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MARKET FEATURES IN EASTERN EUROPE AND SELECTED STRATEGIC CONSIDERATIONS

Master's Thesis in
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TIIVISTELMÄ:

Yrityksen tulee tuntea tarkaan markkina-alueensa erikoisuudet, jotta edellytykset menestykselliseen yritystoimintaan ovat olemassa. On erittäin tärkeää, että erilaiset käyttäytymismallit tunnistetaan ja niitä pystytään hyödyntämään saavutettaakseen maksimaalinen hyöty yritykselle, lisätäkseen markkinaosuutta, kasvattaakseen voittoja ja erityisesti saavuttaakseen asiakkaiden luottamuksen ja sen säilyttäminen. Tämä Pro Gradu on tehty VAMP Oy:lle ja valitut aihealueet on valittu yrityksen kiinnostuksen mukaisesti.

Tämän Pro Gradu työn tarkoituksena on identifioida tyypilliset Itä-Euroopan maiden ja eri alueiden tyypillisiä kaupallisia ominaisuuksia ja selvittää, kuinka näitä ominaisuuksia voidaan hyödyntää parhaalla mahdollisella tavalla yritystoiminnassa. Tämä Pro Grady työ keskittyy erityisesti seuraaviin aiheisiin: yritysten organisaatio Itä-Euroopassa, myyntiedustajat, jakelijat, nättelyt, messut ja sopimus neuvottelut. Näiden aiheiden jälkeen takastellaan valikoituja strategisia kysymyksiä yleisessä mielessä. Strategiset näkökulmat on tarkoitettu yleiseen pohdiskeluun VAMP Oy:lle ja antamaan uusia näkökulmia strategiseen suunnitteluun.

Tutkimus on toteutettu keskittymällä valikoituun kirjallisuuteen ja kirjoittajan omiin kokemuksiin Itä-Euroopan markkinoista. Tämän Pro Gradun ensisijainen tavoite on tarkastella ja selvittää kuinka toimia mahdollisiman tehokkaasti Itä-Euroopan sosiaalisissa markkinatilaisuuksissa. Esille tuotujen strategisten näkökulmien tarkoituksena on tuoda näitä asioita tietoisuuteen, käytettäväksi neuvotteluissa ja päätöksenteossa.

AVAINSANAT: Itä-Eurooppa, markkinat, erikoispiirteet, strategia

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ABSTRACT:

The knowledge of the special features of the certain market areas where the company is involved is a key issue for success. It is very crucial that different kinds of behaviors are recognized and exploited in order to gain maximal benefits, to gain market share, to increase profits and especially to gain and keep the customers trust. This thesis is made for VAMP ltd. and the selected and stressed topics are chosen according to their interest.

This Master's thesis goal is to identify the typical East European market features and discuss how to use them in the best possible way. This thesis focuses especially to the following topics corporate organization for in Eastern Europe, sales agencies, distributors, fairs, exhibitions and contract negotiations. When these issues are dealt with some selected strategic considerations are discussed and meant for general information. The issues brought up are focused for considerations for the management of VAMP ltd used in strategic decision making.

The study has been conducted by focusing on literature sources as well as combining experiences of the writer. The primary goal of the thesis is to give advice of the selected marketing area and how to socialize in the current region in the best possible way. The strategic considerations brought up are meant to enlighten these strategic issues and use in general, during business negotiations and decision making.

KEYWORDS: East Europe, market, features, strategy

1. INTRODUCTION

1.1 Background of the study

Every country has its unique market features which need to be detected and taken into account. Borders of different countries are not necessary the boundaries of these features, some more widely spread and some are rather limited. The key issue is to observe, understand and utilize these areal unique features and way of working to maximize your business and profits. Constant focus is needed to observe the changes in the business area and adapt fast the new rules and behaviors. The pace of the actions taken is critical. Of course the most benefits will be gained if these actions are done before the other competitors have adapted them.

Regardless the area where anyone is doing business, the environment is rarely static. Also the pace of change is accelerating in the business environment. No business can remain immune to change. In order to succeed in a competitive and dynamic business environment it is vital to understand both the opportunities and challenges that exists and response to them fast and effectively. No matter how big the company is, it will flourish if it is prepared to respond strategically to change and take advantage of it. Those who do not will lose out sooner or later. (Morden 1999: vii-viii)

Eastern Europe has also its unique features. Many western executives claim that it is difficult to sell to Eastern Europe. Countertrade pressures have increased, negotiations are harder and promotional costs have risen. These phenomenons have caused loss of profits and even withdrawal from certain markets. Different areal cultures may give you advantages or disadvantages. Key issue is to understand the business culture and adopt the practices. The time of this adoption is crucial; things done faster than competitors will give you competitive advantage. While entering the market requires a lot of information and knowledge also knowing when is the right or the last time to leave from the market is valuable information in order to minimize the loss of profit.

1.2 Objectives of the study

The study has been on the assignment of VAMP Ltd. The objectives of this study are to identify the special features of the Eastern European markets. VAMP Ltd is a global company which seeks to expand and gain more share of the market where it is involved. This expansion must be done the most optimal way in order to maximize the speed of growth and profit. To be able to do this the way of working in different countries must be known as good as possible and these features and rules need to be followed achieve the goals.

The goal of this study is also to give points to reconsider when evaluating different countries and form strategies to enter the market. In some cases it is worth to try to enter some markets. The reason might be for example political or twisted marketing methods. In these cases it is very crucial to see these traps and avoid wasting limited resources. Also knowledge to see when it is good to leave some market areas is brought up in this study.

1.3 VAMP Ltd

Vamp Ltd is a Finnish company specializing in the design and manufacture of protection relays and arc protection systems needed for electrical generation and distribution. VAMP Ltd customers are international manufacturers of low and medium voltage switchgears, industrial installations, utility companies, power plants as well as consultation companies. (VAMP Ltd)

The head office of VAMP Ltd is located in Vaasa, Finland. Through local partners and representative offices VAMP Ltd is a global company. VAMP Ltd has over 40 employees. The personnel is divided by the following way:

- Reseach & Development : 45%

- Sales & Marketing: 45%

- Administrator: 10%

The strategy of VAMP Ltd is to grow profitable and gain market share. This can be achieved by focusing on the best know of VAMP Ltd. Those focus areas are protection relays for low and medium voltage applications, arc protection solutions and strong customer oriented way of working. The products are designed to be easy to use and as user friendly as possible to maximize the customer satisfaction. Also the 24 hours technical support enhances the customer oriented business.

VAMP Ltd has outsourced the whole production giving the optimum capacity for changing markets. Even VAMP ltd is a rather small company it has its own benefits. These benefits are fast and flexible research and development, competitive single sourcing and minimum bureaucracy giving short lead times.

1.4 Structure of the study

The study consists of introduction, recognizing the Eastern European typical business features, strategy theory and implementation on chosen strategy. The first chapter is an introduction that deals with the purpose of this study, gives background information of the studied issue and the company it is done for.

Chapter 2 goes through some of the typical features of Eastern European enterprises. These features are: corporate organization, sales agencies, distributors, fairs, exhibitions and contract negotiations.

Companies have to decide how to formulate its plans and strategies, who are involved, allocation of finance and resources that are needed to put the chose strategies and plans into operation (Morden 1999, 6). Strategy formulation and strategic decision making are analyzed in chapter 3.

Chapter 4 analyses how to choose certain strategy and how to implement it. Finally, in chapter 5 the whole study is summarized and conclusions are made.

2. TYPICAL EAST EUROPEAN FEATURES AND WAY OF WORKING

End of the cold war and the liberalization of the Central and Eastern Europe in 1989 and 1990 were perhaps the most dramatic and challenging time in Europe. End of this era created great opportunities for Western firms and businesses. On the other hand there were and are also risks and difficulties to deal with, for example: risks of disillusionment, frustration, social and political unrest, civil war. Eastern European countries didn't have the social and political structure necessary to establish democratic institutions, mostly because of the communism history. They had to establish links with the rest of the world as well as among them selves (Buckley & Ghauri 1994: 1).

2.1 Corporate Organization for Eastern Europe

Even if you product top priority export products starting business in Eastern Europe is not easy. It is crucial to recognize the need for rather big front end investment without early return of investment. Compared to typical Western markets returns are slow. Lots of money can be spent but purchase decision can be delayed months or even years. This is usually caused by heavy bureaucracy and excessive regulation. Initial negotiations usually take long. This is due to the Eastern Europeans tactics to wear down the opponent as well as because of the bureaucracy. Also time consuming consultations must be held by various government authorities in large contracts (Business International S.A. 1984: 5).

Personal relations play a key role in success business in Eastern European countries, but in the end it is rewarding. For a new executive the task is hard. It is quite common that in the beginning making the connection is really hard and it takes a lot time to get a response, if at all. At very early stage it is worth to visit the local partner or customer, even if there are not so much to discuss. It takes time to gain the trust but on the other hand these relationships tend to last and to be very rigid. Once the trust is gained then it tends to last long. Fear of disruptions with new suppliers will give you the advantage but shall not be taken for granted.

Challenging features of the East European markets usually require some special organizational body to avoid conflicts and secure sales returns. This is usually handled by using so called coordinating units for East European business affairs. The need of the coordinating units is justified because the top management lack of time to consider and special characteristics and difficulties in the Eastern European markets. Other issues that justify the use of coordinating units are (Business International S.A. 1984: 7-8):

- Companies product divisions usually have worldwide activity and may overlook the special features of Eastern Europe

- Coordinating units should spot pitfalls while developing projects that will provide steady growth earnings

- Negotiate financial packages with banks and insurance agencies

- Spot bottlenecks and coordinate discount policy

In every business personnel play very key role in success. This aspect also applies to East European markets, but there are some special personal attributes that need to be highlighted. One of these features is the ability to awaken and maintain a sense of trust in the minds of East European business partners. Sales people focused on East European markets needs to show a high degree of patience to be able to cope with the slow pace of local decision making. A top salesman must also be very self-confident to be able to promote his enterprise's interest. This requires commitment, style, tenacity and awareness of the local culture and protocols. Obviously, a sales man who operates in Eastern Europe must also like this area. History and culture are topics that East European officials like to discuss, but flattery is to be avoided. Most of the high officials in East Europe can speak English or German. That is why these languages should be used by the salesman, at least one of them (English is preferred). The use of local language should be avoided unless it is fluent. Half trained East European language usually created more problems that they solve. Some knowledge of the local language is an asset though. Social conversations in an East European language is always an asset even the negotiations are done with another language. Social fluency can provide unexpected dividends. The knowledge of local language skills should never been concealed. If the salesman does not reveal the ability to speak local language the East European side will automatically assume that the sales preventative is trying to obtain sensitive information. The best way to handle these situation is to note local language knowledge but express preference to negotiate in English or other chosen language. Emphasizing on product knowledge is always important. Especially in East European countries a salesman will face numerous experts with great depth of knowledge. If the salesman lacks the knowledge of the products features it can damage the reputation of the company. For companies with a limited number of products should consider nominating a specialist for Eastern European countries. This way the specialist could cover and coordinate area-wide sales tactics. Slip-ups are avoided and the product manager provides certain information like discounts, price flexibility and countertrades. The product manager also gives time for the salesman for the core tasks (Business International S.A. 1984: 8-10).

Like in every business also the Sales Managers involved in East European markets need to evaluate the state of the market. Corporate planning might not be as thoroughly developed as in other business areas but still the executives need to estimate how they are going to sell, quantities and in which time. This task is usually unusual hard. The very nature of the Eastern European is to keep this kind of information as a state secret. Local officials rarely reveal the full scope of coming or expected demand making the full scale market research impossible. To be able to make as good as possible sales evaluation and market research here are some things to consider (Business International S.A. 1984: 12-13):

- Sales plan targets are to be determined how they will be achieved. Quite commonly the plans offer guidelines only. They should also state whether domestic industrial capacity can fulfill the estimated need.

- Should there be a need for import the East European country usually tries to cover its need from the former socialist countries in order to save hard currency. False sales hopes should not be developed if it is clear that adequate supplies will be available within the former trading area.

- Even if the East European company prefers to buy from the former socialistic countries focus should be directed to technical comparison. Sales is still possible if the end customer can be convinced with the better technical features which helps the East European company to achieve their goals better. Sometimes the inability to deliver the goods may open unexpected sales possibilities.

- Factory directors and technical specialist may favor Western products. Despite the feverish demand they may be quickly overruled by the headquarters or by the Foreign Trade Bank. This behavior may trick companies to take the sales for granted.

- Unfinished projects offer sometimes fast and unexpected sales. In extreme cases emergency imports are accepted to gain time and to complete the project on schedule.

- Competitors should always be closely monitored. Sudden appearance of a competitor could mean that sales changes are better or they are going to enhance in the near future.

- East European monthly and yearly statistical publications are worth to study. These publications might not as open but they still do allow companies to note industrial trends.

- OECD trade statistics cover exports and imports more widely than local statistics. Rapid rise of imported products often indicates a plan decision to increase the import of hard-currency purchases for a particular business area.

- Specialized industry publications (usually in the local language) are quite frank in discussion of difficulties and growth prospects. To be able to gain maximum profit from these publications in house language knowledge is required.

- Commercial counselors of Western embassies inside Eastern Europe are usually interested in export promotion for their county's products. Diplomats may provide first hand information which comes from the local economic ministries and other authorities.

The substitution of domestic products for imported goods is a challenging feature. Local companies are encouraged to develop products which could compete against the traditional imported goods. The intention is to cut imports of nonpriority products and these are to be replaced by locally produced substitutes. When such a replacement product appears the markets still remains, it will not vanish. Companies have to be flexible in order to face this new challenge. If the companies are not able to do that they should not even be in the East European market. Sometimes the official statement of the East European country is to support domestic substitutes but quite commonly there are also private doubts. Some enterprise directors realize that import substitution is a complex undertaking. These private doubts and reservations should be attempted to support by the Western import companies. In theory some concepts for import substitution make good sense but in many cases the time required for planning and allocation process will be quite long. This endless planning and investment allocation reviews can cause the situation that when the product is ready it is already outdated and even more delays will occur. Once a substitute product gets into production there is always a risk of poor quality. Usually it takes a long time period to get the substitute product to match the imported products in quality, if ever. Some East European purchasers anticipate this kind of problems and are therefore reluctant to take the domestic substitute product into use, at least before the product has a shown its strength. Constant product improvement is also on one key factor to keep the import business fruitful. The Eastern European executives can note how the substitute product should be improved, especially if the new export product or extended features is sought and start to be a must have function. One issue is the demand of the substitute product. It is a possibility that the substitute production capacity covers only a segment of a market and the import can still reach considerable quantities (Business International S.A. 1984: 14-15).

To establish an office in Eastern Europe requires certain considerations and the decision to establish own premises cannot be made lightly. Many companies agree that the decision to open and maintain an office requires deep study and cost calculations. Benefits can be substantial but costs may be very high. In some Eastern European countries local authorities stand to earn large amounts of money through rents and different kind of fees. Also the waiting time can be considerable long. Months or even years can pass before application to open an office is granted. This behavior reflects to local bureaucracy, paper work and lack of suitable office space. Before suitable office space becomes available the company could be required to use a hotel room for its accredited presence which leads to increase in expenses and may make it difficult for a representative to separate private life from business requirements. Many countries have a government office to help and assist the needs of new office managers but usually such agencies are understaffed and overworked. This means that they can do little to improve the availability of office space or find an adequate number of skilled staff. So help from the East European authorities cannot be much counted. Also the time required to offices to start to gain profits takes time. Tangible results are slow to materialize. When the office space has been found the manager may spend a lot of time on trivial duties. In addition to these duties the new manager must devote time to establish and strengthen contacts with the officials and end users. It is also good to remember that covering the whole of the region from one location rarely works. Each East European country requires own office to maximize the business (Business International S.A. 1984: 16-17).

Offices in Eastern Europe can provide a considerable increase to company activity. Especially this is the case when another competitor tries to sell from their home headquarters. When the office has been established executives must agree on specifically defined objectives for the new offices. Company has to have a clear understanding of the functions its offices in Eastern Europe. If this task fails there is a risk to lose money, employee skills and business opportunities. Opening an office speaks a great deal for the attachment of the company to a certain East European country. It is very essential to symbolize the commitment of the company. When the name plate goes up on the wall it will be considered as a strong statement of commitment, serious of the market and willingness to become involved for a long period of time. Big projects need supervision, therefore local presence is very essential to supervise major production and cooperation undertakings. Most of the technical and commercial problems can be handled on the spot without reference home headquarters which could mean loss of time, money and business opportunities. An office manager resident permanently in an East European country should focus on developing contacts. The manager should aim at a wide spectrum of end users, research institute officials and government authorities. Communication need to improve also. In quite many cases the officials in East Europe are usually not so punctual in replying to phone calls, e-mails or other type of inquiries. On the other hand an East European company office can more easily and frequently contact the local office especially if they can speak the local language. The threshold to contact will be lower if a local office is available and this of course enhances the business possibilities and relationships. It is good to remember that trade is not always sales only. Some companies have a need for local products and constant countertrade is needed. The local office manager can locate good products on the local East European market. The local presence helps with the contract negotiations and secures the best deals. The planning systems in East Europe contain usually bottle necks which raises the possibility for extra imports. The local officials feel secure about visiting local offices when they need import products fast to avoid more delays. When the local office has been established many companies still rely on state agencies. The local office should follow the sales efforts more closely. This should enhance the efficiency of the sales agencies compared to the situation when the local office was not established. The local office can now require a steady flow of reports and also bring the agencies into the office for business negotiations and discussions of the state of marketing effort. Naturally the local office should be chosen so that it will suitable for technical discussion with end users. Also space should be reserved for display of company products. The local market research is one of the most important responsibility areas of the local office. Local office personnel must provide in depth analysis and market trends for the headquarters. This research on the local country is also the most cost efficient to be done from the local premises (Business International S.A. 1984: 16-17).

Costs for the office and other related subjects vary considerably in Eastern Europe. In some cases companies has managed with really low cost. This has usually meant one man facilities in a single hotel room or something similar. On the other hand expenses may rise significantly when more luxurious premises have been acquired or the city where the office is located is relatively expensive, like Moscow. Rents are one of the highest office expenses. The rents are usually quite high due to the limited space availability and the trend is increasing. New trade center facilities command rents equal to or even exceeds similar charges in the typical western countries. Some companies may seek older facilities which they intend to renovate. In these cases the costs can also increase rapidly. Local skilled labor may not be available for extensive renovation. Sometimes also the lack of installation materials may disrupt the time of the opening schedule. It is worthwhile to plan to import some of the most important office equipment from home country suppliers. Typically some furniture, desks and other similar common office goods can be purchased locally. More sensitive and detailed equipments, like information technology equipment is good to import from the typical sources just to play it safe and keep the schedule on track. Taxation on office earnings need to be closely monitored. This issue varies greatly from country to country. Some local authorities assess taxes on a case by case basis. Office mangers need to be informed in detail on tax issues in order to avoid double taxation.

Selecting the right executives to work and run the office inside Eastern Europe needs close attention. Some individuals may function well in the headquarters of the company but fail to meet the expectations placed upon them by residence in an East European country. Logically it not wise to post a company executive who has proven ineffective in other geographic regions. Sound abilities are required from the executive. It is good to remember that even if the person has previously succeeded elsewhere it is not guaranteed that the same will happen in East European conditions. Also the reputation of the company may be damaged if the office is seen as a flyby station for executives on their way to retirement. Therefore first rate executive should be chosen for the post of office manager. Usually commercial expertise is more valued than technical skills. An office representative should also have some technical knowledge of the products but East European trade officials want to negotiate with experienced commercial businessman who can negotiate without bothering headquarters with minor decisions. Each country is different in many ways. Therefore is essential that the newly assigned executives learn to work with the hierarchical system. Shortcuts rarely work and East European emphasis on protocol must be honored. When a new executive is sent to the country a certain overlap time with the old representative is a must in order to learn the job requirements. Usually this overlap time is from three to six months. New executive candidates must be carefully screened for personal problems. Personal problems with money, alcohol, family relationships make the job hard or impossible to perform. These problems tend to multiply beyond control if an executive with serious personal weaknesses is stationed longer periods abroad. The executives should not have problems with some degree of isolation. Social contacts in East European countries are usually limited at least at first. Executives who are not used to this can quickly get bored with the climate, the frustration and lack of social contacts. Office managers need to be patient enough to motivate the local staff. Local employees usually come from that does not encourage personal innovation or responsibility. Office managers need to find certain balance between firmness and friendliness in order to increase commitment and productivity (Business International S.A. 1984: 20-21).

2.2 Sales agencies and distributors

Using state agencies has its advantages but also some things to consider. Some executives speak highly of the services received by the agencies and the sales growth is a strong argument to justify using agencies. The number of companies using agencies is increasing but agency contracts shall not be make in haste. The number of state agencies varies a lot in Eastern Europe. In some countries there are only couple of them while in another country there hundreds of them. Some considers that plenty is good but on the other hand that also increases the work load and the risk that the chosen agency is not what it seems or in worse case scenario the whole company is a big hoax. It is good to remember the old axiom: “There are neither good nor bad agencies, but only good and bad personnel within the agency.” Due to bad experiences some companies have dropped all contacts with state agencies as a result of poor experiences. This should not been taken that all agencies are worthless. More focus and effort should be focused to shape the personnel service that the agency offers. The state agencies should not been left on their own. If state agencies is used then it cannot be considered that that it will replace the own sales staff of the company. It is very vital that the sales staff support and coordinate the sales efforts made by the agency and visits the agency regularly. Naturally agencies prior task is to enhance promotion and sales activities. It is always good to make an actual contract between the agency and the western company. Sometimes small agencies are not so keen to sign official contracts. This behavior can be explained by the lack of knowledge of the legal part of the cooperation and the small agency might be afraid to sign which they totally do not understand. These hesitations can be overcome by explaining the meaning of the contract in detail and by proving assistance if needed. The agency is the best information source in the specific country. Therefore the agency should advise which products are most suitable for the market to maximize the sales and effectiveness. Also changes in imports should be closely followed and plan documents must be gathered and studied to obtain sales changes. The agency is also vital asset to watch over the local competitors as well as helping to participate in different kind of fairs, conferences and symposia. When the agency has proven its ability to do good cooperation it can be considered to establish small consignment stock in the agency premises. This is especially from the end customer point of view quality and service addition. The consignment stock helps the end customer to get replacement items on a short notice and this service usually increases the sales. Some times the use of agencies will raise disagreement in the headquarters of the company, especially if the policy of the company in these situations is not clear. This kind of skeptical voices can occur even the agency is doing well. In these situations the opponents should be forced to submit their own market development plan if they are not willing to continue with the current status. Many companies have also no policy of the optimal time period for agency services. Eventually a successful company may want to terminate the agency contract, expand its own sales force, start to promote different brand or they want to open an office. These scenarios should be taken into account by setting time frames for these actions (Business International S.A. 1984: 21-22).

Companies are quite often confused by the different levels of state agency efficiency from country to country. Sometimes within the same country some agencies performance is excellent while the other causes only difficulties. Usually one solution to this problem is that the companies ask from the agencies to reveal the names of other companies they represent in a good and fruitful way. Below is listed also other advantages and disadvantages which are good to notice (Business International S.A. 1984: 21-22):

- State agencies are easy and cost effective way to enter the East European markets. Agency can create a high profile and good reputation to the company.

- Agencies can more easily use the local contacts. Local end customers value the easiness to contact local agency where they can speak their own language and there are no cultural differences.

- Agencies may hear or obtain new coming projects. This will give more lead time or even the end customer can be approached before other competitors do so.

- Sometimes the agency my spot coming bottle necks well in advance. This will give more time to plan and react to these events or even avoid the unwanted events.

- When a company does not fully own something there are always doubts about loyalty and honesty. Certain limitations on confident issues should be considered when using agencies.

- Sometimes the cultural differences in way of working may cause problems. The agency might have been used to bureaucracy and diligence may be lacking.

- The agency is not direct employee. The agent is responsible only to his superior, if such exists. The loyalty of the agent lies within his own agency. Sometimes is also hard to motivate the agent, especially if the salary is not enough good to motivate.

- Some companies think that once the contract has been signed with the agency the sales will start automatically. This is not always the case because heavy competition may exist or the chosen agency was not the right one.

Companies see the agencies as an easy entrance to the East European markets, but they are also concerned about the loyalty of the agency. Companies fear that the agency could easily give sensitive information to other companies. Other issue is how to change the agency if it does not fulfill the expectations nor does not some other way perform satisfactory. It is quite common that many agencies represent competitors from many countries but usually not more than one from the same county. If the agency takes a competitors company from the same country then there is some changes to be come. In these situations it is good to act rapidly and find out what are the coming plans. When an agency has many companies that they represent and they are from the same field then it is usual that the agency has dedicated personnel assigned for certain companies alone. Agencies claim that the personnel are not permitted to exchange sensitive information like prices and sales terms. This issue must be clarified when making the representation contract. Most of the agency contracts are first done by trial basis. The trial period varies; quite commonly it is 6-24 months. After the trial period is over is still good to try to remain short terms contracts.

This helps switch from agency to another if needed. The agency on the other hand tries to make as long as possible contract to secure the client contracts. When switching the agency is unavoidable the preparations for that must be done well advanced and evaluate how it will effect on the market. Usually the transitions are rarely trouble free. Many companies face resistance and protests from the agency once the intention of switching is announced. If the agency is changed due to poor sales it can also be that other agencies and not so keen to make a representative contract. In these cases the reason (economic situation, product portfolio, etc.) for poor sales performance need to be found and then make the decision with the agency. Before making hasty decision with the agency it is always good to find means to enhance performance with the existing agency. This is more gentle approach and requires less energy and usually it will some changes to the sales or at least the situation will be cleared for all parties. Some agencies are specialized to present certain type of products. That is why some products will sell nicely while other products fail to meet the sales budgets. In such cases it would be good to renegotiate the scope of the represent product portfolio. The company itself could take over the presentation of the goods which do not sell well or seek another agency which could perform better with these products (Business International S.A. 1984: 21-22, Hanan, M. & Cribbin J. & Berrian H. 1977: 83-85)

When the right agency has been found and it is time to negotiate the contract the some variants. Some companies want to first see how the agency performs. Quite simple way is to do business first unofficially. This means that it has been agreed that they represent certain company and the product prices has been agreed. Then they operate for some time to see how the cooperation works. Usually during this period the invoicing goes through the agency, e.g. the western company has given a certain partner prices to the agent and then the agent adds its margin when it sells goods to end customers. This is a very simple and effective way to start business. In these type of solutions is still good to guide and negotiate some kind of level of end customer prices, especially if the agent does not have much experience of the certain market. This ensures that the end level prices are reasonable and competitive against competitors. Also this way the end customer will not feel that they are over charged and the reputation of the company and sales stays healthy.

During contract negotiations usually the most important section is commission payments and other fees and charges. Close attention is needed to ensure satisfactory to both parties. It shall not be the interest of the western company to negotiate as low commissions as possible because this will decrease the motivation of the agency as well as the sales. An agency will sometimes ask for payment of monthly or yearly retainers to cover overhead costs. The amount of the retainers is always a combination with the commission. Lower retainers are used when commission are higher and the other way around. Of course the volume of the services and sales performance dictate quite a lot of the amount of the retainers. Commission charges vary a lot. Best deals are made with long agreements, wide range of products and good estimated sales volume. When the agency contract is made only for certain project or a period of time the commission expenses rise rapidly. In some cases this kind of approach might be justified or when no other possibilities are available. Generally short term agreements should be carefully reconsidered due the high costs and lack of continuation. Some agencies are able to provide extra services like after sales service, technical repairs and keeping of stocks. Agencies will charge for these services and it always good to negotiate in advance the service costs if they are to be used. Typical commission rates can be something following:

- 1-3 % for raw materials, components and mass-produced goods

- 3-8 % for heavy machinery and construction equipment

- 9 to over 10% for special equipment

It is good to note that commission charges may vary a lot from country to country. A lot depends on the sales potential of the products. Companies which think that they have strong products can get lower prices but quite commonly it requires hard bargaining. It should clearly state in the agency contract which sales does the commission apply. Normally the agency wants its share in every sales within the country and even if the whole sale has been done by the salesman of the western company. These details need to be clearly defined in the contract even they are known to be difficult. Focus should be high commission and low retainer contracts. This way the agency is encouraged to find big deals. The payments might be high in the end but the sales are also big. If the retainer is high and commission low the agency might not be so keen to promote the products, finding deals and still relative big amounts of money will be paid to the agency. Also the commissions shall be paid when the sale is received at the headquarters not when it is signed in Eastern Europe (Business International S.A. 1984: 25-26).

There are companies which lack of sales staff and they feel they cannot cover East European countries adequately. Also these companies do not feel confident to use local East European agencies. Usually these companies solve this problem with the use of Western agencies. When the marketing and sales is turned over to an experienced Western agency the company does not have to participate in the time and money consuming issues like travel, customer visits, local marketing and searching for new customers. Of course these services have a cost which usually is considered to be worth of paying for the exchange of getting access to a certain market. Most of the Western agency contracts are made by companies who are new to the East European markets but this is not always the case. It should be remembered that Western agencies are not only for the newcomers. The new comer companies justifies the use of Western companies with the control of sales overhead costs while testing the market but there are also firms who have long experience in East European market and they still use Western agencies. The experienced firms claim that this solution is cost effective as well. Agency charges may be lower compared to maintaining extensive sales personnel. The tendency eventually is that if the sales are good and grows the majority of the companies phase out their Western agency ties. This is result of the top managements claim that there is no need to pay for the agency when the markets are already known and own sales staff exists. The fees of the Western agencies vary a lot depending on the products to be sold and time to confirm the deal. Usually the commission lay round 5 % but it may rise even up to 10 % or more when highly specialized technical equipment is needed to be sold. Quite often retainer fees are also asked. The retainer fees are asked to cover expenses and promotion costs. These costs vary a lot depending on various items like: produce sale outlook, difficulty of promotion, sales trips and other marketing fees. Before singing with any Western company the agencies reliability and references is good to check. It is good to ask for a bank reference and ask directly from the bank general background information and reputation. Sometimes even the embassies can provide vital information how certain Western agency is performing (Business International S.A. 1984: 29-30).

Western distributors offer many benefits for Western companies some firms use them as alternative to Western agents or a sales force of their own. This is usually done purely on cost grounds. Independent distributors offer flexibility and they are able to keep stocks and sell dell from their own account. This shortens the lead time to end customers and usually the distributors are able to provide also other service and assistance to customers. Here are some claims why companies use distributors straight away or turned to use them (Business International S.A. 1984: 31-32):

- Most companies have uniform price list valid worldwide. Special discounts or other subsidiaries like flexible sales terms may not be allowed for Eastern Europe. When independent distributors are used and companies sell them at wholesale prices then the company does not become involved with the resale price of the distributor.

- Uniform pricelist of the company are usually based on average sales costs in their prime sales area. The sales cost can on the other vary a lot in East Europe. Therefore and independent distributor is more flexible with granting discounts or granting bonuses according to the prevailing sales costs in certain East European country or area.

- Sometimes the end customer claims that the selling price is too high if Western agency is used. They assume that all commission costs of an agency in buried within the selling price.

- Many East European end customers are confused about the organizational structure of multinational corporations. This confusion will only increase if an agency is employed.

- Some Western agencies claim to have top rank connections which are easy to turn into fast sales. Companies should closely check up these claims and ask for bank references. Strong connections in one country may be nonexistent in other East European countries.

2.3 Fairs and Exhibitions

Numerous companies participate regularly East European trade fairs and they have no intention stop doing so. There are also companies which are more skeptical about the fairs. These companies usually have limited sales or their profits have been decreased. Also the risen participate costs make these doubts. Some companies have downgraded their exhibition spaces in order to compensate the risen costs. There are arguments for both whether to participate the exhibitions or not. Even cost have risen it can still be cost effective to participate East European general fairs. This claim is based on the assumption that many contacts will be concerted in a short period of time and this way traveling cost will be minimized and time will be saved. Of course the main purpose of fairs is to show new innovation and products. This is what the end customers and officials want to see. If a company sells particularly well in a certain country it is assumed and demanded that they participate fairs. This way the company shows that they are commitment to the certain country and they are keen to invest on that certain fair. Fairs are important places to make new contacts especially if the amounts of contacts are rather limited in that area. Also are vital places to meet the technical manager and engineers who are not in the position to make the decision but are the ones who make the suggestions and sometimes can write the technical specifications to favor certain unique features. Many firms think that if their competitors participate a certain fair then they have to also to that. At least this way the firm can avoid allocations that they have lost interest on that market. Also this way the firm can observe that its rivals are bringing into that market area. Companies which are more skeptical claim for example that even a small lot can cost even thousands and big slots tens of thousands. This kind of cost can easily be too much and will not be approved by the headquarters of the company. Regional manager usually favor and demand the participation to fairs. The headquarters may on the other hand feel that presence in a fair at any cost is not necessary. Some companies feel that their top sales executives should spend their valuable time more on contract negotiations rather than exhibiting products. When the participation costs have risen then there are also some decreases of the number of participants. Companies may fell that enough specialist and top management will no longer come to the fair. Sometimes some companies claim that it is very hard to do actual sales work during fairs and lot of people are not real buyers, just general public. This is usually the case with fairs, but it is typical that actual deals are not that much done during fairs.

Companies should realize that most of the announced sales at the fairs are not really settled there. Often the contracts are negotiated well in advance before the fairs (Business International S.A. 1984: 35-36).

The number of different fairs has been increased. Close attention is needed to pick up those which will likely give the best result. Many companies have learned that it is very vital to pay close attention to the details of participation. This requires a lot time and money. Even the most diligent effort may not produce instant returns but poorly designed stand or other wrong behavior takes years to overcome in the minds of fair visitors. Quite many companies believe that one company shows are the best way to promote products. These private exhibitions can be mixture of product displays, lectures, technical conference, demonstrations and mobile exhibitions using vans or trucks. The best thing with private exhibitions is the absence of competitors. This kind of promoting is advised when the number of end users and decision makers are limited. Symposia, private displays and technical presentations can carry good feedback from the end customers. There still minor things which need to be taken into account. These things may seem small but they can create big confusion if dismissed. These kinds of issues are: documentation, translation and structure of lectures. Symposia need to lively and clear. One good thing is to use video clips, clear colors and good real cases. If translator is used it is worth to check the skills of the translator well in advance. One good thing is to send documentation in advance to the guests. This way they can think questions in advance and be more ready for the presentations. During private exhibitions socializing plays key role. Cocktail parties and similar lighter events form a key element in most private company seminars and provide an informal setting as a counterweight to technical speeches and lectures. Sometimes it is even required that no sales talk will be conducted during technical presentations and therefore the socializing events are a must for follow up sales discussions. These few things are good to remember when organizing social reception (Business International S.A. 1984: 37-43):

- The guests expect quality servings. They will spot cheap drinks and poor buffet. This is not the place to cut costs.

- Imagination has to be used in order to create something new and exciting foe the customers. For example traditional food of the country of the company cold be one choice.

- When inviting people to private exhibitions strict and detail invitations is needed. There is a risk if open invitation is send that the whole department will come and the food supplies will run out soon and the whole business opportunities will likely fade away.

- Like in every business meeting business cards are to be exchanged. In some cases some customers may be reluctant to hand over their business cards or they do not posses one. In these cases names should be asked and written down. This procedure requires tact. Hosts should never wander around writing names on long lists.

- Seating arrangements need also focus. Free seating should usually be avoided. Typically East Europeans are sensitive to protocols. Older and high ranking customer may be furious if they have to sit next to junior staff members. It is good to remember that it is not wise totally relay on place cards. Sometimes top management may cancel their participation and send low ranking deputy instead. This may also cause problems.

2.4 Contract negotiations

Contractual agreements can vary from simple e-mail or fax order to large agreements with dozens of appendices. Even small transactions can consist of numerous pitfalls. Close attention is needed with wording of long contract documentations. Some East European countries or specific end customers have their own sets of guidelines which may differ from the common western practices. Quite often the end customers whether state owned or private company will try to present a set of standard terms. They claim these are the only acceptable guideline for their purchase contract. Patience and effort are needed to convince the customers to alter the terms but it is possible. There might be some points which cannot be touched and this needs perception to spot these points. The outcome is usually a compromise solution which both parties can agree. Precision is also one of the key elements especially if the governing law is not western one. Not a one phrase should be left under subjective judgment. Open ended references are to be avoided like ‘usual commercial practice’ and imprecise terms must not be used also such as ‘promptly’ and ‘in due course’. Contract language is usually common Western language, e.g. English or German. For major deals the customer may also want to sign a local language version as well. One governing language should always be fostered. Most corporate lawyers do not like the idea of a single contract which is equally valid in two languages. This commonly requires certified official translation which is costly and requires significant amount of time. The idea of two language documents should be dismissed even if the Western language is supposed apply in the case of arbitration. Short clauses are to be used to keep the contract simple and clear also appendices are to be used, especially with technical and detail documents. General terms on the other hand are good to place directly into the main contract. When the contract is otherwise ready the determination of the authority of signing is good to confirm. Not all negotiators are empowered to sign contracts (Business International S.A. 1984: 64-65).

More or less the most important issues in contract negotiations are prices. The customer is particularly sensitive about the discount they can get. This is of course every time a big interest to the customer but sometimes the internal guidelines dictates the customer behavior with discounts. For example the employee of the purchasing company may lose his/her bonus or other benefits if certain discount is not granted. Variations by region are wide. For example in the Balkan countries grave for big discount are common and in Romania it is common that discounts are expect in every level during negotiations. Breaking the discount into smaller pieces rarely helps. It seems that this on encourages the customer to ask for more. On the other hand if big discounts are given right away the customer may think that the prices are really high and there is a lot of room to come down. It is good to keep the discount gap narrow and depending of the deal and area suitable discount rate could be between 5 and 10 per cent. Many companies offer special prices to new customers. In these cases the company must stress that the price is limited for certain time limit or otherwise the company will assume that prices will be the same in the future or they want also similar discounts for other products also. Different kind of tricks and ploys are common. Some customers possess a wide range of tricks to secure extra discounts. Some of these may be very hard to obtain. In every negotiation situation it is wise to be calm and never provoke. Decisions made in haste can lead to really bad outcomes. Therefore listening and thinking before acting is a ground rule to obtain in all negotiation cases.

3. STRATEGY ANALYSIS, FORMULATION AND STRATEGIC DECISION MAKING

Strategic management can be defined as the management process and decisions which determine the long term structure and activities of the organization. The strategic management has five main elements. These elements are: management processes, management decisions, time scales, structure of organization and activities of organization. This master's thesis will focus mainly into the strategic management process due to the structured limitations. The definitions of the five main elements are the following (Thompson 1990: 4-5):

- *Management processes*, this relate to how strategies at all levels are formed and changed. Management processes incorporate planning activities as well as manager intuition, and it is dependent on the values held by managers, their ability to spot opportunities and threats to the organization in a changing environment and their ways of managing the resources of the organization.

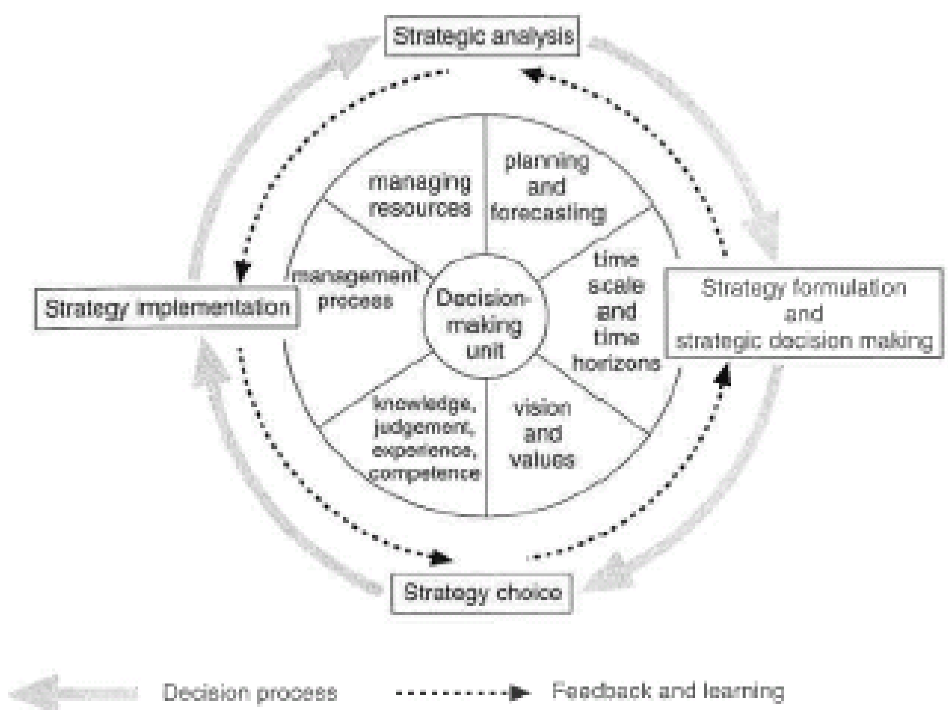
- *Management decisions*, decisions are the output of the inputs fed to the process. Decisions are valuable only if they reflect clearly to a solution of valid problems, e.g. how to avoid threats and utilize opportunities. The decisions need also the support from other managers and they must the capable of implementation (the needed resources need to be available).

- *Time scales*, usually in strategic planning time frame is stated as long term. This can sometimes be confusing, e.g. the strategic time horizon for a company in real trouble can very short or sometimes tens of years.

- *Structure of the organization*, an organization is manages by people within a structure. Things how functions are linked together and whether power is centralized or decentralized are important. The structure can be formed and changed to ensure that changes in strategy can be implemented fast and effectively. On the other hand the way the mangers work inside the structure can cause the change of strategy.

- *Activities of organization*, this is rather large scope of content where includes such things as products, services and markets. In one way this area includes the relationship between the organization, stakeholders, employees, financial institution, customers and suppliers.

The process of strategic management has four components: strategic analysis, strategy formulation and strategic decision making, strategy choice and strategy implementation. In picture 1 is illustrated how these components are connected together (Morden 1999: 4-7).



Picture 1. The strategic management process.

Strategic analysis is a process where the company analyses its own internal, corporate characteristics and capabilities. This also includes identifying the external environment where the company must operate. Strategic analysis is used to indentify and understand the following issues:

- The internal operational and financial strengths as well as the weaknesses of the organization
- The external or environmental limitations, opportunities and threats facing the enterprise
- The competitive surroundings where the company must operate
- The resources that the company has and what is needed to achieve the set goal
- The sources available that adds value to the company and sources which give competitive advantage
- Factors which are critical to enterprise survival and success

Strategy formulation and strategic decision making are used to establish mission, objectives and strategy. These values will come from the vision and values of the company as well as from the decision makers and stakeholders. The company must decide hoe to make the plans and strategies, who will be involved and how the allocate finance and other resources in order to put all these actions into use. Decision makers have to indentify and describe how to put into use alternative paths of action and how they will profit the company. Along to this they will have to evaluate whether the alternative course is feasible, correct and are there resources to put these actions into operation. The process of strategy choice identifies the alternative courses of action. The strategic choice is depending on the time scale. Strategic choice can answer to questions like: ‘Should the company remain a national supplier or should it go international?’ or ‘Should the company aim to achieve a large market share’. Decision makers have to select those strategies from the alternatives they have identified and think that those will be best or most effectively to fulfill the mission and achieve the objects it has formulated for itself. Strategy implementation will depend on the nature of knowledge, technology and competence resources available to the company. It also depends on the nature of decisions about financial and competition strategy. The process of putting the chosen strategy of the company into practice takes place within the context and constraints of the people, the structure, the resources, the capability and the culture of the company.

3.1 Competitive advantage and resources

Competitive advantage is defined as relative advantage that the company posses in its market compared to its direct or indirectly competitors. Michael Porter says that competitive advantage is at the heart of the performance of the company in competitive markets. He continues by suggesting that competitive advantage is everywhere in a company. Every department, facility, branch office and all other organizational units have roles that are to be defined and understood. Every employee regardless of their position must recognize their own role in helping the company to achieve and sustain competitive advantage (Porter 1985: xv-xvii). A company possesses a sustainable competitive advantage when its value creating processes and position have not been able to be duplicated or imitated by other firms. According to Porter there are three methods to create sustainable competitive advantage. These points are (Wikipedia1):

- *Cost leadership*, cost advantage is created when the company delivers the same services as its competitors but with lower cost.

- *Differentiation*, Differentiation advantage occurs when a firm delivers greater services for the same price of its competitors. They are collectively known as positional advantages because they denote the position of the company in its industry as a leader in either superior services or cost.

- *Focus*, A focused approach requires the firm to concentrate on a narrow, exclusive competitive segment, hoping to achieve competitive advantage. There are cost focus seekers, who aim to obtain a local cost advantage over competition and differentiation focuser, who are looking for a local difference.

The so called resource base of the company is defined as personnel and their skills, capital and land. In more practical terms resource base be defined as human assets, cash, brands, reputation, machinery, equipment, buildings, information, operational processes, information systems and so on. Companies use their resources to generate and add value. Also resources can be harnessed to gain competitive advantage for the company. Resources are though limited. Therefore companies must seek the best possible strategy to use this opportunity and constraint. Strategic decision making is all about knowing what the organization is and is not capable of using its resources to achieve. Value generation and competitive advantage of the company will depend on the capability and capacity it can utilize (Morden 1999: 34-36).

Along with the tangible and intangible resources an extension can be made to so called threshold capabilities. Threshold capabilities are those capabilities (resources or competences) which are essential for the organization to be able to compete in a given market. If the company is unable to meet these threshold values it very likely that the company will not survive in the market. The key issue is to identify the needed threshold resources to support chosen strategies. If the company does not posses the resources it will be unable to meet the minimum requirements if the customers and unable to continue to exist. This requirement applies also the other way around: what are the required threshold competences to deploy resources to meet requirements of customers and support strategies. Threshold capabilities are fundamentally important but they do not create themselves competitive advantage. Competitive advantage will be more likely created and sustained if the company has unique capabilities that the competitors cannot copy. Unique resources are those resources that critically boost competitive advantage and that others cannot easily imitate or obtain (Johnson, G & Scholes K & Whittington R 2006: 119-121).

3.2 Competitive environmental analysis

When a company operates in a competitive environment it is very essential that the management of the company understand the nature and behavior of that area. For example it is crucial to know who the main competitors are and how they behave. What is their competitive strength, how do the competitive forces work and how do these interact. Also new competitors will always shake the market as can governments do by the rules and regulations. The choice of strategies is influenced by the competitive situation facing the company. It is vital that the organization has a clear picture and understanding what the views and actions of the competitors are and what they are going to be. A commonly used technique for the analysis of market competition is the five forces competition model of Michael Porter. According to Porter market competition is a function of five major groups of variables or forces as Porter defines them. The five forces are:

- The extent of industry rivalry

- The bargaining power of buyers

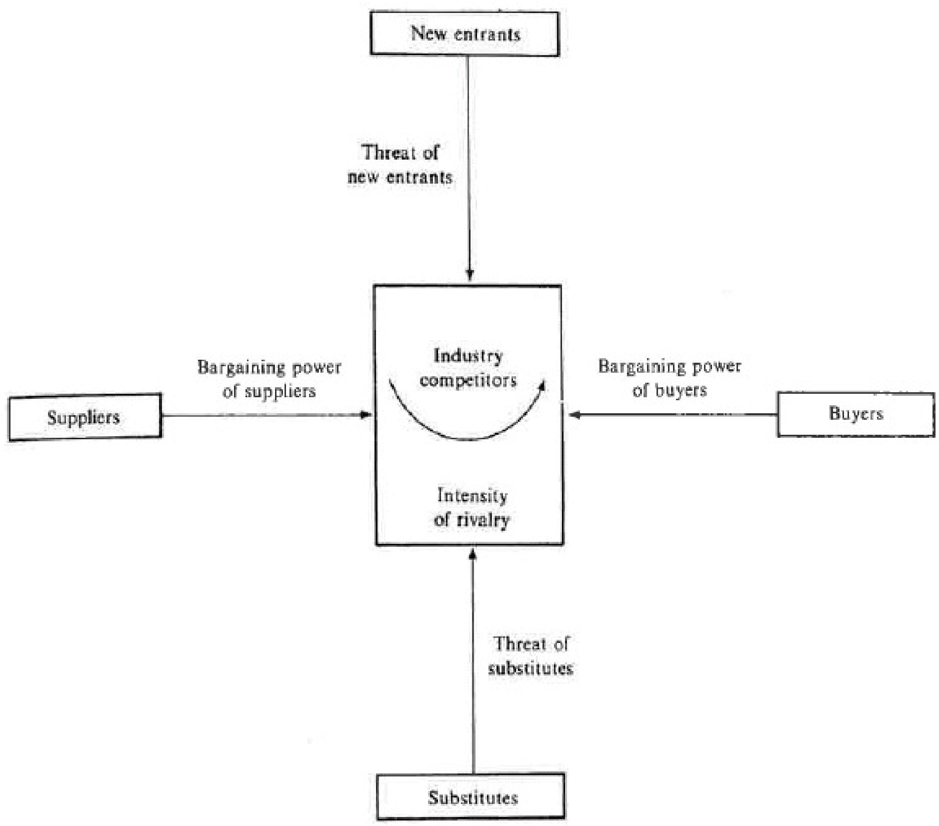
- The bargaining power of suppliers

- The threat of new entrants

- The threat of substitutes

The relation if these forces are illustrated in picture 2. Porter's Five Forces Analysis is an important tool for assessing the potential for profitability in an industry. It is also useful as a way of assessing the balance of power in more general situations. By thinking through how each force affects and by identifying the strength and direction of each force, it can quickly assessed the strength of the position and ability to make a sustained profit in the industry. The five forces are defined in detail by the following way (Morden 1999: 54-60), (Wikipedia2):

- *The extent of industry rivalry*, main issues here are the number and capability of competitors. In case of many competitors who offer equally attractive products and services the power of the company is small. If the customers do not get a good deal from the company they will go elsewhere. Of course if no one can do what the company is doing then the strength of the company is enormous. Important points to remember and consider here are: number of competitors, rate of industry growth, intermittent industry overcapacity, exit barriers, diversity of competitors and sustainable competitive advantage through improvisation.



Picture 2. Five forces competition model of Michael Porter.

- *The bargaining power of buyers*, this part defines how easy is for the buyers to drive the price down. The driving forces in this area are for example: the number of buyers, buying volume, degree of dependency upon exiting distribution channels, buyers switching costs, availability of exiting substitutes and price sensitivity of buyers.

- *The bargaining power of suppliers*, this point assesses how easily the suppliers can drive up their prices. This is affected by the number of suppliers of certain areas, product uniqueness of suppliers, switching costs and work force solidarity.

- *The threat of new entrants*, this handles the ability of people to enter the market area of the company. If the costs and time needed to do that is rather small and protection does not exist then competitors can enter the market quickly.
- *The threat of substitutes*, this part is affected by the skills of the customers or competitors to find a different way of doing the current business. Issues affecting here are e.g.: buyer ability to substitute, price performance of substitutes, buyers switching costs and the level of product differentiation.

3.3 Business planning and forecasting

Sales forecasting is essential for managing a business of any size. Accurate forecasting and sales plan will help to manage production, man power and financing requirements more efficiently and avoid unforeseen financial problems. A company cannot plan ahead without making forecasts and cannot make forecasts without having some kind of plan to act as a basis for the forecasting process. A monthly basis forecast is preferred. With short term information problems and opportunities can be rapidly identified and actions taken accordingly. Forecasting enables to manage the business more effectively. Before starting the forecast process it is essential to first clarify the position the company is in. Few simple questions are to be answered before continuing. These questions could be:

- How many new customers will be gained each year?

- How many customers will be lost each year?

- What is the average sale per customer?

- Are there certain months when customer are gained or lost than usual?

Existing business is the base for future forecasting. Sales per customer are to be carefully monitored and analyzed. What chances are there that some customer is going to buy more or less? For big customers this issue is even stronger. It is very vital to know how they will see the future. After this assumptions need to make for new business based on market research and good judgment. Even if it is not known who the new customers are going to be or what they will buy they can be added to the forecast plan. Sometimes it is good to add the specific volumes that are anticipated to be sold. When there are expected volumes it helps to plan production, storage and transport actions. Every year differs from the other. Therefore any changing circumstances need to be listed which could significantly affect the business. These factors shall be the base for of the forecast. Sometimes it is good put a figure against any change. This way it will make clearer the change and the impact for the business can be seen more clearly also this gives people more simple way to comment the change. One example of a figure could the following: ‘The market the company is in will grow 4 per cent. The market of the company will shrink 4 per cent because of the success of the competitors.’ For the new businesses the assumptions need to be based on the market research and good predictions. Selling more to an existing customer is easier than making a first sale to a new customer. This is good to remember when planning the volumes and marketing costs fro new customers. While making the forecasting there are typical pitfalls which need to be taken into account. Five most common forecasting pitfalls are:

- *Wishful thinking*, being over optimistic if easy. It is always good look back how the earlier forecasts went and do the adjusting according to it. For new businesses the common mistake should be avoided: putting the forecast according to meet the viability level.

- *Ignoring assumptions*, own assumptions should be referred to the detailed sales forecast. Otherwise there will be completely different information. For example if shrinking market and shrinking market share is assumed it is illogical to forecast increase in sales.

- *Moving goalposts*, the forecast need to be fixed and finalized in a certain time limit. Spending too much time on refreshing on the forecast will take time from achieving the goals. Hasty and excessive adjustments to the forecast are to be avoided even if the forecast is too optimistic or pessimistic.

- *Not consulting the sales people*, the sales people are likely the best knowledge there is to evaluate the buying intentions of the customers. Therefore it is essential always ask their opinion, give them time to ask situations from the customers and get the agreement from the sales team to all decisions.

- *Not obtaining feedback*, when the forecast is ready get an opinion from an experienced person to review the document.

Leadership is a major subject for the long term strategic direction and survival of the company. Leadership can be described for example the following way: “Leadership means getting things done through people.” or “Leadership happens when there is an objective to be achieved or a task to be carried out and when more than one person is needed to do it.” (Morden 1999: 89-106, 183-185).

3.4 Strategy formulation and decision making

Strategic management will not just happen. It requires somebody or a group of people to decide what is best for the company. There usually are agreements and disagreements what are good or bad for the company but someone also has to identify the alternative strategies and paths that are available for the company to achieve its goals. At the end a consensus need to be reached and someone has to take the responsibility for the selected actions. There are numerous ways to formulate strategies and strategic decisions made within the company. Some or all of the following can be used (Morden 1999: 150-156):

- *Appraisal and analysis*, results of the process of the strategic analysis. This can be described generally the emergent gaps, opportunities and threats.

- *Stakeholder analysis*, the requirements and potential influence of the stakeholders are incorporated into the process of objective setting and strategy formulation.

- *The identification and solution of issues and problems*, identified through process of scanning, forecasting, appraisal, monitoring and feedback.

- *Scenario analysis*, involves the construction of a number of alternative possible future scenarios or outcomes. These future scenarios are used to describe the particular variables under consideration and indicate hoe they might develop under a range of different circumstances.

- *Modeling and synthesis*, here can, for instance, use sensitivity or 'what if?' analysis of emergent issues or forecast scenarios.

- *Limited experimentation*, the company implements a limited program of tests in order to see and further develop and understand the type and range of strategies from which they may eventually choose from.

- *Consultation*, for example by taking third party advice to identify and specify alternatives and options. The use of consultants requires that the decision makers are open for new variety of views rather than their own.

- *Participation*, any or all of directors, managers, stakeholders, representatives, employees, customer representatives and other linked persons are to some degree involved in the process of objective setting and strategy formulation. This will need a high level of company openness, a low level of uncertainty avoidance, high level of trust, open communication and a high level of risk tolerance. Decision makers must be prepared to have their decisions questioned and criticized. Open discussions and challenges would be common also.

- *Prescription or command*, objective setting and strategy formulation is centralized to a dominant power in the company. This typical in family type of companies or single owned companies.

- *Negotiation*, the strategic choice and the strategic management is the outcome of negotiation between stakeholders and sources of power within the company.

- *Compromise*, the chosen path is agreed by the most of the decision makers.

- *Vote or quasi democracy*, process where the strategic choices are chosen more or less in a democratic way.

- *Lobbying, persuasion and politicized process*, relevant political and lobbying skills are needed by leaders and decision makers in order to achieve all or some of the set goals.

The process of strategic decision making can be analyzed through the four decision roles by Henry Mintzberg. These roles are: The entrepreneurial role, the disturbance handler role, the resource allocator role and the negotiator role (Morden 1999: 160-162).

In the entrepreneurial role the decision maker specifies and initiates strategic action or change. This means for instance that the decision maker will seek opportunities where the company can use its sources of competitive advantage to exploit. This will lead to implement strategies which are most suitable within the limits of capability and resources. The entrepreneurial role is to shape the perspective, pattern, positioning and ploys that highlight the strategic choice.

The disturbance handler role deals with involuntary or unpredictable events whose source of origin and timings are beyond the control of the company. These events are to be judged if actions are needed like changing plans, pattern and positioning. Or the change can be focused to ploys, using power or engaging in political behavior. The spotted disturbances may come from:

- Internal conflicts in the company or among the stakeholders

- Disturbances from interrelationships with customers, competitors, suppliers and partners within the value chain

- Direct threats of resource loss or actual reductions in the enterprise asset base

The resource allocator has the responsibility and authority to commit the resources of the enterprise. Also the responsibility comes along when the resources are used. The resource allocation is a function of perspective, plan, pattern and use of power. This means the following:

- Handling the resource base on the best available terms and conditions
- Prioritize the available resources
- Authorizing resource expenditure
- Scheduling time as a critical success factor and limiting factor
- Scheduling work and the programming of tasks
- Monitoring and controlling the activity of the company
- Presenting the results to the stakeholders of the resource investment and use

Companies face commonly different kind of negotiations with different kind of counter parts like powerful individuals, stakeholders and other organizations. Decision makers will have to take in representative and persuasive roles in carrying out these negotiations. These roles may include the following: acting as negotiator or spokesman, be as an expert proving detailed information, adding credibility and prestige to the negotiation position of the enterprise, persuasion, selling, use of interpersonal skills and selling the deal to the company and its stakeholders. The negotiator role can involve also any or all strategy perspective, plan, pattern and position. Also it is likely that there is use of power and political behavior by the company involved.

4. CHOOSING THE STRATEGY AND IMPLEMENTATION

The choice of strategy is concerned with decisions about the future of the corporation and the way how the company needs to respond to the many pressures and influences. There are themes in choices that have to be made to satisfy the expectations of the stakeholders. In this chapter some selected strategies are selected for overview and implementation considerations.

4.1 Volume and price based strategies

Large numbers of companies base their business on a volume basis quite commonly in private as well as in the public sector. The scope of market or client provision is either relatively or absolutely large or both. There are many reasons why many companies operate on volume basis. These reasons are (Morden 1999: 402-403):

- The spreading of the large burden of essential fixed costs

- To be able to gain reductions in manufacturing an operation costs

- To be able to make investments that will lead gains in productivity and competitive advantage

- Giving more power on bulk buying and purchase negotiations

- Achieve the needed cash flow needed to fund research and development, innovations, new product development and development in knowledge and competence

- Through capacity gain credibility and satisfy the needs of very big customers

- To be able compete internationally and constantly to be able supply customers world wide

- To achieve the capacity to make certain types of capital and staff investments unavailable to smaller scale companies and thereby to achieve competitive advantage

For some companies it is very vital to gain a certain level of volume or scale of capacity in order to be able to compete in certain types of markets. This is usually particularly true when the company intends to compete internationally or globally. This minimum needed volume operation is called as critical mass. For companies who cannot reach the critical mass may have to redefine their mission and scope. The result may be that the company needs to restrict itself to a more limited provision, like focusing on special segments and certain limited market areas. Critical mass may therefore be directly linked to defining the corporate mission, objectives and strategies.

There are two basic price based strategies or routes. The first one is called no frills strategy and the second one low piece strategy. The no frills strategy combines a low price, low perceived product or service benefits and a focus on a price sensitive market segment. These kinds of market segments may exits for number of reason. Here are some explanations (Johnson, G & Scholes K & Whittington R 2006: 245-246):

- The products or services are commodity like. Customers do not value or it is irrelevant the differences in different supplier products. This means that the price will become the main competitive issue.

- It is a possibility that there are price sensitive customers who cannot afford or choose not to buy better quality goods.

- The customer has big power and/or low switching costs. In these cases building loyalty is very difficult or even impossible.

- Areas where are only few providers with similar market shares. This means that the cost structure is similar and new products can be quickly imitated.

- When the major suppliers are competing on a non price basis the low price segment may be an opportunity for smaller suppliers to avoid the big players. A regionally based supplier may gain business this way or this method may open an entrance to new market segment.

The lowest price strategy tries to achieve a lower price than the competitors and keep the product or service offered to the customers the same. When the strategy is to achieve competitive advantage through a low price strategy the company has two basic choices. The first thing is to indentify and focus on a market segment which is unattractive to competitors and this way to avoid heavy price competition. The situation is more complicated when there is competition on the price basis. This is common feature in public sector and commodity type of markets. There are multiple things to consider when competing with price. Competing directly with price will usually lead to margin reduction. Even some tactical advantage can be gained by dropping prices it is likely that the competitors will follow soon. This can lead to inability to reinvest to develop the products or services which can cause loss of the perceived benefit of the product. In long run this means that low price strategy cannot be pursued without a low cost base. It is good to remember that low cost as such is not a basis for advantage. The main issue is to seek ways to reduce costs in the way that competitors can not match that. This kind of low price strategy might give sustainable advantage. Here are some considerations in order to sustain price based advantage (Johnson, G & Scholes K & Whittington R 2006: 246-254):

- A company following the low price strategies may be prepared to accept reduced margins. This decision can be made if the company can increase the volume or it can cover this business from other segments.

- A company is willing to go to a price war against it competitors and prepared to win it. This is possible through lower cost structure or the company has liquid assets to cover the short terms losses.

- A company has cost advantages through organizationally specific capabilities. These advantages drive down the costs through out the value chain.

- A company focuses on certain market segment where low price is particularly valued by end users.

4.2 Focus and niche strategies

When products of the company are segment specific, the number of products is small and those are marketed to a few selected market segments then this specialized strategy is called is usually called niche or focus strategy. This strategy requires that the company has to be highly sensitive to the requirements of the market segments it serves and sensitive to changes in that area. While the company has chosen this strategy it means that the company must seek the ways to be the number one in that segment. This is due of the limited market ground and the dependence of the small market area. This is necessary in order to minimize the risks which the limited market raises. The biggest risk is with companies with one product selling one target market segment. This kind of companies must strive to keep their position as the market leader and most favored supplier. Other thing is that these kinds of companies have to assume that least on short term basis that the market demand will continue to exist. If this assumption fails then the business of the company may disappear totally (Morden 1999: 417-418).

Michael Porter defines focus as a strategy built around serving a certain target extremely well and all functional policies are developed bearing this in mind. This strategy foundation is based on the ground rule that the company is able to serve its small strategic target more effectively than competitors who are competing more widely. By using this strategy the company may be able to get little bit bigger returns than average because effective focus strategies reinforce the position of the company in the selected market in the point of view of the customers and creates good segment protection against companies who are trying to enter to the certain market (Porter 1985: 38).

Peter Drucker indentifies two forms of niche strategy. These are speciality skill and speciality market knowledge. The possession of speciality skill, expertise or unique capacity shits the company so far ahead that it is not worthwhile for other companies trying to compete especially if the market is rather restricted. Timing may be the critical factor when establishing this kind of strong market position. The strength in the market niche may have to be created at the beginning of a new market or a customer demand. This can be done also when a new trend appears in an existing market. In the speciality market knowledge niche strategy the idea is to closely monitor and research the market and customer needs. This way the company will keep its peak position within the niche market because it understand the niche market through out and is willing to respond to changes that arises within this segment (Drucker 1985: 223).

4.3 Brands and branding

When a branded item sells more than an equivalent product a brand is established. The brand features or attributes value. The more the brand adds value the higher price may be charged for it and the more the brand will be protected and its use controlled. A brand with recognition and recall is a strategic asset. The brand defines the market perception of the product, acts as a benchmark for the market and it is unavailable for any other competitor. The brand itself becomes the main source of value addition and the source of competitive advantage. There are five main functions of brands. The functions are (Morden 1999: 427-430):

- *Quality certification*, the brand will be attached with certain level of quality. Products or services are seen possessing certain quality level which adds value to the purchaser.

- *Consistency and continuity*, the brand will be associated the values which are stable. The purchasers will consider the product or service to be the same today as in the past. The future purchases can be made with relation to the past experience of the product or service.

- *Recipe, formulation or specification*, the brand represents and communicates the certain formulation, use of technology or knowledge base which gives the product the special features. The brand may evolve to be the flag carrier of the product category or act as defined and respected benchmark. The more difficult it is for other to mimic the brand the stronger will the competitive advantage and the value of the brand be.

- *Signalling*, the decision to purchase or consume certain brand product or service may be used as a signal by customers to express themselves to others. The customer may want signal information, intention or indicate something about their taste. The more effective the brand is considered to give the desired signals the more value it will represent. Price may be the cost of the signal. It is not an accident that signals of high status are commonly expensive and this puts the producer in a particularly good position.

- *Incumbency*, competitive advantage may be the result from a long established position in the market. This is the definition of incumbency in this context. The advantages of incumbency come from the positive track record of satisfaction of the customers, continuity, specification and signaling aspects. One of the key purposes of incumbency is to establish a long term brand loyalty with the customer. Even if it might be relative easy to copy the existing incumbency product the obstacle is with the resistance of the customers trying something new. The incumbency function of the brand reinforces brand loyalty, strengthens market position and discourages competition.

A major objective of brand management is to add the values that identify the product or service, create the desired image, differentiate the product from the mass, add value for customers and the marketplace, create preferences among the potential customers and establish and strengthen the preference among the exist customers. Brand values must be firm the characteristics of the market segments according where the brand is to be positioned. The brand should reflect the expectations of the target customer segment. Other thing is also stress the unique selling tactics of the product or service. For example selling campaign can create images of something extremely convenient which is compared to something very different. Key thing is also to keep the promises or the results can be rather damaging for the business and brand credibility.

4.4 Business development objectives and financing sources

There are many objectives of the business development activity. Business development can associate with the strategic requirements like (Morden 1999: 466-467):

- *To consolidate, reinforce or develop the existing position of the company*, the inevitable processes of market and environmental change. The company must be active and on the edge to stay in the game and maintain the competitive position.

- *To achieve growth*, a business that does not grow when others do in a certain market area will be considered declining or stagnant.

- *To achieve increase in scale*, scale needed to access certain markets, increase credibility and stability at least in the eyes of the customers.

- *To achieve critical mass*, to be able to deliver certain amount of goods in order to secure operation and gaining access to bigger markets.

- *To achieve changes or increases in the scope of business activity*, for example through adopting new technologies or putting new innovations into operation.

- *To access or reinforce knowledge, capability, competence and expertise*, the aim is to strengthen operational capability and resource efficiency.

- *To reinforce the knowledge management process*, gain access to or to combine the knowledge base of the key players in order to grow competitive advantage and strengthen competitive position.

- *To achieve a change in direction*, the company may decide that changing market or environmental circumstances need radical change or even exiting some line of business. Business development strategies like takeover or the use of licensing may cause rapid and significant change of direction.

- *To globalize the business*, the internationalization of business activities.

Expansion or development of the business requires usually increased capital and resources. When business development is based on the internally generated funds it is often called organic development. Venture capital or risk capital is commonly needed when establishing new businesses. Certain investors and also governments are typical funding sources for venture capital. Venture capital does not necessary mean only liquid assets but also different kind of aiding services. This can be for example financial adding or helping recruit staff etc. The providers of venture capital are typically associated with the provision of risk capital for new rapid growing companies at the beginning of their era. The help of the providers of the venture capital will usually last until the company can raise further finance from conventional places. Of course the type and strategic choice of the venture capital providers varies a lot according their willingness to take and manage risk and their interest for returns of the investment. Typical loans from banks and financial institutions are widely used and are very traditional way of finance business growth. The question is always about the risk and the cost of the risk. Therefore the lender and borrower have to judge whether the returns from the investment will be sufficient and feasible for both parties. One more way to raise funds is to practice stock market flotation. Flotation means the expansion of the ownership base and the capacity to bring in additional funds. There is a relative low risk with this approached at least short term but it is good to remember that the shareholder expects of an appropriate return of investment. If this task is failed the cause will be drop of the price of the share. There is also a possibility of a takeover of the company which would lead to loss of ownership and control (Morden 1999: 467-468).

5. SUMMARY AND CONCLUSIONS

Countries in Eastern Europe have experienced considerable change since 1989 when the Berlin wall was torn away. Since then the Eastern European countries had to come to terms with the consequences of system change in the political, social and economic fields. A number of factors have accelerated the process of managerial transformation and regeneration within the overall context of the political and economic changes. Privatization has altered fundamentally the relationships between all those involved in economic activities. Privatization has brought up issues of efficiency, productivity and profitability. The general opening of markets to foreign competitors and foreign investors have widened the opportunities for comparison with foreign companies and have permitted the study, adoption and practices.

The system change has contributed to an evolution of management cultures. It is not easy to generalize the nature of change and there are many variations country wise and regionally inside countries. It is quite obvious that organizational and managerial culture is subject to pressures for change, resulting not only from the collapse of communism but also factors as globalization and economic integration.

For a company to gain success and growth in its operation area it needs to understand the special features of the culture and the customer. Sometimes several actions, behaviors and way of working are taken for granted and not questioned whether this is according to expectations and along the many unwritten rules.

This master’s thesis went through some selected East European market features. These features give the general behavior models but it is still good to remember that there are still many different variations and way of working which are very customers specific and need to be discovered through social intercourse. These behaviors may be linked with the typical features that exist already in certain area or among an individual group. With the help of general features gone through in this thesis they might be easier to spot and use to expand the business success.

Companies which are proven to be effective strategically in the future must focus at least to these points: strategic leadership, managing uncertainty and managing complexity and diversity. Strategic leadership applies through organization and concerns especially general managers who are responsible for adaptive changes in competitive and functional changes as well as the overall strategic management. Learning to manage uncertainty is extremely important and this has to be done fast. The environment is generally becoming more and more volatile, competitive and international. Dealing with strategic disturbance requires appropriate polices and control systems which helps to overcome the difficulties. Managing complexity and diversity needs to build a sound organization structure which enables managers to be motivated and rewarded. Strategic awareness through out the company is important. It is needed to be sure that the employees know what matters in terms of creating success, what the company stands for, how the company is doing and what is expected from them.

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