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SCHOOL OF ECONOMICS AND BUSINESS

MASTER'S THESIS

**FORMATION OF ENTRY STRATEGY INTO THE RUSSIAN
MARKET FOR SLOVENIAN STEEL COMPANY ACRONI**

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TATYANA BOBROVNIKOVA

AUTHORSHIP STATEMENT

The undersigned Bobrovnikova Tatyana, a student at the University of Ljubljana, School of Economics and Business, (hereafter: SEB LU), author of this written final work of studies with the title Formation of entry strategy into the Russian market for Slovenian steel company Acroni, prepared under supervision of PhD, prof. Katja Zajc Kejzar.

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INTRODUCTION

Last decade has been one of the difficult periods for the global economy. Virtually all industries have felt the negative impact of the crisis, including world steel market, oil and gas, petrochemical industries. Until 2008 the world steel industry had grown a tremendous pace, but then the recession spread across all industries, steel prices were falling as result, the steel industry was practically ruined: trade volume declined sharply, steelmakers introduced significant production cuts. The real steel consumption fell by 60 million metric tons from 2007 to 2012 (De Carvalho, 2017).

Now the world economy is going through another transition stage of development. From 2014 the growth in the advanced economies is gradually increasing, but at the same time it is slowing down in the developing countries. This combination of trends generates tension and new problems. The advanced economies are demonstrating more positive results after the economic crisis, they are expected to support demand, improve situation in banking sphere and stimulate investment. According to World Economic Outlook report (2018), the global economic growth is estimated to have reached 3.0% in 2017, 2018 from as the highest rate of global growth recorded since 2011. Moreover, the global growth is expected to remain steady at 3.0 % in 2018 and 2019. World industrial production and the global trade have increased, economic sentiment indicators have also strengthened, investment conditions have improved in general (Office of Department of Economic and Social Affairs of United Nation, 2018).

Meanwhile, the situation on the steel market is not so prospective. The global steel industry is recovering from 2016, still the steelmakers are facing the weak demand and oversupply. In general, over the past 10 years global steelmaking capacity has increased by almost 1 billion ton (by 88% due to the Asian region). Almost all the global steel producers are in a difficult situation, nowadays there is the existence of surplus production capacity, which inevitably puts pressure on prices and reduces the profit margin. The world steel price index reached the bottom in 2015 and after it has been gradually rising. According to the World Steel Association steel demand is forecasted to grow slightly by 0.9% in 2018 (De Carvalho, 2017).

Moreover, the United States of America decision of imposing 25% tariffs on steel products created additional turbulence on the world steel market. From June 1, 2018 the metal tariffs according to Section 232 were implemented that caused a lot of legal proceedings against the US as they go against international rules. Such kind of protection policy could result in rebalancing on the world steel market, breaking out business relationship and reducing demand for steel in the whole world. A lot of market analytics predict negative effect on steel - consuming industries in the USA such as construction, energy, oil and gas industries (Conca, 2018). The European steel companies are forced to search new markets in order to keep production occupied as demand for steel in Europe remains relatively low. At the same

time, access to new markets is also problematic for European companies due to significant competition from Asian and Indian manufacturers.

In 2016 global steel demand did not change compared to 2015 and remained at 1 500 ml tons. Among growing markets were China (1%), India (4,1%), the European Union (2,2%), the ASEAN economies (11,4%), but at the same time a decline was observed in Latin America (13,6%), the CIS (4,1%), NAFTA (1,6%), the Middle East (1,3%) and Africa (2,1%). In current situation it is crucial to find appropriate market and special niche where the European steelmaker can have positive effect from sales activity in terms of volume and profitability. Nowadays the steel companies track carefully situation on the markets, catch up consumption trends in main consuming industries and activities of competitors due to high risks and quite high level of investments that should be paid off. So, the entry strategy is one of the critical part of corporate strategy for the steel companies around the world.

Since entering a foreign market requires great resources it is one of the most crucial strategic decisions for the company. Therefore, entry strategy is becoming more and more discussed and investigated subject from different prospective. In last decades a huge impact of the fast processes of globalization and business expansion are observing all over the world involving major industries. As a result, the scientific community show strong interest to this topic trying to investigate various aspects of the process: choosing type of entry mode, special characteristic of implementation that can be more appropriate for different industries, potential problems which may occur on foreign markets and so on (Hollender, Zapkau & Schwens, 2016; Li, Zeng & Zhang, 2013).

According to scientific works there is a vast number of the reasons why companies enter the foreign markets, among which are relative saturation of the domestic market, change in purchasing power, the possibility of finding new customers abroad, the favourable commercial situation in foreign markets, the possibility of eliminating seasonality in the demand for goods as well as extending the product life cycle (Brown, Dev & Zhou, 2003; Laufs & Schwens, 2014).

Also, company's entry modes and their sequence might vary depending on internal resources and countries characteristics. Moreover, in order to create accurate entry strategy, companies should spend enough resources to conduct a research on country-specific characteristics as well as analysing market conditions, potential level of consumption, main trend on market, behaviour of competitors and all other main factors that might influence company's performance abroad.

The purpose aims and research questions

The research interest of the Master's thesis is related to the formation of market entry strategy. It deals with internationalisation of the steel mill Acroni, a part of Slovenian steel group into the Russian market. Currently majority of European steel mills are facing insufficient local consumption volume, pressure from Asian export along with unstable

situation on the raw material markets. Thus, they are forced to search new markets and potential customer's segments. Acroni produces high- value added products for specific market niches therefore the steel mill has to spend a lot of resources for seeking new sales channels and customer segments.

At the same time Russia is one of the most interesting markets for European steel producers for several reasons. Firstly, the Russian economy shows growth in steel consuming industries such as construction, engineering, energy and chemical industries over last years. Also, in Russia there are a lot of state projects planned to implement in nearest future: the construction of large industrial, sports facilities, modern designs, bridges, etc. Secondly, the Russian steel producers have pitfalls in production of stainless and special steel grades since they are focused more on mass production with sufficiently low value-added products (The bulletins of the Special steel and Alloys consumer and supplier's association, 2017; Office of Mechel headquarter, 2018).

The primary research question of the thesis is to examine how company Acroni choose new market and evaluate its attractiveness and potential, including which modes can be used for entry in particular time and under circumstances.

The purpose of the Master's thesis is to help Acroni in developing a Russian market entry strategy. According to the purpose Master thesis main **objectives** are as follows:

- (i) to assess the possible risks and benefits of doing business in Russia,
- (ii) to describe the competitive environment of the steel business in Russia,
- (iii) to value the demand for the company's products and potential customers segments,
- (iv) to investigate the factors that might influence the entry strategy, and
- (v) to identify and compare relevant entry modes to the Russian market and the associated costs and benefits.

Research methods and data

To reach objectives of thesis I first employ PEST analysis, that is a convenient method for analysing the macro environment of an enterprise as well as a tool for long-term strategic planning for 3-5 years ahead. Further, I adopt SWOT- analysis for evaluation of company's strength, weakness, opportunities and threats, and Porter's five-force model for understanding current situation and potential trends in the steel industry. For conducting analysis, the combination of two types of data was used: primary data from questionnaires and secondary data from different sources. The expert survey was used to collect information about doing business in steel industry in Russia, main problems and expert's estimation about future trends. Secondary survey data was gathered in different official sources such as World Steel Association, the World Bank, International Stainless Steel Forum, federal and

regional documents and program, monthly reports of Special Steel and Alloys Consumers and Suppliers Association and so on.

Following the stated objectives Master thesis is divided into eight **chapters**. The literature review is devoted to understanding the main theoretical approaches concerning different aspects of strategic management and internationalization processes. It presents short historical review of foreign market entry strategy process. Also, the first chapter includes the attempt to create classification of research approaches to entry strategy from different perspective. Next chapter describes market entry strategy as internal process: main components of strategy, types of entry modes, timing and market selection criteria. Chapter 3 is devoted to analysis of situation on the global steel industry with main trends and tensions that were described in accordance to Porter's five forces model of industry's rivalry. The separate chapter presents SWOT analysis of Acroni for understanding the company's potentials and existing internal restrictions as it is very important to consider internal resources and capabilities in formation of entry strategy.

Chapter 5 is devoted to PEST analysis of Russia which helps to describe the main trends in political, economic and social environments. This method of screening allows Acroni deeply understand countries internal processes and predict problems company might face in future. The following two chapters provide information on demand on Russian market and activities of main competitors which is necessary information for entry decision-making. Also, it is given estimation of consumption volume, description of customer segments for prediction of future sales volume and creation of marketing strategy. Evaluation of supply volume from main competitors, their positioning on market and limitations gives ideas on which entry strategy Acroni should choose for more successful implementation. After collecting all necessary information and research data it will be possible to prepare special chapter where proposal for formation exact entry strategy for Russian market will be outlined.

1 LITERATURE REVIEW OF ENTRY MODE STRATEGY

Since market entry strategy requires great resources and risky decision that might bring either success or failure, it has become one of the most discussed topics in the fields of international management and marketing. Over the last two decades the extensive interests to the process of internalization has been observed among scientific society, so a lot of theoretical and empirical concepts concerning various aspects of entry modes have been created and developed. The purpose of this chapter is to provide review of the most influential theories concerning entry mode strategy and connected factors. It will present the short description of the main theoretical concepts that allow to investigate possible entry strategies from different perspectives. But it should be mentioned that none of those theories cannot answer all questions connected with entry strategy and provide entire explanation of how companies should penetrate foreign markets.

First of all, it will be presented short descriptions of ideas from modern strategic management theories, e.g. Resource based view, Transaction cost theory, and Institutional theory that might be useful for explanation of different aspects of entry strategy. Secondly, it will be given presentation of four main theories of internalization process.

1.1 Strategic management theoretical perspectives

1.1.1 Resource - based theory

In the resource-based view (RBV) the main subject of analysis is a company, not industry or market trends. According to the resource-based view, a firm is not considered as a set of businesses, but as a set of resources and competencies, therefore, each company is specific and unique. They understand the resources of the organization as a broad concept that unites all the factors that enable organizations to produce, sell products and services, deliver customer value, achieve competitive advantage (financial capital, physical assets, know-how, organizational resources and so on). Significant contribution for development of this theory was done by Penrose, Prahalad and Hamel, Conner, Montgomery, Teece, Peteraf.

The approach comprises the following main ideas:

1. The success of the firm's activity in the strategic plan is determined by its sustainable competitive advantages over other companies.
2. The main factor for gaining competitive advantages is the availability of strategic resources that allow to implement successful competitive strategy.

Supporters of the resource approach view the strategy as the aggregate of two decision groups: decisions about the amount and quality of the necessary resources and decisions about the behaviour on the resource markets. Resources play a fundamental role; therefore, management should allocate them professionally. Given these main ideas, companies thinking of entering new market should evaluate internal resources and possibilities of how they will use them on foreign markets to maintain advantaged capabilities. This approach emphasizes themes of choice of partnership types, allocation of different types of recourses, generation of competitive advantages and long- term profit maximization by entering new markets. Within RBV it is also discussed the issue of high competitive markets and possibilities of companies to create various barriers for new entrants. So according to RBV companies should evaluate potential costs and benefits so that to make decision and predict how they will transfer key resources in order at least to keep competitive advantages on the host markets. Only after careful investigation can company adopt entry strategy for new market. Therefore, scholars propose seven possible scenarios of entry strategy depending on location of generation of competitive advantages: indirect exporting, direct exporting via host country intermediaries, directs exporting via company owned channels, contractual mode, production joint venture, marketing joint venture and wholly owned subsidiary (Sharma & Erramilli, 2004; Ekeledo & Sivakumar, 2004).

1.1.2 Transactional cost theory

Rapid growth of the multinational enterprises (MNE) attracted attention from academic society in the 1970th, this is how transaction cost theory appeared. Transactional cost theory is associated with two economists Coase (1937) and Williamson (1975, 1985) who chose an act of economic interaction or transaction as the main research subject. Each transaction entails different type of costs such as the cost of negotiating, executing, monitoring, etc. According to the theory companies always try to spend resources rationally so the main goal is how to minimize transaction costs of variety of operations and to avoid inefficiencies. Each transaction is characterised by the following features: conflict, mutuality and order. On the market companies cannot find ideal conditions for operation and transparent information. The presence of transaction costs limits the opportunities for mutually beneficial exchange, and the greater the number of parties entering the transaction, the higher the level of transaction costs and the less the possibility of free contracting between the owners of the factors of production. The transaction costs theorists managed to identify the most important characteristics that determine the essence of the firm (Brouthers, 2013). Among them is the formation of a complex network of contracts, the long-term nature of business relations, investment in specific assets, and the administrative coordination mechanism through orders.

The ideas of transaction theory are actively used in researches of entry strategy: how company chooses the operation mode on foreign markets, which assets company should involve, which problems of cooperation it might face and so on. Operations on the foreign market relate to different types of uncertainty: partners behaviour, market opacity, risks with implementation of agreements, cooperation with institutions, etc. Also, transactions costs dependent on frequency of transactions: occasional transaction as usually cause more higher costs for searching for information, partners, costs for controls of deals and so on (Mroczek, 2014).

1.1.3 Institutional theory

The focus of institutional theory switched from a company to the institutional environment of the host country or market (North, Hotho, Pedersen, DiMaggio, Powell). The institutional environment is defined as formal and unformal institutions that influence MNE strategy and performance. The environment consists of political, economic and social elements such as laws, rules, norms, cultural beliefs, etc. As per institutional theory, a company is considered to be social actor with own internal and external environment consisting of structures, standards and practices. According to this theory MNE is heavily dependent on environment, therefore, they should adapt business processes and decision to the local conditions. Local rules and circumstances create limitations for MNE entry strategy and its performance, institutional environment always put pressure upon MNE. In such conditions MNE has to search the most appropriate way of doing business and adjust activities of subsidiaries to the local rules by mimicking incumbent firms, adopting similar practices and procedures. The institution theory stresses the importance of different types of organizational pressure that

influence on company strategy and internal processes, therefore, company chooses one of the three types of isomorphism:

1. Coercive isomorphism – organizations are forced to adopt external rules and procedures
2. Normative isomorphism – organizations choose some appropriate practices for installation in order to reach better results
3. Mimetic isomorphism – organizations fully imitate other firm practices in certain conditions.

Scholars highlight the problem of legitimacy of company operations on the host markets, so they demonstrate advantages and potential problems for companies entering developed and emerging countries. One of the main findings of the theory is that MNE should carefully investigate potential environment, evaluate internal resources and create entry strategy according to existing circumstances. It is obvious that developed countries created more stable and transparent institutional environment, so it guarantees more reliable partnership, less risk of transactions and opportunistic behaviour, etc. Meanwhile, developing countries are more unpredictable and problematic from different spheres, so the institutional theory is becoming more and more popular due to great expansion of MNE to developing countries where company might face with lawlessness and unforeseen circumstances. In this case, institutional theory creates such category as institutional distance that measures difference between home and host countries environment (Ferreira & Serra, 2008).

1.2 International business theoretical perspectives

The various approaches to the internationalization process propose different emphasis on the issue of market selection and entry. In this part it will be presented shortly ideas of the following theories: (i) Eclectic paradigm, (ii) the Uppsala or incremental approach, (iii) the industrial network approach, (iv) the bargaining power approach, and (v) born global

1.2.1 Eclectic paradigm

Eclectic paradigm was proposed by J. Dunning (1977) which is based on the following ideas: a company behave rationally, making decision on entry mode according to market situation information, searching compromise between its objectives and costs. The idea behind the eclectic paradigm is to merge several theories of international economics in one approach in order to be able to completely explain the process of internalization (Rugman, 2010). In this paradigm the focus is shifted towards a separate company with certain resources which operates on specific market. Eclectic approach is mainly based on the following key components: ownership advantage, location advantage and internalization advantage (OLI). First of all, a company needs an ownership advantage that might be presented in rare, hard-to-imitate and organizationally embedded resource that allows a company to have a competitive advantage compared to foreign rivals. Resources are considered as quite wide category which relates to control, costs and benefits of inter-firm relationships. Secondly,

the potential country or region should be attractive in terms of creation additional advantages or profit generation. There could be a wide range of attractive factors: from actual location of country to more complex indicators like GDP growth, labour cost, government regulation, etc. Thirdly, internalization advantages relate to costs of transaction and coordination activities on the foreign markets. A company should decide how to organize business abroad by outsourcing some activities or FDI. After answering all three questions a company might choose the most appropriate entry strategy for exact market and situation. The eclectic paradigm is one the most popular framework for understanding MNE activities. Moreover, it is still one the most influential framework for empirical investigation of main factors affecting MNE expansion and growth on foreign markets. Nowadays, followers put forward ideas how to improve this framework with additional parameters (Dunning, 2001).

1.2.2 The Uppsala or incremental approach

The Uppsala approach was based on empirical data of the internationalization process of large Swedish industrial companies and combined some part of behavioural theory and theory of organizational growth in order to explain how a company arranges internalization process. Scholars believe that company increase international involvement gradually by accumulation of knowledge and competence on doing business abroad. Internationalization process goes through several stages depending on company readiness and resources. Internalization consists of four stages: (1) firms do not have regular exports, (2) firms export through agents, (3) firms sell through subsidiaries, (4) firms begin overseas production. According to this approach, market selection is constrained by two key concepts: psychic distance and experiential learning. The psychic distance refers to political, cultural, social difference and geographical location. A company as usually chooses nearby and similar by features countries for cooperation, and after some experience expand to more distant countries. With the second factor of experiential learning they explain the internationalization process of a firm as an involving and time consuming organizational learning process (Dunning, 2001).

1.2.3 The industrial network approach

The network theory stresses the importance of company network consisting of different types of stakeholders: suppliers, customers, agents, outsourcing companies and so on. One of the main objectives of successful company is to establish and develop business relationship. Companies generate advantages from creation of business network, therefore, they compete on network level. The internalization process is showed through business relationship with partners from different countries. According to the approach entry strategy depends on how company can establish and expand relationship, how flexible and reliable relationship will be, how new relationship will match with existing network (Whitelock, 2002).

1.2.4 The bargaining power approach

The bargaining power approach is an analytical framework that describes the process of continuous negotiation between entering company and host governments. This approach is more appropriate for entry strategy of multinational enterprises than for small and middle size companies. MNE and host countries possess significant volume of various resources, both host government and MNE are interested in establishing long-term cooperation. But it should be mentioned that process of cooperation depends on negotiation processes for different reasons, moreover, success of negotiations significantly depends on amount of resources. The entry strategy is determined by agreement between MNE and host government, involving some political issues. Within this approach the most discussed topics are risk of doing business abroad, control for investments in host country, as well as political stability in host country (Bradley, 2002).

1.2.5 Born global

Born global is quite modern approach that appeared due to evidence of special type of companies which implement internalization strategy from the beginning of existence. New market trend such as economic globalization, laterization, development of technology that allows company to operate without geographical limitation foster appearance of special type of companies. Born global companies are characterized by significant volume of exporting due to different reasons. Followers of the approach investigated different factors of internalization and highlighted the three main ones: high level of specialization of company, technological development and availability of human resources. Born global companies can operate successfully only being involved in global market (Andersson & Wictor, 2003).

Besides theoretical approaches, there are a lot of specialized studies concerning the topic of entry strategy. Certain part of this strain of literature pay attention to separate elements of entry strategy such as host countries features, market potential, barriers of entering and so on. Many practically oriented studies try to explain how companies make decision about entry strategy, how they choose different modes. They also try to identify strategic factors that may impact entry mode decisions from a competitive advantage perspective. Huge number of empirical studies was done with usage of statistical methods like factor and cluster analysis in order to evaluate factors influence (industry specific, types of company, resources availability, etc) on entry modes decision (Chetty & Campbell-Hunt, 2004). The various approaches to the explanation of the internationalization of the firm provide different emphases on the issue of market selection and entry strategy. from the literature review it is obvious that although entry strategy topic attracts extensive interest from scientific society, yet nowadays there are quite fragmented theories and frameworks with limitations to explain numerous questions of internalization.

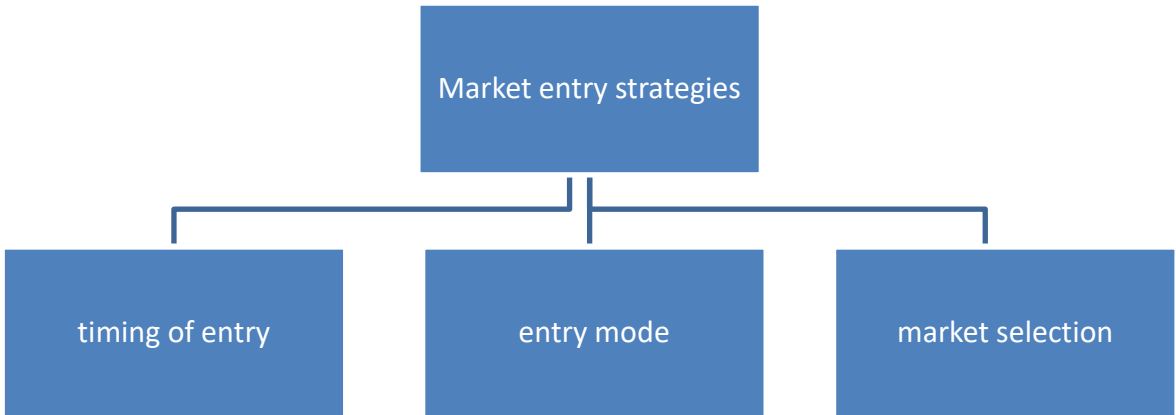
2 MARKET ENTRY STRATEGY: MAIN COMPONENTS AND IMPACT FACTORS

The creation of market entry strategy is one of the important decision in internationalization strategy for each company thus it arouses the research interests to different aspects of strategy such as influence factors on choosing strategy, country criteria selection, entry mode choice, timing, barriers and so on. First of all, it should be discussed how companies approach and implement the market entry strategy. According to Root investigation (1994) there are three different approaches:

1. “sales approach” relates to the situation when company doesn’t have any systematic approach for country selection, product adaptation and control of foreign operation;
2. pragmatic approach is considered to use analysis of country selection with all specific features and products adaptation;
3. systematic approach means that company use strategic rules and compere options including statistical methods before making decision.

The different empirical researches figured out that these rules depend on company’s size. For instance, middle and small size companies do not apply systematic approach and main decisions about internationalization are made by specific reasons. Meanwhile, global corporations usually follow systematic approach. As depicted in Figure 1, market entry strategy consists of three main components: market selection, timing of entry and choice of entry mode. A lot of studies are devoted to description and investigation of these components from different perspective: discussion of most appropriate mode for situation, the main selection criteria, advantages and disadvantages of each or them (Ahi, Baronchelli, Kuivalainen & Piantoni, 2017; Mayrhofer, 2004).

Figure 1: The market entry strategy components



Source: Welch, Beniro & Petersen (2007).

2.1 Entry mode selection

International entry modes represent the third most researched field in international management, behind foreign direct investment and internationalization (Hutt & Speh, 2010). In the scientific literature, a lot of attention devoted to the study of factors that influence the choice of the potential market, entry modes, evaluation of costs and timing. According to Root (1994), “Foreign market entry represents the actions of multinational corporations to expand their businesses in other countries through exporting, franchising, licensing, transferring technology, making investments, turnkey operations, producing products and selling them, and providing services. Decision making process about internationalization is affected by a huge number of internal and external factors. Also, in literature it is widely discussed that different ways of entering new markets imply a different level of control, risk, return on investment and resources. Entry mode choice is often a compromise among these four attributes - risk, return of investments, control, resources (Canabal & White, 2008; Surdu & Mellahi, 2016).

Entry mode or method refers to the way of operating in foreign markets used by internationalizing organizations. Table 1 demonstrates all types of entry modes which might be classified in three categories: contractual modes, exporting or investment mode. Depending on timing and conditions, the enterprises can choose any of them or a combination to reach their goals and adapt to current market situation (Gallego, Hidalgo, Acedo, Casillas & Moreno, 2009). Each method of entering new markets has its advantages and disadvantages, which is undoubtedly reflected in the cost and risks of implementing the strategy. For further analysis, it is necessary to clearly distinguish between each of the types of modes and investigate under which circumstances it is more appropriate use one of them.

Table 1: Major foreign operation methods options (adapted version).

Contractual modes	Exporting	Investment modes
Franchising	Indirect	Joint venture
Licensing	Direct	Wholly-owned subsidiary
Management contracts		
Subcontracting		
Projects operations		
Alliances		

Source: Welch, Beniro & Petersen (2007).

Advantages and disadvantages of the major foreign operation modes:

1. Export mode is the most traditional and wide-spread form of operating in foreign markets, as its implementation is the easiest one compared to the rest options. On one hand, the exporting mode doesn't require significant investments thus it connects with

low level of risk and quick respond to changes on foreign market. Exporting company is more flexible in making decision about process abroad, for example redirecting activities and allocate resources within short time. Exporting mode is less sensitive to political conditions and social movements. On the other hand, exporting company doesn't possess full power of control on overseas operations since they usually act indirectly - through agents or cooperating with distributors that might cause difficulties with understanding market conditions, preferences of customers and control price level. Exporting company mainly dependents on agents and traders serving markets, thus this type of mode is considered as a low commitment mode. Moreover, exporting company might face trade barriers and logistical difficulties. Also, currency exchange-rate fluctuation might create problems for prospering business (Osland, Taylor & Zou, 2001).

2. Contractual modes are long-term, non-equity agreement between partners. Usually the company transfer the rights for intangible properties such as knowledge, skills, know-how, marketing approaches, trademarks and the other to the local partners. Such types of modes allow the company to achieve low-cost and rapid international growth and to obtain local market knowledge and opportunities. Advantages of this mode include saving in capital investments and avoidance of making deal with local authorities. Also, the company might skip over barriers for investments and reduce risk of opening new markets. Meanwhile, contractual mode relates to negotiation process between partners and rely on trust that might be problematic and needs a lot of time to reach agreement. Additionally, this mode has one more disadvantage such as lack of control over partner's activities after signature of contract. Contractual modes raise confidentiality issues and questions about partner's rights for intellectual properties in future. A lot of expert advised to conduct overhaul research of legal system, cultural and country features before entering into contracts (Pehrsson, 2009; Mayrhofer, 2004).
3. Investment modes always require some number of assets and expenditures in operation on overseas markets. Investment modes allow the company to reach high level of control over international activities and it requires relatively high commitment to investments. In case of joint venture, the main advantages include access to contracts on local market, shared resources and different types of risks, establishment of relationship with national authorities. Also, it brings benefits of reducing local import tariffs and make easy all logistical processes. Simultaneously, it might cause loss of flexibility and confidentially, management disagreement and disputes. The cultural differences should be considered in business processes. Setting up a wholly-owned subsidiary requires an extensive level of resources connected with high risk of investment but provides most control from parent company over the international activities. Wholly-owned subsidiaries might foster increasing market share and avoid negotiation issue. Meanwhile, such kind of mode might raise complex of problems with local labour, legal and tax regulation that require additional cost for hiring local experts (Dinu, 2018).

2.2 Market selection criteria

The market selection is one of the major decision in entry strategy. Theoretically, all companies should prepare profile of potential markets and do it systematically. Indeed, the formation of objective system for estimation with appropriate data requires specific resources (money, time) and experts in this field (Kruesi, Beomcheol Kim & Hemmington, 2016).

In general, all market selection criteria might be divided into two main groups:

1. General factors that embrace macro environment, e.g. economic, political, business regulation.
2. Specific factors that refer to trends on domestic market such as consumption level, competition level, potential growth of demand, volume of export and import, barriers.

General factors as a rule describe macro-economic conditions and political situation in country with main trend and future forecast. Such types of information are collected by statistical organizations or special agencies specialising on compilation data about each country. From this perspective, company might evaluate potential risk of doing business in particular country, understand current situation with legal and tax procedures, the way of building up relationship with local society (Koch, 2001). For company with specific product range it is important to estimate specific market factors existing in the country that can influence the sales volume, profitability and product adaptation or differentiation.

The selection of entry market depends heavily on the four main conditions: competitors environment, potential demand, available distribution channels and existence of entry barriers.

1. Analysis of the competition

It is very important to identify the main competitors and investigate their activities on market. The price policy, sales networks, market maturity, financial position, plans and expansion strategies should be tracked and analysed. The company should evaluate different approach used by main competitor to gain competitive advantage. The competition analysis might give some tools for new entrance in terms how to create value proposition and differentiate products from the main competitors.

2. Consumption analysis

The company should estimate of the present and potential demand regarding the product and service in new market, implement segmentation scheme of new customers and try to create future forecast. Moreover, the company should pay attention to customer preferences, cultural differences in perception of products in order to adopt product for specific market conditions.

3. Distribution channels

The company should gain information regarding the supply chain of the product on new market. From the beginning to the end, consumer should be clear about who the intermediate operators are and the rates they are charging. Therefore, the existing sales structure in the country should be analysed in order to select the type of distribution that would best adapt to the characteristics of your product or service and the market. The choice of distribution channel will determine the expansion of the company in the market (Sakarya, Eckman & Hyllegard, 2007).

4. Barriers to entry

When it comes to entry new markets, the company might come across some barriers. In general, barriers are obstacles preventing entrant firms from being established in a particular market (Hitt, Ireland & Hoskisson, 2007). A barrier to entry can be categorized as either exogenous or endogenous. Exogenous barriers relate to specific factors on which company is not able to influence. In general, two main types of exogenous barriers are important: the first group is represented by governmental policy with import restriction and special state approvals, the second one consist of the market conditions such as number of competitors, product differentiation, access to distribution channels and so on. To endogenous types of barriers, it is used to refer all reactions on new entrant from existing competitors as price policy, different types of sales and marketing activities. Before starting internalization, new entrant should carefully investigate all potential barriers and prepare some action to avoid or at least diminish their influence.

2.3 Timing

The companies that decide to internationalize should consider one of the main questions: when it is right time to enter new market? Classical literature highlighted topics about which market and which entry mode company should choose (Claude-Gaudillat & Quelin, 2006). Recently the subject of timing is becoming more and more discussed.

As usually timing of entry is considered the moment when company make decision of starting internationalization (Dinu, 2018). In scientific literature the main two approaches to timing assessment can be found: ordinal ranking evaluates companies in term of first entrants, early followers and late entrants and continuous measure as period of time between the years of establishment of company and the time of entry. Both approaches have its pros and cons. Ranking approach is more suitable for oligopoly market with several participants, meanwhile continuous measure is more appropriate for more competitive market. Some research papers are devoted to descriptions of three main categories of pioneers (first movers), early followers and late entrants and to evaluation of advantages and disadvantages of each type (Gaba, Pan & Ungson, 2002).

ANALYSIS OF THE GLOBAL STEEL INDUSTRY

The main industry for analysis of Master's thesis is steel industry. The production of steel is one of the most important industries in the world; the majority of manufacturers are working on the global markets. Recently the industry has seen dramatic changes. There were several negative factors which influenced the global steel industry such as economic crisis, low level of consumption from oil and gas industry due to plummeted price level, increasing production volume from Asia with lower price level, unstable situation on raw materials markets and imposing of import tariffs in the USA (Office of OECD Steel committee, 2013).

2.4 Supply and demand structure

World crude steel production for the 65 countries reporting to the World Steel Association was 1 689 million tons (Mt) in 2017, increased by 3,8 % compared to production in 2016 due to economic growth and recovery of oil and gas, chemical industries and construction. The dynamics of steel production vary greatly by region. During the analysed period, there were no significant change in the structure of steel production by region. As previously largest volume of crude steel production has been observed in Asia (49%), followed by European Union (10%) and the North America (6.8%). Table 2 demonstrates list of top 10 crude steel producers which remained virtually unchanged within last decade.

Table 2: 10 major steel-producing countries in 2016 and 2017 (Mt)

Country	2017		2016	
	rank	Mt	rank	Mt
China	1	831.7	1	807.6
Japan	2	104.7	2	104.8
India	3	101.4	4	95.5
USA	4	81.6	3	78.5
Russia	5	71.3	5	70.5
South Korea	6	71.0	5	68.6
Germany	7	43.4	7	42.1
Turkey	8	37.5	9	33.2
Brazil	9	34.4	8	31.3
Italy	10	24.1	10	23.4

Source: Office of World Steel Association (2018).

The report "World steel in figures" by World Steel Association shows rising consumption for steel practically in all main regions due to moderate economic growth. According to the recent estimation the global steel demand increased by 4,7% in 2017. Only slowdown of

Africa economic growth negatively influenced on level of steel demand. The greatest increase in consumption is predicted in emerging region like Asia and Oceania, CIS, other Europe according to Table 3. It is closely related to new projects in oil and gas, construction, mining industries in these regions. Also, the steel demand in Nafta region is increasing in several years.

Table 3: Steel demand estimates by regions (Mt)

	2016	2017	% y-o-y growth rates 2017
European Union	158.4	162.3	2.5
Other Europe	40.6	42.3	4.2
CIS	49.7	52.8	6.2
NAFTA	132.3	140.7	6.3
Central and South America	39.4	40.9	3.8
Africa	37.6	35.1	-6.7
Middle East	53.1	53.3	0.4
Asia and Oceania	998	1053.6	5.6
World	1516	1587.4	4.7

Source: Office of World Steel Association (2018).

The main product of Acroni is stainless steel quarto plates so it is important to focus on investigation of trends and dynamic on market of stainless steel. According to the World Steel Association (WSA), in recent years stainless steel niche is considered to be the most dynamically developing production among all types of metallurgical products (Office of International Stainless Steel Forum, 2018). After economic crisis 2008 the production volume of stainless steel has been growing and reached 48,08 Mt in 2017. Table 4 shows the trend of production volume in the major stainless steel-producing regions. By geographical division in the world three major markets of stainless steel formed: Asian (70%, where the largest share belongs to China), European (15,3%) and American (5,77%). It is very interesting fact that Russia is one of the leading global steel producer but at the same time Russian market share of stainless steel production is insignificant (about 2% of global stainless steel production).

Table 4: Major stainless steel-producing regions (Mt)

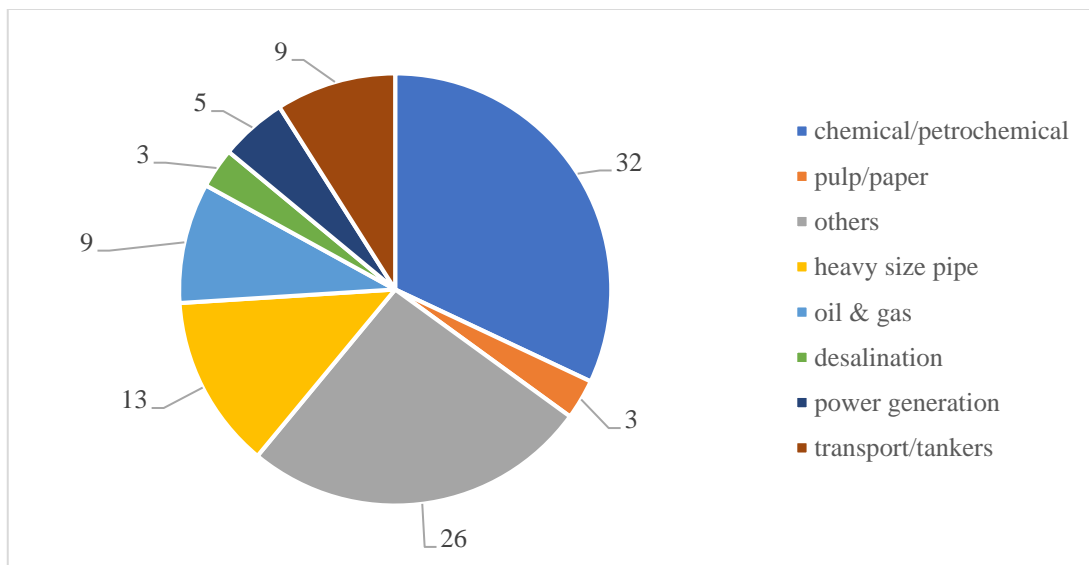
	2014	2015	2016	2017
European Union	7,25	7,16	7,28	7,37
Russia	123	95	90	No data
USA	2,38	2,74	2,48	2,75
Japan	3,32	3,06	3,09	3,16
South Korea	2,03	2,23	2,27	No data
China	21,69	21,56	24,93	25,77
India	2,85	3,06	3,32	3,48
World	41,68	41,54	45,77	48,08

Source: Office of International Stainless Steel Forum (2018).

A lot of expert of steel industry noted that despite recent difficulties such as slowing economies in emerging markets, deterioration of nickel prices making negative impact on stainless steel consumption, stainless steel industry should have bright future with potential growth around the world (Office of International Stainless Steel Forum, 2018).

According to Outokumpu forecast, the global consumption expected to increase at an annual average growth rate of around 3% from 2016 to 2019. Figure 2 demonstrates the main global consuming segments: chemical/petrochemical (32% of total demand), piping industry (13%), oil and gas and pulp/paper (9% accordingly). Among end-user segments, the most obvious growth was showed in the chemical, petrochemical and energy sectors in 2016 which are considered to be the most important demanding segments for stainless steel quarto plates according to data of European Steel Association.

Figure 2: Structure of consumption of stainless steel plates by main segments (%)



Source: Office of The European Steel Association (2017).

2.5 Porter analysis of global steel industry

For investigation of situation and trend in steel industry I used Porter's five force model. Porter, using five structural units specific to each industry, described ways of forming a competitive advantage and long-term profitability of the goods, as well as the ways in which the company can maintain its profitability and remain competitive in the long run. Steel industry is becoming more and more competitive in recent years due to different factors. First of all, in spite of growing consumption in the world supply volume still exceeds demand. Secondly, steel mills face high exit barriers and fixed cost of production, as well as high bargaining power of suppliers of raw material. Capacity utilisation rates remain on low level resulting in reduction of profitability of steel makers (Chalabyan, Mori & Vercammen, 2018).

1. Threat of new entrants is low level

To open new steel mill requires significant level of investment into production facilities and land. Moreover, such kind of business needs to be approved by state organization according to different regulations such as ecological control, labour policy and so on. Also, it is quite problematic to find skilled metallurgical staff in one location. The potential investor will face the problems of lack of demand for steel products and limited excess to inputs (Office of Ernst & Young Global Limited, 2015–2016).

2. Bargaining power of buyers is high level:

In a period of transparent market with free access to information customers can switch from one supplier to another without additional costs and in short time. Nowadays customer from any countries can find information about product range, price level and delivery day from steelmakers around the world and then choose potential supplier according to proposed offers. The steelmakers offer in majority of case standardized products; therefore, customers might put pressure on price level by using existing information within condition of exceed supply (Office of Deloitte CIS Research center, 2017a).

3. Bargaining power of supplier is high level:

The global market of raw material for steel industry (Nickel, Chrome, Molybdenum and other minerals) is oligopoly with high level of government regulations and restrictions, so producers of raw material have a power to set prices and create additional costs of purchasing for steelmakers. As usually they insist on long term contracts in order to minimize risks and avoid situation with switching from one supplier to other. The producers of raw material might limit the production volume of minerals in order to increase price level (Office of S&P Global Platts, 2018).

4. Threat of substitutes is middle level:

With implementation of modern technology, the customers of steel products are more and more demanding for special product characteristics such as mechanical properties, weight of product, additional durability time and so on. Therefore, in some industries customer can give preferences for titan, aluminium and plastic products. Also, it should be specially mentioned about Asian products. Several years ago, Asian steelmakers could not reach steel properties as those as steel products of European origin, but with constant development of technology they can offer absolute substitutes now. In this case European steel mills see potential threat from Asian cheap materials (Office of The European Steel Association, 2017).

Given the description of forces, I pointed out that the global steel industry is fragmented and close to high competitive market with existence of high risks. Moreover, steel products are low differentiated which results in emergence in high level of bargaining power of buyers which can switch from one to another supplier effortlessly. It is expected that the global steel industry will enter to stagnating stage due to oversupply volume, slow growth of demand volume and unstable situation on raw material markets (Office of Damstahl Stainless Steel, 2017). Problem of oversupply is one of the serious on the steel market resulting in price pressure, margin reduction, drawback for future investment. Moreover, the global steel industry heavily depends on political decisions and trade conflicts triggering unforeseen problems for steel makers.

3 DESCRIPTION OF ACRONI AND SWOT ANALYSIS

3.1 Description of company Acroni

Slovenian steel company Acroni has been chosen to be the object of the Master's thesis work. This chapter will be devoted to the estimation and description of the company's potentials and existing internal restrictions. Acroni is known to be the important part of Slovenian steel group, a vertically integrated holding company, the leading steel manufacturer in Slovenia, and one of the largest stainless and special steel manufacturers in Europe. Acroni is the pillar of the steel industry in Slovenia and one of the largest business systems in the country. The company generates more than 85 percent of its total income from foreign market sales. For the last six years the steel mill has strengthened its position in both, domestic and key European export markets, increasing its global completeness mainly in segments of stainless and special steel.

In March 2007 the privatization process was concluded, as the Republic of Slovenia sold 55.35 per cent of its shares in SIJ – Slovenian Steel Group to the Russian group KOKS. Over the past ten years the company has been actively involved in the modernization of production in order to improve product quality and to expand the range of products. The main goals for Acroni are to increase the production and sale of stainless and special steel quarto plates.

Such kind of product mix was chosen given following reasons: specifics and limitation of production capabilities, global market trends, strategic development of main competitors. Focusing on these two-main group of steel should allow the company to reach high level of financial indicators, maintain sustainable future growth and sufficient market share in high value-added steel segments. Nowadays the company operates mostly on European market (customers from Germany, Austria, Italy). It is historical tradition to serve customers from neighbouring countries. Despite all internal improvement company finds it difficult to achieve the desired financial results for several reasons: the low level of demand in Europe, relatively low steel prices, significant costs for raw materials.

Given the fact of increasing production volume and specific of company products, company face the problems with searching new market and customer with high level of profitability. Thus, Acroni tries to enter new markets such as the USA, India, Russia and other market with great potential consumption. Strategic goals of the company are clear and comprehensible for management and all functional departments, but the following actions/steps should be taken in order to achieve them:

1. to evaluate possibilities of penetration new markets
2. to estimate and modify main products to preferences of potential customers
3. to organize business connections with new partners from foreign countries

First of all, it is necessary to estimate internal capabilities and resources of company in order to understand which kind of limitations and risks company may face in new countries.

3.2 SWOT analysis of Acroni

SWOT analysis has been implemented to examine company's possibilities and limitation. In this case I presented company's internal strengths and weaknesses, opportunities and threats of the external environment. Important parts of SWOT analysis can be called an internal audit of the company with evaluation of firm's resources and competitiveness. According to internal information I made the estimation of the following parameters: production capabilities and technology, product range, location, human and financial resources, brand loyalty and so on. Also, I included description of market types with main characteristic, trends in consumption and competitive environment.

Table 5: SWOT Matrix of Acroni

<p style="text-align: center;">Weaknesses</p> <ul style="list-style-type: none"> • small size of company • limitation of human resources • limitation of production capabilities • specific product range (limitation with thickness) • weak brand on global market • weak marketing activity • limitation of own financial resources • shortage of end -users in customer database 	<p style="text-align: center;">Strengths</p> <ul style="list-style-type: none"> • long term tradition of steel production • modernized equipment, machinery and technology • beneficial location (in the centre of Europe with access to the sea) • European origin of material • possibility to supply small lots • flexibility in production of different grades • high level of product quality • short delivery time
<p style="text-align: center;">Threats</p> <ul style="list-style-type: none"> • high level of strong competition on the global market • volatility on raw material markets • lower price level of Asian supplier • trade war 	<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> • growth of global consumption of special and stainless steel • broad-based recovery in EU on stronger private consumption and improving labour market

Source: Office of Slovenian steel group (2017).

3.2.1 Weakness of Acroni

When we talk about **weakness** of Acroni we should pay attention to the following factors:

1. Small country of origin and small size of the company

Slovenia is relatively small and a little-known country in global business society that straiten possibilities to enter new markets and easily gain new potential customers. Besides, Slovenia is considered as Eastern part of Europe which has negative impact on country's reputation among business partners. Acroni is relatively small steel producer too comparing to majority of global steel producers (maximal production volume is 400 th. ton per year). Both country and company's size along with restrained resources result in Acroni's weak reputation on global steel market, as well as poorly recognizable brand.

2. Limited production capacity and resources.

Acroni is quite small steel mill compared to main global competitors like Acerinox, ArcelorMittal, SSAB and others therefore it fails to reach economies of scope and scale. Moreover, Acroni meet some difficulties with human and financial resources due to size of country, low level of salaries, weak activity of bank sector. Also, in past Acroni neglected to create the strong and well-known brand so now it is very difficult to persuade new

customer even to try products of Acroni. Steel business is very traditional industry with importance of customer loyalty, so it is problematic to switch customer from one supplier to the other one.

3. Specific product programs.

According to production capabilities Acroni can offer hot rolled stainless and special grades quarto plates with thickness upward of 8 mm that constricts sphere of applications – majority of products are used for projects, needed to be approved by end-user so it makes difficult to enter new markets. While on the contrary, main competitors offer wider product range in terms of thickness and width. Such condition does not facilitate Acroni to participate in tenders and fully serve end-users in requiring wider production range.

However due to special thickness Acroni products due to special thickness are most demanding in the following industries as oil and gas, petrochemical, tubes and pipe making industries, mechanical engineering, energy. So Acroni does not offer commodities, meanwhile its product refers to high-value products for special demand.

4. Limitation of own resources (financial, human and others).

Acroni is relatively small company in steel industry with limited financial and human resources that makes it difficult to foster fast and expansive penetration into new market and special niches. Now Acroni can't afford open sales subsidiaries and warehouses around the world, nor it arranges costly approvals for products. In addition, Acroni meets shortage of technical specialists to organize efficient customer support and implement specific requirements from market (Office of Slovenian steel group, 2017).

3.2.2 Strengths of Acroni

Acroni has long history of steel production and sufficient experience in metallurgical processes. Today the steel mill poses the modern enterprises with new efficient production facilities, qualified metallurgical labour resources, well-equipped laboratories which allow the company to guarantee high quality products in wide range of grades and dimensions. For last decade Acroni has been showing constant development with improvement of processes and materials. One of the main advantages of Acroni is the short production cycle, the mill can produce material within one month with minimum order tree tons per size. Such flexibility of production is practically unique condition in the global steel industry.

The company made sure to obtain certificates like ISO 9001, ISO 14001, OHSAS 18001 and customer's approvals that encourage supply of material to the main industries: oil and gas, chemical/petrochemical, automotive and so on. The European origin of the products also helps to entry new markets and get special projects. Moreover, another advantage is the location in the centre of European union with access to the Mediterranean Sea, which makes it possible for Acroni to organize quick shipment with low cost around the world.

From commercial perspective, Acroni organized purchasing department and own companies collecting scrap for production that allow the mill to track raw material market and ensure stable production processes. Within last decades Acroni collected significant customer database, the stainless steels are exported to more than 30 countries around the world. Acroni market share of stainless steel in Europe reached 30% in 2016.

Acroni opened own services centres in Italy, Germany, the USA, that facilitates to serve small orders and sell special parts. Moreover, Acroni built sales network around the world and signed agent agreements with reliable partners in Korea, Singapore, India, China, Turkey and other countries which promote Acroni materials on commission base.

Also, Acroni has created long-term strategy of development of high value-added products and increasing global market share. The key strategic objectives of Acroni are as follows:

1. the optimization of the production mix in favour of more advanced products,
2. entry new markets,
3. upgrades to the research and development of new types of steel,
4. new investment for production high- value added products.

3.2.3 Threats and opportunity on steel market

The stainless-steel market is oligopolistic in nature with homogeneous type of products. The companies on the oligopolistic market are considered to build up relationship in close and sharp competition. The steel mills should carefully track the actions of competitors and respond: price changes, market share volatility, development in technology and launching of new products.

Firstly, it is important to carefully investigate situation with consumption level and price trend. After recession, the European market showed positive trend in restoring consumption level. According to Eurofer publication SWIP (Steel Weighted Industrial Production index) rose by 1.7% over the last year. The forecast for 2017 and 2018 is middle positive by the experts of Eurofer, the steel demand is thought to grow at moderate rate due to improving business conditions in steel using sectors: pipe- making, mechanical engineering, transport sector. Also, improving export of industrial goods to third countries should encourage consumption volume.

The competition in the European steel market is primarily based on price and quality, in case of increasing demand the price level is considered to remain at a high level with sufficient profitability. The only negative moment must be stressed that the market is facing high competition from cheap Asian imports, especially from China. Import from Asian countries is growing year by year. Total steel imports from third countries into the EU grew by 9% throughout 2016 (Office of The European Steel Association, 2017). India, Turkey and South Korea follow China in the ranking list of exporters.

Total EU exports of steel products to third countries decreased by 11% throughout 2016. The forecast for export volume is positive for 2017 and 2018 due to the outsets projects in oil and gas industry around the world, increasing demand from the USA, Russian, Middle east markets. The most consuming industries are thought to be the automotive, the heavy industry, construction, whilst petrochemical and chemical industries, energy sector should show no growth in 2017-2019. Here is important to mention that if the European steel mills tend to improve situation with export volume, it will case to decreasing profitability due to low price level on the emerging markets.

The entry of new players is low in the steel market due to the high capital requirements and economies of scale needed at the entry level, so the competition will continue only among the existing steel mills (Office of World Steel Association, 2018).

Also, it is no real threat of existing or new substitutes on the stainless-steel market. The stainless steel is one of the most appropriate material for oil and gas industry, chemical and petrochemical, energy sectors due to chemical and mechanical characteristics. The technical requirements are getting more and more completed for last decades due to sophistication from application sides. The rapid growth of ultra-deep-water production is expected to continue well into the future. Nowadays oil and gas production are more challenging as service conditions have become increasingly severe (higher temperature, higher pressure, sour fields with high carbon dioxide levels. These factors influence significantly on choice of material (require high performance materials to guarantee smooth and safe production of oil and gas. The demand for special alloy steel, stainless steels and Ni alloys for oil and gas, chemical, petrochemical applications has grown substantially, and this trend is expected to continue (Office of The European Steel Association, 2017).

The price of raw materials significantly influences the stainless-steel market. Shocks on the raw materials markets happened in 2016 and prices reached historical lows that resulted in reduction of profitability. The prices of strategic raw materials used in steel production such as scrap steel, alloys fluctuated dramatically over last years (Office of Outokumpu Oyj, 2017).

The time lag between the purchase of raw material and the production of products has significant impact on the price risk in the supply chain. The unforeseen fluctuation in the prices of key raw materials (nickel, chrome, molybdenum) can lead to risks such as inappropriate price level, low profitability or insufficient inventories. The complexity on the global raw materials market endanger financial indicators on steel market and development.

4 PEST ANALYSIS OF RUSSIA

Traditional market selection analysis is usually conducted by descriptions of macroeconomic and political factors. PEST analysis is a convenient method for analysing the macro environment of an enterprise as well as a tool for long-term strategic planning for 3-5 years

ahead. PEST-analysis is used for assessing the current strategic status of the company, developing and monitoring the implementation of the strategy, launching an investment project, entering new markets, etc. It includes both qualitative and quantitative measures to guide the strategic decision of market selection. For the first time, the method was announced in the work of Francis J. Aguilar "Scanning the business environment", in which the author examined external factors affecting business and defined them as ETPS (Economic, Technical, Political, and Social factors). Later, several researchers (Fahey, Narayanan, Bush, Mecca, Porter) proposed various options of the method by changing main factors for screening.

Business relationship between European Union and Russia has been problematical over last decade due to economic crisis, imposing sanction after war conflict in Ukraine and others negative events. Nevertheless, Russian market is still very attractive for European suppliers from different industries including steel producers for several reasons. First of all, Russian main industries like oil and gas, petrochemical, mechanical engineering, mining and defend show growth and use financial state support that encourage to implement new projects not only on Russian territory but around the world. Secondly, some types of products are still either in shortage or not produced on Russian territory therefore Russian manufacturers have to import them (stainless steel, some kind of special grades are in import list) (Fortescue & Hanson, 2015). Thirdly, given the fact of financial state support importers might set relatively high price level for their goods on Russian territory. So, a lot of European steel producers are seeking opportunities to increase sales volume on the Russian market and get profit. On the other hand, doing business with Russia implies unstable political situation, fluctuation on oil and gas markets, as well as specifics of business environment.

This chapter is devoted to description of conditions of doing business in Russia, analysis of risks and opportunities, competitors analysis and estimation of potential demand volume for Acroni main products.

4.1 Historical perspective of Russia

Russia is the most enormous country in the world with territory of about 17 ml. sq km. Undoubtedly, that impacts on the course of its history and development path. Following the results of census 2010, the population of Russia amounts to 142.905.200 people, which makes it the most populated country in Europe and the ninth in the world. Currently, Russia is divided into 83 administrative units, but the population is distributed unevenly: 78% of Russians live in the European part of Russia, which is less than 25% of the territory.

Russia is a special country with unique way of development. It is located between Europe and Asia, so within the same country different processes and ideology are intertwined, there is a multiplicity of cultural and ethnic differences. Over the past century, Russia has experienced a lot of shocks (two world wars, the civil war, collectivization, the reform),

which affected the level of its political and economic development, social structure, foreign policy, etc.

From 1921 to 1991, Russia was the socialist state ruled by the Communist Party. During this period the social structure of the population was changed (such social strata as merchants, rich peasants, farmers, intellectuals were destroyed), the political system was one-sided, there was increased corruption and lots of bureaucracy, the population was deprived of freedom of speech, there were severe restrictions on people behaviour. Under the Communist device people could not have keep their own business, all enterprises were state-owned, there was no private property, the state fully regulated all aspects of the economic sphere of the country. For 70 years country lost all the heritage and tradition of doing business, there was no corresponding economic education. The economic structure was formed by political motives, so the industry was dominated by heavy industry, mining industry, the production of consumer goods accounted for no more than 30% of the total.

Since the late 80's in the Soviet Union the policy of perestroika was declared aiming to reform political and economic system of the USSR. But the reforms were poorly thought out, which resulted in the intensification of crisis, increasing trade deficit, the disintegration of the country and finally, the failure of communist ideology. In 90's sweeping economic and political reforms had been started: it was the deregulation of prices to saturate the market with goods, many enterprises were privatized to improve competitiveness. The country was in dire economic situation: increased public debt, hyperinflation, mass lowliness.

The privatization did not bring the desired results but led to even greater crisis in the production. In 1998 a default on the main types of government debt was declared. At the same time, the government announced refusal of holding a stable exchange rate of the Russian rouble against the American dollar. Such actions had undermined public confidence and discouraged foreign investment in Russian banks and the state. A lot of small businesses were ruined, the banking system was in collapse, savings of the population devalued and living standards fell dramatically.

After crisis, the Russian economy began to grow using changes in the macro-policy. The local companies became more competitive, the stability of the financial system was reached. Meanwhile, the government held a series of social and economic reforms: tax, land, banking, labour market reforms, transport, etc.

During the period of 2000-2008 Russia attracted significant amount of investments. Political stability was also achieved by improving the economic situation in the country. However, it should be noted that the Russian economy has not been diversified for the period of reform, modernization of industry went very slow, and the main sectors of the economy were the extractive industries (gas, coal, oil). Russia is the world's largest supplier of energy resources, the share of oil and gas accounts for 65% of export earnings. Despite the growth

in GDP in recent years, the industries are recovering unevenly. Russia is heavily dependent on natural resources prices in world markets (Ershova, 2017).

4.2 Political environment

In the global community, Russia is considered as a country with high political risks in the global community. Firstly, it should be mentioned that it is complex to achieve the assessment of risks in Russia due to the lack of reliable information about the processes occurring in the country and the complete official statistics. The main political country's risks include the following: the high level of corruption and bureaucracy, lack of transparency of political legislation, the large number of administrative divisions with local law and order, and a bloated state service (Russel, 2018).

The Index of global political stability Russia achieved 21,4 in ranking (Office of the World Bank Group, 2017a). Low position of the country can be explained by several factors: lack of development and poor performance of the economy, weak governance, instability of the financial market, etc.

Recently Russia was involved in several political conflicts: the outbreak of the Ukraine, annexation of Crimea, intervention in the civil war in Syria. These actions lead to deterioration of relationship between the EU and Russia following sanction from main developed countries. The EU/US sanctions have a very significant impact on the Russian economy in the longer term: freeze on assets, long-term financing limitations restricting access to EU/US capital markets for major Russian banks and some oil and defence businesses. Restrictions include certain types of products exported to Russia, including dual-use technologies and high-tech equipment for the oil industry.

Internal political conditions do not facilitate to develop business either. Russia stands out its confusing and fragmented legislation. For instance, a huge amount of laws is enacted, but most of them are poorly thought out and developed, often they contradict each other. A very significant risk is the lack of clear regulations in the relationship between business and government. Moreover, there is a high degree of policy influence on the economy, predetermining constant state intervention in business affairs. According to the World Bank Group (2017b) indicators such as "quality control" and "Government effectiveness» the position of Russia is still low.

In addition, Russia has 89 administrative divisions that have local government and local laws that complicates doing business in the different regions. Many companies in Russia are suffering from various kinds of fraud, extortion by the authorities, as well as abundance of unreasonable inspections. Also, the Russian judicial system does not work effectively, decisions are not objective, often the problems are solved by means of bribery and powerful acquaintances (Kouznetsov, Dass & Schmidt, 2014).

According to opinions of experts and politicians, the main management issues in Russia are: overstuffed administrative institutions staff, low competence of public sector employees, weak electronic data exchange, confused and contradictory regulations governing the various types of activities (accounting statements, custom regulations, product certification). These and many other facts create significant barriers for running business in Russia. Managers of firms confront with permanent inspections from different state organization (Office of Ernst & Young Global Limited, 2015).

The greatest obstacle for doing business in Russia is huge corruption. The Russian government also recognizes the widespread corruption of one of the most serious problems in Russia. In 2008, there was even adopted the law "On Combating Corruption", but little progress in this field was achieved. Over the past year there were many sensational cases of exposing corruption in various ministries, lots of heads of regions were removed from their posts, but the problem remained unsolved. International non-governmental organization Transparency International (TI) placed Russia on 131th place among 176 in 2016 by the latest corruption perception index in the world (Office of Transparency International, 2016).

At the same time Russia has signed and ratified numerous international conventions, has become a member of several international anti-corruption structures and, finally, has implemented a range of initiatives introduced by the OECD and WTO (Shekshnia, Ledeneva & Denisova-Schmidt, 2014).

Legal framework continues to develop and reforms in the Civil Code are being modernized its civil and commercial law. Russian financial reporting framework has been determined and regulated by the state rather than by professional bodies. Currently, International Financial Reporting Standards (IFRS) are becoming increasingly important and have influence on Russian Accounting Standards (RAS). It is target of harmonizing RAS with IFRS (Office of Deloitte CIS Research center, 2017a).

4.3 Economic environment

Russia has undergone significant changes since the collapse of the Soviet Union, moving from a globally-isolated, centrally-planned economy to a more market-based and globally-integrated economy. In the 1990s under economic reforms majority of companies were privatized with except for energy and defence-related sectors. Since 2012 Russia is considered to be the world's leading oil producer and the second-largest producer of natural gas, holding Russia the world's largest natural gas reserves. Moreover, it has the second-largest coal reserves and the eighth-largest crude oil reserves. Russia is the third-largest exporter of both steel and primary aluminium. Other less competitive heavy industries remain dependent on the Russian domestic market (Office of Baker & McKenzie – CIS, 2016).

The Russian economy is based on a small number of large and super large enterprises in which the state holds a major share. State-owned enterprises dominate all the strategic sectors, such as energy, transport and banking and account for about half of GDP (Office of Ernst & Young Global Limited, 2015).

Indeed, the situation on raw materials market greatly influences on the Russian economy. As Russia's output contraction dropped from 2.8% in 2015 to 0.2% in 2016, as the economy adjusted to low oil prices and restricted access to international financial markets. The financial system risk in Russia is high and this refers to the fact that the insurance industry is regulated by Federal Financial Markets Service. The banking system outwore the internal resources which led to shortage with financial liquidity, it thus resulted in slow down economic development and stoppages of projects.

The experts projected that the Russian economy will grow at a rate of 1.3% in 2017 and 1.4% in 2018–19. The terms of trade are expected to moderately improve, with average oil prices rising to US\$55 per barrel in 2017, US\$60.0 in 2018, and US\$61.5 in 2019, driving a recovery in domestic demand (Office of Baker & McKenzie – CIS, 2016).

The Russian business climate suffers from uncertainty regarding property rights, a weak transport infrastructure, lack of fair competition. The government failed to build up a new type of economy and diversify it. The investment level is too low and foreign direct investments are limited due to political unfriendly situation, sanctions. (Office of Atradius, 2017).

The import activities don't go smoothly either. There are several major problems: the customer legislation and implementation, obtaining permission documents. The Russian customs legislation is quite complex and require registration of multiple documents. A lot of trade and investment regulatory barriers remain, and Russia has only limited levels of integration into global trade processes (Aidis & Adachi, 2007). The company must prepare a substantial package of documents for export and has representatives in Russia who can do prepare all of registration documents with the customs authorities in each city. The Russian market is protected from steel imports by imposing 10% tariff.

Russian customs legislation is based on the unified rules of the Eurasian Economic Union (the "EAEU"). The EAEU was launched on 1 January 2015 and includes Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan. All Russian foreign trade regulations are primarily based on rules established at the supranational level of the EAEU.

On 22 August 2012 Russia officially became the 156th member of the World Trade Organization (the "WTO"). Russia's commitments and obligations are established in the Protocol of Accession of Russia to the WTO dated 16 December 2011 (the "WTO Accession Protocol") and the Working Party Report on the Accession of Russia to the WTO dated 17 November 2011, which are publicly available. Since Russia is a member of the EAEU, EAEU regulations are based on the WTO rules. According to the Strategy, before 2020 the

Russian customs authorities should significantly simplify and speed up customs clearance procedures but currently situation with customer clearance is still problematic for end-users.

The Russian government still conduct politic policy of favouritism. It strengthens informal practices in Russia due to the fact that domestic business is dominated by state-owned enterprises the from the strategic sectors such as energy, transport and banking (Radziwill & Vaziakova, 2015).

In recent years, Russia has made several significant changes to tax legislation, bringing the Russian tax system closer to global standards and making the country more aligned with OECD/G 20 standards in tax legislation and administration, also as well as more predictable place for doing business. The government try to improve transparency and boost attractiveness of Russia for investments (Office of Deloitte CIS Research center, 2017b).

4.4 Social environment

Over the last 30 years Russian society has suffered the rigours of Perestroika, liberalization and transformation of economy along with economic crisis. And cumulatively, all these things resulted in negative social trends such as alcoholism, demographic problems, wide social gap, etc.

It should be mentioned that situation is improving in comparison with 90th: development of education infrastructure, public health, level of well-being and employment, but there are still quite serious problems in social environment inhibiting the progress. First of all, it is population decline on low birth rate (less than 2.1 children per woman). Over the last 15 years the Russian government has conducting special reforms in order to change reproductive behaviour in long term perspective. Meanwhile reproductive behaviour is a complex subject depending on a lot of factors: level of health of the population, domestic traditions and values, level of divorces and so on (Rutkowski, 2012).

Secondly, Russian population demonstrate low level of health due to consumption of hard liquor and unhealthy food, lack of sports activities, high level of pollution and criminality (Roberts, 2005). According to statistical data the average life expectancy of man is 67 years, of woman is 77 years. Also, there is a high level of divorces (approximately 50% of marriages are dissolved).

Thirdly, Russia lost the segment of technical specialists and experiences strong staff shortage. Over the last 20 years it has been modern trend in obtaining economic and human sciences education, as a result the production companies strongly feel lack of skilled technical personnel nowadays. At the same time, half of human graduates face the problems with searching jobs and cannot find it according to specialization (Mau, 2013).

4.5 Technology

The situation in technological sphere is characterized by the degradation of scientific and technological potential, the growing technological backwardness of Russia, low competitiveness of manufactured products and the country's high dependence on foreign technologies.

The risk of growing technological gap in Russia is one of the most serious challenges, perhaps the most serious one that faces Russian economy. Evolutionary transition from the prevailing resource- export strategy to an innovative economy while preserving the relations between science, business and the state is impossible in the nearest 25-30 years. In the near and distant future, natural resources, energy, energy technology and resources, human resources and territory will remain the main factors of economic development (Office of World Bank Group, 2016).

Competitiveness directly depends on the level of technology and the extent of their renewal. The decline in innovation activity in the country in the 1990s led to the fact that currently only 11% of domestic enterprises are engaged in the introduction of innovations, while in Germany, the United States, France and Japan - from 70 to 80%.

Over the past five years significant steps have been taken to innovative development in Russia. The government announced the strategy including the main objectives: increasing the share of high-tech sectors in GDP, the share of innovation production in the total volume of industrial production, quantity of R & D projects, development of business infrastructure. All methods should contribute to improving competitiveness of the Russian economy on the global marketplace, but it needs time and huge investments (Office of Deloitte CIS Research center, 2017b).

Now the government have created the strategy of technical development up to 2035 which includes different methods of stimulation activities in innovation sphere, education, organization special projects between business sectors and scientific centres and the national research centres, but the implementation of the strategy requires coordination on the different levels, investments and the state support. Over the past two years, in conditions of low oil prices, the Russian economy has reduced dependence on commodity exports, and the fall in the rouble exchange rate, previously thought to be overvalued, has allowed several Russian companies to enter export markets. At the same time, European sanctions, which closed access to many key technologies, forced the companies to invest in the development of its own technologies and import substitution (Russel, 2018).

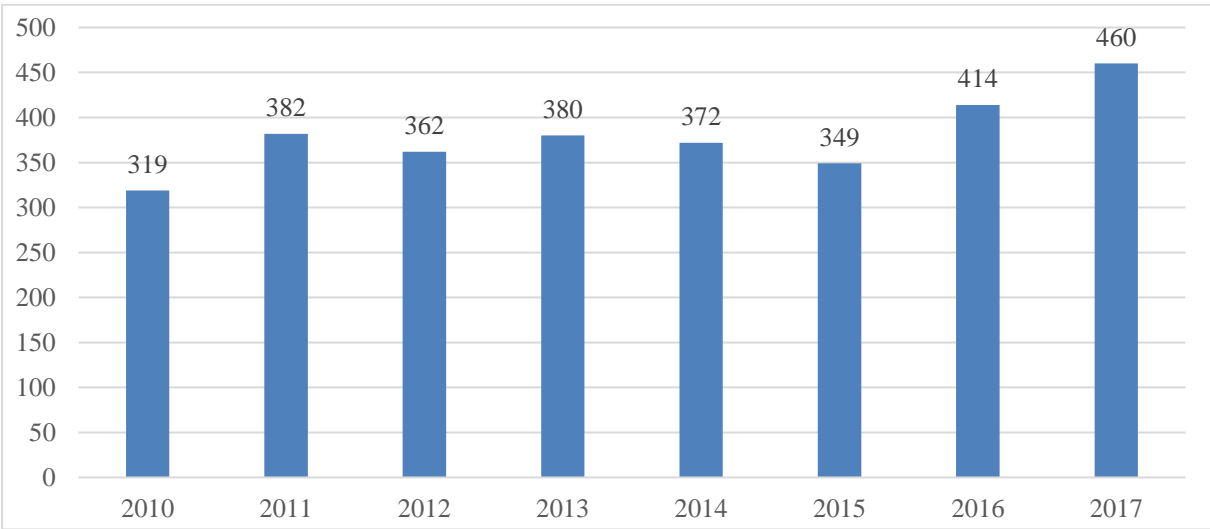
5 ANALYSIS OF CONSUMPTION PATTERNS OF STAINLESS STEEL PLATES IN RUSSIA

Host market potential is one of the most important explanatory factors in country attractiveness and market selection (Yoshida, 1987). International trade theories suggest a strong relationship between potential international business transactions and market size (Hirsch, 1967). Market potential is evaluated in terms of market size, its growth rate and product acceptance. In this chapter I provided information about recent consumptions volume, estimations of demand from main consuming industries: chemical, oil and gas, transport and energy industries.

5.1 Consumption dynamics and structure

The volume of Russian consumption of stainless steel products has been increasing during several years. According to Figure 4, the consumption volume of main types of stainless steel products rose by 11% and amounted to 460 th. tons in 2017.

Figure 3: Consumption volume of stainless steel in Russia (th. ton)



Source: Office of the Special Steel and Alloys Consumers and Suppliers Association (2017a).

The structure of consumption of stainless steel slightly varied for the last years (from 2010 till 2017). As depicted in Table 6, the share of flat-rolled products of the stainless steel consumption structure was the most significant one - 46% in 2017. Within the flat segment the part of hot rolled stainless steel plates was much less than hot rolled and reached only 84 th. ton (18% of the total volume), but at the same time the stable growth of this segment was observed on the market (11% growth in 2017). The long products share was about 14%, the share of tubes rocketed by 33 % in the structure in 2017 due to new oil and gas projects.

Table 6: Stainless steel consumption volume in Russia in 2016-2017 (th. ton)

Type of product	2017	2016	Changes in %	% share in 2017 (%)
Flat cold rolled	211	186	13	46
Flat hot rolled	84	77	9	18
Long products	65	57	14	14
Tubes	72	54	33	16
The rest	28	40	-30	6
Total	460	414	11	100

Source: Office of the Special Steel and Alloys Consumers and Suppliers Association (2017a).

By expert's estimations the share of imported stainless steel products of Russian total consumption was substantial and was growing year by year. In 2017 the share of imported product reached record level and amounted 79% of total consumption volume. The flat-rolled products, wire, tubes were imported in the greatest volume compare to long products and forged quantity. The whole volume of imported steel to Russia reached 281 th ton in 2017 and increased by 24% compared to the import volume of previous year. The most dependent on import was flat-rolled product segment, where the share of imported goods peaked 79% of the total import volume (Office of the Special Steel and Alloys Consumers and Suppliers Association, 2017a).

Demand in the Russian market remains under pressure of a difficult economic situation, a decline in investment activity and volatility of the ruble. The market is gradually adapting to the new economic conditions; however, it is too early to speak about the restoration.

The main reasons of growing consumption level in Russia (Office of the Special Steel and Alloys Consumers and Suppliers Association, 2017b):

1. slight economic growth in 2016: index of industrial production (101% in 2016, 97% in 2015), index of manufacturing production (100% in 2016, 95% in 2015), index of mining (102% in 2016, 100% in 2015). The most important index for prediction of stainless steel consumption is index of manufacturing production.
2. stabilization on currency market and strengthening of Russian ruble.
3. a significant increase was due to increased demand for high-quality flat rolled stainless steel from the modern machine-building and transportation enterprises established in the Russian Federation over the last ten to twenty years.
4. the reduction in prices on the external market for stainless steel flat products also favours an increase in consumption.
5. the state support with significant amount of investments in oil and gas, energy, transport industry.

6. the main industries consuming stainless steel plates are chemical/petrochemical, transportation, energy, oil and gas, heavy size pipes. In the nearest future, these industries are predicted to show growth that should lead to increasing demand for stainless steel plates.

5.2 Demand from transport sector

In next five years demand from transport sector is expected to be growing due to the state support. According to data compiled by the Research Institute of Railroad Transport, new standards and new models will have to be created for railcars construction. State support for transport engineering enterprises will continue to recover the output of engineering products (Office of KPMG in Russia and the CIS, 2017).

The Russian government formed the Transport Strategy consisting of two main stage of implementation (Office of the Ministry of transport, 2014):

- first stage (until 2020) is the completion of the modernization of the transport system by the methods of targeted investment and the elimination of bottlenecks and the transition to its systemic integrated development in all key areas;
- second stage (2021 - 2030 years) - intensive innovative development of the transport system in all directions to ensure an innovative socially-oriented way of development of the Russian Federation

The main directions of development in the sectoral context at the first stage include:

- the railway transport - the purchase of new and modernization of existing locomotives, as well as a massive transition to the acquisition of freight cars of a new generation;
- the sea transport - replenishment of cargo transport fleet;
- the inland water transport - construction of cargo transport and auxiliary fleet vessels.

The shipbuilding sector is one of the metal-intensive industries in today's Russian economy. From a historical perspective, most ship-building plants were built for the needs of a strong military-industrial complex and were oriented toward military applications. Over last years shipbuilding was the one of the growing segment due to orders to produce nuclear icebreakers under the program for the renovation of the icebreaking fleet.

5.3 Demand from chemical/petrochemical industry

In Russia the petrochemical industry is mainly represented by oil and gas production thus the development of this industry is heavily dependent on processing volume, especially deep processing of hydrocarbon raw materials, as well as export volume (Martanus & Khmel'nitskii, 2013).

Basically, three main types of raw materials such as: LPG, naphtha, ethane, falling into petrochemical products in Russia. The production of hydrocarbon raw materials in Russia is developing on an upward trend. The projected volume of production of hydrocarbon raw materials is forecasted 54.5 million tons in 2020, 61.1 million tons in 2025 and 65 million tons in 2030. In the period of 2012 - 2030 years, likewise in the period of 2012 -2030 years the production of hydrocarbon is expected to double. Consumption of hydrocarbons for petrochemicals in the period under review is believed to increase 4.6 times from 8.45 million tons in 2012 to 38.4 million tons in 2030 (Office of the Industrial Ministry, 2014).

In the period of 2012 - 2030 years, the active construction and expansion of production capacities for the processing of raw materials (gas processing plants, petrochemical complexes, pipelines) are forecasted, considering the state support of this sector.

5.4 Demand from oil and gas industry

The main engine of the Russian economy remains the oil and gas sector, which continues to implement major pipeline projects. In Russia, oil and gas production accounts for up to 30% of GDP and it brings to the state budget almost half of tax revenues, simultaneously its share of fuel and energy products in the country's export revenues reaches 70% (Henderson & Grushevenko, 2017).

Oil and gas production is shifting to regions with adverse climate and geological conditions. The Russian government took steps to promote the production of hard-to-reach oil, along with the production of oil in Eastern Siberia, the Yamal-Nenets Autonomous Area, the Arctic shelf, the Sea of Okhotsk, the Caspian region, etc. To meet the demand of oil and gas companies which deal with permafrost, aggressive environments and extreme depths, steel mills have started to pay attention to products of high qualities grades (Office of Ernst & Young Global Limited, 2011).

Demand from the pipe industry will continue to be determined by the implementation of pipeline projects. At the same time a serious decline in demand for heavy plate from the oil and gas sector, which began in 2016, and it is believed to keep a significant negative impact on the steel industry. In terms of export gas pipeline projects, geopolitical risks introduce uncertainty, for instance, over the past 1.5 years the situation with the South Stream project has changed many times. The geopolitical risks in the Nord Stream 2 project are still high. Among other projects of "difficult fate" - the gas pipeline "Altai" ("Power of Siberia-2"), negotiations on which between the Russian Federation and the Republic of Korea are still in process (Simola & Solanko, 2017).

5.5 Demand from energy sector

The fuel and energy complex of Russia is one of the largest in the world - in terms of production and extraction of fuel and energy resources it is second only to the fuel and energy complex of the United States. Russia has developed oil industry, electric power industry as

well as nuclear power complex. In addition, energy is actively developing due to renewable and non-traditional types of energy.

Russia has the world's largest forecast coal reserves, which account for 30% of the world (5.3 trillion tons). According to forecasts of experts, by 2020, the annual level of coal production in Russia could increase to 435 million tons, where about 60% of production will fall on the Kuzbass.

Russia has a significant electricity potential. According to the development strategy of the Russian power industry construction of 14 hydroelectric power station was planned at the beginning of this century. In the coming years, it is planned to carry out technical re-equipment and reconstruction of coal-fired thermal power plants and transfer them to the use of clean coal technologies, as well as to reconstruct power plants that run-on gas, equipping them with combined-cycle plants.

The history of nuclear energy covers a period of more than half a century, and during this time it has already become a traditional branch of energy. At present, the generation of electricity at nuclear power plants is the basis of energy balance and energy consumption. There are ten nuclear plants in operation on the Russian territory.

The new state program for the development of nuclear energy in Russia for the next decade is estimated at about \$ 13.8 billion. Most of the appropriations are intended for the state corporation Rosatom, which will carry out the reconstruction of existing stations and the construction of new ones, including in Kaliningrad region (Office of the State Atomic Energy Corporation ROSATOM, 2017).

After short overview, it could be concluded that in next five years these industries should show demand for stainless steel flat product for implementation of new projects and reconstructions.

One obstacle should be mention here: some industries include the defence complex, the nuclear, energy and oil refining industries are obliged to buy in some cases only Russian-origin material. Moreover, according to the state directives for special projects they are prohibited to purchase import steel.

5.6 Specific features of Russian buyer's behaviour

Now it is necessary to discuss the special features of buying behaviour of Russian companies. From January 1, 2012, all state corporations and business entities with the share in the authorized capital of the Russian Federation must officially organize transparent tenders for purchasing any goods. All purchasing activities are processed according to federal law dated 18.07.2011 No223-FZ «Purchase of products, works, services by some types of juridical entities".

The limitations of working with tender system are:

- Some customers require small quantities of different dimensions or combination of different thickness for one lot.
- Majority of customers require special payment condition – payment within 60 days after dispatch of material.
- Russian currency and price with VAT, fixed price for 2 weeks and longer.
- Specific Russian certificates for material.
- Registration on the Russian territory

Due to such kind of limitations the main foreign steel mills have to cooperate with Russian stainless steel traders. That's why 80% of import volume belonged to trading companies in 2017. 67% of the imports of flat products refer to only ten trading companies.

Table 7: The top trading companies in Russia (2017)

	Name of trading company	Web-site	Import volume in 2017
1	Kontinental	www.kontinental.ru	17268
2	Globus-stal	www.globus-stal.ru	3735
3	Ferrit	www.ferrit63.ru	4573
4	Metalservice	www.mc.ru	15042
5	Salut	www.salutsteel.ru	3245
6	Ileko	www.ileko.com	12164
7	Orinnox	www.orinnox.ru	1436
8	Inoxpoint	www.inoxpoint.ru	1841

Source: Office of the Special Steel and Alloys Consumers and Suppliers Association (2017b).

These trading companies have been operating on the stainless steel market for long period of time. So, they collected significant database of end-users, organized warehouses with cutting services in different big cities, arranged access to financial resources and credits.

The main advantages of cooperation with trading companies:

1. The trading companies are aware of consumption and technical requirements of end-user, most of them have been operating on market for more than ten years. They have good connection with purchasing and technical departments of end-users.
2. Majority of traders have organized warehouses and sales offices with all services fostering sales (logistics, customer clearance, technical support, cutting services and so on).
3. They operate in local currency including VAT.
4. The trading companies can arrange flexible payment conditions for end-user and steel mills.

6 COMPETITOR ANALYSIS

The competitor analysis is important part of entry strategy, it provides idea how company should behave on the host market: choice of product range and distribution channels, adaptation of price policy and marketing strategy according to the local environment. The competitor analysis is divided into two main parts according to location of main competitors: Russian and foreign steel producers. For description of main competitors and their activities on the Russian market, evaluation of advantages and disadvantages I combined the statistical data about steel production in Russia and import volume, secondary data from annual competitors reports and findings of expert survey.

6.1 Expert interview design

I have chosen expert half-standardized interview by several reasons. First of all, expert interview is applicable successfully for studying the market situation, forecasting of market parameters and the evaluation of the competitor potential. Expert survey allows to receive the information of nonquantitative type: the tendencies of development of the market, analysis of competitive advantages and customer preferences. Secondly, the deep interview with expert is one of the possible research method in case of the deficiency or nonsystemic character of the information.

I conducted the expert survey by telephone in summer 2017, eight experts in steel business were chosen: four experts run purchasing department of end-users that buy more than 500 tons of stainless steel per year, four experts represented the main Russian trading company and were responsible for buying stainless steel abroad. These companies are the biggest importers in stainless steel over last five years. The structure of questionnaire was created to answer the following main questions (the full questionnaire is in Appendix):

1. What is current situation on the Russian stainless steel market (main customer segments and players, price level, main distributors channels) and future development?
2. What are the advantages and disadvantages of cooperation with foreign and local steel mills?
3. What are the main customer requirements now and how might they change in next 3-5 years?
4. What is current situation with service centres (demand, suppliers) and potential development?

6.2 Competitor analysis of the Russian steel mills

According to a report of Special Steel and Alloys Consumers and Suppliers Association (Russian analytical association, 2017a) the total volume of Russian stainless steel production of all kinds of products remains stable in recent years and reached 122, 6 th. ton in 2017. As depicted in Table 8, in production structure the major share belongs to long products such

as bars, ingots, billets (44%), followed by pipe production (32%) and flat hot rolled products (24%).

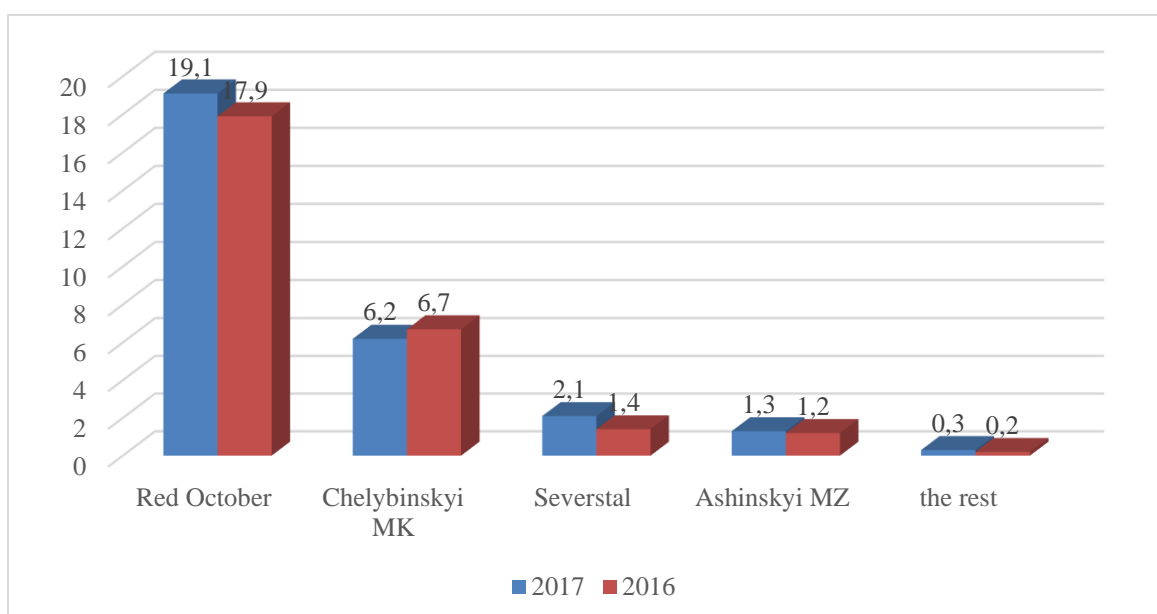
Table 8: Russian stainless steel production volume in 2016–2017 (ton)

Type of product	2017	2016	Changes in %	production structure (2017) in %
Flat cold rolled	4560	3798	20	4
Flat hot rolled	24800	23540	5	20
Long products	54210	48909	11	44
Seamless pipes	15630	15760	-1	13
Welded pipes	23400	22096	6	19
Total	122600	116463	5	100

Source: Office of the Special Steel and Alloys Consumers and Suppliers Association (2017a).

On the Russian territory Acroni competes with two main local steel mill Red October and Chelybinskiy MK as some of their goods coincide with those of Acroni’s product range. According to Figure 5, in 2017 Red October increased production and the total volume of output reached 19,1 th. Ton, meanwhile, Chelybinskiy MK reduced production volume to 6,2 th tons.

Figure 4: Structure of stainless steel production by the Russian steel mills (th. ton)



Source: Office of the Special Steel and Alloys Consumers and Suppliers Association (2017b).

“Red October” is one of Russia’s largest steel mill producing special steels with the long history of production from 1897 in Volgograd. Steel mill has in product portfolio more than 600 steel grades, the share of stainless steel products reaches more than 50% of the total

output. The Red October serves the same main industries as Acroni does: oil and gas, chemical/petrochemical industry, automotive. The enterprise has started a stage-by-stage technical re-equipment since 2012: major repairs are being carried out in the workshops, the existing equipment is being modernized, and new equipment is being introduced. Over the past few years, the mill has installed new machines and furnaces of such well-known manufacturers of metallurgical equipment, such as LOESER (Germany), PEGAS GONDA (Czech Republic), LIEBHERR (Germany), HERKULES (Germany), DANIELI & C.OFFICINE MECCANICHE S.p.A. (Italy). Moreover, Red October has obtained all necessary certificates (AD 2000-Merkblatt W0/TRD 100, Germanischer Lloyd, Det Norske Veritas) and approvals from Russian atomic, shipbuilding industries, defence, aviation that allow the company to supply all kind of products to the following business segments.

Chelybiskyi MK (Mechel)

Mechel is vertically integrated holding, which unites more than 20 industrial enterprises, operating in a single production chain: from raw materials extraction to products with high added value. The holding also includes three trade ports, own transport operators, sales and service networks.

Mechel's activities in the metallurgical sector encompass the production of long products from carbon and special steel, flat rolled products of stainless steel, shaped products, metal products with high added value. The metallurgical sector of Mechel includes enterprises in Russia, Ukraine and Lithuania. Chelybinskiy MK is the main enterprise of Mechel that produces stainless steel products.

Since 2001 the steel mill has been implementing modernization of main equipment as well as it has improved technological processes and installed special production capacity for production of new product group. Furthermore, Mechel has organized sales network to promote all types of product under one brand name in several countries that allow the company to minimize expenditure and accumulate resources (Office of Mechel headquarter, 2018).

After analysis, I have highlighted the following advantages of the local competitors over Acroni:

1. Location of production capabilities, warehouses, sales offices on the Russian territory

Production and sales on the Russian territory give several advantages to local producers. Firstly, the local steel mills produce from pig iron which makes it possible to organize much cheaper way of production than from scrap. Secondly, all other resources like electricity, labour, transportation are cheaper comparing to European level. As a result, it has positive influences on steel price level.

2. All operations are conducted in local currency rouble, including VAT

International operations with foreign currency is still unfavourable method of payment for Russian companies as they try to avoid taking a risk with currency exchange, controlled by bank authorities. Additionally, when you arrange payment in local currency, 18% VAT can be returned in special tax period.

3. Absence of import tariffs and customer clearance.

The Russian government try to protect the local steel producers by imposing special import tariff. All companies importing steel have to pay import duties from 5% to 10% depending on grade and kind of products. The customs clearance is still another obstacle for a great deal of companies. The customs clearance procedure requires knowledge of legal issues, accurate preparation of documentation and payment of all duties.

4. Availability of state approvals for suppling material to such industries as defence, aviation, atomic industries and so on

Not only do the Russian government set import tariffs to protect local suppliers but also it uses indirect methods like special state approvals for steel application in some industries. It is officially prohibited to purchase import material for atomic sector, defence, aviation and some other important state industries.

At the same time, I have found the serious drawbacks of local steel producers:

1. Limitation of dimension range and quality

The main drawback of Red October and Mechel products is limitation of product dimension: thickness, width and length (Acroni can produce thickness up to 130 mm, whereas Russian mills only to 100 mm, Acroni width is max 2500mm, comparing to Russian mills where maximum width is 1500 mm, Acroni length is 12 000 mm, while Russian mill's is only 6000 mm). The limitation of product dimension forces the Russian end-user import material for special projects. Besides, quality of steel plates pales in comparison to European steel producers:

“The advantages of cooperation with foreign steel mills are high quality products, a wide range and flexible pricing policy, delivery in exactly the stipulated time. Meanwhile, the local steel producers offer relatively low product quality with high prices, and the most important thing, they can not guarantee stable delivery terms” (Interviewee A).

2. Spoiled reputation of Russian steel mills as stable suppliers

One more negative factor influencing the Russian mill's business is spoiled reputation in recent years. It has to do with changes of ownership of steel mills, court procedures, unsolved debt and some other fraudulent scheme of doing business. Red October and Mechel

problems were highlighted in the main official newspapers so it jeopardized relationship the main customers. Red October and Mechel lost reputation of stable supplier by using different unfair scheme of sales and problems with delivery of goods. Now European steel mills are considered to be more reliable compared to local ones:

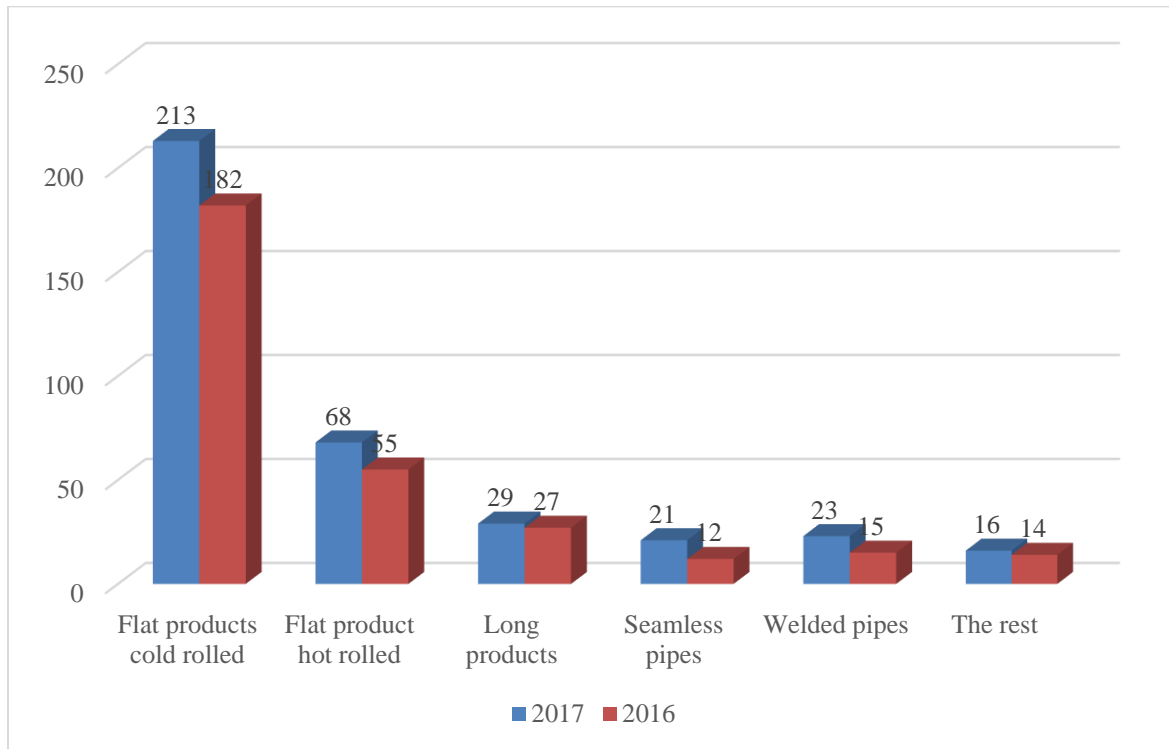
“Both of our two main stainless steel producers Red October and Mechel have serious problems: financial, legal, production and so on, so in my opinion the situation with domestic material will be even worse and worse “(Interviewee I).

6.3 Analysis of stainless steel import: main suppliers and trends

According to a report of Special Steel and Alloys Consumers and Suppliers Association (Russian analytical association) the total volume of stainless steel products increased by 21,2% in 2017 compare to the previous year volume. According to Figure 6, the major share of import belongs to flat hot and cold rolled products (76% of the total volume). When it comes to Acroni product range (hot rolled stainless steel from thickness 8 mm), the volume of import such kind of product increased by 23,6% and reached 68 th.ton. The growing import is result of launching new state projects in oil and gas, chemical/petrochemical industries, transportation sector, the lack of local supply and strengthening of local currency. In 2017 all steel importers had to reduce price level (the average drop was 11% on the market) due to high level of competition and strong bargaining power of customer.

The main importing sectors are chemical/petrochemical industry, fertilizer producers, transport and mechanical engineering. It should be stressed that the main import volume was implemented by trading companies not by the end -users (80% of the total import volume).

Figure 5: Structure of import volume of stainless steel by product type in Russia (th. ton)



Source: Office of the Special Steel and Alloys Consumers and Suppliers Association (2017b).

The competition on the Russian flat stainless steel market is quite high due to the import from different regions: Asia, India, Brazil and Europe, as a result all types of price segments are present on the Russian market. As depicted in Table 9, in 2017 the leading producing countries imported into the territory of the Russian Federation of flat stainless steel products are: Spain (steel producer Acerinox), which share is approximately 24% of total imports volume, India - 18% (the main steel mill -Jindal), South Africa - 11%, China - 16%, Slovenia (Acroni) -10%. Compared to 2016 it is well-marked trend - the increasing import volume from non- European steel producers conditioned by low-price preferences of the Russian customers. The situation with import structure from European countries is very unstable: the Belgium producer Industeel lost 4% of market share as well as the Finish Outokumpu - 2%, whereas, Slovenian producer Acroni managed to increased sales volume by 28%.

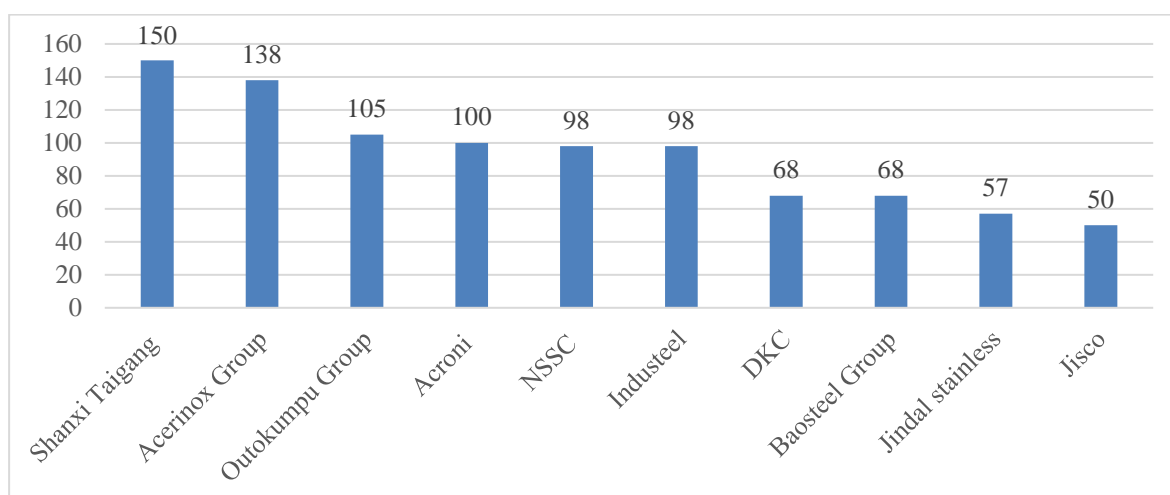
Table 9: Top 10 source countries of flat stainless steel products for Russian imports (ton)

country	2017		2016	
	volume	%share	volume	%share
Spain	16621	24	9123	17
India	12425	18	8602	16
South Africa	7401	11	7145	13
China	10752	16	6544	12
Slovenia	6890	10	5393	10
Taiwan	4033	6	5222	10
Belgium	3066	4	4602	8
Brazil	2800	4	3181	6
Finland	1354	2	2155	4
Italy	384	0,6	571	1
The rest	1785	2,6	2324	4,3
total	67513	100	54488	100

Source: Office of the Special Steel and Alloys Consumers and Suppliers Association (2017b).

The situation with competition on the Russian stainless steel market is very similar to that of the global market competition. The Figure 7 illustrates the ten-top stainless steel plate producers and shows that Acroni has to compete with two main types of steel producers: Asian (China, India, Korea, Taiwan) and European with Japanese steel mills. The Asian steel producers create fierce competition in price term, the European and Japanese steel mill compete not only on price level but also on delivery time, additional services and quality terms.

Figure 6: The top 10 global steel plate producers (2017)

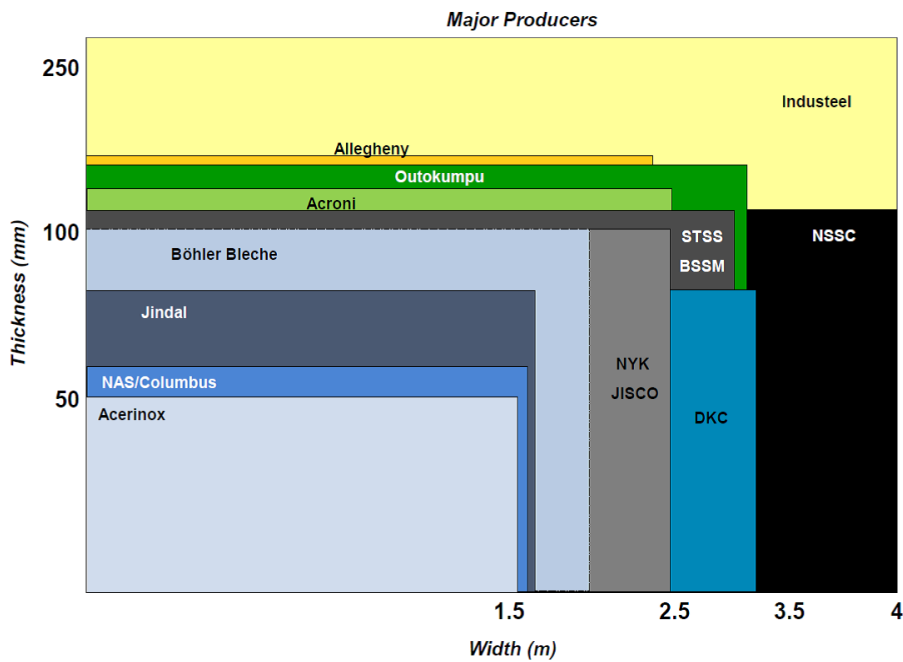


Source: Office of the International Stainless Steel Forum (2017b).

6.3.1 The main European competitors

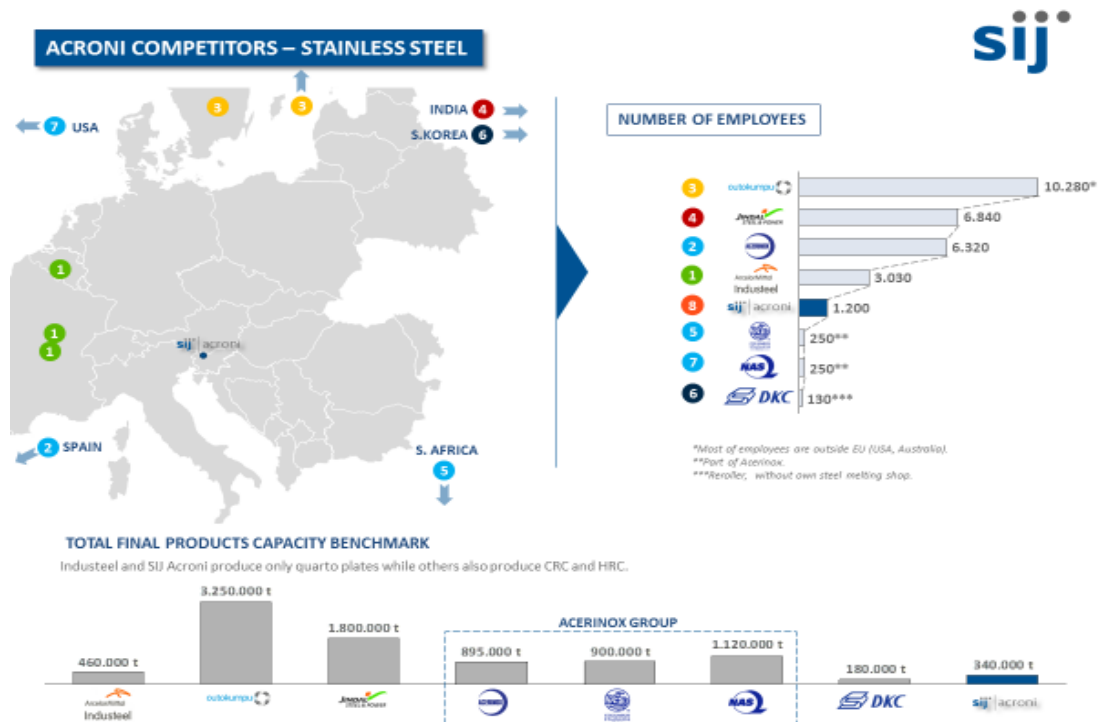
1. The biggest importer of flat stainless steel is Acerinox, S.A., the Spanish company. Acerinox is one of the global stainless producers in terms of production capabilities (188 th. ton). Their geographical diversification is unique in the steel sector and allows the company to distribute products all over the world. The company has three integral process plants for the production of flat products, several huge cutting service centers and currently they reached 50% of North America market and 55% of African market (Shareholders office of Acerinox, 2016).
2. APERAM Group is one of the world's leading stainless steel companies with a management center in Luxembourg. The production capacity of the company in Europe and Brazil is 2.5 million tons of flat stainless steel per year. Also, APERAM is considered as the one of largest producer of special steel and nickel alloys. Their distribution network is comprised of 14 Steel Service Centres ("SSCs"), 6 transformation facilities and 16 sales offices that allows to the company organize sales to over 40 countries, including customers in the aerospace, automotive, catering, construction, industrial processes, medical, and oil & gas industries (Office of Aperam headquarter, 2017).
3. Outokumpu is the Finnish company that is one of the leading manufacturers of stainless steel in the world with maximum production volume of 2.6 million tons. The main Outokumpu sales markets are: Europe (76%), Asia (11%), North and South America (10%). At the beginning of 2015, the company incurred losses of 113 million euros but after that strict control under costs and improving productivity the company achieved EBITDA 631 ml euro in 2017. Outokumpu is one of the most innovative companies who invest a lot resources in developing new grades and improving the properties of stainless steel further (for example, duplex product, Super 316 plus, LDX 2404 and many others) (Office of Outokumpu Oyj, 2017).

Figure 7: Product range of major producers of stainless steel plate



Source: Office of Slovenian steel group (2017); Office of Aperam headquarter (2017); Office of Outokumpu Oyj (2017).

Figure 8: The main competitors overview



Source: Office of Aperam headquarter (2017); Office of Outokumpu Oyj (2017).

6.3.2 The main Asian/Indian competitors

According to China's Stainless Steel Council (CSSC) stainless steel production volume was increasing over last years, in 2016 it reached record level - 24,9 ml tons. The supply exceeds internal demand in China, so the further expansion of Chinese mills is predicted all around the world. For increasing the global market share Chinese steel mill have to reduce price level to ease out other suppliers. The relatively low level of production cost and the viewable level of quality allow Chinese manufacturers to drop the price by 10-20% compared to the European producers that give them favour to play globally.

Among the main Chinese stainless steel mill are the following companies:

1. TISCO or Taiyuan Iron and Steel (Group) Co., Ltd. (TISCO) was established in 1934. TISCO is an extra-big iron and steel complex, a combination with iron ore mining, steel-making production and processing, the largest stainless steel enterprise equipped with up-to-date technical and process installations, with 150 th tons of flat stainless steel in 2015.
2. Baosteel Group is the Chinese state corporation, which includes several companies, including Baosteel Co. Lt; / RTI & gt; On the production of iron and steel. In 2014, Baosteel produced 21.9 million tons of finished products, including products from stainless, carbon and special steel. The total volume of stainless steel production was about 64 th. tons of flat hot rolled plates in 2015.
3. JISCO was established in 1958. Now the company is the largest steel manufacturer and complex in Northwest of China. In the year of 2007, JISCO planned to produce 6.4 million tons of pig iron, 7.4 million tons of liquid steel, 6.85 million tons of steel products. JISCO provided qualified stainless steel flat products in the total volume about 50 th. tons in 2015.
4. Also, Indian company Jindal Stainless is one of the leading stainless steel plates importer on the Russian territory. Founded by Shri O.P Jindal in 1970, Jindal Stainless is one of the largest stainless steel conglomerates in India and ranks amongst the top 10 stainless steel conglomerates in the world. Jindal Stainless Group has an annual crude steel capacity of 1.8 MTPA and the group has an annual turnover of Rs 14,500 crores.

Although Acroni is relatively small company compering to the rest of steel producers, the steel mill has the following advantages: short delivery time, possibility of production by Russian standard GOST, offering as minimal order only tree ton per position, beneficial geographical location allowing short delivery time to Russian territory. These factors help Acroni to compete and foster growing import volume from Slovenia to Russia. Moreover, Acroni can offer wider product range than some of the main importer (Acerinox, Jindal, Columbus) thus facilitate to obtain tender and special projects orders. In this case, almost all stainless rolled stainless steel products differ little in terms of both quality and product range. Under these conditions, when choosing a supplier, its reliability, related services and management level come first:

“Like I already mentioned we cooperate mainly with foreign suppliers due to limitation of production of Russian producers. When we talk about European suppliers we confirm that quality is on high level and delivery on time, but of course due to currency exchange and additional VAT and import tariff we have to pay much more. But in case that we do not have any other option we will continue importing” (Interviewee F).

Given analysing information about both the local and foreign competitors, I have presented the main findings embracing the following:

- Acroni has capabilities to grow on the Russian market,
- By obtaining additional approvals Acroni can enter specific business segment,
- By arranging own service center and warehouse Acroni can join retail trade and increase market share.

After research of competitive environment, I have concluded that possibility of new entrant is quite low due to limitation of consumption volume, requirement of significant investments and unclear perspective in stainless steel industry in Russia.

7 MARKET ENTRY STRATEGY FOR ACRONI IN RUSSIA

7.1 Evaluation of the Russian market selection

Based on the analysis of the trends in the steel industry, competitors, the internal company's resources and objectives on one hand, and country's specific features on the other, I have brought down all that to following regarding the selection of the Russian market:

1. The steel industry is highly competitive business sector: supply volume exceeds demand on the global market, so steel mills have to search new niches and opportunity to promote products, because currently manufacturers struggle for customers using different sales channels.
2. Acroni is the relatively small steel mill compared to the global huge steel holding and it can't compete on price level or economics on scale. The company is also limited by internal resources (financial, labour, production facilities) and all production and technological facilities were chosen to produce specific product range. Taking into consideration these limitations and high plan for realization Acroni has to search new niche for high-added value products. Currently Acroni's main market is the European market which is quite saturated, so it was logical to start searching a country with potential demand.
3. Russia is considered as one of potential countries to enter, it can attract Acroni by the following characteristic: the market size is quite significant, forecasted growth of consuming industries - oil and gas, chemical and energy sector. Moreover, there are weak local steel producers of stainless steel products, so from local steel mills Acroni does not meet fierce competition. Also, Russian location is relatively close to Slovenia and it is

not a costly and time-consuming logistic process. Acroni faces some competition from Asian and Indian steel producers on the Russian territory – but it can be handled by creation proper value proposition and right choice of entry mode.

4. Main problems in doing business with Russian customers are cultural differences, government regulations with import tariffs and state approvals, payment conditions. Majority of customers do not plan purchasing volume in advance, so it is difficult to forecast monthly volume and sales structure. Moreover, situation with projects usually looks like this: firstly, project is announced, then all documents are prepared but final decision is postponed indefinitely. In such conditions, a lot of risks appear – problems with fixing price level, planning production capabilities, combination of orders for different customers.

7.2 Entry mode selection

7.2.1 Exporting mode

The exporting mode was chosen as the first stage of entering the Russian market, the decision of starting export was taken without strategic approach and precise investigation. Russia was a new market and a new experience for Acroni, so the easiest and more credible way was to start simple importing. Given Acroni's specific product range it was decided to implement both way of exporting: direct (sales from mill) and indirect (through Russian trading companies). Acroni did not make any significant investment to organize exporting mode.

In 2013 I conducted the preliminary survey of the Russian market in order to understand the main trends and customers preferences. According to collected data the marketing strategy consisting of the following parts was designed:

1. Price level:

On the Russian territory Acroni faced three main categories of competitors by price level: the Asian producers (the lowest price level), the local mills (the middle price level) and the European producers (the highest level). Given the information about Acroni costs the company could not compete with the Asian producers, therefore it was chosen to set lower prices than those of European producers but at the same time higher than prices offered by local mills.

2. Promotion:

Due to limitation of marketing budget, Acroni promoted the material through the following main channels: professional fairs visits (oil and gas, chemical and metallurgical industries), registration on official tender's platform where Acroni published offers for majority of Russian holdings and cold calls to potential customers. At that time one of the main objectives was to find potential partners and establish stable relationship with them on the Russian territory, thus meetings with leading trading companies were arranged and Acroni

managed to agree on cooperation and promotion products on the market. Also, given the fact that majority of local customers communicate only in Russian language, Acroni translated all documentation and found Russian speaking sales manager and specialist for logistic in order to organize more customer-friendly service.

3. Products:

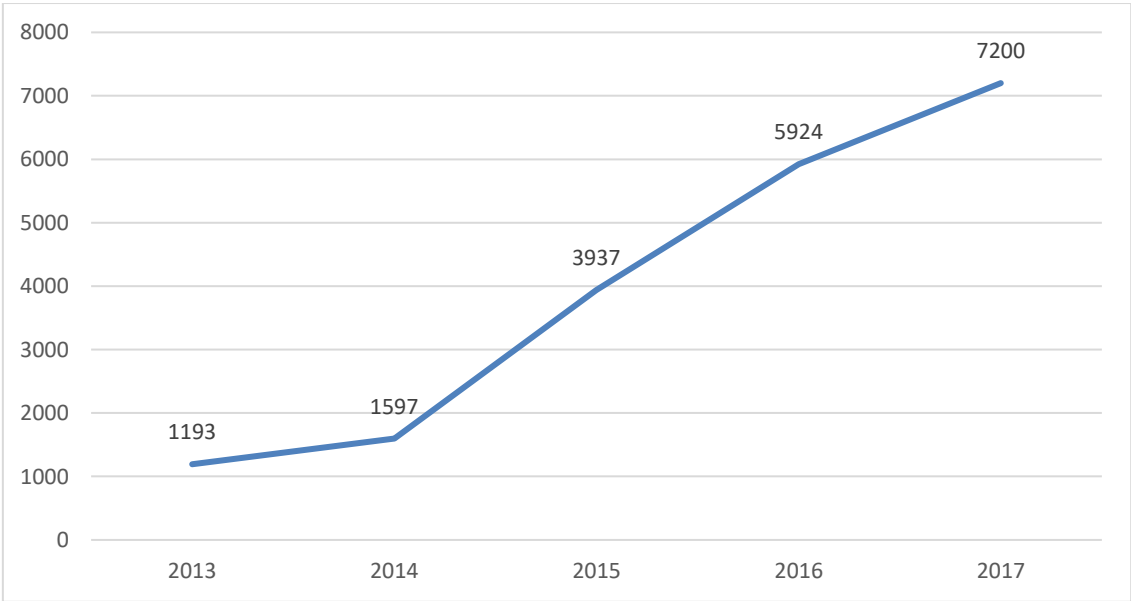
For more efficient entering on Russian market the modification of product range was implemented. As most of the local customers required the Russian standard GOST, Acroni incorporated it in technological process and started to produce specific grades for the Russian market:

“First of all, majority of Russian end- users require material according to Russian standard, so steel mill should follow this rule. Secondly, as usually material is needed very urgently because still a lot of end-users can’t create plan in advance and confirm purchasing budget as consequences end- users demand material in very short term or from stock or from steel mill which can arrange such delivery” (Interviewee F).

Also, Acroni started procedure of obtaining special certifications that were obligatory conditions for supplying material to atomic and transportation industries.

As depicted in Figure 10, over three years Acroni reached progress in sales and showed quiet positive financial results from activities on Russian market. Despite the economic crisis in Russia and Ukraine, problems with currency, political sanctions, Acroni was able to increase sales volumes by five times within four years and boost revenue (four times). In 2016 Acroni obtained 20% share of import volume of stainless steel quarto plate in Russia.

Figure 9: Acroni sales growth on the Russian market (tons)



Source: Office of Slovenian steel group (2017).

Moreover, Acroni created strong reputation as stable supplier with high-quality products. The company built up strong business relationship with some holding and state companies in transportation sectors, petrochemical industry:

“We worked with Acroni more than five years and we satisfied with our cooperation: high quality product and short delivery term. In Russia the mills can’t offer the same conditions” (Interviewee G).

Also, Acroni started to do business with all leading stainless steel trading companies like Ileko, Kontinental, Globus stal and others. Such cooperation gave Acroni some certain advantages: keeping materials on trading stocks practically in all main regions of Russia - Moscow, Sant-Petersburg, Ekaterinburg, Nizni Novgorod, Novosibirsk, Chelyabinsk, and possibility to supply material for state companies and large holdings due to specific payment conditions:

“The main our business is still trading as for the whole Russian market. I would say that 80% of total sales is simple trading and only 20% services. If we talk about whole Russian market the structure by sales channel are the following: 60% big trading companies, 30% ultimate end-users purchasing volume and the rest is done by small trading companies” (Interviewee C).

In table 10 I described my findings after the implementation of exporting strategy. On one hand, exporting mode provided some positive moments: low level of investment and operational risks, more flexible approach for decision-making. But at the same time executing the exporting mode created problems with control of the market, losing margin due to operation through trading companies and limitation of servicing small orders.

Table 10: The advantages and disadvantages of direct and indirect exporting modes

Type of mode	Positive moments	Limitation and problems
Direct mode	Direct contact with customer and full control on processes	A lot of efforts to search customers and time-consuming negotiation process
	Emerge higher margin	Limitation with payment conditions
	Obtain references of end-users	Serving only big projects due to high cost of logistic and difficult export procedures
	Transparent business	Limitation due to lack of state approval and permission for supplying
Indirect mode	Quick excess to customer database	Partial control over market
	Opportunity to serve small companies and projects	Not transparent situation with price policy and margin
	Relatively stable monthly consumption volume	Lower margin
	Using credit lines and insurance for trading companies	Unpredictable switch from one to another supplier

Source: Office of Slovenian steel group (2017).

7.2.2 Investment mode

At the same time, exporting mode had some limitations, and thus the steel mill began to search for the way to expand business. Acroni reached 30% of market of the stainless steel thicker plates and in order to facilitate additional sales growth it could choose one of two options: to reduce price for taking market volume from the Asian producers or to offer own services and new products on the Russian market.

Following three active years of promotion materials on the Russian market, Acroni has obtained experience and clear conception of the markets rules of competition and price policy, trends in consumption, customer preferences and patterns of purchasing behaviour. Moreover, the company brand is well-known on Russian territory which makes it easy to sell material with additional margin. Also, it should be mentioned that Slovenian steel mill belongs to the Russian vertically integrated holding IMH with production capacity in Tula and Kemerovo.

In 2017 the management of Acroni set the target for increasing sales volume by 35% and profitability by 10%. I was responsible person for preparation the strategic plan aiming to reach the targets within next three years.

For this purpose, I have conducted the research of the Russian market situation (potential consumption volume and trends, competitors analysis) and executed expert survey that should provide information for decision-making process about options enabling potential growth. I interviewed the experts about potential growth of the Russian steel market, the

main customers preferences and requirements, the demand for additional products and services as well as the potential growth of the service centres market.

7.2.3 Interpretation of the survey results

Gathering expert's opinion of representatives of the trading companies and end-users I would like to point out the following conclusions:

- 1. The market for stainless steel plates is quite stable, so in the next three years the consumption volume is expected to remain at the current level (approximately 20 th. tons per year).**

"I do not see some dramatical changes in the nearest future, so the total sales volume should retain stable and maybe we can observe some shift to Asian producers by reducing local origin materials" (Interviewee B).

"Russian steel market is still without changes. Visible demand remains relatively low and in the near future, obviously, will not increase" (Interviewee C).

"The market is stable but small. The reason for this is high currency risks (almost all imported stainless steel) and small stainless production (a lot of stainless steel is delivered in finished products also from abroad)" (Interviewee D).

"I would say that on the Russian market situation has been quite stable for last five years, we see the material from the same producers on market, practically list of main distributors remain unchangeable" (Interviewee E).

- 2. The Russian end-users purchase standard material according to GOST standard. All new grades and modification are not in significant demand.**

"Currently, consumers in the Russian market prefer standard products and avoid purchasing innovative types and steel grades due to non-compliance with state standards. Russian steel product is very interesting only to a small layer of plants operating in the nuclear and military industry, where there are requirements for the Russian origin of the steel (which most also learned to bypass)" (Interviewee A).

"First of all, majority of Russian end- users require material according to Russian standard, so steel mill should follow this rule" (Interviewee F)

Keeping stock on the Russian territory allows the trading companies to create margin (5-10%) from trading and control significant part of import volume (about 70% of the total import volume).

"On the Russian stainless steel market imports dominate in most sectors. It leaves its mark on market structure. About 80% of import purchases are made by steel traders. At the same

time, consolidation processes are developing on the market. The top six leading players in 2017 accounted for 56% of external purchases. This trend is quite objective. To work with external suppliers, you need solid financial resources, a good brand, warehouses and production facilities” (Interviewee A).

“In past we could order some material through trading companies but of course we had to pay commission for such transaction (about 5-7% more than mill price) therefore we decided to find stable partners as steel mill for cooperation” (Interviewee E).

“About 30% of purchasing volume was bought through trading companies and of course we had to pay commission for such transactions (about 7-10%)” (Interviewee F).

3. The market of service centres is not significant comparing to the European market, but it is forecasted to develop gradually in the next 3-5 years.

“So, as you see for such huge country like Russia such business as service centre is not so popular like in Europe or the USA. Nowadays local service centres gain competence and expand production capacity. In particular, our company increases the production of complex products from stainless steel sheet and increases its fleet of equipment” (Interviewee A).

“The visible volume of the market of stainless steel in the Russian Federation is about 400 thousand tons. However, there is a hidden market - in the form of stainless steel products, machine parts, etc. Its capacity in Russia is 1 million tons. But its development is impossible without the development of a network of metal service centres for the processing of stainless steel, both of a general type (longitudinal and transverse cutting, grinding), and of a specialized type (deep processing)” (Interviewee C).

“In Russia, there are really only 2 SMC in stainless market - Globus and Ferrite. The market of services is actually 3-4 times larger than the current one and it grows by 20-25% per year. Simple cutting has potential but limited” (Interviewee D).

“We established good cooperation with two service centres Kontinental and Globus stal – we use their services quiet often. They make slitting for use, polishing and some special parts. We can buy machine and start doing everything inhouse, but it is more wise and efficient to use professionals. I believe sooner or later this segment business will be developed one like in Europe” (Interviewee I).

4. The competition on service centres market is quite low, there are five main operators throughout Russia that own production facilities and provide high quality of cutting services.

“In Russia I know maybe 5-6 companies who try to become real service centre: our company, Globus, Ferrit, Ileko, Metalservice and Orinnox” (Interviewee A).

“So, we found our niche and believe that demand for such products continue to grow. We also enjoy favourable conditions on this market segment due to lack of alternative so from cutting activities we can earn much more than from trading” (Interviewee B).

“Russia's real problem is not the lack of production of stainless steel, but a weak service infrastructure” (Interviewee C).

“SMC do not present as layer; their share is very small. Mechanical engineering enterprises prefer to do all the operations themselves and not outsource anything” (Interviewee D).

5. Currently the steel service centres are high-margin business segment, therefore companies might gain higher profitability from organizing cutting services than simple trading.

“High added value is concentrated not in metallurgy, but in metalworking (the same ThyssenKrupp sold the metallurgical plant but kept the metal service divisions). Therefore, today our company can offer its customers not only the supply of stainless steel, but also the manufacture of semi-finished products” (Interviewee B).

“Of course, the demand for SMC services will grow, as will the number of such companies. The question is the payback period of such projects. Currently, price for cutting services is much higher than for plates (about 30% higher price)” (Interviewee E).

“Roughly, 80% of all products we do by themselves, only for 20% we should apply for outsourcing. The price for semi-part is as usually higher by 25-30% than for simple plate” (Interviewee G).

These findings I used to prepare the proposal on the investment mode strategy.

7.3 Timing - proposal of strategic plan of investment mode

Preparation of the proposal of the strategic plan is grounded on the premises of the resource-based view, the institutional theory and the Uppsala approach. Acroni is considered to be the company that obtained knowledge and skills in operating of the stainless steel market with own R&D department, flexible production approach, logistic and marketing resources. Therefore, all these capabilities can be used for organizing investment mode on the Russian territory (O’Cass, Viet Ngo, & Heirati, 2012). Moreover, the cooperation with the headquarter in Russia will bring some additional benefits in operating on the Russian territory. Acroni can be supported by the headquarter and will be able to use some holding resources such as: own warehouse, specialists for logistic and customer clearance, the knowledge and skills of doing business in Russia. I consider that all the mentioned above will help immensely to start new type of business. Also, Acroni doesn’t need to register new entity on Russian territory – all activities will be organized through existing holding daughter

company that can significantly reduce costs including outsourcing costs, taxes and costs for staff salary.

I believe that such cooperation between Acroni (capabilities on the stainless steel market) and the headquarter (“professional” company specialized in doing business in Russia) will bring additional benefits of implementation the investment mode: cost optimization, risk reduction of operations in the host market, exchange of knowledge -based resources. From competition prospective the cooperation will allow Acroni to create and maintain the resources barriers that should enhance the competitive advantages on the Russian market. Opening own service centre will provide opportunity to control activities on the Russian market, reduce the dependence on agents and trading companies, make business more transparent and as a result generate higher profit. With the headquarter support Acroni can create the unique value proposition, range of products and services specially for the Russian market that will allow the company to enjoy competitive advantages.

Such cooperation can be important argument in decision- making process about location. The Russian market is the prospective one in term of volume of steel consumption and potential growth, but at the same time the cooperation with the headquarter will open new possibilities to create the competitive advantages in the chosen host market.

Moreover, Acroni as part of Slovenian steel group has access to the operational data of own service centres in Italy and Germany. So, it should be useful for decision-making process of choosing equipment, product range, cost calculation. The knowledge and experience of operation own centres will give additional competitive advantages for Acroni.

First, I recommended to open the own warehouse on the Russian territory that might allow Acroni to organize retailing and serve small orders that should result in increasing sales volume and margin. Second, on base of own warehouse I found the potential for developing own cutting services that will enable to increase sales volume (additional 20%) and obtain additional profit.

I have made the proposal on investment mode strategy which is divided into two stages:

- Opening and running only warehouse with Acroni products in Tula in 2018
- Organization of production facilities for different types of cutting in 2019-2020

Stage 1: opening own warehouse with Acroni products

Decision of starting operation from own warehouse was taken due to several reasons:

- Increase of sales volume by offering small batches of products
- Expand the range of products for selling (special steel, long products and so on)
- Improving financial indicator from sales activity (trading activities generate about 10% of mark-up)

- During the first stage Acroni focuses on reaching the following objectives:
- To keep sales volume directly from mill on the same level (approximately 8 000 tons of stainless steel plates per year)
- To capture additional sales volume by trading from warehouse (target is 2000 tons of stainless steel - 25% growth plus additional 1000 tons of special steel products in 2018)

According internal analysis of information about real and potential customers I considered that new warehouse should be located in the European part of Russia due to allocation of customers and convenient logistical processes. As the result it was founded suitable warehouse in Tula (180 km from Moscow) with 2000 sq. m area, two cranes and comfortable access road belonged to the headquarter company. Also, accumulated data on customers' orders I created the forecast of monthly sales volume and demand for special dimensions and grades that should be kept in own warehouse to organize fast operations and avoid problems with slow movers. For the first year of operation I proposed to keep on the stock 700 tons of stainless steel plates (coefficient of turnover should be between 3-4 per month) and 150 tons of special steel grades with monthly sales volume 200 tons.

Table 11: The proposal of the financial plan for 2018

Sales volume (t)	3,000
Sales Trading (EUR)	9,771,000 €
Fixed costs	240,300 €
Labour costs	172,000 €
Wages and salaries	125,00 €
Social security contribution	45,000 €
Other labour costs (other personel expenses)	2,000 €
Other operating expenses	65,300 €
Rentals / Occupancy costs	32,000 €
Insurance	2,000 €
Vehicle expenses	3,400 €
Advertising and travel expenses	12,700 €
Other costs	15,200 €
Taxies	6,000 €
Variable costs [€/t]	2,957 €
Raw material cost [€/t]	2,800 €
Transportation cost [€/t]	157 €
Revenues (EUR)	9,771,000 €
Total costs (EUR)	9,111,300 €
Profit/loss on sales	659,700 €

Source: Office of Slovenian steel group (2017).

In order to successfully implement this plan, I have elaborated marketing and sales plan consisting of the following objectives:

1. Creation of experienced in steel trading sales team (sales director and four sales managers)
2. Adoption of KPI (key performance indicators) and motivation system for sales staff
3. Conducting advertising campaign for warehouse promotion (specialized media sources and fairs, Internet trading platform)
4. Collection of customer base (target for 2018 is 300 active customers)
5. Organization of customer service (custom clearance, transportation and so on)

Marketing strategy is focused on searching potential customers of two main types: end-users from consuming industries such as oil and gas, petrochemical, transportation and small regional trading companies. It should be mentioned that Acroni might face negative attitude and some competition from big trading companies, so the steel mill should arrange special meeting with them to explain its future strategy. Also, Acroni should adopt the rules of collaboration between sales of the steel mill and warehouse in order to avoid overlapping of sales activities and misunderstanding for existing customers.

At the same time, I am planning to continue investigation of Russian market volume of cutting product for financial reason: average margin from trading is about 10%, meanwhile margin from cutting services might reach 30%. As usually customers consuming plates are interested in purchasing different types of cutting products from the same material (rolls, flanges and so on), so as soon as Acroni creates substantial customer base on the first stage the company might develop business in the nearest future.

Potential risks of opening own warehouse are quite low and do not require special investment, also closing of warehouse could be done within short period of time without additional costs.


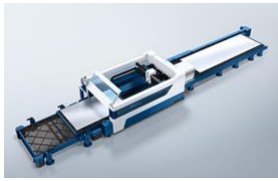

Stage 2: organizing cutting facilities on the Russian territory

Own service centre with cutting facilities can definitely bring some benefits for the company, such as: additional sales volume, expansion of product portfolio and penetration into new industrial segments. Moreover, the average margin of cutting centres is much higher (30%-40%) than from simple trading activities (7%-10%). But at the same time, organization of cutting facilities requires significant investments and additional cost for running services (installation cost, labour cost for operation, special permission from government organizations). In this case Acroni should carefully evaluate all benefits and risks of operation, in addition it should be closely investigated market condition and potential demand for semi-parts.

The modern service centres in Europe (Jacquet, Nova – trading, CSM, HW-Inox and so on) offer different types of products made by three main type of machines: plasma cutting, laser

and water-jet. Each type of machine might produce specific product range by dimension range and industrial application. Purchasing costs of all machines are estimated to reach 3,5 ml EUR with installation. It should be noticed that installation of machines needs special space and must meet strict requirements and consequently it will entail additional expenditure. Also, the company needs to employ managers experienced in running service centres, technical and production specialists, as well as organize quality control and transposition of small bunches to the pull of customers.

Table 12: The description of potential investment for service centre

Type of machine	Plasma cutting machine	Laser	Water-jet machine
Different machines can be used for special product types and have own productions capacities			
Purchasing cost	1 ml EUR	0,8 ml EUR	1,3 ml EUR
Yearly production	12,000 ton	8,000 ton	400 ton

Source: Office of Slovenian steel group (2017).

In case all stages are well-prepared and implemented with sophisticated market analysis and active sales strategy, I strongly believe that the steel mill might obtain additional 5000 tons of sales volume with profits 3,7 ml EUR per year.

7.4 Limitation of the study and future research

The expert survey allowed me to collect the first-hand information about the main trends on the Russian market and to understand expert opinions about future market development. At the same time this research method is not fully representative as well as its findings might be subjective and not properly reflect the real situation. Moreover, the quality of information depends on the professional skills and experiences. So, the expert survey is useful method for preliminary investigation of the market, but for decision -making it should be accompanied by the quantitative methods aimed to exploring the demand for cutting services and the price policy for semi-parts. Moreover, for accurate calculation of costs for the service centre establishment it is needed to apply for technical support that will provide data about installation and operational costs of equipment.

So, the next step should be the conduction of the quantitative research of the existing and potential buyers of cutting service in Russia that will allow the company to forecast the sales volume, form the product range and analyse the financial indicators. Also, it will be useful to collect data of sales volume, pricing and other conditions which are offered by the existing competitors offer to the local customers using the method of the mystery shopping.

Conducting additional researches will provide more sufficient information in order to elaborate further the strategic plan of investment mode.

CONCLUSION

The objective of the Master thesis was to create the proposal for entry strategy on the Russian steel market. After the review of research literature, it was found that the topic of the entry strategy is the order of the day due to the intensification of the internationalization processes. There are several different scientific approaches trying to explain the main motives of entering new markets, potential risks and benefits, types of entry modes. Recently, a lot of empirical researches were conducted that aiming to investigate the entry strategy formation and execution in different countries and business segments (Morschett, Schramm-Klein & Swoboda, 2010). All findings provided the background for the creation proposal of entry strategy, but it should be mentioned that it is no single approach to entry strategy, and, information is quite fragmental. I have chosen the resource-based view as the main guideline and focused on the company resources, potential benefits of operations in the host country and selection the entry mode from perspective of development of competitive advantages on new market.

Since the entry strategy is quiet complex task for implementation it was required to analyse the steel industry trends, the host country conditions of doing business, the competitor analysis and the steel demand. In result, it was showed that the company possess specific resources (skilled professionals, knowledge and technology of producing high-value added steel) that can facilitate successful enter new market and creation competitive advantages in the host country (Musso & Francioni, 2014). As the steel industry is becoming more and more competitive, it is effectually to search special niches for steel mill where the company can find additional margin. Given the fact that Russian steel market has potential for growth in term of sales volume, also the local steel producers are not able to offer the same product range and quality, and moreover, the headquarter is located in Russia, that all were arguments for country choice. I recommended to divide the investment entry strategy into two main stage: export mode at the beginning of entering the Russian market and the investment mode after acquiring knowledge and experience. Within three years the exporting mode was successfully implemented, but the company reached the limit of sales volume, so the question about additional growth appeared. Applying to ideas of the resource-based view and conducting expert survey, I have created the proposal of investment mode strategy which will allow the company to create competitive advantages on the host market.

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APPENDIXES

Appendix 1: Summary

V središču raziskovalnega zanimanja magistrskega dela je oblikovanje strategije za vstop na trg. Ukvarja se z mednarodnim uveljavljanjem jeklarskega podjetja Acroni, ki je del skupine SIJ – Slovenska industrija jekla, na ruskem trgu. Trenutno se večina evropskih jeklarjev srečuje z nezadostno lokalno potrošnjo, pritiski iz Azije in nestabilno situacijo na trgu surovin, zato so primorani iskati nove trge in potencialne segmente kupcev. Acroni proizvaja izdelke z visoko dodano vrednostjo za specifične tržne niše, zato veliko virov porabi za iskanje novih prodajnih kanalov in novih segmentov kupcev.

Obenem je za evropske jeklarje Rusija iz več razlogov eden od najzanimivejših trgov. Prvič – rusko gospodarstvo v zadnjih letih beleži rast v industrijah, ki porabljajo jeklo, kot so gradbeništvo, strojogradnja, energetika in kemična industrija. Poleg tega Rusi v bližnji prihodnosti načrtujejo zagon večjega števila državnih projektov, kot so gradnja velikih industrijskih in športnih objektov, mostov, modernih objektov itd. Drugič – ruski proizvajalci beležijo upad proizvodnje nerjavnih in specialnih jekel, saj se bolj osredotočajo na masovno proizvodnjo izdelkov s precej nizko dodano vrednostjo.

Namen magistrskega dela je priprava predloga strategije za vstop na ruski trg jekla. Po pregledu raziskovalne literature smo ugotovili, da je zaradi krepitev mednarodnega delovanja vstopna strategija nujna tema dnevnega reda. Za pojasnjevanje motivov za vstop na nove trge, potencialnih tveganj in koristi ter načinov vstopa na trge obstaja več znanstvenih pristopov. Nedavno je bilo izvedenih več empiričnih raziskav, katerih namen je bil preučiti oblikovanje in uresničevanje strategij za vstop v različne države in različne segmente poslovanja.

Kot glavno vodilo smo izbrali pregled na podlagi virov, pri čemer smo se osredotočili na vire družbe, potencialne poslovne koristi v ciljni državi in izbor načina vstopa z vidika razvoja konkurenčnih prednosti na novem trgu. Vse ugotovitve so služile kot podlaga za pripravo predloga strategije za vstop na ruski trg. Predlog je bil, da se strategija vstopa na trg razdeli v dve glavni fazi, in sicer na izvozni model na začetku vstopa na ruski trg ter na naložbeni model, ko podjetje pridobi potrebno znanje in izkušnje. V treh letih je bil izvozni model uspešno implementiran, a je podjetje doseglo zgornjo mejo količine prodaje, zato se je pojavilo vprašanje, kako dodatno povečati prodajo. V ta namen smo raziskali tržno situacijo v Rusiji (potencialna poraba in trendi, analiza konkurentov) in izvedli strokovno anketo, s katero smo pridobili podatke za odločanje o različnih možnostih, ki bi omogočile nadaljnjo rast. V anketi smo strokovnjake spraševali o potencialni rasti ruskega jeklarskega trga, glavnih preferencah in zahtevah kupcev, povpraševanju po dodatnih izdelkih in storitvah ter o potencialni rasti trga servisnih centrov. Z uporabo idej, ki smo jih pridobili iz obstoječih virov in v okviru strokovne ankete, smo pripravili predlog strategije za naložbe, ki bodo podjetju omogočile, da ustvari konkurenčne prednosti na ciljnim trgu.

Appendix 2: Expert questionnaire

My name is Tatyana Bobrovnikova, head of sales development Slovenian steel group. The interview will be devoted to the Russian stainless market. All information will be recorded and remain confidential.

Today we are going to discuss situation on the Russian stainless steel market, main trends and players. As you have been involving in stainless steel business over many years, I will be grateful to you for sharing information and providing your expert estimation.

1. Let's start discussion about situation in your company. How many years has your company organized import of stainless steel? What was annual sales volume of stainless steel last year (sales volume of local and foreign origin)? And how can you describe current situation with purchasing activity?
2. What is current situation on the Russian stainless steel market? What are the main trends and risks on the steel market you see today? Which are the main influencing factors on import activity?
3. Who are the main consumers segments on stainless market currently? Which industries are forecasted to be the leading in terms of purchasing volume?
4. If we are talking about customer preferences, which sales channels of steel trading are the most popular among different customer segments? Could you please, provide rough estimation of market structure by sales channels?
5. How do you think what the main criteria of supplier choice are? Which main requirement steel mill should meet in order be competitive on Russian market – price, delivery, stock or something else?
6. I know that you cooperate with different steel suppliers. Could you please, describe the advantages and disadvantages of cooperation with foreign and local steel mills. Please, tell more closely about your suppliers and interaction with them.
7. There are several service centres on Russian territory providing services to ultimate customers (cutting, polishing and so on). How can you estimate market for such services? Do you think this kind of business will grow in nearest future? Do you see potential demand for cutting services?

Who are the main customers for such services now? – question for trading companies

What is price difference between trading and cutting service?– question for end-users

8. Do you see some potential for growth of stainless steel consumption in the nearest future (2-3 years)? What are the main trends on Russian stainless steel market? Can you expect some dramatical changes?

Appendix 3: Interviewee A trading company Kontinental

1. Let's start discussion about situation in your company. How many years has your company organized import of stainless steel? What was annual sales volume of stainless steel last year (sales volume of local and foreign origin)? And how can you describe current situation with purchasing activity?

Our company is one of the largest Russian suppliers of stainless steel products. Our distinctive feature and, at the same time, a competitive advantage is wide assortment of stainless steel products. More than 9 thousand tons of stainless steel products are concentrated in the company's warehouses every month. Last year we sold about 24 th. tons of different products and for this year we put as a target approximately the same amount.

For several years steel processing has been one of the priority areas of development: we have consistently increased our production and procurement capacities, both in section and flat products. Today, the available laser, hydroabrasive and plasma cutting machines allow us to process flat products and slabs with a thickness of up to 150 mm, and more than 20 band-sawing machines make it possible to process long products with a diameter of up to 1000 mm.

2. What is current situation on the Russian stainless steel market? What are the main trends and risks on the steel market you see today? Which are the main influencing factors on import activity?

Since the middle of last year, the consumption of stainless steel is growing in Russia. The first quarter of this year also supported this trend. Behind these figures it is an important point: overall growth is import, about 70 % of hot rolled sheet consumption and 95 % of cold rolled products were provided by imports. Meanwhile, the local steel producers are becoming weaker in stainless steel and gradually switch for other grades – for defence industry.

In 2016 the visible consumption of stainless steel products accounted for 410-415 th.ton that by 15,1% exceeded the rating of year's prescription. However, the growth of real consumption accounted for about 6%, and 15% increase is due to accumulation of storage reserves.

In January-May of the current year, Kontinental shipped 6,100 tons of stainless steel products to its customers, which is 4% less than the shipment from the same period a year earlier, but revenue was 10% higher. About main trends: Asia is becoming more aggressive

and offer really cheap material, currency exchange influence negatively – every 2-3 months the significant changes with ruble.

3. Who are the main consumers segments on stainless market currently? Which industries are forecasted to be the leading in terms of purchasing volume?

If we are talking about thick plates the main consuming segments are engineering companies who produce different type of equipment for oil and gas industry, energetic sector, also we see growing demand from transportation companies, especially railway. In next couple of years, we expect important projects in defence industry and energetic sector, especially on the north part of Russia.

4. If we are talking about customer preferences, which sales channels of steel trading are the most popular among different customer segments? Could you please, provide rough estimation of market structure by sales channels?

On the Russian stainless steel market imports dominate in most sectors. It leaves its mark on market structure. About 80% of import purchases are made by steel traders. At the same time, consolidation processes are developing on the market. The top six leading players in 2016 accounted for 56% of external purchases. This trend is quite objective. To work with external suppliers, you need solid financial resources, a good brand, warehouses and production facilities. With local steel producers as usually end-users work directly, small trading companies are presented in small volume (not more than 15% of all sales volume). The increasing part of the supply of stainless products passes through metal service centres..

5. How do you think what the main criteria of supplier choice are? Which main requirement steel mill should meet in order be competitive on Russian market – price, delivery, stock or something else?

Currently, consumers in the Russian market prefer standard products and avoid purchasing innovative types and steel grades due to non-compliance with state standards. Russian steel product is very interesting only to a small layer of plants operating in the nuclear and military industry, where there are requirements for the Russian origin of the steel (which most also learned to bypass). So, for special projects are obligatory to buy Russian steel products, for the rest of application customers choose by price and delivery term.

6. I know that you cooperate with different steel suppliers. Could you please, describe the advantages and disadvantages of cooperation with foreign and local steel mills. Please, tell more closely about your suppliers and interaction with them.

The production of stainless steel in Russia is decreasing annually. This is most noticeable in the flat rolled products segment. In the segment of hot-rolled sheet production amounted to 20-23 thousand tons in 2016. So currently our main partners are steel mills from Europe and Asia, India. We have seriously expanded the range of flat-rolled products: by steel

grades, sizes, surface finish, etc. Also, this year, we entered the segment of welded stainless pipes, as a result of which Kontinental is currently able to offer its customers a full range of stainless steel products - section, flat and pipe. So, we establish good relationship with more than 20 regular suppliers around the world. The advantages of cooperation with foreign steel mills are high quality products, a wide range and flexible pricing policy, delivery in exactly the stipulated time. Meanwhile, the local steel producers offer relatively low product quality with high prices, and the most important thing, they can not guarantee stable delivery terms. Like majority of trading companies, we successfully cooperate with all global manufacturers and can quickly bring almost any steel products. With Acroni we worked more than 5 years – we know your products, it is really good quality and short production time, so for projects we will offer your material.

7. There are several service centres on Russian territory providing services to ultimate customers (cutting, polishing and so on). How can you estimate market for such services? Do you think this kind of business will grow in nearest future? Do you see potential demand for cutting services? Who are the main customers for such services now?

In Russia I know maybe 5-6 companies who try to become real service centre: our company, Globus, Ferrit, Ileko, Metalservice and Orinnox. So, as you see for such huge country like Russia such business like service centre is not so popular like in Europe or the USA. Nowadays local service centres gain competence and expand production capacity. In particular, our company increases the production of complex products from stainless steel sheet and increases its fleet of equipment. We updated some of machinery, open new branch in Sankt-Petersburg. Also, the share of cutting products is increasing in total sales volume: we have big orders from oil and gas sector. According to my opinion, business of service centers will develop in Russia but not dramatically. It is wise to open couple of them in Siberia, North part, Far East, where majority of projects of petrochemical industry, oil and gas are located.

8. Do you see some potential for growth of stainless steel consumption in the nearest future (2-3 years)? What are the main trends on Russian stainless steel market? Can you expect some dramatical changes?

In developed countries, the share of deliveries through service centres amounts to 70% of the total production (and for a number of positions it reaches 90%). Without service centres it is impossible to raise the so-called hidden market of consumption (stainless steel, which is imported from abroad in finished products). The size of this market in Russia is 3 times the volume of current apparent consumption. But without a service centre, this sector cannot be raised. Usually around service centres and there is small production, which receive the tape, cards, blanks and produce final products. In Russia, the infrastructure of service centres is missing.

Appendix 4: Interviewee B trading company Ileko

1. Let's start discussion about situation in your company. How many years has your company organized import of stainless steel? What was annual sales volume of stainless steel last year (sales volume of local and foreign origin)? And how can you describe current situation with purchasing activity?

The company "Ileko" was founded in 1992. For more than 25 years, it has grown into the Ileko group of companies, which includes: a procurement and production site and an engineering plant in the city of Ashe, on the basis of which a metal-service centre was created. Ileko Group of companies specializes in the supply of ferritic, stainless special steels and alloys. Supports an assortment of hot-rolled and cold-rolled sheets, rolls, circles. Last year annual sales volume reached 18 th. tons including 12 th. tons of import material. This year we hope to archive higher result.

2. What is current situation on the Russian stainless steel market? What are the main trends and risks on the steel market you see today? Which are the main influencing factors on import activity?

The majority of Ileko Group buyers, based on their own experience and achieved results, look at the situation in the steel trade with a high proportion of positive, and this positive attitude is confirmed by the rather high needs of stainless steels in 2017. Inside the company this is confirmed by the increased number of new business relations, the fulfilment of planned indicators, the achievement of goals in the development of the branch network, an expanded range of goods and services. We see some potential to grow, only currency exchange influence negatively on purchasing volume.

3. Who are the main consumers segments on stainless market currently? Which industries are forecasted to be the leading in terms of purchasing volume?

For domestic defence enterprises, military factories, our company offers products with high accuracy, reliability, with additional tests on test benches. And in this the company sees its perspective - in cooperation with enterprises of the military-industrial complex, the oil and gas sector and machine-building plants, medium-sized enterprises. This trend will continue in nearest future.

4. If we are talking about customer preferences, which sales channels of steel trading are the most popular among different customer segments? Could you please, provide rough estimation of market structure by sales channels?

One of the main sales channels is the dealer network and its development and expansion allows covering a large number of consumers from different industries and territorial affiliation, taking into account their individual requirements. So, on the Russian market the big trading companies play important role. Over last 3-4 years small traders practically

disappeared due to financial risks, volatility of currency and low demand for such kind of services.

5. How do you think what the main criteria of supplier choice are? Which main requirement steel mill should meet in order be competitive on Russian market – price, delivery, stock or something else?

Here as always - consumers want to receive metal from stock, with delivery, at the price of below plant and still with payment deferring. Even those who can import by themselves aspires to be credited at traders and to hang up all risks on them. A share of direct import accounts for 15-20%, transit deliveries through traders to evaluate more difficult, possibly 20-30%. Other is small traders.

6. I know that you cooperate with different steel suppliers. Could you please, describe the advantages and disadvantages of cooperation with foreign and local steel mills. Please, tell more closely about your suppliers and interaction with them.

The list of our partner factories includes: Krasny Oktyabr, ChMK, Acerinox (Spain), Jindal (India), Acroni (Slovenia), Industeel (Belgium). Recently, Russian manufacturers have relaxed and began to produce ordinary flat steel, which in large quantities of 3 pennies began to fly for export. The problem is that metallurgists have forgotten how to make complex parts and complex types of steel due to the loss of technological competencies. So, 90% of stainless steel products we have to import. For stock we usually buy about 80% of Asian material and 20% from Europe. For special project we work mainly with Acroni which can guarantee special customer requirements and delivery term. Industeel is not so flexible and offer higher price than Acroni, but quality is the same.

7. There are several service centres on Russian territory providing services to ultimate customers (cutting, polishing and so on). How can you estimate market for such services? Do you think this kind of business will grow in nearest future? Do you see potential demand for cutting services? Who are the main customers for such services now?

High added value is concentrated not in metallurgy, but in metalworking (the same ThyssenKrupp sold the metallurgical plant but kept the metal service divisions). Therefore, today our company can offer its customers not only the supply of stainless steel, but also the manufacture of semi-finished products. Thus, for many machine-building enterprises Ileko produces blanks, including plates, blanks for molds and dies, as well as molds and dies of medium complexity. The company can produce perforated plates or other products in small serial parts on a punching press. So, we found our niche and believe that demand for such products continue to grow. We also enjoy favourable conditions on this market segment due to lack of alternative so from cutting activities we can earn much more than from trading.

8. Do you see some potential for growth of stainless steel consumption in the nearest future (2-3 years)? What are the main trends on Russian stainless steel market? Can you expect some dramatical changes?

I do not see some dramatical changes in the nearest, so the total sales volume should retain stable and maybe we can observe some swift to Asian producers by reducing local origin materials.

Appendix 5: Interviewee C trading company Orinnox

1. Let's start discussion about situation in your company. How many years has your company organized import of stainless steel? What was annual sales volume of stainless steel last year (sales volume of local and foreign origin)? And how can you describe current situation with purchasing activity?

Our company successfully works more than 16 years on the stainless steel market and ranks among the largest Russia steel traders. Last year we bought about 12 th. tons of different stainless steel products. This year we should achieve higher plan by 15%.

9. What is current situation on the Russian stainless steel market? What are the main trends and risks on the steel market you see today? Which are the main influencing factors on import activity?

Russian steel market is still without changes. Visible demand remains relatively low and in the near future, obviously, will not increase. Distributors are forced to continue lowering spot prices and rely on loyal attitude of manufacturers.

10. Who are the main consumers segments on stainless market currently? Which industries are forecasted to be the leading in terms of purchasing volume?

The consumers of the products supplied by us are enterprises of the energy complex, chemical and transport engineering, manufacturers of food, storage and commercial equipment. The more growing segment are food industry and special projects in oil and gas, energetic sectors.

11. If we are talking about customer preferences, which sales channels of steel trading are the most popular among different customer segments? Could you please, provide rough estimation of market structure by sales channels?

The main our business is still trading as for the whole Russian market. I would say that 80% of total sales is simple trading and only 20% services. If we talk about whole Russian market the structure by sales channel are the following: 60% big trading companies, 30% ultimate end-users purchasing volume and the rest is done by small trading companies. I cannot forecast the fundamental change in the volume and structure of demand in the domestic market due to the complete absence of a reaction from domestic producers, enabled metal

trading companies to purchase equipment and participate more actively in the production chain and in the formation of value added.

12. How do you think what the main criteria of supplier choice are? Which main requirement steel mill should meet in order be competitive on Russian market – price, delivery, stock or something else?

Russia's real problem is not the lack of production of stainless steel, but a weak service infrastructure. For example, the food industry consumes a large amount of metal with special surface finishing - polished, mirror, texture. This surface is usually achieved by additional processing at service centres. The same situation is in the construction industry and finishing materials. In this case, different consumers require different types of finishes and film coating of different thickness and purpose. This is all the work of the service centre, but not the factory.

13. I know that you cooperate with different steel suppliers. Could you please, describe the advantages and disadvantages of cooperation with foreign and local steel mills. Please, tell more closely about your suppliers and interaction with them.

We buy material from local steel producers like Red October, Mechel, Igstal, among foreign steel mills we establish stable cooperation with Acerinox, Tisco, Posco, Columbus. 80% of import material we buy in Asia due to quite good quality and low price. From Russian steel mills we usually buy material for special tenders according to strict specifications.

14. There are several service centres on Russian territory providing services to ultimate customers (cutting, polishing and so on). How can you estimate market for such services? Do you think this kind of business will grow in nearest future? Do you see potential demand for cutting services? Who are the main customers for such services now?

The visible volume of the market of stainless steel in the Russian Federation is about 400 thousand tons. However, there is a hidden market - in the form of stainless steel products, machine parts, etc. Its capacity in Russia is 1 million tons. But its development is impossible without the development of a network of metal service centres for the processing of stainless steel, both of a general type (longitudinal and transverse cutting, grinding), and of a specialized type (deep processing).

15. Do you see some potential for growth of stainless steel consumption in the nearest future (2-3 years)? What are the main trends on Russian stainless steel market? Can you expect some dramatical changes?

With a developed processing market, a large number of SMCs and a growing export of stainless steel end products, of course, it already makes sense to set up our own factory. In the meantime, this is not the case - the situation with domestic production will remain at the level of discussions. The players of the stainless steel market have only one thing: despite

the unfavourable conditions, to increase the share of service, build service centers, understanding that the stainless future depends on them.

Appendix 6: Interviewee D trading company Ferrit

1. How many years has your company organized import of stainless steel? What was annual sales volume of stainless steel last year (sales volume of local and foreign origin)? And how can you describe current situation with purchasing activity?

Really intensively and systematically began to carry with 2004. Passed about 38 thousand tons a year - for this year the plan is 50 thousand tons. Purchasing activity is stable, but not growing. It is connected with a small own market and with a strong consumer dependence on government projects - the number of government projects with stainless products is very small. Most consumers try to use simple construction grades instead of stainless products.

2. What is current situation on the Russian stainless steel market? What are the main trends and risks on the steel market you see today? Which are the main influencing factors on import activity?

The market is stable but small. The reason is high currency risks (almost all imported stainless steel) and small stainless production (a lot of stainless steel is delivered in finished products also from abroad). Considering that everyone needs cheap metal, everything is imported from Asia, and the delivery time is 4-6 months - very large investments are required - this complicates warehouse management and contributes to local shortages. The hidden market is about 3 times the real one. But in any case, everything is imported from abroad.

3. Who are the main consumers segments on stainless market currently? Which industries are forecasted to be the leading in terms of purchasing volume?

The most stable sectors of consumers of stainless products are food industry, oil and gas, chemists, nuclear power engineers, and automobiles. For thin rolled products food industry is leading. In the thick - chemistry, oil and gas, nuclear, connected with large state projects.

4. If we are talking about customer preferences, which sales channels of steel trading are the most popular among different customer segments? Could you please, provide rough estimation of market structure by sales channels?

Since all imports are performed mostly through traders due to customs, logistics, etc. The trade representatives do not sell - they are redirected to the factory and this is an import contract, customs and delivery as a result, traders are mainly active. SMC do not present as layer; their share is very small. Mechanical engineering enterprises prefer to do all the operations themselves and not outsource anything.

5. How do you think what the main criteria of supplier choice are? Which main requirement steel mill should meet in order be competitive on Russian market – price, delivery, stock or something else?

Unfortunately, in Russia the price is the most important criteria, and near the delivery time. Often the decision - making process takes a long period and then after final decision material is needed very urgent. There is no planning. Quality issue is usually rarely occurred.

6. I know that you cooperate with different steel suppliers. Could you please, describe the advantages and disadvantages of cooperation with foreign and local steel mills. Please, tell more closely about your suppliers and interaction with them.

Everyone has specialization and limitations, so large traders work with many suppliers. Nuclear and defence companies often require a local supplier. Part of the foreign factories produce only thin or only thick material; the quality varies at different thicknesses. High quality plates are offered mainly by Europe and India. Thin products are from China, Taiwan. Europe is more set up to offer credit limits and different payment methods, Asia insist on prepayment.

7. There are several service centres on Russian territory providing services to ultimate customers (cutting, polishing and so on). How can you estimate market for such services? Do you think this kind of business will grow in nearest future? Do you see potential demand for cutting services? Who are the main customers for such services now?

In Russia, there are really only 2 SMC in stainless market - Globus and Ferrite. The market of services is actually 3-4 times larger than the current one and it grows by 20-25% per year. Simple cutting has potential, but limited. Due to the low level of engineering, there is a great unmet need for complex operations (when 2-3-4 lines are involved, and a complex product is produced). The main consuming segments are food, construction, automotive industries. Currently majority of semi - parts are purchased abroad or are manufactured inefficiently (with low utilization coefficient and high costs).

8. Do you see some potential for growth of stainless steel consumption in the nearest future (2-3 years)? What are the main trends on Russian stainless steel market? Can you expect some dramatical changes?

The market is forecasted to grow gradually but is strongly constrained by the low efficiency of Russian production. If the euro / dollar rate is high, consumption of stainless steel may begin to decline and concentrate mainly on government projects.

Appendix 7: Interviewee E end-user JSC “Uralhimmash”

1. Let’s start discussion about situation in your company. How many years has your company organized import of stainless steel? What was annual sales volume of stainless

steel last year (sales volume of local and foreign origin)? And how can you describe current situation with purchasing activity?

Our company started import activity over 10 years ago but first years import value was on low level and we bought about 200-300 tons per year. In last five years we gradually increased purchasing volume and imported about 1000 tons per year.

2. What is current situation on the Russian stainless steel market? What are the main trends and risks on the steel market you see today? Which are the main influencing factors on import activity?

I would say that on the Russian market situation is quite stable for last five years, we see the material from the same producers on market, practically list of main distributors remain unchangeable. Of course, majority of whole Russian volume of stainless steel is imported from Asia (about 60%) and Europe (20%), the rest is from local producers. We see some risk connected with import activity. First, it is currency exchange risk – over last 3 years our currency dropped dramatically, and such kind of fluctuation repeats often so for us it is difficult to make calculation of our final project if we do not know the real cost of raw materials.

3. Who are the main consumers segments on stainless market currently? Which industries are forecasted to be the leading in terms of purchasing volume?

According my opinion, the main consuming industries are oil and gas, chemical and energetic sectors. In Russia it was launched official energetic strategy comprising a lot of new projects with nuclear and atomic plants (new and reconstruction), also for oil and gas it is quite huge project in the north part of Russia. So, for all projects engineering companies should manufacture equipment and parts.

4. If we are talking about customer preferences, which sales channels of steel trading are the most popular among different customer segments? Could you please, provide rough estimation of market structure by sales channels?

We are oil and gas equipment producer, so for us it is very important thing to find appropriate material – it should be produced according Russian standard Gost in required dimension range. On the Russian market it is very difficult to find such material: local producers are limited in production capacities and they can not offer wide range of products, so we have to import majority of products. In past we could order some material through trading companies but of course we had to pay commission for such transaction (about 5-7% more than mill price) therefore we decided to find stable partners as steel mill for cooperation. All our tenders are published officially on government website so everyone can apply for tender. But in the end the steel mill as usually win tenders by better price.

5. How do you think what the main criteria of supplier choice are? Which main requirement steel mill should meet in order be competitive on Russian market – price, delivery, stock or something else?

I can say about our company – we have special committee for choosing producers and according our internal methodology we evaluate offers. All offers are getting through official platform how I already mentioned and on the final stage we range them by the following main criteria: price level, delivery conditions, technical conformity and payment conditions. So, among all offers we choice the best option according to highest rank.

6. I know that you cooperate with different steel suppliers. Could you please, describe the advantages and disadvantages of cooperation with foreign and local steel mills. Please, tell more closely about your suppliers and interaction with them.

We import nonstandard by dimension material in Europe and the rest buy from Russian steel mills. The local plant has the advantage of only delivery efficiency (and even then, not always). Due to administrative restrictions, many consumers impose the requirement “Only domestic material”. The quality of the material is worse, the price is higher. Anyone who can agree on a replacement for imported material - do it. With local mills it is easier to solve issues on the adjustment of the order.

7. There are several service centres on Russian territory providing services to ultimate customers (cutting, polishing and so on). How can you estimate market for such services? Do you think this kind of business will grow in nearest future? Do you see potential demand for cutting services? What is price difference between trading and cutting service?

In some case we use service centers for outsourcing due to lack of some machines in our plant. But in the total sales structure it is roughly 20-25% of all purchasing volume. Of course, the demand for SMC services will grow, as will the number of such companies. The question is the payback period of such projects. Currently, price for cutting services is much more higher than for plates (about 30%). So far, outsourcing the processing of stainless steel is not widespread for a number of reasons. Many consumers prefer to have their own procurement workshops, use the available equipment, personnel, premises. Over time, the situation will change in favour of outsourcing

8. Do you see some potential for growth of stainless steel consumption in the nearest future (2-3 years)? What are the main trends on Russian stainless steel market? Can you expect some dramatical changes?

I hope that positive tendency will continue like last 2-3 years. We are actively involved in our and gas and energetic projects. According our strategy our production volume should grow that means purchasing volume will increase accordingly. The growth of consumption will definitely be, if only because of the low base effect. Now in Russia consumes about 3kg /person per year. As many or more imported stainless steel products are imported. The trend

for import substitution plus organic growth should give 8-10% annual growth. Stagnation of the economy (with a high probability), reduction in the cost of oil and gas, the main sources of income for the country, as well as all kinds of geopolitics and restrictions can prevent this.

Appendix 8: Interviewee F end-user JSC “Tikhvin Freight Car Building Plant”

1. Let’s start discussion about situation in your company. How many years has your company organized import of stainless steel? What was annual sales volume of stainless steel last year (sales volume of local and foreign origin)? And how can you describe current situation with purchasing activity?

A share of import grows, since local plants offer higher price, but normal quality cannot be provided. Risks are connected mainly with instability of the rouble exchange rate, decrease of solvent demand, absence of the sources of investments, problems with crediting etc. Strengthening of competition among traders resulted in decrease of profitability and price wars. High level of reserves on warehouses damps change of prices on the market.

2. What is current situation on the Russian stainless steel market? What are the main trends and risks on the steel market you see today? Which are the main influencing factors on import activity?

The main consumer of stainless products is engineering companies (oil and gas, chemical, energy, transport, nuclear etc). Then they go food-processing industry, metallurgy and production, power sector, ship-building, construction segment.

3. Who are the main consumers segments on stainless market currently? Which industries are forecasted to be the leading in terms of purchasing volume?

First of all, majority of Russian end- users require material according to Russian standard, so steel mill should follow this rule. Secondly, as usually material is needed very urgently because still a lot of end-users can not create plan in advance and confirm purchasing budget as consequences end- users demand material in very short term or from stock or from steel mill which can arrange such delivery.

4. If we are talking about customer preferences, which sales channels of steel trading are the most popular among different customer segments? Could you please, provide rough estimation of market structure by sales channels?

Three years ago, we decided to start importing by themselves. For our production we need special dimensions, but local steel mills are not able to provide such material, so we work with two European mills. About 30% of the total purchasing volume was bought through trading companies and of course we had to pay commission for such transactions (about 7-

10%). Now all procedures from tender to customer clearance we arrange by ourselves. I can not provide information about other end-users.

5. How do you think what the main criteria of supplier choice are? Which main requirement steel mill should meet in order be competitive on Russian market – price, delivery, stock or something else?

According our internal procedure we rank suppliers by price level, possibility to produce whole package of order and delivery time.

6. I know that you cooperate with different steel suppliers. Could you please, describe the advantages and disadvantages of cooperation with foreign and local steel mills. Please, tell more closely about your suppliers and interaction with them.

Like I already mentioned we cooperate mainly with foreign suppliers due to limitation of production of Russian producers. When we talk about European suppliers we confirm that quality is on high level and delivery on time, but of course due to currency exchange and additional VAT and import tariff we have to pay much more. But in case that we do not have any other option we will continue importing.

7. There are several service centres on Russian territory providing services to ultimate customers (cutting, polishing and so on). How can you estimate market for such services? Do you think this kind of business will grow in nearest future? Do you see potential demand for cutting services? What is price difference between trading and cutting service?

Sometimes we apply to service centres if we can not produce some semi-parts, but it is not common case. As usually we produce everything inside our company, so I can't evaluate such business segment.

8. Do you see some potential for growth of stainless steel consumption in the nearest future (2-3 years)? What are the main trends on Russian stainless steel market? Can you expect some dramatical changes?

We know our strategic plan and amount of confirmed investments so for it, as you should know we have state support... Now we expect growth about 5% per next three years within our industry.

Appendix 9: Interviewee G end-user LTD “Baltic plant”

1. Let's start discussion about situation in your company. How many years has your company organized import of stainless steel? What was annual sales volume of stainless steel last year (sales volume of local and foreign origin)? And how can you describe current situation with purchasing activity?

We imported stainless steel more than 10 years, but in 2014-2016 we archived the highest volume due to sizable project of creation three huge icebreakers. In that time, we imported more than 2 th. tons from European steel mills and bought about 5 th. tons in Russia. Currently we are finalizing projects, so we need some small amount – not more than 200 tons per year. But we expect that in 1-2 year we will win new tender for creation additional two icebreakers and start buying again significant volume.

2. What is current situation on the Russian stainless steel market? What are the main trends and risks on the steel market you see today? Which are the main influencing factors on import activity?

I am not expert of stainless steel market but according my opinion it is no some special changes on Russian market, no new big trader, no new steel mill project. We imported stainless because of lack material of Russian origin. The local steel mills can not produce dimensions which we needed for projects so we had to buy in Europe. Also, we can not buy Asian products due to special project and very strict control from state organizations.

3. Who are the main consumers segments on stainless market currently? Which industries are forecasted to be the leading in terms of purchasing volume?

Our company is shipbuilding – so I can say only about this industry. According to my knowledge stainless steel is used only for some special parts like in atomic icebreakers, defence ships and other special applications. For simple civil ships we cheap carbon material from local steel mills. Of course, oils and gas and petrochemical industries should utilize this type of steel much more than we.

4. If we are talking about customer preferences, which sales channels of steel trading are the most popular among different customer segments? Could you please, provide rough estimation of market structure by sales channels?

We use two main sales channels: direct purchasing from mill (for big quantity) and through famous traders for some positions. Of course, it is much cheaper to work directly with steel mill about 10% lower price compare to trader's price.

5. How do you think what the main criteria of supplier choice are? Which main requirement steel mill should meet in order be competitive on Russian market – price, delivery, stock or something else?

Our company requests high quality and specific technical conditions, so we choose not only by price. Also, we can not use Asian material for our projects. All material should be produced according to Russian official standard GOST and go through the third part inspection of Russian maritime register.

6. I know that you cooperate with different steel suppliers. Could you please, describe the advantages and disadvantages of cooperation with foreign and local steel mills. Please, tell more closely about your suppliers and interaction with them.

The European produce can offer more wider product range by dimensions and grades. Also, material is high quality with good surface and edges. But it costs more expensive plus all VAT and import tariff. The Russian mill offer simple materials by low price. What we do not like in cooperation with local producers is that they never meet delivery performance, every time something happens, and we can not get our order in time. With European producer we do not face such problems. We worked with Acroni more than five years and we satisfied with our cooperation: high quality product and short delivery term. In Russia mills can not offer the same conditions.

7. There are several service centres on Russian territory providing services to ultimate customers (cutting, polishing and so on). How can you estimate market for such services? Do you think this kind of business will grow in nearest future? Do you see potential demand for cutting services? What is price difference between trading and cutting service?

Majority of parts we can produce within company but some special things like rings or polished parts we have to place in service centers. Roughly, 80% of all products we do by themselves, only for 20% we should apply for outsourcing. The price for semi-part is as usually higher by 25-30% than for simple plate. For new projects we might expect more sophisticated semi-parts and, in this case, we will use more such kind of services. I believe that the market of service centres will grow in some level but not significantly.

8. Do you see some potential for growth of stainless steel consumption in the nearest future (2-3 years)? What are the main trends on Russian stainless steel market? Can you expect some dramatical changes?

The Russian government approved a lot of new projects in our industry, now one of the main target is to discover Arctic and for this purpose special ships should be made. So, from shipbuilding industry I see growth in consumption in next five years.

Appendix 10: Interviewee I end-user PJSC “Gryogenmash”

1. Let’s start discussion about situation in your company. How many years has your company organized import of stainless steel? What was annual sales volume of stainless steel last year (sales volume of local and foreign origin)? And how can you describe current situation with purchasing activity?

Our company is Russia’s largest operator in the production of air separation technologies and equipment, In Russia, about 80% of annual technical gas production of uses Cryogenmash technologies. For third of our products stainless steel material is required due to mechanical properties. Last year we imported about 2 th. tons of stainless steel products

of different types. This year will be a little bit worse – about 1,5 th.tons, it connected with postponement of one project.

2. What is current situation on the Russian stainless steel market? What are the main trends and risks on the steel market you see today? Which are the main influencing factors on import activity?

Both of our two main stainless steel producers Red October and Mechel have serious problems: financial, legal, production and so on, so in my opinion the situation with domestic material will be even worse and worse. On the market we see a lot of Asian material and this share is gradually growing. It can cause some fraud by providing Asian materials instead of Russian origin.

3. Who are the main consumers segments on stainless market currently? Which industries are forecasted to be the leading in terms of purchasing volume?

As usually main consumers for stainless steel are oil and gas, chemical and energy industry. We live in the country where these industries are prevailing and of course the government invest a lot of their development. So, this trend should continue. Russia need them for budget and whole country development.

4. If we are talking about customer preferences, which sales channels of steel trading are the most popular among different customer segments? Could you please, provide rough estimation of market structure by sales channels?

Several years ago, it was practically one main sales channel – import through big traders. The Russian end -users were afraid of all financial risks, currency control, customer clearance procedure and so on, so they simply ordered by traders. Now the situation changed, and we became more used to operate on international markets, so we can organize it by ourselves. We need traders for urgent case – as usually they keep stock with wide range of products and you can get material within week. For our company it is true that about 40% we imported directly, but 60% are bought from stock.

5. How do you think what the main criteria of supplier choice are? Which main requirement steel mill should meet in order be competitive on Russian market – price, delivery, stock or something else?

There are two main business: projects and current needs. For projects we choose steel mill by price, quality and special requirements. For current need as usually, price and short delivery term are the main criteria. The European steel mill can win projects by providing high quality material and meet customer requirements.

6. I know that you cooperate with different steel suppliers. Could you please, describe the advantages and disadvantages of cooperation with foreign and local steel mills. Please, tell more closely about your suppliers and interaction with them.

We tried to work with different suppliers in past, now we created the list of reliable partners. With foreign steel mill we can agree about properties which we need, Russian steel mill simply can not guarantee it. Moreover, Russian material fails by properties – no edges, flatness bad and so on. Of course, it is cheaper and easy to work with local mills (no transportation, customer clearance, currency control and so on). But if we need good material we have to apply to foreign steel mill.

7. There are several service centres on Russian territory providing services to ultimate customers (cutting, polishing and so on). How can you estimate market for such services? Do you think this kind of business will grow in nearest future? Do you see potential demand for cutting services? What is price difference between trading and cutting service?

We established good cooperation with two service center Kontinental and Globus stal – we use their services quiet often. They make slitting for use, polishing and some special parts. We can buy machine and start doing everything inhouse, but it is more wise and efficient to use professionals. I believe sooner or later this segment business will be developed one like in Europe.

8. Do you see some potential for growth of stainless steel consumption in the nearest future (2-3 years)? What are the main trends on Russian stainless steel market? Can you expect some dramatical changes?

I can not predict some significant changes, but it should be gradually growth 2-4% per year. The situation in oil and gas is prospective now, we see potential projects with state investments.