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FINNISH
ENERGY MARKET ANALYSIS AND
DISTRIBUTION POSSIBILITIES

Diesel power systems market analysis
for Crathos AG in Finland

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DESCRIPTION

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| Name of the Bachelor's thesis Finnish Energy Market Analysis and Distribution Possibilities. Diesel Power Systems Market Analysis for Crathos AG in Finland. | | |
| Abstract <p>Market analysis and research are the key methods of investigation prior to entering a new market. When beginning international operations, the foreign business environment should be examined in detail in terms of political, economic, social and technological factors, and analyzed in terms of competition, current position and industry rivalry. The purpose of these analyses is to determine the objective business opportunities of the particular company on the market of interest based on its own specifics and outlook.</p> <p>The energy industry is one of the spheres of the highest demand and importance, as every economy is highly dependent on constant power supply. Either governmental or privately owned, such organizations including hospitals, production plants, online providers, bank databases and many other important institutions require 24/7 uninterrupted energy. Therefore, backup power supply is a highly demanded and vital service.</p> <p>Crathos AG is a new Berlin based brand in the standby energy market. Its main products are diesel generating sets and power systems. Crathos AG offers a wide range of products for industrial, residential, portable or customized power solutions. The company is aiming at entering the Finnish market by serving niche consumer sectors with requirements for small to medium power diesel generating systems.</p> <p>The research was conducted in order to understand the appropriate methods of operations in the Finnish market. Primary data about the company's current position was collected through an in-depth interview with the CEO of Crathos AG. This was used as a basis for the determination of the current position of the company and its possibilities in the Finnish market. Further research in terms of possible channels of distribution is based on the relevant secondary data gathered from the valid electronic sources.</p> <p>The study serves as a basis for further decisions of the company while also providing substantial information on possible methods of operations in the Finnish energy market. The theoretical background gives a necessary framework of the market analytic tools and techniques. Moreover, it describes major regulations and practices in B2B distribution and cooperation. It also contains advice for the processes of planning, selecting, establishing and managing channels of distribution. Finally, suggested solutions include a wide range of particular industries and organizations, who can be contacted by Crathos AG in terms of future cooperation.</p> | | |
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1 INTRODUCTION

Entering a new market careful research and analysis have to be implemented. Understanding the overall economic and political situation in the country, ways of conducting business, industry environment and competition in the particular sector are key factors to be taken into account while estimating one's company's opportunities.

The energy industry is a sphere of constant interest and attention. Nowadays every economy depends on a constant energy supply. Therefore, power backup is critical to provide stable operations in industry and municipal sectors. Private businesses are also highly dependent on constant power whether it comes to production, health services or online support. Every company has to be secured in terms of operational and service excellence in order to keep the customers satisfied and maintain the established level of trust. Consequently, the demand on standby power sources remains high.

Diesel generating, and power systems particularly, are used for a great amount of purposes. From automobile engines and home generating sets (gensets) producing small power loads, to diesel generating systems used for the supply of various high-power facilities as, for example, whole industrial production plants. Diesel engines are widely used in construction, marine, mining, forestry, telecommunication and underground industries. One of the main functions of diesel generators' use is power back up. Diesel gensets work autonomously, and do require extra electricity to serve as a substitute for the main power grid in case of its instability.

The company of interest in this thesis is Crathos AG. Its main products are diesel generators and power systems. Crathos AG offers a wide range of products for industrial, residential, portable or customized power solutions. Founded in Berlin in 2010, the brand is new and not yet well-known in Europe. Its current target markets are located in Central Asia and Asia Pacific regions. The company operates exclusively in the B2B environment and shows significant growth over the past two years of operations.

It was proposed that Finland, as one of the most stable economies in Europe and focusing on the high tech industrial sector, is an attractive market for Crathos AG. Entering the Finnish energy market can be a significant opportunity for further development

and broadening the company's international customer base. In the thesis framework this hypothesis is examined, and the Finnish market is analyzed in terms of the current economic, political, legal and technological environments. The Finnish diesel genset sector in particular is focused on in terms of competition and industry rivalry. The purpose of these analyses is to determine the feasibility for Crathos AG in launching operations in the diesel genset market in Finland.

The other predominant research purpose is to determine the possible models of distribution and partnership for the company in Finland. As potential clients of Crathos AG are distributors and intermediaries, the most challenging task is to find and reach them. The thesis is designed to help in defining the channels of distribution and ways of finding potential intermediaries in the Finnish market.

To sum up, the main research questions are:

- What are the business opportunities for Crathos AG in Finland?
- What are the methods of distribution in the Finnish market?
- How can particular distributors be identified and reached?

The theoretical framework serves as a basis and structural map for the practical research. It highlights supplementing theories and best practices for the implementation of the study. Helpful analytic tools and classifications as well as methods and tips on the distributorship planning and search are described there. The theoretical section outlines major international legal trade practices, rules and guidelines necessary for the successful planning, communication, establishing and managing of distribution channels.

2 ESTIMATING BUSINESS OPPORTUNITIES

Entering a new market is a significant strategic decision for a company, which has to rely on careful research and analysis. A company should obtain complete understanding of the new market, find out specific customer needs and ways of conducting business in the country of interest. Political and legal environment cannot be left out as they determine the way of operations and if not analyzed precisely can cause extra costs and paper work.

Starting with the understating if there is a need for specific products, evaluating how strong is the particular business branch and the competition in the field, all the questions must be answered from the point of the company in order to design successful market entry strategy. Without application of a proper market research costly mistakes can be made. (Kotabe & Helsen 2001, 186.)

2.1 Research Process

“Market research is tool allowing companies to find out necessary information about the particular target market, competition and environment via systematic collection and analysis of data.” (Investopedia)

According to Kotabe & Helsen (2001, 187) there are several steps in designing international market research:

- Formulation of the research problem
- Research design development
- Defining information sources
- Secondary and primary data collection
- Analysis of the gathered data
- Interpretation of the findings
- Reporting and presenting the results

Each of the stages involves its own challenges, especially when the research is made in the foreign market:

- Market differences cause extra complexity for the research
- Secondary data can be inaccurate or not complete
- Primary data collection requires big time and cost investments
- International coordination can cause difficulties and delays
- International studies cannot be compared against each other

One of the major challenges researchers can face up creating a study about international market and formulating the problem is self-reference criterion (SRC) - a tendency to treat the research subject on the basis of domestic cultural norms and values. Despite of the obviousness of this option, even multinational companies keep making strategic mistakes lacking environmental and cultural knowledge about the new markets. Besides, the lack of language skills can be an obstacle at the very first fazes of the international market research. (Ghauri & Cateora, 2006, 153.)

Secondary data collection

Secondary data is data existing regardless to the research purpose. It is information gathered by governments, private companies, independent agencies etc. Nowadays, a big amount of secondary data is published in the Internet.

The first problem in collecting relevant secondary data is its *availability*. It is not always the case that required information can be found in open sources. Therefore, many companies prefer using third - party services in order to get a complete set of information from the organizations specializing on market research and having access to necessary databases. (Kotabe & Helsen 2001, 194.)

Data *reliability* and *comparability* are other factors not to be missed out while doing the market study. Since vast amount of information can be found in the Internet, the question of reliability of the source the company would base its decisions on has to be examined with great attention. For example, statistics on economic factors and ratios can often have adjusted values as to show a better performance of an industry or an economy. The other sources can be outdated or covering so broad categories that there

is no possibility in extracting particular conclusions out of them. At the same time the way of collection and reporting data can vary from country to country, especially when it concerns developing economies not having central systematic databanks. Market researchers have to bear all the details in mind while assessing company's possibilities on the new market. (Cateora & Graham, 2007, 217-220.)

Primary data collection

Not all the research questions can be answered adequately though secondary data sources. Therefore market researchers are using primary data – that is gathered specifically for the research or study. The two major types of the research using primary data are quantitative and qualitative market research. (Cateora & Graham, 2007, 221.)

Quantitative research typically involves a large number of respondents, supposing that they proportionally represent all the target groups. In this case statistics collected from a sample is projected to the whole target population. Surveys and questionnaires used within qualitative research usually involve specific questions, often with a set of choices or yes/no options. This way the evaluation of the behavior, attitudes, demographical and other characteristics can be made.

Qualitative research is usually used to explore or understand a new phenomena, find out specific information. Focus groups, interviews and observations are the most common examples. Qualitative research involves a lot of interaction(as in focus groups and interviews), which allows the moderator not only to get the answers for existing questions, but also discover new issues relevant to the research problem. (Macro Consulting)

Primary data collection has its own challenges in its application process. For instance, cross-country questionnaires have to comply with two main criteria: translation and scalar equivalence. Precise translation is extremely important in international market research. Provided it is not correct or complete, results cannot be used as a ground for any decisions. The scaling frequently used in the surveys (e.g., 1-10 points) should be also adjusted from country to country according to the scales people are used to. (Kotabe & Helsen 2001, 197.)

Willingness to respond is another issue in researching markets for particular products or services. People can be reluctant to answer some questions because of the cultural traits, distrust for the interviewer or reliability of the web source. (Cateora & Graham 2007, 224.)

2.2 Entering a new market

According to Kotler (2003, 384) the major decisions in international marketing require the next consequences of actions: deciding whether to go abroad, deciding which markets to enter, deciding how to enter the market, deciding on marketing program and deciding on marketing organization.

In the globalised economy more and more companies become international due to lowering of the markets' entrance barriers and better possibilities in establishing company's alliances on the global arena. At the same time for some companies internationalization is a necessity: the domestic market can be too small while the production costs way too high. Since company's decision is to go international, the market entry method has to be chosen.

Figure 1 shows the dependence of involvement and cost for the company according to the main ways of market entry strategies.

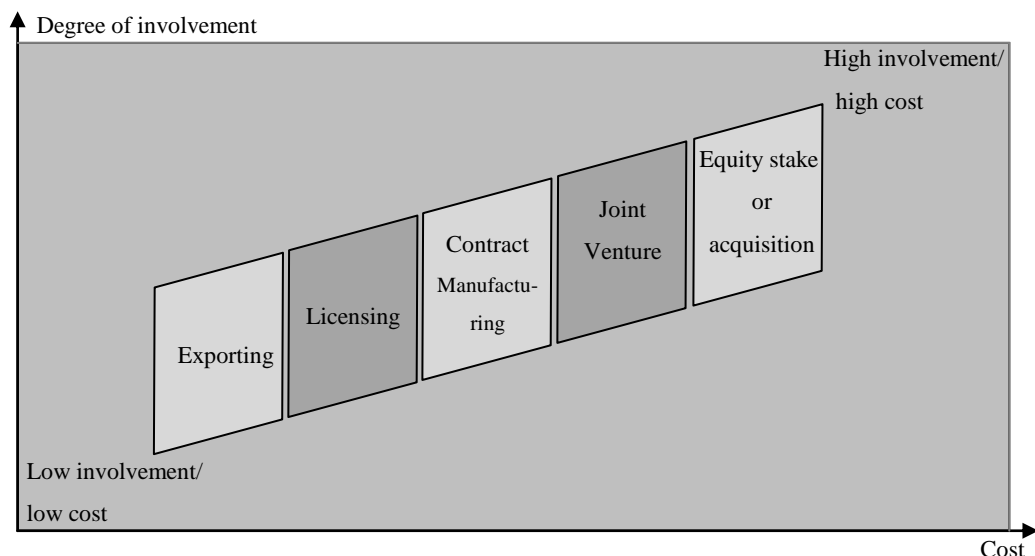


FIGURE 1. Involvement and Cost Levels for Five Methods of Entering the Global Marketplace (Adopted from Keegan & Green, 2005, 294)

Indirect and direct Export

Exporting is one of the safest market entry strategies, which does not require high involvement of the company to the foreign market. Organisations often use exporting as a test strategy before expanding and allocating their facilities abroad.

Indirect exporting operations are conducted by independent intermediaries located in the firm's home country. In this case domestic-based export merchant and agents are buying the products from the company and sell them abroad gaining some commission for providing the service.

Using *direct exporting* option company usually has to establish its own exporting channel and sell products through a representative located in the foreign market (Homburg, Kuester and Krohmer 2009, 431). Nonetheless, there are some more ways of applying direct exporting:

- Domestic-based department or division
- Overseas sales subsidiary
- International sales representatives
- Agents or distributors based abroad

Another option to access the foreign market, not organizing own distribution channels, is *cooperative exporting*. Its idea is in using foreign well-established and meeting company's needs distribution network in exchange for a particular fee. (Kotler & Keller, 2006, 674-675.)

Global Web Strategy

Nowadays companies have a great opportunity to expand their operations worldwide via Internet. In this case a company has to localize the web source via translation, set of products and services suitable for the market and establish their successful delivery. Legislative restriction of the Internet and web based services can be regulated by different governments in different ways. Therefore, research of the online environment is what the companies should include in their market analysis when planning this type of operations. (Kotler & Keller, 2006, 675.)

Licensing

Licensing is a form of contractual transaction where in exchange for royalty fees the company (the licensor) offers a knowhow of manufacturing process, patent, trademark and trade secret to a foreign company (the licensee). Entry risk for licensor becomes significantly lower while the licensee gets the knowledge and access to best brand's practices. The disadvantage of such cooperation is a loss of control over licensee, which can lead to potential reputation changes. Moreover, if licensee is gaining very high profits, the original company is considered giving them up. (Kotler & Keller, 2006, 676.)

Franchising

Franchising is a widely used version of licensing where the parent firm supplies franchisee with a standard package of products, systems and management services, while the host company already possesses the knowledge about the market, capital, and management strategies. Franchising is especially popular in industries such as soft drinks, fast food, retail, hotel chains, automotive services etc.(Cateora & Graham, 2007, 325.) The world's leading franchising industry is fast food, with three biggest American franchises respectively: Subway, McDonald's and KFC (Franchisedirect, Inc.).

To increase the speed of market penetration and company growth master franchising is commonly used. It is the method of giving a particular firm or entrepreneur the right to set franchises or sell the licenses within defined areas or the whole country. (Kotabe & Helsen, 2001, 294.)

Contract Manufacturing

Contract manufacturing means that local producer makes parts or complete products of the parent company in the host country. Nevertheless, it does not involve further marketing or products realization. Companies often use contract manufacturing in order to save costs of production via lower labor costs, taxation benefits, lower energy

and raw materials costs. Besides, this method of market entry allows a company to avoid high exposure to political and economic risks. (Kotabe & Helsen, 2001, 297.)

Joint Ventures

Joint Venture is a type of foreign direct investment, a market entry strategy where two or more companies join their forces to create a separate legal entity (Cateora & Graham, 2007, 329).

The benefit of joint ventures is a real return potential. Compared to licensing, joint ventures have more control over the business operations progress and are sharing gained profits in the end. Contributions brought by the local partner such as distribution channels, contacts with suppliers, market expertise, land, raw materials etc. are very valuable at the start of operations abroad. (Kotabe & Helsen, 2001, 300.)

Kotabe & Helsen (2001, 300-301) also discuss the drivers behind successful international joint ventures:

- *Pick the right partner.* A substantial amount of time and resources should be invested into the search for a suitable partner. Compatible goals, similar size and resources usually characterize prospective partners.
- *Establish Clear Objectives from the beginning.* Expectations of partnership in terms of contributions and responsibilities have to be defined before signing the contracts.
- *Bridge Cultural gaps.* Foreign investor should act with respect to the cultural differences, and use a middleman when not being sure about the right way to conduct meetings or management style.
- *Gain Top Managerial Commitment and Respect.* The best managerial talent should be assigned for establishing a joint venture in the foreign market.
- *Use Incremental Approach.* The scale of activities and responsibilities should gradually increase from a small amount of shared action rather than be implemented all at once.

Foreign Direct Investment

Direct capital investment such as opening a subsidiary or buying manufacturing facilities based in the foreign market is a high cost and high involvement commitment. It means that company has complete control over its operations and profits abroad, while having to take responsibility on all of its actions as well. (Homburg, Kuester & Krohmer, 2009, 431.)

There are several advantages in investing directly. For the large markets direct investment can secure costs on production, freight and labor costs. The image in the host country can be significantly increased via creating new work places. Besides, much deeper relations with government, local suppliers and distributors are easier to establish being present on the market. The main disadvantage of this kind of investment is high level of risk for the company because of large capital exposure to currency changes, expropriation, market worsening or complication of exiting the market. (Kotler & Keller, 2006, 677.)

2.3 Estimating market demand

Efficient strategic planning cannot be achieved without estimation of market demand. Market demand approximations show the overall feasibility of operations as well as the number of products to be produced. In case of incorrect demand estimation not enough or too many products can be put into production, causing additional costs or losses for the company. (Hearst Communications)

Phillip Kotler (2003, 145) provides the following definition for the market demand phenomenon:

“Market demand for a product is the total volume that would be bought by a defined customer group in a defined geographical area in a defined time period in a defined marketing environment under a defined marketing program.”

He also states that there are 90 types of different demand estimates. Each of them represents different combination of product, space and time levels.

item to be estimated and measurable variable in the country serving as a basis for the analogy. Once it is accomplished, analogy between the known situation and the country in question can be drawn. (Cateora & Graham, 2007, 232.)

Income elasticity can be used as a tool to define market demand behavior. Income elasticity coefficient is calculated as follows:

$$\text{Elasticity coefficient} = \frac{\text{Percentage change in the quantity of a product demanded}}{\text{Percentage change in income}}$$

If the value of the elasticity coefficient is greater than 1, income-demand relationship is considered elastic. In this case the rate of demand increase is proportionally higher than income growth. If coefficient value is lower than 1 income-demand dependence is inelastic and each percent of income increase leads to less than 1 percent growth in demand.

Income elasticity measurement gives a researcher an overview over dependence of the demand on customers' income, not giving the estimation of a total demand for a product. Moreover, data required for this estimation is frequently unavailable. (Ghauri & Cateora, 2006, 169.)

Total market potential can be calculated according to the next formula:

$$\text{Potential number of buyers} \times \text{Average quantity purchased by a buyer} \times \text{Price}$$

In order to get more precise results *chain-ratio method* can be used by adding adjusting percentages, which narrow the estimation for particular product. (Kotler, 2003, 148.)

Market-buildup method is designed to identify potential buyers of the target market and predict their buying behavior. This method is usually used by business rather than consumer marketers. First, all the potential buyers within the area of interest must be identified. Then the number of products/resources these companies use based on per employee/ per €1 million sales or other relevant drivers can be estimated. (Kotler, 2003, 149.)

Market demand estimation methods mentioned above do not substitute original market research. Nevertheless, the combinations of secondary and primary data as well as local expert opinion lead to the most precise marketing planning. In case of bigger financial and time resources available techniques as multiple regression analysis or input output analysis can be applied. (Cateora & Graham, 2007, 234.)

2.4 International market assessment tools

Assessment of the target market is a first step in creating international marketing strategy. It involves a series of analysis shaping an overview of economic and financial, political and legal, socio-cultural and competitive environments. (Rugman & Collinson, 2009, 325-327.)

2.4.1 SWOT analysis

SWOT analysis is the most well-known tool in evaluation external (opportunities and threats) and internal environment (strengths and weaknesses). It is helpful in case of brief market assessment and company's position on it. Applied to other companies SWOT can also be used for competition analysis.

Strength of the company should be evaluated both in respect to the organization's and customers' points of view. Some of the characteristics or competitive advantages can be strengths themselves. It is important to be critical in evaluation and take into account existing competition. Strengths have to be unique and make the company or product stand out. In case all the companies in the market have the high level of quality, service or distribution, excellence in these factors is a necessity rather than a competitive advantage.

Analyzing *weaknesses* a manager should find out what are the factors which slow down the company's development and which operations need improvement. Within this section operational mistakes and imperfection should be evaluated. Unnecessary or inefficient parts of the business process, which can be avoided, should also be put on the list. Defining weaknesses it is very important to understand what customers see as disadvantages of the firm or the product.

Analysing external environment macro and microenvironment factors and processes as technological development and changes; legal policies related to the field of operations; social structure and local business environment have to be taken into account.

Opportunities of the company can be described in terms of possibilities open for the company at the moment or changes influencing business environment in long term perspective. The other option to analyze opportunities is a chance to transform existing strength to further future opportunities. Therefore, awareness of the economic, business or political trends is vital for the careful analysis and search for the upcoming opportunities.

Defining firm's *threats*, first of all, current obstacles in operations should be analyzed. Is there any financial instability involved? Existing problems can become a reason for further inefficiencies. Besides, particular changes in business environment that can be of a critical influence on the company must be determined. Analyzing the threats company has to define which competitors' actions can be harmful for its stability.

(Mind Tools)

Table 1 shows the examples of the factors to be analyzed in relation to a specific company within SWOT analysis.

TABLE 1. Examples of SWOT factors. (Adopted from Kotabe & Helsen, 2001, 277)

| | |
|--|---|
| <p>Strength</p> <ul style="list-style-type: none"> - Strong brand name - Product uniqueness - Management Know-How - Company image - Efficiency of operations - Market share - Exclusive contracts - Financial resources - Technology - Advanced marketing techniques - Availability of natural resources | <p>Weaknesses</p> <ul style="list-style-type: none"> - High price - Lack of financial resources - Poor marketing - Long product development cycle - Unprofessional customer service - Dependence on distributors - Not differentiated products - Weak brand name or reputation - Unfavourable location - Outdated technology - High fixed costs |
| <p>Opportunities</p> <ul style="list-style-type: none"> - Market growth and development - Patent protection - New markets to enter - Trade barriers removal - Growing demand for a product - Development of new technologies - Collaborations and partnerships | <p>Threats</p> <ul style="list-style-type: none"> - New entrants to the existing market - New environmental regulations - Changes in customer preferences and demand fluctuations - Changes in political system - Taxation - Substitute products |

2.4.2 PEST analysis

PEST stands for Political, Economic, Social and Technological environments defining external influences on the company or industry. PEST analysis is also known as PESTEL/ PESTLE (Political, Economic, Social, Technological, Legal, and Environmental) or STEEP/STEEPLE (Social, Technological, Economic, Ecological, and Political/Legal).

Political factors identify the ways company should interact within the country's legal environment including formal and informal rules to be applied in operations. Economic analysis is a key for understanding the purchasing power of the target market, which can be a basis for feasibility estimation of operations in the foreign market. Demographic and cultural factors of the macroenvironment are studied under socio-cultural aspect of PEST. It is particularly useful in assessing market size and defining marketing strategy. Technological factors play an important role in entry strategy, production level as well as outsourcing decisions. Obviously, there are many interactions between all of the analysis aspects. Examples for each of the PEST analysis factors are provided below. (QuickMBA, Inc.)

TABLE 2. Key PEST variables (Mind Tools, Inc.)

| | |
|-------------------------|--|
| Political | <ul style="list-style-type: none"> • Political stability and government type • Level of bureaucracy and corruption • Freedom of speech and press • Employment laws • Trade legislation and tax policy • Environmental and regulations |
| Economic | <ul style="list-style-type: none"> • Economic stability • State of particular business field • Economic growth, interest rates and inflation rates • Unemployment rate • Availability of labour sources and labour costs • Income level and distribution • Level of globalization |
| Socio - Cultural | <ul style="list-style-type: none"> • Population growth rate • Age distribution • Health and education consciousness • Career attitudes • Social peculiarity patterns in terms of lifestyle, education, press, etc. • Changes in social cultural tendencies |
| Technological | <ul style="list-style-type: none"> • Technology development rates • Use of Internet for business operation and communication • Research & Development • Rate of technological change |

2.4.3 Porter's five forces (Industry Analysis)

Michael Porter's five forces is an essential tool to analyze industry's competitive structure. It is based on the hypothesis that every company within a market is influenced by five forces presented on the following figure:

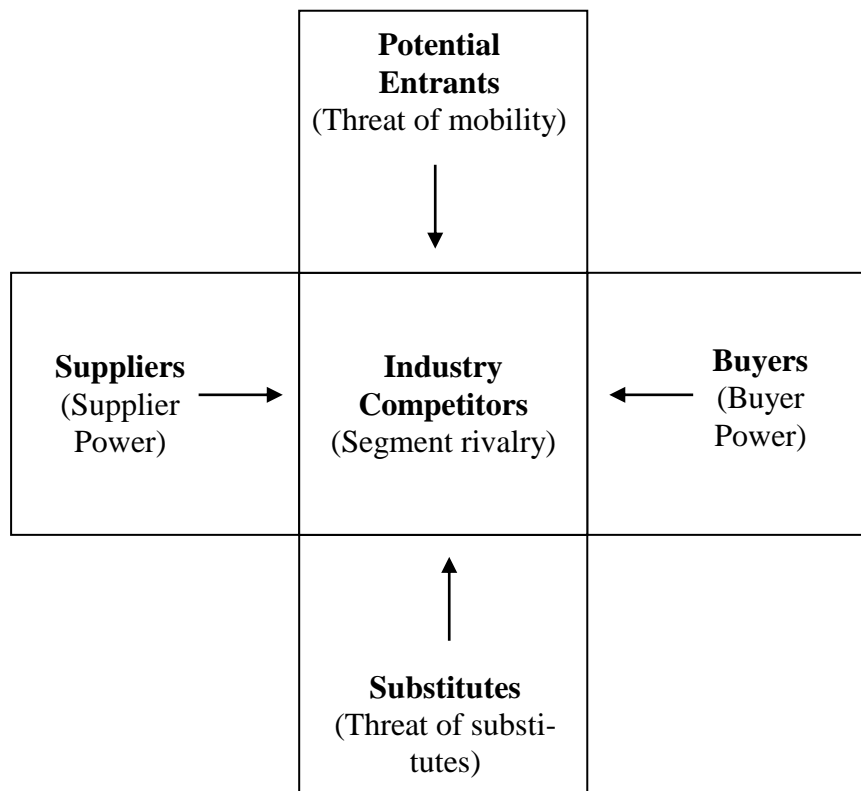


FIGURE 3. Five Forces Determining Segment Structural Attractiveness
(Adopted from Kotler & Keller, 2006, 342)

Threat of new entrants means new capacities on the market, possible price decreases, and fresh marketing approaches, which can negatively affect the profitability of the industry in the long run. Keegan and Green (2005, 504) discuss the following market entry barriers: economies of scale of existing companies on the market, product differentiation and brand loyalty, high capital requirements, access to distribution channels, rigid government policies, use of internet and digital technologies within the sector and harsh competitor responses. All these factors prevent existing market from the new participants.

Power of suppliers can be of a significant influence on the market. Big suppliers, especially if there are a few of them can control prices over the resources thus having a power over retailers' profits. Another situation making suppliers important is when switching to different ones causes high expenses and difficulties in operations. (Oxford University Press, 2007)

Power of buyers often refers to manufacturers and retailers. They can leverage over suppliers via purchasing extremely big amounts of products, making suppliers be dependent on them. In case suppliers provide commodity products which can be bought from a wide range of firms, big buyers tend to use their power bargaining for lower prices. (Keegan & Green, 2005, 505.)

Threat of substitutes is another factor to be considered before entering a market. Depending on the product or service various options which can substitute the company's offering might be found out by the customers. Functionality, substitute performance and price of switch to another product have to be taken into account while analyzing substitute threats. (Mind Tools)

Industry rivalry can be determined by industry concentration ratio (CP). It shows the distribution of market share between the companies within the sector. High concentration ratio indicates the dominance of one or few big companies on the market. In this case industrial situation is closer to monopoly and is considered less competitive. Low indicators of CP show that there are many competitors on the market, none of which posses leading position, which makes the segment highly competitive. (QuickMBA) The intensity of the rivalry can be also determined by: number of competitors, quality differences, product specifications, switching costs, customer loyalty, and cost of leaving the market. (Mind Tools)

3 EXPORTING AND DISTRIBUTION PLANNING

This chapter describes major regulations, techniques and practices in exporting and distributorship. It outlines the most important factors in planning for export including terms of sale and shipment, free trade zones and payment methods. It also give information on the types of distributorship, its organization and management.

3.1 Exporting

One of the most popular ways to enter a new market is through exporting. It allows a company to maintain high level of flexibility and does not require many resources and deep involvement. (Kotabe & Helsen 2001, 542.) Nevertheless, mechanics of exporting (see Table 2) differs significantly from domestic market operations. Choosing a distribution channel, planning pricing and promotion, preparing documentation and dealing with legal issues of foreign country are the essential steps to reach a new market. (Ghauri & Cateora 2006, 288.)

TABLE 3. The exporting process (Ghauri & Cateora 2006, 288)

| Leaving the exporting country | Physical distribution | Entering the importing country |
|--|---|---|
| <i>Licenses</i> General Validated <i>Documentation</i> Export declaration Commercial invoice Bill of lading Consular invoice Special certificates Other documents Other barriers | <i>International shipping and logistics</i> <i>Packing</i> <i>Insurance</i> | <i>Tariffs, taxes</i> <i>Non-tariff barriers</i> Standards Inspection Documentation Quotas Fees Licenses Special Certificates Exchange permits |

3.1.1 Regulations and restrictions

Companies involved in international trade face numerous barriers, regulations and restrictions both during exporting and importing phases. There are various reasons why governments try to control the free flow of goods.

One of the major politicized grounds for introduction of high importing tariffs is home industry and domestic employment protection. Once imported products are cheaper than domestically produced, the demand on home country goods can dramatically decrease. This can be a cause for cutting costs leading to reduction of employees or complete relocation of production facilities. (Investopedia)

The other reason is consumer health protection. If a country considers a product harmful or dangerous for the population, the tariffs can be set very high. (Ghauri & Cateora 2006, 289.)

Supporting infant industries, especially in developing countries, can be another ground for high import barriers. By setting high tariffs governments allow new home industries to develop their product not being soaked by successful global competitors. Thereby, they stimulate shifting from agricultural products to finished goods and create potential for economic growth. (Investopedia)

National security sectors and strategic goods production are highly protected by governments. Due to security reasons countries do not allow foreign companies enter these sectors. (Ghauri & Cateora 2006, 289.)

There are two major types of export/import barriers: tariffs and nontariff barriers. Tariffs and import controls are usually set by governments due to the reasons mentioned above.

Tariffs are customs duties or taxes against goods imported from foreign countries. Value and quantity serve as the basis for tariff rates. (Cateora & Graham, 2007, 441.) European Union being the largest WTO member in terms of trade has developed Common Commercial Policy (CCP) with its key element Common External Tariff

(CET) - a powerful tool in liberalization of trade. All the member states of the union must apply CCP conditions. Besides, EU has preferential free trade agreements as with EFTA and Turkey. Nevertheless, EU has various levies and restrictions on imports as, for example, Multi-Fibre Agreement, protecting the domestic market from competitive forces. (Ghauri & Cateora 2006, 291.)

Nontariff barrier (NTB) is an obstacle to sale in a foreign market rather than a tariff (Keegan & Green 2005, 269). Heritage foundation defines the following categories of categories of NTBs:

- Quantity restrictions (e.g. export limitations, import quotas, voluntary export restraints)
- Price restrictions (e.g. antidumping duties, border tax adjustments, counter-vailing duties)
- Regulatory restrictions (e.g. safety and industrial standards regulations, advertising and media regulations, licensing, domestic content requirements, packaging, labelling and trademark regulations)
- Investment restrictions (e.g. financial controls and exchange)
- Customs restrictions (e.g. customs valuation procedures, customs clearance procedures)
- Direct government intervention (e.g. industrial policy, government monopolies, national taxes and social insurance)

3.1.2 Free trade agreements

When beginning international operations it is vital to be concerned about the general market environment and legislations. Therefore, studying trade relations between countries of interest is worth including into export planning process.

Business dictionary defines free trade agreement as a “treaty between two or more countries to establish a free trade area where commerce in goods and services can be conducted across their common borders, without tariffs or hindrances but capital or labor cannot move freely”. (WebFinance)

Free trade area in its turn stands for a cluster of countries with no or very low level of legal and price restrictions and quotas between each other. (Investopedia)

The major institution serving as an “umbrella” for trade operation all over the globe is World Trade Organization (WTO).(European Commission) It is run by its member governments accounting for 157 members as in August 2012. WTO stands for smooth, predictable and free as possible trade. Current round of WTO negotiations encouraging the introduction of low trade barriers is called Doha Round or Doha Development Agenda officially launched in November 2001. (World Trade Organization 2012)

WTO sets the general rules for establishing bilateral agreements between countries, economic or custom unions, countries association etc. called Free Trade Agreements (FTAs) taking an advantage of:

- New open markets for goods and services realization
- Higher investment opportunities
- More efficient trade operations due to the common rules on customs, technical, and sanitary standards
- More predictable policy environment (competition rules, intellectual property rights, etc.)

(European Commission)

The most well known example of FTA is NAFTA, North American Trade Agreement between United States, Canada and Mexico, entered into force on the January 1, 1994. By the year 2008 all the duties and restrictions between the FTA agreement countries were eliminated, forming the largest free trade area in the world. At the moment 450 million people are linked through NAFTA while the worth of goods and services accounts for 17 trillion dollars. (US Trade Representative)

Each country can have a number of concluded and negotiating FTAs. For instance, European Union being a single market itself has FTAs in force with Chile, Korea, Mexico and South Africa while negotiating the FTA conditions with countries and country blocks as ASEAN (Vietnam, Laos Burma - Myanmar, Indonesia, Brunei, Cambodia, Malaysia, Philippines, Thailand, Singapore), GCC (Saudi Arabia Kuwait,

Qatar, Bahrain, Oman, and the United Arab Emirates), India, Malaysia, Ukraine etc.
(European Commission)

European Free Trade Association (EFTA) founded 1960 nowadays manages trade between its own members (Liechtenstein, Norway, Iceland, and Switzerland), trade with members of European Economic Area and with third country FTAs. EFTA and European Economic Area members form a single, internal market, meaning free movements of goods, capital, services and people within the member states. EFTA also has 24 FTAs facilitating access to another 33 partner countries, including Turkey.
(EFTA 2012)

3.1.3 Terms of shipment and sale

Terms of sale known as Incoterms determine how the obligations, costs and risks are divided between buyer and seller. In export operations Incoterms stipulate the next responsibilities:

- Cost for export packing
- Inland transportation
- Export clearance
- Loading on the vehicle employed
- Cost of transportation
- Insurance
- Customs taxes
- Damage or loss risks

(Langley et al. 2009, 321.)

Incoterms were first developed by International Chamber of Commerce in Paris, 1936. The latest version of Incoterms® 2010 came into force on January 1, 2011. Companies are recommended to use the new standards yet older versions as Incoterms® 2000 remain valid. However, the year of the Incoterms version used must be specified.
(ICCWBO)

There are thirteen main Incoterms split into 4 categories, the most frequently used are mentioned as follows (Rushton et al. 2006, 377-378):

- Ex Works (EXW) at the point of origin (any mode of transport) - All the costs are paid by the buyer. The seller delivers the goods at the disposal of the buyer to specified place not cleared for export or loaded on the collecting vehicle.
- Free Carrier (FCA) at named place on (any mode of transport) - The seller delivers the products, cleared for export, to the carrier provided by the buyer at a named place.
- Carriage paid to (CPT) at a named place of destination (any mode of transport)- The goods are delivered to the nominated carrier by the seller. All the additional costs and risks are covered by the buyer.
- Delivered duty paid (DDP) at a named place of destination (any mode of transport) - The delivery of goods to the buyer and import clearance are paid by the seller. The buyer does not bear the cost of unloading the goods at the place of destination.

Incoterms may be modified according to the seller and buyer specific needs, if they do not contradict the original Incoterm itself. For example, additional loading to the truck can be added to the responsibilities of the seller in the framework of Ex works. In this case the short explanation of the change must be added after the Incoterm acronym.

(Export 61)

Regardless the Incoterm used particular documentation is needed for export operations. The most main documents required are: Export Declaration, Bill of Lading, Commercial Invoice and Insurance Certificate.

3.1.4 Payment methods

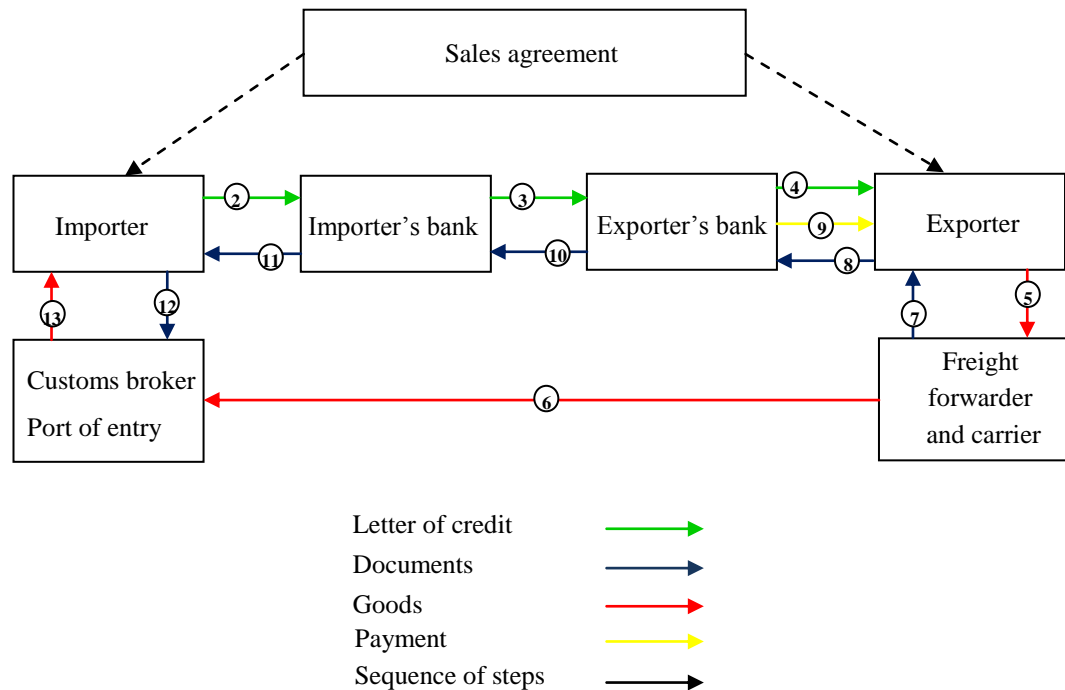
Choosing a relevant export transaction method is a significant decision in designing an exporting strategy. There is a number of ways financial operations can be implemented. Among those are: Open account, Documentary collection, Consignment, Cash in advance and Letter of credit.

Letter of credit

Letter of credit (LC) also known as documentary credit is the most widely used and safe payment method. It is based on the transfer of the buyer's and seller's risks to the corresponding banks involved into transactions. There are several types of LCs which vary according to the specifics of the contract between buyer and seller, time constraints or involvement of the third party into financial operations: revocable, irrevocable, confirmed, unconfirmed, transferable, assignment of proceeds, revolving, standby, back-to-back and their combinations. (Kotabe & Helsen 2001, 556.)

Terms and procedures of the LC process are standardized by International Chamber of Commerce (ICC) in order to avoid misunderstandings between companies involved in international trade. The latest version of Uniform Customs and Practice for Documentary Credits (UCP) came into force on 1 July 2007. It includes standards, general requirements and definitions of important terms. UCP wording is widely used by banks and all the participants of LC process. (Gov.uk)

Simple example showing the transactions between LC participants within the framework of irrevocable confirmed letter of credit is shown below:



- 1 Exporter and importer agree on terms of sale
- 2 Buyer requests its domestic bank to open a letter of credit
- 3 Importer's bank prepares and sends the LC including all the instructions to the exporter's bank
- 4 Exporter's bank prepares a letter of confirmation and letter of credit and directs it to the exporter
- 5 Exporter reviews the LC and if it is suitable dispatch the goods through freight forwarder to the port of destination
- 6 The products are loaded and shipped
- 7 Simultaneously the forwarder fulfills required documents and sends them to the seller
- 8 Exporter presents the documents, showing full conformity to its bank
- 9 The exporter's bank reviews the papers. If there are no discrepancies, the bank pays the seller stated sum of money
- 10 The documents are delivered to the buyer's bank for a review
- 11 If the documents are in order, the bank forwards them to the buyer
- 12 To receive the goods, importer presents documents at the customs
- 13 The products are released to the importer

FIGURE 4. A letter of credit transaction (Adopted from Ghauri & Cateora, 2006, 300)

3.2 Planning for distribution

The term logistic can be defined and applied differently to various organization types. Logistics management, materials logistics, integrated logistics management, physical distribution management, marketing logistics, distribution or industrial logistics – all are the variations of the same term, but carrying various specific meanings. (Langley et al. 2009, 34.) Katabe & Helsen (2001, 514) provide the following definition of the phenomenon: “ Global logistics is defined as the design and management of a system that directs and controls the flows of materials into, through and out of the firm across national boundaries to achieve its corporate objectives at a minimum total cost.”

The main international marketing logistics decisions are: logistics policy, transportation, packaging and warehousing, all of which should be coordinated with firm’s sales, distribution, procurement and production decisions (Mühlbacher et al. 2006, 587).

It is important to mention, that logistics serves not only as a business supporting tool, but also plays a significant role in modern economies. Logistics represents up to 15 % of GDP in big economies of North America, European Union or Asia Pacific. The cost for logistics in its turn varies substantially from one industry to another. It highly depends on the complexity of distribution channels and number of the parties involved. Besides, depending on the cost of the product, the relative cost of logistics changes. For the high value products as spirits, precious stones etc. the relative logistics cost is much lower than, for example, for low cost product as cement. (Rushton et al. 2006, 12.)

3.2.1 Key issues and challenges

High pace of globalization and technological advancements together with the increase in customer expectations constantly challenge companies to improve and renovate their supply chain and logistics approaches.

Some of the new demanding concepts in logistics are just in time (JIT) production and delivery, and quick response systems. In order to successfully fulfil these strategies

company should overcome a number of problems and challenges within external environment, manufacturing, supply, distribution, and retailing or home shopping. (Rushton et al. 2006, 85.)

External environment factors to be considered while designing and managing logistics network are:

- Economic unions – Deregulations within free trade zones can be a big benefit for the international supplier.
- Infrastructure – The time of delivery can be negatively influenced by poor infrastructure as lack of highways and connections, road congestion, banning of road freight movements at some times of the day or week etc.
- ‘Green’ legislations – In many countries restrictions on packaging and product features are set to facilitate recycling and repair as well as to minimize the use of raw materials.

(Rushton et al. 2006, 87-88.)

Another critical factor in adapting to changing external environment is company’s organization and network, which should be able to respond quickly and efficiently to the marketplace changes. (Langley et al. 2009, 22.)

Constant developments and changes in logistics technologies and logistics thinking create a high demand for qualified management and labour, which are not always available. Moreover, there is a number of unpredictable challenges in achieving successful logistics operations such as natural disasters, corporate failures, terrorism etc., which can influence and dramatically damage the company’s supply chain. (Rushton et al. 2006, 87-88.)

Information and statistics being extremely useful grounds for decision making in logistics organization can be useless unless timely and accurately managed and shared vertically and horizontally among the supply chain. In case it is well supervised, decisions on transportation, inventory levels and customer service can be made with greater accuracy. However, information share and control remains to be a big challenge within the companies. (Langley et al. 2009, 23-24.)

3.2.2 Role of E-commerce

Internet has already become an inseparable part of the business operations. B2C online transactions increase rapidly, becoming an ordinary tool for more and more consumer industries. It is harder to see the growth and intensity of Internet use for B2B industries. Oracle has made a research on current B2B E-commerce trends, and the outcomes are definitely worth attention.

First of all, the revenue of online B2B transactions already in 2010 was 100 billion dollars higher than in retail sector, accounting for 300 billion US dollars. B2B E-commerce is much more complicated in application as often several parties are involved in decision making process. Moreover, the product solutions and price offers are often customized and individual. Therefore, companies in 2010 have only started investing in online operations and this trend has been growing rapidly.

The key B2B channels in 2012 are remaining to be online catalogues and direct sales, while on the third place for making decisions B2B clients already use mobile web sites. It is one of the newest and fastest growing trends in B2B sales. Interestingly, the expectations of B2B customers in terms of Internet services are leaning towards B2C trends according to 80% of respondents.

Best practices and online marketing techniques are online catalogue, personalization, and search engine optimization (SEO). The other tools leading to higher revenues are paid search advertising and mobile web sites/applications, where the last has the highest growing potential. Besides, B2B companies invest in web site analytics, Email marketing, on site search and navigation and web content management. In 2012 more than 30% of companies were going to develop mobile applications.

The main role of the web site is to engage a client to make a sale. Even if the sale itself is not completely processed online, clients do preliminary research before making a final decision in the Internet. Therefore, the web page has to be informative, clear and easy to use. A customer should be able to easily access necessary product or service for the industry he or she is interested in. The main goal of B2B web source is to en-

able interaction. There are several most important points to pay attention at while improving customer experience in B2B web sites. (Chiefmarketer)

The first impression when looking at the web site should be absolutely positive and give the clear understanding about the company's function. It should be optimized for the search engine, so it is easily available when looking for particular key words. Moreover, the information for the customers as catalogues and product descriptions should be well structures and available for download.

The navigation should be clear and easy to use. A customer should be able to find necessary information quickly and best of all not using additional search tool. At the same time the web site search engine should also be functional and well designed. As mentioned before, the web site should be available via mobile devices, especially if the products might be purchased from distant places or construction sites.

Another detail which should be worked out carefully is the clients' information storage. As in B2B purchases are often individual and require much more details on customization and delivery, it makes sense to save it to make further sales easier, differentiate and personalize further buyer experience. (Chiefmarketer)

3.2.3 Channels of distribution

The major task of logistics is actual physical distribution. It involves operations as transportation, warehousing, inventory and service up to the point of the delivery of finished goods to the end customer. (Kotabe & Helsen 2001, 514.) Figure 5 shows major distribution channel types for consumer products.

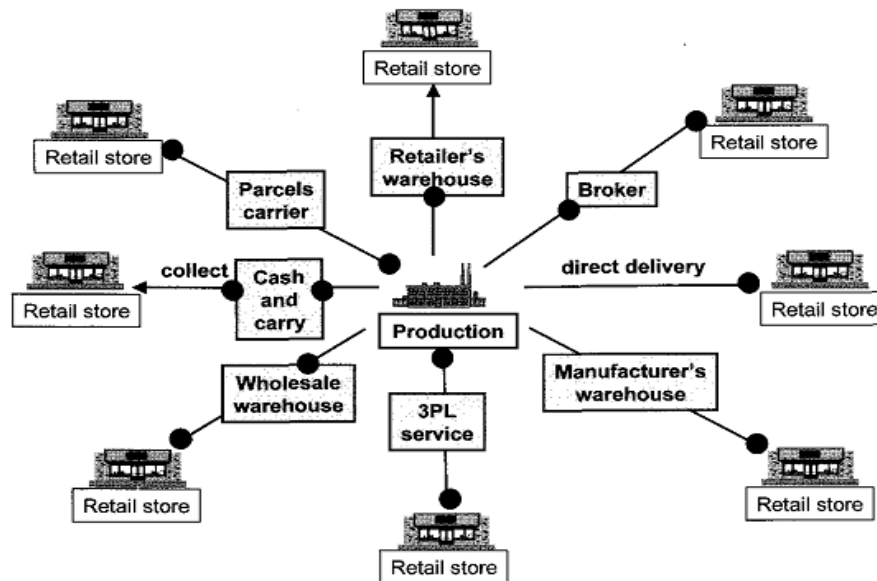


FIGURE 5. Distribution channels for consumer products (Rushton et al. 2006, 57)

Industrial products are often distributed through the additional channels skipping the retail store stage:

- Internet – Selling products through the own web site or internet retailer (e.g. Amazon) is already not a new practice for the companies. This channel is widely used both for consumer and industrial products due to its low cost application, easy access, simple use and high profit potential.
- Mail order – A customer can choose a product from the catalogue and receive it by post.
- Factory direct to home – Relatively rare method of distribution, which is used mostly for products made on a special order which do not need complementary services.
- Business to business – The main channel for industrial products distribution. It covers a range from small parcels to full trucks, while transportation can be arranged by manufacturer or the third party. (Rushton et al. 2006, 60.)

Choosing the distribution system and deciding whether to use independent or third party logistics several factors should be taken into consideration:

Physical properties

Type of goods, its packaging, assortment and way of delivery belong to the physical factors, implementation of those varies from country to country. Usually companies do not arrange the whole logistics system on their own, as by sticking to the own transport vehicles and methods, the flexibility significantly decreases while the fixed costs increase tremendously. Therefore, marketers need to choose third party logistics depending on which type of delivery of the product is common in the particular market.

Prices and costs

Prices and costs are the primary factors to be considered when choosing the channel of distribution. Price transparency and sensitivity as well as cost structure and variance are characteristics defining financial relations with the intermediary. In this case reliability and financial policy of international distributor is to be taken into account. If not liable, company-bound logistics operations should be used.

Order size and frequency

The size and frequency of orders by destinations, product groups and source can also influence the decision on distribution. In case if the company produces very complicated technical product sets and is responsible for their construction on site, independent distribution can be chosen for better safety and control over each step of operations.

Level of system development

The level of the local distribution systems and providers should be taken into account when deciding on type of distribution. In case it is low and it can be unsafe to deliver products through outbound operators, own logistics system can be considered. Nevertheless if physical distribution processes in a new market are unfamiliar to the company (as in developing economies) it is reasonable to use local intermediaries.

Movement of goods

The decision on choosing the distribution partner can also be made according to the presence of different distribution levels, production sites and sales warehouses as well as the number of transportation destinations to be reached in the market of interest.

(Mühlbacher et al. 2006, 590-593.)

3.2.4 Channel member selection

Customers often see only the channel representatives of the organization and perceive them as the company itself. Therefore choosing channel members is a task a company should approach very carefully. Looking for partners in a new unfamiliar market is a challenging process, which requires sufficient efforts. Sometimes business contacts are established accidentally, through personal networks or unplanned conversation during a business trip. However, more structured methods of finding partners exist. One of them is through the local advertisement in the country of interest, although the rate of response can be relatively low. The most common way firms use to establish business contacts and find necessary distributors is participation in local exhibitions and fairs. The cost of such search is relatively low while the selection procedure is one of the most efficient due to the opportunity to visit firms' exhibits and talk face to face to its representatives during one business trip. (Mühlbacher et al. 2006, 525.)

Selection process can be implemented according to the following algorithm:

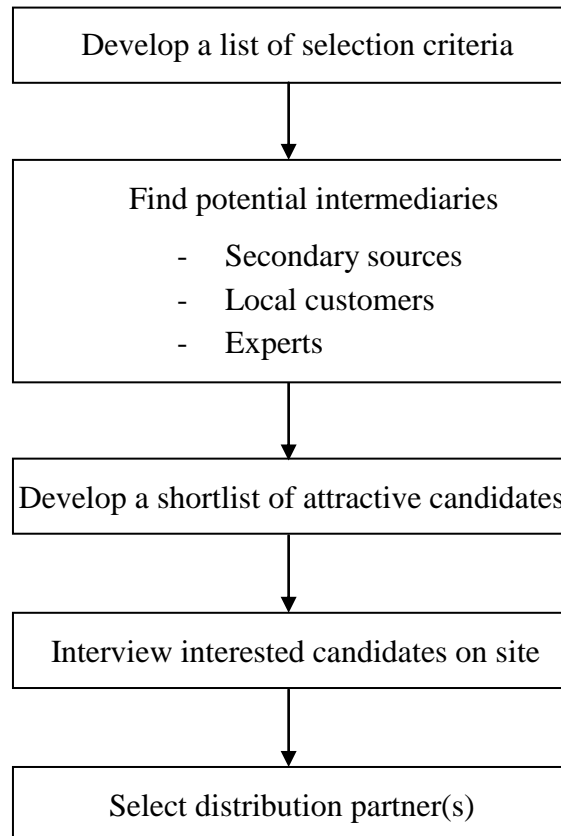


FIGURE 6. Channel member selection (Adopted from Mühlbacher et al. 2006, 525)

There is a number of secondary sources which can be used to find potential distributors. It is worth to consult these sources before undertaking further steps as business missions and interviews on site as their utilization is usually not costly, although requires substantial time investment.

TABLE 4. Secondary sources of information on potential distributors (Adopted from Export.gov and Mühlbacher et al. 2006, 530)

| | |
|--|--|
| <ul style="list-style-type: none"> - Government agencies - Trade organizations in home and host countries - National chamber of commerce - Expatriate representatives in the host country - Insurance companies and banks - Company's own customers, suppliers and competitors - Consultants - Trade directories | <ul style="list-style-type: none"> - International Institutions - Industrial suppliers catalogues - Foreign telephone directories and yellow pages - Trade directories - Annual and industrial reports - Exhibitions and trade fairs Industrial suppliers catalogues - Foreign telephone directories and yellow pages |
|--|--|

Utah U.S. Export Assistance Center suggests some practical advices on the search for distributors before a visit to the foreign country:

- Get in touch with others in the industry. Suppliers and manufacturers can have valuable contacts
- Contact customers of potential intermediaries. They know about strong and weak sides of their suppliers
- Contact expatriate business community in the country of interest. Speaking the same language, they can provide important information and contacts
- Use your own government services for trade promotion
- Don't hesitate to call abroad. This is the fastest way to get necessary information
- Look through trade leads, professional periodicals or journals. Editorial staff can have valuable information and contacts as well
- Organize operations through trade or industry association. Some representatives may have personal contacts in foreign companies
- Trade offices of the foreign government can also be contacted

- If there is a major industry magazine or web-site, it can be useful to advertise there
- Visit trade fairs and organize trade missions to the foreign market to personally meet a bigger amount of potential partners

Evaluating the attractiveness of the potential intermediaries the various criteria should be taken into account. Importance of each factor depends on the company's values and specific needs. Table 5 shows the main characteristics to be analyzed while choosing a distributor.

TABLE 5. Evaluation criteria of potential intermediaries. (Adopted from Multi-media Marketing)

| | |
|-----------------|---|
| Market coverage | Intermediary's profile, its existing customer base and amount of clients, sales force and retail facilities should be a good fit for the production company. |
| Sales forecast | Company should evaluate sales forecast of the potential distributor, considering not only the predicted profitability, but its overall objectives, promotion budgets and the size of the stock commitment. |
| Cost | The cost in terms of discounts to the performance of the intermediary is one of the crucial factors to be considered. |
| Other resources | Here the capability of the distributor to provide necessary tools and services expected by the end customer (express delivery, technical advice, installation etc.) |
| Profitability | Considering abovementioned factors the producer should evaluate the profit this or that distributor can actually bring. |
| Control | It is important to know in advance how the intermediary manages control over its operations, how the problems are handled, how often sales performance is reviewed and also if the producer will be able to influence its own products' representation. |
| Motivation | The attitude of the distributor to the new product plays quite an important role for future selling process. In case the sales force and the distributor are reluctant and non-enthusiastic about the goods it can negatively affect sales and profitability. |
| Reputation | Not the last thing to be reviewed is intermediary's track of performance on the market: profitability, solvency, growth rate, stability and reliability. |
| Competition | The fact that the intermediary distributes competitors' products can be seen as an advantage or disadvantage depending on the specifics of the business. |
| Contracts | In case the exclusive agreement is to be concluded, intermediaries profile should be reviewed even more carefully as well as the flexibility and the terms of termination should be clearly formulated. |

To structure the information and to make the selection process easier a weighting approach can be used- that is, to each of the critical factors the percentage of weight (importance) to the company should be assigned, then each factor is to be evaluated on the scale of 1 to 5 and the total counted. This method allows a manager to better differentiate the results, use the numerical estimation and draw objective conclusions. (Rush-ton et al. 2006, 552.)

After careful consideration and analysis a shortlist of attractive candidates should be created. The next step is contacting them via inquiry letter, which should include a short description of the company, extensive description of its products, overview of marketing strategy and a statement of the goals in the foreign, market. Besides a list of questions about distributor's competitors and customers, sales volumes and market share estimations as well as own marketing strategy and availability of resources should be addressed to the intermediary. (Mühlbacher et al. 2006, 531.)

Since the contact is established, the best way to process is to visit a distributor on site. It gives a marketer a much better understanding of the organization of intermediary's company, its location and resources. Besides, personal involvement of a key person on site can become a great advantage in future sales. (Ghauri & Cateora, 2006, 300.)

The final step is signing the contract with appropriate intermediary. Different types of distributorship agreements are mentioned further.

3.2.5 Types of distributorship agreements

The type of distributor contract can be selected according to the particular organization needs and capabilities of the both parties.

Within *exclusive distributorship* supplier agrees to sell the products only through the one distributor within defined territory. Distributor in its turn is implicated to promote the products on the market, while enjoying the benefit of substantial supply discounts. (Morgan McManus Solicitors) In *Sole distributorship* supplier also arranges agreement with only one distributor, but saves the right for direct sales to the customers on the market. (Crippslink)

Non-exclusive distributorship allows supplier to appoint different distributors in the same market and sell the products directly. (Morgen Russel Solicitors)

A company implements *selective distributorship* to establish a network, where each intermediary should meet certain minimum criteria. Selective distributorship is often implemented for the sales of products requiring additional services or technical equipment. (Morgan McManus Solicitors)

Joint venture is another type of distributorship agreement. Supplier and a third party distributor can create a joint venture and merge their channels, resources, capabilities, and experiences in order to achieve competitive advantage in a new market. (1000 Ventures) Besides, establishing a joint venture can help to avoid trade barriers while entering a foreign marketplace. (New Zealand Trade & Enterprise)

In order to support own direct sales some companies implement *occasional use distributorship*. This method is usually applied for non-standard goods (rarely sold, very large or very small) or non-standard operations (collections, returns). Covering seasonal demand increases or delivering to the peripheral areas with the small demand for the products can also be the causes for using occasional distributorship. (Rushton et al. 2006, 68.)

Regardless to the type of agreement every distributor contract typically include: 1) Products supply agreement; 2) Description of order and delivery procedures; 3) Passing of risk; 4) Terms of payment; 5) Specific obligations (e.g. pricing); 6) Sales targets; 7) Inspection of records; 8) Intellectual property rights; 9) Restrictions on trade and competition; 10) Exclusion of liabilities; 11) Product liability; 12) Length of agreement; 12) Termination of agreement; 13) Additional obligations. (Morgan McManus Solicitors)

3.2.6 Managing channel members

Signing an agreement is important yet not the final point in communication between exporter and distributor. Obviously, upcoming operations have to be managed and controlled in order to achieve desirable goals. According to Kotler (2003, 517- 522) in order to efficiently manage its channels a company should execute the following functions.

First of all channel members should be trained. The company should educate the personnel and provide necessary instructions. Employees working directly with the customers form the overall image of the product supplier. Therefore relevant investment of time and resources has to be made in order to achieve the excellence in the service.

Timely and extensive motivation of channel members can also improve sales performances. The company should constantly communicate its view to intermediaries, provide capability-building trainings and organize market research programs to improve channel members' achievements. Besides, coercive, reward, legitimate, expert and referent types of power can be used by producers to improve cooperation.

Evaluating channel members is the next step in managing intermediaries. Performance indicators as inventory levels, delivery time, sales per quota, treatment of damaged or lost product, promotion and advertising achievements should be periodically measured by the producer. The functional discounts, through which producer actually pays for the intermediaries' services, should be set according to the services provided by the retailer. In case of underperformance intermediaries should be retrained, consulted, remotivated or the contract has to be terminated.

Every stage of the product life cycle (introductory, rapid growth, maturity and decline) requires a modification of marketing strategy and distribution channels are not the exception. The switch of the channels can be implemented dramatically as from speciality retailers to web stores, where the whole marketing channel is added or dropped; or be applied through adding or dropping individual channel members.

(Kotler 2003, 517- 522.)

4 RESEARCH

The purpose of the research is to analyze business opportunities for Crathos AG in Finland, estimate the competitiveness of the industry within the target market and determine the ways of distributorship. Therefore, the research contains core information about the company, analysis of internal operations environment and external factors (SWOT), the overall overview of the market of the interest (PEST) and particular generator industry analysis (Porter's Five Forces). The deeper research of the market was made to find out the possible ways of distribution. The results of this research are represented in the chapter 5.

4.1 Company description

Crathos AG specializes on production of generators, electromotors, transformers and electricity services.

The company was founded in 2010 by its current CEO Ali Kara. Its office is located in central area of Berlin. The supplier of Crathos AG is Genpower, internationally operating power systems manufacturer having its production plant in Ankara, Turkey.

Crathos AG is one of the multiple brands and new projects of Genpower created in order to expand the distribution and retail network of the supplier. Initial strategy was to build a production site in Frankfurt and use the "Made in Germany" label in order to review the perception of the brand. However, due to the instabilities of the eurozone after the financial crisis, the project is still not implemented.

Nevertheless, being situated in the capital of Germany, particular image and positioning are already assigned to the firm. At the same time the main export markets of the company are not in Europe. During 2011 company was selling diesel generating systems to Asia Pacific and Middle Asia region - countries as Indonesia, Azerbaijan, Turkmenistan, Bangladesh and others. According to Ali Kara the turnover in 2011 was about EUR 1mln, while the forecasted sales in 2012 are about EUR 4 – 5 mln.

The company operates exclusively in business to business environment, establishing agreements with distributors or big industrial clients. Not dealing with end customers Crathos AG does not use high cost advertising. The main marketing channels are professional networks, web sites, directories and catalogues such as Ixpos.de, Business to World.net, Makepolo.com etc. Visiting exhibitions and participation in the industry events are also often used to widen network and reach new clients. Besides, Crathos AG was mentioned in Germany Investment Magazine within top investments of 2011. (Germany Trade & Invest)

4.2 Introduction of the product

More and more companies worldwide depend on the constant uninterrupted power supply. Power generators are widely used as back up energy sources in a number of industries. For instance, databases and networks, access to banking, governmental, military or business information must be available 24/7. Some businesses totally depend on the online data, whereas connection problems and websites downturns can lead to huge losses, decrease of customers' trust and overall company's image.

Constant power supplier is vital for the following industries:

- Healthcare – Even short term problems with electricity supply can cost peoples' lives.
- Mining industry – Reliable power supply is often needed in distant locations, where the connection to the grid is not possible.
- Construction – Companies in this industry sector are very dependent on their time deadlines and financial budget, therefore even the short downturns in electricity supply must be avoided. Besides, construction works can take place in remote locations.
- Telecommunication – Standby generators are irreplaceable for providing reliable service and ensuring coverage of the whole areas.
- Municipality – Public service companies, as for example water waste management organizations, have to work nonstop in order to serve the areas with

hundred thousand inhabitants. In this case back up energy supply also must be provided.

- Manufacturing and Commerce – These structures often has to protect their production and services by using standby power supply. (CAT)

In simple words, diesel generator consists of a combustion engine and alternator, converting the heat into electricity. In order to provide constant energy supply when switching from standard source of energy to the alternative one, more complicated and customized electric appliances are used.

The main focus of the Crathos AG is on sales of diesel generating sets and power systems within a range of 0,3 to 2500 KVA. Besides, any customized solution can be produced according to the client's need. The lowest voltage generators are usually purchased for personal use, home appliances and protecting small data systems, while generator with a power of 2500 KVA can be used for power supply of a hospital or a production plant.

4.3 Research methods

Market research is based on both primary and secondary data sources. A big number of web sources such as governmental sites and databases, official web sites and online catalogues, independent agencies and organization as well as consulting companies' reports were used in order to draw up an objective overview of Finnish business environment and the target market.

Basis for the company analysis is in-depth interview with CEO of the Crathos AG. Discussion questions can be seen in Appendix 1. In its framework, the main company's concepts, strategies and plans for operations in the Finnish market were discussed.

4.4 Situational market analysis

Beginning operations in the new market a careful study of its shaping factors should be applied. Situational analysis reflects the current environment of the market the company is planning to enter as well as its own internal determinants. In the framework of the research for Crathos AG PEST analysis of the Finnish market, SWOT analysis of the company itself and Porter's Five Forces industry analysis were made.

4.4.1 PEST analysis

PEST analysis gives a general overview of the Finnish market.

POLITICAL

Finland is a parliamentary democracy republic. There are 200 members in the parliament being elected every 4 years according to proportionally representation system. Prime Minister Jyrki Katainen is currently running the multiparty coalition cabinet. Presidential elections are held every 6 years, allowing maximum two terms for one candidate. Sauli Niinistö is the president of Finland since March 2012. (Finland.fi) The new constitution adjusted in 2012 gave more power to the parliament rather than to the president of the country. (Foreign Ministry Finland)

Political risk of Finland is graded "very low" with transparent and predictable legal system and business infrastructure. Finland is one of the EU and eurozone countries. Both president and prime minister belong to National Coalition party, which supports strong policy cooperation. Therefore the possibility of bureaucratic or governmental tensions in terms of international business operations is very unlikely. (AMB)

Finland is known for the development of eco-efficient and sustainable technologies and society. Being a part of EU eco standards are harmonized with the rest of the union. Nevertheless, there is a number of environmental legislations for businesses designed by Ministry of Environment to control and prevent environmental damage. Companies operating in Finland are obliged to fulfill them. (Environment.fi)

ECONOMIC

Finland is highly industrialized free market economy. Services constitute the largest sector of economy with 65%, followed by refining and manufacturing at 31 % and primary production at 3%.(Invest in Finland) Finland is ranked number 10 out of 185 countries in 2012 for the “Ease of doing business”. (Doing Business Project) The economic risk of the country is estimated as “low” meaning that weaknesses and adverse developments in the economy are not likely and do not create a potential threat for businesses. (AMB)

Finland has experienced a recession during the financial crisis of 2009. By the present moment economy has recovered and turned to positive growth indicators:

- predicted GDP growth in 2012 - 0,9% (OECD)
- GDP per capita in 2011 - €35.150 (Stat.fi)
- Harmonized inflation rate in 2012 - 3,09 % (Inflation.eu)
- Unemployment rate in 2011 - 7,8 % (Index Mundi)

SOCIO – CULTURAL

Finland is one of the biggest countries in Europe with the lowest density of population. On the territory of 338,424 square kilometers live only 5,4 million people. Life expectancy among men and women is 76 and 83 years respectively. (Finland.fi) Estimated population growth rate in 2012 is 0.065% (Index Mundi), which shows slow, but constant decline in population.

Healthcare system is successfully developed in Finland, although ageing is a critical factor leading to the reforms in the near future. (HBS) Excellent results of Finnish students constantly prove the highest standards and quality of education in the country. (Guardian UK)

TECHNOLOGICAL

Innovations and technological advance is the basis of Finnish economy. Latest technologies and solutions are implemented in sectors as cleantech, mobile industry, healthcare and new materials and processes. These spheres are usually the most attractive for foreign direct investments. (Invest in Finland)

The role of Internet in Finnish society is constantly growing. Two thirds of the whole population ordered some products online during last year, while 60% uses Internet several times daily. (Stat.fi)

Estimated investments for Research & Development in 2012 account for EUR 7 billion. The GDP expenditure on R&D is going to be about 3,6 %.(Stat.fi)

All in all, Finland is a country up-to-date with the latest technologies and practices, which facilitates a favorable climate for successful international investments, establishing businesses, cooperation and partnerships.

4.4.2 SWOT analysis

SWOT analysis outlines major performance features of Crathos AG.

SWOT analysis is based on the two in-depth interviews with CEO of Crathos AG Ali Kara – one before business trip to Finland and another one after. Within their frameworks company's current position, operational model, marketing strategies, opportunities and plans for the future were discussed.

After giving a general overview of the company, Ali Kara highlighted a couple of its major advantages. One of the main competitive advantages of Crathos AG is customization. Although the company has a wide range of the standardized products (more than a hundred), he said that customers often prefer to have exclusive features and design of the gensets. Purchasing from Crathos AG, customers can choose the arrangement of the engine and particular capacity. The company offers custom lines even for a single product. Secondly, the CEO focused on the speed of production and

delivery. Compared to competition the products reach the end user very quickly - already in 1 week if they are in stock; or within 1 month if they have to be manufactured.

Another advantage of the company discussed is pricing strategy. Crathos AG implements flexible pricing. Depending on the country of export and distributorship terms, Crathos AG offers to distributors discounts of 15 - 20 %. Exclusive distributor can get a discount up to 25 %. Under the exclusive distributorship contract an intermediary has to sell only the Crathos production, promote it, have sample products on display in a showroom and provide professional consulting.

The payment for the goods can be implemented in two ways. In order to start operations 30 % of the price has to be paid in advance. When the money is received the products are put into production. The rest 70 % are paid upon the delivery of the products. The second method is the payment with the traditional letter of credit.

Ali Kara also has mentioned that Ex Works at Factory Incoterm is used for the delivery of the products, which means that the buyer (distributor) is responsible for the transportation and documentation. This way no extra costs are inclined to the product's price. The trucks with the products are dispatched from the factory in Turkey straight to the customer. Turkey is linked with European Union by a Customs Union Agreement, which facilitates non-barrier imports to the EU territory. The office in Germany is liable only for financial transactions and communication processes.

The main ground for the location of the office in Berlin is marketing positioning and trust of the customers. Due to the same reasons Crathos AG is defined as a partner of Genpower and not as a direct distributor. Crathos AG is an independent company and brand.

The German market itself is very intense and hard to enter due to the big number of powerful producers in Germany and neighboring EU countries. Nevertheless, the company is planning to open a production site in Frankfurt. When it is accomplished it will give Crathos AG a better opportunity to step into the genset market in central Europe.

Ali Kara said that the company is aiming to serve the niche target market to avoid the competition with giants like MAN in Germany or Wärtsilä in Finland. These companies concentrate on the huge orders and whole power plants production, while Crathos AG mainly targets distributors who serve consumer markets and relatively small business and industry installations as for offices or production facilities.

Finland was chosen as a first market to enter in Scandinavia. In a way it is a trial to see the potential for the Crathos AG and how the business can be established there. The starting point was the “travel with the minister” program organized by consulting company ZAB Brandenburg. The delegation to Finland and Norway was organized to promote small and medium enterprises from Brandenburg area and was coincided with the visit of the minister of Brandenburg to Finland and Norway. Consulting company also organized several meeting for Crathos AG in Helsinki, which is a great start for building business network in the new market.

In terms of expectations and feasibility of operations in the Finnish market Ali Kara said that approximate turnover should be around EUR 1 mln, although each agreement is always considered individually. For example, if distributor operates only with low capacity gensets EUR 100.000 – 200.000 orders per year can be accepted.

Concerning future opportunities, Ali Kara mentioned that bio fuel generating sets are already made for the request and there is no a problem to adapt to rapidly changing, more eco-friendly technologies. At the moment company produces generating sets according to European standards. Moreover, the major parts used for the genset construction are bought from European companies. Engines from worldwide recognized suppliers such as Volvo Penta, MTU, Cummins, Perkins or Doosan are used.

One of the weaknesses discussed was a not a very well developed web site of the company. Ali Kara noted that making a professional web site is one of the things the company is going to improve in the nearest future.

During the seconds interview I asked Ali Kara to tell about the results of the business trip to Finland. He told me that it was very well organized and all the meetings went

very positively. He mentioned that 90 percent of the companies were the perfect targets for Crathos AG and highlighted that it would not be easy to arrange it using traditional marketing methods and without the help of a consulting company service.

Nonetheless, no actual contracts were signed during the trip. Ali Kara mentioned several reasons for that. First of all, the specifics of the sector imply long-term trustworthy relations which require time to be initiated. The second reason is still not very stable economic situation in Europe, while companies are trying to stay on the safe side and hesitate to engage into new partnerships. Besides, the sector is very competitive as there is a very big amount of well-known ginseng producers in Europe and in China. Ali Kara also said that Crathos AG needs better positioning on the market as it turns out to be in the middle between cheaper Chinese products and more expensive European ones.

The outcome of the trip is in specific information and closer look into Finnish ginseng market as well as first connections to the distributors in the sector. With the development of the company they can be used for further cooperation and closer market research. The names of the companies are not mentioned in the thesis due to confidentiality reasons.

All in all, a lot of practical information about the company and its future plans was gained during the interviews. Ali Kara explained all the processes simply and clear and answered all of my questions. Each interview took more than an hour and was a great excursus to the whole practical business cycle as well as completely new industry for me. The CEO of the company also used a big amount of business terms and concepts, which showed that the theory stands not so far from the real business operations.

Table 6 represents the summary of the strengths, weaknesses, opportunities and threats of Crathos AG.

TABLE 6. SWOT analysis of Crathos AG

| | |
|--|--|
| <p>Strengths</p> <ul style="list-style-type: none"> • Quick production and delivery • Flexible pricing strategy • Products customization • World recognized suppliers' brands • Wide range of standard products • Production according to EU ecological standards • Office in the center of Berlin • Easy exporting as Turkey is in the EU Customs Union Agreement • Production costs lower than in EU | <p>Weaknesses</p> <ul style="list-style-type: none"> • Weak brand name (newly established company, the brand is not well known) • Web-site (web site does not provide full set of information about the products, design does not look professional) • The company is located in Germany, but the production takes place in Turkey |
| <p>Opportunities</p> <ul style="list-style-type: none"> • Planned opening of a production plant in Germany will lead to increase in image and more efficient distribution channels around Europe • Partnership and distributorship in Scandinavia • Enlarging distribution network • Launching bio diesel generators and eco-friendly production lines • Improving web-site informative and marketing functions can increase the interest among distributors | <p>Threats</p> <ul style="list-style-type: none"> • Restriction of environmental regulations • Growth of fuel prices • Intense competition in the sector (big amount of suppliers from India and China) • Substitute products (wind, water, solar power generators, biogas generators) |

4.4.3 Porter's five forces (Industry analysis)

Porter's five forces analysis assists in understanding industry environment and competition for Crathos AG.

Threat of new entrants

With the extensive use of Internet entering a new market through exporting is not a very complicated process. Companies producing generating power sets are usually working on global scale. The biggest amount of production plants is situated in China, India and Turkey. These suppliers often have different channels of distribution from direct sales to the more complicated distribution chains all over the world.

New entrants can bring price decreases and new concepts to the market, although it is not easy to influence the market structure without relevant brand image and enduring sustainable performance. Therefore, threat of new entrance to the Finnish genset market is possible and should not be undervalued due to the fact that more and more companies widen their operations scale and go global.

At the same time current access to distribution channels in Finland is not easily available. Numerous suppliers and unstable economic situation in EU make distributors and retailers be very cautious in terms of new partnerships, thereby making market entrance more challenging for the new companies. However, stable position and serving particular market niche can help to avoid upcoming competition.

Threat of substitutes

Low power gensets used for individual houses and producing relatively small amounts of energy can be substituted by Uninterruptable Power Supply (UPS). It is helpful in case of short-term problems with electricity supply. It can also protect small computer systems and databases or facilitate safe disconnection, and avoiding losses of information. UPS systems are more expensive than gensets, but do not require fuel supply, being charged automatically. (Fabrikatoka)

Water, wind or solar power generators can serve as substitutes for diesel gensets. Renewable energy sources are becoming more and more popular around the globe while being definitely the most environmentally friendly. At the same time some remote areas do not have enough natural resources for necessary power supply. Besides, installation of equipment for a single house or organization can be costly. (EAI)

The direct substitutes for diesel gensets are gasoline, propane and natural gas generators. Gasoline gensets are available in wide range and the fuel is easily accessible at any petrol station. Nevertheless gasoline is more expensive compared to the diesel, and can be stored only for the short period of time. Propane, on the other hand, can be stored indefinitely, but the durability of the propane generator itself is much shorter compared to the diesel one. Natural gas is the most environmentally friendly and easily accessible in many areas. The disadvantage of this substitute is its high cost. (Top Generator Reviews)

Power of suppliers

Production of diesel engines is a competitive market with a big number of manufacturers and components' suppliers. Crathos AG uses engines mostly from European suppliers: Volvo Penta, MTU, Cummins, Perkins. Obviously working with these suppliers involves specific image and quality benefits. Besides, an option to choose an engine brand for a genset is one of the advantages offered by the company. Therefore, cutting the range of suppliers would not be a desirable outcome.

At the same time other suppliers' products can also be used in case of drastic changes in one's supplier pricing policies. As the market stays globally competitive, such changes are not very likely.

Power of buyers

In relation to Crathos AG actual buyers of the company are distributors as all the operations take place within business to business environment. The company proceeds its sales only through intermediaries, which sets their bargaining power significantly high. Big number of genset suppliers from China and Europe give the distributors a widest range of products and companies to cooperate with. For Crathos AG channels of distribution are very important, thus every contract worth flexible approach and negotiations in order to satisfy both parties, not losing sales on potential market.

Exclusive distributorship is a contract of the strongest commitment, where the whole country is served by single representative. In this case distributor has the biggest bargaining power, while is has to fulfill a wide range of obligations.

Industry rivalry

Wärtsilä is a dominant Finnish manufacturer of marine diesel engines and power plants. However, it focuses on much bigger generators and power systems than Crathos AG. As it was already mentioned, the worldwide market for diesel engines and generators is very competitive. Nevertheless, the majority of the companies specialize in marine, industrial and automobile diesel engines. Crathos AG is aiming at serving niche consumer market for diesel gensets as well as offer individual custom lines for industries and single enterprises. Global suppliers as Caterpillar, Cummins, Landpower Machine, Powertech, Aksa Power Generation, Scania, ABB, Alstom, Atlascopco, MAN etc. have their exclusive distributors in Finland, which makes industry rivalry very intense. Major Finnish domestic competitors are AGCO group and SISU Diesel, Kw- Set Oy, BTB Plaza Ltd., Oy Telva Ab, Machinery Group Ltd., Northern Automation and Geneset Oy. Another recent factor influencing competition in the sector is that a Finnish- Russian production plant for multipurpose diesel engines conducted by Wärtsilä is going to be built by 2013 in Russian province Penza.

5 SUGGESTED SOLUTIONS

The results of the diesel genset market research are represented in this chapter. They show the possible channels and organizations which can be contacted in order to establish business contacts or get valuable information. The selection of the organizations was implemented according to particular needs of Crathos AG.

5.1 Non-exclusive distribution

One way to start operations in Finland is to find local distributors. It is not an easy task as small industrial companies usually do not have well-developed, highly rated on Google web sites. In order to reach them, taking part in industrial fairs and exhibition can be helpful. One of the benefits of participating or just being informed about such events is that the list of participants is often available after the event and can be referred to later by potential distributors. Examples of the energy sector events are:

- Energia – Energy fair and Finland’s biggest event for the energy industry with 300 exhibitors held in Tampere.
- Tekniika – Exhibition and a meeting platform for the automation and production technology professionals. Tekniika takes place in Jyväskylä.
- Finn Metko – The biggest trade and sales fair for heavy machinery in Finland. Total exhibition area in 2012 was 120 hectares located in Jämsä.

Suggested potential distributors and client in energy sector and full service project management are collected in Table 7.

TABLE 7. Suggested potential distributors.

| Company | Web-site | Description |
|-----------------------|-----------------------|--|
| Northern Automation | na-oy.com | Company specializing on power plants and marine installations with experience in standby and continuous diesel generator installations. |
| Coromatic Oy | coromatic.fi | Company provides physical IT security, including uninterrupted power supply and backup power via diesel power generators. |
| CTS Engtec Oy | ctse.fi | CTS specializes on projects in industrial sector including energy, forestry, metal and mining industries. |
| Voimalaite | voimalaiteservice.com | Company specializes on production, installation and maintenance of gensets. Its main partner brands are located in Europe. |
| Vem Motors Finland Oy | vem.fi | Vem Motors offers energy solutions and services to the industrial clients. |
| AHMA Insinöörit Oy | ahmainsinoorit.fi | Company provides full service project management solutions for big scale demanding industrial projects |
| Projecta | projecta.fi | Innovative technology company, possessing successful expertise in providing solutions and industrial components for woodworking and metal sectors. |

Governmental or industry supporting companies can be of a great help while looking for potential distributors and getting to know a new market. Table 8 represents some of the Finnish organizations supporting energy, construction and marine industries and international businesses in general:

TABLE 8. Industries supporting organizations.

| Organization | Web site | Description |
|--|-----------------------|--|
| Confederation of Finnish Construction Industries | Rakennusteollisuus.fi | Confederation represents and supports Finnish construction industry. About 2700 companies are organized through CFCI. |
| Building information group | rakennustieto.fi | Leading provider of information on construction industry in Finland. Most of the Finnish building professionals are the clients of the group. It also provides R&D service thus being one of the key information sources about access to construction sector in Finland. |
| Confederation of Finnish industries | ek.fi | Confederation supports Finnish business environment in order to maintain it internationally attractive and competitive. There are 5 offices in Finland. |
| Finnish Petroleum Federation | oil.fi | Finnish Petroleum Federation represents the interests of Finnish oil companies, thus possessing valuable information and contacts in the sector. |
| Finnish Marine Industries Federation | finnboat.fi | Current information about the Finnish marine industry, its members and events can be found through Finnboat. |
| Finnish Energy Industries | energia.fi | Company provides various kinds of statistics for the Finnish energy sector. |
| Invest in Finland | investinfinland.fi | Company provides consulting services for international companies. Web site contains up-to-date information on different business sectors as well as useful links to specific sources. |
| Bio Energy in Finland | finbioenergy.fi | Finnish Bioenergy Association provides relevant statistics, contacts and industry information in the Finnish market. |

5.2 E-commerce

Although online sales in diesel genset market are not common due to the complexity of the product and frequent need for customization, some E-commerce techniques can be used to attract bigger amount of customers.

First, design and usability of the website should be improved. All the necessary information should be easily accessible on the web pages. The web site should give a positive first impression. In order to achieve it professional design should be implemented. Moreover, consistent company background should be provided.

Secondly, the content of Crathos AG web site also should be revised. At the moment it does not provide the full range of products and services the company offers. The web site should have a complete online catalogue with an option to download and print it as a whole or page by page with all the product characteristics. Search engine on the web site should also be implemented in order to make the search of particular products or services more convenient.

Besides, services offered should be explained in detail. Examples of the fulfilled orders could be helpful in terms of marketing and winning the customer's trust. In addition to the page with contact details, it could also be useful to have contact information on each page of the web site either on the side or in the footer. At the moment web site of Crathos AG is not fully available from the mobile, which also could be improved as using mobile versions in B2B becomes more and more popular.

All in all, the web site itself should encourage the customer to purchase the products and create an overall reliable and positive image.

Online marketing tool to increase traffic to the web site, overall awareness about the brand, and following sales is search engine optimization. It should be applied in each target market as the customers may use different key words to look for the products. When entering the Finnish market, it is important to make sure that the company is easy to find in the search both in English and Finnish languages.

Online marketing is not only about the web site of the company but also about its presence in World Wide Web. Specialized online industry forums and platforms can be helpful in terms of meeting potential partners and distributors:

- Europages (europages.co.uk) – Business to business search engine for EU
- Alibaba.com (alibaba.com) – B2B online market place, allowing access for numerous suppliers and distributors.
- Tradekey (tradekey.com) – Another online B2B platform, where international importers and exporters meet.

5.3 Construction sector

Construction industry can be of an interest from two sides. First, constant power supply is necessary on construction sites, where deadlines and accuracy of work are among the most important factors. For these purposes Crathos AG can offer a number of generators of various capacities as well as customized solutions. Second, public construction companies are the key to the end customers. Individual clients or organizations interested in turnkey solutions may be offered to have power standby system included into the project or as an additional option to energy and electricity supply planning. These companies can have Crathos AG catalogues or sample products at the exposure, getting a distributorship discount for the products or getting a certain percentage from completed sales.

Representatives of the construction companies or agencies can be contacted directly through web sites or emails. The major Finnish construction companies are: YIT, Lemminkäinen, NCC Construction Finland, Honkarakenne Oyj, Skanska Oy, SRV Group etc. These companies provide various individual and business solutions, therefore partnership or promotion through one of them can be a great opportunity to reach Finnish customers.

Another way to establish connections with local construction companies is visiting fairs and exhibitions of the field. For example:

- Building trade and home renovation –The exhibition will take place in Jyväskylä 8 - 10 March 2013
- Finn Build-Helsinki International Building Fair – International exhibition is one of the ways to find new promotion and cooperation options. Dates are not available yet
- Asta Constructor – Construction exhibition, which will take place 8 - 13 February 2013 in Tampere
- Raksa Construction – Construction exhibition in Lahti, 15 - 17 March 2013

5.4 Industrial sector

Industrial sector holds a big sales potential for the power supplying companies and Crathos AG is not an exception. Metal industry (Kuusakoski Group, Outokumpu Corporation, Rautaruukki Corporation), mechanical engineering (Componenta , Hackman Group, Hollming Works, Lamor Corporation Ab, Patria Industries),chemical industry (Premix Oy, Orion Group, Muovix Oy, KWH Pipe), healthcare industry (Leaf, Polar Electro, Raisio Group) and many more companies and their new projects require constant energy supply.

Moreover, Finnish Industry Investment Ltd. received EUR 30 million investment for the development of the mining cluster. In relation to Crathos AG, it means that new mining projects and companies will appear and power supply options will be on demand. (Tem.fi)

There are some platforms and fairs where the representatives of these companies can be met:

- Finnmaterialia – Exhibition and congress for mining industry in Jyväskylä. At this fair potential customers from heavy industries interested in power generators can be found. 21 – 22 November 2012
- Finnish Medical Convention & Exhibition – Biggest medical fair and exhibition in Finland will take place 8 – 11 January 2013.

6 CONCLUSION

The main questions of the thesis are answered in the market research and in suggested solutions chapters. The whole paper is a basis for further decisions and actions of the company. It provides a substantial structured analysis of the Finnish genset market and possible ways of Crathos AG products distribution in it. Practical data leans both on theoretical background and current trends in business environment.

When beginning the work on the thesis I had quite a vague idea about distribution processes and obviously I was unfamiliar with diesel generating sets market. Consequently, the task was challenging and demanding for me in terms of understanding the topic and finding relevant and useful sources.

Diesel gensets market is a very specific area, where the information is not easy to access. Therefore, both primary and secondary data was gathered in order to draw critical and precise conclusion. Interviews of the professional of the field were the key ground for the analysis. They formed both a comprehensive introduction into the sphere and a substantial basis for the following research. I hardly can imagine doing this study without relevant practical information from the CEO of Crathos AG. Secondary data sources such as books, articles, databases, reports and white papers were selected according to their validity and reliability. Theoretical material was gathered from the books printed by renowned publishing houses. Reliability of the web sites can be questioned, although I have tried to select the most relevant sources. All the practical solutions represent currently active companies, organizations and events, which can be found in the supplemented Internet sources.

This thesis required hard work and a great deal of persistence. However, it was a great excursion into the real business life, opening to me one specific business to business field with its own market, particular characteristics, challenges, and competition. It was interesting to see how the practical operations in this sphere are connected to the well known theoretical postulates. At the same time the outcomes of the thesis show that theoretical hypotheses can face many challenges when it concerns the real life market situation.

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APPENDICES

Interview framework

Company background

1. When the company was founded?
2. What is the company's business idea?
3. What kind of operational model is currently used?
4. Which markets are served?
5. What is the company's target group? Business to business or business to customer approach?
6. How the sales are proceeding?
7. How long does it take from initial purchase till the product delivery?
8. What kind of marketing and advertising strategies are used?
9. What is the company's competitive advantage?
10. How the company deals with ecological standards?
11. Which regulations are critical for the business?
12. To which extent e-commerce and web transaction are used?

Planning the Finnish market entrance

1. What kind of entry strategy is relevant to the company?
2. What kind of pricing strategy is going to be introduced?
3. Are there regulations critical for Finnish generators market?
4. What are the minimum order requirements? What is the minimum optimal amount of products to be sold while establishing a distributorship agreement?
5. What kind of marketing strategy is going to be implemented in order to find customers (distributors)?