

Olga Yurbacheva

DEFINING FINNISH INVESTORS IN  
RUSSIA

Russian food and drink market as an example

Bachelor's Thesis  
Business Management

May 2012



**MIKKELIN AMMATTIKORKEAKOULU**

Mikkeli University of Applied Sciences

## DESCRIPTION

|  |  |  |
|--|--|--|
|  <p><b>MIKKELIN AMMATTIKORKEAKOULU</b><br/>Mikkeli University of Applied Sciences</p>   |  | <b>Date of the bachelor's thesis</b><br><br>7 May 2012 |
| <b>Author(s)</b><br>Olga Yurbacheva  | <b>Degree programme</b><br>Business Management   |  |
| <b>Name of the bachelor's thesis</b><br>Defining Finnish Investors in Russia. Russian food and drink market as an example.   |  |  |
| <b>Abstract</b><br><br><p>In today's world of globalisation it is especially important for companies to conduct their operations internationally. Not only foreign trade but also international investments gain a visible significance. Special interest is paid at emerging economies as the source of new markets, resources and growth. Russia is considered to be one of the emerging markets opening attractive opportunities for various countries and companies.</p> <p>Finnish-Russian relations have a long history. Geographical closeness and certain cultural similarities make it appealing for both countries to collaborate with each other. Investments are not an exception. Finnish companies invest already actively in Russia. However, there is always ground for development.</p> <p>The main objective of this study was to obtain useful background information, concerning Finnish-Russian investments, which can be used by MUAS for further research and development of Finnish-Russian relations. The study was conducted using the Russian food and drink industry as an example.</p> <p>The theoretical part includes theories concerning international investments and their types, foreign investments in Russia (e.g. geographical distribution and key industries) and Finnish investments in Russia. The research method used was a qualitative research based on two interviews conducted with representatives of Finnish companies that are current investors in Russia. The primary data collection method was chosen for a better understanding of attitudes and expectations when investing in Russia.</p> <p>The result of the study provides MUAS with a broad range of background information concerning international investments and particularly Finnish investments in Russia. The model created for defining current and potential investors can be possibly used for other industries rather than the food and drink industry taken as an example. Among other findings are the lists of current and potential investors in the Russian food and drink industry, portrait of the potential investor in the Russian food and drink industry, summary of favourable and unfavourable aspects when investing in Russia, and analysis of the most attractive food and drink markets for investments.</p> |  |  |
| <b>Subject headings, (keywords)</b><br>International investments, FDI, FPI, Finnish investments in Russia, potential investors, current investors, emerging markets, food and drink industry   |  |  |
| <b>Pages</b><br>61 p. + app. 4 p.  | <b>Language</b><br>English                       | <b>URN</b><br>NBN:eng:muas-bcthe 20128475              |
| <b>Remarks, notes on appendices</b>  |  |  |
| <b>Tutor</b><br>Eila Jussila   | <b>Employer of the bachelor's thesis</b><br>MUAS |  |

## CONTENTS

|  |    |
|--|----|
| 1 INTRODUCTION .....   | 1  |
| 2 INTERNATIONAL INVESTMENTS.....   | 3  |
| 2.1 Types of international investments .....                               | 3  |
| 2.1.1 Foreign Direct Investments.....                                      | 4  |
| 2.1.2 Foreign Portfolio Investments.....                                   | 6  |
| 2.2 Advantages of investments.....   | 7  |
| 2.3 Disadvantages of investments.....                                      | 9  |
| 3 FOREIGN INVESTMENTS IN RUSSIA .....                                      | 10 |
| 3.1 Geographical distribution of investments in Russia .....               | 11 |
| 3.2 Areas potential for investments in Russia .....                        | 12 |
| 3.2.1 Industrial sector.....   | 12 |
| 3.2.2 Service sector .....   | 14 |
| 3.3 Main specifics, tendencies and barriers of investments in Russia ..... | 16 |
| 4 FINNISH INVESTMENTS IN RUSSIA.....                                       | 17 |
| 4.1 Prerequisites of Finnish investment activities in Russia .....         | 17 |
| 4.2 Types of Finnish companies-investors.....                              | 19 |
| 5 RESEARCH PROCESS.....  | 22 |
| 5.1 Types of data.....   | 22 |
| 5.2 Data collection .....  | 23 |
| 5.2.1 Primary data collection.....   | 23 |
| 5.2.2 Secondary data collection.....                                       | 24 |
| 5.3 Data analyses and interpretation .....                                 | 25 |
| 5.3.1 Defining current investors .....                                     | 25 |
| 5.3.2 Defining potential investors.....                                    | 25 |
| 6 RESULTS: FINNISH INVESTORS IN THE RUSSIAN FOOD MARKET .....              | 26 |
| 6.1 Secondary data results .....   | 26 |
| 6.1.1 Current Finnish investors.....                                       | 27 |
| 6.1.2 Portrait of the potential investor.....                              | 27 |
| 6.1.3 Analysis of the main food and drink markets in Russia.....           | 29 |
| 6.1.4 Potential Finnish investors.....                                     | 40 |
| 6.2 Primary data results.....  | 46 |
| 6.2.1 Reasons for investing in Russia .....                                | 47 |
| 6.2.2 Unfavourable aspects of investing in Russia .....                    | 47 |

|   |    |
|---|----|
| 6.2.3 Suggestions for the investing climate improvement .....     | 47 |
| 6.2.4 Locations of production plants.....                         | 48 |
| 6.2.5 Projections about future demand/consumption in Russia ..... | 48 |
| 7 DISCUSSIONS.....  | 49 |
| 7.1 Identifying current and potential foreign investors.....      | 49 |
| 7.2 Investor’s attitudes and expectations .....                   | 52 |
| 7.3 Quality of the study.....                                     | 53 |
| 7.4 Suggestions for further application and research.....         | 53 |
| 8 CONCLUDING REMARKS .....  | 54 |
| BIBLIOGRAPHY .....  | 56 |

## 1 INTRODUCTION

Nowadays international operations of companies gain especial strength as long as the whole world is involved in the globalisation process. Companies export and import their products to other countries, create joint ventures and collaborations and invest heavily abroad. In today's world it is really hard to find a big company that possesses enough resources but does not have any foreign investments.

The great potential lies in emerging economies. Emerging countries represent those countries that are in the process of active development. This means that the population is growing, the level of prosperity is becoming higher, and economies are evolving rapidly. Nowadays emerging economies account for the largest share of world's GDP (gross domestic product). In comparison to developed countries where markets are becoming glutted and more service oriented, emerging markets have a potential for growth and they are open for new products. The rise of living standards creates the demand for premium quality and brand products. The population growth makes the product consumption rise and, consequently, boosts the demand. Both source and host countries benefit from investing. Source countries can obtain new resources, closeness to the market or even new markets. Consequently, they improve their operations and get bigger profits. For some multinational companies the biggest share of profit comes from foreign markets rather than domestic one. Host countries can learn a lot from the source countries. This is especially important in case of developing markets. They obtain new knowledge (e.g. technological and managerial), products or capital.

One of the emerging countries, Russia, is the nearest neighbour of Finland. Closeness, availability of resources and promising opportunities in various markets make investing in Russia attractive for Finnish companies. Nowadays two neighbour countries are actively involved in the development of their relations: joint ventures are created, common R&D (research and development) projects are planned, and the long trading history exists. Active work must be done in order to attract more Finnish investments in Russia and, as a result, develop Finnish-Russian economic activity.

The objective of the study is to gain useful background information that can be used by MUAS for the further research and development of Russian-Finnish relations in terms of investments. This can be reached through the analyses of current and potential Finnish investors in Russia as well as the understanding of attitudes and expectations of Finnish companies-

investors concerning Russia. The outcome of the research supplies the reader with the database containing examples of Finnish companies-investors and Finnish potential companies-investors (food and drink industry case) in Russia, the model proposed for defining foreign potential and current investors, as well as the analyses of the Finnish investors' attitudes and expectations when investing in Russia. The following research questions were set initially for investigating and answering:

- 1) How can current and potential foreign investors be identified?
- 2) Who are the current Finnish investors in the Russian food and drink industry?
- 3) What are the attitudes and expectations of the Finnish companies when investing in Russia?
- 4) Who are the potential Finnish investors in the Russian food and drink industry?

This work can be generally subdivided into three main parts: theoretical part, empirical part and conclusions. In order to understand the background of the subject, a deep theoretical framework must be developed. Such areas as general theories of international investments, foreign investments in Russia and Finnish investments in Russia were investigated. It was essential to learn about different types of investments, benefits and drawbacks of investing as well as the specifics of investing in Russia. These studies give good prerequisites and additional knowledge for my own research.

The research design part describes methods and sources used for the primary and secondary data collection needed in the research process. In the empirical part I have tried to answer the research questions set before as well as to fulfil the objective of the research. During the first stage of the research process examples of the current Finnish investors in Russia were identified and, thus, the second research question was answered. Primary data collection was done during the second stage of the research, using the list of current Finnish investors in Russia. The primary data together with the secondary data gained before allowed identifying general issues concerning attitudes and expectations of Finnish companies investing in Russia. So, the third research question was answered. During the final stage of the research process the list of potential Finnish investors in the Russian food and drink industry was made answering the fourth research question. Finally, after the plan proposed for defining current and potential investors was tested on the Russian food and drink industry, the general model was created responding to the first research question.

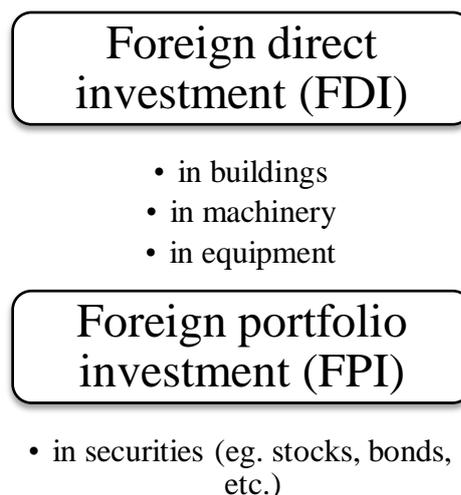
## 2 INTERNATIONAL INVESTMENTS

International investments are considered to be an important source of the capital. Investments can be received through public or private funding. However, country's own capital sources are limited. Consequently, it creates the limit of improvement e.g. technological improvement. It is obvious that emerging markets are the ones that have special needs for the development. Thus, international investments are becoming an essential tool for developing economies.

Types of foreign investments, benefits and disadvantages for countries accepting those investments and motives for investing abroad are going to be described in this chapter. More attention and detailed consideration are paid at foreign direct investment (FDI) as the most popular type of foreign investments and the one related to this work.

### 2.1 Types of international investments

Generally speaking, international investments can be subdivided into two types: foreign direct investment (FDI) and indirect investments. (Figure 1). The last one is broadly known as foreign portfolio investment (FPI). Both FDI and FPI can boost the sustainable growth in emerging and developed economies (Evans 2002, 1). Further, we are going to take a closer look at both types separately.



**FIGURE 1. Types of international investments (based on Graham et al. 2005; Business-Dictionary.com)**

### 2.1.1 Foreign Direct Investments

The classic definition of FDI defines it as “a company from one country making a physical investment into building a factory in another country”. However, it is understandable that such a definition can not be actual anymore. In the past decade, FDI was a very important tool for a company’s internalisation. However, there were lots of boundaries owing to the lack of technology. Nowadays the management of foreign investments is much easier thanks to the new technological systems and declining global communication costs. Therefore, there are many other kinds of FDI except investing in factory building. (Graham et al. 2005). Moosa (2002, 1) proposed the different definition describing that foreign direct investment is the process when residents of one country acquire the ownership of assets of a company in another country. In this case, the investing country is “the source country”. Consequently, the country that gets investments can be called “the host country”. The third definition mentioned here is the one belonging to Rao (2010, 11) who says that “FDI is the investment made by a company in new manufacturing and/or marketing facilities in a foreign country”.

In comparison to FPI, FDI gives a right for a management involvement to the company invested in. The foreign direct investor can have a share as low as 10 % or more than 49%. Some countries, though, have restrictions on the amount of shares that can be possessed. (Ilikeinvesting.com).

Without any doubt, it is so that most of FDI are still made into equipment (machinery) or buildings. However, as it has been mentioned above, the era of technology has created new possibilities. More and more technological start-ups are created. Usually such companies and joint ventures have been established from R&D projects, with a help from governments and universities (for instance, Nanotechnology Innovation Alliance). There is also a vast majority of companies producing software technology. Investment in this type of a company does not require such huge expenses as investments in machinery or building. (Graham et al. 2005).

#### Types of Foreign Direct Investment

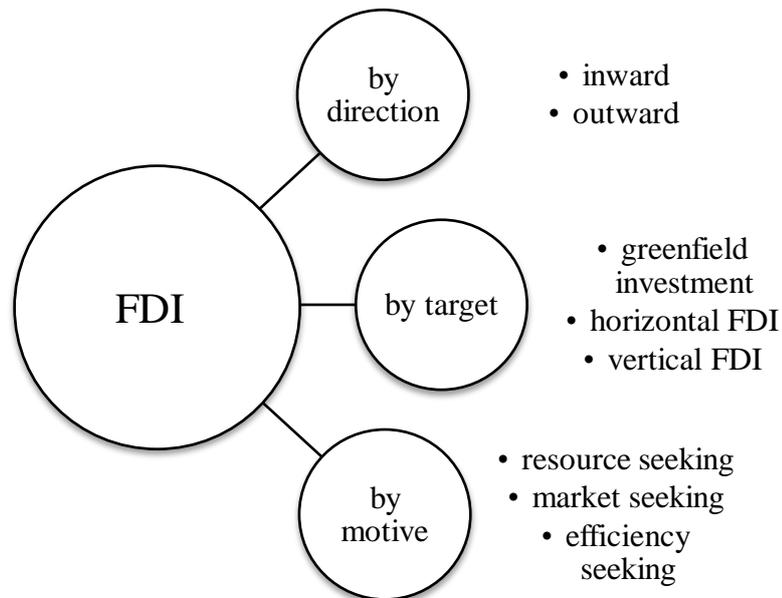
All FDIs can be subdivided into three groups. (Figure 2). The first group contains FDI that are dependent on *the direction of money flow*. Inward FDI appears when foreign capital is invested into local resources. So, in this case, in terms of the host country, inward FDI takes a

place. However, in terms of the source country the outward FDI appears. (Investopedia.com; EconomyWatch, 2010).

The second group classifies FDI according to *the target* of investing. Greenfield investment takes place when a company creates a totally new venture (start-up) abroad (Madhogaria 2011, 16). Vertical FDI happens when a company owns shares of a foreign company and locates different stages of production in different countries. In this case subsidiaries are created. Horizontal FDI takes place when companies duplicate their activities in different countries and there is no vertical integration. (Glass 2008, 1).

Finally, the third group defines FDI *by motive* of investing. There are several motives why companies are positive about investing into foreign countries. First of all, foreign investments are the tools for the new market access. It is possible that one day a company reaches such a point when costs and the amount of exports are too sizeable. In this case it might be a greater perspective if a company moves its location or production to a host country. Secondly, producers want to be closer to its customers. There is a greater chance to approach customers efficiently, understand the market and external environments if the company has its operations near the customer's location. More than that, investors wish to gain competitive advantage. In the world of globalisation and active development, it is important to understand global trends in the industry and the whole world in order to be competitive. Presence in the foreign country can help to accomplish this as well as to follow current clients. (Graham et al. 2005).

What is more, foreign investments create the realisation of scale economies. (EconomyWatch, 2010). According to Investopedia.com, economies of scale lower unit costs at the same time increasing the production. FDI makes it possible to implement economies of scale. One more motive is that investors are seeking for new resources: possible access to the cheap and skilled labour, etc. (Ilikeinvesting.com).



**FIGURE 2. Types of FDI (based on Madhogaria 2011, 15).**

### 2.1.2 Foreign Portfolio Investments

There are many benefits in investing abroad using foreign portfolio investments (FPI) or, how they are also named, international portfolio investments (IPI). However, same as with FDI, there are lots of problems and risks connected with FPI (IPI). In this part both benefits and drawbacks of FPI (IPI), as well as the motives for investing using this type of investment tools are going to be examined.

#### Motives

Being involved in foreign securities, investors can take part in *the growth of other countries*. High economic growth is usually directly connected with a growth in the country's capital market. This usually attracts investors because they can gain values several times higher than the original ones just after some years. Such a case is especially true about emerging economies that are usually involved into the rapid economic growth and consequently into the fast boost of the equity markets. (Bartram et al. 2001, 13).

Furthermore, investors can participate in *hedging consumption basket against exchange rate risk*. Of course, investors can be also considered as the consumers using goods and services. Therefore, when investors consume goods imported from abroad but do not possess any foreign securities in their portfolios, they are under the domestic inflation, foreign inflation and exchange rate risk. Similarly if investors who use foreign goods have some foreign securities

in their portfolios, they also face both types of inflations and exchange rate risk mentioned above. However, the exchange rate risk can be hedged using FPI if it is proportionally matching to investors' foreign goods consumption. (Bartram et al. 2001, 18).

More than that, investors can *accomplish diversification of portfolios* (Bartram et al. 2001). Stock market investing is considered to be a rather risky procedure. Therefore, it is always recommended to hold a well diversified portfolio in order to reduce risks. There is a commonly popular business advice "Don't pull all your eggs in one basket". It is, fore sure, appropriate in this case and perfectly supports the reasoning.

## **2.2 Advantages of investments**

Advantages of FPI and FDI for host countries and companies are going to be discussed in this chapter.

### **Foreign direct investments**

FDI is truly beneficial for both host and source companies (especially small and medium sized ones). For the host company it creates a new source of technology, products, capital or even management skills. Consequently, the host country gets a significant impulse for an economic development. (Graham et al. 2005).

In a more global context, FDI is, without any doubt, beneficial for the host country's economic growth. There are several benefits of FDI. First of all, FDI creates the *development of human capital*. Foreign companies bring their management style, knowledge and technology together with investments. Working in a foreign company, locals gain new skills and experience. When they move to other jobs or start their own enterprises, they apply new knowledge. Thus, the human capital of a host country is developing. Moreover, new skills can be also gained after the communication with suppliers and customers. Due to the fact that investments can require a certain high standard of product, new skills and technology might be needed. Therefore, workers will develop their potential accordingly.

Secondly, FDI can *increase opportunities for foreign trade* as long as trade and investments are integrated. Foreign companies often trade with new customers, parent companies or both. Furthermore, *new environmental and social benefits* can be created with the appearance of

FDI. Foreign investors are usually willing to operate at higher social and economic standards than domestic companies. Consequently, domestic companies can adopt those standards or, at least, aim at them. Moreover, *developing of enterprises strengthens the economic potential*. Sometimes this process is made with a help of greenfield investments that help to create a new economic activity and add it to the economy, consequently, modifying it. Moreover, FDI helps to develop existing enterprises. Both types of activities create additional competition that is a powerful lever for economic development.

Another benefit is connected with global *economy integration*. This means access to the wider global market. Nowadays, in the world of globalisation, it is very important to be integrated worldwide. One more benefit is the *development of export competitiveness*. Despite the fact that this benefit is defined separately, it is directly connected with increased opportunities for foreign trade and environmental and social benefits. FDI raises the quality, standards and, therefore, makes products and services more attractive and competitive for a foreign market. Furthermore, host countries can *develop the technology* with a help of FDI. For instance, developing countries can get new technology that they are lacking. This is especially important for emerging economies as they are involved in active evolving. Technological knowledge can boost the process of development.

Moreover, it is possible to *generate employment*. It is especially true about developing countries that have labour resources and need more work places. One more benefit defined is *resistance*. During the financial crises 1997-1998 FDI was quite stable in East Asian countries. In comparison portfolio investments were less resistant. It can be explained by the longer-term engagement and perspective of foreign direct investors. FDI can also *generate the government revenue*. This is true as profits made by FDI influence corporate tax revenues. The last but not the least benefit is the *development of local capital*. FDI is an external source of investment. It helps to raise the level of local capital and, consequently, creates more opportunities for development. (Evans (2002, 3); Vivek College of Commerce (2011, 18-20); Ilikeinvesting.com).

### **Foreign portfolio investments**

FPI can help to make domestic capital markets stronger. Consequently, the better allocation of capital and resources will be reached that will make the economy healthier. First of all, FPI creates the *increasing liquidity of capital markets*. According to Investopedia.com, liquidity is

“the ability to convert an asset to cash quickly”. Capital markets become more liquid which, consequently, makes the financing of investments easier. For example, new companies have a bigger chance to get the start-up capital. Long-term investments become also more attractive. Secondly, FPI produces the *know-how and discipline in domestic capital markets*. When the capital market becomes broader, investors are willing to invest more. In order to know where they have to invest in, research is needed. When investors have a better demand for investments, the level of competition is rising. Consequently, the demand for the information is increasing too. Higher level of information disclosure and accounting standards might be required. This can boost up both of these issues. Moreover, *equity market develops* with the appearance of FPI. Competing for financing, company will aim at improving their corporate governance. Capital flows will be allocated more efficiently. Furthermore, *better instruments and technology for managing portfolio* are made. Foreign portfolio investors will possibly bring new tools and knowledge of portfolio management into the host country. (Evans 2002, 2).

### **2.3 Disadvantages of investments**

Despite many benefits both FDI and FPI have also drawbacks. The following part discusses these issues in detail.

#### **Foreign direct investments**

First of all, some people say that multinational joint ventures are able to gain *enormous power over weaker economies*. So, this creates additional inequalities among countries and companies. Secondly, there can be an issue with an *exclusion of local competition*. Conglomerates created as a result of FDI can destroy local competition as foreign ventures can be more powerful than local ones. Furthermore, the *decrease of profits in domestic industries* can appear. FDI creates competition for home investments. Consequently, there is a fall in domestic profits and savings. The last drawback is connected with a *dualistic socio-economic structure*. Most of FDIs appear in urban areas. This makes a great difference between opportunities in rural and urban areas. Therefore, people from rural areas are moving to urban ones. Furthermore, FDIs can also use resources that are meant to be for priority sectors not leaving enough resources for those. Finally, FDI can increase income inequalities making more high-paid jobs available. (Graham et al. 2005).

## Foreign portfolio investments

There are several disadvantages of FPI (IPI). They are connected with risks, costs and other constraints. First of all, the *currency risk* always exists. Unexpected changes in the currency exchange rates can appear. Secondly, *country risk* can be experienced when securities are traded in the different political jurisdictions. More than that, *taxation* can be one of the constraints. Every country has its own determined rates of taxes on different returns coming from portfolio investments: dividends, interests and capital gains. Almost all countries tax their residents on portfolio investments regardless where securities were issued. However, some countries apply taxes on portfolio investment returns only when they are repatriated. Therefore, some investors prefer holding their wealth in countries called “tax heavens”, where jurisdictions are very mild. This creates lots of confusion and additional obstacles. *Foreign exchange controls* appears in the form of restrictions concerning conversion of domestic funds into foreign money. Purchases of securities are usually the first type of foreign transaction that falls under such a control. *Capital market regulations* can create some unfavourable restrictions and boundaries. Additional *transaction costs* can appear as it is more expensive to buy securities from the foreign market than from the domestic one. Furthermore, *familiarity with foreign markets* is needed. Sometimes it can be rather difficult to obtain information or transfer it into the understandable format (e.g. accounting standards might be different). More than that, the process of gathering the information can also be quite costly. (Bartram et al. 2001, 37-52).

## 3 FOREIGN INVESTMENTS IN RUSSIA

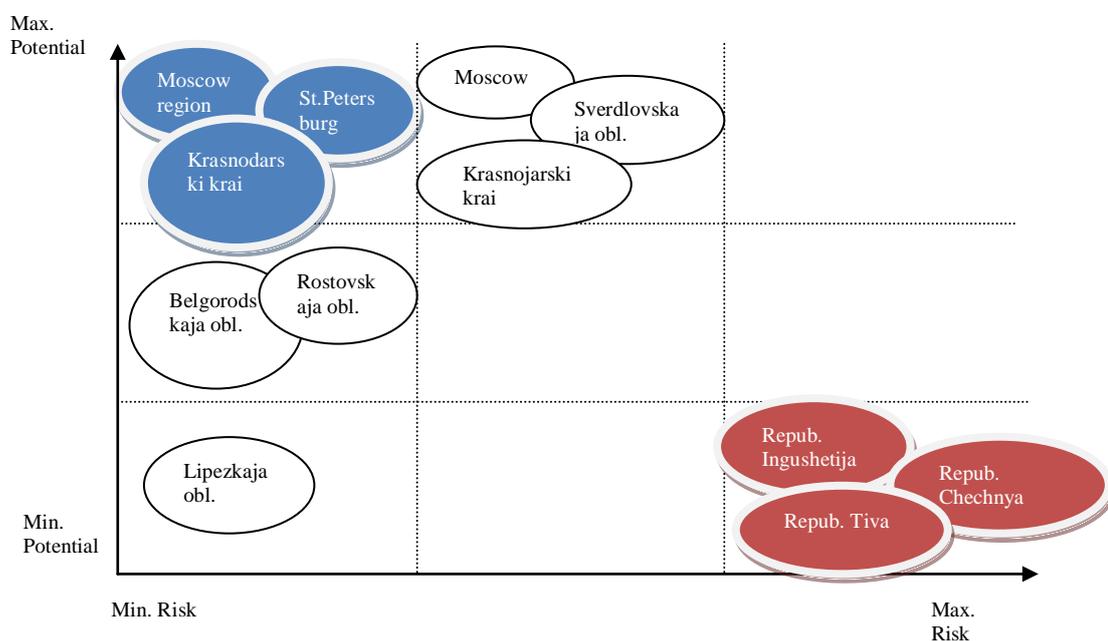
Being one of the emerging economies, Russia as a host country is, for sure, receiving multiple benefits from foreign investments. At the same time the Russian market seems to be very attractive and advantageous for countries providing investments (source countries).

This chapter discusses the geographical distribution of investments in Russia, industries that are popular for foreign investments, as well as barriers and specifics that can appear when investing in Russia.

### 3.1 Geographical distribution of investments in Russia

Geographically most of the investments are concentrated in Moscow, the Moscow region as well as the Northwest central region. However, Central and Privolgski federal districts are also developing. It is assumed that the development of China and other Asian countries will positively influence on the Finnish investments attraction to those regions that are situated near China and other Asian countries borders. (Filippov et al. 2005, 10).

“Expert RA” is a Russian expert agency responsible for ratings and statistical information. For better understanding of the geographical areas with the biggest potential, it is necessary to analyse the current information (year 2010-2011), supplied by Expert RA. Figure 3 below describes the dependence between risk and potential of some Russian regions. It clearly shows which regions have the biggest potential together with a minimum risk, as well as which regions are the least potential and possess the biggest risk. Moscow, St.Petersburg and Krasnodarski krai seems to be the regions with the biggest potential and lowest risk. In comparison republics Ingushetija, Tiva and Chechnya are the least potential areas.



**FIGURE 3. The most important Russia regions according to dependence of risk and potential (based on Expert RA 2010-2011).**

The Table 1 also demonstrates Top-10 potential Russian regions according to Expert RA 2010-2011. The leaders are Moscow, the Moscow region and St. Petersburg. Generally,

about 80% of the Finnish investments are made in the Northwest Russia. The rest is usually directed to Moscow or its surroundings (Hernesniemi 2004, 101).

**TABLE 1. Top-10 potential Russian regions (based on Expert RA 2010-2011).**

| Rating | Region                 |
|--------|------------------------|
| 1      | Moscow                 |
| 2      | Moscow region          |
| 3      | St. Petersburg         |
| 4      | Krasnodarski krai      |
| 5      | Sverdlovskaja oblast   |
| 6      | Krasnojarski krai      |
| 7      | Republic Tatarstan     |
| 8      | Samarskaja oblast      |
| 9      | Republic Bashkortostan |
| 10     | Rostovskaja oblast     |

### 3.2 Areas potential for investments in Russia

Russia has a vast majority of areas attractive for investors. Some of them are more developed and do not have so many opportunities for prospect investors, other ones are less developed and still have lots of gaps.

#### 3.2.1 Industrial sector

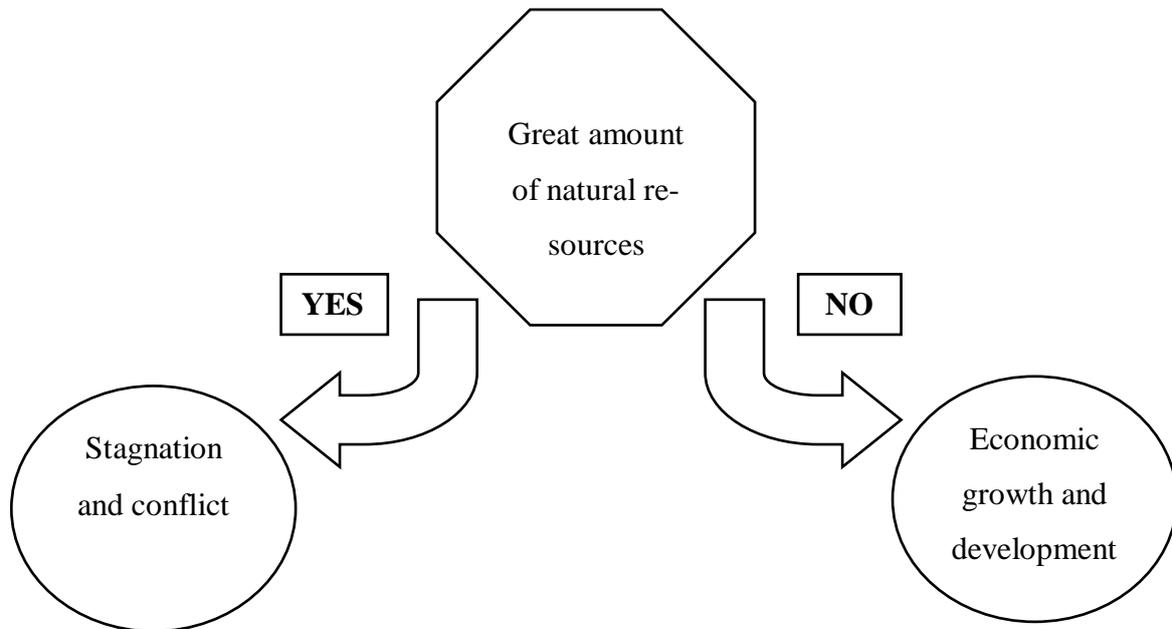
The table in the Appendix 1 describes which sectors of Russian industry are the most potential ones for foreign investments and what advantages/disadvantages they have. The energy sector seems to be the most promising one. Northwest Russia is rich with oil- and coalfields. Largest unexploited reserves of natural gas are located in the Barents and Kara Seas. It is supposed that the new pipeline to Murmansk could successfully diminish ecological risks as well as open a channel to the US market. However, the further development of the electricity and heat production requires that the current monopolies and administrative price systems will be “broken”. This can be successfully completed with a help of international companies. Talking about the forest sector and its importance in the Finnish-Russian investment relations, it is essential to mention that Northwest Russia’s reserves are approximately four times larger than the Finnish ones. Generally, the industry produces only low value-added products. However, some changes are planned. For instance, Svetogorsk paper mills and Syktyvkari pulp and pa-

per mill produce copying paper and are oriented towards the international relations. Aluminium is considered to be the most potential field of metal refining. This sector is truly developed in Northwest Russia as long as this region possesses great resources of raw materials and cheap energy. (Hernesniemi 2004, 99).

Manufacturing investments are, unfortunately, not so developed as others. There is a good explanation why. As an example, it is useful to take a look at the Finnish-Russian investment situation. Mykkänen (2010, 27) states that “the structure of Finnish investments to Russia differs sharply from the structure of foreign investments of Finnish corporations in other large markets”. Thus, most of manufacturing investments (for instance, electronics, machine building) are made in Asia, the USA, and Western Europe. The main reason why manufacturers are not so active in their investments in Russia is that they always have two choices. The first one is to export their products into the target country (in this case Russia). The second choice is to build the production plant directly in the country. Unfortunately, for now Russia can not offer any competitive advantage that would make manufacturers to choose the second option instead of the first one. Unit costs of manufacturing still remain competitive in comparison to many European countries. Despite this fact, costs rise much faster than in Europe due to the higher growth in production costs. To conclude, imports have bigger advantage for Russia than the local production. Economists characterize this situation as a *resource curse*. (Mykkänen 2010, 27).

#### *Resource curse*

There are many countries in the world that possess a great amount of natural resources, however, their economic growth is sometimes slower than in those countries that do not have so many natural resources. One of the explanations why such effect occurs refers to the inappropriate use of the income coming from the natural resources. As a result *the curse of natural resources* or *paradox of plenty* appears. (Figure 4). (Palley, 2003).



**FIGURE 4. The curse of resources (based on Palley, 2003).**

### 3.2.2 Service sector

However, not only the Russian industrial sectors but also the service sectors create great opportunities for foreign investments. The next table truly demonstrates this. (Table 2). In information and telecommunication sector there are two main areas that are growing steadily. The first one is connected with Northwest GSM that is thought to be a pioneer in the field of mobile telephony in Russia. Approximately 6.5 million mobile phones are sold in Russia every year. However, there is no production of mobile phones inside the country. The second area is software development. There is a great potential in license manufacturing that, nevertheless, requires a developed chain of subcontractors. (Hernesniemi 2004, 99-100).

Retail and construction promise the greatest opportunities for foreign investments. As long as the oil dollar-price appreciates, the Russian consumption growth will be higher than in most developed countries. During the Soviet Union times the service sector was not truly developed, therefore, there are plenty of opportunities for foreign investors to fill the gaps. The governmental control is quite loose in the service sector in comparison to others: the Russian state seems to be positive enough about foreign dominance. Moreover, retail, construction and services do not face competition appearing from imports. Thus, the market is quite open for development and new offers. (Mykkänen 2010, 27).

**TABLE 2. Service sectors potential for foreign investments (based on Filippov 2005, 163-180; Hernesniemi 2004, 102; Mykkänen 2010, 27 ).**

| <b>Sector</b>  | <b>Favourable aspects</b>   | <b>Unfavourable aspects</b>  |
|--|---|--|
| <i>Transport sector</i>  | <ul style="list-style-type: none"> <li>-Lots of opportunities connected with a limited power of specialized transshipments</li> <li>-Opportunities in building or modernisation of thoroughfares</li> </ul>                   | Many segments of transport sector are still closed for investors. However, if they become open, it is going to create lots of opportunities.   |
| <i>Telecommunications and information technology</i>   | <ul style="list-style-type: none"> <li>-Internal market is not fully developed</li> <li>-Qualified work force</li> <li>-Developed infrastructure of electronic industry</li> </ul>  | <ul style="list-style-type: none"> <li>-There are obstacles connected with customs regulations and the difference between technical standards of EU and Russia. However, they are temporal.</li> <li>-Lack of suitable subcontractors</li> </ul> |
| <i>Trade and catering</i>  | <ul style="list-style-type: none"> <li>-Market is big and has stable growth (consumption growth)</li> <li>-People expect better quality</li> <li>-Loose governmental control</li> <li>-No competition from imports</li> </ul> | <ul style="list-style-type: none"> <li>-Local consumers might have different preferences concerning food</li> <li>-High competition</li> </ul>   |
| <i>Other segments of service industry (financial services, insurance, media, science projects, etc.)</i> | <ul style="list-style-type: none"> <li>-Big demand of population</li> </ul>   | <ul style="list-style-type: none"> <li>-Limitations connected with legislation and secrecy.</li> </ul>   |

It is important to notice that the most popular service sector is the building one. Foreign investments in the Russian building sector are mostly connected with companies investing to other sectors: building their own factories and other building objects, they prefer using familiar foreign building companies. Such companies are not really limited with completing only one project, so often they continue, supplying Russian and foreign companies with their services. In this case joint ventures are created and 100% subsidiaries are opened. Favourable aspects are connected with a growing demand on the high quality houses and apartments, as well as improving conditions of mortgage lending. (Filippov et al. 2005, 142-180).

### 3.3 Main specifics, tendencies and barriers of investments in Russia

There are several specifics and tendencies that appear when foreigners invest in Russia. The first tendency is that investing in Russia is the most efficient when the investor controls the whole company. This is possible in two ways: either building a new factory (this is a risky way but helps to implement all ideas) or buying a control packet of shares from the existing company (a limited but more safe way). Moreover, joint ventures with Russian companies are rarely successful. This can be explained by usually unpredictable actions of the Russian partner. The development of supply chains is becoming a crucial factor for new investors: companies have to use either foreign contractors or form the local supply chain from the start. Russian SMEs develop but not so fast. However, at the same time this specific opens new opportunities for foreign investors. (Filippov 2005, 163-164).

However, there are also factors that make investors especially cautious about Russia. First of all, it is the strict governmental control and regulations. (Filippov 2005, 163-164). More than that, the lack of infrastructure creates the limitations in accessing valuable industrial cities. Another issue is that it is really hard to sell old Russian companies to investors. Reasons are lying in the burden of employment and social obligations, environmental risks and outdated technology. Finally, all attempts to make an investment protection agreement failed. Such measures must be taken in order for foreign investors to be guaranteed the profit repatriation and be treated at the same level as Russian companies. (Hernesniemi 2004, 102).

Liuhto et al. (2004, 65) note that according to Business Monitoring Survey 2003 (among investors in Russia) the most frequently mentioned barriers for foreign investments in Russia were:

- Inefficient bureaucracy
- Corruption
- Unsatisfactory work of customs and customs legislation
- Poor work of courts

Some other factors include:

- Tax legislation
- Problems with infrastructure
- Competition
- Corporate governance

- Scanty protection of intellectual property rights
- Inefficient functioning of the banking system
- Lack of International Accounting Standards.

## **4 FINNISH INVESTMENTS IN RUSSIA**

Before making my own research and conclusions about gaps and opportunities of Finnish-Russian investments, it is necessary to deepen into the Finnish-Russian investment history and, on the basis of previous research, understand why these relations are not so fully developed.

### **4.1 Prerequisites of Finnish investment activities in Russia**

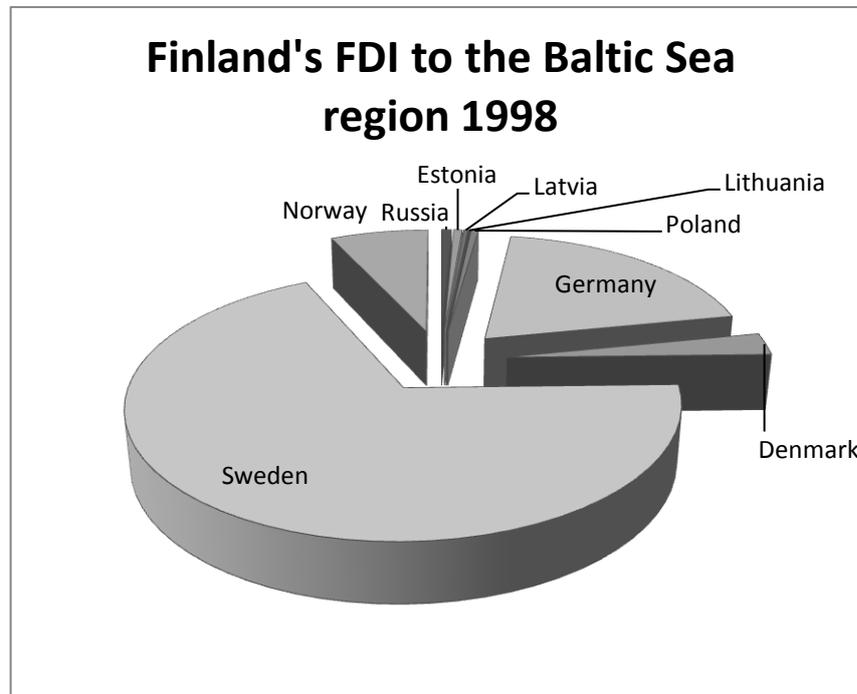
According to Simola and Ollus (2006, 71) the Finnish-Russian investment history was mostly started after 1990. During those years Finnish companies were actively engaged into investments. Rautio and Tykkiläinen (2000, 17) state that Finland had positively experienced Finnish-Soviet trade by 1990. The Finnish companies had already gained enriched knowledge of the Russian market and, therefore, the investment opportunity looked quite bright. More than that, the economic crises created additional motivation for Finnish companies to explore new markets. However, Finland was still mostly concentrated on trade rather than investments. The trade statistics of 1997 show that Finland was rated among 10 biggest trade partners of Russia, but not investors. (Hirvensalo 1999,1).

Rautio and Tykkiläinen (2000, 18) also mention that there are several reasons that describe in a sensible way why Finnish companies were so carefully with investments in Russia:

- In 1995 Finland joined the European Union that made it easier to access the main European markets.
- The most growing industrial sector in Finland (telecommunications) had the biggest markets in Asia, Europe and the USA.
- Most internationally operating companies in Finland preferred less risky and more stable markets than Russia. (Komulainen & Taro 1999, 5).

Talking about FDI, it is vital to notice that there are such factors as size, instability, legacy and culture that, for sure, influenced Finnish FDI to Russia (Rautio & Tykkiläinen 2000, 18).

According to the Bank of Finland analysis conducted in 1999 such Baltic countries as Germany, Sweden and Norway got the biggest shares of FDI from Finland in 1998. (Figure 5).



**FIGURE 5. Finland's FDI to the Baltic Sea region 1998 (based on bank of Finland 1999).**

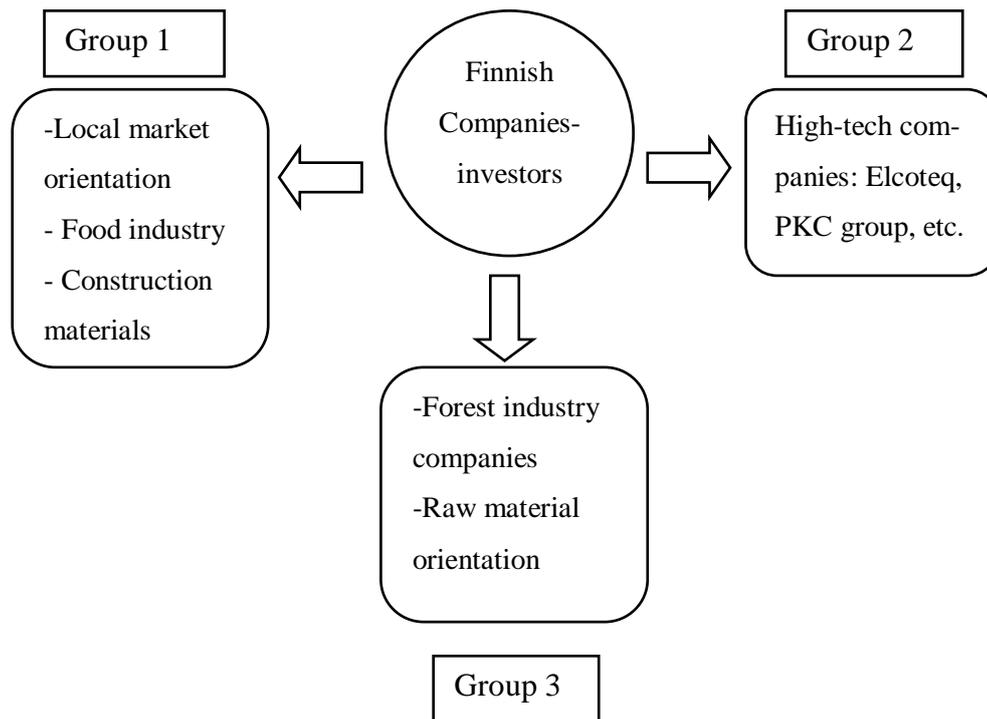
Finnish investors were extremely careful with Russia (0, 7% of FDI to the Baltic Sea region). For instance, Estonia, with its small population, received almost the same share as Russia in 1998 (Rautio & Tykkiläinen 2000, 19).

Foreign investments in the Russian economy have grown rapidly: from 1998 to 2004 the amount had tripled. According to the Bank of Finland, direct investments of Finnish companies to the Russian economy in 2004 accounted for 499 million euros, ie 0, 85% of all foreign direct investments coming from Finland abroad (though, in 1999 almost the same share of investments accounted only among the Baltic Sea region). Investments can be considered as *direct investments* when several conditions are fulfilled: the share is at least 10%, and the investment is made directly from Finland. More than that, the profit that is reinvested in the firm's development can be also considered as a *direct investment*. According to the information, in 2005 Finland was on the 12th place. However, judging by the amount of investments per capita, Finland was among top 3 belonging to the developed western countries. The initial

share of investments is usually not so big. However, it is improving with time. (Filippov et al 2005, 10).

#### 4.2 Types of Finnish companies-investors

Finnish companies-investors can be conditionally subdivided into three groups. (Figure 6). (Filippov et al 2005, 10).



**FIGURE 6. Types of Finnish companies-investors (based on Filippov et al. 2005, 10).**

For a better analysis and understanding, it is necessary to take a look at some examples of each group:

##### *Group 1: Food industry as an example*

In 2004 Raisio (an international expert in plant-based nutrition) opened its first production plant in Russia. The operations together with the employees were transferred from Sweden in order to start producing Voimix and Dolina Skandi margarines. According to Kari K rkk , the director of Raisio’s International Operations, it was not profitable to continue with exporting, therefore, they decided to close the plant in Sweden and move to Russia for the better market presence. By 2004 Rasio had gained 10% of margarine market. However, not all

market segments were involved into Rasio's operation. So, there was a ground for growth. At the same time the Western Europe margarine market did not show any signals of growth. Therefore, the Russian market created new possibilities and hopes for Rasio. (FoodProductiondaily.com, 2004).

In 2006 Rasio decided to expand its food production in the Russian fast growing market even more. The joint venture with OOO UK Zolotoi Kolos was established. As a result of this cooperation Rasio got share of 75%. It was agreed to build the oat meal plant to Burunduki, Tatarstan. The Russian oat meal market had an annual growth of 10% that looked quite optimistic for Rasio's operations. Therefore, the strategic development of Rasio was directly connected with the oat meal plant investments. (Compiler Trade Portal, 2006).

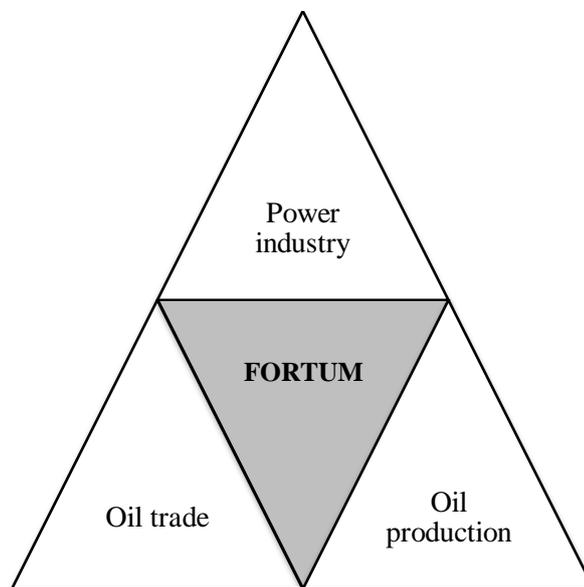
According to the recent information obtained from a phone talk with a representative of Rasio, the company does not possess any investments in Russia anymore. Unfortunately, the reasons were not named.

#### *Group 2: Technological investments as an example*

In May 2010 two parties (Finnish Industry Investment Ltd. and Russian Corporation of Nanotechnologies) signed an agreement for a new Finno-Russian nanotechnology project (Nanotechnology Innovation Alliance). The main purpose of the project was to invest 50 millions euros in growing international nanotechnology companies originally coming from both Russia and Finland. According to Juha Marjosola, Industry Investment's President & CEO, both Finland and Russia have a top-level expertise that will produce a globally competitive technology. In 2011 a survey revealing companies that could be potential for the project was conducted. It was decided to pick those companies that were focused on the international growth, for instance, Optogan located in Espoo and financed to build LED lightning plant in St. Petersburg. Nanotechnology Innovation Alliance is a part of the bigger programme belonging to the Ministry of Foreign Affairs. That programme is aimed at the cooperation of international corporations, innovative companies and universities. The result could be shown, for instance, in the creation of new companies and jobs. (Industry investment 2010).

*Group 3: Raw material orientation as an example*

Fortum, as one of the biggest investors in Russia, can be a good example of the raw material orientation. This company makes its investment activities in several key areas at the same time. The figure below clearly shows what those areas are. (Figure 7). By 2005 all investment projects of this company were implemented in the Northwest Russia. Talking about financial investments, during several years Fortum owned around 30% of Lenenergo's shares (one of the biggest distribution power companies in Russia). However, according to Marina Balabanova, a representative of Fortum, in 2007 it was decided to sell the shares explaining that it was more beneficial for a company to own generating assets (Grishkovez 2007). In future Fortum is going to continue developing its operations in the same region in the wake of the continuous energy reform as well as the development of new oil and gas fields. The same conditions are favourable for the Finnish producers of power equipment: new markets are opening for them, and they are going to have a great possibility for their own investment projects. In 2005 the oil assets of Fortum (50% of SeverTek's shares ) as well as its gasoline station chain and transport terminal in St.Petersburg were passed into the ownership of Neste Oil (Fortum's subsidiary). However, in 2005 Neste Oil sold its shares to Lukoil. (Filippov P. et al. 2005, 139).



**FIGURE 7. Investment areas of Fortum in Russia (based on Filippov et al. 2005).**

## 5 RESEARCH PROCESS

The chapter discusses theories of the research process and ways of data collection. Research design is considered to be a logical plan that defines objectives, specifies methodology and techniques that can be used for achieving the objectives. However, the research design can not be regarded as a specific or precise plan. Instead it represents guidelines with outlined main points. Various modifications can always be made as the research process develops and new needs or circumstances appear. (Krishnaswami et al. 2010, 40-41). First of all, it is necessary to set the problem and clearly identify the reasons for research. After objectives, aims and the research subject can be generated. Finally, these steps can help to understand what type of data must be collected and which methods have to be used for this. (Walliman 2011, 29-30).

### 5.1 Types of data

There are two main types of data: primary and secondary. These two types vary depending on the data closeness to the event. *Primary data* is based on the original findings (directly observed, recorded or experienced). This type of data is the most reliable one and, without any doubt, beneficial for the research. However, the data collection process might be really time and resource consuming. Moreover, it is not always possible to gather such a type of data (for example, in terms of historical events that took place a long time ago). *Secondary data* is the data that have been already interpreted or recorded. This type of information can be taken from the secondary resources. Examples of such resources can be books, newspapers, magazines, advertisements, etc. In comparison to the primary data, the secondary data is already represented and analysed. However, not all secondary sources can possess the same level of reliability. Therefore, secondary data have to be always checked on accuracy, quality and validity. (Walliman 2011, 69-71).

In order to complete the objectives and answer research questions both types of data are decided to be used as long as all research questions cannot be completed using only one type of data. In terms of primary data the qualitative approach is the most suitable one. This type of approach has been chosen for its descriptive characteristics that are the most important for defining attitudes and expectations.

## 5.2 Data collection

The primary data can be gathered with a help of two types of research: qualitative research and quantitative research. The *qualitative research* is related to the exploratory type of gathering the information. Qualitative data can not be measured with full accuracy and can be characterized as descriptive. Some typical examples of qualitative data include interview transcripts, minutes of meeting, historical records, etc. (Walliman 2011, 73). The qualitative approach is based on attitudes, opinions, behaviour and so on. Findings can be mainly gained from group discussions, interviews projective techniques and similar methods. In comparison to qualitative research, *quantitative research* is based on the numerical data. Statistical tools are usually used in order to draw conclusions. (Krishnaswami 2010, 6-7). One of the benefits is that quantitative data can be considered as the more or less accurate one. Some quantitative data is initially expressed in numbers (e.g. population statistics), other data can be easily converted into the numerical values (e.g. if the number of various responses in questionnaire can be easily counted).

### 5.2.1 Primary data collection

Primary data is going to help gathering and analysing the information about Finnish investors' attitudes and expectations concerning investments in Russia. In order to accomplish this aim the interviews have been chosen as a researching tool. Interviews can help to study people's experiences from their own points of view or their knowledge. There are three main types of interviews: structured and standardized; guided and semi-structured; unstructured, informal, open and narrative interviews. Performing *structured and standardized interviews*, it is necessary to follow the plan and preconceived questions for all participants. Such a method allows comparing answers obtained and arriving at a conclusion in a more systematic way. Usually such interviews mostly contain "what" questions. *Guided and semi-structured interviews* are quite similar to the first type. Responses obtained can give quite systematic information to the researcher. However, the interview is usually less formal and more conversational in comparison to the first type. In this case the interview is based on prepared topics and themes rather than a plan. Such interviews usually contain both "what" and "how" questions. *Unstructured, informal, open and narrative interviews* are based on guiding questions and core concepts. However, there is no concrete plan or interview protocol. The conversation can be moved in any direction and deepen as much as it should be. This type of interview contains both "what" and "how" questions. (Eriksson et al. 2008, 78-83).

In this research structured and standardized interviews are chosen to be used as this type of interviews allows comparing the information in a more structured way. The interview framework used is mentioned in Appendix 3. In the beginning five interviews (with all current Finnish investors in the Russian food and drink industry) were planned to be conducted. However, it did not go as it was planned. Companies were not really willing to help naming three reasons: questions are too general, questions are too specific (answers can reveal information about the core business area of the company), and a company does not have any abilities to help a student with a research. The first two reasons are contradictive and very surprising. As a result two interviews were obtained on different days during March. Answers were in compliance with preliminary expectations and assumptions. The first interview was conducted with a communications manager from one of the biggest meat producing companies in Finland (Company X). The second interview was made with a representative of one of the biggest confectionary companies in Finland (Company Y).

Even though structured and standardized interviews were chosen for the research, some changes had to be made during the interviewing process. For instance, Question 1 was appropriate for the first interview as there is a truly wide range of meat products and it was interesting to know if there were some concrete products to produce in Russia. However, the situation with the second company was different. Their main products are confectionary and bakery goods. These categories are not as specific as the meat product category. Therefore, it was not really appropriate to ask about the concrete type of product that was more appealing to produce in Russia.

### **5.2.2 Secondary data collection**

During this work multiple secondary resources such as books, magazines, publications, electronic articles and web-pages were analysed. The secondary data collection helped to gather the necessary knowledge in the theories of international investments as well as to define current and potential Finnish investors in the food and drink industry. The secondary data has a significant importance for the research conducted as the detailed analyses of the industry and variable statistical information are essential. Such a huge amount of information cannot be gathered only with a help of primary data. As it was mentioned before the secondary data is already analysed and represented in the understandable format that makes it easy to work with it. Of course there is always a danger that the source is not reliable or up-to-date. Therefore,

during this research I was trying to analyse critically the information I chose and pick the newest data and the most reliable sources.

### **5.3 Data analyses and interpretation**

After various data was collected, the data analyses and interpretation process was started. Qualitative data analysis consists of three main stages: Noticing, Collecting and Thinking. During the first and the second stage, the interesting issues in data are noticed and collected. During the third stage, they are examined. This process helps to answer research questions set before the study. (Seidel 1998, 3-5).

#### **5.3.1 Defining current investors**

The method used for defining current Finnish investors in Russia is fully connected with desk studies conducted. The list of current Finnish investors in Russia was created with a help of secondary data gathered from articles, publications, books and web-pages. The second research question was easy to answer. However, it has obviously some limitations. First of all, it is understandable that it cannot be proved that the list of investors defined is the full one and contains the information about all current investors. More than that, data deterioration must be also taken into the account: the international business environment is developing extremely fast. Therefore, every single case identified must have been rechecked in accordance with the latest resources. Even though, the list of the current Finnish investors in Russia cannot fully represent the situation, it is, for sure, beneficial for further research concerning potential investors.

#### **5.3.2 Defining potential investors**

Particular steps were considered during the process of analysing the Finnish food and drink industry and its potential investors in Russia. The plan consisting of seven steps was complied on the bases of the theoretical background studied before:

- STEP 1: Defining potential industry or sector

During this step a researcher is choosing the industry where he or she wishes to identify potential investors.

- STEP 2: Analysing the chosen industry

During this step a researcher analyses benefits and drawbacks of the chosen industry for investors

- STEP 3: Analysing current investors and their reasons for investing

During this step a researcher analyses the list of current investors that he or she was able to identify. The main concentration must be made on the reasons for investing and what might attract the potential investors (for example, consumption or market growth)

- STEP 4: Defining issues that might attract potential investors according to Step 2 and Step 3

During this step a researcher summarizes the findings of Step 3 and Step 4.

- STEP 5: Analysing source country potential investors (their local and foreign operations)

This step requires preliminary selection of potential investors. The preliminary list might be made using all companies (not investing to the host country chosen) in the observable industry of the source country. After the list is made, the detailed analysis concerning local and foreign operations must be done (for example, what companies produce, do they present somehow in the host country, etc.)

- STEP 6: Checking the conformity of chosen investors with issues defined in the Step 4

During this step the researcher might correct his or her preliminary list with a help of issues defined in Step 4

- STEP 7: Making the final list of potential investors

During this step a researcher can summarize all the findings and prepare the final list that is ready for presenting.

## **6 RESULTS: FINNISH INVESTORS IN THE RUSSIAN FOOD MARKET**

In this part of the study research questions set initially are going to be answered in order to accomplish the final objective of the research.

### **6.1 Secondary data results**

First of all, the results of the secondary data analyses are presented. They include the list of current Finnish investors, the portrait of the potential investor in the Russian food and drink industry, the analysis of the main food and drink markets in Russia, as well as the list of Finnish potential investors.

### 6.1.1 Current Finnish investors

In order to define Finnish potential investors in the Russian food and drink industry, it is necessary to analyse the current Finnish investors. Knowing who currently invests makes it possible to create the portrait of the Finnish potential investor in the Russian food and drink industry. So, the first step is to make the list of current investors based on the desk studies. (Table 3).

**TABLE 3. Current Finnish investors in the Russian food and drink industry.**

|                           | <b>Company</b>       | <b>Products</b>                          | <b>Production plants</b>        |
|---------------------------|----------------------|--|---------------------------------|
| <b>Foodstuff industry</b> | <i>Fazer</i>         | Meals, bakery products, confectionery    | Plants in St.Petersburg, Moscow |
|                           | <i>Gustav Paulig</i> | Coffee roasting                          | Plant in Tver (Moscow region)   |
|                           | <i>Atria</i>         | Meat, meat products and convenience food | Plant in St.Petersburg, Moscow  |
|                           | <i>Valio</i>         | Cheese products                          | Plant in Ershovo, Moscow region |
|                           | <i>Myllyn Paras</i>  | Flakes and porridges                     | Moscow region                   |

### 6.1.2 Portrait of the potential investor

In order to identify the portrait of the potential investor in the Russian food and drink industry, the current Finnish investors in Russia must be analysed. The following issues were taken into account:

- Size of the companies
- Foreign investments

#### *Size of the companies*

It is important to understand the size of companies currently investing in the Russian food and drink industry. Such information can give background information for further analyses of potential investors.

**TABLE 4. Definition of SME (based on EU recommendation 2003)**

| Company category | Employees | Turnover/Balance sheet total<br>in euros |
|------------------|-----------|--|
| Medium-sized     | <250      | ≤ 50 m./ ≤ 43 m.                         |
| Small            | <50       | ≤ 10 m./ ≤ 10 m.                         |
| Micro            | <10       | ≤ 2 m./ ≤ 2 m.                           |

According to the EU recommendation, companies can be categorized by size in compliance with the number of employees, turnover or balance sheet total. The table above (Table 4) summarizes the information. In terms of companies that are the part of the bigger group the data from the grouping must be included.

**TABLE 5. Analysis of the current investors' sizes (based on FinnFacts 2010; Myllyn Paras 2011)**

| Company              | Employees      | Turnover/Balance sheet<br>total in euros | Size         |
|----------------------|----------------|--|--------------|
| <i>Fazer</i>         | 15 800         | Turnover: 1 160 m.                       | Large        |
| <i>Gustav Paulig</i> | 1 800          | Turnover: 698 m.                         | Large        |
| <i>Atria</i>         | 6 100          | Turnover: 1 400 m.                       | Large        |
| <i>Valio</i>         | 4 400          | Turnover: 1 787 m.                       | Large        |
| <i>Myllyn Paras</i>  | A bit over 100 | Turnover: 46.5 m.                        | Medium-sized |

As it can be seen the majority of companies currently investing in the Russian food and drink industry are large companies (except Myllyn Paras that is a medium-sized company). However, the turnover of Myllyn Paras was accounted to 46.5 millions euros. This gives good prerequisites for Myllyn Paras to become a large company in future. (Table 5).

### Foreign investments

The rich foreign investment history of a company plays a crucial role in the foreign investment potential. Multiple investments abroad allow judging that the company had enough resources for investing and still have resources for the support of investments. All five companies mentioned above have a good investment history (usually investing in more than one country).

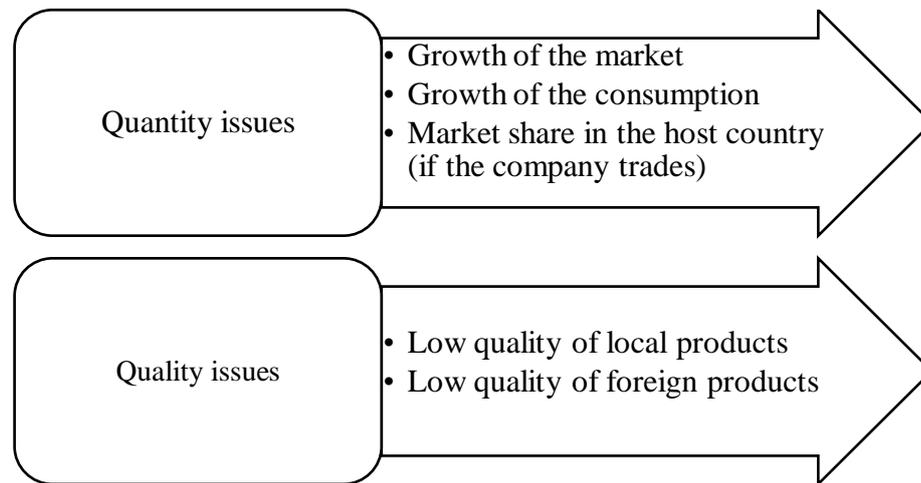
### 6.1.3 Analysis of the main food and drink markets in Russia

In order to understand which food and drink markets can be potentially attractive for investors, it is necessary to analyse incentives for investing in Russian food and drink market. As it has been discussed before there are several incentives that can influence the decisions to invest in Russia. Food industry investments abroad are usually made in a form of local market presence: food producers are trying to be closer to their customers building production plants near the desired locations – this has been already illustrated by the example of Finnish company Raisio that has moved its operations from Sweden to Russia. Another way that is common in this industry is to create joint ventures/subsidiaries in a host country. This can also result in a production plant building, however, with a smaller amount of expenses.

Earlier in this work the reasons for investing in different Russian industries have been discussed. Here is the summary of the main incentives related to positive decisions on the Russian food industry investments. (Table 2, Appendix 1):

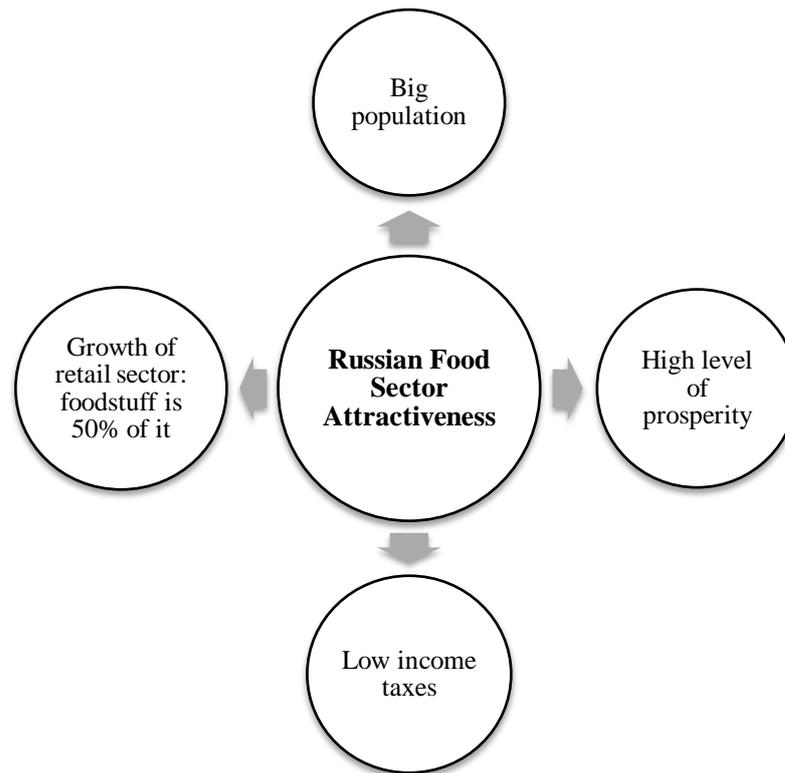
- Fast growth of the food market, stable consumption growth
- Big internal market
- People are always looking for a better quality
- Loose governmental control
- No competition on imports/small competition on imports

Therefore, potential investors can be attracted by quantity issues (growth of the food market, consumption) and quality issues (low quality of local products and ones that come from abroad). When defining Finnish potential investors in Russian food and drink industry, the following factors are going to be taken into account. (Figure 8):



**FIGURE 8. Incentives for investing in the food and drink industry**

According to Liam Halligan, the head economist at Prosperity Capital Management, there are several reasons that make Russia attractive for investing in the food industry. First of all, Russia has a population of about 142 million. Secondly, the level of prosperity is quite high in Russia (in comparison to other emerging markets e.g. China and India): average annual income is 8500 EUR. Thirdly, the income taxes are very low. Finally, houses loans are not so popular in Russia. Therefore, Russians do have money to spend. The retail sector is growing constantly (annual growth rate is about 5%). This makes a good prerequisite for Russia to become the largest retail country in Europe. At the same time, food represents around 50% of the whole retail sector. Therefore, investments in the food manufacturing can be truly beneficial for Finland. (Figure 9). (Helsingin Sanomat 2011).



**FIGURE 9. Russian food sector attractiveness (based on Helsinging Sanomat 2011).**

### **Growth/decline of the food and beverage market in Russia**

There are very optimistic projections about the growth of the Russian food market. In 2009 the food retail market was valued to be equal to 225 billion dollars and it is expected to grow by 20.5 percent compounded annual growth rate since 2009 till 2013. Moreover, by 2015 Russia is projected to be one of the biggest foodstuff markets in the world. (Exporter Guide 2011, 3-4). Many Russian consumer markets are far behind other European markets in terms of consumption (except milk consumption). Therefore, this creates a rich background for the growth of the Russian food and drinks market. (Kuzmenko 2012). Further in this part the Russian food and beverage market is going to be described according to the main product categories and to summarize the important trends and findings in the Table 6.

**TABLE 6. Summary of the main Russian food and beverage market trends**

| Market                             | Main trends  |
|------------------------------------|--|
| Chocolate market                   | <ul style="list-style-type: none"> <li>• Cheap and standard categories gain growth (10-15% in volume)</li> <li>• Projected overall market decline 7.7%</li> </ul>  |
| Bread market                       | <ul style="list-style-type: none"> <li>• Market volume growth 1% in 2011</li> <li>• Foreign share increase 0.18% in 2012</li> <li>• Increase of retail sales 8.5% in 2011</li> </ul>   |
| Meat processing market             | <ul style="list-style-type: none"> <li>• Increased demand for cheap sausage products</li> <li>• Market volume growth in 2009 – 2%</li> </ul>   |
| Milk products market               | <ul style="list-style-type: none"> <li>• Market volume growth 4-6% till 2015</li> <li>• High loyalty of customers</li> </ul>   |
| Hot drinks market                  | <ul style="list-style-type: none"> <li>• Quality plays a crucial role: price does not affect the demand too much</li> <li>• Premium tea market growth 7%</li> <li>• Coffee market growth following years (2-4%)</li> <li>• Market is dominated by foreign suppliers</li> </ul> |
| Bottled drinking and mineral water | <ul style="list-style-type: none"> <li>• One of the promising consumer markets: need for drinking water</li> <li>• Market volume growth-3% till 2013</li> <li>• Premium category has a great potential</li> </ul>  |

### *Russian chocolate market*

The financial crisis has, for sure, affected the Russian chocolate market. Expensive premium chocolate brands were involved in an especially difficult situation as cheap and standard categories became more popular and gained the growth of around 10-15% in volume. Consequently, large players moved their targets to the production of more standard cheaper products. As a result the competition level has risen. However, the financial crisis is not the only problem affecting the Russian chocolate market. Another reason is placed on the international level. Thus, there is a projected decline of the cacao beans supply worldwide. Experts say that the decrease will reach 7.7% next year and, without any doubt, affect all chocolate manufacturers. The Russian chocolate market has five key international manufacturers that have gained strong positions and around 70% share of the market. These companies are: “Nestle”, “Kraft Foods”, “Mars”, “Ferrero”, “Obiedinenye Konditery (United Confectioners)”. Some brands tried to fight with the current situation in the Russian chocolate market by reducing the

tablet size in order to move from the standard category to more economic one. However, according to the research holding "Romir" analysing the current situation of the Russian chocolate market, chocolate consumers prefer traditional sizes of chocolate tablets or boxed chocolates. Therefore, the plan was not really successful. (Dolgih 2012).

#### *Russian bread market*

In comparison to other food markets, the bread market has an enormous governmental control. This can be explained by an everyday necessity of bread. Therefore, the Russian bread market usually shows stability and predictability. From 2007 to 2010 the Russian bread market was showing a slight decrease. However, in 2011 the 1% volume increase appeared and indicated the positive dynamics. The Russian bread market is mostly occupied by domestic products. The share of foreign products varies from 0.11% to 0.15%. However, the Russian presence in WTO is going to change the situation: the foreign share is expected to reach 0.18% in 2012. In 2011 there was an increase in the retail sales of bread and bakery products. It accounted for 8.5%. There are two main customer criteria for choosing bread. The first and the most important one is freshness. The second one is price and brand. (Jashin 2012).

#### *Russian meat processing market*

The meat market is considered to be one of the most important consumer markets in Russia. Since 2006 the market growth has been increasing by 5-6% annually. However, in 2009 the market volume growth was just 2%. The explanation lays most likely in the decline of imports. (Maslennikova 2011). Sausage products are considered to be the main type of meat processing industry production. In 2008 the sausage market growth in value was 30.6% that is 7.5% more than in 2007. This can be explained by the price growth. However, the market volume in volume reached only 3.6 % growth, that is 2% less than in 2007. (RBK 2009). After the 2009 recession the market showed an increased demand for cheap sausage products. Most of the sausage production plants are situated in Moscow and the Moscow region. This can be explained by the higher level of prosperity and density of the population. (Sharova 2012).

### *Russian dairy products market*

The Russian dairy products market has a positive growth tendency (4-6%) till 2015 despite the existing high level of consumption. In value the market is considered to grow by 5-7%. It is supposed that the consumption level will grow by 6-8% in 2012. At the same time prices will increase by 8-10%. Russian consumers have a high loyalty to dairy products consumption. Therefore, it will be showing positive growing tendencies. Some experts think that the market growth will be reached with a help of yoghurts and desserts. Others feel that the consumption of yoghurts and desserts has already reached its maximum and the market growth will be accomplished by the increase in consumption of milk, butter, cheese, sour cream (smetana) and kefir. (Kuzmenko 2012).

### *Russian hot drinks market*

In 2011 the sales growth of *coffee* was counted to 26%. During the last few years the coffee prices have increased dramatically. One of the reasons is the poor harvest of coffee in the coffee growing countries. Another reason is considered to be caused by the enormous demand of coffee all over the world. In Russia the coffee prices increased by 22%. Even though the price increase was quite high, it did not affect anyhow on the market volume: coffee became the every day necessity and can not be substituted by anything for some people. International players control most of the Russian coffee market. Three main international coffee manufacturers (“Nestle Russia”, “Kraft Foods Rus” and “TchiboFrisch-Rost-Kaffee GmbH”) control over 50% of the coffee sales in Russia. Two main events that happened in 2011 were connected with the start of two new production plants. One facility was built by Nestle, another one was built by Paulig. It is really hard to predict the cut of expenses for these two companies. However, it is clear that the production plant building will positively affect their operations in the Russian market and strengthen the presence. (Grebinsky 2012). It is assumed that the development of Russian coffee market has almost come to the end and in the following years it will grow with a minimum tempo (2-4% annually). In comparison to developed European countries where the consumption reaches 5-6 kg average per capita, it is 700-750 g in Russia. Finland has an enormous result – 12 kg. Even though the development of the coffee market is considered to be finished, there is a great opportunity in transferring from economical products to premium ones (Kuzmenko 2012). *Tea* is considered to be a traditional drink in Russia. It can be estimated that about 100% of the Russian consumers drink tea. In 2011 the tea sales growth is accounted to be about 7%. The Russian tea market is considered to be ma-

ture. After the recession, consumers tend to show interest in high quality products. This is also fair for the tea market: the premium tea category showed a 7% growth. It is assumed that the competition will be shifted to non-price methods. This should make companies, willing to be strong players, show that they are able to provide high quality and standards for their customers. (Grebinsky 2012).

#### *Russian market of bottled drinking and mineral water*

Poor tap water quality and aspiration for health boost the demand for bottled drinking and mineral water in Russia. During the last years the Russian market of soft drinks established a reputation of the largest one in Easter Europe. At the same time the consumption of soft drinks in Russia is the lowest comparing to other European countries. All this creates good prerequisites for the bottled drinking and mineral water market that looks really optimistic. Last year the observed market has shown an enormous growth in value (about 20% per year). Thus, the marker of bottled drinking and mineral water is considered to be one of the most promising consumer markets. Of course recession affected the market. However, changes were not as dramatic as in other markets. In 2012 the positive dynamics appeared again. The market volume growth is considered to be 3% and the market value growth is assumed to be 2% till 2013. The premium category seems to remain underdeveloped and there is a great potential in it. The group of most active foreign suppliers include France, Italy, the Netherlands, Poland, Slovenia, Germany, Ukraine and Armenia. (Volkova 2012).

#### **Growth of the consumption in Russia**

It is quite obvious that potential investors are going to be attracted by the markets where there is enough demand. Therefore, the consumption statistics play a crucial role for decisions concerning investments abroad. For instance, Valio planned to install a new cheese slicing machine for its plant that is located near Moscow. One of the reasons to make such a decision was that there is an annual growth of 30-40% in sliced cheese. There is also a great concern for Valio as it was estimated that in 2018 the Russian population will consume 7.5-9 kilos of sliced cheese per capita. (Helsingin Sanomat 2011). As it can be noticed consumption statistics is very essential for defining the potential.

**TABLE 7. Food consumption per capita 2006-2010: the biggest sectors of food industry (based on [www.gks.ru](http://www.gks.ru); Gmurova 2011)**

| Sector                 | 2006 (kg per capita) | 2007 (kg per capita) | 2008 (kg per capita) | 2009 (kg per capita) | 2010(kg per capita) | 2006-2010 Growth % | 2009-2010 Growth % |
|------------------------|----------------------|----------------------|----------------------|----------------------|---------------------|--------------------|--------------------|
| Chocolate products     | No data available    | 4.6                  | 4.8                  | 4.8                  | 4.9                 | -                  | 2.08%              |
| Bread and similar      | 121                  | 121                  | 120                  | 119                  | 119                 | -1.65%             | 0%                 |
| Meat and meat products | 59                   | 62                   | 66                   | 67                   | 69                  | 16.95%             | 2.98%              |
| Milk and milk products | 238                  | 241                  | 243                  | 246                  | 247                 | 3.78%              | 0.41%              |

The data available in Table 7 describes consumption of chocolate products, bread products, meat products and milk products from 2006 till 2010. This data is the most recent one among free reliable sources. The numbers represent kilograms of products consumed by a person on average. The percentage growth during four years (2006-2010) allows noticing the long-term trend. The percentage growth in 2009-2010 gives us information about the most recent changes. As it can be seen the consumption of chocolate had a positive growth tendency despite the recession (even though the consumption did not change in 2008 and 2009). As well as the overall market volume, the bread consumption demonstrated decrease. However, this product still remains an everyday necessity. The meat products consumption shows a stable growth. Furthermore, the consumption of meat products increased by almost 17% during four years (2006-2010). The milk products consumption also showed quite a positive growth tendency. More than that, in 2012 the growth is expected to be equal to 6-8%.

**TABLE 8. Coffee consumption in Russia 2006-2010 (based on Skobelev 2011).**

|        | 2006<br>(tons) | 2007<br>(tons) | 2008<br>(tons) | 2009<br>(tons) | 2010<br>(tons) | 2006-<br>2010<br>Growth<br>% | 2009-2010<br>Growth % |
|--------|----------------|----------------|----------------|----------------|----------------|------------------------------|-----------------------|
| Coffee | 107,1          | 110,3          | 113,6          | 114,0          | 114,8          | 7.19%                        | 0.7%                  |

Table 8 represents annual coffee consumption statistics expressed in tons. As it can be noticed the trend is rising. In comparison to other countries the Russian population consumes relatively small amounts of coffee (700-750 g per capita). So, there is always a ground for the consumption growth.

**TABLE 9. Bottled water consumption per capita in Russia 2007-2011 (based on Savinov 2011)**

|                  | 2007<br>(l/per<br>capita) | 2008<br>(l/per<br>capita) | 2009<br>(l/per<br>capita) | 2010<br>(l/per<br>capita) | 2011<br>(l/per<br>capita) | 2007-<br>2011<br>Growth<br>% | 2009-<br>2010<br>Growth<br>% | 2010-<br>2011<br>Growth<br>% |
|------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|------------------------------|------------------------------|------------------------------|
| Bottled<br>water | 21.7                      | 23.3                      | 20.0                      | 23.7                      | 25.4                      | 17.05%                       | 18.5%                        | 7.17%                        |

Table 9 describes the bottled water consumption per capita since 2007 till 2011. The bottled water market is considered to be one of the most prospective ones in Russia. The numbers prove this. Thus, during four years the consumption growth reached a bit more than 17%. The annual consumption growth tendency (2010-2010) is 7.17%.

### **Market share in the host country**

Nowadays Russia imports around 40 percent of the food consumed. Particularly, more than 50 percent of the meat and milk products are imported to big cities (Export Guide 2011, 3). The company's market share in the host country has to be taken into account as it creates a good incentive for being close to the local market. Therefore, foreign companies operations must be also analysed according to the source company's presence in the host country.

## Quality issues

Unfortunately, more and more often the Russian food market is suffering from the low quality food products. The diminishing quality of food products is, for sure, a “red light” for Russia and its government as the population’s health and well-being directly depend on the food consumption. At the same time this situation creates good opportunities for investors from other countries: we have already discussed in this study that one of the benefits of FDI is that it might bring a better quality of products to the host country. In the table below the reader can see a summary of the report concerning the quality of food products in 2006. (Table 10).

**TABLE 10. Percent of inconsumable foodstuffs manufactured in Russia and abroad in 2006 (based on Statistika.ru, 2007)**

| Type of the product                   | % of inconsumable product manufactured in Russia | % of inconsumable product manufactured abroad |
|---------------------------------------|--|---|
| Fish products (excluding tinned food) | 35%  | 21%   |
| Sausage goods                         | 18%  | 6%  |
| Meat                                  | 17%  | 8%  |
| Confectionary                         | 14%  | 6%  |
| Animal oil                            | 11%  | 11%   |
| Vegetable oil                         | 10%  | 9%  |
| Margarine and mayonnaise              | 10%  | 60%   |
| Cheese                                | 7%   | 9%  |

According to the Table 10, the biggest percentage of the low quality products produced in Russia belongs to fish products, sausage goods, meat and confectionary. If Finnish producers are able to propose high quality products in one of these or several sectors of the Russian food market, they might be quite successful and competitive.

It is essential to look at the sector producing margarine and mayonnaise. Even though the percentage of inconsumable products manufactured locally is quite small (10%), the percent of inconsumable products manufactured abroad is relatively big (60%). That means that foreign producers do not cope with quality issues well. Therefore, the Finnish producers might have competitive advantage proposing a better quality. Obviously, one of the reasons explaining such a big percentage of inconsumable goods coming from abroad might be explained by

wrong transportation or storage of goods. Therefore, building a factory in Russia might be ideal for the Finnish producers willing to be successful with investments in the Russian food manufacturing industry.

## Conclusions

According to the research conducted above all six markets (chocolate, bread, meat, milk, hot drinks (coffee), bottled water) are considered to be potential for the Finnish investors. Table 11 represents the rating summarizing the attractiveness of the main Russian food and drink markets:

**TABLE 11. Attractiveness of the main food and drink markets in Russia.**

| Rating | Aggregate mark | Market                 | Annual growth of the market | Growth of the consumption (2009-2010) |
|--------|----------------|------------------------|-----------------------------|---------------------------------------|
| 4      | 2              | Chocolate products     | 1 (-7.7%)                   | 3 (+2.08%)                            |
| 3      | 3              | Bread and similar      | 2 (+1%)                     | 2 (0%)                                |
| 2      | 3.5            | Meat and meat products | 3 (+2%)                     | 4 (+2.98%)                            |
| 2      | 3.5            | Milk and milk products | 5 (+4-6%)                   | 2 (+0.41%)                            |
| 3      | 3              | Hot drinks (coffee)    | 4 (+2-4%)                   | 2 (+0.7%)                             |
| 1      | 4.5            | Bottled water          | 4 (+3%)                     | 5 (+18.5%)                            |

### Scale:

|         |      |    |    |            |
|---------|------|----|----|------------|
| 1       | 2    | 3  | 4  | 5          |
| Decline | 0-1% | 2% | 3% | 4% or more |

According to the Table 11 the biggest potential belongs to bottled water market. Plus to attractive quantity issues existing, there is also a quality issue: the quality of tap water in Russia is quite poor. It is not recommended to drink water coming out of the tap without any preliminary purification. The second place is occupied by the meat and milk market. Milk and meat products can be equal to products of everyday necessity. Even though there are people who do not consume meat or milk products, there is still majority of the population who consume these products every day. There is also a quality issue concerning the meat market: 17% of the

products manufactured in Russia are considered inconsumable. Therefore, there is an opportunity for better quality products. Cheap sausage products are becoming more and more popular especially after the recession. This was also mentioned by the communications manager from one of the largest meat processing companies in Finland. She mentioned that they are probably going to concentrate on the production of frankfurters as they have noticed the uprising trend. Chocolate, bread and hot drinks market took the last places in the rating created. However, they still have a good potential for foreign investments.

#### 6.1.4 Potential Finnish investors

The Finnish food and drink industry is a very “rich” industry: there are plenty of companies involved in food and drink production in different markets. However, it is quite obvious that small companies do not possess enough resources for investing abroad. Therefore, very small companies are not going to be included into the list of potential investors. (Table 12).

**TABLE 12. Analyses of potential investors’ size (based on [www.finder.fi](http://www.finder.fi) and companys’ web-sites)**

| Company                     | Employees | Turnover/Balance sheet total in euros | Size         |
|-----------------------------|-----------|---------------------------------------|--------------|
| Veen                        | 3         | Turnover: 0.3 m.                      | Micro        |
| Finn Spring                 | 80        | Turnover: 15.624 m                    | Medium-sized |
| Hartwall (part of Heineken) | 70 000    | Turnover: 11 245 m.                   | Large        |
| Olvi                        | >2 000    | Turnover: 244.2 m                     | Large        |
| HK Scan                     | 10 00     | Turnover: 2 124.7 m.                  | Large        |
| Vaasan Group                | 3 000     | Turnover: 397 m.                      | Large        |
| Meira                       | 167       | Turnover: 70.3 m.                     | Large        |
| Panda                       | 275       | Turnover: 57.5 m                      | Large        |

The list of potential Finnish investors is going to be based on the potential investor’s portrait defined before. In other words the list was created on the bases of the size of the companies (big or medium ones), their foreign investments (production plants in other countries), and their market presence in Russia. Furthermore, the list of potential investors compiled is limited by six markets that were defined as the most potential ones in the Russian food industry. (Table 13).

**TABLE 13. Potential Finnish investors in the Russian food and drink industry (main markets).**

| Market                                    | Company      | Operations abroad  | Size (Table 12) | Contact information   |
|---|--------------|--|-----------------|---|
| <i>Bottled drinking and mineral water</i> | Hartwall     | Hartwall is a part of Heineken   | L               | Web-site: <a href="http://www.hartwall.fi/">http://www.hartwall.fi/</a> ; Communications manager: Siv Välimäki phone: +358 20 717 2375  |
|   | Olvi         | Brewing companies in Baltic countries and Belarus  | L               | Web-site: <a href="http://www.olvi.fi/">http://www.olvi.fi/</a> ; phone: +358 290 001050  |
|   | *Veen        | Distributors in many countries   | Micro           | Web-site: <a href="http://www.veenwaters.com/">www.veenwaters.com/</a> ; Director of operations: Mikko Nikkilä <a href="mailto:mikko.nikkila@veenwaters.com">mikko.nikkila@veenwaters.com</a> |
|   | *Finn Spring | Internationally expending  | Medium          | Web-site: <a href="http://www.finnspring.fi/">http://www.finnspring.fi/</a> ; CEO: Hannu Ali-Haapala <a href="mailto:hannu.ali-haapala@finnspring.fi">hannu.ali-haapala@finnspring.fi</a>     |
| <i>Milk products</i>                      | -            | -  |                 | -   |
| <i>Meat products</i>                      | HK Scan      | Operations in Finland, Sweden, Denmark, Poland and the Baltics. Export, for example, to Russia | L               | Web-site: <a href="http://www.hkscan.com/">http://www.hkscan.com/</a> ; phone number: +358 10 570 100   |
| <i>Bread and similar</i>                  | Vaasan Group | Operations in the Baltic countries, Sweden, Norway, other countries                            | L               | Web-site: <a href="http://www.vaasan.com/">www.vaasan.com/</a> ; Communications manager Mira Perander <a href="mailto:mira.perander@vaasan.com">mira.perander@vaasan.com</a>                  |
| <i>Hot drinks (coffee)</i>                | Meira        | Subsidiary in Estonia.   | L               | Web-site: <a href="http://www.meira.fi/">http://www.meira.fi/</a>   |
| <i>Chocolate products</i>                 | Panda        | Markets in the Nordic countries, the United Kingdom, the USA, Spain and Central Europe.        | L               | Web-site: <a href="http://www.panda.fi/">http://www.panda.fi/</a> ; e-mail: <a href="mailto:panda.bear@panda.fi">panda.bear@panda.fi</a>  |

## **Bottled drinking and mineral water: potential investors**

In this market two companies were chosen as possible potential investors. Moreover, two internationally expending companies were also worth mentioning.

*Hartwall* was started in 1836 as the producer of hot and cold bottled mineral water. Nowadays the company has a wide range of alcohol and non-alcohol products. Hartwall can be considered a truly international company. It has multiple operations in many different countries. Hartwall had already invested in Russia in the form of “Baltika” shares. However, these shares were sold. Probably, Hartwall could have a better luck with bottled water.

*Olvi* was founded in 1878 as a brewery. Today the company has multiple brewing companies in the Baltic countries and Belarussia. The company produces mineral and spring water.

*Veen* is a relatively new company that was established in 2006. There is a great potential for growth and development. Currently the company produces spring water. Veen has its distributors in many countries (unfortunately, not in Russia). This means that products are attractive not only to the Finnish customers but also to the international ones. The epic story behind the name of the company can be used affectively for international marketing of the products. However, Veen is a micro-sized company. Therefore, it might take a long time till Veen will be ready to be an investor.

*Finn Spring* was founded in 1991. This company produces spring and mineral water. Finn Spring positions itself as an internationally expending one. The size of Finn Spring is medium. The turnover is around 16 millions, so it is still a long way before Finn Spring will become a large company and will be able to invest.

All Finnish companies pour their spring and mineral water into small bottles (0.33l, 0.5 l). This can probably be explained by the good quality of tap water (there is no real need in big amounts of bottled water). However, in Russia there is a need of water that can be used for drinking, cooking and some other needs without any additional purification. Therefore, it could be probably a good idea to produce water in big five litre bottles (Picture 1) or bottles for drinking water coolers (Picture 2). Five litre bottles of drinking water are very popular in some Russian households where there is no other opportunity for getting purified water suitable for drinking. Of course, additional research is needed in order to understand the real po-

tential of the Finnish water producers' investments in Russia. All companies mentioned above get their water resources from Finland (e.g. lakes). So, in this sense it might not be rational to invest in building of the production plants in Russia. How to get water resources? However, the Finnish drinking water producers, for sure, have a vast experience in water purification. This could be used in Russia, and joint ventures with Russian companies could really be of use for Russia and the Russian drinking water market.



**PICTURE 1. Five litre bottle of drinking water (taken from [www.primschool.ru](http://www.primschool.ru))**



**PICTURE 2. Drinking water cooler (taken from [www.vodaplus.ru](http://www.vodaplus.ru))**

### **Milk products**

The major Finnish producer of milk and milk products, Valio, already successfully invests in Russia. However, there are smaller companies: SataMaito, Maitokolmio and Maitomaa. Most likely these companies do not have any operations abroad: no information about foreign activity is available. More than that, the web-sites of all three companies are fully in Finnish that is

not typical for international companies. It might be possible that, because of the size, these companies are not really able to invest in Russia. There is no Finnish milk products manufacturer that could be as powerful as Valio.

### **Meat products**

There are two main producers of meat in Finland: Atria and *HK Scan*. Atria already successfully invests in Russia. Talking about HK Scan, it has operations in Finland, Sweden, Denmark, Poland and the Baltics. Furthermore, HK Scan actively exports to Russia. So, potentially the company could start investing in Russia in order to be closer to its customers. There are also smaller meat producers in Finland. One of such is Snellman. This company also exports to Russia. However, it does not have production plants anywhere else except in Finland. This probably means that the company does not really possess any resources for investing and it is satisfied with exporting. Other small meat producers, for instance, Wursti, Wigren, Tapolan, Tamminen, Savupojat, Pajuniemi and Kotivara have small foreign operations or do not have them at all. So, it will probably take a long time for these companies to be able to invest.

### **Bread and similar products**

In the Finnish bread products market there are many local family bakeries whose size and resources are not enough for investing. Therefore, I am not going to include these companies into my list of potential investors. The Finnish producer Fazer already invests in Russia and recommended itself as a good manufacturer of bread and confectionary products. However, there is one more company that also has potential.

#### *Vaasan Group*

Vaasan Group is considered to be the leader in Finland and the Baltic countries. It produces fresh bakery products, bake-off products and crisp products. More than that, Vaasan Group has recommended itself as a strong player in the markets of Northern Europe. There are production units in Finland, the Baltic countries and Sweden. Vaasan Group also exports into many countries: Russia is not an exception. To my mind, this company has a good potential for being an investor in Russia: Vaasan Group has both quality and resources.

There is also a group of bakeries Perhelepurit (Leipomo, Pulla-Pirtti, Leivon Leipomo, Leipomo Salonen, Ehon Leipomo) in Finland. Nowadays I think that this group is too small for making investments in Russia. However, potentially in future it could grow. This is the reason why I mention it in this work.

Overall, as it was mentioned before, the Russian bread market is mostly occupied by local companies. However, some people are not satisfied with the quality of bread products supplied to the market (they do not really trust the ingredients mentioned on the packages). Therefore, the Finnish producers can possibly get a competitive advantage using high quality resources.

### **Hot drinks (coffee)**

Gustav Paulig has already invested in the building of the production plant in Russia. Earlier it was mentioned that the development of the coffee market in Russia is considered to be completed. However, people are transferring their preferences to premium brands. So, to my mind, there is an opportunity for Finnish investments.

#### *Meira*

Meira started its coffee production in 1914. In 2002 the company joined the privately owned family company Mssimo Zanetti Beverage Group that is one of the largest coffee producers and distributors in Europe. Meira has a subsidiary in Estonia and exports products manufactured also by Mssimo Zanetti Beverage Group to the Baltic countries. Even though Meira now belongs to the big Italian group of companies it is still a Finnish company. As long as Russia is a neighbour country to Finland, Meira by itself could have a subsidiary not only in Estonia but also in Russia.

### **Chocolate products**

Making the list of potential Finnish investors in the Russian chocolate market I have decided to take the biggest chocolate producers into account. Therefore, I chose Panda. Russia has many good local producers of chocolate. Fazer already operates in Russia successfully and gained its share of market. However, Panda can also have potential as its chocolate has a good quality and unique tastes.

## Panda

Panda is a big Finnish confectionary company. It was founded in 1920. Nowadays Panda operates in Nordic countries, the USA, the United Kingdom, Spain and Central Europe. The company has a wide range of chocolate products and other confectionary products.

### 6.2 Primary data results

In this part the primary data results are going to be discussed. Table 14 summarizes the information obtained from the representatives of both companies.

**TABLE 14. Summary of the interviews**

|   | Company Y   | Company X  |
|---|---|--|
| Reasons for investing in Russia                   | -Market was not fully developed<br>-Growth possibilities  | -Huge market<br>-People have money<br>-The company has great knowledge to propose  |
| Unfavourable aspects of investing                 | -Bureaucracy<br>-Bribery  | -Bureaucracy   |
| Suggestions for the investing climate improvement | -“Milder” bureaucracy   | -Better economic situation in Russia (e.g. more jobs for people, better salaries)  |
| Production plants                                 | 4 in St.Petersburg, 1 in Moscow.  | 2 in St. Petersburg, 1 in Moscow.  |
| Reasons for choosing such locations               | -St.Petersburg is close to Finland<br>-St.Petersburg’s population was more Western-oriented<br>-Moscow is the biggest city-consumer → main market | -Closeness to Finland<br>-Closeness to the biggest markets   |
| Projections about consumption/affect              | Consumption of bakery and confectionary products decreases. No effect on Fazer.   | No projections. Investigation: the biggest group wants to buy cheap → maybe production of cheap products (e.g. Frankfurt-ers). |
| Further plans                                     | No concrete plans but ready to act.   | Maybe to concentrate on 2 factories instead of 3.  |

### **6.2.1 Reasons for investing in Russia**

The optimistic expectations of company X when investing in Russia were, first of all, connected with a huge market potential. Thus, there are 7 million people in St.Petersburg and 17 million people in Moscow. More than that, people in Russia are ready to spend money on food: meat is an expensive product. Company X was also expecting to propose a great knowledge of the meat processing being one of the largest meat producers in Finland.

Same as company X, company Y was expecting promising growth possibilities in Russian market. Thus, that time (first investments in Russia by company Y were made in 1997) the bread and chocolate markets in Finland and Sweden were quite severe and did not look so optimistic. In comparison to the current situation, the Russian market then was full of opportunities: it was not so developed yet in terms of bakery and confectionary products and there were not so many alternatives for customers.

### **6.2.2 Unfavourable aspects of investing in Russia**

The terrible level of bureaucracy and the unfavourable economic situation in Russia make it difficult for company X to invest more heavily. Such a bureaucracy level is very unusual and surprising for Finnish companies. For example, the company X experienced problems with paper work buying land or applying for building licences.

The only one serious problem occurring to company Y was bureaucracy. Moreover, it was mentioned that sometimes it is very difficult to understand what people think: they can easily mean bribing. However, the general attitude of Finnish companies is that the business must be done honestly and ethically. According to the representative of company Y, if you let people think once that you are able to do business giving bribes, you are going to be stuck in this.

### **6.2.3 Suggestions for the investing climate improvement**

Generally the company X has quite a positive attitude towards investing in Russia. However, it could invest more heavily if the economical situation became more favourable. The success of the company in Russia is partly dependent on people's income. In Russia about 30% of salary is spent on food in comparison to Finland where only 20% of salary is spent on food.

So, the prosperity of people is one of the important factors. People's spending habits are directly dependent on the level of salaries they get. So, when more job opportunities are created in Russia and more money is available for spending, the market will possibly grow more rapidly.

Company Y does not see any serious obstacles for not investing in Russia. It is open to new investments if there are good targets and areas for investing. However, if bureaucracy became "milder", the environment would be more pleasant.

#### **6.2.4 Locations of production plants**

The company X has three production plants: two in St.Petersburg area and one in the Moscow area. The main expectations when locating production plants in the Moscow area and St.Petersburg were the possibility to be close to the biggest Russian markets and closeness to Finland. Being close to Finland makes it easier to conduct operations (for instance, Finnish experts for building the production plant were brought to Russia without any problem).

Company Y has five production plants in Russia: four plants in St. Petersburg and one in Moscow. In 1997, when the company Y decided to start investing in Russia, it was quite clear that it was easier to begin with St. Petersburg. Again the closeness to Finland was crucially important: it created better possibilities for managing and operating subsidiaries. Secondly, people in St. Petersburg at that time expected to have more "Western-oriented" (or even "Finland-oriented") thinking. Therefore, the market was ready for Company Y's products. However, of course, the time had come when Company Y had to explore to Moscow. Moscow is the biggest city-consumer in Russia. Of course the main market is there.

#### **6.2.5 Projections about future demand/consumption in Russia**

Company X constantly investigates needs of the consumers. According to the interviewee there are three main groups of the Russian consumers. The first and the biggest group is those consumers who want to buy cheap products. This group is about 80% of all customers. They usually buy cheap products like frankfurters. The second group contains consumers who want to have good taste and quality of food proposed. The third group includes people who "want to celebrate every day and do not care about the price".

Company Y is aware that the consumption of confectionary products is slowly decreasing. However, they are not worried: the decrease does not really have any affect as market is still enormous.

## **7 DISCUSSIONS**

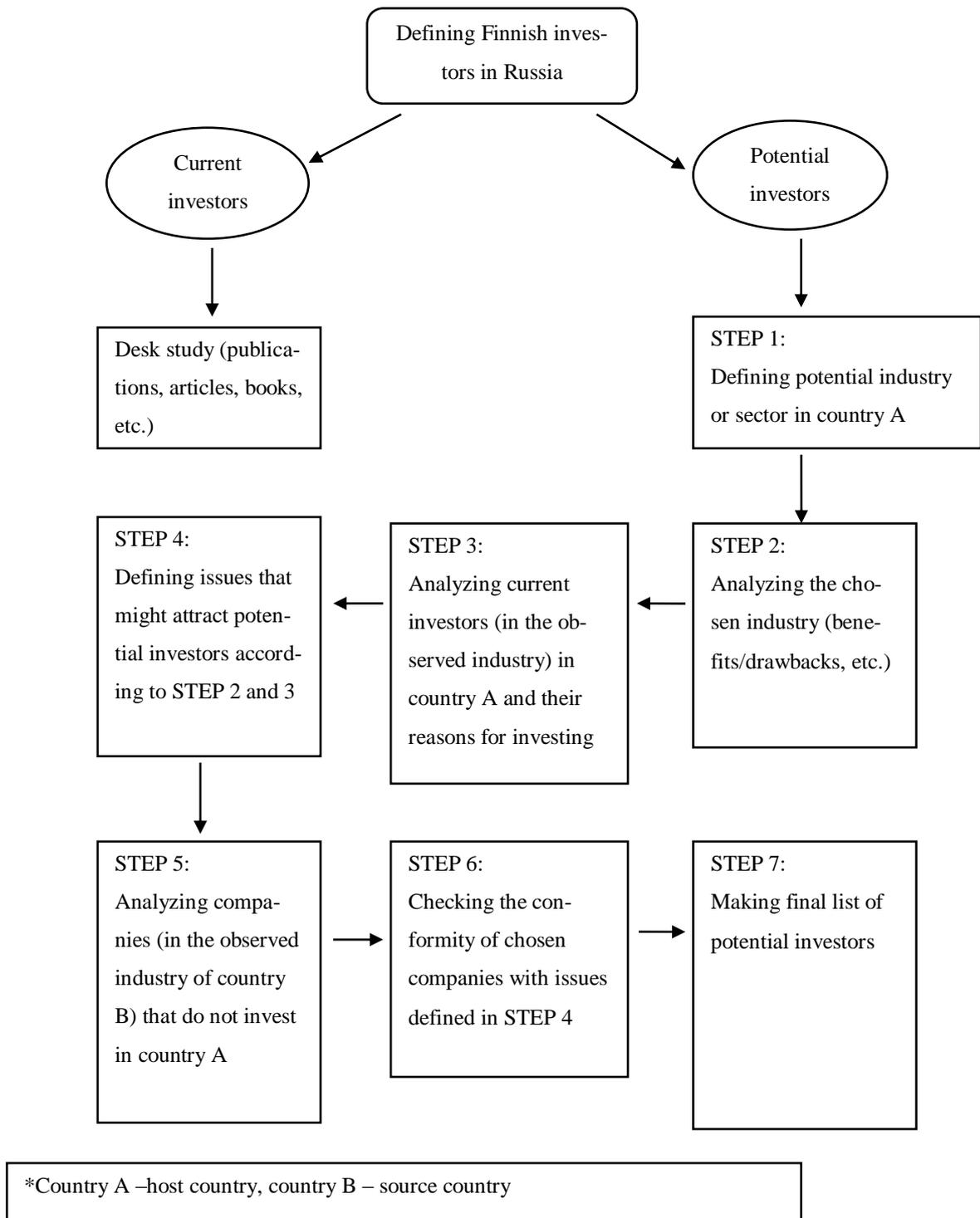
This chapter discusses the findings and their relevance to the objectives and questions set before. The main objective of the research was to get new useful information that can give good prerequisites for the further research and development of the Russian-Finnish investment relations. This was reached by answering four research questions set before.

Generally speaking I think that the theoretical framework was supported with the findings of the study. For instance, many answers obtained during the interview could be predicted beforehand on the basis of theories discussed and were completely supported after the interviewing.

### **7.1 Identifying current and potential foreign investors**

The first question was targeted at identifying the methods for current and potential foreign investors' search. It is essential to know the current Finnish investors in Russia as long as it is possible to learn using the concrete examples from the Russian-Finnish investment history. Furthermore, the list of potential Finnish investors in Russia might be useful for further attraction and development of Finnish investments in Russia. Therefore, the question was set: How current and potential foreign investors can be identified? The model (Figure 10) schematically describes every step that must be done for the compiling of the lists of current and potential Finnish investors in Russia. The model was tested using an example of the Russian food and drink industry. Creating the model, I set two main questions:

- How to define current foreign investors?
- How to define potential foreign investors?



**FIGURE 10. Model for defining Finnish investors in Russia**

The second question set a target to identify the current Finnish investors in Russia. Previous works, books, magazines, newspapers and web-pages (both in Russian and English) were used in order to identify examples of the current Finnish investors in different Russian industries (Appendix 2). However, for the research the current Finnish investors in the Russian

food and drink industry were used as an example (Table 3). The list of the current Finnish investors allowed defining the main characteristics of the companies investing in Russia. Those characteristics included the company's size and investing history. I was able to conclude that most companies that are current investors in Russian food industry have a large size (except one that is very close to being a large-sized company). Research of the company's investing history allows understanding if the company has enough resources for starting and supporting the investments abroad.

After the current investors in Russian food and drink industry were studied, the target was set to answer the fourth research question making list of potential Finnish investors. First of all, I have chosen main food markets and conducted analyses of each market separately. The market growth, consumption and quality problems were studied in each market. As the result the rating of the Russian food market attractiveness was made. According to the research the best potential belongs to the bottled drinking and mineral water market. On the second place there are milk and meat markets. The third place belongs to hot drinks (coffee) market and bread market. Finally, the chocolate market has the least attractiveness. During the interview the representative of company Y mentioned that they are aware of decreasing consumption in bread and confectionary markets. However, they are not worried as company Y occupied the stable position in Russia. Among other important trends is that after recession Russian consumers are attracted to cheap but good quality meat products. This is the reason why sausage market grows rapidly. The communications manager of company X mentioned that they will probably develop frankfurter's production in response to the trend. However, it is important to remember that at the same time Russia is an emerging market. So, living standards are developing and the population is seeking for the premium quality products. For instance, the coffee market is considered to reach its maturity. However, there is an opportunity for premium brands. Finally the list of potential investors in Russian food and drink industry was composed. (Table 13). The table includes six companies that have a good potential for investing in Russia, and two companies (Veen and Fin Spring) that are micro- and medium-sized companies respectively and possibly do not have enough resources for investing abroad but have a good potential and international distribution. Potential investors were chosen in compliance with the most potential markets in the Russian food and drink industry as well as the company's size and international operations.

## 7.2 Investor's attitudes and expectations

The third research question was about investors' attitudes and expectations when investing in Russia. To answer this question both secondary data (analysing various sources) and primary data (conducting interviews) was used.

General flows can be noticed in two interviews. The main reasons for investing are connected with a huge market potential that exists in Russia and the consumption growth. Another reason mentioned was that consumers in Russia are in a need of quality and the Finnish companies can offer it. Furthermore, companies in Finland are rich with knowledge and technology. One more reason was connected with a big population and a high level of prosperity. The low income tax is also mentioned as an attractive issue: if people do not pay much tax, they have more money to spend. Other reasons researched include the rich resources that Russia possesses, for instance, qualified workforce and energy resources. Favourable aspects according to each industry separately are mentioned in Appendix 1 and Table 2.

The most frequently mentioned unfavourable aspect during the interviews is the level of bureaucracy. Consequently, companies can start investing more heavily if bureaucracy becomes "milder". Another factor mentioned was bribery. Finnish companies are not used to do the business by giving bribes. Therefore, this creates lots of confusion when dealing with Russia. During one of the interviews it was also noticed that a better economic situation in Russia could make the Finnish company invest more heavily. Thus, if people get more jobs and better salaries the demand and spending habits would probably improve. Consequently, this creates more opportunities for Finnish enterprises.

Talking about the Russian regions that a company usually choose for investing, it is worth to mention that the most popular ones are Moscow, the Moscow region and St. Petersburg. The reasons for that were mentioned during the interviews. First of all, St. Petersburg is close to Finland. So, it is easy to manage production plants or subsidiaries located there. Moreover, it is easier to bring human resources from Finland to St. Petersburg than to other towns. Historically, St. Petersburg's population was more western-oriented than in other parts of Russia. Talking about Moscow, it is the biggest market in Russia. Therefore, the company must be in Moscow if it wants to be considered a serious player in Russia. Taking risk and potential into account, Moscow, the Moscow region and St. Petersburg have the least risk and the biggest

potential. Quite opposite, Republic Tiva, Republic Chechnya and Republic Ingushetia have the biggest risk and the smallest potential (Figure 3).

### **7.3 Quality of the study**

Reliability, validity and generalizability are three factors that help evaluating the studies conducted. Reliability is a concept that tells if a measure, procedure or instrument give the same result in case if the study is repeated. In other words, if another researcher can replicate studies conducted and gain similar findings. Validity evaluates if conclusions drawn give accurate explanation. To be more concrete, if the findings are valid then they are true and certain.

There is no common opinion if a qualitative research can be evaluated using reliability and validity criterion. (Eriksson 2008, 291-292).

In this study structured and standardized interviews were used. Unfortunately, the amount of interviews conducted is relatively small. Therefore, there is always a possibility that broader, more detailed and different answers could be obtained if the number of interviews would be bigger. Otherwise, it is rather difficult to evaluate qualitative studies as they can be based on opinions, personal feelings and rather distorted.

In terms of the secondary data used, it is always not so easy to judge its validity and reliability as usually there is no information available about the secondary data collection method applied and sources used. However, I was trying to use proven and up-to-date sources for my research. I suppose that the secondary data collected can be considered as a reliable one as long as all requirements for secondary data collection were followed.

### **7.4 Suggestions for further application and research**

The original purpose of this work was to prepare preliminary information that can be used for further research in the field of Russian-Finnish investment relations. I suppose that the objective was reached and the study can be used as background information for a more detailed research in one of narrowed topics. The study contains a broad range of information starting from the theories of international investments and narrowed to the international investments in Russia and the Finnish investments in Russia. More than that, the study proposes a model for identifying current and potential investors that can be possibly used not only for food and

drink industry concerned in this work but also for other industries. On the basis of my research I have come up with possible topics for further applications of this study:

- Detailed research of various industries and current/potential investors – as I have mentioned before the model proposed can be possibly used for other industries than the food and drink industry.
- Detailed research concerning potential markets and investors-in this work some important elements were not researched, for instance, competition in each market or validity for investing in each market.
- Detailed research of narrowed topics – for example, reasons for investing, unfavourable aspects of investing or the Russian regions for investing can be studied in a separate work in more details.
- Detailed analyses of potential investor's portrait – in this work the potential investor's portrait was made based on two factors: presence abroad and company's size. However, it can be studied further in a separate work.
- How to attract more Finnish investments in Russia? – during this research the main unfavourable aspects of investing were studied, and how the situation can be improved was briefly mentioned. This topic can be researched in more details in a separate work.
- Further studies of current and potential investors defined – lists of current and potential investors in the food and drink industry can be used for further examining and research.

## **8 CONCLUDING REMARKS**

I have been writing this thesis since December 2011 till mid April 2012. I can say that I was completely devoted to the process neither studying at the university nor working simultaneously. Even though the process was time consuming and required a lot of effort, I have enjoyed writing and learnt a lot. I can say that it is especially important to have a topic you are interested in. Thus, I was very motivated to learn more about international investments as I did not get much knowledge in this field during my bachelor studies. Furthermore, the Finnish-Russian relations attract me and I consider it as my possible future concentration in the working life. During thesis writing process I have learnt how to process a large amount of information in a short period of time and how to pick out the core concepts. Moreover, I have also practiced how to present data in more understandable and visual way, for instance, using

tables and graphs. I have also studied how to find various secondary data and how to choose reliable and up-to-date sources. Finally, I have practiced my time management skills being under time constraints.

If I did this thesis again, I would probably try to find interview respondents first before choosing the industry. As I have chosen the food industry first and was limited to the concrete amount of companies that are current investors in Russia it was rather difficult to find someone who is ready or willing to help. This was the biggest challenge during this research and the one really stopping the work.

## **BIBLIOGRAPHY**

### **Articles**

**Dolgih, T. 2012.** Russian Chocolate Market. Research of the company “Ramir”. Russian food and drinks magazine. 2/2012.

**Hernesniemi, H. 2004.** Finland Benefiting from the Russian Growth Phenomenon. The Finnish Economy and Society, 2/2004, 98-102.

**Jashin, Y. 2012.** Review of Russian bread market. Russian food and drinks magazine. 2/2012.

**Maslennikova, E. 2011.** Review of Russian meat market. Russian food and drinks magazine. 1/2011.

**Mykkänen, K. 2010.** What do Finnish investment in Russia tell us? Baltic Rim Economies. Expert article 616, 29.10.2010.

**Savinov, V. 2011.** Obzor rossiiskogo rinka bezalkogolnih napitkov. Russian food and drinks magazine. 2/2011.

**Sharova, E. 2012.** Russian Market of sausage products. Research of the company “Global Research Consulting” (GRC). Russian food and drinks magazine. 2/2012.

**Skobelev, V. 2011.** Obzor rossiiskogo rinka kofe. Russian food and drinks magazine. 1/2011.

**Volkova, E. 2012.** Russian market of bottled drinking and mineral water. Research of the company “Market Analytics”. Russian food and drinks magazine. 2/2012.

### **Books**

**Eriksson, P. et al. 2008.** Qualitative Methods in Business Research. London: TJ International Ltd.

**Filippov, P. et al. 2005.** Investizii i predposilki razvitija investizionnoi dejatel'nosti v Rossii. Ministerstvo Torgovli i Promishlennosti.

**Krishnaswami, O. et al. 2010.** Business Research Methods. Mumbai: Global Media.

**Moosa, I. 2002.** Foreign Direct Investment. Theory, Evidence and Practice. New York: PALGRAVE.

**Rao, P. 2010.** International Business Environment. Mumbai: Global Media.

**Walliman, N. 2011.** Research Methods. The basics. New York: Routledge.

### **Electronic sources**

**Bartram, S. 2001.** International Portfolio Investment: Theory, Evidence and Institutional Framework. PDF-document. <http://129.3.20.41/eps/fin/papers/0107/0107001.pdf> Referred 28.03.2012

**BusinessDictionary.com.** Investment portfolio. WWW-page. <http://www.businessdictionary.com/definition/portfolio-investment.html> Referred 7.02.2012.

**Compiler Trade Portal.** Raisio to build an oat meal plant to Russia. 7.06.2006. WWW-page. <http://www.compiler.fi/tradestation/finland/bizfinland/pressreleases/2006/06June/06.2006-pr04.html>. Referred 6.02.2012.

**EconomyWatch.** Benefits of foreign direct investments. 30.06.2010. WWW-page. <http://www.economywatch.com/foreign-direct-investment/benefits.html> Referred 8.02.2012.

**EconomyWatch.** Definition of foreign direct investment. 30.06.2010. WWW-page. <http://www.economywatch.com/foreign-direct-investment/definition.html> Referred 22.02.2012.

**EconomyWatch.** Disadvantages of foreign direct investments. 30.06.2010. WWW-page. <http://www.economywatch.com/foreign-direct-investment/disadvantages.html> Referred 8.02.2012.

**Evans, K. 2002.** Foreign portfolio and direct investment. Complementarity, Differences, and Integration. Global forum on international investment. Attracting foreign direct investment for development. Shanghai, 5-6 December 2002. PDF-document.

<http://www.oecd.org/dataoecd/54/25/2764407.pdf> Referred 8.02.2012.

**European Commission. 2003.** Commission recommendation concerning the definition of micro, small and medium-sized enterprises. PDF-document. <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:124:0036:0041:EN:PDF> Referred

13.04.2012

**Expert RA. Reitingovoe agentstvo.** Reiting investizionnoi privlekatelnosti regionov 2010-2011: Risk, s kotorim trudno upravitsya. WWW-page.

<http://www.raexpert.ru/ratings/regions/2011/> . Referred 28.01.2012.

**Finnfacts.fi. Food industry.** Modified 12.01.2011. WWW-page.

<http://www.finnfacts.fi/Facts-about-Finland/Economy/Companies/Food-industry>. Referred 5.03.2011

**FoodProductiondaily.com.** Raisio looks to Russia. 6.02.2004. WWW-page.

<http://www.foodproductiondaily.com/Processing/Raisio-looks-to-Russia>. Referred 6.02.2012

**Gmurova, E. 2011.** Rossiiskii rinok shokolada i shokoladnih izdelii: tovarnii I reklamnii aspekti. WWW-page.

<http://adindex.ru/publication/analytics/conjuncture/2011/04/22/64658.phtml> Referred 9.04.2012

**Graham, J. et al. 2005.** Understanding Foreign Direct Investment (FDI). Citibank. WWW-page. [http://www.going-global.com/articles/understanding\\_foreign\\_direct\\_investment.htm](http://www.going-global.com/articles/understanding_foreign_direct_investment.htm) Referred 7.02.2012

**Grishkovez, E. 2007.** KES took Finnish share. Komerssant. 20.08.2007. #148/II (3724).

Electronic newspaper. <http://www.kommersant.ru/doc/796624/print>. Referred 24.01.2012.

**Good News! from Finland.** Finland and Russia invest in nanotechnology companies.

27.04.2011. WWW-page. <http://www.goodnewsfinland.com/archive/news/finland-and-russia-invest-in-nanotechnology-companies> Referred 2.02.2012.

**Helsingin Sanomat. International Edition – Business and Finance.** Finnish food industry investing heavily in Russia. 19.09.2011. WWW-page.

<http://www.hs.fi/english/article/Finnish+food+industry+investing+heavily+in+Russia/1135269450893> Referred 24.02.2011

**Ilikeinvesting.com.** Foreign direct investment – trends and advantages. WWW-page.

<http://www.ilikeinvesting.com/general-investment-articles/foreign-direct-investment.php> Referred 8.02.2012.

**Industry investment. Investing in growth.** Finland and Russia to cooperate in nanotechnology investment. 27.05.2010. WWW-page.

[http://www.teollisuussijoitus.fi/in\\_english/news/?x22283=1991041](http://www.teollisuussijoitus.fi/in_english/news/?x22283=1991041). Referred 2.02.2012.

**Investopedia.** Economies of scale. WWW-page.

<http://www.investopedia.com/terms/e/economiesofscale.asp#axzz1loyTLuJY> Referred 8.02.2012.

**Investopedia.** Liquidity. WWW-page.

<http://www.investopedia.com/terms/l/liquidity.asp#ixzz1lp5C7VsQ> Referred 8.02.2012.

**Investopedia.** Outward direct investment. WWW-page.

[http://www.investopedia.com/terms/o/outward\\_direct\\_investment.asp#axzz1n6WZTjZY](http://www.investopedia.com/terms/o/outward_direct_investment.asp#axzz1n6WZTjZY) Referred 22.02.2012.

**KMS Baltics.** Stora Enso to invest in new Russian paper mill. 2007. WWW-page

[http://www.kms.ee/articles/Stora\\_Enso\\_to\\_invest\\_in\\_new\\_Russian\\_paper\\_mill?481](http://www.kms.ee/articles/Stora_Enso_to_invest_in_new_Russian_paper_mill?481) Referred 13.03.2012.

**Kuzmenko, A 2012.** Molochni rinok gdet rost. Kofeini-stagnazija. RBK daily.15.02.2012.

WWW-page. <http://www.rbcdaily.ru/2012/02/15/market/562949982813961>. Referred 7.04.2012

**Liuhto, K. et al. 2004.** Where to do Business in Russia? Pan European Institute. Electronic report.

[http://www.tse.fi/FI/yksikot/erillislaitokset/pei/Documents/Julkaisut/Liuhto\\_Pelto\\_Lipponen\\_52004.pdf](http://www.tse.fi/FI/yksikot/erillislaitokset/pei/Documents/Julkaisut/Liuhto_Pelto_Lipponen_52004.pdf) Referred 6.02.2012.

**Madhogaria, N. 2011.** Project on analytical study of foreign direct investment in India.

WWW-page: <http://www.scribd.com/doc/57482611/7/Definition>. Referred 22.02.2012.

**Myllyn Paras. 2011.** Balance Sheet. PDF-document

[http://www.myllynparas.fi/files/attachments/yritysinfo/myllyn\\_paras\\_group\\_balance\\_sheet\\_30\\_6\\_2011\\_ifrs\\_.pdf](http://www.myllynparas.fi/files/attachments/yritysinfo/myllyn_paras_group_balance_sheet_30_6_2011_ifrs_.pdf) Referred 13.04.2011

**Palley , T. 2003.** Lifting the natural resource curse. Foreign service journal. December, 2003.

WWW-page. <http://www.globalpolicy.org/component/content/article/198/40112.html#author>. Referred 4.02.2012.

**RBK. 2009.** Rossiiski rinok myasa. PDF-document.

<http://marketing.rbc.ru/research/562949975068637.shtml> Referred 8.04.2011.

**Seidel, J. 1998.** Qualitative Data Analysis. PDF-document.

<ftp://ftp.qualisresearch.com/pub/qda.pdf> Referred 20.04.2012.

**Statistika.ru. 2007.** Kachestvo tovarov narodnogo potrebleniya na Rossiiskom rinke.

21.11.2007. WWW-page. [http://www.statistika.ru/trade/2007/11/21/trade\\_9339.html](http://www.statistika.ru/trade/2007/11/21/trade_9339.html) Referred 25.02.2012.

**Vivek college of commerce.** 2011. FDI in India. WWW-page.

<http://www.scribd.com/doc/49939514/Fdi-in-India>. Referred 22.02.2012.

## **Publications**

**Glass, A. 2008.** Vertical versus Horizontal FDI. In the book Ramkishen, S. et al. Princeton Encyclopedia of the World Economy. Princeton University Press.

## Serial publications

**Exporter guide.** Food and Beverage in Russia. Market Profile. June 2011. Zealand trade and enterprise.

**Ollus, S. & Simola, H. 2006.** Russia in the Finnish Economy. Sitra. Reports 66. Helsinki. Edita Prima Ltd.

**Rautio, V. & Tykkyläinen, M. 2000.** Economic co-operation across the Finnish-Russian border - factors of sluggish development and success of enterprise. International Institute for Applied Systems Analysis. Interim Report IR-00-071/December. Laxenburg. IIASA.

## Interviews

**Anonymous<sup>1</sup> 2012.** Communications manager of company X<sup>2</sup>. Interview via phone 20.03.

**Anonymous<sup>3</sup> 2012.** Member of company Y<sup>4</sup>Russia board of directors. Interview via phone 29.03.

---

<sup>1</sup> First name and surname were hidden

<sup>2</sup> The name of the company was hidden

<sup>3</sup> First name and surname were hidden

<sup>4</sup> The name of the company was hidden

APPENDICES

APPENDIX 1(1).

**Russian industrial sectors potential for foreign investments (Filippov 2005, 142-163; Hernesniemi 2004, 99,102).**

| Sector                                  | Favourable aspects  | Unfavourable aspects  |
|---|---|---|
| <i>Power and power machine building</i> | -The biggest sector of national economy<br>-Rich natural energy resources<br>-Significant energy and industrial powers<br>-Reforms of power monopolies (Gazprom, RAO EES Rossii) → creation of competitive markets and opening of the opportunities for foreign investors | No information  |
| <i>Metallurgy</i>                       | In the national industry this sector is second by value.  | -High barriers for entering.<br>-Rising production costs of mines.<br>- Mines, refineries and blast furnaces are serious polluters. |
| <i>Chemical industry</i>                | -Low production costs<br>-Growing internal market of chemical industry's consumer and investment good   | No information  |
| <i>Forest industry</i>                  | -Biggest resources of non-tropical wood<br>-New projects aimed to the development of transport infrastructure   | -Forest legislation<br>-Assurances from reliable raw material suppliers are required for more active actions.                       |
| <i>Machine building</i>                 | -Rich knowledge, skills and traditions of this sector<br>-Big companies that are able to produce a vast majority of products  | -Strict governmental control<br>-Low personnel quality (aging personnel)<br>-Aging infrastructure, etc.                             |
| <i>Construction material industry</i>   | -Sustained expansion of construction material market<br>-Increase in requirements to  | -Overestimation of market capacity<br>-Dependency on the quality  |

**APPENDIX 1(2).**

|                                 |   |   |
|---------------------------------|---|---|
|                                 | <p>construction materials</p> <p>-Fast growth of all kinds of construction. Such growth is connected with Russian construction standards approaching the level of developed countries</p> | <p>of local production</p> <p>-Risks of partial ownership</p>   |
| <p><i>Food and beverage</i></p> | <p>-Fast growth of the food market</p> <p>-Smallest risk of the loss because of slow recoupment</p> <p>-Big volume of the internal market</p>   | <p>-Market saturation</p> <p>-Shortening of tobacco and alcohol advertisements</p> <p>-Limitations on tobacco and alcohol consumption</p> |

## Examples of current Finnish investors in Russia

| <b>Industry</b>                       | <b>Name of the company</b> |
|---------------------------------------|----------------------------|
| <i>Foodstuff industry</i>             | Fazer                      |
|                                       | Gustav Paulig              |
|                                       | Atria                      |
|                                       | Valio                      |
|                                       | Myllyn Paras               |
| <i>Telecommunications and IT</i>      | TeliaSonera                |
|                                       | Elcoteq                    |
| <i>Energy</i>                         | Fortum                     |
|                                       | Neste Oil                  |
| <i>Machine building</i>               | Helkama                    |
| <i>Construction material industry</i> | Rautaruukki                |
|                                       | Tikkurila                  |
|                                       | Rannila                    |
|                                       | Tiivi Oy                   |
|                                       | Kone Oyj                   |
|                                       | Saint-Gobain Isover Oy     |
| <i>Forest industry</i>                | StoraEnso                  |
|                                       | UPM-Kymmene                |
|                                       | Metsäliitto                |
|                                       | Koskisen Saha              |
|                                       | Ahlström                   |
|                                       | Metsä Fibre                |
| <i>Metallurgy</i>                     | Kuusakoski                 |
|                                       | Nokian Tyres               |
| <i>Building industry</i>              | Lemcon                     |
|                                       | SRV                        |
|                                       | YIT                        |
| <i>Transport sector</i>               | Containerships             |
| <i>Media</i>                          | Sanoma                     |
| <i>Nanotechnology</i>                 | Optogan                    |
| <i>Other</i>                          | PKC Group                  |
|                                       | Rapala VMC Corporation     |

**Interview framework**

1. Which types of products does the company produce in Russia?
2. What are the reasons behind investing in these particular types of production?
3. Are there any other reasons that made investing in Russia attractive for the company?
4. What are the unfavourable aspects when investing in Russian foodstuff industry?
5. What changes could probably make the company investing more heavily?
6. What are the locations of company's production plants in Russia?
7. Could you name the reasons for situating company's production plants in these particular regions of Russia?
8. What changes in the consumption/demand of foodstuff products in Russia do you project?
9. Are those changes going to have any effect on your company's investments in Russia?
10. Do you have any further plans for the development of your company's investments in Russia?