

UNIVERSITY OF VAASA
FACULTY OF BUSINESS STUDIES
DEPARTMENT OF MANAGEMENT

Andrei Klimchuk U96704

**SELECTION, PLANNING AND MANAGEMENT OF
FOREIGN DISTRIBUTORS IN RUSSIA**

Master's thesis in
International Business

VAASA 2014

TABLE OF CONTENTS

LIST OF TABLES	7
LIST OF FIGURES	9
ABSTRACT	11
1. INTRODUCTION	13
1.1. Background of the study	13
1.2. Objectives and limitations	14
1.3. Key terms	15
1.4. Previous studies and research gap	16
1.5. Structure of the study	18
2. ENVIRONMENTAL SCANNING OF RUSSIA	19
2.1. Political environment	19
2.2. Economic environment	21
2.3. Social environment	25
2.4. Technological environment	27
2.5. Business environment	28
2.6. Russian culture	29
2.7. Summary	32
3. SELECTION, PLANNING AND MANAGEMENT OF FOREIGN DISTRIBUTORS	35
3.1. Distributors	35
3.2. Selection of a foreign distributor	37
3.2.1. <i>Defining selection criteria</i>	37
3.2.2. <i>Locating potential distributors</i>	41
3.2.3. <i>Collecting information about potential distributors</i>	42
3.2.4. <i>Evaluating potential distributors and making a decision</i>	44

3.3.	Planning a foreign distributor	45
3.3.1.	<i>Making an agreement</i>	46
3.3.2.	<i>Providing support and motivating a distributor</i>	48
3.4.	Management of a foreign distributor	50
3.4.1.	<i>Defining performance goals for a distributor</i>	50
3.4.2.	<i>Monitoring and evaluating performance of a distributor</i>	51
3.4.3.	<i>Taking actions based on distributor's performance evaluation</i>	52
3.5.	Summary	54
4.	RESEARCH METHODOLOGY	59
4.1.	Research methods	59
4.2.	Research process	61
4.3.	Validity and reliability	62
5.	EMPIRICAL RESEARCH	64
5.1.	Introduction of case companies	64
5.2.	Qualitative interviews	65
5.2.1.	<i>SpaDealers</i>	65
5.2.2.	<i>Usadba</i>	69
5.2.3.	<i>BestenSPb</i>	72
5.3.	Analysis of the main findings	75
5.3.1.	<i>Selection of foreign distributors</i>	76
5.3.2.	<i>Planning a foreign distributor</i>	79
5.3.3.	<i>Managing a foreign distributor</i>	82
6.	SUMMARY, DISCUSSION AND CONCLUSIONS	86
6.1.	Summary	86
6.2.	Implications, limitations and suggestions for future research	90
	LIST OF REFERENCES	93

APPENDICES	104
APPENDIX 1: International distributor agreement	104
APPENDIX 2: Questionnaire for a case company from Finland (SpaDealers)	116
APPENDIX 3: Questionnaire for distributors from Russia (Usadba, BestenSPb)	120

LIST OF TABLES

Table 1. Rate of FDI in Russia.	24
Table 2. Rate of population with monetary income of more than 35000 rubles (≈880 euro) per capita in Russia.	25
Table 3. Average income per capita a month in Russia.	25
Table 4. Gini coefficient for Russian population.	26
Table 5. Cultural dimensions of Russia.	30
Table 6. Cultural dimensions of Finland.	31
Table 7. Summary of environmental scanning of Russia.	34
Table 8. Verification actions.	45
Table 9. Summarizing framework.	56
Table 10. Relevant situations for different research methods.	60
Table 11. Importance of characteristics of a foreign distributor.	78
Table 12. Importance of sources for locating potential foreign distributors.	78
Table 13. Importance of methods of collecting information about potential distributor.	82
Table 14. Importance of methods of distributor support and motivation.	81
Table 15. Importance of distributor's performance characteristic.	83
Table 16. Importance of methods of monitoring distributor's performance.	84
Table 17. Importance of methods of improving distributor's performance.	85

LIST OF FIGURES

Figure 1. Whole-Channel Concept for International marketing.	13
Figure 2. Structure of the study.	18
Figure 3. GDP annual growth rate (%).	21
Figure 4. Growth rate of GDP (nominal) per capita in Russia.	22
Figure 5. Euro exchange rates to Russian Rubles.	23
Figure 6. Inflation rates in Russia.	23
Figure 7. International intellectual property index.	27
Figure 8. Doing Business rating - Russia.	29
Figure 9. Functions performed by overseas intermediaries.	35
Figure 10. The criteria for distributor selection.	38
Figure 11. Criteria for evaluating foreign distributors.	39
Figure 12. Summary of the framework of the study.	87

UNIVERSITY OF VAASA**Faculty of Business Studies****Author:** Andrei Klimchuk**Topic of the Thesis:** Selection, planning and management of foreign distributors in Russia**Name of the Supervisor:** Jorma Larimo**Degree:** Master of Science in Economics and Business Administration**Programme:** International Business**Year of Entering the University:** 2011**Year of Completing the Thesis:** 2014**Pages:** 121

ABSTRACT

The volume of international trade is growing constantly, and Russian market has big potential for exporters due to rising wealth of population and its big size. Finnish principals also consider Russia as the most attractive market for Finnish companies. Nevertheless, Russia stays a difficult country for doing business because of corruption, non-transparency of companies and insufficient protection of intellectual property. Moreover, there are limited number of empirical studies related to manufacturer's selection of distributors. Therefore, by choosing Russia as a target country for the study, this thesis is aimed to fill part of this research gap. Also this thesis contribution is to present recommendations for a Finnish manufacturer exporting to Russia using local distributors.

The research question of this thesis is to analyze how selecting, planning and managing foreign distributors is made in Russian market. To complete the goal of constructing a theoretical framework, environment scanning of Russia was analyzed, and relevant literature was reviewed. By conducting interviews with a Finnish manufacturer and two its Russian distributors, empirical evidence was added to the study. The case companies were chosen due to their experience of cooperation between an overseas manufacturer and its local distributors in Russia.

As a result, Russian context was found to be specific due to its economic, social and cultural aspects. These aspects influence selection, planning and management of Russian distributors, so they should be considered by a foreign distributor. Furthermore, recommendations for the Finnish manufacturer were presented. Managerial implications were proposed for foreign companies exporting their products to Russia using distributors; moreover, directions for further research of the topic were listed.

KEYWORDS: distributor relations, Russian distributor, indirect export mode

1. INTRODUCTION

1.1. Background of the study

The volume of world merchandise trade is constantly growing excluding the years 2008-2009 that were characterized by a financial crisis (CPB World Trade Monitor 2012). But the process of exporting goods is complex and comprises different intermediary links that the goods have to pass until reaching a final buyer. According to Kotler and Keller (2006), the channel of distribution may include distributors, wholesalers, retailers and agents. As it is shown in Figure 1, seller's international marketing headquarters (for example, an export department) decide what channels and other elements of marketing mix the company will use. A function of the second link (channels between nations) is to transfer goods to the border of a target country - so, it defines the method of transportation and the use of intermediaries. Finally, the third link is meant to create the channels within foreign nations that are aimed to provide goods to final customers. (Kotler & Keller 2006)

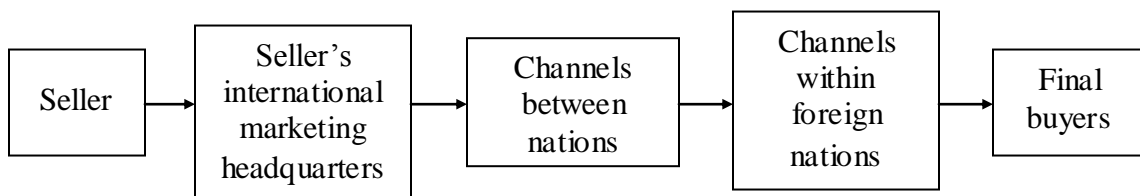


Figure 1. Whole-Channel Concept for International marketing (adapted from Kotler & Keller 2006).

This thesis is devoted to the topic of distribution channels within nation. Therefore, the author will elaborate this element of international distribution. To organize a channel of distribution within a foreign country, a company needs to choose its degree of involvement into overseas production and marketing operations. Entry modes with home country production are classified as direct and indirect entry modes. One of the types of direct export entry modes is overseas based distributor or agent. (Albaum & Duerr 2008) Moreover, overseas based distributor or agent is the most commonly used approach among medium-sized and small companies because of a limited amount of

resources possessed by them. (Cavusgil 1991) So, independent foreign distributors are often a more feasible option than the channels of distribution owned by an exporter, although they firm allow less control over the overseas operations. (Cavusgil, Yeoh & Mitri 1995). An entry using a distributor allows a comparatively inexpensive and rapid start of operations in a foreign market. Nevertheless, control of export operations is limited, and it is more difficult for a manufacturer to ensure high performance of the venture and achievement of planned amounts of sales and profits. (Rosson & Ford 1982)

1.2. Objectives and limitations

By conducting this research the author intends to make an environmental scanning of Russia, and to describe Russian cultural dimensions. Furthermore, the author aims to analyze the influence of these factors on a channel of distribution of a foreign company in the Russian market. Therefore, a research question of this Master's thesis is "How is the process of selecting, planning and managing foreign distributors made in Russian market?". The research question will be answered by completing theoretical and empirical objectives listed below.

Theoretical objectives of the study are:

- 1) To make a literature review on the topics of selecting, planning and managing distributors.
- 2) To investigate macroenvironment, microenvironment and cultural dimensions of Russia.
- 3) To provide a theoretical framework for selecting, planning and managing distributors in Russian market.

Empirical objectives of the study are:

- 1) To analyze selection, planning and management of Russian distributors made by a Finnish manufacturer.
- 2) To describe Russian distributors' perception of the process of selecting, planning and managing them.

- 3) To provide recommendations for a Finnish manufacturer on selection, planning and management of Russian distributors.

The theoretical goals will be achieved by gaining theoretical information from academic literature on the topic of foreign export channels and direct export. Moreover, open Internet databases will be used to collect statistical information about Russian environment (for instance, Freedom House, Trading Economics, Transparency International and Federal State Statistics Service). To complete the empirical objectives, three case companies will be interviewed: a Finnish exporting company and two Russian distributors of this company. Author's contribution to the topic of selecting, planning and managing distributors will be to bring empirical evidence of how the practices of selecting, planning and managing overseas distributors work in Russian market. The limitation for this thesis is connected to generalizability - the results will not be generalized due to a small number of case companies. Nevertheless, results of the research may cause further investigations of this topic in other studies.

1.3. Key terms

Foreign distributor is an independent marketing organization being a merchant and simultaneously a customer of a manufacturer, importing the products involved. It purchases goods from the company to resell them to other organizations. In the most cases a distributor is an *exclusive* representative of the producer in the agreed area. Nevertheless, sometimes a right to be a sole exporter of the products in some territory is not granted to the distributor. A distributor is obliged to provide a service for the products sold in his territory if the products are of the kind that requires it. (Albaum & Duerr 2008)

Environmental scanning – “the process of gathering information and forecasting relevant trends, competitive actions, and circumstances that will affect operations in the geographic areas of potential interest. *National level* analysis explores in depth specific countries within the desired region for economic, legal, political, and cultural factors significant to the company.” (Deresky 1994)

Hot tub is an outdoor bathtub for 1 – 12 people which can be used all year round for a hot bath. Usually hot tubs in Scandinavia are manufactured from wood but fiberglass and stainless steel can be also used as a material. Shape of a hot tub is usually circular; inside they have benches to sit on. Water is heated using energy coming from the wood burning in the stove, or electrical energy, gas heating is also possible.

1.4. Previous studies and research gap

This subchapter is devoted to listing the main studies used for making a literature review, and describing their application to the study.

So, the investigation of the area of International Business related to selecting, planning and managing distributors was started by scholars a long time ago (for example, the first edition of the book “Export Agents: A Complete Guide to Their Selection and Control” by Colin McMillan and Sidney Paulden was published in 1968). As a result, a literature review in Chapter 1.5 includes studies presenting frameworks for different aspects of establishing and maintaining the cooperation with a foreign distributor: for example, for choosing criteria for selecting potential partners, making a selection, composing a contract, supporting a distributor, evaluating and improving performance of a venture.

The article by Cavusgil, Yeoh and Mitri (1995) is argued to be one of the main studies about the selection of distributors because it was cited in the biggest quantity of studies according to the citation index of Google Scholar (2013). It describes an expert systems approach towards the selection of distributors, and the set of criteria applicable for assessing distributors. The set of criteria for assessing distributors is detailed and covers many qualifications of potential partners: financial and company strengths, product factors, marketing skills, commitment, and facilitating factors.

Other articles were also selected on the basis on citation index in Google Scholar. So, another essential article was written by Shipley, Cook and Barnett (1989); it is devoted to the practices of recruitment, motivation, training and evaluation of overseas distributors. In addition, a study by Moore (1992) was aimed to analyze the methods

used by manufacturers to find, to approach and to motivate distributors, and to increase sales of the venture. Information described in the articles will be used for examining real-life practices of selecting, planning and managing of distributors and questioning the extent of authenticity of theoretical assumptions made the author of this Master's thesis.

Next, Cavusgil (1998) constructed a systematic framework for collaborating with foreign business partners that included selecting potential partners, obtaining information about them, composing a legal agreement, executing the venture and evaluating performance. Moreover, this framework includes Cavusgil's view on the order of actions of an exporter that is starting and developing cooperation with a distributor. This information will help to elaborate the process of selecting, planning and managing dealers.

McMillan and Paulden (1974) in their book describe the practices of selection and control of foreign distributors. This book is an essential source of knowledge for this Master's thesis, because it is related to the topic of acquiring information about distributors, selecting the most fitting ones, composing a contract with them and evaluating their performance after that. Moreover, McMillan and Paulden (1974) created a detailed guide for manufacturers, for instance, a whole chapter is devoted to legal issues including a sample of a distribution agreement.

Nevertheless, there are limited amount of empirical studies related to manufacturer's selection of distributors (Lin & Chen 2008). Therefore, by conducting this study the author intends to add new evidence to this research gap by constructing a theoretical framework for selecting, planning and managing distributors based on the conditions of construction industry environment, and macroenvironment and microenvironment of Russia.

1.5. Structure of the study

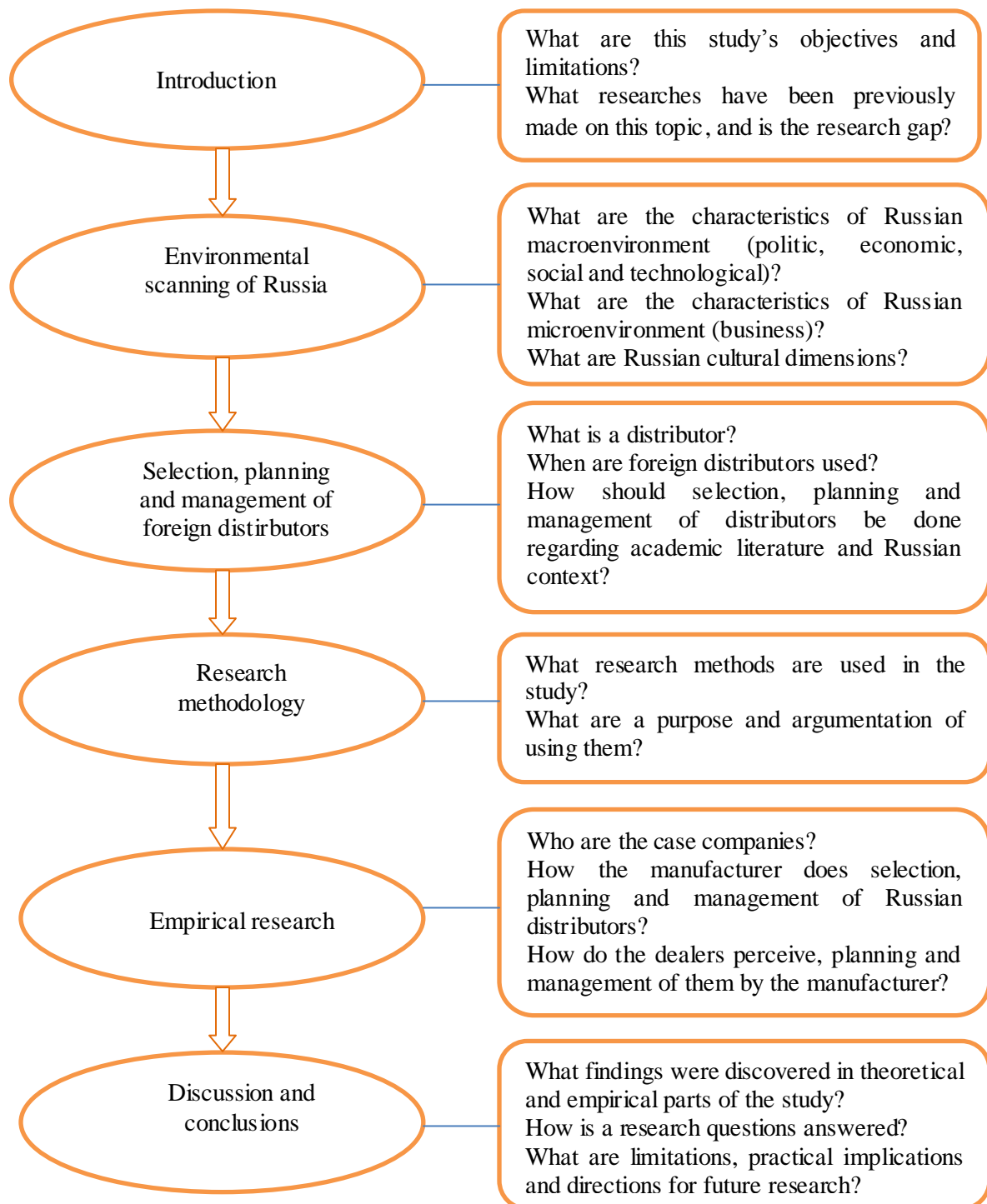


Figure 2. Structure of the study.

2. ENVIRONMENTAL SCANNING OF RUSSIA

Russian macroenvironment and microenvironment are much different from European ones. The reason of this dissimilarity is a specific history path of Russia. Its political regime was communism till 1991; so market, social and political conditions are still not as highly developed in the country as in most of European countries. The aim of Chapter 2 is to analyze and to describe the macroenvironment, business environment and cultural dimensions of Russia. Macroenvironment is divided in subchapters according to PEST model: politic, economical, social and technological environment. Then separate subchapters are devoted to business environment of Russia and its cultural dimensions.

2.1. Political factors

President of Russia now is one of the most powerful people in the world Vladimir Putin (The world's most powerful people 2012); he also was a president in 2000-2008 and a premier minister in 2008-2012. Political opposition does not have much support among the population, and it is not allowed in most of the media (except for the Internet), therefore, in the rating "Freedom of the Press 2012" Russia is the 172nd (Freedom of the Press 2012). Importance of the state in the Russian economy has been growing; besides, a present situation in the country's economy is impaired by corruption, high bureaucracy, insufficient protection of property rights, and absence of supremacy of law (Russia's president 2012). To illustrate, Russia is the 133rd in Corruption Perceptions Index. (Corruption Perceptions Index 2012) As a result, Russia is still a "bad place to do business, with its suffocating bureaucracy, unreliable courts <...> and organised crime" (Russia's economy and the World Trade Organisation 2012).

The situation with corruption in Russia should be mentioned separately, as it affects business in the country. To illustrate, Russia is ranked 133rd in the Corruption Perceptions Index 2012 (Corruption Perceptions Index 2012). Ubiquitous corruption is reflected on different industries; as an example, building a gas pipeline on Russian territory is around three times more expensive than it is in Europe. Furthermore,

extortion often happen in the regions of Russia. High level of corruption is an obstacle for attracting overseas investments which are especially needed due to a recent slowdown in country's economic growth, so the government puts effort in improving the situation. An Anti-Corruption Strategy approved in 2011 and the OECD's Anti-Bribery Convention signed in 2012 made the Council of Europe's Group of States against Corruption (GRECO) to acknowledge that Russia was following its obligations to master corruption. (Is Russia Too Corrupt for International Business? 2013)

A system of taxation is another political factor that affects companies working in Russia. Russian corporate tax on company profits is 20%, and VAT in most of cases is 18%. Companies operating in Russia also have to pay Unified Social Tax (UST) that combines contributions to Pension Fund, Social Security Fund and medical insurance of workers; usually UST rate is 26%. (Russia: taxes 2012).

Employees' rights are protected in Russia by a labor law; according to it, a worker should work maximum 8 hours a day and should have 1 hour for a lunch break, working hours sum up to 40 hours a week. Each employee can have 28 days of vacation annually. Dismissal of an employee can be done by the company only on the ground of one of the articles of the Labor Code. (Egorov 2011)

Next, a description of political factors would be incomplete without mentioning import policies of Russia; this characteristic of the country is essential for the companies looking for the best way to organize distribution channel in Russia. The duties that are to be paid by the exporters of goods to Russia are VAT (18% for the majority of goods) and an import tariff – for instance, it is 20% on Miscellaneous Manufactured Articles. As a result of entrance of Russia into WTO in 2012, import tariffs for some categories of goods were reduced. There are some trade restrictions regulating importing products to Russia but they are mainly relative to food (meat, fish, vegetables, wine etc.). (Customs Tariff of the Russian Federation 2012)

To summarize, political situation in Russia is very stable - there is a single dominating party that controls the executive and legislative structures at a federal level and in most of regions. Government has political continuity and stability as targets of a high priority

- for example, public polls are regularly held to notice the signs of social protest and to make mitigation arrangements. It is important to note that Russia is still a very corrupted country, but the government is paying efforts to change the situation. Among other factors, an exporting company should consider that the level of corporate taxes is relatively low in Russia. Also, it is essential to note that Russian labor law is quite strict about employees' dismissal. Lastly, customs duties may affect exporter's expenses quite significantly, as they amount to 10-20% usually depending from the category of goods.

2.2. Economic factors

The first economic factor described in this subchapter is GDP annual growth rate. Figure 3 shows the dynamics of this factor in Russia.



Figure 3. GDP annual growth rate (%) (Russia: GDP annual growth rate 2013).

Russian political environment is characterized as partly hostile to business (as described in Chapter 2.1). Nevertheless, according to Figure 3, annual growth rate of GDP was increasing with the rates of 5% or more since 2003 till the crisis of 2008-2009. But the crisis had a negative impact on Russian economy; therefore, GDP annual growth rate is unstable since 2009. (Russia: GRP annual growth rate 2013) The World Bank projection for Russian GDP growth in 2013 is 1.8% , in 2014 - 3.1% (Russia overview 2014). However, if comparing Russia with other developing countries from BRIC, the rate of GDP annual growth in 2010-2012 is higher in Russia than in Brazil and in India.

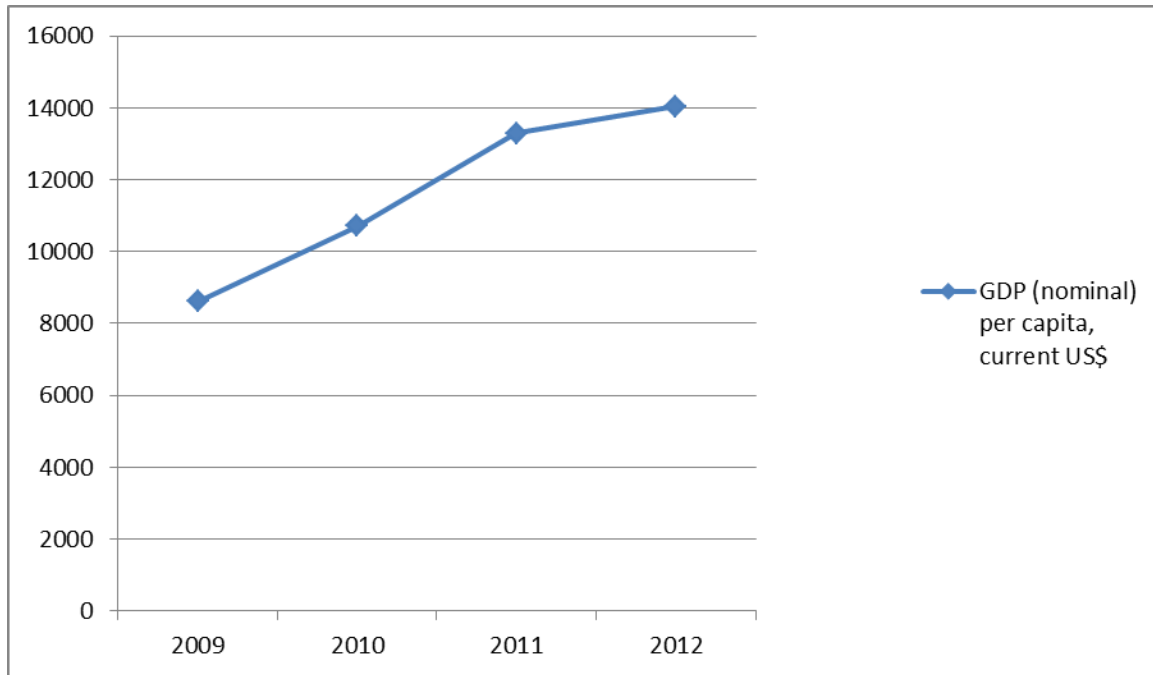


Figure 4. Growth rate of GDP (nominal) per capita in Russia (adapted from Russia GDP nominal per capita 2013).

Figure 4 informs about the growth of GDP (nominal) per capita in Russia. According to it, this indicator has been growing steadily since 2009, and in 2012 it amounted to 14037\$. Nevertheless, GDP (nominal) per capita in Russia is still much smaller than in developed countries – to illustrate, it was 46179\$ in Finland in 2012. Furthermore, the import of goods to Russia is also growing constantly, except for 2009. To compare, in 2003 the total amount of imported goods was equivalent to 75.6 Bln USD, and in 2011 – to 284.7 Bln USD. (Country statistical profile: Russian Federation 2013) Consequently, the population of Russia can afford imported products and has a demand for them.



Figure 5. Euro exchange rates to Russian Rubles (Euro exchange rates RUB 2013).

Exchange rate of Russian Rubles to Euro is changing throughout the time and the range is quite big – for example, according to Figure 5, in September 2012 - September 2013 the minimum exchange rate to 1 Euro was 39,5730 and the maximum – 44,3665. Exchange rate of Russian Rubles to Euro has a tendency to grow which means that the products imported from Europe will be less competitive in Russia.

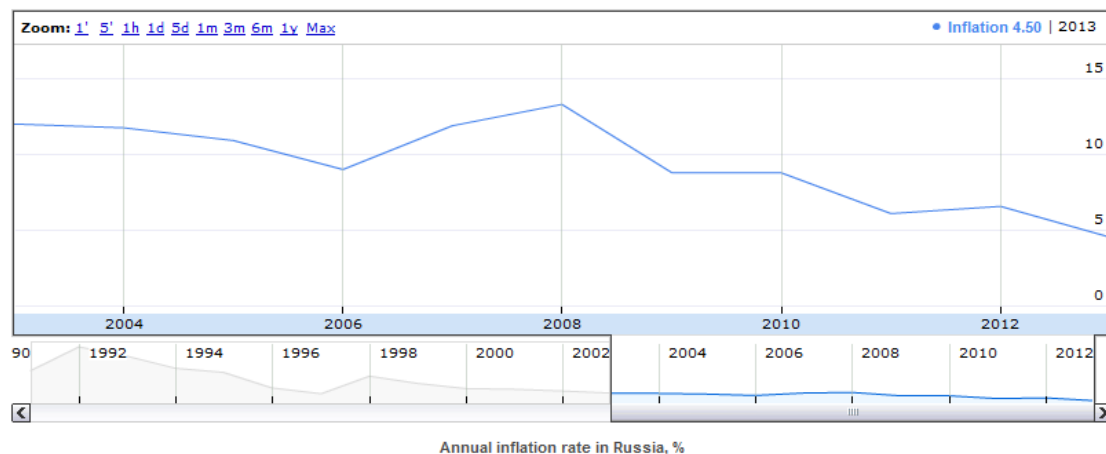


Figure 6. Inflation rates in Russia (Russia inflation rate 2013).

According to Figure 6, inflation rate in Russia was less than 7% in 2011 and 2012, and in 2013 it is also expected to be between 6% and 7%. (Russia to Keep Inflation 2012) This level of inflation is much higher than in developed countries – for example, in Finland average inflation rate for 2012 was 2.8%. Nevertheless, the rate of 6% - 7% is a

solid improvement for Russia comparing to year 2005 when the rate of inflation was more than 10%. This is a sign of stable situation in Russian economy, and can be considered to be as a positive sign for exporters.

Table 1. Rate of FDI in Russia (adapted from Russian Federation: Inward Foreign Direct Investments 2013).

Year	2007	2008	2009	2010	2011	2012
FDI rate (millions of US dollars)	55 874	74 783	36 583	43 168	55 084	50 661

Rate of FDI in Russia has increased since the crisis of 2008-2009 but as it is demonstrated in the Table 1, it has not reached the level of 2008 yet. (Russian Federation: Inward Foreign Direct Investments 2013)

In conclusion, Russian economic situation is still vulnerable to drops in the prices of oil, gas and metals. Russian government aims to fight with excessive reliance on extractive industries, and so Strategy 2020 targets to make Russian economy more diversified by using proactive policies and supporting SME development. (Country partnership strategy 2011). The rate of GDP annual growth is expected to decline to 1.5% in 2013, which is a signal of Russian economy stagnation. But what is essential for exporters, GDP (nominal) per capita in Russia is growing according to the data from 2009-2012 which could mean that the population is getting richer. As a result, the volume of imported goods to Russia is increasing constantly, except for 2009. Next, an exchange rate of rubles to euro tends to be high in 2013, which can undermine the competitive ability of imported products in Russia. In contrast, an inflation rate of 6% - 7% is a solid improvement for Russia comparing to the past years, and could be considered as a sign of a stable situation in Russian economy. As a result of aforementioned factors, the rate of FDI in Russia has increased since the financial crisis of 2008-2009 but has not fully recovered to the level of 2008 yet.

2.3. Social factors

Russian population was decreasing steadily at the rate of 0,47%-0,48% in 2007-2012 (Russia: Population growth rate 2013). Also, average population density in Russia is as low as 8.3 persons per km² (Russia: Demographics 2012) but in big cities it is much higher: in Moscow population density is 4900/km² and in Saint-Petersburg – 8550/km² (The largest cities in the world 2007). So, it is reasonable for exporters to penetrate firstly the markets of big cities in Russia because the coverage of customers will be more efficient there.

Table 2. Rate of population with monetary income of more than 35000 rubles (\approx 880 euro) per capita in Russia (adapted from Distribution of population 2013).

Year	2008	2009	2010	2011	2012
Rate of population with monetary income of more than 35000 rubles (\approx880 euro) per capita	6.9%	9.3%	12.1%	14.5%	17.6%

Consumption of premium and exclusive goods is experiencing a steady growth in Russia. This tendency is proving itself in different categories of products: for instance, food, goods for personal hygiene, cars and photo cameras (Bychina 2012). One of the reasons of this tendency can be a rising percentage of population with monetary income of more than 35 000 rubles (\approx 880 euro) per capita as it is shown in Table 2. Rising demand of Russian population for premium and exclusive goods, and its growing income, are a positive signal for the exporters of expensive products.

Table 3. Average income per capita a month in Russia (adapted from Per capita income of Russian Federation 2013).

Year	2008	2009	2010	2011	2012
Average income per capita a month, RUB	14 863.6	16 895.0	18 958.4	20 780.0	22 880.4

The growth of incomes of Russian population is shown in Table 3, it can be seen that average income per capita a month was 22 880.4 RUB in 2012, so the growth amounted to 54% comparing to the results of 2008. Furthermore, Gini coefficient representing the income distribution of nation's residents was slowly decreasing in Russia except for

2012 as it is demonstrated in Table 4; it means that the difference in the income distribution between the poorest and the richest was getting smaller. But this rate of the coefficient is much bigger than in developed countries, for instance, it was 0.268 in Finland in 2008.

Table 4. Gini coefficient for Russian population (adapted from Distribution of total money income 2013).

Year	2007	2008	2009	2010	2011	2012
Gini coefficient for Russian population	0.423	0.422	0.422	0.420	0.417	0.420

The most important life values for Russians in 2011 were family (64% of respondents mentioned it), safety (51%) and welfare (43%) - these life values gained more votes than fairness, people's rights and law (The main life values of Russians 2011).. Consequently, Russians care more about everything connected to their own well-being than about society. Therefore, it can be argued that the safe goods individualized for the needs of customers should archive high sales in Russian market. Another distinctive characteristic of Russian society is that people want to show off. (Russia: Where people want to show off their wealth 2010) Therefore, exclusive and expensive products have a big potential in Russia.

To summarize, population density in Russia is low, but in big cities it is quite high, so exporters can concentrate their selling efforts on big cities in the first place. In addition, Russian economy is affected by poor transport infrastructure and bad quality of the roads. (Fisenko 2011) Average income per capita is growing steadily, so that in 2012 it amounted to 154% from the results of 2008. Furthermore, there is a constant growth of demand for premium and exclusive goods in Russia which is positive motivation for the exporters of such products. Lastly, the life values of Russians are so that they appraise family, safety and welfare as the main things in their lives, and they like to show off.

2.4. Technological factors

Nowadays Russian economy is very dependent from selling oil and gas. Oil and gas amount to 17% of Russian GDP, and provide 40% to government revenue. (Russia Sees Stalling Economy 2011) But Russian government attempts to change the situation – for example, it is investing in the creation of an analogue of Silicon Valley. “If things go to plan, Skolkovo, near Moscow, will be one of the world’s biggest high-tech cities in a few years.” (Can Russia create a new Silicon Valley? 2012) The interest of Russian government in developing innovations is shown also by the fact that investments that Russian government makes to science has grown from 41576.3 million rubles in 2003 to 355920.1 million rubles in 2012 (Science funding from the federal budget 2013).

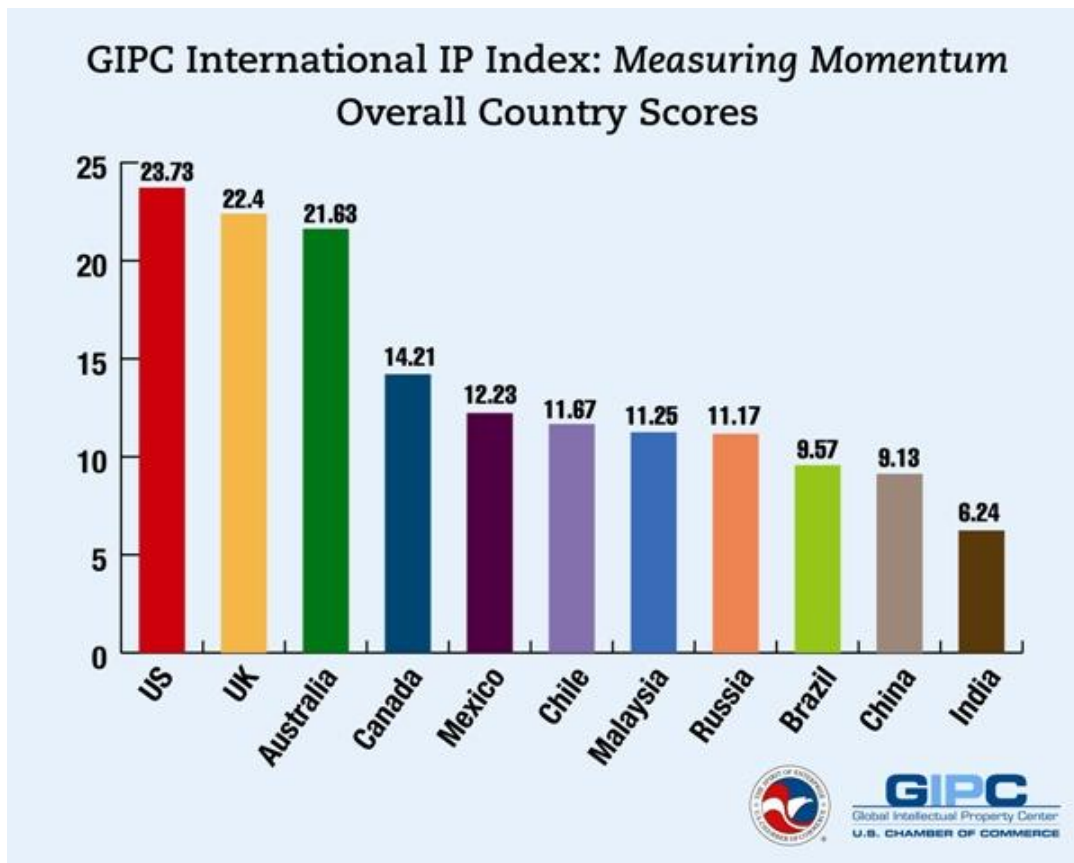


Figure 7. International intellectual property index (GIPC International IP Index 2012).

Intellectual property protection is poor in Russia, which is reflected in the index measured by the U.S. Chamber of Commerce (see Figure 7). Russian and foreign

companies and their products are subject to trademark and copyright infringements (Cooperation in the sphere of Intellectual Rights Protection 2011). It can be argued that intellectual property protection does not function in Russia as it should - Russia does participate in international treaties, but their rules and regulations are not implemented fully (GIPC International IP Index 2012). Consequently, companies importing goods to Russia should possess enhanced knowledge about intellectual property rights in this country and a competence of Russian law enforcement, not to experience issues connected to counterfeiting.

It is important to note that environment friendly goods are becoming popular in Russia – for example, the market of organic food in Russia was predicted to achieve 25-30% of growth and to reach a volume of 100 million dollars as a result in 2012 (Prospects of organic food market in Russia 2011). This trend should mean that the interest of Russian population towards the products friendly to environment is rising; there are also more and more food marked “absolutely natural” on the shelves in Russian shops. By 2015 Russian market of organic products may grow 52% comparing 2012 and reach the rate of \$225 million. Its growth in 2012 comparing to 2011 amounted to 7.8%. (Experts: The market for organic products 2013)

In conclusion, Russian government efforts to tackle dependence on extractive industries by developing a “business cluster” Skolkovo and rising investments into science. At the same time, intellectual property protection rules and regulations are not observed fully in the country, and importing companies can become subject to trademark and copyright infringements. Finally, environment friendly goods are becoming more popular in Russia, with an expected growth of their market by 52% comparing in 2015 comparing to its volume in 2012

2.5. Business environment of Russia

According to “Doing Business” ranking (Economy profile: Russian Federation 2012), business environment in Russia is bad, though there have been some improvements in recent years. In 2011 Russia ranked the 124th, and in 2012 it climbed 4 positions higher

and became the 120th. In 2011 Russian president Vladimir Putin put an aim of becoming 50th by 2015 and 20th in 2018 in the ranking “Doing Business” (Vladimir Putin aims to boost Russia's investment climate 2012).

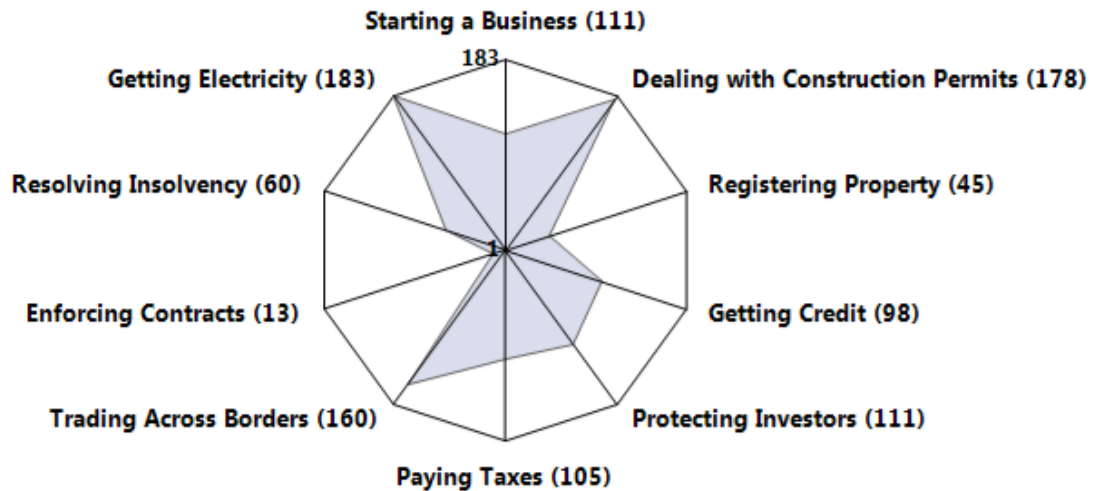


Figure 8. Doing Business rating - Russia (Economy profile: Russian Federation 2012).

Different aspects of doing business in Russia are ranked according to their easiness comparing to other countries in Figure 8. The worst situation is with getting electricity, dealing with construction permits and trading across borders. Nevertheless, the difficulty of enforcing contracts and registering property is low, which means that some aspects of doing business in Russia can be managed without complications. But at whole, Russian business environment is not fully favorable for doing business in it. This assertion can be supported by the results of a survey: 55% of its respondents answered that doing business in Russia is still connected with difficulties on political, legislative and administrative spheres. (Russia attractiveness survey 2013)

2.6. Russian culture

Russian culture will be described according to the cultural dimensions of Hofstede - power distance, individualism, masculinity and uncertainty avoidance. Hofstede defines power distance as “the extent to which less powerful members of institutions and organizations within a country expect and access that power is distributed unequally”

(Hofstede 1982). As an example of institutions Hofstede mentions the family, the school and the community; and organizations that are the workplaces of people. Next, individualism refers to “societies in which the ties between individuals are loose: everyone is look after him- or herself and his or her immediate family” (ibid). On the contrary, collectivism refers to “societies in which people from birth onward are integrated into strong, cohesive in-groups, which throughout people’s lifetime continue to protect them in exchange for unquestioning loyalty” (ibid). To continue, masculinity is a society’s characteristic that means that emotional roles of men and women are clearly different; and femininity is a characteristic of a society in which people of both genders are claimed to be delicate, modest, and caring about their life quality. Lastly, uncertainty avoidance is defined by Hofstede as “the extent to which the members of a culture feel threatened by ambiguous or unknown situations”. (ibid)

Table 5. Cultural dimensions of Russia (adapted from Hofstede 2013b).

Cultural dimension	Rate
Power distance	93
Individualism	39
Masculinity	36
Uncertainty avoidance	95

The scores of cultural dimensions for Russia are shown in the Table 5. Russia is in top 10% of countries regarding power distance. (Hofstede 2013b) There is a great distance between less powerful and more powerful people, and a status in the society is usually demonstrated by people. Therefore, it can be recommended to an exporter to act more authoritarian with distributors in Russia that with European distributors; for example, in Finland power distance is scored 33 compared to 93 in Russia (see Table 6). Moreover, an exporter should provide clear rules of cooperation, sales targets and other instructions because a distributor can lack initiative.

Table 6. Cultural dimensions of Finland (adapted from Hofstede 2013a).

Cultural dimension	Rate
Power distance	33
Individualism	63
Masculinity	26
Uncertainty avoidance	59

According to Table 5, Russians are characterized by low individualism, which means that relationships are very important to them. Finnish culture has much higher individualism (see Table 6). So, a Finnish exporter should strive to build effective lines with of communication with Russian distributors and maintain relationships with them by not only making personal business visits, but also by talking in some places with informal atmosphere. Furthermore, due to low individualism, decision making on the side of a distributor may take a long time because many a lot of consultations will be made.

It is shown in Tables 5 and 6 that masculinity is low in Russian and Finnish societies. People caring for each other are appreciated, it is normal to aim for a life of high quality and to be modest. Consequently, a Finnish exporter should consider that a Russian distributor will appreciate the talks about personal life and interests which help him to understand an exporter more and to gain trust in him. Furthermore, nepotism is widespread in Russia, and business deals there can be promoted using close relations and favoritism.

A score for uncertainty avoidance according to Tables 5 and 6 is high both for Russia and Finland. It means that people in these country do not like ambiguity and prefer to make detailed plans before acting. For this reason, a Finnish exporter should not expect new ideas to be implemented instantly by a Russian distributor, and he should make propositions supplementing them with clear reasoning. As a result, the distributor will be less anxious about these ideas and he will spend less time on their evaluation.

To conclude, an exporter should take a more authoritarian approach in Russia than, for example, in Finland. Also, he should state clear objectives of his relationships with distributors and he should be prepared to take initiative. Furthermore, effective communication lines with Russian distributors and maintaining personal relations with them is crucial for building trust in the relationships. An exporter should be prepared that Russians like open talks, for example, about personal life, which help them to build close relationships - a lot of deals are made through favoritism. Besides, decision-making in Russian companies can be slow, and new ideas cause doubts and long careful consideration from the side of Russian distributors, so an exporter should add detailed reasoning to his propositions.

2.7. Summary

An important factor that makes Russian market more promising is its recent entrance into WTO. (Russia remains 2012) Nevertheless, some challenges are still facing foreign companies in the Russian market: logistical infrastructure is well developed only in major cities, wealth distribution is highly diverse geographically and demographically, and corruption, non-transparency of companies and insufficient protection of intellectual property rights also have its impact on businesses. (Doing Business in Russia 2012) To illustrate, Ministry for foreign affairs of Finland claims that Russia is the most attractive market for Finnish companies but, on the other hand, it is a very difficult market taking into account the barriers for trade and investments.'

Macroenvironment of Russia is not very attractive in terms of political structure. The government is stable and keeps control over situation in the country, being supported by the majority of the population, but corruption has penetrated into many spheres of political and economic life of Russia. The fact of widespread corruption worsens the operational conditions for both Russian and foreign companies; as result, additional money and time are spent by companies.

A factor that should attract international companies to enter Russian market is a constant growth of GDP (nominal) per capita. Russian population is getting richer

despite economic stagnation in recent years. In addition, average income per capita is growing, and the same tendency is shown by demand for premium and exclusive goods; the latter can be related to the fact that Russians like to show off. Exporters are interested in penetrating Russian market: the volume of imported goods to Russia has been increasing, and the rate of FDI in Russia has been growing since the crisis of 2008-2009, too. Nevertheless, a factor that can reduce competitive ability of imported products is the exchange rate of rubles to euro that is rising.

An advantage for exporters is that big cities in Russia have high population density, so it is easier for the companies to reach their customers. On the other hand, Russian roads are in bad condition; transport infrastructure still needs to be improved. Nevertheless, technological sector of industry is being developed in Russia, and the government is increasing investments in science. But unfortunately, intellectual property is still not fully secured in Russia, despite the promoted development of technological sector.

To master cultural differences with a Russian distributor, an exporter should implement a more authoritarian and pushing approach in Russia, comparing to Finland. For example, objectives of the relationship should be stated by him clearly. Besides, arranging and maintaining effective communication lines and personal relations with the Russian distributors is necessary. Building trust should also be done by open talks and discussions that can include the topics about personal life, too. Furthermore, Russian companies are characterized by slow decision-making and cautious acceptance of new ideas, so the exporter should provide detailed reasoning when he makes a proposition related to their cooperation.

Finally, business environment in Russia is bad, especially concerning getting electricity, dealing with construction permits and trading across borders; it is not easy to do business there. Nevertheless, president of Russia Vladimir Putin has put an aim of improving Russian business environment, so the country should become more convenient for doing business in it.

To conclude, Russia is a big market that is economically attractive (see Table 7). On the other hand, it is very difficult to operate in Russia due to complex macroenvironment and microenvironment, and due to a local culture that is different from European culture. The assumptions that will be made in the Chapter 3 considering selecting, planning and managing Russian distributors will be based also on the conclusions made in Chapter 2.

Table 7. Summary of environmental scanning of Russia.

Type of factors	Advantages for companies exporting to Russia	Disadvantages for companies exporting to Russia
Politic factors	<ul style="list-style-type: none"> • Political stability. • Low corporate taxes. 	<ul style="list-style-type: none"> • Widespread corruption. • Strict labour law.
Economic factors	<ul style="list-style-type: none"> • Growth of GDP (nominal) per capita. • Growth of volume of imported goods. • Growth of FDI rate. 	<ul style="list-style-type: none"> • Growth of euro exchange rate.
Social factors	<ul style="list-style-type: none"> • High population density in big cities. • Growth of average income per capita. • Growth of demand for premium and exclusive goods. 	<ul style="list-style-type: none"> • Decrease of population. • Low average population density. • Insufficient development of transport infrastructure.
Technological factors	<ul style="list-style-type: none"> • Growing governmental investments into science. • Environment friendly goods are becoming more popular. 	<ul style="list-style-type: none"> • Insufficient protection of intellectual property.
Business environment	<ul style="list-style-type: none"> • Difficulty of doing business, especially of getting electricity, dealing with construction permits and trading across borders. 	<ul style="list-style-type: none"> • Serious improvement of business environment in next few years proclaimed by Russian president Vladimir Putin.

3. SELECTION, PLANNING AND MANAGEMENT OF DISTRIBUTORS

In this chapter a theoretical framework for selecting, planning and managing distributors is created by making literature review. Information received during the literature review is modified using the conclusions of Chapter 2, so the practices analyzed in the framework are modified considering the realities of Russian market. Firstly, in Chapter 3 distributors are described, their functions and their place in the typology of intermediaries. Next, in the subchapters devoted to selecting, planning and managing of distributors literature sources are compared and complemented to each other to build a theoretical framework relevant to Russian context.

3.1. Distributors

To reach a market, a manufacturer can choose between building its own system of distribution with own subsidiaries, and using existing intermediaries (Cateora et al. 2011). Intermediaries perform functions in a sales channel, a delivery channel and a service channel (see Figure 9), as a result, manufacturer's costs are lower, but he has less control over the overseas operations. Right and responsibilities of an intermediary are determined by a manufacturer; they include price provisions, terms of sale and territorial rights of a distributor. (Kotler & Keller 2006)

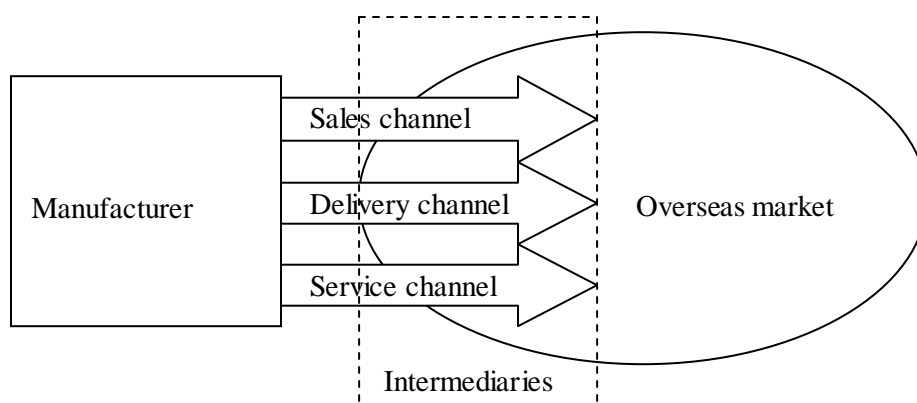


Figure 9. Functions performed by overseas intermediaries (adapted from Kotler & Keller 2006).

A distribution channel is a channel between a manufacturer and final users, formed by independent organizations - intermediaries (Kotler & Keller 2006). Distribution process is transition of goods and their distribution, including change of their ownership and negotiations upon buying and selling between a manufacturer and an intermediary, and between an intermediary and customers. A distribution structure of a country is formed from intermediaries, whose functions, services and activities are shaped by country market characteristics, competition, economic situation and traditions. (Cateora et al. 2011)

Middlemen can be merchants and agents. Merchants buy and resell goods; they take a title to the goods, in contrast to agents. (Kotler & Keller 2006) Also, intermediaries are divided into home-country middlemen, foreign-country middlemen and government-affiliated middlemen. But many of middlemen do not belong to a certain type - they can perform different functions in the context of their relations with various companies. Using foreign-country middlemen is advantageous for a manufacturer because he can control the issues of distribution, communication, and financing in the target market. (Cateora et al. 2011)

Foreign distributors are among the most significant types of foreign-country middlemen (Cateora et al. 2011). The number of distributors is determined by a manufacturer, and it can be chosen according to exclusive, selective or intensive distribution strategy. If a manufacturer uses exclusive distribution strategy, number of his distributors is limited, and more control upon their activities is possible. As a result, the manufacturer can ensure a more knowledgeable and dedicated selling and servicing. Next, when selective distribution strategy is used by a manufacturer, more distributors are engaged. As a result, market coverage is sufficient, and intermediaries can be controlled. Finally, intensive distribution means having as many points of sale as possible. Its disadvantage is that severe competition between exporter's distributors may emerge, leading to dumping. (Kotler & Keller 2006)

3.2. Selection of foreign distributors

Selection of distributors can be based on different sets of tangible and intangible criteria, and it is as crucial for an organization as recruitment of right employees (Lin & Chen 2008). Nevertheless, an exporter's intermediary rarely proves to be optimal, because the process of selection is incidental, rather than planned, regardless of the exporter's level of experience. (Peterson et al. 2000) Therefore, inaccurate international distributor choice is one of ten most common general mistakes of exporters (Fram 1992). In this subchapter different sets of criteria for distributor selection will be overviewed.

3.2.1. Defining selection criteria

Shipley et al. (1989) studied what criteria companies use for the selection of overseas distributors. He clarified that the criteria used most frequently were market knowledge, enthusiasm for the contract and hunger for success. So, exporters think that some intangible characteristics of potential partners are as crucial as tangible characteristics. Nevertheless, the major reason for selecting foreign distributors is solid market representation, so four of seven most used criteria belong to the group of sales and market factors: market knowledge, customer knowledge, customer contacts and market coverage. Other major criteria used by most of exporters during selection process were absence of competitive products in the distributor's portfolio, product knowledge, customer services, product range compatibility, quality of sales and market information feedback. (ibid)

So, according to Shipley et al. (1989), exporters consider mostly distributors' firm infrastructure and marketing capabilities. However, Lin and Chen (2008) claim that distributors' relationship intensity and logistics capabilities are also essential for exporters. To authors' opinion, relationship intensity and logistics capabilities are the most important distributors' characteristics for manufacturers. The full list of selection criteria proposed by Lin and Chen (2008) is introduced in Figure 10.

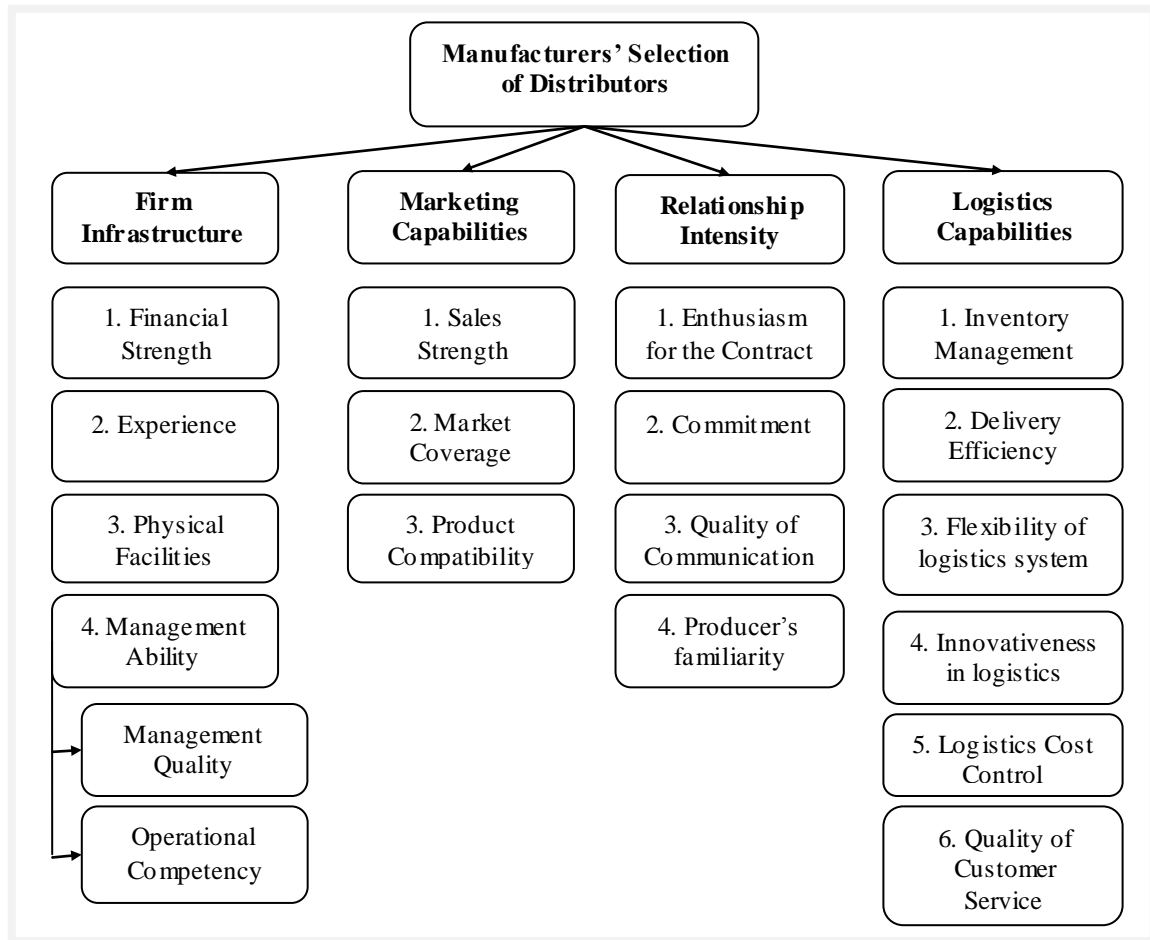


Figure 10. The criteria for distributor selection (adapted from Lin & Chen 2008).

Other scholars presented in this literature review, Cavusgil, Yeoh and Mitri (1995), include to the selection of distributors the criteria of distributor's commitment. See a full classification of criteria in Figure 11, the groups of factors are financial and company strengths, product factors, marketing skills, and facilitating factors. It can be argued that distributor's commitment is an intangible criteria that is not obvious in its measurement. Nevertheless, Cavusgil, Yeoh and Mitri (1995) in their study presented a detailed set of selection criteria that are listed further.

A group of *financial and company strengths* is connected to distributor's relations with customers, suppliers and business community, adequacy of its facilities, skills of its management team, firm's financial standing. Besides, this group of determinants is aimed to assess company's potential of growth and development. *Product factors* include determinants indicating compatibility of its product lines to manufacturer's

ones, their technical expertise in production and an ability to take legal actions against violators of producer's intellectual property. By evaluating *marketing skills* an exporter can test distributor's ability to service the claimed territory, for instance, its market segments coverage and the distribution of its stores and service units. The level of *commitment* can sometimes be the only distinction between the potential partners; it is described, for example, by the willingness to drop competing product lines and to invest into advertisement and training. Lastly, *facilitating factors* include the dimensions of, for instance, the networks of the distributor in political and other organizations that may affect the business, its knowledge of legal regulations and the compatibility of companies' goals and management philosophies. (Cavusgil et al. 1995)

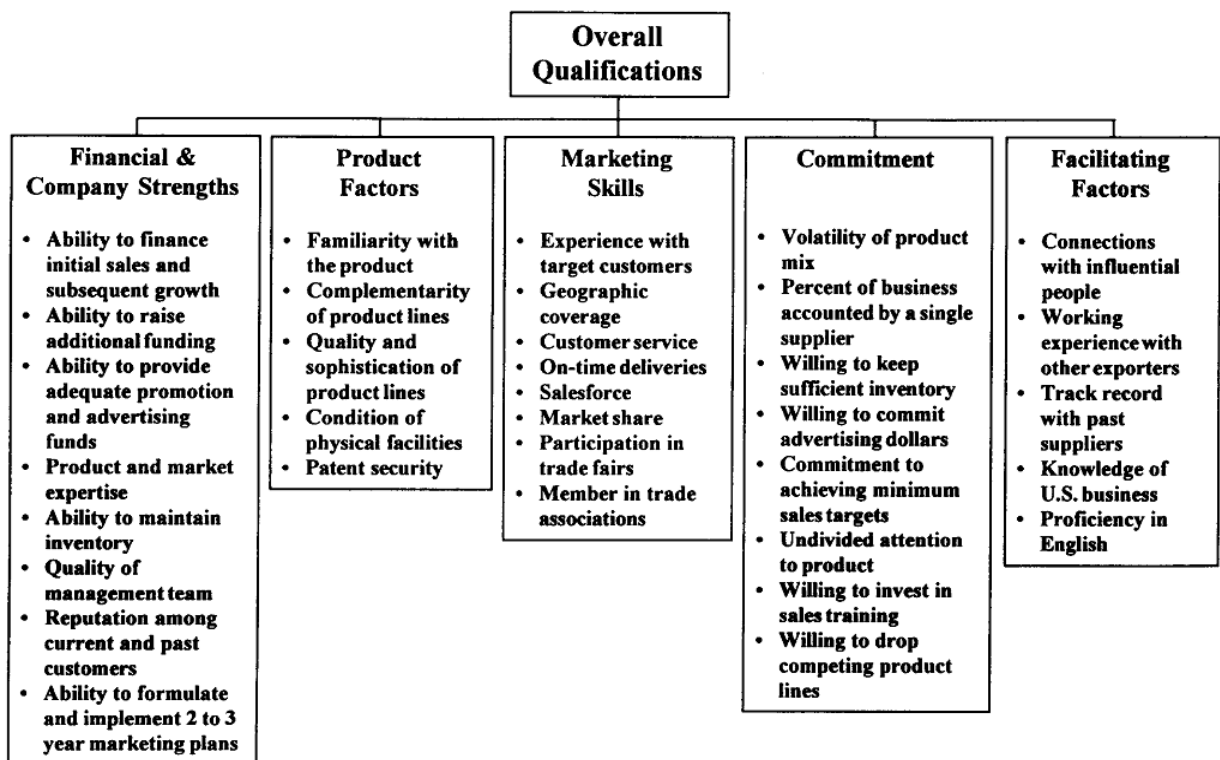


Figure 11. Criteria for evaluating foreign distributors (Cavusgil et al. 1995: 300).

So, when an exporter is choosing a distributor in Russia, he should analyze financial and company strengths of the distributor, especially if it penetrate the market of different Russian regions. Besides, a distributors' ability to finance sales and promotion is crucial, as a potential partner should have an experienced management team. Next, a distributor should have an experience of dealing with a product line that is similar to

exporter's product lines. It would ensure that the potential partner understands the characteristic aspects of the products, and that he is able to market the products correctly in Russia and to provide a quality service to the customers.

Among marketing skills, it is necessary to assess distributor's geographical coverage because Russia is a large country and its transport infrastructure is poor. So, if a distributor possesses an extensive logistic system from the start of cooperation, it is much easier for him to establish sales of exporter's products in the regions of Russia. Furthermore, it is essential to check distributor's ability to sell products and to provide customer service. Besides, the factors of commitment are also important, as evaluating distributor's commitment ensures that a distributor has ambitious aims concerning promoting exporter's products and will strive to fulfill these aims. But an exporter should consider that Russian companies are sometimes not willing to invest much into cooperation from the beginning due to high uncertainty avoidance typical for Russian culture.

Due to a high level of corruption in Russia, one of the important characteristics of an exporter is his connections with influential people. If he has such connections, they can be beneficial for solving possible conflicts with Russian authorities. This factor is essential for large corporations with a high potential volume of sales in Russia. Furthermore, cultural difference between Russians and some Europeans (for example, Finnish people) is quite big, so this is advantageous for a potential partner in Russia to have experience of working with a European company, because this should allow a faster adjustment between him and an exporter. In addition, as only 7.6 million of Russians (about 5% of the population) speak English (Languages of the Russian population 2010), it is essential to assess distributor's proficiency in English not to have problems with communication in the future.

3.2.2. Locating potential distributors

The purpose of this subchapter is to describe various sources of information about candidate companies, and to select the sources that should be used for locating potential distributors in Russia.

Results of the research made by Shipley et al. (1989) showed that the most common approach to locate a distributor was a personal visit to his territory. The authors argue that it is a costly but nevertheless, useful approach, because by giving a personal visit to distributors' territory an exporter is able to assess a market and distributors' position in it, and to start personal relationships with the distributor. Such approaches as meeting potential partners in a trade fair, and receiving recommendations from customers and colleagues should also help an exporter to acquire the information but the in-depth information about a partner and a market will not be collected. The less costly and time-consuming but also less effective approaches are observing competitors' distributors, accepting unsolicited contacts by distributors, using the services of foreign embassies, chambers of commerce, trade associations and directories. (ibid)

As the article by Shipley et al. (1989) is almost 25 years old, information from some newer studies should be used to analyze it critically. So, in the study completed by Moore (1992) the ranking of methods used by manufacturers to approach distributors coincides with the results of the study made by Shipley et al. (1989). According to manufacturers surveyed by Moore (1992), the most popular ways to get information about distributors are recommendation, personal knowledge of the territory and direct approach by a distributor. The next most popular approaches according to Moore (1992) are trade fairs and British Overseas Trade Board. Therefore, in both researches made by Shipley et al. (1989) and by Moore (1992) recommendations, personal knowledge of the territory (or personal visit to the territory), direct approach of distributors (for example, in a trade fair), British Overseas Trade Board (whose analog is Finpro in Finland) are essential ways for locating overseas distributors.

In contrast, Cavusgil (1998) argues that manufacturers should make only field research but desk research for locating distributors. Desk research can be made by observing trade and industry journals, country and regional business directories. According to Cavusgil (1998), field research should be used for getting more specific information about the potential distributors and for narrating the list of candidate companies. Another method of desk research - using management consultants was proposed by Cateora, Gilli and Graham (2011). It can be argued that using management consultants became more widespread in recent years, therefore it wants mentioned in earlier studies by Shipley et al. (1989), Moore (1992) and Cavusgil (1998).

As Russia is characterized by adverse business environment, it can be argued overseas manufacturers need only trustworthy partners in Russia. Therefore, desk research should be conducted by using customers' and colleagues' recommendations about the potential distributors, and by visiting a home country Trade Board that can present some information about Russian companies looking for cooperation with foreign companies. Also, to ensure the best outcome, an exporter can use commercial business directories and hire management consultants who are professionals in dealing with Russian business environment. Besides, Finnish companies can use Finpro; companies from other countries than Finland can use its analogues in their home countries. Furthermore, to find potential partners it can be advised to visit trade fairs where Russian companies from target economics sector have their stands, or to visit the territory where these potential partners operate. Such visits are also an opportunity to establish personal contacts with potential distributors; personal communication are very important in Russian culture.

3.2.3. Collecting information about potential partners

After locating potential foreign distributors, a manufacturer needs to obtain information about candidate companies to make a choice according to the list of distributors' selection criteria. This subchapter is devoted to the methods of collecting information about potential distributors in Russia.

According to the article by McMillan and Paulden (1974), before contacting potential distributors through phone calls or personal visits, it is reasonable to send them typical questionnaires to discover what topics should be emphasized in further discussions. Besides, candidate companies that give unsatisfactory answers to the questionnaire can be excluded from the shortlist, and this will save manufacturer's time and other resources during personal contacts (McMillan & Paulden 1974). The same is argued by Cateora et al. (2011); moreover, they state that a letter or email sent to potential partners should include product information and distributor requirements, presented in the recipient's native language.

Nevertheless, it is emphasized by McMillan and Paulden (1974) that personal interviews with potential partners are necessary, too. These interviews allow to test how working settings fit the parties, to exchange market and product knowledge and to start personal relationships with distributors. Furthermore, these remarks are confirmed by the results of the research conducted by Lucash et al. (1991). They recommend organizing a meeting with distributor's staff and distributor's key people, because in addition to getting information about a potential partner, it will also help building relationships with him. (ibid) To illustrate, according to the research of Shipley et al. (1989), 90% of manufacturers visit potential distributors. Even if a visit to distributor's territory is not possible, a manufacturer should have a thorough discussion with him by a telephone call (McMillan & Paulden 1974).

Furthermore, it is essential that the information provided by a candidate company should be checked selectively to analyze how trustful the company is, and how reliable the information is. Firstly, available sources should be questioned about the potential partner: a local embassy, banks (for example, using the mediation of an exporter's bank), a chamber of commerce or a trade association. Secondly, the feedback should be collected from some principals and customers of the potential distributor. (McMillan & Paulden 1974) It is important to note that that a manufacturer should collect and analyze maximum number of references from customers, colleagues and banks in the market of origin of the potential distributor (Lewin and Johnston 1997; Cavusgil et al. 1995).

In closing, Russians are characterized by lack of trust toward foreigners (Timakov V. 2010). Therefore, potential distributors can be reserved in answering exporter's questionnaire. Consequently, an exporter should acquire maximum information about potential partners from various sources, including personal meetings with distributors' stuff during which more detailed and open discussions can be held.

3.2.4. Evaluating potential partners and making a decision

Cavusgil et al. (1995) state that to make distributor selection process more efficient, the exporter should make on-site visits to the distributors, also he should ask them to present local advertising plans and competition researches. Furthermore, it is argued by (Cateora et al. 2011) that a letter or email sent to the shortlist of potential partners should include questions about their products lines, about a territory covered by them, about a size of the firm, about a volume of sales and financial condition. It can be argued that this list of questions is too short to receive full information about a potential distributor, therefore results of the research by Fram (1922) are analyzed (see Table 8). According to them, exporters consider assessing the following distributor's characteristics as very important: communication ability, industry experience, personnel's technical expertise and business plans. But it may happen that after evaluating of overseas distributor's characteristics, a manufacturer is still uncertain if he is a right choice. Then the manufacturer can propose a trial agreement to the distributor to avoid paying compensation if the cooperation does not become successful and the agreement is terminated (Cavusgil et al. 1995).

It can be argued that poor selection of overseas distributors can be costly for exporters. Therefore, it is necessary for a manufacturer to follow the recommendations of Cavusgil et al. (1995) and to use an expert system as a tool for evaluating potential distributors. Such expert system includes both quantitative and qualitative characteristics of a distributor and help to make a right conclusion based on the information collected about him.

Table 8. Verification actions (adapted from Fram 1992: 66).

	Priority received				
	Highest	High	Medium	Low	Lowest
Assess availability of telex, phone, fax	8	6	-	-	-
Assess distributors' industry experiences	6	7	1	-	-
Assess distributors' market coverage	8	5	1	-	-
Assess backgrounds of technical persons available	4	8	1	1	-
Assess distributors' product lines	9	3	2	-	-
Assess distributors' financial stability	8	3	3	-	-
Assess distributors' business plans	5	5	1	3	-
Assess distributors' customer relationships	3	6	5	-	-
Have domestic legal person review contract format	1	3	3	6	1
Have foreign legal person review contract format	-	2	4	2	6

In conclusion, a distributor selection procedure should be conducted with due attention for an exporter to find a suitable partner in Russia. This partner should be able to arrange extensive distribution on Russian territory, to manage all the issues connected to Russian customs, to have sufficient finances for promoting the exporter's products and to have an ability to communicate effectively with the exporter. Therefore, it can be claimed that an exporter should assess quantitative and qualitative characteristics of a potential distributor using an expert system. Moreover, an exporter should propose a trial distribution agreement to the distributor if he is not certain about distributor's capabilities to avoid problems with Russian legal system in case of breaking the agreement.

3.3. Planning a foreign distributor

This chapter is devoted to constructing a theoretical framework for planning a foreign distributor. The chapter includes a review of academic literature on the topics of

composing a contract with foreign distributors, providing support and setting standards and aims for distributors' performance. Also, macroenvironment and microenvironment of Russia are regarded to make conclusions relevant to Russian market.

3.3.1. Composing a contract

Formal contracts are used to secure transaction-specific assets from opportunism. Furthermore, they are essential for companies' cooperation because they describe the nature of transaction and the issues of conflict resolution. (Cavusgil, Deligonul & Zhang 2004) Nevertheless, it can be argued that while making agreements between a manufacturer and a distributor, it is sometimes difficult to find agree about the text. The choice of agreement characteristics depends on the size of a company, its resources and its relationship with an overseas partner, and on peculiarities of the market. Some companies prefer short-term agreements; others propose a trial period to a partner. Therefore, companies are advised to use a legal counsel before making a decision concerning legal implementation of relationship with an overseas distributor (Cavusgil 1998). Furthermore, it is important for a company to investigate local laws, for instance, a termination provision and an ability to grant exclusive distributor rights (Lucash et al. 1991).

Formal contracts are negatively related to opportunism, and their effect is essential due to potential hostility of legal environment (Cavusgil et al. 2004). The choice of contract's text is based on the nature of future relations between the companies, on the characteristics of the companies and on the products distributed. Nevertheless, there are provisions that every contract should include: tasks and responsibilities of a manufacturer and a distributor, geographical and product exclusivity rights, administrative rights, rewards and punishment, conflict resolution and conditions of termination (Cavusgil 1998). So, the agreement should include financial incentives, on the one hand, and penalties for not achieving the aims, on the other hand.

Furthermore, the article by Lucash et al. (1991) proposes the following important provisions to include into a distribution contract: products to be distributed and prices

for buying and selling the products. Moreover, it can be claimed a distributor needs to have assurance of long-term relations, to know that his investments will have their outcomes. Therefore, according to McMillan and Paulden (1974), a distribution contract should also include a provision specifying duration of the contract.

The forms according to which overseas companies can organize their operations in Russia are direct sales, distributorship contract, representative office or branch, or a local subsidiary. (Doing Business in Russia 2013) Prior signing a contract with a Russian company it is advised to check future partner's legal capacity. The documents that should be asked from him are a certificate of state registration, a certificate of registration with tax authority, a charter of the company, and a license if applicable. The contract should be signed by either a sole executive body or a person representing a company under the power of attorney. (Contracts with Russian partners 2010)

Next, if a distribution agreement is composed in two languages, the provision about a prevailing language should be included to it. Nevertheless, it is essential to check precision of Russian translation in the agreement - because the texts in both languages will be considered by court, if any controversies will emerge. It can be also claimed that an arbitration clause is necessary to be included in the agreement - to have a provision stating if the settlement of disputes should be held in international arbitration court or in Russian arbitration court. Besides, there are some ambiguities and risks connected to the Russian customs, so it is necessary to specify the liabilities of sides if any customs clearance issue arises.

In particular, It should be emphasized that there are provisions the Civil Code of the Russian Federation, or in other legal acts of Russia that contain the description of a distribution agreement. However, a distribution agreement is a correct legal structure, which is widely used on the territory of the Russia, in particular, to obtain relations with foreign partners. (Legal regulation 2014) For a sample of international distribution agreement that is suitable for Russia, see Appendix 1. It can be claimed that this sample contains all the necessary provisions, including the ones about international arbitration

court, responsibility for customs clearance (Ex-Factory in Incoterms), and prevailing language.

3.3.2. Providing support and motivating a distributor

It can be claimed that motivational programs for distributors are good incentives for them to show commitment, to follow agreed objectives and to operate effectively. Moreover, 63% of exporters usually do positive steps to motivate foreign distributors (Shipley et al. 1989). To provide support to an overseas distributor, a manufacturer should understand if its overseas distributor has any specific needs. Therefore, a manufacturer should analyze market environment, culture and traditions of a partner's home country; moreover, executives of a manufacturer should visit major distributors on a regular basis to get objective information about their activities and market situation. (Rosenbloom 2001)

The key elements of manufacturer's support program were proposed by Rosenbloom (2001). The first is *adequacy of margin*, but a cost structure of a foreign distributor can be very different from domestic distributor's cost structure, so a margin adapted for his region should be introduced. Secondly, *exclusive rights* granted to a distributor or territorial protection offered to him makes distributor's business less risky. Next, *advertising assistance* is needed because a manufacturer often has more advertising experience and financial resources; also providing financial support is essential (especially prolongation of a credit). Besides, *sales and service training, management advices and market research* is essential assistance for conducting effective promotion and sales of products in an overseas market; lastly, *missionary selling* can be used to support distributor's sales. (Rosenbloom 2001)

Moreover, the results of the research conducted by Moore (1992) mostly agree with the conclusions made by Rosembloom (2001), but Moore (1992) emphasized the importance of two more factors of support and motivation related to communication between the parties: *making visits to each other* and *effective lines of communication*. It can be claimed that communication and rapport is a very important part of support and

motivation, also they build trust between a manufacturer and a foreign distributor. It is important to note that manufacturers and distributors have different ranking of methods of support are. Therefore, it is sometimes difficult for them to agree about the methods of support necessary in the cooperation. For instance, manufacturers usually give insufficient attention to sponsoring local advertising and products' promotion, which is essential support, to distributors' opinion (Moore 1992).

Furthermore, Shipley et al. (1989) argue that exporters undervalue the importance of working/planning relations. For motivating a distributor, it is essential to appreciate his efforts and problems, to make joint planning, to assure continuous and reliable relationships, and to organize distributor conferences. So, psychological rewards help to make distributor's involvement higher. Cateora et al. (2011) propose manufacturers to reward the best overseas distributors with trips or publicity in corporate media. Moreover, exporters underestimate such motivators as financial and managerial support to be offered to distributors, for example, sales training, promotional support and market research information. For instance, only 44% of exporters usually provide training for distributors. (Shipley et al. 1989)

Coming to Russian context, it can be claimed that financial incentives (for instance, attractive credit terms) are an important method of support for Russian distributors. The reason is high interest rates in Russia - 15-17% for SMEs (Russian recession risk 2013) - they make financial support from a manufacturer's side especially valuable. Next, arranging effective lines of communication is essential because only about 5% of Russian population speaks English (Languages of the Russian population 2010), so difficulties in communication can emerge in the beginning of cooperation if this issue is not given importance to.

It can be argued that the support in form of business advice and market research information can be provided by the manufacture only if it has sufficient experience of operating in Russia. The reason is complexity of the country's business environment - Russia was 120th in "Doing Business" ranking in 2012 (Economy profile: Russian Federation 2012). Nevertheless, the distributor support methods of territorial protection,

psychological rewards, training and local advertising support should be used by a overseas manufacturer in Russia.

3.4. Management of a foreign distributor

To manage a foreign distributor, a manufacturer should collect information about his performance, then evaluate his performance according to chosen indicators, and perform administrative actions or reward a distributor depending on the results. In case of insufficient control, manufacturer can experience some problems in the market, for example, parallel imports can emerge (Cateora et al. 2011). This subchapter is devoted to monitoring a foreign distributor in Russia, the analysis is based on literature review of the topic and on the conclusions concerning Russian environment made in Chapter 2.

3.4.1. Defining performance goals for a distributor

Performance expectations should be stated based on the exporter's sales aims and on the realities of the market. Nevertheless, consultations with distributors should be made to discuss those expectations and perceive their propositions. The results should be communicated to the distributors in form of written or oral agreements, sales objectives or policy statements. (Narus & Anderson 1988)

Coming to the criteria of distributor performance, McMillan and Paulden (1974) propose the following criteria: sales in different territories, share of market comparing to major competitors, sales dynamics, average volume of purchase per customer, analysis by store units and types of products. So, the criteria proposed by these scholars are quantitative, the same is proposed by Cateora et al. (2011). Nevertheless, Cavusgil (1998) claims that qualitative criteria of distributor's performance are also necessary, namely, distributor's strategic output and collaboration development. Results of the study by Shipley et al. (1989) approves the need of qualitative criteria of new business, keeping commitments, selling/marketing inputs, market feedback, new products introduction and customer service. Furthermore, Narus and Anderson (1988) argue that performance expectations concerning management professionalism should be stated;

they are strategic, operational and financial management (including planning), and marketing. Therefore, it can be argued that majority of scholars claim that both quantitative and qualitative criteria should be used to evaluate distributor's performance.

During making a choice of performance indicators for Russian distributors, an exporter should consider that Russian companies prefer to be non-transparent due to high uncertainty avoidance engrained in Russian culture (Hofstede 2013a), and also because transparency can interfere business success in Russia (Kondakov 2013). As an example of non-transparent business, in 2012 Russian MNC Gazprom was in the list of 100 most non-transparent companies in the world (Gazprom Ranked 2012). Therefore, it should not be expected that Russian distributors will be ready to provide much information about their activities to an exporter. For example, an average volume of purchase per customer, analysis by store units and types of products can be considered by the distributor as important commercial information that he is not willing to disclose. Therefore, it can be claimed that only a selected list of performance criteria can be used by an overseas manufacturer (see Table 9). And according to the cultural peculiarities of Russians (subchapter 2.7), the results of performance evaluation should be communicated to Russian distributors in writing.

3.4.2. Monitoring and evaluating distributors' performance

The manufacturer should have information about foreign distributor's activities. It can be received done by using reports, quotas and personal visits by exporter's representatives. (Cateora et al. 2011) Therefore, it is important to organize efficient and prompt information feedback from a distributor, and to select managers responsible for making decisions concerning the relationship with him (Cavusgil 1998).

So, distributor's evaluation is a crucial element of distributor's management and control - according its results, training and motivational programs and planning can be developed. Moreover, 89% of exporters evaluate distributors' performance at rarest every 12 months (Shipley et al. 1989). Exporters usually evaluate distributors' performance by comparing results of a chosen period with past performance, but

sometimes mutually agreed objectives are taken as a basis for comparison. However, it can be claimed that comparing distributor's performance with the objectives that were agreed mutually is the best approach, because it combines manufacturer's export strategy and distributor's knowledge of the market. (ibid)

It can be claimed that there are some peculiarities of monitoring and evaluating performance in Russia - Russian companies are usually non-transparent (see Chapter 3.4.1), so they will likely try to resist providing much information about their activities. Nevertheless, Russian market environment is complex and volatile, so an exporter should receive this information feedback regularly to be able to react to the market's conditions and to implement any necessary changes to his export strategy. Therefore, distributor's obligation to provide a feedback concerning his performance should be specified in a distribution agreement. Besides, it needs to be emphasized that to get much information about distributor's activities, it is essential to arrange effective communication lines and to build trust with the Russian distributor.

3.4.3. Taking actions based on distributor's performance evaluation

If the results of distributor's evaluation are unsatisfactory, firstly, an overseas manufacturer should analyze if it is so because of his own wrong behavior. He should ask an independent organization to interview a distributor to make this analysis. The questionnaire should allow to get distributor's perception of the relationship and a manufacturer (for instance, about the quality of manufacturer's support, the adequacy of financial and other conditions, and the effectiveness of communication). (McMillan & Paulden 1974)

It can be claimed that after using an independent questionnaire, a manufacturer should make arrangements to increase distributor's sales. Firstly, by becoming more sensitive to distributor's domestic business practices, an exporter can contribute to better distributor's performance. (Skarmas, Katsikeas & Schlegelmilch 2002) Furthermore, Sousa and Frank (2009) argue that exporter's support has a strong positive impact on distributor's performance if a distributor is SME. Moreover, programs of export

assistance have a positive effect on the performance of SME, so it can be argued that exporters should increase the number of these programs.

Essential ways to improve distributors' performance include lower prices, faster deliveries, an ability to speak distributor's native language, improved communication, and better product quality. (Moore 1992) Nevertheless, Narus and Anderson (1988) argue that incentive programs (for example, lower prices) are tactical and short-term. Therefore, an exporter should compete for partner's time and effort also by offering him long-term partnership advantages. (ibid) Moreover, other scholars - Shipley et al. (1989) - also state that a partnership approach with distributors has a strong positive impact on their channel performance. Therefore, an exporter should use long-term strategic actions: channel core elements, capacity-building programs and incentive programs; as a result performance of a venture should be improved. Channel core elements that should be introduced by the importer include financial return provided to the distributors, product quality, competitive price, reliable delivery, and national reputation as a result of pull-marketing programs conducted by the importer. Capacity-building programs for the distributors include promotional support, responsiveness systems for the distributors' needs and problems, training courses (for instance, connected to selling or strategic planning), market research, and company policies (for example, selective distribution). (Narus & Anderson 1988)

Nevertheless, sometimes a distributor continuously does not achieve performance goals, or situation in the market changes. Then it can be reasonable to terminate the contract. It must be emphasized that an exporter should receive a competent legal consultation first. (Cateora et al. 2011)

To conclude, it can be stated that if performance expectations are not matched by a Russian distributor, the distributor should be interviewed by an independent organization. This should allow the exporter to understand if the reasons of bad performance are connected to his behavior. Then the actions can be taken to improve some of the following elements of the relationship: the communication and understanding, the financial conditions, the speed of delivery, the product quality,

distributor's technical, selling or managerial skills, or company policies in the sphere of selective distribution. It can be argued though, that an exporter should implement joint market research and promotional support after consulting the distributor - this is reasonable due to Russian market's complexity and volatility. Before making the actions to improve distributor's performance, information about these actions should be given to him, because Russians are characterized by high uncertainty avoidance and cautiously accept new ideas (Hofstede 2013b). Finally, if an exporter decides to terminate the contract with a distributor, he should receive a legal consultation first to be aware of any legal consequences of this decision. If a distribution agreement is terminated, an exporter should take actions against possible intellectual property rights infringement, because intellectual property rights are insufficiently protected by Russian government.

3.5. Summary

This subchapter's purpose is to summarize the analysis made in Chapter 3 for selecting, planning and managing distributors in Russia. The results are also presented in Table 9 in the end of the subchapter.

So, when assessing a candidate overseas partner, a manufacturer should consider financial and company strengths of a potential distributor. He should also evaluate distributor's ability to finance sales and promotion, and the experience of distributor's management team. Furthermore, a distributor should have experience of dealing with the products similar to exporter's products. Marketing skills of a potential overseas distributor in Russia that need to be evaluated by a manufacturer are geographical coverage and distributor's ability to sell products, to provide customer service, and to ensure successful performance of cooperation with an exporter. Next, a manufacturer should assess potential commitment of a candidate company to his products. Nevertheless, an exporter should consider that Russian companies are sometimes not willing to make big investments much into cooperation from the start. Other factors that should facilitate the cooperation with a distributor are connections of a distributor are

his connections with influential people, his experience of working with European company, and his proficiency in English.

The sources that can be used by a manufacturer for locating potential overseas distributors are customers' and colleagues' recommendations, a home country Trade Board, commercial business directories and management consultants, and Finpro or its analogues for manufacturers from the countries other than Finland. Furthermore, field research methods of visiting trade fairs and candidate partners' territory are useful for locating potential distributors and for establishing personal contacts with them. It should be emphasized that potential distributors in Russia can be reserved in answering exporter's questionnaire. Therefore, it is reasonable for an exporter to use various sources of information about a potential partner, including personal meetings with him. Quantitative and qualitative characteristics of a potential distributor should be assessed using an expert system. A trial agreement can be proposed to him if an exporter is not certain about his capabilities.

A manufacturer should check future partner's legal capacity before signing a contract with him – a manufacturer should be shown a certificate of state registration, a certificate of registration with tax authority, a charter of the company, and a license if applicable. The person signing a contract should be distributor's sole executive body or a person representing him under the power of attorney. It is important to note that if a contract is composed in two languages, it should include the provision about a prevailing language. Furthermore, a distribution agreement should contain an arbitration clause and provisions about the part responsible for customs clearance. A sample of an international distribution agreement suitable for Russia is presented in Appendix 1.

To motivate and support a Russian distributor, a manufacturer should implement financial incentives that are an important method of support for Russian distributors - for example, attractive credit terms. Besides, effective lines of communication should be arranged; also, business advice and market research information should be provided to ensure effective cooperation. Lastly, territorial protection, psychological rewards,

training and local advertising support should be realized to support and motivate by a distributor

Performance measures for Russian distributors should include sales statistics and market share. Moreover, a manufacturer should assess to what extent Russian distributor keeps commitments, what marketing inputs he makes, and how well he provides customer service. Also, new forms of cooperation that appeared between a manufacturer and a distributor should be described. Strategic, marketing, operational and financial management professionalism of a distributor should be assessed to evaluate his performance. It needs to be emphasized that distributor's feedback should be mentioned in a distribution agreement as obligatory; it can be implemented as reports, quotas and personal visits by manufacturer's representatives. Distributor's performance evaluation should be made by comparing results of a period with mutually agreed objectives or by comparing the results of a chosen period with past performance (see Table 9 for the methods of evaluating distributor's performance).

Table 9. Summarizing framework.

Elements of selection, planning and management of a distributor	Recommendations for Russian context (adapted for selection, planning and management of a Russian distributor)
Criteria for distributor's selection	<ol style="list-style-type: none"> 1) Financial and company strengths: <ul style="list-style-type: none"> • Ability to finance initial sales and subsequent growth. • Ability to raise additional funding. • Ability to provide adequate promotion and advertising funds. • Quality of management team. 2) Product factors: <ul style="list-style-type: none"> • Complementarity of product lines. 3) Marketing skills: <ul style="list-style-type: none"> • Geographic coverage. • Experience with target customers. • Customer service quality. • Quality of salesforce. 4) Commitment: <ul style="list-style-type: none"> • Willing to keep sufficient inventory. • Enthusiasm for a contract. • Undivided attention to products. 5) Facilitating factors: <ul style="list-style-type: none"> • Connections with influential people. • Working experience with European exporters. • Proficiency in English.

Methods of locating potential distributors	<ol style="list-style-type: none"> 1) Desk research <ul style="list-style-type: none"> • Customers' and colleagues' recommendations. • Home country Trade Board. • Commercial business directories. • Management consultants. • Finpro or its analogue in manufacturer's home country. 2) Field research <ul style="list-style-type: none"> • Personal visits. • Trade fairs.
Methods of collecting information about potential distributors	<ol style="list-style-type: none"> 1) Sending a letter or an email to a potential partner containing product information, distributor requirements and a questionnaire. 2) Checking received replies by contacting local embassy, banks, chamber of commerce or trade association (preferably using intermediaries from manufacturers' own country), existing principals and customers of a potential distributor. 3) Organizing personal meetings with a distributor (if not possible, telephone calls).
Methods of evaluating potential distributors	<ol style="list-style-type: none"> 1) Assessing quantitative and qualitative characteristics using an expert system. 2) Proposing a trial agreement to the distributor if the exporter is not certain about his capabilities.
Actions for composing a contract with a distributor	<ol style="list-style-type: none"> 1) Investigating local laws, preferably using a legal counsel. 2) Including the following provisions: <ul style="list-style-type: none"> • Tasks and responsibilities of parties – including responsibility of sides regarding to customs clearance. • Geographical and product exclusivity rights. • Products to be distributed. • Price provisions. • Rewards and punishment. • Conflict resolution – including the arbitration clause. • Duration of contract. • Conditions of termination. • Prevailing language of the contract.
Methods of supporting a distributor	<ol style="list-style-type: none"> 1) Exclusive rights or territorial protection. 2) Attractive financial incentives. 3) Attractive credit terms. 4) Effective lines of communication. 5) Sales and service training. 6) Local advertising support. 7) Psychological rewards.
Criteria of distributor's performance evaluation	<ol style="list-style-type: none"> 1) Sales statistics (including dynamics, and breakdown by territories). 2) Market share. 3) Keeping commitments. 4) Selling/marketing inputs. 5) New forms of cooperation (including new products introduction). 6) Customer service quality. 7) Strategic, operational and financial management professionalism. 8) Marketing professionalism.

Methods of monitoring distributor's performance	<ol style="list-style-type: none"> 1) Reports. 2) Quotas. 3) Personal visits by exporter's representatives.
Methods of evaluating distributor's performance	<ol style="list-style-type: none"> 1) Comparing results of the period with mutually agreed objectives. 2) Comparing results of a chosen period with past performance.
Methods of improving distributor's performance	<ol style="list-style-type: none"> 1) Asking an independent organization to interview a distributor about his perception of cooperation and of a manufacturer. 2) Increasing exporter's support: <ul style="list-style-type: none"> • higher financial return provided to a distributor; • lower prices; • faster deliveries; • ability to speak distributor's native language; • improved communication; • better product quality; • joint market research and promotional support; • training courses for better selling and strategic planning.

If the results of distributor's performance need improvements, a distributor should be interviewed by an independent organization to understand if a manufacturer acts wrong in the cooperation. Furthermore, communication and understanding in the cooperation, its financial conditions, speed of delivery, product quality, and distributor's technical, selling and managerial skills should be modified if needed. Besides, company policies in the sphere of selective distribution can be corrected. It is important to note that any modifications in the cooperation should be discussed with a Russian distributor before implementing them. Lastly, if an exporter decides to terminate the contract with a distributor, he should consult a legal counselor beforehand. In this case, he should also protect his intellectual property against possible misuse by a former partner.

4. RESEARCH METHODOLOGY

In this chapter the study is classified according to the types of researches. Research method used in the study is described and justified, and study's validity and reliability are proved.

4.1. Research methods

The methods of research are divided into qualitative and quantitative methods. “Many qualitative approaches are concerned with interpretation and understanding, whereas many quantitative approaches deal with explanation, testing of hypothesis, and statistical analysis.” (Eriksson & Kovalainen 2008) The following qualitative research approaches can be used: case study research, ethnographic research, grounded theory research, focus group research, action research, narrative research, discursive research, critical research and feminist research. (ibid)

Research purposes are classified as exploratory, descriptive and explanatory. Nevertheless, a study can have more than one purpose (for example, it can be both descriptive and explanatory). Moreover, the purpose can change during research process. Exploratory research is made in order to understand the nature of the phenomenon, to elaborate its nature, and to find new insights on it. This type of research is flexible; it is not unusual to change the direction during the research process. It can be conducted using three approaches: literature search, expert interviews, and focus group interviews. Next, descriptive research is a means of depicting a precise profile of objects or events; it is often a part of exploratory or explanatory research. Finally, a purpose of explanatory research is to find and to explain causal relationships between variables by examining a problem or a situation. (Saunders et al. 2009)

Table 10 shows the situations characterizing different research methods according to the forms of research question, the need of control of behavior events, and the characteristic of focusing on contemporary events. The research question of this study is how to make selection, planning and management of foreign distributors in Russian market. The

focus is made on a contemporary activity of a case company; its relationships with the distributors are not controlled by the researcher. Therefore, an appropriate research method to be used in this Master's thesis is an exploratory case study.

Table 10. Relevant situations for different research methods (adapted from Yin 2009).

Method	Forms of research question	Requires control of behavioral events?	Focuses on contemporary events?
Experiment	how, why?	yes	yes
Survey	who, what, where, how many, how much?	no	yes
Archival analysis	who, what, where, how many, how much?	no	yes/no
History	how, why?	no	no
Case Study	how, why?	no	yes

“A case study is an empirical enquiry that

- investigates a contemporary phenomenon in depth and within its real-life context, especially when
- the boundaries between phenomenon and context are not clearly evident.”

(Yin 2009)

Four types of case study design proposed by Yin (2009) are single-case (holistic) design, single-case (embedded) design, multiple-case (holistic) design and multiple-case (embedded design). The case that is studied in this Master's thesis is argued to be *representative* or *typical*. Therefore, a *single-case* study design is appropriate; the case company is studied as a whole, so a *holistic design* is used. Nevertheless, a possibility to do an empirical work beyond a single-case study may be questioned. (ibid)

Next, Eriksson and Kovalainen (2008) introduced the classification of case studies into intensive and extensive ones. Extensive case studies are conducted to find common characteristics and patterns across cases, and this Master's thesis is based on the intensive design since it includes a thorough investigation of only one case company. Intensive case studies are aimed on understanding the case from inside and from the

points of view of the actors related to it, on analyzing different contexts of the case. (ibid)

4.2. Research process

Yin (2009) mentions six sources of evidence that are commonly used in case studies: documentation, archival records, interviews, direct observations, participant-observation, and physical artifacts. All the sources have their advantages and disadvantages, so it is recommended to use multiple sources because this way they complement each other. (ibid)

The first source of evidence used for the case study is interviews. They were held with a case company AB SpaDealers Oy and its Russian distributors Usadba and BestenSPb because the author is working for AB SpaDealers Oy as a Regional Sales Coordinator in Saint-Petersburg. The advantages of this type of sources are that the information retrieved is targeted on the case study subjects, and that interviews provide causal explanations, bringing a profound understanding of the topics. On the other hand, during conducting and analyzing interviews, the bias of inaccurate questions and responses can appear, moreover, poor recall and interviewee's reflexivity can influence the acquired information. (Yin 2009) Besides, secondary literature is used to gain information for the study.

These case companies were selected because they are directly linked to the topic of selection, planning and management of distributors in Russia. SpaDealers is a Finnish manufacturer that exports to Russia using local distributors Usadba and BestenSPb. Therefore, these companies are able to provide information for an empirical research on the topic of the study. The persons that will be interviewed are General Director of SpaDealers, Chief Operating Officer of Usadba and Chief Development Officer of BestenSPb. Consequently, expertise of the interviewees is argued to be sufficient for providing complete and reliable information on the topic of selection, planning and management of distributors in Russia.

So, one of techniques of data collection used in this study was interview. Case qualitative study can include semi-structured interviews with complex or open ended questions (Yin 2009). Consequently, interviews were made during a face-to-face meeting that allowed the interviewer to ask additional questions to the interviewees and to give them enough time to think. The interviews were held in English and lasted approximately 40-60 minutes. A questionnaire for the case company from Finland (SpaDealers) is presented in Appendix 2. It consists of two parts: open questions and questions with rating scales. The questions are divided into groups related to the certain topic (for example, to the selection of dealers). Appendix 3 contains a questionnaire for the dealers which aim was to understand their perception of the cooperation with SpaDealers and of how it can be improved. It includes open questions and questions with rating scales.

4.3. Reliability and validity

The concept of credibility of research findings is connected to the concepts of reliability and validity. Reliability means the extent to which the data collection or analysis techniques generate consistent findings. Reliability can be estimated by testing if the indicators generate the same results other times, if these results were yielded by other researches and if the results were extracted from the data in a transparent way. There are four threats to reliability: subject or participant error, subject or participant bias, observer error and observer bias. Subject or participant error means that, for instance, the questionnaire may yield different findings in different time of the week due to changing psychological condition of the respondents. Subject or participant bias can be connected to employees replying to a questionnaire in a way that their boss wanted them to. An example of observer error is researchers working as a team and asking questions in different manners during the interviews. Lastly, the answers to the questionnaire in the same example can be construed in different ways, so observer bias can emerge. (Saunders et al. 2009)

The concept of validity is connected to questioning the existence of causal relationship between the variables. The first threat to validity is history - before a research is

conducted, some event can happen that will have an effect on its findings. The second threat is testing - if participants of the research believe that its findings can harm them, they may try to affect the results. The third threat to validity is mortality - participants can withdraw from the studies. Next, a possible threat is maturation - for example, in longitudinal studies characteristics, different from the ones that are studied, can affect the participants. The last threat to validity is ambiguity about causal direction - it is connected to whether one characteristic is affecting another characteristic, or is the direction opposite. (Saunders et al. 2009)

According to Saunders et al. (2009), credibility of research findings is affected by generalisability, also called construct validity. Construct validity is “the extent to which your results are generalisable: that is, whether your findings may be equally applicable to other research settings, such as other organisations” (ibid).

According to Yin (2009), there are four tests that are used to determine the quality of a research study, and they are construct validity, internal validity, external validity and reliability. It is necessary to explain how compliance to these tests of the research quality is ensured in this Master’s thesis. First of all, construct validity was proved by having interviewees to examine a draft case study report. As a result, it was guaranteed that the answers to the interviews represent interviewees' opinions on the construct investigated. Some replies were corrected by the interviewees during reading a draft case study report and some recommendations to the author considering improving its quality were made. Secondly, internal validity was ensured by careful explanation building, addressing rival explanation and using different information sources, and using logic models during analysis. For instance, during making the theoretical framework of this study, information in the literature sources was analyzed critically according to opinions of different authors and to author's experience. It was made to ensure an logical and objective conclusions. Next, external validity is not relevant to this study, as far as no generalizations will be made using its results. Finally, reliability was proved by completing case study protocol and case study database.

5. EMPIRICAL RESEARCH

This chapter contains the description of a empirical research conducted in the study. It begins with the introduction of case companies, then continues with their qualitative interviews, and finishes with summarizing the results of the empirical research.

5.1. Introduction of case companies

This subchapter is devoted to the description of case companies that were interviewed in order to gain information for empirical part of the thesis. They are Finnish manufacturer SpaDealers and its Russian distributors Usadba and BestenSPb.

SpaDealers

The factory and the office of SpaDealers are located in Kõrsnas, Finland; the company was founded in 1981, and it is producing hot tubs and saunas since 2003. SpaDealers is a family-run company; the products are manufactured in the factory in Kõrsnas using Finnish heat treated pine. Finnish market is both limited and seasonal, so export activities are an important part of the company's strategy. For this reason, the company has dealers in many European countries. Nevertheless, Scandinavian market is still the main market for SpaDealers according to annual volume of sales there.

The company has been selling to Russia since 2006. There are two resellers of its products in Moscow that cooperate with SpaDealers through an intermediary situated in Kiev. These two companies sell a wide range of products including all kinds of sauna accessories and even swimming pools. Since 2012 SpaDealers has two dealers in Saint-Petersburg: Usadba and BestenSPb, they cooperate with SpaDealers directly without intermediaries. Therefore, the relations between them and SpaDealers will be emphasized in this study that is devoted to selecting, planning and managing foreign distributors.

Usadba

Usadba is a cottage construction company, which was founded in 1996. It became specialized in Finnish cottages in 2001. All the cottage construction and installation works are made by the company itself; also the company offers customers an additional service of landscape design. Besides, Usadba is a dealer of two Finnish companies selling inside saunas and grill houses. There is a showroom for these products in the cottage exhibition where Usadba's sales office is located.

BestenSPb

BestenSPb is an exclusive distributor of a Finnish company producing grill houses in Russia; it has established a network of dealers in many regions of Russia. BestenSPb has a showroom in one of the cottage exhibitions in Saint-Petersburg where potential customers can see the products. Two years ago the company decided to expand its assortment of high quality European products, and to start offering hot tubs by SpaDealers.

5.2. Qualitative interviews

Interviews were held with all the companies mentioned in Chapter 5. They lasted 40-60 minutes each and consisted of open questions that were prepared by the author of this thesis beforehand and of other questions that emerged during the discussion. This subchapter is devoted to describing the information that was received during the interviews, and that is relevant for the study.

5.2.1. SpaDealers

Nowadays SpaDealers doesn't use distributors as an export mode - the company has many dealers instead. Nevertheless, General Director of SpaDealers (Ole Sten) would prefer to have one distributor in each country: having a distributor, SpaDealers would

spend less time teaching all the dealers, because it would be a distributor's task. According to Ole Sten:

The disadvantage or the main problem has always been to find the right dealer. To find someone who wants to learn, to get the right knowledge and to be able to give service. Then it is also a problem with financing – most of the dealers don't seem to have enough financing, and that is also a problem. They don't keep stock; many don't even have their own models in the showroom.

Besides, Ole Sten argues that establishing foreign subsidiaries is too expensive for SpaDealers, because it means financing employees, warehouse and stock in the country of interest.

The entrance of Russian market by SpaDealers was made due to the person in Kiev who offered his service as a middleman. Before that SpaDealers did not have any real plans for the Russian market, as they have found that the Russian market is very complicated and very different from others. Nevertheless, Ole Sten supposes that there must be a lot of potential in Russian market. There is also a lot of competition, but on other hand, many products of SpaDealers are almost unique for the market. Still, it is very important for SpaDealers to have a good serious dealer that takes the responsibility and that understand why they need to have knowledge to be successful.

Ole Sten argues that SpaDealers has experienced a cultural difference with Russian dealers connected to planning. He says that bad planning is common for Russian dealers - they can change their orders after sending it to SpaDealers, sometimes they postpone their orders for several weeks. In addition, Russian dealers very rarely order a standard product, they always customize the product they order, even if they do not know for sure that it is not possible for SpaDealers to manufacture it.

Selecting

Ole Sten mentioned that he has experienced some problems in cooperation with the dealers in Russia, partly because of bad quality of dealers' selection. Potential dealers are located by mostly by using the Internet and exhibitions. "It could also be an interest to be on some exhibition and see what they really have there." (Ole Sten) The

information about candidate companies is received also by writing emails and making phone calls.

Ole Sten mentioned that the criteria for dealer selection should be as follows: firstly, his products lines should complementary to the products that are produces by SpaDealers. Secondly, a dealer should possess financial capabilities to be able to organize a showroom and to put exhibition models into it, to afford marketing and sales promotion. A dealer should be serious about cooperation with SpaDealers and he should have interest in SpaDealers products. It should be emphasized that a market share of a potential dealer is not so important, as according to Ole Sten, companies that have big market also have bigger demands. Furthermore, no grading system is used for the evaluation of potential dealers.

Planning

SpaDealers has a standard distribution agreement but new dealers always ask to change some provisions of it. Ole Sten stated that the provisions about dealer's responsibilities and knowledge cannot be modified though. The distribution contract was composed by a legal counsel from the beginning; sometimes the legal counsel's opinion is asked about some changes to the contract proposed a dealer. Nevertheless, Ole Sten argues that sometimes dealers make the following mistake: *"when they accept the agreement, but then they don't follow the agreement; it looks like they have not really read it enough carefully."* (Ole Sten)

SpaDealers doesn't provide support to its dealers, except for giving free brochures for advertising, putting their contact information on a corporate website and giving some discounts for the hot tubs that are ordered for exhibitions and showrooms. But money is usually not spent by SpaDealers for other marketing activities as it is stated in the distribution agreement that marketing is the responsibility of a dealer. Nevertheless, if SpaDealers, for example, has interest to be a part of an exhibition, then financial conditions can be discussed separately. Ole Sten argues that such joint programs are possible if a dealer is ready to spend money for marketing, and if he has already got the

knowledge about the products and about their sales. Another method of dealer support used by SpaDealers is providing a free training on its factory that is aimed to improve dealers' knowledge about selling, assembling and servicing SpaDealers products.

Ole Sten says that these days he is composing a quality system to evaluate the performance of distributors and suppliers. The evaluation of suppliers is made once a year; a similar evaluation model will be implemented for the dealers. Ole Sten emphasizes that evaluating suppliers and dealers is useful, because they have to work more efficiently when they know that they are observed. The indicators that are supposed to be included into the list for dealer performance evaluation are volume of sales, quality of customer relations, quality of aftersales and frequency and quality of feedback.

Managing

According to SpaDealers' distribution agreement, dealers must send reports to the parent company about local market situation, competition and special demands of customers. Sales reports are not necessary to be sent to SpaDealers because the manufacturer can see what dealers have bought in a certain period using the database. Moreover, every November dealers send a report to SpaDealers containing their expected sales volume and planned marketing activities for the next year. Ole Sten argues that these reports allow the parent company to plan its production according to the demand anticipated for a next year.

Results of a certain period are compared with mutually agreed objectives. If performance evaluation results of a dealer are unsatisfying, the parent company will discuss with him the improvements that need to be done. Ole Sten thinks that a good method of improving dealers' performance is for them to learn more about the products - if dealers don't learn, it's always a problem for them to sell. If an authorized (official) dealer still doesn't follow the requirements, SpaDealers can take authorization from them, as a result the dealer gets a higher price for the products. Besides, there are certain clauses in the distribution agreement, violation of which leads to the termination of the

agreement. On the other hand Ole Sten is planning to make a reward system for the dealers. It could be discounts for a certain period, presents in the form of tourist trips or visits to exhibitions.

5.2.2. Usadba

Yuri Stafeev (Chief Operating Officer of Usadba) says that Usadba decided that cooperation with SpaDealers would be promising due to several reasons. Firstly, Usadba is specialized on products produced in Finland. Secondly, they are building cottages, so the company is interested in complementary products - for instance, summer houses, saunas and hot tubs. Therefore, Usadba has an experience of being a dealer of Finnish companies for already 12 years. Nevertheless, they became interested in selling hot tubs only one year before signing the distribution agreement with SpaDealers. At first they obtained the information about hot tubs produced in Russia but they were of average quality and did not have accessories, for example, bubbles, and electric and gas heaters. Therefore, Usadba decided to sell Finnish hot tubs made by SpaDealers.

Yuri Stafeev experiences some cultural differences during the cooperation with Finnish companies. In Finland company's image and long-term planning are very important, and in Russia most businessmen care more about making short-term profits, because most of Russian businessmen are not sure that their companies will exist in 20, 30 years. People are planning no longer that for 1 year ahead, then some negative changes can happen in the country, for instance, economy decline or financial crisis. Moreover, corruption is also a risk for business, and competitors or government can stop the company's operation for a certain period using police, inspections or court. So there are different ways to stop operations of a Russian company, and they can be used by company's opponents in many cases.

Nevertheless, Yuri Stafeev did not notice any barrier in communication between Usadba and Finnish companies. The difference is that in Russia business is often done through relations with family and friends, so the communication is more personal.

Selecting

Yuri Stafeev supposes that an ideal option for a Finnish company is to found a legal entity in Russia, but many companies do not want to do it because they are aware about problems connected to Russian laws, customs and other risks. Therefore, many Finnish companies prefer to cooperate with a Russian distributor. Usually suppliers contact Usadba by coming to its office or stand in some exhibition, and present their companies and products. They make an offer and give informative materials that are later analyzed by Usadba's headquarters. If supplier's proposition is very interesting for the company, there is a possibility of signing a contract and having a more detailed discussion about future cooperation. If Usadba is not sure about the product's potential, it can decide not to sign a distribution agreement with the supplier but to keep his contact information to provide it to the customer who will be interested in it.

When analyzing supplier's proposition, Usadba assess different factors - they analyze information about the company and visit its website. To emphasize, Yuri Stafeev argues that supplier's brand popularity is not so important because if the brand is popular, it has already established its policy and ambitions. More essential characteristic for Usadba is supplier's readiness to be flexible in the cooperation. They want supplier not just to sell products to them but to cooperate in terms of staff training, marketing materials, advertising and promotion of its products in the market. Yuri Stafeev argues that a good example of such Finnish supplier is a company producing grill houses - together with its Russian distributor it has a joint program including a warehouse in Saint-Petersburg, marketing activities and participation in exhibitions. As a result, this Finnish company is quite successful in selling its products in different regions of Russia.

If potential partner asks for it, Usadba can provide him with detailed information about experience in the market, duration of cooperation with Finnish companies, quantity of houses built by them, location of their offices, participation in the exhibitions, corporative priorities and marketing policy.

Planning

Yuri Stafeev from Usadba states that initiative about the text of distribution agreement usually comes from the supplier. Nevertheless, if some provisions disagree with Usadba's perceptions or with Russian laws or economy, Usadba proposes to modify these provisions. Particularly, supplier's warranty liabilities should last at least half a year; also it is necessary to coordinate products' certification, because European certificates are not effective in Russia. Besides, Usadba monitors a distribution agreement proposed by a manufacturer to be juristically right composed.

Usadba expects suppliers to provide support in the form of advertising support, placement of Usadba's contacts on supplier's website, and printing marketing brochures. Yuri Stafeev argues that more thorough cooperation should include such jointly financing activities as exhibitions and organizing a warehouse in Saint-Petersburg. Usadba's policy is to make investments pragmatically in the beginning of cooperation while the interest of customers towards new products is being tested.

From the point of view of a distributor, Yuri Stafeev claims that bonuses are a very useful method of motivation. Such bonuses (or discounts) allow a distributor to create a network of dealers in Russia and to sell them products with a low price. This way, retail prices of a distributor and its dealers will be the same. Without supplier's bonuses a distributor has to sell products to the dealer without any profit, or to boost its own retail prices. Otherwise, a distributor will have lower retail prices than a dealer, and a dealer will not have interest in promoting the products. Moreover, Yuri Stafeev thinks that exclusive bonuses ensure that new companies signing the contract with a supplier will not be able to put dumping price and ruin the market. They will have to develop and build a dealers network before receiving these bonuses; as a result a manufacturer will be sure that a new partner has long-term targets in the cooperation. Furthermore, it is essential to have a clearly structured and transparent mechanism "manufacturer-distributor-dealer" that would allow predicting sales and profit taking in account supplier's wholesale discounts, discounts based on the volume of sales in a certain

period and supplier's bonuses. This is Yuri Stafeev's statement about financial incentives:

The more financial incentives are provided by the supplier, the better - they are motivating. Maybe you did not sell many products during the year, but you were lucky to collect a big volume of orders and bought a wholesale amount of goods from the supplier, and received a wholesale discount. Or you cannot buy big amounts of products; you buy every month a little amount, but it sums to a big amount as a result of the year.

Next, Yuri Stafeev argues that it is very important for supplier's staff to know Russian, as many Russian businessmen do not speak English fluently. According to his experience, all Finnish companies selling their products to Russia have one or several employees speaking Russian. Furthermore, active communication between a manufacturer and an overseas dealer has a positive effect on their relationship, in Yuri Stafeev's opinion. Reciprocal visits should be made in order to establish good communication and understanding. During the visit time should be devoted not only to business but also to relaxing together, for example, going to theater or skiing. Significantly, the visits of one partner to another help to solve business issues that are difficult to solve by phone. Besides, during a face-to-face meeting sides can discuss many topics in a short period of time, including the topics emerging during the meeting.

According to Yuri Stafeev, monitoring of a dealer by a manufacturer is necessary, because this way the dealer gets a feedback from the manufacturer. Moreover, monitoring is useful for understanding sales' tendency, finding mistakes in dealer's operations, overcoming difficulties and finding an optimal way for raising the sales. Yuri Stafeev argues that dealer's performance analysis should be broad, and that the following indicators should be included to the evaluation: volume of sales, statistics of sales of different products, number of customer requests, number of customer refusals, number of website visits, participation in exhibitions, amounts of money spent on advertising, and effectiveness of advertising.

5.2.3. BestenSPb

BestenSPb did not plan to sell hot tubs before the year 2012 when a manager of SpaDealers contacted this company and proposed to become a dealer. BestenSPb has

several years of experience of partnership with a Finnish company selling grill houses which achieved a solid position in the Russian market with the help of BestenSPb; hot tubs and grill houses should be a good combination of products in the assortment. Alexei Vershinin (Chief Development Officer of BestenSPb) states that hot tubs are a very promising product for Russia because a Russian market of hot tubs has big potential.

Chief Development Officer of BestenSPb has noticed that Finnish businessmen are very accurate about planning. On the contrary, it is difficult to predict anything in Russia as purchasing power is very unstable due to financial and economic changes in the country. Finnish life is stable; as a result, Finnish people are able to make precise plans of production and sales. Contrariwise, it is better not to make precise plans in Russia but to allow a gap between minimum and maximum results or terms. Furthermore, long-term planning is very difficult due to instability of Russian financial and economic situation.

Alexei Vershinin believes that it is necessary to facilitate the communication with Finnish partners, to invite them to personally take part in the exhibitions where their products are displayed by a Russian dealer. As a result, a Finnish manufacturer understands that a Russian dealer is interested in the development of cooperation and is active in this cooperation.

Selecting

Sometimes suppliers come to BestenSPb at their own initiative as they know that this company works with Finnish products, and sometimes they come to BestenSPb because of a recommendation. Chief Development Officer of BestenSPb claims that the company prefers to represent brands that are not very famous in Russia yet. The main manufacturer's characteristics that Alexei Vershinin evaluates are potential of the product in Russia, its originality and quality. BestenSPb provides a potential partner with information about the company, strategy of its development, its dealer network and marketing program.

Planning

Chief Development Officer of BestenSPb always pay attention to time and sales limits mentioned in a distribution agreement. Moreover, a distribution agreement is usually signed much earlier than real work process begins, so Alexei Vershinin says that usually it is easier to add 3-4 months period to the time limits noted in the agreement. These 3-4 months are needed to find a place for the showroom and to mount the products in it.

Alexei Vershinin claims that the main method of support from manufacturer's side is understanding. It is difficult for a foreign businessman to perceive Russian market environment but he should understand that it takes some time to get customers interested in the product and to make good sales. Another essential method of support in the beginning of cooperation is financial assistance towards participation in exhibitions. A manufacturer should participate in the exhibitions together with a dealer to assess the demand towards the product and to see what are Russian customers interested in.

Alexei Vershinin argues that as a result of granting exclusive geographical rights to a distributor, sales and the pricing will be more controllable. Exclusive distributor can watch if policies of a manufacture are violated by dealers, and he can protect them if necessary. As a result, the whole process of distribution becomes more organized. Furthermore, distribution is more organized when a manufacturer provides local marketing support. According to Chief Development Officer of BestenSPb, by providing high quality marketing materials to a distributor, manufacturer ensure that the dealer will not print his own marketing materials of bad quality that will undermine the manufacturer's image.

To Alexei Vershinin's opinion, understanding from manufacturer's side is more important than financial incentives. To make understanding between sides better, a manufacturer should know Russian language. Many of Russians do not speak English fluently, and this can have a negative impact on cooperation. Therefore, Alexei Vershinin argues that a manufacturer that has put a priority on Russian market has to have somebody of his staff speaking Russian, or to have an intermediary in Russia.

Visits of a manufacturer to Russia are useful for the cooperation development; Alexei Vershinin claims that taking part in the exhibition is the first and very essential step for a manufacturer. It will allow a supplier to see the level of interest of customers, to contact them and to have business discussions with the distributor. Moreover, Alexei Vershinin states that a manufacturer and a distributor should organize 1-2 meetings every year (for example, one in manufacturer's country, and the second in Russia). Ideally, they should meet before the beginning of a sales season to decide a conception and a strategy for the season, and in the end of a sales season to summarize what have been achieved during the season.

Managing

Chief Development Officer of BestenSPb thinks that performance evaluation of dealers is a very subjective factor in Russia, as Russian market is unpredictable. One year can be very ineffective for the dealer but the next year after this one can become very successful, and the market can become developing very promptly.

5.3. Analysis of the main findings

Ole Sten (SpaDealers) argues that the problem of bad planning is common for Russian dealers. Yuri Stafeev (Usadba) and Alexei Vershinin (BestenSPb) agree with this statement; Yuri Stafeev believes that planning, and especially, long-term planning, is not an advantage of Russian companies. There are many risks for business in Russia: economy decline, financial crisis, unfair treatment in police, government or court. Therefore, the companies in this country are used to make plans for 1 year in comparison to Finnish companies that plan for much longer terms. Alexei Vershinin also claims that it is very difficult to make exact sales plans in Russia due to unstable purchasing power of customers. The best approach, to his opinion, is to make such plans specifying both minimum and maximum target for sales in a certain period of time. So, different perceptions of planning are considered a problem for cooperation by the parties.

Some difficulties in communication with Finnish businessmen were noticed by Alexei Vershinin. To summarize, Finnish and Russian businessmen act differently during communication, so they need some time and effort to get each other's understanding and trust. This is also supported by Hofstede's dimensions of Russia and Finland analyzed in Chapter 2.

5.3.1. Selection of foreign distributors

Before selecting a dealer, SpaDealers locates candidate companies in the Internet and in exhibitions; the same sources of information are used for getting information about them. Furthermore, on-site visits, emails and phone calls are also made by the manufacturer to present the company and the products, and to get more information about the potential partner. Moreover, Yuri Stafeev argues that Usadba is reached by suppliers in the exhibitions, or in Usadba's office. Nevertheless, Alexei Vershinin states that in some cases manufacturers reach BestenSPb following the recommendations of its suppliers. It can be argued that the Internet, exhibitions and colleagues' recommendations are effective methods of searching for dealers. Getting necessary information about a dealer found he should be done by visiting an exhibition where he is presenting or his office.

According to Ole Sten, the following criteria are assessed by SpaDealers when analyzing a dealer: complementarity of product lines, sufficient financial resources for organizing a showroom and implementing marketing activities, showing enthusiasm for the cooperation and for SpaDealers products. In turn, when receiving a proposition from a supplier, Usadba analyzes information about the manufacturer, his website, completeness of its Russian website, and supplier's flexibility in cooperation in terms of staff training, marketing materials and local advertising support. The managers of Usadba and BestenSPb can present the following information about their companies to potential suppliers: company information, information about cooperation with other Finnish suppliers, marketing activities and company's strategy. To conclude, the following criteria are assessed by the manufacturer: complementarity of product lines,

showing enthusiasm for the cooperation and for SpaDealers products, sufficient financial resources for organizing a showroom and implementing marketing activities. Nevertheless, an ability to provide financial funds for organizing a showroom and for making promotion cannot be accessed precisely, as financial state is not disclosed by Russian dealers.

Table 11. Importance of characteristics of a foreign distributor.

Characteristic of a foreign distributor	Importance according to Ole Sten from SpaDealers (1-10)	Importance according to the author (1-10)
Ability to finance initial sales and subsequent growth	10	10
Ability to raise additional funding	4	4
Ability to provide adequate promotion and advertising funds	7	7
Quality of management team	8	6
Complementarity of product lines	5	6
Geographic coverage	5	4
Experience with target customers	5	4
Customer service quality	10	9
Quality of salesforce	9	7
Willing to keep sufficient inventory	4	5
Enthusiasm for a contract	2	7
Undivided attention to products	8	8
Connections with influential people	4	4
Working experience with European exporters	3	3
Proficiency in English	8	5

Table 11 summarizes the weights given to different characteristics of foreign distributor by Ole Sten from SpaDealers and the author. The author has provided the weights according to his experience as a Regional Sales Coordinator. In most of the cases the weights are quite similar, thus the main characteristics of a foreign distributor are an ability to finance initial sales and subsequent growth, customer service quality, undivided attention to products, quality of salesforce, quality of management team, and an ability to provide adequate promotion and advertising funds. Nevertheless, it can be argued that enthusiasm for a contract was undervalued by Ole Sten - when a company does not have it, the cooperation with it will be affected by a lack of motivation.

Besides, proficiency in English is very important for Ole Sten, but in Russia most of the population do not speak English. Therefore, the author gave a medium importance for this characteristic of a distributor. It can be recommended to SpaDealers to have a Russian speaking person in staff to communicate with Russian distributors effectively.

Table 12. Importance of sources for locating potential foreign distributors.

Source for locating potential foreign distributors	Importance according to Ole Sten from SpaDealers (1-10)	Importance according to the author (1-10)
Customers' and colleagues' recommendations	4	7
Home country Trade Board	3	4
Commercial business directories	3	6
Management consultants	2	3
Finpro	2	3
Personal visits to distributor's territory	6	4
Trade fairs	9	10

Ole Sten from SpaDealers considers trade fairs and personal visits to distributors' territory as the most important sources to locate potential foreign distributors (see Table 12). But it can be claimed that personal visits to distributors' territory can be not feasible in Russia due to a large size of the country. As a result, the author emphasizes the importance of such sources as customers' and colleagues' recommendations and commercial business directories, as they are less time and money consuming.

Table 13. Importance of methods of collecting information about potential distributor.

Method of collecting information about potential distributor	Importance according to Ole Sten from SpaDealers (1-10)	Importance according to the author (1-10)
Sending a letter (or an email) to a potential partner with a questionnaire	2	3
Contacting local embassy, banks, chamber of commerce or trade association, existing principals and customers of a potential distributor	7	8
Organizing personal meetings with a distributor (or telephone calls)	10	10

The weights of Ole Sten from SpaDealers and of the author considering the methods of collecting information about potential distributor are quite similar, according to Table 13. It is important to note that in Russia sending emails with questionnaires to potential dealers is not a good method of collecting information about them because companies are non-transparent in this country - they will provide as little information as possible. Therefore, a personal meeting with a potential distributor will be more useful because personal contact is important for Russians to become more open towards a partner. Also contacting local embassy, banks, chamber of commerce or trade association, existing principals and customers of a potential distributor should be used to get additional information about a potential distributor in conditions of its non-transparency.

5.3.2. Planning of a foreign distributor

SpaDealers use a standard distribution agreement, and its text is always changed according to dealers' requests. Nevertheless, the provisions about dealer's responsibilities and knowledge should stay the same, Ole Sten says. Sometimes opinion of a legal counsel is asked about the propositions of a dealer to change contract's text. Furthermore, Usadba also checks a distribution agreement proposed by a supplier to be composed juristically right and to comply with Usadba's perception, Russian laws, and economic situation. On the contrary, Alexei Vershinin pays special attention to the time limits for sales and cooperation development mentioned in a distribution agreement. Therefore, to satisfy all the parties, a distribution agreement should contain provisions about dealer's responsibilities and knowledge, about the time limits for sales and cooperation development, and it should be composed juristically right and complying Russian laws and economic situation.

According to the company's policy that is stated in the distribution agreement, SpaDealers is not obliged to give local advertising support to its dealers. It provides them with marketing materials, puts their contact information to its website, instructs their staff during a free training on its factory, and gives a discount for showroom products and exhibition products. Some joint marketing programs with a dealer are

possible but Ole Sten argues that a dealer should show commitment first and receive knowledge about the products, sales and service.

But Ole Sten's opinion on dealers' support is quite different from what Yuri Stafeev and Alexei Vershinin said on this topic; they have other expectations of what support a manufacturer should provide to dealers. Yuri Stafeev claims that local advertising support is also necessary. Moreover, if cooperation between a manufacturer and a dealer is important for both sides, the sides should jointly finance exhibitions and a local warehouse. Alexei Vershinin's opinion corresponds Yuri Stafeev's opinion; Chief Development Officer of BestenSPb also mentions that a manufacturer should attend exhibitions in Russia himself to assess the level of interest towards his products and to see what demands customers have.

Furthermore, Yuri Stafeev emphasizes the importance of Russian language skills of a manufacturer that positively affect the communication between him and a dealers. Another positive factor for the communication is reciprocal visits that include not only business talks but also spending free time together. Alexei Vershinin's answers also contain the notions of Russian language and reciprocal visits; besides, he emphasizes the positive effect of mutual participation in the exhibitions on the communication between a manufacturer and a dealer. Next, Usadba doesn't require exclusive geographical rights from suppliers, because usually they are difficult to obtain. On the contrary, Alexei Vershinin argues that granting exclusive geographical rights results in more organized distribution and more control over pricing and sales.

To conclude, the opinions of the manufacturer and the dealers about support programs are quite different. The dealers claim that the manufacturer should provide financial assistance for local advertising, exhibitions and a local warehouse. Moreover, the dealers argue that the manufacturer should learn Russian and that reciprocal visits and mutual exhibition participation are a positive factor for the communication. Nevertheless, the manufacturer is not ready to provide support before the dealers show commitment themselves and receive knowledge about the products, sales and service;

therefore, the parties should formulate a mutual decision for the issue of support in the local market.

Table 14. Importance of methods of distributor support and motivation.

Method of distributor support and motivation	Importance according to Ole Sten from SpaDealers (1-10)	Importance according to Yuri Stafeev from Usadba (1-10)	Importance according to Alexei Vershinin from BestenSPb (1-10)	Importance according to the author (1-10)
Exclusive rights or territorial protection	3	4	7	6
Attractive financial incentives	1	10	7	6
Attractive credit terms	1	8	6	3
Effective lines of communication	8	4	10	9
Sales and service training	10	4	8	9
Local advertising support	4	5	4	6
Psychological rewards (for example, an article in corporate media)	6	2	2	3

Table 14 shows what weights were given to the methods of distributor support and motivation by the manufacturer (Ole Sten from SpaDealers), two Russian dealers of the manufacturer (Yuri Stafeev from Usadba and Alexei Vershinin from BestenSPb) and the author. This table was created to show the similarities and the differences in the evaluations made by these parties. As a result, it can be claimed that in some cases the opinions vary quite significantly. To begin with, exclusive rights or territorial protection is given low importance by Ole Sten comparing to other participants' opinion. It can be argued that in Russia exclusivity is reasonable to give in some regions with low population density, but in big cities it is advantageous for an exporter to have several distributors for a better coverage. Attractive financial incentives and attractive credit terms are evaluated by Ole Sten as insignificant methods of distributor support, which is inconsistent with distributors' and author's opinion. Providing attractive credit terms can

be risky for a manufacturer; nevertheless, he should provide attractive financial incentives in the forms of bonuses and discounts to motivate distributors to make more sales. Lastly, psychological rewards are not important for the distributors, according to Table 14, as rewards in form of attractive financial incentives. Therefore, it can be claimed that SpaDealers should provide tangible rewards to the distributors to motivate them effectively.

5.3.3. Management of a foreign distributor

SpaDealers requires dealers to send reports about anything important they notice: local market situation, competition, special demands of customers. Besides, every November dealers have to send a marketing plan for the next year. Yuri Stafeev from Usadba also believes that monitoring by a supplier is useful, as it helps dealers to perceive their achievements more objectively. Moreover, it allows partners to understand the dynamics of cooperation, to discover major problems and to decide a way of improvement. He proposes the following list of performance indicators: volume of sales, statistics of sales of different products, number of customer requests, number of customer refusals, number of website visits, participation in exhibitions, amounts of money spent on advertising, and effectiveness of advertising. So, the manufacturer should monitor the dealers by receiving the reports concerning local market situation, competition, special demands of customers, volume of sales, statistics of sales of different products, number of customer requests, number of customer refusals, number of website visits, participation in exhibitions, amounts of money spent on advertising, and effectiveness of advertising.

Distributors' performance is compared with mutually agreed objectives in SpaDealers. If the performance results of a dealer are less than expected, Ole Sten from SpaDealers has a discussion with him to decide the steps that should be made for improvement. Ole Sten also believes that getting more product, sales and service knowledge allows a dealer to achieve better results. Besides, according to the distribution agreement of SpaDealers, there is also a possibility of its termination if a dealer violates certain provisions. Nevertheless, to Alexei Vershinin's opinion, manufacturer's understanding

is an important way of cooperation improvement. He argues that a manufacturer should try to understand Russian market and Russian environment, and as a result not to be too strict in terms of time limits for development and achieving sales targets. Moreover, Alexei Vershinin from BestenSPb claims that performance evaluation is too difficult in Russia because dealers' performance is affected by instability of the Russian market. So, it can be stated that if dealer's performance evaluation results are lower than expected, the manufacturer should discuss with him how to improve the performance. If needed, he should advise the dealer to get more product, sales and service knowledge.

To reward successful dealers, Ole Sten plans to introduce a reward system according to which dealers will receive discounts, tourist trips and visits to exhibitions. Yuri Stafeev also argues that bonuses and discounts are very useful for cooperation between a manufacturer and a distributor. Besides, such bonuses for an existing distributor ensure that a new distributor of the manufacturer will not ruin the market by selling products for dumping prices. Finally, according to Yuri Stafeev the more bonuses and discounts are provided by manufacturer, the more motivated a distributor is to sell the products. To conclude, a reward system for the dealers is necessary, it should include discounts, bonuses, tourist trips and visits to exhibitions. It can be claimed that the more rewards are made available for the dealers - the more motivated they are to achieve good results.

Table 15. Importance of distributor's performance characteristic.

Distributor's performance characteristic	Importance according to Ole Sten from SpaDealers (1-10)	Importance according to the author (1-10)
Sales statistics	2	10
Market share	5	4
Keeping commitments	10	10
Selling/marketing inputs	7	7
New forms of cooperation (including new products introduction)	7	6
Customer service quality	10	10
Strategic, operational and financial management professionalism	8	7
Marketing professionalism	7	7

As it is shown in the Table 15, the weights given by the author and Ole Sten for different performance characteristics are quite similar excluding sales statistics. According to Ole Sten, this characteristic is not as important as others. But it can be argued that without using this characteristic, it will be difficult to track the progress in manufacturer-distributor relations.

Table 16. Importance of methods of monitoring distributor's performance.

Method of monitoring distributor's performance	Importance according to Ole Sten from SpaDealers (1-10)	Importance according to the author (1-10)
Annual reports from a distributor	9	10
Quotas for a distributor	2	3
Personal visits to distributor's territory	2	3

Different methods of monitoring distributor's performance were assessed in Table 16. The points of view of Ole Sten and the author coincide about the importance of annual reports from a distributor, and relative unimportance of quotas for a distributor and personal visits to distributor's territory. Therefore, author's experience of being a Regional Sales Coordinator proves Ole Sten's opinion about the methods of monitoring distributor's performance.

Participants who put weights for the methods of improving distributor's performance and their answers are described in Table 17. A serious disagreement can be noticed in the evaluation of the actions regarding manufacturer's efforts to improve the situation. So, Ole Sten from SpaDealers thinks that higher financial return provided to a distributor, lower prices, faster deliveries, better product quality, joint market research and promotional support granted to a distributor are not good ways to improve distributor's performance.

Table 17. Importance of methods of improving distributor's performance.

Method of improving distributor's performance	Importance according to Ole Sten from SpaDealers (1-10)	Importance according to Yuri Stafeev from Usadba (1-10)	Importance according to Alexei Vershinin from BestenSPb (1-10)	Importance according to the author (1-10)
Asking an independent organization to interview a distributor about his perception of cooperation and of a manufacturer	1	2	3	3
Higher financial return provided to a distributor	1	10	7	7
Lower prices	1	10	8	7
Faster deliveries	1	6	9	6
Learning distributor's native language	5	6	2	5
Improving communication with a distributor	5	3	7	9
Better product quality	2	8	10	8
Joint market research and promotional support granted to a distributor	3	4	8	8
Training courses for better selling and strategic planning	9	4	7	10

According to Table 17, Ole Sten believes that a distributor should attend training courses to improve his performance. On the contrary, the distributors and the author suppose that efforts from the manufacturer's side are important for improving distributor's performance. Therefore, it can be claimed that commitment from both the manufacturer's side and the distributors' side is necessary for improving the distributors' performance.

6. SUMMARY, DISCUSSION AND CONCLUSIONS

6.1. Summary

The study was completed according to its theoretical and empirical objectives that were aimed on analyzing how selecting, planning and managing distributors should be made in Russia. To reach these goals, a literature review of relevant literature was made, macroenvironment, microenvironment and cultural dimensions of Russia were investigated and a theoretical framework for selecting, planning and managing distributors in Russian market was created. Furthermore, an empirical part was included to the study to analyze the practices of a Finnish manufacturer (SpaDealers) concerning selecting, planning and managing of Russian distributors. Also Russian distributors of SpaDealers were interviewed to include their point of view on the topic. The summary part includes the main conclusions of the study and the recommendations provided to SpaDealers on selection, planning and management of Russian distributors. The summary is done according to Figure 12 which illustrates the framework of an overseas manufacturer shaping his practices of selecting, planning and managing of Russian distributors to Russian context.

So, political situation in Russia is stable, though the government is not democratic. Unfortunately, the government has not defeated corruption; it is still widespread in many different governmental and nongovernmental structures and organizations of Russia. Nevertheless, it can be claimed that the economic situation in Russia is good - for instance, country's GDP (nominal) per capita is constantly growing. As a result, FDI and export of goods to Russia have been growing except for the crisis years of 2008-2009. But an exchange rate of euro is rising, and this fact affects the competitiveness of overseas products in Russia.

Customers in big cities of Russia are easily reached due to high population density there. On the other hand, a Finnish manufacturer should consider that it is difficult to organize logistics to smaller cities because of bad state roads and poor transport infrastructure in the country. Moreover, it can be argued that protection of intellectual property is insufficient, despite Russian government's intention to facilitate

technological development of the country. So, it can be stated business environment in Russia is bad, the worst situation is with getting electricity, dealing with construction permits and trading across borders; doing business is not easy in Russia. Nevertheless, government is aiming to improve Russian business environment; therefore, the country should become more convenient for doing business in it.

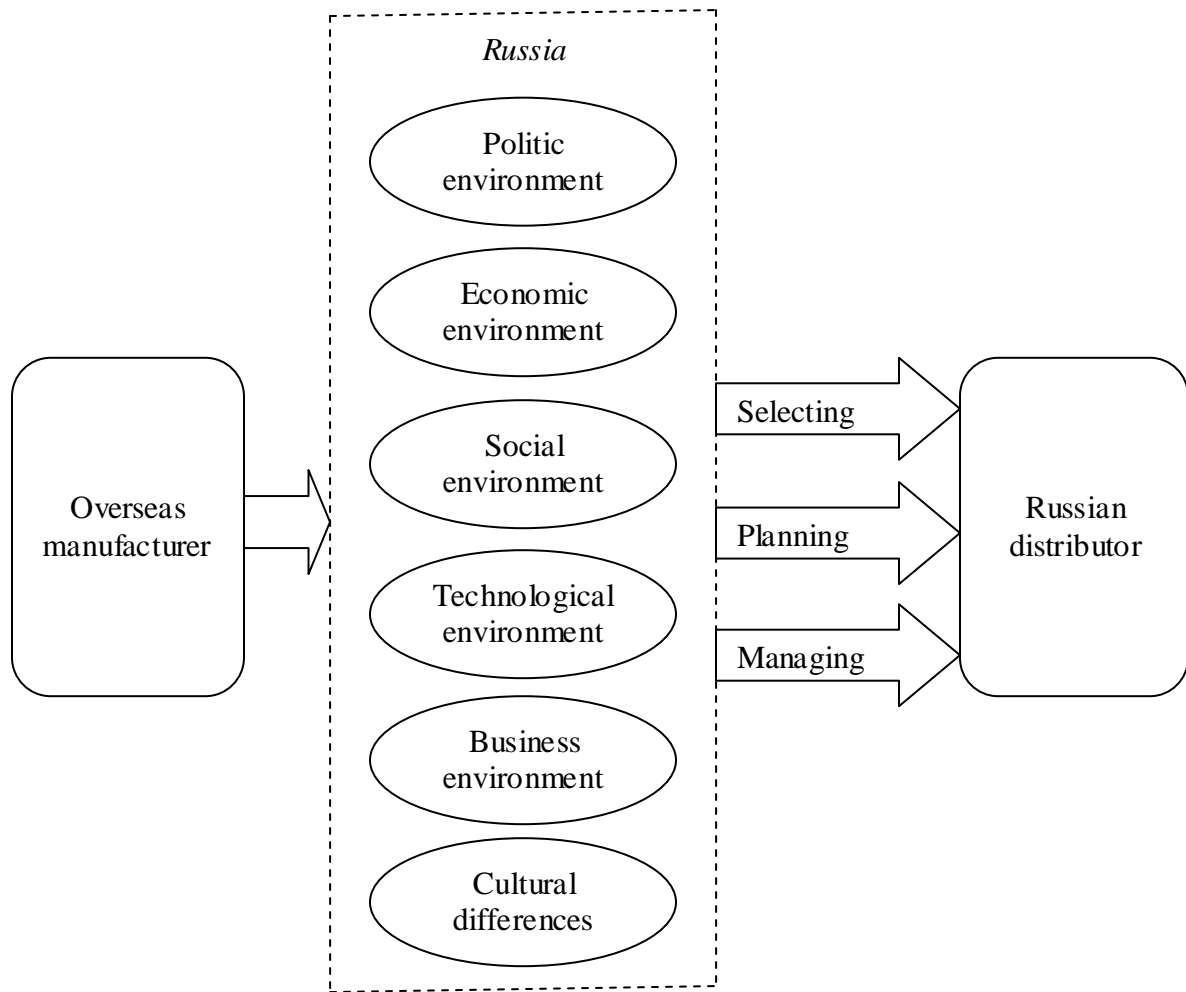


Figure 12. Summary of the framework of the study.

Moreover, a Finnish manufacturer should act with regard to differences between Russian and Finnish culture that can affect the communication of businessmen during the cooperation. It can be argued that a more authoritarian and pushing approach towards Russian distributors is needed comparing to Finnish distributors; for instance, they need to receive clear objectives of the relationship. Moreover, when proposing new ideas and concepts to a Russian distributor, an exporter should make them structured

and sounding reasonable, because Russian people are very cautious and slow in making decisions about new things being introduced. Lastly, to get the trust of Russian distributors, it is essential to build good working and personal relations with them. The topics discussed with them in unofficial meetings can be related also to their personal life, for example, their children and family. Another issue is connected to planning: both Finnish manufacturer and Russian distributors said that Finnish companies that plan for much longer terms than Russian companies. Besides, it is very difficult to make exact sales plans in Russia due to unstable purchasing power of customers and many risks for business. Therefore, a Finnish manufacturer should act with respect Russian business environment that affects Russian distributors' planning.

According to the empirical research, the following distributors' characteristics are assessed by the manufacturer during selection: complementarity of product lines, sufficient financial resources for organizing a showroom and implementing marketing activities, showing enthusiasm for the cooperation and for SpaDealers products. Other important characteristics of a foreign distributor are an ability to finance initial sales and subsequent growth, customer service quality, undivided attention to products, quality of salesforce, quality of management team. Nevertheless, an ability to provide financial funds for organizing a showroom and for making promotion cannot be accessed precisely, as financial state is not disclosed by Russian dealers. Besides, it can be argued that enthusiasm for a contract is also an important characteristic of a distributor - when a company does not have it, the cooperation with this company will be affected by a lack of motivation.

It can be claimed that surfing the Internet, visiting trade fairs and using colleagues' recommendations is efficient for searching for dealers. It needs to be emphasized that personal visits to distributors' territory can be not feasible in Russia due to a large size of the country. As a result, using customers' and colleagues' recommendations and commercial business directories are important for a Finnish manufacturer, as they are less time and money consuming.

According to the empirical research, the manufacturer obtains information for evaluating a potential dealer by sending emails and making phone calls, also by visiting an exhibition or dealer's office. Consequently, it can be advised to the manufacturer to get the information from various sources, for example, from local customers and from local chamber of commerce; as a result, his evaluation will be made more objectively. Besides, in Russia sending emails with is not a good way to collect information about potential dealers because Russian companies are non-transparent. Therefore, a Finnish manufacturer should establish personal contact by having a personal meeting with a potential dealer, this way he will get more information from this dealer. Evaluation of potential distributors should be made by assessing quantitative and qualitative characteristics using an expert system. It can be stated that a Finnish manufacturer can propose a trial agreement to the distributor if he is not certain about distributor's capabilities.

According to the interviews (see Chapter 5), the manufacturer sometimes uses a legal counsel for consultations about the distribution agreement. Moreover, it was argued that the distribution agreement should contain the provisions about dealer's responsibilities and knowledge, about the time limits for sales and cooperation development. Besides, it should be composed juristically right and in accordance to Russian laws and economic situation. The distribution agreement included in Appendix 1 is recommended for the Finnish manufacturer to use in Russia because it contains all the provisions needed for safe and effective cooperation with Russian distributors.

Next, the topic of Russian distributors' support was covered in the study. To emphasize, the points of view of case companies were quite different; the dealers argued that local advertising, exhibitions and a local warehouse should have joint financing with the manufacturer. Moreover, it can be stated that if exclusive rights or territorial protection are provided by a Finnish manufacturer, it is a good support for dealers. Nevertheless, it can be claimed that it is reasonable to have exclusive distributors in the regions of Russia with low population density, but in big cities it is advantageous for an exporter to have several distributors for a better market coverage. Attractive financial incentives

should be provided to the distributors in form of bonuses and discounts to for additional distributors' motivation.

To make Russian dealers' performance evaluation, the following characteristics should be assessed by a Finnish manufacturer: sales statistics, number of customer requests, number of customer refusals, number of website visits, participation in exhibitions, amounts of money spent on advertising, and effectiveness of advertising. Moreover, it can be argued that such characteristics as strategic, operational and financial management professionalism, and marketing professionalism of Russian dealers are necessary to assess, too. Furthermore, possible methods of monitoring distributor's performance are annual reports, quotas and personal visits by exporter's representatives. It can be stated that annual reports from a distributor are the most important method for a Finnish manufacturer for monitoring a Russian dealer. They can include also observations considering local market situation, competition, special demands of customers. Nevertheless, it was clarified in the study that quotas for a distributor and personal visits to distributor's territory are relatively unimportant.

If dealer's performance is unsatisfactory, a Finnish manufacturer should have a discussion with them about the methods of improving the situation. It was claimed that a possible reason of insufficient level of dealer's performance is could be insufficient knowledge about the products, their sales and service. Also, an opportunity of joint market research and promotional support should be discussed. On the contrary, if a dealer is successful, he should receive discounts, bonuses, tourist trips and visits to exhibitions. It was argued that the more rewards were made available for the dealers, the more motivated they were to achieve good results.

6.2. Implications, limitations and suggestions for future research

In the study no generalizations are made; nevertheless, it has some theoretical implications. The first theoretical implication is detailed analysis of Russian macroenvironment, microenvironment and cultural dimensions. This is a country with complex environment but, on the other hand, with a big market and strong economy.

Exporters should be very accurate while choosing distributors in the Russian market because success of organizing export to Russia will be much dependent from the intermediaries based in this country. In addition, this study provides information about the methods of selecting, planning and managing distributors in Russia. This methods were extracted based on the literature review and on the analysis of Russian macroenvironment, microenvironment and cultural dimensions.

Managerial implications for this study are provided in the form of recommendations given for a Finnish manufacturer SpaDealers which was one of the case companies in this study. This company was provided recommendations considering its policy in selecting, planning and managing distributors. It is possible for other Finnish companies to use these recommendations for organizing its export to Russia, as the analysis in the study was made without focusing on a specific industry but just on Russia and Russian business. It should be helpful for Finnish companies to get additional knowledge about selecting, planning and managing distributors in Russia as business environment and cultural dimensions of these two countries are quite different. Also, the information about selecting, planning and managing distributors in Russia can be used by international companies from the countries other than Finland.

An overseas manufacturer should operate in Russia carefully, considering differences between Russian and his own culture. Next, colleagues' recommendations and commercial business directories are a good source of information for locating potential distributors in Russia because personal visits to distributors' territory is time and money consuming due a large size of the country. An exporter should also consider that companies in Russia are non-transparent; therefore, they don't disclose much data about their operations, especially financial and market information. Besides, he should maintain good personal relations with a Russian dealers. The distribution agreement in Appendix 1 is argued to be suitable for Russian context, so it is one of managerial implications of this study, too.

The first limitation of this study is that only one foreign manufacturer and its distributors were analyzed - a Finnish manufacturer SpaDealers and its Russian

distributors Usadba and BestenSPb. Therefore, the results of the analysis cannot be generalized, because the number of case companies in the study is insufficient for making any generalizations for Russian market or for any other markets. Another limitation of the study is that the author is a participant of working relations between the case manufacturer and its Russian distributors; he works in SpaDealers as a Regional Sales Coordinator. Nevertheless, to minimize the bias, the author opinion was provided in Chapter 5 (see Tables 11-17) separately from the manufacturer's opinion.

It can be suggested that future research should continue investigation of the field of relationships between a manufacturer and its foreign distributors. If more empirical data is collected about Finnish manufacturers selecting, planning and managing their Russian distributors, generalization of the results can be made. Furthermore, it can be recommended for scholars to analyze how distributors are selected, planned and managed in a developed country and to compare this with the results of the study of Russian distributors. Lastly, it can be of interest to analyze the exporting activities of the Finnish manufacturer SpaDealers after a certain period of time, to observe how the recommendations provided in this study influenced its working relations with the Russian distributors Usadba and BestenSPb.

LIST OF REFERENCES

Albaum, Gerald & Edwin Duerr (2008). *International marketing and export management* 6th edition. Prentice Hall.

Average annual population (2012). *Saint-Petersburg opencity*. <URL:<http://st-petersburg.ru/en/statistics/Social%20Environment/Population/Average%20Annual%20Population.aspx>>

Bychina, Irina (2012). Appetites are growing. *Kommersant: Companies* №116. (Ирина Бычина (2012). Аппетиты растут. *Коммерсант: Компании* №116.)

Cannon, Joseph P. & William D. Jr. Perreault (1999). Buyer-seller relationships in business markets. *Journal of Marketing Research* 36:4, 439-460.

Cateora Philip R., Gilly Mary C. & Graham John L. (2011). *International marketing* — 15th edition. McGraw-Hill/Irwin.

Cavusgil, S Tamer (1998). Executive Insights: International Partnering-A Systematic Framework. *Journal of International Marketing* 6:1, 91-107.

Cavusgil, S. T., P. Yeoh & M. Mitri (1995). Selecting foreign distributors - an expert systems approach. *Industrial Marketing Management* 24, 297-304.

Cavusgil, S. T., S. Deligonul & C. Zhang (2004). Curbing Foreign Distributor Opportunism: An Examination of Trust, Contracts, and the Legal Environment in International Channel Relationships. *Journal of International Marketing* 12:2, 7–27.

Contracts with Russian partners (2010). *Corporate Practice*. <URL:http://corporate-law.ru/en/contracts_with_russian_partners>

Cooperation in the sphere of Intellectual Rights Protection (2011). *Norden*. <URL:
http://www.norden.ru/Article.aspx?id=180&lang=en>

Corruption Perceptions Index (2011). *Transparency International*.
<URL:http://www.transparency.org/cpi2011/results>

Corruption Perceptions Index (2012). *Transparency International*.
<URL:http://www.transparency.org/cpi2012/results>

Country partnership strategy for the Russian Federation 2012-2016 (2011). *World Bank*.
<URL: http://www-
wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2011/11/29/000350
881_20111129092154/Rendered/PDF/651150CAS0P12300disclosed0110280110.pdf>

Country statistical profile: Russian Federation (2013). *Organisation for Economic
Cooperation and Development (OECD) iLibrary*. <URL:http://www.oecd-
ilibrary.org/sites/csp-rus-table-2013-1-en/index.html;jsessionid=1t45pevfmtxjt.x-oecd-
live-
02?contentType=/ns/StatisticalPublication,/ns/KeyTable&itemId=/content/table/207522
88-table-rus&containerItemId=/content/table/20752288-table-
rus&accessItemIds=&mimeType=text/html>

CPB World Trade Monitor (2012). *CPB Netherlands Bureau for Economic Policy
Analysis*.
<URL:http://www.cpb.nl/sites/default/files/cijfer/CPB%20World%20Trade%20Monito
r%20%28including%20November%202012%29/cpb-world-trade-monitor-november-
2012.pdf>

Customs Tariff Of The Russian Federation (2012). <URL:http://www.russian-customs-
tariff.com/SectionXX/Chapter96.html>

Distribution of population according to the volume of money income per capita (2012). *Federal State Statistics Service*. (Распределение населения по величине среднедушевых денежных доходов (2012). *Росстат*.) <URL: http://www.gks.ru/free_doc/new_site/population/urov/urov_31g.htm>

Deresky, Helen (1994). *International management: managing across borders and cultures*. New York: HarperCollins.

Distribution of total money income (2013). *Federal State Statistics Service*. (Распределение общего объема денежных доходов населения (2013). *Федеральная Служба Государственной Статистики*.) <URL:http://www.gks.ru/free_doc/new_site/population/urov/urov_32g.htm>

Doing Business in Russia (2012). *Export.gov (International Trade Administration of USA)*. < <http://export.gov/russia/doingbusinessinrussia/index.asp>>

Doing Business in Russia (2013). *KPMG*. <<https://www.kpmg.com/RU/en/IssuesAndInsights/ArticlesPublications/Documents/Doing%20Business%20in%20Russia%202013%20eng.pdf>>

Economy profile: Russian Federation (2012). *The World Bank*. <URL: http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2012/02/28/000356161_20120228233412/Rendered/PDF/654510Russian00BOX0365768B00PUBLIC0.pdf>

Egorov Vladislav (2011). National Labour Law Profile: Russian Federation. *International Labour Organization*. <http://www.ilo.org/ifpdial/information-resources/national-labour-law-profiles/WCMS_158917/lang--en/index.htm>

Eriksson, Päivi & Anne Kovalainen (2008). *Qualitative methods in business research*. London: Sage.

Euro exchange rates RUB (2013). *European Central Bank*. <URL:
<http://www.ecb.int/stats/exchange/eurofxref/html/eurofxref-graph-rub.en.html> >

Experts: The market for organic products to the Russian Federation 2015 could reach \$ 225 million (2013). *RusBusinessConsulting*. (Эксперты: Рынок органических продуктов РФ к 2015г. может достичь 225 млн долл. (2013). РосБизнесКонсалтинг.)

<URL:<http://www.rbc.ru/rbcfreeneews/20130312181507.shtml> >

Fisenko Andrei I. (2011). Status, problems and challenges of Russian transport and logistics complex development. *Asia-Pacific Journal of Marine Science&Education* 1:1, 31-42.

Fram, Eugene H. (1992). We Can Do a Better Job of Selecting International Distributors. *The Journal of Business & Industrial Marketing* 7:2, 61-70.

Freedom of the Press (2012). *Freedom House*. <<http://www.freedomhouse.org/sites/default/files/Global%20and%20Regional%20Press%20Freedom%20Rankings.pdf>>

Ganesan, Shankar (1994). Determinants of long-term orientation in buyer-seller relationships. *Journal of Marketing* 58:2, 1-19.

Gazprom Ranked Among Most Non-Transparent Global Companies – TI (2012). *RIANOVOSTI*. < <http://en.ria.ru/business/20120710/174519090.html> >

GDP and GVA according to the types of economic activities (2012). *Federal State Statistics Service*. (Валовой внутренний продукт и валовая добавленная стоимость по видам экономической деятельности (2012). *Росстат*.) <
http://www.gks.ru/free_doc/new_site/vvp/tab10.xls
 >

GIPC International IP Index (2012). *Global Intellectual Property Center*.

<URL:dev.theglobalipcenter.com/wp-content/uploads/2013/01/020119_GIPCIndex_final.pdf>

Google Scholar (2013). *Google*. <URL:http://scholar.google.com>

Gu, Flora F., Namwoon Kim, David K. Tse, & Danny T.Wang (2010). Managing Distributors' Changing Motivations over the Course of a Joint Sales Program. *Journal of Marketing* 74, 32–47.

Hofstede, Geert (1982). *Culture's consequences : international differences in work-related values*. Newbury Park (CA); Beverly Hills, Calif.: SAGE.

Hofstede, Geert (2013a). Finland. *The Hofstede Center*. <URL:http://geert-hofstede.com/finland.html>

Hofstede, Geert (2013b). Russia. *The Hofstede Center*. <URL:http://geert-hofstede.com/russia.html>

IMF pinched off another percentage (2013). *Gazeta*. (МВФ отщипнул еще процент (2013). *Газета*.) <URL:http://www.gazeta.ru/business/2013/09/24/5667373.shtml>

International distributor agreement (2007). *LaCount Law*. <URL:http://www.lacountlaw.com/articles/international2.pdf>

Is Russia Too Corrupt for International Business? (2013). *CNBC*. <URL:http://www.cnn.com/id/100805382>

Kondakov A. (2013). Difficulty of Doing Business in Russia: First-Person Perspectives. *Valdai Discussion Club*. <http://valdaiclub.com/economy/56880.html>

Kotler, Philip & Kevin Lane Keller (2006). *Marketing management* 12 ed. Upper Saddle River (N.J.): Pearson Prentice Hall.

Languages of the Russian population. *Federal State Statistics Service*. (Владение языками населением российской федерации (2010). *Федеральная Служба Государственной Статистики*.)

<URL:http://www.gks.ru/free_doc/new_site/perepis2010/croc/Documents/Vol4/pub-04-05.pdf>

Legal regulation of distribution relations in Russia (2014). *Inmar*. (Правовое регулирование дистрибьюторских отношений в РФ (2013). *Инмар*.)

<URL:http://www.inmarlegal.ru/press/publications/sorporate_law/pravovoe_regulirovanie_distrib_yutorskih_otnoshenij_v_rf/pravovoe_regulirovanie_distrib_yutorskih_otnoshenij_v_rf/>

Lewin, Jeffrey E & Wesley J. Johnston (1997). International salesforce management: a relationship perspective. *The Journal of Business & Industrial Marketing* 12, 236-252.

Lin, Jiun-Sheng Chris & Ching-Rung Chen (2008). Determinants of manufacturers' selection of distributors. *Supply Chain Management* 13:5, 356-365.

Lucash, Richard M, James Geisman & William Contente (1991). Choosing an Overseas Distributor. *Small Business Reports* 16:8, 68-71.

McMillan, Colin & Sidney Paulden (1974). *Export Agents: A Complete Guide to Their Selection and Control* 2 ed. Essex: Epping.

Moore, A. Richard (1992). A Profile of UK Manufacturers and West German Agents and Distributors. *European Journal of Marketing* 26:1, 41-51.

Narus, James A. & Anderson, James C. (1988). Strengthen distributor performance through channel positioning. *Sloan Management Review* 29:2, 31-39.

Per capita income of Russian Federation (2013). *Federal State Statistics Service*.
(Среднедушевые денежные доходы населения по Российской Федерации (2013).
Федеральная Служба Государственной Статистики.)
<URL:http://www.gks.ru/free_doc/new_site/population/urov/urov_11kv.htm>

Peterson, Bent, Gabriel R.G. Benito & Torben Benito (2000). Replacing the foreign intermediary. *International Studies of Management & Organization* 30:1, 45-62.

Prospects of organic food market in Russia (2011). *Agro-industrial portal of Southern Russia*. (Перспективы рынка органической продукции (Organicfoods) в России (2011). *Агропромышленный портал Юга России*.)
<http://www.agroyug.ru/page/item/_id-5292/>

Rosenbloom, Bert (1990). Motivating your channel partners. *Business Horizons* 33:2, 53-57.

Rosson, Philip J. & I. David Ford (1982). Manufacturer-overseas distributor relations and export performance. *Journal of International Business Studies* 13, 57-72.

Russia attractiveness survey (2013). *EY*.
<URL:<http://www.ey.com/RU/en/Issues/Business-environment/Russia-attractiveness-survey-2013>>

Russia GDP nominal per capita (2013). *World DataBank*.
<URL:<http://databank.worldbank.org/data/views/reports/tableview.aspx?issshared=true&ispopular=series&pid=3>>

Russia industry: German winemaker seeking distributor (2003). *EIU ViewsWire* 27.

Russia inflation rate (2013). *Trading Economics*. <URL:
<http://www.tradingeconomics.com/russia/inflation-cpi>>

Russia overview (2014). *The World Bank*.
 <<http://www.worldbank.org/en/country/russia/overview>>

Russia remains the most interesting but also the hardest market for Finnish companies (2012). *Ministry for foreign affairs of Finland*.
 <<http://formin.finland.fi/public/default.aspx?contentid=261755&nodeid=15260&contentlan=2&culture=en-US>>

Russian Federation: Inward Foreign Direct Investments of Banks and Nonbanking Corporations, by Geographical Allocation (2013). *Central Bank of Russia*.
 <http://www.cbr.ru/eng/statistics/print.aspx?file=credit_statistics/inv_in-country_e.htm&pid=svs&sid=ITM_48993>

Russian Recession Risk (2013). *Bloomberg*. <<http://www.bloomberg.com/news/2013-08-18/russian-recession-risk-worsened-as-banks-skimp-on-loans-economy.html>>

Russia's economy and the World Trade Organisation: A chance to get down to business (2012). *The Economist* Jul 14th 2012.

Russia's president: Vladimir the victor (2012). *The Economist* Nov 3rd 2012.

Russia: Age structure (2013). *Index Mundi*.
 <URL: http://www.indexmundi.com/russia/age_structure.html>

Russia: taxes (2012). *WWW-WORLDWIDE TAX-COM*. <<http://www.worldwide-tax.com/russia/indexrussia.asp>>

Russia: GDP annual growth rate (2013). *Trading Economics*.
 <<http://www.tradingeconomics.com/russia/gdp-growth>>

Russia – inflation rates (consumer prices) (2012). *Index Mundi*.

<<http://www.indexmundi.com/g/g.aspx?c=rs&v=71>>

Russia: Population growth rate (2013). *Index Mundi*.

<URL: <http://www.indexmundi.com/g/g.aspx?c=rs&v=24>>

Russia: Where people want to show off their wealth (2010). *Financial Times*.

<URL:<http://www.ft.com/intl/cms/s/0/aa6d369a-ed20-11df-8cc9-00144feab49a.html#axzz2g5Ik gJWh>>

Science funding from the federal budget (2013). *Federal State Statistics Service*.

(Финансирование науки из средств федерального бюджета (2013). *Федеральная Служба Государственной Статистики*.)

<URL:http://www.gks.ru/free_doc/new_site/business/nauka/nauka6.xls>

Shipley, David, David Cook & Eileen Barnett (1989). Recruitment, Motivation, Training and Evaluation of Overseas Distributors. *European Journal of Marketing* 23:2, 79-93.

Skarmas, D., Katsikeas, C.S. & Schlegelmilch, B.B. (2002). Drivers of commitment and its impact on performance in cross-cultural buyer-seller relationships: The importer's perspective. *Journal of International Business Studies* 33:4, 757-783.

Sokolova, Tatyana (2012). Country house market of the USA and Russia: synchronous swimming. *BFM.RU* (Соколова Татьяна. Загородный рынок жилья США и России: синхронное плавание. *BFM.RU*)

<URL:<http://www.bfm.ru/realty/2012/06/24/zagorodnyj-rynok-zhilja-ssha-i-rossii-sinhronnoe-plavanie.html>>

Sousa, Carlos M.P. & Bradley, Frank (2009). Effects of Export Assistance and Distributor Support on the Performance of SMEs: The Case of Portuguese Export Ventures. *International Small Business Journal* 27, 681-700.

Sun, Wei (2011). A distributors selection model in flour milling corporation based on grey incidence analysis - Case study of Eastern Flour Milling Corporation, Sanhe City, Hebei Province, China. *Proceedings of 2011 IEEE International Conference on Grey Systems and Intelligent Services, GSIS'11 - Joint with the 15th WOSC International Congress on Cybernetics and Systems*, 67-70.

The main life values of Russians (2011). *RIA News*. (Главные жизненные ценности россиян (2011). *РИА Новости*). <URL:
<http://ria.ru/info grafika/20110704/396207065.html>>

Timakov V. (2010). Cultural Adaptability. *The Moscow Times* 4366.

The growth of real income of Russian citizens reached 2,9% for 7 months – Federal State Statistics Service (2012). (За 7 месяцев рост реальных доходов населения РФ составил 2,9% - Росстат – In Russian). *Finmarket*. Available from World Wide Web [cited 08.12.2012]: <URL:<http://www.finmarket.ru/z/nws/news.asp?id=3019283>>

The world's most powerful people (2012). *Forbes*.
 <URL:<http://www.forbes.com/powerful-people/list/>>

Vladimir Putin aims to boost Russia's investment climate (2012). *The Telegraph*.
 <URL:<http://www.telegraph.co.uk/sponsored/rbth/business/9333604/vladimir-putin-russia-investment.html> >

Yin, Robert K. (2009). *Case study research: design and methods* 4th ed. Los Angeles : Sage.

Interviews:

Sten, Ole - General Director of SpaDealers - 04.01.2013.

Stafeev, Yuri - Chief Operating Officer of Usadba - 09.11.2013.

Vershinin, Alexei - Chief Development Officer of BestenSPb - 14.11.2013.

APPENDICES

APPENDIX 1: International distributor agreement (International distributor agreement 2007)

THIS INTERNATIONAL DISTRIBUTOR AGREEMENT (this "Agreement") is made and entered into on _____ ("Effective Date") by and between [COMPANY/SUPPLIER], a _____ corporation with a principal place of business at _____. ("COMPANY") and _____, a corporation organized and existing under the laws of _____ with its head office and principal place of business at _____ ("DISTRIBUTOR").

1. Appointment and Acceptance

1.1 COMPANY hereby appoints DISTRIBUTOR on an exclusive basis to purchase and resell the Products in the Territory. DISTRIBUTOR accepts this appointment on the terms and conditions set forth herein and obligates itself to the requirements of this Agreement.

1.2 The term "Products" shall mean the COMPANY products listed on Exhibit A attached hereto. COMPANY reserves the right to delete discontinued Products upon thirty (30) days prior written notice to DISTRIBUTOR. New or additional Products developed by COMPANY during the term of this Agreement shall be included on Exhibit A.

1.3 The term "Territory" shall mean the geographic area defined on Exhibit B attached hereto. DISTRIBUTOR shall not, without the express written authorization of COMPANY (i) reexport the Products from the Territory, or (ii) sell, service or promote the Products from a location outside of the Territory.

1.4 Distributor shall not appoint any subdistributors, subrepresentatives or subagents to sell or otherwise promote the sale of the Products without the express written consent of COMPANY.

2. Direct Sales

COMPANY's policy is to sell the Products through its DISTRIBUTOR organization, wherever possible. In the event that COMPANY should make any sales directly to

customers in the Territory, it will compensate DISTRIBUTOR for any and all assistance performed at COMPANY's request. Further, in the event a prospective customer approaches COMPANY with the request for a Product quotation which envisions shipment of the Product into the Territory, COMPANY will reasonably compensate DISTRIBUTOR for any and all assistance performed at COMPANY's request in connection with any sale which results from such quotation.

3. Distributor's Representations

In order to induce COMPANY to enter into this agreement, DISTRIBUTOR, and its undersigned officer, warrant and represent that:

3.1 DISTRIBUTOR is a corporate entity duly organized and in good standing, and will remain in compliance with all applicable laws in the Territory.

3.2 DISTRIBUTOR was not created primarily to enter into this Agreement or to handle the Products, and its business is not exclusively or principally devoted to the purchase and resale of the Products.

3.3 DISTRIBUTOR is and will remain an independent contractor with respect to its relationship with COMPANY. DISTRIBUTOR agrees that COMPANY has granted it no authority to make changes to COMPANY's terms and conditions of sale, to extend COMPANY warranties or, in general, to enter into contracts or make quotations on behalf of or to bind COMPANY in any transactions with DISTRIBUTOR's customers or any governmental agencies or third parties. No relationship of employment shall arise between COMPANY and DISTRIBUTOR, or between COMPANY or any employee or representative of DISTRIBUTOR. DISTRIBUTOR is at all times acting for its own account, and at its own expense.

4. Term

4.1 Subject to the provisions of Section 13 below, the term of this agreement shall be for a fixed period of ____ years, commencing on the Effective Date and ending automatically at the expiration of such period, unless renewed as provided in provision 4.2 below.

4.2 If COMPANY and DISTRIBUTOR expressly agree in writing to renew this Agreement prior to the foregoing expiration date, this Agreement shall continue in full force and effect for one or more successive one (1) year renewal periods.

5. Prices and Terms

5.1 The Product prices quoted are exclusive of any national, state or local sales, use, value added or other taxes, customs duties, or similar tariffs and fees which shall be the responsibility of DISTRIBUTOR. In the event that COMPANY is required to pay any such taxes, duties or fees, such items will be added to the invoice to be paid by DISTRIBUTOR.

5.2 COMPANY may adjust the prices of the Products from time to time upon reasonable prior written notice to DISTRIBUTOR. DISTRIBUTOR shall submit a list of outstanding quotations to COMPANY at time of price change and COMPANY shall price protect such outstanding quotations for a period not to exceed three (3) months from the effective date of the price change.

5.3 All payments shall be made in United States dollars and shall be made by DISTRIBUTOR no later than thirty (30) days following the receipt of COMPANY's invoice.

5.4 In consideration of any open account terms given by COMPANY, DISTRIBUTOR hereby grants to COMPANY a continuing security interest in the Products now and hereafter acquired by DISTRIBUTOR and all proceeds derived from the resale of such Products ("Collateral") to secure payment of DISTRIBUTOR's payment obligations under this Agreement. DISTRIBUTOR acknowledges that this Article 5.4 constitutes a security agreement and hereby authorizes COMPANY to file any financing statements or other documents necessary to perfect COMPANY's security interest in the Collateral in any public office in any jurisdiction deemed necessary by COMPANY. DISTRIBUTOR hereby grants COMPANY a limited power of attorney for the sole purpose of executing, in COMPANY's name, such financing statements and related documents.

6. COMPANY Obligations

COMPANY will, during the term of this Agreement:

6.1 Provide annual training without additional charge at DISTRIBUTOR's facility for a reasonable number of DISTRIBUTOR's engineers, sales and/or service personnel in use, maintenance, installation and operation of the Products. COMPANY agrees to pay all expenses of its employees to conduct such training sessions, including salaries and transportation;

6.2 Furnish DISTRIBUTOR, without charge, reasonable quantities of Product literature,

including catalogues, circulars, photographs, camera ready artwork, operating and service manuals, advertising and sales material in English language or other translated international language format which COMPANY, at its option, may publish or prepare from time to time;

6.3 Render assistance, as needed, to DISTRIBUTOR on technical and sales problems and make visits to the Territory;

6.4 Invoice DISTRIBUTOR for each Product sold on the day it is shipped or in accordance with the terms of the accepted order;

6.5 Receive such visitors to observe COMPANY's facilities which DISTRIBUTOR introduces and COMPANY accepts in the exercise of its reasonable judgment; .

6.6 Participate in trade shows, open houses or exhibits in the Territory as COMPANY deems appropriate in its discretion; and

6.7 Assist DISTRIBUTOR with the development and approval of an annual business plan ("Annual Business Plan"), including attendance at a meeting with DISTRIBUTOR to conduct a mid-year review of such Annual Business Plan.

7. Distributor Obligations

In order to induce COMPANY to enter into this Agreement, and as a condition of its continuation in force, DISTRIBUTOR agrees that it will:

7.1 Actively use its best efforts to promote and penetrate the market for COMPANY Products in the Territory;

7.2 Maintain adequate premises and facilities within the Territory, at its own expense, from which to sell and/or service the Products;

7.3 Establish and perform the requirements of the Annual Business Plan attached to this Agreement as Exhibit C hereto and attend a mid-year meeting with COMPANY to review DISTRIBUTOR's compliance with such plan;

7.4 Employ an adequate number of capable salesmen and servicemen with engineering experience, at its own expense, to engage in the sale and service of the Products;

7.5 Require its salesmen from time to time, as may be mutually agreeable, to visit COMPANY's facility at DISTRIBUTOR's expense, for the purpose of developing expertise in the capabilities, competitive advantages, and operation of the Products;

7.6 Promote the Products in trade shows, open houses, or exhibitions, including mailing of promotional literature to prospective customers;

7.7 Submit to COMPANY regular weekly and monthly status reports in the format specified on Exhibit D attached hereto, reflecting sales activities and anticipated requirements of customers in the Territory;

7.8 Supply copies of end-user pricing documentation covering Product procurement as may be requested by COMPANY from time to time;

7.9 Aggressively market the price/performance qualities of the Products and consult with COMPANY prior to quoting prices above the resale price guidelines suggested by COMPANY;

7.10 Promptly submit its written purchase orders to COMPANY to facilitate reasonable delivery times and scheduling of production;

7.11 Diligently perform Product warranty service at customer locations; and

7.12 Advise COMPANY in advance of any undertaking to represent, distribute, or otherwise handle competitive equipment of the type, size and capability of the Products.

8. Purchase Orders

Any purchase orders issued by DISTRIBUTOR are subject to acceptance by COMPANY and will not be deemed accepted until a written confirmation has been dispatched by COMPANY.

9. Delivery/Title/Risk of Loss

9.1 Delivery of all Products ordered by DISTRIBUTOR shall be made Ex-Factory. ICC Incoterms (1993 edition) shall apply, except insofar as these Incoterms may be inconsistent with the terms of this Agreement.

9.2 Title and risk of loss to the Products shall pass to DISTRIBUTOR when COMPANY gives possession to DISTRIBUTOR or its agent on board ship at the port of shipment.

9.3 All Products ordered pursuant to accepted purchase orders will be scheduled for delivery in accordance with COMPANY's then current and normal delivery times. COMPANY shall not

be responsible for failure to deliver or comply with any provision of this Agreement if such non-performance is due to causes beyond its reasonable control such as, but not limited to, acts of God, fire or explosions, inability to timely procure parts and components from its suppliers or subcontractors, civil and labor disturbances or delays in transportation. In such event, the time for performance hereunder shall be extended

by the period of time attributable to the delay. In no event shall such extension of time exceed 60 days of the original delivery date.

10. Product Warranty

10.1 COMPANY warrants to DISTRIBUTOR that the Products will be free from defects in material and workmanship for a period of twelve (12) months from the date of completion of installation at the end-user site, but in no event shall the warranty period extend beyond fifteen (15) months after the date of original shipment. This Product Warranty is extended to DISTRIBUTOR only, and such warranty may not be passed through to DISTRIBUTOR's customer.

10.2 The sole responsibility of COMPANY under the foregoing warranty shall be limited, at its option, to the repair or replacement,

Ex-Factory of defective parts returned prepaid by DISTRIBUTOR. Replacement parts supplied by COMPANY will be guaranteed for the remainder of the Product warranty period or ninety (90) days from date of shipment from factory, whichever is greater.

the nature of the warranty defect and including an explanation of any special circumstances.

10.3 All COMPANY warranties hereunder are conditioned upon proper use of the Products in the application for which they are intended, and no warranty shall apply to:

(i) any product modification, installation, service or repair made by or on behalf of DISTRIBUTOR, other than by COMPANY, without the written approval of COMPANY;

or (ii) Product damage caused by accident, neglect, or any cause other than ordinary use.

10.5 THE FOREGOING WARRANTY IS EXCLUSIVE AND IN LIEU OF ALL OTHER WARRANTIES, EXPRESS OR IMPLIED (INCLUDING ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE). REPAIR OR REPLACEMENT IN THE MANNER PROVIDED ABOVE SHALL BE THE SOLE AND EXCLUSIVE REMEDY OF PURCHASER FOR BREACH OF WARRANTY AND SHALL CONSTITUTE FULFILLMENT OF ALL LIABILITIES OF COMPANY WITH RESPECT TO THE QUALITY AND PERFORMANCE OF THE PRODUCTS.

10.6 COMPANY shall not be liable to DISTRIBUTOR or to DISTRIBUTOR's customer (including negligence and strict liability), for loss or damage to property of DISTRIBUTOR, customer or other parties, loss of use, loss of revenues or profits, or for any special indirect, incidental or consequential damage whatsoever.

11. COMPANY's Confidential Information and Rights

11.1 DISTRIBUTOR acknowledges that it will acquire information and materials from COMPANY and knowledge about the technology, business, organization, products, strategies, customers, and suppliers of COMPANY and that all such knowledge, information and materials acquired and the existence, terms and conditions of this Agreement are and will be trade secrets and confidential and proprietary information of COMPANY (collectively "Confidential Information"), whether owned by COMPANY or licensed by COMPANY from third parties, are subject to a valuable proprietary interest of COMPANY, and that DISTRIBUTOR is under an obligation to maintain the secrecy of such Confidential Information. Without limiting the generality of the foregoing obligations, DISTRIBUTOR agrees that for the term of this Agreement and thereafter until such time as the Confidential Information is in the public domain, DISTRIBUTOR will (i) not disclose, publish or disseminate any Confidential Information to any third party without the prior written approval of COMPANY except to its employees with a "need to know" who have executed an agreement with DISTRIBUTOR to comply the nondisclosure and nonuse obligations of this Section 11, (ii) not use any Confidential Information for any other purpose other than to perform the obligations of this Agreement, , and (iii) treat all Confidential Information in a secret manner, including placing appropriate restricted marking and legends on the Confidential Information and

maintain such written information in a secure storage facility.

11.2 During the term of this Agreement, DISTRIBUTOR is authorized to use COMPANY trademarks for the Products in connection with DISTRIBUTOR's advertisement, promotion and distribution of the Products in the Territory. DISTRIBUTOR acknowledges that COMPANY owns and retains all trademarks, copyrights and other proprietary rights in the Products, and agrees that it will not at any time during or after the termination of this Agreement seek to register any trademark, trade name, copyright or other proprietary right or assert or claim any

interest in or take any action which may adversely affect the validity or enforceability of any trademark, trade name, trade secret, or copyright belonging to or licensed to COMPANY.

11.3 DISTRIBUTOR agrees to use reasonable efforts to protect COMPANY's proprietary rights and to cooperate in COMPANY's efforts to protect its proprietary rights. DISTRIBUTOR agrees to notify COMPANY of any known or suspected breach of COMPANY's proprietary rights and to cooperate with COMPANY without making any charge therefore, in any action by COMPANY to investigate or remedy an infringement of such rights.

11.4 Neither DISTRIBUTOR nor its employees and agents, will, without COMPANY's prior consent, alter any of the Products or remove, alter, obliterate or mar any notice or legend of COMPANY's copyrights, trademarks or trade secrets.

12. Infringement Indemnification

12.1 COMPANY shall defend any claim, suit or proceeding brought against the DISTRIBUTOR so far as it is based on a claim that the use or transfer of any Products delivered hereunder constitutes an infringement of a patent, trademark or copyright registered in the United States, so long as COMPANY is notified promptly in writing by the DISTRIBUTOR of any such action and given full authority, information and assistance at COMPANY's expense for the defense of any such claim or proceedings. COMPANY shall pay all damages and cost awarded against the DISTRIBUTOR but shall not be responsible for any settlement made without its consent. In the event of final judgment which prohibits the DISTRIBUTOR or the DISTRIBUTOR's customers from continued use of any Products by reason of infringement of such patent, trademark or copyright, COMPANY may, at its sole option and at its expense, obtain the rights to continued use of any such Product, replace or modify such Product so that it is no longer infringing.

12.2 COMPANY shall have no liability to the DISTRIBUTOR under any provisions of this Section 12 if any patent, trademark or copyright infringement or claim thereof is based upon the use of Products delivered hereunder in connection or in combination with equipment or devices not delivered by COMPANY or use of any such Product in a manner for which the same was not designed.

13. Termination

13.1 COMPANY may terminate this Agreement at any time prior to the expiration of its stated term upon the occurrence of any of the following events, each of which is expressly declared to be "Just Cause" for termination of this Agreement:

13.1.1 DISTRIBUTOR defaults in any payment due COMPANY for Products purchased under this Agreement and such default continues unremedied for a period of fifteen (15) days following COMPANY's written notice to DISTRIBUTOR;

13.1.2 DISTRIBUTOR fails to perform or meet the provisions of the Annual Business Plan set forth in Exhibit C and such noncompliance continues unremedied for a period of thirty (30) days following COMPANY's written notice to DISTRIBUTOR;

13.1.3 DISTRIBUTOR fails to perform any other obligation, warranty, duty or responsibility under the Agreement, and such failure or default continues unremedied for a period of thirty (30) days following COMPANY's written notice to DISTRIBUTOR;

13.1.4 DISTRIBUTOR becomes insolvent; proceedings are instituted by or against it in bankruptcy, insolvency, reorganization or dissolution; or it makes an assignment for the benefit of creditors; or

13.1.5 DISTRIBUTOR is merged, consolidated, or substantially changes the nature or character of its business, or substantially changes its management ownership or principals;

13.2 Either party may terminate this Agreement at will at any time during the term of this Agreement, with or without cause, by giving not less than three (3) months written notice to the other party.

13.3 Upon termination hereby by either party:

13.3.1 All sums due to either party from the other shall be promptly paid;

13.3.2 DISTRIBUTOR orders received and accepted by COMPANY prior to termination of this Agreement shall be fulfilled in accordance with their terms;

13.3.3 DISTRIBUTOR shall deliver promptly to COMPANY all Confidential Information in DISTRIBUTOR's possession or under DISTRIBUTOR's control;

13.3.4 DISTRIBUTOR will cease all display, advertising and use of COMPANY tradenames, trademarks, logos and designations, except uses on the Products which remain in DISTRIBUTOR's possession; and

13.3.5 COMPANY shall have the option to repurchase any or all of the Products in DISTRIBUTOR's inventory which are new and unused at net price paid originally by DISTRIBUTOR.

14. Governing Law

The place of the making and execution of this Agreement, and the location of the manufacturing facility for the Products purchased and resold by DISTRIBUTOR under this Agreement shall be Orange County, California, U.S.A. Accordingly, the parties agree that the law of the State of California shall govern the interpretation, enforcement and performance of this Agreement. COMPANY and DISTRIBUTOR each expressly waive and disavow any rights that may accrue under any other body of law. The U.N. Convention on Contracts for the Sale of International Goods is hereby excluded from application to this Agreement.

15. Dispute Resolution

15.1 It is the intention of the parties to use their reasonable best efforts to informally resolve, where possible, any dispute, claim, demand or controversy arising out of the performance of this Agreement by mutual negotiation and cooperation.

15.2 In the event that the parties are unable to informally resolve any dispute, claim, demand, controversy or cause of action of every kind and nature whatsoever, known or unknown, vested or contingent, that such party may now have or at any time in the future claim to have based in whole or in part, or arising from or that in any way is related to the negotiations, execution, interpretation or enforcement of this Agreement (collectively, the "Disputes"), the parties agree that such Disputes shall be completely and finally settled by submission of any such

Disputes to arbitration before a single arbitrator under the Rules of Conciliation and Arbitration of the International Chamber of Commerce then in effect. Unless the parties agree otherwise, the arbitration proceedings shall take place in Los Angeles, California, U.S.A., and the arbitration proceedings hereunder shall be conducted in English. The award of the arbitrator shall be in writing, shall be final and binding upon the parties, shall not be appealed from or contested in any court and may, in appropriate circumstances, include injunctive relief. Judgment on such award may be entered in any court of appropriate jurisdiction, or application may be made to that court for a judicial

acceptance of the award and an order of enforcement, as the party seeking to enforce that award may elect.

16. Attorney's Fees

If any party shall commence any action or proceeding against another that arises out of the provisions hereof, or to recover damages as the result of the alleged breach of any of the provisions hereof, the prevailing party therein shall be entitled to recover all reasonable costs incurred in connection therewith, including reasonable attorneys' fees.

17. U.S. Laws and Regulations

17.1 DISTRIBUTOR acknowledges that COMPANY has informed it that United States law and related regulations may under certain circumstances forbid the re-export of Products (or associated technical data) sold or transferred to customers in the Territory or elsewhere. DISTRIBUTOR agrees that it will make every reasonable effort to comply with such regulations, including providing customer information required by COMPANY to comply with United States and local country laws and regulations.

17.2 DISTRIBUTOR acknowledges that COMPANY has informed it that United States law forbids the making of gifts or payments to government employees or political parties to induce such employees or parties to misuse positions of influence in order to obtain or retain business. DISTRIBUTOR agrees that it will not engage in such conduct, nor permit others under its control to make such gifts or payments.

18. Limitation of Liability

Neither COMPANY nor DISTRIBUTOR shall be liable to the other, or to DISTRIBUTOR's customers, for any special, indirect, or consequential damages, including but not limited to loss of profits, loss of business opportunities, or loss of business investment.

19. Indemnification

DISTRIBUTOR agrees to indemnify and hold COMPANY harmless from any costs, claims, damages, losses, liabilities or expenses (including reasonable attorney's fees) asserted by any third party resulting from DISTRIBUTOR's breach of the Agreement, any inaccurate or unauthorized representation or warranty made by DISTRIBUTOR, or failure to conform to local laws and regulations.

20. Survival

In addition to DISTRIBUTOR's obligation to pay COMPANY all amounts due hereunder, DISTRIBUTOR's obligations under Sections 11, 12, 14, 15, 16, 17, 18 and 19 shall expressly survive termination of the Agreement.

21. Assignment

Neither party may assign any of the rights or obligations set forth in this Agreement without the prior written consent of the other, provided that COMPANY shall have the right to assign any portion of the Agreement to its subsidiaries and affiliated companies.

22. Notices

All notices and demands under this Agreement shall be in writing and shall be served by personal service or by mail at the address of the receiving party first stated in this Agreement (or such different address as may be designated by such party to the other in writing). All notices or demands by mail shall be by telex, cable, telefacsimile, or by certified or registered airmail, return-receipt requested, and shall be deemed complete upon receipt.

23. Integrated Agreement

This Agreement constitutes the entire understanding and agreement between COMPANY and DISTRIBUTOR and terminates and supersedes all prior formal or informal understandings. Should any article of this Agreement be held unenforceable by a court of law or other tribunal having jurisdiction over both parties, COMPANY or DISTRIBUTOR may elect to terminate this Agreement.

24. Exhibits

Exhibits A, B, and C are expressly incorporated into and made part of this Agreement.

25. Language

This Agreement has been written in the English language. It may be translated, for convenience, into other languages. However,, in case of error or disagreement, the executed English language version shall prevail.

Entered into in Orange County, California, U.S.A.

COMPANY:_____

DISTRIBUTOR: _____

BY:_____ BY:_____

TITLE _____ TITLE:_____

DATE:_____ DATE:_____

APPENDIX 2: Questionnaire for a case company from Finland (SpaDealers)

Questionnaire

Operation modes overseas

- Could you describe a foreign operation mode that “SpaDealers” use for export activities?
- In your opinion, why is this operation mode the most appropriate for the company?
- Could you name the main advantages of this operation mode? And there any disadvantages of it?

Russian market for “SpaDealers”

- Can you tell me, when and why did “SpaDealers” enter Russian market?
- How can you assess the potential of Russian market for “SpaDealers” products nowadays?
- Do any features of Russian macro-environment influence SpaDealers operations? For example, have you or your dealers ever experienced any troubles in dealing with Russian custom?
- Can you name any other Russian-specific factors that affect “SpaDealers” operations in Russian market?
- Did you experience any cultural differences while working with Russian dealers? If yes, what were they?

How were the existing dealers selected (or should be selected)

- Can you tell me, how did you find potential distributors?
- Could you describe the sources of information that you used for acquiring the information about potential candidates?
- What major criteria were used (or should be used) for the selection procedure?
- What methods did you apply for making the final choice of distributors?
- If you do the selection today, would you do something differently?

How are they planned (or should be planned)

- Did you use any standard agreement? If not, what was modified? Did you have to consult with some expert before making these changes?
- What methods of support and motivation do you implement for the distributors?

- What kinds of goals are set for the distributor performance?

How are they managed (or should be managed)

- How do you monitor distributors' performance?
- What methods do you use for evaluating distributors' performance?
- Is there any rewards and punishment depending from the results of distributor's evaluation?

Conclusion

- Did you experience any kinds of problems concerning selecting, planning and managing Russian distributors, how were they solved?
- How did the relations and sales develop through the time?
- What changes in selecting, planning and managing of the distributors are made or planned to be made compared to beginning?

- What are the most important characteristics of a foreign distributor? Please evaluate the ones presented in the table (1 to 10 points).

Characteristics of a foreign distributor	Importance (1 to 10 points)
Ability to finance initial sales and subsequent growth	
Ability to raise additional funding	
Ability to provide adequate promotion and advertising funds	
Quality of management team	
Complementarity of product lines	
Geographic coverage	
Experience with target customers	
Customer service quality	
Quality of salesforce	
Willing to keep sufficient inventory	
Enthusiasm for a contract	
Undivided attention to products	
Connections with influential people	
Working experience with European exporters	
Proficiency in English	

- What are the most important sources for looking for a foreign distributor to your opinion?

Sources for looking for potential foreign distributors	Importance (1 to 10 points)
Customers' and colleagues' recommendations	
Home country Trade Board	
Commercial business directories	
Management consultants	
Finpro	
Personal visits to distributors' territory	
Trade fairs	

- After locating a potential distributor, where are the best methods to get information about him?

Methods of collecting information about potential distributor	Importance (1 to 10 points)
Sending a letter or an email to a potential partner containing a questionnaire	
Contacting local embassy, banks, chamber of commerce or trade association, existing principals and customers of a potential distributor	
Organizing personal meetings with a distributor (if not possible, telephone calls)	

- Would you in some way evaluate a potential distributor to see if he suits you? If yes, how would you do it? (*open question*)

- What methods of distributor support and motivation are the most important to your opinion?

Methods of distributor support and motivation	Importance (1 to 10 points)
Exclusive rights or territorial protection	
Attractive financial incentives	
Attractive credit terms	
Effective lines of communication	
Sales and service training	
Local advertising support	
Psychological rewards	

- What indexes would you use for evaluating distributor's performance? What is their importance to your opinion?

Distributor's performance characteristic	Importance (1 to 10 points)
Sales statistics	
Market share	
Keeping commitments	
Selling/marketing inputs	
New forms of cooperation (including new products introduction)	
Customer service quality	
Strategic, operational and financial management professionalism	
Marketing professionalism	

- What are the best methods of monitoring distributor's performance to your opinion?

Method of monitoring distributor's performance	Importance (1 to 10 points)
Annual reports from a distributor	
Quotas for a distributor	
Personal visits to distributor's territory	

- Which method of distributor's performance evaluation would you use?

- 1) Comparing results of the period against mutually agreed objectives.
- 2) Comparing results of a chosen period against past performance.

- If distributor's performance is unsatisfactory, which methods of improving it are more important?

Method of improving distributor's performance	Importance (1 to 10 points)
Asking an independent organization to interview a distributor about his perception of cooperation and of a manufacturer	
Higher financial return provided to a distributor	
Lower prices	
Faster deliveries	
Learning distributor's native language	
Improving communication with a distributor	
More frequent visits to a distributor	
Better product quality	
Joint market research and promotional support	
Training courses of selling and strategic planning	
Technical assistance	

APPENDIX 3: Questionnaire for distributors from Russia (Usadba, BestenSPb)

Questionnaire

- How did “SpaDealers” approach you?
- How do usually suppliers approach you (or you approach them)?
- What methods of support and motivation would you like “SpaDealers” to apply?
- How do you expect the goal setting for distributors to be conducted? Should the goals be determined by your company, by “SpaDealers” or mutually?
- What methods of monitoring distributors do you consider appropriate?
- What peculiarities of Russian market and macro environment should “SpaDealers” be aware of?
- Do you have any remarks or complaints about the policy of “SpaDealers” regarding distributors?

- What methods of distributor support and motivation are the most important to your opinion?

Methods of distributor support and motivation	Importance (1 to 10 points)
Exclusive rights or territorial protection	
Attractive financial incentives	
Attractive credit terms	
Effective lines of communication	
Sales and service training	
Local advertising support	
Psychological rewards	

- If performance of exporter-distributor bundle is unsatisfactory, which methods of improving it are more important?

Method of improving performance of exporter-distributor bundle	Importance (1 to 10 points)
Asking an independent organization to interview a distributor about his perception of cooperation and of a manufacturer	
Higher financial return provided to a distributor	
Lower prices	
Faster deliveries	
Learning distributor's native language	
Improving communication with a distributor	
More frequent visits to a distributor	
Better product quality	
Joint market research and promotional support granted to a distributor	
Training courses for better selling and strategic planning	
Technical assistance	