

DEVELOPMENT OF MARKET ENTRY STRATEGY FOR UAB “MULATE” TO THE  
RUSSIAN MARKET

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### Abstract

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The purpose of this report is to develop a market entry strategy for the company, which is about to join the Russian market with its fine chocolate bars “Chocolate Naive”. Russia has one of the most rapidly growing chocolate markets in the world, which attracts chocolatiers to enter it and UAB “Mulate” is no exception. Thus, external and internal analyses are accomplished in order to create basis for market entry strategy development, whereas semi-structured interviews with market experts enhance secondary data with practical knowledge. The analysis reveals that despite high demand, fine chocolate market in Russia is not saturated yet, besides, customers value production of Lithuanian origin. On the other hand, being outside EU, Russia becomes more difficult to enter, therefore, advice for UAB “Mulate” is to follow successful experiences of similar companies and use exporting as a strategy to join this market. Hence, the export plan that is presented in the managerial solutions part determines milestones for such entrance.

*Keywords:* Market entry strategy, fine chocolate, UAB “Mulate”, “Chocolate Naive”, exporting to the Russian market

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## Introduction

In this report, UAB “Mulate”, the company, which owns “Chocolate Naive” brand, is being analyzed. UAB “Mulate” is a client of UAB “New Agency”, the advertising agency where the internship was held.

“Chocolate Naive” is known for its exclusive bean-to-bar chocolate production that is now being sold in 9 countries worldwide. Increasing geographical coverage is one of the main success factors for the company, therefore, UAB “Mulate” is searching for new markets to enter.

Recently, the demand for hand-made chocolate has been boosting in Russia, mainly Moscow and St. Petersburg (Euromonitor, 2013). However, the market there is not saturated yet. Consequently, there is a great opportunity for UAB “Mulate” to start “Chocolate Naive” sales in Russia.

As a result, the research problem of the analysis arises: What market entry strategy should UAB “Mulate” adapt for the Russian market? Compared to other markets, Russia is very different and difficult to do business in, therefore, the entry strategy should be developed precisely (Broadman, 2000).

This leads to the major aim of this report, which is to propose the entry strategy to the Russian market for UAB “Mulate”. In order to reach this goal, it is essential to follow three main objectives:

1. To analyze overall situation including company’s overview, detailed external market analysis as well as brief internal position.
2. To conduct qualitative research and collect primary data for the empirical research.
3. To provide managerial solutions for development of the chosen entry strategy.

Qualitative research method will be used in order to collect data for the empirical research study. Interviews and consultations with market experts will be conducted and used

as a primary data in the report.

UAB “Mulate” has been searching for opportunities to enter the Russian market for a while. Therefore, after making managerial solutions, the report with strategic plan for introducing their chocolate bars to Russia will be provided to the company.

Logical sequence of the report will be as follows: firstly, analysis of the situation including company’s overview, its external situation regarding new market will be analyzed and internal company’s information will be provided. Afterwards, empirical qualitative research will be made including interviews with market experts. The last part of the report will present managerial solutions for developing the entry strategy for UAB “Mulate” to the Russian market.

### Situational Analysis

The paper begins with the analysis of UAB “Mulate” current situation in the world and overview of the Russian market which the company seeks to enter. The analysis refers to internal company’s data as well as the literature in context with a chosen topic.

#### **General Information About UAB “Mulate”**

UAB “Mulate”, established in 2010, is the company, which owns international brand “Chocolate Naive”. “Chocolate Naive” is a small chocolate and ice cream manufacturer, however, their ice cream is being sold solely to the Lithuanian market. Taking chocolate production into account, it is important to highlight that the company is classified among only 150 bean-to-bar chocolate manufacturers worldwide and are founders of the latter niche in Lithuania.

“Chocolate Naive” offers gourmet confectionery produced using ingredients of the best quality. Before chocolate bars are manufactured, the analysis of taste, color, smell and texture is made. Afterwards, they are being sold in specialized organic and gourmet food stores.

In 2013 “Chocolate Naive” has released a new collection of chocolate bars named “Back to Origins”. This exclusive collection includes seven flavors made of ingredients grown in the East European region. Some exotic flavors include honey, salted caramel or sugar crystals. The eighth bar of the collection is a limited edition dark chocolate bar of the highest quality cacao beans from Peru.

“Chocolate Naive” have started international sales in their early days and today their chocolate bars are being sold in such countries as Germany, UK, France, Hong Kong, Japan, USA, Kazakhstan and Poland. Moreover, the brand is awarded by many international awards, including World Finalist for “International Chocolate Awards 2013” and Best Start-Up “Next Organic Berlin 2013”.

The company has been growing fast since it’s establishment. Due to product line extension, new geographical markets covered and improving economic situation in the world their growth rate has been increasing rapidly. This trend is illustrated in the table below.

Table 1

*Financial Performance of UAB “Mulate”*

Year	Annual turnover		Annual Growth
	LTL	EUR	
2010	50,000	14,481	N/A
2011	75,000	21,722	50%
2012	750,000	217,215	900%
2013*	1,600,000	463,392	133%
2014*	1,900,000	550,278	19%
2015*	2,300,000	666,126	21%

*Source.* Company’s internal information.

*Note.* \* - forecasted financial performance.

In summary, “Chocolate Naive” is the only one in Lithuania and one of 150 such worldwide brands, which monitor the manufacturing process from single cacao bean to the chocolate bar. Exports to 8 countries overseas determines positive growth for the company, therefore, future plans include new geographical markets to enter.

### **External Analysis**

#### **Russian Market Analysis**

UAB “Mulate” has an intense geographical expansion strategy and the next goal is to enter the Russian market. The main purpose of the company is to reach Moscow and St. Petersburg, the areas with huge potential for luxury products.

Russian market is attractive for several reasons. First of all, although approach to

business in Russia is highly influenced by the cultural characteristics, there are almost no cultural barriers for UAB “Mulate” as Lithuanian culture is relatively similar to the Russian one because of Soviet Union roots. The company can easily identify Russian consumption habits, understand Russian language which helps from negotiation with partners to building client relationships. Moreover, due to the changing consumer lifestyle, Russians develop a more sophisticated taste. Citizens of urban areas are choosing gourmet chocolate products more frequently, especially when they need them as a gift. Fancy packaging is another important factor for buyers (Euromonitor, 2013). To be more precise, chocolate consumers in Russia appreciate exclusivity, design and quality, which “Chocolate Naive” produces.

According to Euromonitor, Russia has one of the most promising markets for chocolatiers. Chocolate market size in Russia is worth more than 8 billion Euro at the moment, moreover, it is expected to grow by 6,3% per annum (Euromonitor, 2013).

On the contrary, certain obstacles may occur when entering the Russian market. First of all, Russia has a relatively high ranking on the index of difficult places to do business in (Broadman, 2013). This includes a negative reputation concerning corruption issues. With ranking 133 out of 174, Russia is one of the most corrupted countries worldwide, therefore, doing business transparently might be challenging (Transparency International, 2013). Other barriers to entry the Russian market include taxation. Today, chocolate bars have an import duty rate of €0.6 per kg and VAT rate of 18%, however, these numbers might change according to the country relationship with Russia (Customs Tariff of the Russian Federation, 2013). Last but not least, doing business internationally requires a lot of traveling. However in Russia, even business trips are limited by the Russian immigration and visa system which requires time and expertise for business travelers to obtain the necessary permits (KPMG, 2013).

In fact, in August 2012 Russia has become an official member of the WTO, which

means the country now has certain commitments related to the international trade. This membership is seen as a solution for most of the difficulties indicated above, for example, Russia will guarantee a certain level of transparency concerning foreign trade legislation (KPMG, 2013).

**Income inequality.** One of the biggest issues in Russia is high Gini index. The tendency of increasing gap between the rich and the poor limits the existence of middle class in the country. Expectations for the future are not promising either, thus, the Russian consumer market has still growing demand for luxury goods (Hodgson, 2013). As long as “Chocolate Naive” bars belong to premium goods, this trend is beneficial for the company.

**Conclusion.** To sum up, because of cultural barriers, Russia might be difficult to start business in, however, Soviet Union roots eliminate these cultural differences for Lithuanian company. The market for chocolatiers is promising as Russian people are developing more sophisticated lifestyles demanding for gourmet production. This makes it even more attractive for UAB “Mulate” to start sales in Russia. Although difficulties to trade seems to be threatening, recent Russian entry to WTO has brought the country certain commitments which will minimize these barriers. Moreover, absence of middle class and rising households income leads to increasing demand for luxurious goods, which, in fact, is favorable for the company.

### **Customer Analysis**

**Market segmentation.** “Chocolate Naive” is not a brand for everyone. As any other gourmet production it might surprise ordinary consumers with a price. On the other hand, there are quality and exclusive taste seekers who form the target audience.

In order to identify, understand and respond to the needs of “Chocolate Naive” customers, it is essential to divide the market into segments. The process of market segmentation includes demographic, psychographic, behavioral characteristics and benefits

sought (Keegan and Green, 2011). Therefore, the segments of “Chocolate Naive” customers with relative size and short description of each are provided in the table below.

Table 2

*Market Segmentation*

Segment	Size	Description
Story lovers	10%	<ul style="list-style-type: none"> <li>• Age 25-45</li> <li>• Afford products of higher quality, price is not of the most importance</li> <li>• Creative people, who care much about the story, dream, relationship</li> </ul>
Gourmets	80%	<ul style="list-style-type: none"> <li>• Age 30-60</li> <li>• Educated, high income, residents of Moscow or St. Petersburg</li> <li>• Care about the manufacturing process, admire exclusive tastes of natural production</li> </ul>
Trend seekers	10%	<ul style="list-style-type: none"> <li>• Age 20-35</li> <li>• Sensitive about discounts</li> <li>• Seeks for fashionable, trendy goods</li> </ul>

*Source.* Developed by the author.

It is clear that most of the chocolate bars are bought by gourmets segment (80%). The most distinctive feature of this segment is that they value the process of manufacturing, which is precisely supervised by the manufacturer. Rest of the market is shared by story lovers (10%) and trend seekers (10%). These two segments are totally different when compared to each other. Story lovers are people who follow the dream. They do not buy the product but rather a piece of story. Every chocolate bar has a story behind which is written on the packaging and signed by the manufacturer. These are the features most valued by the story lovers, however, this segment forms a very small part of the market. The third type of consumers, trend seekers, buy chocolate bars because of fashion. These people are addicted to trendy items and also like to gift a friend or relative with them.

After identification of three main segments for “Chocolate Naive” in Russia, the

analysis of how the needs of customers are served is essential. The table below illustrates benefits sought within each segment.

Table 3

*Benefits Sought*

The Benefits Customers Seek For	“Chocolate Naive” Ability to Serve the Need	Importance of Factor to the Segment		
		Story Lovers	Gourmets	Trend Seekers
Story	10	10	5	2
Natural Ingredients	10	7	10	4
Exotic Flavors	8	7	10	5
Taste	9	9	10	8
Smell	8	5	10	2
Attractive Packaging Design	10	8	9	10
Ability to Buy as a Gift	10	10	10	10

*Source.* Developed by the author.

*Note.* The assessment is made in 1-10 point scale, where 1 is not important at all, 10 – of major importance.

There are seven features of premium class chocolate, which are essential for their customers. First of all, “Chocolate Naive” is all about story, but it is only important to the story lovers segment, however. Natural ingredients of the best quality, exotic flavors, taste and smell are of the major importance to gourmets. Trend seekers mostly care about packaging design. Ability to buy chocolate bars as a gift seems to be of high importance to all segments.

Evidently, the company deals very well with almost all consumer needs. Although “Chocolate Naive” could improve the variety of exotic chocolate flavors and smell, for example, introduce bars with berries, the overall picture of company’s ability to serve the

benefits consumers seek for is very positive.

### Competitor Analysis

The aim of competitor analysis is to define major players in the Russian gourmet chocolate market, which “Chocolate Naive” is eager to enter. In order to get an image of competitive situation in a new market, it is essential to identify competitors’ strengths and weaknesses.

The main characteristics of “Chocolate Naive” competitors in the Russian market are given in the table below.

Table 4

#### *Competitor Analysis*

Brand	Description	Strengths	Weaknesses
“Sabadi”	Italian slow living brand, which produces organic gourmet chocolate. Raw materials come from fair trade. “Sabadi” chocolate bars are made differently - they are cold worked without adding cocoa butter. Entered Russian market in 2013. The brand is well known for expressive packaging design. “Sabadi” in Italian means Saturday. ( <a href="http://www.sabadi.it">www.sabadi.it</a> )	<ul style="list-style-type: none"> <li>• High quality</li> <li>• Raw materials, organic</li> <li>• Very attractive packaging</li> <li>• Variety of flavors</li> </ul>	<ul style="list-style-type: none"> <li>• Young company</li> <li>• Chocolate taste could be improved (according to the reviews on the internet)</li> <li>• No gift items</li> </ul>
“Le Comptoir du Cacao”	French family owned chocolate factory, which develops pure origin chocolate production. They have a wide range of products including chocolate bars, pralines, and cocoa powder. ( <a href="http://www.comptoircacao.fr">www.comptoircacao.fr</a> )	<ul style="list-style-type: none"> <li>• Practice of more than 20 years</li> <li>• Stylish packaging design</li> <li>• Single-origin</li> <li>• Expressive taste</li> </ul>	<ul style="list-style-type: none"> <li>• Focus on pralines, not chocolate bars</li> <li>• No gift items</li> </ul>

Brand	Description	Strengths	Weaknesses
“Bovetti”	“Bovetti” is a French brand, which offers unique chocolate production. Their chocolate bars include such tastes as lavender, ginger or poppy. Owns Chocolate Museum near Bordeaux. ( <a href="http://www.boveti.com">www.boveti.com</a> )	<ul style="list-style-type: none"> <li>• Variety of tastes</li> <li>• Organic</li> <li>• Exports to more than 35 countries worldwide</li> </ul>	<ul style="list-style-type: none"> <li>• No gift items</li> </ul>
“Chocolate and Love”	English chocolate brand, which produces organic and fairly traded chocolate bars. ( <a href="http://www.chocolateandlove.com">www.chocolateandlove.com</a> )	<ul style="list-style-type: none"> <li>• Organic</li> <li>• Supports reforestation</li> <li>• Beautiful packaging</li> </ul>	<ul style="list-style-type: none"> <li>• Young company</li> <li>• No gift items</li> </ul>

Competitor analysis table shows that the closest for “Chocolate Naive” in whole competition will be “Sabadi”. Although the taste of their chocolate could be improved, it is the strongest brand compared to other players in the Russian market. Taking competitors weaknesses into account, none of them offer boxes of chocolate bars for gifting. Therefore, in order to gain a competitive advantage, “Chocolate Naive” could introduce not only chocolate bars separately but also the “Encyclopedia of Chocolates” (see Appendix 1) to the Russian market.

**Competitors ability to serve customer needs.** Analysis of “Chocolate Naive” ability to serve customer needs was shown in Table 3, however, it is also very important to evaluate capabilities of major competitors in the Russian market. Therefore, the comparative analysis is illustrated below.

Table 5

*Analysis of Competitors in the Ability to Fulfill Major Consumer Benefits*

“Chocolate Naive” and Major Competitors	Major Benefits						
	Story	Natural Ingredients	Exotic Flavors	Taste	Smell	Attractive Packaging Design	Ability to Buy as a Gift
“Chocolate Naive”	3	3	2	3	2	3	3
“Sabadi”	3	3	3	2	3	3	1
“Le Comptoir du Cacao”	1	3	1	1	1	3	1
“Bovetti”	1	3	3	2	2	3	1
“Chocolate and Love”	1	3	2	2	2	3	1

*Source.* Developed by the author.

*Note.* The assessment is made in 3 point scale, where 1 is poor fulfillment, 2 – medium fulfillment, 3 – excellent fulfillment.

Concerning the ability to fulfill the major benefits of consumers, “Sabadi” and “Chocolate Naive” has the highest potential. Such market players as “Bovetti”, “Le Comptoir du Cacao” and “Chocolate and Love” do not tell any story, have lack of expressive taste and smell in their chocolate bars collection. Moreover, none of the “Chocolate Naive” competitors can offer their production as a present.

### **PESTEL Analysis of the Russian Market**

PESTEL analysis of the Russian market is essential for indicating trends and risks, which “Chocolate Naive” should be aware of. Therefore, Table 6 analyses the six macro environmental factors regarding chocolate industry of Russia.

Table 6

*PESTEL Analysis of the Russian Market*

Factor	Evaluation
Political	Country’s political situation is not in a stable position, as many Duma deputies including Deputy Prime Minister Vladislav Surkov has resigned due to corruption scandals. Moreover, strained relations with US might have a negative outcome for the economy (Marketline, 2013).
Economic	Although Russia is the 5th largest economy in the world, it has a weak economic outlook resulting from slow recovery from the economic crisis. According to the Federal State Statistics Service, GDP growth in 2012 was only 3,59% and is expected to remain muted in 2013. On the other hand, unemployment rate starts to decline and has reached 6% in 2012. Another important fact is currency exchange rate. Russian Ruble and Lithuanian Litas exchange rate was not stable recently, therefore, if such trend would continue, it might strongly affect company’s turnover in the Russian market (Marketline, 2013).
Social	According to Euromonitor, since the year 2011 social trend of premiumisation is dominating in the Russian chocolate market. Especially in urban areas, consumers tend to choose exclusive chocolate products. There is also an interest in fancy packaging and a need to buy products as a gift (Euromonitor, 2013).
Technological	Increase in internet sales (Marketline, 2013). People in Russia buy more and more gourmet chocolate from such online shops as Globusgurme.ru or shop.av.ru.
Environmental	Russia has a weak position concerning its environmental position. Environmental Performance Index (EPI) of Russia is very high (104). This means that most of consumers does not care about sustainability which, on the contrary, is very important for the company (Environmental Performance Index, 2013).
Legal	Differences within principles of law between Russia and Lithuania. Import duty rate of €0.6 per kg, VAT rate of 18% (Customs Tariff of the Russian Federation, 2013). Standards applicable to food (quality, safety, sanitary and technical regulations)

The two most important factors of PESTEL analysis regarding “Chocolate Naive” entry to Russian market are economic and social. Although economy of the country is recovering from the crisis, currency exchange rates are not stable. With every change

concerning Ruble and Litas exchange, the risk in change of revenues arise. If this change is negative, the company loses profit.

Taking social trends into account, Russians (mostly citizens of Moscow and St. Petersburg) are searching for premium or luxury products. They value quality and exclusivity but still are eager to buy it at a lowest possible price (Euromonitor, 2013). Gourmet chocolate is an affordable luxury, therefore, the time to introduce “Chocolate Naive” bars to Russia is very favorable.

### **Conclusion**

Analysis of external situation has provided the overall picture of the Russian fine chocolate market including customer portfolio, main competitors behavior and macro environment analysis.

“Chocolate Naive” targets citizens of urban areas with a higher income. Among three main customer segments the most important are gourmets, which seek for exclusive tastes. However, benefits sought analysis revealed that gourmets are not fully satisfied with variety of exotic tastes “Chocolate Naive” offers. “Sabadi”, for example, the largest competitor to “Chocolate Naive” fulfills this need of consumers perfectly. On the other hand, Russians tend to buy gourmet chocolate bars as a gift (KPMG, 2012). Fortunately, “Chocolate Naive” is the only among competitors offering gift boxes which includes 8 different chocolate bars.

Moving to PESTEL analysis, macro-environment in Russia is dynamic, however, political imperfections should not have a significant effect on the company. The most important factor, social tendencies, emphasizes the raising trend of choosing premium products therefore it supports “Chocolate Naive” decision to enter this particular market (Euromonitor, 2013).

## Internal Analysis

### Organizational Structure of UAB “Mulate”

UAB “Mulate” is a small enterprise therefore its organizational structure is relatively simple. Headquartered in Vilnius, at the moment, it has 10 employees in Lithuania and 6 representatives abroad. Organization consists of three departments - manufacturing, administrative and sales and marketing (Figure 1).

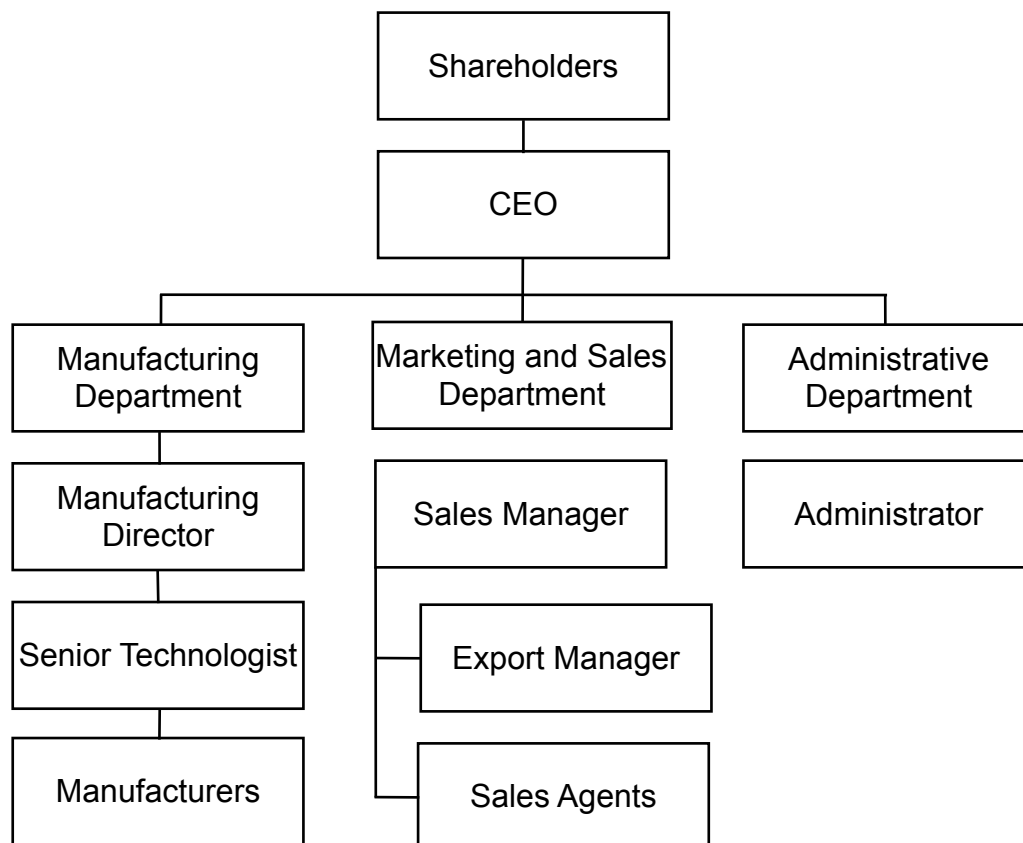


Figure 1. Organizational Structure of UAB “Mulate”

The company is owned by two shareholders, which are also employees of UAB “Mulate”. Arūnas Matačius is the CEO whereas Domantas Užpalis deals with manufacturing technology.

Sales agents abroad are chosen to be native speakers of the country where they represent “Chocolate Naive” brand. According to the CEO of the company, although everyone can speak English today, deals in native language are much more effective.

Moreover, there are cultural differences to cope with which also explains why polycentric approach is being used.

### **Private Label**

Besides manufacturing their own chocolate bars collection, UAB “Mulate” accepts offers to produce confectionary for others. The most successful private labeling yet is for the famous Lithuanian cook Beata Nicholson. Together with UAB “Mulate” they have created brilliant line of caramelized nuts, hot chocolate and other sweet products, which are being sold in Christmas markets. Other private labels include corporate gifts for such companies as “Swedbank”, “TEO”, “Bitė” in Lithuania and “Chemcentral Group” in Hong Kong.

### **Current Expansion Strategy**

Until now, the company has been using direct export or direct sales entry strategies when moving to the new markets. According to Arūnas Matačius, the CEO of the company, it is very important to create relationships before the entry. Therefore the process begins with finding a local representative, which would strongly believe in “Chocolate Naive” story and product. Relationships are also established while participating in various events where hand made chocolate craftsmen gather from all over the world. After thorough analysis of the market and establishment of vital relationships there, the company starts exporting.

### **Conclusion**

To sum up the internal analysis, it is important to highlight several facts. “Chocolate Naive” is a brand built on relationships. The company is small, therefore, the relationship within employees remind of a family. Moreover, UAB “Mulate” manufactures chocolate products not only under “Chocolate Naive” brand, but also does private labels. One successful example is confectionery made for Beata Nicholson brand “Beatos virtuvė”. Taking previous entry strategies into account, UAB “Mulate” has been using direct export or direct sales methods via local sales representatives in each country. It is crucial that every

new entry is made just after relationships in that particular country are built.

### SWOT Analysis of UAB “Mulate”

In order to approach the most suitable strategy to enter the Russian market, SWOT analysis of the company has to be conducted. Table below emphasizes main strengths which should be developed further, weaknesses which are to be minimized as well as opportunities to be taken and threats which UAB “Mulate” is facing and should cope with.

Table 7

#### *SWOT Analysis*

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Flexible company</li> <li>• Usage of the best quality ingredients</li> <li>• Slow manufacturing process</li> <li>• Attractive packaging design</li> <li>• Gift items</li> </ul>	<ul style="list-style-type: none"> <li>• Young company</li> <li>• Lack of resources</li> <li>• Lack of connections</li> <li>• Lack of variety in tastes</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Development of new concepts</li> <li>• Further geographical growth</li> </ul>	<ul style="list-style-type: none"> <li>• Currency exchange risk in non-Euro regions</li> <li>• Entry barriers</li> <li>• Risks of payment</li> </ul>

*Source.* Developed by the author.

“Chocolate Naive” has a strong position when taking chocolate bars ingredients into account. They use only natural ingredients of the best quality. Unique technology and slow manufacturing process makes the product of gourmet taste. Moreover, chocolate bars are wrapped in exclusive design packaging, which allows for better recognition. One can also buy 8 chocolate bars as a gift box, which is very convenient for the customers. Behind all, there is a story told within a chocolate bar, which is a distinctive feature of the brand.

However, the company has several weaknesses as well. UAB “Mulate” is relatively

young and, therefore, small enterprise. Although they have brilliant ideas to fulfill, both financial and human resources are in deficit. Moreover, after evaluating benefits sought by the customers, it occurred there is a lack of exotic tastes among chocolate bars collection.

Taking company's opportunities into account, the company has the ability to create successful concepts and could introduce new projects. As well as entering the Russian market, UAB “Mulate” has a great potential for further geographical growth and should keep searching for new destinations.

Finally, there are threats which company should be aware of. One of them is currency exchange risk. Contrary to sales regarding countries having Euro currency which Litas is pegged to, in some countries currencies are not stable and may affect UAB “Mulate” turnover in a negative way. None of the less importance is a threat of trade barriers, such as tariffs, quotas or non-tariff ones.

To summarize SWOT analysis, both internal and external factors are quite optimistic. Concerning internal factors, “Chocolate Naive” has a competitive advantage in exclusive packaging and offering their chocolate bars as gifts, however, the variety of flavors might be broadened. External factors analysis has shown that probably the most important opportunity to take is geographical growth. However, this might be challenging when coping with such threats as trade barriers or currency exchange.

### **Conclusion**

The situational analysis was made in order to identify the main problems and analyze the market UAB “Mulate” is going to enter. The analysis revealed there is a growing interest in gourmet chocolate in urban areas of Russia, especially Moscow and St. Petersburg, therefore, the conditions to enter are very favorable. Moreover, evaluation of competitors have shown there is an opportunity for “Chocolate Naive” to gain competitive advantage in selling chocolate bars as stories as well as gifts. Concerning weak points, the company should

broaden the variety of tastes when entering Russia as some of the segments demand for even more sophisticated flavors. Despite the company is ready to expand further and introduce their chocolate production to the Russian market, the question still remains: What entry strategy should be developed for this specific market?

### Empirical Research

The second part of the report aims to gather primary data regarding UAB “Mulate” entry strategy to the Russian market. A research has to be made in order to prove or deny facts, which were provided in the situation analysis and supplement them with evidence from past experience of similar businesses. The information gathered will be analyzed and used for decision making and development of the most suitable entry plan.

#### **Aim and Objectives of the Research**

The aim of this empirical research is to identify distinctiveness of the Russian market and find out which entry strategy is the most suitable for small chocolate manufacturer. In order to reach this purpose, such objectives should be followed:

1. Determine current market situation regarding chocolate production in order to identify opportunities and market potential.
2. Make a qualitative research using semi-structured interviews with representatives of companies, which already operate in the market, as well as with consultants of doing business in Russia.
3. Analyze both primary and secondary data in order to identify the strategy which suits UAB “Mulate” entry to the Russian market most.

#### **Theoretical Foundations of the Research**

A crucial question to examine when establishing an international development strategy is selection of entry mode to the country the company is expanding and the distribution channel (Lambin and Chumpitaz 2007). The selection may depend on several factors, such as the promise and size of the market, business environment, internationalization objectives, barriers to entry and the competition in the target market (Cavusgil, Ghauri and Agarwal, 2002).

It is important to distinguish between four main internationalization categories when

entering foreign markets: export, contractual entry, strategic alliance or wholly owned manufacturing subsidiary (Johansson, 2009). Each of them can be divided into several principal strategies, which are indicated in the table below.

Table 8

*Internationalization Strategies*

Mode	Strategies
Export	<p><i>Indirect exporting</i> refers to the use of home country agencies while getting the product to the foreign market. This type of export management allows the firm to avoid administrative costs (Johansson, 2009).</p> <p><i>Direct exporting</i> is opposite to indirect meaning that the entity sells their products or services directly to the end-user or distributor in a country abroad (Lymbersky, 2008).</p> <p><i>Direct sales</i> include mail orders and e-commerce.</p>
Contractual entry	<p><i>Licensing</i> refers to offering a foreign company intangible assets, such as patents, trade secrets, knowledge, trademarks and company name in return for royalties or other forms of payments (Cavusgil, Ghauri and Agarwal, 2002).</p> <p>In <i>franchising</i>, the entering firm (the franchisor) helps a local entrepreneur (the franchisee) to set up a local business to sell the franchisor’s branded product in the new market. In return, the franchisee raises necessary capital and pays a royalty on sales as well as up-front fee (Johansson, 2009). Franchising is closely related to licensing, however the latter has less control over the business (Lymbersky, 2008).</p> <p><i>Original equipment manufacturing (OEM)</i> involves selling unbranded product or component to the company in the market country, which later sells the final product under its own brand name (Johansson, 2009).</p>
Strategic alliance	<p>In <i>distribution alliance</i> two or more companies share a distribution network. This results in improved capacity and wider product line for one partner and inexpensive and quick access to a market for the other (Johansson, 2009).</p> <p><i>Manufacturing alliance</i> involves sharing of capabilities in the manufacturing between several partners in order to fill unused capacity and enhance future growth (Johansson, 2009).</p> <p><i>R&amp;D alliance</i> is intended to undertake research together with partners and to develop new products, services or standards (Lymbersky, 2008).</p>

Mode	Strategies
Wholly owned manufacturing subsidiary	<p><i>Joint venture (JV)</i> refers to contractual agreement that joins two or more parties in order to execute a particular business undertaking. In JV parties agree to share the profits and losses of the company (Lybersky, 2008).</p> <p><i>Outsourcing</i> is a practice when a company shuts down production in one country and starts it in a lower-wage country instead. Although it is criticized that workers at home are fired, resources are then allocated regarding comparative advantage principle (Johansson, 2009).</p> <p><i>Acquisition</i> means obtaining the company, which already exists in the market and has a product line to be expanded. In this case there is no need to develop a distribution network as the company can simply market their new products together with the existing line (Johansson, 2009).</p>

Not all of these strategies, however, are applicable to “Chocolate Naive” case.

Manufacturing process, which is the most important for the company, determines the quality of the product. Therefore, there are no plans of manufacturing abroad as it would only complicate the supervision. As a result, such entry modes as licensing, franchising, manufacturing alliance or outsourcing are not to be considered as possible for UAB “Mulate” entry to the Russian market.

Other inapplicable mode would be original equipment manufacturing. Although UAB “Mulate” does private labeling, first of all, the primary goal is to introduce their own product line to the Russian market. This is easiest to implement by exporting, however, other strategies might be taken into consideration as well.

### **Research Method and Data Collection Method**

When conducting a research, one can choose between quantitative and qualitative methods or combine them. The selection of a method depends on research objectives, goals and type of data needed from the marketplace (Javalgi and Granot, 2011). Quantitative and qualitative research methods differ in specifics of collecting data and interpreting information gathered (Anyan, 2013). While quantitative business research involves large samples and

measures concepts with scales that provide numerical values (Zikmund, 2010), qualitative methods have relatively small samples and prioritizes not the volume but depth and quality of the data (Anyan, 2013). Consequently, in quantitative research information is collected from financial records, sales reports, questionnaires and other similar sources (Hair, 2007), whereas qualitative research approaches data via case studies, interviews, focus groups, observations, visual methods and interpretive analysis (Denzin and Lincoln, 2007).

In this report, qualitative research method is chosen due to the need for grounded information about the Russian market entry, which can only be provided by the experts of the field. Therefore, in-depth interviews with company executives and market experts are to be conducted. As a data collection method, research interviews can be of three types varying from highly structured to unstructured ones. Broader description of each is provided in the table below.

Table 9

*Types of Interviews*

Type	Description
Structured	Each interviewee is asked identical set of questions in the same order as all the other participants. Such type of interview limits the subjectivity of the researcher and makes it easier to analyze and compare data. On the other hand, there is no room for elaboration left when using structured interviews.
Semi-structured	Semi-structured interview is the most frequent in qualitative research. It involves the use of predetermined questions, which can be slightly changed by interviewer spontaneously. The researcher is free to vary not only wording but also the order of questions as well as ask additional questions depending on the direction of the interview.
Unstructured	Although the researcher follows an interview guide, the process of unstructured interviewing is non-directive and flexible, meaning that subsequent questions are dependent on the participant's responses. Unstructured interviews can be difficult to conduct, however, it enables the interviewee's perceptions to be explored in depth and generates rich data.

*Source.* Doody and Noonan, 2013.

As structured interview leaves no room for changes in the process, it would not suit this qualitative research where questions are to be adjusted to representatives individually. Contrary, unstructured interview is flexible and has no strict sequence, however, in such case the researcher must be qualified enough to lead the interview and compare relatively distinct data afterwards. Third type, semi-structured interviews, is a mix of two indicated earlier. Here researcher has to follow the list of topics but is free to make changes in the order or formulation of questions. Thus, semi-structured interview is the most suitable for this qualitative research. The main reason for such decision is a need to adjust questions to different interviewees and different situations. For example, respondents, which represent a company requires slightly different questions than those who are consultants of the field. Moreover, it occurs that interview goes not exactly as it was planned and changes might be needed. Semi-structured interview allows these to be made.

### **Research Samples and Sampling Procedure**

The key principle of in-depth interview is the qualifications of the interviewer, therefore, selecting an appropriate sample is extremely important (Neelankavil, 2007). Availability of qualified interviewers in bean-to-bar chocolate business internationally is very limited and difficult to reach. Therefore, the sample was selected from broader perspective. Non-probability judgment sampling was used and respondents were chosen according to the following criteria:

- Interviewee has to be an expert in marketing products in Russia.
- The product range sold by the company in the Russian market should include chocolate bars or at least confectionery products.
- General understanding of doing business in the Russian market is crucial.

However, to meet these criteria respondents either have to be representatives of competitor companies or consultants of entry to the Russian market, which causes several

limitations. Firstly, as every candidate is informed about the purpose of the research, representatives of competitor brands tend to reject the request due to the fact that they do not want to help competitors with entering the market. Secondly, as for market experts who consult companies about the entry, it seems unreasonable to provide such valuable information for free.

In order to reach the sample, five bean-to-bar chocolate manufacturers and three Lithuanian companies famous for their confectionery products were contacted. Two requests were sent to experts in Russia, who help companies to enter this specific market. The list of respondents that have accepted the request, is provided below:

Table 10

*List of Respondents*

No	Name	Company	Position
1	Richard O'Connor	“Chocolate and Love” Ltd	Co-Founder
2	Giedrius Kasperiuonas	UAB “Biržų duona”	Export Manager
3	Lionginas Šepetys	AB “Vilniaus pergalė”	CEO
4	Remigijus Kabečius	“Enterprise Lithuania”	Commercial Attaché in the Russian Federation
5	Arūnas Matačius	UAB “Mulate”	CEO

*Source.* Developed by the author.

Although it was difficult to convince market experts to participate in the research and sample size has resulted to be relatively low, saturation point was reached and research is considered to be successful.

### **Research Instruments Used**

The semi-structured interview questionnaire was designed with a purpose to gather as much information as possible when evaluating the most suitable strategy for UAB “Mulate” entry to the Russian market. The questionnaire consisted of 10 questions in total, which were

divided into 4 parts according to the topic represented.

1. Information about the company regarding the Russian market was gathered including such questions as when, why and how the company has started sales in Russia (questions 1-5).
2. General information about the Russian market focused on the respondent's opinion about current situation and distinctive features of the market (questions 6-7).
3. Mistakes and success factors regarding the Russian market included questions of examples to learn from and advice for UAB “Mulate” entry to the Russian market (questions 8-9).
4. Future expectations concluded the interview with a question about expected trends in Russia (question 10).

For interviews with market experts who do not represent a company which trade in Russia, questions were adjusted. Research questionnaire is attached in Appendix 2.

Both type of respondents in this international research were either English or Lithuanian speakers. Unfortunately, this led to one more limitation. As multiple languages were used to interview respondents, convertibility of the results became difficult and may have caused divergence therefore (Neelankavil, 2007).

### **Data Analysis Method**

After conducting the interviews, data collected was analyzed. The objective of qualitative data analysis was to identify, examine, compare and interpret gathered information (Hair, 2007). In this case, the answers of respondents have been compared question by question until common patterns were found. Afterwards, certain conclusions have been made.

### **Process and Results**

Interviews for this qualitative research were done in various forms. Each respondent

had a choice between face-to-face, phone interviews or could have answered questions by e-mail. Consequently, one interview was conducted face-to-face, but the most preferred ways for the respondents seemed to be phone or e-mail. All interviews were either recorded or saved in other forms.

However, some methods of conducting interviews had particular limitations, for example, interviews conducted by telephone have created the absence of face-to-face contact and did not allow to read body language. Even worse, if the questionnaire has been provided via e-mail, the risk of inaccurate answers occurred (Neelankavil, 2007). Despite these limitations, respondents answered the questions with deep explanations and willingness to contribute further if there would be any need.

Results of the research were divided into four parts according to the questionnaire topics, which have been discussed before.

### **Information About the Company Regarding the Russian Market**

The first question of the interview addressed those who represent a company already in the Russian market. In order to get acquainted with a background of entrance to the Russian market, the respondents were asked when and why have their companies took this step. One of the interviewees replied that their company operates since Russia and Lithuania was the same market. Two others stated that they have joined the Russian market in the beginning of 2013, therefore, they have a very fresh experience of market entry process. Reasons for such country choice varied a bit. One foreign respondent has identified high GDP as an explanation for such action while Lithuanian companies were attracted by high value of Baltic product origin for Russians.

Probably the most important was the second question, which asked the interviewees to determine entry strategy which suits movement to the Russian market most.

Unsurprisingly, entry strategies, which companies have chosen themselves, coincided with

what the experts suggested for fine chocolate manufacturer. All 5 respondents believed that export was the most appropriate entry mode for the Russian market. Russia does not belong to EU therefore regulations and rules there differ if compared to European markets.

Moreover, such struggles as payment risks and difficult regional spread leaves only one safe way to enter - direct exporting.

As any other entry, going to the Russian market requires preparation. According to the respondents interviewed, one of the most important steps while implementing direct export strategy is finding a distributor, which would supply goods to wholesalers with respect to the audience targeted. “There are not many companies which distribute fine chocolate to gourmet stores in Russia. Nevertheless, we need to find them and start negotiating” stated Arūnas Matačius, the CEO of UAB “Mulate”.

The third question was directed to distinguish barriers, which may arise when entering the Russian market. Some of the most threatening obstacles for foreigners were language and cultural differences. In Russia, it is extremely difficult to do business without knowledge of the Russian language. Moreover, the gap between Russian and, for example, British cultures is enormous and may cause misunderstandings. However, Lithuanians do not have such problems as almost everyone in the country can speak Russian language and are relative to Soviet culture. Therefore, when entering the Russian market, Lithuanians have faced different barriers such as high taxes and additional charges paid for retail chains, which resulted in raised price of the product. Other barriers included requirements for labeling which are different to regulations in EU, however, these are usually solved by the distributor.

Taking trade area into account, although some companies represented have wider coverage, prevailing opinion advised to keep focus on Moscow and St. Petersburg where potential for premium goods is high. According to Remigijus Kabečius, Commercial Attaché in the Russian Federation, “at first, it would be enough to trade in these two or only one city”.

Last question of this stage asked about company’s market share in Russia. It is known, that “Chocolate and Love” LTD is of similar size to UAB “Mulate” while other two companies are much bigger. However, none of the respondents could have given numbers of their market share in Russia because of confidentiality reasons or company being too young and small for this large market.

All in all, first part of the interview revealed how companies, which are already in the market, behave and how in this case market experts advise to act for a small chocolate manufacturer. Although actions of companies differed in some ways, market experts’ opinions regarding small chocolate manufacturer entry to the Russian market remained the same.

### **General Information About the Russian Market**

Second part of the interview included questions about distinctiveness of the Russian market. Every market is different and unique therefore getting familiar with it before the entry is helpful.

Firstly, the respondents were asked to evaluate current situation in the Russian gourmet market. It was found out that Russians use to consume dark chocolate with high cacao content. Moreover, buyers are fed up from boring packaging and are usually looking for something outstanding. “Products which have luxurious appearance are more attractive to the buyer” stated Lionginas Šepetyš, the CEO at AB “Vilniaus pergalė”. Export Manager at UAB “Biržų duona”, Giedrius Kasperiušas, expressed similar opinion. Another insight enclosed that Lithuanian products are seen as of high quality and great value there. Further, the main negative features of the Russian market were identified as difficulties to build trust, risks of payment or lack of insurance guarantee. One respondent identified absence of middle class in Russia as one of the unique factors.

Talking about the most appropriate time to enter this market, all respondents agreed

that situation in Russia is promising at the moment and entry to the market may be preceded anytime.

To sum up, the second stage questions has brought valuable information about the Russian market in general. Consumption habits, perception of Lithuanian origin products and some shortcomings of the market were identified. These are very important to keep in mind when implementing the entry strategy.

### **Mistakes and Success Factors Regarding the Russian Market**

When building a strategy to enter foreign markets, it is also crucial to be familiar with the most common mistakes and factors, which lead to success. In order not to repeat mistakes of others but rather follow the best experiences, respondents were asked to share examples and give advice for successful entry.

One of the great experiences has happened to AB "Vilniaus pergalė" when they were participating in the exhibition in Moscow: "among hundreds of other manufacturers, our production stood out from the crowd as we were presenting only one product line. Others tried to show all they have. However, when you want to show everything, it means nothing. Partners and distributors not only noticed us but also found the quality and origin of Lithuanian product which was in demand" stated Lionginas Šepetys, the CEO of the company. Shows and various other events are extremely worth participating in as it could bring valuable partnerships for the company. Almost all of the respondents have mentioned finding a trusted distributor as one of the most important success factors. Experts also advise to ensure that the company has enough resources and consumption habits of target audience are identified. One respondent have outlined the importance of price. The company should estimate all charges that will raise the price and set it as to be competitive. Last but not least, the company should analyze the market thoroughly before the entrance.

### **Future Expectations**

Taking future of the Russian market into account, respondents were asked to express their opinions regarding forthcoming trends. However, not all respondents could answer such question: “as Russian market is quite unexpected, it would be difficult to provide insights about the future” stated Giedrius Kasperiušas, Export Manager at UAB “Biržų duona”. Opinions of those, who have responded, slightly differed. Lionginas Šepetys, the CEO of AB “Vilniaus pergalė” thinks “the Russian market will resemble to the European one yet not so soon as in 5 years time”. Remigijus Kabečius expects the market to be stable “as wealthy class is already settled there” while the last respondent, the CEO of UAB “Mulate” believes Russia to be one of the most promising markets for fine chocolate and expects the market to grow by more than 6% per annum.

### **Conclusion**

In conclusion, empirical research has supplemented the secondary data gathered in the situation analysis part with primary data given by the past experience and insights of the market experts. Interviews conducted with three representatives of companies, which have already entered the Russian market and one consultant of such field in Russia as well as CEO of UAB “Mulate” allowed the research goal to be reached. Distinctiveness of the market and the most suitable entry strategy for small chocolatier were identified. The research can be summarized into three main points:

- Lithuanian products are valued in Russia. Russians associate them with high quality.
- Export entry strategy should be developed for UAB “Mulate” entry to the Russian market. Other similar companies have also chosen this strategy for their entries.
- Finding a good distributor is tough, yet very important task.

### Managerial Solutions

The third part of this thesis will focus on solution of the problem indicated in the introduction. UAB “Mulate” seeks to enter the Russian market with its fine chocolate production. However, the question has arose what entry strategy should be developed for such movement.

As interviews with market experts have revealed, the only recommended strategy for UAB “Mulate” to enter the Russian market was direct exporting. Concerning the size, financial capabilities of the company and production specifics, it sounds as a reasonable advice. In addition, such entry mode has been successfully used by UAB “Mulate” when moving to other markets. Thus, the following part of the report will focus on implementation of the strategy and a detailed plan of the company’s entry to the Russian market will be provided.

### **Direct Export Strategy**

It was already mentioned before that direct exporting is a strategy, which involves selling production not to a local export organization but directly to an importer or buyer in a targeted country. Compared to other market entry strategies, direct export requires minimum effect on the ordinary operations of the firm while delivering medium level of control over the process (Albaum and Duerr, 2008). The risk of such entry, compared to other strategies, is relatively low. Only indirect export is less risky which may seem attractive at first, however, the latter strategy has lack of control over the elements of marketing mix resulting in lower capabilities to monitor and improve them (Doole and Lowe, 2012).

Developing an export plan includes defining the objectives, resources, policies and time schedule that will guide the company’s international marketing operations (Albaum and Duerr, 2008). A number of activities to be completed are pointed below:

- Selection of products for export development. Modifications to adapt them for

overseas market if needed.

- Defining distribution channels that would reach the target audience.
- Selecting a distributor or agent.
- Defining product’s export sale price.
- Defining a strategy, which will be used to address the main challenges.
- Predicting the time frame for implementing elements of the plan and cost of each.

Therefore, further analysis focus on how UAB “Mulate” will assign these stages into their export plan.

### **Product**

The first step in implementing an export plan is choosing products, which will be sold abroad. “Chocolate Naive” has three types of products, which they manufacture. First of all, there are homemade ice cream, however, due to the complex transportation conditions they are being sold solely to the Lithuanian market. Then, the famous chocolate bars which are now being exported to 8 countries worldwide. Chocolate bars stand as a core product of “Chocolate Naive” and form 80% of all sales. They can either be purchased separately or one can buy “Encyclopedia of Chocolates” consisting of all 8 chocolate bars which is a perfect solution for a gift. Third type of product is chocolate covered berries, nuts or coffee beans, yet these are only supplementary products to the chocolate bars.

As previously mentioned in the situation analysis, Russia has one of the fastest growing chocolate markets in the world. People are developing more sophisticated tastes, which means that demand for gourmet chocolate is increasing. Accordingly, the main product, which should be exported to the Russian market is chocolate bars. Moreover, a need to buy fine chocolate as a gift was identified which means that “Encyclopedia of Chocolates” should also be included in the list of products for export development.

Considering adaptation of the product to the Russian market, some changes in the

packaging are to be made. “Chocolate Naive” uses English language on their packaging which gives the consumer understanding that the product is imported, yet according to requirements for labeling, the ingredients box on the back side should be provided in the Russian language too.

All in all, according to the needs of the customers, “Chocolate Naive” should export chocolate bars and their collections as “Encyclopedia of Chocolates”. Taking packaging modifications into account, only ingredients part should be translated to the Russian language.

### **Distribution Channels**

Channels of distribution provide the initial connection between producer and consumer. In general, direct export can be handled by only one or several independent intermediaries, such as distributors, sales agents, wholesalers and retailers (Czinkota and Ronkainen, 2007).

Considering the Russian market, experts advise to use two intermediaries - distributor and retailer. First of all, the company should find a distributor that would allocate chocolate bars to retailers, which target the same audience as “Chocolate Naive”. According to the research made while analyzing situation of the market, the biggest retail chains, which sell gourmet products, are “Azbuka Vkusa” and “Globus Gourmet”. Therefore, besides operating within Moscow and St. Petersburg, the distributor is required to be in cooperation with these two retailers at least. Additionally, the company may consider using an agent, which would help to manage and monitor the very first stages of export as well as be responsible for promotional techniques.

### **Selecting a Distributor**

According to the experts interviewed, one of the most challenging and important tasks when moving to a foreign market is selection of a distributor. Although gourmet products

market in Russia is growing, there are not many distributors, which specifies in this field.

Two possible distributors, which were found on the Internet, are described in the table below.

Moreover, there is a possibility for the company to register in “Enterprise Lithuania” internal exporters database and get in touch with more available partners.

Table 11

*Gourmet Food Distributors in Russia*

“Gourmet Club”	“Remma”
Founded in 2001	Founded in 1994
Has contracts with almost all Russian food retail chains, among them: Auchan, Perekrestok, Azbuka Vkusa, Okey, Globus Gourmet, Sedmoi Kontinent, Alie Parusa, Victoria, etc. Also collaborate with independent supermarkets, restaurants and hotels.	Cooperates with major Russian retail chains, including such as Perekrestok, Azbuka Vkusa, Globus Gourmet, Sedmoi Kontinent, Alie Parusa, Victoria, Bahetle, Tvoi Dom, Stockmann, as well as many regional grocery networks.
Quality is the first priority for them, not the brand.	Only supply high quality food.
Interested in premium products that offer consumers the possibility to meet foreign specialties, combining altogether taste and healthy nutrition. Focus on such gourmet food as: jamon, prosciutto, bacons, sausages, wild animals dried meat, traditional cheeses, olive & olive oil, ciders, tea. Besides they are interested in buying : dairy products, soya products, lactose free products, tinned products, ration food and organic products.	Specifies in cheese, but also distributes other gourmet products such as French-cured sausages, foie gras, Spanish ham, Swiss chocolate, etc.
Provides a full consultancy service like presentations and tastings, training vendors.	N/A
Has warehouses in Moscow and St. Petersburg.	N/A

*Source.* Gourmet-club.ru, 2013; Remma.ru, 2013.

Comparing two distributors indicated in Table 11, lots of similarities can be seen. The only considerable difference is the year of establishment, which means that “Remma” has more experience in distribution business than “Gourmet Club”. On the other hand, “Remma” specializes in cheese production mainly while “Gourmet Club” distributes much broader variety of gourmet foods. Both distributors cooperate with manufacturers of the highest quality food only and are not interested in mass brands. “Gourmet Club” also provides promotional activities and has warehouses in Moscow and St. Petersburg, however, no information was found about similar services provided by “Remma”.

Before making a selection, the company should contact both distributors and the proposals of each should be compared. The decision is not advised to be driven only by the price offered but rather by the understanding of and interest in the product. If the distributor finds the product appealing and believes in its concept, it is likely that more effort would be put in reaching the most attractive retailers that interact with the largest volume of the target audience.

### **Pricing Strategy**

A significant element in foreign market entry is price - a tool for generating revenues. While domestic pricing decisions are based on such factors as cost of production and marketing expenses, process of price setting in international markets is much more difficult. Affected by additional external factors including fluctuations of exchange rates, cost structures and intense competition, export price has to follow a strategy (Doole and Lowe, 2012).

According to Czinkota and Ronkainen (2007), when the price is being set for the first time, the marketer may choose among three pricing decisions: skimming, market pricing or penetration pricing.

In order to use Skimming approach, the highest price that consumers will pay is set to

satisfy the demand of the first ones and then the price declines over the time according to the willingness to pay by the customers. However, the product has to be unique for an exporter to use this approach.

If moderate competition exists, an exporter may use market pricing approach. In this case, the price is determined according to competitive prices in the market.

The third alternative, penetration pricing, offers product at a low price with a purpose to generate large amount of sales and gain high market share in a short period of time which would compensate a lower marginal return (Czinkota and Ronkainen 2007).

Regarding the product which “Chocolate Naive” produces and competitive situation in the Russian market, it is obvious that neither skimming nor penetration pricing could be adjusted. Although fine chocolate niche is only growing in Russia, there are several competitors already in the market, which does not allow UAB “Mulate” to set very high prices. On the other hand, the price of premium class product cannot be too low either. There comes the decision that the most appropriate strategy for “Chocolate Naive” in Russia is market pricing.

As the analysis of competitor pricing shows, selling price of similar chocolate bars in the Russian market vary from around 5.24 to 9.96 EUR (Globusgurme.ru and Shop.av.ru, 2013). In order to be competitive, “Chocolate Naive” should not cost more than the most expensive fine chocolate bar in the market.

Nevertheless, before the price is set, it is important to make a decision where the responsibilities of the exporter end and those of the distributor begin as well as evaluate the expenses (Albaum and Duerr, 2008). For that reason, two parties have to agree on trade terms (Incoterms). Table below illustrates the liabilities during the process of exporting and how they are allocated within six major terms of sale.

Table 12

*Incoterms*

Charges / Fees	Any Transport Mode		Waterway Transport			
	EXW	FCA	FAS	FOB	CFR	CIF
	Ex Works	Free Carrier	Free Alongside Ship	Free On Board	Cost and Freight	Cost, Insurance and Freight
Packing	Seller	Seller	Seller	Seller	Seller	Seller
Loading	Buyer	Seller	Seller	Seller	Seller	Seller
Delivery to Port/Place	Buyer	Seller	Seller	Seller	Seller	Seller
Export Duty and Taxes	Buyer	Seller	Seller	Seller	Seller	Seller
Origin Terminal Charges	Buyer	Buyer	Seller	Seller	Seller	Seller
Loading on Carriage	Buyer	Buyer	Buyer	Seller	Seller	Seller
Carriage Charges	Buyer	Buyer	Buyer	Buyer	Seller	Seller
Insurance	-	-	-	-	-	Seller
Destination Terminal Charges	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
Delivery to Destination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
Import Duty and Taxes	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer

*Source.* InterMart, Inc., 2011.

As long as quantities exported by “Chocolate Naive” will be relatively small, it would be more convenient to have a partner which would deal with all but packaging responsibilities during the process. In that case, UAB “Mulate” should agree on EXW terms

with the distributor. Until now, UAB “Mulate” has been charging 2.6 EUR EXW price for one chocolate bar. End price of the product within Europe usually happened to be twice as higher, however, as long as Russia is not in the EU and exportation there is more difficult and costly, selling price is expected to grow three times which is around 7.8 EUR.

Last but not least, the company has to figure out how to deal with foreign exchange risk. Currency fluctuations between Russian Ruble and Lithuanian Litas may harm either UAB “Mulate” or the distributor. Some ways to minimize foreign exchange risk include negotiating shorter terms of payment or agreements with bank to buy currency at agreed rate on the day when importer makes payment (Czinkota and Ronkainen 2007). Yet the most attractive solution is probably to agree with the distributor that prices will be quoted in Euro currency, which Lithuanian Litas is pegged to.

In conclusion, UAB “Mulate” should use market pricing approach with prices that are not higher than those of competitors. When allocating responsibilities between the company and distributor, it is advised to agree on EXW terms of trade, which means that UAB “Mulate” would prepare goods for shipping and the rest of export process will be in the responsibility of the distributor. If under these conditions UAB “Mulate” would sell one chocolate bar for 2.5 EUR and estimated selling price is three times the price of EXW, end user in Russia could buy one chocolate bar for 7.8 EUR. Taking currency exchange risk into account, the problem could be solved if agreement to invoice the distributor in Euro currency is made.

### **Overcoming Challenges**

During the interviews with market experts several obstacles of exporting to the Russian market were discussed. Some respondents identified culture and language barriers, others faced lack of human and financial resources, high taxes, and documentation requirements.

It was already discussed that culture and language differences should not affect UAB “Mulate” very much. Lithuanians are familiar with Russian culture since many of them were born in Soviet Union. In order to deal with other barriers, first of all, a person who would be responsible for exporting to Russia is needed. Until now, Export Manager of UAB “Mulate” has been in charge for all the questions and tasks related to foreign markets. When entering the Russian market, assistance might be needed as well. In that case, UAB “Mulate” should hire Export Assistant. It is important that employees who work with “Chocolate Naive” export to Russia have Russian language skills.

For more complicated cases, consultant’s advice might be needed. “Enterprise Lithuania” may help with various questions regarding export from Lithuania to Russia. Similar consulting companies located in Moscow or St. Petersburg might help with more local problems such as introduction of the product to the Russian market.

### **Action Plan**

The last stage of developing the export strategy is making up an action plan, which would identify tasks step by step as well as objectives and resources required. Table below consists of 12 steps that are to be taken to start “Chocolate Naive” export to the Russian market.

Table 13

*Export Action Plan*

Priority	Task	Objective	Resources	
			Time	Money
1	Provide the Russian market analysis to the Export Manager. Discuss the target audience, main competitors and opportunities in the new market	Introduce Export Department with the Russian market entry	1 week	Internal costs
2	Register to the “Enterprise Lithuania” exporters database			Internal costs
3	Get contacts of five potential partners and distributors in Russia from “Enterprise Lithuania”	Reach potential distributors	2 weeks	€725
4	Prepare a short presentation (in Russian language) about the company and “Chocolate Naive” chocolate bars collection	Prepare for contacting potential distributors	2 weeks	Internal costs
5	Send the presentation to “Gourmet Club”, “Remma”, companies provided by “Enterprise Lithuania” and ask for their proposals	Contact potential distributors	1 week	Internal costs
6	Compare and evaluate the proposals received	Identify promising distributors	3 weeks	Internal costs
7	Choose the most prospective one and appoint a meeting	Select the distributor	2 weeks	Internal costs
8	Send the Export Manager to Moscow			
9	Organize a meeting with the distributor	Negotiate for responsibilities	1 week	€1,000

Priority	Task	Objective	Resources	
			Time	Money
10	Clarify quantities, costs and taxes with a distributor	Sign agreement with the distributor	8 weeks	Internal costs
11	Certificate the product and make adaptation to the label	Get certified and prepare packaging for the Russian market	8 weeks	€1200
12	Organize packaging of the products	Prepare goods for shipping	3 weeks	€500
			<b>31 weeks</b>	<b>€3,425</b>

*Source.* Developed by the author.

*Note.* Hiring an assistant or consulting company was not included in the action plan, as it is not yet known whether the company will need these additional resources.

### **Conclusion**

All in all, managerial solutions have drawn a path for introducing “Chocolate Naive” to the Russian market. Detailed export plan was provided along with choice of product to be exported, list of two possible distributors and their evaluation, pricing strategy and explanation of how various challenges will be dealt with. Timeline containing all the export strategy steps were provided as well as resources needed for their implementation. The major conclusions of this part are as follows:

- “Chocolate Naive” should export only chocolate bars and their collection in “Encyclopedia of Chocolates”.
- The company is advised to use only two intermediaries in their marketing plan: distributor and retailer.
- It is recommended for UAB “Mulate” to agree on EXW terms of trade with distributor.
- In order to overcome various challenges, Export Assistant or consultant company

might be hired.

According to a preliminary action plan (Table 13), it will take nearly eight months to start exportation to Russia, which will cost around 3,5 thousand Euros for the company.

## Conclusion

1. In the first part of the thesis the company being analyzed was presented. UAB “Mulate” is the only fine chocolate manufacturer in Lithuania. Although the company is young, it already exports chocolate bars under the brand “Chocolate Naive” to 8 countries worldwide. Concerning further geographical development, the Russian market has always seemed attractive due to the positive perception of Lithuanian origin products there, moreover, chocolate market size is growing rapidly in the country. Situational analysis enclosed core facts about customers and competition in the Russian market:

- 80% of “Chocolate Naive” customers in Russia belong to gourmets segment.
- Although variety of chocolate bars flavors could be improved, “Chocolate Naive” is ready to fulfill the benefits of their customers in Russia.
- There are four major competitors in fine chocolate market in Russia. “Sabadi”, the Italian premium chocolate manufacturer, seems to be the strongest rival to “Chocolate Naive”.
- Although political situation in Russia is very dynamic, it should not affect “Chocolate Naive” sales. PESTEL analysis proved the economic situation is improving and demand for premium products exist.
- SWOT analysis of UAB “Mulate” identified uniqueness of the brand, which can be found in stories told by chocolate bars as well as attractive packaging design. On the other hand, there is always something to improve or be aware of. In this case it is lack of connections and resources or simply entry barriers.

2. The second part of the thesis focused on collecting empirical data regarding the best entry strategy to Russia for a small chocolatier. Qualitative method was chosen to conduct semi-structured interviews with experts of the market. Respondents were selected according to the relevance of the field the company is doing business in and knowledge of the

Russian market specifics. Five respondents who met these criteria have been interviewed. Questions of the interview included information about the company regarding the Russian market, general information about the Russian market itself, most common mistakes and success factors when entering this particular market as well as expected future trends. Data was analyzed by comparing responses of interviewees and such findings were identified:

- All respondents recommended direct exports as an entry strategy to the Russian market.
- Attention should be paid to contracting the best possible distributor.
- Market experts suggested focusing on the most urban areas such as Moscow and St. Petersburg.
- Fancy packaging is a big advantage in the Russian premium products market.
- Participating in food festivals and various similar events is crucial for promotion.
- Chocolate market in Russia is expected to grow rapidly in the nearest future.

3. The final part of the thesis answered the research problem with development of export plan for UAB “Mulate” entry to the Russian market. According to Albaum and Duerr (2008), the major stages in developing an exports strategy is defining a product, distribution channels, selecting a distributor, pricing decisions and deciding on actions which will be taken to address various barriers (Albaum and Duerr, 2008). Exports plan of UAB “Mulate” entry to the Russian market suggests that:

- The company starts sales to Russia with chocolate bars and “Encyclopedia of Chocolates”.
- Two intermediaries (distributor and retailer) are used as a distribution channel.
- The company sells chocolate bars at EXW price to the distributor, which retains responsible for the rest of charges in exportation process.

4. The aim of the research, which was indicated in the introduction, was reached when

the most suitable strategy for UAB “Mulate” to enter the Russian market was identified to be direct export. Three main objectives were met as follows:

- Situation within the company (internal) and the Russian market (external) was analyzed.
- Interviews with five market experts were conducted and provided various important insights.
- Export strategy as well as action plan to implement it was provided as a managerial solution for UAB “Mulate” entry to the Russian market.

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Annexes

Appendix 1. Encyclopedia of Chocolates by "Chocolate Naive"



## Appendix 2. Research Questionnaire

Topic	Questions for representatives	Questions for market consultants
Information about the company regarding the Russian market	<ol style="list-style-type: none"> <li>1. When and for what reasons have you decided to enter the Russian market?</li> <li>2. What entry strategy did you choose? <ul style="list-style-type: none"> <li>• describe your distribution channel.</li> <li>• what would be your recommended entry strategy for a small chocolatier?</li> </ul> </li> <li>3. Did you face any entry barriers? <ul style="list-style-type: none"> <li>• if yes, could you describe them?</li> </ul> </li> <li>4. In what regions of Russia do you trade? <ul style="list-style-type: none"> <li>• is it only Moscow and St. Petersburg or more?</li> </ul> </li> <li>5. What is your market share in Russia?</li> </ol>	<p>In your opinion, what entry strategy should a small chocolate manufacturer choose to enter the Russian market?</p> <ul style="list-style-type: none"> <li>• what would be the best distribution channel?</li> </ul> <p>What entry barriers could be faced when entering the Russian market?</p> <p>In what regions of Russia would you advise to trade?</p> <ul style="list-style-type: none"> <li>• is it only Moscow and St. Petersburg or more?</li> </ul>
General information about the Russian market	<ol style="list-style-type: none"> <li>6. How do you evaluate current situation in the Russian gourmet market? <ul style="list-style-type: none"> <li>• is it a right time to enter this market for small chocolate manufacturer?</li> </ul> </li> <li>7. What are the main distinctive features of the Russian market?</li> </ol>	
Mistakes and success factors regarding the Russian market	<ol style="list-style-type: none"> <li>8. Could you provide any examples of failures regarding small company entry to Russia? <ul style="list-style-type: none"> <li>• what are the most common mistakes when implementing entry strategy?</li> </ul> </li> <li>9. What would be your advice for small chocolatiers to enter the Russian market successfully? <ul style="list-style-type: none"> <li>• could you provide any examples?</li> </ul> </li> </ol>	
Future expectations	<ol style="list-style-type: none"> <li>10. What are the expected trends in gourmet segment in Russia? <ul style="list-style-type: none"> <li>• how do you see this market in 5 years from now?</li> </ul> </li> </ol>	

## Appendix 3. Research Questionnaire in Lithuanian Language

Tema	Klausimai įmonių atstovams	Klausimai konsultantams Rusijoje
Informacija apie kompaniją Rusijos rinkoje	<ol style="list-style-type: none"> <li>Kada ir kokių aplinkybių paskatinti nusprendėte eiti į Rusijos rinką?</li> <li>Kokią plėtros strategiją rinkotės? <ul style="list-style-type: none"> <li>apibūdinkite naudojamus pasiskirstymo kanalus.</li> <li>kokia būtų jūsų rekomenduojama strategija smulkiam šokolado gamintojui?</li> </ul> </li> <li>Ar ėjimas į Rusijos rinką buvo sudėtingas procesas? <ul style="list-style-type: none"> <li>jei taip, kodėl? Su kokiais sunkumais teko susidurti?</li> </ul> </li> <li>Kuriuose Rusijos miestuose prekiaujate savo produkcija?</li> <li>Kokią rinkos dalį Rusijoje turite šiandien?</li> </ol>	<p>Kokia būtų jūsų rekomenduojama strategija mažo šokolado gamintojo plėtrai į Rusiją?</p> <ul style="list-style-type: none"> <li>kokie pasiskirstymo kanalai būtų efektyviausi?</li> </ul> <p>Ar ėjimas į Rusijos rinką jūsų manymu yra sudėtingas procesas?</p> <ul style="list-style-type: none"> <li>jei taip, kodėl? Su kokiais sunkumais įmonėms tenka susidurti?</li> </ul> <p>Kuriuose Rusijos regionuose patartumėte prekiauti mažam šokolado gamintojui savo ekskliuzyvine produkcija?</p> <ul style="list-style-type: none"> <li>ar tai būtų tik Maskva ir Sankt Peterburgas, ar dar platesnis regionas?</li> </ul>
Informacija apie Rusijos rinką	<ol style="list-style-type: none"> <li>Kaip vertinate gurmaniškų produktų rinkos situaciją Rusijoje? <ul style="list-style-type: none"> <li>ar dabar yra tinkamas metas smulkiam Lietuvių šokolado gamintojui žengti į šią rinką?</li> </ul> </li> <li>Kokius išskirtinumus turi Rusijos rinką?</li> </ol>	
Pagrindinės klaidos ir sėkmingo ėjimo į Rusiją principai	<ol style="list-style-type: none"> <li>Gal galite pateikti nesėkmingų plėtros į Rusiją pavyzdžių? <ul style="list-style-type: none"> <li>kokios yra dažniausiai pasikartojančios klaidos, į ką atkreipti dėmesį formuojant plėtros strategiją?</li> </ul> </li> <li>Ką patartumėte smulkiam šokolado gamintojui, kad plėtra į Rusiją būtų sėkminga? <ul style="list-style-type: none"> <li>gal galite pateikti gerų, sektinų pavyzdžių?</li> </ul> </li> </ol>	
Ateities perspektyvos	<ol style="list-style-type: none"> <li>Kokių tendencijų šioje rinkoje galima tikėtis ateityje? <ul style="list-style-type: none"> <li>kaip jūs įsivaizduojate gurmaniškų produktų rinką Rusijoje po 5 metų?</li> </ul> </li> </ol>	

## Appendix 4. Question/Respondent Matrix

Question/ Respondent	Respondent No 1	Respondent No 2	Respondent No 3
<i>When and for what reasons have you decided to enter the Russian market?</i>	We made the decision in the beginning of 2013 as Russia have had the next biggest GDP on the list of countries to enter.	Our company has entered the Russian market in the first quarter of 2013. The main reason for the entry was the value of Lithuanian products for Russians. Russians associate Lithuanian (Baltic) products with quality and trust.	The company operates in the Russian market for more than 60 years (since the opening of the factory). At that time, Lithuania and Russia was one market. Our production is well known there for a long time.
<i>What entry strategy did you choose?</i> • <i>describe your distribution channel.</i> • <i>what would be your recommended entry strategy for a small chocolatier?</i>	Export, of course. This mode is the most convenient especially if you find a distributor, which you can trust.	The most optimum mode is exporting. Firstly it is very important to find a distributor in Russia, which would spread the production over the country. As Russia does not belong to EU, various transportation and technical questions arise. Distributor deals with these problems. As for the small chocolate manufacturer, my only advice is to find a distributor and start exporting.	Our production in Russia is sold via partners, distributors. They allocate products further as wholesalers. Concerning risks of payment, entry to the retail chains charges and regional spread, such strategy seems to be the most suitable for the Russian market. I would strongly recommend exporting as a market entry mode to a small chocolatier as well.

Question/ Respondent	Respondent No 1	Respondent No 2	Respondent No 3
<p><i>Did you face any entry barriers?</i></p> <p>• <i>if yes, could you describe them?</i></p>	<p>Barriers are inevitable, therefore the distributor must find out how to deal with any struggles. The strongest are culture and language barriers.</p>	<p>Entry to Russia was a long process as it took a while to do a market research and communicate with various distributors until we have found one which suits our needs best. Taking import and customs taxes into account, it raises a price of production, which is not favorable for the company. Another struggle is labeling requirements, which differs to EU parameters.</p>	N/A
<p><i>In what regions of Russia do you trade?</i></p> <p>• <i>is it only Moscow and St. Petersburg or more?</i></p>	<p>Moscow and St. Petersburg yet. These regions are the best to start with if your production targets premium segment.</p>	<p>Distributors allocate the products to the regions in all Russia.</p>	<p>Central Russia, Moscow and St. Petersburg.</p>
<p><i>What is your market share in Russia?</i></p>	<p>Too small to identify.</p>	<p>Talking about market share would be reasonable after several years of exporting.</p>	<p>In Russian confectionery market our share is small and stands for the category “other”. From our perspective, Russia is 5th in company’s income portfolio therefore this market is one of the most important export area.</p>

Question/ Respondent	Respondent No 1	Respondent No 2	Respondent No 3
<p><i>How do you evaluate current situation in the Russian gourmet market?</i></p> <p><i>• is it a right time to enter this market for a small chocolatier?</i></p>	<p>Situation is stable and market is attractive for the entry.</p>	<p>Russia has a very high demand for sweet products therefore Russian market is very suitable.</p>	<p>Talking about taste, it is important to highlight that contrary to the Western countries Russians prefer products with high cacao content such as dark chocolate. If taking packaging design into account, products which have luxurious appearance are more attractive to the buyer. If talking about regions, small gourmet manufacturers have more opportunities in major cities than smaller regions because of logistics costs.</p> <p>In my opinion, Russian market is stable at the moment and time to enter this market is appropriate.</p>
<p><i>What are the main distinctive features of the Russian market?</i></p>	<p>N/A</p>	<p>Russians pay attention to quality, price and packaging. Every distributor provides requirements, which should be met by the company. Taking packaging into account, Russians appreciate beautiful packaging design as there is a lack of such in the market.</p>	<p>It takes time to build trust in the Russian market. Also risk of payment exists as well as lack of banking or insurance guarantee. Companies should be aware of that.</p>

Question/ Respondent	Respondent No 1	Respondent No 2	Respondent No 3
<p><i>Could you provide any examples of failures regarding small company entry to Russia?</i></p> <p>• <i>what are the most common mistakes when implementing entry strategy?</i></p>	<p>Sometimes companies are lazy to do a market research and enter the competition without a knowledge what will they find there. Another mistake could be a wrong choice of distributor.</p>	<p>Pricing is one of the most important things when entering the Russian market. The company should evaluate how prices will change when taxes will be added. Not only import taxes exist, but also every retail chain has additional charges.</p>	<p>Russia is attractive because of its size, however, the biggest mistakes are related to the size of the country too. It occurs when costs of development and regional differences are not evaluated by the company.</p>
<p><i>What would be your advice for small chocolatiers to enter the Russian market successfully?</i></p> <p>• <i>could you provide any examples?</i></p>	<p>The most important is to find a right distributor, which would understand your product and the audience.</p>	<p>Analyze the market thoroughly and of course, find a distributor.</p>	<p>One of the ways to enter such market successfully is participation in various shows and exhibitions. Few years ago our company was participating in such event in Moscow. Among hundreds of other manufacturers our products stood out from the crowd as we were showing only one brand of ours. Other manufacturers tried to show all brands they have, and they failed.</p>
<p><i>What are the expected trends in gourmet segment in Russia?</i></p> <p>• <i>how do you see this market in 5 years from now?</i></p>	<p>N/A</p>	<p>As Russian market is quite unexpected, it would be difficult to provide such insights about the future.</p>	<p>I think Russian market will resemble to European one yet not in 5 years time.</p>

Question/ Respondent	Respondent No 4	Respondent No 5
<i>In your opinion, what entry strategy should a small chocolate manufacturer choose to enter the Russian market?</i>	I would start with export. First of all, the company should find a distributor, which would supply goods to gourmet stores.	Exporting via distributor.
• <i>what would be the best distribution channel?</i>		
<i>What entry barriers could be faced when entering the Russian market?</i>	Difficulties may arise for lack of financial and human resources in the company. Doing business in Russia also requires having Russian speaking and writing employees.	Import taxes and payment for each retail chain might raise the price of product very much.
<i>In what regions of Russia would you advise to trade?</i>	At first, it would be enough to trade in these two or only one city.	Moscow and St. Petersburg. These cities have potential for gourmet and premium products.
• <i>is it only Moscow and St. Petersburg or more?</i>		
<i>How do you evaluate current situation in the Russian gourmet market?</i>	Time is always right for gourmet products as they are targeted to the niche segment. However, for more information about current situation, market research of premium chocolate in Russia should be done.	I hope it is a right time. Russians love products of Baltic origin. Moreover, they value hand-made exclusive goods.
• <i>is it a right time to enter this market for a small chocolatier?</i>		
<i>What are the main distinctive features of the Russian market?</i>	This market is very competitive as they have almost everything in it. Taking gourmet chocolate into account, buyers are more attracted by Swiss, Belgian products. Retail chains have high marks on	Russia does not have a middle class.

<p><i>Could you provide any examples of failures regarding small company entry to Russia?</i></p> <ul style="list-style-type: none"> <li><i>• what are the most common mistakes when implementing entry strategy?</i></li> </ul>	<p>price for low volumes of products therefore the product becomes pricey. Lack of recourses can ruin everything. For example, lack of recourses for marketing has resulted in dark bread sales stagnation for one company. Another reason for such stagnation is absence of research made for such bread consumption habits in Russia. Regarding any market, big mistake can be wrong choice of partners (distributors). Reliability, sincerity and professionalism are the key features.</p>	N/A
<p><i>What would be your advice for small chocolatiers to enter the Russian market successfully?</i></p> <ul style="list-style-type: none"> <li><i>• could you provide any examples?</i></li> </ul>	<p>First of all, my advice would be to analyze the market (competitors, how they work, what distribution channels do they use, etc.). The crucial point is to find a good distributor in the country.</p>	N/A
<p><i>What are the expected trends in gourmet segment in Russia?</i></p> <ul style="list-style-type: none"> <li><i>• how do you see this market in 5 years from now?</i></li> </ul>	<p>I expect the market to be stable as wealthy class is already settled there.</p>	<p>Likewise China, India and JAV Russia is one of the most promising markets regarding fine chocolate. In 5 years time, this market is going to grow rapidly.</p>

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