

42819

KOÇ UNIVERSITY  
GRADUATE SCHOOL OF BUSINESS

INTERNATIONAL MARKETING STRATEGIES  
OF EKOM - ECZACIBAŞI  
IN THE RUSSIAN MARKET

42819

An MBA Thesis

by

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Submitted in Partial Fulfillment of the  
Requirements for the Degree of  
Master of Business Administration

T.C. YÜKSEKÖĞRETİM KURULU  
DOKÜMANTASYON MERKEZİ  
İSTANBUL

1995

INTERNATIONAL MARKETING STRATEGIES OF  
ECZACIBAŐI - EKOM IN THE RUSSIAN MARKET

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June 16, 1995

## ABSTRACT

With Russia's opening to the market economy, many Western countries began trading with Russia. From the beginning, Turkey, being Russia's neighbour country, benefited from deals such as the natural gas deal.

This market research was undertaken to analyse the possibility of Ekom-Eczacıbaşı's entry to the Russian market on an established base. This study has three parts: Country Analysis, Market Audit & Competitive Market Analysis, and Preliminary Marketing Plan. The analysis provided supporting evidence that the entry of Ekom-Eczacıbaşı will be successful.

## ÖZ

Rusya' nin piyasa ekonomisine geçmesiyle birlikte Batı Avrupa ülkeleri ile Rusya arasındaki ticaret hacminde belirgin bir artış kaydedilmiştir. Rusya' nin yakın komşusu Türkiye, bu gelişmenin getirdiği avantajlardan gerek özel sektör yatırımları, gerekse doğal gas anlaşması gibi devletler arası anlaşmalar sayesinde faydalanmıştır.

Bu piyasa araştırması Ekom-Eczacıbaşı' nin Rus piyasasına girişinin mümkün olup olmadığını araştırmak için uygulanmıştır. Üç kısımdan oluşan bu projede, ülke analizi, piyasa testi ve rakiplerin analizi, pazarlama planı gibi konular detaylı şekilde incelenmiştir. Elde edilen sonuçlar Ekom-Eczacıbaşı' nin Rus piyasasına girişi başarılı olacağını destekleyici niteliktedir.

## ACKNOWLEDGEMENTS

I wish to express my sincere gratitude to

Prof. Dr. Şayeste Daşer,

Hüsamettin Onaç, General Manager of Ekom-Eczacıbaşı,

Gülseren Aygüler, General Manager of Balsu Pazarlama A.Ş.,

whose guidance, assistance, advice as well as encouragement helped me throughout my work.

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## COUNTRY ANALYSIS

### 1. Introduction

The Russian Federation's major nationalities are Russian, Tatar, Ukrainian, and Belorussian. Its capital is Moscow and its population is about 148.3 million people. The official language is Russian and the religion is Russian Orthodox.

The area of the Russian Federation is of 17.08 sq. km, and its population density is of 8.69 per sq. km. Its capital, Moscow, has over nine million inhabitants. The Russian Federation consists of 12 federations, 15 autonomous regions and 55 regions. Its borders are: Azerbaijan, Georgia, Ukraine, Belarus, Latvia, Estonia, Finland, Norway, Mongolia, China, North Korea, Kazakhstan, Lithuania-Kaliningrad and Poland- Kaliningrad. Its north to south length is 4000 km, and its east to west length is 9000 km. Its coastline's length is of 37653 km.

Russia's major natural resources are oil, natural gas, coal, timber and various minerals. The currency is the Rouble, which is the equivalent of 100 kopecks.

(See Appendix A for further details concerning key general highlights from Russia)

The Russian Federation was born in 1991 as the reforms of President Gorbachev undermined the control of the centralised communist system, and nations comprising the USSR were demanding their independence. All republics of the Soviet Union declared formal independence. 11 out of 15 former Soviet Republics agreed to form the Commonwealth of Independent States (CIS). Their number later increased to 12 after the accession of Georgia in late 1993.

Russia is rather different from other emerging markets:

- Whereas most other emerging markets need to industrialise to spur their growth, Russia needs to de-industrialise to offer its people a better standard of living;
- Whereas in other emerging markets poor people are generally left to fend for themselves, Russia inherited from Communism a universal system of welfare. This system is an asset as long as it helps to ensure that the poor continue to support reform;
- Russia enjoys advantages denied to other emerging economies; it has immense natural wealth in the form of oil, gas, precious metals and diamonds, as well as strong human resources: a universally literate work force and an abundance of scientists and engineers. Russia's infrastructure may be in need of an overhaul, but at least it has the electricity grid, the roads and the telephone lines that other emerging markets lack.

Russia has to do three things: curb inflation, give substance to the fragile property rights created through mass privatisation, adhere to a consistent policy. (1)

**INDICATORS OF ECONOMIC DEVELOPMENT IN EMERGING MARKETS**

	GDP per head \$, 1992	Rural popu- lation %, 1992	% of total employment, '90-92			Telephones per '000 population 1990
			Agri- culture	Industry	Services	
China	2,100	72	73	14	13	11
Indonesia	2,960	70	56	14	30	6
Poland	4,880	37	27	37	36	86
Brazil	5,250	23	25	25	47	63
Hungary	5,730	34	15	31	54	96
Thailand	5,900	77	67	11	22	24
Argentina	6,080	13	13	34	53	96
<b>Russia</b>	<b>6,220</b>	<b>26</b>	<b>20</b>	<b>46</b>	<b>34</b>	<b>149</b>
Mexico	7,420	26	23	29	48	66
Malaysia	8,050	55	26	28	46	89
OECD average	17,700	23	5	29	66	640

*Sources: Human Development Report; World Development Report.*

In 1993, the total labour force amounted to 86 million, of whom 71 million were gainfully employed (including 5.6 million receiving full-time education). But Russia has a very high level of hidden unemployment. The officially registered level of unemployment was 0.95% or 790,000 people in 1993, and the level of hidden unemployment was estimated to be around 8-10% or 7-9 million people.

The annual inflation rate for 1993 was 800%, and for 1994 it was 324%. Increased military expenditure, linked to the Chechenya crisis made the inflation rise sharply toward the end of 1994 (16% in December) and at the beginning of 1995 (18% in January). Inflation is unlikely to fall below 4-5% per month during 1995. (2)

A stratum of population, estimated at about 15 million people, has emerged, that has a relatively high monthly income (more than Rb 50,000). More than 63% of the population earn less than Rb 30,000 per month, but the official statistics ignore the income derived from the grey economy - a major source of income. Most of the wealthy people are employed in export-oriented branches of the economy, joint-ventures and private commercial firms.

Even though average real income grew by 16% during 1994, income gaps are increasing, and the top 10% of Russian workers earn over 13 times more than the lowest paid employees. This shift in income distribution may suggest an increase in poverty, but there is a significant proportion of the population which can afford Western products. The general purchasing power of the population was \$80-100 per month in 1994.

***AVERAGE INCOME AND SAVINGS (IN 1993, RB)***

	Jan.	Feb.	March	April	May	June
Average wage (working population)	15,690	18,672	22,000	30,562	37,505	47,000
Average pre-tax income (total population)	7,531	10,970	13,444	18,133	20,795	29,969
Average savings per head	17,542	20,415	23,191	28,935	34,681	43,482

*Source: Russian Association of Managers, Research Centre*

***DISTRIBUTION OF AVERAGE MONTHLY INCOME (%)***

<b>Income, Rb</b>	<b>June 92</b>	<b>December 92</b>	<b>June 93</b>
Up to 2,000	83.9	1.3	0.0
2,000-7,999	16.1	93.9	36.0
8,000-19,999	16.1	93.9	36.0
20,000-29,999	16.1	93.9	27.7
30,000-50,000	16.1	4.8	26.5
More than 50,000	16.1	4.8	9.8

*Source: Russia - 93, second edition, Moscow 1993*

## 2. Investing in Russia

The advantages of investing in Russia are cheaper labour costs, raw materials and general overhead costs; and the hope to gain a new market. The capacity of the Russian consumer market is still insignificant.

The competitiveness of local enterprises, both in terms of quality and price of product, will be seriously impeded by the steady increase in the cost of raw materials and energy. Significant cuts cannot be expected in overhead costs, as the permanent presence of Western managers, required to provide the necessary degree of quality control, proves to be more expensive than in most Western capitals. Rent rates in large cities equal or exceeding those in Tokyo and London make office costs prohibitive.

The tax climate is unstable and generally unfavourable to foreign investors. Still, the Presidential Decree 73 was issued on January 25, 1995 to reduce

import tariff rates for foreign companies producing components and intermediary goods in Russia. This decree stipulates that tariff rates for such goods can be cut by up to 50% if they are brought by foreign investors establishing facilities to manufacture the same type of goods within Russia. But the cumulative investment must be at least \$100m for the maximum five years during which this incentive can be used.

## 2.1. Trade Restrictions

The current Russian system of control on trade is based on tariff and non-tariff regulations, as well as currency controls including the mandatory surrender of 50% of export earnings to the domestic currency market. Permanent export and import tariffs, a Law on Customs tariffs, a Customs Code and other legislative acts and instructions have also been introduced to regulate foreign economic activities.

Licensing, tariffs, taxes, special procedures for establishing customs value, special supervision over the safety of imported products and a series of customs procedures are the import controls used in Russia. Import duties can be paid in roubles or foreign currency converted at the central bank exchange rate existing at the time of accepting the cargo customs declaration.

Following consumer's rights law and resolutions of the government, safety standards established by the Russian Standards Committee must be met by foreign products, and a corresponding certificate issued in Russia or in another country having an international or bilateral certification agreement with Russia is required.

## 2.2. Role of the government in the marketplace

For the present, Russia is politically unstable and the situation is not likely to improve in the near future. The distribution of responsibilities between authorities may confuse foreign businessmen trying to enter the Russian market. There is a total of 23 ministries and 13 state committees involved in economic affairs. With the transition from closed market economy to open market economy, the industrial ministries have lost a significant part of their authority, and have been converted into monitoring and data-gathering bodies.

The move toward decentralisation gave the regional authorities an increasingly important political role. Exclusive rights are granted to local soviets to approve plans and programmes for the economic development of their territories. The head of the local administration has the right to conclude agreements and contracts with state agencies and public associations, domestic and foreign factories and organisations. The local soviets have a wide array of authority, such as conclude sales contracts with foreign partners, establish joint-ventures operating in the consumer

goods production and services, engage in trade and encourage regional exports, as well as the freedom to plan for the use of investments for the local budget.

Foreign companies involved in commercial disputes use the local arbitration court, which resolves disputes between companies holding a local presence in the specific region or city, or the International Arbitration Court under the Russian Chamber of Commerce and Industry, which handles cases between foreign non-resident companies and their Russian partners.

Since November 1991, when the president Yeltsin signed a decree on liberalisation of foreign economic activity, foreign trade activities were diversified, the foreign trade organisations (FTOs) lost their monopolistic privileges and Russian firms became free to deal directly with foreign partners and foreign trade activities do not require registration with any official body. In August 1994 the custom duties system underwent changes; import tariffs previously set at 5-25%, have now a range of 5-100%. Russian exporters as well as Russians having joint-ventures with Western partners are under the obligation of surrender 50% of their hard currency earnings in exchange of roubles to licensed Russian banks. This system fostered a widespread flight of currency, leading the government to impose more tightened control.



### 3. Housing Sector

The housing sector is very important for this research, for the products to be sold are sanitary ware and the success of the strategy is closely linked to the state of the housing sector in Russia.

Russia is a highly urbanised country, with approximately 73% of its population living in cities. A high proportion of the Russian housing stock is recent compared with that of European cities, as during the post-Second World War period, the Soviet Union had the highest rate of urbanisation. Still, urban growth is less concentrated, and the share of population living in cities with over 1 million people is low by international standards. Much housing was built fast, but conditions in the sector are inconsistent with the level of technological development of the country and as well as with its economic potential. Until the privatisation, housing was basically free and represented one percent of the household expenditures, for its was a major element of total labour compensation, used to complement low cash wages. As a result, the quality of housing and maintenance is low. Housing was distributed according to need or social status in the past, so the upper-income stratum of the population has access to much better housing than the average citizen. Flats are smaller in Russia than in the rest of Europe; there has been an increase in living space during the last decade, but the economic crisis seriously affected the construction activity. In 1992, the average living area per head was 16.5 sq. meters. Because of large expatriate business communities and scarcity of accommodation in Moscow and

St Petersburg, the level of rents is very high - a three-room flat in a good part of Moscow costs \$1000-1300 per month, and modest two-room flats cost more than \$200.

By the end of 1994, some 11 million residential flats has been privatised, which represents about 32% of the total number marked for privatisation. They are freely tradable and can also be bought by foreign citizens at prices comparable to that of any other European capital. As a result, there are four types of house ownership in Russia today; municipal, private or cooperative-owned flats, and houses owned by enterprises. In rural areas, houses are usually privately owned. (3)

With the privatisation, maintenance is now done by house owners. A certain stratum of the population has become newly rich and is undertaking its own renovation. Thus the renovation sector for wealthy households is open to concurrence.

#### 4. Channels of Distribution

##### 4.1. Retail Structure

As a result of the mass privatisation campaign, the retail structure in Russia has undergone dramatic changes in 1993; 57% of all retail outlets in July 1993

were run by private owners. 92% of the city of Moscow's retail outlets are privatised. They were privatised through bids, sale of actions, leasing, transformation into joint-ventures. The beneficiaries were workers' collectives, external legal entities and individuals. Before, all retail outlets were under the control of the Ministry of Trade.

Western firms like Estee Lauder, Christian Dior, Panasonic, Sony or Escada established brand stores in Russia. Individual shops and department stores can be approached with the aim of creating a sales network. Large department stores like GUM, the largest in Russia, is subleasing its premises to Galleries Lafayette, Salamander. It is difficult for foreign companies to acquire retail outlets, for premises are not sold, but leased for a period that vary from 5 to 15 years.

If the company's priority is to establish its brand name, the best will be to set up a chain of brand shops, training the local personnel, and hiring expatriate managers. Potential partners willing to lease their premises can be located through local administrations, advertisements in the local media, or through personal contacts among resident expatriates engaged in trade.

The lack of nation-wide retail chains and wholesaling networks has made selling goods on the Russian market costly and time-consuming, while the transport of goods has been complicated by the fragmentation at the wholesale and retail level. Most of Russia's transport equipment is in poor state, and local haulage companies are unreliable. Distribution has to be undertaken by the company's themselves.

## 4.2. Establishing a Sales Presence

With the collapse of the foreign trade organisations (FTOs), Western companies must either build their own distribution network (with high overhead costs) or find new intermediaries in wholesale and retail trade.

There are three basic approaches: focus on old FTOs and large state-owned production businesses that can afford substantial volumes of independent imports, find or build a distribution network (a time-consuming and burdensome process) and transfer the sales management and market development burden to the distributors, or partial ownership, for setting up a distribution system with a local joint-venture partner can hold down expenses in two ways; by restricting overheads through cost-sharing, and by reducing development costs through access to an existing distribution network.

Non-Russian managerial staff - expatriate staff - is very costly (30-40% increase in base salary, accommodation, insurance, and all other expenses) and as the number of trained local accountants and managers is increasing, many firms prefer training Russian staff. Local senior managers were receiving an average \$2,000-4,000 per month at the beginning of 1995 in Moscow and St Petersburg, middle managers \$800-1,200 per month and bilingual secretaries \$700-800 per month. Salaries in provincial cities were 40-50% lower than in cities.

## 5. Promoting Consumer Goods

In Russia, only 5-10% of the population can be seen as a target for imported goods. For a company to position itself properly in the market, advertising is indispensable. Print media and television advertising are particularly effective, and much cheaper than in European countries.

Promotional material must be in Russian, unless the target audience is multi-lingual. Western and local advertising companies can be found on the market; the latter offers low cost but lower quality service, while the former offers higher quality with higher costs.

The small proportion of the Russian population at which imported goods are targeted is less sensitive to the price of the product than to the product's appeal - fashion, status symbols in advertising are usually very effective. This segment of the population is looking for high-quality goods and has the means to afford them. Hard-selling campaigns should be avoided, and humorous advertisement is appreciated; still, local agencies should be consulted about TV advertising jingles, for advertising is very much culture-oriented, and a thorough understanding of local tastes is necessary.

Customer goods can be advertised in three ways; through print media, TV and radio advertising, or billboards.

There are hundreds of daily and weekly newspapers, popular magazines and specialised periodicals in Russia. Most Russian editions are only black and white, and print quality is poor. Adverts printed in the largest circulating dailies are likely to draw the most attention. As advertising in Russia tends to be informative rather than imaginative, companies usually buy a full page and outline in details the product's advantages.

**ADVERTISING RATES IN LEADING RUSSIAN NEWSPAPERS, MARCH 1995**  
(*\$*)

<b>Newspaper</b>	<b>Advertising rate per full page</b>
<i>Izvestiya</i>	8,300
<i>Komsomolskaya Pravda</i>	34,000
<i>Nezavisimaya Gazeta</i>	6,000
<i>Rossiyskaya Gazeta</i>	24,000
<i>Argumenty I Fauty</i>	20,500

*Source: Izvestiya, Komsomolskaya Pravda, Nezavisimaya Gazeta, Rossiyskaya Gazeta, Argumenty I Fauty*

Television advertising is a very profitable local advertising option, for the rates are still low by Western standards. The Russian Channel broadcast to an audience of more than 130 million. Advertising rates on the Russian state TV are between \$4000-6000 per minute, except at prime time, when rates can be as high as \$10,000 per minute.

Radio is a secondary advertising medium; still, well-placed radio adverts can keep brand consciousness high. The peak listening time in Russia is in the morning before work.

***ADVERTISING RATES ON RUSSIAN RADIO, MARCH 1995 (\$)***

<b>Station</b>	<b>Peak rate 8am-10am</b>	<b>Non-peak rate 12pm-5.30pm</b>
Evropa Plus	800	95
Radio Rossii (exc. VAT)	1,400	300
Delovaya Volna	150	100

*Source: Evropa Plus, Radio Rossii, Delovaya Volna*

Billboards and other types of outdoor advertising are less used in Russia due to high costs and local bureaucracy, as well as to minimum rental time limits, ranging anywhere from three months to an entire year. In big cities such as Moscow and St Petersburg, outdoor advertising is more effective, and posters may be placed on the exterior of buses and trams, inside underground trains, and in passages and on street billboards.

## MARKET AUDIT & COMPETITIVE MARKET ANALYSIS

### 1. Introduction

VITRA products were sold on the Russian market from 1988 until 1994 as a part of a bilateral agreement, the natural gas deal. Sales were made by governmental tender. The exportation and sales were discontinued as a result of the collapse of the centralised system, the subsequent privatisation, the high import duties, and the suspension of the bilateral agreement in 1994.

### 2. The Product

The products that will be sold on the Russian market are four different types of sanitary ware: the wash-hand basin, its support, the closet-WC, and its reservoir. The technical term for the line is "bathroom suite". Their brand name is VITRA.

Complementary products, such as soap-holder, toilet paper-holder and tiles, that is, sanitary fittings, will also be sold. There is no trouble concerning



technical specifications, as the diameter of the pipes is standard. A complete bathroom service will be provided, with architectural as well as installation services. All products will be available in a great variety of colours and forms.

### 3. SWOT Analysis

This section analyses the strengths and weaknesses of Ekom-Eczacıbaşı in relation to the opportunities and threats in the Russian market.

#### 3.1 Strengths

1. **Technological know-how:** Ekom-Eczacıbaşı has 45 years of experience in the production of ceramic sanitary ware. These products are supplied to 23 countries having very high local standards, including UK, Germany, the Netherlands and USA. They have a production of 250 different forms available in 36 colours;
2. **High quality products:** VITRA exports 60% of total capacity; it has a market share of 15% of the German market and represents 22% of sanitary ware imports of Germany. VITRA products are approved by Germany's, the Netherlands's, UK's,

and USA's standard institutions, namely PA, KIVA, UK Standards and US Standards;

3. Possibility of product development, for modifications can be done to fit local standards: CAD/CAM is used in the design of the products. A product development process can be completed within 6 weeks (world standards are 12 weeks);
4. Previous experience in the Russian market with Eczacıbaşı Pharmaceutical Products, which have established distribution channels in the form of a central warehouse and retailing outlets under the name of Eczacıbaşı Drugstores;
5. Experience in franchising showrooms with INTEMA in Turkey. INTEMA is another of Ekom-Eczacıbaşı's brands;
6. Seven year-experience of selling VITRA products on the Russian market. (See Appendix B for a table of the former distribution channel)

### 3.2 Weaknesses

1. Lack of trained managers for such a market;

2. Limited financial resources;
3. Limited experience of production in a foreign country.

### 3.3 Opportunities

1. There is a huge market potential due to the renovation of the existing buildings.  
This was fostered by the privatisation, with the acquisition of property rights, there are more incentives to renovate.
2. Low quality products of the local competitors;
3. Russian customers' desire for high quality products, due to the increase in the Russians' standard of living, the creation of a private sector, and a part of the population, a group of about 15 million people (usually employees of joint ventures, or private entrepreneurs) with income greater than Rb50,000 per month, who are buying Western goods;
4. Lack of marketing activities of local competitors.

### 3.4. Threats

1. Political risk; Russia is undergoing fundamental changes during its shift from a closed economy to an open-market economy, and the situation is not likely to change in the near-future.
2. Social risk, including crime and unrest. While the total number of crimes is declining, business-related offences are increasing. In Moscow alone, 900 cases of ordered killings of Russian businessmen were reported in 1994. As risk increases, big companies have begun building their own security systems, while smaller firms pay "protection money".
3. There is no well-established private distribution network;
4. Lack of available local managers trained on the subject; extensive training will be required.

As a result, it will not be a mass production, due to the low price and the low cost of the Russian local production, but a niche marketing, with high quality products at affordable prices, solely targeted at the renovation sector. The targeted customers are the newly-rich segment eager to renovate its home.

## 4. The Market

### 4.1 Market Description

#### 4.1.1 Geographical regions

The products will initially be launched in the main cities like Moscow and St Petersburg. They will be targeted to the renovation segment.

#### 4.1.2 Forms of transportation and communication available

Cross-Black Sea traffic accounts for over 95% of trade between Turkey and Russia, making the sea link the dominant mode of transport for goods. There are 16 significant Soviet and 11 Turkish commercial ports in the Black Sea, 2 Soviet Ports on the Sea of Azov, and 1 Turkish port (Istanbul) on the Sea of Marmara. Still, most of these ports are characterised by small coastal-type facilities and are only capable of taking ships with a shallow draft. The most active Turkish ports for trade with the Soviet Union are Istanbul, Hopa, Trabzon and Samsun. The most important agent handling sea transport between the former Soviet Union and Turkey is Transbosfor, which is a joint-venture between Bumerang, a Turkish shipping agent, and Sovfrakht, the dominant shipping agent in Russia. [The main local ports available for Turco-Soviet trade are on the Soviet Union side: Batumi, Belgorod-Dnestrovsky, Berdyansk, Illyichevsk, Izmael, Kherson, Kilia, Novorossiysk, Odessa, Poti, Reni,

Sochi, Sukhumi, Tuapse, Ust Dunaysk, Yalta, Yuzhnyy; and on the Turkish side: Ereğli, Fatsa, Giresun, Hopa, Istanbul, Ordu, Rize, Samsun, Sinop, Trabzon, Unye, Zonguldak.]

Since the 1988 International Overland Transportation Agreement between Turkey and the USSR, overland shipping has grown. Though trucking is the most expensive mode of transporting goods after air freight, it is the best way to avoid bottlenecks that often occur with the other modes of transportation. The necessary documents are visas for drivers, CMR certificates issued by the insurance company to specify the type and quantity of cargo, TIR carnet to certify that the cargo is sealed and checked at the point of departure, and Quota Permission issued by the Turkish Ministry of Transportation to certify that the cargo is within the limits of the quota system established by the Overland Transport Agreement, in order to maintain reciprocity in land cargo traffic. Sea and rail transportation are not subject to reciprocity.

The single railroad between Turkey and Russia runs through Doğu Kapı in the Northeast of Turkey and Ahuryan in the Republic of Armenia. The Soviet Union tracks use a gauge wider than the European Standard, so trains crossing the frontier have to unload their cargoes and transport them to Soviet trains.

Turkish Airlines and Aeroflot provide limited cargo services between Moscow and Istanbul. The capacity is between 300 kg and 2 tons, depending on the type of plane used. (4)

***TURCO-SOVIET TRADE BY TRANSPORT MEANS, 1985-87 (TONS)***

<b>YEAR</b>	<b>SEA</b>	<b>RAIL</b>	<b>ROAD</b>	<b>AIR</b>	<b>TOTAL</b>
<b>USSR to Turkey</b>					
1985	936,939	295	399	6	937,639
1986	1,526,610	2,991	8,018	24	1,537,643
1987	2,424,463	13,963	26,761	52	2,465,239
<b>Turkey to USSR</b>					
1985	405,129	25,390	7,352	--	437,871
1986	464,090	27,701	4,444	238	496,473
1987	437,135	22,670	1,655	1	461,461

*Source: D.I.E. (Turkish State Institute of Statistics)*

#### 4.2 The Competitors

There are two main competitors; namely the local manufacturers and the importers.

The local manufacturers sell low quality products at low prices with the minimum variety. They manufacture their products in inefficient, old factories. They receive subsidy from the state.

There are 46 sanitary ware factories in the whole Russian Federation that have significant capacity of production.

Russia	26 factories
Ukraine	12 factories
Belarus	2 factories
Uzbekistan	2 factories
Kazakhstan	1 factory
Georgia	2 factories

When analysing the capacity of these factories, it can be seen that 41.5% of the 11.900.000 items of sanitary ware were produced by three factories, two located in Russia, one in Ukraine. (See Appendix C for Statistics of Production at the Largest Enterprises)

53% of the 57.320.000 m<sup>2</sup> production of wall tiles is made by eight factories, six of them located in Russia, one in Ukraine, and one in Belarus.

56.6% of the 32.800.000 m<sup>2</sup> production of floor tiles is made by eight factories, five of them located in Russia, two in Ukraine and one in Belarus.



The total production of sanitary fitting in the Russian Federation is at the level of 106.000 pieces per year. 76.1% of this production comes from Russia, 22.8% from Ukraine. (5)

The distribution is inefficient; it remained an old centralised system, with very few marketing activities.

They supply the new buildings, i.e., the big sites that are under construction, and they have no distribution for the renovation sector.

There are two kinds of importers:

1. German and Italian importers selling high quality products at very high prices; their costs are also high due to import duties, which are as much as 50% of CIF price. Their service and their supply system are inefficient.
2. Eastern European importers, Czech or Polish, selling low quality products.

Any international company willing to invest locally is a potential competitor or a potential entrant.

### 4.3 The Buyers

The buyers are big firms buying in great quantities. The distribution is central. It is a mass production for new building sites. There is also a new market for small quantity buyers - the renovation sector. There are no showrooms.

### 4.4 Government participation in the marketplace

The government protects and subsidises the local production, giving it cheap land and infrastructure.

### 4.5 Market Size

Estimated industry sales for the planning year are about 12,000,000 items per year. The estimated company sales are about 250,000 items per year; thus representing 0.021% of the total market sales.

## PRELIMINARY MARKETING PLAN

A factory can be established in the region of Moscow within a year. Sanitary ware can be produced from local raw material, but forms and designs will come from Turkey. The sanitary fittings will also be imported from Turkey. It will be an import substitution, and competitors are high quality Western European exporters. Tiles will be supplied from the cooperation that can be established with Tanetti, a locally-established Italian tile producing firm. In this case, the size of the investment will be in the order of \$4,000,000. Meanwhile, in the short-run, until the factory is operational, goods can be exported from Turkey in containers, by TIR or by train.

Investing in the country has a lot of advantages, such as cheaper raw materials and labour, lower transportation costs,... Foreign investment activity is regulated by the Law on Foreign Investments of July 4, 1991. 100% foreign-owned subsidiaries can be established, and profits earned in Russia can be freely repatriated. Foreigners are allowed to participate in privatisation in Russia and may not be subject to discrimination before the law. Registration for the foreign investments must be performed by the Russian Agency for International Cooperation and Development and local authorities. Moreover, foreign investments are not subject to nationalisation,

requisition or confiscation, and if such a thing happens, state administration bodies can be appealed against in Russian courts. In 1992, Russia became member of the IMF, World Bank, the International Financial Corporation, and also joined the Multinational Investment Guarantee Agency, which provides guarantees against non-commercial risks. Corporate income tax rate is of 32% in Russia, to be paid in four instalments.

The bathroom suite will be priced at 80\$, that is, 20\$ per item. The products are to be marketed as luxury items, but they will be priced at 30% less than high-quality foreign imports. The table below shows the gains to be realised from local production in Russia.

***COMPARISON BETWEEN LOCAL PRODUCTION AND IMPORTS***

<b>Local Production's Cost</b>		<b>Import Products' Cost</b>	
CGS	10\$	CIF Price	17\$
		Import Duties	8,5\$
<b>Price</b>	<b>20\$</b>	<b>Price</b>	<b>25,5\$</b>

It will not be a mass production, due to low price, low cost local production, but a niche marketing, high quality with affordable prices, solely targeted at the renovation sector. The targeted customers are the newly-rich segment eager to renovate its home.

As a 250.000 item-sale is forecasted for each year, there will be a \$5,000,000-sale per year.

Two showrooms can be set up, one in Moscow and the other in St Petersburg, in order to promote the products and to provide architectural and installation services.

An association with a Russian partner able to provide a trained, capable local management, can be envisaged; in that case, it will not be a wholly-owned subsidiary, but a joint-venture.

Later on, a system of showroom franchising can be established on the model of the Turkish INTEMA showroom franchising system. Every franchise will also provide architectural and installation services. In all the showrooms, CAD/CAM will be used to provide customers with a design service. A contract will be agreed on with workers to provide the installation service.

Advertising will be done in professional magazines. The brand name VITRA will be emphasised besides Eczacıbaşı. Promotions will be made through the showrooms and through professional magazines.

Catalogues will be prepared, both in Russian and in English, with full details concerning VITRA, its products, the services provided. The fact that full-service will be given, for installation as well as architectural purposes, will be emphasised.

Promotional activities will be targeted to potential buyers, namely entrepreneurs having projects for the renovation of whole sites, the Municipalities of Moscow and St Petersburg, as well as particulars, i.e., expatriates' residences, hotels, multinationals and foreign firms. Important clients of banks will also be targeted.

Stands can also be set up in high class residences under construction in order to promote the products. Stands will also be established in stores selling construction materials.

When the showrooms first open, a whole promotional campaign must be made through the media, on the state TV, on the radio during peak hours, and in the leading Russian newspapers; the promotional campaign will emphasise the high quality of the products and the quality of the services provided.

Later on, when the franchised showrooms open, extensive training must be given to their managers. Expatriate managers are very costly, and should only be employed in the beginning to set up the system. Russia benefits from a very able work force, and Ekom-Eczacıbaşı will only have to provide the necessary training.

There will be two kinds of sales force; project sales force and showrooms sales force, and each will have three elements: an architect, an installer, and a salesman. Personal selling will be the key of VITRA's success on the Russian market.

The terms of sales must be the same as in Russian firms: local currency will be used and a 2-month term of trade will be used. Payments will be made in cash, for financial instruments are still not stable in Russia.



## ENDNOTES

- (1) The Economist, April 8, 1995, A Survey of Russia's Emerging Market
- (2) The Economist Intelligence Unit, Russia, 4th quarter 1993, Main Report; The Economist Intelligence Unit, Russia, 1994-95, Country Profile; The Economist Intelligence Unit, Russia, 1st quarter 1995, Updater.
- (3) Russian Economic Reform: Crossing the Threshold of Structural Change, 1992, the World Bank, Washington, DC
- (4) Turkey Route to the Soviet Market, Sponsored by Interbank, International Business Services, A.S.
- (5) Unpublished internal reports from Ekom-Eczacıbaşı



## APPENDICES

- A. Key General Highlights from Russia (2)
- B. Distribution Channel before 1990 (6)
- C. Statistics of Production at the Largest Enterprises (6)



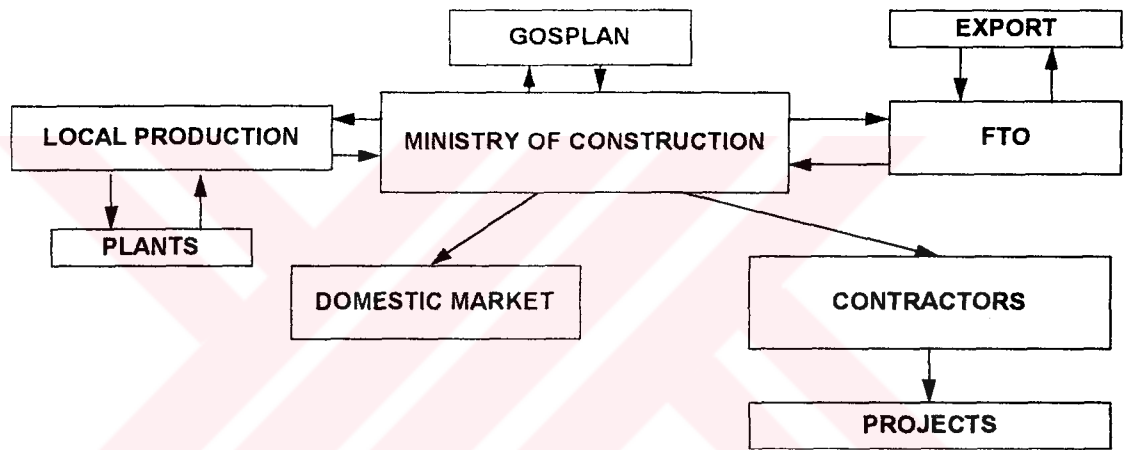
### A. Key General Highlights from Russia

<b>Total Area</b>	17,075,400 sq. km
<b>Borders</b>	Azerbaijan (284 km), Georgia (723 km), Ukraine (1,576 km), Belarus (959 km), Latvia (217 km), Estonia (290 km), Finland (1,313 km), Norway (167 km), Mongolia (3,441 km), China (3,645 km), North Korea (19 km), Kazakhstan (6,846 km), Lithuania - Kaliningrad (432 km) and Poland - Kaliningrad (432 km)
<b>Coastline</b>	37,653 km
<b>Capital</b>	Moscow (over 9 million)
<b>Population</b>	148.3 million
<b>Population density</b>	8.69 per sq. km
<b>Main towns</b>	Moscow (8,957), St Petersburg (5,004), Novosibirsk (1,442, Nizhniy Novgorod (1,441), Ekaterinburg (1,371) (in '000 - January 1992)
<b>Major nationalities</b>	Russian (82%), Tatar (3.8%), Ukrainian (3%), Belorussian (0.8%), German (0.6%), Armenian and Kazakh (0.4% each)
<b>Major religions</b>	Russian Orthodox
<b>Languages</b>	Russian
<b>Major natural resources</b>	Oil, natural gas, coal, timber and various minerals
<b>Fuel resources</b>	Oil, gas and coal
<b>Currency</b>	Rouble (1 rouble = 100 kopeks)
<b>Taxation rates</b>	VAT: 20% basic rate; profit tax: 13% federal rate plus rate variable by region (average regional rate: 22%)
<b>Time</b>	3 hours ahead of GMT in Moscow and St Petersburg; 10 hours ahead of GMT in Vladivostok
<b>Public holidays</b>	January 1, 2 and 7, March 8, May 1, 2, and 9, June 12 and November 7
<b>Telecommunications (area codes)</b>	Moscow: 7.095; St Petersburg: 7.812; Nizhniy Novgorod: 7.8312; Yekaterinburg: 7.3432; Novosibirsk: 7.3832; and Chelyabinsk: 7.3512

*Source: Compiled from The Economist Intelligence Unit, Russia, 4th quarter 1993, Main Report; The Economist Intelligence Unit, Russia, 1994-95, Country Profile; The Economist Intelligence Unit, Russia, 1st quarter 1995, Updater*

APPENDIX B

**DISTRIBUTION CHANNEL BEFORE 1990**



*Source: Unpublished reports of Ekom-Eczacıbaşı*

PRODUCTION OF MAIN TYPES OF PRODUCTS AT THE LARGEST ENTERPRISES						
Enterprises	Country	1985	1989	1990	1991	1992
<i>Sanitaryware, thsd pcs</i>						
Kirovsky Plant of Building Porcelain	Russia	1,510.00	1,551.40	1,542.00	1,563.80	1,587.20
Lobnensky Plant of Building Porcelain	Russia	1,075.00	929.80	1,100.00	1,142.30	1,253.00
Slavutsky Plant "Stroypharphor"	Ukraine	1,815.00	1,894.40	1,995.00	2,025.40	2,114.20
Total		2,890.30	4,375.60	4,637.00	4,731.50	4,954.40
Others		7,119.70	6,844.40	6,823.00	6,848.50	6,975.60
TOTAL		10,010.00	11,220.00	11,460.00	11,580.00	11,930.00
<i>Wall Tiles, thsd.sq.m</i>						
Volgogradsky Ceramic Plant	Russia	2,944.00	3,253.30	3,165.00	3,265.40	3,283.20
Voronezhsky Plant of Faience Products	Russia	2,399.00	3,003.10	3,150.00	3,156.00	3,164.70
Sverdlovsky Ceramic Plant	Russia	1,704.90	1,940.30	1,850.00	1,947.00	1,949.80
Shakhtinsky Plant of Building Porcelain	Russia	1,041.10	1,398.10	1,400.00	1,444.00	1,513.70
Leningradsky Ceramic Plant	Russia	3,300.10	6,472.00	6,700.00	6,655.80	8,354.70
Kuchinsky Ceramic Plant	Russia	2,669.40	2,481.90	2,800.00	2,648.70	2,914.40
Slavyansky Ceramic plant	Ukraine	4,377.90	4,451.00	4,420.00	4,450.70	5,250.30
Production Association "Minskstroymaterialy"	Belorussia	3,514.10	3,818.90	3,830.00	3,895.30	4,015.20
Total		21,950.50	26,818.60	27,315.00	27,463.10	30,446.00
Others		18,999.50	23,471.40	24,045.00	25,676.90	26,874.00
TOTAL		40,950.00	50,290.00	51,360.00	53,140.00	57,320.00
<i>Floor Tiles, thsd.sq.m</i>						
Angarsky Ceramic Plant	Russia	1,435.90	1,442.00	1,450.00	1,289.00	1,234.30
Volgogradsky Ceramic Plant	Russia	1,678.00	1,645.10	1,600.00	1,709.70	1,713.00
Voronezhsky Plant of Faience Products	Russia	1,443.00	1,447.70	1,350.00	1,325.50	1,328.30
Sverdlovsky Ceramic Plant	Russia	1,357.50	1,142.90	1,000.00	851.60	914.80
Kuchinsky Ceramic Plant	Russia	1,764.70	1,664.40	1,800.00	1,629.40	1,802.80
Slavyansky Ceramic plant	Ukraine	4,304.90	4,168.50	4,166.00	4,176.60	4,093.30
Kharkovsky Tiles P-A11lant	Ukraine	4,084.50	4,302.30	4,520.00	4,522.70	4,618.00
Production Association "Minskstroymaterialy"	Belorussia	2,823.20	2,823.00	2,843.00	2,838.80	2,871.20
Total		18,891.70	18,635.90	18,704.00	18,343.30	18,575.70
Others		11,938.30	12,104.10	11,116.00	12,836.70	14,224.30
TOTAL		30,830.00	30,740.00	29,820.00	31,180.00	32,800.00

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