

Entering the Russian Market with OOO Zet-Group: Export
Consulting for Dutch SMEs



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Executive Summary

This final project explored the functions and services of the export consultancy firm Zet-Group and focuses on OOO Zet-Group, the Russian division. Furthermore, it lists the obstacles that Dutch SMEs experience when exporting to Russia so that Zet-Group can develop its services to make them fit with the demands of Dutch SMEs. The central question is: *What are the obstacles for Dutch SMEs when entering the Russian market and how can Zet-Group adjust its services to offer better help to overcome these problems?* If more suitable assistance is offered, new clients can be attained. Obviously, this is beneficial for the company in terms of revenue and network.

This project analyzed the difficulties involved for companies when exporting to Russia. It is concluded that exporting to Russia costs more time and effort compared to doing business within the European Union or with other countries. Nevertheless, Russia is a huge and attractive market but an exporter must acquire knowledge, experience and a proper strategy. To make use of a consultant is a common solution since a consultant has the experience and knowledge to develop and implement a successful strategy.

This document contains reviews of several cases. Two of them relate to Dutch SMEs and their export to Russia. One company is successful and the other enterprise had to retreat from the Russian market. The lessons that are learned from their mistakes and accomplishments are valuable for Zet-Group in the way that the services are evaluated with regard to these cases.

In general, the services of Zet-Group match well with the obstacles that are met by Dutch SMEs. However, the Dutch export consultancy market is very competitive. Zet-Group has not yet experience, references and a network on the Dutch market. The possibilities to cooperate with (non-) governmental institutions are limited, since strong relationships are established already with other commercial consultancy firms.

The recommendations in this project do not advocate drastic change of Zet-Group's services but advice about how to present and whom to target with the services. It is argued that cold calling is not the appropriate method to find new clients. Instead of spending a lot of time on contacting as many companies as possible, Zet-Group should search for aspiring exporters, which should meet the criteria: satisfy an identified need and specialized niche exporting. Before potential clients can be contacted, the firm should do research on the Russian market to detect chances regarding unsatisfied needs. Only after that, the right SMEs can be targeted.

Table of contents

1. Introduction	4
<i>1.1 Objectives of the study.....</i>	5
<i>1.2 Methodology.....</i>	5
<i>1.3 Utility of the report.....</i>	6
<i>1.4 Suggestions for further research</i>	6
2. Doing business in Russia	7
<i>2.1 Trade across the border</i>	9
<i>2.2 Business culture and other difficulties</i>	10
3. Exporting from the Netherlands to Russia	14
<i>3.1 Case study: SME from the Netherlands doing business in Russia successfully</i>	14
3.1.1 Jos de Vries The Retail Company	14
3.1.2 Implications for Zet-Group.....	16
<i>3.2 Case Study: SME from the Netherlands doing business in Russia unsuccessfully</i>	16
3.2.1 Multitubes BV	17
3.2.2 Implications for Zet-Group	18
<i>3.3 Overview of Dutch profit – and non-profit organizations offering export assistance to Russia.....</i>	19
3.3.1 (Semi-) Governmental Organizations.....	19
3.3.2 Non-Governmental Organizations.....	22
3.3.3 Commercial export consultants	23
4. Zet-Group	26
<i>4.1 Zet-Group Company Profile and Services</i>	26
4.1.1 Developing visibility and sales instruments for the Russian market	27
4.1.2 Test Marketing and Matchmaking → business development.....	28
4.1.3 Sales outsourcing → permanent sales office in Russia	29
4.1.4 Current activity in Zet-Group Russia	31
<i>4.2 Case Study: how Zet-Group helped a Finnish company on the Russian market.....</i>	32
4.2.1 Cooperation with organizations.....	32
4.2.2 The report	33

4.2.3 Concerns of the Dutch entrepreneur	33
5. Conclusions and Recommendations	35
<i>5.1 Obstacles for Dutch SMEs</i>	<i>35</i>
<i>5.2 Services of Zet-Group.....</i>	<i>36</i>
<i>5.3 Recommendations.....</i>	<i>36</i>
References	39

1. Introduction

This final project will explore the functions and services of the export consultancy firm Zet-Group and will focus on OOO Zet-Group, the Russian division. Since recently, Zet-Group is offering its services to Dutch exporters with ambitions towards the Russian. Therefore, Zet-Group needs to identify these companies and approach them. For a successful approach, their needs must be identified. Moreover, visibility in the Dutch ‘export world’ is important and cooperation with national organizations is desirable.

Zet-Group has long experience with assisting Finnish SMEs to enter the Russian market. Nevertheless, Dutch companies might face different problems, have different requirements and preferences regarding export to Russia. At the moment, both profit- and non-profit organizations offer exporting assistance but there might be a gap between the supply and demand. This final project will outline the obstacles that Dutch SMEs have to overcome when exporting to Russia so that Zet-Group can develop its services to make them fit with the demands of the Dutch SMEs. Therefore, the central question is: *What are the obstacles for Dutch SMEs when entering the Russian market and how can Zet-Group adjust its services to offer better help to overcome these problems?*

1.1 Objectives of the study

- To find out what problems can arise for a Dutch, internationally operating SME while doing business in Russia. The final project will examine the challenges regarding trade with present Russia.
- To develop detailed understanding about Zet-Group as a company and its services and how they help Finnish companies export to Russia.
- To identify the differences between the problems that Finnish companies experience and the ones that Dutch companies have to deal with.
- To gain understanding how Dutch profit- and non-profit organizations provide export assistance to Dutch SMEs.
- To recommended how Zet-Group can adjust its services to offer better assistance to Dutch SMEs in comparison with the Dutch competitors of Zet-Group.

1.2 Methodology

To meet and achieve the objectives of this project, two types of information will be combined: primary and secondary data. The primary sources of information consist mainly of interviews with colleagues from OOO Zet-Group, Dutch exporters, employees of Dutch consulting firms and representatives from (non-) governmental institutions. These sources provide up-to date and reliable information about the needs and wants of exporters on the one hand and the options to meet these requirements on the other. With the help of the information provided, this project will determine the obstacles in exporting to Russia for Dutch companies and the needed changes in the approach of these companies. The primary sources are the foundation of this work for the reason that they reflect all parties' thoughts on the subject accurately.

The secondary research will start with literature review, assessing and analyzing existing information related to the objectives of the final project. Country reports that have been done by Baker & McKenzie, Deloitte and PricewaterhouseCoopers and books about doing business in Russia are numerous and are good means to grasp the challenges of this difficult yet promising market. It will help to define difficulties encountered in present Russia. Not only will literature be used in which third parties write about the actors on the Dutch export market, but it is also not neglected to see what the Dutch competitors of Zet-Group have to say about themselves. In addition, a detailed explanation needs to be given about the different services of Zet-Group and the factors that influence every service, before one can understand the possibilities and limitations of each. In accordance with what is required by Dutch exporters, what possible and what is not, recommendations are given.

1.3 Utility of the report

The findings of the report can be used to make a selection of the best services in the assortment of Zet-Group. Additionally, the conclusions can be used to offer these services to the right group of companies, meaning that these are the most likely to purchase the services and to be successful on the Russian market. Moreover, the advice will take into account the characteristics of the Russian market and the features of the Dutch competitors on the consulting market.

1.4 Suggestions for further research

The identification of specific opportunities for Dutch exporters in Russia might help Zet-Group to exploit these opportunities in cooperation with them. However, a lot has been written already about the sectors in Russia with high potential: agriculture, infrastructure and energy efficiency. It is doubtful whether one could come up with new information. Nevertheless, a visit to any supermarket will prove that the market for fast moving consumer goods (FMCGs) is far from saturated. Based on the assumption that the consumers will demand more choice and better quality in the future, there is a lot to be won here. It seems only logical to bring these opportunities to the surface, by means of thorough research. The ones who identify the opportunities first will be the big winners; “Russia is truly a fantastic market – but only for those, who set out early and take a calculated and justified risk” (Peter Zashev, 2007, p. 57).

2. Doing business in Russia

Since the collapse of the Soviet Union and the transition from centrally controlled and planned economy to a free market, the business climate in Russia has been developing and improving. From a country with strictly controlled industries, monopolies and no possibilities for foreign companies to enter the Russian market, Russia has changed to one of the most attractive markets in the world. Economic growth has been one of the fastest in the world (PricewaterhouseCoopers, 2009). Russia is a growing free market economy with a market of over 140 million consumers. The Russian economy offers great business opportunities in many sectors (Communicaid blog, 2010). The growth depends to a large extent on the export of natural resources such as oil, gas and metals. According to Glass (2006), eighty percent of the country's export is related to oil and gas. It means that the Russian economic situation and its stability are very dependent on the prices of oil and gas.

Russia has been put on place eight in the top ten most attractive markets for investments. This is mainly because of the macroeconomic stability and tax reforms (Metal.Com Trade system, nd). On the conference 'Russian market entry: Establishing and Expanding Your Business' which was held on 5th of June 2009 in Frankfurt, the Russian market was considered to be an appealing market for foreign investments. On the same conference Thomas Gebhardt, the Chief of the business communication department of Hochtief Aktiengesellschaft (construction services specialist) said that the main problem for his company was the lack of qualified labor. However, he claimed that a professional and experienced partner would probably be able to solve this (ICC Russia, nd.).

During the recent financial crisis, the Russian economic development slowed down but there exists a reason for investors and newcomers to enter the Russian market; due to the crisis many of the market leaders in different industries are weakened (Global Intelligence Alliance 2009). This creates opportunities for newcomers. Furthermore, a beneficial factor is low cost labor force (PricewaterhouseCoopers 2009). Although the growth of the Russian economy strongly declined during the time of the financial crisis, the Central Bank of Russia predicts moderate recovery and growth of GDP (Shabanov 2010). The crisis has led to (KPMG, 2009):

- A slump in commodity prices
- A collapse of the financial markets
- Restricted access to external financing
- Rising unemployment
- A consequent drop in internal consumption

Table 1. Ease of doing business in Russia (Doing Business).

Ease of...	Doing Business 2010 rank	Doing Business 2009 rank	Change in rank
Doing Business	120	118	-2
Starting a Business	106	88	-18
Dealing with Construction Permits	182	182	0
Employing Workers	109	104	-5
Registering Property	45	49	+4
Getting Credit	87	109	+22
Protecting Investors	93	88	-5
Paying Taxes	103	108	+5
Trading Across Borders	162	160	-2
Enforcing Contracts	19	19	0
Closing a Business	92	92	0

Table one shows the rank of Russia out of 183 countries on different aspects of doing business. The overall rank of doing business in Russia is quite low, place 120 out of 183 countries. Nevertheless, Russia has a better tax climate for companies since 1 January 2009. To address the economic downturn in Russia the maximum tax rate for profit tax is reduced to twenty percent from 24 percent (PricewaterhouseCoopers, 2009). Nowadays, the following tax rates apply to dividends:

- 0% tax on dividends payable by Russian and foreign companies qualifying as strategic investments.
- 9% tax on dividends payable by Russian and foreign companies to Russian shareholders in all other cases.
- 15% tax on dividends payable by Russian companies to foreign legal entities (PricewaterhouseCoopers, 2009).

2. 1 Trade across the border

When reviewing trade across the border in a Russian context, it is important to consider customs regulations and other requirements and how this affects international trade. Russian customs can be considered as an obstacle and complication for foreign companies while doing business with Russia. In order to import any goods to Russia there should be dealt with documents for customs clearance and customs duties (Deloitte, 2009). These fees are paid to the Russian customs authorities in order to get a product in the country. “The duties that have to be paid depend on the nature of the product, country of origin, weight and quantity of goods” (Nowek 1997). A new customs Code with a new system of tariffs was introduced on 1st of January 2004 (Tertekov, 2009).

This was done to simplify the process of importing. However, the Russian customs authorities remain notorious. According to the website Doing Business, the number of documents needed to import into the Russian Federation is thirteen against the Organization for Economic Co-operation and Development (OECD) average of five documents. Furthermore, the time in days to import is 36, while the OECD average is eleven. In addition, the costs per container are higher. In some cases, it takes even more time and money because the Russian customs workers are “infamously corrupt and really an authority of their own”. “The rules are so complex that it is necessary to employ a customs broker who will guide you through the regulations” (Van Zwol, 2008). Last year, the import tariffs were raised as a barrier against products produced abroad. This was to stimulate the domestic market (The other Russia, 2009).

Together with customs fees, import requires permits, certification, licensing and other approvals (UHY, 2009). This documentation has to provide information about safety and quality and will clarify whether this is according to the standards of the Russian customs. For example, importing clothes requires sanitary certification, where the product needs to be tested in order to identify the components, which it is made from and its quality (Russicertification, 2010). The certification process is time consuming, which of course affects the goods delivery time. Another reason why certification can be considered as a barrier for doing business in Russia is that without customs broker, these processes are extremely difficult to complete successfully.

2.2 Business culture and other difficulties

The main challenges for doing business in Russia include factors as limited information and lack of transparency in industries. Furthermore, there is corruption, unreliable statistics and high governmental involvement in the business sector (Global Intelligence Alliance, 2009). Corruption remains one of the largest problems in Russia. It negatively affects the growth of the Russian economy and the credibility of the country in the world. Unfortunately, the situation has developed from bad to worse. According to Transparency International, Russia is ranked on place 127 regarding the perception of corruption in society.

Table 2. Corruption Perception Index (CPI) of Russia (Transparency International).

Level of corruption in Russia		
Year	CPI	Place
2000	2,1	82
2001	2,3	79
2002	2,7	71
2003	2,7	86
2004	2,8	90
2005	2,4	126
2006	2,5	121
2007	2,3	143
2008	2,1	147
2009	2,2	146

Table 2 shows the Russian corruption number on a scale from zero to ten and the place in comparison with 180 countries. An indexnumber, which is closer to zero, means a high level of corruption while an indexnumber closer to ten means low corruption. According to this table, it is evident that Russia remains to have a high level of corruption over the years and the situation has barely improved since the start of this millennium.

In the interview with the “Russian Newspaper”, the first deputy of the General Public Prosecutor of Russia, Alexander Buksman, has estimated that the annual market for corruption in terms of money involved is 240 billion dollars. This number is comparable with the state annual budget (Russian Newspaper, 2009). Corruption has a negative affect on foreign direct investments. According to calculations of the American economist Shung Chang Va, there is a positive relation between level of corruption and amount of foreign direct investments. To illustrate, an increase in the CPI by one point (on the ten point scale) leads to an increase of foreign direct investments by 0,9 percent. However, not only corruption can compromise doing business in Russia, the condition of the infrastructure is another factor to consider when exporting to Russia.

The infrastructure in Russia is quite undeveloped. Commercial transportation relies heavily on railway transportation (Baker & McKenzie, 2009). The fact that there is only one railway transportation company in Russia, the state-owned RZhD, the process of transporting goods by train becomes more expensive and more time consuming. Absence of competitors makes it impossible to employ a faster transportation company or one with lower tariffs. Moreover, the bad quality of the roads together with difficult weather conditions makes the connection between cities

slow (U.S. and Foreign Commercial Service and U.S. Department of State, 2010). This is important to consider when determining the locations for new offices or factories.

There are several social factors that negatively affect business operations in Russia. There is a quite low average life expectancy; 66 years (Male: 59.33 years). This fact combined with a low birth rate leads to negative population growth rate. Russia is on place thirteen in the world for HIV/Aids related deaths (CIA World Factbook, 2010). The above can put the labor market under pressure in the long-term.

English language is not widely spoken in Russia, which can be considered as a barrier for doing business in Russia. It leads to communication problems and makes establishing business relationships problematic. The salary of a translator adds to the total costs of doing business in Russia. There are two cities, Moscow and Saint-Petersburg, where the percentage of English speakers is higher than in the rest of the country (U.S. and Foreign Commercial Service and U.S. Department of State, 2010).

With a surface of 17,1 million square kilometers, Russia is the largest country in the world (CIA World Factbook, 2010). On 28 March 2010, Russia has changed the number of time zones within the country from eleven to nine. This reform was established for convenience of business communications. The Russian city Blagoveshchensk is located close to the border with China eight thousand kilometers and six time zones (before the reform) away from Moscow. The difference between the start of a working day in Moscow and the end of a working day in Blagoveshchensk was three hours (now five), which made the time for discussing business short. Companies and organizations in Russia are usually not efficient in decision-making. Therefore, three hours was not sufficient to discuss and decide on matters with the head department in Moscow. The time difference becomes even more problematic when offices in Eastern Russia are doing business with European companies. Countries with large territories have great opportunities for business development but at the same time it can cause difficulties because of working with large time differences (BBC, 2010).

In addition, Russia's economic freedom is quite poor. "Russia is ranked 41st out of 43 countries in the Europe region, and its overall score is below the world and regional averages" (Index of Economic Freedom, 2010). This index considers criteria such as: the freedom to start a business, fiscal freedom, investment freedom and property rights. "The Russian economy scores above the world average only in fiscal freedom", because of the already mentioned, reduced corporate tax (Index of Economic freedom, 2010).

Nevertheless, various factors make doing business in Russia attractive. For example, the low costs of labor; the average monthly gross earnings in Russia is RUB 16.447 or approximately EUR 420 (FITA, 2010). Furthermore, the GDP will grow throughout 2010, tax reductions have been planned and the unemployment rate continues to drop (FITA, 2010). Moreover, a stabilization fund has been set up to modernize infrastructures as a response to the poor condition in which it is. Besides, Russia is a huge consumer market in which people often spend more than eighty percent of their income (FITA, 2010). “Russia has much more to offer and every exporter must improve their position with knowledge, experience and a growth strategy for Russia” (Zashev, 2007). This is best done by means of a consultant; “the consultant’s importance derives from experience in every facet of a project, particularly market analysis, personnel selection, product evaluation, promotional strategies and legal considerations” (Nelson, 1999, p. 40).

3. Exporting from the Netherlands to Russia

This chapter will start with a case study about a Dutch SME, which is exporting to Russia successfully. What was done correctly? What are the points to pay extra attention to while doing business in Russia? After that, a case will be introduced in which the exporter was unsuccessful in Russia. What were the missteps? What was overlooked but is very important? These case studies will provide information about the preconditions for lucrative export and the problems that can occur. Subsequently, the services of Zet-Group can be reviewed in this light. The final part of the chapter consists of an overview of the different profit and non-profit organizations, which can help a Dutch SME with exporting to Russia. What is offered? Who cooperates with whom? To review this is valuable because Zet-Group should know how to position itself amongst these players and what the possibilities and limitations for cooperation are.

3.1 Case study: SME from the Netherlands doing business in Russia successfully

In this section, a closer look is taken at a Dutch SME, which is doing business in Russia successfully. The aim of this is that analyzing the export process will provide information about what is done correctly and what makes this company so profitable. For this analysis some theory is needed and this section will start with that. By identifying the right moves and accomplishments, Zet-Group will get a picture of what is needed by a Dutch SME to export successfully to Russia.

3.1.1 Jos de Vries The Retail Company

To get an idea of what constitutes as a SME, it is desired to implement a definition. In this project the definition is used as it is adopted by the European Commission from the first of January 2005. “Enterprises qualify as micro, small and medium-sized enterprises (SMEs) if they fulfil the criteria laid down in the table below. In addition to the staff headcount ceiling, an enterprise qualifies as an SME if it meets either the turnover ceiling or the balance sheet ceiling, but not necessarily both” (European Commission, 2005).

Table 3. SME definition (European Commission).

Enterprise category	Headcount	Turnover	or	Balance sheet total
medium-sized	< 250	≤ € 50 million		≤ € 43 million
small	< 50	≤ € 10 million		≤ € 10 million
micro	< 10	≤ € 2 million		≤ € 2 million

Jos de Vries The Retail Company (JdV) is the leading design-agency in Russia (Rusprix, 2010). Jos de Vries established the company in 1986. Nowadays, company does projects for stores all over Europe. The company's head office is located in Maarssen, the Netherlands. There are representatives in Germany, Spain and an office in Russia. JdV is specialized in internal store design, illumination, product display, stores zone division and decorations. JdV's clients are leading European store chains: Hyper Globus, Edeka, IperCoop, Jumbo, Tradeka and Praxis. Russian clients are: Ramstor-city, Lenta, Azbuka Vkusa, Nova, Mikromir, Ratimir and Order. The extensive list of Russian clients, demonstrates that JdV is operating successfully on the Russian market. The market entry had a clear strategy. Moreover, before going international, the company had built up a strong reputation and image in the domestic country (Jos de Vries, 2010). One of the major clients of JdV is the family business group Jumbo, which has around 120 stores all over the Netherlands. Jumbo opens twenty new units yearly. The group cooperates with the design bureau for over ten years. JdV develops a layout for each new shop (Artbuilder, 2010).

Furthermore, JdV takes cultural differences into consideration and designs the layout and product display according to cultural preferences. For example, in the Netherlands, every shop has a 'fresh island' in the centre of the shop for meat, bread, delicacies or cheeses. In the Netherlands, much attention is paid to the cheese department. Many cheeses are presented in a self-service manner: cut, weighed and packed (Jos de Vries design, 2010). Conversely, in Russia, a large zone is reserved for the meat department. Furthermore, the stores in Russia are specially designed to include an alcohol department where all related goods (wine, beer and strong alcohol) are displayed. The fact that JdV takes cultural differences and consumer behavior into account makes the company successful in many European countries and especially in Russia. JdV won the Rusprix award 2009 for most successful and admirable Dutch SME in Russia (Rusprix, 2010).

There are several more reasons why JdV is doing business in Russia successfully. First, the company accurately identified a need. After the collapse of the Soviet Union, Russia has experienced a transition in the way of shopping. From shops where every product was handed to the customer by a shop assistant to self-service stores. There was and still is demand for specialists who can organize and design a store. A company like JdV provides in this need and therefore had no trouble finding clients. Secondly, JdV used Germany as a test market. Russia is the most accessible market and might be the wrong choice for a company to start its international business operations on. However, Germany is a great market to gain experience and confidence to spread out to other countries.

Thirdly, the company has specific target group. JdV is engaged in so-called niche exporting, which is “critical to the success of any import-export enterprise” (Seyoum, 2000, p. 56). Consequently, JdV “practically does not have any competition on this market” (Rusprix, 2010). Fourth, JdV adds value. The services concern not only the display of products, but also the design and decoration of a store. Finally, JdV chose the right market entry mode. The company analyzed all possible options and made a reasoned decision to use an agent. JdV uses the educated and experienced Irina Bolotova, who has been working in this field for long and is familiar with the relevant Russian market.

The points mentioned above are the reasons that JdV is a thriving SME on the Russian market. From this case study, conclusions can be drawn that will help Zet-Group develop its strategy. These will be outlined in the next subsection.

3.1.2 Implications for Zet-Group

Firstly, JdV perceived a need on the market and entered to fulfill this need. Zet-Group might obtain clients if the firm would put time and effort into indentifying needs on the Russian market. After, companies that would potentially fulfill these needs can be approached and together with Zet-Group they can enter the Russian market successfully. Second, specialized companies, which operate in niches, have high potential. Again, Zet-Group can invest to find and contact these foreign companies and present arguments to them why they should enter the Russian market. Thirdly, Russia is a difficult market and companies, which have already experience in exporting, are better clients for Zet-Group. The chances of failure are larger with inexperienced companies. In addition, they are reluctant themselves to export to Russia because they are probably aware of the obstacles. Finally, a good partner is crucial. It has been said before but it cannot be stressed enough. In Russia, an exporter is more dependent on partners than in many other countries because Russia is not accessible for someone without knowledge of the country. JvD took time to find the right partner and Zet-Group can do the same for its clients. The matchmaking service of Zet-Group should be promoted in combination with informing potential clients that having the right partner is a precondition to success.

3.2 Case Study: SME from the Netherlands doing business in Russia unsuccessfully

In this section, a closer look will be taken at a SME from the Netherlands that tried to do business on the Russian market but failed. Companies will not advertise with their unsuccessful export and therefore it is quite difficult to find an exporter who admits that the foreign trade failed. Nevertheless, there are cases in which a company openly admits that they tried to do business in

Russia but had to retreat from the market for certain reasons. In this section, one of these companies will be discussed. The aim of this is that analyzing the export process will provide information about what should have been done differently. By identify the barriers or common missteps, Zet-Group will get a picture of what is needed by a Dutch SME to export successfully to Russia. For this analysis some theory is needed and this section will start with that.

3.2.1 Multitubes BV

The first step in doing business abroad is establishing the export potential of a product. According to Seyoum, in order to do so, firms must consider the following factors: the success of the product in domestic markets, participation in trade shows abroad, advertisement and market information (2000, p. 53). A product that is successful on the domestic market is liable to do well on foreign markets. However, market research is of utter importance to the success of an export business (Nelson, 2009, p. 21). Having this said, the exporter will be introduced.

The export activities of the company named Multitubes BV will be reviewed. Multitubes was founded in 1999 and experienced rapid growth. The company manufactures tubes for the following markets: food packaging, personal care packaging and industrial packaging. The tubes can be ordered in different sizes with unlimited color options and with custom-made decorations and designs (Multitubes, 2008).

Within a short period, Multitubes became very successful in the Netherlands and going abroad seemed a logical step. The company began to export to markets, which are geographically close to the Netherlands. At the moment, Multitubes has representatives in the United Kingdom, Germany, Spain, Austria and one for Norway, Sweden and Finland. The products are well received all over Europe and in 2007, it seemed that the Russian market was next to be conquered. However, the costs of transportation were underestimated together with the time, effort and costs involved in dealing with the certification and Russian customs. Nevertheless, Multitubes managed to get the required certificates and found an agent in Russia. By that time, the tubes had gotten more expensive, to keep a margin for distribution and profit. In addition, these extra costs meant that orders had to be very large to be profitable. The company expected that the high price would be justified by the quality of their products and the options to customize. Obtaining large orders would be a question of time.

Unfortunately, the orders did not come. Multitubes had made the mistake of relying on the assumption that success of the products in the domestic market would mean success in Russia. This assumption had proved to be wrong. A small amount of market information had been

gathered and there was not engaged in any serious promotion. Multitubes had participated in a trade exhibition, where the company had gotten some positive reactions from Russian businessmen. Yet, this was far to less to base an export decision on. There is no need for expensive tube packaging on the Russian market. In this respect, the European market is more developed because in Russia, the consumer is not ready yet to eat garlic butter from a tube.

Another factor that contributed to the failure was the lack of focus on the market. Seyoum mentions in his book about import-export theory that “chasing product orders in different markets impedes the development of a systematic export strategy” (2000, p. 56). Multitubes quickly expanded to several foreign markets and there was not enough attention for the Russian market. Moreover, the agent should have been controlled more intensive. There was no time to give the agent the guidance that was needed. Finally, Multitubes ended the relationship with the agent and withdrew its activities from the Russian market without any financial gain but with the knowledge that the Russian market is not ready for their products. In 2012, the company planned to enter the Russian market again; this time with an entry strategy based on facts, not on assumptions.

3.2.2 Implications for Zet-Group

Several conclusions can be drawn from this case study. First, the main mistake that Multitubes made was that they entered the Russian without knowing whether there was any demand. Zet-Group should stress the importance of verifying demand when offering market research. The attitude “I know that there is demand because everybody likes chocolate” (Mevo Holland BV, 2010) will not guarantee successful export to Russia. Market research is not only important to make sure that there are people who want to buy the product, it is also crucial to build a product portfolio and pricing strategy (Zet-Group, 2010). A second misstep was that Multitubes did not pay much attention to the logistics part of their export. It is important for Zet-Group and its client to know that the practical matters of transportation, certification and customs are utterly important. Transportation is more important matter for Dutch companies than for Finnish companies due to greater physical distance to Russia (Kudrina, 2010). Zet-Group should focus on these needs. Thirdly, Multitubes did not have proper promotional material for the Russian market. Simple translations from Dutch or English to Russian will not do, the material has to be specially developed. Zet-Group anticipates this need but Dutch companies do not grasp the importance yet. The fourth error was that Multitubes did not have a good relation with a reliable agent. The representative was given too much freedom because the company did not have the time to steer and control their representative. Zet-Group can provide its clients with an agent or distributor according to the client’s standards. Additionally, there is the possibility to host and guide the

representative in the Zet-Group office but more about this sales outsourcing service is explained in Chapter 4.

To summarize, the services of Zet-Group match quite well with the assistance that Multitubes would have needed in this case study. Nevertheless, it cannot be concluded yet that the services of Zet-Group are exactly right. In the next section, the services of the competitors will be outlined and in the next chapter the services of Zet-Group will be analyzed more thoroughly.

3.3 Overview of Dutch profit – and non-profit organizations offering export assistance to Russia

In this section, the organizations available to companies for export assistance to Russia will be outlined. These organizations include governmental– or non-governmental organizations and commercial consultancy firms. Amongst the former group, there are few that focus solely on Russia. Their aim is usually to stimulate export in general regardless of the destination. However, since the great potential of the Russian market is widely recognized, many grant extra attention to this market. “The Netherlands’ economy is highly open and dependent on foreign trade” (CIA, 2010). To illustrate, the Netherlands is the sixth largest exporter in the world measured by the total value of the exports (CIA, 2010). Therefore, Dutch commercial export consultancy firms are numerous. In this section, the ones that are specialized in trade with Russia or those who have Russia as a considerable part of their portfolio will be discussed. To demonstrate the variety of services offered, consultants from different corners of the segment will be considered.

3.3.1 (Semi-) Governmental Organizations

Probably the first organization that one comes across when searching for business opportunities in overseas markets is ‘de Nederlandse (NL) Economische Voorlichtingsdienst (EVD) International’ or as it is called in English, the Agency for International Business and Cooperation. “NL EVD International is a division of Agency NL and promotes and facilitates presence of Dutch companies abroad and supports private sector development in emerging markets” (NL EVD International, 2010). Besides the EVD, Agency NL consists of four other thematic divisions and is a part of the Ministry of Economic Affairs.

The EVD is based on the importance of internationalization and engages in initiatives for international business and cooperation. The services offered are numerous and diverge from organizing trade missions to doing marketscans. Basically, a company can apply for a first orientation meeting regarding its international ambitions and after, the experts of the EVD will

develop a step-by-step plan to make these ambitions concrete. A powerful tool to realize this is the extensive network of Embassies, Consulates, Netherlands Business Support Offices, companies, branch organizations, governments and knowledge institutions. The companies mentioned in this enumeration can be export consultancy firms, which support the EVD in organizing trade missions and in doing market research. One matter that deserves extra attention in this section is the subsidy program Prepare2start. This program aims to support SMEs with no or minor export experience, to enter a new foreign market. The Prepare2start program contains advice and guidance in developing an internationalization plan and contributes financially to the execution of the plan. The subsidy for certain activities is fifty percent of the costs with a maximum of EUR 11.500 (KvK, 2010). These activities have to support entering the target country or target region, but it is the entrepreneur's own choice whether to outsource these activities to another (professional) party. The activities entitled to funding are:

- Execution of a marketscan;
- Selection of business partners;
- Presentation of the company and product/service during international exhibitions;
- Legal advice about international business;
- Registration of patents or brands;
- Education, training and courses relevant for international business.

Why is this program interesting? For the reason that the EVD works together with regional Chambers of Commerce and employer organizations. Furthermore, the EVD can recommend the services of commercial consultants to a SME in the program. A strong relationship with the EVD means a good prospect for consultants to gain access to their target group, namely SMEs in need of export assistance. Why this relationship is not easy to establish will become apparent later on in this section.

The Dutch Trade Board (DTB) is a public-private cooperation for international entrepreneurship, which has as a goal to strengthen the position of Dutch enterprises abroad (Ministry of Economic Affairs, 2010). The instruments to do this are orientation and exploration of the foreign markets. Moreover, the DTB implements knowledge and action to improve certain problematic areas. The DTB has three focus countries: India, Turkey and Russia. Furthermore, there are three focus themes: education, clustering and SME financing. Obviously, Zet-Group has interest in the activities concerning Russia and SME financing. With regard to Russia, the DTB highlights important developments on the market and identifies regions with high potential. Moreover, interesting sectors and events are brought under the attention of Dutch SMEs. The promotion of

Russia as a lucrative foreign market is important, because if Dutch SMEs would be reluctant to export to Russia, there would be nothing to gain with export consultancy in that direction.

The section about SME financing covers the options to finance international plans. Also, it lists the possibilities for companies to attract subsidies and regulations. Accordingly, the Prepare2start program is described and promoted, which leads companies to the EVD (DTB, 2010, para. 5). Subsequently, the EVD can refer SMEs to commercial consultants and that completes the circle. The importance to be visible somewhere along this circle becomes evident. The DTB lists commercial consultants based in the Netherlands (DTB, 2010, para. 6). Their services are mainly focused on the first phase and start-up activities of doing business abroad. Although, Zet-Group's services have these characteristics, the company cannot be included in the list. A Dutch Chamber of Commerce registration number is required and being a Finnish company, Zet-Group does not have a Dutch registration number.

The 'Kamer van Koophandel' (KvK) is the Dutch Chamber of Commerce and its mission entails three main tasks: to register, to inform and to stimulate (KvK, 2010). On the topic of international trade this means that practical information about import and export is given. For example, information is provided about writing an exportplan and arranging transportation. Under the heading "Subsidies for starting with export", the Prepare2start program is explained (KvK, 2010). Regional KvK experts can check whether companies meet the requirements to apply for this program. In case the SME will make use of the Prepare2start program, the EVD is in charge again. There are twelve regional Chambers of Commerce, which all have their independent projects. Some of these projects relate to international trade and on certain occasions cooperation with commercial consultants is involved. However, at the moment of writing, none of the regional Chambers of Commerce is involved in a project that relates to doing business in Russia.

The Dutch Embassy in Moscow and the Dutch Consulate in Saint-Petersburg, together with the Netherlands Business Support Office (NBSO) in the Russian Federation form the worldwide governmental network to support companies (Dutch Embassy in Moscow, 2010). The advantages this network are that the people who work there know the market, have access to local authorities and companies and overcome the language barrier and cultural obstacles. Employees of the Embassy and the Consulate can provide the addresses of potential customers or partners. Furthermore, these institutions are a valuable source of market information as they produce reports and studies. In addition, important information about trade and investment regulations can be provided. Lastly, the Embassy and the Consulate supply companies with the contact information of commercial consultancy firms. Therefore, it is recommended to be registered as a professional

consultant with these institutions. An email or letter will do, yet this does not guarantee acquiring clients.

As mentioned before, the NBSO located in Ekaterinburg is part of the Dutch trade network in Russia. The NBSO is established by the Ministry of Economic Affairs to support Dutch companies in their activities on promising markets (NBSO Ekaterinburg, 2009). “The NBSO in Ekaterinburg provides tailor made services; answers trade requests and provides the possibility... [to bring Dutch SMEs]... in contact with our broad network of companies, service providers, chambers of commerce and governmental institutions” (NBSO Ekaterinburg, 2009). The mentioned service providers include consultants. Again, to become part of this database of service providers does not involve strict requirements. However, it is always the company that makes the decision to use a specific consultant.

3.3.2 Non-Governmental Organizations

Fenedex is a private organization of Dutch exporters and other internationally operating enterprises (Fenedex, 2010). This independent, non-political organization has as a goal to bring knowledge and experience together for the benefits of its members. Nowadays, there are 1.200 members plus over four thousand customers, which makes Fenedex the main organization of Dutch exporters. Fenedex does not concentrate especially on Russia, however, there is a Central- and Eastern-European Desk to provide support and advice to companies with the ambition to export in that direction. This is done according to a made-to-measure approach: from strategic advice about the first exploration of the market to practical implementation of daily operations (Fenedex, 2010). This is not only done by the Fenedex accountmanagers, the Central- and Eastern-European Desk cooperates with the commercial consultancy firm EUNITE. The fact that Fenedex always works with the same consultants makes it close to impossible for other firms to obtain clients who are in contact with Fenedex. Moreover, the considerable size of this organization guarantees that many SMEs are drawn to Fenedex and simultaneously to EUNITE. A profile about the latter is given in the next subsection.

The ‘Nederlands Centrum voor Handelsbevordering’ (NCH) or the Netherlands Council for Trade Promotion provides a basis for Dutch companies who are internationally active or strive to be so. Through the organization of export stimulating activities such as trade missions, participation in exhibitions and network meetings, the NCH promotes economic opportunities abroad (NCH, 2010). The NCH has numerous business councils in foreign countries. These business councils assemble the basis of the activities for the reason that companies with interest in a certain country

can address all questions to the business councils in their country of choice. One of the largest business councils of the NCH is the one in Russia; ‘Nederlands Russisch Centrum voor Handelsbevordering’ (NRCH). The opportunity that arises from this is that Zet-Group can become visible for Dutch companies, which turn to the NRCH for advice.

The ‘Koninklijke Vereniging MKB-Nederland’ or the Royal Association for SMEs in the Netherlands is the largest entrepreneurial organization in the Netherlands and represents over 186.000 companies (MKB-Nederland, 2010). The association provides services in relation to international business. These services consist mainly of providing information, organizing trade missions and matchmaking with foreign partners. Currently, MKB-Nederland focuses on the markets of Germany and France. However, they are open to suggest consultancy to their members in case a company would enquire about Russia.

To conclude this part, the organizations mentioned above are just a few of the governmental- and non-governmental organizations involved in providing export assistance. However, these are partners of the network International Entrepreneurship of the DTB and have proved to be the most active when it comes to the support of doing business abroad. They might not focus on Russia alone, but every single one acknowledges the importance of this market. In addition, they are willing to suggest external consulting to their target group. It is important to be included in as many databases as possible with the most advantageous profile so that Zet-Group stands out from the mass. In the next subsection, an overview of the commercial consultants will be given and it will become clear that strong links exist between parties from the profit- and non-profit sectors.

3.3.3 Commercial export consultants

Almost all commercial consultancy firms that will be discussed in this subsection focus exclusively on Russia. Only EUNITE has a broader scope, they provide services in relation to many countries in Eastern Europe as well. The firms listed here are registered in the Netherlands and some have an additional office in Russia. To review these consultants and their services will impart knowledge about what is necessary to be a successful consultant on the Dutch market. Not every single service will be outlined in detail since some are quite similar. Therefore, it is more interesting to identify the unique characteristics of each firm and their ties with other (governmental) actors. The way these firms perform their tasks can help Zet-Group position its services.

Petron Management & Consultancy is a small firm based in Saint-Petersburg and in the Netherlands. A competitive advantage is that the managing director has experience working for a Dutch company in Russia. A certain network existed when the company was founded in 2002.

Furthermore, Petrion offers the language program ‘Russian in Russia’ which attracts people from Dutch businesses and establishes valuable relations. The list of completed projects includes references to cooperation with larger consultancy firms such as EUNITE.

“The Noble House Group specializes in helping foreign businesses to develop successfully in Russia” (Noble House Group, 2009). The services of this group are very broad and include also logistics, brokerage and certification. Furthermore, legal and accounting services, external finance and HR services can be offered. These different services are offered in packages of several possible sizes with regard to the number of hours spent on the tasks. The prices of the packages range from EUR 1.500 to almost EUR 5.000; a complete pricelist can be found in appendix one. The nature of the services in the packages is operational; there is no focus on sales. This is not claimed either, “Noble House Nederland B.V. can, and will, help you step over obstacles already in the orientation- and planning-phase to assure smooth development during the execution stage of doing business in Russia” (Noble House Group, 2009). The services are more of a practical nature and that might have an attraction to businesses. However, sales are of utmost importance. Noble House Nederland has an office in the Netherlands and cooperates closely with the NCH, which is very beneficial with respect to promotion and visibility.

Lighthouse Russia B.V. is a Dutch consultancy company based in Moscow, owned by the Dutchman Jeroen Ketting. Lighthouse provides services such as market research and matchmaking (see appendix two for the details). The latter costs EUR 9.000, which is fairly expensive compared to equivalent services of other consultants. Furthermore, they provide management services, registration of legal entities and staff search (Lighthouse, 2010). The team consists of Dutch and Russian employees. Lighthouse has a strong connection with the EVD. For example, together with a regional Chamber of Commerce, Lighthouse organizes a trade mission in June 2010 to Moscow on behalf of NL EVD International (EVD, 2010). During this mission, Lighthouse will facilitate matchmaking and networking activities. Obviously, this is a great opportunity for Lighthouse to meet new clients. When the EVD is requested to recommend a consultancy firm, its recommendation will be probably Lighthouse. Moreover, the national and regional Chambers of Commerce cooperate with Lighthouse. An example of this cooperation is the consult day ‘Russia’, for companies in the Netherlands. In addition, Lighthouse and the Netherlands Council for Trade Promotion (NCH), the Central and Eastern European Trade Club (COETC) and the Chamber of Commerce Rotterdam organize a yearly reception and workshops with Russia as a main topic. Besides, the managing director, Mr. Ketting, regularly gives presentations during business events and exhibitions (Lighthouse, 2010). A small part of the list of client references can be found in appendix three. To summarize, the position of Lighthouse is solid and the firm has contacts with

the right organizations. The relationships and visibility provide them with a major competitive advantage. Especially, the strong link with the EVD brings the firm ahead of other consultants.

EUNITE provides market entry, investment, sourcing and distribution services. The partner identification service is like Lighthouse's individual matchmaking. As mentioned before, EUNITE is the partner of Fenedex. When members of Fenedex express interest in doing business in Russia, an individual meeting with EUNITE is arranged. EUNITE has 60 employees and presence in almost all Central- and Eastern-European countries. Besides a partnership with Fenedex, the company has partnerships with different branch organizations such as MKB-Nederland, KvK, Modint, FME and the Metal Union (EUNITE, 2010). Moreover, EUNITE organizes trade missions on behalf of the EVD.

To conclude, the market of export consultancy is quite competitive. The services of the different firms are fairly similar; they do matchmaking and market research or provide assistance with more practical matters. However, many consultants have a unique position and network. According to Phillips (2006), networking is critical in the consulting process and “an important part of the decision to approve a consulting project is made on the basis of relationships” (p. 74). The last two firms mentioned in this subsection, Lighthouse and EUNITE, have steady connections with important organizations (EVD, Fenedex, KvK). SMEs almost cannot go around these if they want to do business in Russia. Hence, many SMEs are drawn towards the consultancy firms with the broadest networks. Moreover, “people feel more comfortable with those they have worked with before or are recommended by someone they trust” (Wickham, 2008, p. 65). Therefore, references play a huge role in obtaining new clients and having a list of companies giving positive feedback about the firm’s services is of course a major advantage. An appropriate quote would be “it’s not about what you know, it’s about who you know” (ORCPA, 2008).

What Zet-Group can do is to present its contact information to as many organizations as possible. Due to recent activity, Zet-Group is registered as a professional consultant in numerous databases. Next, these organizations should be regularly contacted to enquire about possible projects or co-operations. Furthermore, steps should be taken to establish collaboration with other consultancy firms. The options to work with a competitor are limited unless Zet-Group has a good offer. At the moment, there are negotiations with Lighthouse about joint action on the basis of Zet-Group’s unique sales outsourcing service (see next chapter). Moreover, Zet-Group should exploit its experience and knowledge of the Russian market to target the right companies according to market developments. A comprehensive explanation will be given later.

4. Zet-Group

Zet-Group Saint-Petersburg is a consultancy company for exporters and investors who wish to do business on the Russian market. Zet-Group can assist with all aspects of export. Starting with test marketing, logistics, customs, promotion, finding potential partners/customers and follow-up. Founded in 1998 in Helsinki, Finland, Zet-Group LP was named PRZ-TEC in the beginning. In 2004, Zet-Group Saint Petersburg was founded. OOO Zet-Group Russia is hundred percent owned by Zet-Group LP Finland. In these two offices works a total of six people. Two are established in Finland and the other employees work in Saint-Petersburg. The mission statement reads as follows: “The main mission of Zet-Group is to offer both Russian and Western companies services enabling them to internationalize and enjoy the benefits of new markets and establishing international business ventures” (Zet-Group, 2010). About the target group, the following is said: “Most of Zet Group’s clients are Small and Medium Size Enterprises (SMEs) coming from Finland, Austria, Bulgaria and Russia. The Zet Group clients cannot be profiled precisely. They vary from Moscow investors and Russian inventors to Western manufacturers and business support organizations” (Zet-Group, 2010).

The services of Zet-Group are broad but mainly evolve around three key pillars: 1) developing visibility and sales instruments for the Russian market 2) test marketing and matchmaking 3) sales outsourcing or functioning as a sales office for the client. These three services will be described in the next section of the chapter. Furthermore, revelation about the current activities of Zet-Group’s employees will be given. The services and activities will be analyzed to give reasoned recommendations about their suitability with Dutch exporters. In the second section of this chapter, an example is given about how these services work in reality. A project done for a Finnish company will be presented to illustrate the working method of Zet-Group.

4.1 Zet-Group Company Profile and Services

As said before, “Zet-Group is a Finnish based trade and investments consulting company” (Zet-Group, 2010). According to the website Zet-Group has a wider reach than Russia. The markets of Belarus and Bulgaria are also within the scope (Zet-Group, 2010). The services are aimed at two broad categories of customers: exporters and investors (Zet-Group, 2010). In addition, the Zet-Group experts are involved in education and training in mainly Finnish and Russian academic institutions and management training organizations. Obviously, the markets and target groups of Zet-Group comprise more than discussed here, since the focus of this report is on the Russia

market and exporters. In the subsections below, the three key services with regard to the Russian market and European exporters will be examined one by one.

4.1.1 Developing visibility and sales instruments for the Russian market

To approach potential Russian partners or customers, sales instruments are needed. A common mistake is that European companies simply translate their existing material. As a result, their promotional material consist of information, which is not relevant for Russian businessmen or confusing or even unintentionally misleading. For example, European and Western companies consider the environment to be a major issue in doing business nowadays. Consequently, they refer to the environment in their brochures and on their websites to establish a ‘green’ image and demonstrate corporate responsibility. When it is time to develop sales instruments for the Russian market, the material is translated and the Russian text emphasizes that product X is manufactured in an environmentally friendly way. The Russian businessman who gets to read this is very likely to not care (as much) about the environment as his Western counterpart and will consider reading this information as a waste of time. What does appeal to Russians is a fancy website or brochure, which looks good and lists the benefits and superiority of product X. What in Europe might be judged as ‘over the top’, can work very well in Russia. Therefore, Zet-Group can develop these sales instruments for its clients. This includes:

- Registering and making a website with a .ru address so that the website can be found easily through a Russian search engine and has the correct content in Russian.
- Making a brochure about the company and its product/service in Russian with the relevant information.
- Developing a sales presentation for the Russian partner or customers. Again, the content is made to fit the perspective of the Russian target.

(A Dutch presentation of this service is found in appendix four).

The fee for the above is EUR 2.490 excluding VAT. In the process of contacting Dutch companies and informing them about Zet-Group’s services, it became apparent that this cost is considered fairly high. However, an explanation of the necessity of a different approach of Russians seemed to be perceived as a valid justification for this price. Nevertheless, the mindset of the Dutch companies doing business internationally seems to be hard to change from “click the flag for your language”, meaning the content is about the same, to a made-to-measure attitude whereby the (business) cultural differences are taken into account.

4.1.2 Test Marketing and Matchmaking → business development

“Companies often face problems in establishing commercial presence on the Russian market. Difficulties arise in finding a reliable partner and later in organizing and maintaining a successful cooperation” (Lighthouse Group, 2010). Moreover, “the only thing that can be relied upon in a [Russian] business context is the strength of the relationships upon which the business is based. Do not underestimate the importance of relationship building - or the time taken in the process” (World Business Culture, 2009). As an initial step to build these relationships, Zet-Group offers test marketing, to discover the initial interest of the target group, and matchmaking, to proceed with the targets with the most interest. The process may vary but usually this service is provided according to certain steps. These will be explained below:

- Zet-Group formulates together with the client the requirements for the potential partners.
- Based on these requirements, Zet-Group makes a long-list of potential partners. Experience proves that the list consists of approximately hundred contacts.
- Zet-Group does research about the organization and finds out who makes the decisions about the applicable topic so that the right person is contacted. The decision-making unit (DMU) is usually hard to find in Russia.
- Zet-Group approaches the DMU with promotional material en an opening letter. Afterwards, personal interviews are conducted to receive feedback about the proposal or offer.
- Zet-Group discusses the results with the assignment provider and in collaboration a short-list is made. This short-list consists of candidates that best suit the formulated requirements and demonstrate the highest interest to cooperate with the assignment provider.
- In order to discuss concrete ways of cooperation, Zet-Group will organize personal meetings between the potential partners from the short-list and the assignment provider. Zet-Group can arrange complete business trips to Russia so that the assignment provider does not have to worry about transportation, visa and accommodation.
- Zet-Group offers support during meetings and will provide advice and recommendations to the assignment provider. If necessary, Zet-Group will represent its assignment provider in meetings and negotiations. (A Dutch presentation of this service is found in appendix five).

Zet-Group charges approximately EUR 3.900 for this service depending on the specific requirements. In comparison with the prices of the competitors, this is a very good offer. However,

many Dutch companies are reluctant to pay these amounts because they do not see the necessity of a strong and reliable partner. The opinion that any distributor is sufficient can cause a loss of time and money. Without the involvement of Zet-Group, a Dutch company would have to make three or four business trips to Russia before it might reach the same result (Zet-Group, 2010). Obviously, this would require a much larger investment of both money and time.

4.1.3 Sales outsourcing → permanent sales office in Russia

An export manager in Finland, the Netherlands or anywhere else except in Russia will have difficulties to represent the product/service of the company efficiently. Noticeably, there are some advantages of an export manager in the home country. At first, it does not require any extra costs. Furthermore, the manager has experience and knowledge about the products and how the organization works. Lastly, control and reliability are guaranteed. On the other hand, several disadvantages can be identified. First, by adding the Russian market to the portfolio of the existing export manager(s), the workload might become unbearable. Also, there is a lack of experience with doing business in Russia and most likely the person in question does not speak the Russian language. Finally, the physical distance will drive up the travel expenses, which need to be made for the necessary visits. During these visits, costs of a translator add to the downside of this option. To sum up, an on hand export manager is not suitable for the job of representative for the Russian market. What about hiring a Russian export manager to work in the home country of the company? This offers a solution to the language barrier and his/her activities can be monitored to ensure a hundred percent focus on the job. However, the distance still exists and the costs of numerous business trips make this an unfavorable option.

Considering the above Zet-Group claims that “to successfully sell on the Russian market you need to be present in the market with a sales force that markets and promotes on a daily basis” (2010). Therefore, a Russian distributor might satisfy the need for permanent representation. Cooperation with a distributor requires small extra costs and this partner will take a lot of work out of the hands of the company. Nonetheless, considerable efforts need to be made to find a good distributor in Russia and it is not known beforehand whether this distributor will perform well. Consequently, only time will tell whether a partner is focused and loyal. The cases where the distributor for some reason neglects the product of the Western company are plentiful. Verduijn's Fine Biscuits was promised that the distributor would have no problem with selling their products. After a while, the distributor ignored Verduijn's products and the Russian adventure had led to nothing. Promises are easily made but they do not always result in sales. To avoid these risks, a company might choose to establish an own office in Russia. The office's own management makes total commitment certain

and can implement the best sales policy and strategy. Finally, having an own office in Russia is also a matter of prestige and image. The main disadvantage of this option is that it requires an enormous start-up investment and high monthly costs. Moreover, considerable efforts need to be made to find the right people to work in this office. To conclude, “successful sales generation and expansion to Russia is only available in the presence of: a sales manger only responsible for Russia, who is located in Russia, who speaks fluent Russian and whose performance is monitored and guided” (Zet-Group 2010). Meeting these requirements seems to come only against a high price, but Zet-Group’s sales outsourcing service offers a solution. Zet-Group can provide a company with permanent representation on the Russian market following the steps below:

- Zet-Group and the company discuss the elemental characteristics that the sales representative should have.
- A short-list will be made by Zet-Group with candidates who meet these criteria.
- During personal meetings the company can judge the candidates and choose one. In case there are no suitable candidates, Zet-Group will continue the search.
- Once the right sales representative is found, he/she will work in the Zet-Group Russia office and will have access to all facilities needed to perform the duties.
- Zet-Group monitors and guides the sales person, who reports weekly to both the company and Zet-Group.
- Two meetings per year (on average) are enough for all parties to discuss the strategies.

(A Dutch presentation of this service is found in appendix six and a visualization of the sales outsourcing sequence can be seen in appendix seven).

Due to this manner of sales outsourcing, there are no start-up costs for the company and low monthly salary costs for the reason that the average salary in Saint-Petersburg is lower than in Western Europe. The company does one monthly payment to Zet-Group and with this fee all expenses are covered, including the salary of the sales manager. To sum up the advantages: low start-up costs, easy termination, attractive monthly charge and good sales numbers. This service is available for the monthly payment of EUR 1.990 excluding VAT. This is the first pricing model; the second consists of a fixed EUR 1.100 plus four/five percent of net sales generated with the help of Zet-Group. This second model is beneficial for Zet-Group from net sales of EUR 20.000 per month, therefore it is offered only to high potential clients.

The nature of this service is unique in the way that Zet-Group put its office and all facilities at the sales manager’s disposal. The company has instant office premises in the center of Saint

Petersburg. Furthermore, experts' support on drafting target oriented business strategy is provided. No Dutch company uses this service yet, partly because Zet-Group lacks visibility and promotion in the Netherlands. At the moment, there are negotiations being held between Zet-Group and Lighthouse from Moscow about cooperation on the basis of this service. Zet-Group can piggyback on the network of this company has. As a consequence, the unique sales outsourcing service can be made available to the clients of the Moscow firm.

4.1.4 Current activity in Zet-Group Russia

At the moment, two sales representatives are working in OOO Zet-Group Russia according to the sales outsourcing service as described above. They are counted as being part of the regular staff. Their main job is to represent and generate sales for the Finnish companies: Treston Oy and Alu-Releco Oy. Treston Oy has headquarters in Turku and designs and manufacturers workbenches, storage bins and other industrial furniture (Treston, 2010). Alu-releco does surface treatment with Teflon and other Fluoroplastic coatings for industry (Alu-Releco, 2010).

The third employee works solely for Zet-Group. The main activities of this consultant are related to an area within Zet-Group's services that has not been covered yet. Zet-Group can find foreign partners for Russian clients with export ambitions. In order to sufficiently provide this service, Zet-Group is part of the so-called export network that brings export consultancy companies from all around the world together. With the help of these contacts, Zet-Group can bring its Russian clients in touch with partners from anywhere in the world. Hence, it is matchmaking for Russian companies.

Before this service can be put into practice, Russian companies that want to export and want to use Zet-Group's consulting, need to be located. This is what is done at the moment and the process will be described now. First, it takes about three weeks to prepare a long-list of companies that might be interested in exporting their product or service. This list can contain over five hundred names of companies with export potential. The sources for this information are press releases, Internet, exhibitions, magazines, newspapers. The criteria are whether the product is interesting for export and the degree of innovation involved. Usually, the products are related to oil and gas or machinery of any kind. The selected firms work business to business only, no consumer goods. Secondly, a standard email in Russian is send to all the companies on the long-list. This email explains the nature of the services of Zet-Group and provides contact details in case of enquiries or interest. After five to seven days, the email is followed by a phone call to hear the thoughts of the addressed about the services. Normally, after the first series of phone calls, hundred names are left

on the list and those are followed further. Subsequently, the number goes from fifty/forty to twenty/ten and in the end Zet-Group will do business with several Russian companies. The process of finding clients for Zet-Group involves hearing a lot of “no”. Persistency and confidence are required to bring the ‘cold calling’ to a good end. The search for Dutch clients is done in a same manner. It is based on the rule of chance, the more companies contacted, the larger the chance that a new client is found. Phillips remarks in his book *How to build a successful consulting practice* (2006), that telemarketing is not suitable for consulting and “having a telemarketer call to sell consulting is one of the quickest ways to destroy a consulting business” (p. 95).

4.2 Case Study: how Zet-Group helped a Finnish company on the Russian market

In this section work done by Zet-Group for the Finnish company Loimaan Kirjapaino Oy will be analyzed. The project was carried out for the client in order to discover their business opportunities and possible strategies to enter the Moscow publishing market. Loimaan typography does printing for publishers and wanted to know whether Moscow publishers would have interest to place orders with Finnish typographies or, more specifically, with Loimaan. The analysis of the work done by Zet-Group will give insights about Zet-Group’s approach to export consulting and how this matches the needs of Dutch SMEs.

4.2.1 Cooperation with organizations

The report was made by Zet-Group in cooperation with the Euroopan Sosiaalirahasto, the European Social Fund (ESF) in Finland. One of the priority areas of the Finnish ESF is “reinforcing the growth potential of SMEs in a substantial way and with an international perspective” (Euroopan Sosiaalirahasto, 2010). This report done for the SME Loimaan is in accordance with this priority. Hence, the Euroopan Sosiaalirahasto gave its support to this project. The priority areas of the ESF in the Netherlands are: increasing the labor supply, giving opportunities to the disadvantaged and promoting investment in human capital (Europees Sociaal Fonds, 2010). Stimulating SMEs to do business internationally is not mentioned and therefore the Dutch ESF will not engage in supporting this kind of projects. A representative of the Dutch ESF confirmed this.

In addition, the report was realized with the contribution of the Finnish Tyovoima- ja Elinkeinokeskus (TE-Keskus). This organization is composed by fifteen regional centers for economic development, transport and the environment. The centers “promote entrepreneurship, functioning of labor market, competence and cultural activities” (Elinkeino-, liikenne- ja ympäristökeskus, 2010). Another ally in the execution of this project was the Åbo Akademi,

which is the Swedish Institute in Turku, Finland (Åbo Akademi, 2010). To summarize, the Finnish network of Zet-Group includes some large institutions, which have the means and the interest to fund or support projects, which relate to the internationalization of SMEs. In the Netherlands, Zet-Group does not have a comparable network and the same (or similar) institutions often have different priorities. Moreover, the regional organizations in Finland tend to focus on their neighboring countries, one of which is Russia. In the Netherlands, the same is true meaning that export to Germany or Belgium is stimulated. For example, the export programs of MKB-Nederland and the regional Chambers of Commerce focus on France and Germany.

4.2.2 The report

The content of the report will be briefly reviewed and afterwards some comments will be made about the working method versus the needs of Dutch entrepreneurs. First, the Russian printed materials market is outlined, the size of the market is presented as well as the main players on this market. Secondly, the key publishing companies are introduced and the state involvement and market trends are mentioned. The market of magazines is explored since this is identified as the most attractive sector. In addition, a preview is given about the development of this market. The last part consists of entry and business strategies for Finnish companies. It is concluded that the market has potential and it is confirmed that Loimaan would be able to obtain a sufficient share on the Russian market.

Finally, recommendations are made concerning the promotion and marketing. The advice is that the website and brochures should be made in Russian. Furthermore, it is summarized how the promotional material should be distributed and that meetings with Russian companies are required. In the appendix of the report for Loimaan is a list of 135 publishers who were contacted and another list of eighteen interested ones. This market research is the beginning of establishing business contacts.

4.2.3 Concerns of the Dutch entrepreneur

The approach of Zet-Group is very theoretical and in practice it has been proved that the majority of the companies, which received a report like this, were not interested in the description of the market and its developments. Nowadays, the report gives more emphasis to the list of potential clients. Nonetheless, eighteen potential clients do not yet mean sales for a company. In a conversation with Mr. Graaw, sales manager of Dedert Ice-cream, he advocated that a list of potential clients is not difficult to assemble for a company. Besides, if eighteen interested companies were found, why were there no deals made right away?

Furthermore, what does “interested” mean? This is not explained in the report.

The export manager of Herome Cosmetics, claimed that Herome had no problem finding the right contacts and negotiating deals when the company entered the Russian market. The problems that the company experienced were related to customs and certification. Jan Ras, general manger of Seafresh BV, expressed the same message. His concern was to get the right certificates for his products. Extensive research about the market was not needed. Ernst Kronenburg of Drooom-design did not need to know about what his company was supposed to do to make sales, he wanted Zet-Group to go ahead and do everything necessary to make sales for his company.

To conclude, Dutch entrepreneurs prefer to receive practical services. It seems unnecessary to provide them with a general market research, for the reason that they are merely interested in making sales. Whatever is necessary to make this happen should be in the hands of the consultant. Furthermore, practical services such as dealing with customs and arranging certificates are required, as these are main difficulties for foreign companies. In the report that was discussed here, eighteen out of 135 companies displayed interest. However, the 117 companies, which were not concerned with the services of Loimaan, were included in the report regardless of their irrelevance. Dutch companies find hard to see the added value of that. It would be better to offer a made-to-measure plan about how Zet-Group will make sales for the client. Sometimes this would require extensive market research, in other cases this can be left out. To offer a standardized report with general information about the market does not appeal to Dutch companies. It should be noted that if there would be funding available, the attitude might be different. In case the Dutch ESF would order and pay for market research with the goal to stimulate companies from a certain sector to internationalize, this kind of report would be suitable. Nonetheless, in the Netherlands, Zet-Group is not yet in the position to be contacted by institutions willing to subsidize a market research about a specific sector in Russia.

5. Conclusions and Recommendations

In this chapter, the conclusions of the final project will be presented together with the recommendations for OOO Zet-Group. The central question that will be answered is: *What are the obstacles for Dutch SMEs when entering the Russian market and how can Zet-Group adjust its services to offer better help to overcome these problems?*

5.1 Obstacles for Dutch SMEs

This project outlined the obstacles that have to be overcome when exporting to Russia, that is to say it is complicated to import goods into Russia. The customs authorities are notoriously corrupt and the amount of rules is overwhelming. As a result, exporting to Russia costs more time and effort than if a company would do business with one of many other countries in the world. Furthermore, many certificates and other documents are needed, which only adds to complexity of the process. Nevertheless, Russia is a huge and attractive market but an exporter must acquire knowledge, experience and a proper strategy. To make use of a consultant is a common solution since a consultant has the experience and knowledge to develop a successful strategy. However, the large need for consultants while doing business in Russia means that there is also a very large offer of consultants. This makes the Dutch export consultancy market very competitive. More will be said about the consequences of this later on.

Another difficulty for one who aspires doing business in Russia is the identification of demand for a product on the Russian market. Although it might be a sufficient predictor of sales in other countries, success on the domestic market is no guarantee that the product will sell in Russia. An SME could try to do its own market research, but would find that it is difficult as the Russian market is unknown and not transparent. Experts who are familiar with the market should do specific and focused market research. It is not only important to make sure that there are people who want to buy the product, it is also crucial to build a proper product portfolio and pricing strategy. Zet-Group does test marketing and matchmaking to measure interest. Thus, to a large extent Zet-Group fulfills the needs arising from the process of doing business in Russia. From a Dutch point of view, the logistics part of export to Russia is more complicated than the logistics concerning export to Germany. The practical matters of transportation, certification and customs are utterly important and deserve to get the right attention from the exporter and the consultant. Furthermore, proper promotional material for the Russian market is required. Finally, a reliable partner is crucial. The partner should be guided and controlled. Zet-Group can provide its clients with an agent or distributor according to the client's standards.

5.2 Services of Zet-Group

In general, the services of Zet-Group match well with the obstacles that are met by Dutch SMEs. In addition, the services are competitively priced. Moreover, the sales outsourcing service has added value over the competition. However, Zet-Group has several disadvantages compared to the competitors. First, Zet-Group has no experience, no references and no network on the Dutch market. The possibilities to cooperate with (non-) governmental institutions are limited. One reason is that Zet-Group is not based in the Netherlands; another reason is that commercial consultancy firms have already strong partnerships with many institutions. SMEs almost cannot go around these institutions if they want to do business in Russia. Hence, many SMEs are drawn towards these consultancy firms. Nevertheless, (non-) governmental institutions were contacted but the outcome was merely that Zet-Group is included in their databases. No concrete relationship was established.

The case study about the Finnish company showed that the report was made in cooperation and with a European-, a regional- and an educational institution. In the Netherlands, Zet-Group does not have a network of such institutions and therefore the possibilities to make a subsidized report would be limited. In addition, Dutch SMEs would not consider a report with the same structure useful. It is too theoretical and contains little practical information. Moreover, the focus was not on generating sales. The added value of a standardized report is not recognized, “an effective consultant will not go into a sales meeting with the aim to sell a specific project” (Wickham, 2008, p. 68). Therefore, this standard report is better not offered to clients. The preliminary stage of consulting should involve uncovering the client’s need through investigation. By asking the right questions, the “implied needs” and “explicit needs” are brought to the surface (Rackham, 1996). Therefore, a made-to-measure approach is urged. Additionally, stronger emphasis should be put on the assistance with transportation, certification and customs matters.

5.3 Recommendations

The case study about Jos de Vries The Retail Company (JdV), provides useful insights for developing recommendations. These recommendations do not advocate drastic change of Zet-Group’s services but advice about marketing principles and to whom to target the services. With regard to the former, “exposure and recognition are critical”. Potential clients must know about the existence of the consultancy firm Zet-Group and know the consultants who deliver the services (Phillips, 2006, p. 94). To be included in databases of different organizations is a start. Furthermore, advertisement and being present during exhibitions and other events in the

Netherlands is essential. Zet-Group must send out a consistent message to develop an image. The current process of finding clients for Zet-Group is based on the rule of chance; the more companies contacted, the larger the chance that a new client is found. In my opinion cold calling is not the right method to find new clients. The time that it takes to prepare a long-list of companies should be used in a different manner, as described below.

Zet-Group should target a focused client base. Being narrowly focused will create uniqueness of the services (Phillips, 2006, p. 94). The niche that should be developed is best based on the following: JdV identified a need on the Russian market and decided to enter. Consequently, the company is market leader and has basically no competitors. Zet-Group should attempt to identify needs on the Russian market. After, companies that fulfill these needs should be approached and together with Zet-Group they can enter the Russian market successfully. Specialized companies like JdV, which operate in niches, have high potential. Again, Zet-Group can invest to find and contact these foreign companies and present arguments to them to enter the Russian market. Russia is a difficult market and companies, which have already some (but not a lot) experience in exporting, are better clients for Zet-Group. For the reason that it is certain that those companies aspire export.

The next part is based on the work of McDonald about the segments of export consultancy (2006, p. 166), which will be explained first. The two dimensions that should be taken into account are the export experience and the level of involvement required from any export consultant. The segments are divided in three main groups:

- The ‘confidants’ are experienced exporters
- The ‘aspirants’ have little or no export experience but are eager to do business abroad
- The ‘reluctants’ have also no or little export experience because they find it risky and worrying

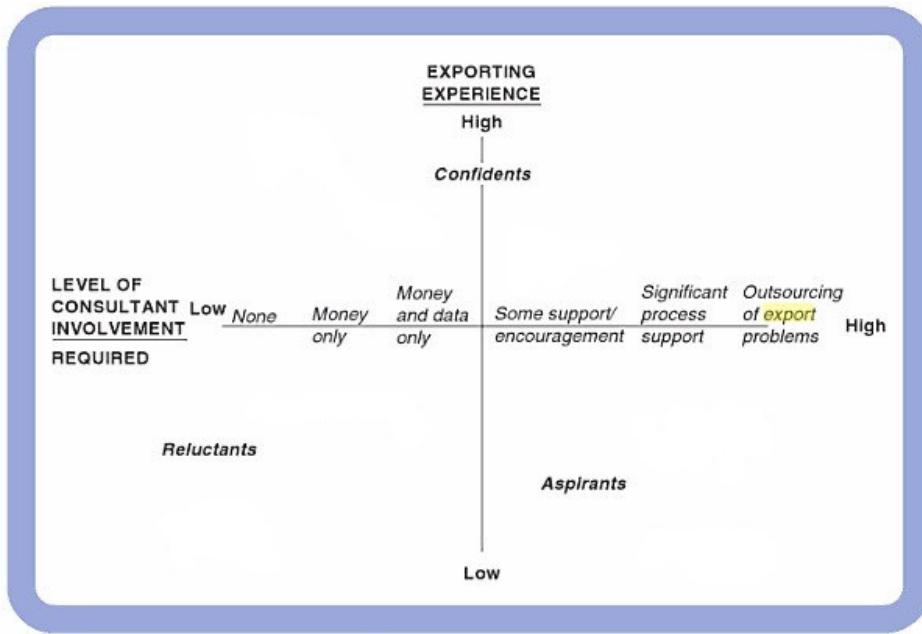


Figure 1. Perceptual map – export consultancy (edited from McDonald, 2006, p. 167)

With the current method of searching clients, a large part of the efforts remains fruitless, since many of the contacted companies are in the category ‘reluctants’ of ‘confidents’. These groups require no or low consultant involvement. Instead of spending a lot of time on contacting as many companies as possible, Zet-Group should search for the ‘aspirants’, which should meet the criteria: satisfy an identified need and specialized niche exporting. The ‘aspirants’ who meet these criteria require a higher level of consultant involvement and are expected to be successful on the Russian market. Successful clients are beneficial in terms of possible commissions and good references. The latter is needed to acquire visibility and a steady network of governmental- and non-governmental organizations on the Dutch export consultancy market. A business network is an important forum for consultants to make contacts and to present their services to the target group (Wickham, 2008, p. 45). According to Ferrazzi (2005), “networking is the number one strategy for building a business, particularly in a personal business such as consulting”. Another benefit of references is that the previous work done for a client is “perhaps the most powerful promotional tool a consultant has” (Wickham, 2008, p. 67). To conclude, the performance of the client on the foreign market is definitely the consultant’s concern, even after the project is completed.

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