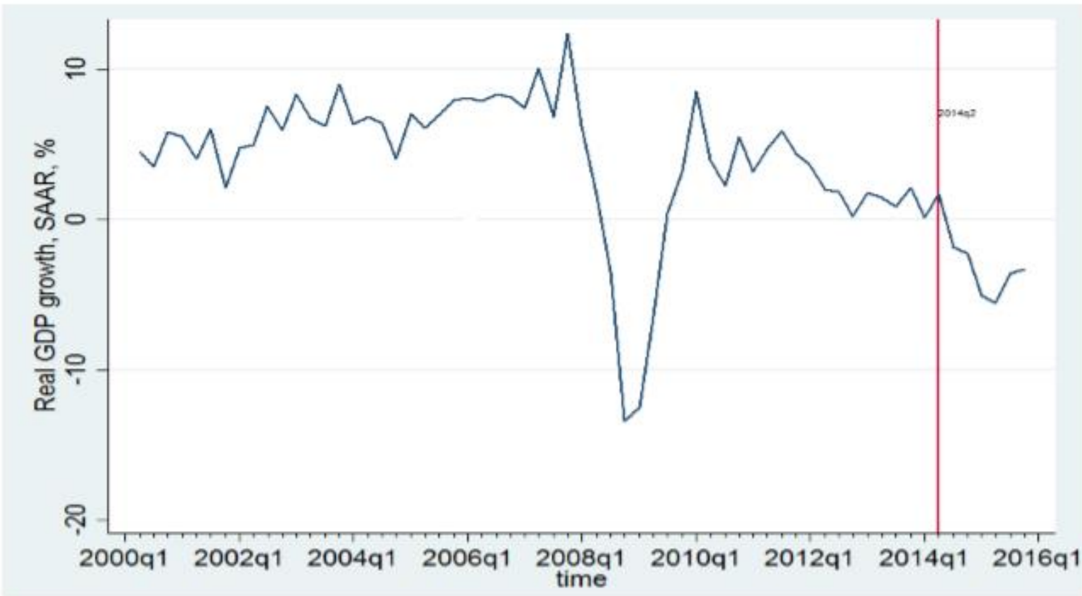

Figure 1. Russian real GDP growth from 2000Q1 to 2015Q4 (Source: Mäkinen 2016).

Figure 1 shows that the GDP of the Russian Federation since 2000 has experienced only one significant decline. The decline took place in 2008 (the first quarter of the year) as a result of the global economic crisis. However, recovery started soon. The most recent GDP reduction begun after the first quarter of 2014. The core reasons for that were the fluctuation of the ruble, the decision by the Government to avoid strict austerity policies, and the usage of the country's reserve fuds (the National Welfare Fund and the Reserve Fund). Despite all of those facts, the Russian economy experienced troubles due to the decrease in oil prices and economic sanctions. It recovered from recession in the end of 2016. Moreover, the most recent estimations depict the GDP growth at around 1% in 2017. (Mäkinen 2016.)

The value of the ruble, the domestic currency of Russia, remains unstable. For instance, the inflation rate over past 5 years has fluctuated: in 2012 it was equal to 6.58, in 2013 to 6.45, in 2014- 11.36 and in 2015 and 2016 to 12.91 and 5.38, respectively (Figure 2).

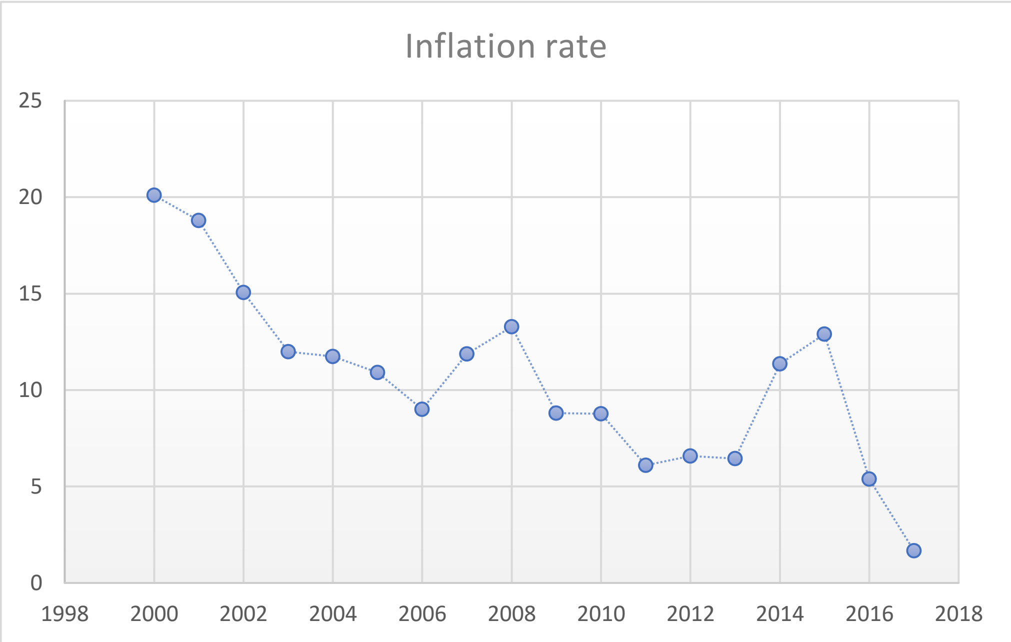

Figure 2. Inflation in the Russian Federation for the period from 2000 to September 2017 (Source: Inflation rate in Russian Federation).

The instability of the ruble is reflected in the exchange rate fluctuation (Figure 3). The exchange rate with the euro was more stable during the period from 2006 to 2008. From 2008 to 2010 the rate decreased slightly to 34.09 rubles per euro and sharply increased to 45.91 rubles in February 2009. Later on, it has stayed in a range from approximately 39 to 50 rubles per euro until February 2014. During July 2014 the rate decreased and reached 46.74. However, in December it was equal to over 90 rubles per euro and was fluctuating until August 2017, when it reached 70.85. The constant instability of the exchange rate is a significant risk for any international business that desires to operate in Russia.

Figure 3. Reference rates over a decade 2006-2016- Russian Ruble (Source: European Central Bank 2017).

Despite unstable position of domestic currency, the market of painting materials in Russia is developing positively. During the first half of 2016, the increase of production volume was equal to 8-10% in comparison with previous year. Due to the industry expert's opinion, this increase means the beginning of recovery of the industry after recession of 2014-2015. (Centrlak 2016)

2.3 Social Environment

In terms of social environment, the most crucial features of the Russian business environment are corruption, the increasing amount of e-services and the increase in concern about the environment.

According to the survey conducted in 2016 by the Russian Agency of Strategic Initiatives, in which companies from 81 regions took part, corruption was named among the main reasons of concern for the businesses (World Bank Group 2016, 191).

Russian law defines corruption as abuse (or other illegal behavior) of position gained by rank or status by an official servant in order to receive personal (in most cases financial) benefits. An act of corruption contradicts the interests of the country and society. (Federal law N 273-ФЗ, 2008.)

According to the *Russian Corruption Report*, corruption affects business operations or investment planning in Russia significantly. There are two core problems a business faces while operating in Russia. The first is the high-level of small-sized corruption (especially in the public procurement and judicial systems). Secondly comes the lack of transparency, accountability and regulatory ineffectiveness in the public administration sector. Regulatory ineffectiveness has its own negative effect on market competition and enhances the cost of doing business within a country. (GAN Integrity 2017.)

The increased amount of e-services in Russia is connected to the fact that the trust of citizens in the information form the internet is increasing. In March 2013 the number of people using the internet on a daily basis in Russia was equal to 50 million. There was a tendency towards constant growth. Internet publications and social networks gained 14 and 11 points of trust among respondents respectively, in comparison to traditional media, which were losing points. The core aims of the internet users were searches for information (not necessary the current interest one), communication, entertainment and tracking latest news. (Levada Center 2013.) This is one of the core reasons why more and more companies are providing their services through the internet. For instance, such players of the Russian market as Tikkurila and *Ярославские краски* (Yaroslavskye Kraski), are running accounts in the most popular social networks – Vkontakte, Facebook, YouTube and Instagram. Pinotex by Akzo Nobel uses Vkontakte, Facebook, YouTube, and *Лакра* (Lakra) – Vkontakte, Facebook and Odnoklassniki.

A growing concern of environmental issues is reflected in the encouraging of wooden construction by the government (Figure 4). However, despite this positive tendency, Russia still falls behind the countries which are leading in the area of wooden construction, such as Canada, United States and Finland. (Kucher 2017.)

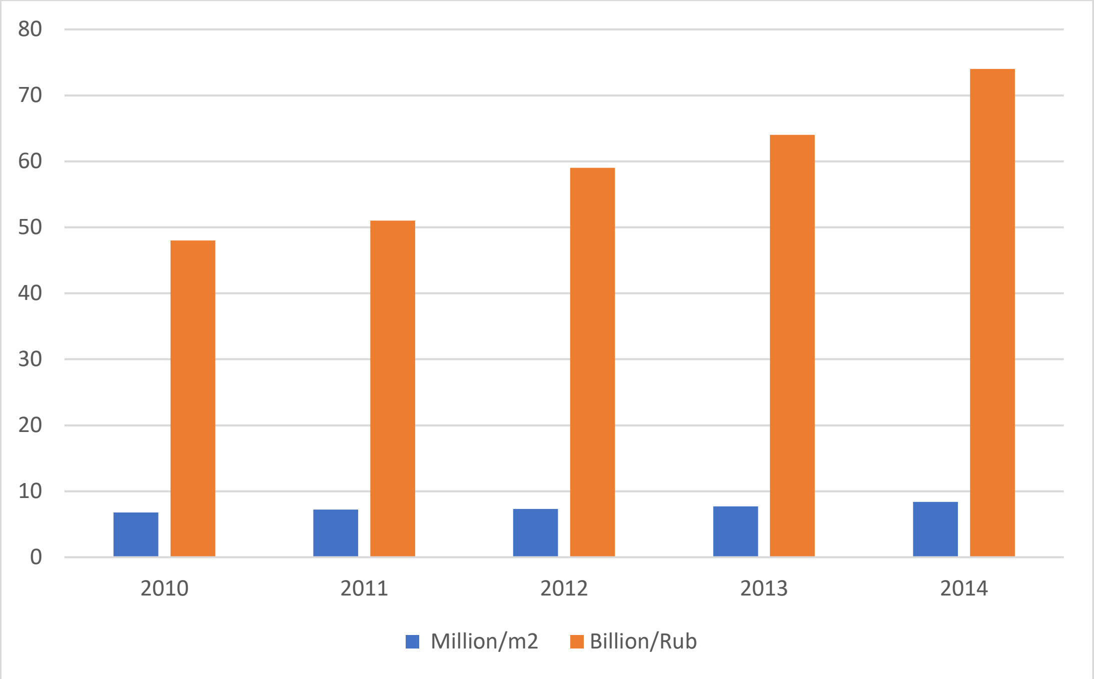

Figure 4. Dynamics in the construction of wooden houses in Russian Federation 2010-2014 in million square meters and billion rubles, relatively (Source: Ministry of Industries and Trade of Russian Federation 2016).

In 2016 the volume of low-storage wooden construction decreased by 8% in comparison to the previous year. Currently wooden construction overall comprises 12% of the total construction. The government intends to develop the wooden construction area in the country; however, there are such obstacles in the field as the "grey" market, a lack of norms and regulations in the area, and an ineffective utilization of resources. (Kucher 2017.)

2.4 Technological Environment

According to LakProm 2016, In the Russian Federation a system of governmental standards (*Гост*/GOST) for all the products, including paints and varnishes, exists. The process of standardization might be realized on several levels (European, Intergovernmental and Governmental). Those standards are valid throughout the whole territory of the Russian Federation.

All the Governmental standards (GOSTs) in the paint and varnishes industry could be divided into several groups. For instance, GOSTs could be divided according to the context of standardization, which depends on the particular material, particular types of materials, a unified system of protection from corrosion and aging, labeling of certain type of paints/coatings, etc. Every standard has its own individual number and name. What follows is a description of a typical document of GOST.

Governmental Standards for a particular paint/coating material.

This type of regulation consists of requirements and regulations, which are connected to a particular product (in this case- to a paint or a varnish). All these documents are typical. They include several sections.

1. Preface - This is an announcement of the document with the most significant excerpts from the text.

2. Technical requirements. This part includes such parameters of the product as color, appearance, shine, consistency, time of drying, durability, etc. The rules of acceptance include the results of the tests on a sample of the product and further actions.

3. The methods of testing. Related chapters depict complex methods and ways to reveal the correspondence of the actual state of the product required.

4. The section of Recommendations describes advices according packaging, labeling, transportation and storage.

5. The section of Warranties of the manufacturer defines the storage period and rules connected to storing of a particular product.

6. Safety requirements section consists of regulations of the impact of a current product on the life and health of the human/environment.

As examples, GOSTs such as №6456-76, №28379-89, №18335-83, №14923-78, № 6745-79, №23343-78 might be reviewed. The following standards are connected to the different types of enamels (ПФ-115, НЦ 184, ПФ-223, ГФ-1426), ground coatings (model ГФ-0119), and varnishes (ПФ-170, ПФ-171). (Rosstandard 2003.)

2.5 Legal Environment

Form the legislative point of view, starting business in Russia is relatively easy. First of all, a company should receive customs certificates for each product separately according to its code/ codes (from Finnish and Russian customs, relatively). Those certificates are valid on the territory of the whole customs union (EACU) and allow for exporting products to the Russian Federation. (Consultant of Russian-Finnish Chamber of Commerce 2017.)

Second of all, the labeling and marking of the containers and jars of paints within the Russian Federation is regulated by GOSTs. According to Rosstandard, subjects of Governmental registration on the territory of Eurasian Customs Union (EACU) are tanning or dyeing extracts, tannins and their derivatives, dyes, pigments and other colorants, paints and varnishes, primers and mastics and printing ink. Registration of the mentioned products is conducted by the Federal Service, with supervision in the field of consumer rights protection and human well-being (*Роспотребнадзор/ Rospotrebnadzor*). The company also needs a certificate of compliance with sanitary, epidemiological and hygienic requirements. This is called a certificate of state registration and is valid for an unlimited period.

Moreover, labeling, marking and legal-related aspects are listed in the intergovernmental standard for painting materials. It establishes requirements for the marking of paintwork materials manufactured for the needs of the national economy and exports. This document is also valid within the EACU. (Rosstandard 2003.)

Several types of paints and varnishes (enamels-GOST R 51691-2008; anti-corrosion primers- GOST R 51693-2000; linseed oil- GOST R 51692-2000) are subjects of declaration with a system GOST R (ГОСТ Р). Declaration of confirmation and compliance of requirements are issued for a period of up to three years.

The certified products are marked with a specific sign. For confirmation of quality characteristics of products and increasing consumers' trust, a company might voluntarily apply for the GOST R certificate. The basis for issuing the certificate is on reported laboratory testing.

The certificate is issued for up to three years. Certified products are marked with a sign, confirming that the products have passed the assessment in the GOST R certification system. (Rosstandard 2017)

Leading Russian and foreign companies own certain international and domestic certificates of quality to gain the trust of consumers. For instance, Yarli was certificated by such international certificates as ISO 9001 (by International Organization of Standardization), IQNet and IRIS (International Railway Industry Standards) and domestic ones, such as GOST RV 0015-002-2012, GOST ISO 9001-2011, GOST R ISO PU 16949-2009. Teknos is certified by ISO 9001, ISO 14001 (system of defection of environment and health) as well as domestic certificates GOST 9.401-94 (climate testing) and GOST 24700-99 (weather resistance testing). In comparison to that, Tikkurila does not have information on the certificates available. However, it is a member of the Association of Quality of Paint (AKK).

3 ANALYSIS OF PAINTING MARKET IN THE RUSSIAN FEDERATION

This chapter is an analysis of the market of paints and varnishes in the Russian Federation. The market is reviewed in terms of possible competitors (both domestic and foreign companies) as well as customers for the case company.

3.1 Industry analysis

Consumption of paints and varnishes in Russia is separated in several core areas (Centrlak 2016). The biggest share of domestic products is used for metal protection (40%) and the smallest for Furniture and Coil coating industries (10% each). (Figure 5.)

According to Rosstat 2017, capacity utilization within the industry in 2016 was 60%. The input of new capacity is implemented by Russian and foreign investors. The number of domestic investments in production capacity in 2016 was equal to 41,000 tons. They were aimed at developing new markets. Foreign investments were even to 75,000 tons, and it was aimed at withholding existing markets. Eighty percent of the investments in the industry are proper resources of the companies.

There are several large producers of decorative and industrial paints and varnishes in the Russian Federation (see Appendix 3). According to the data from 2014, in the field of decorative paints and varnishes, leading positions belong to Tikkurila (114 tons annually), *Лакра Синтез* (Lakra Sintez, 58 tons) and *ВГТ* (VGT, 35 tons).

The first place in the production in the industrial area belonged to the Russian producer *Ярли* (Yarli), the volume of production which was equal to 14,300 tons per year. The second and third leaders are *Русские краск* (Russkie kraski *и*) and *ЛКМ-групп* (LKM-group) with production of 12.7 and 12.2 thousand tons per year. Moreover, the amount of imports on the market of industrial paints in Russia is equal to 42%. (Centrlak 2016.)

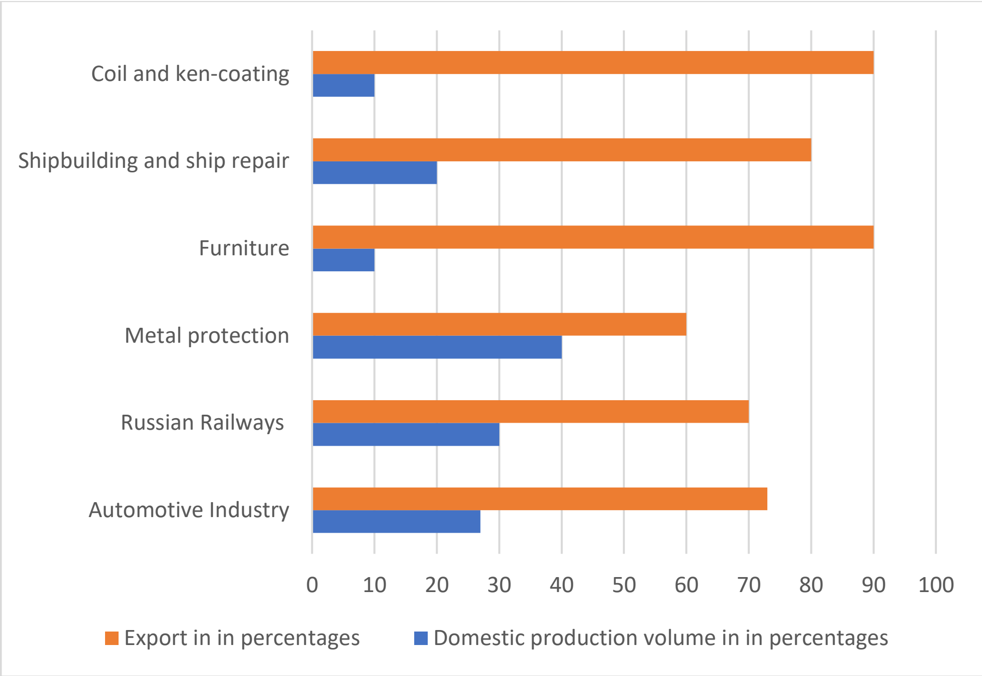

Figure 5. Shares of domestic and foreign paints and varnishes in Russia (Source: Centrlak 2016).

In the area of wooden protection, the key foreign players are Teknos and Remmers and domestically *Рогнеда*/Rogneda and *Сенеж*/Senezh. Consumption in the field is equal to 16,800 tons and 3.30 billion rubles. (Centrlak 2016.)

3.2 Market analysis

The following chapters are based on the article *Review of the Market of Paints and Varnishes* (Miroshnichenko 2017). It states that despite the complicated economic situation within the country and the instability of the domestic currency, the market of paints and varnishes in Russia is positively developing. In 2016 the volume of production increased by 8-10%. In the end of 2016, the cumulative volume of production in the industry in Russia was equal to 845 thousand tones (3.5% more than in 2015).

The largest share of the market belonged to colors based on polymers (59% of total volume in natural expression). Over the past years the structure of the market has not changed significantly, and is oriented mainly on the production of polymeric paints and varnishes.

The largest segment of the market is architectural colors. At the moment, the core task in the segment is a decrease in pollution by reducing the amount of solvents in the paints. Second largest segment of the market belongs to Industrial paints. It includes predominantly protective coatings like anticorrosive or wood-preserving. Also, road paints belong to this segment. The third largest segment is powder paints used mostly for the painting of household appliances and metal pipes.

The players of the market forecast a significant decrease of the import's volume and an increase of domestic production volume. There are such reasons for the forecast as the weakening of the ruble and the tendency for import substitution.

Despite the fact that domestic producers use cheaper components (for instance, imported from China, India or Korea), expected an ongoing increase of prices for domestic paints and varnishes (caused by the devaluation of the ruble).

The major tendencies of the market are the demand for the domestic premium price segment paints and positioning products as a natural and environmentally friendly. The majority of Russian producers are trying to decrease the amount of harmful volatile substances in the composition of paints by producing more water-based alkyd paints. Moreover, domestic companies are developing in terms expanding the product line, allowing increased competitiveness.

According to the forecasts of the Russian Ministry of Economic Development, the core tendency of the market in the upcoming future is going to be a decrease in the reduction in the output of obsolete paint and varnish products and the modernization of production. Those actions will allow domestic producers to master of production of the newest types of paints. (Miroshnichenko 2017.)

3.3 SWOT -analysis of GVK and Russian painting market

This section consists of a review of the Russian painting market with the help of a SWOT-analysis. It is aimed at defining the strengths and weaknesses of the company as well as the threats and opportunities of the market.

The first point among the strengths of the company is being foreign. According to a survey (RIA-novosti2016) held among 1,500 respondents from 53 regions of the Russian Federation, 40% of the respondents prefer to buy non-food products of foreign production. In general, 73% of Russians do not reject foreign products because of political or other reasons not connected to quality or marketing. However, at the same time 38% of respondents consider that it is necessary to strive for import substitution, and 41% think that import substitution of building materials could be done in a relatively harmless manner. The second significant advantage is the fact that GVK already operates successfully on the Finnish market, and in case of failure on the Russian market, a company would always be able to stick with a domestic one. The third point is the existence of a company's ISO 9001 certificate, which is valid in Russia and allows the company-owner to increase the trust of the potential consumers.

The major weakness of GVK is the low advertising activity. The foreign background might also fall in this category. According to the interview of the company's managing director (Seppinen 2017), industrial paints are sold directly to the customer without middlemen. The company is locating a new customer by buying form industrial painters and contacting them directly. That is why the company does not need an extensive advertising effort while operating in Finland. However, this strategy might not work on the Russian market, because of higher competition of both large domestic (Ярославские краски, Лакра Синтез, etc.) and foreign companies (TIkkurila, Teknos, Akzo Nobel, etc.).

GVKs foreign background might also be a weakness. The language of business (especially in case of small/medium business) in Russia is Russian. Most of the governmental information (especially in terms of legislation) is also issued in Russian. Any foreign company that wishes to operate on the Russian market needs to cooperate with experts within a country or invest in Russian-speaking personnel.

In the area of opportunities, the Russian market might be extremely promising despite the competition. First of all, a company which operates successfully in Russia also has the potential to extend and operate on the whole territory of Eurasian Economic Union. The Union includes Russia, Kazakhstan, Belarus, Armenia and Kyrgyzstan.

The establishment of the EACU implies a wide range of areas of cooperation (labor, capital, services and goods) among the members. Also, the members of the union utilize a coordinated economic policy. In 2014 the volume of the external trade was equal to 877.6 billion US dollars (3.7% of the world's exports and 2.3% of import). (Eurasian Economic Union 2017.)

The key factors in the area of threats are the instable currency rates, corruption, and ough competition on the market (especially competition with large foreign companies) might become serious obstacles. The experts of Tikkurila note that in 2016 the situation on the Russian market was more stable than in 2015, but the buying ability was low. As a result, the consumption of cheaper (and therefore less qualified) paints and varnishes increased. The competition on the market remains sharp. (Interlakokraska 2017.)

4 A SURVEY AMONG WOODEN HOUSE CONSTRUCTORS IN RUSSIA

4.1 Aim

In order receive more data about the Russian market of wooden buildings and the way professionals in the area consume paints and varnishes, a survey was conducted. The list of companies is included (Appendix 2).

4.2 Methods of research and sample

The chapter includes not only a description of the methods utilized in order to gain data from wooden construction businesses but the results of interviewing companies from Petrozavodsk, Karelia (Table 1). The interviews were conducted by phone (in some cases by email) with the help of a list of questions (Appendix 1). During the research, replies from twelve companies were received. Six of them were negative.

Due to the extremely careful reaction of the companies, a customer approach was designed. This approach was utilized while interviewing companies from Petrozavodsk in order to identify is they provide painting services (if yes, then how they organized them) to their customers, how do they receive paints and varnishes (supply chains), how much the painting services cost, and are they willing to give advice on any brands of paints/varnishes. This is slightly different from the business approach questionnaire.

From the point of view of the customer questions were asked about the materials of a building and if they need to be protected with the special coatings. Examples of the questions asked are below.

1. Is the company providing painting services?
2. If yes how much does it cost? If not- why?
3. Is the company willing to recommend any brands of painting and varnishes?

Also, in some cases a question about the coloring of the paint was asked, but in most cases, there was no need for that because companies suggested choosing paint independently, referring to the inability of providing coloring services. The survey included questions 1, 2, 3, partly 4 and 8 of the original questionnaire as well as additional questions about price and quality, which a customer might ask.

Table 1. Results of the interviews with wooden constructors from Karelia.

Company	Production	Price for painting	Suggestions
1.Дома из бруса Петрозаводск/Doma iz brusa Petrozavodsk/ Houses of beam in Petrozavodsk (personal interview 2017)	Own (in Novgorodskaya oblast)	400 rubles/1 square meter for covering with an antiseptic and 150 rubles/ 1 layer of paint (only in warm period of the year)	Antiseptics Pinotex, Aquatex; paint by Tikkurila (Piko-Teho)
2.Новиком/Novikom (personal interview 2017)	Own (in Karelia)	Covering with the imported antiseptics; Price depends on color and type of painting (glazing or covering), area of covering and price of painting materials. Façade lacquer by Teknos costs 1000 rubles/liter, primer and coating paint 500-750 rubles / liter.	Antiseptics by Teknos or Tikkurila
3.СК Плотник/SK Plotnik/ SK Woodworker (Udovichenko 2017)	Own (in Karelia)	Price of painting depends on area of covering.	Tikkurila, Teknos, Senezh (Сенеж), Rogneda (Рогнеда)
4.Карелстрой/Karelstory (personal interview 2017)	Own	The company is not providing painting services	Imported painting materials are better
5.Срубы из Карелии (Петров про) »/ Sruby iz Karelii/ Blockhouses from Karelia Petrov pro (personal interview 2017)	Own (in Petrozavodsk)	Covering with antiseptics, paints (only in summer), colorless paints/varnishes.	Pinotex, Tikkurila, imported paints and varnishes are better

4.3 Results

Most of the companies questioned replied that they are not interested in cooperation. The companies from Saint-Petersburg were questioned with the help of the survey designed (Appendix 1).

Companies such as Kontio, *Odrina*, *SK Derevjannyi Dom*, *SK Domostroy* and *Gorod bytovok*, stated that they do not have a need for collaboration with a company producing paints and varnishes. Several companies explained the grounds for refusal as they do not use much painting materials (*Gorod Bytovok*) or it is not a suitable season for painting yet (*SK Domostroy*).

Only one company from Saint-Petersburg (*Izba*) was interested in cooperation and was able to answer the questions. The company has its own production of wooden buildings in Novgorodskaya Oblast and builds mostly with pine wood. According to the answers, the company is painting five to nine houses per season and relies on the choice of end users of future constructions in terms of painting materials. However, consultants of the company are able to advise painting brands to costumers. (Grigorev 2017.)

On the other hand, companies from Karelia mostly were interviewed from the point of view of a customer. Only one of them - *Sruby iz Karelii*/Blockhouses from Karelia was questioned with the help of a business approach. The reaction of the company was negative (the company representative replied that it is not interesting). With the help of other Karelian companies (Appendix 2), were gained the results, which are summarized in the Table 1. One of the companies suggested that consumers should choose paining materials independently because the company itself is not able to offer coloring services (*SK Plotnik*).

According to the survey, most of the companies are not interested in a regular supply chain of painting materials because they do not provide painting services on a regular basis and not in large quantities or because in winter it is not a question of a current interest. However, several consultants mentioned that they advise certain brands according to personal experience and/or use painting materials according to the end customers' preferences.

5 RECOMMENDED MARKET ENTRY MODE

The results of questionnaire reflect the reluctance of professional users of paints and varnishes in Russia to have regular supply chains. The goal of reaching the market segment of small and medium sized wooden construction companies in Russian Karelia and Saint-Petersburg currently is unrealistic. The following section includes recommendations which GVK might implement in order enter the Russian market. Further information provides the case company with direction for research.

5.1 Segmentation of wooden house producers

According to the interviews and research, most of the companies listed (see Appendix 2) belong to the segment of small and medium sized business. The only large company that took part in the survey was Kontio- its production volume is 2,000 constructions per year and it is operating in 25 countries.

Karelian companies in most cases are located in Petrozavodsk. Only one of those companies (Blockhouses from Karelia Petrov Pro) has an office in Saint Petersburg. Most of these companies have been operating on the market for at least a decade (Llc. *Novikom*- for 27 years; Houses of beam in Petrozavodsk for 15 years and Blockhouses from Karelia- for 11 years). The number of constructions sold by those companies goes into the hundreds.

For instance, Blockhouses from Karelia Petrov Pro sold over 400 constructions. The companies have their own construction plants in Karelia or Novgorodskaya oblast. In addition to projecting and building wooden constructions, they offer the customers covering with protective coatings. In some cases this includes also paint but only in the warm times of the year and normally with materials that the customer provides by him/her self.

The companies from Saint Petersburg have wider areas of operation. These businesses have been present on the market for a decade or less (*Izba* - 10 years; *SK Wooden house* - 7 years; *Odrina* – 7 years; *SK Domostroy*– over 10 years).

However, the volumes of production of most of these companies are lower in comparison to the Karelian ones. The companies have their own production grounds in the Novgorodskaya oblast or near to Saint Petersburg.

The mentioned companies promote themselves as producers of tailor-made wooden constructions for various purposes. Therefore, they normally do not purchase painting materials, but advise their customers on certain brands.

After the customers buy certain products according to their own preferences, companies use those painting materials for manufacturing a particular construction.

The buying behavior of the companies depends on the end users' preferences. Russian consumers of wooden constructions tend to trust foreign painting products, even though they are more expensive than domestic ones. The most popular brands of paints for wooden construction are Tikkurila and Pinotex by Akzo Nobel.

5.2 User persona

Professionals of the wooden construction industry, the companies rely on the preferences of an end user of a building, or in some cases on the personal experience of a company's representative. The target for GVK is in most cases a family that would like to purchase an own wooden house/building.

In Karelia, prices for a wooden house vary from 84,000 rubles for a building with 2.5x4.7 m of living area (*Blockhouses from Karelia* 2017) to more than one million (*Houses of beam in Petrozavodsk* 2017). In Saint-Petersburg prices rise up to 2.5 million rubles. (*Ecodoma* 2017.)

According to the survey on the index of subjective satisfaction of the population material, well-being increased during May-September 2017. The survey includes the five following sub-categories to which the respondents should allocate themselves by evaluating their own wealth.

1. The family barely has enough money to buy food;
2. The family has enough money to buy food but cannot afford new clothes;
3. The family can afford food and clothes without taking loans, but not furniture/household appliances;
4. The family can afford furniture/ household appliances without taking loans, but no but not a car/a house/ a cottage.
5. The family is able to afford almost everything: a car/a house/a cottage and many more.

(National Research University" Higher School of Economics" Institute of Social Policy 2017)

According to that information, a company should aim at more or less wealthy families (sub-categories 4,5). Those families constitute about 40% of the population and are able to afford an own wooden house.

Moreover, GVK should aim at men mostly, due to the fact that there is a strict division of tasks in Russian families. Most of the tasks connected to repair work and renovation and building is the responsibility of a man. (Egorova & Sizova 2013.) Moreover, according to an interview with a Karelian entrepreneur working in the area of wooden construction, most of the customers are middle age men with a stable income (Fomin 2017).

In conclusion, a potential target for the company on the Russian market is a middle age man/family that is able to afford a wooden house. Customers are willing to spend a large amount of money on a project and building an own wooden house/construction. The core characteristics of the people are the willingness to invest into a quality building, designing materials; the possibility of having own preferences, based on previous experiences with building; and the possibility of reliance on the experience of professionals and friends.

6 RECOMMENDED MARKET ENTRY STRATEGY

6.1 Product

GVK produces high quality customized paints. The company is willing to tailor its own products according to the preferences of customers (Seppinen 2017).

GVK has three major kinds of products: outdoor paints, indoor paint and industrial paints. These categories also include variety of sub-categories. According to the interview with the managing director of GVK, the category which the company would like to present on the Russian market first is industrial paints. This category includes:

1. Door and window paints (such as Primers-Gevecoat primer 2681);
2. Surface paints- Gevecoat paint 8020 NCS S 0502Y, 8000 NCS S 0502Y, 8100 NCS S 0502 Y and Varnishes Gevecoat clear 5000, 5005,5010,5020 as well as valkolakka Gevecoat white clear 5020);
3. Molding and panel products (same range of goods as Industrial Door and window paints);

(GVK Coating Technology Oy 2017).

Industrial paints are packed in 20-liter cans (with 90% filling, the amount of paint in a can is equal to 18 liters) and thousand-liter containers. (Seppinen 2017.)

6.2 Price

Table 3 (Appendix 4) is a representation of popular brands (both foreign and domestic) of paints and coatings for wooden buildings, including the largest operators of the Russian market. The examples of their product and prices of those products were extracted from the web-site of an online store (Technodecor 2017) operating all over the country and web-sites of hardware stores from Petrozavodsk (CSK 2017) and Saint Petersburg (Petrovich 2017). The location of the retailers of painting materials was mentioned according to possibility to identify it.

The price of GVK’s Industrial coatings is available only to retailers. In order to understand the pricing on the Russian market of paints, the prices of similar products of GVK and its direct competitor, Tikkurila, were compared.

The prices of paints by Tikkurila are extracted from the web-site of the official dealer of the company in Saint Petersburg (Koloristika 2017). The products of GVK and prices were found from the internet (Taloon 2017). The price in rubles was calculated with the help of the current exchange rate by European Central Bank (European Central Bank 2017).

Table 2. Comparison of prices of GVK in Finland (in rubles) and Tikkurila in Russia.

Product by Tikkurila	Price	Product by GVK	Price
1. Joker	9L/5.835 Rubles	1.Inline 7 (a waterborne interior paint with silky texture; colorable)	9L/ 70.25 Euro/ 4.125 Rubles
2. Harmony	9L/ 6.949 Rubles	2. Inline 7 (a waterborne interior paint; matt; colorable)	9L/70.25 Euro/ 4.125 Rubles
3. Betolux	9L/ 9.299 Rubles	3. Gevefloor (semi-glossy; colorable)	9L/ 112.3 Euro/ 7759 Rubles

Foreign brands are relatively popular on the Russian market, despite the quite significant difference in prices (compared to domestic). Moreover, prices also vary geographically. In Saint Petersburg prices are higher and the range of products is wider in comparison to Petrozavodsk.

The company should design a price strategy in order to establish a recommended price for middlemen. It is possible to transfer existing pricing to new market. Table 2 depicts that the prices of GVK are lower than the competitor’s. That is why one of possible pricing strategies is competitive pricing, a strategy when a company sets a price in correlation to the prices which the competition demands.

6.3 Distribution channels

The case company is interested in operating all over the country, but it is initially interested especially in Saint Petersburg, Lenoblast and Karelia. These areas are attractive for several reasons.

First of all, these regions are beneficial in terms of geographical proximity. For instance, the distance from Saint Petersburg to the nearest border point with Finland is 188 km. Petrozavodsk is located in 291 km from the border**.** Second of all, the population of the Russian Federation is not evenly distributed. The most crowded district is Central (39,209,582 people). The population of the Northwestern Region is equal to 13,899,310 people (Statdata 2017). However, the competition within target regions is high, and not only in terms of domestic companies.

According to the research of Fontanka (2017) the business of the 20 largest Finnish companies in Russia covers almost the whole territory of the country, being present in all federal districts, except for the North Caucasus Region. The largest presence is located within the regions closest to Finland - Northwestern and Central Federal Districts, 17 and 13 out of the 20 companies respectively are present there (Figure 7). The most famous Finnish brand of paints and varnishes and a direct competitor of GVK, Tikkurila, is already present in the Central (ЦФО) and Northwestern (СЗФО) districts.

Figure 7. Geographical presence of 20 largest Finnish companies in Russian Federation for 2015 (Source: Business with Finnish DNA 2016).

For selling GVK’s products, small and medium sized hardware stores are suitable. In this case, starting operations in Petrozavodsk is easier because small chains of hardware stores are more common and local customers are familiar with those. The data on hardware stores in Petrozavodsk is listed below.

1. CSK - Central Building Store- the company was established in 1999, operates in Petrozavodsk, Karelia and has three DIY (Do-It-Yourself) hypermarkets, one building base and two specialized stores (a dish- and a sanitary engineering- stores); The company works directly with domestic and foreign producers. (CSK 2017.)
2. KODI- the hypermarket in a form of DIY was founded in 2005. It serves both amateurs and construction and contracting organizations throughout the Republic of Karelia. (Kodi 2017.)
3. У дяди Федора- U dyadi Fedora/ At Uncle Fedor's – a hardware store is operating for more than 18 years and targeted mostly for non-professional users of building materials. (U dyadi Fedora 2017.)
4. У танка – U tanka/ By the Panzer- a small hardware store, does not have a web-site. Address: Petrozavodsk, Pervomayski prospect, 54.
5. Строительные материалы- Stroitelnye materialy/Building materials- a small hardware store, does not have a web site. Address: Petrozavodsk, Poveneckaya str.,16.

The number of larger chains on the market of paints and varnishes in Saint Petersburg is increasing in comparison to Petrozavodsk, but there also are some small- and medium-size companies which are easier to reach. Below is a list of stores which might become partners for the case company, along with a short description.

1. Петрович/ Petrovich- a building company Trade House "Petrovich" was established in 1995. The company owns a chain of 18 stores in Saint Petersburg, Central and Northwestern Federal districts (including Petrozavodsk) as well as a metal warehouse and production sites. (Petrovich 2017.)
2. Мастеровой/ Masterovoi/ A workman- an online store of building materials with five outfits in Saint Petersburg. (Masterovoi 2017.)
3. Строитель/ Stroyitel/A builder- a hardware store that has 14 outlets in Saint Petersburg and Lenoblast. (Stroytel 2017.)
4. ОптСтройМаркет/OptStroyMarket- the company works with both individuals and corporative clients. Company has an own storage room. (OptSroyMarket 2017)

The universal way to access the companies mentioned above is to contact representatives in person (by phone, email). Other possibility is to fill in a form for the suppliers on the web-sites.

6.4 Promotion

In order to attract customers and boost the awareness of the new brand on the Russian market, the company will need to take certain actions to promote itself. In order to design the most efficient advertising, specific factors should be taken into account.

Firstly, the company should utilize its strengths. Finnish companies and products are well-known on the Russian market for high-quality standards and the transparency of business. In total, more than 600 companies from Finland are operating in Russia. Therefore, the origin of GVK might become a basis for promotional strategies. (Business with Finnish DNA 2016.)

Secondly the number of businesses that provide services in thorough the internet is increasing. Therefore, the value of the internet as a marketing tool increases relatively. The most popular social media sites (Vkontakte, Facebook, Odnoklassniki, YouTube, etc.) are suitable online platforms for advertising and providing consumers with online consultations.

Thirdly, a common option is to promote through participation in professional exhibitions and fairs as well as join associations within the industry. Examples of potential fairs and shows in Russia (Moscow) in 2018 include following events: *Interlakokraska* 2018 (27.02.2018 - 02.03.2018), 22nd International Fair of Paints, Varnishes and Specialized Materials in the Industry. WorldBuild Moscow (03.04.2018-06.04.2018), 24th International fair of Building and Decorating Materials. *Lesdrevmash* 018 (22.10.2017-25.10.2017)- the 17th international fair of "Machines, Equipment and Technologies for Logging, Woodworking and Furniture Industries". Chemistry-2018 (29.10.2018-01.11.2018), 21st International Exhibition of Chemical Industry and Science. (Expocenter/ CVK Expocenter Moscow 2017.)

Also in 2018, a forum of Russian market of paints and varnishes will be organized from 31.06 to 03.08. During this conference professionals are going to discuss the major problems, opportunities and innovations in the industry. (Russian Market of Paints and Varnishes 2018.)

Moreover, a company can join an Association of Quality of Paint (AKK). The organization was founded in order to persuade the consumers, both amateurs and professional users of paints, in the necessity of utilizing high-quality materials and tools. It also promotes the culture of consumption of quality paint materials and establishes standards. Among the members of the organization are Tikkurila, Akzo Nobel, Chemours, Dow, Yaroslavskie kraski/Ярославские краски, Thor, and Meffet. (Association of Quality of Painting Materials 2017.)

In order to promote products among the amateurs, GVK might use several strategies. First of all, GVK could implement user trials in order to increase the attention to a new brand. For that purpose, a company might use samples of the products on a certain type of material (in this case- different types of wood) to demonstrate the end user results of utilization of the product. Also, GVK might supply possible customers with a variety of advertising materials, such as banners, posters, brochures and instructions for the products.

7 CONCLUSIONS

The industry of paints and varnishes in the Russian Federation is relatively developed. In the segment of decorative paints, leading positions belong to foreign producers such as Tikkurila, Akzo Nobel and Teknos. In the segment of industrial paints, Russian producers prevail. However, domestic brands are less known, and professionals (in this case-producers of wooden constructions) do not advertise them much.

The Russian business environment is extremely complex and not stable in terms of economic, political and social factors. The major threats of the market are the instability of the Russian ruble, the overall crisis situation within the country, import substitution and corruption. Moreover, professional users of painting materials tend to choose those according to the desire of amateurs**.** Therefore, the chance for a brand/product of being chosen depends on advertising and the overall awareness of consumers. It increases the role of advertisement significantly.

In order to avoid the threats and start successful operation on the market, GVK should prepare thoroughly. Firstly, the Russian legal environment is different than the European one, so taking additional legal consultancy is a must. Secondly, more than six hundred Finnish companies are already operating in Russia and they might become suitable sources of vital information and experience. Thirdly, Russian is the main language of business within the country, so investing in qualified Russian speaking personnel is significant. Moreover, one solution to avoid the threats of the Russian business environment (exchange rate fluctuation, import substitution) is to produce within the Russian Federation. It would allow the company to establish lower pricing if necessary

The company should utilize its strengths actively. For instance, Russian consumers are aware of the Finnish standards of quality. Nowadays, they are more concern of eco-friendly products/materials and prefer foreign non-food brands. Those factors are crucial advantages for GVK.

The results of a survey conducted among wooden construction companies were negative. Companies are not willing to cooperate with suppliers of paints and varnishes. In order to overcome this, GVK might utilize the results of the research and apply the recommended market entry strategy and market entry mode. It is crucial to take into account that those recommendations are just providing the case company with direction for further research because of the negative results gained from professional builders in the area of wooden construction.

However, despite all the threats and instability of Russian business environment, country's market of painting materials is developing positively. The research provides case company with recommendations to overcome difficulties which it might face while starting operation in Russia.

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Questions for the interviews

1.1 Questions for the interview with GVK

1. How the company is working in Finland in terms of selling Industrial coatings?

a. Is the company selling coatings through middleman or directly to the companies that would like to purchase them?

b. How does the company find different segments (customers) of the business?

c. What are those segments?

d. How the company is serving different segments?

e. How (approximately) competitors of the company are operating?

2. Does the company have distribution channels? What channels?

3. How does the company serve industrial manufacturers in Finland?

a. If the company does not serve them, why would you like to serve Russian ones?

1.2 Questions for the potential customer companies interview (business approach)

1. Are you producing or reselling prebuild wooden houses? If reselling -who is producing?
2. What kind of wooden materials do you utilize for building? Do they need to be protected with special coatings?
3. If yes, do you provide the services of painting for the customers? How do you organize it?

a. If not – why?

4. Which paints they are using at the moment? What distribution channels do you have? How it works? How do you find the suppliers?
5. Who makes decisions according choosing and buying paints and varnishes?
6. What factors are the most significant for you in terms of choosing those?
7. Do you have a necessity to use colored coatings?
8. Do you use any equipment/ software for coloring paints? If yes- what kind? If not-why?
9. Are you willing to use the color mixing equipment/software if the company provides it?
10. Are you interested in cooperating with Finnish company, which produces variety of paints and coatings? If yes/no- why?

List of wooden houses construction companies in Karelia and Saint-Petersburg

In Karelia:

1. http://srub-doma-karelia.ru/ - «Срубы из Карелии»/Sruby iz Karelii/Blockhouses from Karelia - a company which is producing tailored wooden blockhouses (houses and saunas) with the whole complex of services (as well as painting the houses).
2. http://karelbrus.ru/company/4143/ - «Новая Инженерная Компания Новиком»/Novikom - the area of the company's interest is low-rise in and out-town wooden building (projecting and building).
3. http://sk-plotnik.ru/ - «СК Плотник»/SK Plotnik/ SK Woodworker - building tailored houses and saunas of Glulam (Glued laminated timber). Operates also in Saint-Petersburg, Moscow and Velikyi Novgorod.
4. http://petrozavodskbrusdoma.ru – Дома из бруса в Петрозаводске/ Houses of beam in Petrozavodsk - producing and constructing of wooden houses in Petrozavodsk.
5. http://kareliastroy10.ru – Карелстрой / Karelstroy -offers a variability of prebuild houses as well as some projects for building of houses of different types and different kinds of wooden materials.
6. http://petrov.pro/ - «Срубы из Карелии (Петров про)»/ Sruby iz Karelii/ Blockhouses from Karelia Petrovich pro- company is building tailored wooden houses and saunas of different materials.

In Saint-Petersburg region:

1. https://odrina-spb.ru/contacts - «Одрина стиль жизни»/Odrina - building of energy saving prefabricated houses with the help of frame technology.
2. http://ecodoma-naveka.ru – «Изба»/Izba - building of tailored blockhouses in the area of Gatchina (Leningradskaya oblast).
3. http://sk-domastroy.ru/ - «СК Домострой»/SK Domostroi - building of the houses of Glulam as well as frame houses. Operates in Central Russia (including Moscow) and Saint-Petersburg (the company's based in Novgorodskaya oblast).
4. http://kontio-msk.ru/about/ - «Kontiotuote Oy» - A Finnish company, operating in Saint-Petersburg and Moscow and building blockhouses.
5. http://gorod-bitovok.ru/o-kompanii/ - «Город Бытовок»/ Gorod Bytovok- a company from Saint-Petersburg and operates all over Russian Federation. Core specialization of the company is building of cabins for building/cottages as well as security points and houses (saunas).
6. http://der-dom.com/kontakty.html - «СК Деревянный дом»/ SK Derevjannyi Dom/ SK Wooden house - a company operates in Saint-Petersburg since 2010. The company is projecting and building variety of wooden constructions.

Leading producers of paint in Russian Federation

Leading producers of Industrial paints and varnishes in Russian Federation; (Centrlak 2016)

№	Company	2014, thousand tones
1	Ярли/Jarli	14,3
2	Русские краски/Russkie krasski	12,7
3	ЛКМ-групп/LKM-Group	12,2
4	Петроком-Липецк/Petrokom-Lipeck	9,6
5	Белоколор/Belocolor	9,3
6	Ярославская Лакокрасочная Компани	8,8
7	Кронос СПБ/Kronos SPB	8,8
8	КраскаВо/KraskaVo	8,2
9	Эмпилс/Ampils	6,8
10	Рогнеда/Rogneda	5,8
15	Краски КВИЛ/Kraski KVIL	4,7
Other		95
Total		196

Leading producers of Decorative paints and varnishes in Russian Federation; (Centrlak 2016)

Column1	Column2	Column3
№		2014, thousand tones
1	Tikkurila*	114
2	Лакра Синтез/Lakra Sintez	58
3	ВГТ/VGT	35
4	Эмпилс/Ampils	31
5	Декарт/Decart	28
6	Престиж/Prestige	25
7	ABC Фарбен/ABC Farben	27
8	Meffert*	22
9	Русские краски/Russkie Kraski	15
10	Akzo Nobel Décor*	18
	Others	364
	Total	718

Table 3. Examples of the most popular brands and products on Russian market of painting materials and price for those.

COMPANY	EXAMPLES OF PRODUCTS	PRICE
1. YARLI (domestic)	1. Putty Yarlicoat 0294	1. 300 rubles
2. VGT (domestic)	1. Paint IQ 153 façade 0,8/2,7 L 2. Paint IQ103 for walls and ceilings 0,8/2/9L 3. Priming VGT 2,5/10kg 4. Façade putty VGT 3,6/18 kg 5. Paint VD-AK-1180 façade for wood super white 3/7/15 kg	1. 0,8L/169,50 rubles 2. 0,8L/ 302 rubles 3. 2,5 kg/210 rubles 4. 2,5 kg/210 rubles 3,6 kg/249 rubles 5. 3kg/340 rubles
3. PINOTEX	1. Antiseptic Pinotex Ultra Oregon/ Rosewood/White 1L 2. Antiseptic Pinotex Base Colorless 1L 3. Primer for wood protection Pinotex Base 1/2/7L	1. 1 L/569 rubles (Petrozavodsk) 2. 1L/439 rubles (Petrozavodsk) 3. 1L/449 rubles 2,7L/1159 rubles (Saint-Petersburg)
4. TIKKURILA	1. AntisepticValtti expert akva	1. 0,9L/349 rubles 2,7L/979 rubles 9L/2939 rubles (Petrozavodsk) 2,7L/1149 rubles 9L/3459 rubles (Saint-Petersburg)
5. EUROTEX (domestic)	1. Oil for ceiling EUROTEX colorless 0,25L 2. Lacquer yacht EUROTEX semi-matt 0,75/2/10 L	1. 0,25L/ 229 rubles 0,75L/ 269 rubles 2L/ 669 rubles 10L/ 3028 rubles (Saint-Petersburg)
6. ROGNEDA (domestic)	1. Priming-antiseptic Rogneda Aquatex 3/10L	1. 3L/ 669 rubles 10L/ 2149 rubles (Saint-Petersburg)
7. LENINGRADSKIE KRASKI (domestic	1. Antiseptic Tex Biotex primer 1/3/10 L	1. 1L/229 rubles 3L/639 rubles 10L/1879 rubles (Saint-Petersburg)