

# DESIGNING A NETWORK OF CUSTOMER-ORIENTED DISTRIBUTION CHANNELS

Case: Company X in Automotive Industry

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Abstract <p>The purpose of the thesis was to develop a design of the customer-oriented distribution channel network for the Finnish-based manufacturing company exporting industrial furniture to the Russian market. The case company is targeting a new customer segment of the authorized auto-dealers and service centers in the Saint-Petersburg market. The target customer's needs and requirements for the supplier and manufacturer of industrial furniture were examined in order to apply them in designing the network of distribution channels. The traditional concept of the distribution channel was revised and enhanced with a contemporary trend in an industrial sector and B2B marketing in order to make it a more functional model of distribution networking.</p> <p>The research strategy is based on a single case study due to the nature of the research questions and studying a single organization in the context of the phenomenon of distribution network. The empirical data was collected through the semi-structured interviews with the representatives of the target customer segment, current distributors and the management of the case company. The market analysis was carried out using the multiple sources of the secondary data.</p> <p>The results of the research revealed important factors directly influencing the distribution channel design. The locations of the core business, availability of potential distributors, terms of trade (Incoterms) are examples of the crucial factors. The foundation for the long-term profitable cooperation with the Russian partners is laid upon trust, commitment and communication.</p> <p>In conclusions, recommendations are provided to the management of the case company in order to facilitate the process of building up a sustainable distribution channel network in the Saint-Petersburg market. The research implications may be of interest to various export organizations, targeting the Russian market and looking for a reliable partner.</p>		
Keywords Distribution channel design, business network, reseller partnership, export marketing, industrial furniture, automotive cluster.		
Miscellaneous		

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## 1 INTRODUCTION

The Russian export market has been an important and attractive for the Finnish small and medium sized companies (SMEs) for the last two decades. In 2005, there were over 3,700 companies exporting to Russia and more than 80% of them were SMEs. Of the total value of the Finnish exports to Russia, SME accounted for 17% (Ollus & Simola 2006, 30).

The industrial manufactures, exporting physical goods to the foreign markets, aim at reaching end-users of their products in the target markets, increasing sales and making a profitable business. Due to the scarce resources and lack of a local expertise, such goals cannot be achieved without using services of local intermediaries or organizations, which connect the manufacturer to the end-user of the company's product. It especially concerns SMEs exporting companies that cannot compete with the multinational companies and their powerful, whole-owned sales subsidiaries. Lindgren and Rosendahl(2004, 34), Cavusgil (1998) state that SMEs mostly expand internationally by forming partnership with foreign agents and distributors.

The Finnish-based manufacturing Company X has a long history of exporting industrial goods to the Russian market. The export was fragmented and carried out through the key local distributors in Russia. The current distribution channels of the Case Company in Russia mainly concentrate on electronic industry and are represented by a few key players in the market area. The range of exported products to Russia is limited by the specialized industry's needs and requirements. The new market opportunities, unfulfilled demand in customer segments and overall business strategy of the case company provide a solid basis for a further expansion in the Russian market.

The new entry mode of establishing a wholly-owned subsidiary in the target market was chosen and implemented. However, due to the limited resources at the initial stage of subsidiary's operations, there are challenges arising from an optimization of the current distribution channels and finding new potential distributors for the customer segments. The Case Company is interested in designing an efficient channel network for a particular customer segment of the automotive industry, maintenance and repair in order to deliver premium quality products to the end-users.

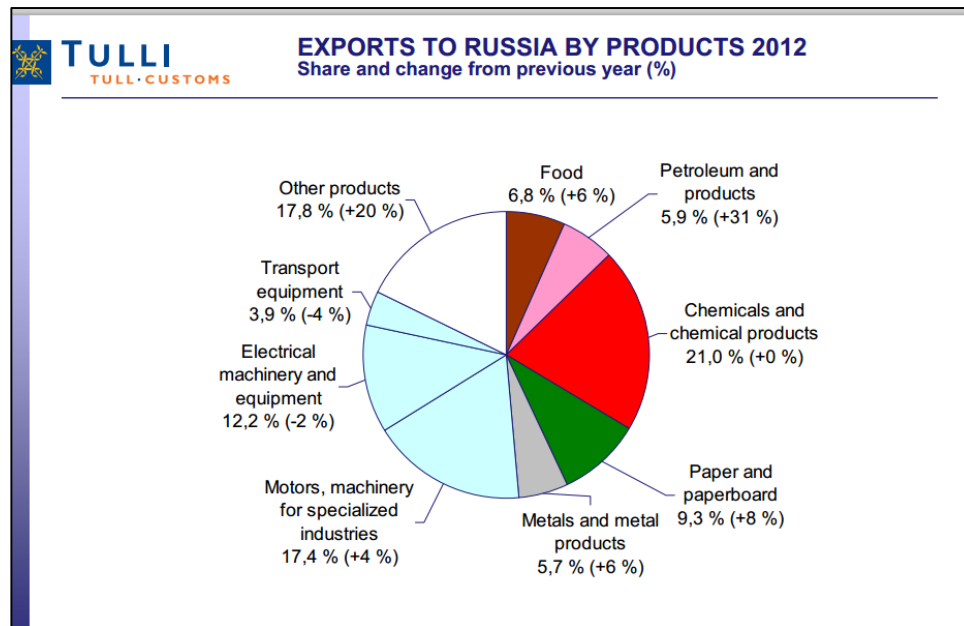
The author of the thesis has a particular interest in getting a deeper understanding of the distribution channels in Russia, utilized by a foreign exporter-manufacturer. The knowledge, gained through the thesis process, will contribute to the author's future career development in the field of international trade, sales and distribution.

### **1.1 The Role of the SME Finnish companies in an export to Russia**

The Case Company X belongs to the SME Finnish-based companies, which successfully export industrial goods to Russia. It is important to revise the structure of the Finnish export and opportunities for expanding export activities in the Russian market.

Nowadays, Russia is a key trading partner for Finland and an export destination. According to the Finnish customs statistics, in year 2012 Finnish total value of export to Russia was EUR 5,7 billion and it has increased by 7%. Motors and machinery equipment for the specialized industries, pulp and board are dominated in the export structure to Russia in 2012 (See Figure 1.)

Russia still remains the most attractive market for the Finnish companies for an export promotion according to the results of the survey on internalization and trade barriers, published by the Ministry for Foreign Affairs and Trade of Finland in 2012. At the same time, considering the barriers to trade and investments, Russia is also viewed as the most problematic country (Press release 259/2012).



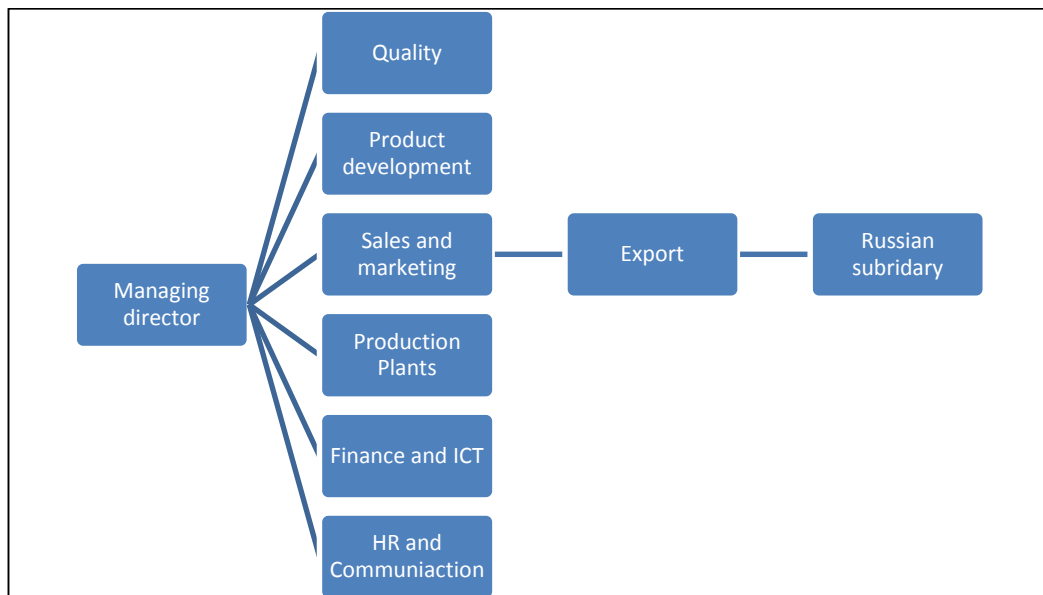
**FIGURE 1.** Export of Finnish goods to Russia 2012. Source: Finnish Customs Statistics

## 1.2 Background of the case company

The case company's background provides general information about its location and manufacturing premises, product assortment, the organizational structure, the number of employees and its subsidiaries. The case company is a Finnish-based medium-sized manufacturing company, specialized in designing and producing industrial furniture and ergonomic workstations. Besides industrial furniture, it manufactures storage and shelving systems under separate brands for private households and consumer segments. The case company was established in 2011 due to the strategic merger of two Finnish companies with similar product portfolios and customer segments. The merger was aimed at strengthening the position of the company in the market and making it a market leader in Europe. The factories and office premises are located in Jyväskylä and Turku, Finland. The number of employees is around 300. About 65% of the production is exported. The case company has 7 daughter companies, located in Europe, the USA and China as well as a wide network of selected dealers in more than 20 countries. The total sale in 2012 was 50 million euro.

The case company gained extensive experience and know-how in making high-quality, durable and ergonomic industrial furniture which can be modified and tailored according to the nature of the working environment. The wide range of products includes workbenches, trolleys, chairs, perforated panels and hooks, lightning solutions, and drawer cabinets. The case company offers industrial furniture to B2B customers, operating in the electronics, aerospace and automotive industries, and in the fields of maintenance, logistics and packaging, including R&D centers and laboratories.

The organizational structure is functional and consists of six business units such as quality, product development, sales and marketing, production plants, Finance and ICT, and HR and communication (Figure 2). The management of the Russian subsidiary will report to the export manager, who is responsible for the distribution and sales in the Russian market.



**FIGURE 2.**Organizational chart of the case company. Adopted from an internal document.



The case company has been considering the Russian market as one of the most potential since 2007. It had been planning to launch a subsidiary company in the Russian market in 2008 but the global crisis ruined the original plans and the entry was postponed.

Nevertheless, the case company has a representative of its own in Saint-Petersburg. The representative has been working for the company since 2007. The main responsibilities and duties of the representative include controlling the current distributors and facilitating the cooperation between them and the Head office, promoting the brand via participation in industrial exhibitions and advertisements in specialized magazines, translating and updating information on the web-site in the Russian language.

Since the case company is experienced in managing its own subsidiaries across the borders, launching the subsidiary in Russia was a natural choice for the market entry mode and further expansion. The preparatory market research through studying the political, economic and legal environment was done, and as a result, the new daughter company was registered. The Russian subsidiary will be run by a Country Manager who will report to the sales and marketing department in the Head office. It is planning to have its own warehouse facilities in Saint-Petersburg in order to have a stock of imported products close to the distributors and customers in Russia.

The history of cooperation with the Russian distributors began in 1995-1996 when two Russian companies, Universal Pribor (Saint-Petersburg) and EST (Moscow) ordered from the case company first delivery of its products. Due to the efforts of the case company's representative in Russia on active promotion of case company's products via specialized exhibitions and advertising in industry magazines, the case company brand became recognizable and attracted new distributors. In 1997 "Clever Electronics" (Moscow) started importing case company's goods for reselling in Russian market. Nowadays "Clever Electronic" keeps a leading position in terms of sales volume among the distributors in the Russian market.

The geographical dispersion of the current distributors is presented in Figure 3. The distributor dealership covers such Russian regions as the North-West, Central, Kaliningrad, Siberia and the Far East.



**FIGURE 3.** Geographical location of the case company’s distributors in Russia

The full list of the distributors, their geographical location and concentration in the customer segments is shown in Table1.

**TABLE 1.** List of the distributors in Russia

Distributor company	Location	Customer segment
“Clever Electronics”	Moscow	Equipment, industrial furniture and machinery for the electronic industry

<b>“Pumori North West”</b>	Saint-Petersburg	Electronic assembly equipment, measuring and test equipment, tools.
<b>“Universal Pribor”</b>	Saint-Petersburg	Measuring and test equipment, industrial furniture.
<b>“EST-SMT”</b>	Moscow	Tools and equipment for the electronic industry
<b>A1Plast</b>	Saint-Petersburg	Storage equipment: containers, drawers, shelving systems
<b>Intertex-Electronics”</b>	Kaliningrad	Equipment for the electronic industry
<b>“Protech”</b>	Novosibirsk	Equipment for research centers, manufactures and service centers
<b>“Ista Tech”</b>	Saint-Petersburg	Working stations for IT industry and laboratories, shelving systems.

Source: Official web-site of the Case Company X.

[http://www.treston.ru/index.php?article\\_id=6264&\\_from\\_id\\_=6180](http://www.treston.ru/index.php?article_id=6264&_from_id_=6180)

The current distributors are acting as wholesalers, organizing the whole cycle of delivering products from the manufacturing facilities in Finland to the industrial customers, located in Russia. The current distributors are specialized in supplying equipment and industrial furniture for the electronic industry, metal processing and storage. The distributors offer a wide portfolio of products, made by the foreign manufactures. The descriptions of the products, images and item codes are provided on the distributors’ web-sites.

### 1.3 Research problem and objectives

The Case Company is seeking opportunities to target a new customer segment in the automotive industry as it is one of the most rapidly-growing industries in Russia. The structure of distribution channels, supplying industrial furniture and equipment in the automotive industry naturally differs from those of the electronic industry and requires substantial research. The research boundaries are limited to the Saint-Petersburg region due to the high potentiality, close distance and author's access to the area and time resources.

The research is conducted with the purpose to answer the following question:

*How to design a channel network to meet the requirements of a targeted customer segment and satisfy the needs of the end-users?*

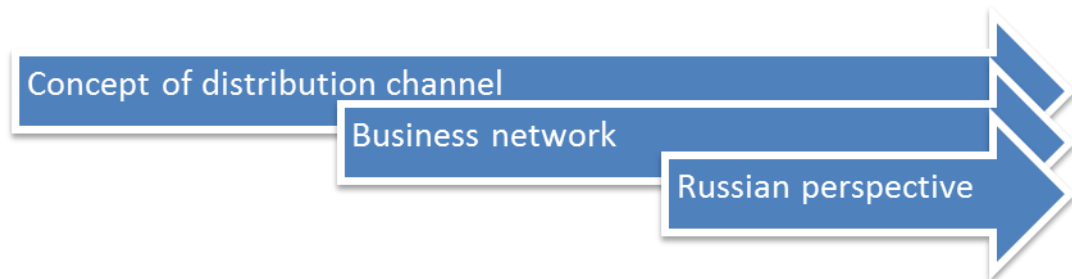
The questions, supporting the primary research question, can be formulated as follows:

- 1. What are the market-related factors determining the distribution channel?*
- 2. How to locate and select an appropriate distribution organization according to the requirements and needs of the case company and a target customer segment?*
- 3. How to turn a distribution channel into a sustainable business network?*

The market-related factors will be identified through the analysis of the target market and customer segment, using various sources of a secondary data. The outcome of the thesis will be a design of a customer-orientated distribution channel network for Case Company X in the segment of industrial furniture for auto-dealers' service stations. The focus will be on providing recommendations for the management of a subsidiary and the headquarters of the case company for building up a sustainable, effective distribution network, utilizing the best practices with the existing distributors and the distinguished features of the Russian business partnership.

## 2 DISTRIBUTION CHANNEL NETWORK

The conceptual framework for designing a distribution channel network is multidimensional, and requires a deep understanding of a nature of the channels and their functions. The structure of the theoretical framework of the Thesis is presented in Figure 4. Upon the core concept of a distribution channel, the author of the Thesis attempts to enhance it with a current trend of a business network and adapts such a model of a partnership to the Russian market.



**FIGURE 4 Structure of the thesis theoretical framework**

The current trend in industrial marketing has shifted an accent from the transactional approach in exporter-distributor relationship to more integrated, with a high level of involvement networking form of relationship (Ivanova& Weck, 2013, 212). For medium-sized exporter it is crucial to develop such networking relationship with the local distributors in a foreign market to gain a competitive advantage and share the responsibilities of the export activities. The specific formation of the distribution channels in the Russian market might bring challenges for a foreign exporter in a process of adaptation.

## 2.1 Concept of distribution channels

The intermediate organizations compose the system or a distribution channel, consisting of many actors and performing various functions. The main functions of the distribution channels can be described as follows: facilitation the flow of transaction and the flow of the physical products (Albaum & Duerr 2008, 271). They define the transaction flow, also known as the flow of ownership, as accomplished by the series of sales transactions negotiated or facilitated by the channel members that ultimately transfers ownership of the product to the final buyer. The physical flow moves the product itself to the final buyer through a series of physical movements and storage points (ibid., 272).

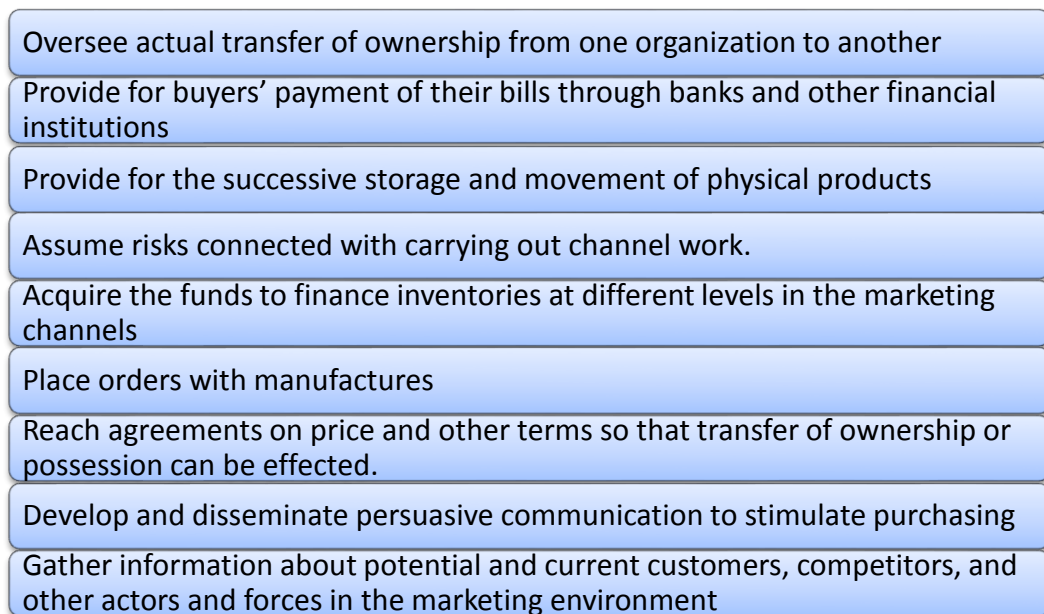
Such authors as Kotler and Keller (2009, 450), Albaum and Durrer (2008) call the distributions channels as marketing channels. According to Kotler and Keller (2009, 450), marketing channels are sets of interdependent organizations involved in the process of making a product or service available for consumption by the consumer or business unit.

The concept of a marketing channel is closely connected with a term of “value networks”, described by Porter (1985). It starts with planning and procurement raw materials, turning it into finished products and delivering them to the final consumers. The integration of the suppliers and distributors allows the manufacturer optimizing its production cycle, meet demand and reduce operating costs of production.

The decision on a structure of the distribution channels is associated with a market entry mode. Basically, the exporter might establish in a foreign market own representative or sales branch and use own sales force (Albaum & Duerr (2008, 275). This method is costly and time-consuming to implement. The second alternative is to employ extensive network of distribution channels in order to cover more geographic areas and get access to local market and target customer segments.

## Role of marketing channels

The role of intermediaries cannot be underestimated in terms of accessibility to the local market, connections to the retailers and industrial customers, possibility to conduct a market research on behalf of a manufacturer, providing warehouse facilities and responsibility for import duties and formalities. The major functions of channel members are accumulated by Kotler and Keller (2009, 455) and are listed in Figure 5.

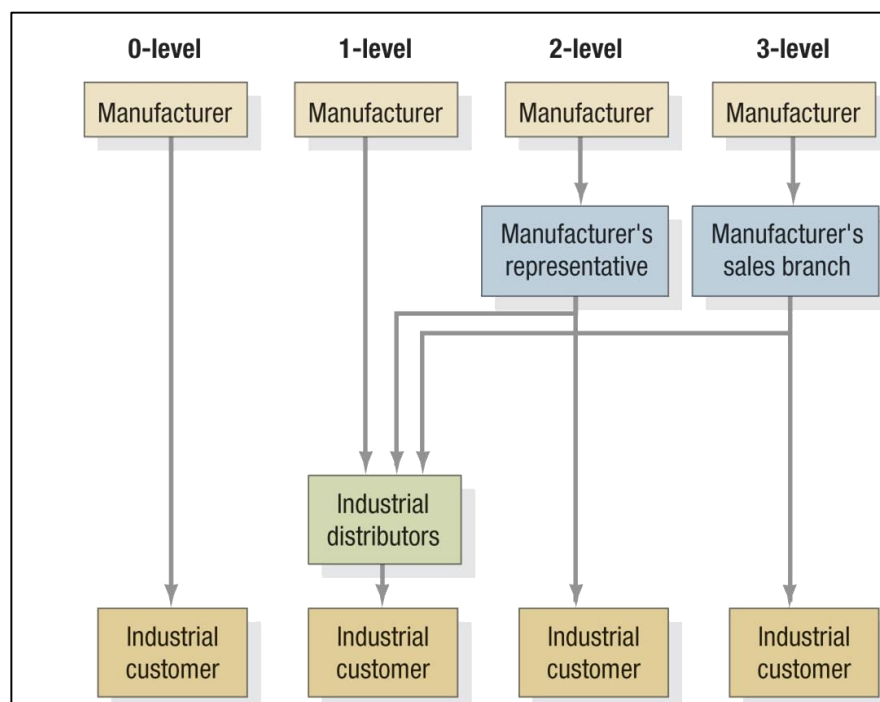


**FIGURE 5.** Channel Member Functions. Source: Kotler & Keller 2009, 455.

The first function of channel members, pointed out by Kotler and Keller (2009, 455) in Figure 5, is associated with the flow of ownership of goods from the manufacturer to the end-user through the series of transaction. The function of providing for the successive storage and movement of physical goods relates to availability of warehouse facilities at distributor's site and transportation fleet to delivery products to the end-user. The rest of the channel member functions, listed in Figure 5, refer to setting a price strategy, placing orders, conducting a market research, assuming risks, acquiring financial funds for inventory storage.

## The channel configuration

Channel configuration demonstrates the number of the distributors' layers between the manufacturer and the final customer in a foreign market. The alternatives of the channel configuration in B2B marketing, suggested by Kotler and Keller (2009, 456) are presented in Figure 6. The Zero-level is used in direct sales transactions between a manufacturer and an industrial customer. At level one, industrial distributors as a third party between a manufacturer and an industrial customer are involved in sales transactions. Level 2 demonstrates the possibilities when a manufacturer either supplies goods via the manufacturer's representative to an industrial distributor or directly to the customers. Third level shows the situation when a manufacture operates its own sales branch selling goods to industrial distributors and end-users.



**FIGURE 6.** Industrial marketing channels (Source: Kotler&Keller 2009, 456).



The exporting manufacturer faces up with the dilemma of a distribution structure. It is very often the result of a stream of opportunistic, reactive, and one-by-one decisions accumulated over time and typically restricted by different barriers (Mattsson & Parvinen, 2011, 92). Such situation does not bring a good result in terms of a long-run relationship with the distributors. The distribution channels structure should reflect the overall business strategy of the organization and should be carefully planned before entering the target market.

Mattsson and Parvinen (2011, 95) argue that the location of the core business has a significant impact on the channel strategy. If the manufacturer is aiming at high-margins and delivering premium-quality products to the target customer, the channel should be short and located closely to the customer (ibid., 96). The direct sales and minimum number of intermediaries suite well this strategy as it allows a manufacturer to establish the strong connection to the customer and deliver highly-added products for a premium price. If the manufacturer wants to sell high volumes of standard products and enjoy benefits from economies of sales, the channel design represents by the longer channel and many number of distributors.

The third strategy combines both high margins and high volumes. Mattson an Parvinen (2011, 98) suggest to implement such strategy in an industry where demand for high margin products is high but the markets tend to turn into highly competitive markets. Moreover, if the manufacturer has multiple brands, and some products are customized and differentiated but other products are standardized, the hybrid strategy of high margins and high volume is highly recommended to apply. The implementation of such strategy is enabled by multiple channels, where short channels are delivering high-added value products and longer channels are supplying high volume of standardized products to large amount of customers. The strategic decision upon the location of the core business sets up different requirements for the channel and directly influences the structure of the marketing channels.

Kotler and Keller (2009, 459) describe a channel alternative by three elements: *the types of available business intermediaries, the number of intermediaries needed, and the terms and responsibilities of each channel member*. The types of the available business intermediaries vary according to the particular market and industry. The

general classification of intermediaries or external distributors will be given in the next chapter

For making a decision on the number of distributors, Kotler and Keller (2009, 459) provide three strategies: *exclusive distribution*, *selective distribution*, and *intensive distribution*. By exclusive distribution they mean severely limiting the number of intermediaries. It is appropriate when the producer wants to maintain control over the service level and outputs offered by the resellers, and it often includes exclusive dealing arrangements (ibid). Such type of distribution strategy is characterized by a closer partnership between the parties involved. Selective distribution emphasizes several distributors but not all the distributors, interested in the cooperation. Such a distribution strategy is also appropriate for new companies, looking for distributors. Intensive distribution relates to consumer markets and retailers.

For the terms and responsibilities of a channel member, Kotler and Keller (2009, 461) name the main elements, including *price policy*, *conditions of sale*, *distributors' territorial rights*, and *mutual services and responsibilities*. Price policy obliges the manufacturer to set up and provide a sufficient price list, as well as discounts and allowances for the distributor. The conditions of sale refer to the payment terms and producer guarantees (ibid). The distributors' territorial rights are granted by the manufacturer and limit the geographical area where the distributor can operate.

The market-related factors and customers' preferences must be taken into consideration while designing the structure of the distribution channels. The level of the economic development of the Saint-Petersburg area as the target market will be analyzed in Chapter 4. The customers' needs and requirements to be met by the supplier of industrial furniture will be explored through the qualitative research and will be applied to the design of a distribution channel for the case company.

### **Classification of the external distributors**

Kotler and Keller (2009, 450) classifies the intermediaries or external distributors dependent on its functions and possession of title to goods as *merchants*, *agents* and

*facilitators*. Merchants like wholesalers, usually take title to goods and resell them forward.

*Agents, brokers, representative and consultants*

The role of agents is to bring together the manufacture and the customer to make a deal. Those agents usually don't own goods and get some incentives from successful transaction. Agents are not involved in importing goods from the manufacturer and redirect this task to the buyers who initially have ordered the goods. The agent does not handle an inventory, except for the demonstration purposes (Kotler & Keller, 2009, 450).

*Wholesalers*-wholesalers commonly buy large quantity of goods and sell them to professional resellers. They play as intermediary between the manufacturer and the end-reseller who is close to customers. The wholesaler's income is based on the difference between the wholesalers' markup and trade discount, given by the exporter (Mattsson & Ollilla, 2011, 77)

*Resellers*- reseller can either purchase goods from the manufacturer or from the wholesaler. Resellers, who do not operate with stock, have to work in close cooperation with an exporter and control delivering products to the final customer. *Resellers with stock* store the products in their own warehouse before reselling them (ibid.,78).

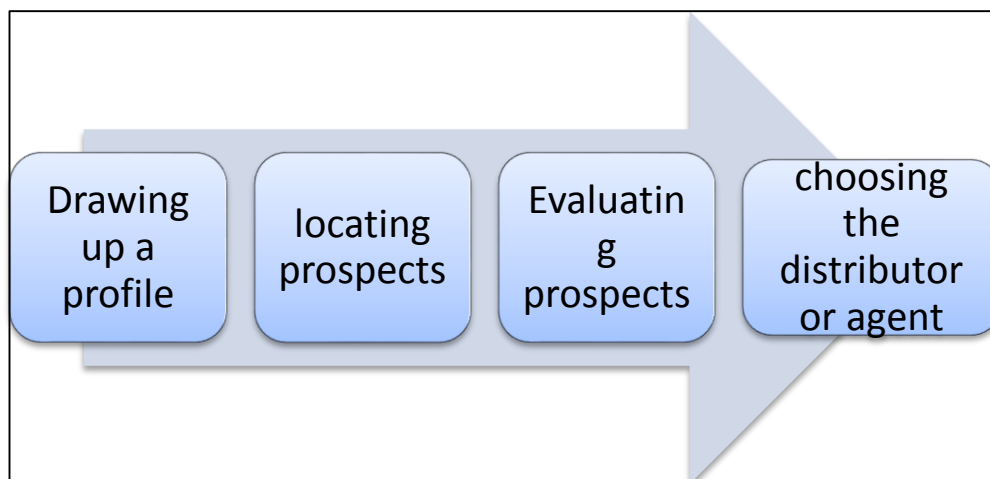
According to Mattsson and Ollilla, (2011, 79) *value-adding Resellers (VAR) are* distributors who have the possibilities to add value to the product and sell it forward in a higher price. In a sense VARs are also manufactures since they often have assembly facilities or at least service business to add a functional value to the purchased parts. *System integrators can be characterized as the* large companies, which buy goods from many manufactures and combine them into the customized tailored solutions. The completed solutions are sold to the end-users (ibid., 80).

Logistics and transportation companies, custom brokers, banks and financial institutions, advertising agencies are integral parts of the distribution channels and referred to *facilitators*. Such organizations support products delivery and payment settlements but neither possess the goods nor negotiate sales transaction.

Classification of the intermediaries serves the purpose of identifying potential distributor's functions and placing it at the right place in the process of designing the channel system.

### **Finding and selecting a foreign distributor**

When the structure of the distribution channel and types of distributors are determined by the manufacturer, the process of selecting and locating a foreign distributor should be initiated. Albaum and Duerr (2008, 330), based on Root (1994) suggestions, offered a scheme of selection a foreign distributor which is shown in Figure 7. The each stage of the selection process will be examined and described.



**FIGURE 7.** Four-phase process of selection a foreign distributor (Source: Root 1994, 85-92).

#### ***Drawing up a profile***

The first stage at the process of selection a foreign distributor is drawing up a profile of potential distributor with desired characteristics. According to Lindgren and Rosendahl (2004, 6) this profile should contain performance specification and reflect the product

as well as marketing objectives and the marketing plan. The main elements of the potential distributors' profile are listed in Table 2. The potential foreign distributor should be experienced in the target market, have marketing skills and effective sales force, obtain a good reputation among the customers, handle inventories, and cooperate with the exporter. The management of the distributor's organization, health financial situation and commitment to both product and market are the most crucial criteria in the selection process of a foreign distributor.

**TABLE 2.** Elements in profile of potential distributor or agent

Element	Explanation
Experience	Overall experience in the market
Geographical coverage	Market area(s) covered
Product-related factor	Products handled
Size	Size of the company
Product-related experience	Experience with exporter's product line
Sales force	Sales organization and quality of sales force
Warehouse facilities	Willingness and ability to carry inventories (if needed)
Additional services	Capability to provide after-sales service (if needed)
Marketing skills	Experience with, and knowledge of, promotion techniques
Reputation	Reputation with the customers
Financial strength	Financial strength and credit rating
Facilitating factor	Language known
Cooperation	Willingness to cooperate with exporter

Adopted from Albaum & Duerr, 2008, 330.

### ***Locating potential candidates***

At the stage of locating prospects, the manufacturer needs to search for the suitable candidates among the pool of available distributors, whose profile matches with selection criteria. The exporter can use different source of information in order to find the initial contacts of a potential distributor. For instance, personal recommendations, trade journals, industry magazines, companies' web-sites might be good sources of information. The distributors can also approach the exporter directly and be interested in starting a mutual cooperation. The chamber of commerce, professional industry unions and associations, and other governmental, non-governmental organizations can provide the important contacts of the potential partners.

### ***Evaluating prospects***

According to Lindgren and Rosendahl (2004, 10), Cavusgil et al (1995) the evaluation of candidates should be done through comparing and contrasting the candidates against the relevant selection criteria. The quantitative figures of potential candidate's performance such as net sales, market share, profit or losses can be compared and evaluated in order to choose the most perspective candidate. The distributor's image and reputation also make a significant impact on an evaluation process. Lindgren and Rosendahl (2004, 10) refer to Cavusgil et al (1995) who suggest the use of DISTEVAL, an expert computer system developed for evaluating the suitability of foreign agents and distributors, and for narrowing down the candidates into a contrrollable number.

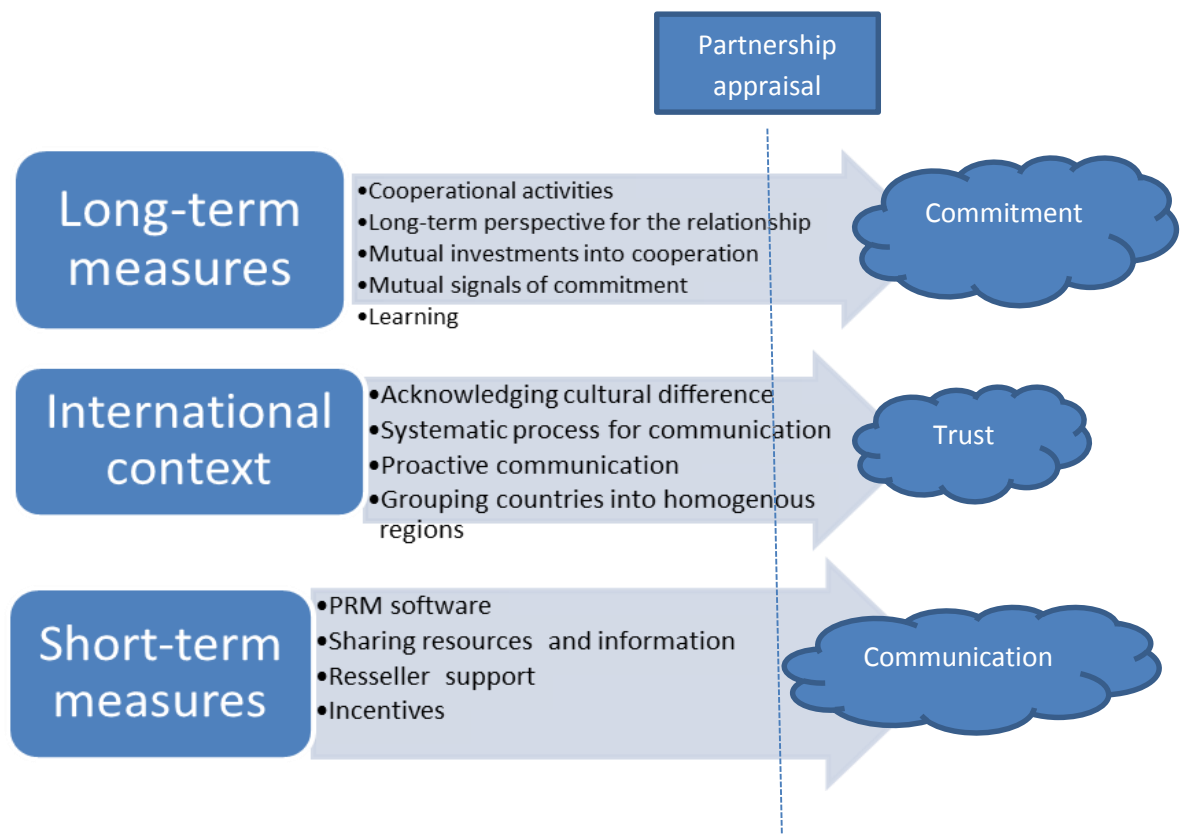
## **2.2 From the concept of distribution channel to a business network**

In the temporary industrial sector and B2B marketing, the strong shift from the traditional distribution channel concept to a more functional model of business networking has occurred. Business networks can be viewed as inter-firm exchange relationships or as interconnections between autonomous business units, either

initiated by the supplier or the buyer, whereby both parties recognize their mutual dependence and interest in each others resources (Kolesnik & Sheresheva (2010, 2), Cunningham (1980)).

The model of a business network is characterized by a strong commitment of both business partners to initiate, develop and maintain the relationship over time. As a result, the knowledge share and information flow, as well as problem-solving and consolidation of resources become essential parts of business actors' relationship.

There are strategic cornerstones to be achieved in the process of building a sustainable business network in a foreign market. The main components of a successful partnership were grouped by Mattsson and Parvinen (2011,123) in the model of "Managing the Partnership" (see Figure 8).



**FIGURE 8** Managing the Partnership (Source: Mattsson , Parvinen, 2011, 123)

The companies-exporters, operating in international context and dealing with local partners, should be able to establish trust in their partnership. Trust is important because it increases commitment and cooperation, and reduces functional conflict and uncertainty ( Mattson & Parvinen ( 2011, 119) Morgan & Hunt, 1994)). According to the model, presented in Figure8, trust emerges from acknowledging cultural difference, systematic and proactive process of communication.

Besides trust, relationship commitment is a major factor in cooperation and the success of the partnership ( Mattson & Parvinen (2011,119), Leonidou et al. 2002)). Relationship commitment improves and grows when relationship termination costs are high, relationship benefits are high, and the partners have common shared values (op.cit. p. 120). Even though trust is an important factor, the written contract is needed to clarify terms and responsibilities of both parties. According to Mattson and Parvinen (2011, 129), the contract should include the Area of Primary Responsibility (APR), and the exclusivity terms. The APR defines the geographical area where the distributor can operate without infringing other distributor's rights. APR is highly-recommended to include in the contract, if the manufacturer has multiple channels.

Mutual investments into cooperation prove the commitment of both parties to the partnership. It is also beneficial for the manufacturer and the distributor to evaluate the overall channel performance periodically to determine whether they have met their value delivery targets towards customers ( Mattson & Parvinen ( 2011,122), Anderson & Narus, (2004).

Partnership can be built through synergistic resources sharing (Weber, 2001), as this enables the achievement of economies of scale and thus cost effectiveness (Mattson & Parvinen, 2011,121). The information sharing between the manufacturer and distributor is enabled by installation of the Partner Relationship Management software (PRM). PRM offers essential tools to effectively manage partnership, such as high speed of data transmission, more efficient process automation, sharing information through extranets and portals.

Commitments and process of communication increase when the manufacturer is ready to provide the support to the distributor. The manufacturer may support the



distributor in marketing activities, managing inventories and logistics, participation in the exhibitions and in critical incidents if the distributor faces some problems threatening its sales (Mattson & Parvinen, 2011,122). Establishing an incentive scheme for a distributor, based on results of its performance, raises motivation of the distributor to sell the products of the manufacturer and positively affects on the relationship-building process. In order to effectively manage a business network of the dealers, the manufacturer must have an organization to deal with distributors on daily-basis. The distribution manager who takes care of all external sales through the channels is a primary contact person for the distributor in the organization.

### **2.3 The distribution network from the Russian perspective**

The development of a distribution network in transition Russian economy is still undergoing process and it has not been completed yet. Kolesnik and Sheresheva (2010, 2) claim that the establishment of a distribution channel in Russia has gone through three main stages correlating with the drastic changes in the economic and social environment.

In the Soviet era the distribution channels were centrally planned and regulated by the Government. Local channels were concentrated around the territorial production sites connected with the suppliers of raw materials. The little interaction between the network members was due to the strict regulation by the Soviet authorities. The isolation by the Soviet enterprises from foreign trade partners led to the lack of poor knowledge of foreign business cultures and cooperation with exporters. Despite the centralized planning and hierarchical coordination, the Soviet economy was functioning with the help of informal activities (Mattsson & Salmi, 2013, 192). The phenomenon of “blat” was incorporated in informal networking relationships and can be defined as “the use of personal networks for obtaining goods and services in short supply and for circumventing formal procedures”( Mattsson & Salmi, 2013, 192, Ledeneva, 2009).

The second phase of distribution networking formation is connected with the first post- Soviet decade (Kolesnik & Sheresheva 2010, 4). The dramatic changes in the

Russian economy severely affected the distribution network, destroying the whole centralized distribution system (ibid). The unstable political and economic situation made long-term relationships between network actors almost impossible and disseminated commitment to fruitful cooperation. The new format of market economy brought new challenges for Russian managers to be adapted.

During the next decade, the distribution channel system started recovering from the negative consequences of the destruction. Due to intensive spread of ICT in Moscow and then in other regions of Russia, building up inter-firm networks became less costly, and a number of sustainable distribution networks started to grow. (Kolesnik & Sheresheva 2010, 5). At the same time, the openness of the Russian boundaries attracted foreign investments to the Russian economy, and many foreign firms entered the Russian market. The foreign companies had to cope with various organizations, involved in distribution and build up a relationship with them in order to successfully operate in the turbulent Russian market.

The acknowledgement of differences between Russian and Western business cultures plays significant role in the analysis of the local distribution channel network and its relationship with foreign partners. The study, conducted by Ivanova and Weck , 2013, examined the differences in business culture in the context of Finnish-Russian business relationships.

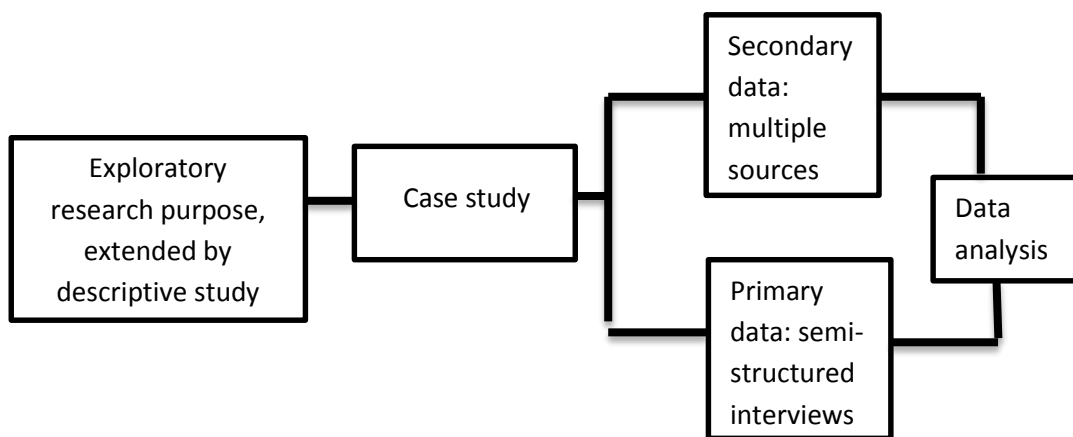
Ivanova and Weck, (2013, 211) noticed that in building business relationships with Russian partners, foreign firms have to rely extensively on trust. They continued that trust development in intercultural business relationships may be an increasingly challenging and time-consuming process, which is costly to maintain, especially for SMEs. Understanding and adapting to differences in business culture could be the primary way to meet these challenges. (ibid)

Nowadays, distribution in Russia is characterized by some trends including shift in distribution channels' structure, cutting number of distributors in many industries, internalization of distribution networks, and growing role of information infrastructure (Kolesnik & Sheresheva (2010, 2), Sheresheva (2005); Vaskin (2008))

### 3 METHODOLOGY

#### 3.1 Research design and strategy

The main goal of my thesis project is to find appropriate answers to formulated research questions and objectives. In order to reach the goal, the research design is executed and visually illustrated on Figure 9. First of all, the purpose of research should be determined as a starting point of research process. The classification of research purpose most often used in the research methods' literature is the threefold of exploratory, descriptive and explanatory (Saunders, Lewis and Thornhill, 2009, 139).



**FIGURE 8 Thesis Research design**

An exploratory study is frequently used when the problem or phenomena is not well-described, it's difficult to establish connections between a problem and relationship. Saunders et. all (2009,139) recommend to apply an exploratory study if the researcher is unsure of the precise nature of the problem and wishes to clarify his/her understanding of a problem.

The purpose of this thesis is to get a deeper knowledge of a new customer segment, and how to reach them through the distribution channel network. The new aspects of phenomena and knowledge might be revealed as a result of the research so *the exploratory study* is the most appropriate type, characterizing this thesis.

The research strategy is built upon the nature of research questions and research objectives of the Thesis. The research questions “What” and “How” directly influence on choice of research strategy. I have chosen the *case study strategy* as it focuses on contemporary event and it does not require control over behavioral event.

According to Robson (2002, 178) case study is defined as a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence. Moreover, I apply a single case study because of using a single organization in context of distribution network phenomena.

### **3.2 Data collection**

The methods of data collection are derived from the case study strategy. Yin (1994 ) recommends six sources of evidence to rely on in collecting data for case study strategy. The sources contain documentation, archival records, interviews, direct observation, participant observation and physical artifacts.

The data can be characterized as primary and secondary data. Saunders et.all (2009, 600) define secondary data as data used for a research project that were originally collected for some other purpose. Birks, Malhotra and Wills (2013, 61,) underline that the collection of the secondary data requires researchers to connect and validate different data sources, be persistent in their evaluation of secondary data. The secondary data may be classified as either internal or external. (Birks et.all 2013,64). Internal data refers to the available data within the organization for whom the research is being conducted (ibid). The internal secondary data is generated from the daily activities and transactions of the organization, and it can be processed in a format of reports, documents, databases, presentations, catalogues. The internal data is frequently used and highly applicable in the Case study research as it provides insights of the organizational and operational context of the Company. For this particular Case study I accessed internal documents with the organizational structure, products catalogues, information about the distributors in Russia, available on the official website of the Case Company.

According to Birks et.al (2013, 67) published external secondary data can be derived from multiple sources such as local authorities, regional and national governments, non-profit organizations, trade associations and professional organizations, commercial publishers and professional marketing research firms. Therefore, published external sources may be broadly classified as general business data or governmental data. The sources of general business data contain guides, directories, indexes, and non-government statistical data. Government sources may be categorized as census data and other publications (ibid).

In my research study I widely used both governmental and business sources of secondary data to access industry reports, market statistics, the Datamonitor guides, available in electronic format. The online full-text databases, such as Emerald provide a good range of articles, published in the specialized magazines and journals. The access to such articles helped me to build my theoretical basis and find the current trends in the studying subject. Thus, I critically evaluated the content of the secondary data, its credibility and relevance to my research subject.

Based on qualitative method, the primary data for research purpose will be collected through the interviews. An interview is a purposeful discussion between two or more people (Kahn & Cannell, 1957). Saunders, et.al (2009, 320) categorize the term "interview" in relation to the level of formality and structure as structured, semi-structured and unstructured or in-depth interviews.

Semi-structured and in-depth (unstructured) interviews reflect to non-standardize type of interviews. According to Saunders et.al (2009, 320) in semi-structured interviews the researcher will have a list of themes and questions to be covered. Based on literature and theory reviews, the main themes and headlines are developed for particular case study in order to get more insights of researching problem. The themes will provide direction for discussion flow between the author (interviewer) and a participant. The various types of questions were utilized in a process of designing and formulating interviews questions in order to encourage a participant to share personal experience and knowledge in exploring research problem.

The participants for the interviews were selected from the different types of organizations, due to their involvement in the distribution channel and highly-valuable knowledge in the subject of the research. The list of the research participants is given in Table 3. The selection of the managers, representing the target customer segment of authorized auto-dealers, is proved by the possibility to explore their needs for the industrial furniture and requirements for the suppliers and manufactures. The chosen representatives of distributor organizations have an experience in cooperation with the case company and supplying the industrial furniture in the Saint-Petersburg market. The respondents from the case company would share their experience in cooperation with the Russian distributors, their strategic goals and distribution policy in the Russian market.

The interviews were conducted in August 2013 in Saint-Petersburg on face-to-face basis in the Russian language. The interviews were audio- recorded with interviewee's permission.

**TABLE 3.** List of the research participants

<b>Type of organization</b>	<b>Position</b>	<b>Company</b>
Auto-dealer	Director of service center	Avangard Mercedes Benz
Auto-dealer	Manager	"Avtoprodix", salon "Infiniti"
Auto-dealer	Director	VB-airsuspension RUS
Distributor	Head of department	Universal Pribor
Distributor	Deputy	Pumori North

	manager	West
Subsidiary	Representative In Russia	confidential
Case Company	Business Area Manager	confidential

### 3.3 Data analysis

The data, collected through the in-depth interviews, may be characterized as the qualitative data. Saunders et.al (2009, 480) refers the qualitative data to all numeric data, or data that have not been qualified and can be a product of all research strategies. The qualitative data analysis is associated with inductive and deductive approaches. Saunders et.al (2009, 489), Yin (2003) suggest to apply a deductive approach to the data analysis, if the researcher uses existing theory to shape a formation of research objectives and a framework to organize and direct the data analysis. I applied the deductive approach to my data analysis, as I developed the themes for the interviews from the exiting theory which I compared to the actual findings of the research.

The qualitative data analysis process consists of several steps, starting from transcribing the conducted interviews. The recorded interviews were translated and transcribed in English in order to process data into a readable text for further analysis. The next step in a process of data analysis, described by Saunders et.al (2009, 492), relates to a summary of key points, emerged from a transcript of the interviews. Through the process of summarizing data, the main themes of the results became more visible and understandable for me. After the summary of the collected data, I moved to the next activity of categorizing data. According to Saunders et.al (2009, 492), categorizing data involves two activities: developing categories and attaching thesis categories to meaningful chunks of data. By doing data categorization, the

researcher is able to recognize relationship between the data units, develop and test prepositions and draw conclusions (ibid).

I developed the categories from the theoretical framework in order to find the answers to the research questions and objectives. Through the process of data analysis, I identified new categories that had been frequently used in the respondent' answers. I attached the relevant chunks of data to the appropriate category to organize and structure the transcribed data. Finding the connections between the categories and allocated data stimulates the meaningful explanations for the research questions and objectives of the Thesis.

### **3.4 Ethical principles in data collection**

During the whole process of the research, the ethical principles cannot be ignored or neglected. Saunders et.all (2009, 184) stated that research ethics relates to questions about how the research topic is formulated and clarified, design our research and gain access, collect data, process and store the data, analyses data and write research findings in a moral and responsible way.

The key ethical issues refer to privacy of actual participants and their rights to refuse in participation in research, keeping the confidentiality of provided information, participants' reaction to the way of collecting information. Any discomfort, harm, pain should be avoided during the process of collecting data. The participants should be fully informed about the purpose and duration of an interview before starting the actual interview and their rights no to answer any of the interview questions.



#### **4 ANALYSIS OF A TARGET MARKET AND CUSTOMER SEGMENT**

Decision on expanding activities on a target foreign market for the company, exporting industrial goods should be supported by a careful market analysis. The geographical location, size of population, development of transportation infrastructure, manufacturing and warehouse facilities are important factors for consideration. The economic indicators, foreign trade, key industries, availability of workforce and investment climate significantly influence on market attractiveness for further expanding. Political situation, legislation base and well-established financial institutions are essential elements of successful business functioning in the target markets.

The certain market-related factors prevail also in designing the distribution channel structure. Albaum and Duerr (2008, 282) grouped those factors into the following three categories:

- 1.the nature, size, and geographical distribution of customers;
- 2.the needs, requirements, and preferences of these customers;
- 3.the level of economic development of the market.

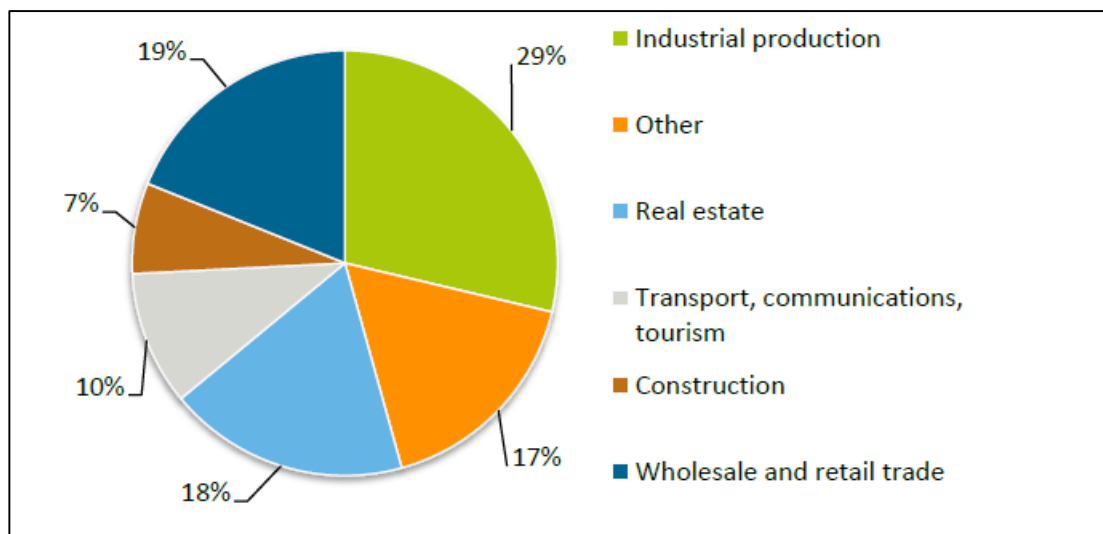
##### **4.1 Attractiveness of the Saint-Petersburg market for export**

In this chapter I provide a general analysis of the Saint-Petersburg market and automotive cluster as a new target customer segment for the case company. Saint-Petersburg is one of the biggest industrial, scientific and cultural centers in Russia and Europe. It is the second biggest city in Russia with the population of 5,028,000 people on 01.01.2013 (Petrostat). Saint-Petersburg is an administrative center for the North-West Federal district of Russia. Saint-Petersburg occupies area of 1439 sq. km.

Saint-Petersburg is the largest transportation hub of Russia with the modern transport infrastructure, including railroads, highways, sea and river ports, airport and railway stations. Due to the transport-logistics complex (TLC) of Saint-Petersburg, the foreign trade is effectively functioning.

According to territorial branch of the Federal State Statistics Services (Petrostat), GRP in 2011 was 2,071 757 million rubles and it increased by 18% compare to 2010. The estimation rate of GRP per capita in 2012 was 428.9 thousand rubles. The unemployment rate for the end of March 2012 reached 0,5% from economically active population, which was equal to 2,857,900 people.

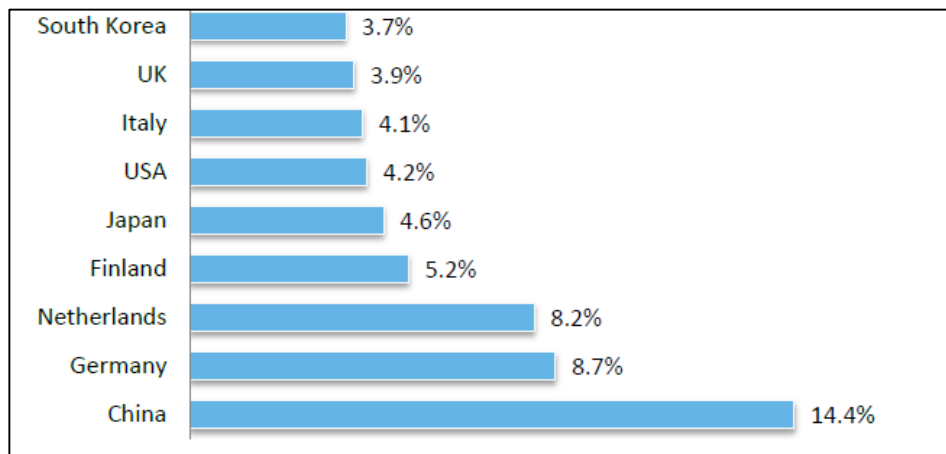
The key industries of Saint-Petersburg include heavy machinery, vehicle manufacturing, electronic and optical equipment, food, metallurgy, chemical production. The contribution of the leading industry sectors and services to GRP in 2012 is demonstrated in chart below. (See Figure 10). The most significant result of 29% belongs to the industrial production. The priority clusters for Saint-Petersburg economy are *automotive*, electronic assembling, shipbuilding, information and nanotechnology, and pharmaceutical.



**FIGURE 9.** GRP sectorial composition (2012E) (Source: Committee for Economic Development, Industrial Policy and Trade)

Regarding external trade relationship, Saint-Petersburg has established the bilateral cooperation documents with 89 foreign cities and 27 foreign regions. Based on data, published by the Territorial branch of the Federal State Statistic Service (Petrostat),

foreign trade turnover in 2012 was 56,5 milliard dollars, including volume of export- 20,6 milliard dollars and volume of import -35,9 milliard dollars. Export decreased by 3,2 % to previous year and import increased by 9,6%. The largest importers in 2011 refer to the automotive industry and giant car manufactures such as LLC Nissan Manufacturing Rus, LLC Hyudai Motor Manufacturing Rus, LLC General Motors Auto ,LLC Toyota Motor Manufacturing Russia. The machinery, equipment and vehicles are dominated in the structure of import. According to the statistics of Federal Customs Service, the main trading partners in 2011 were China, Germany, Netherlands and Finland (see Figure 11).



**FIGURE 10.** Main trade partners (2011). (Source: Northwestern Customs Directorate, Federal Customs Service)

Due to its geographical location, developed industries, availability of highly-educated workforce, production, R&D facilities and government support, Saint-Petersburg is considered to be an attractive destination for foreign investors. In 2011 volume of foreign investment into economy of Saint-Petersburg reached 6,121 million USD (Petrostat). Manufacturing sector of economy received the major part of total investments, 72%.

## 4.2 Analysis of the automotive cluster in Saint-Petersburg as a target segment

The demand for industrial furniture traditionally concentrates in the engineering industries, represented by the electronic, automotive, research and laboratories, logistics and packaging. I will focus on the automotive industry as a target customer segment for the case company.

Based on Ernst&Young report (2013), in 2012 the Russian automotive market experienced relatively moderate growth across all the segments, including production of components and expansion of dealer networks. The total volume of new light vehicles, being sold in 2013, reached 2,935,111 units. The number of active dealership centers in Russia rose by a mere 5%, to a little over 4,200. In fact, 15 dealer groups (out of approximately 400) contribute to over 20% of new car sales in Russia (An overview of the Russian and CIS automotive industry 2013, 16). The positive trend in the Russian automotive market, highlighted in the report (2013, 2) refers to the further developing of car dealerships according to the international standards and attracting investments. The tough competition between the dealers in Moscow and Saint-Petersburg push them to expand their geographic network in order to strength their positions in the market. The high potentiality for further growth makes the industry of the automotive retail very attractive for the investments.

The major participants of the automotive market can be characterized as follows:

1. *Light vehicle, truck manufactures*
2. *Authorized auto dealers and auto centers*
3. *Independent service centers*
4. *Private/individual repair and maintenance workshops*

The distribution of the key players in the Russian market of cars' maintenance and repair in a year 2009 is presented in Figure 12. The chart shows that the biggest market share is occupied by the independent car service centers –by 65%. The authorized auto-dealers and auto-centers occupy relatively small market share - 20%.

According to information of the National Association of technical services, the maintenance and repair enterprises of light vehicles, independent auto services are the market participants which start and run business without a participation of the car manufacturing companies and offer different kinds of repair services for post-guarantee cars. Such auto services have limited production capacity, financial and human resources.

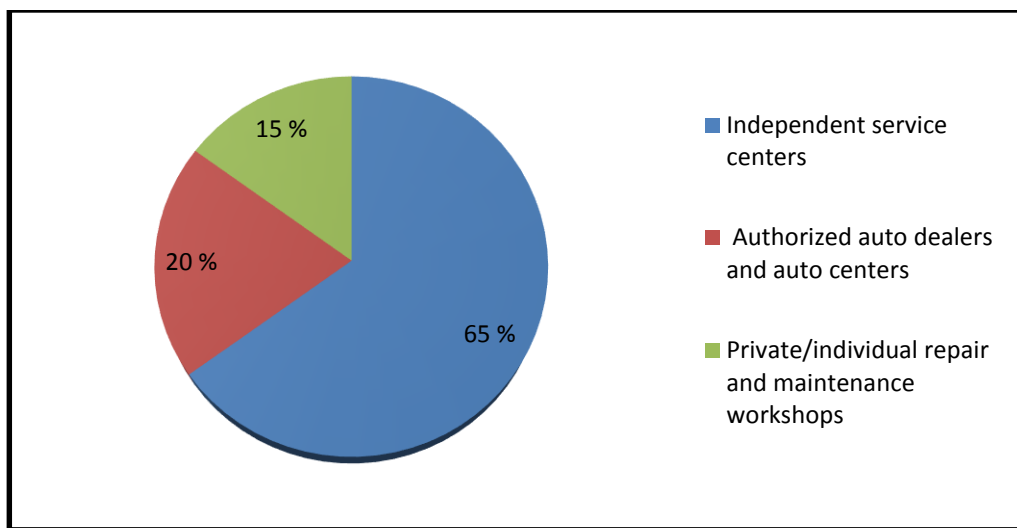


FIGURE 11 Share of the major players in the Russian market of maintenance and repair services. (Source: Article “Structure of repair and car maintenance market” on web-site [www.auto-portal.ru](http://www.auto-portal.ru))

### Light vehicle and truck manufactures

The developments of the automotive cluster in Saint-Petersburg provided favorable conditions for the foreign car-producers to establish their assembly- lines. Such giant car-manufactures as Toyota, Nissan, Scania, Hyundai and General Motors have located their production premises in the Saint-Petersburg area. The constant growth in the volume of motor vehicles and equipment production demonstrates positive dynamics and an increasing demand for such products. According to the Committee for

Economic Development, Industrial Policy and Trade, the total volume of car manufacturing during the first quarter of 2012 reached 182.2 thousand units which were 2, 7 times larger than in the corresponding period in 2011.

Table 4 provides important facts and figures about the foreign car-manufacturing plants in Saint-Petersburg, including the year of foundation, production volume in units, total volume of investments and number of employees. The Japanese Group Toyota was a pioneer among the car-makers that started their production in Saint-Petersburg. By other parameters, like investments, production capacity and labor force, Hyundai is an absolute leader.

**TABLE 4.** Leading car manufacturing plants in St. Petersburg, 2011

<b>Brand name</b>	<b>Year of opening</b>	<b>Production volume, th. units/year</b>	<b>Number of employees</b>	<b>Investments</b>
Toyota	2007	25	600	133 mln USD
General Motors	2008	60	1,300	303 mln USD
Nissan	2009	50	1,500	200 mln USD
Hyundai	2010	120	2400	650 mln USD
Scania	2010	6,5	600	10 mln Euro

Source: Committee for Economic Development, Industrial Policy and Trade.

### **Authorized auto dealers and auto centers**

According to the estimates, made by the specialists of “Professional Complex Solutions”, the market volume of car services in Saint-Petersburg can be measured in USD 900 M. The annual market growth is 17-22% per year meanwhile in 2010 the doubled growth gave Saint-Petersburg the leading position among the Russian cities.

According to the web-site of official auto dealers, the number of auto dealers in Saint-Petersburg is equal to 2551 units. The auto dealers usually belong to the large auto holdings and groups. The wide range of car brands, from luxurious to economy-class, is

selling via auto dealers. The auto dealers provide the supporting maintenance and repair services for after-selling guarantee and post guarantee periods. Besides the core business of selling new and used cars, auto-dealers offer various services, including financial solutions, trade-ins, and car insurances.

According to agency "Auto-Dealer-SPB", in 2012 the twenty biggest auto holdings sold in Saint-Petersburg 127,2 thousands new cars. The leader of the market was a Group "Rolf" with a market share -8,5 %. The goods results were performed by RRT holding, Mega-Avto, and Dacar.

Rolf Group is a privately held automobile group engaged in the sale of vehicles and related services. It owns and operates a network of 31 dealerships that retail vehicles from 15 international car brands (Company Profile: Rolf Group, Marketline, 2013). The total number of employees is equal to 5, 500. In 2011 fiscal year, the company's revenues reached 119,734 million rubles (approximately \$4,071 million). One of the primary segments is retail business together with repair and maintenance services. In the other Mitsubishi business segment, Rolf group operates an independent network of 96 dealerships in 69 cities throughout Russia. Moreover, Rolf Group also distributes the spare parts under the separate business segment which is called We Love Parts. It has an extensive range of partner relationships and a fast growing customer base that includes both ROLF and third party dealers as well as independent service stations and retail and wholesale spare parts shops (Company Profile: Rolf Group, Marketline, 2013). In Saint-Petersburg, Rolf Group operates three auto-centers: Rolf-Lakhta, Rolf-Vitebskii and Rolf- Oktyabrskaya.

The company "Autoholding RRT" with diversified business structure is involved in selling light vehicles of different brands such as Subaru, Nissan, Honda, Opel, Chevrolet, Skoda, Hyundai, Cadillac. The company affiliates 27 auto dealers in 12 Russian cities, including Saint-Petersburg. In 2011 the total volume sales was 24 thousand cars, and the revenues were recorded as RUB 22, 44 milliards. (Home page of the web-site <http://www.rrt.ru>)

Mega-Avto is a Group of companies, operating in the retail car market of Russia in Moscow, Saint-Petersburg, Murmansk, Petrozavodsk, Kaluga and Volgograd. The

dealership network of the Group, consisting of 25 dealers, is headed by Managing Company Mega-Avto. In 2013 the total number of personnel is increased by 2500. In 2010 the expected total number of sales was estimated at the level of 11 478 car units.

According to information on official web-site of Mega-Avto (<http://www.megaavto.com>) In Saint-Petersburg, the Group is represented by following dealers:

- Audi Center Petrogradskiy
- Vostok-Avto
- Vostok-Avto Zukova
- Galant-Avto
- Avtopoint
- Omega-Premium
- Avtoshtadt

The auto-centers of authorized auto-dealers with the wide spectrum of after-sales and maintenance services are viewed as the most perspective customer segment for the case company. The needs of the auto-dealers in terms of equipment and industrial furniture for service centers are crucial to understand in order to develop customized products, delivered via the distribution network. For this purpose, the interviews were conducted with the representatives of the auto-dealers.

“Avangard” is a group of companies, operating three business lines: “Avangard”, “Avangard-Neva” and “Avangard-Avto”. The first business segment “Avangard” is an official dealer of Mercedes-Benz, smart, AMG, selling new cars with after-sales services and maintenance, spare-parts and accessories. The “Avangard-Neva” provides financial services, auto leasing, insurance and crediting. The “Avangard-Avto” is involved in selling used cars.

In addition, the service manager of auto-center “Infiniti”, “Autoprodix” was interviewed. The group of companies “Autoprodix” is an official dealer for such brands as Nissan, Renault and Infiniti. “Autoprodix” has been operating more than 17 years in an automobile market in Russia. The group of companies “Autoprodix” offers such services as selling cars, auto insurance, leasing, repair and maintenance. All centers of the Group are well-equipped and are corresponded to high standards of manufactures.



### 4.3 The preliminary research on distributors of industrial furniture

The potential distributors in Saint-Petersburg, supplying workshop tables and stations to the target customer segment, were identified and selected through Web search engines. The information about the company, product range and contacts were derived from the companies' web-pages.

The potential partner "DiKom" corresponds to the VAR category as it has its own plant in Saint-Petersburg, Kolpino. The plant is equipped with the advanced technology tools and assembly line, supplied by the leading European manufacturers. The product selection can be divided into groups such as shelving, industrial furniture for workshop, safety boxes. The company provides after-sales services, as well as delivery and installation services. The company's customers include the car manufacturing plants in Saint-Petersburg, like "Toyota", "Nissan", "General Motors", "Hyundai". On the other hand, DiKOM can be referred to category of a direct competitor.

OOO "DVK-center of sales" is a leading supplier of industrial furniture, cabinets, shelving-systems, metallic doors, and engineering means of protection for banks and administrative buildings. "DVK is an official dealer for "Enterprise DVK plus", "Promet", "DiKOM", "RIPOST", that acknowledged by the certificates. Due to extensive experience in sales of industrial furniture, "DVK-center of sales" has gained a developed network of permanent clients and highly-qualified personnel.

BoxTrade has a long history of supplying shelving system equipment and industrial furniture. BoxTrade is an integrated system of customer relationship and service processes. The company demonstrates strong orientation towards customer needs, as well as willingness to cooperate with new partners-manufacturers of industrial furniture.

The "Metallika" shop can be characterized as reseller and it specializes in selling of different items of industrial furniture. The shop has web-site with product catalogue, models, description and prices.

#### **4.4 Analysis of competitors in the Saint-Petersburg market of industrial furniture**

The major competitor for the case company in Saint-Petersburg market is represented by the company “DVK”. The other producers, such “Ferrum “, which are located in the Moscow region, might be also viewed as direct competitors due to the geographical proximity to Saint-Petersburg, strong position in the market and well-established distributors’ network.

The company “DVK” was founded in 1990, and nowadays, it is one of the leading companies in Russia, manufacturing industrial furniture, engineering safety equipment for banks and municipal buildings. The company owns office premises, manufacturing and warehouse facilities. The investments in the modernization of production line expanded the assortment of goods like industrial trolleys and cabinets, worktables.

The wide distribution geography of the production covers the Far East, Kaliningrad, and the Southern regions. The number of potential customers is constantly growing due to the regional representatives of “DVK” in many Russian cities, including Moscow, Voronezh, Omsk, Tomsk, Yekaterinburg, Kazan, and Volgograd.

The company’s policy in terms of dealing with distributors is quite remarkable, and benchmarking can be utilized in order to reveal the best practices for the subsidiary of the case company. The company “DVK” has informative pages on the company’s web-site, dedicated to distributors and potential partnership. The main principles, advantages of partnership, requirements for distributors, marketing materials are clearly communicated. The company “DVK” provides to their distributors trainings for personnel, after-sales services, products design and customization, organization of customer events in different regions, special prices for floor samples, preparation for tenders.

The company “DVK” successfully applies methods of selecting potential distributor partner, using well-defined criteria and conditions. The utilization of information technologies such as private cabinet for the authorized dealers on web-site enhances the communication flow between the management of “DVK” and the distributors.

The company “Bikom” specializes in manufacturing and distributing the industrial furniture via the extensive dealers’ network to customers in Saint-Petersburg and all Russian regions. The assortment of the company includes following items: industrial cabinets, system shelving, worktables, drawer units, trolleys. The own production line allows to make customized furniture for optimal price. The company refers to medium-sized by rough estimation. The information about the number of employees and financial results is not available. It operates own transportation fleet and organizes whole logistics cycle. BIKOM can be considered as potential partner for cooperation, as it supplies products of other manufactures. BIKOM belongs to the category of value-adding resellers (VAR) with own production and warehouse facilities. The dealers’ network in Russian regions might be utilized by Case Company X in case of successful agreement on cooperation. By first contact, the representative of Bikom was interested in potential cooperation with Case Company X but an invitation to participate in research interview was rejected.

## **5 RESULTS**

The results represent the different perspectives from the target customer segment, the existing distributors and the management of the case company. It is important to evaluate results from the multiple points of view in order to get insights of research problem and objectives.

### **5.1 From the perspective of the target customer**

#### ***The stages of purchasing equipment for an auto-dealer service center***

The equipment, including industrial furniture for a new auto-dealer’s service center as a business unit of auto-holding is purchased at the stage of construction. Purchasing such equipment belongs to the category of tangible assets and requires capital investments. The top management of an auto-holding is involved in choosing the supplier of the equipment for auto-dealer’s service center at the stage of opening an

auto-dealer. During the first six months of auto-dealer's operation, the local service manager or the head of service department will be monitoring the situation with the installed equipment. They are entitled to buy additional items of equipment.

*"...well, yes, when auto center is functioning, there are no possibilities of significant sales like furniture... in first half a year, what is initially planned by owners and then we realized what is missing..."*

***Items of industrial furniture, installed in an auto-dealer service center***

The main items of industrial furniture, used in an auto-dealer's workshop area, include *work tables, movable trolleys for tools, drawers, perforated panels and hooks, shelving storage systems, industrial cabinets*. Shelving storage systems with a high loading capacity for heavy items are necessary in auto-dealers' service centers.

During the first year of operation, the ordinary number of mechanics, working in the workshop area in two shifts, varies from *twelve to fourteen* in an auto dealer service center. In case of growth the number of mechanics, involved in technical car service, is expected to increase up to twenty people. The production capacity of an auto-dealer service center and the number of work-tables sets and other pieces of industrial furniture can be estimated.

An interesting finding from the interviews with the managers of the auto-dealers revealed that items of industrial furniture do *not* fall under the standards of a holding company, owning an auto-dealer. Usually furniture, used in the showrooms of auto-dealer centers, should be conforming to the corporate style in order to support the brand identity and create a positive image the visitors and potential buyers. The industrial furniture is mainly exploited in the workshop area which is hardly visible for customers that is why there are no strict policies, regarding this particular category of furniture. It means that the furniture can be purchased from *any* manufacturer from *any* seller without the approval of the holding management. The service managers of auto-dealers have a freedom of choice in terms of the functional characteristics and the style of industrial furniture.

*“...because in workshop area those are not followed strict standards, for instance in customer meeting and receiving places we need to follow some style, supplier and even producer are recommended by importer.. in workshop it’s easier ...there are only color limitations, I cannot put a red table”*

### **Main requirements for industrial furniture**

The main factors for choosing industrial furniture indicated by the interviewed service managers refer to balanced ratio of product quality to price. The functionality and certain technical characteristics were named as the important factors.

*“quality, price..as usual...it should meet requirements, perform certain functions, should be affordable regarding price...”*

Such factors, as brand of a manufacturer, design and ergonomics have less impact on choosing items of industrial furniture for a workshop area, according to the answers of service managers. It is considered to be expensive, unnecessary, and it doesn’t worth paying extra costs for such characteristics. It leads to little awareness of the manufacturer of the furniture. The interviewed managers could not recall the brand of industrial furniture that is currently installed in their workshops.

### **Criteria for choosing a supplier of industrial furniture**

The criteria for choosing supplier of industrial furniture correlate with the ability of supplier to *offer good quality furniture, for affordable price with fast time of delivery*. The reputation of the supplier on the market and supporting services such as assembly and installation are least important factors in a process of choosing a supplier of industrial furniture.

### **Sources of information to locate a supplier of industrial furniture**

In a process of searching information about the suppliers of industrial furniture, service managers prefer to locate potential candidates through the Web search engines, using key words. The product catalogues, delivered by sales agents can be examined by an engineer or service manager in order to find a suitable model or accessorize. The colleagues' recommendations are also powerful and the most reliable source of information in terms of finding a supplier of industrial furniture. The official tenders are not usually organized for the purpose of selecting supplier of industrial furniture.

*“The most convenient way of course is Internet first of all, in the second place, if you have a catalogue, colorful, well-done, where you can look all models and if such catalogue is issued seasonally, with updates..., that it's accessible, you can always can look and find what you need...”*

In case of expanding, hiring more mechanics and need for extra tools, an equipment engineer or senior mechanic is responsible for seeking information and a supplier of industrial furniture while head of service department makes final decision to purchase.

In case of satisfaction with the products and services, provided by a supplier of industrial furniture, the service managers tend to stick to one-supplier policy. On the hand, they don't exclude possibility to switch to another supplier, if a supplier is able to offer quality products for more attractive prices.

The interviewed managers pointed out on low marketing activity of suppliers of industrial furniture in terms of promoting new products among the auto-dealer centers. The feedback channel is also missing between the end-user, a supplier of industrial furniture and a manufacturer.

### **A foreign manufacturer versus a domestic manufacturer of industrial furniture**

The service managers have a strong preference towards a foreign manufacturer of industrial furniture on conditions that the price between products of domestic and foreign manufacturers is not significantly different. At the same time, the services

managers are ready to pay higher price for more quality products. The furniture, produced in Finland is associated with high quality of materials, durability, and functionality.

## **5.2 From distributor perspective**

### **Profile of the existing distributor**

The profile of existing distributors can be described as a medium-sized company with the range of employees from one hundred to three hundred, operating regional branches all over the Russia and wide dealership network , having own production line and warehouse facilities, holding strong position on the market, and connecting to customer segment. The existing distributors are characterized by providing full range of services such as delivery, installation, assembling, start-up work and temporary storage at warehouse facilities.

### **Criteria for a manufacturer of industrial furniture**

The main criteria for initiating cooperation between a foreign manufacturer of industrial furniture and a distributor in the Russian market include *product quality, procedures with dispatching goods, orders processing, payment terms, reliability of a company*. The Case Company met all mentioned criteria that resulted in a long-term and successful cooperation.

*“when we make agreement with companies, we first of all pay attention to quality of products, because it’s very important for our organization that we try to offer to our customers and Company X in this regard, is one of the leading companies in the world..plus we.. those nuances of deliveries what summed up, dispatching, payment and preparation of equipment, we are satisfied with all of these factors, and this reliable company”*

### **The terms of trade - Incoterms**

The terms and conditions of trade transactions between the Case Company (Exporter) and a distributor, acting as an importer are regulated by INCOTERMS 2000 , more precisely, by the ExFactory terms. It means that the responsibilities of a seller (exporter) do not extent beyond its factory in Finland, with an importer organizing the transportation, custom clearance, and paper work.

### **Marketing activities of the distributors**

The distributors are engaged in building up the awareness of the case company brand in the Russian market by participating in specialized exhibitions and demonstrating samples of the case company products, printing catalogues and publishing catalogues in an electronic format on distributor’s web-site, promoting the case company products at the seminars. The distributors are fully satisfied with the support of the case company in terms of providing marketing materials, available information in the Russian language on the case company’s web-site and printed product catalogues in Russian language. The distributors highly appreciate such support and initiatives of the case company regarding marketing activities.

*“...we are constantly keeping informed our clients and when seminars and exhibitions are held, we always mention and we have different posters from the case company and some samples of products, so we try to demonstrate and advertise...”*

*“...very good and materials and catalogues and marketing materials...information in Russian language, and it was initiation of the Company X... we like it..”*

### **The Subsidiary role from the distributor’s point of view**

The distributors put high expectations on launching a new subsidiary and warehouse facilities in Saint-Petersburg. They believe that it will significantly help to resolve the problems with long time delivery and pricing policy.



### **The story of a successful cooperation**

The distributors pointed out that during the long history of cooperation with the case company they did not experience any problems or difficulties with the communication flow, with placing orders, and receiving requested materials. They managed to maintain good business relationship despite the differences in business culture between Russia and Finland.

*“there were no such difficulties.. we have always good relationship, we visited their production lines, had some kind of training, our staff.. and they also visit us... to this regard we managed to have good and friendly relationship..”*

In order to build a sustainable business network, the interviewed distributors named such factors as the right attitude of the management and personnel of a company, the mutual understanding of beneficial cooperation, maintaining good relationship, trust and common goals to achieve.

### **5.3 From the case company’s management perspective**

The representative of the case company in Russia admitted that heavy machinery or heavy duty customer segment (as the case company refers auto-dealers to heavy duty segment) has not been developed yet on Russian market compare to electronics industry. The case company has strategic goal to actively develop this particular customer segment and triple a sales volume by year 2017.

#### **The Subsidiary functions**

The opening of new subsidiary in Saint-Petersburg and hiring a new country manager to run the subsidiary should organize and facilitate the work with the existing distributors and expand the distribution network, control the distributors’ performance in terms of sales. The lack of clear vision of distribution relationship prevented the Case Company from starting cooperation with new potential distributors in the Russian market in last decade.

### **Drawing a profile of a potential distributor**

According to representative and export manager of the case company, there are certain selection criteria for a potential distributor to be qualified for starting cooperation. For instance, *recognizable brand/name, strong position on the market, turnover, storage and warehouse facilities, marketing activities, size of the company, connections to Customs, customer database* were named by the representative of the case company.

*“well, it should be recognizable brand/name of this company, that it should operating on the market not the first year, turnover, naturally we consider what the company is ready for, is it ready for storage products in the warehouse, what marketing activities it’s planning, exhibitions, advertising, we orientate towards all of these.. what else is important to us: warehouse, customer contacts and database, big or small company”*

### **Locating and selecting a potential distributor**

In order to locate a potential distributor, the case company utilizes various tools and information sources such as *Internet, specialized magazines and industry exhibitions*. The potential distributors actively contact the case company themselves and ask for cooperation. In process of finding potential distributor, the case company also heavily relies on services of intermediary person or organization, for instance, consulting company. The consulting company selects appropriate candidates for potential distribution, organizes negotiations and visits to potential distributor’s site. In case of making an agreement on cooperation, the distributor’s output and performance are evaluated during the testing period.

### **Selective distribution policy**

The Case Company tends to carry out exclusive distribution policy, give exclusive rights to a few distributors and develop with them a long-term relationship, instead of cooperating with smaller distributors. This tendency of exclusive distribution policy might be explained by concerns of the case company in triggering competition between the distributors, unethical behavior, damping prices and intervening in other territory.

### **Facilitating actors in the dealership network**

The change of INCOTERMS as well as core function of subsidiary as managing distribution network determines the non-core activities such as logistics, banking and finance, custom clearance, warehouse operator to be outsourced for execution by third parties. The case company representative believes that due to complexity of custom formalities, the custom clearance of goods, imported to Russia, should be done by a professional and experienced expeditor company, offering full range of services.

### **Problem, experienced with the Russian distributors**

As a negative side of distribution in Russia, the case company faced up with passiveness of the distributors to promote the products in the Russian market despite of the support from the case company in providing marketing materials. The drawbacks of distribution in Russia are also connected with the language barrier issues, Russian irresponsibility, hierarchical organizational structure at Russian distribution companies, and lack of internal communication.

“... as usual Russian companies are not willing to promote products...  
ley’s say they hope that foreign companies will promote and we  
same time will only sell...”

The manager of the case company, responsible for the Russian market, mentioned that it was difficult to find good loyal dealers. The employees’ turnover in dealer’s organization requires additional investments in organizing and inviting new comers for training at manufacture’s premises. The only testing period within a certain time length justifies the right choice of a distributor.

“It is very difficult to find good loyal dealers. Also the people change places often so you need to have constant training system. Measurement of these factors when choosing a dealer is difficult or even impossible. So only practice and results shows who are good and who not.”

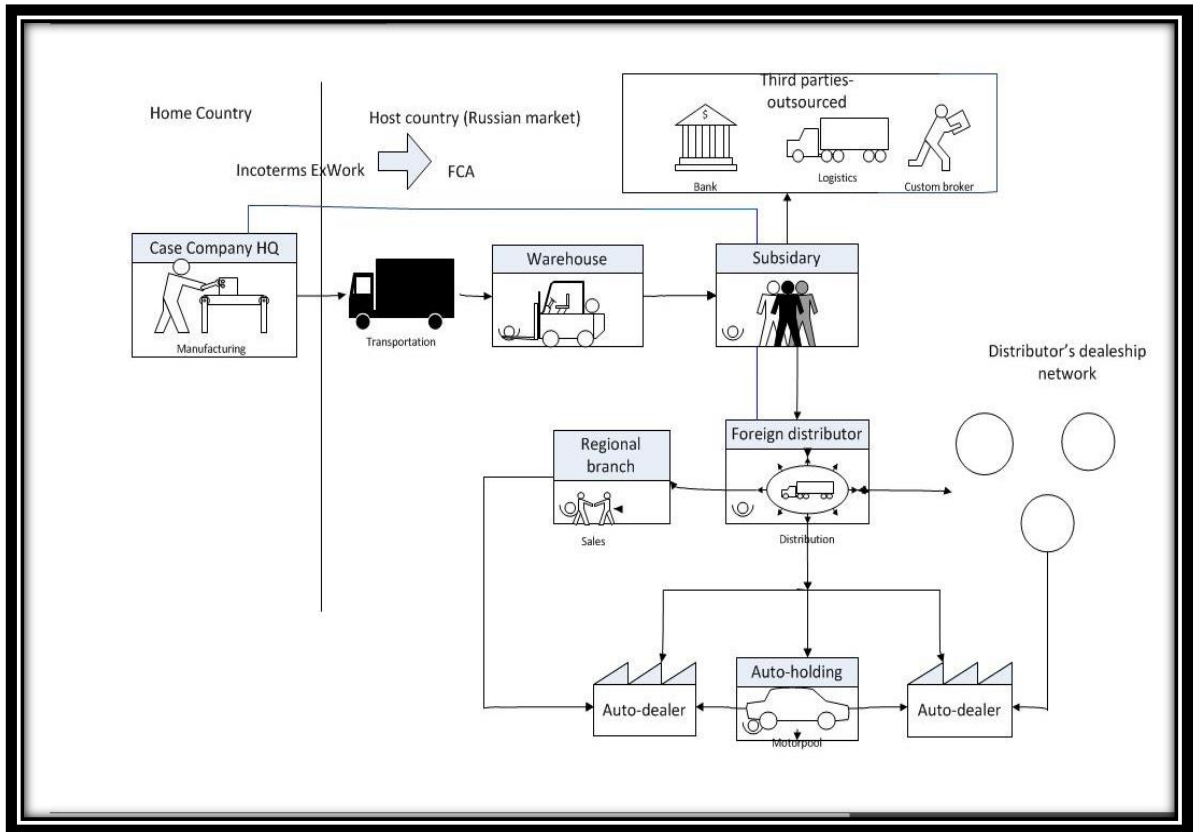
### **Building up a sustainable business network**

The management of the case company also emphasizes trust, reliability and the open communication as the main elements of a sustainable business network. They are ready to invest and use all arsenal of tools what they have to proactively building long-term relationships with the business partners in the Russian market.

“...trust, reliability and open communication with dealers. From marketing point we have to use full arsenal of references, good training, good web site, exhibition participations.”

## **6 DESIGN OF A CUSTOMER-ORIENTED DISTRIBUTION NETWORK**

The results of the primary-data analysis from the different perspectives are combined with the theoretical concepts and applied in designing a model of customer-orientated distribution network for the case company in Russian market. The visual illustration of the model is given in Figure 13.



**FIGURE 12** Distribution network design for the case company in the Russian market.

**6.1 The architecture of a customer-oriented distribution channel**

The channel design for the case company, targeting new customer segment of the auto-dealer’s services centers in the Saint-Petersburg market, reflects to the multiple factors. The combination of the factors, discussed in Chapter 3.1 and those, revealed from the analysis of primary data, is presented in Table 5.

**TABLE 5.** Factors, influencing the distribution channel design.

Factor	Theoretical framework	Research finding
market penetration phase	✓	
market-related conditions	✓	

<b>location of the core business</b>	✓	
<b>distribution policy</b>	✓	✓
<b>limitations on own sales channel</b>	✓	✓
<b>terms of trade (incoterms)</b>		✓
<b>involvement of Third parties</b>	✓	✓

At the market penetration stage, the case company intends to introduce and supply their products to a new customer segment of the authorized auto-dealers in the Saint-Petersburg market. Market-related conditions, examined in Chapter 5, emphasize the importance of the automotive cluster in Saint-Petersburg.

Despite of the fact, that the segment of the authorized auto-dealer's service centers occupies relatively small market share, comparing to the independent service stations, it demonstrates a stable growth. The Russian automotive industry report prognoses that retail dealership with service centers have a great potential for the further expansion in the Saint-Petersburg market. The demand for industrial furniture, used in the auto-dealers' maintenance and repair workshops will be stimulated by opening new auto-dealer's service centers. The infrastructure of the Saint-Petersburg market, economic indicators and local governmental policies set up favorable conditions for attracting foreign direct investments and operating in the Saint-Petersburg business environment.

Location of the core business has a great impact on the channel configuration. As it was described in Chapter 2.1, the manufacturer can choose between three options of channel strategy, depending on its business scope. The first strategy refers to selling the high margin products, the second strategy is about selling the standardized

products in high volumes and the third strategy is the hybrid of selling high value-added products and high volumes.

Analyzing the range of products, manufactured by the case company, we came to the conclusions that they refer to the premium quality as well as standardized products with possibility of customization and adding extra features. Based on the competitor's analysis, the market is highly competitive and saturated with analogue products, supplied by the domestic and foreign manufacturers. The managers of auto-dealer's service center tend to be sensitive towards a price for the items of industrial furniture, thus they prefer to buy the quality, functional products for a reasonable price. On the other hand, the interviewed managers trust the brand of the Finnish-based manufacturer and may be ready to pay a premium price for its products.

Based on the condition of the market and preferences of the target segment towards industrial furniture, the hybrid strategy of supplying the high margin and standardized products, using multiple channels is the most applicable for the case company in the Saint-Petersburg market. For delivering the high-margin products, the case company can develop own sales channels to establish close connection to the customer. In order to supply more standardized products to a large number of customers, the longer channels are the best way to cover the market.

Taking into consideration the alternatives of the channel configuration, suggested by Kotler and Keller (2009, 456), the designing channel can be characterized as the third level, when a manufacturer operates its own sales branch selling goods to the industrial distributors and end-users. As a result of analysis all the factors, mentioned above, we can design a distribution network for the case company, supplying industrial furniture to the customer segment of auto-dealer's service centers. The main actors of the distribution network, captured in Figure 13, consist of:

- the headquarters of the case company (HQ) and a plant, located in Finland,
- the Subsidiary or Daughter Company, registered in Saint-Petersburg, Russia,
- a warehouse in Saint-Petersburg;
- a potential distributor (wholesaler) or value-added reseller (VAR), located in Saint-Petersburg

- distributor's dealership network in regions (resellers)
- an industrial customer (first level-auto-holding, second level- authorized auto dealer)
- third parties ( logistics organization, custom broker, financial institutions)

The distribution channel in the Saint-Petersburg market is initiated by the management of the case company, which is represented by the headquarters (HQ) and a plant. The HQ and the plant of the production are separated from the other participants of the distribution channel by a symbolic and physical border. The dividing line as shown in FIGURE 13 also defines the borders of the Home country for the case company and the Host Country (the Russian market), where the case company is expanding to and targeting a new customer segment.

In the host country, the Subsidiary is acting on behalf of the Case Company in order to achieve the strategic goals, set up by the HQ of the company. The Subsidiary accumulates functions of managing distribution and direct sales channels. Being presented in the target market and close connection to the local distributors gives an advantage to the Subsidiary of establishing long-term relationships with the business partners. In terms of business networking, the Subsidiary is orchestrating all the participants in the channel that resulting in challenges to consider the interests of every stakeholder, involved in the distribution, sales and product usage.

One of the main actors in the distribution channel due to its strategic purpose is a distributor. According to the concept of the distribution channel, explained in Chapter 3.1, a distributor facilitates the flow of transaction and the flow of the physical products through the channel. If we refer to the elements of the channel alternatives, suggested by Kotler and Keller (2009, 459), one of the crucial elements is associated with the types of available business intermediaries in a particular market. The analysis of the secondary data and the interview findings provide the basis to draw a profile of the potential business partner, available in the target market. The potential distributor belongs to the medium-sized company, specialized in selling industrial furniture, shelving systems, and safety boxes. The company may have own production line, warehouse facilities and transportation fleet. The potential distribution organization may have the dealership network or sales branches in the different Russian regions.



Regarding classification of the potential business partner, given in Chapter 2.1 it relates to a wholesaler or value-added reseller as it has own production facilities. Regarding a distribution policy, the Case Company has been pursuing a selective distribution policy since it started supplying products to the Russian market in 1992. On the other hand, the representative of the case company admitted that it might change to a more flexible policy in terms of the distributors' exclusivity.

The results of research revealed an important factor which reflects to the terms of trade or INCOTERMS. The Incoterms, developed by the International Chamber of Commerce, regulate the legal aspects of trade and have been incorporated in contracts for the sale of goods worldwide. The Incoterms also determine responsibilities and obligations of an exporter and importer, as well as possession of risks (The Incoterms® rules. <http://www.iccwbo.org/products-and-services/trade-facilitation/incoterms-2010/the-incoterms-rules/>).

The trade relationship between the case company, acting as an exporter and the distributor in Russia, acting as an importer, were regulated by EXW Ex Work. Establishing the Subsidiary in Russia effects the changes in Incoterms. In practice it means that the terms of trade between the case company and the distributor will change to FCA Free Carrier. The goods will be delivered to a seller's premise which is a warehouse in Saint-Petersburg. The change in Incoterms requires involvement of a third party such as a logistics organization and a custom broker to be able to deliver goods to the point of destination.

In a downstream of the channel, we can locate a target customer or an end-user of the products. The profile of the target customer, based on the automotive market structure, presented in Chapter 5, corresponds to an authorized auto-dealer, offering after-sales car maintenance and repair, and owned by the Auto-holding or Group of Companies. The knowledge about an organizational structure of the target customer provides valuable hints to the supplier and the manufacturer of industrial furniture in terms of approaching key persons in a customer organization.

The own warehouse plays an important role in the distribution channel. Fast deliveries to customers enables by own warehouse and stock of products, that it is one of the

requirements to the supplier of industrial furniture. The non-core activities of the Subsidiary will be outsourced for an execution by the Third parties. According to the representative of the Case Company, the Subsidiary does not have yet human and financial resources to organize transportation, custom clearance and accounting so those activities could be done by external organizations, which are experienced, efficient and reliable.

### **6.3 Profile of potential distributor, functions, terms and responsibilities**

The distributor occupies a central place in the marketing channel of delivering industrial furniture to the target segment in the Saint-Petersburg market. Locating, selecting and managing a reliable distributor of industrial furniture will guarantee a successful expansion in the Russian market for the case company. According to the primary data, initiating a partnership with the Russian distributors is considered to be one of the strategic goals, pursuing by the management of the Subsidiary in Saint-Petersburg.

The process starts with a systematic search, based on the selection criteria and the company's overall strategy. The management of the Subsidiary might choose from the pool of available candidates for dealership which have contacted directly the representative of the Company. If we refer to theoretical framework and follow the four-phase process of selection a foreign distributor, suggested by Root (1994), the first stage determines drawing up a profile of a potential distributor with the desired characteristics. The desired characteristics have an equal meaning to the selection criteria and are considered below.

According to the findings from the interviews with the management of the case company, the company uses such criteria for an evaluation potential candidate as:

- *recognizable brand/name,*
- *product knowledge,*
- *strong position on the market,*
- *turnover and healthy financial result,*

- *availability of storage and warehouse facilities,*
- *marketing activities, size of the company,*
- *geographical coverage,*
- *Customer database.*

The selection criteria, used by the case company correlates with the elements in the profile of a potential distributor or an agent, listed by Albaum and Duerr (2008, 330) and presented in Table 2. In addition, the experience in the market, ability to provide after-sales service, language skills, and willingness to work with a manufacturer are the important characteristics.

The experience, gained by the potential distributor through the operating long-period of time in the market, provides valuable knowledge of the local market condition, practicalities of doing business and approaching customers. The knowledge about the customers' needs and patterns of purchasing behavior can be also absorbed by the distributors.

The analysis of primary data, received from the target customer, indicates a little awareness of the industrial furniture producer among the auto-dealers. Moreover, Russian market of industrial furniture is saturated with the analogue products, supplied by domestic and foreign manufactures. All those factors create the fierce competition, price damping and enormous need for an active marketing strategy to be differentiated from the competitors. The potential distributor must be able to put a substantial effort to build up the brand of the case company through the different marketing communication channels. The target customers can be reached through sending out product catalogues, available in printed version and an electronic format, inviting to show-rooms and providing free testing samples of the products.

The distributor's organization should have an adequate sales force to be able to visit a potential customer, present manufacturer's products, communicate its value and close the deal. The interviews' findings discover that suppliers of industrial furniture are screened by the end-users through Internet search engines. The informative web-site with the product description which appears on the top search results is required from a potential distributor.

#### 6.4 Turning a distribution channel into a sustainable business network

The potential partnership with the Russian distributors might bring new challenges for the case company due to a lack of commitment and trust at the beginning of partnership. In order to anticipate and overcome possible problems, the case company should take actions to turn a distribution channel into a sustainable business network. The principles of the model by Mattsson and Parvinen (2011) presented in Chapter 3.2 in Figure 7, can be utilized by the management of case company in a process of building up the business network.

The results of interviews with the existing distributors indicated a range of successful practices, executed by the case company during the long history of cooperation with the Russian partners. Combination of theoretical principles and practicalities will create an effective framework for the case company and allow developing long-run profitable cooperation with the Russian partners.

In reference to the model “Managing the Partnership”, *trust, commitment and communications* are important prerequisites of a sustainable business network. Those main elements can be achieved by the complex of long-term and short-term measures. First of all, trust must be established as a cornerstone for the further development of business relationship. The preconditions for trust combine the shared values, mutual goals and communication. The distributors also recognized trust and common goals to achieve among vital elements of the sustainable business network.

Thus the case company is operating in the foreign market, the acknowledgement of cultural difference help to understand partners’ behavior patterns, lead business negotiations in right direction and overcome the conflict situations. The interviewed distributors could not recall any problem with the manufacturer, caused by the cultural difference. The representative of the case company reported one incident, where the differences between the Russian and Finnish business culture prevented starting a partnership with a large Russian distributor in Moscow.

Sharing information resources and communication flow between the case company and distributors can be optimized by installing the Partner Relationship Management

Software (PRM). The distributors agreed that installation of PRM software would significantly improve information flow, placing and processing orders, controlling inventory stock in warehouse. The improvements would positively reflect to the speed of orders delivery to the end-users and give a competitive advantage against the competitors.

The distributors' performance requires assessment and evaluation through the periodical reviews and measurement tools such as Key Performance Indicators (KPIs), thoroughly set up by the Management of Subsidiary or Head office of the case company. The appropriate KPIs contain orders received, stock levels, time of delivery. The agenda for performance review can include customer satisfaction, price competitiveness, competitors' action, and marketing activities.

Commitment should be cultivated by the case company through the cooperational activities such as participation in specialized trade shows and exhibitions together with the distributors, providing free product samples for demonstration in distributor's showrooms, supplying all necessary marketing materials to distributors. The interview findings with distributors showed the great success of participation in the exhibitions and sharing costs with the case company in terms of attracting new customers and raising the case company's brand awareness in the market of industrial furniture.

The good way to enhance commitment and engage distributor's sales personnel in the partnership is to provide trainings and product education. The case company invites specialists from distributors' side on annual basis and organizes trainings at the factory's premises. The distributors gave a positive feedback regarding trainings, provided by the case company. The management of subsidiary in Saint-Petersburg can arrange less formal events for the sales force of distributors in order to appeal good image and appraisal performance of distributors.

One other approach to develop commitment from the initial stage of partnership involves setting a proper incentive plan for the distributors, based on, for instance, sales volumes. It is very important to have clear criteria for the incentives in order to stimulate distributor's sales force effort, especially if they simultaneously sell competitor's products. The current situation with the Russian distributors excludes

such bonus scheme that leads to distributor's passiveness in selling products to the target customers and lower marketing activities.

## **7 CONCLUSIONS**

The main purpose of this study was to design a customer-oriented distribution network for the export Company X, considering multiple factors, which have a major impact on the channel configuration. The factors were derived from the theory review and emerged through the primary and secondary data collection.

The market-related conditions, examined through the analysis of the secondary data, relate to the economic development of the Saint-Petersburg region, favorable conditions for attracting foreign direct investment, importance of the automotive cluster among the major industries in Saint-Petersburg. The participants of the automotive market were identified, including authorized auto-dealers, offering maintenance and repair services as the target customer segment. The organizational structure of the authorized auto-dealers as a part of a large auto-holding or Group of Companies determines the purchasing behavior and choosing the supplier and manufacturer of industrial furniture. I found that the target customers value good-quality, durable and functional industrial furniture for a reasonable price. The brand of the manufacturer, ergonomic design is less important for them.

The analysis of the potential distribution organizations, selling industrial furniture to the auto-dealers, and maintenance and repair workshops in Saint-Petersburg enabled to draw a profile of the potential distributor and provide valuable contact information for the management of the case company. The competitors' analysis revealed a few domestic manufacturers, producing analogue goods and supplying them to the same target customer segment.

The selection of an appropriate distribution organization depends on setting up the clear selection criteria and overall strategy of the case company. The position on the market, product knowledge, adequate sales force, customer database and willingness to cooperate with the manufacture are the most important criteria for initiating a partnership. The marketing activities are required from the distributor to build up the

awareness of the case company's brand among the target customers, especially at the market penetration phase. The informative web-pages, containing product description, and visibility through the Web search engines, are highly demanding from the distributor. In order to be easily accessed by the end-users in process of searching for a supplier of industrial furniture.

Turning the distribution channel into a sustainable network requires well-directed effort from the management of the case company. Establishing trust and frequent communication are recognized by the management of the case company and existing distributors as the necessary conditions for building up the long-run and profitable cooperation. On the other hand, there is no feedback channel, connecting the end-user of the products, supplier and manufacturer. The feedback channel would be an effective tool for the further product development and improvements on functionality and other characteristics.

### **7.1 Research implications for management of the Case Company X**

The research findings may serve as a basis for the management of the case company to consider an appropriate strategy to successfully penetrate the market and design a distribution network. The research results and implications may be interesting for the various SME export companies, which are supplying industrial goods to the Russian market and looking for a reliable business partner.

Prior to designing a distribution channel in the Saint-Petersburg market, the management of case the company should consider a number of important factors such as market-related, location of the core business, and target customer's needs.

Regarding location of the core business, I would recommend to the management of the company to apply the hybrid strategy of selling value-added customized goods through the direct sales channels and more standardized goods in large volumes selling via distributor's organization. The price policy should be carefully implemented due to the sensitivity of the target customers towards price for industrial furniture. The fast delivery of the products to the end-users is a crucial requirement to succeed in selling and to outstand the competitors.

The distribution channel should be viewed by the management of the case company as an integrated ecosystem, where the flow of goods and communication move from the upstream of the manufacturer to the downstream of the end-user and vice versa. The all participants of the distribution channel in Saint-Petersburg market should be orchestrated and managed by the Subsidiary which is pursuing the strategic goals set up by the headquarter.

The distribution organization as the main facilitator of the flow of goods in the chain should be carefully chosen according to the clear selection criteria. After selecting the potential distributor, the written contract is needed to cover all liabilities of the both parties, the Area of Primary Responsibility and the exclusivity terms. I would suggest paying attention to the credibility of the potential distributor in the market, the availability of an adequate sales force in the distribution organization, overall experience in the market, knowledge of the target customer segment. The massive marketing activities are required from the potential distributor in order to promote the brand of the case company in the target market, differentiate from the competitors and reach the end-users, utilized various marketing communication channels.

In order to motivate the potential distributor to sell the products of the case company, the management should develop the incentive plan from the very beginning of partnership. It is very important to evaluate the performance of the business partner, based on balanced scorecards and KPIs. The annual face-to-face meetings with the distributors and review of the achieved goals will guarantee successful cooperation. I would strongly recommend implementing also PRM software as the effective tool to enhance communication between the all members of the channel. Regarding the support, the case company should continue good practices of inviting the representatives of the distribution organization to the manufacturing premises, providing product catalogues, update the information on its web-site with contacts and location of the distributors, sharing expenses from the participation in specialized exhibitions in Russia.

The common goal towards establishing a long-run partnership should be empathized by all parties, the manufacturer and the distributor. The acknowledgment of the cultural difference helps to anticipate possible problems with the Russian partners.



The balanced approach, including control over the performance of the channel members and developing good personal relationships should be executed by the management of the case company in order to successfully build up the distribution network in the Saint-Petersburg market.

## **7.2 Implications for further research**

During the process of writing the Thesis, other potential themes for future research, regarding distribution channel network were discovered. In order to highlight the main subjects for further research, the list of suggestions is composed and includes the following themes:

- to examine the role of subsidiary in a foreign market in terms of managing local distributors;
- to conduct the similar study on independent service centers as a dominating segment in the Saint-Petersburg market of maintenance and repair services;
- to investigate how the participants of distribution channel interact between themselves , including third parties;
- to study how the cultural differences influencing the relationship between the Finnish based manufacturer, wholly-owned subsidiary and local distributors in the Russian market.

## **7.3 Research reliability**

The research cannot be carried out without setting up clear limitations. In order to narrow scope of the research problem and concentrate on answering the research questions, the boundaries of the research were limited by the Saint-Petersburg market.

The research findings should be carefully evaluated from the angle of reliability. Saunders et.all (2009, 156) suggest comparing results of the research against criteria of *reliability*. Reliability, described by Saunders et.all (2009, 156), refers to the extent to which the data collection techniques or analysis procedures will yield consistent

findings. Saunders et.al (2009, 156), Robson (2002) assert that there might be threats to reliability. In case of interviews, the possible threat may be subject or participant bias (ibid). The explanation of participant bias lies in an unwillingness of respondents to give honest answers due to the threat of spoiling relationship with their business partners. The researcher of the Thesis should be aware of such threat prior designing research. When choosing data collection techniques, I assumed that existing distributors in interviews might not be willing to openly share their opinions if it negatively affects their relationship with the case Company. In order to minimize the threat of participant bias to the quality of primary data, I decided to enlarge interview's participants to representatives of the target customer segment and the case company.

During the whole thesis project I faced up with a number of challenges which I successfully overcome. First of all it was rather difficult to formulate the topic of the Thesis, which would align with the expectations of the case company, be innovative and raise my motivation to gain a useful learning experience. Second, access to the sample of respondents among the target customer segment and potential distributors in Saint-Petersburg in order to collect the primary data was uncertain. The access was enabled only due to the personal connections. In conclusions I would emphasis a substantial effort which I put through the whole process of writing the thesis to produce an effective outcome which can be utilized by the management of the case company.

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## APPENDIX

### Themes for interviews with auto dealers as a potential customer segment

1. Introduction (purpose of research and interviews, permission request for audio recording of interview)

2. What are the tools and items of industrial furniture which are installed and used in your auto dealer's service center?

- worktable
- trolleys
- unit of drawers
- perforated panels and hooks
- industrial cabinets and shelving systems

3. What are criteria for choosing supplier of industrial furniture and equipment for technical service station?

- reputation on the market
- assortment of products
- customized product solution
- fast delivery
- after-sales service and installation

4. What are the main factors determining the purchase of industrial furniture items for technical service station?

- price,
- quality,
- brand,
- durability

5. How the purchasing of industrial furniture is made?

- through public tenders
- using business and personal connections,
- monitoring the manufacturers and suppliers of industrial furniture in the same region

6. How the information flow, feedback is carried out between the service center as end-user, supplier and manufacturer?

### **Themes for interviews with the distributors/partners**

1. Introduction (purpose of research and interviews, permission request for audio recording of interview)?

2. In order to get insight of the company, you represent, could you please tell me some words about:

- size of the company
- number of employees
- in what customer segment you are specialized?
- what geographic areas the company operates ( has representative)
- is the company a part of distribution network or has own resellers?
- does the company possess the facilities such as warehouse, workshop or assembly line
- what other additional services your company can offer for business partner/manufacturer ( customs clearance, transportation fleet and logistics, storage of product stock)

3. Did foreign exporter or representative of foreign exporter in Russia contact your company and offer potential cooperation or did your company initiate cooperation and approach the manufacturer?

4. Did manufacturer (Company X) support your company in selling activities, by providing marketing materials, catalogues?

What other actors of business network are involved in selling delivering the products of foreign manufacturer to the end-user?

- custom broker
- financial institutions (banks)
- logistics/transportation companies
- resellers

5. What challenges and barriers in communication with foreign exporter did your company experience?

- language
- cultural differences

6. What positive/ negative changes you expect from opening of new subsidiary in Saint-Petersburg of Company X?

7. What are the crucial elements of building strong business relationship with foreign exporter and its subsidiary?

### **Themes for interviews with the representative of Subsidiary in Saint-Petersburg**

1. What are the goals and functions, set up by head office for the subsidiary in Saint-Petersburg?

2. What are the primary customer segments, targeted in?

3. How work with existing distributors and potential distributors will be organized?

4. What sources of information do you use to allocate potential distributors and partners?

- trade and specialized exhibition events
- industrial magazines and journals
- browsing web-pages, using key words
- business connections
- Russian-Finnish trade, chamber organizations

5. What criteria for screening and selecting the right candidate from the pool of potential distributors?

- company's size
- prior experience in selling similar products
- connections and business network
- market coverage
- customer contacts
- reputation on the market
- additional services ( transportation, customs clearance, installation)
- possibility to add-value to products, customize according to customer needs
- commitment to develop long run cooperation with manufacturer

6. When you identified a perspective distributor-partner and are ready to make final decision, what tools support your decision:



- visit the perspective distributor
- personal interview with distributor
- trial agreement
- contract

7.What challenges might arise in cooperation with distributor?

8.What tools are utilized in order to enhance information flow between the end user-distributor -manufacturer? (information system)

9.What other actors might be involved in distribution network of delivering products from manufacturer's premises in Finland to targeted customer in Russian market?

10. What are the crucial elements of building sustainable business network in Russian market? (trust, share of information and resources )

11. What barriers might prevent efficient communication between both parties? (language, cultural differences, differen business culture)

### **Themes for interview with the export manager of the case company**

1.Could you please provide some general information about export practices in Company X?

- facts about export in Case company
- number of foreign subsidiaries
- types of foreign subsidiaries

2.What is the company strategy or policy in terms of locating potential distributor in foreign market?

3.What is the subsidiary's role and headquarters role in managing the distributors?

4.What are the expectorations of Head Company from launching new subsidiary in Saint-Petersburg and expanding further to Russian market?

5. What are criteria for locating and selecting potential distributor? Any difference, depending on country?

6. What challenges arise in cooperation with Russian business partners (distributors)

7. What are the main factors in building sustainable business network of distributors and other actors in Russian market?