

SAVONIA UNIVERSITY OF APPLIED SCIENCES  
UNIT OF BUSINESS AND ADMINISTRATION, KUOPIO

**INTERNATIONALIZATION PATH TO THE UNITED ARAB  
EMIRATES**

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Business Administration Bachelor's thesis  
Degree programme  
in International Business  
May 2010

SAVONIA UNIVERSITY OF APPLIED SCIENCES BUSINESS AND ADMINISTRATION Degree Programme, option International Business		
Author(s) Paula Räsänen		
Title of study Internationalization path to the United Arab Emirates		
Type of project	Date	Pages
Thesis	18.5.2010	79 + 2
Supervisor(s) of study		Executive organisation
1 <sup>st</sup> Minna Tarvainen & 2 <sup>nd</sup> Jari-Pekka Jääskeläinen		DesignShopOutlet
Abstract <p>The purpose of the thesis was to introduce internationalization of an SME including motives and risks of new market entry, as well as describing the steps of a target market selection and presenting different operational modes. Since the executive company, DesignShopOutlet, was interested in exploring their market possibilities in the United Arab Emirates, the aim of the thesis was also to conduct a market research report of the United Arab Emirates.</p> <p>The study applied a qualitative research method, and it was conducted as a desk research. The data for the theoretical part was mainly found from published books and the target market information was discovered using electronic sources. In addition to secondary data a few email questionnaires were sent with the aim of acquiring primary data from the target country.</p> <p>DesignShopOutlet, the provider of the thesis topic, is a relatively new company offering Finnish lifestyle design in their web shop and the physical store located in Kuopio. The company is wishing to expand its market area into new innovative regions. Therefore, the company wanted to discover the factors that need to be taken into account when doing business in the United Arab Emirates.</p> <p>The results show there might be a potential market for DesignShopOutlet in the United Arab Emirates. There seems to be demand for luxury products, and the government attitude toward international trade appears to be bright. However, the distant location from Finland and the differences in culture and religion may cause problems. At the moment the country looks like a prospective market area, however requiring further research before engaging in any marketing activities.</p>		
Keywords Internationalization, market research, target market, the United Arab Emirates (the UAE)		
Note		

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## 1 INTRODUCTION

Nowadays companies' internationalization and the practice of international operations has become part of everyday life. International trade is booming and the market areas have grown to comprise the whole world. As a result it can be said that the business world has been globalized. Companies that want to play it safe and stay in the home market might not only lose the chance to enter other countries but also risk losing their market from foreign competitors.

The provider of the thesis topic, DesignShopOutlet, offers Finnish lifestyle design. The company is quite new but is already wishing to take part into international operations. The aim is to be the leading web store in providing Finnish lifestyle design internationally. The company has received a few international inquiries, and now they would like to explore their opportunities in international markets. Along with other choices in countries, the company wished to discover their opportunities in the United Arab Emirates (the UAE).

The aim of the thesis is to provide an insight of the United Arab Emirates. The thesis discovers political, economical, socio-cultural, demographical as well as geographical characteristics of the country. Due to the lack of information sources closer research concerning consumers and competitors is not feasible. Nevertheless, the intention is to produce valuable target market information of United Arab Emirates for DesignShopOutlet. The hope is that this information will help the company to make the decision whether to conduct further research concerning the market or to think of other market options.

The theory portion will focus on internationalization of a company as well as in the factors that should be taken into account when thinking of internationalization. In addition, the theory will enlighten the steps of a target market selection and present different kinds of operational modes.

### *The company presentation*

Pmbm DESIGN Oy is a relatively new company. It was established in January 2009 by the founder and entrepreneur of the company Tarja Miettinen. In March 2009 the company opened a web store DesignShopOutlet.com under its name. The company employs another female worker who is also a part-owner. (Miettinen 2009.)

DesignShopOutlet.com offers Finnish lifestyle design in their web store and physical shop located in Kuopio. From the collection you can find strong, well-known Finnish brands as well as products of new innovative designers. They represent mostly the small sized entrepreneurs, and not so much the large companies. (Miettinen 2009.)

The company has two ways to work in the Finnish market. They operate alone and in co-operation with other companies, for example with new campaigns. At the moment they are campaigning for the favor of Sydänlapset ja -aikuiset ry. From every purchased Verso Design Heart oven mitt product DesignShopOutlet.com donates 20% and from every pmbm Design PUS PUS Butterfly –bag product 40% is directly sent to the rehabilitation of congenital heart defective children. (DesignShopOutlet 2010.)

The company's mission is to be the strongest and the most international Finnish lifestyle web-shop. They want to be known as a supplier of high quality Finnish products and excellent service. They are launching an English website in the near future as well as opening another shop in Finland, in the Helsinki area. The future plans include going international and broadening their horizons for example to Middle East. (Miettinen 2009.)

## 2 INTERNATIONALIZATION AND PENETRATION OF NEW MARKETS

Finland as an economy is dependent on exports and internationalization. Companies have to internationalize even earlier and keep developing the international competitiveness also when working in home markets. Especially knowledge in international business and marketing is needed. Small- and medium sized enterprises (SME) play a key role in economic development, and the companies play an important factor in employment. However SMEs face great challenges in internationalization as the responsibility and decision-making of going global is placed to highest management or usually even to the owner. Even though an SME is not thinking about going global, the company probably takes part in internationalization through networks in some point of the production process. (Vahvaselkä 2009, 15-16.)

According to Vahvaselkä (2009) internationalization can be examined at the macro or micro levels. Macro level consists of the world economic point of view in internationalization and the micro level examines the company or its operations point of view in internationalization or the development of the employees' internationalization readiness. Internationalization can be seen as a process where a company is more involved in international operations and trade. In addition, internationalization is part of a company's growth strategy. In this thesis the company's internationalization process is examined and how its strategic decisions affect internationalization. The nature of the internationalization process has been slow and development has happened in stages. In other words, when knowledge and experience has reached the needed level, the process can be boosted to reach new markets and use more complicated internationalization methods. However, at the moment internationalization can be reached with networks and fast internationalization methods such as born-globals. (Vahvaselkä 2009.)

A decision to start internationalization is usually made by the managers own desire to go abroad. The idea of internationalization could have been picked up from a business seminar or from an inquiry to join a global project. In the beginning companies have to think of these three strategic questions:

1. Why to go abroad? (Making the internationalization decision)
2. Where to go? (Choosing the target market)

### 3. How to operate in the chosen market? (Choosing the operation model) (Vahvaselkä 2009, 61.)

This chapter will focus on the internationalization motives and risks, target market selection, market entry modes, as well as global e-commerce.

## 2.1 Incentives to internationalize

The ground for internationalization decision is made by the company's incentives to go abroad. In this stage the company's motives as well as risks and barriers are handled, and the final decision to go international is made.

### 2.1.1 Motives to internationalize

Many times internationalization is a company's normal growth and development strategy. However there can be several reasons why companies go international. These motivations can be divided into proactive and reactive motives. Proactive motives are stimulated when a company wants to change its strategy, while on the other hand reactive motives are stimulated when a company meets challenges in the outside environment. An overview of internationalization motives is provided in Table 1. Generally speaking, one factor alone does not account for any given action, rather a mixture of these factors results in the company taking the needed steps forward. Motives to internationalize are introduced below from theories by Czinkota et al (1998), Czinkota & Ronkainen (1997), Hollensen (2001) and Vahvaselkä (2009).

Table 1. *Major motivations for SMEs to go abroad (Czinkota et al 1998, 368).*

<b><u>Proactive</u></b>	<b><u>Reactive</u></b>
<ul style="list-style-type: none"> <li>- Profit advantage</li> <li>- Unique products</li> <li>- Technological advantage</li> <li>- Exclusive information</li> <li>- Managerial commitment</li> <li>- Tax benefit</li> <li>- Economies of scale</li> </ul>	<ul style="list-style-type: none"> <li>- Competitive pressures</li> <li>- Overproduction</li> <li>- Declining domestic sales</li> <li>- Excess capacity</li> <li>- Saturated domestic markets</li> <li>- Proximity to customers and ports</li> </ul>

### *Proactive motivations*

A major motivation to broaden a company's businesses abroad is profits. Management may consider that international sales are a potential source of higher profit margins. Quite often though profitability perceived when planning internationalization and profitability really attained in international markets differ from each other somewhat. The gap between these two can be quite large when a company goes into international markets for the first time. Furthermore, unexpected changes, for example in exchange rates, might radically influence the profit forecast. (Czinkota et al 1998, 285; Czinkota & Ronkainen 1997, 368; Hollensen 2001, 28-29.)

Another major proactive motivation is unique products or technological advantage. If the company produces such products or services that are not extensively available from international competitors or has made technological advances, they can provide a competitive edge. In the past, it took years for competitors to come to the markets, but nowadays the competitive edge time has shrunk drastically because of development in technology and a lack of international patent protection. (Czinkota et al 1998, 286; Czinkota & Ronkainen 1997, 368; Hollensen 2001, 30-31.)

Furthermore, special knowledge about foreign customers and market situations can be viewed as proactive motives for internationalization. The information may be obtained from particular insights by the company, special contacts they may have, in-depth research, or just being in the right place at the right time. Typically such exclusivity may serve as an initial incentive to internationalize, but it will not provide long-lasting motivation since competitors are likely to catch up with the information advantage. (Czinkota et al 1998, 286; Czinkota & Ronkainen 1997, 369; Hollensen 2001, 31.)

The management's desire, drive, and enthusiasm toward international business activities are another motivation. Managers might simply want to be part of a company that has international activities or these international actions might provide good reasons to travel abroad. However, usually internationalization is simply a manager's desire for continuous growth and market expansion of the company. (Czinkota et al 1998, 286; Czinkota & Ronkainen 1997, 369; Hollensen 2001, 29-30.)

Tax benefits can also act as a motivating role. Many governments provide favourable tax treatment to encourage exports. Consequently, a company can sell products at a lower cost in foreign markets or to accumulate a higher profit. (Czinkota et al 1998, 286; Czinkota & Ronkainen 1997, 369; Hollensen 2001, 32.)

The last major proactive motivation involves economies of scale. A company being involved in international activities may be enabled to increase its output and as a result climb more rapidly on the learning curve. Increased production for international markets can help a company to reduce production cost of domestic sales and in addition make the company domestically more competitive. This outcome usually results in seeking market share as a primary objective of the company. At an early level of internationalization this may mean increased search for export markets, and later on may result in opening foreign subsidiaries and foreign production facilities. (Czinkota et al 1998, 286-287; Czinkota & Ronkainen 1997, 370; Hollensen 2001, 31-32.)

#### *Reactive motivations*

One main reactive motivation to internationalize is reaction to competitive pressures. The company may be pushed to internationalize because of the company's fear of losing domestic market share to competing companies that have benefited from economies of scale achieved through international marketing activities. Moreover, the company may fear of losing the foreign markets permanently to domestic competitors that decide to focus on these markets. Observing that domestic competitors are going international and given that market share is typically most easily maintained by companies that first obtain it, companies often enter the international market unprepared. However, quick entry may result in quick withdrawal once the company notices that its preparations have been too limited. (Czinkota et al 1998, 288; Czinkota & Ronkainen 1997, 370; Hollensen 2001, 32.)

Overproduction is also one major reactive motivation. When a company's domestic sales of goods are below expectations, the inventory can be exceeding desired levels. These circumstances may activate the export sales via short-term price cuts on inventory products. Once the domestic demand returns to former levels, the international business activities are lessened or even completed. Companies that have applied such a strategy once may meet difficulties later on when trying to employ it once more be-

cause many foreign customers are not interested in temporary and irregular business relationships. (Czinkota et al 1998, 288; Czinkota & Ronkainen 1997, 370; Hollensen 2001, 33-34.)

Similarly, declining domestic sales, whether measured in sales volume or market share, has a motivating impact. Domestically marketed goods may be at the declining stage of the product life cycle. A company can try to push back the life cycle process domestically, or additionally choose to extend the product life cycle by expanding the market. (Czinkota et al 1998, 288; Czinkota & Ronkainen 1997, 370.)

In some situations excess capacity can be a powerful motivator. If equipment for production is not fully utilised, a company may perceive international expansion as an ideal way to achieve broader allocation of fixed costs. On the other hand, if all fixed costs are allocated to domestic production, a company can enter the international markets with a pricing scheme that focuses mainly on variable costs. However, this view is possible only for market entry. Market entry based on variable costs alone is not feasible in the long run due to the fact that fixed costs have to be recovered to replace production equipment that growing international business activities may overtax. (Czinkota et al 1998, 288-289; Czinkota & Ronkainen 1997, 370; Hollensen 2001, 33-34.)

A saturated market is also another reactive motivation, similar to declining domestic sales. The small home market potential pushes the company into exporting. In this case international market can be used to extend the life cycle of their product and even of their organisation. (Czinkota et al 1998, 289; Czinkota & Ronkainen 1997, 370.)

The last major reactive motivation is the proximity to customers and ports. Physical and psychological closeness to international market can play a major role in the international business activities of the company. For example, a company established near a border might not even perceive their market activities in the neighbouring countries as international marketing. In Europe, most companies become international marketers simply because the neighbours are so close. However, geographic closeness may not necessarily translate into real or perceived closeness to the foreign customer. Although foreign markets are geographically close, cultural variables, legal factors, and other societal norms can make the market seem psychologically distant. Closer psy-

chological proximity makes it easier for the company to enter the market. As a result, the companies who are new in international business activities should remember that it is an advantage to begin internationalization by entering the psychologically closer markets first and when some experience is gathered it is easier to venture to the far away markets. (Czinkota et al 1998, 289-290; Czinkota & Ronkainen 1997, 371; Hollensen 2001,34.)

The companies' motives to internationalize can differ a lot from each other. The reasons vary because of the different business sectors and types of businesses, but also because some companies have better preparedness to internationalize than others (Pirnes & Kukkola 2002, 89). In Finland where home markets are small and open, the pressure of growth and profits make the companies have to go abroad. Our distant northern position has made it difficult to obtain market information, react to the changing market changes as well as getting a touch of the markets, which has increased the necessity to stay in foreign markets with different operation modes (Vahvaselkä, 2009, 62).

As a result, companies motivated by proactive factors are the most successful in international business. According to Czinkota & Ronkainen (1997) internationalization motivations of a company do not seem to shift over the short term but are rather stable. Proactive companies are often more service oriented than reactive companies. They also tend to be more marketing and strategy oriented than reactive companies, which have major concerns with operational issues when internationalizing. The major difference between these two types of companies is how they initially enter international markets. Proactive companies want to have interested parties before entering the market, while reactive companies begin international marketing activities after receiving unconfirmed orders from overseas. (Czinkota & Ronkainen 1997, 290.)

According to the email questionnaires that were sent to representatives of Junttan and Karelia Upofloor the companies started their operations in the UAE because of the potential market success. In addition, Junttan received inquiries from local contractors. The growing market in construction was a fundamental incentive for both companies. The recession in established export countries showed in the sales figures which also boosted the decision to go for new markets. (Eskelinen 2010; Kekäläinen 2010.) The major motivation for internationalization in DesignShopOutlet is the man-

agements' desire to expand its markets abroad and be recognized outside of Finland. Since the company has some competition in the Finnish market and due to the narrow niche market, they want to discover new opportunities where to expand.

### 2.1.2 Export barriers and risks

When going international the company faces new environments, new ways of doing business and lots of new problems. The problems can consist of strategic considerations such as how to deliver the service or of the fulfilment of the government regulations. The company's internal strengths and weaknesses should be analysed in order to determine the company's preparedness for internationalization.

The export risks can be related to the target country. Uncertainty factors typical for the target country should be taken into account when thinking of investment decision. This is often related to the political risks. However, when talking about country risks it includes also economical and social spheres. In addition, business risks concerning business partner's solvency or willingness to pay should be considered. In other words, careful inspection of the partner is inevitably. Furthermore, when doing business outside of the Euro zone the currency risks and changes should be considered. The juridical issues concerning contracts can also be a risk. When a company engages in business operations over the borders it should be prepared that juridical environment gets more complex and the attitude towards following the contracts can differ between the cultures. (Pirnes & Kukkola 2002, 97-112.)

In DesignShopOutlet's case, the company should determine carefully its internal preparedness for entering new markets. Especially company's financial situation should be excellent since internationalization is time-consuming and pricey. Particularly the company's marketing practices might incur large expenditures in order to become noticed in international markets. In addition, the company's knowledge about international business could be a barrier. However in this case, the founder of the company has previous experience in establishing international business relationships, which will be helpful in the company's future plans extending their markets. The country risks are described later on in the market report chapter.

## 2.2 Target market selection

When a company has decided to go international, the next step is to examine the company's and target market's prerequisites. Although internationalization offers the company possibilities for growth and value adding, the execution of the internationalization strategy and its implementation is challenging. In the entry strategy the company decides which markets to penetrate and how. Furthermore, the operational mode decision has to be connected with the target market selection. At the end, market selection is based on a company's own goals and criteria. For example, decisions can be related to the size of the target market, its growth or political stability. Other than that, selection can be seen as an image factor, when a company's endeavour is not to grow in that market, but to get support for its growth plan from somewhere else. Moreover, strategic reasons, such as competition or economic situations in the world, may take the company to choose less profitable areas. (Vahvaselkä 2009.)

Due to the economic situation in the world DesignShopOutlet decided to look more closely into the Middle Eastern markets and especially in to the United Arab Emirates. In addition, the awareness of competitors for example in Germany and Sweden made the decision easier to explore new and less well-known market areas.

After deciding the possible international markets, the company has to screen and rank each market. A market research is a four-stage screening and analysing process. In the beginning of the process very general criteria is provided and the process ends with a product specific market analysis. The four stages include preliminary screening, estimation of market potential, estimation of sales potential, and identification of segments. (Czinkota et al 1998, 480.)

### 2.2.1 Preliminary screening

The preliminary screening process mainly relies on secondary data for country specific factors as well as product and industry specific factors. Country specific factors include for example population, GNP, market size and accessibility, cost of doing

business, competitive advantage as well as risk level. The indicators shown in Table 2 are employed to determine the markets' overall buying power as well as market potential. The country's demographic characteristics, socio-cultural factors, geographic characteristics, political and legal factors, as well as economic factors should be carefully examined as shown in Table 2. The company is naturally interested in their own operational area. Therefore product-specific factors should be analysed to narrow the research. The statistical data should be joined with the qualitative assessment of the impact of cultural elements and the overall climate for foreign companies and products (Czinkota et al 1998, 480). A potential target country is the one which satisfies the set levels.

Table 2. *Indicators of market potential (Kotler & Amstrong 2008, 553).*

<b>Demographic characteristics</b>	<b>Socio-cultural factors</b>
Education Population size and growth Population age composition	Consumer lifestyle, beliefs, values Business norms and approaches Cultural and societal norms Languages
<b>Geographic characteristics</b>	<b>Political and legal factors</b>
Climate Country size Population density – urban, rural Transportation structure and market accessibility	National priorities Political stability Government attitudes toward global trade Government bureaucracy Monetary and trade regulations
<b>Economic factors</b>	
GDP size and growth Income distribution Industrial infrastructure Natural resources Financial and human resources	

Additionally, the potential countries can be compared by using the PEST-analysis. The abbreviation of PEST comes from the words political, economical, socio-cultural, and technological. These macro environmental factors cannot be controlled by the company and can form undeviating threats for a company's operations. In addition, the changes in external factors can create new possibilities for the company. The PEST-analysis should be made for each country itself since most of the macro environmental factors are country specific. (Vahvaselkä 2009, 68.)

#### *Political and legal influences*

Political and legal environments consist of two elements. The political and legal environments in the home country cover all the political and legal factors that have an influence to the company's international operations such as government's export support measures. The target market's political and legal environment consists of those political and legal factors that influence the company's operations in that specific country. The political risks in the target country can consist of ownership-, operational-, and financial risks. Due to the government acts and their monitoring, risks can include export restrictions, laws and codes that highlight the domestication, financial controlling, market- and pricing controlling, taxing and human resource regulations as well as expropriation and confiscation. The government can also prevent exports by placing different kinds of restrictions and taxes to hinder trading as a goal to protect domestic producers and make the money to stay in the home country. (Vahvaselkä 2009, 68.)

#### *Economic influences*

The economical environment can be divided into a global environment, the economical environment influencing the whole world, and into a country's own economy. The global environment includes for example the whole world's trading volume, the trading between countries, the division of trading between economic blocks and states as well as financial politics employed by states and different kind of organizations that control and facilitate trade between countries such as EU, WTO and IMF. The regional economical analysis should be concentrated on these two questions: how large the market area is and what features this market area has? A single economy can be determined with economic factors such as country's size per capita income, stage of

economic development, infrastructure and exchange rate stability and conversion. The financial risks should be minimized since they can cause problems and even threaten the company's international operations. (Vahvaselkä 2009, 68-69.)

### *Socio-cultural influences*

According to Vahvaselkä (2009, 69) the socio-cultural factors that affect a company's operations are culture, demographic factors, trends, and consumers' opinions as well as attitudes. Culture is learned behaviour which is shared and inherited between the members of society. Culture is the shared beliefs and standards among the group, which helps the individual to define the world and learn the "right way" of doing things. "It includes everything that a group thinks, says, does, and makes – its customs, language, material artefacts, and shared systems of attitudes and feelings" (Czinkota et al 1998, 35). Problems may arise when two people from different cultures interact and have conflicting ideas. Language, for example, is a significant factor that separates two cultures. Culture is important especially when thinking of a company's marketing activities and defining customers' buying and consumption behaviour.

### *Technological influences*

The technological environment consists of the technology that the product contains, the technology used in manufacturing, and the technology available by the management. All of these factors have an influence on a company's competitiveness. The changes in the technological environment affects on the buyer as well as the seller; the buyer desires better products, and the development in technology enables the supplier to manufacture better products as well as develop the manufacturing process. The technological advancements modify the company's products and everyday activities as well as the company's procedures and client relationships. In addition, technological development offers the companies new options to develop their operations. (Vahvaselkä 2009, 69.)

### 2.2.2 Estimating market potential

When estimating the market potential the existing markets are being assessed and the future size of the market is being forecasted. Total market potential is the sales that could be available to any company in an industry during a given period of time, with a given level of industry marketing effort and given environmental conditions. (Czinkota et al 1998, 480.)

Since the market size is measured by the realized sales, the lack of resources and often the lack of data engages us to use indirect evaluation in estimating the market potential. At first, the production and international sales quantities has to be assessed. If none of this information is found, the demand for the product has to be evaluated in terms of the population or amount of customers as well as in the terms of economical data. Although the final figures would rely on assessments, they still give more realistic ground for decision-making than pure intuition. (Äijö 2001, 62.) After all, the company has to evaluate how great of a market share it is going to obtain in the market. The company has to weigh its competitive advantage compared to the others as well as how good their marketing activities actually are. For example, in large markets (meaning high demand in the market) the high sales numbers might in fact mean saturated markets. If the market doesn't grow any longer, the only way to gain sales is by acquiring competitors' market share. On the other hand, if the market is small in terms of the sales figures, it doesn't always mean the markets would be dreadful. The information why the markets have been small should be acquired. If the market is growing but the competition level is still low, there could be a very potential market share. The company should be careful when thinking of small markets where customers' buying habits fight against the product and plunges the product demand. (Äijö 2001, 63.)

### 2.2.3 Estimating sales potential and identifying customer segments

After acquiring the understanding of the most potential markets, the company has to examine its own possibilities in those markets. The company's sales potential is inspected, which is the part of the market potential that company can realistically expect

to get over the longer term. The product- and market-specific information has to be gathered in order to come up with an estimate. These questions can never be completely answered before the company has made a commitment to enter the market and is operational. Furthermore, the mode of entry has significance in determining the company's sales potential. (Czinkota et al 1998, 484.)

The target market has been selected after the three first steps and the fourth step is to segment the individuals and organizations within the market area. At first, the company might emphasize only one or a few segments, but expands later to others if the product is innovative enough. The marketer has to be able to define the potential customers numerically in terms of demographic (age, gender and nationality), geographic (country or region), psychic (attitudes, interests and opinions) and product factors (amount of users and loyalty toward the brand). Moreover, it is important to examine the matters that affect the customers' buying decisions in the target country. (Vahvaselkä 2009, 70.)

The email questionnaires mentioned that the companies used Finpro to carry out the market research as well as in assisting to find dealers in the area. Both companies regarded that the exhibitions and trade shows were an important part of finding the potential customers and partners as well as acquiring knowledge from the market. The company's own foot work in the UAE was also a vital part of the market research. (Eskelinen 2010; Kekäläinen 2010)

### 2.3 Internationalization methods and market entry modes

The early internationalization literature was inspired by general marketing theories. Afterwards, the choice between exporting and foreign direct investment (FDI) dealt with internationalization. In the past decade the spotlight has been in networks, concentrating on different relationships to customers as well as other actors in the environment. (Hollensen 2001.) More Finnish companies are heading to international markets more rapidly and more powerfully than earlier due to narrow markets that many knowledge intensive companies operate in. Below is described one of the internationalisation models that many SMEs use nowadays.

### 2.3.1 Born-globals

By the end of the 1990s and early 21<sup>st</sup> century researchers have reported about increasing number of companies that internationalize quickly after their birth (Vahvaselkä 2009, 33). Born-globals are typically SMEs, which aim to international markets or maybe even global markets at the same time or even earlier than the domestic market. Their mission and vision is directly planned to the international markets as well as their products, structure, system, and financials are designed to match the international operations. Usually born-globals are small, technology-orientated companies. Their products are unique or service innovations, and management is featured to be entrepreneurial visionaries, who view the world as a single, borderless market place from the beginning of the company's establishment. (Hollensen 2001.)

Born-globals tend to grow fast in international markets. This can be found out from research that has been using indicators such as how long it takes for the company to internationalize from its foundation (2-3 years), and how much of the turnover comes from abroad (at least 25%) (Vahvaselkä 2009, 34). Born-globals are small companies usually with one to three owners and a couple of workers. Founders often have higher educational degrees and earlier experience in management and international business. Moreover, they obtain good language skills, ability to take risks, high motivation and ambition to succeed internationally. The products offered by these companies are usually unique high technology or design goods, which are difficult to copy. Commercialization of the goods requires wide global markets because of the relatively narrow niche markets of these products. Due to the limited resources of born-globals, the international sales and marketing activities are often ran by the specialized network in which they seek partners to balance their own expertise. (Hollensen 2001.)

The business areas of born-globals must be chosen with homogeneous and minimal adaptation of the marketing mix due to the small company's lacking resources in worldwide operations. The importance of psychic distance as selection criteria is reduced since the companies are vulnerable with their specialised goods, and they have to commercialize in the lead markets first, no matter where these markets are geographically situated. Born-global companies operate in several markets at the same time to reach the relatively high fixed costs that these companies may have. Essential

for these companies survival are ready international networks, well planned and operating distribution channels as well as global brand. (Vahvaselkä 2009, 35.)

### *Internet-based born-globals*

Nowadays the internet revolution has made it easier for SMEs to establish their own e-commerce websites. Many companies are already born-globals when starting up a new business on the Internet and selling to global customers through their web store. However, the site has to be localized after some time to meet the customers' needs, if the company wants to expand its global market sales to the next level. (Hollensen 2001.) Through e-business companies can generate tangible assets such as greater market opportunities and profitability, as well as intangible assets, e.g. improved reputation and brand (Sterne 1999). However, Rugimbana and Nwankwo (2003) remind that burden of delivery, high start-up costs, difficulty in differentiating, need to continually upgrade technology and skills, as well as the lack of human contacts can confound potential online success. Maybe the greatest challenge though is the uneven global diffusion of the Internet and related e-business practises. (Rugimbana & Nwankwo 2003.)

DesignShopOutlet is a good example of a fast internationalizing company. The company is owned by two females, and they both have higher educational degrees as well as previous knowledge in international business activities. The products offered by the company are unique design goods, which need the global marketplace due to the narrow niche markets in this product group. DesignShopOutlet is getting international inquiries already even though the English web page is under construction. Therefore the entrepreneurs of the company have quite high motivations to internationalize and a vision and mission to be the biggest Finnish lifestyle outlet and shop internationally.

At first, DesignShopOutlet should think about having a closer look to the market areas that are near Finland, since these markets need less adaptation of the marketing mix and therefore also fewer resources are required. However, due to the company's specialized products the psychic distance as a selection criterion is reduced and the company should find the lead markets of these products and commercialize there first. As the DesignShopOutlet does business mainly through the web-shop, at some point the web pages should be localized to meet the needs of the local customers.

### 2.3.2 Market entry modes

After deciding the target market, the company has to choose an operational model on how to enter the marketplace. Factors affecting the operational model selection can be divided into internal and external aspects. According to Vahvaselkä (2009, 71) internal aspects are for example the company's strategy, size, goals, long-term objectives, commitment, financial- and personnel resources, experience, products as well as competitive advantage. Uniqueness, technology, the need of maintenance, the price of the product as well as immaterial rights are count as product factors. The external aspects are such as homeland conditions, the size of the target market, market potential, macro- and micro environmental factors, the availability of the modes as well as its demands and complexity, risk level as well as the easiness and rapidity of the target market entry.

The selection starts with examining the company's strategy and their long-term internationalization objectives. At the same time the opportunity for competitive edge in the target market is investigated. In the next step, the right operational modes for the company are searched. This includes the question; how the competitive edge can be reached with the selected mode? The company's commitment to the target market as well as to the specific operational mode affects the company's activities, presence, as well as visibility at the chosen market. The following step is to compare the different operational modes for example between their features, expenses, risks, easiness, profit potential (ROI), rapidity to enter the market, obtaining the market information and know-how, as well as their opportunity for controlling market activities. These criteria will help the company to combine the pros and cons of the operational modes and ease the final decision. The operational modes in internationalization can be divided into exporting, joint venturing, and direct investment entry modes. (Vahvaselkä 2009, 72.) These three entry modes are introduced below. The possible entry modes for the UAE market will be introduced in the market report chapter.

### 2.3.3 Export entry modes

The most common way of starting an internationalizing project is to start exporting abroad. The goods are produced in the home country and exported over the borders either using intermediates (indirect and direct export) or directly by the company (own export).

Indirect exporting means that the company does not deal with foreign customers or companies by itself but uses intermediates such as export companies, export agents, or export partner network to take care of all export activity. Indirect exporting should be taken into consideration if a company's own prerequisites in international business are not enough and if the intermediate's resources as well as the know-how benefit the company. This entry alternative has quite low risks for the exporter. However, indirect exporting is expensive since each intermediate takes their compensation and it adds up to the final price of the product. Other hindrances are the missed opportunities to develop relationships and a company might only have minor contacts to foreign markets and customers. (Vahvaselkä 2009, 73-74.)

In direct exporting the company takes care of the exporting activity by itself. The company is in contact with the intermediates in the target market such as import agents, retailers, or brokers. It is essential for the company to know the markets, pick the agent or distributor carefully and possess the knowledge in marketing as well as exporting routines. Direct exporting requires professional personnel and a company's own export organization as well as more risk taking and better exporting knowledge than indirect exporting. Benefits in direct exporting are shorter distribution channels, smaller distribution expenses as well as closer connection to the end user and greater potential return. (Vahvaselkä 2009, 74; Kotler & Armstrong 2008, 553.) Czinkota et al (1998, 374) state that these companies are more likely to learn their competitive advantage quicker and therefore expand more rapidly. They will also have better control in their international business activities and building relationships with their trading partners.

A company can also sell goods straight to the foreign customers without involving a middle man. This is called own export. Through own exporting activities, a company

will gain customer and market information. Marketing and services must be customer-oriented and flexible. Disadvantages in own exporting are that the company has to travel to the target market and they might not have local help. Also the exporting expenses ascend high in a company's own exporting. (Vahvaselkä 2009,74; Kotler & Amstrong 2008, 553.)

Sales via Internet are also seen as the company's own exporting activities. Because of this opportunity, companies do not need such large investments to internationalize nowadays. In addition, the size of the web-store is not as relevant anymore, since even the smaller companies can utilize their knowledge and innovations and compete in global markets. Although the Internet provides a good distribution channel, the company might need to open a physical office in target markets. The company has to be able to take orders and offer customer support seven days a week and 24 hours a day. Other challenges are time differences between countries as well as different regulations and custom principles, so that the goods can be delivered to the destination on time. On the other hand, a company can pass old additional steps via Internet sales, and create new services and patterns to obtain new kinds of benefits. (Vahvaselkä 2009,74.)

Internet sales benefit both the buyers as well as the sellers in many ways. In the buyers point of view Internet purchasing might be convenient since there is no need to battle traffic, walk through stores, and examine products. The products can be easily compared by surfing the Internet and web-stores are never closed. Additionally, web-shops are able to offer almost unlimited selection of products since there are no physical boundaries. Due to fact that online buying is interactive and immediate, it has allowed customers to create the configuration of their needs and download or order them immediately. (Kotler & Amstrong 2006, 555-556.)

In addition, e-commerce has a great deal of benefits to the sellers. For example, Internet can be a powerful tool for customer relationship building. Due to the interactive nature of Internet buying, companies can interact with customers to learn their specific needs and wants. Through product and service modifications the company may increase the customer value as well as satisfaction. Sales via Internet can also reduce costs as well as increase speed and efficiency. Since web-stores avoid the costs of maintaining a physical store and related expenses such as rent, insurance and utilities,

they can pass these savings to the customers. Additionally, electronic communication such as digital catalogs and e-mail based trade promotions are much less costly than printing and mailing paper ones. Sales as well as marketing practices via Internet offer greater flexibility for a seller, since it allows making ongoing adjustments to company's offers and programs. Online catalogs can be adapted daily and even hourly adjusting for example the product assortments, prices, and promotions to match the market conditions. Lastly, the major benefit is that Internet is truly global, allowing the customer and supplier to click from one country to another in seconds. Therefore Internet allows even small businesses to access global markets. (Kotler & Amstrong 2006, 556-557.)

DesignShopOutlet mainly operates through their web-shop and therefore uses their own export activities. In addition, the company has a physical store located in Kuopio and one planned for the Helsinki area, though these shops are not open daily. The next major step for the company is the opening of the English web-page, which will encourage more international buyers to contact the company. At some point the company might have to open a physical store or office abroad to meet the increased needs of the customers.

#### 2.3.4 Joint venturing

A second method of entering a foreign market is joint venturing. Joint venture differs from exporting in that the company joins with foreign companies to produce or market a product or service. This includes modes such as licensing, franchising, management contracting, project operations, and joint ownership.

International licensing means that the manufacturer sells the right to use the company's immaterial rights such as manufacturing process, trademark, patent, trade secret, or other valuable information to a licensee in the foreign market for a fee or royalty. The company expands to the market with little resistance and the licensee gains the production expertise or well-known product or name as agreed in the contract without having to start from scratch. Licensing is a good opportunity for companies who want to profit from their product and service innovations globally, but are miss-

ing financial or personnel resources and know-how. (Vahvaselkä 2009,75.) However, the company has less control over the licensee than it would over its own operations, and if the licensee is very successful and the contract is about to come to the end, the company may find it has created a competitor (Kotler & Amstrong 2008, 554).

Franchising is another option, in which the company sells the right to the franchisee (independent businesspeople) to produce its products or provide a service in a foreign market. Mainly franchising has been prominent in fast foods, fitness centres, hotels, real estate, and dozens of other product and service areas. The benefit is to start internationalization faster with fewer assets. The company will gain valuable information and experience from the target country for later usage. (Vahvaselkä 2009,76.)

A third joint venture entry mode is management contracting in which the domestic company provides the management know-how to a foreign company that supplies the final products. Contract manufacturing is beneficial when manufacturing costs are cheaper abroad than in the home country. (Kotler & Amstrong 2008, 554.)

Project operations include selling a specific project abroad such as equipment installation, implementation of the factory investments, or community building project. Projects can be partial projects, turn key projects, and turn key plus projects or consortiums. (Vahvaselkä 2009,77.)

Joint ownership is the last mode of joint venturing in which a company joins investors in a foreign market to create a local business in which they share joint ownership and control (Kotler & Amstrong 2008, 555). The foreign countries' regulations may require joint ownership as a condition to enter the country, or company's financial, physical, or managerial resources are not enough to undertake the venture alone.

### 2.3.5 Direct investment

Foreign direct investments include green field operations and acquisitions. Direct investments require the largest involvement in foreign markets. Usually the company has gained market experience already through exporting and if the market is large

enough, direct investments can offer many advantages. For example cheaper labour or raw materials, government investment incentives, and freight savings may reduce the company's expenses. The company's image may improve since it creates new jobs in the area. Furthermore, deeper relationships between government, customers, local suppliers, and distributors allow the company to adapt its products to meet the local needs better. The company's direct investments allow also a full control over its activities. However, this entry mode is the most risky in terms of restricted and devalued currencies, falling markets, or government changes. (Kotler & Amstrong 2008, 555.)

### 3 TARGET MARKET REPORT – THE UNITED ARAB EMIRATES

Due to the practical reasons, in the preliminary screening process only the most potential market areas and information sources are selected, since obtaining detailed market information from many countries would become too pricey. The most important selection criterion is the company's overall market potential. (Äijö 2001, 62.) Since the provider of the thesis topic has already decided to look into the Middle Eastern markets, this chapter will focus on the market information concerning the United Arab Emirates. However, firstly the research objectives and methods are being introduced.

#### 3.1 Research objectives

Since the company's mission is to be the strongest and most international Finnish lifestyle web-shop it is obvious to start thinking about internationalization. The company provided the idea for the thesis and some country choices to research from. Since the UAE is quite far away from Finland a thorough research about the country and its culture should be conducted. The research question is: what are the factors that need to be taken into account when doing business with United Arab Emirates? Especially culture and women's position in the UAE are main concepts since they differ greatly from Finland and since the company is owned by two females. The proposal was also to find if there is a market for the company's products and what products could be marketed.

##### 3.1.1 Research design

The research design is a proposal how to fulfill objectives and answer questions. The research method and the type of research setting should be chosen in terms of the research question(s). It might be complicated to select the perfect design due to the large availability of methods, techniques, procedures, protocols and sampling plans. There

are four main classes of research designs: reporting, exploratory, descriptive and predictive studies.

The reporting study is used in a basic level to summarize some data or generate statistics. The problem can be easily searched and the data is readily available. Sometimes the material can be difficult to find though. Required skills in this method are knowledge in information sources. Usually this kind of reporting study doesn't necessitate much inference or conclusion drawing. (Cooper & Schindler 2008, 10.)

An exploratory study on the other hand is adequate when the research problem is not quite understood or is too broad. It also goes beyond the description and tries to explain the phenomenon that was observed in the descriptive study. The researcher acts as a detective trying to find a lead. As more information has been found, the research problem gets clearer, and at the end the problem has been solved. A main characteristic in exploratory study is its flexibility. When new information has been found, the search might change its direction. (Cooper & Schindler 2008, 11.)

Descriptive research design is sufficient for studies with structured and well understood research problem. The study tries to find an answer to questions such as who, what, when, where, and how. The researcher's job is to describe or define a subject, and often profile of a group of problems, people, or events which is created to help the process. However, powerful inference may or may not be drawn. This method is popular in business research because of its versatility across disciplines. (Cooper & Schindler 2008, 11.)

The fourth type of a study is a predictive study which is ingrained in theory as explanation. This kind of study requires a high order of conclusion making. In business research predictive study can be employed when evaluating specific courses of action or forecasting the current and future values. To be able to take over the scenario the desired outcome is the objective of control. The success in a control study is upon the complexity of the phenomenon and the sufficiency of the prediction theory. (Cooper & Schindler 2008, 12.)

Based on the criteria above, this study is mainly exploratory. In this stage of a market research only an insight on an issue is gained. The exploratory study offers basic in-

formation on the topic and later on a descriptive study could be conducted in order to gain a more detailed picture of a target group etc.

### 3.1.2 Research method

Studies can be either qualitative, quantitative or combination of both. Qualitative and quantitative research methods provide different views of customer behavior when conducting a market research. Below are introduced the main aspects of the two methods.

“Qualitative market research provides an understanding of how or why things are as they are” (Sims 2010). In qualitative research more in-depth interviews are employed rather than fixed set of questions. Usually there is a topic guide, but the interview flows by the respondents own thoughts and feelings. A quantitative research method is focused on numerical data and often involves statistical analysis. The structure of quantitative research is very structured and involves rather a large number of questionnaires or interviews. (Sims 2010.) The qualitative research can begin without a hypothesis while quantitative approach requires the hypothesis right from the beginning. In other words, the qualitative method is inductive and quantitative is deductive. In addition, the role of the researcher differs between these two methods. In qualitative approach the researcher participates and gets involved with the subject. On the other hand, in a quantitative study the researcher is more like an objective observer who doesn’t influence in the subject studied. (Colorado State University 2010.)

In this study the qualitative approach is mainly employed. Since the study is exploratory and mainly inductive the qualitative method is the most useful. Qualitative and quantitative methods can be used at different stages in the research. At first when a problem is unstructured in nature a qualitative method is suitable. However, later on a quantitative research could be conducted to test the hypothesis arisen through the first level. Due to the qualitative research method during the thesis process several aspects of the problem could have been analyzed.

### 3.1.3 Data collection

Data can be collected from many sources, for example from using questionnaires, books, and Internet sources. Secondary data has at least one level of interpretation included between the event and its recoding. On the other hand primary data is can be collected through observation or directly from first-hand experiences. (Cooper & Schindler 2008, 87.)

This research started by applying theories of internationalization. The theory portion was mainly found from books. The secondary data was extremely important during the study. Especially Internet sources had a vital role in searching the market information. In addition, the purpose was to conduct a couple of in-depth interviews with company representatives of Junttan and Karelia Upofloor, since these companies have experience of the United Arab Emirates market. However, the interviews were changed to an email based questionnaire since it was easier for both parties. The questionnaire was applied in order to receive some first-hand information from the markets. Additionally, e-mails were exchanged with a member of the Finnish Business Council in order to gain information about the position of design in the UAE.

### 3.1.4 Data analysis and interpretation

Since managers need information and not raw data, it's the researchers' job to produce information by analyzing data after its collection. Data analysis usually requires reducing the gathered information to a manageable size, developing summaries, finding patterns, and applying statistical techniques. Furthermore, the findings have to be interpreted in light of the research question or determined if the results are consistent with the hypotheses and theories. The trend of managers is to have researchers make recommendations based on their findings from the data. (Cooper & Schindler 2008, 87.)

In the beginning of the research process many books concerning internationalization and market research were gone through. Combining the information of these books

the final contents for the thesis was decided. First the material was combined, then analyzed, and the final step was the interpreting and reducing the information to a manageable size.

### 3.2 United Arab Emirates - Quick facts

United Arab Emirates (UAE) is one of the most easy-going of the Gulf countries. It consists of seven emirates: Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al Qaiwan, Ras Al Khaimah and Fujairah. Abu Dhabi, Dubai and Sharjah are the most common tourist destinations while the others are less well-known emirates.

#### *Geography and Population*

Area	83 600 square km (Finpro 2009)
Natural resources	The country has important oil resources; around 9.5 per cent of world's oil resources are located in UAE, and 94 per cent of that in Abu Dhabi region. In addition, there are the world's fourth largest natural gas deposits. (Finpro 2009)
Neighboring countries	Oman, Saudi-Arabia and Qatar (Finpro 2009)
Major cities	Abu Dhabi (capital) and Dubai (Finpro 2009)
Time	Four hours ahead of GMT (UAE Interact 2009b, 4)

Population	4.488 million in 2007, (estimated 4.76 million in 2008 and 5.06 million in 2009) (UAE Interact 2009b, 6)
Nationals	864 000 (estimated in 2007) (UAE Interact 2009b, 6)
Non-nationals	3.62 million (estimated in 2007) (UAE Interact 2009b, 6)
Males	3.05 million (estimated in 2007) (UAE Interact 2009b, 6)
Females	1.4 million (estimated in 2007) (UAE Interact 2009b, 6)

Percentage of women in University	75 percent (studying) (UAE Interact 2009b, 6)
Percentage of women in labor force	about 30 percent (UAE Interact 2009b, 6)
Ethnic groups	Emirati Arabs, other Arabs, Indians, Pakistanis, Bangladeshis, Southeast Asian and West Europeans (CIA 2010)
Official language	Arabic, (English, Hindi, Urdu, Farsi are also spoken) (Finpro 2009)
Religion	Islam, however practice of all religious beliefs is allowed. Majority of the population are Muslims, and around 80 per cent of Muslims are Sunni. There are also Hindus, Christians and others. (Finpro 2009)

### *Infrastructure*

Telephones – main lines frequency	33.6 per cent in 2008 (Finpro 2009)
Cell phone frequency	208.7 per cent in 2008 (Finpro 2009)
Internet connection per 100 inhabitants	26.1 in 2008 (Finpro 2009)
Internet users per 100 inhabitants	65.2 in 2008 (Finpro 2009)
Roadways	4 080km (paved in 2008) (CIA 2010)
Railways	N/A – Railroads are in the process of completion.
Airports	41 (24 with paved runaways in 2009) (CIA 2010)
Ports and terminals	Mina Zayid (Abu Dhabi), Mina Jabal Ali (Dubai), Mina Rashid (Dubai), Al Fujayrah, Khawr Fakkan (Sarjah), Mina Saqr( Rash al Khaymah), Sarjah. (UAE Interact 2009b, 8)

### *Politics and the government*

Official name	United Arab Emirates (UAE), or Al Imarat al Arabiyah al Muttahidah (UAE Interact 2009b)
President	ruler of Abu Dhabi, Sheik Klalifa bin Zayed Al Nahyan (Finpro 2009)
Prime Minister	ruler of Dubai, Sheik Mohammed bin Rashmid Al Maktoum (Finpro 2009)
Independence	2 <sup>nd</sup> December 1971 (Finpro 2009)

### 3.3 History

The UAE has a very diverse and long history. The recent findings have showed that it has been occupied by humans since 5500 BC. According to researchers there has been interaction with the outside world already at that time, and foreign trade has always been a very important aspect of their civilization. In the 1720s there was growth in English trade in the Gulf area. In the 1930s the oil production became an important aspect of the economy. The first export of oil from Abu Dhabi was in 1962 and the increasing production of oil improved the revenues which facilitated the ruler of Abu Dhabi to undertake a massive construction program by building schools, houses, hospitals and roads. Dubai started the export of oil in 1969 which made it possible for the ruler of Dubai to use the revenues to improve the quality of life of his people. (UAE Interact 2009d, 9-14.)

In 1968 the British Government announced its intention to withdraw from the Gulf region which begun the discussions of the formation of the emirates. As a result, the State of the United Arab Emirates was established on the 2<sup>nd</sup> of December 1971 after Britain renounced the maritime agreements of the 19<sup>th</sup> and early 20<sup>th</sup> century. (Jones 2003.) The UAE is the only federal state in Arab world. The first President of the UAE, Sheik Zayed, died on the 2<sup>nd</sup> of November 2004 and the following day Sheik Kalifa Bin Zayed Al Nahyan was elected as a new President. (UAE Interact 2009d, 9-14.)

### 3.4 Government & political stability

The UAE's political system has combined traditional and modern aspects. The best traditions are maintained, adapted and preserved while at the same time the state has been able to develop a modern administrative structure. The seven states have gained a distinct national identity through the unification and enjoy an outstanding degree of political stability. During the last three years the country's President, HH Sheik Kalifa bin Zayed Al Nahyan, as well as at the executive level, the Vice President and Prime Minister HH Sheik Mohammed bin Rashid Al Maktoum, has been reforming the structure of the government by making it more receptive to the needs of the people as well as assuring that the country is ready to manage future challenges. One major step was the introduction of the indirect elections to the country's parliament which is also called the Federal National Council. This reform was designed to enhance public participation in government. Previously the members of the Federal National Council were appointed by the ruler of each emirate, but ever since the reform and elections in 2006 half of the members in each emirate have been elected by the members of the Electoral College established by the ruler. The polling percentage in 2006 elections was quite high and one of the candidates was a woman. The remaining seats were filled by the nomination of the rulers and at the end the new Federal National Council had nine women out of 40 members. This indicates that women in the UAE are expanding their participation in the government and political society. The latter stages of reform might include the expansion of the number of parliament members in order to respond to the increase in population. In addition, it has been considered to have an electoral process in local level, but no timetable have been published yet. (UAE Interact 2009d, 21-24.)

The federal system consists of the Supreme Council, Cabinet, Council of Ministers, parliamentary body, the Federal National Council, as well as the independent judiciary, which comprises the Federal Supreme Court and Courts of First Instance (UAE Interact 2009d, 25).

## *Corruption*

According to the Articles 234 and 239 in Federal Penal Code bribery is punishable in the UAE. (Arab Law Quarterly, 2000 p. 363) The government has been reducing the levels of corruption. The Corruption Perception Index (CPI) of 2009 according to the report of Transparency International was 6.5 and they hold the 30<sup>th</sup> place out of 180 countries. (Transparency International 2009.) The Previous year the CPI was 5.9 and they ranked 35<sup>th</sup> out of 180 countries. According to the 2008 Corruption Perception Index report one explanation for an improved score in UAE may be the increase in corruption cases involving high-level executives, including UAE citizens, as well as the strengthening of the emirate's Financial Audit Department. (Transparency International 2008.)

### 3.4.1 Foreign policy

One of the main features in UAE's foreign policy is the development of closer relationships with the neighboring countries of the Arabian Peninsula. They seek to improve the cooperation within the Arabian Gulf region as well as in the wider Arab world, and any disagreements arisen are solved through discussions. The UAE is part of the Arab Gulf Cooperation Council (AGCC) with Kuwait, Saudi Arabia, Bahrain, Qatar and Oman. The Council was established in 1981 in Abu Dhabi and has become a successful and widely respected alliance. In addition, the UAE seeks to develop friendly relations with other countries beyond the Arab world. The UAE's foreign policy consists also by supporting international bodies such as the United Nations. (UAE Interact 2009d, 39.) Additionally, the UAE takes part in many international organizations such as G-77 (the Group of 77), GCC ( Gulf Cooperation Countries), IAEA (International Atomic Energy Agency), ICC (International Code Council), ILO (International Labour Organization), IMF (International Monetary Fund), Interpol, OPEC (Organization of the Petroleum Exporting Countries), UNESCO, WHO ( World Health Organization), as well as WTO (World Trade Organization) (CIA 2010).

### 3.4.2 Government attitudes toward global trade

The UAE market is very open and competitive. The country has been a member of the World Trade Organization since 1996, and supports open trade and has stable relations with countries all over the world. (Embassy of the United Arab Emirates in Washington DC 2009b.) This country is also a member of GCC (Gulf Cooperation Council). The agreement allows all agricultural, animal, industrial, and natural resource products to be exempt from duties and other charges when traded among the member states. The goods to be qualified as a GCC national product have to be produced in a factory with at least 51 percent local ownership and be licensed by the respective Ministry of Finance and Industry. In addition, the value added in a GCC member state must not be less than 40 percent of the final value. (U.S. Commercial Service 2008.)

The UAE's main export partners are Japan, South Korea, India, Iran and Thailand. The goods exported include crude oil, natural gas, re-exports, dried fish and dates. The estimate of 2009 exports' is valued at \$174 billion compared to \$239.2 billion a year before. The main import partners are China, India, US, Germany, Japan, Turkey, and Italy. Imports include machinery and transport equipment, chemicals and food products. The imports were valued at \$141 billion in 2009 and \$176.3 billion in 2008. (CIA 2010.)

The UAE market is regulated by the Federal Government as well as by the individual emirates. Dubai authorities, for example, have tried to create an environment which is well structured without being excessively restrictive. Consequently, Dubai has one of the most liberal and attractive business operating conditions in the region. (Government of Dubai: Department of Tourism and Commerce Marketing 2010c.)

The 2010 Index of Economic Freedom reports that the import restrictions, services market access barriers, non-transparent standards, sanitary and phytosanitary regulations, and inconsistent government procurement as well as the customs valuation however are hindrances in trade with UAE. (2010 Index of Economic Freedom 2010)

### 3.4.3 The trade between Finland and the United Arab Emirates

In 2009 the Finnish exports to UAE amounted at 274.85 million Euros and imports from UAE at 6.42 million Euros. The balance of the trade was 268.44 million Euros surplus for Finland. (Finpro 2010.) The trade between Finland and UAE has been declining however, since the exports amounted 640 million in 2008 which was 23 per cent decline from previous year. The UAE is still the fourth most important export country for Finland outside the EU, USA, China and Japan. The relations between Finland and UAE are good, and the decline is thought to be result of the recent economic downturn. (Ulkoasiainministeriö 2009, 120.)

Below, in Figure 1, is described the structure of Finnish exports to the UAE in 2009. The biggest export group is machinery, devices and means of transport with a 66.1 percent segment of the total exports. The other export groups include manufactured goods that amounted to 26.6 percent, chemical substances and products at 3.0 percent, as well as completed goods at 2.3 percent. The minor export groups include commodities and fuels which amounted to 1.1 percent of the total exports as well as foodstuff and beverages at 0.9 percent.

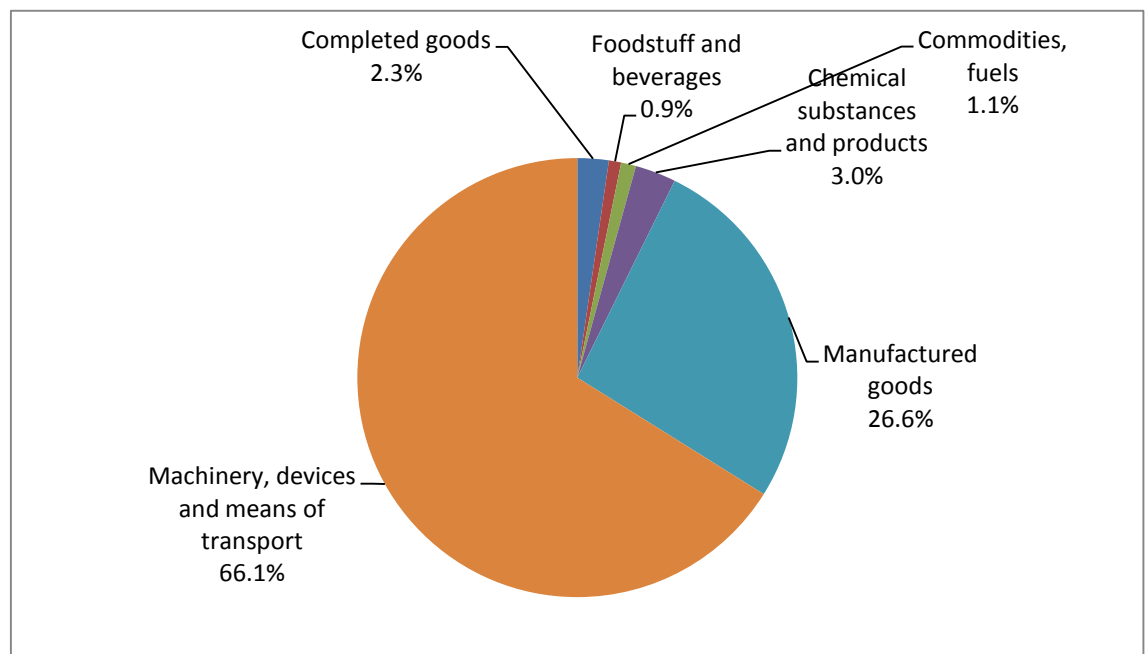


Figure 1. *Structure of Finnish exports to UAE in 2009 (Finpro 2010).*

### 3.4.4 Doing business in the United Arab Emirates

When entering the UAE a company can either establish a permanent presence in the UAE or use a commercial agent. The permanent presence may be pursued by:

- Incorporating a Limited Liability Company (LLC)
- Establishing a Branch office or Representative office
- Establishing a wholly owned entity in one of the UAE Free Trade Zones

If a company is present in the country with one of these methods it is permitted to engage in all activities as licensed in the UAE. However, a foreign entity can only operate in those activities licensed by the relevant UAE authority such as contracting, providing services, and possibly manufacturing. Certain activities, such as commercial agency activities, are reserved for wholly UAE owned enterprises. (The UAE Government 2006c; Government of Dubai: Department of Tourism and Commerce Marketing 2010c.) Below is introduced the ways of establishing a permanent presence in the UAE as well as commercial agency activities.

#### *Limited Liability Company*

As long as fifty-one percent of the company is being owned by the UAE nationals the foreign investors are permitted to hold an equity ownership in the country. Limited Liability Company is preferred among foreign investors due to its flexible management structure, and protection of minority shareholders. The minimum of two and maximum of 50 members are required in the LLC and 51 percent has to be in UAE ownership in all cases. The capital has to be at least Dh150,000. (The UAE Government 2006c; Government of Dubai: Department of Tourism and Commerce Marketing 2010c.)

#### *Branch or representative office*

The permanent presence can be established with notably less UAE participation through a liaison office or a branch office. Foreign companies are allowed to set up

wholly owned branches and representative offices in the UAE but the offices are limited in the activities they may conduct within the UAE. (The UAE Government 2006c.) They are also appointed a local agent. Local agents are UAE nationals or companies that are 100 percent owned by UAE nationals. Local agents or sometimes referred as sponsors are not involved in the business operations but instead assist in communication with the government for example in obtaining visas and labor cards. The compensation of the local agent is contractual matter between the agent and the foreign company. They might be paid a lump sum and/ or a percentage of profits or turnover. (Government of Dubai: Department of Tourism and Commerce Marketing 2010c; The UAE Government 2006c.)

The main difference between a representative office and a branch office is that the representative office is only authorized to gather information and solicit orders and projects to be finalised in the company's head office. A representative office is allowed to have a limited number of employees they may pay for, usually three to four employees. Basically a representative office is mostly an administrative and marketing center for the foreign company while a branch office is a justified business which is permitted to execute contracts and conduct other activities that are specified in its license. (The UAE Government 2006c.)

The registration requires submitting a number of applications and acquiring a number of approvals from several government departments because of the dealings between UAE federal government and the government of the emirate in which the branch office is going to be located. Applications are first approved by the government of the local emirate and after that the federal government approval is required. (The UAE Government 2006c; Government of Dubai: Department of Tourism and Commerce Marketing 2010c.)

### *Enterprise in a Free Trade Zone*

In the UAE there are 38 Free Trade Zones (FTZ) with over 20,000 companies operating in them. The main benefit of launching a branch in a Free Trade Zone is to be able to have 100% foreign ownership. Nonetheless, conducting business in other parts of

the UAE market is forbidden. The Free Trade Zones were launched to attract foreign investors and capital by offering:

- 100% foreign ownership
- 100% import and export tax exemptions
- 100% repatriation of capital and profits
- No corporate taxes for 15 years, can be renewed for an additional 15 years
- No personal income taxes
- Assistance with labour recruitment, as well as other additional help, such as sponsorship and housing (The UAE Government 2006c.)

Each Free Trade Zones are administrated by an independent Free Zone Authority whose responsibility is to issue operating licenses and assist companies in establishing their business in the FTZ. Most of the FTZs are located close to the major ports and have large warehousing and storage facilities existing. Many FTZs are custom-made to meet the requirements of industrial, shipping, and manufacturing enterprises. However, there are two exemptions; Dubai Internet City which is a free trade zone focused on IT and e-business as well as Dubai Media City dedicated to media. (The UAE Government 2006c; Government of Dubai: Department of Tourism and Commerce Marketing 2010a.)

The largest Free Trade Zones are by number of companies are:

- Jebel Ali Free Zone (6,000 companies)
  - Sharjah Airport International Free Zone (3,900 companies)
  - Dubai Airport Free Zone (1,300 companies)
  - Dubai Media City (1,200 companies)
  - Dubai Internet City (1,000 companies)
- (Embassy of the United Arab Emirates in Washington DC 2009a.)

Establishing a business in a Free Trade Zones is most suitable for companies whose intension is to use the UAE as a regional manufacturing or distribution base and when most of the turnover comes outside of the UAE. Companies which are approved with

a Free Zone license are allowed to operate within the FTZ area and outside the UAE. Nevertheless, if the company wishes to do business within the UAE they need to use a commercial agent, representative, distributor, or the mother company licensed by the relevant UAE authority. Any company with a Free Zone license is allowed to purchase goods or services within the UAE. (Government of Dubai: Department of Tourism and Commerce Marketing 2010a.)

### *Commercial agency*

Instead of establishing a business branch in the UAE a company may use a representative agent. According to the U.A.E. Commercial Agencies Law (Federal Law No. 18 of 1981, as amended by Federal Law No. 14 of 1988) a commercial agency is an arrangement whereby a foreign company is represented by an agent to "distribute, sell, offer, or provide goods or services within the UAE for a commission or profit" (The UAE Government 2006c).

The commercial agent has to be a UAE national or a company that is 100 percent owned by UAE national. The registered agents of the UAE Ministry of Economy and Commerce are permitted to carry out commercial agency activities. The agency agreement has to be registered in order the agent to be protected under the law and to have the agency relationships recognized under the UAE law. (The UAE Government 2006c). The foreign company may use the services of a sole agent in the UAE or assign a commercial agent in each emirate or for each product. Many foreign companies appoint several agents to cover different areas. (Government of Dubai: Department of Tourism and Commerce Marketing 2010d.)

Commercial agents are empowered to territorial exclusivity embracing at least one emirate for the specified products. Therefore agents are entitled to receive commission on sales of the products in their area of activity regardless of whether the sales were made by the agent. The commercial agents are entitled to prevent products to be imported into the country if the goods are not subjected to their agency. (The UAE Government 2006c.)

The agreement with the agency can be limited to a specified period. However, it is not acceptable for the company to terminate the agency agreement without the agent's endorsement, except for a valid reason according to the Commercial Agencies Committee of the Ministry of Economy and Commerce. If the agreement is terminated without any justified reason or if the term is not renewed by the foreign company, the agent is entitled to receive compensation from the principal. Therefore, the initial selection of an agent should be done carefully. (Government of Dubai: Department of Tourism and Commerce Marketing 2010d.)

### 3.4.5 Monetary and trade regulations

#### *Tariffs*

In January 1<sup>st</sup> 2003 the Gulf Cooperation Council (GCC) Customs Union agreed on equalizing the duties paid upon entry of an item to any member state. For instance, when an item is imported to the UAE that is destined for another country it has a five percent duty fee. The trader does not need to pay customs duties again when taking the item across the border to another country. (U.S. Commercial Service 2008.)

For most items the customs duty is calculated on CIF value (cost, insurance, and freight) at the rate of five percent. However, alcoholic products are issued with a 50 percent duty and tobacco products with a 100 percent customs duty. Staple foodstuffs as well as pharmaceuticals are considered to be duty free. CIF value is normally calculated from the commercial invoices covering the related shipment. Yet, Customs is not bound to accept the figures shown in that and can set an estimated value on the goods. The list of goods that are excluded from the customs duties can be found from the Dubai Customs website at <http://www.dxbcustoms.gov.ae/content/home>. (U.S. Commercial Service 2008.) According to the 2010 Index of Economic Freedom report the average tariff rate was 3.6 per cent in 2008.

### *Trade barriers*

Prior to the GCC Customs Union agreement, the UAE formed the UAE Customs Authority. Their main priority is to build a customs union within the UAE and unify Customs rules, regulations, procedures and documentation. (U.S. Commercial Service 2008.)

A foreign company wishing to engage in importation into the UAE need an appropriate trade license. Documentation requirements obey the international standards and delays in customs clearance have been rare. The user rates in port facilities have remained low because of the competition which has also promoted the quality of services. There are no duties subject to exports. Because of the religious and security reasons various restrictions concerning the importation of alcohol, tobacco, firearms, and pork products have been set up. (U.S. Commercial Service 2008.)

When doing business outside of one of the free zones in the UAE, a foreign company needs an UAE national sponsor, agent, or distributor. When the sponsor, agent, or distributor is chosen, they have exclusive rights for non-food products only. (U.S. Commercial Service 2008.)

### *Import requirements and documentation*

When importing to UAE the consignee or agent should obtain a delivery order from the Shipping Agent and submit original standard trade documentation, including certificates of origin, bills of lading, commercial invoice, and export declaration as well as various government or embassy attestations. The documents are obligatory for all imports and exports. (U.S. Commercial Service 2008)

### *Taxes*

There are no income taxes or federal-level corporate taxes levied in the UAE. However, in some emirates there are special corporate tax rates for certain activities. Generally, oil companies are taxed at 50 per cent in Dubai and 55 per cent in Abu Dhabi. In addition, foreign banks are tax at 20 per cent in the UAE. At the moment there is no general sales tax, although a value-added tax is underway. Taxation is issued in prop-

erty transfers. Dubai levies a rental housing tax on expatriates equaling five percent of the rental charges. (U.S. Commercial Service 2008.) The overall tax revenue as a percentage of GDP has been 1 per cent during the recent years. (2010 Index of Economic Freedom)

#### 3.4.6 Ease of doing business in the United Arab Emirates

According to the World Banks report “Doing Business in 2010” United Arab Emirates ranked 33 out of 183 economies. This is the country’s highest level since the index started in 2004. The major reforms made by the UAE government were:

- Shortening the time for delivering building permits by improving its online system for processing application.
- Business start-up was made easier by simplifying the documents needed for registration, abolishing the AED 150,000 minimum capital requirement, and removing the requirement that proof of deposit of capital be shown for registration.
- Trade process has been eased by greater capacity of container terminals, elimination of the terminal handling receipt as a required document, and an increase in trade finance products. (The World Bank 2009.)

#### 3.4.7 Exhibitions and trade shows

Mr. Kekäläinen (2010) from Karelia Upofloor mentioned the importance of participation in exhibitions and trade shows. The exhibitions are a good place for interacting, learning, and developing business relationships as well as exploring new business opportunities. Below is mentioned some of the trade shows that the DesignShopOutlet might be interested in.

Motexha Spring provides an interactive platform for establishing trade ties as well as developing profitable business deals. This B2B marketplace is organized in Dubai International Convention & Exhibition Centre. This year's Motexha took place on the 6<sup>th</sup> to the 8<sup>th</sup> of April serving for example decision makers and professional trade buyers, retail investors, distributors, wholesalers & re-exporters, retail outlets & boutique owners. The exhibitors contained manufacturers, suppliers and representatives for instance of international brands & franchises, textiles, and fashion accessories. (BizTradeShows 2010.)

Almost at the same time is arranged Women's World Live. This year the trade show took place from the 7<sup>th</sup> to the 10<sup>th</sup> of April 2010 also in the Dubai International Convention & Exhibitions Centre. The event is new and especially targeted for today's modern women. Women's World Live focuses on Beauty & Fashion, Health, Wellbeing & Fitness, and Leisure & Lifestyle. (BizTradeShows 2010.)

Small & Medium Enterprises Expo is organized in Dubai International Convention & Exhibition Center during the 24<sup>th</sup> to the 26<sup>th</sup> of May 2010. The Expo gathers people from Consulates and Trade Centres, Chambers/ Trade Promotion Organizations/ Associations, Logistics Companies, Marketing and Advertising Companies as well as Management/ Business Consult Firms. Exhibitors profile includes design related services, E-commerce, and Garments & textiles just to mention a few. (BizTradeShows 2010.)

In October is arranged the Whos Next & Premiere Classe mega exhibition for fashion industry. The event is held in Dubai and the objective is to provide exclusive and innovative designs from around the world. The visitor profile consists of importers & exporters of garments, and exhibitors come from various sectors of fashion and design. (BizTradeShows 2010.)

### 3.5 Economic factors

In 1971, when the UAE was established, the country's GDP was Dh6.5 billion and thirty-seven years later it has ascended to Dh753 billion. GDP is used to measure the

value of goods and services a country produces within a year. This kind of growth is significant. However, the past growth rates are unlikely to persist and the UAE economy is in the stage of maturing and stabilizing. The discovery of oil boosted the UAE economy over 30 years ago and since then the country has undergone a profound transformation from poor desert region to a modern welfare state. The UAE authorities have made successful attempt at economic diversification which has reduced the portion of oil and gas output in GDP to 25 percent. The UAE has an open economy which has helped to obtain high per capita income and substantial annual trade surplus. The financial crisis of 2008 affected the UAE since the country is one of the largest crude oil suppliers in the world. The UAE had previously benefited from the high oil prices, but the recession initiated a decrease in oil demand, and the price of oil plunged from its peak levels. (CIA 2010.)

#### *Exchange rate stability and conversion*

The UAE's currency is Dirham (Dh), and it is linked to US dollar at a steady rate of \$US 1= Dh 3.671. The currency is secure and freely convertible. (The UAE Government 2006a.) When doing business with the UAE the US dollar exchange rate should be noticed.

#### *National priorities*

The UAE's aim is to attract foreign investors, which is fostered with the country's Free Trade Zones that offer 100 per cent foreign ownership and zero taxes. UAE's noteworthy long-term challenges are its oil dependence and the large expatriate workforce. The strategic plan for the upcoming years concentrates on diversification and creating more opportunities for nationals by improving education and increasing private sector employment. (CIA 2010.)

#### 3.5.1 GDP size and growth

The GDP in the year 2008 was Dh934.3 billion which amounts to around \$254.4 billion. Per capita GDP was estimated to be \$45,180 in 2008. The estimate was based on

the population rate of 5.6 million. The GDP percentage growth rates in UAE from 2004 to 2008 were 7.4, 8.2, 11.5, 5.2 and 7.5 per cent. The growth rate for 2010 is estimated to be 2.5 per cent and double to five per cent in the next year as risks are taken and investments start to take place again, writes UAE Interact (2009b, 39). 2010 is thought to be the year of recovery and increasing oil prices as well as demand especially in China will be fundamental for the region in the short-term. The figures point out that the UAE's economy will maintain growth and its financial fundamentals remain solid. Even with steady economic growth rates, the UAE remained one of the fastest growing countries in the world. The major influences on economic growth were an increase in the construction and building sector (25.6 percent). In addition growth was significant in manufacturing and industry (19.8 percent), real estate (16.9 percent), the financial sector (11.5 percent), transportation and communications (8.3 percent), as well as tourism with steady growth of 6.4 percent. Additionally the government service sector increased by 22.7 percent in 2007. The UAE's non-oil sector composed 64 percent of total GDP in 2007. (UAE Interact 2009d, 58.)

There are several visible signs of incredible rate of construction taking place particularly in Abu Dhabi and Dubai. Therefore it is not a surprise that the construction sector grew by a substantial 25.6 percent in 2007 when compared to 2006. Main construction projects were the Jumeirah Palm which is one of the largest man-made islands; Burj Dubai designed to be the world's tallest building, and an unlimited growth rate of skyscrapers as well as the Al Maktoum International Airport to mention a few. In addition, the government has focused on investing in education, health, and social services which grew at 22.7 percent. Of the total GDP the governmental sector stood for 7 percent in 2007 compared with 6 percent in 2006. (UAE Interact 2009d, 58-59.)

It is clear that UAE banks were also affected by the economic crises. The government has made attempts to ensure that the inflamed credit market would not get out of control by tightening the guidelines for lending to both individuals and companies. The UAE banks have also reduced the coverage of foreign debts. (UAE Interact 2009b, 39.)

The worst effects of the recent downturn were in Dubai, where real estate prices plummeted and affected the economy the most. Dubai did not have enough cash reserves to pay the debts, and generated global concerns about its solvency. In order to

pay back the debt obligations, Dubai launched a \$20 billion bond program in February 2009. The Central Bank of UAE and Abu Dhabi-based banks bought majority of the shares. An additional \$10 billion loan was received from the emirate of Abu Dhabi in December of 2009. (CIA 2010.)

### 3.5.2 Inflation

The inflation in 2007 was relatively high in global standards, at 11.1 percent (UAE Interact 2009b, 42). The inflation rate was influenced by the decline in the US dollar, in which the dirham is linked. The major portion of UAE imports are valued in US dollars, which made the goods more expensive in terms of the local currency. Dubai was the 34<sup>th</sup> most expensive city in that year. A year later the rating of Dubai was 52<sup>nd</sup> and Abu Dhabi 65<sup>th</sup> compared to 45<sup>th</sup> in 2007. (UAE Interact 2009d, 68.) However, in 2009 the UAE inflation rate hit a nine-year low of 1.5 percent, which was in line with predictions, since prices kept descending after a fall in household category, states the UAE Interact. Also mentioned was that the UAE's consumer price index fell 0.4 per cent on an annual basis in December 2009. (UAE Interact 2010a.)

In Dubai consumer prices fell steeply due to the collapse in housing and fall in food costs. The state witnessed the lowest inflation rate in five-years at 4.1 percent compared with 11.3 percent in 2008. Housing, water, electricity and gas price growth was the largest share of the Consumer Price Index (CPI) in 2009 at 2.4 percent. That combined with the falling rental and property prices meant that individuals and businesses had more money to consume. ” This strong drop in rental accommodation, commercial real estate and warehousing, will certainly have further positive implications for doing business in Dubai in 2010. Looking ahead, from a business perspective, a drop of inflation will increase the competitiveness of the UAE and attract more business start ups” as reported by the Dubai Chamber Economist (2010). However, inflation may rise once the global economy starts to pick up again. As the recovery takes place in domestic demand the lending conditions will resume, and the overall improved attitude with higher import bills will help the prices rise again. (Dubai Chamber Economist 2009c.)

### 3.5.3 Infrastructure

In response to the economic slowdown, the Dubai authorities have been acting with a large fiscal stimulus programme aimed at infrastructure investment, which boosted the government spending. In addition, the money has been forwarded to the transport projects especially in building the Dubai Metro. The transport sector has had a positive contribution to the growth and is expected to boost employment. Also, Dubai's wholesale and retail sectors have performed positively. "Though, there are signs that the wholesale retail trade sector is stabilizing with the Dubai Chamber recording a significant rise in the value and volume of Certificate of Origins issued in the fourth quarter of 2009"(The Dubai Chamber Economist 2010). The Dubai Chamber Economist continues that "looking ahead Dubai continues to remain an economy with strong fundamentals and a rise in aggregate demand (aided by a steep fall in consumer price inflation leaving consumers with more real disposable income) and fiscal expansion certainly bodes well for a robust recovery in 2010."

The shopping malls keep expanding in the UAE despite of the current downturn. Three main shopping malls have opened their doors in Dubai in 2009. The three malls are Dubai mall, the Arabian Centre, Marina Mall, and the biggest mall in the world, Mall of Arabia is under construction and is expected to open its doors in 2010. UAE consumers spend the most amounts per capita in the emerging world according to a Business Monitor International report. Average household in the UAE consumed \$14,400 per annum, and the figure is expected to grow in the coming years. Dubai's successful marketing as a global leisure and shopping destinations has had a vital impact on the country's retail sector. Tourism has stimulated the growth in retail, and especially when the UAE is expecting over 11 million tourists in 2010, the sector has very positive views. In addition, the growing urbanization is one factor influencing the retail sector to upbeat. "In 2008, the United Nations suggested that 85.5% of the UAE's population was classified as living in urban areas with this figure forecasted to rise this year and in 2010" reported the Dubai Chamber Economist. (Dubai Chamber Economist issue 2009b.)

Table 3 mentions the most important economic and retail indicators. The numbers show growth in every aspect. Nominal GDP has increased from USD 198.7 billion in

2007 to USD 303.0 billion estimated in 2010. Additionally, GDP per capita has improved from USD 44,254 in 2007 to USD 61,190 which was forecasted in 2010. Though, the real GDP growth has remained quite steady at 4 percent according to the 2010 forecast. Nevertheless, Table 3 shows growth in retail sales from USD 87.2 billion in 2007 to USD 126.8 billion which was forecasted in 2010. Retail sales per capita have also increased from 25,272 in 2007 to 29,581 in 2010. The recent whole sale retail trade numbers weren't available.

Table 3. *Major UAE economic and retail indicators (Dubai Chamber Economist 2009b, 1).*

	2007	2008e	2009f	2010f
Nominal GDP, USD, bn	198.7	225.1	257.5	303.0
GDP per capita, USD	44,254	48,222	54,079	61,190
Real GDP growth, %	5.2	6.7	-0.9	4.0
Retail Sales, USD, bn	87.2	118.8	108.8	126.8
Retail sales per capita, USD	25,272	23,151	26,417	29,581
Share of Wholesale Retail Trade (% of GDP)	16.49	15.89	Na	Na

e=estimate; f=forecast; Na=not known

Figure 2 illustrates the growth of the UAE wholesale retail trade as well as the total GDP in 2008. As shown in the figure, the wholesale retail trade hit its highest in 2006-2007, but then shrunk back to its normal levels in tandem with the total GDP growth.

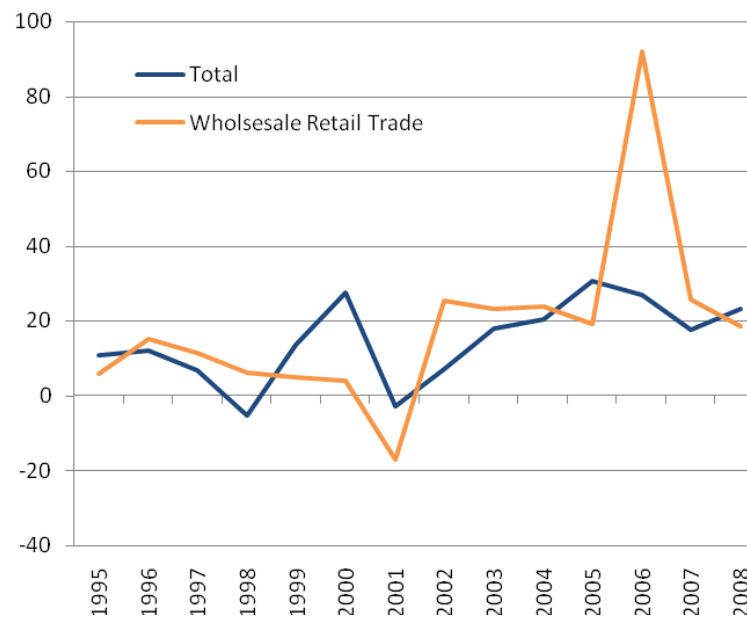


Figure 2. *Growth of wholesale retail trade and total GDP, 2008 (%) (Dubai Chamber Economist 2009b, 1).*

#### 3.5.4 Per capita income and structure of consumption

The annual average household salary in the Emirate of Abu Dhabi was revealed to be AED 216.200 in 2007. National households' income was 460.000, compared to AED 173.300 for non-national households and 93.800 for collective households. Correspondingly, the average annual income per capita amounted to AED 39.500 in 2007, the nationals' average income being AED45.000, non-national' AED41.100 and members' of collective households AED 23.700. When dividing the population into ten welfare levels the share of the lowest 20 per cent amount only 5.3 per cent of the total income, while the top 20 per cent acquire 49.6 per cent of the total income. (Statistics Center – Abu Dhabi 2009.)

The Household Expenditure and Income Survey conducted by the Statistics Centre of Abu Dhabi revealed that the average annual household consumption expenditure in 2007 was AED 135.300 in the Emirate of Abu Dhabi. The national households spent AED 305.500 on average, while non-national households spent AED 106.400 and collective households AED 47.500 annually. The annual average per capita consumption expenditure according to the study amounted to approximately AED 24.700. Na-

nationals' spending was AED 29.900 on average, compared to non-nationals' expenditure of AED25.200 and members' of collective households was AED 12.000. The major expenditure groups according to the survey include food, beverages and tobacco, clothing, rents, furniture, medical care, transportation, communication, entertainment, education and other miscellaneous goods and services. Table 4 shows the relative importance of major expenditure groups. Households use most of their money for rent and housing maintenance. However, the second largest expenditure group by collective households was food, beverages and tobacco, while non-national households and national households used more money on telecommunication and transportation and the third largest expenditure group for them was food. When measuring the distribution expenditure by docile household groups the report showed that the lowest 20 percent of the community members accounted for 6.4 percent of the total expenditure, while the top 20 percent bracket was reliable of the 42.7 percent of the total expenditure in the emirate of Abu Dhabi. (Statistics Center – Abu Dhabi 2009.)

Table 4. *The relative importance of major expenditure groups by type of household (Statistics Center – Abu Dhabi 2009).*

Total	Collective Household	Non-National Household	National Household	Major expenditure groups
16.4	24.7	15.2	16.0	Food, beverage & tobacco
9.7	4.1	7.0	13.0	Clothing and footwear
37.7	42.5	44.9	30.9	Rents and housing maintenance
5.2	1.1	2.4	8.2	Furniture, furnishing and household services
0.9	0.7	1.0	0.8	Medical care and health services
17.9	17.9	16.6	18.9	Transport and Telecommunications
5.0	0.6	6.3	4.7	Recreation and education
7.3	8.5	6.5	7.6	Miscellaneous goods and services
100.0	100.0	100.0	100.0	Total

### *Pricing*

For the middle and lower classes price is the primary buying factor in consumer goods. Small stores and shops in traditional souks or markets mainly serve these market segments. Retailers rely more on volume within this category since the margins from one to two percent are thin. Like mentioned before, there are quite large gaps in income distribution. The majority of the UAE nationals as well as businesses and tourists make up the majority of the purchasing power. For this market segment the price is not a primary buying factor and retail margins can be placed exceptionally high. The people in this segment shop more likely in specialty shops. (U.S. Commercial Service 2008.)

## 3.6 Demographic characteristics

In this subchapter the educational structure in the UAE is introduced as well as population size and growth are specified.

### 3.6.1 Education

The UAE offers free education for its citizens, both boys and girls from primary level to university. There is also a broad network of private schools which amounts to around 40 per cent of the student population. At the moment there are over half a million students at school or in college, and several thousand students are studying higher education degrees abroad at the Government's expense. (The UAE Government 2006b.)

The education is compulsory from primary level to secondary level. Education is universal and literacy rates have developed to be comparable with the norms in developed countries. Moreover, an adult illiteracy program is conducted in association with the UAE Women's Federation. The aim is to help eliminate illiteracy among the older

members of society. Higher education is strongly focused on computer literacy and on English language teaching. (The UAE Government 2006b.)

The Centre for Executive Education (CEE) is the UAE's most valued school in the field of design. In addition, the American University in Dubai offers a programme in Interior Design. According to Räsänen-Pentti (2010) there are no possibilities to study industrial design in the UAE. She continues that most design students go to study in Milano or London, and in the field of industrial design Australia is a popular place to study. (Räsänen-Pentti 2010.)

### 3.6.2 Population size and growth

The UAE's population in 2007 was around 4.488 million. According to UAE Interact (2009c) the country's population was estimated to reach five million at the end of 2009. The vast increase of nearly 300,000 people is due to the dominant expatriate community. At the end of 2008 the population was estimated at 4.765 million and at the end of the 2009 the country's total population peaked at nearly 5.066 million. The annual growth was around 6.3 percent. The national population was projected to grow from 892,000 in 2008 to 923,000 at the end of 2009. The UAE's demographic system maintains a male-dominated population. The male population is estimated to rise from 3.286 million in 2008 to 3.504 million at the end of 2009 while during the same period female population is expected to increase from 1.479 million to 1.562 million. (UAE Interact 2009c.)

Dubai is maintaining its place as the most populated emirate. In 2008 Dubai's population was around 1.596 million and was expected to increase by 7.8 per cent to 1.722 million at the end of 2009. Abu Dhabi is holding the second place with a population of 1.559 million at the end of 2008 and which was estimated to reach 1.628 million at the end of 2009. However, Abu Dhabi is holding a higher female population of 539,000 at the end of 2008 compared to Dubai with 376,000 female residents. (UAE Interact 2009c.)

The UAE has quite a young population in terms of age groups. At the end of 2008 the 25-29 year-olds were the largest group emerging with 777,000 inhabitants. The amount was estimated to be 806,000 at the end of 2009. Nearly 55 per cent of the population, 2.95 million, was under 34 years old at the end of 2008. (UAE Interact 2009c.)

In November 2009 UAE Interact reported that the population of the UAE stands at 6 million. The figure was carried out by two major studies made on visa registration and the amount of people employed in the country. These figures illustrate that the expatriate population is increasing rapidly. The largest expatriate group comes from India, with 1.75 million living in the UAE. The second largest group comes from Pakistan with 1.25 million, and approximately 500,000 Bangladeshis reside in the UAE. Furthermore, there are members of other Asian communities living in the UAE. Chinese, Philippines, Thais, Koreans, Afghans and Iranians make up around one million of the total population. Western expatriates coming from Europe, Australia, Northern Africa, Africa, and Latin America consist of 500,000 of the total population. (UAE Interact 2009a.)

The latest estimates project the UAE population to grow to 7.557 million in 2010. The estimates were reported by the National Human Resources Development and Employment Authority. They concluded that the UAE population doubles every 8.7 years. Moreover, the report noticed the imbalance between men and female population. The domination of non UAE national men's has considerable reflection on the UAE population. The percentage of males in the country's population was over 66.6 per cent in 1995 and has increased to 72.2 per cent in 2006. (UAE Interact 2010b.)

### 3.7 Socio-cultural factors

Socio-cultural factors focus on introducing the consumer lifestyle, beliefs and values as well as business norms and approaches. In addition, a major spotlight is put on the position of women in the UAE as well as on the culture and religion.

### 3.7.1 Consumer lifestyle and values

The consumers in the UAE keep luxury items important. “A quarter of UAE residents take luxury items for granted as part of their lifestyle” writes Elsa Baxter (2010). The survey was made by Synovate to 8,000 people in 11 countries. The attitude towards design items is due to the large number of designer shops, high-end hotels, and luxurious shopping malls in UAE, contends Per-Henrik Karlsson, Synovate’s business development director in Dubai. The survey notes that the main highway in the UAE is full of billboards advertising luxury brands which create inspirational behaviour. Eating out is also part of the lifestyle especially in Dubai. The survey revealed that 58 percent of residents in the UAE prefer buying designer items, and that the brand is important. (Baxter 2010.)

The UAE consumers are also comfortable with shopping online. A recent survey concerning online shopping habits conducted by MasterCard Worldwide revealed that the UAE had the highest average online shopping expenditure in the Asia Pacific, Middle East, and Africa region in the fourth quarter of 2009. The UAE shoppers spent online an average of \$1,048 which is a slightly smaller figure compared to \$1,193 during the same period in 2008. The survey revealed that consumers are getting more comfortable shopping online and 52 percent of the UAE respondents stated that it is convenient to shop online. The amount is slightly higher than in 2008 when the figure was 47 percent. The most popular items purchased online include airline tickets, books and arts, CDs, DVDs and VCDs as well as home appliances and electronic products. The most impulsive buying decisions were airline tickets, books and arts. The main reason for impulsive purchasing decisions was discounts that online channels offer. The future of online shopping seems content, since 62 percent of the UAE respondents said that they were “likely” or “very likely” to shop online. 72 per cent of the respondents considered secure payment facilities “extremely important” when thinking to make an online purchase. (Business Intelligence Middle East 2010.)

### 3.7.2 Design characteristics in the United Arab Emirates

Finnish and UAE designs differ a lot from each other. Finnish design is more industrial whereas in the UAE design products are hand crafts. Industrial design is almost nonexistent in the UAE and is still in the infancy stage. However, in architecture the variance is massive. The giant sky scrapers have the postmodern look while traditional building habits are cherished in modern houses as well as in private residences and in bigger complexes. For example, the wind tower, invented thousands of years ago, is still the basic innovation for modern air-conditioning and can be found from the modern houses as well. Though, when examining the area in the larger scale, including the whole Middle-East, the perception of design starts to get closer to the Finnish design. Karim Rashid and Zaha Hadid are maybe the most well-known Middle-Eastern designers, and the latter was the first Arabian woman to get to the top echelon of the designers. (Räsänen-Pentti 2010.)

At the moment the supply of Finnish design products in the UAE is minute. For example, Designers Hub sells furniture from Artek, Saarinen and Aarnio, but these products are sold only by inquiries and are not kept in stock or even in showrooms. However, copies of the ball chair are amply sold which could be a hint of a potential market for design products in the UAE. Thus, the customer has to know what they are looking for and have desire in these design products. In addition, Caspaiou, a high-end furniture store, sells Woodnotes. Crate and Barrell recently opened a chain in the UAE and they sell for example Marimekko tablecloths. However, according to Räsänen-Pentti (2010), the customers scarcely recognize the Marimekko brand. Additionally, interior chain Tavola offers a limited supply of Finnish design glass products. (Räsänen-Pentti 2010.)

Räsänen-Pentti (2010) thinks that Finnish design would sell abroad for example in the UAE as well in other parts of the world. She continues that Finnish design is high-quality, in which specific segments are ready to pay a lot. The UAE is among the 15 richest countries when compared in GDP. Therefore, the country has quite a large purchasing power also within niche products. The recent recession might have had a slowdown. However, the purchasing power is still much bigger than in many other countries. (Räsänen-Pentti 2010.)

There are around 350,000 westerns living in the UAE. The largest amount of purchasing power comes from them. The nationals amount to only 800,000, and there are about 1.8 million Indians and 1.2 million Pakistanis living in the UAE. All together 1.5 million of the population are influenced by the Arab culture i.e. moved in from surrounding areas. The design customs and perceptions range heavily by the cultural backgrounds. Räsänen-Pentti (2010) reminds that companies must be committed when entering the UAE with a good business plan and willingness to invest. The business culture differs a lot from Finland, and therefore the market should be carefully examined before the entrance. (Räsänen-Pentti 2010.)

### 3.7.3 Business norms and approaches

Although the UAE has become a global business centre, foreign companies should take a good look into the Arabic culture and the ways of commerce in Arabian business environment.

The company's presence may bring distinct advantages all over the world providing the company a chance to research the market prospects, make contacts, liaise with customers, as well get information of any transaction and secured order. In Arab countries such presence may provide considerable business advantages, since businessmen in the region prefer to deal with people they know. Personal relationships and trust are much more important in the region than for example in Western-Europe. (Embassy of the United Arab Emirates in Washington DC 2008.)

Companies in the UAE are often a family affair, although this is rapidly changing and might not apply to all the large businesses. The head of the family always makes the final decisions, although initial meetings may be hold with lower level. (Embassy of the United Arab Emirates in Washington DC 2008.)

#### *Working hours*

Friday is the holy day in the UAE, and Friday and Saturday is the official weekend. Some smaller companies are closed only on Fridays. The larger malls are open every-

day and even on Friday's. Government offices are open during the week from 7.30 a.m. to 3.00 p.m. Private offices are usually open longer hours. During Ramadan most of the work is accomplished either in the early hours of the morning or later in the evening at sunset when the day's fast is broken. Working hours are shortened by two to three hours during Ramadan. (Embassy of the United Arab Emirates in Washington DC 2008.)

#### 3.7.4 Cultural and societal norms

People in the UAE value good manners and courtesy. It's always better to arrive on time, although punctuality is not considered a virtue in the Arab world. People might be kept waiting before or during a meeting, but you should remember to be patient and not to take it as a lack of respect. Meetings should be avoided during prayer times and major Muslim holidays.

The senior people should be greeted first when meeting a group of people. In addition, it is polite to drink a cupful of refreshments which are always offered in Arab homes or offices. The refreshments are normally tea or coffee, and it can be considered rude to refuse. This is a good opportunity to chat and establish the important relationships. Business meetings can be also conducted over a lunch or a dinner, and normally in a hotel or a restaurant. In a matter a fact, it is better to place the meeting outside the office, since it is more likely not to be interrupted. Hospitality is a way of life in the Arab world and it is polite to return the invitation. (Embassy of the United Arab Emirates in Washington DC 2008.)

As already mentioned, the meeting can be interrupted by other guests or telephone conversation. However, a tough approach is not welcome in Arab countries; therefore one should remember to be patient when doing business with them. The indirectness from the other party might mean no, but they are unwilling to say no to your face. (Embassy of the United Arab Emirates in Washington DC 2008.)

Mutual agreements are bonding in Arab countries. Once the deal is made the Arab businessperson's word is his or her bond and others are expected to perform accordingly. (Embassy of the United Arab Emirates in Washington DC 2008.)

In business meetings one should be dressed conservatively. Men should wear a suit, and women should wear something that covers arms and legs. (Embassy of the United Arab Emirates in Washington DC 2008.)

### *Languages*

The UAE's official language is Arabic, although English is widely spoken in many places. Due to the large expatriate population also Hindi, Urdu and Farsi can be spoken in some places. However, Arabic is considered as the state's business language and therefore government forms and official contracts are in Arabic. (Embassy of the United Arab Emirates in Washington DC 2008.)

#### 3.7.5 Women in the United Arab Emirates

The equal rights for both men and women are guaranteed in the Constitution of the UAE. The women are entitled to enjoy the same legal status, claim to titles, access to education and the right to practice professions as men. They also have the same possibility to access employment, health, and family welfare facilities. The right to inherit property is also guaranteed and ensured. (Embassy of the United Arab Emirates in Washington DC 2009d.)

In the UAE the literacy rate of women was 90 percent in 2007. Furthermore, the number of UAE national women amount to 24 percent more than the UAE national men enrolled in higher education. The statistics reveal that 77 percent of UAE women continue to higher education after high school. (Embassy of the United Arab Emirates in Washington DC 2009d.)

Graduated women can be found working in government, engineering, science, health care, media, computer technology, law, commerce and the oil industry. For instance, the UAE has four women ministers, and one of them, Sheikha Lubna Al Qasimi who is the Foreign Trade Minister, was listed in Forbes magazine's 2007 list as one of the 100 most powerful women in the world. In the 2006 Federal National Council elections nine women were selected to the seats, which amounts 22.5 percent of the Council members. In addition, in the government two-thirds of the workers are women, and the first female judge was affirmed in October 2008. (Embassy of the United Arab Emirates in Washington DC 2009d.)

In the UAE it is illegal to fire or threaten to fire a female worker on the basis of pregnancy, delivery, or parenting. Maternity leave is from two to six months in the public sector. During the maternity leave women are entitled to get full salary in the first two months, the third and fourth months' salary is half paid, and the last two months are non-paid. Women are permitted to take an hour paid break a day from work to take care of their baby for 18 months. (Embassy of the United Arab Emirates in Washington DC 2009d.)

The women's strong desire to become financially independent and professionally successful has fostered the women's position in the UAE. UNDP reports in their Gender-related development index in 2007-2008 that UAE ranked 43<sup>rd</sup> out of 177 countries and 29<sup>th</sup> in the world for Gender Empowerment Measures which is the best rating among the Arab countries. (UNDP 2007, 326-333.)

Non-national women are not expected to cover their heads or wear traditional Muslim dress. However, when visiting a mosque women will be advised to respect Muslim tradition and wear an abaya and cover their heads. This will be provided by the mosque usually. (Embassy of the United Arab Emirates in Washington DC 2009d.)

### 3.7.6 Hofstede's cultural analysis of the United Arab Emirates

According to the cultural analysis of Geert Hofstede the UAE is almost alike to other Arab countries where the Muslim faith plays a great role in the people's lives. Predominant characteristics for this region are large power distance as well as uncertainty avoidance. (Taylor 2007) The Arab society is more formal as well as more traditional than the Western society. It is vital to understand the different rules of etiquette in that region before doing business. The Arabs are very social and friendly people. They are interested in their guests and want to know them better. It is expected that the guests are as well interested in them. (The Embassy of United Arab Emirates in Washington DC 2009.)

The large power distance and uncertainty avoidance indexes show that the UAE is more likely to follow a caste system which does not allow significant upward mobility of its citizens. The country is extremely rule-oriented with laws, regulations and controls. The aim of these rules is to reduce uncertainty, whilst inequalities of power and wealth have been endorsed to grow within the society. (Hofstede 2009.)

The third highest Hofstede dimension for the Arab countries is the Masculinity Index. The index for the country is 52, which is only slightly higher than the average 50.2 for all the countries included in this dimension. This could point out that while women are limited in their rights in Arab countries, this might be more due to the Muslim religion than the cultural paradigm. (Hofstede 2009.)

The Individualism ranking at 38 is the lowest of Hofstede's dimension for the Arab countries. The average ranking in the world is 64, which indicates that the Arab world is a collectivist society where people prefer long-term commitment to the member group which can be a family, extended family, or extended relationships. Loyalty is prominent feature in a collectivist culture, and it counters most other societal rules. (Hofstede 2009.)

### *Cultural tips*

Communal eating is popular in the UAE and it is recognised as an expression of friendship. When dining in the Middle East it is rude to eat with your left hand since it is considered unclean. In many places it is also polite to leave a bit of food on one's plate. One should remember also not to ask for pork or pork products since Muslim tradition abstinence of consuming pork. Additionally, attentive Muslims do not drink alcohol or smoke. Alcohol is served in most hotels, but might not be available in local restaurants. (The Embassy of United Arab Emirates in Wahington DC 2009c.)

Men can shake hands, but women should wait until the man extends his hand. Devout Muslim men do not shake hands with women, and westerns should be aware that devout Muslim women do not shake hands or touch men who are not in their families. Women might simply put their hand over their hearts which is a symbol of welcoming the visitor. Also, one should remember that it is best to keep both feet on the floor, since it is an insult to show the bottom of your foot to another person. It is also better for both men and women to dress modestly. (Embassy of the United Arab Emirates in Washington DC 2009c.)

In Middle Eastern and Arab cultures generosity and thoughtfulness are very admirable and respected features. However, when asking about a Muslim person's family, it is better to keep questions general and not to ask specifically about the spouse. It is also thoughtful to stand up for new guests and especially when older people step in. Elderly people are generally greeted first. It is expected from men to stand up when a woman enters the room. Foreigners should also be aware of the interaction between men and women. Men walking together holding hands is ordinary, but men and women normally do not unless they are married or related. (Embassy of the United Arab Emirates in Washington DC 2009c.)

The concept of time is more relaxed in the Middle East. For Middle Easterners time is more fluid and they are more relaxed about when a meeting or event ends or begins. However, visitors are expected to be on time and notify if being late because of traffic or other reason. Though, it is not unusual that a visitor is kept waiting. (Embassy of the United Arab Emirates in Washington DC 2009c.)

### 3.7.7 Religion

The predominant religion in the UAE is Islam. The five pillars of Islam are Profession of faith, Prayer, Fasting, Charity, and Pilgrimage. The religion is seen in everyday life since Muslims pray five times a day: dawn, noon, afternoon, sunset and night. Usually in the workplace a room or space is designated for prayer. Muslims might also pray in public places. The most significant Muslim holiday is Ramadan. Ramadan is held during the fall when Muslims abstain from eating, drinking and smoking between sunrise and sunset. For non-Muslim visitors there will be food available at hotels. However, it is polite not to eat, drink or smoke in public or in front of staff or business associates. During Ramadan after the sunset families and friends get together at a huge meal called iftar. It is respectful to accept an invitation to iftar. (Embassy of the United Arab Emirates in Washington DC 2009c.)

”The Islam shapes the principles of government as well as private lives” (Insight Guide 2007). As already mentioned in the history part; the oil is used to exploit the welfare of citizens. This principle summarizes the Islamic basis of the comprehensive social welfare policies which the UAE promotes.

Like mentioned above, the official religion in the UAE is Islam, which is declared in the UAE’s Constitution. The government though follows the policy of tolerance toward non-Muslim religions. A number of Christian churches as well as a Hindu temple complex can be found in the UAE. (Embassy of the United Arab Emirates in Washington DC 2009c.)

## 3.8 Geographic characteristics

Country, climate as well as transportation structure and accessibility are introduced in this subchapter.

### 3.8.1 Country

The United Arab Emirates is located along the south-eastern tip of the Arabian Peninsula. The neighbouring countries are Qatar in the north-west, Saudi Arabia in the west, south and south-east, and Oman in the south-east and north-east. The country occupies 83,600 square kilometres. (CIA 2010.)

#### *Climate*

Since the UAE's terrain is desert, the climate is subtropical and arid. The sun shines year round and rainfall is almost non-existent. The hottest months are between June to September when temperatures may climb up to 40 degrees or more. The high humidity can reach up to 80-90 percent, during the midsummer it can feel unbearable. The lowest temperatures are in December and January, when temperature might drop to 10 degrees during the nights. The infrequent rainfalls occur during the winter months. Due to the tropical weather air-conditioning is a norm in a building and even swimming pools at hotels are cooled down to be refreshing during the summer months. (Finnmatkat 2010.)

### 3.8.2 Transportation structure and market accessibility

In the UAE there are 24 paved airports with paved runways and 7 main ports and terminals. The country has quite a large modern road network, and additionally further road developments are planned in the poorer emirates. The dependence on road network is high since the UAE lacks a rail network as well as domestic flights. (CIA 2010.) However, in September 2009 an urban metro network was opened in Dubai and at the moment Abu Dhabi is planning a metro rail as part of a master public transport plan to be completed in 2016. The Abu Dhabi metro has been planned to be linked with Dubai metro and even to other cities in the UAE and to other GCC countries. (Abu Dhabi Metro 2010.) The development of the 1,500km Union Railway is underway. The objective is to develop a national freight and passenger system throughout the seven emirates in the next eight years. (UAE Interact 2010c.)

The products can be distributed to the UAE by airplanes or ships. Since the shipments of DesignShopOutlet would not be excessively heavy, the airplane delivery would be best option for them. Airplane delivery is faster but also more costly than boat shipments. The company should compare the shipping prices of companies such as FedEx, DHL, UPS, and Itella. The delivery times change between 3 to 20 days according to the transport method used as well as by the company. The faster the transportation the more expensive it is.

### 3.9 The SWOT analysis of the United Arab Emirates

As a conclusion, in this chapter the United Arab Emirate is analyzed according to the SWOT. In other words, the country's strengths, weaknesses, opportunities as well as threats are introduced in DesignShopOutlet's point of view.

#### *Strengths*

The UAE is an incredibly wealthy country. Its prosperity is based greatly on the country's vast oil and gas reserves, and most of the reserves lie in the largest emirate and the capital of the UAE, Abu Dhabi. The shortage of natural reserves in Dubai has forced the emirate to concentrate on building infrastructure, focusing on trade, finance, tourism, and other services. Additionally, the other emirates are differentiating their infrastructure.

The positive feature in the UAE market is the country's political stability. The country is led by the President, and it is a federation of seven emirates, each with its own ruler. The UAE has been modernizing the government structure to meet the needs of future challenges. However, the final decision of the local emirate's speed to transfer traditional administration to modern is set by the ruler.

A positive aspect is also the well-developed markets especially in Abu Dhabi and Dubai. The non-oil sector has been growing at a rapid speed. Major growth areas during the last years have been construction and building, manufacturing and industry, real estate, the financial sector, transportation and communication, as well as tourism. The

Free Zones have attracted a large number of foreign companies to establish a branch in the UAE. The Free Zones offer a great deal of features from 100 percent foreign ownership to zero taxes. The Free Zone has shaped the UAE to be the passage centre when distributing goods to other Middle Eastern countries.

The efficient financial sector has made it possible for the UAE to achieve sustainable economic growth. The large development projects in infrastructure have raised a large assortment of investment opportunities. Furthermore, the country's focus on tourism creates a lot of wealth for the nation which enhances consumption.

### *Weaknesses*

There are also some negative features in the UAE market. The economy in the UAE still depends heavily on oil and its price in the world market. In addition, since the oil is mainly in Abu Dhabi and Dubai area, other areas of the UAE have not been developing as fast and the standard of living in the other emirates is not as high.

The business laws of the UAE are also vital to mention. Although the country has extremely positive attitude towards international trade and foreign investors, the law protects nationals and nationalization. When a company wants to establish a permanent presence in the UAE it may incorporate a Limited Liability Company (LLC), establish a Branch office or Representative office, or establish a wholly owned entity in one of the UAE Free Trade Zones.

When establishing an LLC in the UAE the company must be 51 percent owned by the UAE nationals and there are some restrictions concerning the minimum capital. The second possibility is to establish a branch or a representative office which does not require as much UAE participation. The branch or representative office can be fully owned by foreigners, though they are appointed a local agent to help with local arrangements. The branch and representative offices are limited in their activities. The third possibility when establishing a permanent presence is to open a unit in one of the Free Trade Zones in the UAE. The 100 percent foreign ownership and tax incentives have attracted many foreign investors. However, the company that operates within the Free Trade Zone is not allowed to do business in other parts of the UAE without a commercial agent.

When a company does not need to open an own branch in the country, they can appoint a representative agent. The law states that the commercial agent must be a UAE national or a company that is 100 percent owned by UAE nationals. In addition, the agency must be registered by the UAE Ministry of Economy and Commerce. Finding a suitable agent is the most important first step, since the contracts are quite difficult to terminate and agents are protected by UAE laws. Like mentioned earlier, both Junttan and Karelia Upofloor have an importer in the UAE. Mr. Kekäläinen (2010) stated that appointing an agent is the easiest way at least for Karelia Upofloor, since an importer buys and warehouses the products as well as takes care of the marketing practices and organises the selling in the market. The language should not be a problem when doing business with representative agents, since English is widely spoken in the UAE. The representative agent takes care of the communication with the UAE government and therefore there is no necessity for Arabic skills.

### *Opportunities*

The retail sector in the UAE is growing continually. New malls are being opened in a rapid pace and this with the growing amount of tourists as well as the urbanization of the nation boosts the consumption and growth in the retail sector. It is also interesting to note that UAE consumers spend the most amounts per capita in the emerging world.

The UAE is an exceptionally potential market area. Import tariffs are low and there are no income taxes, federal corporate taxes or sales taxes levied. There is obviously demand for luxury products and brand names. The main target group for DesignShopOutlet's products would be tourists, Europeans and Scandinavians living in the UAE, as well as wealthy UAE women in their thirties. They might also be interested in shopping online since the online shopping has been an upward trend among UAE consumers.

In addition, the attitude towards women in business has been changing recently, and there are women working in the government positions as well as in other sectors. This aspect is also important in DesignShopOutlet's point of view since the company is owned by two women.

### *Threats*

The income distribution and consumption expenditure vary a lot between social groups. The nationals' income is greater than the non-nationals' and members' of collective households. Consequently, the nationals spend more money than the other social groups. Many brand names have shops in the UAE such as Versace, Tommy Hilfiger, Donna Karan, and Scandinavian retailers H&M and Ikea, making the UAE a competitive market for high-end designer brands. There is obviously demand for designer products in the UAE. However, since the brand name is important for consumers proper marketing of the brand is vital. Because DesignShopOutlet as well as their products are relatively unknown in the UAE market, the consumers might be reluctant to buy high-priced designer products.

The religion and culture play a major role in doing business in the UAE. Business people should remember not to schedule meetings for Fridays, since it is a holy day in Islamic countries. Additionally, other religious holidays should be taken into account. Valuable features are good manners and politeness. It is also important to build relationships, since business people in Arabic countries rather do business with the people they know. A proper knowledge about the culture and religion should be obtained before doing business with the UAE since these aspects differ greatly from Finland.

## 4 CONCLUSIONS

When making the decision whether to go international or not, the company has to invest a lot of time and effort in researching the potential challenges and opportunities facing the company. The information will offer the company a view of the target market and customers as well as gain information how to do business in unfamiliar countries and market environments. As a result can be said, that the market research is the key for understanding how the company may expand abroad or to improve their existing international marketing practices and contacts (Kotler & Armstrong 2008).

The endeavour of the thesis was to portray the internationalization of an SME. Motives and risks of a new market entry were described as well as the steps of a target market selection and different operational modes were explained. In theory part the major aspects in DesignShopOutlet's point of view are born-global companies as well as global e-commerce. These themes were selected since DesignShopOutlet is aiming fast into international markets and due to the fact that they have already acquired international inquiries through their web-shop.

In addition, a market research report of the United Arab Emirates was conducted. The market report is a quite thorough glimpse of the country's present situation. However, the research was not able to discover if Finnish design and lifestyle products would be fancied in the UAE. According to the introduction of Dubai by Finnmatkat (2010), Marimekko has a shop in Dubai in the Wafi City mall. However, the shop could not be found on the Internet. Though, some stores were selling Marimekko Fatboy beanbags in the UAE. In addition, Räsänen-Pentti (2010) notes that Finnish design is high quality, and could have a possible market in the UAE as well as in the other parts of the world.

Still, a lot of work has to be done. The company has to consider the risks and the pros of this market entry as well as its own prerequisites for internationalization. Since the DesignShopOutlet has not received any inquiries from the UAE yet, an idea would be to visit the country and make observations as well as conducting a questionnaire for

UAE consumers would be beneficial. For DesignShopOutlet attending a trade show or exhibition in the UAE or some other country would allow the company to generate interest as well as establish important business relationship internationally and obtain valuable knowledge of the country and its business habits through a business partner.

At the moment, the web-shop of DesignShopOutlet benefits the company as well as its customers. The e-commerce activities do not require such large investments, and customers can be reached from Finland throughout the world. Especially the launch of the English web-page will help the company to increase the amount of international inquiries.

### *Discussion*

I was very pleased with my research findings since there was a very limited amount of information available about the UAE market. The country's distant location from Finland, differences in culture and religion as well as the government's attitude towards nationalization are major obstacles for entering the UAE market as well as in finding the market information.

The major reason why I chose to do a research about the UAE as a target market was due to a reason that there are no previous studies regarding the subject, or they are very difficult to ascertain. In addition, I was aware that the language of the data would be both in Arabic as well as in English which made it more comfortable in choosing the area for examination.

The research methods used were appropriate. The information concerning the country was mostly found from internet sources which made it possible to do the research without any financing. A couple of email questionnaires were sent, and the obtained information was used to back up the data already found.

### *Reliability and validity*

Reliability as a measure tool means that the study supplies consistent results. "Reliability is a necessary contributor to validity but is not sufficient condition for validity"

(Cooper & Schindler 2008, 236). In other words, if the findings are not valid it doesn't matter if they are reliable since the measures do not solve the research problem.

In this research project reliability and validity has been taken into account in references. Since the research is qualitative, the reliability can be analyzed by selecting proper source material, collecting the appropriate information, as well as interpreting the data correctly. The data for this research has been applied from published books, articles, and other published researches that clearly state the author and time. Additionally, by using various sources at the same time the reliability and the validity can be assured. However, since the first-hand information was established using barely three answered questionnaires the market information should be applied with a delicate and critical gaze.

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## APPENDIX 1 Questions for the companies

- **STARTING THE BUSINESS OPERATIONS**
  - Please explain why did your company begin the business operations in UAE?
  - Were you advised by someone to deliver your products there or was it the company's own idea? Could you please explain?
  - Please describe what were the company's motives to enter UAE?
  - Please describe what kind of knowledge and resources you needed when entering the UAE?
  - Please list what consultancy agencies were used (such as Finpro, Finnvera etc)?
- **ENTERING THE MARKET**
  - Please explain how your company entered the UAE?
  - Please describe what kind of operational model your company used first? Has it changed after that and how?
  - Please list which part(s) of UAE did you enter first? Have you enlarged your market area in the UAE and where?
  - Please describe what kind of distribution channels your company uses in that market?
  - Please explain how the UAE government responded to your market entry?
  - Please explain in a couple of sentences if the UAE is a bureaucratic market in terms of paperwork?
- **PRODUCT**
  - Please explain if you had to adapt your products when entering UAE and how?
  - Please describe if there are any restrictions concerning the product, delivery, or usage?
- **EVALUATION OF MARKET SITUATION**
  - Please describe what kind of market situation is in the UAE at the moment?

- Please evaluate how has the situation changed since your company entered the market?
  - Please evaluate how has your company performed in the UAE market?
  - Please list your competitors in that market?
- **BUSINSS CULTURE**
  - Please describe how the business culture differs in the UAE when compared to Finland?
  - In your point of view, what is the position of women in the Arab world? Are women involved in business life and how?
  - Please comment how does the (modest) Finnish business style fit in the UAE? Could you explain if there were any conflicts arisen and what kind?
- Please feel free to add any other comments you may have.