

# **Project consulting services: Expanding market area to Estonia**

Case Company X



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Opinnäytetyön tarkoituksena oli selvittää, olisiko toimeksiantajalle kannattavaa laajentaa markkina-aluetta Viroon ja mikä olisi paras strategia. Toimeksiantajana työssä toimi suomalainen konsultointialan yritys, jonka nimeä ei mainita työssä yksityisyyteen vedoten.

Opinnäytetyön tietopohja koostuu pienten ja keskisuurien suomalaisten yritysten (pk-yritysten) kansainvälistymisestä, kansainvälistymisstrategiasta, konsultointialan esittelystä sekä Viron tuntemuksesta markkina-alueena. Opinnäytetyö on laadullinen tutkimus.

Tutkimusmenetelminä toimivat case-tutkimus, kirjallisuustutkimus ja markkina-analyysi. Primäärinen tieto kerättiin haastatteluilla ja sekundäärinen tietoa luotettavista lähteistä ja kirjallisuudesta.

Tutkimuksessa havaittiin, että markkina-alueenlaajentaminen Viroon voisi olla toimeksiantajalle kannattavaa, tietyin strategiaan liittyvin ehdoin. Suositukset operaatiomuotoa, hinnoittelustrategiaa, rahoitusvaihtoehtoja, kilpailijoista ja kysyntää koskien on annettu erityisesti toimeksiantajaa ajatellen.

Opinnäytetyötä voivat hyödyntää viitekehystenä samankaltaisten yritysten kansainvälistymisen suunnittelussa Viroon. Saman kaltaisia yrityksiä tässä tapauksessa ovat suomalaiset pk-yritykset, jotka toimivat palvelualalla. Koska kyseessä on case-tutkimus, tutkimus on suunniteltu vastaamaan toimeksiantajan tarpeisiin ja tuloksia ei voida yleistää koskemaan kaikkia pk-yrityksiä.

Avainsanat Kansainvälistyminen, markkinatutkimus, konsultointi, pk-yritys

Sivut 43 sivua ja liitteitä 2 sivua

The aim of this thesis was to find out whether it would be profitable for the commissioning company to extend its market area to Estonia and if so, what would be the best strategy. The commissioning company for the thesis was a Finnish consulting company, the name of which is not mentioned at this work due to privacy reasons.

The thesis has been conducted as a qualitative research. Research methods used in this work are case-research, desk research and market research. Primary data has been collected by interviews. Secondary data has been collected from existing, trustworthy sources and literature.

In addition, the research background chapter of the thesis investigates internationalization of Finnish small and medium size enterprises (SMEs), internationalization strategies, consulting as an industry and Estonia as a market area.

The conclusion of the research was that it would be profitable for the commissioning company to expand its market area to Estonia, but it has to make correct strategic choices in order to do so. Recommendations regarding market entry strategy, pricing strategy, financing options, competitors and demand have been given specifically for the commissioning company.

This thesis can be utilized as a framework for similar companies' internationalization planning to Estonia. Similar companies in this case are Finnish SMEs which operate in service industry. As a case study, the research has been designed to answer the needs of the commissioning company. In case studies results cannot be generalized to all SMEs.

Keywords Internationalization, market research, consulting, SME

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Appendix 1 Questions in theme interviews

## 1 Introduction

Consulting can be defined in multiple different ways. Most of the definitions highlight advisory based on area of the expertise of the consultant. According to one definition by Consultancy.uk (n.d.) consulting means 'the practice of providing a third party with expertise on a matter in exchange for a fee.'. Businesses use consultants for multiple purposes, for example strategic planning, coaching and juridical advisory. It is typical for consulting to be project-like temporary service. Demand for consulting services and appreciation towards consultancy has been growing in Finland during recent years (Liike-elämän & johdon konsultit, n.d.).

Estonia has undergone significant change from a command economy into a market economy (Alas and Elenurm, 2018). Since then, Estonia has made significant investments in order to attract international companies. Some of the proofs of these efforts are e-Residency, a transnational identity service, which allows one to establish a private limited company in Estonia fully online and the world's most competitive and neutral taxation system. (Invest in Estonia, n.d.)

This thesis focuses to research Estonia as a market area for consultancy services. The aim of this thesis is to find out whether it would be profitable for the commissioning company to expand its market area to Estonia, and if so, what would be the best strategy. The commissioning company's name or sources related to the company will not be mentioned in this thesis, as the company has decided to stay anonym due to privacy reasons. The commissioning company will be referred as Company X in this thesis. Company X is a Finnish project consulting company, which offers project consulting services for multiple industries. Company X can be categorised as small and medium size enterprise (SME). Company X has established a strong market position in the Finnish market and would like to explore Estonia as an option to expand its business area.

The subject was chosen based on needs of the commissioning company and the author's own interest. Majority of enterprises in Finland are SMEs, which adds to significance of this research.

## 1.1 Research type and main concepts

Type of the research in this thesis is market research. Market research tools PESTEL, SWOT and competitor analysis will be conducted in market analysis. Macroenvironment analysis tool PESTEL was chosen in order to map out external factors, which can form threats or opportunities for company. The PESTEL analysis will be performed for Estonia as business environment, as many macroenvironmental factors are country specific. Results of the PESTEL analysis will be transferred to possible threats and opportunities to SWOT analysis. Competitor analysis was chosen as a tool by the author, as knowledge regarding competitors is an important part in defining the company's ability to compete in chosen market. (Vahvaselkä, 2009, p.112–113) Research methodology combines qualitative methods such as desk research including interviews, and parts of quantitative data analysis. Desk research will be utilized to collect secondary data, which means collecting data from existing sources. (Management study guide, n.d.) Desk study was chosen as the research methodology by the author, as the study will be conducted from Finland, and it is not possible to conduct actual field study at Estonia in this case.

The research strategy of this research is case study. Case study means investigation of phenomena in a real life context. In this research case study is internationalization in a commissioning company. This research strategy was chosen as a research question of this research requires to gain a rich understanding of the subject. By using this research strategy it is possible to answer questions formed as 'how' and 'what'. (Saunders, Lewis & Thornhill, 2009, p.145 –146)

## 1.2 Research question and objectives

The research question is stated by the author as following: Would it be profitable for Company X to expand its market area to Estonia, and if so, what would be the best strategy? In addition to answering to the research question itself, some specific aspects that the commissioning company would like to find answer to, are:

- Which industries in Estonia would have demand for project consulting services?

- What kind of pricing should be adapted?
- Who are the main competitors in Estonia?
- Are there funding programs for companies willing to expand to Estonian market?

The objective of this research is to offer the commissioning company comprehensive information about Estonia as a target market. Comprehensive understanding of the market is necessary in order to find out whether it would be profitable for the company to expand to Estonia. Literature study combined with interviews makes this objective realistic and attainable. Further objective of this research is to form a recommendation regarding the best strategy for expansion of market area. The commissioning company's wish, that this thesis would also offer them theoretical framework for mapping out suitable market areas in the future, has been taken in the considerations by the author in the thesis structure.

### **1.3 Scope of research and limitations**

The geographical area of targeted market area has been limited by the author to Estonia, to which market research part focuses on. As a case study, the research has been designed to answer the needs of the commissioning company. In case studies results cannot be generalized to all SMEs. This research focuses on commissioning company's area of industry, which is consulting services. In this case the product, which would be exported is a service, which has been taken into consideration in the Research background -section.

## **2 Research background**

### **2.1 The Case-company**

The commissioning company, referred as Company X, is a consulting company founded in Finland. Company X specializes in project consulting including project management services, operational development, order-supply chain management and coaching. Company X is a Finnish privately owned company. Company X can be categorized as small and medium-sized enterprise (SME) as it fulfils the following requirements: SMEs in Finland are defined



according to European Union recommendation 2003/361/EY. According to this definition enterprise is categorized as SME if it has less than 250 employees and yearly turnover is no more than 50 million euros or balance sheet total is 43 million euros at the maximum. SME cannot have significant number of additional resources available. This could be the case for example if small or medium-sized enterprise is owned by or has close partnership with bigger company. In these cases, the company is not categorized as SME even if the size of the company would otherwise allow this. (Euroopan komissio, 2015)

Background for Company X's experience come from technology industry, but nowadays it offers consulting services also for multiple other industries such as national defence and medical industry. The company states as its mission helping customers to succeed with business-driven approach. The vision of the company is to grow and stand out from crowd. The Company X names as its core values practical relevance, solution orientation and caring. Company X has worked with over a hundred customer companies in total of hundreds of commissions. Currently Company X operates in international business environment through customer companies' international projects. At the current state the customer company, which orders the consulting service, is in majority of cases a Finnish company.

## **2.2 Internationalization of a Finnish SME**

There are many ways to define internationalization. Internationalization of a company can be as a comprehensive process, in which involvement in international operations increases. Common for the different definitions is, that internationalization can be seen as learning and development process. Born global means that a company is global already in its finding stage. Definition of a global company is that it operates in at least two different continents. (Vahvaselkä, 2009, p.17–18)

Companies can have different reasons and motives for internationalization.

Internationalization can often be seen as natural part of a company's growth and development strategies. Reasons behind decision to expand to international markets can be divided into internal and external factors. External factors come from the environment in domestic or targeted market. For Finnish companies some drivers from external domestic

environment have typically been small size of domestic market and geographically remote location. According to studies these are the most significant drivers in beginning of internationalization process. Later come drivers from external environment in target market such as bigger size of market, openness and growth in cross domestic product of targeted countries. Internal factors come from inside the company, and these can be qualities of the company such as age or size or internationally oriented management. (Vahvaselkä, 2009, p.61–63)

The Ministry of Economic Affairs and Employment of Finland executed research of Finnish SMEs internationalization in 2017. In this research 4700 representatives of SMEs in Finland were asked to fulfil an internet questionnaire. The results of this research showed that SMEs which were international were more likely to see their outlook positive than SMEs that operated only domestically in Finland. Internationalization was shown to have connection with strong growth-orientation. Nearly quarter of SMEs which operated internationally were strongly growth-oriented when only one of ten of all SMEs categorised themselves strongly growth-oriented. Approximately half of international SMEs exported goods and the other half exported services. In all fields of business countries belonging to European Union were main operating area for international SMEs. On the second place after EU countries was Russia. (Rikama, 2017)

From all SMEs only 23 percent told that they operate in international markets in the Ministry of Economic Affairs and Employment of Finland's research. From international Finnish SMEs close to 40 percent told that their primary market was international market instead of domestic market. In Finland SMEs were responsible from smaller percentage of export of goods than in any other Nordic country. This shows that Finland has much untapped potential in SMEs internationalization. SMEs were also asked if the enterprise was planning to use internationalization services during coming year. International and strongly growth-oriented SMEs were several times more likely to use these services than other SMEs. The research only took in count public internationalization services. (Rikama, 2017)

Finnish Entrepreneurs -union is a union addressed for Finnish SMEs. Finnish Entrepreneurs - union has put together Entrepreneur's ABC -guide. In the ABC-guide there is comprehensive

section about practical information about internationalization for SMEs. The guide highlights the importance of precise planning for success of internationalization. The guide stresses the difference of international trade compared to domestic trade. For example practises, sets of values and culture are named as possible differences. For the products and services demand can be different and standards and regulations for quality can differ. These in addition to for example quotas, certification- and regulatory requirements and limitation can form trade barriers. (Suomen Yrittäjät, n.d.)

In the internationalization guide by Finnish Entrepreneurs -union also highlights increased risks of international trade compared to domestic trade. Internationalization requires strategical planning and economical and physical resources as usually amount of expenses is higher and profitability is slower than expected. In international trade risks regarding transaction are payment and financing risks, personnel risks, market risk and contract risks. Payment and financing risks are for example currency, interest and damage risks. Also risks regarding destination country can be significant. Personnel risk in small company can be that key person of international trade leaves the company. Market risk can be change in competition, currency or other fast economic change. Contracts can causes risks in form of damage coverage, contractual penalties and lost profits. Risks can be decreased by clear contracts in which rights and duties of each party are defined specifically. (Suomen Yrittäjät, n.d.)

Other aspects needed to take into account regarding the internationalization guide are for example import and export regulations, logistics, funding and insurances. Funding of internationalization requires funding of investments needed in order to start actions and keep them going while increased business activity requires more capital. Also longer delivery and payment times can cause need for extra funding. Logistical aspects include requirements for packing, logistical insurances and Incoterms delivery clauses. Incoterms delivery clauses are used in order to define the rights and responsibilities of the shipper and recipient of the delivery in different delivery stages. (Suomen Yrittäjät, n.d.)

### 2.2.1 Financing of the internationalization

A company can apply for financing for internationalization, if it wants to expand market area to a foreign county or develop further already existing international business functions. Different types of financing options for the internationalization are grants, loans, guarantees for loan, capital investments and export guarantees. Sums of the funding for internationalization can vary from thousands of euros to over a million euros. Availability of different financing options depends on size, age and industry of the company, in addition to the stage of the internationalization and targeted area of the operation. Type and form of the financing define, whether different financing options can be combined. Typically, a requirement for public funding options in Finland is that a company has 20 to 50 percent own financing for the project. This financing can be also private funding, for example a bank loan. Different public financing options cannot be combined to cover all costs of internationalization operations. Only in the case that the public funding is a loan or guarantee for a loan, it can be combined with public grants. Common requirements for all types of financing are that company's balance sheet and securities are in good order. In addition to these requirements, financiers often have own requirements which the company must fulfil in order to qualify for financing. (Suomi.fi, 2021)

A grant means the type of funding, which the company does not need to pay back to the funder. In Finland, aids are usually intended toward planning phase of the internationalization, like research-, development- and innovation projects. (Suomi.fi, 2021)

One organization, which provides public funding for internationalization in Finland is Centre for Economic Development, Transport and the Environment (ELY Centre). It offers development grant, which a company can use for example towards internationalization. The development grant can be granted primally for companies that can be categorized as SMEs. The company must finance at least half of the development project by self, as ELY Centre grant is a public government grant. (ELY-keskus, n.d.) Other organization is Finnpartnership, which a program funded by Finnish Ministry of Foreign Affairs. It offers financial assistance for Finnish companies looking for business opportunities in developing countries for planning, development and education stages of the internationalization process. (Finnpartnership, n.d.) Business Finland is a Finnish government organization for innovation

funding and trade, travel and investment promotion. Business Finland offers different grants, intended mainly for startups and SMEs. Tempo grant is intended for planning phase of internationalization. Market explorer grant is intended for costs of purchasing expert services. Group Explorer grant is intended for groups of SMEs to enter the targeted international market. Research and development grant is a grant for critical research activities and for piloting in target market. (Business Finland, n.d.)

Loans are often intended for practical execution of internationalization, and they must be paid back with added interest. Guarantees for loan are meant to help the company to qualify for the loan. Often there is a fee paid for the party giving the external guarantee. Capital investment are investment by venture capital funds or other investors. With an export guarantee a company can protect itself from export risks such as currency risk. There is a fee charged from export guarantee services. (Suomi.fi, n.d.) Finnvera offers funding for starting a business, development, internationalization and protection against export risks. Finnvera is owned by Finnish government, and it offers loans, guarantees for loan and export guarantees. Finnvera is Finland's official Export credit agency. (Finnvera, n.d.) Business Finland offers in addition to grants also loans. Research and development loan is intended for SMEs' development and innovation projects. (Business Finland, n.d.) Finnish Industry Investment Ltd (Tesi) is government owned investing company, which invests to growth companies venture capital and private funds. Tesi focusses to finance growth and internationalization of growth companies with innovative products and services. (Tesi, n.d.)

European Union (EU) offers microfinancing, loans, loan guarantees and capital financing. (Suomi.fi, n.d.) For example, European Union's financing program COSME is intended for SMEs. COSME means Programme for the Competitiveness of Enterprises and SMEs. The goal of the program is to speed up economic growth of the EU area by for example improving availability of the financing for the SMEs and supporting internationalization. European Investment Bank is European Union financing bank, which offers long-term loans. It invests in projects which are significant for EU. (Helsingin seudun kauppakamari, n.d.)

Other option for financing of the internationalization, on the side of public funding, are private financing options via banks, investing and finance companies and private investors.

(Suomi.fi, 2021) Finnish Business Angels Network (FiBAN) is an association for Finnish private investors, which invests to potential growth companies. Nordic Innovation is co-operative organization formed by the Council of Ministers of the Nordic countries, and it invests in Nordic companies and co-operative functions. Nordic Investment Bank (NIB) offers long-term loans and guarantees for loan for companies with Nordic interests. The Nordic Environment Financing Corporation (NEFCO) finances environmental projects in countries nearby Nordic countries. (Helsingin seudun kauppakamari, n.d.)

### **2.3 Internationalization strategy**

As internationalization requires from a company long time commitment and often updating of knowledge, it is important to weight different strategic options in all steps of internationalization process. Some of the factors that the company should take into consideration when planning internationalization strategy are geographical area and how big steps to take. In defining of how big steps to take the company should consider what are the goals of internationalization and how much ability the company has in risk-taking. Other factor is to think to what company focuses to handle by self and which areas are necessary to keep under control of the company. This includes for example decision regarding choice of entry mode of internationalization. Other aspect to consider is, what are the resources of the company and can the internationalization be financed by self or is external financing needed. The company must also consider what are its priorities and what will form the base for success. (Vahvaselkä, 2009, p.117)

Formation of internationalization strategy requires updating of the company's business plan to include the internationalization. Updated business plan should include international markets and customer segments, business functions, competition, suppliers and production, contracts, personnel and plan of implementation of internationalization process. After updating the business plan, there are five steps of internationalization strategy planning. Strategic segmenting means defining the targeted area, where and for who to sell. It is important that the company limits the targeted customer segment, in order to be able to allocate resources and focus the marketing to meet the customer's needs. The second step is to define the competitors. Knowledge of the competitors gives the company possibility to

make decisions to differ from competitors and to build competitive advantage. The third step is to define, how the company can provide for the customers value, which they cannot get from elsewhere. The fourth step is to set clear goals on what the company wants to achieve in the targeted market area. The last step is to create marketing strategy, thru which the company can gain competitive advantage and hit the goals set for the market. This strategy includes for example pricing, communications, product and customer relations strategies. One of the parts, market entry strategy, will be investigated more in depth in the next chapter. (Vahvaselkä, 2009, p.118–128)

One aspect of marketing strategy formation and competing in the market is pricing of the products or services. In international pricing it is important to define a price that produces enough profit margin but remains competitive. It is important for pricing decisions to define costs of production. In international markets demand, attitudes of consumers towards the product, such as brand image, and how much consumers are ready to pay for the products form a base for the pricing instead of costs of production. Demand is based for example on amount and needs of customers, quality and price of the product, income level of the customers and competing products. International market skimming strategy means seek for high profits on international customers who are ready to pay, and price is intentionally set high. Use of this strategy requires high market share and high quality of product. The product cannot be sold cheaper on other countries. International market pricing strategy should be adapted if there are similar products already in the market. In this strategy price is adapted based on pricing of competing products. Penetration pricing strategy means that price is intentionally set low in order to penetrate the market and to achieve high sales volumes. This strategy can be adapted in big markets for products for which production costs decrease when production volume increases. (Vahvaselkä, 2009, p. 202–205)

### **2.3.1 Market entry strategy**

A market entry strategy consists of two parts, an entry mode and a marketing plan. The entry mode means the strategy to enter the target country. The marketing plan is formatted in order to penetrate the targeted market. Selecting correct entry mode is important as decisions made regarding marketing channels define the pricing of the product for end

buyer. For example, export merchants' and wholesaler's margins often contribute big part of end selling price in foreign market. The other reason is that development of international channels is often slow and costly. Deciding entry mode can be difficult due to different economic conditions and changes in them, which can lead to change in buyer behaviour, distance to targeted country and availability of reliable data. Some of the factors, which have major impact in choosing correct market entry mode, are market attractiveness, uncertainty and legal environment in the host country and culture of the home country. Market attractiveness means size of the market and market growth. Uncertainty of targeted country means risks, including economical risks. Legal environment is important in defining legal restrictions. (Albaum & Duerr, 2011, p.392–395)

Entry strategy should be formed by using methods that align with strategic objectives of the company. Strategic decision affect closely the choice of entry mode. The international marketing channel strategy means the strategy to enter the targeted market. The international marketing channel strategy should be comprehensive plan made for the time period estimated, that it takes for company to achieve sustainable growth in targeted market. Suggested time period for a company, that is new in targeted market or international marketing, is three to five years. As target markets and products differ, the marketing channel strategy should be formed separately for each target market and for each product. Markets of some target countries may also require different entry strategies within the market itself. It is necessary to define following factors, in order to form the strategy: objectives and goals, policies, resource allocation, entry modes, monitoring system for the performance and timeline. Analyses of target market, market environment, finances and competitors should also be integrated into international marketing plan. (Albaum & Duerr, 2011, p.398–399)

There are export and non-export entry modes. Different export entry modes can be divided into indirect and direct entry modes. Indirect export means that the company uses independent organizations to do the export. The organizations that the company can use to export the goods are international marketing organizations or cooperative organizations. There are two types of marketing organizations, merchants and agents. The most significant difference between these two options is, that merchants take the ownership of the sold



goods, but agent do not. Different options for home country-based merchants are export merchants, trading company and export desk jobber. Export merchants from the company's home country buys and sells on its own account. The export merchant takes care of all international marketing tasks regarding the export. The export merchant has the right to decide what goods it sells and on which prices, and the same applies also to the merchant buying the goods. Some limitations of export merchants are that they are not available for all markets, and they usually pay the producer of the goods only a manufacturing profit. In some target markets it might be necessary to use a trading company in order to enter the market. There might be some barriers to trade. Export desk jobbers are usually used to export raw materials. The desk jobber operates like traditional merchant, but it owns the goods for shorter time and does not necessarily even physically acquire the goods they sell. (Albaum & Duerr, 2011, p.442–451)

Different options for home country based indirect export agents are export commissioning house, confirming house, resident buyer, broker, export management company and manufacturer's export agent. Export commissioning house is representative of target market's buyers, which is located at the company's home country. This type of agent gets purchasing orders from their customers overseas. Conditions and price offered by agent to the company are defined by the agent's customer. Confirming house confirms overseas buyer's purchase to the company, and the company receives the payment from confirming house after the goods have been shipped. Resident buyers are overseas customer's representatives, that operate in similar method than confirming houses. Broker does not handle the products that are being sold but is a professional in contract making in order to bring common understanding to between seller and buyer. Broker usually specialises in one category of products and gets provision from his/her services. Export management company works as an export agent for multiple allied companies, which do not compete against each other. Manufacturer's export agent operates similarly that export management company, but under their own name. The main difference is that manufacturer's export agent does not engage in selling and buying arrangements. (Albaum & Duerr, 2011, p.452–456)

In direct export the company sells straight to importer or a customer at the target country. There are alternative methods for direct export, and the company can choose to use many

of them at same time. Establishing a home-country based export department or division is recommended. Different options for export department are built-in, separate or self-contained export department or export sales subsidiary. Defining the best option depends on size of the company, type of the product and expected sales volume, to mention few. One option for the company is to establish a foreign sales branch. (Albaum & Duerr, 2011, p.462–466)

Non-export entry modes include establishing a manufacturing facility to target country. In order to sell products to some countries, establishing a manufacturing unit might be necessary due to import barriers, attitudes or currency restrictions. In addition to establishing a manufacturing unit, other ways of non-export entry are to establish assembly unit or to form a strategic alliance with other companies. Strategic alliances can be formed by licensing, contracting or joint ventures. Joint venture means engaging foreign production. (Albaum & Duerr, 2011, p.512, 515, 535, 550)

In own export company sells products or services straight to the foreign end customer. This allows the company to offer customer centric and flexible service. Downside of this mode is that the company does not have a local presentative and travelling back and forth can be expensive and time consuming. The company can consider forming an export cooperation with other companies. One way to create direct sales is to sell products or services online. Internet enables international sales without big investments. Online sales can still require travelling to the target country in for example marketing purposes. In internet sales the company must consider requirements and customs in targeted areas. Selling online benefits the most products that can be transferred to the customer digitally. (Vahvaselkä, 2009, p. 71–74)

Project operations means selling to an international customer a project which has pre-set limits for time, location and content. The project can be a partial project in which the company provides only a part of products, services or expertise required for the execution of the project. Turn key project means that the exporting company is responsible for the whole project including planning, acquisitions and execution. In turn key plus project the exporting company offers in addition to turn key project for example financing, coaching or market

analysis services. Consortium means temporary coalition of multiple projects. One type of a project can be also a management agreement, which means that management of the exporting company replaces the management of foreign company for a set time in order to pass the knowledge. (Vahvaselkä, 2009, p.77)

## **2.4 Consulting industry**

According to Liike-elämän ja johdon konsultit LJK ry, which is a Finnish association for management consultants, there are approximately 13,000 professional consultants operating in Finland. In 2016 the turnover of consultancy business in Finland was 3.2 billion euros. According LJK it is difficult to define the size of consulting as industry, because there are different titles in use. Consulting can be defined in different ways, but common for definitions is that they highlight guidance in according to consultant's specialization. The situations requiring consultancy are often temporary and project kind. At its best, consulting improves the customer company's profitability and competitiveness. Consulting requires, from both the consultant and the customer company, co-operation skills, commitment and professionalism. (Liike-elämän & johdon konsultit, n.d.)

According to a study committed by Universum Finland in 2017, business students appreciate consulting as a business the most on the side of finance. Also, overall appreciation of consulting business is and has been growing in Finland. LJK committed a survey among its members in 2017, which showed that the biggest operating area of consulting was strategic consulting with 77,1 percent. Other sub visions, on which consultants operated on, were finance, juridic, human resources and IT. According to LJK there is a lot of unleashed potential in consulting business in Finland. (Liike-elämän & johdon konsultit, n.d.)

Consulting market of EMEA-region together with North America forms the largest consulting markets in the world. The EMEA-region stands for Europe, Middle East and Africa. Europe represent more than 95 percent of the value of EMEA-region, the value of which is in total near 100 billion US dollars. Western Europe produces 90 percent of Europe's part of the value. (Consultancy.uk, n.d.)

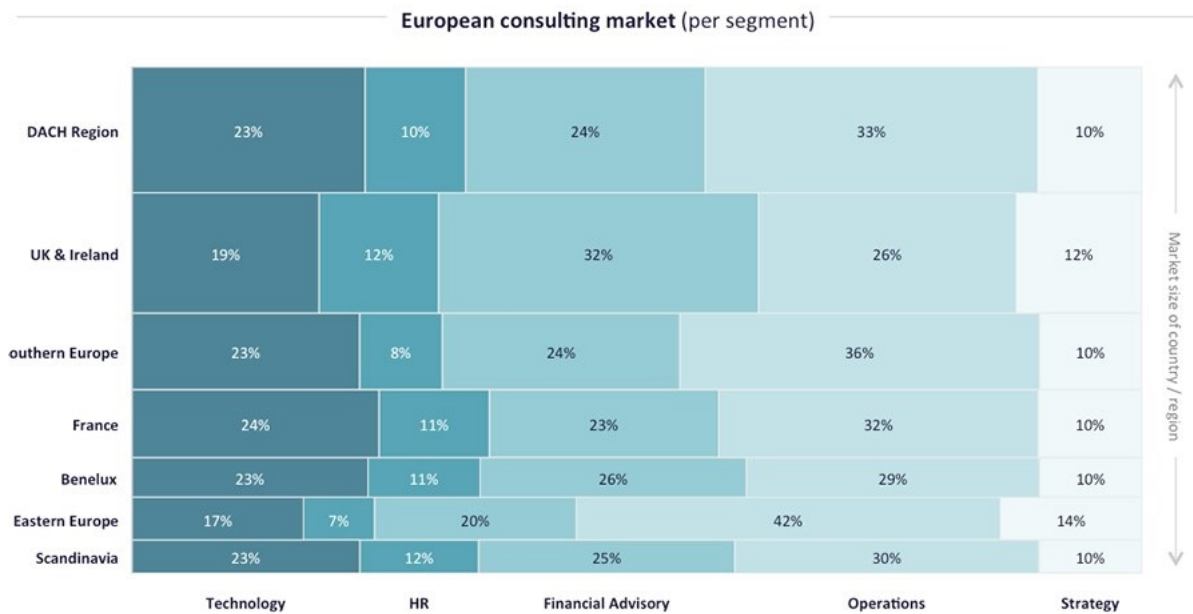


Image 1. European consulting market. (Consultancy.uk, n.d.)

In the picture above the height of the sector presents the market size of the country. DACH Region countries have the biggest size of the market and Scandinavia has the smallest. DACH countries cover Germany, Austria and Switzerland, meaning the countries in which variation of German language is a native language. Sizes of the different segments are anyhow similar between DACH Region and Scandinavia, operations section is the biggest and the smallest are strategy and HR. (Consultancy.uk, n.d.)

### 2.4.1 History of consulting

The first modern consulting firms were founded in late 19<sup>th</sup> century. At the beginning, the focus of management consulting was in engineering and finance industries. Consulting expanded its area to business slowly, and in 1930's size of consulting firms started to grow larger from small teams. The number of consulting firms grew during coming decades and some famous US consulting firms such as Arthur D. Little and McKinsey & Company were founded. In 1960's the consulting industry started its internationalization, as large US consulting companies expanded their market area to Europe. The growth of consulting industry exceeded the growth of world economy during next thirty years. The beginning of 21<sup>st</sup> century was time of economical blooming for consulting industry as revenues of top ten

international consulting companies grew from 200 million US dollars to 50 billion US dollars. (Consultancy.uk, n.d.)

Nowadays majority of consultants are working for large or mid-size consulting companies, but these companies only stand for 15 percent of number of the companies. The majority of the consulting companies are sole proprietorships, meaning people working in these companies are freelancer consultants. During last decades, companies have also started to hire internal consultants in addition of using external ones. (Consultancy.uk, n.d.)

## **2.5 Estonia as a business environment**

The official name of Estonia is Republic of Estonia. Estonia is located in Baltic region of northern Europe, bordered to the east by Russia, to the south by Latvia and to the north and west by Baltic Sea. Across from the Baltic Sea are Sweden and Estonia. Area of Estonia is 45,227 square kilometres and its capital city is Tallinn. Population is around 1,330,000. About 1.1 million people speak Estonian language as native language. (Estonia, n.d.)

### **2.5.1 History**

According to a study called Transformation in Society and Changes in Estonian Management and Business Thinking by Alas, R. and Elenurm, T. (2018) Estonia has undergone many significant changes in business atmosphere. The study states that understanding the history is important part of understanding a socioeconomic phenomenon. Between years 1200 and 1918 Estonia was under rule of either Sweden, Denmark, Germany or Russia. Estonia gained independency when the First World War ended in 1918. During 22 years of independency between 1918 and 1940 Estonian national culture developed rapidly, and the country adapted many western values. Economical and educational institutions adapted western work ethics, free enterprise and individualism. In 1940 Soviet Union took power over Estonia and started sovietisation pursuing goals of socialism and russification. During the Second World War Estonians lost 25 to 30 percent of its original population. Lost population was replaced by Russian-speaking colonists, and in 1989 only 62 percent of population constituted from Estonians. (Alas and Elenurm, 2018, p. 41-44)

During totalitarian soviet time Estonians learned their official language in order to communicate with one to another, as they did not trust soviet media. After the dead of Stalin Soviet Republics gained some autonomy and Estonian economy started to improve in 1960's and 1970's. Soviet Union's economy anyhow weakened, which led to shortage on consumer goods. In beginning of 1980's information blockade weakened, and Estonians started to compare life inside Soviet Union to other countries. After 1985 Estonian enterprises gained more autonomy due to economic experiments and ongoing reforms. Development of small enterprises, which were not part of central planning, became legal. The Economic Autonomy Proposal was published in 1987 as part of the reforms. In 1990 the strategic goal of reforms in Estonia switched from economic autonomy to full independency and restoration of market economy. Estonia gained independency in August 1918, which allowed it to start to rebuild market economy. (Alas and Elenurm, 2018, p. 44-45)

Transition from a command economy to market economy started macro-environmental changes in politics and institutions, creating new environment for organizations. The change also required changes in politics, economic and cultural structures and values in all levels of society. The change from central planning also created different working environment for employees and required them to adjust. De- and reinstitutionalisation processes were required during transformation to adjust patterns and activities to match the new set of values. As during Soviet times state was obligated to guarantee work for everyone, the workers attitudes towards work were not ideal and workplaces were overstaffed. It was necessary for companies to adapt new managerial culture in order to implement new kind of organizational behavior models. Market economy required new work ethics and entrepreneurial values such as money and competition to be adapted also by employees. (Alas and Elenurm, 2018, p. 45-46)

### **2.5.2 Doing business in Estonia**

According to Passport to Trade 2.0 (n.d.), which is a project funded by European Commission as a part of Lifelong Learning Program, communication is one important factor to pay attention to, when one does business with people from outside their own country. Face-to-face communication during business meetings is one part of this. In Estonia physical contact

is not encouraged in business meetings. Estonians tend not to make many facial expressions or gesticulate, but they prefer to maintain eye contact to communicate interest and commitment to conversation. They pay attention to facial impressions of the person they talk with. Estonians may not show emotions during business conversations, but they communicate verbally very directly and straightforward. Estonians expect one to use their title and surname on the first meeting, but later on as they get familiar with person, they prefer to communicate in first-name basis. According to Passport to Trade 2.0 the best way to contact Estonian person in business matters is by phone, as emails often take time to be answered. (Passport to Trade 2.0, n.d.)

Not everyone in Estonia speaks Estonian, as some people speak Russian as native language. Majority of Estonians speak Russian as a second language. As Russian is not an official language, all official documents and agreements must be translated to Estonian by the law. Estonians have good English skills, as even during communist times, it was compulsory for Estonians to study English at school. Estonians are not expecting their business contacts to speak Estonian, as business meetings are conducted in English, but they appreciate efforts on speaking Estonian. Verbal agreements are common, but it is recommended to confirm them by written contracts to clarify rights and responsibilities. (Passport to Trade 2.0, n.d.)

Estonian business etiquette has been strongly influenced by western and Scandinavian business mindset and style after Estonia gained independency in 1990's. Estonians have a nationalistic and patriotic mindset, which can be seen also in business, as they want to highlight their competence and want to be winners. Business meeting etiquette in Estonia is formal, and respect for hierarchy is high. The most senior representative opens the meeting with a speech. In order to form trust with Estonians, it is very important not to promise things that one cannot commit to. High-pressure sales techniques are not recommended. As Estonian businesses are often hierarchical, decision-making processes can be slow. Estonians do prefer to get straight to the subject, and they do not engage in small talk. Estonians do not see building personal relationship as a necessity for doing business. Estonians are very punctual in business meetings and expect the same from business partners, as they have strong 'Time is money'-mindset. Negligence to be punctual can cause serious damages for one's attempts to do business with Estonians. Gift giving is not expected, but small gifts are

generally accepted. Business dress code is formal, and Estonians especially pay attention to footwear. Some Estonians mirror person's professionalism to the quality of the shoes that person wears. Like at other former communist countries, corruption has been common in business, but is coming less and less accepted in Estonian business etiquette. (Passport to Trade 2.0, n.d.)

### **2.5.3 Establishing a company**

This chapter focuses to investigate, what are the procedures in establishing a company in Estonia. Estonia markets, that establishing a company is very easy and it only takes three hours to start a company. Estonia is the first country which has implemented e-Residency system, a transnational identity service, which allows one to establish a private limited company fully online. According to sources 98 percent of companies established in Estonia are established online. (Invest in Estonia, n.d.)

In Estonia, there five different forms of business entities in use according to the Commercial Code. These forms are private limited company (OÜ), public limited company (AS), general partnership (TÜ), limited partnership (UÜ) and commercial association (ühistu). Private limited company (OÜ) means that the company has share capital divided into private limited company shares. The company is liable with all of its assets, but shareholders are not personally liable. Requirement for establishing private limited company are that share capital is at least 2,500 euros. The company must have a management board with one or more natural persons. If more than half of board members are not Estonian citizens, the company must name a contact in Estonia to Commercial Register. A supervisory board or an auditor are not necessary for small companies. Establishing a public limited company (AS) differs from private limited company so, that share capital must 25,000 euros. The other difference is that public limited company must have management board with one or more members and supervisory board with minimum of three persons, and members of supervisory board cannot be members of management board. The company must also have an auditor. Private and public limited companies are two most common forms of business entities in Estonia. (Invest in Estonia, n.d.)



Other ways of starting business activities in Estonia are for private person to register themselves as a sole proprietor, and for companies to open a branch. The requirement for becoming a sole proprietor is that person has bank account suitable for business activities and a residence in Estonia. There is no requirement for minimum capital. Companies can establish a branch. The company must choose director for a branch and authorize this person to open the branch. The director of branch must register the branch to Estonian Commercial Register. As branch is not a business entity, the company is liable for branch's obligations. (Invest in Estonia, n.d.)

Starting a private limited company can be done fully online in Estonia via e-Residency. E-Residency is a digital ID issued by Estonian government. E-Residency allows person to establish a private limited company location independently as the person does not need to live in Estonia. After person has registered as e-Resident, the person needs to choose a name for company and make sure that name is not already in use. Next person needs a legal address for company and in case the person does not live permanently in Estonia, the company needs to name a contact person located in Estonia. Many virtual office service providers in Estonia provide these services for e-residents. Next the company needs to be registered online to company registration portal and contribute the share capital. The last step is to define main area of activity of the company and to submit the application to Company Register. (Republic of Estonia, n.d.) According to available data, there were 35,000 e-Residents at Estonia in 2018. By nationality, Finns formed a biggest group of e-Residents with nearly 3,800 people. Next in number of e-Residents came Russia, Ukraine and USA. Interestingly for this research, the main sector that utilizes e-Residency for business were business and management consultants. On the second place came IT-professionals. The e-Residency is believed to attract especially consultants due to international nature of consulting industry. According to Peter Benei, an Estonian e-Resident and founder of a consulting company called Anywhere consulting, promotes e-Residency for other entrepreneurs and consultants as minimalistic, transparent and providing long-term benefits. (Consultancy.eu, 2018)

One aspect beneficial for starting a business in Estonia is, that Estonia holds first place in International Tax Competitiveness Index (ITCI) in 2021. ITCI measures competitiveness and

neutrality of tax policy in countries tax system. Estonia holds the first place as its marginal tax rates are low, which improves profitability of investments. The tax system is simple as it raises revenue without economic distortions. Estonia's corporate income tax rate is 20, and it only applies to distributed profits. Individual income tax rate is 20 percent for everyone, excluding personal dividend income. Property taxes are calculated purely based on value of the land. Estonian tax system exempts foreign profits earned by domestic corporations from domestic taxation. (Tax Foundation, 2021)

The World Bank measures business regulations between countries and how easy is it to start a business. Estonia is ranked on 18<sup>th</sup> place out of 190 countries in 2020. Estonia scored 95.4 out of 100 in overall easiness of starting a business. Estonia scored high also in easiness of registering property, paying taxes and trading across borders. The factors that lowered the overall score were resolving insolvency and protecting minority investors. Resolving insolvency score was low as recovery rate, meaning amount of money secured creditors recover from insolvent firm, was low. Also, time of proceeding was long compared to other high-income countries and costs were relatively high. Protecting minority investors -score was low as director liability index, measuring easiness of holding board members liable and available sanctions, was low in addition to extend of ownership and control index, measuring in companies the rules governing the structure and change in control of companies. (The World Bank, n.d.)

### **3 Methodology**

#### **3.1 Interviews**

In this research the method in which the primary data will be collected is interviews. This qualitative research method of Interviews was chosen as they allow to gather reliable and valid data regarding the research question. Two specialists of Estonia as a market area will be interviewed in individual semi-structured theme interviews. In semi-structured interviews interviewer has questions and themes they want to cover. Additional questions are also allowed in this interview type. (Saunders, Lewis & Thornhill, 2009, p.320 —321)

Semi-structured interviews require from certain competence from the interviewer. The interviewer should use proper language and open the interview properly, think about approach to questions and asking them and listen carefully. The interviewer must also be able to deal with difficult participants for example in case that participant does answer the questions too shortly or outside of the focus of the question. Recording interview data is also important in order to have reliable data for analysis. (Saunders, Lewis & Thornhill, 2009, p.336—341)

Primary data collected by interviews can have data quality issues related to reliability, forms of bias and validity and generalisability. Reliability can be issue if other researches have not revealed similar information. There can also be quality issues caused by interviewer or interviewee bias. Interviewer can with their behaviour create bias which affect how interviewee answers the question. Interviewee bias regarding interviewee can cause similar issues. The bias can be prevented by correct approach to the questions. Interviewee should in addition have enough knowledge about the research topic, follow good manners throughout the interview and listen actively. Qualitative research can have validity and generalisability issues as interviewees are individuals and their opinions may differ from mainstream perceptions. (Saunders, Lewis & Thornhill, 2009, p.326—334)

Interviewees for this research were chosen by the author based on knowledge and experience of doing business in Estonia. There were two interviewees, both of which were interview separately via Teams-videocall or phone. One of them was Kuldar Väärsi, the CEO of Milrem AS. Milrem AS produces robotic solutions for defense, forestry and mining, to mention a few. Milrem AS was found in Estonia in 2013 and it has subsidiaries in three other countries in Europe. The other interviewee was a managing director of an Estonian branch of a Finnish company. The company operates in electrical manufacturing industry. The interviewee chose to remain anonym due to privacy reasons.

### **3.2 Market research tools**

Secondary data will be utilized in this thesis by using market research tools PESTEL, SWOT and competitor analyses. A company's business is affected by aspects, which the company

cannot have effect on. These come from environment in which the company operates in, called macro-environment. PESTEL analysis is a tool to analyze macro-environmental factors that affect the organization. The name PESTEL comes from the names of the factors that the analysis investigates. These factors are political (P), economical (E), social (S), technological (T), environmental (E) and legal (L). (Professional Academy, n.d.)

SWOT analysis is a theoretical tool used for defining strengths and weaknesses of a business, opportunities for a business and threats faced by the business. Strengths and weaknesses are internal factors, which means that businesses can affect these to a certain extent. Strengths can be seen as factors that give the business competitive advantage. These can be for example good brand image and good access to resources. Weaknesses on the other hand weaken competitiveness of a business. One example of weakness is high employee turnover. (Business Research Methodology, n.d.)

Opportunities and threats are external factors, which means that the business can not affect these but only react to them. Opportunities are favorable factors in external environment, that can positively affect business's competitive advantages. Opportunities can be upcoming new customer segment or technological innovations. Threats on the other hand are external factors which weaken business's competitive advantage. Threat can be for example increasing purchase price of materials used for production. (Business Research Methodology, n.d.) Results of the PESTEL analysis will be utilized to map out opportunities and threats of the environment.

Competitor analysis means defining the competitors and their objectives, strategies, strengths and weaknesses and patterns of reaction. After this company can decide which ones to attack and which ones to avoid. One way to utilize competitor analyses results is attempts to gain competitive advance, which means gaining advantage over competitors by offering greater value to customers. (Kotler & Armstrong, 2017, p.543) In this thesis competitor analyses focuses to finding and defining the competitors as one of the research questions is who the competitors are. Results are also utilized in order to define whether it would be profitable to expand market area, as if the market is very competitive and there are multiple competitors, this can reduce profitability.

### **3.3 Quantitative research methods**

Quantitative data is standardized and numerical data, which can be analyzed through statistics or diagrams. (Saunders, Lewis & Thornhill, 2009, p.482) In order to answer the research question regarding the pricing of consulting services in Estonia, numerical information regarding prices of consulting services will be collected. The recommendation of the pricing will be conducted partially based on collected pricing data. The pricing level has also effect on whether the expansion of market area would be profitable for the commissioning company.

## **4 Data collection and analysis**

### **4.1 PESTEL analysis**

In this section PESTEL analysis will be conducted on Estonia as target market. Results of the PESTEL analysis will be utilized as part of the SWOT analysis in the next chapter.

#### **4.1.1 Political factors**

Political factors refer to the extent to which government impacts on economy and organizations. (Professional Academy, n.d.) Political situation in Estonia has remained stable in previous years. Estonia gained independency from Soviet Union in 1991. Government type in Estonia has since been parliamentary republic. (The World Factbook, 2022) Democratic institution is strong in Estonia and civil and political rights are respected. Corruption has decreased, but corruption can still be found especially at public sector. Media in Estonia is free and independent, and people have freedom of expression and faith. (Freedom House, n.d.)

In 2021 Corporate income tax rate in Estonia was 20 percent. Corporate income tax means tax charged from companies based on company's net income per year. For a reference, corporate income tax in Finland is also 20 percent. Social security rate for companies in Estonia was 33.80 percent, which is high compared to for example Finland with 20.66

percent. Social security rate means taxes charged based on labor income. Higher social security rate means increased labor costs for employer, which is something to consider in internationalization planning. Interviewed managing director anyhow mentions that labor costs in total remain smaller in Estonia than in Finland, which is appealing for Finnish companies. The Sales tax rate in Estonia is 20 percent. Sales tax rate means VAT, which is the tax charged from consumers based on the price of good or service. In Estonia VAT is lower compared to Finland, as Finland's VAT rate was 24 percent in 2021. VAT rate must be taken to consideration by the company in planning of pricing. (Trading Economics, n.d.)

Estonia has belonged to European Union since 2004 and to Schengen area since 2007. Estonia has had euro as its currency since 2011. (European Union, n.d.) As Finland also belong to European Union (EU), they can benefit from EU's single market strategy. EU's single market strategy aims for removing technological, juridical and bureaucratic barriers of trade between EU countries. It allows people, goods, services and capita to move between countries freely. (European Commission, n.d.)

According to interviewee Kuldar Väärssi's experience Estonian government does not interfere to business much in daily basis but creates rules and environment for business. Government also creates infrastructure and ecosystem for businesses to operate in. Väärssi also highlights government's efforts on making starting a business in Estonia easy, as the business can be established fully online. As Milrem AS has subsidiaries also in other countries Väärssi tells that practicalities, such as opening a bank account are made much easier in Estonia compared to some other countries the company operates in. Väärssi mentions also that Estonian government is transparent in buying and international companies have equal possibilities compared to local companies, as the government does not favor local over international companies.

#### **4.1.2 Economic factors**

Economical factors have important part on how businesses operate and how profitable they are. (Professional Academy, n.d.) The Gross Domestic Product (GDP) in 2020 in Estonia was 30.65 billion US dollars. GDP in Estonia in 2020 decreased slightly from previous year, which

was the trend also in other countries due to Covid-19 pandemic. GDP in Estonia had been constantly growing before the slight drop in 2020. Also, GDP per capita decreased slightly in 2020 after constant growth during previous years. GDP per capita in 2020 in Estonia was 19735.7 US dollars. GDP per capita is calculated by dividing gross domestic product of the country by its capita and adjusting it by inflation. For comparison, Finland's GDP per capita was 44773.2 US dollars in 2020. (Trading Economics, n.d.)

According to interviewee Väarsi Estonian companies have willingness to invest. Ongoing inflation has not affected investments so far, but Väarsi predicts that affects might start to show if the price of money will raise as interest rates would raise. Väarsi mentions that start of COVID-19 pandemic caused temporary drop in companies' willingness to invest.

Unemployment rate in Estonia has been decreasing constantly between years 2011 and 2020. In 2020 unemployment rate raised due to global pandemic but has started to recover. In 2021 amount of people actively looking for job was 5.2 percent of the labor force. There were 659.70 thousand employed people in Estonia in 2021. (Trading Economics, n.d.)

#### **4.1.3 Social factors**

Social factors means attitudes and beliefs in the society, which affect businesses thru consumer behaviour. (Professional Academy, n.d.) Population of Estonia is relatively small, the population in beginning of 2022 was 1,328,439. The population is slowly decreasing every year and according to one projection the population of Estonia would decrease to 1,179,667 by 2080. Immigrants form big share of population, as only 68.8 percent of people in Estonia are native Estonians. Majority of people in Estonia, 44.9 percent, have only secondary education. In 2020 20.6 percent of people were in risk of poverty. (Statistics Estonia, n.d.) In 2020 the average salary per person in a month was 1553 euros, while the minimum salary was 584 eauros in a month. (Trading Economics, n.d.)

Actual Individual Consumption per capita in 2019 in Estonia was 76, according to Eurostat, which is statistical office of the European Union. Actual Individual Consumption per capita (AIC) measures material welfare of households. AIC is calculated in purchasing power

standards and compared to Europe Union average, reference figure 100. Estonia's score of 76 communicates, that material welfare of Estonian households is almost quarter lower than European Union average. AIC represents goods and services actually consumed by individuals, purchased and paid by households, government and non-profit organizations, and it is used to compare volumes of consumption internationally. AIC is measured in Purchasing Power Standards (PPS), which is an artificial currency that buys same amount of goods and services in all countries. On the other words it eliminates differences in pricing levels between countries, which offers meaningful way of comparing economic indicators between countries. Also, Gross Domestic Product per capita (GDP) of country can be presented in PPS currency. GDP of Estonia in 2019 in PPS was 84. Like in AIC, also in GPD European Union average is score 100. (Eurostat, 2020)

#### **4.1.4 Technological factors**

Technological factors means innovation and development, which can effect marketing and management of businesses. (Professional Academy, n.d.) Estonia is claimed to be one of the most digitally advanced countries. One evidence is that Estonia was the first county in the world to implement digital e-Residency in 2015. (Hammersley, 2017) e-Residency has been introduced more in depth in the Research background -section of this thesis.

According to EBRD Knowledge Economy Index Estonia has the most advanced knowledge economy among EBRD countries. EBRD refers to the European Bank for Reconstruction and Development and knowledge economy means an economic development concept in which productivity growth is seen to be driven by innovation and access to information. Estonia scored especially high at digital infrastructure -section. (European Bank for Reconstruction and Development, 2019)

#### **4.1.5 Environmental factors**

Environmental factors affect businesses thru environmental and ecological aspects. (Professional Academy, n.d.) According to Environmental Performance Index (EPI) Estonia ranked 30 out of 180 countries. Finland was on 7<sup>th</sup> place in this ranking. One aspect that EPI



measures is air quality. Air quality is measured in how much direct impact to human health air pollution causes. Estonia scored in this category 21<sup>st</sup>, while Finland was 1<sup>st</sup>. Estonian score was heavily influenced by high CO2 pollution rate. (Environmental Performance Index, n.d.) In 2020 Estonia generated 16.7 million tons of waste, which was 17.4 percent less than the previous year. 10.53 million tons of the waste was reused. (Statistics Estonia, n.d.)

#### **4.1.6 Legal factors**

Legal factors effect businesses as it is inevitable for a company to be aware of the legislation in the areas they operate in, in order to succeed. (Professional Academy, n.d.) Legal system in Estonia is based on the Continental European civil law model and law in Estonia has been divided into two, private and public law. Private law consists of civil and commercial law. Rest of the legislation belongs under public law. (Invest in Estonia, n.d.)

Estonian legislation is claimed to be very favorable for entrepreneurs. In Estonia, local and foreign investors have same rights and obligations. There are no limitations for foreigners to conduct business or to establish one. Estonia is ranked in 5<sup>th</sup> place in economic freedom in Europe and to 10<sup>th</sup> place worldwide. Estonian law companies have created model versions of Estonian legal documents, which are made available for everyone free of charge. Estonia has also conducted treaties for protection of investments and agreements to prevent double taxation in order to help entrepreneurs to start their business in Estonia. Estonia has three level court system with country, city and administrative courts. Thank to Estonia's fully atomized and digitalized court systems Estonia has the second-fastest proceeding court. (Invest in Estonia, n.d.)

#### **4.2 SWOT analysis**

In this section SWOT analysis will be conducted for the commissioning company in targeted market area, Estonia. Information in this section has been collected via conversations with representatives of the commissioning company combined with results of the interviews and the PESTEL analysis, which was conducted in the previous chapter.

Table 1. SWOT analysis (Business Research Methodology, n.d.)

Internal	Strengths	Weaknesses
	<ul style="list-style-type: none"> <li>• Expertise in the consulting business</li> <li>• Experience in many different industries</li> <li>• Wide range of services</li> <li>• Highly professional and committed personnel</li> <li>• Ability to quick decision-making</li> <li>• Ability to network quickly</li> <li>• Existing international networks</li> <li>• Strong market position in domestic markets</li> <li>• Flexibility</li> </ul>	<ul style="list-style-type: none"> <li>• Limited amount of personnel</li> <li>• Lots of projects domestically</li> <li>• Limited experience in international trade</li> <li>• Size of the company</li> </ul>
External	Opportunities	Threats
	<ul style="list-style-type: none"> <li>• Emerging market</li> <li>• Good economic situation</li> <li>• Globalization</li> <li>• Genericity of the project business</li> </ul>	<ul style="list-style-type: none"> <li>• Variable demand</li> <li>• Adequacy of financing</li> <li>• Competition</li> <li>• Loss of key member in workforce</li> <li>• Size of the market</li> <li>• Costs vs profits</li> </ul>

#### 4.2.1 Strengths

Vahvaselkä (2009, p.114) states strengths at SWOT analyses as factors that should be utilized and developed further. One of the core strengths of the commissioning company is high expertise of the consultants and wide range of consultants with different backgrounds and specializations. This means that the company can offer highly professional consultants for

different customers. This is certainly an advantage, when entering a new market, as narrow area of expertise does not rule out potential customers.

The company has long experience in consulting industry. The company has worked with multiple different customer companies and has gained an ability to network effectively. It also has some international networks through its international operations in domestic customer's international projects. Ability to network and existing networks is certainly something, that the company can utilize in internationalization process. Employees have high motivation and good work ethics. They are flexible and ready to learn new. Human capital is one of the factors that the company can utilize to gain competitive advance. Decision making in the company is decomplicated and the company is flexible.

#### **4.2.2 Weaknesses**

SWOT analysis can be used as a tool to recognize weaknesses, in order to turn them into strengths (Vahvaselkä, 2009, p.114). One weakness of the company is that amount of workforce is limited and there can be timely variation in the number of ongoing projects. Limited work force can make it difficult to take commissions from both Finnish and Estonian markets. The company can affect on allocation of the workforce by the choice of the market entry mode. One aspect that can be named as a weakness is that the company does not have much of previous experience from international trade. Also, the small size of the company can be seen as negative factor in big and demanding commissions and projects.

#### **4.2.3 Opportunities**

According to Vahvaselkä (2009, p.114) in addition to recognition of opportunities the business environment has the company should acknowledge how to utilize them. One opportunity in Estonian market is that according to PESTEL, which was conducted in the previous chapter, Estonia has growing economy. Economic situation is also stable. For example, the GDP has been growing steadily, except for a slight drop due to COVID-19 pandemic. According to interviewee Väärsi companies are willing to invest, which is important for a new company entering the market. The second interviewee mentions that

Estonia is well involved in ongoing globalization, which is a benefit for an international company aiming to enter the market. One opportunity for the company is, that project business is generic, meaning that the nature of business remains similar in international setting compared to domestic trade.

#### **4.2.4 Threats**

Threats are factors in macro environment that thread success of the company. Some of the threats can be eliminated or minimalized, and it is important to prepare for the ones that the company cannot eliminate or minimalize. (Vahvaselkä, 2009, p.114) One of the threats is that there can be variety in demand, meaning that there might be multiple projects available at once or there might be none. This is something the company must prepare on, as they cannot affect timely variation in demand.

There also seems to be some competition with local consultancies. The competitors and how to deal with them will be defined in the competitor analysis -section. Interviewed management director mentions that in order that a Finnish company can succeed in the competition against local Estonia companies, the company's product must meet the demand of the Estonian customers. As the Case-company is an SME with limited number of employees, possible loss of key member can be very damaging for the company's ability to continue to offer its services at Estonia. Interviewed managing director mentions as one of major differences between Finland and Estonia the size of the market. As also the PESTEL shows, Estonia has relatively small population and for example GDP per capita is smaller than in Finland. Smaller market can affect negatively demand of the services. The company can minimize the thread by defining some key customers before starting business functions in Estonia. One threat are the costs of making business in Estonia, as for example if the company uses its Finnish consultants in Estonian projects, they cannot be expected to be paid less for these projects, but the overall price level is lower in Estonia.

### 4.3 Competitor analysis

This chapter investigates competitors of Company X in Estonia. The competitors were chosen by the author by similar specialisation in consulting industry and availability of the data. One of the major competitors for the commissioning company in Estonian market would be CIVITTA Estonia. CIVITTA has operated in Estonia for twenty years, and with over 60 experts and consultants it is the largest management consultancy provider at the market. It has two offices in Estonia. Some of the services CIVITTA offers for companies, government and NGOs are strategic planning, innovation support, support on finding financing, research, digital assistance and implementation support. The objective of the company is to combine traditional consulting model with challenger mindset. Strengths of the company are strong market position, long history at the market and variety of services. Some of the weaknesses can be that the large size does not guarantee good reputation and customer satisfaction, as there is no data available of these matters. (CIVITTA, n.d.)

Other competitor at Estonian market would be Eremenko & Polomani OÜ. Eremenko & Polomani is a boutique consultancy. It was founded in 2021 in Estonia. The company claims that its story has thought started in 2011. It focuses to software development in addition to management consulting in many different industries. One of the strengths of the company seems to be, that they have some big corporations as its customers, such as Deutsche Bank and Santander. The weaknesses of the company are that it has been founded very recently and it does not tell the number of employees. (Eremenko & Polomani, n.d.)

Other competitor could be CPM Consulting Group. It has an office at Tallinn. CPM focuses in public sector consulting and has three workers. Their services focus on business consulting. The strength of the company is strong knowledge and limited operating area. The weakness is that the company of three has big change of trouble in case some of the employees decides to leave. (CPM Consulting Group, n.d.)

#### 4.4 Pricing of the services

This chapter investigates pricing of the consulting services in Estonia, as one of the research questions is, what kind of pricing the commissioning company should adapt in Estonia.

Chart 1. Hourly rate in dollars. (Clutch, 2022)

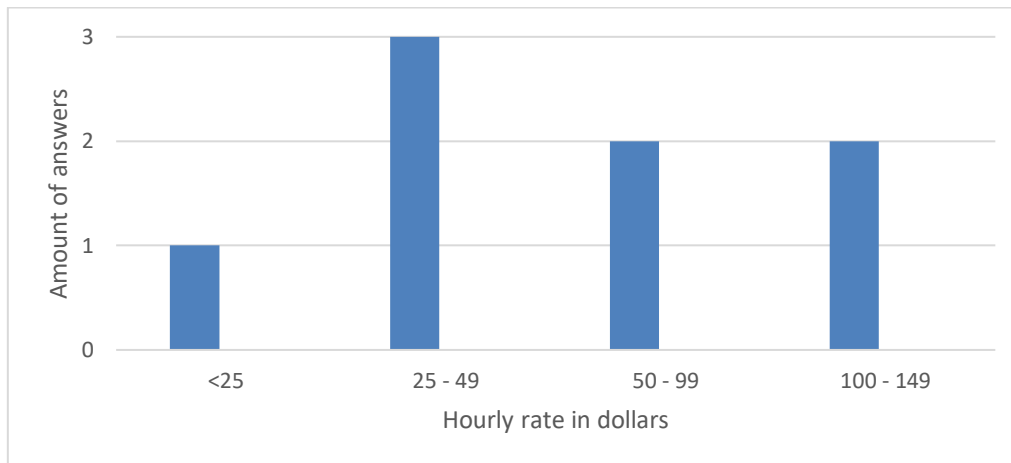
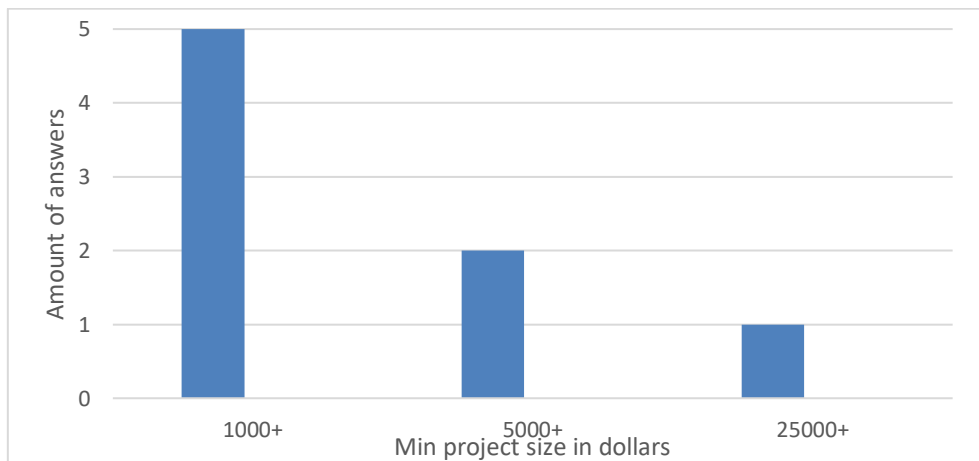


Chart 2. Minimum project size in dollars. (Clutch, 2022)



Charts 1 and 2 have been formed based on available pricing data regarding consulting services in Estonia. Service focus of these eight consulting companies is at least partially business consulting. Many of them have also other focus areas such as IT or human resources. Hourly rates of the companies vary from under 25 dollars to 100 to 149 dollars per hour. The most common hourly charge among these companies is 25 to 49 dollars.

Minimum project sizes vary from 1,000 to 25,000 dollars. The most common minimum rate is 1,000 dollars. (Clutch, 2022)

According to Consultancy.eu (n.d.) it is common that consulting companies, especially in higher market segments do not reveal their fee structure. Reason for this is that the companies see fee structure as 'trade secret' and rates as one key competitive asset. It is also common for fees to vary between clients, regions and service type. Due to these factors the companies want to keep rates as a secret to avoid risking their reputation and having to negotiate fees with clients.

Pricing was one of the subjects in the interviews. According to interviewee Väärsi expected price of consulting services depends on for example of level of the professionalism of the person. For example, a lawyer can charge up to 400 euros per hour, but internship level person 100 to 150 euros. In investment services the price can be for example margin of the profit of the project. Milrem AS has according to Väärsi used consulting services in areas of legal, taxation, investment and trainings. The company has experience in both local Estonian and international consulting services, mostly they have used local branches of international companies.

According to the second interviewee, the managing director of Estonian branch, the company has not yet used consulting services in Estonia. According to the managing director if the company would buy consulting services, they would expect the pricing of the service to correlate on quality and contents of the consulting service.

#### **4.5 Markets in demand**

According to interviewee Väärsi typical consulting services that companies use in Estonia are legal, auditing, taxation and training services. Start-up companies use consulting services to raise capital. In Estonia consultants can be sole proprietors or form a company. Väärsi mentions that Milrem AS prefers bigger company, as they offer support and knowledge of a bigger team. Väärsi names start-up sector as potential customers for consulting services, as there are many start-up companies at Estonia at the moment. On the interviewee's own

area of industry, robotics, Väärssi mentions to be couple companies operating in Estonia, and that there could be interest to buy consulting services.

Interviewed managing director states that there could be demand on their own area of industry, electrical manufacturing. Like Väärssi, the second interviewee also mentions that there are many start-ups currently in Estonia.

Company X specializes in project consulting, which means that potential customers can come from multiple different industries, like currently in domestic market. The economy in Estonia is growing and growth in economy means that companies and government have many projects ongoing, which Company X could benefit from. Especially Estonian companies' projects towards Finland could offer good opportunity for Company X.

## **5 Recommendations**

This chapter introduces the finding of the research and answers to the research question and four other additional questions. The main research question in this thesis was, whether it would be profitable for the commissioning company to expand its market area to Estonia, and if so, what would be the best strategy. Subjects of the additional questions were demand in the market, pricing of the services, competitors and funding of the internationalization.

Based on the information gathered by using market research tools PESTEL, SWOT and competitor analysis combined to theme interviews, the results show that it could be profitable for the Company X to expand its market area to Estonia. Profitability in the market requires making of the correct strategic choices. One good option for market entry strategy for the Company X would be to use own export in form of project operations combined with online sales. Project operations as an entry mode would suit commissioning company, as nature of consulting is project based. Based on the small size of the market and other factors in macroenvironmental environment, introduced in PESTEL, project operations would be profitable and inexpensive way to start business functions in Estonia. Project operation entry



mode offers the Company X possibility to offer personal service to the end customers, which is important considering the company's values.

Regarding of the research question of what kind of pricing the company should adapt in Estonia, the results of the research show that value-based pricing strategy would be recommended. Both interviewees communicated that the expected pricing depends on the quality and content of the consulting service. Value-based pricing is also recommended as for example demand and customer attitudes are seen as a good base for international pricing. Cost-based pricing is not recommendable as starting point in international pricing. International market pricing strategy cannot be recommended in this case, as there is not enough reliable pricing data of the competitors available, due to the nature of consulting industry. The Company X can anyhow use as a reference of planning of the pricing other pricing data of Estonian consultancies introduced in this research.

As Company X is a SME which is intending to expand to international markets for the first time, the company could apply for grants as a form of funding for further planning of internationalization. The Company X could apply for grants in ELY Centres, Business Finland and European Union programs. The company must notice that the grants are often limited to 20 to 50 percent of the total costs and own funding is required. They are also often intended only towards costs of planning, not the execution state itself. For the execution state, the Company X could apply for a loan from for example from Finnvera or Nordic Investment bank. Also, Business Finland's Research and development loan could be one option.

The competitor analysis shows that there is some competition in the Estonian consulting market. CIVITTA would be one of the main competitors due to its size, already established market position and wide range of services. Its main area of specialization is differing from Company X's specialization to project consulting. Due to this difference, Company X could succeed in the competition against CIVITTA. Also, Eremenko & Polomani's and CPM Consulting Group's focus of services differs from Company X. These two companies are also smaller than Company X, which offers competitive advantage to Company X as it has more resources and the support of bigger team.

Regarding demand interviews show that there could be demand in at least the industries of the interviewees' businesses, robotics and electric manufacturing industry. Company X could utilize this info by searching for some key customers from these industries before further development of internationalization process. As the interviewees mention, startup industry could also offer possibilities as startups often have limited amount of personnel. Due to nature of the project business, there could be potential customers many different industries, as project business is generic.

## **6 Conclusion**

The purpose of this thesis was to research Estonia as a target market for project consulting services for Company X. The theoretical framework focused to introduce internationalization and its strategies and consulting as an industry. In addition, also Estonia was introduced as a business environment. Theoretical framework supported the research and was utilized by the author in process of forming the recommendations.

In research part Estonia was studied thru PESTEL analysis in addition to SWOT analysis of the Company X and competitor analysis. Answers of the PESTEL of Estonia as target market were transferred into SWOT analysis. Competitor analysis focused to define possible competitors in Estonian market. Two experts of doing business in Estonian market were interviewed. Interviews supported information found from reliable online and literature sources. There were no major reliability issues noted regarding data. There were not previous studies of the subject. There were some previous studies of Estonia as a market area, but the focus of the research was different to this research.

The research provided Company X valuable information regarding internationalization strategy and whether it should expand its target area to Estonia. The research also provided to Company X information regarding pricing, financing of internationalization, demand of the services and competitors. It was found that it would be profitable for the Company X to expand its market area to Estonia, when it makes correct strategic choices. The research can be utilized by the company as a framework in planning of the internationalization also to another target market areas.

In case Company X wants to further continue the research, some of the factors for further study would be to form international strategy for the company. The pricing of the services and demand of the could also be investigated furtherly. Other companies can utilize theoretical framework part of this research. PESTEL analysis is not specified to the company or an industry, which means it can be utilized as a framework for other research.

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## **Appendix 1: Questions in theme interviews**

Questions for Kuldar Väärsi

Theme 1: Consulting services

- Has your company used consulting services? Which type where they?
- Have these consulting service providers been local Estonian companies or foreign companies?
- What are typical consulting services that companies use in Estonia?
- What kind of pricing would you expect from Estonian consulting company for a small project with hourly fee?

Theme 2: PESTEL analysis on Estonia

- In your experience, how much do you feel that government has impact on business and organizations in Estonia?
- How much do you think companies have willingness to invest? Has the current inflation effected willingness to invest?

Theme 3: Demand

- Do you think there would be demand for project consulting services in your area of industry?

Questions for managing director of a Estonian branch of a Finnish company

Theme 1: Consulting services

-Has your company used consulting services?

-What kind of pricing would you expect from project consulting services in Estonia?

Theme 2: Internationalization of a Finnish company and PESTEL analysis on Estonia

- In your experience, what are the most significant differences between Estonian and Finnish business environments?

-Which are the most important requirements of a Finnish company to expand market area to Estonia?

-In your opinion, which are the most important requirements for a Finnish company, that it can succeed in Estonian market?

Theme 3: Demand

-Do you think there would be demand for project consulting services in your area of industry? Do you have in mind some others industries that could have demand?

