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**RUSSIA AS AN OPPORTUNITY FOR WESTERN SMES:
PREPARING A MARKET ENTRY STRATEGY**

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Executive summary

For many Western Small and Medium Size Enterprises /SMEs/ in general and particularly for SMEs in Western Europe with proximity to Russia, the Russian economic growth might represent an interesting opportunity for geographic diversification of business. That could help minimise the risks and consequences of possible continuous economic slowdown in the West.

The general political and economic climate in Russia experienced considerable improvements during the last 6 years and recently forms a comparatively stable and more predictable environment. As a result if a decade ago developing a market entry strategy was not feasible, as the situation was permanently changing and the data was by large unreliable, at present a professionally developed strategy could be elaborated in a reliable and professional way.

The question that arises is whether it is possible for the average Western SMEs to internationalise further its business through entering and operating successfully in the Russian market?

Unlike big corporations or furthermore Multinational Corporations (MNCs), SMEs quest for internationalisation is framed by hard limitations. This study demonstrates that entering the Russian market is not a "mission impossible" enterprise for Western SMEs provided that they have better understanding of market specifics and thoroughly prepared market intelligence and entry strategy.

A successful strategy for Western SMEs entering the Russian market should start with better knowledge and awareness of the opportunities and specifics in Russia as well as avoiding the common misconceptions about its business environment and market potential. Such a successful entry strategy should be an effort that is concentrated, focused, precise, fast and target oriented. To borrow a military term, a pinpoint operation that has to deliver results fast.

The study presents an elaborated model of what could be the proper structure and content of a well made preparation in the context of Western SMEs operational specifics and limitation of resources.

Another idea the study suggests is that the Russian million cities other than Moscow and Saint Petersburg could be an interesting opportunity for entering the market in places where competition is lower and the opportunities as a whole could be better.

Introduction

As the globalisation process continuously brings the world closer, going international, became from a privilege only to huge companies an available option also for Small and Medium Size Enterprises /SMEs/. However, in the case of SMEs a regional approach often proves to be the more logical and easier expansion on an international scale. Still, SMEs are not necessarily restricted only to a certain region defined by geographic proximity. The new technologies and practices in international business furthermore allow them within certain limitations to choose their market regardless of its geographical distance.

A review of the current state of world economy reveals that Russia and China are perhaps the two economies in the world with a biggest economic growth in the world. The Russian economy appears to be growing for a 5th consecutive year with an annual growth for 2003 standing at above 6% (*The Economist, Dec 13th 2003*) and there are reliable indications that this growth will continue at least in the next several years. Its growth is especially interesting on the background of the stalled growth in Western Europe, slow recovery in the USA and still struggling to recover Japanese economy. Thus, for many Western SMEs in general and particularly for SMEs in Western Europe with proximity to Russia, the Russia's economic growth might represent an interesting opportunity for geographic diversification of business. That could help minimise the risks and consequences of possible continuous economic slowdown in the West.

The question that arises is whether it is possible for the average Western SMEs to internationalise further its business through entering and operating successfully in the Russian market? Some argue that in the case of Russia a global corporation is in better position to look for lucrative market than a small company (*Borell, 2002*). This article aims to demonstrate that the Russian market is not a "mission impossible" undertaking for Western SMEs. A gradual approach of careful preliminary considerations and detailed preparation is desirable and possible and could minimise the risks of entry and operation to a level that is reasonably affordable and acceptable.

The article is divided in three parts. The first part presents a short review of the current Russian economic situation and highlights some of the main changes that occurred in the Russian economy during the last several years. The second part covers the misconceptions and clichés that often misguide Western businessmen when thinking of or entering the Russian market. The third part is focused on building and preparing an entry strategy - it divides that process into several phases and describes their nature and the internal logic of their sequencing.

1. The Russian business environment a decade later

In terms of political reforms and economic changes that occurred in Russia, the past decade could be described as rather turbulent. The dissolution of the Soviet Union, a series of poorly designed and semi-implemented economic reforms, drastic changes in the social fabric of the Russian society to name a few, are some of the fundamental changes Russians experienced in only a decade.

Therefore it is quite natural that in terms of business environment such times would be also characterised as turbulent with rapid and unpredictable changes (*Johanson & Johanson, 1999*). Another trait of the time is the existence of a complicated tax regime that frequently placed a heavy burden on foreign corporations, an unclear and frequently changing foreign investment legislation as well as insufficient legal protection of foreign business activities; and growing crime and corruption (*Sestanovich, 1994*).

The major economic and political developments during the 1990s could be classified broadly in four stages —commercialisation, privatisation, nomenklatura, and statization (*McCarthy, Puffer, Naumov, 2000*). However, even if with an overzealous participation of the state, the latest developments may suggest some improvement and early maturity of the Russian business environment (*Business Eastern Europe, 2002*) – a statement that some may not agree with and continue describing it as turbulent (*Johanson, 2002*). Western concepts of marketing, financing, advertising etc. increasingly apply to the Russian conditions provided that the local specifics are accommodated (*Jacobs, 2001*). In addition in most industries and business fields the privatisation process of the 90s is over as already by mid-1994, almost 70 percent of the Russian economy was in private hands (*Sbleifer & Treisman, 2003*). That brought some clarity about the participating economic agents and made “the rules of the game” more transparent. From a business perspective the most important changes might be stated as:

- *stable macroeconomic background;*
- *stable political environment with the consecutive improvements in the legislation;*
- *revival of the industrial sector of the economy;*
- *a clear rise in the capital investments and the development of Russian conglomerates;*
- *growing living standards and consumer demand;*

A closer look reveals the resulting important implications for Western businesses and SMEs.

1.1. Macroeconomic background

With or without a good reason an indicator that truly matters to many Western businessmen is how the International Monetary Fund (IMF) experts judge the Russian macroeconomy. One of the latest reviews by the IMF reveals that the Russian authorities succeeded to create a stable macroeconomic environment. In 2001 budget revenues increased due to improved tax compliance, strong energy exports, and high VAT collection from robust consumption demand and as a result there is an overall surplus of about 2,5 percent of GDP (*IMF, 2002*).

The output grew by 5.2 percent, driven by domestic demand due to growing real wages and buoyant consumer confidence fostered growth in real private consumption. Net private capital outflows, though still large, slowed, possibly due to an improved investment climate and lower returns in mature and other emerging markets. As a result, there was a healthy accumulation of international reserves, which reached \$36.5 billion (almost six months of imports) at year-end. Inflation during the year amounted to 18.6 percent, exceeding the authorities' target of 14 percent (*IMF, 2002*).

The IMF became so positive about the macroeconomic situation in Russia that it even went further to suggest that it would be possible for the Russian authorities to exercise a prudent relaxation of the underlying fiscal stance over the medium term without jeopardising fiscal or external sustainability in order to support growth (*IMF, 2002*).

1.2. Political and legal environment

Almost all political analysts and observers agree that since President Putin occupied the top of the Russian political structure there are some visible improvements. Even though that some of his methods may not qualify as democratic, the results so far overshadow that concern. Firstly Putin succeeded in stopping the Russian federation disintegration from within because of the virtually limitless powers of the local governors. Secondly, he clearly suggested and sometimes imposed new rules on the Russian business tycoons therefore significantly limiting their influence on governmental decisions (*Flemming, 2001*). Still, expelling only the most controversial Berezovski and Gussinski and being friendly to most of the others Putin indicated that a new era came in the relations between the tycoons and Kremlin. It seems these would be relations where there will not be a revision of the privatisation's past but also where big business will pay taxes and become socially more responsible. Or so it seemed initially. The latest developments with Yukos' main shareholder Mihail Khodorkovski rise a significant uncertainty how exactly these relations will develop in the future.

Under Putin's administration there is also some clear attempt to simplify the existing Russian legislation. Even though all the results are not yet there, there are signs that the administration could be on the right track. It is a long way to go but still the Russian political and legal framework at the moment is more stable than ever. Even if held in questionable circumstances, the elections of December 2003 do not speak of political instability and perhaps with some irony it could be observed that from business perspective their results were very good. Neither there are surprises expected in the March 2004 presidential elections.

Structural reforms focused on strengthening the investment climate through a combination of tax reform, deregulation, enhancing property rights, and developing financial markets and institutions. Tax reforms simplified the tax system, reduced the tax burden, and broadened the tax base. New laws were introduced on business registration, licensing, and inspections; a new Land Code established the general principle of land

ownership for urban land; and a new Labour Code liberalised the hiring and firing of workers and clarified employees' rights. Reform strategies for the railways and the electricity sector were approved, aiming to restructure, liberalise, and privatise potentially competitive segments of these markets. A pilot scheme was initiated for introduction of International Accounting Standards (IAS) and anti-money laundering legislation was adopted (*IMF, 2002*).

1.3. Revival of the industrial sector of the economy and growing living standards

The most positive consequence of 1998 financial crisis in Russia was perhaps that Russian entrepreneurs became forced to orient inwards. As importing became loosing enterprise overnight, Russian businessmen turned to the forgotten in the preceding 10 years Russian producers and this symbiosis delivered magnificent results. It was the food and mass consumer goods (FMCG) industries where these changes were most notable.

In 2000-2001, the impact consumer industries upon production growth remained unchanged resulted from both residual effects of import substitution in relation to light and food industry and of currency devaluation inertia. The comparison of monthly dynamics of output of consumer goods showed a gradual decline in the gap between the growth rate in terms of light and food industry output and dynamics of the retail trade turnover (*IET, 2002*).

At present many Russian producers, especially in FMCG regain and dominate the Russian market. There are many examples of success stories that clearly demonstrate that tendency. "Baltimor" is a good one having more than 50% of the ketchup market in Russia and exports to the Baltic states, Germany, CIS countries and Mongolia (*IRG, 2003*). The gradual revival of many industries also contributed to growing living standards that on their end further stimulate consumption.

Consumer spending has been climbing so rapidly, 42% in the past two years - that it is not only attracting retail giants such as Auchan, it is turning Russia into the fastest-

growing market world-wide for many major multinationals, including Procter & Gamble, Nestle, L'Oreal, and Ikea (*Belton, 2002*).

1.4. Rise in the capital investments and the development of Russian conglomerates

The growth in investment demand appeared to be a characteristic feature of the economic renewal that started after the financial crisis of 1998. While financial performance of firms was improving and their savings were growing, the demand for capital goods increased from late 1999. This particular tendency intensified in 2000-2001 under the influence of rising demand on the part of export-oriented industries for domestic machine-engineering goods. The output of investment complex grew by one- third over 1999-2001 compared to the 1998 level (*IET, 2002*). In July 2003 real investment was 11.8 per cent higher on an year-on-year while construction was up 15 per cent (*Thornhill, 2003*). Being subject to developed inter-sector relations, the production growth in machine engineering industry and the sector for construction materials ensured growth in the associated industries' output (*IET, 2002*).

The Russian government is paving the way for a private market for farmland. A particular push was given by "The law on tenure of agricultural land" that came into being in 2003 and that permits free sale and purchase of land designated as agricultural, thereby underpinning citizens' constitutional right to privately hold and manage land. The government is also aiming to break up monopolies in natural gas, utilities, railroads, and banks, and even plans private management of pension funds. Altogether, the sectors up for grabs account for some 30% of Russia's gross domestic product of \$300 billion. That's \$90 billion in prizes (*Starobin, Belton, 2002*). The Russian business giants such as Gazprom, Yukos, Metalloinvest, Interros follow very closely these developments as no one wants to miss the opportunities and large investments in land and infrastructure are already under way.

1.5 Implications for foreign SMEs

The general political and economic climate in Russia experienced considerable improvements during the last six years and recently forms a comparatively stable and more predictable environment. Not entirely stable! There are still serious increments of transaction costs, due to inefficient customs and transportation, as well as a number of related institutional imperfections. Examples of these include poor protection of property rights, excessive degree of corruption, over-regulation and inefficiency of the state bureaucracy, immaturity of business legislation, and substantial degree of state capture (*Belianin, 2002*).

Still, the economic growth that occurred after the 1998 crisis created conditions for revival of domestic industrial production (especially in FMCG) and the consequent need for capital investments. All these developments led to growing living standards resulting in increased consumer spending that closes the circle by generating increased demands for both products and services. The potential for doing business in Russia is bigger than ever before and illustrated by the advancements of many multinational companies to the Russian market.

The stable environment and growing demand for products and services in Russia certainly offer immense opportunities for Western SMEs. Provided that the latter would have the skills and the abilities to build a feasible entry strategy and navigate within the specifics of Russian business landscape.

2. Common misconceptions

2.1. *The image problem*

In terms of business environment and general publicity the Western media not exactly pampers Russia. The image the media world continues to project is of lawless country with a lot of poor people, corrupt officials, chaotic economy, and recently added, suspicious democracy. In many Western countries doing business in Russia is contemplated rather as an adventure than as a normal occupation.

The first obstacle for doing successful business in Russia is rooted precisely in that negative attitude. Russia is a market as any other market in the world that basically functions as a market economy with its specificities and particularities as anywhere else (and especially in emerging markets). In many respects Western businessmen still think of Russia and its economy in terms of the beginning or the middle of the 1990s.

One of the most important changes is that the once upon a time valid argument that unpredictability and turbulence make great demands upon firms entering the market (*Johanson & Johanson, 1999*) is no valid anymore. That will suggest that in the recent Russian business environment it is possible to prepare, plan and operate in a relatively stable and to some extent predictable over mid-term environment.

2.2. *Market size*

Another commonly spread misconception is about the size of the Russian market. On one extreme, businessmen argue that the average incomes in Russia are too low to generate sufficient demand and as a result the market is too small. Such statement would be wrong due to number of reasons, one being that substantial parts of the salaries in Russia are still paid unofficially in envelopes. On the average, about one fourth of personal incomes is concealed and not included into the taxable base (*Radayev, 2000*). Therefore the general statistics on incomes in Russia could not provide yet an accurate picture on this account.

On the other extreme would be the perception of "the big Russian market" that is able to absorb almost anything. This attitude originated in the years after the break up of the Soviet Union when almost any Western product had good chances to sell in Russia. Still, these times are gone and today a serious preparation is needed to penetrate the market, to position and promote one's product.

The common miscalculations of the size of Russian markets leaning towards one or another extreme did fail a lot of businessmen. So how big is the Russian market? It is exactly as big as a thorough market analysis would suggest, adjusted to the fact that the average Russian incomes are higher than officially reported.

2.3. Superiority syndrome

The political, economic and social developments in Russia are much more dynamic than in the West and things change much faster. The times when the Russian businessmen had a non-existent knowledge of basic business practices and concepts are gone. And that is why one of the worst mistakes a Western businessman could make is to act based on the assumption of possessing superior knowledge also known as the "*know it all*" attitude. In fact quite the opposite - Russia is far from Western style market economy and contains an immense number of local specifics. The latter are of the type that usually Western businessmen do not know or often refuse to learn and understand. So it is the Russian businessmen that are better prepared and knowledgeable about business and thus being in a more favourable position in the process of business negotiations. That may be changed provided that the Western businessmen make some preliminary preparations and knowledge gathering – a fact that strongly underlines the importance of partner-country-specific knowledge in the case of Russia (*Meyer, Skak, 2002*).

3. Initial preparations

3.1. *Limitations for SMEs*

Unlike big corporations or furthermore Multinational Corporations (MNCs), SMEs quest for internationalisation is framed by hard limitations (*Etemad, Wright, 2003*). These could be broadly described as scarce resources of:

- available finances
- manpower
- time

Having available finances certainly helps - recruiting extra manpower, visiting potential clients and partners in different parts of Russia, preparing in Russian all types of advertising and promotion materials, renting offices etc.; could be easily conducted in the presence of sufficient finances. The latter also allows widening the time horizon of expectations – and in Russia time is having somehow different dimensions compared with the West meaning that everything takes much longer time. Longer time without doubt results in greater costs.

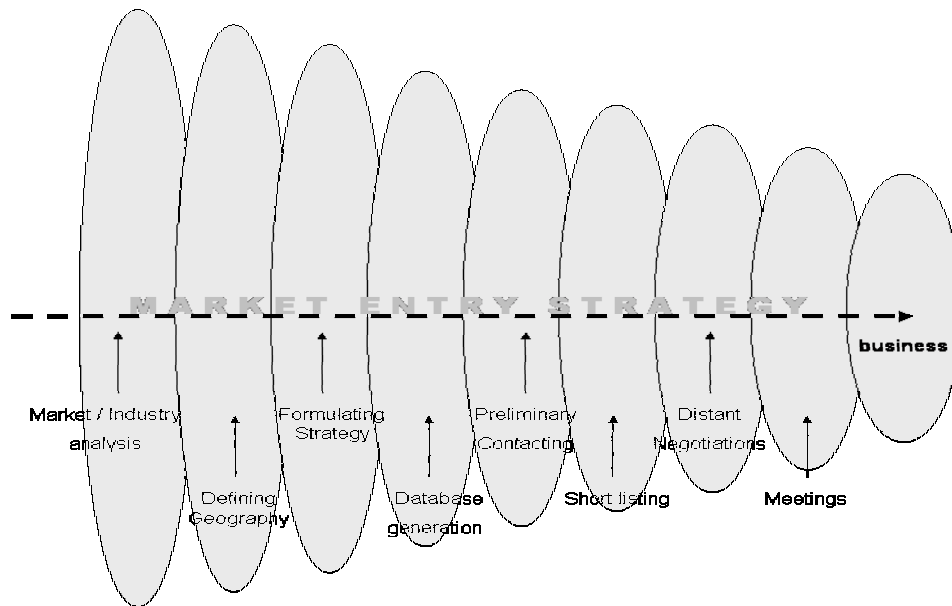
There is some lower limit of needed financial resources below which an attempt to enter the Russian market will have rather negligible chances for success. There is no clear limit but it is reasonable to assume the annual budget for entry should not fall below €10 000.

Another, sometimes even bigger limitation is the availability of manpower. A sales or export manager within the SME could be overloaded with work and thus not be able to direct enough attention or focus to an unknown even if promising market. Hiring a new employee is often not an option for SMEs (especially in over-regulated labour markets).

Finally, an average SME is not ready to exercise continuous effort (and investments) over a long period of time. Thus a result is expected and required much sooner than if a big company is entering the Russian market.

When taken into account the limitations described above will formulate a successful strategy for Western SMEs entering the Russian market as an effort that is concentrated, focused, precise, fast and target oriented as outlined in Figure 1. It should be, to borrow a military term, a pinpoint operation that has to deliver results fast.

Figure 1. Risk optimising target based market entry strategy model



3.2. Getting the geography right

One of the first things to be considered when entering the Russian market is the geographic location of your entry. Sometimes the selection might be simply determined based on the type of the product / service offered. Otherwise it is up to the company initiating the business to determine where exactly to enter the market.

If we have a look at the Russian million cities we'll find out that if exclude Moscow and Saint Petersburg, there are 13 million cities in addition to Moscow and Saint Petersburg (*Table 1a*) and 20 cities with population over half a million inhabitants (*Table 1b*) with total number of inhabitants at approx. 27,401 million people. The number significantly increases if we add the population in the surrounding areas.

Table 1a. Russian million cities (*Source: Goskomstat 2002*)

*(2003 Data, Russian Ministry of Economic Development and Trade)

City	Population	Cumulative foreign trade turnover per capita (USD)*
1. Moscow	10101,5	4 026,73
2. Saint Petersburg	4669,4	1 539,23
3. Novosibirsk	1425,6	200,85
4. Nizhnii Novgorod	1311,2	831,85
5. Ekaterinburg	1293,0	991,46
6. Samara	1158,1	873,86
7. Omsk	1133,9	535,29
8. Kazan	1105,3	644,29
9. Cheliabinsk	1078,3	738,55
10. Rostov on Don	1070,2	218,17
11. Ufa	1042,4	675,32
12. Volgograd	1012,8	428,24
13. Perm	1000,1	636,41

As Table 1a shows these other million cities have considerably lower figures of cumulative import-export turnover per capita. Such statistics could be interpreted in two ways. On one hand it is logical to claim that the capital Moscow and the biggest port of Russia Saint Petersburg would naturally attract more foreign trade. Therefore the typical market penetration in Russia follows the geo-centric approach of establishing business with Moscow or Saint Petersburg first. As most companies choose this approach the market competition in these two cities is much stronger.

On the other hand the same statistics could be interpreted as a great opportunity to approach directly the markets of other million (and big) Russian cities - markets that so far have been predominantly served by Moscow or Saint Petersburg companies. However the advantages of lower levels of competition are somehow balanced against bigger number of risks and regional specifics such as poorer infrastructure, lack of experience in international business of local companies etc. The existence of such regional specifics and higher risk levels once again points to the need of better preliminary preparation.

Table 1b. Russian big cities (population between 500 000 and 1 million) (*Source: Goskomstat 2002*)

City	Population (1000)
14. Krasnoyarsk	911,7
15. Saratov	873,5
16. Voronezh	848,7
17. Toliatti	701,9
18. Krasnodar	644,8
19. Ulianovsk	635,6
20. Izhevsk	632,1
21. Yaroslavl	613,2
22. Barnaul	603,5
23. Irkutsk	593,4
24. Vladivostok	591,8
25. Habarovsk	582,7
26. Novokuznetsk	550,1
27. Orenburg	548,8
28. Rjazan	521,7
29. Penza	518,2
30. Tiumen	510,7
31. Naberezhnye Chelny	510,0
32. Astrahan	506,4
33. Lipetsk	506,0

3.3. Compatibility of the product / service

Interestingly enough, a strategy to enter and operate on the Russian market does not immediately start with exploring the local market itself but rather with a clarification of what and why makes the product/ service on offer competitive. Right after this self assessment would come the initiative to check if the product/ service that is to be offered would position itself within the limits of the Russian local quality expectations, price levels, safety standards etc. At this preliminary point a rough estimate than a precise evaluation may be sufficient. It may prove further explorations and preparation worthless and thus prevent time, efforts and money being wasted.

3.4. Personal contacts and the myth about the right partner

It is often said that in Russia (and not only) it is personal contacts that matter in doing business. That is correct and many Western businessmen do not plan business in Russia because of the absence of such contacts. It is not a reason not to start but rather a good suggestion for how and where to start. A network of personal contacts could be and is developed gradually. The process of learning about the market and the key players in it provides the best opportunity for creation of a network of personal contacts.

It is true that business connections in Russia mean a lot. That should be added to the earlier popular nostrums that every firm needed a local partner (*Borell, 2002*). The ideal partner is described as legitimate and as one who would have the necessary network and relationships to be invaluable in solving "Russian" problems and smoothing the road (*Wade, 2002*). On the other hand, in the search for a partner quite often companies with criminal links might be contacted (*Bush, 2002*).

It is of course good to find reliable and good partner in Russia but it never was and is not the ultimate condition for success. In addition it is not that easy as expert level knowledge must be possessed in order to evaluate properly a potential partner. For instance while size may not really be of importance, age certainly matters as younger companies tend to have better performance (*Liuhto, 2001*). Finding the partner might be the only solution for very small companies that do not have even the minimal resources needed to learn about the market, to establish their own presence and start with their business. But for all others finding a partner is not an ultimate must.

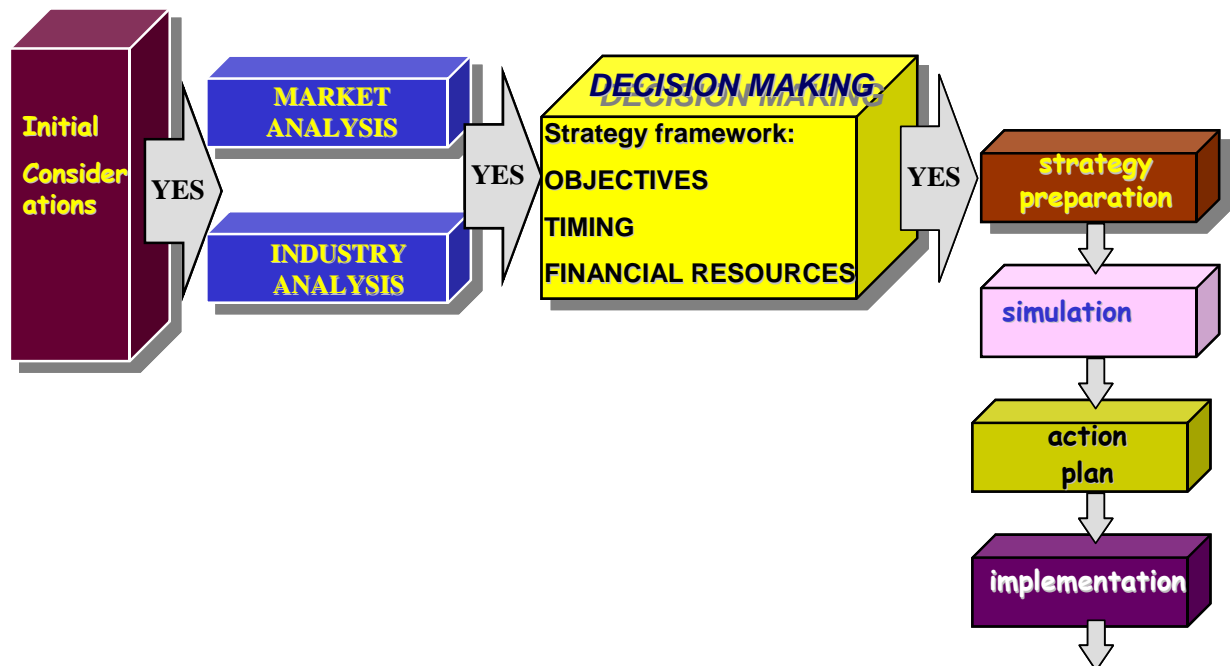
Researching and learning the market, building a feasible entry strategy, hiring knowledgeable professionals and giving them concrete objectives and targets is much more likely to bring the expected results. By finding the right people in Russia to help, there are many opportunities for the foreign investor (*Coleman & Beaulieu, 1999*). The ability and the will to learn, to be flexible and to adjust and manage Russian personnel might be much better option than finding a Russian partner.

4. Preparing and building an entry strategy for the Russian market

The entire preparation process that starts with the described above initial considerations is outlined in Figure 2. It suggests the logic and internal sequences that intend to secure a further involvement only when and if feasible and thus minimise the risks of entering and operating on the market.

Following this internal logic, a market and/or industry analysis is initially performed to provide the information needed for a sound decision-making. Only after the principal decisions are taken, a strategy is prepared and put on a virtual test through simulation. If all looks reasonable the strategy is further developed into an action plan. Even though such an approach may look “too academic” it does not necessarily consume a lot of time and is flexible enough to be modified according to a company’s particular needs.

Figure 2. Outline of the preparation process divided into certain consecutive steps



4.1. Market or industry analysis

As discussed above one of the best changes in the Russian economic environment is that it became fairly stable and predictable in mid-term. Concepts such as market analysis, marketing channels, consumer's preferences and distribution networks became increasingly similar to their equivalents in the West. As a result if a decade ago a market analysis was not feasible as the situation was permanently changing and the data was by large unreliable, at present a professionally made market or industry analysis may be ordered or created in a reliable and professional way.

Some experts claim that the best place to start an investigation of your potential business in Russia is with one of the several world-class financial and business consulting companies in Moscow (*Borrell, 2002*). However, it remains to be established if the average Western SMEs may afford using the services of big names such as McKinsey, Accenture or Boston Consulting. There is increasing evidence that smaller Western or Russian consulting companies offer analysis that are not far in terms of quality but are still much more affordable. Figure 3 demonstrates the basic ingredients of the intended market / industry analysis.

Figure 3. The three pillars of a market / industry analysis



One way or another the market or industry analysis should be the fundamental guide to the market one is interested in. Table 2 outlines the basic set of variables that is wise to get knowledge about in advance.

Table 2. Basic set of information on markets and/or industries in Russian business environment

<u>Product</u>	<u>Distribution</u>	<u>Consumer's preferences</u>	<u>Local & International Producers</u>	<u>Relevant legislation</u>
regulation	channels	product quality	Size	certificates
prices	wholesalers	Packaging	Strengths	customs
qualities	retailers	price sensitivity	Strategies	payment
specifics	discounts	Advertising	Problems	disputes

To summarise, before making a decision a SME's management must be convinced to fair degree that:

1. Their product/service does not miss grossly the Russian market demands.
2. The produced market / industry analysis gives reasons to believe that there is certain potential that makes it worth investing further time, money and efforts.

4.2. Decision making

Very often some distortions appear in the phase of making the decision. As the SMEs operate within much narrower frame in terms of capital and return on their investments etc., they must be much more precise when defining what exactly they would expect from their Russian operations. Here are the three basic assumptions that must be made in this respect.

The first is the definition *of the objectives and the expectations*. That is by far the most important point to be clearly spelled. A typical mistake is to state that the objective is to “generate some business”. The business objective must be defined as clearly and precise as possible. For example it could be to gain a 15% share of the Nizhny Novgorod market within two years or to generate €100 000 EUR sales within the first year. In the same token, the expectations are defining the outcome a SME would expect of the company's investments of efforts, time and money. A well done market or an industry analysis will be sufficient to provide the key figures and facts that will help establish a reasonable and realistic horizon for the expectations and the business objective.

To establish *the approximate time frame* is also important. Originally, the time frame should put the dates (at this stage on a level of expectations only) for the following key events to occur. These would be:

- first sales / results generated
- breakeven point
- achieving the established objectives

Having the objectives and the expectations settled and the time frame needed to accomplish them established, the last crucial item to determine is *the amount of time, money and efforts* a SME would find reasonable to apply in pursuing the aimed result. There is a whole complex of considerations to make in this respect that are not limited only to the intended Russian expansion of the business but also have to deal with the short term and long term financial situation of a company and its overall financial stability.

4.3. Entry strategy

By the time it would be possible to build the concrete entry strategy, it will be sufficiently pre-shaped and moulded by the number of facts and limitations established during the market / industry analysis and the decision making phases. Therefore to a large extent it would be quite visible what options are clearly unavailable and what would fit better.

A simulation of the just formulated strategies could eventually additionally optimise the chances for success. Lets assume that as a result of the preparation process there are two strategies – A and B being formulated and each of them could develop in three basic scenarios:

- pessimistic / disappointing
- medium / average
- optimistic / beyond expectations

It is wise to preview each scenario and prepare in advance different options and possibilities in terms of exit strategy, damage control and / or strategy reformulation.

Obviously one may not grasp every potential development in the chain of events but nevertheless, some speculation with different scenarios and their outcomes could only help.

4.4. Commitment

For someone's business operation in Russia to succeed, a proper understanding of the Russian concept of time is needed. Russian companies may express initial interest, not do anything for months and then ask for an offer expecting the answer within 24 hours. Such a rather hectic approach to business demands for two major additions to a successful business strategy:

- patience or the understanding that business in Russia is a rather cyclical event where either nothing happens for considerable period of time or all of a sudden everything develops with a difficult to handle speed;
- commitment that stays mainly for the ability not to be disappointed in the short-term and to execute a sustainable and constant effort to penetrate the market and generate business in the mid-term.

There is sufficient evidence that companies that concentrate on Russian markets on a continuous basis perform much well than other firms (*Nieminen et al., 2001*).

5. Conclusions

The growth of Russian economy and the establishing of relatively predictable (even if not entirely democratic) political framework and legal environment led to an increase of the attractiveness of Russian market in international business.

These developments are of interest not only for MNCs and big corporations but also for Western SMEs. However, for them it is a challenging task to enter and start with successful business operations as their abilities for market entry are limited by hard constraints such as scarcity of financial, human and temporal resources.

The Russian business environment is experiencing something that could be characterised as early maturation. Therefore it becomes increasingly possible to plan and execute a market entry in an organised and target oriented fashion. This study attempted to demonstrate that entering the Russian market is not a "mission impossible" enterprise for Western SMEs provided that they have better understanding of market specifics and thoroughly prepared market intelligence and entry strategy.

A successful strategy for Western SMEs entering the Russian market should start with better knowledge and awareness of the opportunities and specifics in Russia as well as avoiding the common misconceptions about its business environment and market potential. Such a successful entry strategy should be an effort that is concentrated, focused, precise, fast and target oriented. To borrow a military term, a pinpoint operation that has to deliver results. The study presented in detail a model of what could be the proper structure and content of a well made preparation in the context of the Western SMEs operational specifics and limitation of resources.

Another idea the study suggested that the Russian million cities other than Moscow and Saint Petersburg could be an interesting opportunity for entering the market in places where competition is lower and the business opportunities as a whole could be better.

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