

International Business
Master Thesis No 2003:45

**DISTRIBUTOR SELECTION FOR A SWEDISH HAND TOOLS
SUPPLIER ENTERING THE UKRAINE**

THE CASE OF LUNA EXPORT AB

Anna Lof & Anna Wahlström

Graduate Business School
School of Economics and Commercial Law
Göteborg University
ISSN 1403-851X
Printed by Elanders Novum

ABSTRACT

Western companies of today are becoming more and more interested in the Eastern European markets, and are therefore moving their operations eastward. Luna Export AB, a Swedish tools and machines supplier, is considering following this trend by entering the Ukraine with its product line – Teng Tools – through the means of distributors. This project investigates which distributors Luna Export AB should choose.

Not much research has been conducted in the area of distributor selection, but rather on issues regarding the process of *why* choosing a distributor as an entry mode as well as the *establishment* of channel strategies. Therefore, we developed our own criteria list in order to choose the appropriate distributor. Consequently, this research shows how we went about when selecting distributors for Teng Tools in the Ukraine. The result ended up with three potential distributors, whereof two of these are considered to be the most compatible for Teng Tools.

After conducting a field study, the result indicated that Luna needed to reconsider its choice of entry mode through distributors. Instead, it is argued in this research that the company should consider using the mean of agents/representatives.

Key-words: distributor selection, entry modes, agents, representatives, competitive audit, compatibility criteria, Ukraine

ACKNOWLEDGEMENTS

This is an end of an era, as it concludes our studies at the School of Economics and Commercial Law at Göteborg University. This project would not have been possible without the support of great many people. We therefore, wish to express our sincere appreciation to everyone that has contributed with their time and effort during our thesis project.

We would particularly like to express our gratitude to our supervisor, Professor Jan-Erik Vahlne, and also to Professor Claes Alvstam for their discussions, guidance, feedback, support and encouragement through the entire process of the thesis.

We would also like to thank Luna Export AB, and especially Mr. Håkan Götherström and Mr. Claes Nilsson for giving us this opportunity. It has been very interesting and stimulating to catch a glimpse of the international hand tools industry. Also, thanks to Mr. Tomasz Kowalski and Ms. Karin Klouman for giving us insight into the company and its products. Further, a big thank you to Ms. Ieva Ziliukaite who supported, translated, interpreted and helped us during our field study in Kiev, Ukraine. Without her, this research would not have been possible to conduct.

Moreover, we would like to show our appreciation to all the interviewees who offered us their precious time and valuable opinions. We must also add our gratefulness to Mr. Roman for installing us and giving us the “grand tour” of Kiev – a city that forever will be in our hearts.

Our warmest thanks to our classmates who have helped us with comments and ideas on how to develop this thesis.

At last, but not least, we wish to express our appreciation to our families and friends who have had to put up with us during this intensive period.

Göteborg, 5th of December 2003

Anna Löf

Anna Wahlström

TABLE OF CONTENTS

1. INTRODUCTION	1
1.1 BACKGROUND	1
1.2 PURPOSE & OBJECTIVE	3
1.3 RESEARCH PROBLEM	3
1.4 DELIMITATIONS	4
1.5 THE CASE COMPANY	5
1.6 THESIS DISPOSITION	10
2. FRAME OF REFERENCE	13
2.1 ENVIRONMENTAL ANALYSIS	13
2.2 COMPETITIVE AUDIT	17
2.3 SELECTION OF POTENTIAL DISTRIBUTORS	18
3. RESEARCH METHOD	31
3.1 RESEARCH PROCESS	31
3.2 RESEARCH TYPE	32
3.3 RESEARCH DESIGN	33
3.4 DATA SOURCES	34
3.5 DATA COLLECTION	36
3.6 VALIDITY	39
3.7 RELIABILITY	40
3.8 CRITICAL REVIEW	40
4. RESEARCH RESULT – MACRO ENVIRONMENT	43
4.1 POLITICAL OVERVIEW	43
4.2 ECONOMIC OVERVIEW	44
4.3 IMPACTS OF FOREIGN DIRECT INVESTMENT	48
4.4 IT AND TELECOMMUNICATIONS	50
4.5 LEGAL ISSUES	51
4.6 IMPORT TAXES	51
4.7 CERTIFICATION	51
4.8 COMPANY LAW	52
4.9 BUSINESS CUSTOMS	52
4.10 E-COMMERCE	53

TABLE OF CONTENTS

5. RESEARCH RESULT – REGIONAL ENVIRONMENT	55
6. RESEARCH RESULT – INDUSTRY ENVIRONMENT	59
6.1 SNAP-ON INCORPORATED GROUP	59
6.2 BAHCO GROUP AB	60
6.3 GEDORE	61
6.4 FACOM	61
6.5 USAG	62
6.6 STANLEY WORKS	63
7. RESEARCH RESULT – MARKET ENVIRONMENT	65
8. RESEARCH RESULT – DISTRIBUTORS IN THE UKRAINE	69
8.1 THE UKRAINIAN DISTRIBUTION SYSTEM	69
8.2 ALTSEST	70
8.3 ERA	71
8.4 FORCE LTD.	74
8.5 FORMULA 1	77
8.6 STROYKOMPLEKT-N	81
8.7 TRADE LINE	85
8.8 VIST	90
9. ANALYSIS	95
9.1 ENVIRONMENTAL ANALYSIS	95
9.2 COMPETITIVE AUDIT	101
9.3 ANALYSIS OF POTENTIAL DISTRIBUTORS	102
10. ADDITIONAL RESEARCH QUESTION	113
11. ADDITIONAL FRAME OF REFERENCE	115
11.1 INTERNATIONALISATION MODEL	115
11.2 MARKET ENTRY MODES	117
12. ADDITIONAL INTERVIEW	123
13. ADDITIONAL ANALYSIS	125
13.1 ANALYSIS OF ENTRY MODES APPLIED TO UKRAINE	125

TABLE OF CONTENTS

<u>14. CONCLUSIONS</u>	<u>129</u>
<u>15. RECOMMENDATIONS</u>	<u>133</u>
<u>REFERENCE LIST</u>	<u>137</u>
<u>APPENDIX I – INTERVIEW QUESTIONS</u>	<u>145</u>
<u>APPENDIX II – INSTRUMENTS LTD.</u>	<u>147</u>

1. Introduction

1.1 Background

Traditional industries coming from the industrial countries are more and more moving their operations to the developing countries. Recently, Eastern European countries have become very popular, and as these countries make up one-quarter of the world's total population, companies are realising the potential of entering these markets. Further, the Eastern European countries are moving from their centrally planned economies towards market-based economies, which has, amongst other things, lead to increased transactions with other economies.

Root (1994) argues that the “transformation process” of the Eastern European countries will have a huge impact upon the global economy in the forthcoming years. In the Ukraine, the government is making efforts, as well as committing itself also to building up a well-functioning and effective market economy. One can also see that the structure of the former state economic system is gradually disappearing. Subsequently, this is resulting in considerable business and investment opportunities for companies and investors from the West. However, many obstacles still remain, such as a lack of advertising services, outmoded telecommunications and a lack of transportation facilities for physical distribution. Furthermore, there is an increasing need for educating local managers and employees with regard to new modern technologies, efficient production methods as well as new product development. Last but not least, foreign companies need to take into consideration the potential risks of entering a market such as the Ukraine, as these might pose significant challenges. There is a lot of political and legislative unpredictability and thus may lead to uncertainty which might affect any kind of business. Yet, investment by the West into Eastern Europe, and particularly in the Ukraine, is rapidly increasing.

The above can be summarised in the following quote by Tayeb (2000):

The current period of discontinuous change in Ukraine makes it difficult to extrapolate any clear picture of investment potential. Looking at the economic indicators alone gives a bleak picture of the attractiveness of the market for potential investors. However, this does not reflect the positive atmosphere that has arisen, at times, from favourable turns in legislation and political events, from the peaceful resolution of problems and the extreme good nature of the Ukrainian people.

According to Tayeb (2000), one of the most typical entry modes into countries like the Ukraine is joint venture with a local partner. The rest are split between low and high-investment entry modes (Tayeb, 2000). The reason for joint venture being the most popular entry mode could be due to host-market legislation as well as preferences of the government. In addition, bureaucracy and other problematic matters can be quickly solved with the help of a local partner. As stated by Tayeb (2000) “local knowledge is (...) the complementary skill that enhances the ability of the market entrant to compete”. In the research conducted by Johanson and Vahlne (1977), entry modes with low levels of commitment seemed to be of importance when companies are entering uncertain markets.

Another possible motivation for foreign companies entering the Ukraine through the means of export and distributors could be due to companies wishing to overcome uncertainties of the market by acquiring a better understanding of it. After this has been undertaken, companies will then be able to make larger investment, hence leading to higher levels of market commitment (Johanson and Vahlne, 1977).

As a consequence, Luna Export AB – a tools and machinery supplier, has chosen to follow this trend by entering the Ukrainian market with one of its product lines, namely Teng Tools. However, the problem for Luna Export AB is to find a suitable distributor in this market.

1.2 Purpose & Objective

Research and analysis will be made to select the distributor that best suits the Ukrainian market, as well as the needs and requirements of Luna Export AB (Luna) and Teng Tools. In addition, the objective of this study is also to understand the market of mechanics hand tools and tool storage in the Ukraine.

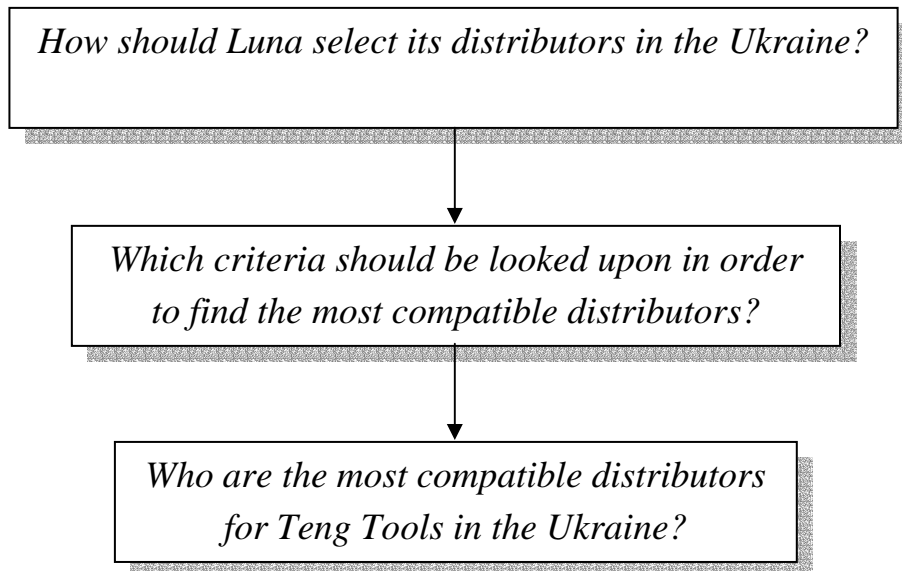
For a foreign company entering the Ukrainian market through distributors, there are many things to investigate and to take into consideration. The purpose of this study is to design a way of selecting distributors. Moreover, as Luna has commissioned this study the company also wants to gain better knowledge about the Ukrainian mechanics hand tools market as no market research has yet been conducted. Further, the aim of the company is to use this study as a starting point for entering the Ukrainian market, as well as in case of future establishments.

1.3 Research problem

Luna considers it difficult to enter the Ukrainian market, and has therefore chosen to enter it by exporting through the means of distributors. As Luna wishes to enter the Ukrainian market with Luna's product range Teng Tools, we are to investigate potential distributors of these products.

1.3.1 Research questions

As discussed above, Luna wishes to find a distributor in the Ukraine for its product line Teng Tools. In order to solve this problem, we need to develop a set of criteria in order to finally find the most compatible distributors for Teng Tools in the Ukraine. This process can be shown in the figures below:



1.4 Delimitations

In the Ukraine, there are many industrial customers of hand tools, with the main being within the auto, auto aftermarket, aircraft and shipbuilding markets. Due to time constraints, we have only chosen to look at the auto service market as this is seen as the most important market for Luna. Distributors were only searched for in the Kiev region due to lack of time, but also to excessive travelling time. The regions of the Ukraine are very different from each other with regard to development, economy and so forth. This might have resulted in the possibility of having neglected potential distributors in other regions, hence not coming up with the best result for Luna. However, we still believe this region to be the most developed as well as being used by foreign companies conducting business there. It is subsequently, the best region to choose a distributor in.

1.5 The case company

1.5.1 Luna Export AB

Luna AB was established in 1917 with its head office situated in Alingsås. The name *Luna* originates from the founders Carl Lindahl and Holger Nermark. Today, Luna AB is Scandinavia's leading supplier of high-quality tools and machinery for professional use and for the DIY (do-it-yourself) with sales of about MSEK 1,000 and 375 employees. (Götherström, 2003) The product range for tools includes: cutting tools, sharpening material and brushes, hand tools, measurement tools, building and construction tools as well as soldering, welding and gluing tools. The product range for machines includes: fanning, blowing and electrical products, compressed air and machines. (Klouman, 2003)

Luna AB has a broad customer range varying from multinational manufacturing industries to individual users. The company markets about 40,000 products via 600 resellers in the Nordic countries. Luna AB has access to strong product brand names that come from leading producers all over the world, but also markets products under proprietary brand names. Luna AB can be found in Sweden, Norway, Finland, Denmark, the Baltic States and Poland. In order to market Luna AB's own labels Limit and Teng Tools, the company also has a specialised network of distributors in Italy, Portugal, the UK, Ireland, Belgium, the Netherlands and Luxembourg. (Götherström, 2003; Klouman, 2003)

In 1994, Luna AB became a part of the Bergman & Beving Group – the leading supplier of tools, machinery, personal protection equipment, fastening elements, ergonomic workplace equipment and consumables in Scandinavia. (Klouman, 2003)

The printed Luna catalogue is an important tool in itself as it is distributed to 200,000 retailers and end users in the industry, building trade and public sector. In Sweden alone, 10,000 orders are received every day through the Luna catalogue. The catalogue is also published in five different languages. (Klouman, 2003)

In the year 2000, a joint industry portal was launched, called Toolstore (www.toolstore.com). This is the Nordic region's leading B2B (business-to-business) portal for technical products, where Luna AB's customers and business partners can place orders on-line, supervise the order until actual delivery, check Luna AB's stock level or just gather information about a certain product. At present, about 80% of all incoming orders to Luna AB go through Toolstore. In addition, Toolstore is shared with other companies within the Bergman & Beving Group and can therefore offer access to 120,000 products. (Klouman, 2003; Kowalski, 2003)

In 2003, Luna AB was converted into smaller business units. This thesis was commissioned by two of these units, Luna Export AB (Luna) and Teng Tools AB (Teng Tools).

1.5.2 Teng Tools

Teng Tools was founded in 1984, and later acquired by Luna AB. Teng Tools is specialised in supplying a range of mechanics hand tools, consisting of socket sets, square drive sockets, spanners and wrenches, screwdrivers, insulated tools, auto tools, service tools, impact tools and pliers. In addition to these tools, Teng Tools also offers a unique set of tool storage consisting of tool trays and cases. Moreover, the products of Teng Tools are produced in Taiwan. (Nilsson, 2003) Concerning the export of Teng Tools, the company is only focusing on the price conscious professional, and it can therefore be said that it is focusing on B2B distributors (Götherström, 2003).

Teng Tools offers a range of about 1,800 products and is available in 40 countries. The company considers itself to have created a unique global tool brand. Teng Tools' customers consist of key industrial buyers, such as major automotive manufacturers, local utilities and motor racing. Consequently, cooperation with the most successful companies helps Teng Tools to expose the products as well as gaining experience. Hence, the company's products meet high demands. (Nilsson, 2003)

Teng Tools is sold by emphasising knowledge and hard work as well as by "adding some spices" (such as having unique marketing, special tools solu-

tions as well as functional, informative and good packaging). Teng Tools is focusing on what is called the “grey market”. Most of the companies in the tools market work either in the professional market or in the DIY market, which represent 70% and 30% of the total mechanics hand tools market respectively. Teng Tools is therefore focusing on the price conscious professional and the quality conscious DIY. Thus, the company has managed to be present in a segment that is covering 65% of the total mechanics hand tools market. (Nilsson, 2003) This is clarified in Figure 1.1:

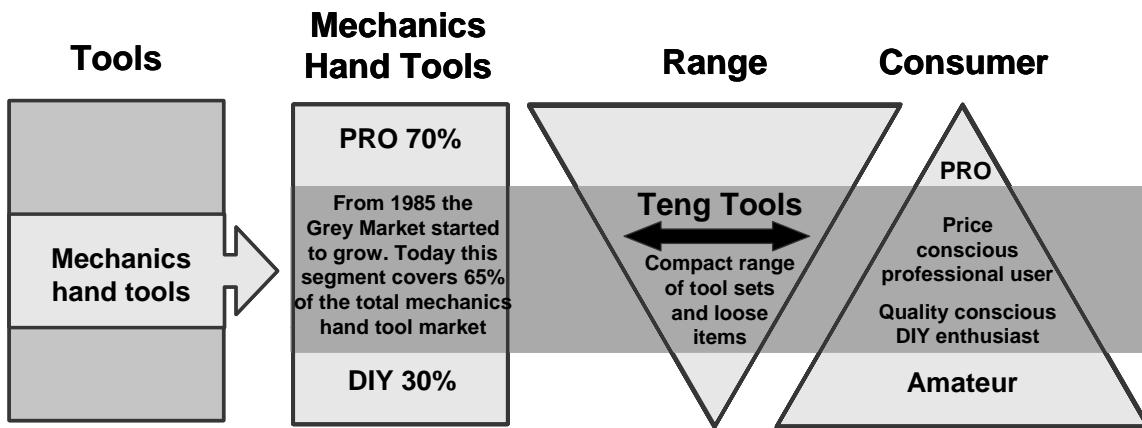


Fig. 1.1 The “Grey Market”
 (Source: Nilsson, 2003)

The professional segment in the mechanics hand tools market is emphasising high quality and a great range of product offerings (see column A in Figure 1.2 below). The DIY segment, on the other hand, finds that the packaging, marketing and the price level is of great importance (column C). Teng Tools is stressing that the company is meeting the demands of the grey market, both when it comes to quality and range, but also regarding packaging, marketing and price level (column B). For instance, Teng Tools has 40-60% cheaper prices than “A-brands” such as Gedore (see Gedore in section 4.3.3), but is still offering A-brand quality, yet not offering such a wide range. In addition, Teng Tools is offering “everlasting guarantee” of its products. The above-mentioned areas are what Teng Tools calls the “Teng Commandments”. (Nilsson, 2003)

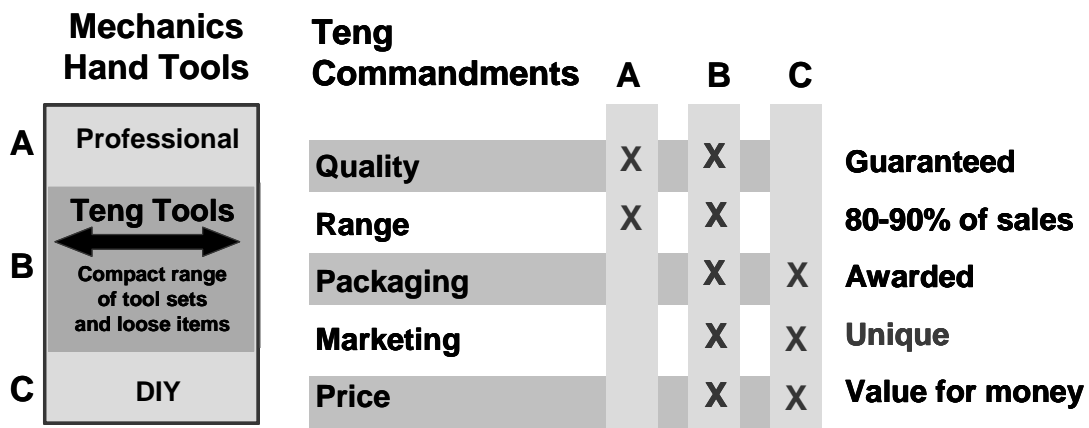


Fig. 1.2 The “Teng Commandments”
 (Source: Nilsson, 2003)

As Teng Tools cannot be represented in all segments, the company has chosen neither to be at the top and meet the demands of the professional, nor to be at the bottom and meet the needs of the amateur. Instead, Teng Tools has a range of only 1,800 products, which can be compared to several thousands of products – the normal amount for a company focusing on professionals. Generally, a company ends up with the “20/80 rule”, meaning that 20% of the products stand for 80% of the turnover. By having a smaller product range, Teng Tools can instead turn this rule around and have 80-90% of its products to stand for the whole turnover. (Nilsson, 2003)

Concerning the way of selling Teng Tools, the company sees space, time, display, offers and training as the base for selling the products. Promotion and monthly or seasonal offers are parameters that bring extra sales. This can be seen as the “icing on the cake” as stated by the Managing Director of Teng Tools. “What you cannot see does not exist” and therefore, space becomes crucial and hence, the company wants its products to have wall space of different kinds as well as catalogues and representation on the Internet. Finally, it can be said that Teng Tools has “nose for tools and eyes for details”. (Nilsson, 2003)

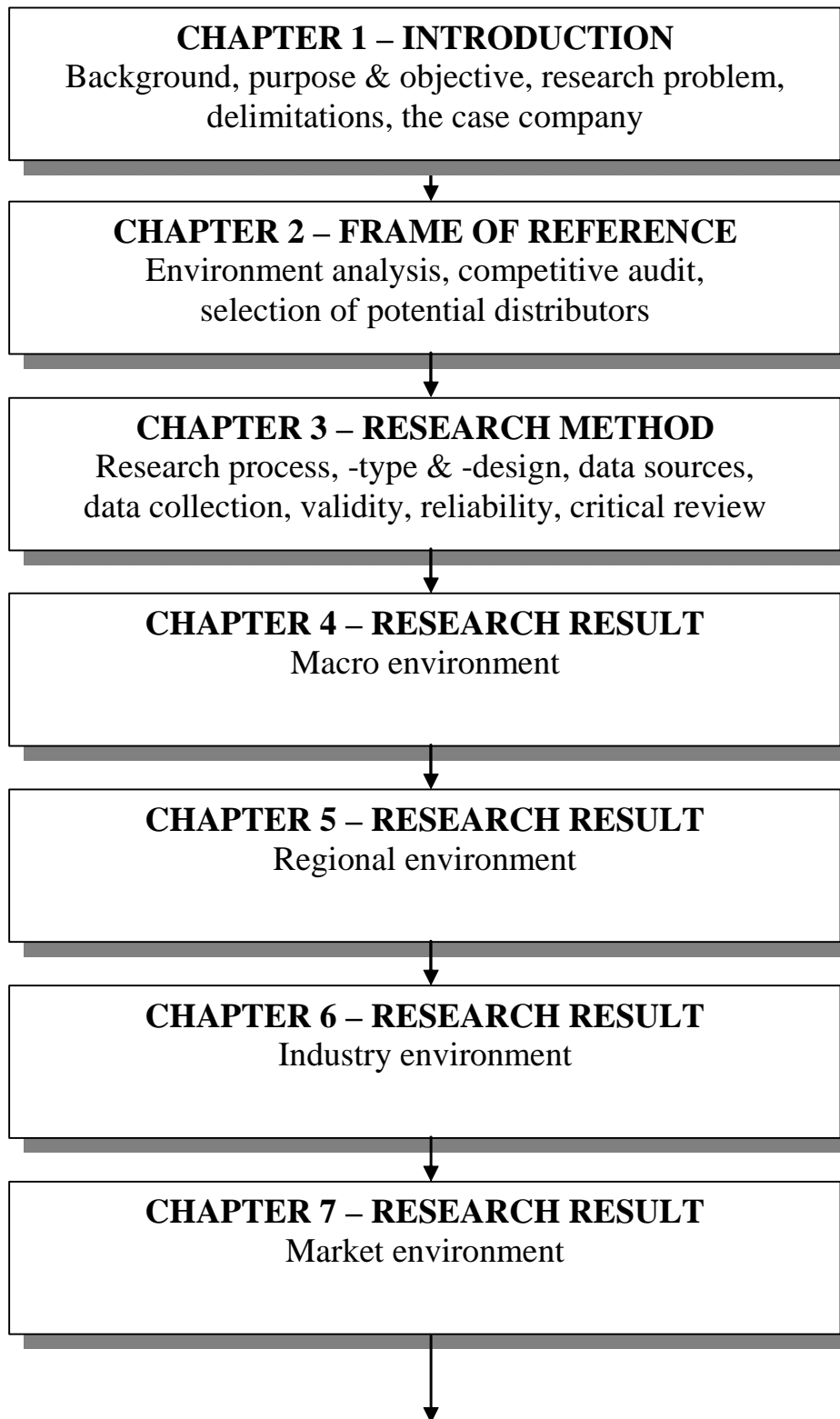
Teng Tools is also a member of Toolstars (www.toolstars.com), which is a leading European tool group with members in 15 European countries. The benefits of the Toolstars group are that the members are gaining more effective geographical marketing with little additional operating costs. Members

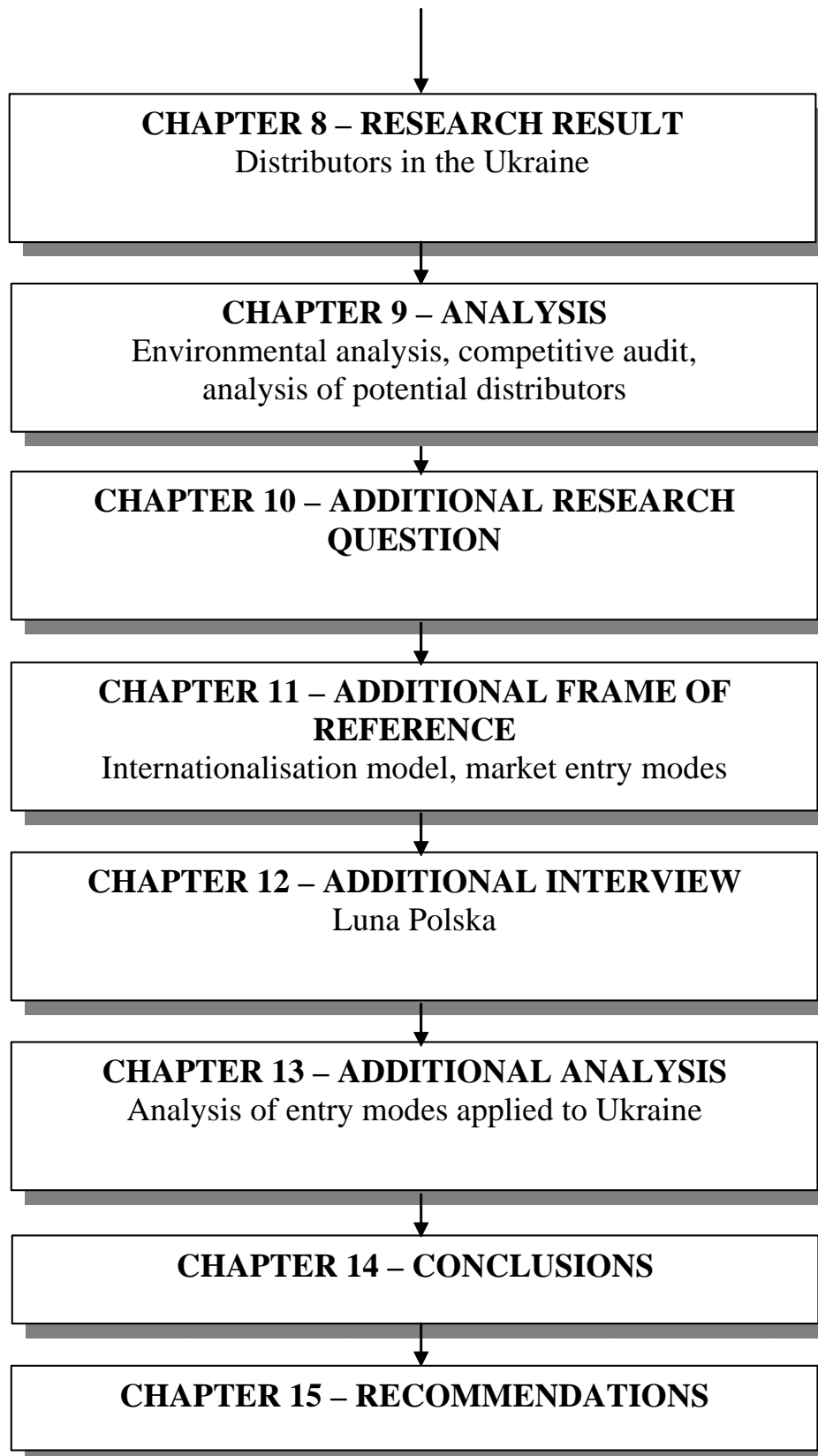
INTRODUCTION

can also reduce their overall costs by 5-10% by joint purchasing activities and central warehousing. Further, the members can drastically reduce local stock levels without reducing customer service. (Nilsson, 2003)

As an introduction to the Ukrainian market, Luna's product range Teng Tools has been chosen as a focus. The reason for the choice of Teng Tools as an introduction to this market is due the fact that this product line is considered by the company to be useful for most market and customer segments. Additionally, Teng Tools is also seen to be easily marketed and sold in many foreign markets.

1.6 Thesis disposition





2. Frame of reference

Since Luna already has decided to enter the Ukrainian market, a market selection is not necessary to undertake. It is however felt of great importance to analyse the macro, regional, and microenvironments (industry and market) in order to see what impacts there are in the environment when selecting distributors. Further, as Luna has not conducted any market research yet, this will also give the company a better understanding of the country as a whole, and thereby a better understanding of the industry and the market. Further, a criteria list will also be formulated on how to select compatible distributors for Teng Tools.

2.1 Environmental analysis

When determining what strategy to adopt, the analysis of the external business environment becomes a major factor, especially when the company aims to go international. In order to analyse the environment, one has to understand what the environment actually is. In the broadest sense, Faulkner and Campbell (2003) mean that the environment is “that which is external to and within which some entity exists”. Furthermore, they quote John Donne from 1634 that “no one is an island entire unto themselves”, which countered the idea of one person being isolated from other human beings. The critical issue is for those obtaining the environmental information to interpret it and act correctly along with it. If becoming a success or a failure, a company is dependent on the environment that surrounds it.

Much research has been conducted about the relative importance of the role of the external environment. Faulkner and Campbell (2003) discuss this debate by examining the studies in favour of business unit effects conducted by Rummelt, and the importance of industry level effects by McGahan and Porter. This research resulted in the general support of the importance of the industry and that “differences between manufacturing and other industries could affect results”. The resource based view of the firm with its emphasis on internal resources, Faulkner and Campbell (2003) argue that what accounts for most of the difference in returns between firms is the general dominance of the firm, rather than any larger aggregated unit such as the

company or the industry. Finally, however, Faulkner and Campbell (2003) make the conclusion that “industry-level, business unit effects and the common business environment or macro-environment are all relevant factors to consider” and thereby the difficulties in conducting business research. In the “Design School” of strategy – the more classical view of strategy, it is emphasised that the environment is something “which a company has to fit in with and match its resources to in order to meet threats, exploit opportunities, and succeed”. (Faulkner and Campbell, 2003) This is again stressing the importance of an environmental analysis.

Therefore, this environmental analysis becomes a key element as factors in the environment, the industry and the market will affect the company’s international strategy. However, one should always keep in mind that problems might arise when trying to gain reliable external information during this process (Stonehouse et al, 2001), but also the fact that these environmental features are constantly changing with differences in speed. An environmental analysis is inevitable and is continually believed to be an essential element in future discussion about strategic management. (Faulkner and Campbell, 2003)

In order to properly evaluate the macro, regional and microenvironments in the Ukraine, the following section will give a brief explanation of what these concepts include.

2.1.1 Macro environment

Strategy has been accused of being more or less a catalogue of lists with an unreliable base for use. This is particularly common in the environmental analysis, drawing up extensive checklists, claiming that any external factor common to every business are all relevant factors for analysis. The most recognised is that of political, economic, social and technological (PEST) factors. However, these factors can be extended almost endlessly, leading to an inability to assess what is important for the decision-making, while some essential factors may be unobserved, such as legal aspects. It is therefore, advisable to add legal issues to the environmental analysis.

What is vital during the analysis of the environment is to know which factors to include and which to ignore. The ultimate aim is to research the factors that affect both the immediate business units' industry environment as well as the market environment. This assumes that underlying environmental issues of analysis are understood before these business units' immediate influences are analysed. Thereby, irrelevant factors can be identified and ignored. It is though argued that an awareness of the larger environment and an interpretation of this information are unquestionable in order for the company to survive and to have a long-term success. (Faulkner and Campbell, 2003)

The macro environment however consists of the forces that will have an impact upon the industries and markets. In the case of a foreign company entering a new market, it is essential to have the information about the environment, since this environment might be totally different from the one the company is currently present in. Furthermore, changes in the macro environment will lead to changes in customer needs, products, competition as well as changes in industry and market structures (Stonehouse et al, 2001).

2.1.2 Regional environment

As many regional disparities might occur in a country, it becomes essential to undertake research into what these regional differences are. This is of utmost importance when results from the country environment demonstrate inequalities that might be of importance for the company. In order to enter the best-suited region, one can carry out a regional PEST analysis (as discussed above) of the regions of interest. However, as it was decided upon only entering the Kiev region, this is where the focus will be placed.

2.1.3 Industry environment

As discussed in the beginning of the environmental chapter, the industry environment is dependent on the larger environment. Therefore, general recommendations about the need to understand this broader environment can also be applied to the industry environment. There is a great importance of analysing the industry environment in connection with the overall environment. (Faulkner and Campbell, 2003)

The microenvironment (consisting of the industries and the markets) is the competitive environment that the company is facing. This environment is largely shaped by the macro environments. It is essential to make a distinction between industry and market. Industries regard the production of goods and services, that is to say the supply of products. Conversely, markets have to do with the demand side. Therefore, in order to understand the competition faced in the industry, it becomes crucial for a company to understand both the industry and the market when undertaking a microenvironmental analysis. (Stonehouse et al, 2001)

As mentioned, an industry is composed of a group of businesses producing similar goods and services. Usually, industries share the same features, such as skills and competences, technology, processes and value-adding activities, supplier and distribution channels, as well as products. (Stonehouse et al, 2001)

By conducting an industry analysis, one can understand “the intensity and nature of competition in an industry and the competitive position of the individual business with it”. Subsequently, industry dynamics are affected by macro environmental changes. (Stonehouse et al, 2001)

2.1.4 Market environment

A market consists of the demand side of an economic system. As with an industry, a market also has shared features, namely products or services, customers, customer requirements, distribution channels and competitors. (Stonehouse et al, 2001) In contrast to an industry, a market is concerned with the awareness of customers and their needs.

Analysing the market environment means searching for fundamental issues that influence profit levels within the market as a whole. The main reason for undertaking this analysis is to gain an understanding of customers, their motivations and the “unmet needs of customers”. This includes an identification of the largest and most profitable customers and their characteristics. Factors that affect customer motivation are price and quality sensitivity as well as the extent of brand loyalty. Finally, an unmet need is a customer need that has not yet been met by the existing product offering. (Stonehouse et al, 2001)

2.2 Competitive audit

As Luna and Teng Tools have already decided upon which entry mode to choose, a complete company sales potential comparison is unnecessary. Nevertheless, a competitive audit is a good tool for Luna to use in order to estimate company sales potential.

In order to conduct a competitive audit, basic information, market information, market supply information and information about imported products or local production is needed. In order to receive such information, a few questions need to be answered. To receive the basic information, questions should be asked such as which competitive products are sold in the foreign country and what the market shares are of the competitive products. It could also be of interest to find out how the competitive products compare with the company's reputation, features and other attributes. Furthermore, it is a good idea to see what problems competitors might face, and what relationship they have with the local government. (Root, 1994)

With the purpose of gaining market information, one should look at the type of distribution channels used by competitors. Moreover, it is also of importance to know how the competitors' prices are set and if credit terms, commissions and other compensation are given to their distributors compared to the company's own. (Root, 1994)

To gain market supply information it is of significance to understand how the competitive products get into the market, that is if they are imported or produced locally. If the products are imported, one should know who the importers are and how they operate. Regarding local production, questions such as whom the producers are and if they are owned locally, or if there is foreign participation, should also be answered. (Root, 1994)

A comparison should be conducted among all the company's products that meet the same need. It should not only focus on its products and the products of the competitors, but also go beyond quality, design, service dimensions and other types of differentiation. In the end, "the company is not only competing against other products but for the favour of potential customers". In addition, managers need to appraise potential competitors' other marketing

efforts, such as pricing, channel and promotion policies. As market leaders will give the toughest competition, it is wise to focus on them and ask questions such as what the reason is for the market leaders to have such strength, price, quality, distribution, service and other relevant issues. (Root, 1994)

Another element of the competitive audit is the assessment of the market structure, which includes the degree of monopoly and if the competition is rigorous or loose. Some countries have a lot of trade barriers; both visible and invisible such as promoting locally produced products in order to keep foreigners away, or the presence of a few dominant firms. Other countries may have a loose competitive structure that smoothes the process of entry. (Root, 1994)

A third area of the competitive audit is the availability of distribution channels, where the company should look at whether it is possible to obtain adequate distribution of its products in the specific country, and if it can match the distribution of the market leaders. Lastly, the company should consider if there are any distribution bottlenecks that would require extraordinary marketing efforts and time to overcome, such as the transportation system or the trustworthiness of the distributors and their payments. (Root, 1994)

To conclude, it is evident that the more a company knows about its customers and competitors, the better it can estimate company sales potentials.

2.3 Selection of potential distributors

If the most effective channel turns out to be some kind of distributorship, the next step is to locate potential distributors.

(Root, 1994)

If a firm wants to be involved in exporting, it has to take the important decision on what degree of distribution channel integration is most suitable. On the one hand, a company can establish a sales subsidiary in a foreign market. Conversely, a company can contract the tasks to independent distributors who will find buyers for these goods. Given the difficulty of switching existing channels, it becomes very important to choose the appropriate level of

integration. This decision becomes even more important for companies operating in foreign markets, as they will face different types of environment and uncertainty. (Aulakh & Kotabe, 1997)

The success of a company choosing a distribution system depends on finding a reliable and competent distributor (Rangan et al, 1986). Below, Kotler (1997) gives a brief description of the role of distributors:

Provide several services, such as carrying stock, offering credit, and providing delivery. May carry a broad range of merchandise, a general line, or a speciality line.

A distribution system involves inter-organisational interdependent institutions and agencies, who are engaged to move anything of value from its point of origin or production to consumption. Simplified, a distribution system is “a network of organisations linking a supplier to its various customer segments”. (Rangan et al, 1986)

Two decisions are required in designing a distribution system – a strategic and a tactical one. The first comprises of the appropriate intermediary type – that is if a wholesaler or a direct sales force should be decided upon. The latter encompasses the network for this intermediary type. The tactical and strategic distribution decisions are said to be conducted simultaneously. However, in reality, the strategic decisions are only infrequently reviewed. On the other hand, the tactical decisions are often connected to the annual marketing plan and thereby reviewed within shorter periods. (Rangan et al, 1986)

In some countries, where the market is very different from the ones the company is used to, companies must design their distribution system in accordance with local conditions. Furthermore, the companies also need to decide upon to what extent they will rely on local distributors. (Odessa Region Local Government)

2.3.1 Distributor criteria

While searching for literature and research on how to select distributors, as well as what general and specific criteria to set in order to choose these, empirical evidence of this seems to be scarce. Subsequently, Root was the source that was relatively applicable for this particular case. By relatively applicable, we mean that Root's criteria can be used as a framework. This being due to the fact that companies will always have their own preferences, then other criteria also need to be taken into consideration.

Root has developed a framework of how to select a distributor in a foreign market. This method describes the selection of a foreign distributor as a four-step process, starting with drawing up a company profile, based on criteria such as company size, market areas covered and products handled. Secondly, the potential distributors are located and evaluated. Finally, the most attractive distributor is chosen. (Root, 1994)

Further to this, an interview guide is needed in order to receive information about the potential distributor. Information required includes size of the company and its turnover/sales, product categories handled, other companies represented, geographical presence and category of customers. (Root, 1994)

To find out if a potential distributor will fit into a company's business plan, share the company's values and work within the company's culture the following criteria can be used as a tool in determining this. It is important to keep in mind that no distributor candidate "needs to meet 100% of the selection process criteria". A candidate that meets 65-75% of the most essential criteria will work out very well. (Altfeld Inc.)

In addition to Root, Stern et al (1996) discuss the selection of distributors, but with the perspective of changing an already existing distribution channel. They do present some important additional facts that are not presented as criteria but emphasised and therefore brought up in this section. These include the importance of bringing attention to significant macroeconomic, technological and/or behavioural trends that will most likely have an impact of the channel strategy over time. Stern et al (1996) continue by arguing that much research has been conducted regarding the effects of the macro environment

on the channel strategy. These show a need to emphasise the issue of the macro environment, especially if it is variable, diverse, turbulent and uncertain. This necessitates more control but also flexibility to adapt to the changing marketplace. External conditions of attention are macroeconomic indicators, regulation and deregulation trends, present and projected state of technology, industry concentration and competitor's behaviour. (Stern et al, 1996)

The following sections will discuss the criteria for selecting appropriate distributors, yet these criteria should only be seen as a guideline to help to keep focused, and to ensure that all the important questions are asked. For the purpose of this project, the criteria list has been split up into three parts. Firstly, criteria according to Root, secondly Luna and Teng Tools' required criteria and, finally, the criteria that we feel are of great importance in order to find the most compatible distributor in the Ukraine. Although the criteria have been split up as shown below, in the end we have combined these into a guideline for the forthcoming interviews, which is shown in Appendix I.

2.3.2 Root's selection criteria of foreign distributors

As just mentioned, in order to locate potential distributors, Root argues that the selection of a foreign distributor lies in a four-step process. A company needs to draw up a profile, locate and evaluate the prospective distributors and, finally, choose its distributor. (Root, 1994)

The purpose of this section is not to go into depth in this four-step process, but rather to set up a list of criteria for the selection process. The following is a slightly modified list of Root's.

<ul style="list-style-type: none"> • Trading areas covered and lines handled • Experience with manufacturer's or similar product line • Size of firm • Physical facilities 	<ul style="list-style-type: none"> • After-sales servicing capability • Reputation with suppliers, customers, and banks • Record of sales performance • Financial strength/credit rating
--	--

FRAME OF REFERENCE

<ul style="list-style-type: none">• Sales organisation and quality of sales force• Knowledge/use of promotion• Willingness to carry inventories	<ul style="list-style-type: none">• Relations with local government• Overall experience• Knowledge of English or other relevant languages
---	---

First of all, it is important to see if the distributor is compatible with the company, which can be done by looking at what trading areas the distributor is covering and what product lines are being handled. Further to this, one should ask if the distributor has had any kind of experience with the manufacturer's (or similar) product line. A distributor that has no experience whatsoever with the product line will need training, which in turn will demand increased efforts and time spent from the company's side. (Root, 1994)

If the company is satisfied with the covered trading areas and the handled products, one can continue the selection process by looking at areas such as the size of the distributor's firm, the sales organisation and the quality of the sales force. These might be crucial points to consider if the distributor is the company's only "face" outwards to that market. If the distributor has a sales force that is not compatible with or that does not have the required quality that the company wishes for, then the company could find itself getting a bad reputation. (Root, 1994)

If knowledge and/or use of promotion are required for the company's product line, it is essential to ensure that the distributor has that kind of knowledge. Further, the distributor's willingness to carry inventories and his physical facilities can also be of importance to the company if the products are in need of promotion through, for instance, wall space. (Root, 1994)

Another aspect that one should think about is the distributor's reputation with suppliers, customers and banks. Without a good reputation, there is a risk that the bad reputation will be transferred to the company. Additionally, the distributor's record of sales performance is also of great interest to the company as well as the distributor's financial strength and/or credit rating (which can be obtained from the bank). Further, good relations with the local govern-

ment might also facilitate any business conducted by the distributor. (Root, 1994)

Finally, it is quite probable that the overall experience and attitude of the distributor will weigh up when a company is choosing a distributor. Maybe most importantly, a willingness from the distributor’s side to cooperate with the company as well as good knowledge of English or other relevant language is of crucial importance as this facilitates both the communication and the co-operation. (Root, 1994)

2.3.3 Luna and Teng Tools’ selection criteria of foreign distributors

According to the Managing Director of Luna, and the Managing Director of Teng Tools, the following criteria are to be considered when selecting a distributor.

<ul style="list-style-type: none"> • Reflect correct profile of Teng Tools • B2B customers of importance • No selling in department stores • Not a representative for Teng Tools’ competitors • Active selling on the field • Friendly-, even family-like relations • Great knowledge about the market • Innovative, creative and pioneering • Priority for Luna’s own brands 	<ul style="list-style-type: none"> • Letting other Luna product lines in • Possibility of exclusivity • Open to new technology and e-commerce • All incoming orders to go through Toolstore in the future • Local storage capacity • New thinking and use of new concepts • Young sales personnel and managing directors • Finance catalogues and other marketing material
--	--

It is vital to be profiled correctly as the company does not want to be seen as “the cheapest on the market”. Subsequently, the product line is for the busi-

ness-to-business (B2B) selling area meaning that Luna is looking for industry distributors. The reason for this is that the products are not to be sold in the same way that products are sold in ordinary department stores. The distributor's primary customers are also of great importance as the company targets the B2B sector. Moreover, the distributor should not be a representative for the competitors of Teng Tools. An important criterion for selling these products is that the distributor is out on the field making visits through active selling. The relation between the customer and the distributor should be friendly, even family-like. In addition, the distributor needs to have great knowledge about the market as well as being innovative, creative and pioneering.

The Managing Directors of Luna and Teng Tools also have the aspiration that the distributor should give priority for Luna's own brands and also the possibility of exclusivity. However, these criteria could be difficult to deal with since the distributor cannot disregard its old partners. Also, when time is considered to be appropriate, there is a wish that the distributor should be willing to let other Luna product lines in to his product assortment. Therefore, and in line with Root's criteria, Luna considers the local storage capacity of great importance.

If not familiar with, the distributor should at least be open to new technology and e-commerce since Toolstore (the industry portal on the web) should be used to place orders, check the company's stock and so on. The reason for using e-commerce is, amongst other things, in order to shorten the time span between order and delivery. As mentioned earlier, 80% of all incoming orders today go through this portal and consequently, the aim for the future is that most of all incoming orders should go this way. However, it needs to be taken into consideration that a country like the Ukraine might not be used to work with this type of technology. Further to this, new thinking and the use of new concepts are also appreciated characteristics, as these might help in overcoming problems of new technology features. According to the Managing Directors, the above-mentioned characteristics are usually found among relatively young sales personnel and managing directors (30-45 years old).

At last, the distributor needs to be prepared to put in a certain amount of money in order to finance the catalogues as well as other marketing material. This is believed to “force” the distributor to put more effort and engage him in selling the products.

2.3.4 Own selection criteria of foreign distributors

In selecting a distributor for any country, we consider that the prospective candidate should have the following criteria.

<ul style="list-style-type: none"> • Reliable employees who will take leadership • How to reach customers • Work towards the common goal of Teng Tools • Solid industry experience • Follow-up and after sales • Access to a sufficient number of customers and contacts • Excellent communication and follow-up skills • Willingness and interest in the customers, products and the market • Ability to foresee customers’ requirements • Capacity for growth • Image of company and product • Meet the company’s delivery time frames 	<ul style="list-style-type: none"> • Obvious and significant interest for the product line • Own distributors • Special payment terms with others • Logistics system • Geographical presence • Provide the customer with good service and knowledge • Understand the company, industry and products • Sales history by product, manufacturer, geographical area, industry area and so on • Arranging meetings with the sales force • Main competitors • Starting-procedure of a relationship
--	---

Firstly, we argue that the chosen distributor should have reliable employees who will take leadership as well as show obvious and significant interest for the product line. This is in order to work towards the common goal of the company regarding its product line and the “Soul of Teng” (including unique

marketing, tools solution and the Teng Commandments). Looking at the starting-procedure of a relationship, one can see how the distributor works and whether this is in line with Teng Tools. The distributor needs to have a solid industry experience with a sales force that has access to a sufficient number of customers and contacts within the mechanics hand tools industry. This will help Luna at an early stage to reach a large customer base and thereby, penetrating the Ukrainian market more rapidly. In line with the Managing Directors, the distributor should also be innovative, creative and pioneering, as this would indicate a willingness and interest in the customers, products and the market. Further, this could also lead to the distributor having his own ideas and suggestions of meeting customer demands or ways of reaching these through innovative marketing. Additionally, the distributor should have excellent communication, follow-up and after sales skills as well as an ability to foresee customers' requirements and act quickly in order to meet customer needs.

The capacity for growth (with sufficient importance given to the Teng Tools brand in relation to the distributor's overall business) is of great importance for future expansion. Moreover, how the company profiles itself with regard to both its company and products is also essential. To see how Teng Tools would be profiled, it is essential to see which other competing brands the distributor represents. If these products are of higher quality than Teng Tools, this product line might receive a good profile on the Ukrainian market. On the other hand, if the distributor represents products of lower quality, there is a risk that this will be transferred to Teng Tools. Further to this, looking at the distributor's main competitors, one can also see how he positions himself on the market.

Other essential issues to keep in mind are whether the distributor can, for example, meet the company's delivery time frames in order to keep the company's reputation. It is also of importance to know if the distributor is working with retailers, directly selling to end-users or even if he has own distributors. Thus, in order to see how the products reach their end-users, it becomes very important to investigate how the logistics system is built up. In addition, one should know if the distributor has special payment terms with other manufacturers as this would mean that Luna would have to change its

terms too. Further to this, it is of interest to identify the distributor’s geographical presence. Wide geographical presence indicates that the distributor has a large customer base and hence, providing Teng Tools with more potential end-users.

Regarding the sales force, it is preferable if it can do more than just take an order, and provide the customer with good service and knowledge, since this is something that would give a good impression of both Luna and Teng Tools. This impression could in turn lead to a good reputation of Teng Tools on the Ukrainian market. It is also of importance to know whether the sales force understands the company, the industry and the products it sells. By arranging meetings with the sales force, the manager would be able to give the latest product information or industry trends which in turn might lead the sales force to sell more as well as gaining a better understanding.

Finally, in order to determine total sales for comparisons of different kinds, it is preferable for Luna to receive sales history by product, manufacturer, geographical area, industry area and so on from the distributor. This would make Luna better aware of its distributor and the importance of him in the market.

2.3.5 Final selection criteria list

In order to find the most compatible distributor, we have put the three criteria lists above into one list with some modifications as we believe that the best possible result will be obtained this way.

<ul style="list-style-type: none"> • Company background • Age level of employees • Trading areas & product lines • Main competitors • Own distributors • Starting-procedure of a relationship • Image of company and products • Sales organisation 	<ul style="list-style-type: none"> • Number of employees • Primary customers • How to reach customers • Logistics system • Geographical presence • Promotion – own or by manufacturer • Experience from similar product line • Active selling
--	---

FRAME OF REFERENCE

<ul style="list-style-type: none"> • Follow-up and after sales • Innovation, creativity and pioneering • Informative meetings with sales force • Showroom and exhibitions • Priority of Teng Tools • Possibility of exclusivity • Reputation • Atmosphere within company and with customers • Technology and e-commerce • Attitude towards new thinking and new concepts • Implementation of other Luna product lines • Possibility of financing catalogue and other marketing material 	<ul style="list-style-type: none"> • Knowledge of sold products • Knowledge and experience about the market • Warehouse and local storage capacity • Marketing possibilities • Representation of competitors • Turnover • Knowledge of English • Relation with local government • Interest in Teng Tools • Implementation of entire Teng Tools' product line • Special payment terms with others • Delivery on time
---	---

When looking at the above list, one can see that modifications have been made such as taking away some criteria that are not necessary to be fulfilled for the case of Luna and Teng Tools as well as putting some together and further develop them. Consequently, we will herein discuss how we came up with the final selection criteria.

In the beginning of the process of developing a criteria list, we chose only to look at Root's criteria as well as Luna and Teng Tools'. However, we soon realised that these criteria were more explicit and thus, we found it of importance to look beyond these matters. Therefore, we have included more tacit issues to these lists as these areas are easily overlooked and not taken into consideration by companies in their selection process.

According to us, Root seems to just touch the surface with his criteria and not go into much depth, which leads us to think that his criteria could be a good guidance for any foreign company trying to find distributors. However, these

criteria are left to the company for further development in order to fit it perfectly with the company. Hence, one could say that Root sets the framework, while the company sets the limits for how thorough these criteria should be. As a result, we felt a need to add the case company's criteria to this list.

When discussing different criteria with the Managing Directors of Luna and Teng Tools, we realised that they had overlooked some important issues. We were questioning the fact that they had not taken some factors into consideration. Examples of these are the importance of working towards the common goals of Teng Tools, the distributor's interest in the product line, the amount of available contacts and the reliability of the sales force.

With regard to Luna and Root's criteria, nothing was mentioned about payment terms and delivery frames, which we felt to be of importance in an uncertain country like the Ukraine. To predict the future, one needs to know the history. Therefore, in order to see how the distributor has developed over time, and what the future potential for Teng Tools is, sales history becomes of great interest. Additionally, this could also show the distributor's capacity to grow.

Furthermore, when looking thoroughly into the case company's criteria, we found that most of these were only focused upon selling and doing this in a fast way. Yet another issue that Luna seemed to ignore was the fact that the Ukraine is not a very well-developed country, and therefore Luna cannot put as much emphasis on Toolstore as it would wish. We are also of the impression that Luna wants the distributor to adapt to its way of conducting business and not the other way around. Having too much focus on this might result in Luna finding it difficult to establish strong relationships with its distributors. Consequently, we felt that it was essential to deepen the case company's criteria by including our own thoughts, which are primarily of a tacit sort. Although tacit matters can be difficult to touch upon, one can still get an impression of how these matters are conducted. Finally, and as just mentioned, it can be said that tacit matters are often overlooked, nevertheless they are still important not to ignore.

3. Research method

3.1 Research process

The research process handles the development of the research – from start to the final paper. At the beginning of this process, one has to choose if to produce a theory or to use an existing one. One approach (see arrow 1 in Fig. 3.1) is to produce a theory by identifying relevant concepts and theories and adjust these to the problem. This is, according to Ghauri & Grønhaug (2002), an approach where theoretical knowledge can solve practical problems. As Ghauri & Grønhaug explains that the researcher must select passable theories and methods and adjust these to the problem, we have chosen Root's framework of criteria for choosing a distributor, but adjusted these to the case of Luna. The same constitutes for the theories concerning environmental analysis and the competitive audit. Generally, theories are of an all-purpose character and can therefore easily be of use for many areas of research. However, this generality includes more or less no content about the actual problem to solve. Therefore, the task of the researcher is to give these theories content, which we also have by adjusting these general theories to our specific research problem. Another approach (see arrow 2 in Fig. 3.1) is to identify relevant factors and from that point, construct theories and explanations.

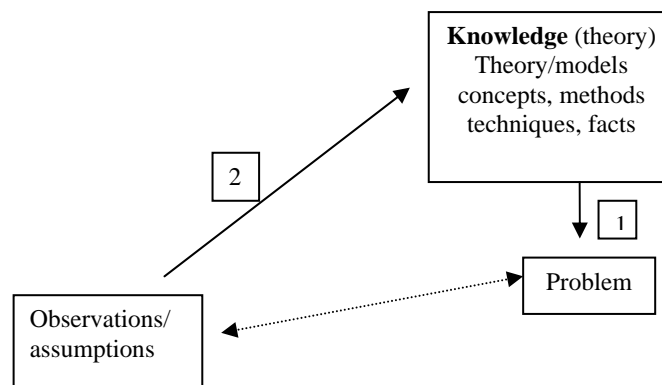


Fig. 3.1
(Source: Ghauri & Grønhaug, 2002)

The two above-mentioned approaches are explained by Ghauri & Grønhaug (2002) as different contexts of research, which are respectively “context of justification” and “context of discovery”. In this research, the context of justi-

fication will be used as there are many general theories within the field of internationalisation, which will be adjusted to our specific research problem.

3.2 Research type

Before formulating the research problems, we needed to thoroughly consider the existing knowledge of the problem area and the type of further information needed in order to solve these. Therefore, we had to think about what research type to choose, as this would affect the direction of our study. Several factors influence the selection of research type, such as the intention of the study, the research objects and time of disposal. One way of dividing the different research types are, according to Kinnear & Taylor (1996), exploratory, conclusive (descriptive and casual research) and performance-monitoring research. Out of available information and the purpose of our study, these different research types were considered, and finally the most compatible was selected.

3.2.1 Explorative research

This type of research is used where there is little knowledge about the subject and no clearly defined problem exists. The research is needed in order to understand the relevant study area to be able to analyse the problem correctly. As the choice of distributors is a well-known research problem, we did not use this type of research.

3.2.2 Conclusive research

In contrast to the explorative research, conclusive research is needed in order to serve facts for the evaluation of alternative ways of action. This type of research can further be divided into descriptive research and casual research.

3.2.2.1 Descriptive research

Descriptive research is used when a description of a situation is needed. This research is characterised by a clearly defined problem, specific research objectives and detailed information needs.

This type of research was used for our research questions in order to select distributors for Luna and Teng Tools.

3.2.2.2 *Casual research*

We did not use the casual research, as this is applied in order to analyse the cause-and-effect of certain behaviours.

3.2.3 Performance-monitoring research

Finally, the objective of the performance-monitoring research is to forecast future development by some phenomenon. This research could be a case for further research, since the use of this approach could forecast how Luna would develop in the Ukrainian market in the future if entering through the means of distributors or other modes of entry. However, this was not used in this particular research.

3.3 *Research design*

The next step in our research process was to decide which research design to choose. According to Lekwall & Wahlbin (1993), this design consists of mainly three types: cross sectional design, longitudinal design and case study. Which kind of design theory to use depends on the above-mentioned research types (Lekwall & Wahlbin, 1993). In this research, the case study method was used as it refers to the in-depth examination of individual cases, with the purpose of studying a certain phenomenon in its real-life context. The certain phenomenon in our study was the research of Luna and its problem of finding a distributor in the Ukraine. This indicates that the strength of case studies is the desire to understand a complex phenomenon in an unclear context, which is very applicable in this research as the Ukrainian market is a complicated and insecure environment for Western companies, such as Luna, that aspire to get established there.

Further motives for using the case study of Luna in this research was, as being discussed in the research conducted by Blomstermo & Sharma (2003), that case study method is used when looking into a single organisation and aspects or behaviour within the organisation.

Since only the case study method will be used, the discussion about the other two research design theories will therefore not be brought up here.

The problem with a case study appears through the analysis of the case study results as these cannot be valued statistically. Therefore, Yin (1989) has proposed the use of an analytical generalisation as method. This means comparing the empirical results with a previously developed theory. In our research, Yin's analytic generalisation is used since empirical results from the interviews are compared with the general frame of references found, i.e. Root's framework and our own developed analytical framework, i.e. Luna's and our own developed criteria.

3.4 Data sources

“Data sources are carriers of data” (Ghauri & Grønhaug, 2002). One can make a distinction between primary and secondary data where secondary data are data collected by others for other purposes than for the research in question. Primary data, on the other hand, is data collected by the researcher for the specific research problem at hand. The advantages of using secondary data are that it saves time and money. Ghauri & Grønhaug (2002), among others, recommend that research should start by looking at secondary data. They continue saying that by combining secondary and primary data, the research question can be best answered. During our research process, we have gathered both secondary and primary data. In the beginning of our research we started by searching for secondary data related to our problem in order to gain an overview of the subject, but also the possibility to understand the Ukraine as a country as well as the case company, possible distributors and competitors. Secondary data can be divided into internal and external sources, which in turn can be divided into published and commercial sources. The sources used for this research were Internet sites, brochures, research publications, books and articles.

There is however some serious disadvantages with secondary data as these data are collected for another purpose than the specific study. We have tried to take this into consideration by comparing the facts received from different

secondary sources and chosen the one equivalently to those presented in many sources.

In the case of secondary data not being enough in order to answer the research problem, the researcher himself has to collect the data in the form of primary data. This data normally consist of observations, experiments, surveys (questionnaires) and interviews. The primary data used in this research has been gathered through performing interviews. In order to collect correct primary data, special attention was given to which company to contact. Unfortunately, cost and time restraints did not permit us to collect primary data regarding the country environment. The primary data was collected in order to find suitable distributors.

The main advantage of primary data according to Ghauri & Grønhaug (2002) is that information is collected for the purpose of the specific research and in this case, finding distributors for Teng Tools. By collecting primary information, behaviour, attitude, intentions, problems and reasons can be revealed. The authors continue by claiming that the disadvantages of primary data collection are that it is very time-consuming and difficult to find target groups that are willing to cooperate and answer questions. Reasons for respondents not to cooperate are lack of time, lack of incentive and fear of negative effects of sensitive issues. This was the case for some of the conducted interviews, as the openness regarding company figures and financial status is very different in the Ukraine compared to Sweden. Therefore, it was difficult to receive information about turnover. This resulted in that we received figures from some companies and nothing from others since they wanted it to be secret. One of the companies gave us the information, however it wanted this to be confidential.

One of the interviewed companies refused to answer most of our questions, because he considered us to be representatives of Luna and thereby did not wish to reveal, for him considered, company secrets. The reason for this we believe was that he saw Luna as a possible competitor, but also that he wished to receive more (in-depth) information about Luna than he wished to provide about his company. Additionally, the interview with the company

Alttest was not completely answered to our satisfaction due to time constraints, yet the information we received was enough to make an analysis.

3.5 Data collection

After having decided to collect primary information for our research we needed to decide what kind of data collection method to use. The type of data that can be collected during a research can primarily be of two kinds – qualitative and/or quantitative data. Lekwall & Wahlbin (1993) argue that quantitative data is primarily used when there is a question of the character such as how often, how much, how many and so on. The aim is to receive a quantified result consisting of numbers analysed in a quantified way. Therefore, quantitative data is used in immense surveys, experiments and longitudinal design. As our research question is being of a descriptive character (*how* and *who*), the quantitative data method is not used in this research.

Qualitative data is best used as our objective and purpose is to understand a phenomenon in the investigated area of this specific case. Further, qualitative data is used when the intent is to research areas where quota samples are used, the information is of the motivation, belief, feeling and attitude characters, if the research has a subjective approach in gathering the data and/or if the data collection is of an open-ended format. (Kinnear & Taylor, 1996)

Lekwall & Wahlbin (1993) continue by arguing that case studies are generally conducted with small samples and that the approach is not intended to provide statistically or scientifically accurate data. In our study, only one case company is selected and the result is not to be of a statistically or scientifically accurate data, but rather an evaluation of the selected potential distributors. Thereby, qualitative data was needed.

Ghuri & Grønhaug (2002) deepen their discussion concerning data collection by differentiating methods from techniques. In line with the methods of collecting data in the research study exemplified by Ghauri & Grønhaug (2002), we are collecting data through the means of historical review, field study and a case study. The techniques used in our step-by-step procedure for data gathering, on the other hand, were semi-structured interviews along with

observations during these, in order to answer our research questions. Ghauri & Grønhaug (2002) further claim that several authors state that in business studies, techniques such as structured, semi-structured or unstructured interviews, surveys and observations are normally used.

In case studies, interviews are an important source of evidence as they try to explain human affairs. An investigator should interpret and report these human affairs by the help of the respondent's insights. (Kvale, 1996) Eight interviews with each of the managing directors or relevant persons were conducted at eight different companies during five days in Kiev in October 2003. These interviews are the main source of evidence in our research. Additionally, we were also supposed to find potential distributors at the Kiev Mash Industrial Fair Trade. However, this proved unsuccessful as no interesting companies for Luna attended this fair. We started the process of finding potential distributor interviewees by searching companies that use or produce hand tools and information about them, but also institutions that could provide us with some information about the market in general and the automotive market in particular. These institutions were banks, chambers of commerce and governmental institutions. We also contacted three Ukrainian MBA (Masters in Business Administration) students who are currently working in the field of distribution.

163 e-mails were sent but as most of the companies and institutions did not have any homepage or Internet address, additionally 98 faxes were sent to companies and 27 were sent to different institutions. These companies and institutions were located all over the Ukraine, but were contacted in order to gain better knowledge about the market. Moreover, we also contacted an American law firm present in the Ukraine in order to understand the legal environment. During this period, the contact letters (e-mail and fax) were constantly developed as our learning process continued and along with replies from companies. Therefore, the letters changed during the research and more information and sources of information about Luna and Teng Tools were added. However, more or less no company or organisation answered to our questions about their company and we noticed that many of the faxes did not get through. Consequently, we chose to contact them by telephone. This was not as easy as we thought due to the fact that the majority of the people

did not speak English. As a result, we decided to send our letter to a translation office to have it correctly translated into Russian (as this is one of the most spoken languages in the Ukraine), in order to help us reach the right person in the companies of interest.

Finally, we almost conducted two interviews each day during five days. One of the days was spent on the Kiev Industrial Fair Trade in order to find potential distributors, yet this showed to be unsuccessful. The interviews were all semi-structured since an interview guide was used, but was set aside when other interesting subjects arose, giving the interviewees the possibility to add own comments and suggestions. The interview guide consisted of questions developed from a combination of the criteria set by Root, Luna and ourselves, concerning issues such as company background, financial status, marketing and terms of payment (see Appendix I). In order to make sure that the empirical information was connected with the expectations, the research questions were revised both before and after the first interviews took place.

As we were aware of the lack of English knowledge among the respondents, we sent our interview guide to a translation office in order to prevent any misunderstandings or misinterpretations regarding our questions. The interviews were all, except from one, conducted at the respective company in Kiev and lasted for approximately two hours, which provided us with a lot of valuable information. The interviews were also recorded in order to receive as much data as possible out of the interviews. Only one interview was performed in English, while the rest were in Russian but interpreted by a Russian speaking employee from Luna. This was another reason why we found it of utmost importance to record the interviews in order to later let the interpreter listen and correct our writing. In relation to the interviews, direct observation as a source of data was also made available by observing matters such as interior, design, company culture, new computers or no computers and so on.

Moreover, when conducting the interviews we realised that it was impossible to range the distributor criteria on a scale of for example 1-10. The reason for this is mainly that we searched for qualitative data during our interviews with the eight different companies. During our stay in Kiev, we therefore con-

cluded that the most suitable distributor for Teng Tools would be the one that fitted the most important criteria set. We have discussed, reviewed and decided these criteria to be the following: trading areas, product lines, customers, competitors, sales organisation, English language skills, overall experience and knowledge, financial data, interest in Teng Tools and the possibility of implementing the whole range.

3.6 Validity

According to Merriam (1998) validity is concerned with measuring how the research findings converge with reality. Different kinds of error can occur while conducting a research. Since we conducted a qualitative research this resulted in very subjective measurement of the phenomenon, because we have one way of understanding the world while another person has another way of perceiving it according to Blomstermo & Sharma (2003). The possibility to approximate these kinds of errors will lead to a prediction of the validity of the study, and thereby receive a satisfying result. As having much influence from the side of the company regarding many issues during our research, such as finding possible distributor candidates, subjectively booked interviews but also subjectively conducted interviews with answers influenced by the business supervisor. However, the influence of the company has lead to a greater understanding of the company, but foremost the business of hand tools, which otherwise might have provided us with “wrong” conclusions.

There are two types of non-response errors according to Kinnear & Taylor (1996), namely internal and external. Internal means that some questions in the interview guide are not answered to or answered unsatisfactory. External implies that a whole interview guide is not answered. Non-response errors could for example be due to the fact that the respondent is distant or that the information obtained from the respondent is unusable – perhaps he does not have the necessary knowledge or he could have lied. As mentioned earlier, this occurred with two of the interviewed companies.

One way of securing validity of the interviews is to let the interviewees evaluate or confirm gathered interview data. In our case, this was more or

less impossible, as we used a Russian-speaking interpreter during the interviews. However, this interpreter listened to the recorded interviews and checked if something was misinterpreted or misunderstood. By that, we can say that we have secured some of the validity of our interviews in this research.

3.7 Reliability

Reliability of a measure refers to the extent to which the measurement process is free from random errors.

(Kinnear & Taylor, 1996)

Reliability is thereby related to the consistency of the research findings, accuracy and its predictability. This means the ability to reproduce the study by another researcher but still receive the same results as the previous. Reliability is based on the concept that there is only one reality. If reliability is to occur validity is a precondition. Reliability on research is reached through consistency with the collected data. Enhanced reliability is also reached through a thorough description of the research process. We have within this chapter of research design tried to describe our reasoning behind our research process as comprehensive as we believe being important in order to receive a higher reliability. However, in order not to loose the reader on his way through the paper, we have only focused on the most important decisions and steps taken during the research. The fact that we have learned a lot during this study, may make it difficult to replicate, but hopefully this research design chapter gives at least an indication of how such research can be reproduced.

3.8 Critical review

When in Kiev, we had a Russian-speaking business supervisor from Luna acting as an interpreter and helping us during the interviews. It was both positive and negative to have an interpreter from the company. Positive since she had great knowledge about the company, an understanding of the business as well as knowledge about the way to conduct business within this field. On the other hand, having the company's objective in mind might have been nega-

tive for our purpose since we asked questions that might not have been of direct interest for Luna, hence leading to a subjective interpretation. Another negative issue is that not understanding the language, and having to use an interpreter, might result in that everything cannot be translated, such as what is said “in between the lines”.

Focusing on more regions than just the Kiev region would have given us a better understanding of the Ukrainian market as a whole, and as a result we could have gained a different result and standpoint.

As we mention in the methodology chapter below, all distributor criteria were to be measured at first, but we realised on the way that these criteria were of qualitative nature and hence, measurement of these becomes difficult. As a consequence of Ukrainian business culture, some of these criteria could not be fulfilled and therefore, these are used as recommendations instead of criteria compatibility. Furthermore, during the selection process of distributors, we were hampered by the fact that employees at Luna were “recommending” us to contact some companies from our list and some not, out of their wishes. This resulted in that we ignored a few companies that actually could have been of interest. However, during the field study, we were recommended both by interviewed companies, and by the Swedish Trade Council in Kiev, to contact two companies who had been rejected by Luna at first but that were present on our list of potential distributors. Throughout the interviews, we found that these two companies were very much potential distributors of Teng Tools. Noticing this leads us to the fact that we might have overseen some potential companies, but as only two were recommended to us from Ukrainian sources, we believe and hope that this is not the case.

Correspondence with the Swedish Trade Council in Kiev proved problematic, as they wanted to receive financial support to help us with information. The Trade Council actually sent us a proposal saying that they would conduct the whole report for a certain amount of money. Since this was not an option for us, we had to explain that *we* were the ones supposed to carry out this work. Telling them this, they were not very keen on giving us information about the Ukrainian market. After spending a lot of time on explaining to them that we really needed this information, the Trade Council of the Baltic States man-

aged to provide us with a mini market report. However, by the time we obtained this report, we had already managed to collect most of the information on our own.

Unfortunately, official state statistics in the Ukraine are often unreliable and information is often outdated before it has been published. There is no feasible system for checking the financial status of Ukrainian companies and neither is it a practice for banks to provide information on the financial status of their clients. As a result, we were unable to obtain financial information about the selected potential distributors from these sources. However, a few of the interviewed companies provided us with this information.

As a result of the old disciplinary culture in the country, we became aware of the anxiety about revealing information, no matter how insignificant. Due to the fact that the KGB previously used to supervise telephone calls, we also noticed that there was a reluctance to speak on the telephone. Another problem with the Ukrainian telephone system is that it is outmoded, hence causing problems of communications – both via telephone, fax and e-mail. Several times, we were given the answer that the Internet was down, which in turn meant that e-mails were not received. As the telephone lines were a bit problematic, this resulted in our faxes not getting through.

4. Research result – Macro environment

In order to properly evaluate the macro environment in the Ukraine, a selection of the most significant issues for a foreign company to have knowledge about has been conducted and is included in the following sections.



Picture 4.1 Map of Ukraine
(Source: CIA – The World Factbook)

4.1 Political overview

The Ukraine became independent from the former Soviet Union in 1991, and shares borders with Moldova, Romania, Hungary, Slovakia, Poland, Belarus, Russia and the Black Sea, as shown in the map above (Picture 4.1). (World Market Research Centre, 2003)

The Ukraine's President, Leonid Kuchma, came to power in 1994, and has since then tried to put into practice an inclusive economic reform programme, financial discipline, and actions to reduce control over prices and foreign trade. Additionally, in an ongoing effort to transform the Ukraine into a market-driven economy, much of the country's former legislation has been revised and implemented. Kuchma has also put in a lot of effort and time in order to raise Ukraine's international profile. Further to this, the country has also had the aim of joining the European Union (EU), but due to current political conditions, the wish of joining the EU looks more distant than ever.

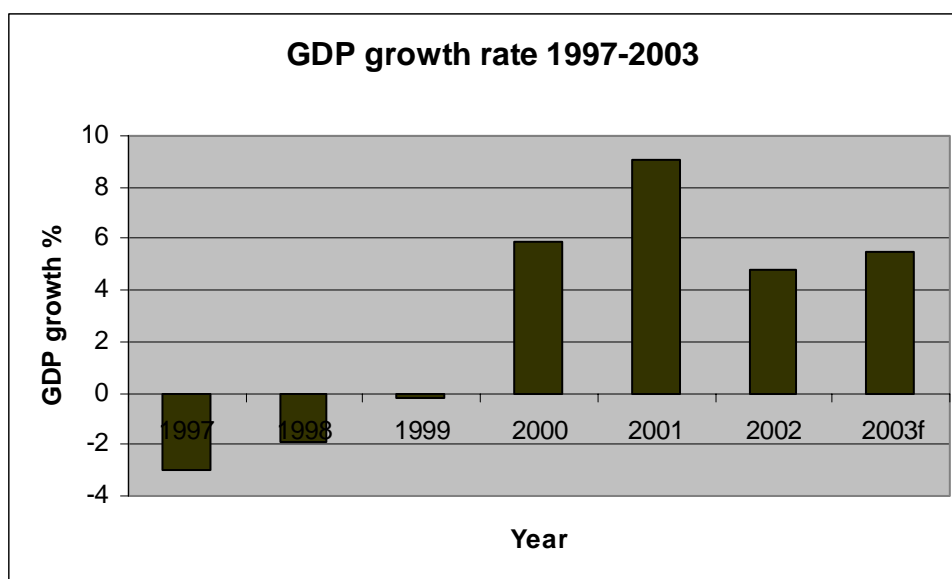
Moreover, Kuchma recently stated that the Ukraine is now “tired of waiting” and that it would be better to create other trade blocs for the country’s own economic development. (Blomgren, 2003)

The Ukraine’s position between Europe and Russia is becoming more and more significant (World Market Research Centre, 2003). Russia aims to strengthen economic relations between the countries of the Commonwealth of Independent States (CIS) (Frishberg & Partners (1), 2002), something on which the Ukrainian government is fairly keen (PricewaterhouseCoopers, 2003). Hence, a trade agreement was signed in the beginning of October 2003 between Russia, Kazakhstan and Belarus (Blomgren, 2003).

Significant structural weaknesses still endure in the Ukraine, such as tax distortions, non-payments, un-restructured loss-making enterprises, corruption, under-capitalised banks, an inefficient energy sector and a high level of dependence on metal exports, which considerably hinder the investment climate. (World Market Research Centre, 2003) As stated by Tayeb (2000), “the unpredictability of the political climate for foreign investors in emerging markets poses a significant challenge”.

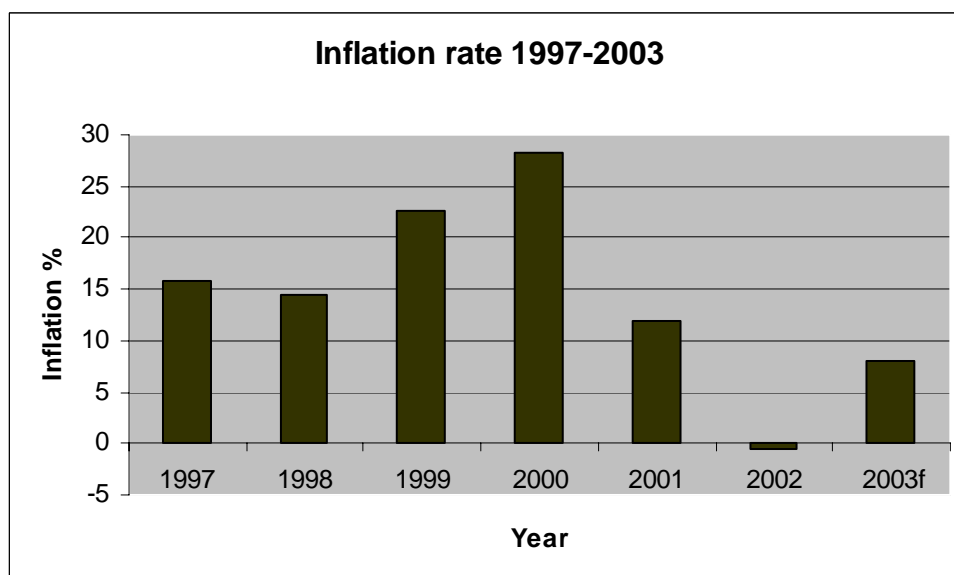
4.2 Economic overview

Since its independence, the Ukraine has not managed to stabilise and recover its economic activity until in late 1999, when the country finally achieved its first positive growth. In 2001, the country had a strong growth of 9.1% which was mainly due to strong export growth and domestic demand. (World Market Research Centre, 2003) One of the reasons why the Ukraine’s business climate remained stagnant from 1991 and onwards is said to be that the same people occupied different government positions for over a decade. Consequently, these people could not be discharged as nobody could replace them. Simultaneously, nobody has really tried to completely re-shape the Ukrainian economy which involves issues such as providing foreign investors with adequate legal and business infrastructure. (Frishberg & Partners (1), 2002)



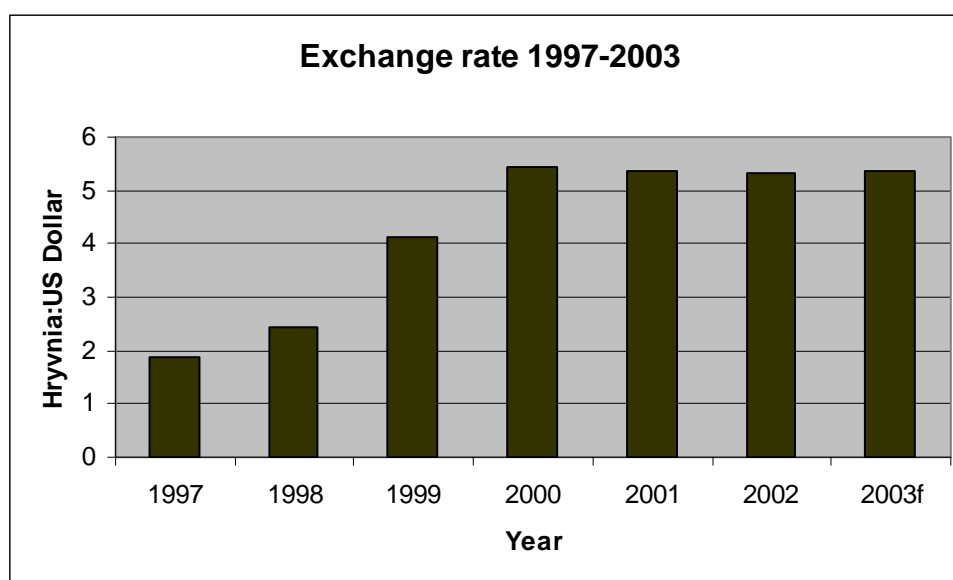
Graph 4.1 Annual GDP growth rate 1997-2003
 (Source: World Market Research Centre, 2003)

It was not until in the year 2000 that the Ukraine finally managed to reverse its economic indicators from downward to upward turn. Compared to 1999, gross domestic product (GDP) grew by 6% and in 2001 it had a record of 9.1% real GDP growth, as can be seen in the graph above. (Pricewaterhouse-Coopers, 2003)



Graph 4.2 Annual inflation rate 1997-2003
 (Source: World Market Research Centre, 2003)

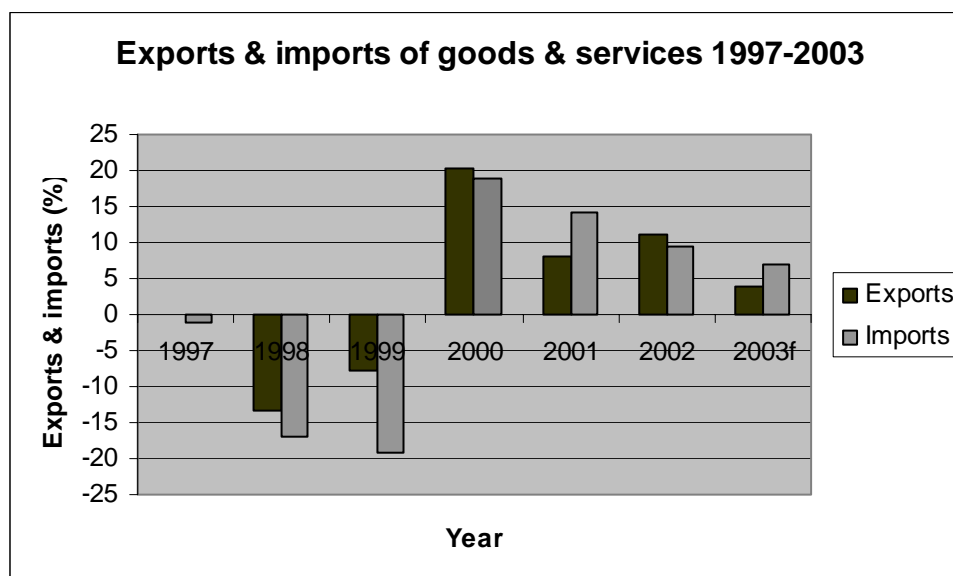
After gaining independence, consumer price inflation exceeded 10,000%. On the other hand, the monetary policy was made tighter and by 1996 inflation had fallen to less than 40%. The annual deflation rate was 0.6% in 2002, which is likely to result in reasonable inflation in 2003 and 2004 (see Graph 4.2 above). (PricewaterhouseCoopers, 2003; World Market Research Centre, 2003)



Graph 4.3 Average annual exchange rate 1997-2003
(Source: PricewaterhouseCoopers, 2003)

As the Ukraine moved to an openly floating exchange rate in 2000-2002, the stability of the Hryvnia has been facilitated through strong currency policy and successful management of the external debt-service obligations (Graph 4.3 above). (PricewaterhouseCoopers, 2003)

As shown in Graph 4.4 below, the country's foreign trade balance grew to US\$ 3.5 billion in 2002, which is 21.4% more than in 2001. Russia stands for the largest share of exports and imports of the Ukraine, however exports to the CIS countries decreased in 2002, while exports to non-CIS countries increased. (PricewaterhouseCoopers, 2003)



Graph 4.4 Exports & imports of goods & services 1997-2003
(Source: PricewaterhouseCoopers, 2003)

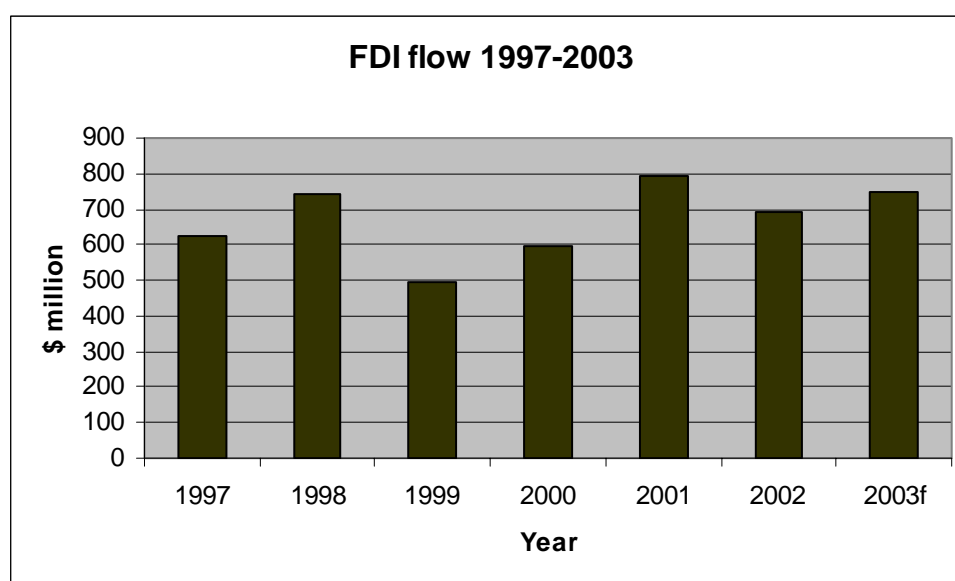
The Ukraine has a large transportation network, with the main transportation being the railway and roads. The country also has 10 airports; however air transport is underdeveloped in the Ukraine. Additionally, there are inland waterways and several commercial ports. (CIA – The World Factbook) Regarding exporting to the country, the least expensive and most reliable means of transport is by sea. Rail is also a good means of shipping products throughout the country as it is cheap, however less reliable as it is time-consuming and inefficient. (Kozminski & Yip, 2000) Finally, overland truck is the most popular, efficient, yet costly method of transporting goods within the Ukraine. (Clem, 1999; World Market Research Centre, 2003)

For the last couple of years, a major upgrading process can be seen along the international links and at the moment, the main focus of investment is on the European Union's trans-European networks. (World Market Research Centre, 2003)

Even if the macro economy appears more and more stable, the need for structural reform is crucial (World Market Research Centre, 2003).

4.3 Impacts of foreign direct investment

In general, the Ukrainian government's attitude to foreign investors has been indifferent. Instead of actively encouraging investment opportunities, which require adopting transparent rules, the government was very reluctant to adjust the country's system to fit in with the new market economy. However, the next Presidential elections in November 2004 will probably bring about significant changes in the future. (Frishberg & Partners (1), 2002) The annual flow of FDI is shown below in Graph 4.5.



Graph 4.5 Annual flow of FDI 1997-2003
(Source: World Market Research Centre, 2003)

By January 2003, the largest amount of investment since Ukraine's independence arrived from the United States, Cyprus, Great Britain, Netherlands, Russia and the British Virgin Islands (World Market Research Centre, 2003). A great amount of the FDI coming from Cyprus and the British Virgin Islands are offshore money (about 50%) with Russian origins. Further, "over one-quarter of all joint-ventures registered in the Ukraine are established using Russian and Ukrainian capital routed through offshore centres". (Frishberg & Partners (2), 2003)

Ukraine's current business climate, according to Frishberg & Partners ((2), 2003), is being taken over by the "Russian giants", with the Westerners following a distant second. "Russian money and influence are playing a dominant role in Ukrainian business" (Frishberg & Partners (2), 2003). As

Russia has become such an important investor in the Ukraine, Russian businesses can “pick and choose” from what they want in the country. Unfortunately, there is nothing the Ukraine can do to change this. Several sources argue that “Ukraine is being gradually scooped up by Russian money”. (Frishberg & Partners (2), 2003) Moreover, investors from the West will not find themselves negotiating with Ukrainians, but with Russian business interests who will be able to get the prices up to several times more than they are today. A number of Ukrainian industries are increasingly being taken over and controlled by Russians due to the active penetration of capital into the Ukraine. This is noticed in the fact that large holding companies are being created with Russian profits with the sole objective of capturing entire sectors of the Ukrainian economy. It has been estimated that the value of such holding reserves is worth several hundred million US dollars. It has been suggested that the Russians purchase percentages of specific industries and sectors, such as oil, gas, food-processing and agriculture. When these assets in turn are sold to Westerners, they “will be sold not for hundreds of millions, but for tens of billions”. (Frishberg & Partners (2), 2003)

One may ask the question why Russian businesses are investing so much into the Ukraine. The most obvious answer is that the Ukraine has been reporting substantial economic growth and it seems that Russians have noticed these trends and the “associated earning potential”. Therefore, the Ukraine seems to be a “solid, long-term bet”. (Frishberg & Partners (2), 2003)

Although investment is being diverted from the Ukraine due to high corruption, extensive bureaucracy, inflation, unclear business laws, and changing privatisation rules (PricewaterhouseCoopers, 2003). The Ukrainian government’s hopes on attracting FDI into the country have been boosted after introducing legislation that facilitates investment (Exportrådet (1), 2003).

4.4 IT and telecommunications

Regarding IT, there were 750,000 Internet users in the Ukraine in 2001. This suggests that the Internet penetration was just over 1% - a number considerably lower than in Russia and far lower than Central Europe. (CIA – The World Factbook) Today, on the other hand, out of a population of 48 million, the Ukraine has 2 million Internet users, whereof 45% of these are to be found in Kiev and there are six Internet providers controlling 75-80% of the market. Hence, the Internet penetration has increased to 4%, which can be compared to Sweden who has an Internet penetration of 64.8%. (Exportrådet (2), 2003) Furthermore, only 300 companies in the Ukraine have access to the Internet (U.S. & Foreign Commercial Service and U.S. Department of State (1), 2002).

As mentioned above, few Ukrainians have access to the Internet resulting in difficulties for e-commerce to grow. Additionally, the number of retailers accepting credit cards is also low as the credit card payment is insecure, which in turn has resulted in few Ukrainians using credit cards. It is highly probable that a growing number of retailers are likely to accept credit cards in the future. (Planer, 2001)

The Ukrainian State Telecommunications Corporation (Ukrtelecom) and Utel dominate the domestic and international fixed-line networks respectively (CIA – The World Factbook). In order to improve basic telecommunications infrastructure and introduce modern operating standards, the Ukraine has started to take important steps in this direction (World Market Research Centre, 2003). One important factor working against the improvement of the telecommunications is the country's restrictive regulatory regime hindering full development of this market. Even though fixed-line penetration remains low (around 21 lines per 100 people), mobile penetration is rapidly increasing and by mid-2003, there were around 4 million subscribers. (U.S. & Foreign Commercial Service and U.S. Department of State (1), 2002) The government has a telecommunication development plan, which emphasises the improvement of domestic trunk lines, international connections, and the mobile telephone system (Ristau).

4.5 Legal issues

All foreign companies doing business in the Ukraine must generally deal with government officials at one point or another. Indeed, each step of doing business requires some dealings with the state authorities that can negatively influence an established transaction. Often, when companies try to enter the Ukrainian market, they get rejected at the local government level even though senior government officials have made promises. (Frishberg & Partners (3), 2002) In addition, the Ukrainian tax authorities are very suspicious about foreign companies and can even use any means available, such as raids against these companies, and thereby block their activities for weeks (Tapper, 2003).

In 2001, Kuchma signed a law on tax legislation that regulates basic relations between taxpayers and government tax agencies. As a result of this law, changes to a dozen other laws have been achieved and, altogether, more than 17 new definitions have been added to the Ukrainian tax legislation. (Frishberg & Partners (4), 2002)

4.6 Import taxes

Ukrainian import-export operations are subject to a number of taxes, including value added tax and customs duties. Depending on the specific product, excise tax and other types of payments may also be applicable. However, as legislation in this area changes all too often, it is important to stay informed about the latest applicable import taxes, duties, certificates and other related matters. (Frishberg & Partners (5), 2002)

4.7 Certification

All goods and services in the Ukraine must go through a mandatory certification process at the Ministry of Health and the DerzhStandart (the State Committee for Standardisation, Certification and Metrology). However, products (such as Teng Tools) whose quality has been certified outside the Ukraine in accordance with the international standard ISO or other international standards do not yet have to repeat the certification for such goods in the Ukraine. (Frishberg & Partners (6), 2002)

4.8 Company law

The CIS are known for their strict rules prevailing cross-border contracts. The Ukraine is no exception. The legal changeover of the Ukraine has in no way been the easiest of the former Soviet countries. Still, a lot of work remains, and all the legal changes have created an uncertain environment. (World Market Research Centre, 2003) In addition, the Ukrainian legal framework has a lot of considerable differences from other legal frameworks among the CIS. This implies that companies, for example, that have experience of doing business in Russia, should not try to operate on the basis of expectations developed elsewhere. However, a closer analysis reveals that the “strict” Ukrainian legislation is not that different from the demands of comparable European and American laws. (Brown & Rozhnov, 2002)

Company law in the Ukraine is still inadequate, although a number of recent changes have brought some progresses. As of today, foreign investors can form a wholly owned subsidiary, a joint venture, or a representative office, and there are no minimum capitalisation requirements. In order to benefit from the guarantees and rights provided for by foreign investment legislation, these units have to be registered. (World Market Research Centre, 2003)

It is not uncommon for foreign companies to try to use their standard worldwide agreement when conducting transactions in the Ukraine. However, Ukrainian legislation often does not recognise many of the provisions typically included in standard company agreements. The use of “unauthorised” provisions could cause Ukrainian court to find a specific agreement null and void. (Brown & Rozhnov, 2002)

4.9 Business customs

As of today, it can be said that business in a Western sense is new to the Ukrainians, and therefore it is difficult to generalise the customs of doing business. The earlier days of centralised authority, bureaucracy and an unwillingness to take initiative have had effects on the development of the Ukrainian business. (U.S. & Foreign Commercial Service and U.S. Department of State (3))

Ukrainians are deeply personal, and a lot of emphasis is put on strengthening personal relationships before doing business. Generally, a business contract begins with a personal relationship and does not advance to the contract stage until the relationship is fully developed. One reason for this is the absence of a strong transparent legal infrastructure making the deal dependent on the trust established over months or years. Being responsive to one's negotiating partner is of importance as Ukrainians are shrewd and tough negotiators. At the opening of a meeting, it is essential to present a business card, and – during the meeting – accept offerings from the potential business partner such as cigarettes, dinner or vodka toasts. (U.S. & Foreign Commercial Service and U.S. Department of State (3)) Little business is conducted over the telephone, while face-to-face meetings are of importance. Cole and Dehner describe in their article, "(...) Ukrainians communicate only when it is absolutely necessary or it is in their personal interest to do so". The authors claim that the reasons for this are considered to be economic for some, while cultural for others (Cole & Dehner).

Comparing what is considered important for having a successful business in the Ukraine and the West, one can see that the Ukrainian business people emphasise cash and not profitability. If a company has a great deal of cash, the Ukrainians believe this to be important in order to, e.g. pay their employees. Aiming for increased amounts of cash also shows that the Ukrainian business men have a short term objective for their companies. A reason for emphasising cash can be the fact that it is very difficult to receive money from somewhere if the business is short of cash as banks only lend money on a short term basis at very high interest rates. (Cole & Dehner)

4.10 E-commerce

Even if e-commerce started relatively late in the Ukraine, it is likely to spread quickly in the future, especially since the first legislation that gives legal validity to electronic signatures and documents was approved by the Parliament in May 2003. This law requires that a certification centre and a monitoring body are set up, but as this will take time to complete it is likely to be some time before electronic signatures can be used. (World Market Research Centre, 2003)

5. Research result – Regional environment

Looking at the macro environment of the Ukraine, one can see that the best developed region in many ways is the Kiev region. It was decided, along with our case company, to focus on Kiev and we will therefore now give an introduction of this region.



Picture 5.1 Map of Kiev region
(Source: *Regional Business Center Kharkiv, 2000*)

Kiev, located in the Kiev region (Picture 5.1), is the capital of the Ukraine and one of the biggest and oldest cities in Europe. The city is an important administrative centre, comprising of the Ukrainian Presidential administration, the Parliament, and nearly all ministries and governmental departments. Furthermore, Kiev is also the host of the National Bank of Ukraine, investment companies and funds, representative offices of foreign financial institutions and approximately 220 commercial banks. (Swedish Trade Council Kiev, 2003)

The output of industry located in Kiev has had a 3.8% increase since 1996. The power engineering, medical and food industries had the biggest increases in production volume. Only 16% of Kiev's industrial enterprises are owned by the government. (Regional Business Center Kharkiv, 2000)

Kiev has developed a special programme to increase the development of small enterprises – the City Programme. This programme aims to create a competitive market and to increase its importance, increase the living standards of the people in Kiev and basically, increase the revenues to the local

budgets. Additionally, the city is trying to enhance the conditions for foreign companies by creating a favourable investment climate with the following features: (Regional Business Center Kharkiv, 2000)

- A great deal of attention is paid in order to create good working conditions for foreign companies.
- The job market is relatively cheap, but is still represented by highly qualified specialists in nearly all sectors.
- The criminal situation in Kiev is rather quiet.
- Good transportation network connects Kiev with all cities of Europe and Russia.
- The City of Kiev offers favourable conditions for living and working. The City is also a well planned city with a nice climate.

Kiev is the leader in foreign trade in the Ukraine. As the city has many large enterprises within aircraft, chemical goods, food products, metal structures, and jewellery products, its export volume of goods and services has also become large (exports amounting to nearly 15% of the total volume of the Ukraine's total export). Regarding imports, Kiev has the largest volume with almost 30% of the national volume. (Regional Business Center Kharkiv, 2000)

When taking a look at regional FDI, one can see that this has had a big boost. In total, the FDI going to Kiev during January-June 2003 was US\$ 103.8 million, which is an increase of 46.8% compared to the same period in 2002. Furthermore, among all regions in the Ukraine, Kiev is the region with the highest FDI rate with 35% of all FDI going to the Ukraine. (Exportrådet (3), 2003) After Kiev, the most popular regions of investment are Dnepropetrovsk, Donetsk, Zaporizhia, Kharkov and Krim as these regions are considered to be important industrial centres of the Ukraine and are densely populated (Clem, 1999). Therefore, Kiev is a good starting point for Luna and Teng Tools.

Kiev has the highest number of higher educational establishments in the Ukraine, and according to Ukrainebiz.com, the region has the best manpower resources in the Ukraine. The workers are said to be highly qualified, there

are research and design collectives as well as “experienced managers of all levels”. Additionally, the level of official unemployment is the lowest in the whole country. (Regional Business Center Kharkiv, 2000)

Kiev has a large transportation network which connects the city with many European capitals, large cities in Russia and Belarus, as well as with all the large cities of the Ukraine. Furthermore, the city has two airports – Boryspil and Kiev (Zhulyany), which services mainly international and domestic flights respectively. Kiev’s transportation network also includes underground lines, tram and bus lines and bus routes. Further, the traffic network in the city is quite well-developed. (Regional Business Center Kharkiv, 2000)

Kiev’s telephone system is the biggest in the Ukraine with an average of 64 telephone lines per 100 families, compared to the country average of 21 (Regional Business Center Kharkiv, 2000).

Even though the Kiev region seems to be a good starting point for foreign companies entering the Ukraine, one still has to keep in mind that this region might not be representative for the country as a whole. The larger distributors that are represented in the Kiev region are most probably those with a larger customer base as well as a bigger business network. This is also likely to result in that these distributors are not only conducting business in this region in particular, but also in other prosperous regions of the Ukraine. Therefore, we consider the Kiev region to be of importance.

6. Research result – Industry environment

In order to gain knowledge about the competition faced in an industry, it becomes vital to conduct an industry analysis. However, regarding hand tools in the Ukrainian market, there are no specific competitors but rather competing global brands. Also, during interviews with the Managing Directors of Luna and Teng Tools some specific brands were hinted to be competitors to Teng Tools. This was also confirmed during the interviews in the Ukraine. All the competitors described below are all to a certain extent present with their products on the Ukrainian market.

When looking at Teng Tools' competitors, several factors need to be taken into consideration. Firstly, the competitors' country of origin is of interest in order to see if the products are of "German top quality" or low quality. Secondly, turnover as well as number of employees are important factors when considering the competitors' size on the market. Further, by looking at what customer base and product lines these companies have, one can see if these are competitors of Teng Tools. Finally, it is essential to know how the products of the competitors reach the end-users. Hence, the following sections will briefly describe the industry environment with focus on these factors.

6.1 Snap-On Incorporated Group

Snap-on Incorporated (Snap-On) was founded in 1920 in the USA. Today, the company is seen as "a leading global developer, manufacturer and marketer of tool and equipment solutions for professional tool users". The company's product lines include hand and power tools, automotive diagnostics and shop equipment, tool storage products, automotive diagnostics software and other solutions for the transportation service, industrial government, education, agricultural, and other commercial applications, including construction and electrical. All Snap-On's products are sold through franchise dealer van, direct sale, distribution or Internet channels. The turnover of the company is approximately US\$ 2 billion with around 14,000 employees worldwide. (Snap-On)

Snap-On wishes to become a total solutions provider for its customer base, consisting of worldwide tool and equipment users. (Snap-On)

6.2 Bahco Group AB

Bahco Group AB (Bahco) is a Swedish company and is one of the largest manufacturers in the world when it comes to handsaws and saw blades. However, the company also offers a wide range of engineering, construction, metal cut-off and horticulture applications tools. Besides from saws, it also offers other products such as wrenches, spanners, pliers, files and cutting tools. Bahco is manufacturing professional tools for the metalworking, aeronautics, automobile, electronics, telecommunication, forestry, and research and development industry. (Bahco)

Everything that Bahco manufactures and sells is made by the company. By managing the entire cycle from basic research to product development following by manufacturing and distribution, the company can control everything and thereby guarantee quality. (Bahco)

Today, Bahco is part of Snap-on Inc., and has 2,500 employees in 40 countries all over the world with an annual turnover of about US\$ 340 million (Bahco).

Customers are seen by Bahco as business partners and not intermediaries. For a partnership to be successful, Bahco also considers providing strong marketing support as being of importance. This includes complete display systems, sales material, information about the products and joint operations in strategic marketing planning. (Bahco)

In order for Bahco to solve problems and improve its products, the company is having close relations with its end users (Bahco).

For Bahco to ensure prompt delivery and minimising stock handling, the company uses two distribution centres in Europe, and two in North America that are connected to Bahco's on-line distribution computer system (Bahco).

6.3 Gedore

Gedore is an old German family company that was founded in 1919 by the three Dowidat brothers. In the beginning, Gedore was a small tool factory, where only adjustable wrenches and pipe wrenches were produced. However, as the capacity soon reached its limits, the brothers felt a need to expand the business. It was therefore decided to move the main establishment to a larger place in Remscheid, where the headquarters of the company is still located. (Gedore (1)) There are about 700 people employed in the Remscheid factory, and worldwide Gedore has about 2,600 employees. The company is still a private company owned by the Dowidat family. (Gedore (2))

Today, Gedore has 16 factories in countries such as Germany, Austria, South Africa, Brazil and Turkey and manufactures about 12,000 different items (Gedore (1)). All these subsidiaries are more or less managed from the Remscheid headquarter. Aside from administration, the production in Remscheid is aimed at the box spanner range, and the manufacture of heavy spanners and tool sets. The main business activity of these days can be described as manufacturing of hand tools and workshop equipment. (Gedore (2))

Technical perfection, which in turn results in problem solutions, is argued to be important in order to be a leading tool manufacturer, such as Gedore. The company's constant development has lead to having a catalogue that includes almost 12,000 items. (Gedore (2))

Instruments Ltd., is an authorised partner of Gedore in the Ukraine.

6.4 FACOM

FACOM started in France during the first quarter of the 20th century and has stood alongside major industrial developments. During the 1970s, subsidiaries were set up all over Europe and America. Thereby, FACOM sees itself as the number one in Europe for hand tools. During its first years, the company became a specialist in emission control and wheel alignment. A global dimension was also added by acquiring companies such as Britool (hand tools), SK hand tools (wrenches), Garnache (screwdrivers), Sykes Pickavant (hand tools and automotive equipment) and USAG (hand tools). (FACOM (1))

During the 1990s the company focused on innovation, safety, ergonomics and performance of hand tools. FACOM continued to expand by putting up new subsidiaries in Poland, Russia, Denmark and Singapore. In 1999, FACOM's catalogue was printed in 13 languages and in 800,000 copies. (FACOM (1))

Since 1999, the FACOM TOOLS Group belongs to the holding company FIMALAC (FACOM (1)).

FACOM has two core businesses – hand tools and garage equipment. The business areas that the company covers are automotive, aerospace, electrical engineering, electronics, offshore, heavy duty and industrial fitting and maintenance. When it comes to automotives, FACOM offers not only a specialised selection of tools and mobile plant applications, but also a great range of specialised documentation, tooling and equipment for private cars. (FACOM (1))

FACOM designs, manufactures and markets virtually all of the products in its hand tools range, which is primarily aimed towards the needs of servicing and maintenance professionals. Garage equipment offers strong synergies with the group's automotive hand tools ranges and is marketed towards an identical user base, i.e. vehicle servicing chains and fast-fit installers. (FACOM (2))

As of today, the company has 5,500 distributors worldwide with a workforce of about 4,000 employees (FACOM (1)). In 2002, sales within the tools business for FACOM amounted to €442.3 million compared to €463.4 million in 2001. This decline is explained, by the company, to be due to lower sales volumes and a decrease in capital expenditure all over Europe. (FACOM (2))

A priority for the company is to develop internationally. FACOM's market share in Asia and Eastern Europe has regularly been growing during the latest years. (FACOM (2))

6.5 USAG

USAG was founded in 1926 in Italy, and in 1991 USAG became part of the international FACOM Group. This has led to synergies in manufacturing,

technological and logistics experience as well as increased production optimisation and a widening of the company's range. Nowadays, USAG is the main trademark of UTENSILERIE ASSOCIATE, which is a company within the FACOM Group. The development of USAG is representative of the Italian industry as a whole – from an initiative of a hard-working entrepreneur to the new reality of the global market. (USAG)

As of today, the company has a sales network with professional agents and 2,000 points of sale covering five continents and offering its products in 50 countries (USAG).

USAG is having an exclusive agreement with Force Ltd., in the Ukraine.

6.6 Stanley Works

Stanley Works was founded in 1843 in the USA. The Stanley brand is a hand tools division belonging to Stanley Works, which today is a worldwide producer of tools, hardware and door products for professionals, industry and DIYs. Stanley Works employs about 15,000 people worldwide. (Stanley Works)

In 2001, Stanley added 100 new products to its present product range of 400 products. Stanley can therefore be seen as an industry leader when it comes to tool innovation, due to the fact that these 400 products were introduced during the past four years. (Stanley Works)

In 2002, the world wide sales were about US\$ 2.6 billion, whereof 30% were generated outside the USA with 20% coming from Europe. Now Stanley is stronger on the European market than anywhere else. (Stanley Works)

Stanley is focusing on retailers searching for quality products, or skilled end-users searching for good tools. Quality is therefore something that the company focuses upon. (Stanley Works)

The Stanley catalogue can be found on the Internet, where latest information about the products as well as detailed descriptions and images of the products can be found. There is also a list of on-line retailers. (Stanley Works)

Although information about competitors has been gathered, it is still not sufficient in order to gain knowledge about how the competitors are acting on the Ukrainian market. One also needs to have information about the end-users, but this was not achievable within our time frame. We do know that all the above-mentioned competitors' end-users are within the professionals segment, yet not precisely who they are and how they are conducting their purchases.

As a summary, one can see that Gedore is the biggest and most important actor on the Ukrainian professionals market. The company is using partners in order to distribute its products in the Ukraine. FACOM specialises on professional hand tools for the automotive market and has increased its market shares in Eastern Europe. FACOM has opened up several subsidiaries, but still not any in the Ukraine. However, it has numerous amounts of distributors. USAG, being a member of the FACOM Group, is therefore having an advantage over other smaller competitors. USAG has a large sales network however in the Ukraine the company has an exclusive agreement with one company. Snap-On is the only competitor that has extensive tool storage in its product range. The company has an extensive sales network through franchise dealer vans, direct sale, distributors and Internet channels. Stanley has the smallest product range when compared to the investigated competitors and no information was found about the company's way of distributing its products into the Ukrainian market. Bahco has the widest product range, yet not the widest concerning the tools business. As understood from Bahco, the company is using the means of distributors.

7. Research result – Market environment

The main industrial consumers of hand tools in the Ukraine are within the auto, auto aftermarket, aircraft and shipbuilding markets (Swedish Trade Council Kiev, 2003). However, as Teng Tools is focusing on the auto service market, the following section will explain the development and today's situation as well as predictions of tomorrow's auto service market situation.

A branch in the Ukraine that is today undergoing a stage of turbulent development is the auto service market, which has had a long period of formation. During the last ten years, the number of auto service businesses has increased tenfold – from 600 service stations in 1990 to 6,000 in 2002. Today, the total annual market for auto repair and maintenance equipment is estimated to be worth US\$ 65 million. (U.S. & Foreign Commercial Service and U.S. Department of State (2), 2002) Furthermore, many auto shops, auto showrooms, and specialised companies dealing in the aftermarket have emerged. Auto service stations, partner offices, general importers and dealers of the international motor vehicle and aftermarket equipment manufacturers have also been developing. Due to this progress, domestic manufacturers of auto-oriented goods have acquired this development. (Swedish Trade Council Kiev, 2003)

Whereas the auto service market was notable for standstill in filling the market niches at the initial stage of its development, today some qualitative changes in its structure, integration processes and assimilation of new technologies prevail. It is conditioned by a large increase in stock of cars – 300-400 automobiles a year. In order to meet such a demand, 300-400 service stations must be set up and 3,000-4,000 maintenance staff needs to be hired yearly. By now, the auto service market has reached a level of saturation (1,300-1,500 automobiles per one service station) in the majority of the developed regions of the Ukraine. However, its geography does not reflect the geography of stock distribution since the majority of service stations are located in big cities and regional centres. The reason for not being spread in the province and rural areas could be that the auto “enthusiasts” fix their vehicles themselves, hence feeling no need for chargeable service. The penetration of auto business into this area has been limited within some small auto shops or

sellers of spare parts in the marketplaces. Moreover, most Ukrainian auto service stations are small, with equipment worth about US\$ 12,000. The few fully equipped auto service stations in the big cities usually have equipment worth up to US\$ 300,000. (U.S. & Foreign Commercial Service and U.S. Department of State (2), 2002)

Whereas the first ten years of auto market development could be attributed to problems of gaining experience, the present time has been distinguished by qualitative changes in the market structure and policies, technologies as well as management (Swedish Trade Council Kiev, 2003). The structure of the auto service market reflects the basic line of development of the auto business. The big automotive companies are more and more consolidating their position. The sales volume and the branching of service and marketing centres have increased many or even dozens of times. The dealer networks of almost all automotive brands have extended tremendously. (U.S. & Foreign Commercial Service and U.S. Department of State (2), 2002)

Despite positive trends of development of the importer trading networks, the part of their businesses, in the total number of service stations, does not exceed 1-1.5% so far because the overwhelming majority of auto businesses represent an all-purpose service station striving for covering the whole market of auto services, including maintenance and repair of all automobiles. There are two factors stipulating for such state of affairs – the structure of stock of cars (95% of the Ukrainian automobiles are almost ten years old) and poor logistics of service stations. Adding to the problem is the fact that many car owners are so poor that the only service they can afford are services of questionable quality. (Swedish Trade Council Kiev, 2003) The role of small service stations employing four to five people has been increasing. The number of dedicated motor businesses dealing in maintenance of automatic transmissions, engines, fuel and electric equipment as well as in anti-rust treatment, tire changing, interior wash and treatment keep on growing steadily. The trade in automobiles and spare parts through the Internet has also been on the rise. (U.S. & Foreign Commercial Service and U.S. Department of State (2), 2002)

Since there is a growing demand, for instance, for hand tools kits and cabinets (U.S. & Foreign Commercial Service and U.S. Department of State (2), 2002), this is seen as positive for the future of Teng Tools. Furthermore, industry sources predict a rapid increase in demand for different services and related equipment within the auto service business during the coming years (Swedish Trade Council Kiev, 2003).

Service is a serious problem as it is far behind the world standards. If the quality of maintenance shows some trends of improvement, then the turn for the better in respect of service has not yet been foreseen because the majority of maintenance men of all-purpose service stations, in particular, have not comprehended the importance of this problem. One would think that even the foremost companies would have the right attitude towards the quality of services inherent from the manufacturer. But this is far from the solution to this problem because Ukraine's scarce past has brought so much debris by way of totally deficient service standards, to the cultivated field of contemporary business, that they kill off any development of advanced service technologies. The activity in this field has not assumed a priority yet at the majority of auto services. The Ukraine is in the stage of development, where the problem of technique as well as the poverty of clients and their negligible service disguise the problem. (U.S. & Foreign Commercial Service and U.S. Department of State (2), 2002)

The second problem is personnel. With the development of auto service, the problem grows because of the following reasons (U.S. & Foreign Commercial Service and U.S. Department of State (2), 2002):

- Too fast growth in the number of employees (from 20,000 in 1990 to 160,000-180,000 in 2002) could not prevent the rise of the problem of their professional skills and personal abilities;
- The growth deficit of highly qualified personnel resulted from a wider application of advanced technologies in auto service and from the growing number of recent automobiles;
- In spite of its obviousness, the personnel problem cannot find a solution because the authorised dealers partially smooth it through the auto vehicle manufacturers. The all-purpose service stations, however, fail

to solve the problem. As for the latter, they are either absent or too small and un-practiced in order to allow themselves to be seen by a wide audience. In fact, there is no personnel retraining and skill raising system capable of solving these problems.

- Post-secondary institutes and professional schools do not solve the problem because they have an obsolete logistics and lack in finances and access to advanced technologies.

The major element of every business is a client. The awareness of this factor has to lead the executives to the solution of all production and market problems taking into account the customer's demands. In this connection, service technologies gain a priority. (U.S. & Foreign Commercial Service and U.S. Department of State (2), 2002)

Instead of just selling and buying in larger cities, such as Kiev, the procedure is getting more and more decentralised all over the Ukraine. Companies are now starting to buy locally. The local mayors (politicians) want to keep the local money, and therefore, when it comes to tenders, they are putting local companies in favour. (Siryk, 2003) In the past, price mattered a lot, but nowadays the demand for quality is increasing in importance. However, this is not as yet widely represented in the Ukraine. (Novikov, 2003) High-quality products, such as Stanley, Gedore and Bosch, are always represented in large cities like Kiev, but not throughout the whole country (Doroshenko, 2003).

According to the Swedish Trade Council in the Ukraine, the Ukrainian tools market is very varying with dozens of producers and hundreds of trade companies. Yet, the market for mechanics hand tools is poorly represented. (Doroshenko, 2003; Novikov, 2003) During the last two years, the tools market has increased its sales by 10-30% annually. The major reason for this increase is a great enlargement of the professional tools segment. (Swedish Trade Council Kiev, 2003)

Finally, it can be said that the market environment has had a turbulent time with many changes in its structure. However, these changes are not considered to be enough as there still remains a lot of alterations, in particular with regard to service and quality.

8. Research result – Distributors in the Ukraine

8.1 The Ukrainian distribution system

Luna has already decided upon which entry mode to choose and therefore, the continuing part of this as well as the next chapter will focus upon the distribution system as the form of entry mode.

Although it is essential for a company to find a reliable and competent distributor, there is still a lack of comprehensive information on companies in the Ukraine, and doing a credit and background check is often difficult without a developed business information network. The option of choosing a distributor system gives the opportunities to increase sales in the future as the needs of the Ukrainian market grows and changes. Western companies preferably go through a distributor instead of their own outlets. (Odessa Region Local Government) However, there are disadvantages for the foreign company, as performance and reputation more or less depends on the work conducted by the distributor, and will also leave much of its control over marketing strategy and product image. (Stonehouse et al, 2001; Griffin & Pustay, 2002)

The Ukrainian distribution infrastructure is still developing. Rather than being market-based, distribution during the Soviet period was absorbed by the command-administrative economy. Since a Western kind of distribution system did not exist until recently, companies entering the Ukrainian market must design their distribution system in line with local conditions. Furthermore, companies also need to decide upon to what extent they will rely on local distributors. (Odessa Region Local Government) In the case of Luna, the distributor is selling and delivering the products as well as settling the accounts with the customers. Even though this might be the cheapest distribution system, the company will still have to invest time in training the distributors. Nevertheless, as a local distributor understands the local market better, this may be well-invested time.

As mentioned in the research method chapter, eight interviews were conducted during the field study. As one of these did not wish to provide us with sufficient information, this interview can be found in Appendix II.

8.2 Altsest

8.2.1 General information about Altsest

According to Mr. Doroshenko, the director of tools and accessories department of Altsest, professional tools are a new sphere and will continue to develop. Therefore, Altsest plans to open up large professional centres in Donetsk and Kiev as well as in other big Ukrainian cities. Today, Altsest has six branches and several retail shops. The company has both its own representatives and retail shops, but in some cities, such as Lviv there are only sales forces. On the other hand, cities such as Karkhov and Dnepropetrovsk have two retail shops each. Hence, Altsest does not produce its own tools – the company only distributes others’.

Price and quality are of utmost importance for Altsest. However, terms of payment, range, delivery, and technical support are also of importance. Altsest has filial branches where every filial has the same prices, conditions and interior in the different cities. Altsest has many retailers and dealers in the Ukraine due to a large wholesale department with 30 representatives in Kiev. This department has trade representatives working with end-users and wholesalers.

Altsest’s main brands are S&R (German), Bahco and Sandvik. Altsest is the exclusive distributor of S&R in the whole Ukraine, with products for professionals, semi-professionals and DIYs. S&R is a very popular brand in the Ukraine, and the main users of these tools are professionals. Even though S&R are not very expensive, these tools are not particularly aimed at DIY.

Regarding Teng Tools, Altsest is very interested in this product line – mechanics hand tools – as it is growing within the company. Product lines such as Gedore are not interesting for Altsest, as these brands are represented by other competitors as well as them becoming competitors for Altsest’s own brands. Therefore, the company is not interested in the Luna catalogue and all

of its products – it is only interested in Teng Tools. Altsest distributes brands such as Stanley and Bahco and Mr. Doroshenko stated that if starting to distribute Teng Tools, then Stanley would not be replaced as a brand, but maybe Bahco would.

Therefore, Bahco and Teng Tools need to be compared in terms of agreement, price, contract, cooperation and range that Altsest has with Bahco as of today. Bahco has a representative office in Kiev, which provides good support of different kinds (such as orders and information). Products are ordered in Kiev and then sent by airmail (which is very expensive, but Bahco pays for this). This means that Altsest can place orders quickly and receive the products within 1-2 days.

It should also be added that Mr. Doroshenko speaks relatively good English and understands the language very well.

8.3 ERA

8.3.1 General information about ERA

ERA has been in the American automobile market since year 2000, when the company started to import spare parts for American cars. The company also imports accessories and conducts technical maintenance of these cars. ERA has two departments – wholesale and retail. Furthermore, ERA is represented in the form of small shops in all the biggest Ukrainian cities. ERA has five employees in Kiev with an age level of 25 to 30 years old. Its customers are anything from banks and big companies to state companies and institutions. These customers find ERA through the Internet and the Yellow Pages.

ERA's main competitors are principally all companies selling and serving American cars, such as Winner Imports Ford in Kiev, Chrysler Nord Company and General Motors Ukraine. As ERA works closely with companies and institutions, it can be said that the company is within the B2B area. In Kiev there are four to five companies specialising in American cars, while there are 10-15 throughout the whole Ukraine.

ERA does not have any cooperation with its competitors. In fact, Mr. Popovich, the Managing Director, thinks that the situation is rather bad and that it has become fierce, but unfortunately this is today's situation in the Ukraine.

Regarding the profile of ERA and its products, the company is not treated as low quality, mainly due to the types of cars it serves, but also because of its type of clients. Therefore, ERA does not see any point of trying to sell cheap products.

Unfortunately, it was impossible to receive figures of ERA's turnover, however Mr. Popovich stated that the company does not have a huge financial "stream". Not having these financial streams was one of the main problems for ERA when the company started off. Today, the company works with short credits only. This has led to the fact that the relation with banks has improved since shorter credits can be paid in time. Regarding payment to suppliers, Mr. Popovich says that the suppliers are always happy as long as they get paid. ERA does not have any tensions with authorities and as long as it stays that way, the authorities will not "touch you".

ERA is still in the American automobile market, but is also planning to start to import tools from Canada. According to Mr. Popovich, Teng Tools could be of interest for this new business instead of using the Canadian brand. However, Teng Tools would have to give a good price and terms of cooperation.

Mr. Popovich considers it to be of great advantage for Teng Tools to have its own representatives in the Ukraine. In addition, he suggests that Teng Tools also could establish warehouses, advertise and be present at various exhibitions. This is seen to be of great importance if Teng Tools is to get an advantage on the Ukrainian market.

8.3.2 ERA's way of conducting business

As stated by Mr. Popovich, ERA has a close working atmosphere, with good treatment of the personnel. The company considers this to be of importance as this leads to greater output. Mr. Popovich also emphasises that when employing new staff, it is essential that the person matches ERA's existing team.

This has also led to the employees at ERA being quite creative in their thinking, especially regarding new marketing concepts. Additionally, most of ERA's employees understand English, but maybe not well enough in order to conduct business without an interpreter.

Since ERA has a sales force in different parts of the Ukraine, it is not easy to stay in touch with everyone. Consequently, the Internet as well as telephone communication are widely and frequently used for this purpose. The company also provides knowledge, support, offerings as well as programmes to its representatives. In sum, it can be said that ERA's sales force has good knowledge of the tools market.

The promotion of ERA is mainly conducted through advertising in local papers, which are specialised in the automotive market. ERA is also directly promoting itself by calling and offering its services to the largest companies in the Ukraine. The company does not consider exhibitions to be of any importance when it comes to spare parts, however these are important for tools.

Delivery on time is of extreme importance to ERA. This is something that a company must have. Subsequently, ERA is only using reliable airlines and other transport companies for delivery.

When ERA started to conduct business in the field of spare parts, the company contacted a Canadian company and agreed on terms of cooperation. Both companies agreed little by little each time and a lot of trust was required in order for this relationship to evolve. Today, ERA gets deliveries from Canada every week. ERA pays once a month to the Canadian company. If ERA has to finance for the imported goods, its customer will sometimes have to pay for this in advance. ERA, in turn, usually gives a payment period of nearly one month.

8.3.3 ERA and Teng Tools

According to Mr. Popovich, it is too early to distribute expensive tools and products in the Ukraine, and subsequently, this is a good opportunity for Teng Tools since its products have a lower price level. In addition to this comment, ERA thinks that the product range is very interesting, but that it

needs to think more about how to conduct such as cooperation. Regarding the question of whether to implement the majority of the entire range of Teng Tools' products, this is very much a financial question for ERA, and it therefore depends on future plans. When it comes to distributing other product lines of Luna, Mr. Popovich considers it to be a question of going into the market with a new portfolio and marketing it properly. As Teng Tools wishes for its distributors to finance part of the catalogues, ERA sees that this might be possible if it is a large amount of catalogues. Also, if quality is as good as Teng Tools argues then Stanley would probably be the main competitor as they also offer less expensive products but still with good quality.

ERA has had experience in the past with a similar product line to Teng Tools called Matka Tools in USA. These tools were also of very high quality and had a life guarantee, but were very expensive. However, due to the fact that Matka Tools could not give good response and support to ERA regarding the products, this cooperation was unsuccessful. It can therefore be said that ERA has had some experience with pushing tools into the market, but this has been slowed down since ERA needs resources to invest.

The company's warehouse is used for American spare parts and the company feels that the size of its warehouse is big enough for this purpose. Moreover, ERA thinks that Teng Tools looks attractive, and therefore might be a good product range that will be easy to expose in their showroom. If Teng Tools would be a part of the company's assortment, then it could also get its own space.

8.4 Force Ltd.

8.4.1 General information about Force Ltd.

Force Ltd. (Force) has been on the Ukrainian market since 1999 and is, according to Mr. Siryk, Force's Financial Director, the only company in the Ukraine that has Italian auto tools and machines. The company has grown organically from two persons to 30 employees with an average of 32-33 years of age. Force has operations in Kiev, Odessa, Lviv, Donetsk and Kharkov.

Force is the only distributor of the Italian brand name USAG, which in turn is part of the German FACOM Group. Ferrari, for example, is using the USAG auto tool range with production in Italy.

Force's primary customers are auto stations, auto centres and after-sales service centres and hence, it can be said that the company is in the B2B area. In order to reach these customers, Force is participating at different exhibitions in different cities such as Kiev and Dnepropetrovsk as well as in countries other than the Ukraine. Force is the only auto service company in the Ukraine that has exclusivity for selling USAG in the country. The company's main competitors are Gedore, Stanley and Würth.

Force's annual turnover is €2,000,000 and this figure is still growing. People in the Ukraine keep buying new cars, the reason being that it has become easier to receive bank loans. Furthermore, Force has good financial strength. This can be seen in the fact that during the last Auto Tech Services fair, eight to ten Italian brands wanted Force to represent them in the Ukraine.

Force has a very friendly relation with the local government, which it believes to help businesses. If a company wants to get money support from the state authority apparatus, it then becomes essential to have good and friendly contacts with authorities. One example is the Subaru car brand, which is partly owned by one of the Presidential candidates.

8.4.2 Force Ltd.'s way of conducting business

Force's company atmosphere is, according to Mr. Siryk, family-like. In order for the sales force to gain better knowledge, Force is giving its sellers both catalogues and price lists. As employees (as well as buyers) usually have a broad experience from the market, this information is considered to be enough in order to get the best possible information about the products. Both sellers and buyers are well acquainted with the tools.

Only two employees speak English in a professional way, whereof one also speaks Japanese. These employees have been of great importance, as the company has regular contacts in Italy, Belgium and France.

Force would like to see itself as a company with an American way of thinking. This implies that everything new is of great interest. As the company is using diagnostic products, this requires employees to have great knowledge about IT and computers.

Force has its own network of distributors and the way of promoting the company is through quality and everlasting guarantee. Having a catalogue is also of great importance since Force offers a whole range of tools. The company uses mass marketing through exhibitions and advertising, such as putting advertisements in different magazines and papers for example in “Auto Services”. It is the customer who calls the company and not the opposite. Next year, Force will open a new office, where it will employ one person acting as a sales force who is actively working on the field.

There are many transport companies in the Ukraine and consequently, Force has chosen to deliver through these. Just-in-time is very important to Force. As the company does not want to wait for a whole order to come in, it delivers orders as they arrive, i.e. in “pieces”. This way, Force does not have to stock its products, which is seen as an advantage compared to its competitors.

As Force has a good credit history, companies trust Force so that they usually can receive 30 days payment term.

8.4.3 Force Ltd. and Teng Tools

USAG is comparable with Teng Tools and therefore, Force sees itself as having experience from a similar product line. However, if positioning the two brands, Force would say that USAG is a good Italian brand, while Teng Tools is “just another brand from Taiwan”. For Teng Tools, this is not a very good way of looking at it. On the other hand, the only positive thing for Teng Tools, in comparison to USAG, is the delivery time of 30 days, which is too long according to Force.

Moreover, Force has both the capacity and possibility to implement the whole Teng Tools range as well as other product lines of Luna. However, Force does not want to put financing into marketing, but is pleased to be pre-

sent at exhibitions. USAG is making its own catalogue and is also distributing it to its retailers, such as Force.

Everyone in the Ukraine knows of the brand USAG. However, Force thinks that the products' quality could be better, but as Ferrari is using this brand, nobody really cares. Further, as the price level is the same, USAG would have an advantage over Teng Tools. If the conditions are right, then Force is willing to implement the Teng Tools range. However, many manufacturers in Italy have more or less the same quality as Teng Tools. Therefore, Force has to look for the best conditions being offered, such as price, way of ordering, and payment conditions.

Force's warehouse is very small and incorporates a small assortment of instruments and machines. The showroom is also very small, with few opportunities to fit in Teng Tools. Next year, Force will get a new office, including a larger showroom of 200 sq. m. Additionally, as the showroom will still be rather small, the company has thought about doing as the Russians have done and use buses that in turn will be used for promotion. These buses will be driven all over the Ukraine.

In addition to the above, we received unexpected information regarding Teng Tools. Another employee at Force told us that, as of today, it is already possible to find Teng Tools at bazaars in the Ukraine.

8.5 Formula 1

8.5.1 General information about Formula 1

Formula 1 (F1) belongs to Budivelnik Ltd. and is an auto spare parts company within the B2B area, and was established in 1994 with representation all over the Ukraine. The company has 138 employees in the whole company, whereof 80 are in Kiev. F1 is a brand name, and therefore works with franchising. The dealers receive the possibility to get the right of the name and the logo of F1. F1 is using advertisement in television and papers. F1 is a well-known brand and is a registered label for service stations and spare parts in the Ukrainian market. F1 has approximately 4,000 clients in the Ukraine,

out of which 70% are service stations. The rest (30%) are shops, dealers and end-users.

F1's products are high quality products, where the price is not a priority. F1 is the biggest dealer of Bosch in the Ukraine. The company also represents brands such as Varta (starting batteries), Cargo (electricity), Bilstein (gas pressure and shock absorbers), Firad (diesel fuel injection and diesel equipment) as well as Castrol (motor oil).

F1 has competitors for each of its brands that it is selling. The company has competitors regarding batteries and other competitors when it comes to spare parts. However, it does not have any specific competitors.

F1's turnover is top secret, but it can be said to be fairly big for a Ukrainian company. However, compared to Bosch, F1 is rather small. As F1 is a 100% private company, it does not use any governmental money. It wants to work parallel with the government without getting on the wrong side of it, and hence crossing its road. Because of being a private company, it does not use credit – only its own money. Therefore, the company does not have any credit rating.

8.5.2 Formula 1's way of conducting business

F1 has a very good sales organisation with a sales force that is selling very actively on the field. About 70% of the sales managers' working hours are spent out on the field. The company finds it very important with follow-up and after sales services. "Of course, we are innovative, creative and pioneering!" The sales force knows the products that they are selling. Twice a year, F1 invites the sales force, its representatives and office managers to the company's study centre in Kiev for 3-4 days of training. Then they also receive information from technical managers about technical products.

The everyday atmosphere is formal at F1. However, twice a year, the company is having big celebrations. New Year's Eve is celebrated, but also the birthday of the F1 network. During these occasions family members are also invited, and therefore the atmosphere is friendly and family like. Yet, the at-

mosphere is formal as it is difficult to have a relationship with 138 employees.

There is only one person who speaks English within the company and that is the Commercial Director (Mr. Spivak). At the Analytical Department, there are persons who can read and sometimes translate English with the help of the Internet.

F1 has distributors and wholesale companies that work in local regions of the Ukraine and hence sell in their local markets. F1 only sells top brands with high quality, i.e. the company is selling by high quality – not by price. F1 is not interested in that everybody should buy the company's products. It is selling brands. To manage this business, employees need to have a good knowledge in the auto-market, but regarding the knowledge about tools they are still learning. In addition, when F1 employs a person, this person needs to prioritise one of the following criteria: price, quality, promotion or after sales and service support. If somebody sees price as the most important issue, he will not be hired, since this is not what the company wants to be profiled as.

In order to reach the end customers, television and newspaper advertisements are being used. Furthermore, sales managers are travelling in the Ukraine to look for new clients. When they have found potential customers, they are contacting them by e-mail and telephone and sometimes also visiting them.

F1 guarantees that its customers should receive all goods in F1's stock in any region of the Ukraine with no longer delivery time than 16 hours. When it comes to cities with a filial, the delivery time should be no longer than two hours. For example, in Kiev, its customers should be served within 2 hours, free of charge. F1 is only selling what it has in stock since this means that it can stick to its terms of delivery time. F1 has warehouses in every region, with the biggest one being located in Kiev. F1 has 16 brands, whereof 50,000 products come from Bosch and 1,000 products from Bilstein. In total, F1 has about 60,000 products in its Kiev warehouse of 1,000 sq. m. Kiev is responsible for 10% of the company's sales and there are three sales persons in each region.

F1 is the exclusive distributor in the Ukraine for Bosch and Varta. Apart from these two brands, all other brands that F1 is representing give the company a delayed payment term of 60 to 120 days of payment. However, when F1 is selling, the terms of payment are different and are not more than three weeks. If F1 is dealing with a customer for the first time, then the term “money first and products later” applies. 90 to 100 clients are receiving delayed payments. Because of fluctuations between the Hryvnia and the euro currencies, F1 cannot have longer payment terms. F1 checks and keeps track on who has paid and who has not. If a client has not paid in 20 days, F1 will stop the cooperation with that company and have no more business with them.

8.5.3 Formula 1 and Teng Tools

Mr. Spivak states that it is very important for Teng Tools to have trade representatives in the Ukraine, since the culture is so different from the Swedish. This representation could be just two persons working from their homes.

F1 is now also looking for a new business area – tools. These tools are to be of good quality and since the customers of F1 are service stations, tools, hand tools in particular, are becoming very interesting. Auto service companies in the Ukraine are asking for tools, but at the moment these are not marketed that much in the Ukraine.

As F1 is just starting to enter the tools market, the company has no experience from any similar products to Teng Tools. Therefore, it is very difficult for Mr. Spivak to answer how the company would treat Teng Tools. Further, when asking if F1 was interested in this product line, the answer was “maybe”. On the other hand, F1 could have the capacity to implement the majority of the Teng Tools range. It would be “everything or nothing”, as F1 sells brands and not products.

In addition to the above, Taiwan produced goods are seen by Mr. Spivak to be of both low and high quality. However, in the Ukraine, the tendency among the people is that Taiwan-produced goods are of bad quality. As an example, Bosch has oil filters produced in Germany but also in China. The Ukrainians believe that Bosch is only German-made and hence have the im-

pression that Chinese products are not of good quality, although they actually are.

Usually F1's partners and suppliers provide the company with catalogues, but when it comes to exhibitions, the company is preparing advertising, pens and posters on its own.

F1 has six warehouses in Lugansk, Lviv, Donetsk, Kiev, Saporoskie, Cherkasy, with the biggest warehouse situated in Kiev. This warehouse has a stock worth €1.5 million. The company also has a showroom in a separate building as the office is only for the managers. Subsequently, there would be space for representation of Teng Tools.

8.6 Stroykomplekt-N

8.6.1 General information about Stroykomplekt-N

Stroykomplekt-N was established in 1995 and hence, has been working in the Ukrainian market since then. Today, the company's turnover lies between US\$ 300,000 to 360,000 per year. The company has 12 employees with an average age level of 35 years old.

As just mentioned, Stroykomplekt-N is a small company with a low average turnover, which therefore limits the company's possibilities of crediting. As a result, the company cannot buy products for more than US\$ 2,000 each month. Mr. Novikov, the director of the company, says that it is not only important of how much money you sell for, but rather how many products you sell. This is what indicates a possibility of growth.

Regarding reputation among its customers, the company says that it does not let anybody down, and has never owed anything to anybody.

The company does not have any relationship at all with the local government. It is better not to see them, because then you will not notice them. "The best authorities are the ones that you do not hear or see".

According to Mr. Novikov, the trading areas in which Stroykomplekt-N operates in are professional and home-hand tools, metal cutting and bench tools, measuring and machine tools, flameproof and dielectric tools, bearings, as well as abrasive and diamond tools. The company does not have any retail shops, but is instead acting as a wholesaler. This is the way it serves the end-user.

Stroykomplekt-N has different instruments, bearings and belts ranging from the simplest one (e.g. painting tools) to very complicated ones (e.g. electro tools and small machines). The company has an assortment of 2,000 articles and has very professional personnel.

Stroykomplekt-N has customers from all over the Ukraine. The company considers itself to have around 100-150 frequent customers in Kiev and the centre of the Ukraine. Stroykomplekt-N offers high quality of service to enterprises and also offers delivery with good logistics to its clients. Industrial companies are Stroykomplekt-N's main customers. As stated by Mr. Novikov, the car-manufacturing industry is in a terrible shape, but the building industry in the Ukraine is in its boom at the moment. This is the reason why Stroykomplekt-N is putting its focus there. Small trading companies and polygraphics are also important customers.

All firms that buy tools are Stroykomplekt-N's competitors, with Altsest being the main competitor as that company is trying to cover all segments throughout the Ukraine. On the other hand, since Altsest is offering different products Stroykomplekt-N cannot be compared to them, and hence not being a direct competitor. Further, brands such as Stanley are also competitors.

Siemens, Hilti and Bosch are also big competitors as they are specialising themselves within different areas. Regarding hand tools and mechanics tools, Stanley and Gedore are very expensive. Of course, smaller companies (that have a similar size to Stroykomplekt-N) with the same end-users are also competitors.

Another unexpected competition is the one coming from the "black market". A number of small companies buy products of cheap quality from Poland,

Turkey and Asia and then sell these products at bazaars and other open markets. These companies are not “black” as they are actually registered companies, but they are at the same time avoiding VAT and other taxes or do not declare the goods at customs. The bazaars have become more “civilised” than previously. Nowadays, small companies can buy products from, for example, Altsest and sell it in the bazaars, with guarantee and so on.

8.6.2 Stroykomplekt-N’s way of conducting business

The company has a very informal atmosphere with a friendly-like attitude. There is some English knowledge within the company, “but no oral practice makes one loose it”. Furthermore, Stroykomplekt-N is fairly well-equipped with Internet and e-mail. Concerning the sales organisation, Stroykomplekt-N is both working from the office as well as making visits to its customers as the company finds it important to provide service as well as to give correct information. One very important factor is that there is a personal interest from the person that is working for the company. However, Stroykomplekt-N does not have any specific sales force.

Stroykomplekt-N also reaches out to its customers by advertising in a weekly paper, which consists of nearly 250 pages. This paper includes all products (with price information) and companies (with contact information) in the whole the Ukraine. Further, this implies that competitors as well as foreign representatives are promoting themselves through this paper. This paper is seen by Stroykomplekt-N as the best and the most popular. Just as its competitors, the company is also having its own catalogue.

Stroykomplekt-N is working in the B2B area as well as working directly with its customers and potential companies. When starting a new deal or relationship, Stroykomplekt-N needs to recognise who the manufacturer or retailer is. If this company sounds interesting, the company also makes personal calls and tries to get them interested in the company’s service, price, assortment and so on. Stroykomplekt-N’s distributors are small sellers who buy and sell products all over the Ukraine.

Regarding transportation to and from Stroykomplekt-N, the company has one pickup in Kiev that does 10-12 (sometimes 20) deliveries per day. If the vol-

ume is bigger, then the company has to use a bigger car. The reason for this type of delivery is due to fierce competition.

Stroykomplekt-N is very positive about delivering on time. However, there will always be situations when people want something that is not in stock and then this will take a longer time to order and subsequently to deliver. If a company pays 100% there is always quick delivery. The company also has 10-20 days of payment terms (but never longer than one month) and payment in advance (25-50%) is always applied.

8.6.3 Stroykomplekt-N and Teng Tools

Teng Tools matches Stroykomplekt-N's profile very well. Quality is constantly improving, especially since the demand for high quality is increasing. There is a gap between cheap products from for instance Poland and Asia and expensive products from, for example, Germany and France. Stroykomplekt-N is positioned in between. Ukrainian quality is higher than Asian, but it has a disadvantage in design and packaging. Therefore, Ukrainian products are preferred. However, in some areas such as electronics, Ukrainian products are not popular.

For Stroykomplekt-N, Teng Tools' auto tools assortment is of great importance as well as of great interest. The reason for this is that it is difficult to find good auto tools in the Ukraine. Stroykomplekt-N is very interested in Teng Tools as it has many important advantages such as advertising, right marketing and price level, service support and delivery terms. Furthermore, everything that would make Stroykomplekt-N stronger on the market is of great interest. The company has also had some type of experience of these products as well as representing some of Teng Tools' competitors. Exclusivity is something that every distributor would like to have, but no one actually receives it, besides from extremely strong companies such as 3M.

Stroykomplekt-N has three small warehouses that in total amount 80 sq. m. The only showroom space is situated in two rooms (that also were occupied by two employees). In these rooms, one could find that most of the products were shown on the walls.

As Stroykomplekt-N has had some negative experience from marketing, it is not willing to put in much financing in the Teng Tools catalogue. Teng Tools would have to be able to put in some money too.

8.7 Trade Line

8.7.1 General information about Trade Line

Trade Line has been in business for eleven years. The company is a holding company (including knitwear and chicken farm) and has 500 employees. The average age of Trade Line's employees is 30-36 years old. The company started with import of batteries from Kazakhstan and then continued with European batteries. It also has business in tires (Michelin, Bridgestone, Continental, Yokohama), oils and lubricants (Total), as well as auto cosmetics (Gold Eagle, Arexons) and hand tools Toya (Poland). Trade Line has departments for supply, oil, transportation and auto accessories (with 1,000 articles). Mr. Bessmertniy, an employees at Trade Line's auto accessories department, states that 80% of Trade Line's products are the company's own and that the rest are imported or bought in. The company also has it own trademark – ATL (Auto shop Trade Line), which is a separate project with 14 ATL shops in the Ukraine whereof seven are situated in Kiev since the main purchasing power is found here. Today, Trade Line is one of the leading suppliers and sellers of auto spare parts in the Ukraine with a rapidly growing turnover.

Trade Line has a big distribution network with 22 filial offices in the Ukraine. The central office and central warehouse are located in Kiev and there are both wholesale and retail in the filial. Further, Trade Line has small auto supermarkets in Kharkov, Nikolayev, Lugansk, Poltava and Kamenets-Podolsky as well as several shops in Kiev.

Trade Line's main end customers are DIY and these customers are reached through the ATL shops. However, for some of the company's products, the end customers are in the professional business. Even though the ATL shops do not take up the biggest part of Trade Line's business, they are still big and important for the company. Yet, Trade Line is mainly concentrating on wholesalers.

Trade Line's present and potential customers are located in different regions of the Ukraine as well as auto shops, auto service stations and auto companies (such as the transport company Transbilia with 700 trucks and central office in Lugansk). Further, municipal transport (buses), harbours (with big transportation systems), steam boats (same motors, oil and filters as automobiles), railways (batteries for the train engine), companies that work directly with maintenance, as well as factories that repair and maintain train engines are all customers of Trade Line. Other customers are car-making factories (e.g. Saz), auto details parts (e.g. in Lutsk auto factory), the Ukrainian Ministry of Defence (who has a big auto park), and finally, the Ukrainian Parliament (also a big auto park). In sum, it can be said that Trade Line is working with B2B since it is conducting business with both auto service stations and auto companies.

Everyone that has similar business to Trade Line is a competitor as well as specialised stores in automotive and auto spare parts. Budivelnik who has Bosch is a competitor as well as its F1 stores that are competitive in auto parts.

In line with Stroykomplekt-N, bazaars are very competitive and difficult to compete against. These are however mainly "black markets" with small volumes and no service or other offers. Bazaar sellers go, for example, to Poland and buy goods for US\$ 10,000 and then sell these off as soon as possible. This is in the long run killing the brand name since prices will go down so much that no one wins by it. This, Mr. Bessmertniy says, is what happened in Poland and Russia.

The reputation of Trade Line among its suppliers is probably good as they are still working with the company. The company is still working with the same banks as it has done since the beginning. Regarding the customers, they should feel that Trade Line is convenient for them.

Trade Line has friendly relations with its competitors. It is impossible to do anything aggressive and unfriendly against competitors since no one would gain from it in the long-run. Instead, Trade Line competes on price, service, logistics, offers and so on.

Concerning relations with local government, Trade Line is working with the President's office as it has its own auto park. In addition, the filial director in Kharkov is going to run for election for local municipalities.

8.7.2 Trade Line's way of conducting business

Every Trade Line office has its own sales organisation structure with many sales managers being out on the field. The staff of Trade Line must have great knowledge and experience about the products and the market, as well as having put a great deal of effort into their work. Hence, it is important for the company to have a knowledgeable sales force or else they would get fired. Further, when buying a product, the buyer should always receive consultation on how to use the product correctly.

In order to be innovative, creative and pioneering, Trade Line offers regular activities, meetings and training with its sales force. Every purchaser at the purchasing department controls the products, follows these up as well as registers their selling figures. In order to be a good purchaser Mr. Bessmertniy argues that one needs to know the demand for every region as well as knowing all the major trends. Moreover, changes in new brands, new prices, and so on need to be thoroughly investigated.

Trade Line organises activities for its customers. With distributors, the company arranges meetings and activities, such as steamboat trips. Moreover, the company is constantly arranging different programmes and parties of different kinds, for example, a New Year's Eve party. Or as Mr. Bessmertniy puts it – you cannot understand a person without having a few drinks before. Since Trade Line is a group of small companies and has grown from small to quite big, the atmosphere can be said to be friendly.

Since the company's secretaries know English, they can solve the company's problem of language barriers. Further, half of the company's managers speak English. Even if some speak better than others, this is not considered to be a problem.

Trade Line is adapting new technology, thinking and concepts to its mentality as well as to its market. Regarding e-commerce, the company believes that it is better to work with customers eye-to-eye.

Trade Line is reaching its end customers through its diversified choice of different companies, dealers and partners. Examples of these are makers of smaller auto buses (Trade Line supplies window cleaners), ATL, STO (stations of technical maintenance), auto service stations, nuclear power stations, power stations, super- and hypermarkets (which is a new trend mainly in Kiev), Metro (a 20,000 sq. m. hypermarket with everything from food to industrial products), Karavan (a 45,000 sq. m. shopping mall with cinema, shops, etc.) and bazaars (Trade Line is selling to wholesalers who in turn go to bazaars). Furthermore, at ATL, the customer gets a customer card with discount in order to make the customer come back. ATL can also be seen as McDonald's by offering the same service, the same discount and customer card and the same prices in whatever ATL shop the customer goes to.

Trade Line has a comprehensive distributor network in the Ukraine with filial and distributors. In order to start a new distributor relationship, the company offers its products, makes market research (what the market looks like, the competitors' prices, offerings and market potential), and finally calculates how much Trade Line can make out of the business. If it is interesting, Trade Line starts to discuss terms of collaboration.

To Trade Line's suppliers, the company supplies them with letters of recommendation since they will not know Trade Line in the beginning. The company is working on a different credit basis with different suppliers. For example, when buying for US\$ 10,000 from one specific supplier, there is no need for credit terms. However, when buying for US\$ 65,000-70,000 from another supplier, Trade Line has payment terms of two months.

Trade Line offers logistics services, marketing and advertising. The company conducts their marketing activities by themselves by controlling these in line with Trade Line's price policy. In order not to lose the control over the price policy, retailers are not allowed to carry out their own marketing activities. Regarding manufacturers and their marketing activities, Trade Line listens to

the manufacturers, but as some things are specific for the Ukrainian market (with legislation for instance) this could cause difficulties.

For a long time, the logistic hub was located in Kiev and all transports went through the central warehouse, which complicated and delayed deliveries. Therefore, the company decided to establish regional warehouses and all Trade Line's products are nowadays transported by trucks. It can therefore be said that just-in-time delivery is of importance.

8.7.3 Trade Line and Teng Tools

The company's end-users are DIY, but in Teng Tools' case, the end-users would be professional and the product line would be sold directly to the user, not through ATL. The company also has contacts with auto stations, which of course are potential users of Teng Tools. Trade Line has plans to develop and purchase everything that can make the business grow. Hence, Teng Tools is of potential interest.

Trade Line has no experience with similar product lines to Teng Tools. However, Toya (Poland) could be seen as a similar product line, yet not a competitor of Teng Tools and having products made in Taiwan (as Teng Tools) is not a problem, since Trade Line already has products from both China and Poland.

It is difficult for Trade Line to decide about exclusivity for Teng Tools before both companies' views have been stated. It is even harder for Trade Line to decide if it wants to represent Teng Tools or not, since it first wants to look at Teng Tools' market research, as well as its prices. When this information has been given, Trade Line would be able to discuss if it could further implement some of Luna's own product lines. Additionally, Mr. Bessmertny stated that the Polish market is considered to be 3-5 years before the Ukrainian. Therefore, he argued that a good way to forecast the future of Teng Tools in the Ukraine could be to, among other things, look at market shares in Poland.

The storage capacity of Trade Line's warehouse can be understood to be large as the annual turnover is US\$ 20 million (knitwear and chicken farm

businesses included). Concerning auto accessories, the annual turnover is only US\$ 1,200,000.

Trade Line's showroom is under construction at the moment. In addition to a fixed showroom, the company will be doing as Scania and Volvo, and have their own trucks travelling around in the Ukraine as showrooms. This business will start in February, visiting auto shops, auto supermarkets, gas stations and so forth, which can also be seen as a mean of promotion.

8.8 Vist

8.8.1 General information about Vist

Vist has been on the market for eight years with chemical products, and has 70 employees with an average age of 26 to 27 years old. The company has only been selling tools and instruments for the last two and a half years and it is now conducting sales, product launch and customer service in this sector. The product lines that Vist handle incorporates wood working, gardening, and hand tools. The products being sold are from Russia, Poland, China and the Ukraine and are mainly for DIY customers. Yet, the company also has customers among smaller construction companies and smaller workshops.

Since Vist does not want to hinder the tool shops' businesses by selling directly to the shops' customers, the company is instead selling to shops and retailers. Consequently, Vist is working in the B2B area. Vist also has plans to start business in Moscow, Russia.

Companies that are in the same business as Vist are considered to be the main competitors. There are not many smaller competitors. However, there are a few big competitors that target the same segment as Vist.

The size of Vist is too small according to Mr. Sibilev (Vist's Managing Director), but there is a wish to grow. The company's turnover is not very big when measured in Ukrainian terms, yet Vist's financial strength is relatively strong. However, further strength would be appreciated. The company plans, for example, to open a filial in Russia, but this needs at least US\$ 500,000. Unfortunately, this is not possible for the company this year, but hopefully its

“dream will come true” next year. According to the Managing Director, this shows that Vist has quite a strong financial ground to stand on.

Vist states that it has good relations with the local government. However, when asking in what way the relations were good, Mr. Sibilev’s answer was: “Best relations are no relations at all”.

8.8.2 Vist’s way of conducting business

The atmosphere at Vist is very friendly and family-like, as most employees have known each other for many years. No persons are employed if they are 30 years or older as Mr. Sibilev considers people below that age to be easier to teach. Moreover, younger people are considered to be more energetic. Yet, Vist does not educate its sales force. For the time being, the employees are trying to convince their managers to give them appropriate education and hopefully, this will happen in the near future. At the same time, Vist’s long experience has given the company great knowledge about other markets.

Not many at the company speak English, apart from the secretary who also has some knowledge of German.

Vist is very positive about new things, ideas and concept. The company studies, analyses, learns and finally sees if there is a need to implement these new things.

In order to reach its customers, Vist is calling or e-mailing them. The company also has salesmen who have their own sales region where they are supposed to find their own customers. The first thing that a sales manager needs to do is to convince the buyer that his products are good. Therefore, Vist only has sales managers, not dealers nor distributors. The company is also reaching out to its customers through advertisements in business and industrial papers as well as by attending exhibitions and fairs.

Vist prefers to control its own marketing activities. In addition to this, the company is also looking at what its competitors are doing in terms of marketing activities, price and terms and conditions.

Vist has mostly pre-paid payment terms with shops, especially in Russia. Some Russian suppliers need payment in advance, but Polish ones are more “laid back” regarding this.

Just-in-time is a very important and is always an existing issue. For that reason, Vist has its own auto park, which includes three big trucks and two smaller ones. The big trucks are mainly used for receiving goods, whilst the two smaller trucks are only used for delivery throughout the whole Ukraine (free of charge).

8.8.3 Vist and Teng Tools

Vist does not have any experience from similar product lines since the company is dealing with cheaper products. Nevertheless, any products that are profitable for Vist are of interest, especially if the products, such as Teng Tools are of good quality. The company also has possibilities to put in some money for financing Teng Tools’ catalogues and other marketing material. Further, the company is not only interested in Teng Tools, but also in Ferax (Luna’s DIY range). At this early stage, exclusivity is not taken into consideration.

Vist does not represent any products that are Teng Tools’ competitors. As soon as Vist has positioned Teng Tools’ product line, the company will know which competitors are on the market.

As quality is increasing in importance among Ukrainians, this is seen as an advantage for Teng Tools. However, Mr. Sibilev states that Vist is probably not the right company for Teng Tools to start with. Prices are also very important. An example is one of Teng Tools’ products (the Mecca Rosso socket set) that cost €107 in Sweden. The Managing Director stated that a product of this kind would cost around €45 and cannot cost more than €60 (but this is probably not possible to implement).

Vist has a small warehouse, which needs to become larger as it is felt by Mr. Sibilev to be too small. The showroom is relatively big and spacious with a lot of wall space, hence Vist considers that it would find some showroom space for Teng Tools. Besides the showroom in Kiev, Vist also has one in

Donetsk. Further, the company will open up showrooms in other cities such as Kharkov. These showrooms will only be there as showrooms, not as warehouses. The showroom as well as the offices are rather well-equipped with up-to-date apparatus such as flat screen computers and modern interiors.

For a visual summary and analysis of the distributors in the Ukraine, see Picture 9.1.

9. Analysis

9.1 Environmental analysis

9.1.1 Macro environment

The political system is constantly changing in the Ukraine, and it therefore becomes essential for foreign companies to undertake considerable research before entering the Ukrainian market. Moreover, intricate and ambiguous company laws as well as import tax reforms are also under continuous change. Certification laws are also under constant changes, and together with the above, this might result in difficulties with the law as well as with state authorities, hence problems of both entering and acting on the market. However, due to the forthcoming Presidential election all this might change for the better or worse and therefore, the great importance for companies to stay up-to-date becomes even more evident.

Ukraine's economy has been growing since its independence, such as increased GDP, decreased inflation and a quite stable exchange rate. All this has resulted in higher living standards, higher domestic demand, increased foreign trade and interest from foreign companies and countries. Foreign companies have seen the potential and the opportunities of investing in the Ukraine, and we therefore agree with Luna's decision to enter the Ukrainian market.

The investment climate is undergoing positive development, which in turn might boost the overall business climate. On the other hand, this has also led to the fact that Russian investors have taken over a large percentage of certain Ukrainian markets, which could in the future also include the auto service market, and thereby potential distributors for Luna. This may, in turn, lead to Westerners having to conduct business with Russians and not with Ukrainians. Russians are said to have high buying power, which could lead to increased prices on the overall market in the Ukraine, hence making this market less attractive as well as less potential for foreign investors. Also, when foreign investors are trying to conduct business in the Ukraine with Ukrainians, they would probably have to make the deals in Russia with Rus-

sians, thereby being forced to act in two countries with two different business cultures.

A new generation of managers and directors are found in today's Ukrainian companies. We believe this to be of great importance for foreign companies, such as Luna, since this new generation is probably more open-minded about new technologies and management techniques, but also to foreign companies than the old Soviet generation.

Due to the fact that a major upgrading process is undertaken along the international links, foreign companies will find the exporting process to the Ukraine easier than before. Furthermore, as the EU is involved in this development, companies might realise that the transportation system is becoming more developed and secure, and hence will start conducting more exporting business into the country.

We believe that relationships are very important when conducting business in the Ukraine, and therefore the creation of contacts becomes essential for a foreign company in order to develop a personal relation, which only thereafter could lead to business contracts. Companies also need to take into consideration that Ukrainian businesses regard face-to-face contact as being more important than, for instance, contact via electronic sources, something that Western companies might not be accustomed to.

Most of the incoming orders to Luna are made via the B2B portal Toolstore, hence the importance of a foreign distributor having knowledge about this electronic resource. However, as few Ukrainians have access to the Internet, as well as the fact that the Ukrainian telecommunication system is outdated, this might cause serious e-commerce problems. Although all the interviewed potential distributors have Internet access to one extent or another, the telecommunication problem still exist.

9.1.2 Regional environment

The region of Kiev is a good starting point for foreign companies since the local government is showing a willingness of developing this region and hence, improving and increasing business opportunities and the population's living standards. Examples of this are special business programmes, the majority of companies being privately owned, as well as Kiev being the leading region in foreign trade. Subsequently, we consider this region to be prosperous as well as being potential for foreign companies such as Luna to enter.

9.1.3 Industry environment

During our visit to Ukraine, about the same global brand names occurred as being more or less competitors to Teng Tools when talking to potential distributors. These competitors are competing with their brands on the global market.

Gedore, who is seen as the biggest and most important actor, and thereby very well-known within the professional hand tools market, is seen as only competing with its strong brand name and not so much with its products any longer. The reason for this, we believe, is probably because Gedore is a large old company, known for its quality and thereby quality-associated brand. As Gedore is having its brand represented only in the professionals' market, it is not globally the most comparable competitor, as Teng Tools is focusing on the "grey market" and thereby not having the same customer segment. However, on the Ukrainian market, Gedore is an important competitor since Teng Tools is probably regarded as too expensive for the Ukrainian DIYs. Therefore, we consider Gedore to be of importance, yet we believe that Teng Tools has an advantage over Gedore due to its range of products as customers in the grey market do not ask for such a wide product range. Gedore is said to have over 12,000 items while Teng Tools only complies 1,800. Here one can see benefits of different kind, such as financial, cost and differentiation. We further consider Teng Tools to be a competitive threat to Gedore, as Teng Tools has more or less the same quality but at a lower price level. Compared to Gedore, Teng Tools might have a competitive disadvantage since Gedore is associated with German top quality while Teng Tools is produced in Taiwan and will unfortunately most likely be associated with lower quality.

One of the brands that we argue to be the best comparable and thereby the most important competitor is FACOM, as it specialises on professional hand tools for the automotive sector. One aspect of importance regarding the Ukrainian market is that FACOM has regularly increased its market share in Eastern Europe. This is also a reason why Teng Tools needs to watch out for this brand. Another reason is that USAG is part of the FACOM Group, which is exclusively represented on the Ukrainian market by Force Ltd. – a tools provider for the auto service market. Teng Tools could however have an advantage over USAG since the distributor of this brand in the Ukraine believes the quality to be lower than the one of Teng Tools. However, the brand recognition of Teng Tools is not comparable with that of USAG, and therefore customers are ignoring the fact that they are paying more for less quality. That USAG is produced in Italy is another matter that could be disadvantageous for Teng Tools.

Snap-On is probably the company that can be seen as one of the largest but also the closest comparable brands to Teng Tools and thereby one of the most important competitors. One reason for this is that Snap-On, just as Teng Tools, is having tool storage products such as tool trays, trolleys and cases – something which not all the other brands include in their product range. The products, the design and the customer solutions make us believe Snap-On to be an important competitor.

Looking at the customer focus of these competitors, Stanley is the one that we have noticed focuses on more or less the same customer segments as Teng Tools, seeing that Stanley wants to reach both professionals and DIYs. During the interviews, we also came across information that Stanley is having more or less the same price level in the Ukrainian market as the Swedish Teng Tools prices. This could be an indication of a need for Teng Tools to adjust its prices to the Ukrainian market. Furthermore, during the interviews we were of the impression that the distributors compared Stanley with Teng Tools. However, although Stanley has similar products to Teng Tools, its assortment is much narrower than Teng Tools.

It can be argued that Bahco is not such a close competitive brand since it focuses on, and is mainly well-known for, its handsaws and saw blades.

However, just as Stanley, Bahco does offer professional hand tools along with its saw range. As one of the potential distributors could consider replacing Bahco with Teng Tools, we regard this to be an indication that Bahco might not be as strong as Teng Tools.

To summarise, we believe that Teng Tools has a more differentiated product offering than the other companies. However, compared with the overall size, these companies can still be very strong competitors within the hand tools market.

In addition, all the above-mentioned brands are already present on the Ukrainian market. However, since Gedore is the only brand with a Ukrainian partner and USAG the only one with exclusive representatives, Teng Tools could compete on the same premises as the other brands, though forced to work rapidly in order to establish its name, obtain a good position on the market and quickly learn how the market works. This could be completed by finding a good distributor who has the right profile, and the desire to put every effort in getting Teng Tools quickly into the Ukrainian market in the right way and to the right customers.

With the unawareness of the Russian and Ukrainian language skills of Teng Tools' competitors, we still believe Luna to have a competitive edge compared to these brands. The reason for our statement is that Luna has Russian-speaking employees.

9.1.4 Market environment

In the beginning, the service centres emerged as an auto maintenance system. Today, many executives of the companies, having faced the unsolved challenges, are more inclined to the necessity of building on a system of values, corporate culture, ethic norms and management. Moreover, they also find that qualitative changes in logistic and marketing systems, software, service technologies and quality control systems are increasing in importance. They come to a comprehension that these components are not less important than production facilities, material technologies and qualified personnel.

Thus the development of the auto service market can be ascertained as successful in a way, but only in comparison with its previous state. As for the present, it is still far from perfection and it makes no wonder. First of all, the quality of auto service leaves much to be desired with the quality of maintenance by no means meeting the Western standards. The market is also conditioned by poor logistics and poor operating level of the majority of service stations.

The situation around trading, in general, and the auto service market in particular, approaches to a standard where the competition keeps showing not in the sphere of quality, but in the field of client-oriented service technologies. The majority of auto service companies have attained the capability and, above all, the equality of both the quality of spares and the standard of services. There is only one essential element left that depends a great deal on the country and the company – directivity to client and the ability to serve him. Long ago, Western companies comprehended the importance of this factor, and there are many who have managed to solve the problems associated with the above-mentioned. In many cases, the Ukraine has not solved these problems, and it is natural if one considers the young age of the Ukrainian market. Not all can adopt the experience of others during ten years, not to mention the gaining of own experience and attaining perfection.

As a consequence of the above, we consider Teng Tools to have a good opportunity of entering the Ukrainian market, particularly with regard to the fact that many auto shops, auto service stations and other specialised companies dealing in the aftermarket have emerged in the country. Although the auto service market has reached a saturation level in the more developed regions of the Ukraine, this will probably not have any effect on the future of Teng Tools, but should rather be seen as a potential opening to the market. Especially when taking into consideration the fact that 95% of all automobiles are nearly ten years old, and that many Ukrainians have modest financial resources to buy a new car. Further, numerous auto businesses are striving to include the whole market for auto services since they have become aware of this fact. As a result, the demand for hand tools as well as the demand for quality is rapidly increasing, which can be seen in that the sales of

tools have had a boost during the last two years. Thus, we feel that this could generate great opportunities for Teng Tools in the Ukraine.

Another opportunity that could arise for Teng Tools is that its product range is well-suited for the auto service market. Even if most service stations are relatively small with small financial possibilities, a product line such as Teng Tools seems ideal. The reason for this is that Teng Tools is offering high quality, yet lower prices than other professional hand tools brands. Additionally, the information regarding Teng Tools already being present at bazaars in the Ukraine we believe to show that bazaars indeed are becoming important areas of competition.

Problems might always arise with such a young market as the Ukrainian auto service market, and the two main problems that can be seen today are service and personnel. The majority of auto service stations have not understood the importance of offering good service. Service is so far behind the world standards, and we subsequently believe that it is of importance that the right education and training is given with regard to Teng Tools and the Soul of Teng. Personnel are also a critical matter as their skills and capabilities do not seem to be as high as required. Due to a growth in advanced technologies as well as a growing number of new vehicles, the personnel needs to be educated at the same pace as new technology arises.

An important subject that will be further analysed below is the importance of Teng Tools to create relationships and contacts. The reason for our argument is that local governments tend to favour and support local companies.

9.2 Competitive audit

The implementation of a competitive audit was unfortunately not achieved due to the fact that we did not obtain the appropriate information. Yet, an indication of this was shown in the industry environment analysis, although very brief and not profound. The information that we found was regarding the competitors' reputation as well as their features and other attributes compared with Teng Tools. However, we still believe the competitive audit to be of integral importance for a company when entering a foreign market.

9.3 Analysis of potential distributors

As mentioned in the methodology chapter, we have decided to choose a potential distributor based on the following criteria groups: trading areas, product lines, customers, competitors, sales organisation, English language skills, overall experience and knowledge, financial data, interest in Teng Tools and possibility of implementing the whole range. Consequently, the following analysis will focus upon these groups of criteria.

Among the eight interviewed companies, Instruments Ltd. was the only company that considered that Teng Tools could become a competitor in the Ukraine. The Managing Director of this company did not provide us with much information about the company and as a result, we were not able to include this company in our analysis. The other seven interviewed companies will however all be included to one degree or another in the following analysis.

9.3.1 Trading areas and product lines

Most of the interviewed companies were more or less acting in the same trading area as Teng Tools. Those that differed from Teng Tools also traded in the areas of auto accessories, batteries and so forth. ERA and F1 were the only companies that were totally different from the other ones since they do not work with hand tools yet. However, as F1 is looking at this trading area Teng Tools could be of interest. In addition, ERA is planning to import tools, which could lead to an interest of doing business with Teng Tools, but not as of today. Altsest, Force, Stroykomplekt-N, Trade Line and Vist are all operating in the same area of trade as Teng Tools. These five companies have very diverse product lines, varying a lot from each other in both quality and price. This has consequently led to that none of these companies see the others as competitors, apart from Trade Line and F1 (which we will return to later in this chapter).

As mentioned, a varying degree of product lines and competitors were found among the companies, varying from Gedore (German, with high quality and price) to Stanley (American, with quality and price regarded as similar to Teng Tools) to Toya (Polish, with lower quality and price). All these varieties

lead us to think that the hand tools market is not very well-developed yet, but that there are good opportunities for development as the demand for hand tools is growing quickly.

9.3.2 Customers and competitors

Once again, all companies had a varying degree of customers ranging from professionals to semi-professionals to DIYs. Altsest is mixing all these three customer segments and hence, covering the whole hand tools market. Altsest has many customers and product lines and due to having competing brands to Teng Tools this might not be an appropriate distributor. The reason for this statement is that Altsest would have to position Teng Tools at the same level as one of the other brands, Bahco. However, a possibility for Teng Tools could be if the company was to replace Bahco with Teng Tools. On the other hand, Altsest could be a compatible distributor as it deals with semi-professionals, which could be regarded as similar to what Teng Tools calls the grey market.

Trade Line focuses both on professional and DIY customers. The company reaches out to DIY customers through its ATL shops. Yet, if Trade Line was to become a distributor for Teng Tools, then the company would aim this product line for the professional users since Teng Tools does not want to be sold in department stores, such as the ATL shops.

Force, F1 and Stroykomplekt-N are on the other hand only focusing on professionals. When only looking at customer groups, we believe that these three companies are of interest for becoming distributors for Teng Tools. Conversely, Vist is mainly focusing on DIY customers and therefore we believe that, for the moment, Vist is not the right company for starting to distribute Teng Tools' products. As ERA is not in the same trading area as Teng Tools, the company's customers are not of interest for Teng Tools.

As mentioned above, none of the interviewed companies considered themselves to be competitors of each other, except for F1 and Trade Line. Actually, Trade Line was the one who considered F1 to be its main competitor – not the other way around. We believe that this is due to the fact that F1 is much bigger than Trade Line in the auto service market. Further, the re-

ceived financial data showed that there is a considerable difference between the companies' turnover. There is also the exception of Stroykomplekt-N considering Altsest to be a competitor of some kind as Altsest is covering Stroykomplekt-N's customer segment as well as having a wider range of products.

With regard to the companies' product representation, it is clear that F1 has higher quality products than Teng Tools, and can therefore be considered to be a good distributor for Teng Tools in order to receive high quality profile. Altsest, Force and Stroykomplekt-N have more or less same quality products as Teng Tools, while Trade Line with its diverse product range can be said to have lower quality products.

9.3.3 Sales organisations, English language skills, overall experience and knowledge

Information regarding sales organisation, experience and knowledge was not obtainable from Altsest and as a result, an analysis of its resources and capabilities can only be assumed. Concerning the other companies, most of them considered themselves as having well-developed and skilled sales organisations.

ERA, F1 and Trade Line's sales organisations are given support from the management by being provided with knowledge, different offerings, programmes and diverse training courses. ERA, F1 and Trade Line have sales forces actively working on the field. F1 also considers it of great importance to pursue follow-up and after sales services. In addition, Trade Line differs from the other companies by having a sales organisation structure in each and every office. Trade Line finds it crucial that the employees are knowledgeable and experienced within the field and in order for the employees to constantly develop, the company is regularly offering activities, meetings and training. To summarise, we believe that this results in that these companies' sales organisations have good knowledge about the tools market. Although Force's sales force does not receive training of some kind, it is still well familiar with the instruments sold by the company. As Luna emphasises a knowledgeable and active selling sales force, these companies could therefore be of interest when choosing distributors.

At Stroykomplekt-N, the situation is slightly different with no specific sales force. When hiring new staff, Stroykomplekt-N considers personal interest to be essential as this will most likely lead to an engaged personnel. Furthermore, service and information provision are very important to the company since it is working directly with both its present customers as well as potential ones. As mentioned earlier, Luna emphasises an active sales force, but as Stroykomplekt-N does not have that, we consider this as a disadvantage if choosing this company as a distributor. Additionally, Force does neither have an active sales force.

Vist is the youngest company that was interviewed with a market experience of only two and a half years. Vist also differentiates itself from the other companies by not educating its personnel. However, the company only employs knowledgeable staff and therefore, the managers do not see training as a necessity. Moreover, as the company has salesmen who find their own buyers, we have assumed that Vist emphasises active selling.

On the subject of English knowledge, one can see great disparities. Yet, the general knowledge is unfortunately not adequate enough for the wish of Luna, which in turn can cause interaction difficulties while doing business. The only person we met who spoke fluent English was the Commercial Director at F1. During the interview with Altsest, most of the conversation was conducted in English. The English skills at Force consist of only two employees speaking “professional” English. At ERA, most of the employees have some basic knowledge in English, although not good enough to conduct business with a foreign company. English knowledge exists within Trade Line, however only the secretaries can speak well enough, while the managers only have some knowledge. At Vist, only the secretary speaks English. Although ERA, Trade Line and Vist have employees with some English knowledge, these employees are not the ones who will conduct business with Luna and as a result, this knowledge cannot be said to be compatible with Teng Tools. Finally, at Stroykomplekt-N there was a willingness to try to speak English, however as they stated one can only talk properly when having practice.

ERA and Vist are the youngest of the companies and Force has been on the market for five years. In contrast, Trade Line, F1 and Stroykomplekt-N have the longest experience of approximately ten years.

Knowledge about IT and computers were quite good at all companies and computerisation was similar at all companies. However, during the interview with Vist, we found that this was the only company visited that had the most modern technology with a “Western” office standard. An important issue is that Trade Line differed from the interviewed companies, as it did not recognise e-commerce as a critical matter. The company rather emphasises eye-to-eye contact, which we recognise could lead to a problem for Luna if conducting business since Luna regards e-commerce to be such an important issue. However, it is also vital for Luna to understand that e-commerce is not well-developed in the Ukraine and therefore, this matter should not be emphasised too much. Nevertheless, this does not imply that the companies do not have any interest or willingness to use e-commerce.

9.3.4 Financial data

Since financial data is considered very private and unofficial in the Ukraine, we had great difficulties to receive this information. The companies find this information to be crucial in order to keep their privacy as well as secrecy. As a consequence, we only managed to receive financial data from Force, F1, Stroykomplekt-N and Trade Line, while Vist only gave us indications of that they had financial stability. Moreover, F1 wanted the information to be confidential, and therefore we cannot provide the reader with this data.

The received data indicates that Trade Line is the biggest company of the ones interviewed when looking at the holding company rather than just the auto accessories department. However, when only taking this department into consideration, F1 is financially stronger than Trade Line. Conversely, Stroykomplekt-N is the smallest company. It is essential that the reader keeps in mind that ERA and Vist also were very small, but as no such figures were provided, we have assumed their size and significance in our analysis.

9.3.5 Interest in Teng Tools and implementation of whole range

Vist differs from the other interviewed companies since it is conducting business with cheaper tools than Teng Tools. The company also considered Teng Tools' price range to be too high for its customers and therefore, regarding this product line, we believe that Vist is probably not a compatible distributor.

Stroykomplekt-N was very positive about Teng Tools and since quality is growing in demand, Teng Tools could be a good product range to include in the company's own range. Teng Tools' whole product range is also very interesting, however implementing this is much a question of finance and marketing. While ERA finds Teng Tools to be an interesting product range, the company needs to consider several factors before such a cooperation can occur. These two companies also think that the product range looks attractive. Moreover, Teng Tools' auto tools assortment is both of importance and interest for Stroykomplekt-N. However, we do not consider these companies as potential distributors for Teng Tools since they are too small and do not meet all the important criteria described above.

Altsest is very interested in Teng Tools due to the fact that the mechanics hand tools area is growing within the company. Altsest is only interested in implementing the Teng Tools range, and not any other part of Luna's product ranges. If Luna is willing to position Teng Tools at the same level as Bahco, the brand that Altsest could consider to replace, then Altsest could be a good start for Teng Tools into the Ukrainian market. The reason is due to that Altsest is a large company with geographical presence all over the country.

Although Force has the capacity and possibility to implement the whole range of Teng Tools, the company still values these products quite low. The Financial Director sees Teng Tools as just another brand from Taiwan, while its own product range (USAG) is a good Italian brand. Yet, its brand is comparable to Teng Tools concerning price. However, with regard to quality, Force sees Teng Tools as having slightly higher quality than USAG. In addition to this, Force might implement the Teng Tools range if the conditions were right. If Force would decide to implement Teng Tools among its exist-

ing range, we believe that Luna should take this opportunity since Force is well-known and respected all over the Ukraine. This could in turn lead to that Teng Tools could obtain a good starting point with opportunities of good reputation. If Luna could find a good distributor with a respectable reputation, then we believe that it could have this reputation transferred to the Teng Tools product range.

As mentioned earlier, F1 is looking for a new business area and hence, Teng Tools might be an interesting product range to implement. Additionally, the Commercial Director believes that having Taiwan-produced goods can be seen as both positive and negative. F1 considers it to be positive, while the majority of the Ukrainian consumers regard this as negative. We think that it is very encouraging that F1 does not judge Teng Tools from where it is produced. We however, consider that with good marketing, this “problem” can be solved. We further argue that one reason easing this is that the Teng Tools products are not labelled with where they are produced, i.e. “Made in Taiwan”.

Trade Line’s main customers are DIYs. However, if business would be conducted with Luna, the company would sell Teng Tools for the professionals only since it considers these products to be of good quality. As Trade Line has great many contacts with auto service stations, this could be an opportunity for Teng Tools. More or less in line with F1, Trade Line does not either see Taiwan-produced goods to be of any problem. Consequently, and along with the above-mentioned criteria, we regard both F1 and Trade Line to be potential distributors for Teng Tools in the Ukraine.

The above analysis is summarised in the picture below (Picture 10.1), followed by comments as to why the companies have received the particular compatibility numbers. Moreover, the 40 criteria set in the final criteria list used during the interviews have been merged into ten groups in order to ease the evaluation process.

ANALYSIS

	1	2	3	4	5	6	7	Note:
Trading areas	X	-	X	x	X	X	X	X = same as Teng Tools x = starting off this business - = future plans
Product lines	x	-	x	X	x	-	-	X = better than Teng Tools x = equal to Teng Tools - = lower than Teng Tools
Customers	x	-	X	X	X	X	-	X = professionals x = both pro & DIY - = not of interest for Teng Tools
Representing competitors	-	N/A	-	X	-	X	N/A	X = No - = Yes
Sales organisation	N/A	X	-	X	-	X	X	X = active sales force - = non-active sales force
English knowledge	x	-	x	X	-	-	-	X = speaks very well x = good understanding - = not sufficient
Overall experience & knowledge	N/A	-	x	X	X	X	-	X = very good x = good - = not sufficient
Financial data	N/A	-	X	X	-	X	-	X = very good - = very low
Interest in Teng Tools	X	x	x	x	X	x	-	X = very interested x = might be interested - = not interested
Implementation of Teng Tools' whole range	X	x	x	x	-	x	-	X = interested x = might be interested - = not interested
Total	9	4	11	17	9	14	4	

(15)

X = 2 points

x = 1 point

- = 0 point

1. Altsest
2. ERA
3. Force
4. F1

5. Stroykomplekt-N
6. Trade Line
7. Vist

Picture 9.1 Compatibility with Teng Tools
(Source: Authors' own)

With trading areas, we mean selling products in the same areas and for the same customers as Teng Tools is meant for. All companies, apart from ERA and F1, are within the trading areas of service and auto service tools. F1 is currently starting off this business, while ERA has not come that far with its plans. Trade Line, on the other hand, has additional trading areas such as tires and lubricants along with tools.

Regarding the product lines, we have compared the quality of the companies' represented products with Teng Tools. Here, one can see that F1 has products of higher quality than Teng Tools, which is considered to be positive as Teng Tools wants to be associated with high quality. Bahco, USAG and Stanley are considered by Altsest, Force and Stroykomplekt-N respectively to have relatively equal product lines to Teng Tools. In contrast, Trade Line has a large mix of product lines, yet none of these are either better or equal to Teng Tools.

Teng Tools' objective in the Ukraine is to sell its products only to the customer segment of professionals. Force, F1 and Stroykomplekt-N are the only companies that have professional customers, while Altsest and Trade Line focus on both professionals and DIYs. Vist only focuses on DIY customers, which is not the objective of our case company. Since ERA is not yet in the same trading area as Teng Tools, it cannot be said that there are potential customers for these products.

The brands that are represented as of today by the companies have also been taken into consideration. Since the other companies have competing brands, this might lead the companies having to position Teng Tools incorrectly. On the other hand, one could instead replace the old brand with Teng Tools as has been mentioned in one interview. F1 and Trade Line do not have any competing brands that could lead to a wrong positioning of Teng Tools.

Force has a sales force, yet is not actively working in the field. With regard to the size of Altsest, we here assume that its sales force is active.

Concerning English knowledge, F1 was the only company where the interview could be conducted in English. At Altsest, most of the interview was

conducted in English. Finally, Force has two employees who speak good English.

Stroykomplekt-N and Trade Line have been in the business for approximately ten years, and we therefore consider these companies to have long experience and good knowledge about the market. F1 also has a long experience, however not regarding hand tools. Still, the company has a good knowledge of the auto service market as this is where the company is trading. ERA and Vist's experience and knowledge about hand tools are not sufficient for Teng Tools. As mentioned earlier, not enough information was received during the interview with Altsest and therefore, we cannot with certainty tell about its experience and knowledge. However, the impression was that this is an experienced company. As can be seen from this analysis, the companies' experience mirrors their compatibility with Luna and Teng Tools.

Having financial strength becomes crucial when choosing distributors. Both Force and F1 have good financial strength. When looking at all business departments at Trade Line, one can see that this is financially the strongest company of them all, which shows that there could be a financial backup in case of need. Only looking at the auto accessories department of Trade Line, this department is relatively strong as well.

All companies are more or less interested in implementing Teng Tools among their product lines, except from Vist. With regard to implementation of the whole product line, interest among the companies was only believed to be found at Altsest.

The compatibility picture above has a maximum number of 20. As stated in our frame of reference, a distributor cannot meet 100% of all criteria set. However, it is sufficient to meet 65-75% of the most essential ones. Looking at these groups of most essential criteria, one can see that in order to be compatible with Teng Tools, the potential distributors need to attain a number between 13 and 15.

In line with our analysis, the compatibility picture shows that F1 (17) and Trade Line (14) are most compatible with Teng Tools. Furthermore, ERA and Vist are the least compatible companies, mainly due to the fact that these companies do neither have suitable product lines, nor do they have customers of interest for Teng Tools.

As mentioned, the interview with Altsest was not satisfactory due to time constraints. Consequently, we have not been able to analyse the company's compatibility with Teng Tools with regard to sales organisation, overall experience and knowledge as well as financial data. However, as we are under the impression that Altsest is a well-known company with good reputation, we have made a couple of assumptions regarding the missing information. These assumptions are that Altsest has an active sales force, good experience and knowledge and also good financial strength. With these assumptions in mind, one can see that Altsest could receive a compatibility number of 15 instead of 9.

10. Additional research question

Even though Luna and Teng Tools have already selected a market entry mode in the form of distributors, we came across sources criticising Luna's choice of entry mode during the research process. Furthermore, we also realised that Teng Tools' competitors use different entry modes and as a consequence, we were beginning to wonder whether distributors really are the appropriate way of entering the Ukraine. Thus, we decided to widen our perspective by looking at what other entry modes there are that could suit this market. As there are a lot of different possibilities, we have chosen to narrow down our research of possible entry modes by excluding for example licensing and franchising as these are not within Luna's frame of working. Instead, we will discuss different types of exporting. In addition, we will also look at joint venture and acquisition as foreign direct investment, since this could be a future strategy for Luna. Subsequently, we found it relevant to add yet another question to our initial research questions:

Are distributors the most appropriate mode of entry into the Ukrainian market for Luna and Teng Tools?

This additional research question has led to that further theoretical framework is needed in order to try to answer this. Therefore, additional frames of reference regarding the internationalisation process of firms as well as different market entry modes are introduced in the next chapter.

11. Additional frame of reference

11.1 *Internationalisation model*

The Uppsala internationalisation model is a process-based theory created by Johanson and Vahlne in the late 1970s (Johanson & Vahlne, 1977). This model gives a good theoretical explanation of the internationalisation process of firms by emphasising the significance of knowledge and learning in firms. Learning is gained by focusing on market knowledge and commitment. Experience, which usually develops through “learning by doing”, is hence very important in this process and is considered to be a factor that “reduces uncertainty and creates business opportunities abroad”. (Blomstermo & Sharma, 2003)

The authors of the internationalisation model found that as companies gain market knowledge they also become more committed to the market (Johanson & Vahlne, 1977). Basically, there is a continuous process of “gradual incremental change” with four stages, namely no regular exports, exports, sales subsidiary, and production in a foreign market. This order of stages is called the “establishment chain” where each stage in turn involves larger resource commitment as well as leading to growing experience and information for the company. As mentioned, there is no commitment of resources to the market in the first stage. However, this commitment increases in the second stage as the company is creating an information channel through an agent/representative. Moreover, by establishing its own sales subsidiary, a company is getting a controlled information channel. Finally, by fully controlling the supply and sales of one market, the company will have to make even larger resource commitment. (Blomstermo & Sharma, 2003; Tayeb, 2000)

To further explain the establishment chain and its orders of stages, the concept of psychic distance is introduced. This term includes factors such as language, culture, education, business practices, political and economical systems. (Tayeb, 2000; Blomstermo & Sharma, 2003) These factors may result in the fact that the flow of information between firms and markets may be disturbed or even prevented. Summing up, Tayeb (2000) provides the defini-

tion of psychic distance as “the sum of the factors preventing the flow of information from and to the market”.

Additionally, as the process of internationalisation involves building relationships with foreign intermediaries, customers, suppliers and so on, a market network is thereby formed. By being involved in a network, a company will acquire knowledge about the actors, the structure and the processes within it. Moreover, knowledge is acquired through the commitment to the relationships as well as through information exchange within the network. (Blomstermo & Sharma, 2003)

The internationalisation model is considered to be dynamic since “the outcome of one decision (...) constitutes the input of the next” (Johanson & Vahlne, 1977). There are two basic levels of the model, namely state and change as illustrated in Fig. 11.1 below.

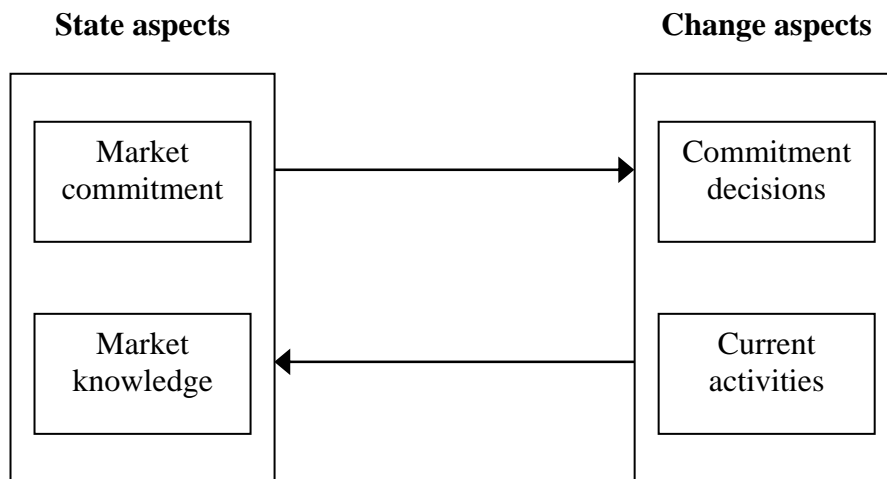


Fig. 11.1 The internationalisation process of the firm
(Source: Johanson & Vahlne, 1977)

The *state aspect* is the current state of a company’s internationalisation process and consists of *market knowledge* and *market commitment* (Johanson & Vahlne, 1977). Market knowledge consists of two types – objective and experiential knowledge – with experiential knowledge being the most important. Market commitment, on the other hand, is made up of the amount of committed resources and the degree of commitment abroad. (Tayeb, 2000; Blomstermo & Sharma, 2003) Thus, there is a direct relationship between

market knowledge and market commitment since the more knowledge a company acquires, the stronger its commitment to the market (Johanson & Vahlne, 1977).

The present state of an internationalisation process will affect the perceived opportunities and risks, which in turn influence the *change aspects* (Johanson & Vahlne, 1977). Change incorporates *commitment decisions* (the decision to commit resources to foreign operations) and *current activities* (the daily operative work). Current activities are the main sources of experience where a company will gain experience both about the market and the firm. (Tayeb, 2000; Blomstermo & Sharma, 2003)

To conclude this section, it is important to mention the criticism of Johanson and Vahlne's internationalisation model. For instance, it should be noted that companies may not always follow the order of stages brought forward by the authors. Although the internationalisation process is a constant process of knowledge gathering, Blomstermo and Sharma (2003) argue that it does not imply that it has to be linked to a specific sequence of establishment types and that companies "do not always start with occasional exports and end up with a production company abroad". Additionally, Tayeb (2000) states that criticism can be found regarding where the boundaries lie between the different internationalisation stages. It is also being questioned whether export or the use of distributor really will mean less commitment from the company (Tayeb, 2000). Additionally, foreign market entry modes differ depending on the industry that a company is in as well as changes over time (Blomstermo & Sharma, 2003).

11.2 Market entry modes

During the last decades, many companies have shifted from product-market to geographic market expansion. As stated by Bell (1996), "internationalisation of activities is becoming a prerequisite for the continuity of many firms". When entering international markets, there is an utmost need for effective channel members because of, among others, unfamiliar laws and possible imposition of tariffs and taxes. Additionally, business customs change significantly from one country to another. (Agarwal & Ramaswami, 1992)

As there are many different entry modes (all being influenced by different factors as well as having different degrees of implication), the appropriate selection of one mode of entry becomes a difficult task. Nonetheless, in order to become competitive, it is essential that a company manages to choose the right entry mode right from the start, as this will have a major impact on the success of a company's international operations. (Bell, 1996) A further reason is that all entry modes involve resource commitments at varying levels, which makes it difficult, expensive and time consuming to change mode (Agarwal & Ramaswami, 1992).

11.2.1 Exporting

Exporting is the most common way of international activity, and is usually divided into indirect and direct exporting. When products are sold in a foreign market without any special international activity from the company's part, then it becomes an indirect exporter. The export function is instead conducted by other firms. (Griffin & Pustay, 2002) The main disadvantage of indirect exporting is that the exporter becomes isolated from the export process with little or no control over local marketing. Furthermore, as interaction with the end user rarely occurs, the exporter receives little (if any) feedback from the market. (Tayeb, 2000)

When a company is exporting its own products, it becomes a direct exporter with greater control of the export process (Tayeb, 2000). Many authors, such as Tayeb, Solberg & Nes, argue that the most common form of direct exporting is through local agents/representatives or distributors. A company might also use specialist company representatives and sales offices. Local presence in a foreign market leads to greater and longer-term commitment than indirect exporting as well as allowing the company to monitor the development and the competition in that market. (Tayeb, 2000)

A distributor is an independent merchant that takes the title of the goods as well as carries out market activities and product distribution. Distributors may include importers, dealers, and wholesalers. (Massor & Rosberg, 1998; Solberg & Nes, 2002) A downside with the use of distributors as a mean of direct exporting is that the company will have less control over who the end user is and what prices are being charged (Solberg & Nes, 2002). Size, mar-

ket coverage and operating philosophy are factors that distinguish distributors from each other, but comparing these with the manufacturers they also differentiate regarding pricing strategy, the attention paid to smaller customers, and/or the importance of developing new markets. Problems might arise if the distributors prove to be more adversarial than compatible. (Brierty et al, 1998)

The use of agents (representatives) is a low-cost alternative, since they are paid on commission by acting on behalf of the exporter. Furthermore, agents are independent middlemen usually representing a company and/or its product line without taking title of the goods. (Massor & Rosberg, 1998; Solberg & Nes, 2002) They simply use their know-how on how to get products into the hands of prospective buyers with least hassle and an optimal profitability (Brierty et al, 1998).

Agents/representatives are relatively different from distributors, except from both being independent entrepreneurs primarily engaged in selling. Agents/representatives do not buy the products they sell and do rarely carry inventory. While distributors sell competing products, representatives only handle complementary products. Finally, a product manufacturer using the mean of distributors is more frequently using more than one distributor in a geographic market, while using representatives often means operating under an exclusive franchise in the assigned territory. Many firms tend to choose agents/representatives instead of a company sales force when facing some type of constraint or limitation, such as lack of experience in a particular market. (Brierty et al, 1998)

Another means of direct exporting is the establishment of a sales office who sells the products of the exporting company. In addition, the exporter will gain control of all the marketing activities. (Bell, 1996) A sales office usually has limited freedom of action regarding price and conditions of delivery. Moreover, it is only working within a limited geographical area, often representing several companies. This usually results in that the sales office has a wide product assortment, and can therefore afford to influence certain customer groups. Most sales offices work on a commission base. (Abrahamsson & Borgström, 1993)

To summarise, the primary advantages of exporting are that it is the least expensive and the least complicated entry mode (Stonehouse et al, 2001). As the profits do not have to be shared and hence the financial exposure is relatively low, these are also seen to be advantages for the exporting company. Exporting permits gradual market entry as well as gives the possibility to acquire knowledge about the local market. Further, risk is limited to the value of the shipment. (Stonehouse et al, 2001; Griffin & Pustay, 2002)

The main disadvantages are that exporting makes the distance between the company and its customers very far away and also making the process difficult to control from a distance. Distribution arrangements and logistics can be complex and finally, exporting might lead to potential conflicts with distributors. (Stonehouse et al, 2001; Griffin & Pustay, 2002)

11.2.2 Foreign direct investment

There are two types of joint ventures. On the one hand, there is the contractual joint venture, which is of fixed duration “with responsibilities and duties well defined”. Joint equity, on the other hand, is a continually evolving investment with no fixed duration. (Massor & Rosberg, 1998)

The primary advantages of joint ventures are that they create synergies. Further, knowledge, expertise, skills, technology, costs and benefits are shared and there are mutual profits as well as risk reductions. However, joint ventures might lead to conflicts of interest as some partners may gain more than others. Furthermore, competitive instincts exist and the decision-making procedure may become slower. (Stonehouse et al, 2001)

A wholly-owned subsidiary is representation in the foreign country that has been built-up by the company, usually by acquisitions or mergers. Although this is a time-consuming and expensive entry mode, it is still allowing flexibility in future strategic shifts. (Massor & Rosberg, 1998)

The reasons for a company to establish a wholly-owned subsidiary are usually to retain central control over operations as well as to avoid import restrictions in the foreign market. In addition, a subsidiary will create local working opportunities. However, there is always a risk of possible labour re-

lations problems. In addition, the company might find possible opposition from and get in conflict with the host government. (Stonehouse et al, 2001)

With an acquisition, all resources of the acquired company are absorbed by the buying company, hence making this the most far-reaching type of entry mode. (Bell, 1996)

As with joint ventures, the main advantages of acquisitions are that the two companies share their knowledge, expertise and skills as well as technology (Stonehouse et al, 2001). The buying company gains knowledge about the local market. Further, the company gains full ownership and subsequently, full control of the acquired company. (Bell, 1996) Moreover, acquiring a company can reduce political risks as that company already is established. The acquired company also has existing business contacts that can be used. (Stonehouse et al, 2001) However, due to differences between the companies' organisational cultures, the integration process is often subject to many problems and misunderstandings (Bell, 1996). In addition, the acquired company may have poor local reputation or other business problems (Stonehouse et al, 2001).

Distributors and agents/representatives are by far the predominant channel members in the business market. Sales offices are also well-known sources of exporting. However, several other categories of intermediaries exist, but as they play lesser role they have not been discussed herein. (Brierty et al, 1998)

The above discussion is on rather a general basis that we believe could be applied in all countries. However, the question arises whether this really is the case in a market such as the Ukraine. As one can see from the empirical findings, the Ukraine is a very diverse market and thereby the distributors greatly differ in important factors such as size, experience and marketing. As mentioned earlier, joint ventures and acquisitions have been included in this chapter to take into consideration by Luna for its possible future strategies.

12. Additional interview

As stated above, we wanted to widen our perspective and collect more information about other entry modes than distributors. We have already discussed the most common exporting modes as well as foreign direct investment. Moreover, as we received information about the cultural and economic relations between Poland and the Ukraine (as can be seen further below), we have also considered the possibility of Luna to enter the Ukraine the same way as the company acted when entering Poland. On the other hand, we also see an opportunity in taking advantage of Poland by using it as a central hub for the Ukraine.

Teng Tools' market share in Poland is of great interest for Ukrainian companies, since the Ukraine and Poland are, according to the interviewees, very similar, both regarding geography and mentality but also the transition away from communism. This is also in line with the Swedish ambassador's comment about the Ukraine being an alternative to Poland (Tapper, 2003). Consequently, an additional interview was conducted with Mr. Kowalski, Product Manager at Luna. The reason for conducting an interview with him in particular is due to his knowledge about Teng Tools in the Polish market. The Ukraine, with its market situation, is considered by some of the interviewed companies to be five to six years behind Poland and therefore, they see a possibility of making forecasts from the Polish market. In contrast to the interviewed companies, Mr. Kowalski believes the Ukrainian market to be 10-15 years behind the developments of Poland.

When the Swedish labour intensive industry took the step into the markets of Poland and the Baltic States, Luna found it of importance to follow this trend in order to keep its customers but also to diversify the market and to grow. Its business idea has therefore changed from being a Scandinavian distributor to comprise the Nordic countries, the Baltic States, Poland and covering more or less the whole of Europe.

Initially, in the beginning of the 1990s, Luna tried to start its own company in Poland, which however failed. This was due to the fact that the company was growing organically and thereby growing too slowly. Hence, it took too long

a time to penetrate such a large market as Poland, and instead Luna decided in 2001 to acquire an existing Polish company – PS Produkt Sp. z o.o (PS Produkt) that was acting in the automotive market. Today, this acquired company, named Luna Polska, is managed by the former PS Produkt Managing Director. Through this acquisition the company was strengthened by the concept of Luna AB, its business systems and financial support. Another possibility with the acquisition was to keep and strengthen, but also to increase the PS Produkt company's existing customers as well as to grow within new customer groups. Furthermore, acquiring a Polish company might ease problems of certification, legal issues and so on.

Luna Polska works relatively independently from Luna. Luna Polska is financially and strategically responsible for realising what the executive board of the group puts up. Both sales and result figures have had a steady and expansive increase at Luna Polska.

Luna Polska includes a more or less complete range of Luna AB's products. However, competing brands or own imported products with a better price are also sold. Teng Tools is selling very well in Poland, with monthly steady increases in its selling figures and thereby being an important product in the Polish market.

Having Luna Polska to handle the establishment of Teng Tools in the Ukrainian market is, according to Luna, a question of independence. The executives consider that the company has a lot to obtain in Poland but also that Luna Polska is a small company acting on a market of 40 million people. Therefore, the Board believes that Luna Polska should develop its business in Poland first, before undertaking anything else. The company is however, aware of attempts made by Luna Polska to enter the Ukraine, which have been interrupted by Luna. If though in the future, Luna Polska continues its strong development and the expectations of today are realised, the company could act as a Central European logistic hub, which logistically could serve the Ukraine. However, this could only come true in a couple of years and only if everything else works out well. On the other hand, the question of acquiring a Ukrainian company is not Luna's objective at the moment, but might be taken into consideration after having entered the Ukrainian market.

13. Additional analysis

13.1 *Analysis of entry modes applied to the Ukraine*

We argue that parts of Johanson and Vahlne's internationalisation model can be applied to the case of Luna when entering the Ukrainian market. The main emphasis should not be put on this model since we rather believe that it should be seen as an indicator for companies that there is a critical need of being flexible as well as looking at the market in a dynamic way. If these matters are taken into consideration, a company can be better prepared for changes in its commitment decisions and current activities.

Regarding the process of incremental changes, a company first enters a foreign market with low commitment in order to reduce the risk, and thereafter gradually increases its presence. This is actually the way Luna has conducted its internationalisation process – first the company entered the Nordic countries, then European countries, continued to the Baltic States and Poland and is now moving eastward.

Although exporting is a good means of entry, we do not fully agree with Luna regarding which export entry mode to choose, yet we consent with the company that direct exporting should be used. Luna's objective is to enter the Ukraine through the mean of distributors, but as this market is so different from the Western, we argue that the best export entry mode is by choosing an agent/representative.

Distributors have many other competing product lines which in turn could lead to not enough attention is paid to Teng Tools. In contrast, agents/representatives usually work only for one company, hence higher commitment to the products. During our field study, we received indications of Ukrainian distributors having a tendency to ignore payments. This information was not received from the interviewed distributors, but Luna still has to keep in mind that these problems might occur. Furthermore, as agents/representatives work on commission, they become more committed to the company that they are representing.

Agents/representatives are important in order to understand the market and later on, when Luna has gained a good understanding of how the market works, the company will then be able to gradually increase its presence and resource commitment. We also feel that we are entitled to have this opinion after having conducted our field study where we had several discussions regarding the different entry modes. All interviewed companies agreed that having at least one agent/representative is essential in order to be successful on the Ukrainian market. As can be understood from the macro environmental chapter, one can see that having a representative in the country will ease the difficulties with psychic distance, such as ever-changing laws, politics, bureaucracy, state authorities, corruption and culture.

A distributor, for example, that does not have sufficient English knowledge will make it difficult for Luna to establish an appropriate contract that both partners can understand and agree upon. This is further shown in the fact that the two potential distributors that have been selected for Teng Tools do not have sufficient English knowledge, hence leading to difficulties of cooperation and communication. Contrary to this, Luna can more or less choose who to cooperate with when it comes to agents/representatives, and thereby choose one that has good skills in English. Finally, the company could therefore prevail over this matter.

A concluding example is that if Luna would have problems of certification, contracts and business culture, a distributor might not even consider conducting business with a foreign company unless this company has already solved all these issues in advance. Distributors in the Ukraine seem to favour companies that have settled contracts that are ready to use. Agents/representatives work on commission and as money is very important in the Ukraine, they might be more willing than distributors to put effort into solving these matters.

Furthermore, not using a representative will make it difficult to establish long-lasting relationships (which is emphasised in the Ukraine) with both the company's distributors and end-users. Thus, a Ukrainian representative will easily detect and understand how to adjust to these ever-occurring issues. This way, Luna will manage to have a smooth entry with few misunderstand-

ings and interrupted business. Additionally, if Luna would consider agents/representatives, the company needs to think about that this might become more costly than using distributors. The reason for this increase in costs is mainly due to payment by commission. Yet, it might be easier for Luna to gain greater control and power of agents/representatives than distributors as they usually work on commission, which in turn could lead to the agent/representative to become dependent of the company due to their commission payments. However, there is always a risk that this might turn the other way around if the agents/representatives manage to create a wide customer base, which in turn could lead Luna to becoming dependent of them.

Information is very difficult to find and receive through means such as the Internet or by telephone, as Ukrainians prefer to conduct business face-to-face. The different networks are thus very difficult to recognise before having entered the market. As the hand tools market in the Ukraine is rather small, the actors have knowledge about each other. So in order to successfully enter this market, networking becomes even more important. Once present in the market, building relationships will probably not be difficult as the Ukrainians are very friendly, helpful and open-minded. After having established good relationships and networks, Luna then might consider establishing more resource-committed business, such as a subsidiary.

In addition, empirical evidence from the internationalisation process further shows that the final step of a firm is to start own production in the foreign market. As of today, Luna has no plans of starting producing any of Teng Tools' products in the Ukraine, and we can therefore conclude that the internationalisation process with its incremental steps only applies partially to the case of Luna. However, it should be kept in mind that the establishment chain does not always have to occur in an incremental process, neither do companies have to go through all these steps.

As shown in the distributor analysis, one can see that experience and size of the distributor is of crucial importance. The three distributors that we recommend Luna to select all fit in with our argument. The case of Luna Polska further supports this argument of the need for local knowledge and experience. Moreover, it also shows that the size of the company does matter due to

the failure of the first attempt made by Luna of entering Poland. Furthermore, Poland and the Ukraine (with a population of 38 and 48 million respectively) are quite similar in size and consequently, this might lead to the same problems arising for Luna. Since the acquisition of a Polish company seemed successful, we believe that Luna could consider the possibility of entering the Ukraine this way. Another opportunity could be to take advantage of Poland by using it as a central hub for the Ukraine, but as explained in the additional interview this will probably not occur in the near future.

14. Conclusions

The Ukrainian political system is undergoing constant changes and as a result, it is of great importance for a foreign company entering the Ukraine to understand how the political system works.

The Ukraine's economy has experienced a lot of restructuring during recent years. However, owing to political changes and an economic boost of the country, the business climate is getting more and more pleasant and open to foreign investors. Yet, structural reforms are still important in order to improve the investment climate.

The Ukrainian government is trying to attract FDI into the country by introducing legislation that will facilitate investment. However, the Ukraine's current business climate is increasingly being taken over by the Russians. For investors from the West this could mean a great risk of having to negotiate with Russians in Moscow instead of with Ukrainians in Kiev, since the Russians will be able to increase today's prices to an unacceptable higher level.

In addition to the above, most companies will have to deal with state authorities, which might not always be positive for a company's operations. Regarding imports, this legislation is under constant change and hence, the importance for companies to get updated information about this issue. Moreover, although changes in company law have been made, these are nonetheless insufficient for conducting business.

It becomes essential for foreign companies to adjust their price levels to the Ukrainian customers in order for their products to be price competitive.

Finally, e-commerce has had a boost after the fact that legal validity to electronic signatures and documents was given by the government. However, due to the fact that few Ukrainians have Internet access, e-commerce will take time before it gets spread all over the country. Business customs are somewhat different from the Western way of doing business. As Ukrainians have a preference of face-to-face contact, the development of e-commerce could

also be affected. Networking and personal relationships are prerequisites in order for Western companies to develop business contracts.

With regard to which region to choose in the Ukraine, Kiev is the best developed one. Furthermore, this region is more often used to conduct business with foreign companies as this is where the majority of them are present.

As a summary of the macro and regional environment, it can be said that the overall business environment is acceptable although there is a great need for significant improvements. Even if the risks of doing business remain considerable, they are still largely controllable.

Regarding the industry environment, Gedore is the largest and most important actor on the Ukrainian professionals market. Yet, this brand does not have the same customer segment as Teng Tools would have in the Ukraine. FACOM who is also specialising in professional hand tools has found its niche within the automotive sector and has lately increased its market shares in Eastern Europe. FACOM is the best comparable brand with Teng Tools and therefore, Teng Tools needs to closely follow its moves. As USAG is part of the FACOM Group, this is also an important competitor. Snap-On is the only competitor with tool storage, hence making it comparable with Teng Tools. Furthermore, in accordance with the interviewed companies, Stanley is also considered to be comparable with Teng Tools, while Bahco is seen as replaceable with Teng Tools.

With regard to how Teng Tools' competitors will get their products into the Ukrainian market, one can notice that the means differ a lot from each other. Some of the competitors have partners, exclusivity agreements and franchise dealer vans, but still distributors seem to be the most common way.

The market environment has undergone a lot of structural changes during the past years, but further development is needed within areas such as logistics, marketing, technologies, management and qualified personnel. Yet, there are also remaining changes regarding the quality of maintenance provided by auto service stations, but also regarding client-oriented services. Personnel and service are also two problems that need to be solved. Moreover, several

specialised businesses within this market have emerged, which in turn has led to a growth in demand for hand tools. In addition to these businesses, bazaars have increased in importance and thereby creating unexpected fierce competition.

Luna can be said to follow the internationalisation process by starting off in Sweden, then the Nordic market, following with European countries and thereafter the Baltic States and Poland. Today, the company is continuing its stepwise internationalisation process by moving further eastward. However, as Luna does not have any plans for its own production in the Ukraine at the moment, it cannot be said to fully follow this internationalisation process.

As exporting plays an important role in entering a foreign market such as the Ukraine, Luna has chosen to follow this trend. However, in order to receive the best result of internationalisation, Luna might need a local representative and not just a distributor.

After conducting an analysis of all interviewed companies, it can be concluded that F1 and Trade Line are the most potential distributors of Teng Tools. Due to Altstest representing its products which is common in department stores, Teng Tools might receive another profile than wished for. If Force was to consider an implementation of Teng Tools, then Luna should accept this opportunity.

Finally, one can see that Root's criteria list is applicable to most companies, hence making his list of a more general character. The case company's criteria, on the other hand, show self-interest for Teng Tools, which makes our final criteria list difficult to use in order to select distributors for other companies. However, our list is still useable for other companies after adjusting it to its own company and interests, as we have widened the perspective of the criteria.

15. Recommendations

Agents/representatives are the entry modes that we consider to be of importance in order to ease potential problems and risks, as mentioned throughout our analysis. Although this type of entry mode can be more costly, it nevertheless leads to greater control and power for Luna.

We would suggest Luna to consider having some kind of local representation in order to approach and penetrate the market appropriately. If Luna chooses to use the means of distributors anyway, it is of utmost importance to find a distributor with the wish to put a lot of effort in introducing Teng Tools' product range, and the brand in particular, into the Ukrainian market. This introduction needs to be conducted properly since receiving high brand recognition in the future is associated with the right prerequisites. The distributor needs experience and power to introduce Teng Tools as well as having the ability and wish to work hard. However, if Luna should choose to use distributors, we recommend the company to establish relationships with F1 and/or Trade Line.

When present on the Ukrainian market, but also in its starting process, Luna should advertise in the most common auto magazines, such as Auto Service. This is a widely used mean of marketing, not only by Ukrainian companies, but also by foreign companies in the Ukraine. In addition to this, there are many fairs that Luna could attend to, such as the Intertool Fair, the International Autotechservice Fair and the International Interstorage Fair that are all present in Kiev.

An often reoccurring problem is the one of certification since, as mentioned earlier, certification and other legal matters are under constant change. As of today, it does not seem as if Luna would need any certification for Teng Tools. However, since there is a risk that this might change in the future, it becomes essential to keep up-to-date regarding this issue.

The analysis of activity of the Ukrainian market shows that the majority of auto service companies have many unsolved problems connected with the customer-oriented services. Depending on the position in the market, and the

relationship with distributors and their customers and end-users, Luna can offer different and more or less advantageous sales, credit conditions and guarantees. If the company has established relationship and trust, it has increased possibilities of providing its distributors with more advantageous conditions. Conversely, if Luna is not established well in the market and lacking in strong and reliable distributors, they in turn will not be able to provide appropriate services for its customers and end-users.

As a result, Luna could offer training of what customer-oriented service means, including studying customers' requirements and forming these, meeting their needs, and finally developing a strategy that would enable the company to draw customer's attention to Teng Tools and its advantages.

In addition to the above, Luna needs to consider our final criteria list. Thus, the company can be able to provide its distributors with a set of factors that need to be discussed and agreed upon. Included in these factors could be that both the distributor and Luna have to be clear on what they want to provide. They also need to know what is assisting or intervening a customer deal.

Luna needs to try to find more and better information about how competitors are working on the Ukrainian market, such as which distributors they are using, and so on (see *Competitive audit*). This is in order not to make the same mistakes as its competitors might have, but also to see possible opportunities within the Ukrainian market.

There are many differences between Ukrainian and Swedish business culture. We argue that as there are so many cultural differences in the Ukraine, Luna needs to carefully consider whether the criteria below really are of importance.

Technology and *e-commerce* development is difficult to assess since this is not well developed in the country as a whole. Subsequently, one cannot "force" a company to use these electronic resources in a country as the Ukraine. Further, as the telecommunication system is not working appropriately, it is crucial for Luna to take this into consideration.

Credit terms can be a delicate subject in the Ukraine. If a foreign company wants to increase its possibility to receive payment for its products, it becomes of vital importance to have representatives in the country. Therefore, as a recommendation we suggest that Luna should focus upon finding a reliable and devoted representative. Another matter that should be taken into consideration is the importance of establishing contacts with a Ukrainian law firm who can help the company with contracts, understanding new laws and so forth.

In the Ukraine, *promotion* is conducted differently from Sweden. Luna wants its distributors to pay for some promotion material, such as the Teng Tools catalogue, since this is believed to lead to having more engaged distributors. Even though we understand Luna's way of thinking regarding distributors having to pay for this, we have become of another opinion after our field study. When visiting the companies, we understood that this is not the common way of conducting this kind of business in the Ukraine. An evidence of this is that all competitors of Teng Tools finance the catalogues and provide their distributors with these for free. As a consequence, we would recommend Luna to follow this way of conducting business in the Ukraine.

Regarding *showroom*, this also differs a lot from Luna. Most of the showrooms that we visited were very small and some were even shared with the employees' working space, which is an evidence of the lack of space. This indicates that showrooms are not of great importance, but that having an active sales force working out on the field is essential. Some of the companies also mentioned the use of trailers as showrooms. This is widely used in Russia and seems to be a new trend in the Ukraine as well. Hence, our recommendation to Luna is not to focus too much upon the matter of showrooms, but maybe to give the idea of trailers as showrooms a thought.

Reference list

Books & Articles

Abrahamsson, A. & Borgström, A. (1993). *Att exportera i Europa – guide för små och medelstora företag*, Ernst & Young Skriftserien nr 24/1993

Agarwal, S. & Ramaswami, S. N. (1st Qtr. 1992). Choice of Foreign Market Entry Mode: Impact of Ownership, Location and Internationalization Factors, *Journal of International Business Studies*, Vol. 23, No. 1, 1-27

Aulakh, P. S. & Kotabe, M. (1997). Antecedents and performance implications of channel integration in foreign markets, *Journal of International Business Studies*, Vol. 28, No 1, 145-175

Bell, J. (1996). *Single or Joint Venturing? A comprehensive approach to foreign entry mode choice*, Ashgate Publishing Limited

Blomgren, J., (3 October 2003). Ukrainas ekonomi växer snabbt – från bottnläge, *Svenska Dagbladet*

Blomstermo, A. & Sharma, D. D. (2003). *Learning in the internationalisation process of firms*, Edward Elgar Publishing Limited

Brierty, E. G., Eckles, R. W. & Reeder, R. R. (1998). *Business Marketing*, Prentice Hall, 3rd edition

Exportrådet (2) (September 2003). Ukrainas Internetbransch hoppas på ekonomisk tillväxt, *Marknadsplats Östersjön – Marknadsnytt*, nr 16

Exportrådet (3) (September 2003). Rådet för utländska investeringar träffades i Kiev, *Marknadsplats Östersjön – Marknadsnytt*, nr 16

Faulkner, D. O. & Campbell, A. (2003). *The Oxford handbook of strategy, Volume 1: A strategy overview and competitive strategy*, Oxford University Press

Frishberg & Partners (1) (2002). *Historical perspective of Ukrainian business environment*

Frishberg & Partners (2) (2003). *Investment trends – From Russia with cash*

Frishberg & Partners (3) (2002). *Practical guidelines to doing business in Ukraine*

Frishberg & Partners (4) (2002). *Questioning Ukrainian tax authorities*

Frishberg & Partners (5) (2002). *Import taxes: Value added tax, Excise tax, Customs duties, Labels and Certification*

Frishberg & Partners (6) (2002). *Certification of goods and services*

Ghuri, P. & Grønhaug K. (2002). *Research Methods in Business Studies – A practical guide*, Financial Times/Prentice Hall, Pearson Education Limited, 2nd edition.

Griffin, R. W. & Pustay, M. W. (2002). *International business – a managerial perspective*, Prentice Hall, 3rd edition

Johanson, J. & Vahlne, J.-E. (1977). The Internationalization Process of the Firm – A Model of Knowledge Development and Increasing Foreign Market Commitment, *Journal of International Business*, Spring/Summer, in Johanson, J. & Associates (1994). *Internationalization, relationships and networks*, Uppsala University, Almqvist & Wiksell International

Kinney, T. & Taylor, J. (1996). *Marketing Research – an applied approach*, McGraw-Hill Inc., 5th edition

Kotler, P. (1997). *Marketing Management – Analysis, Planning, Implementation, and Control*, Prentice Hall, 9th edition

Kozminski, A. K. & Yip, G. S. (2000). *Strategies for Central and Eastern Europe*, St. Martin's Press Inc.

- Kvale (1997). *Den kvalitativa forskningsintervjun*, Studentlitteratur
- Lekwall, P. & Wahlbin, C. (1993). *Information för marknadsföringsbeslut*, Liber Hermods Förlag AB, 3rd edition
- Merriam, S. (1998). *Qualitative Research and Case Study Applications in Education*, Jossey-Bass Publishers
- Rangan, V. K., Zoltners, A. A. & Becker, R. J. (1986). The channel intermediary selection decision: a model and an application, *Management Science*, Vol. 32, 1114-1122
- Root, F. R. (1994). *Entry strategies for international markets*, Lexington Books
- Solberg, C. A. & Nes, E. B. (August 2002). Explorert trust, commitment and marketing control in integrated and independent export channels, *International Business Review*, Vol. 11, Issue 4, 385
- Stern, L. W, El-Ansary, A. I. & Coughlan, A. T. (1996). *Marketing channels*, Prentice Hall International, 5th edition
- Stonehouse, G., Hamill, J., Campbell, D. & Purdie, T. (2001). *Global and transnational business – strategy and management*, John Wiley & Sons, Ltd.
- Tapper, G. (21 October 2003). Tufft klimat i Ukraina, *Dagens Industri*
- Tayeb, M. (2000). *International business – theories, policies & practices*, Financial Times/Prentice Hall
- Yin R. K. (1994). *Case Study Research – Design and Methods*, Sage Publications – Thousand Oaks, 2nd edition

Reports

Brown & Rozhnov (31 October 2002). A guide to cross-border contracts in Ukraine (not as exotic as one might think), *Combining East/West executive guide & Russia/Eastern Europe business and finance report*, volume 12, number 19

Exportrådet (1) (13 January 2003). *Marknadsplats Östersjön – Marknadsintroduktion Ukraina*

Massor, J. & Rosberg, M. L. (1998). *Entry mode choice for a consultancy company – case study Colombia*

Nilsson, C (2003). *The Teng School of Tools*.

PricewaterhouseCoopers (April 2003). *Ukraine: A business and investment guide*

Swedish Trade Council Kiev (October 2003). *Mini Market Check – Marketplace Baltic Region*

U.S. & Foreign Commercial Service and U.S. Department of State (1) (2002). *Ukraine – Industry Sector Analysis: Trends in the ICT market*

World Markets Research Centre (31 August 2003). *WMRC Country Report: Ukraine*

Internet sources

Altfeld Inc. – Strategic Planning (No date). Marketing and Sales Consultants, *Criteria for Selecting a Distributor*. Accessed 18 September 2003. From: <http://www.altfeldinc.com/distributor.html>

Bahco (No date). *One of the world's largest handtools manufacturers*. Accessed 2 November 2003. From: <http://www.bahco.com>

CIA – The World Factbook (No date). *Ukraine*. Accessed 14 October 2003. From: <http://www.cia.gov/cia/publications/factbook/geos/up.html>

Clem, J. I. (August 1999). *NGOs and Political Parties in Ukraine*. Accessed 23 September 2003. From: <http://www.ceip.org/files/pdf/clem.pdf>

Cole, L. M. & Dehner, J. J. (No date). *Business differences – USA and Ukraine*, part 1 and 2. Accessed 2 November 2003. From: <http://www.ukrainebiz.com/Articles/bus-diff.htm>

FACOM (1) (No date). Accessed 2 November 2003. From: http://www.facom-tools.com/anglais/index_a_new.htm

FACOM (2) (No date). *Handtools and garage equipment*. Accessed 2 November 2003. From: http://www.fimalac.com/fil_facom_gb.htm

Gedore (1) (No date). *Gedore*. Accessed 2 November 2003. From: <http://www.gedore.com.br>

Gedore (2) (No date). *Gedore – Welcome to the Gedore Group*. Accessed 2 November 2003. From: <http://www.gedore.de>

Odessa Region Local Government (No date). Accessed 25 September 2003. From: http://www.region.odessa.gov.ua/4s_region/Docs/Investment/7.htm

Planer, B. (8 August 2001). Ukraine – An emerging retail market, *M+M Planet Retail*. Accessed 3 October 2003. From:
<http://www.planetretail.net/Home/PressReleases/Ukraine2001/Ukraine8Aug01.asp>

Regional Business Center Kharkiv (3 December 2000). *Ukraine – a look to the 21st Century – Kyiv Oblast Facts & Figures*. Accessed 18 October 2003. From: <http://www.ukrainebiz.com/Articles/KyivFacts.htm>

Ristau, B. (No date). *Telecommunications infrastructure in Ukraine*, Center for Economic Initiatives. Accessed 3 October 2003. From:
<http://www.ukrainebiz.com/Articles/telecom.htm>

Snap-On (No date). *Welcome to the Snap-On Investor Pages*. Accessed 2 November 2003. From:
http://www.snapon.com/investor/company_overview.asp

Stanley Works (No date). Accessed 2 November 2003. From:
<http://www.stanleyworks.com/>

U.S. & Foreign Commercial Service and U.S. Department of State (2) (November 2002). *Ukraine Country Commercial Guide FY 2003*. Accessed 15 October 2003. From:
<http://www.bisnis.doc.gov/bisnis/country/030311CountryGuideUkr.htm>

U.S. & Foreign Commercial Service and U.S. Department of State (3) (No date). *Country Commercial Guide 2002 Ukraine*, chapter 9. Accessed 2 November 2003. From: <http://www.usatrade.gov/website/ccg.nsf/CCGurl/CCG-UKRAINE2002-CH-9:-004AFB87>

USAG (No date). *Professional tools*. Accessed 2 November 2003. From:
<http://www.usag-tools.com/index.php?index=chisiamo>

Interviews

Bessmertniy, Sergey, *Supply Department – Auto Accessories*, Trade Line, 24 October 2003

Doroshenko, Vyacheslav, *Director of “Tools and Accessories” Department*, Altsest Instrument, 20 October 2003

Götherström, Håkan, *Managing Director*, Luna Export AB, September-October 2003

Klouman, Karin, *Product Manager – Industrial Handtools*, Luna Export AB, September 2003

Kowalski, Tomasz, *Product Manager*, Luna Export AB, September-October 2003

Nilsson, Claes, *Managing Director*, Teng Tools, September-October 2003

Nonev, Kamen, *Managing Director*, Instruments Ltd., 21 October 2003

Novikov, Nikolai, *Director*, Stroykomplekt-N, 20 October 2003

Popovich, Sergey, *Managing Director*, ERA, 21 October 2003

Sibilev, Sergey, *Managing Director*, Vist, 22 October 2003

Siryk, Sergey, *Financial Director*, Force Ltd., 21 October 2003

Spivak, Michael, *Commercial Director*, Formula 1, 23 October 2003

Appendix I – Interview questions

- Could you give us a brief background of your company, such as year of establishment, number of employees and age level?
- Which areas of trade do you cover and what product lines do you handle?
- Who are your primary customers and how do you reach them?
- Who do you consider as being your main competitors?
- What does your procedure of starting a relationship with a new manufacturer/retailer look like? Do you have any own distributors, if so, who are they?
- How do you promote yourself? Do you prefer to conduct the marketing activities of your own, or do you let the manufacturer/retailer conduct these?
- In which areas are you geographically represented? Other countries than the Ukraine as well?
- How does your logistics system work and how is it built up?
- How do you profile your company and the products that you are representing?
- Do you have any experience from a similar product line to Teng Tools?
- Do you have a sales organisation? Are you selling actively, with the sales force working “on the field” and making visits or are they working from the office? What about follow-up and after sales? What about innovation, creativity and pioneering? Does the sales force have knowledge about the products they sell?
- What are yours and your sales force’s knowledge and experience about the market?
- Do you arrange meetings with your sales force?
- Do you have a warehouse? If so, what is the local storage capacity?
- Do you have a showroom and do you attend to exhibition? Are there space and marketing possibilities for Teng Tools?
- How would you prioritise Teng Tools?
- Do you represent any products from Teng Tools’ competitors?
- What are the possibilities for Teng Tools to receive exclusivity?
- What is the turnover of your company?
- What is your reputation among suppliers, customers, banks and so on?

- What is the reputation of your competitors?
- How is your relation with the local government?
- How is the atmosphere within your company and with your customers – formal, informal, family-, or friendly-like?
- How is the general knowledge of English in your company?
- What is the general attitude towards new thinking and new concepts and how developed is new technology and e-commerce within your company?
- Would you be interested in representing Teng Tools and its product line?
- If so, would you be willing to implement the majority of the entire range of Teng Tools’ products? How prominent would Teng Tools be in your product assortment?
- In future, when time is appropriate, do you think that you would have any possibility and/or interest in distributing other product lines of Luna?
- Do you have the possibilities and are you willing to put money into financing for the catalogue and other marketing materials?
- Do you have any special payment terms with other manufacturers/retailers?
- What is the general attitude within your company when it comes to “delivery on time”?

Appendix II – Instruments Ltd.

General information about Instruments Ltd.

The Managing Director of Instruments Ltd. (Instruments), Mr. Nonev was not very keen on talking to us as he considered Teng Tools as his company's main competitor in the Ukraine.

Instruments was established in 1997 and has five employees. In the beginning, the company supplied a lot of tools, but today the focus is more on big machines. The company still supplies tools to large industries, such as mining and shipping. Instruments also has a partner in Bulgaria (Euromarket), which is strong in the Bulgarian tools market.

Instruments' main competitors are premium class companies, such as FACOM, Gedore and Snap-On. Consequently, Instruments is profiling itself as top quality. The company is only conducting business in the B2B area in the Ukraine.

Instruments Ltd.'s way of conducting

There are a couple of important factors, according to Mr. Nonev, that are to be considered when starting a new relationship or deal. These factors include important information about the company and its product range, price list as well as a list of the product range that might be of interest.

Instruments is selling directly to its customers by contacting them personally.

Instruments Ltd. and Teng Tools

Instruments has great experience of similar product lines to Teng Tools. However, the Managing Director argues that Instruments has a better product range as it is focusing on Gedore, who has top quality and price. As a result, Instruments would not prioritise Teng Tools in case of including this range into its business.