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Sciences

Russian market entry strategy: Case Windside Oy

Natella Lalayants
Business Management
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Russian market entry strategy: Case Windside Oy

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Abstract

Windside Oy is a small Finnish wind turbine manufacturer which is interested in exporting its products to Russia. The harsh climate of the country, allied to the vast market potential it offers, makes Russia an attractive proposition for Finnish SMEs like Windside. However, the Russian market also presents various challenges and difficulties which can make it a daunting international market to penetrate.

The main goals of this thesis were to outline the challenges facing Windside if it wanted to successfully export its wind turbines to Russia, and to propose a market entry strategy for the company. Firstly, it was important to design a logical and practical research plan. Secondly, a PESTE analysis of the Russian market for Finnish exporters was carried out and finally, based on the results of this PESTE analysis and in-depth interviews carried out with a number of experts in the field of Finnish-Russian trade, a Russian market entry strategy for Windside was devised.

The PESTE analysis highlighted a number of political, economic, social, technical and environmental issues which would need to be addressed if Windside is to successfully develop a market entry strategy for Russia. After conducting a comprehensive Russian market research study, a local partner needs to be selected (either agent or distributor) and a strong working relationship forged with this partner. Working closely with an agent or distributor would enable Windside to best overcome the challenges and difficulties outlined in the PESTE analysis, as well as limiting its financial exposure. Windside would also be advised to set up and maintain a comprehensive Marketing Information System (MIS) for Russia to monitor and control its progress in the Russian market. This enterprise would initially require significant investment of both capital and human resources in order to succeed.

Key words: market entry strategy, PESTE analysis, wind turbines

1	Introduction	5
1.1	Client organization - Windside Oy.....	5
1.2	Objectives of the thesis.....	6
1.3	Research problem	6
1.4	Delimitations of the study	7
2	Method of the Research.....	8
2.1	Theoretical framework	9
2.2	Quantitative and/or Qualitative Research methods?	10
2.3	Reliability and Validity	11
2.4	Design and planning.....	13
2.5	Secondary data sources	17
3	Target Country - Russia	17
3.1	General information	17
3.2	Russian Finnish export statistics.....	19
3.3	PESTE analysis of the Russian market	21
3.3.1	Political factors.....	22
3.3.2	Economic factors	24
3.3.3	Social factors.....	26
3.3.4	Technological factors.....	28
3.3.5	Environmental factors	29
4	Internationalization and marketing strategy	30
4.1	International market research	31
4.2	International marketing information system (MIS)	32
5	Market Entry and Expansion.....	33
5.1	Choices of entry mode	34
5.2	Export modes	35
5.2.1	Indirect export.....	36
5.2.2	Direct export	37
5.2.3	Choice of an intermediary	38
5.3	Conclusions.....	40
	References	44
	List of figures	49
	Appendices	50

The research topic was found through a discussion with a friend who had just started a new job at Windside Oy. For some time, Windside had been considering entering the Russian market, having already sold wind turbines to companies in Russian such as Lanit and Rosmorport. These companies were essentially 'off the shelf' buyers - meaning companies who were knowledgeable end users who made unsolicited enquiries for Windside turbines based upon internet searches. Windside currently has no active promotion or sales strategy for the Russian market but senior management at the company feel that the Russian market holds 'significant potential' for Windside turbines. However, despite Russia's geographical proximity, senior management were also somewhat unsure about how to realize its market potential - organizing such an undertaking seemed a very daunting prospect.

This thesis is a research based study which will help Windside to evaluate Russia as a potential market, to identify the challenges facing Windside, as well as the opportunities open to them. It will also endeavor to plan a way for the company to proactively enter the Russian market by developing a suitable market entry strategy to help Windside boost its sales in Russia.

1.1 Client organization - Windside Oy

"A wind turbine is a device that converts kinetic energy from the wind, also called wind energy, into mechanical energy; a process known as wind power. If the mechanical energy is used to produce electricity, the device may be called a wind turbine or wind power plant" (Alternative Energy, wind turbines, n.d.).

Wind turbines are used to generate electricity from the kinetic power of the wind. There are two main kinds of wind generators, those with a vertical-axis, and those with a horizontal-axis. Wind turbines can be used to generate large amounts of electricity in wind farms, both onshore and offshore (Alternative Energy, wind power, n.d.). Windside produces vertical-axis wind turbines for use in difficult-to-access locations and harsh weather. Its wind turbines are soundless and ecologically safe - characteristics that enable installation even in built up and densely populated urban areas. The main strengths of their wind power solution systems are optimal design and first class materials, guaranteed high endurance performance, design which ensures that the device remains unfrozen in harsh, sub-zero environments and which ensures safety for the environment, inhabitants and birds (Windside 2011).

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to manufacture & commercialize wind-turbine energy solutions
emi. It claims that its turbines are the most reliable ecological
solutions for energy production. The turbines have been developed to meet the requirements
of the most demanding professional use (Windside 2011).

Windside is a privately-owned company with about 400 investors. It's not a volume sales
business due to the highly specialized nature of its products. From its birth in 1982, sales
revenue had been slowly increasing over the years, peaking at slightly less than 2 million euro
in 2010. However, since 2010, the global economic downturn has severely eroded its revenue
and annual turnover in 2012 fell to about 600 000 euro. In the initial research topic discussion
with James Gardiner, Sales Manager for Windside, he indicated that the company's budget for
entering the Russian market would be relatively modest.

1.2 Objectives of the thesis

The main objective of this study is to help Windside devise a practical market entry strategy
for the Russian market. The Russian market can, to those unfamiliar with its workings, seem
like an immense challenge. It was important to begin with a look at both Russian and Finnish
business cultures, and to identify and examine the similarities and differences between the
two cultures. This would, in turn, make it easier to evaluate how aspects of culture might
affect market entry strategy planning for the Russian market. Finally, some primary research
would be conducted with key players in the Finnish-Russian trade sector to shed light on some
of the practical challenges facing Windside as it considers its approach to exporting to Russia.

The main objectives are defined as follows:

- A comprehensive overview of Russian and Finnish business cultures
- An evaluation and analysis of primary research results
- An evaluation of potential Russian market entry strategies for Windside and the design of a viable Russian market entry plan

1.3 Research problem

Windside has identified Russia as a potentially interesting export market but is unsure about
how best to enter the market. Finland's increasing international trade relations with Russia
seem to indicate that possibilities exist there and the vastness of the country, allied to its
harsh climate, would also seem favorable to Windside's market entry plans.

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to enter a foreign market, it is vital that it establishes a coherent market entry strategy. Before devising such a strategy,

Windside would have to evaluate and quantify its commitment to the Russian market, in terms of monetary investment, manpower and working hours, a timeframe for establishing a foothold in the market as well as projected expected rewards. (Export.gov, doing business in Russia 2013)

In addition, Windside would have to consider its chosen market entry strategy would fit in with its corporate objectives, as different entry modes will necessarily involve varying degrees of risk, control and potential rewards. Entry market norms for the Russian market would also be a relevant factor here - not all of the textbook market entry modes may be present/common when exporting to Russia.

If Windside is serious about entering the Russian market, it needs to plan carefully, at least for the short- and medium-term. It has already sold wind power solutions to Russian customers but these sales have not led to the development of a coherent marketing strategy for Russia. These sales have been 'one-time only' sales and Windside has not capitalized on them.

1.4 Delimitations of the study

Good market research should also outline the limitations and delimitations of the study. It should be stated at the outset that Windside is not trying to mass-produce wind turbines to supply Russia's regional wind power energy grids, or wind farms. Windside's wind power solutions are targeted at private and public customers who wish to generate relatively small quantities of energy to fulfill their own specific needs. Its wind turbines have a life expectancy of more than 25 years and are generally low maintenance products, meaning that most customers will, most likely, be one time buyers and require little after-sales service (Windside 2011). Windside is seeking to target private and state-backed customers in hostile terrains and/or isolated areas who have specific wind power requirements.

Furthermore, because of the highly specialized nature of its products, and given that Windside's wind power solutions are targeted at a niche market of private end users operating in harsh terrains, most of them in areas where connection to the national or regional power grid is difficult and uncertain, it is highly unlikely that Windside can access meaningful or relevant data on the Russian 'private/small wind power solutions market' sector, or even if any such data exists.

try to calculate the market potential for Windside's products. Information of this nature is not readily available from secondary research sources and would require the services of a specialist marketing research agency, and is therefore beyond the scope of this thesis. However, the study will contain some general Russian market indicators, which *are* available, to provide some context for Russia's market potential for Windside.

Finally, there is no budget for this research study so, apart from the information supplied by Windside Oy, information sources are limited to those which are publicly available and accessible at no cost.

2 Method of the Research

There is no such thing as a 'right' or a 'wrong' research study; there is no 'best' method either. However, the research methods used by the researcher will greatly determine the relevance of the study. It is vital for the researcher to select a research method which is best suited to the nature of the study, to its hypothesis and to the questions raised in the study (Yin 2009).

Before researching ones chosen subject, it is vitally important to identify the aims of the research project. Punch (1988, 244-245) proposed that six relevant questions needed to be answered when planning a research project:

- 1) What precisely am I trying to find out?
- 2) What kind of focus on my topic do I want to achieve?
- 3) How have other researchers dealt with the topic?
- 4) What practical considerations should sway my choices?
- 5) Will we learn more about this topic using quantitative or qualitative methods?
- 6) What seems to work best for me? Am I committed to a particular research model, which in turn implies a particular methodology?

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answers to the above questions, it should therefore be possible which is both practical and which ensures the research study's relevance.

2.1 Theoretical framework

Having outlined the research problem in section 1.3, it is now important to set the study in some kind of context, to decide which kind of focus to take on the study. Does it require a positivistic or a phenomenological approach?

Easterby, Smith and Lowe (1991) outlined the main differences between the positivistic and phenomenological approaches in his 'worldviews' table.

The positivist paradigm	The phenomenological paradigm
<p>Basic beliefs:</p> <ul style="list-style-type: none"> - The world is external - Observer is independent - Science is value-free <p>Researcher should:</p> <ul style="list-style-type: none"> - Focus on facts - Look for causality - Try to measure phenomena - Formulate/develop hypotheses <p>Preferred research methods include:</p> <ul style="list-style-type: none"> - Using concepts - Taking large samples 	<p>Basic beliefs:</p> <ul style="list-style-type: none"> - The world is socially constructed. - Observer is part of it. - Science is value-driven. <p>Researcher should:</p> <ul style="list-style-type: none"> - Focus on meanings - Look at totality - Try to understand phenomena - Formulate/develop ideas <p>Preferred research methods include:</p> <ul style="list-style-type: none"> - Using multiple perspectives - Taking small samples

Figure 1: Solution to the positivist and phenomenological worldviews (Easterby-Smith, M., Thorpe R. & Lowe A. 1991)

In short, positivistic studies focus on understanding the market in terms of its area, structure and behaviour. They try to generate data which is easily measurable and quantifiable. Phenomenological studies, on the other hand, focus on interpreting the personal behaviour of customers in a market, attempting to explain why customers behave as they do and to find a deeper understanding of this behaviour. They tend to generate data which is more difficult to measure and quantify. Action researches, case studies, grounded theories and participative enquiries come under this heading (Collis & Hussey 2003, 60).

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...y would be to lean towards a phenomenological approach. The ...n involves asking ‘how’ Russian business culture operates and ‘why’ it behaves the way it does. Identifying key variables in this area should provide some insight on the likely challenges facing Windside in the Russian market, as well as highlighting key issues which will affect the selection of a viable Russian market entry mode for the company.

2.2 Quantitative and/or Qualitative Research methods?

In his book ‘Interpreting Qualitative data’, Silverman (2011) outlines the main distinctions between quantitative and qualitative research in the table below.

Quantitative Research	Qualitative Research
<ul style="list-style-type: none"> • Uses numbers • Concerned with behavior • Begins with hypotheses • Generalizations 	<ul style="list-style-type: none"> • Uses words • Concerned with meanings • Induces hypotheses from data • Case studies

Collecting quantitative data in a study generally indicates that the researcher wishes to measure variables and verify a hypothesis or theory. By identifying quantifiable variables, the researcher then gathers and collates numbers to generate statistics, or hard data. The results are then used to verify the hypothesis or to generate new hypotheses (Silverman 2011). However, quantitative methods are not suitable for gathering knowledge about beliefs, experiences, feelings and meanings, and do not offer deep insights into research questions (Wisker 2007).

As previously mentioned in section 2.1, the research questions in this study for Windside do not primarily concern themselves with the generation of this kind of hard data. This research is essentially an exploratory case study which requires evaluation of the available relevant data regarding Russia as a potential export market, and a deeper understanding of the practical issues facing Windside before any clear hypotheses emerge. If Silverman’s criteria are applied to the research questions, then adopting a qualitative approach is the logical outcome.

With no ‘proper’ or ‘correct’ way to analyze the data, it is therefore essential to find a ‘suitable’ way of evaluating the data gathered during the research study (Silverman, 2011).

Because of the difficulties involved in quantifying and classifying qualitative data, qualitative researchers need to consider some approaches to recording the collected data. Two common approaches, often chosen because they are relatively easy to understand and implement, are content analysis and grounded theory.

Content analysis involves converting text into easily understood numerical variables - written, oral or visual data is transformed into variables using coding units or categories. The categories are then listed and the number of instances or frequency is logged in each category to complete the coding framework. This framework is relatively easy to build and implement as it is based on the frequency of a variable occurring (Silverman 2011, 64-66).

Alternatively, grounded theory involves an 'inductive/deductive' approach to analyzing the gathered data. Instead of beginning with a hypothesis, the hypotheses are induced from close analysis of the data. This allows the qualitative researcher to build theory from the gathered data and to check/control the analysis through gathering further data (constant comparative method). Vital aspects of grounded theory include coding through memo writing, theoretical sampling and generating theories grounded in the data. (Silverman 2011, 67-71)

Mixed methods involve combining approaches in order to 'round out' the research. However, constructionist qualitative researchers do not accept the assumption that using multiple data sets and methods will provide the full picture of any phenomenon (Silverman 2011, 84-85).

For the purpose of this research, choosing the grounded theory approach appears to be the more logical choice. The nature of the research does not easily facilitate transforming the collected data into variables which can be listed and logged, and the exploratory essence of the research questions suggest the 'inductive/deductive' approach may better help to define, and refine, the issues facing Windside.

2.3 Reliability and Validity

Reliability and validity are terms used to evaluate the quality of a research study. The most important test of a study is its quality: good research can enable us "to understand a situation that would otherwise be enigmatic or confusing" (Eisner 1991).

Moisander & Valtonen (2006) suggest two ways to maximize reliability in qualitative research:

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ch process transparent; outline the research and data analysis
much detail as possible

- Outline the ‘theoretical transparency’ of the research; show how the research fits with a particular research theory viewpoint

Making the research process transparent involves using what Silverman (2011, 361) describes as ‘low inference descriptors’ or “recording observations as accurately as possible, including verbatim accounts of what people say rather than more general accounts which may be influenced by the researchers own perspectives”. In other words, a reliable and valid qualitative research study needs to include some elements of quality control. From a theoretical standpoint, naturalists argue that the authenticity or ‘realness’ of one’s research is enough to insure its validity, thereby dismissing the need for validity controls. However, Kirk & Miller (1986, 29-30) suppose that this leaves the research open to claims of accepting untruths (rejecting the null hypothesis), or of rejecting the truth (incorrectly supporting the null hypothesis).

Two forms of validation are commonly proposed in qualitative research: triangulation and respondent validation. Silverman (2011, 369) argues that triangulation may be inherently flawed as it measures the same subject in two different contexts. Respondent validation “goes back to the subjects with tentative results, and refines them in the light of the subjects’ reactions” (Reason & Rowan 1981). However, this method “is only possible if the results of the analysis are compatible with the self-image of the respondents” (Abrams 1984, 8).

Instead, Silverman proposes an alternative set of criteria to help maximize the research study’s validity: using analytic induction to generate provisional hypotheses; using the constant comparative method to test and retest provisional hypotheses; using deviant case analysis to explain any possible exceptions or outliers; comprehensive data treatment to allow making generalizations; using appropriate tabulations.

For Windside, with no prior hypothesis and a lack of quantitative data to work with, triangulation is not a viable alternative. Respondent validation is also rejected as irrelevant due to the exploratory and preliminary nature of the data likely to be gathered - this is outlined in the delimitations of the study (Section 1.4). In keeping with maintaining a consistent theoretical approach, using Silverman’s criteria is the most appropriate way to maximize validity in this research study. Consequently, the design and planning stage of the study is vital to the validity of the results.

Qualitative designs usually involve a small sample, thereby enabling a more in-depth understanding of the phenomenon being researched. Data collection methods often take the form of interviews or field observations. Data collection and data analysis is often conducted concurrently in order to generate further sampling and data collection. Field observations were immediately rejected as an unsuitable data collection method for this study because the multiple layers and facets involved in conducting foreign trade make observation totally impractical. Because of the exploratory nature of this case study, both focus group and in-depth interviewing techniques were considered.

A focus group is a meeting of key stakeholders who share their perspectives on an issue, allowing them to share experiences, attitudes, insights and perceptions. The focus group provides the stakeholders with a platform to brainstorm and share opinions. It also enables participants to explore and clarify their views and provides instant feedback (Morgan & Kreuger 1993). Focus groups tend to be used in preliminary research and to complement other forms of research.

However, focus groups are often difficult to organize logistically and may be difficult to monitor effectively, potentially leading to non- or incomplete responses from some participants. More forceful members of the group dominate the discussion. Cultural context may also inhibit participants from expressing themselves fully and honestly. It may also be necessary to hold additional group meetings to further explore and clarify responses in order to gather the required data (Kitzinger 1995).

Interviews, on the other hand, “allow the participants the freedom to talk and ascribe meanings while keeping in mind the broader aims of the project” (Noaks & Wincup 2004, 80). In-depth interviews are relative easy and cheap to organise, and many researchers feel that interviews provide deeper insight into the subject being researched because they limit the issue of non-response - respondents may speak more freely without interruption and receive the full attention of the interviewer. Interviews are more flexible and also facilitate quick and easy gathering of data, permitting the researcher to begin data analysis immediately.

However, using interviews may also come with some reservations. Silverman (2011, 168) argues that interviews do not give us direct access to the facts; nor do they tell us directly about people’s experiences, they merely provide us with indirect ‘interpretations’ of them. He also notes that the interviewer-respondent relationship, the commitment of the respondent to the interview, the context and status of both parties to the interview may present barriers to getting truthful and meaningful answers. Despite the reservations, the in-depth

series of open-ended questions, was chosen as the most suitable

Sampling plan

The sampling plan decides the number and identity of subjects to be interviewed in order to collect relevant data. It is not possible to collect data from the total target population, so a small section of that target population is chosen to represent the general view.

The first step in the sampling plan is to identify the target, or study population. This follows the purposeful sampling method, in which the participants in the study are purposefully chosen to suit the needs of the research (Coyne, Imelda 1997, 26, 623-630). The study populations were selected in accordance with Coyne's overriding philosophy that common sense and practical considerations should greatly influence the choices made by the researcher.

Two potential target population groups were identified for this research study:

- Senior managers of Finnish SMEs currently active in exporting to Russia
- Knowledgeable persons in the field of Finnish-Russian trade relations

In-depth interviews with senior managers of SMEs actively exporting to Russia would provide current, first-hand knowledge of the issues and challenges facing Finnish firms in the Russian market, and provide some insights into how best to prepare for and overcome these challenges.

However, as this research is exploratory and concerns determining a suitable market entry mode, it would therefore be necessary to interview subjects in each of the different market entry mode categories (direct export, agent, distributor, direct foreign investment, etc). This would lead to concerns about the amount of data generated and how best to analyse it. It would also be necessary to re-evaluate the relevance of the gathered data after a suitable market entry mode had been chosen for Windside. Interviewee bias might also be a problem, with participants eager to highlight the successes of their businesses and to downplay the less positive aspects. The subjects' enthusiasm for such an in-depth interview might also become an issue, with no tangible reward on offer for participants in the process. Finally, choosing executives of companies currently exporting to Russia might also raise some validity questions

those companies who tried and failed to penetrate the Russian market.

By comparison, experts in the field of Finnish-Russian trade were deemed a more suitable study population. Their expertise and vast experience in this area would bring valuable deep insight into challenges facing Finnish SMEs attempting to penetrate the Russian market. Additionally, the advisory and consultative nature of their professions would provide data relevant to both the success and failure of SMEs targeting Russia as an export market. It was felt that the study subjects would more likely be willing and cooperative respondents - it is part of their jobs, after all, and information gathered would contain less subjective bias as the interviewees can be seen as relatively objective observers. Finally, it would also be convenient for the interviewees to be visited at their place of work, ensuring that the subjects are as relaxed and comfortable as possible when sharing their thoughts and opinions.

Inclusion and Exclusion Criteria

Participants usually include anyone with sufficient knowledge of the general topic area, and initial participants are often chosen for the sake of convenience. Further participants are then chosen through theoretical sampling and are selected based upon their relevance to the emerging theory. In this way, exclusion is not relevant. When 'theoretical saturation' is reached and the data collected no longer provides new variations when analyzed, then data collection is no longer necessary and stops (Simmons, Grounded theory 2009)

For this study, in an effort to ensure that the participants were relevant to the research, the following inclusion criteria were set:

- Participants must be recognised knowledgeable persons in the sphere of Finnish-Russian trade
- Participants must be working in official organisations/institutions in Finland or Russia connected with Finnish-Russian trade
- Participants must have a minimum of three years experience in this field
- Participants must be willing to participate in in-depth face-to-face interviews
- One participant per organisation/institution

For the sake of data manageability, it was decided that three such in-depth interviews would be initially conducted. If there were any inconsistencies or inexplicable outliers in the data collected from the three interviews, then a further three interviews would be carried out to help improve the reliability of the findings.

merce was an obvious place to start and, having sent her an email outlining the nature of the research, Anne Hatanpää readily agreed to be the first participant in the study. Anne then supplied the names of 3 further possible interviewees to email, two of whom agree to participate. This process was repeated until six persons in total had been approached, and three experts were successfully interviewed.

The email advised of the nature of the proposed interview, some brief details of the interviewer and the time, place and expected duration of the interview. For the sake of convenience and brevity, the interviews were recorded and only the most relevant details transcribed.

The first person interviewed was Anne Hatanpää who has been working at the Finnish Chamber of Commerce for over 20 years. Starting as a secretary to a managing director, for the past 7 years she has been Liaison Manager, International Affairs. Her main responsibilities include follow-ups on Russian Trade, cooperation with Finnish Chamber of Commerce, International Chamber of Commerce and work with FinnCham. The interview was held on 22 October, 2013 at the Finnish Chamber of Commerce office.

Maria Hartikainen was interviewed on 5 November, 2013 at the Russian Chamber of Commerce premises. Maria Hartikainen is Head of Projects at the Russian Chamber of Commerce. Originally from Moscow, she has been living in Finland for 11 years now and has been working for Russian Chamber of Commerce for three years. Her main responsibilities include client search, client negotiations, consulting, training and teaching. She is also in charge of the annual 'Export start' program. The program includes seminar days, field trips to St.Petersburg, B2B negotiations and potential client search for companies who participate in the program.

The interview with Timo Laukkanen was on 7 November, 2013 at the office of EK (Confederation of Finnish Industries). He has been working with Russia since the end of 1970s as an export manager selling printing machines from Sweden to the Soviet Union. Later Timo also worked as a commercial counsellor at the Finnish Embassy in Moscow. Now he has been working at the Confederation of Finnish Industries since 1995 as a senior advisor in trade policies and international affairs. He is responsible for international agreements and effort to abolish trade barriers, and in networking with companies.

In order to test the relevance and validity of the primary data presented in this study, it was decided to present the findings of the in-depth interviews alongside this secondary data and relevant classical theory. To ensure brevity and uniformity, the three interviewees will henceforth be referred to only by their surnames - Hatanpää, Laukkanen and Hartikainen.

Secondary research, or 'desk research', is information that has already been gathered by other researchers for other purposes (Czinkota & Ronkainen 2011, 155-58). It is invariably cheap, easy and quick to gather. However, the data is often general in nature and may be difficult to transform into information 'useful' to the researcher. The issue of non-availability of data usually means that primary research is also necessary.

For this research study, a number of course textbooks in the fields of qualitative data research and international marketing were sourced to provide the research with structure. These were supplemented with hard data from respected trade and statistical organisation publications, as well as from articles and documents in English from online sources. Some data was also gathered from online sources in Russian and translated into English.

3 Target Country - Russia

"International marketing, as opposed to marketing in a single country, takes place in an environment of increasing complexity and uncertainty, in areas as varied as consumer behavior and government regulations" (Arnold 2003). In few countries is such a dynamic, yet challenging and unpredictable, environment to be found as in Russia.

According to Jansson (2008), China, India and Russia offer the largest scale emerging economies with the most potential and opportunities for Western European firms. All three of these economies have recently adopted more free market economy systems to replace the previous ones. Such transitions inevitably do not happen overnight and present market opportunities for those firms who can supply the changing needs of the market place. Sharing a border with Russia, Finland is ideally placed to tap into the vast potential revenues on offer in the Russian market.

3.1 General information

Russia is the largest country by area in the world. Its area is over 17 million square kilometres, representing 11.5% of the global land area. From north to south the country stretches over 4000 km, and from east to west measures nearly 10,000 km. Russia has borders with 16 countries (Federal Statistic Services, n.d.).

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at 143 million, Russia is one of the most populated countries. St Petersburg, which has 11.98 million people. St Petersburg is the second largest city in the country and is also known as the western capital of Russia. Situated in the Gulf of Finland, it is a leading port and a primary industrial centre, and has a population of 6.4 million - 4% of the total population (Federal Statistic Services, n. d.).

The territory of Russia is huge and therefore climate conditions in its various regions are quite different. Broadly speaking, mainly due to the moderating influence of the Atlantic and Pacific Oceans, Southern European Russia is characterized by a humid continental climate with hot, dry summers and very cold winters. Northern and Central European Russia has a more varied climate, marked by dry, sunny summers and very cold winters. In Siberia a sub-arctic climate exists, distinguished by short, warm summers and extremely cold winters, with temperatures of -35C and below not uncommon. Strong winds and snowstorms are also prevalent (Russian Nature, Geography Climate Resources, n. d.).

Russia's different climate zones provide significant wind power possibilities, with Russia's seacoasts, mountains and the wide expanse of the Central Siberian steppes possessing the highest wind energy potential. Currently, the capacity of the combined wind energy projects in Russia measures 1,700 MW (megawatts) of power per year. However, if Russia attains its goal of increasing its output of energy from renewable sources to 4.5% of its total energy production by 2020, the country's annual wind capacity will rise significantly to 7 GW (gigawatts) (7,000 MW). In terms of total gross wind energy capacity in Russia, VetrEnerg estimates the figure at 80,000 TWh/yr, of which 6218 TWh/yr (approx. 709 GW) could be economically feasible.

Russia was one of the countries which ratified the Kyoto Protocol on 16 February, 2005. Kyoto signified the commitment of many of the world's leading nations to reduce harmful greenhouse gases emissions and obliged Russia to work towards increasing its energy production from renewable sources. Globally, Russia currently ranks 64th in terms of total wind energy production capacity. In order to improve the situation, Prime Minister Dmitry Medvedev recently signed a decree "on the mechanism of promoting the use of renewable energy sources in the wholesale market of electric energy and power" - (Russian Association of Wind Industry 2013).

Furthermore, President of RAWI, Igor Bryzgunov, in his interview with Live Energo (2013) mentions that "the wind energy market in Russia is constantly growing, though not as fast as in the United States or China, for example". He claims that some parts of the Russian land area will be ready in 3-4 years for the construction of wind farms with a capacity of about

Due to lack of direct state support, some private and state-owned companies are working in this field.

Russia has a long history of small scale wind energy production. Most of its present wind energy production takes place in isolated, rural areas with low population densities. In many of these areas connection to the regional energy grid is difficult so alternative energy sources are essential. Most of the small scale users are to be found in the windiest areas of Russia - on the Pacific Ocean Russian Islands, all along the Pacific Ocean coastline up to the Chukotka Peninsula, along the Arctic Ocean coast, as well as the coastlines of the Arkhangelsk and Murmansk regions. According to the VetrEnerg report in 2001, potential for small scale wind energy production, generated within micro grids, also exists in some of Russia's inland regions, specifically in the regions bordering Kazakhstan, in the Northern Caucasus area and along the Volga steppes (Busby, Rebecca, Wind power: The industry grows up 2012, 80).

It is possible to make some tentative conclusions from the above overview of the Russian wind energy market. There seems to be vast potential to increase wind energy production in Russia, in both the large and small scale sectors. Political goodwill towards producing wind energy also seems to exist, with state encouragement for the private sector to invest in renewable energy sources. The low population density and long history of small scale wind energy production in rural areas, with their harsh climates and uncertain energy supplies, might indicate that ecological considerations have, until recently, been of secondary importance when constructing wind turbines. In such circumstances, Windside's eco-friendly wind power solutions might find a potential market in Russia.

3.2 Russian Finnish export statistics

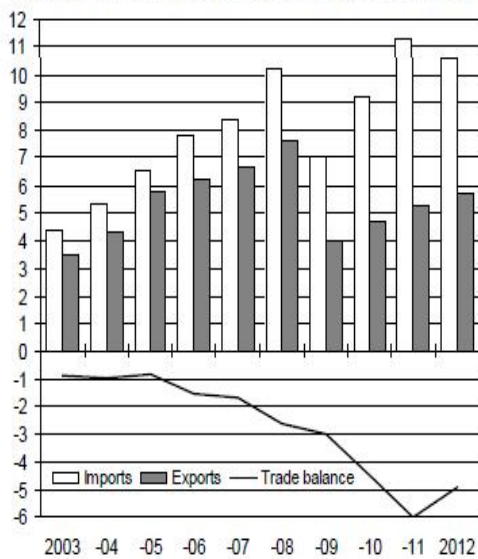
According to Bank of Finland (2012), Finnish goods exports exceeded €5.7 billion in 2012, up 7% from the previous year. Russia was the second largest export market after Sweden. Machinery, equipment and chemical products are still Finland's top export products to Russia.

The Russian economy is growing rapidly. Russia is a very big opportunity for Finnish SME's due to its market size and the fact that it is a neighboring country. According to a Finnish customs report, small and medium-sized Finnish firms are active in exporting to Russia (Bank of Finland, 2006).

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Year	Imports			Exports			Balance EUR million
	million	%	%	million	%	%	
2003	4 367	11,9	+22	3 477	7,5	+11	-890
2004	5 320	13,1	+22	4 362	8,9	+25	-957
2005	6 557	13,9	+23	5 744	11,0	+32	-813
2006	7 768	14,1	+18	6 220	10,1	+8	-1 548
2007	8 411	14,1	+8	6 724	10,2	+8	-1 687
2008	10 174	16,3	+21	7 618	11,6	+13	-2 556
2009	7 035	16,1	-31	4 028	8,9	-47	-3 007
2010	9 217	17,8	+31	4 716	9,0	+17	-4 501
2011	11 319	18,7	+23	5 337	9,4	+13	-5 983
2012	10 579	17,9	-7	5 688	10,0	+7	-4 891

Trade between Finland and Russia (EUR billion)



22

Main products in trade between Finland and Russia in 2012

Imports from Russia SITC (REV 4)	EUR million	Share %	Change %
333 Crude petroleum	5 945	56,2	+1
334 Petroleum products, refined	1 227	11,6	-4
343 Natural gas	1 104	10,4	+4
511 Hydrocarbons nes, derivatives	312	2,9	+27
321 Coal, not agglomerated	219	2,1	-54
247 Wood in the rough or roughly squared	186	1,8	-2
522 Inorg chemical elements, oxides, etc	166	1,6	+23
351 Electric current	162	1,5	-67
562 Fertilizers	129	1,2	+23
342 Liquefied propane and butane	119	1,1	-3
Total imports	10 579	100,0	-7

Exports to Russia SITC (REV 4)	EUR million	Share %	Change %
641 Paper and paperboard	501	8,8	+7
542 Medicaments, incl. veterinary medicaments	443	7,8	-3
334 Petroleum products, refined	334	5,9	+31
728 Other machinery for special industries	248	4,4	+41
764 Telecommunications equipment, parts	202	3,6	-23
571 Polymers of ethylene, in primary forms	144	2,5	-17
723 Civil engineering plant etc	143	2,5	+37
024 Cheese and curd	118	2,1	+5
597 Additives for mineral oils etc	117	2,1	+8
778 Electrical machinery n.e.s.	104	1,8	+24
Total exports	5 688	100,0	+7

23

Figure 2: Foreign Trade 2012: Finnish Trade in Figures (Statistical Publication by Finnish customs, 22-23)

These statistics show that Finland’s exports to Russia have increased significantly since the turn of the millennium, with figures increasing year-on-year with the exception of 2009, when Finland’s export figures for Russia were severely hit by the global financial crisis. Russia is becoming an increasingly important market for Finnish goods and services, and on a general level this should give Windside some grounds for optimism. Depending on which category Windside’s wind power solutions are listed, marked increases in 2012 in both the exports of Civil engineering plant (+37%) and Other machinery for special industries (+41%) are positive indicators for the company.

ssian market

At first glance, the Russian market seems to be a challenging, but potentially rewarding, window of opportunity for Finnish businesses. “Russia is a huge market potential. The market is not easy. You must be prepared to invest a lot of resources to get into the market. If you compare Russia to Estonia or Sweden, the business environment differs so much. You must be prepared to put more effort, personal resources and money to get into the market. But the profit margin in Russia is high. You must also be prepared to study business environment and technical requirements because they have different standards to the EU”, says Laukkanen.

Although the Russian market is very complex, there is a lot of competition. “Nowadays, there are very few unique products. Basically everything is available everywhere. Russian buyers are very skilled, they know what to get, where to get it from and what to pay for it - they are very demanding. Finnish companies seriously have to think of what their competitive edge is and why Russian customers have to buy from them. Usually it is not on price the Finnish companies compete. It’s something unique, high-quality and reliable”, states Hartikainen.

In order to try to understand the Russian market better, a PESTE Analysis is required. PESTE Analysis includes political, economic, social, technological and environmental factors and is used to help understand market growth and decline. It is usually used for business and strategic planning, research reports, marketing planning and so on. PESTE Analysis assesses a market, including competitors, from the stand point of a particular proposition or a business (Business Balls, n. d.).

Harvard professor Francis Aguilar is said to be the creator of PEST Analysis, which he included in his book ‘Scanning the Business Environment’ in 1967. This model was later adapted to include further, relevant factors as they emerged. PESTE Analysis is conducted for a number of reasons:

- It helps a business identify opportunities and threats, and is often used as the basis for a SWOT analysis.
- It helps identify the trends within a particular industry and to anticipate changes which will affect one’s capacity to operate in the market
- It helps a company to avoid starting projects which have little chance of success due to factors outside one’s control.
- It helps one develop an objective picture of the new business environment.

PESTE Analysis will provide Windside with a clearer picture of the macro-environmental issues likely to affect how it approaches market entry strategy for Russia.

3.3.1 Political factors

Political factors refer to how a government intervenes in the economy, and to what extent. A country's government can play a vital role in creating opportunities or obstacles for attracting international investment. It is vital for international enterprises to evaluate the political risks before entering a market. The political constraints, such as tariffs, quotas and taxes on imports and exports, etc, can have a major effect on an enterprise's ability to compete in the target market (Johnson 2008).

In Russia, there are many industrial and administrative barriers to entering the market. These can include discrimination, both in favour of or against, firms applying for business licenses and registration. There may also be limited or blocked access to distribution channels, uncertain and contradictory regional and national government mechanisms, corruption and bribery, a non-transparent legal system to deal with and difficulty in finding suitable business location (Broadman 2000).

Corruption is one of the main problems in the Russian political and business environment. Due to their relative lack of size and profile, SMEs tend to make them easier targets for corrupt officials. Larger firms have more influence due to their greater number of resources and contacts within the administration (Kouznetsov 2009). Foreign SMEs may be more at risk from corrupt official practices, especially if they lack adequate local representation. "About 90% of bribes in Russia are paid by businessmen for export licensing and quotas, state budget transactions, tax transfer, customs duties, servicing debts to the federal budget" (Ledeneva 2006). Some sources estimate 'the corruption component' to represent 20-30% of the total cost of doing business in Russia (Business and Corruption: Problems and Counteractions, 2006).

In addition, international companies tend to find it more difficult to keep abreast of sudden and unpredictable changes in legislation, so these companies may need to pay bribes in order to carry on their business operations without unscheduled hold ups or delays. The national or regional government might abruptly change laws, or introduce new ones, to protect local companies.

Corruption is one of the main reasons international SMEs may be put off trying to enter the Russian market. The legal and political systems are effectively controlled by a small number of very powerful people within the system. Therefore, changes in legal and everyday procedures are very frequent, sometimes overnight, in order to facilitate bribery. (Rodriguez 2005).

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ies to consider the level and nature of corruption in a host country, which is often quite different from those in the home country. There have been numerous reports of SMEs in Russia having to pay off the local mafia in order to survive in the market place, raising both ethical and fiscal issues (Broadman 2000). Bribery and corruption happen on a daily basis in public places and SMEs have to deal with this problem to be able to get necessary certificates and licensing. As well as the financial cost, the time costs involved in acquiring all the necessary documentation may be considerable (Swedish trade council 2008).

Hatanpää, Laukkanen and Hartikainen all advise against paying bribes. “It is better to be patient (than to pay bribes)”, according to Hatanpää. She recommends establishing close personal relations with the Russian counterpart and promoting the precepts of mutual trust, reliability and excellent customer service. In addition, Laukkanen notes that any illegal or unauthorized payments may compromise Windside’s legal position if a subsequent contractual dispute were to arise.

Hatanpää also advises extreme caution when drawing up work contracts with Russian partners. She advises inserting an arbitration clause made by Finnish Chambers of Commerce into any contracts, specifying that related disputes should be resolved by a Finnish court. “It (the process) is speedy, flexible and does not cost much money. The law in Russia is modern and very close to EU laws. Courts in Moscow and St. Petersburg are quite transparent and would be expected to respect such an arbitration clause”. However, the inconstancy of the law can create its own issues. “Sometimes old laws are valid and new laws are valid. Everything has to be in a written form and very detailed. If there are any disputes, they should be settled in Stockholm by a neutral body”, argues Laukkanen.

Bureaucracy is also a major problem for international enterprises in Russia. Ledeneva, (2006) claims that the Russian market is highly bureaucratic and that red tape is present at almost all levels. Some international SMEs report difficulties in getting information from the relevant authorities and in locating the right person in the administration to contact for information. Frequent or overnight changes in the laws may occur so in cases of disputes, the matter should be taken to the international SME’s home country court. Otherwise, there can be no certainty about who influences the decision of the Russian courts, and in what way. “Existing laws are applied unevenly and arbitrarily in different areas of the country” (Ledeneva 2006).

On a general level, there are specific, often complex, bureaucratic processes that need to be complied with when establishing a sales office; all the documentation records have to come with the appropriate stamps and verified language translations, which can be time-consuming. The customs clearance process is often lengthy and complicated, and Russian Cus-

g corrupt and bureaucratic - it may go so far as to intentionally
order to obtain bribes (Swedish trade council 2008).

All the relevant documents have to be prepared very accurately and even a very small mistake can delay the customs procedure. Despite the best efforts of the Russian government to tackle the problem, the economy is still in a transition phase and is very unstable. For instance, the banking system in Russia is not very well-developed, which might cause other complications. Access to credits, making local or foreign payments and cash management is difficult as sometimes cash or foreign currency is unavailable (Swedish trade council 2008).

The current political situation in the Ukraine also highlights the kind of external political threats which face Finnish firms when dealing with Russia. Possible sanctions imposed by the European Union on Russia might possibly be met with counter measures imposed by Russia - all of which would negatively impact on the attractiveness of Finnish exports to Russia (Yle Uutiset 2014).

3.3.2 Economic factors

Economic factors can have a significant influence on a company's approach to conducting business and on profitability, and would greatly affect Windside's approach to entering the Russian market.

Before entering a new international market it is very important to take into account the economic conditions of the target market. Economic factors have a big impact on the company's future in the foreign market (Johnson 2008). These factors typically include economic growth, interest rates, exchange rates and inflation.

The growth rate of the Russian economy in 2013 has been slower than predicted. Although the forecast is positive, the growth rate is still lower than the growth indicator in 2012 (3.4%). Despite the slowdown, economic growth is predicted to increase by 3.1% in 2014. Prospects for growth in the coming year will largely depend on the recovery of the Euro zone economy - Russia's most important trade partner - and recovery in investment activity on the back of the recently announced large-scale public investment projects to be financed from extra budgetary resources (World Bank 2012)

In addition, President of RAWI (Russian Association of Wind Power Industry 2012), Igor Bryzganov claims that 2013 was a significant year for the Russian wind power sector. He believes that new government legislation introduced in May 2013 could provide the wind energy

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possibility of achieving a reasonable return on investment, and
market on an equal footing with other energy sector players. The
state is trying to support the renewable energy sector, according to Dmitry Kazarin, advisor of
the Department of Energy of the Ministry of Electricity.

The interest rate level reflects the cost of borrowing money and affects the consumers' ability to buy (purchasing power). For importers, high domestic interest rates push up the cost of borrowing and therefore reduce the amount of disposable income available to the buyer. (Business News Daily n. d.)

The current benchmark interest rate in Russia stands at 7% (March, 2014), having jumped from 5.5% on March 3rd, 2014. Prior to this increase, the benchmark rate had remained relatively stable from March, 2010 (Trading Economics 2014). This interest rate increase may be a response by the government to negate the effects of exchange rate dynamics on consumer prices. The recent fall in the value of the Ruble has increased the cost of foreign consumer goods, thereby exerting upward pressure on inflation. Annual inflation in Russia currently stands at around 6.5% (March, 2014). (Inflation EU 2014)

As far as Windside is concerned, neither the interest rate nor the inflation rate should unduly worry the company. Windside wind turbines are high-end products which require extensive decision-making prior to purchase, and therefore moderate rate increases should not greatly affect the decision to buy. However, any significant change in either rate might impact on potential customers' purchasing decisions and their ability to pay.

Exchange rates will also have a major bearing on a company's ability to conduct international trade. When exporting to another currency zone, a weak domestic currency exchange rate is desirable as it makes one's exports cheaper in the international target market. A stable exchange rate between the currencies is also desirable as it enables the exporter to calculate potential revenues with greater certainty. (Nicita, Alessandro 2013, 14).

"The most sensitive firms may not be the large ones, but rather the smaller ones. In addition, empirical studies tend to find a significant effect mainly in the case of trade with close neighbours, in particular in the case of very integrated economies" (Auboin, Marc & Ruta, Michel 2011, 23). Given the volatility of the Euro/Ruble exchange rate over the past two years, and the current weakness of the Ruble against the Euro, it would be imperative for Windside to carefully consider the timing of its market entry and to formulate a policy to hedge against possible future exchange rate fluctuations.

EUR RUB Historical Charts



Figure 3: Euro/Ruble Historical chart (Exchange Rates n. d.)

On a cautionary note, Laukkanen advises carefully calculating the costs before deciding to enter the Russian market. Finnish SMEs need to consider how best to finance such an undertaking. “Doing the homework is very important. You need to have enough money to do a very good market research”, says Laukkanen. “Everything has to be in a written form and very detailed”.

3.3.3 Social factors

Also known as socio-cultural factors, these include demographics, social trends, attitude and taboos, social mobility and employment trends.

Russians are generally friendly. If you can build trust with them and provide products according to the agreed contract, they tend to prefer long-term relationships with business partners. Price considerations tend to be of secondary importance to establishing a good working

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...an enterprises do not tend to plan long term, preferring to fo-
goals, whereas companies in Nordic countries tend to plan fur-
ther ahead (Swedish trade council 2008).

Ledeneva (2006) mentions social networking in Russia and emphasizes the importance of con-
nections in Russian culture. "Connections still pay an important role in Russian society, for
example, in health care, education, civil society and collective action". Hartikainen echoes
these sentiments. "In Russia, business life is a little bit more personal and less neutral. So, in
addition to work competence and social skills, personal chemistry is very important. These
are key success factors in Russian business. Russians are very good at networking".

A positive note for Finnish companies exporting to Russia is that Russians have generally posi-
tive attitudes to dealing with Finns. Hartikainen comments that Finns are seen as 'very reli-
able and honest' partners, while Hatanpää mentions other virtues. "Finns have a good reputa-
tion in Russia - they (Finns) are patient".

For Finnish SMEs, the importance of forming strong and close working relationships with their
Russian counterparts cannot be emphasized enough, according to Hatanpää "Finding a good
partner is the biggest problem Finnish SMEs face when entering Russian market. You have to
do your homework well, check the background of the potential agent properly, do a proper
market study and check out the competition. You have to commit to the market, to spend
money, to have time to wait for success. If you have a reliable partner then you are more
likely to succeed".

Another factor to consider is the image of Finnish goods in Russia. Russians consumers place a
high value on quality products, claims Hartikainen. She believes that Finnish products have a
distinct reputation in Russia. "Usually it is not on price the Finnish companies compete. It's
something unique, high-quality and reliable". This view seems to be supported by Kim Gran,
Chief Executive of Nokian Renkaat (2013). "Finland and Finnish products have an excellent
reputation in the country. Culturally, we are considered honest, almost naive,+says Gran.
Finland's small businesses should make a stronger effort to establish operations in Russia.+

Finally, it is important for the Finnish exporter to have key personnel in the organisation with
good Russian language skills. This helps to minimize misunderstandings and to develop strong
personal relationships with Russian customers, according to Hatanpää. "However well pre-
pared a company is, good Russian language skills are still essential".

Technological factors of the target market can determine the barriers to entry and affect costs and quality (Ledeneva 2006).

These factors include new technology innovations, government spending and promotion of new technology research, the life expectancy of current technology and the role of the internet in society.

Russians have been quick to adopt new technology. Russia's mobile phone penetration is one of the highest in the world and its internet marketing audience is over 53 million people. As well as being used to advertise and promote products, digital media can help companies overcome Russia's poor infrastructure. In logistical terms, technology has helped to facilitate specialized delivery services which use tracking devices and text message alerts to inform customers where and when the transit goods will be delivered (Forbes 2014).

In order to strengthen measures aimed at systemic modernization of the national economy, the Russian president signed a decree in 2012 on economic modernization and innovative development of Russia. Its aim is to promote sustainable technological development of the Russian economy and promote public administration modernization programs for priority sectors of the economy (Integrated Foreign Economic Information Portal, Ministry of Economic Development of the Russian Federation, n. d.)

The main tasks for Russia now are to attract foreign technology and equipment, advanced know-how and competencies, attract foreign investment, primarily associated with the transfer of technological development, and research and development. (Integrated Foreign Economic Information Portal, Ministry of Economic Development of the Russian Federation, n. d.)

For Windside, technological factors require some consideration. Russia's state-backed drive towards modernization and innovation may provide grounds for optimism, as Windside promotes its wind power solutions as high quality, highly technical products, which might therefore be looked upon favourably, especially by state-funded customers. There may also be potential for developing a strong digital media strategy to attract new customers - however, this would involve adding a Russian language component to their existing website, which currently only offers services in English and Finnish languages. Furthermore, Windside should give some consideration to developing a search engine optimization (SEO) strategy; it would, for example, be advantageous to know which search engines were most popular amongst target customers in Russia.

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There are certification procedures which must be completed, all of which require a Russia Certificate (no date). The procedures relate to technical specifications and standards, among other things.

“Before you can export to Russia, you need to obtain this certificate, and it can be a long and costly process”, according to Hatanpää. Hartikainen also refers to research indicating that ‘customs, logistics and certification’ have been top of the list of difficulties experienced by Finnish exporters for many years. However, as mentioned in the introduction, Windside has previously made two product sales to Russian customers and is therefore familiar with this documentation process. Furthermore, in view of the poor road and rail transport link in the country, Windside would also need to consider developing an effective logistics program to ensure that customers receive their purchases with the minimum of fuss.

3.3.5 Environmental factors

Environmental factors are strongly linked with political objectives and have become relevant in the past two decades. These factors have become important because of the constant depletion of non-renewable resources, the imposing of pollution and carbon footprint targets, and the desire of organizations to project themselves as ethical and sustainable entities.

Wind energy development is still weak in Russia. The biggest and most obvious reason for this is the large reserves of cheaper energy resources - primarily oil and gas. Vast distances and poor transport infrastructure further hinder the development of wind energy, and create additional difficulties in terms of maintaining wind turbines and wind farms. However, a large land area, as well as relatively low population density and housing facilities, significantly reduce the environmental risks of wind farms in Russia compared with other European countries (Science and Life Journal 2013).

The biggest concern amongst environmentalists is birds. It has become standard practice at the design stage of wind farms to explore their possible impact on the environment. Comprehensive studies must be carried out in the field before the construction of wind farms can begin. Wind monitoring is held for a year before the any construction takes place, explains Igor Bryzgunov. Six months later, the experts conclude whether there is any risk of harm to the eco-system or not. Without those experts’ approval, the construction of wind farms is impossible (Russian Association of Wind Energy 2013).

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Windsides' wind turbines is that their less-common vertical axis design is visually pleasing, makes the turbines less of a hazard to birds. The durability of Windsides' wind turbines, with their long product lifecycle and low maintenance requirements, makes its products a cleaner and less environmentally harmful than many of their competitors' models.

One final word on the PESTE Analysis model - the model's factors will hold varying degrees of importance for businesses in different sectors. For example, social factors tend to affect companies in consumer goods retailing, whereas political factors tend to be more relevant in sensitive industries like defence and pharmaceuticals. A company with a high debt-equity ratio might place greater emphasis on economic factors (Mind Tools n. d.) When considering exporting to Russia, it is impossible for Finnish companies to ignore political factors, as small changes in government policy can greatly impact on trade relations. Social factors will also play an important role in the degree of success a Finnish company achieves in Russia, with a strong emphasis on fostering close personal relationships with Russian counterparts. Economic factors may well also figure high on Windsides' list of priorities, given the striking downturn in the company's revenues in the past couple of years.

Now that the PESTE Analysis is complete and the challenges facing Windside have been examined, a review of the possible internationalization strategies available to Windside is necessary in order to select a pragmatic Russian market entry strategy.

4 Internationalization and marketing strategy

"No company forms a purely deliberate or intended strategy. In practice, all enterprises will have some elements of both intended and emergent strategy" (Hollensen 2007).

This may be especially true of SMEs, where limited resources and the typically strong influence of the owner/manager which largely dictates corporate policy. This combination of intended and emergent strategy allows for continual adjustment to be made, and for the strategy to proceed flexibly and experimentally (Quinn 1980).

These characteristics are often visible in the initial stages of developing a coherent marketing policy. However, it is important for an international company to develop viable medium- and long term strategies if it is to succeed as an international player.

”In the face of globalization threats many SMEs attempt to expand their sales into foreign markets. International expansion provides new and potentially more profitable markets; helps increase the firms competitiveness; and facilitates access to new product ideas, manufacturing innovations and the latest technology” (Hollensen 2007).

Internationalization is a gradual part of the overall process of growth and development for small and young firms; this is likely to occur through contacts and dealings with organizations in the external environment.

Hollensen (2007) highlights the existence of ‘personal factors’ in a company’s internationalization strategy. He claims that internationalization is mainly a function of ‘perception’. If the owners/founders of a firm believes their company has the skills sets to succeed in an international market, the chances of the company pursuing a policy of internationalization will be high. This would seem to be the case at Windside, with Marketing Manager James Gardiner admitting that senior directors at the company had a ‘hunch’ that the Russian market held great potential for Windside.

However, the SME’s internationalization is unlikely to succeed unless the firm prepares well for it - competent advance planning is seen as vital to the success of new international business ventures. This preparation will typically involve conducting international market research; committing resources (human and financial) to the project; and adapting the product to meet the requirements of the target foreign market (Hollensen 2007). Laukkanen insists that doing the groundwork is especially important for Finnish companies hoping to succeed in Russia, with lack of proper preparation cited as the main reason for failure in the Russian market. “You do not just have to plan your finance, but also to have enough human resources to do it full time”, comments Hartikainen.

Adapting the product to meet Russian market requirements and standards should not present major difficulties for Windside; however, Gardiner has stated that Windside’s budget for Russia is modest, and this might be problematic for the company.

4.1 International market research

Most SMEs conduct no international market research before entering a foreign market. In many cases, the owner chooses to make decisions about entry into the foreign market based on a subjective evaluation of the situation, and can also choose the distributor on the same

this approach might ultimately prove successful, market inter-
this is rarely the case.

Market research consists of two main classifications of information - primary and secondary data. Primary data is data which is generated firsthand and is usually tailor-made to answer a specific research question. It is usually relevant, current and specific. Secondary data or 'desk' research is data which is readily available as it has been collected by other people for other purposes. It is relatively inexpensive and quick to gather. However, it may lack the relevance of primary data. It is usually objective, having been gathered by someone else (Hollensen 2007).

Of course, non-availability of data, reliability of available data and comparability of available data with the home country may all prove problematic. However, with reference to Russia, C, Alexander Perchesky (2012), managing partner of ALT R&C, a Global Intelligence Alliance member, thinks otherwise. "It is quite easy to avoid such mistakes (failing in the Russian market) by doing some homework beforehand, by turning to consumer surveys or relatively reliable off-the-shelf reports. Business-to-business companies can find out a lot through meetings with potential partners at the business setup phase".

4.2 International marketing information system (MIS)

The amount of information available to a firm is extremely large, from statistics and facts to intuitive evaluations and opinions. It may also include speculation on future results and developments. In establishing a Marketing Information System, a relevant flow of information is made available to the decision makers in the organization. A well-managed MIS would benefit the international organisation by helping to process and harmonize the vast amounts of both internal and external information (Hollensen 2007).

"If there truly is a gap between a company's international and Russian positioning, companies must invest in marketing communications, such as participating in industry exhibitions, advertising, promotion, public relations etc" - Alexander Perchesky (2012). Windside needs to assess and analyse its information needs to ensure that it has sufficient market knowledge before attempting to devise a market strategy for Russia.

The decision of firms to enter international markets tends to fall into two categories of stimuli - proactive and reactive.

Proactive stimuli include the desire for increased profits, the desire to exploit the uniqueness of the firm's products (real or perceived), exclusive market information and economies of scale. "Proactive motivations represent stimuli to attempt strategic change" (Czinkota & Ronkainen 2011, 283).

Reactive stimuli tend to include the overproduction, declining domestic sales, excess capacity, saturated domestic markets and proximity to customers and ports. This last element is often influenced by 'psychological distance' (real or perceived), that is the concept of geographical closeness correlating to cultural proximity (Czinkota and Ronkainen 2011).

Broadly speaking, the most successful international firms are motivated by proactive factors (Czinkota and Ronkainen 2011). Proactive firms tend to internationalize by choice, whereas reactive firms internationalize out of necessity. In Windside's case, it would seem that the desire to enter the Russian market is due to mainly reactive stimuli.

Classically, internationalization is a gradual process, with many firms beginning by trading in the domestic market and, once established there, they expand into international markets. In the trial or exploratory stage, the firms usually choose markets thought to be psychologically close, requiring limited change in the approach taken in the domestic market. After some time, management will generally take stock of its efforts to internationalize, and evaluate the success or otherwise of its strategy. If its efforts are judged to be a success, the firm may begin to target more psychologically distant markets, typically when international sales account for 15% of its total sales (Czinkota and Ronkainen 2011).

Windside seem to have followed this classic pattern of internationalization, with customers and representation already established in many English-speaking and European markets. However, Hatanpää, Laukkanen and Hartikainen concede that although Finland shares a common border with Russia, there is a large 'psychological distance' between the two countries. It is because of this psychological distance from the Russian market, and the perceived differences and difficulties involved in conducting business there in comparison to Windside's existing international markets, that choosing an agent might be the right way forward for Windside.

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tempt to adapt the domestic/home country's marketing strategy
ever, what is really needed is a coherent, specific international
marketing plan. Developing this marketing plan would indicate commitment by Windside to
the Russian market, and would reduce the high risk of failure which accompanies a poorly
thought out, poorly funded strategy.

5.1 Choices of entry mode

Root (1994) suggests the following rules for entry mode selection:

- 1) Naive rule - same mode for all foreign markets
- 2) Pragmatic rule - a workable entry mode for each foreign market is used, typically a low-risk entry mode to begin with. If it does not work, another entry mode is then pushed instead
- 3) Strategy rules - all alternative entry modes are systematically evaluated and then the most suitable option is chosen.

Many SMEs choose the naive and pragmatic options. The strategy rule is perhaps the most analytical approach, but it is also the most demanding option in terms of time and expense, which in part explains why the SMEs choose the 'easier' options. Windside's use of agents and distributors in its other international markets would indicate a preference for a low-risk entry mode with an easy market-exit option.

Partner mindshare

This refers to the level of 'importance' of the manufacturer in the export partner's mind. It measures the level trust, commitment and cooperation in the business relationship. Gibbs (2005) divided mindshare into three variables:

- Commitment and trust
- Collaboration
- Mutuality of interest and common purpose

...take into account product, brand and profit, and must not un-
 ...if it hopes to achieve strong mindshare in the export partner's
 mind (Hollensen 2007).

Partners need to feel included and appreciated. The manufacturer needs to understand and incorporate their partner's business models and objectives into its own market strategy, to understand their partner's worth and to evaluate the potential cost of replacing the partner.

This is one of the main themes to emerge from the in-depth interviews. Hartikainen feels that personal chemistry is vital to finding a good partner in Russia. "We have to understand that Russian (partners) need to have more presence, more personal contact, more follow-up work compared with European partners", she explains. Both Hatanpää and Laukkanen note that it takes much time and effort to find a suitable Russian partner, but that the benefits of the groundwork can be substantial.

5.2 Export modes

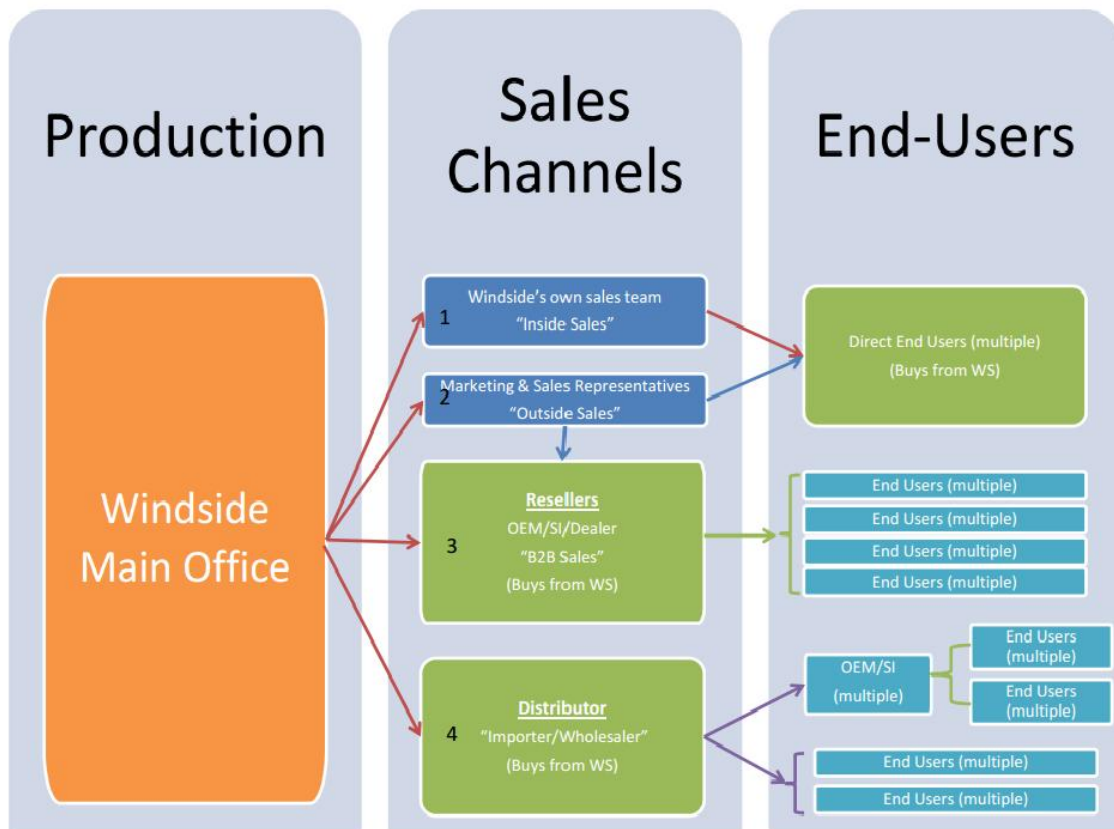


Figure 4: Windside sales channels (2012)

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ways of exporting goods and services, and the range of functions export agents may vary considerably. At one end of the scale, some agents effectively function as full-service wholesalers, whereas more specialised agents may provide a more limited service, restricting themselves to freight forwarding, billing or customs clearance tasks (Hollensen 2007). The main options for an exporter are as follows:

- Indirect export
- Direct export
- Cooperative export

The above graphic depicts Windside's current sales strategy and the modes it uses to reach its customers. It indicates that the company uses a combination of direct and indirect export modes to sell its products overseas.

5.2.1 Indirect export

Indirect exporting involves using a middleman, based in the home country, to assume responsibility for exporting the manufacturer's products. The middleman usually takes title to the goods by purchasing them from the manufacturer, and subsequently resells them in the international market. Using such indirect export modes (agents, distributors, etc) reduces the manufacturer's direct involvement in the exporting process, but this strategy is not without its risks for the manufacturer. The manufacturer has little control over the way a product is marketed in the target country, and also little contact with the end customers. This reliance on the agent/distributor may limit the international market's potential for the manufacturer (Hollensen 2007).

In view of the fragmented nature of the market in which Windside operates, allied to the cost and highly technical nature of the wind power solutions it manufactures, it is difficult to imagine a scenario whereby Windside would be able to find an indirect exporter willing to purchase its products and then resell them in Russia. Therefore, the next step is to look at the options in direct exporting.

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Jansson (2007) argues that companies typically enter international markets either through intermediaries such as agents and distributors, or through their own representative(s) in the foreign market. Due to the low resource commitment and low risk associated with both these modes of market entry, they are the most popular internationalization strategies for SMEs.

Distributors: these importers are based in the international market and generally have exclusive rights to the company's product in that market (national or regional). Distributors usually take title to the goods and resell them. They also generally handle all aspects of sales and after-sales service in their area. They are free to choose their customers and set their own retail prices.

Agents: these may be exclusive, semi-exclusive or non-exclusive. This independent company sells to customers on behalf of the manufacturer, and is generally paid a set commission agreed in advance with the manufacturer.

The advantage of distributors and agents is that they have some knowledge of the local market, the potential customers and customs and traditions. They have incentive to sell the manufacturer's product in terms of commission earned or profit margin realised. However, if the distributor or agent does not view the product as particularly attractive, they may not try hard to find a market for the product. Market feedback is also limited as the intermediary may not (understandably) wish to share its expertise and knowledge of the market, as this might make the intermediary more dispensable in the long term (Hollensen 2007).

“As a starting point, most international companies could consider country-wide distributors (in Russia) for their established relations with key accounts. This helps lower risks and save money. The downside of using distributors will be the lack of control over communications with the market and lower margins” - Alexander Perchesky (2012).

The importance of the relationship with the Russian distributor/agent is paramount for Windside, claims Hatanpää. She frequently refers to the importance of finding the right ‘partner(s)’ in the Russian market and building a close working relationship with them. It helps, according to Hartikainen, that Finns are seen as very honest and reliable partners in Russia. “Taking time, effort and expense to establish a good working relationship with the Russian partner is a good investment for the future”, she says.

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Employing a fluent Russian speaker essential for Finnish SMEs trying to establish a relationship with a Russian partner, Laukkanen and Hartikainen are not so forthright on the subject. “Having a good knowledge of the language and culture is certainly a benefit, but the key is to know the market, and have good contacts in the market”, Hartikainen insists.

5.2.3 Choice of an intermediary

The following sources might prove useful to a firm seeking a suitable partner:

- Canvassing potential customers to suggest an agent
- Getting recommendations from trade organizations and the like
- Advertising in relevant trade papers
- Poaching a competitor’s agent
- Using commercial agencies

However the potential intermediaries are sourced, each one must be evaluated in terms of local market knowledge, product knowledge, experience and expertise; desired margins, credit ratings, customer care facilities and ability to effectively market and sell exporter’s products (Hollensen 2007).

Hatanpää recommends conducting a thorough background check on any potential intermediaries before discussions on representation are entered into. Laukkanen concurs with this sentiment, adding that organisations like Finpro can help with identifying possible partners and researching their backgrounds, including obtaining character references from reputable industry sources.

“The foreign representative agreement is the fundamental basis of the relationship between the exporter and the intermediary” (Hollensen 2007, 320). Any agreement should include, according to Root (1998), the items listed in the table below:

General provisions	Identification of parties to the contract Duration of the contract Definition of the contract Definition of territory or territories Sole and exclusive rights Arbitration of disputes
--------------------	---

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<p>facturer</p>	<ul style="list-style-type: none"> Conditions of termination Protection of sole and exclusive rights Sales and technical support Tax liabilities Condition of sale Delivery of goods Prices Order refusal Inspection of distributors books Trademarks/patents Information to be supplied to the distributor Advertising/promotion Responsibility for claims/warranties Inventory requirements Termination and cancellation
<p>Rights and obligations of distributor</p>	<ul style="list-style-type: none"> Safeguarding manufacturer's interests Payment agreements Contract assignments Competitive lines Customs clearance Observance of conditions of sale After-sale service Information to be supplied to the manufacturer

Figure 5: Contracts with intermediaries (Root 1998)

With regard to Russia, several points about the nature of the agreements entered into by Finnish SMEs were raised by the interviewees. Hatanpää, Laukkanen and Hartikainen all agreed that any agreement with a Russian agent or distributor should be carefully worded and drafted. Hatanpää remarked that it was naïve of Finnish SMEs to download standard issue contracts from the internet and to use these as the basis for an agreement with a Russian partner. Despite the cost involved, all three interviewees recommended that any agreement should be drawn up by Finnish lawyers specialized in international contract law. This way the obligations of both parties to the contract would be explicitly stated in detail, leaving no room for ambiguous interpretation.

Hatanpää and Laukkanen also insisted that the contract should include an arbitration clause determining where any dispute involving alleged breach of contract would be settled. Both reasoned that the court in Stockholm would be a suitable, neutral place to settle any dis-

men also highlighted the importance of inserting a termination contract to prevent Finnish SMEs from becoming stuck in disadvantageous or damaging relationships.

Hartikainen advised against granting exclusive rights to the Finnish SMEs products on a national basis. She noted that many Russian agents and distributors covet exclusive rights in Russia for the products they sell and this may leave the Finnish exporter exposed if the partner does not perform well. Consequently, it is preferable for the Finnish SMEs to choose an agent by area or region.

5.3 Conclusions

This research study raises some of the most important issues facing Windside as it considers its strategic approach to the Russian market. What is clear to Windside is that it will not be able to meet these challenges alone.

Firstly, it faces a lack of accessible and relevant market information which is not possible to obtain through secondary research (see delimitations of the study, Section 1.4). This issue needs to be addressed before any coherent strategy can be defined. Secondly, there are a number of mainly political, economic and social challenges relating to the Russian market which may not be prevalent in the markets in which Windside is currently active. Windside needs help in this area and must select a 'partner' organisation carefully as it will, to a large degree, be reliant on this partner to help meet these challenges.

Windside also needs to examine the financial implications of targeting the Russian market. Although the potential return on investment is high, there are significant costs associated with penetrating the market. Finally, the timing of Windside's entry into the Russian market will be crucial for the company, and political and economic factors will play a big part in this decision.

If Windside is serious about trying to penetrate the Russian market, it would be well advised to consider the following issues before developing its market strategy:

- Windside needs to conduct a comprehensive market research study. While some current publications may give a very general overview of the market, Windside needs to establish who the potential end users are; who the main competitors in the market are and which kind of products they manufacture; and how best to position their products in the markets.

to select a Russian partner, in the form of an agent(s) or distributor(s) to sell Windside's products in Russia.

The first stage in the process would be to contact some of the relevant bodies and organizations which may be able to advise Windside how best to approach these issues. The local Chambers of Commerce, the Finnish-Russian Chambers of Commerce (SVKK) and the Confederation of Finnish Industries would be a good place to start. All of these organizations are experienced in aiding Finnish SMEs enter the Russian market and have good network connections. They would also be able to help Windside assess the Russian market and to organize participation in any relevant conferences, expos or trade fairs which might be informative and useful for networking purposes. Organizations like Finpro and Finnvera offer more specific and specialized services, and would be able to carry out necessary market research studies, as well as assisting with selecting reputable Russian partners to work with. They would also be able to provide the expertise to help draw up any legal documents and contracts required to protect Windside's interests in Russia.

- Windside needs to establish a budget for this venture. By its own admission, its budget for targeting Russia is modest. However, all of the experts interviewed agreed that entering the Russian market does not come cheaply and requires considerable initial investment of capital and resources. Although the potential return on investment is very high, it may not be realized in the immediate short term.

All of the above-mentioned organizations would be able to provide Windside with some relevant advice concerning the likely size of the budget necessary to successfully penetrate the Russian market. Thereafter, the company's decision makers need to decide if such funds are available or could be raised.

- If Windside decides to target the Russian market, it needs to select a Russian partner. As previously stated, this is a crucial step in Windside's strategic plan to export to Russia and should not be done without careful consideration. Windside needs to contract a reputable organization or company (e.g. Finpro) to research the background, suitability and trustworthiness of any potential agents and/or distributors. This will help to limit future working relationship issues and difficulties.

After potential agents and/or distributors have been identified, a suitable Russian partner(s) needs to be chosen. Windside should invest time and effort to establish a close, trusting relationship with this partner and include them in the strategic planning process as much as possible. It is important for the Russian partner to understand Windside's corporate values and objectives, to recognize that helping Windside to achieve its goals would be mutually benefi-

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member of the team. This could be achieved through frequent organizing training programs to familiarize them with Windside's products and corporate philosophy and providing the partner with as much support as possible to enable them to successfully carry out their roles and duties. It would be advantageous for Windside to employ a Russian speaker who could help with the process of forging a close working relationship with its Russian partner.

- Windside need to consider establishing and maintaining a comprehensive Marketing Information System (MIS) for Russia.

This would involve setting up and maintaining a database for the Russian market. Frequent and regular reports from the Russian partner could be logged and stored, allowing Windside to develop a databank of primary market data. Impending changes in legislation and in the political climate in Russia could be monitored in the media, allowing Windside to make timely changes to its market strategy. The issue of search engine optimization could be explored; Russian consumers are very digital media savvy and rely heavily on the net for product information, so a high search engine profile for Windside could be very advantageous. This work would also suit an employee with strong Russian language skills. The MIS would also provide the added benefit of both assisting and controlling the Russian partner: from the information registered in the MIS, it should be possible for Windside to independently monitor developments in the Russian market - and if this information is radically different from the reports from its Russian partner, then it may indicate some breakdown in communications with the partner.

- Windside would need to have a good logistics system in place to deliver its products to the end users.

The Russian agent or distributor would be responsible for this once the products have passed through Finnish and Russian customs.

- Windside would have to time its market entry strategy well.

The current political climate in Russia is somewhat unstable and this could adversely affect the accessibility and competitiveness of Finnish goods in the Russian market. Furthermore, current economic indicators coming out of Russia are not favourable and the Ruble has recently fallen sharply in value against the Euro. Windside might be wise to allow time for the political and economic climates to normalize before attempting to penetrate the Russian market. It might also consider adopting a hedging strategy against future Ruble-Euro fluctuations.

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Recommended market entry strategy would not guarantee Windside success in the Russian market - there are simply too many 'unknowables' for that. However, this strategy would provide it with a sound platform from which to start.

Windside feedback

When sent a copy of this completed research study, James Gardiner, Sales Manager for Windside, made the following comments: "We are generally quite pleased with the research study. It provides us (Windside) with a framework from which to build a practical market entry strategy for the Russian market. We were surprised by the level of commitment necessary to succeed in the Russian market, in terms of the networking involved and in dealing with agents and distributors. Windside representatives in our current export markets are more involved in low-level personal involvement networking but it seems that such an approach may not be the best one for Russia. We were perhaps hoping for more potential customer leads and specific network contacts but fully realise that this is a preliminary study, and a more meaningful, practicable follow-up study with the requisite funding would be required".

"It also gives us a food for thought on the financial implications of this project. The initial financial investment seems to be greater than we imagined and that would be an important consideration. With this in mind, and considering the present financial climate, conditions are not optimal at this point in time for Windside to pursue a market entry strategy, as outlined in this study, for Russia".

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Figure 1: Solutions to the positivist and phenomenological worldviews.....9

Figure 2: Finnish Trade in Figures.....20

Figure 3: Euro/Rubble historical chart..... 26

Figure 4: Windside sales Channels.....35

Figure 5: Contacts with intermediaries.....39



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Appendix 1: People contacted

- 1) Anne Hatanpää - Finnish Chamber of Commerce
- 2) Maria Hartikainen - Head of projects, Russian Chamber of Commerce
- 3) Timo Laukkanen - Senior advisor, Confederation of Finnish Industries
- 4) Janne Hirvonen - East Office of Finnish Industries
- 5) Martta Halonen - Consulate General of Finland, St.Petersburg
- 6) Marjo Mäki-Leppilampi - Embassy of Finland

Appendix 2: Questionnaire

1. What is your job title and how long have you worked at ...?
2. What are your main responsibilities?
3. Do you know how many (roughly) SMEs export to Russia?
4. What is the most common way for Finnish SMEs to enter the Russian market?
5. Would you say their experiences mostly positive or negative?
6. Do Finnish SMEs need to alter (change) their approach when exporting to Russia in comparison to EU countries?
7. What are the main difficulties do Finnish SMEs face when planning to enter the Russian market?
8. How committed do SMEs need to be in order to succeed in the Russian market?
9. For those Finnish SMEs who fail to penetrate the Russian market, what might be main reasons for their lack of success?
10. Windside generally uses import agents in their international markets. What things should they consider when choosing a Russian agent?
11. What kind of problems might arise when dealing with agents?
12. How important would it be for Windside to employ a fluent/native Russian speaker?
13. How enforceable are international contracts in Russia? How easy or difficult is it to claim compensation in cases of breach of contract?
14. How much of a problem is corruption for Finnish SMEs? Which forms does it usually take?
15. How might Finnish SMEs minimize their exposure to corruption?
16. In terms of networking, which (1) Finnish, (2) Finnish-Russian or (3) Russian organizations might be good to join?



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ses/ conferences/ trade fairs Windside might consider attend-
k?

18. Are there any government incentive schemes Windside can apply to for funding? (in Finland and Russia)

Appendix 3: E-mail

Hello ...

My name is Natella Lalayants and I am a student of Business Management at Laurea ammattikorkeakoulu. Anne Hatanpää gave me your contact details and said you might be able to help me.

I am writing a thesis for a company - Windside Oy, a small, Finnish which manufactures and sells wind turbines - and am searching for someone who could give me some general advice for SMEs planning to enter the Russian market. My interview would last 20-30 minutes and the questions would be general and open-minded. I would like to record the interview in order to make sure that I report your opinions accurately. And, of course, you would be sent a copy of the relevant parts of the thesis before it was submitted to check that this was ok. I would also come to see you at your convenience.

Thank you in advance for your help and I look forward to hearing from you.

Kind regards
Natella Lalayants