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**ELABORATING CASE-STUDIES ON INTERNATIONALIZATION
OF RUSSIAN INNOVATIVE MEDIUM-SIZE COMPANIES**

Sofia Rekord (a)*, Mikhail Lukashevich (a)
*Corresponding author

(a) Saint-Petersburg State University of Economics, Sadovaya str., 21, Saint-Petersburg, Russian Federation,
rekord.s@unecon.ru

Abstract

The article describes methodology of elaborating case-studies on internationalization of Russian innovative small and medium-size companies, allowing through rigidly given structure to form and further analyze the array data in the case-studies, by identifying patterns and factors, influencing the success and failure of companies in foreign markets. The methodology is presented on the case-study of the company «Natura Siberica», which shows an example of rapid multidirectional internationalization. The methodology of the company analysis includes the following stages: main internationalization facts, goal, factors and potential for success of the company's international business, strategies of penetrating new markets, country expansion, determining configurations of company's international business, international marketing, description of product, pricing and sales, communication policies, organization and coordination practices, internationalization results. The study of the stories of success in internationalization of innovative enterprise was approbated on the research seminars on the master degree program «International economy» at UNECON (Saint-Petersburg State University of Economics). Master students provided primary work, collecting, systematizing and formalizing companies' data from the open sources. Within the framework of three-day scientific-practical seminars the methodology of elaborating cases on internationalization of selected companies in teams was tested and showed great potential for the application in the practice of master-degree studies.

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Keywords: Case-study, innovative company, internationalization strategy.



1. Introduction

The strategic task for Russian economy aimed at increasing volumes and raising effectiveness of non-primary high-tech exports, and, broadly, widening the scope of internationalization of enterprises requires the survey of the stories of success (and failure) of internationalizing innovative small and medium enterprises (ISMEs) abroad and comparable Russian peers. For this purpose, the methodology of describing these stories of success/failure should be developed, including the process of decision-making on internationalization strategies: selecting priority markets for ISMEs, patterns of penetration and operating activities on chosen markets. There are examples of case-studies of foreign companies acting in Russia in business literature (Medvedev, 2015), there are descriptions of the stories of success of Russian companies, as well, but mostly these are journal articles or interviews, not case-studies in full sense.

Business-cases are of dualistic nature. On one hand, they serve as model templates for similar companies (similar by product, scale and market conjuncture parameters); on the other hand, case-studies are carrying the mission of practical orientation for students encouraging them to simulate the behavior of the case company in changing market situation, suggesting alternatives and acquire competences on the variety of decisions and activities of companies in different situations. The problem for this kind of studying is connected with fragmented, often doubtful information. It is dispersed in journal articles, analytical, commercial publications, hidden in interviews of companies' founders and CEOs. Partly this information barrier may be reduced by the collection, selection and systematization of all the information from the open sources, interviewing company management (reluctantly), its clients, market experts, that take a lot of labor and financial costs, and turns to the separate specific survey of, for example, companies – “hidden champions” (Simon, 2012) or companies, “born global” (Pock, 2010). As you accumulate the number of cases constructed according to a certain scheme, there appears an opportunity for the quantitative research. For this cases, are transformed into the questionnaire with the conversion of qualitative information into the quantitative data. Thus, there appears an opportunity for economic and mathematical modeling and identification of interconnections of factors, influencing strategic decision-making of ISMEs in terms of internationalization.

The study of the stories of success in internationalization of ISMEs may be associated with the elaboration of case-studies for the master degree program “International economy”. Master students may provide primary work, collecting, systematizing and formalizing companies' data from the open sources.

Within the framework of three-day scientific-practical seminars the methodology of elaborating cases on internationalization of selected companies in teams was tested.

2. Problem Statement

Program participants should actualize the data from companies chosen for writing the case-study; provide the analysis of those markets where companies are currently operating or those which they could potentially penetrate; write and defend publicly the case-study “Strategies of internationalization for Russian ISME”.

Research task: to create a methodology of elaborating practically-oriented case studies of successful internationalization strategies of Russian innovative small and medium enterprises.

3. Research Questions

The task of the case study is to systematize information sources which should allow students to answer the questions which strategies from the whole range of alternatives the company followed in the internationalization process, and why.

During the elaboration of case-studies participants should provide including the information (data) for the opportunity to answer the following main questions:

1. Which internal and external factors (reasons, motives) launched the process of internationalization for this ISME?
2. Which factors determined for the ISME the choice of the overseas market?
3. Which factors determined the choice of internationalization strategies (penetration and business development) on the selected markets?
4. What results the company has achieved in the process of its business internationalization?
5. On what pattern industrialization process could develop further?
6. Which theoretical approaches to the issue of internationalization are underlying decisions made by the ISME?

4. Purpose of the Study

The ultimate goal of the study is to form and update the database of case-studies describing the internationalization processes of Russian ISMEs, allowing, as data are accumulated, to construct multi-factor models and determine mathematically interconnections of factors that influence the choice of internationalization strategies by ISMEs in specific conditions of companies and markets behavior.

5. Research Methods

On the initial stage of the case-studies databank formation the main method of investigation is search and analysis of texts, systematization and representation of data by a predetermined structure. Subsequently as case-studies in the databank of will be accumulated, data should be scaled and processed using economic-mathematical methods.

The methodology of developing case-studies is given below:

A small working group if formed (3-4 people). The group receives files with the sources of information about the company (articles in media and special publications, analytical reviews, research results). After that the group should use the following sequence of actions:

1. Search for additional relevant information about the company;
2. Formulation of a short company's resume;
3. Putting on the time axis key events from the company's life, related with its development and internationalization processes: transfer to the next stage of the life-cycle, change of strategic potential, turn to the new business model, entering new markets, using new strategies of penetration and international marketing, as it is represented in one of the cases (Zentes, Swoboda & Morschet, 2008);

4. Precise collecting of data by facts and opinions from information sources using the structure of a strategic plan (Kutschker & Schmid, 2010) and/or “Canvas” business-model (Debelak, 2009):

- Goals, factors and potential of international business for success,
- Penetration strategies,
- Country expansion,
- Configuration of international business, business model,
- International marketing,
- Organization and coordination of international business,
- Results of internationalization.

5. Explanation of facts and strategic decisions made in the company through theoretic approaches, concepts, methodologies, answering the following questions for the case-study:

- How the value chain of the company looks like and in which way its international business may configure in the terminology of Porter (Porter, 2018);
- What should be the internationalization strategy of the company according to the criteria “firm experience – industry globality” (Hollensen, 2001);
- Which strategic orientation – direct or reverse internationalization – company follows (Kutschker & Schmid, 2010);
- Which internationalization strategy by the criteria «advantages of globalization – localization» follows the company according to the Bartlett & Ghoshal’s Matrix (Bartlett, Ghoshal, 2000, 2003).
- Which advantages does the company has and which strategies it follows in the framework of J. Dunning Eclectic Paradigm (Dunning, 1995).

6. Findings

Example of the “Natura Siberica” case-study

The methodology of elaboration of the case-study was partly implemented within the Master program “International Economy” at Saint-Petersburg State University of Economics. The case-study on internationalization of the company “Natura Siberica”, created on the basis of collected articles and interview from the mass media and other information sources (Didkovskaya, 2017; Ivanova, 2017, 2018; Yakoreva & Levinskaya, 2016; Krasnova, 2013, 2015; Lyasnikov & Lyasnikova, 2016) is represented below.

Natura Siberica (NS) — Russian private cosmetic company, specializing on the production of natural and organic cosmetics. Part of the “Pervoe reshenie” (2017) group of companies producing cosmetic products and household chemicals.

6.1. Main internationalization facts

- 2002 – foundation of the company “Pervoe reshenie” LLC (“First decision”) and launch of the brand “Grandma Agafia's recipes”, beginning of exports of this brand products to the CIS countries.

- 2008 – launch of the brand “Natura Siberica” (NS), beginning of exports of this brand products to the CIS countries.
- 2010 – launch of the brands “Organic Shop” and “Planeta Organica”. Opening of the first “Organic Shop” in Moscow.
- 2012 – opening of the first brand store “Natura Siberica” in Moscow.
- 2012 – launch of the brand “Organic People”.
- 2012 – beginning of the expansion to the overseas markets, receiving international award on the Cosmoprof exhibition (Italy) as the best brand in the nomination “Green cosmetics”.
- 2013 – construction of the organic farm where rare Siberian plants will be cultured, with a certificate of the European bio-standard EU 834/0.
- 2013 – opening of the first brand shop “Natura Siberica” in Tokyo.
- 2014 – launch of the brand “Natura Kamchatka”.
- 2014 – leaving of the brand “Natura Siberica” from the Ukrainian market because of the crisis.
- 2015 – opening of the production capacity in Estonia and launch of the brand “Natura Estonica” for the come-back to the Ukrainian market and sales to European countries.
- 2015 – beginning of sales “Natura Siberica” in retail networks and opening of the first brand store “Natura Siberica” in Western Europe.
- 2017 – 9 brand stores “Natura Siberica” are opened abroad.
- 2018 – Saudi Arabia is becoming the 60-th country where the sales of “Natura Siberica” are beginning.

6.2. Goal, factors and potential for success of the company’s international business

- The goal is to increase the share of foreign sales from current 20 % to 80 %.
- Factors of success: growing demand for organic products, the use of competitive advantages for different focus groups, individual marketing strategy for each country.
- Potential for success: “Natura Siberica” was created initially as international brand using ingredients from different countries; business was developing as a global startup, with its own production and sources of organic raw materials supply.
- Strategic alternatives: slow organic growth of international business independently, or faster development with the attraction of a partner-investor.

6.3. Strategies of penetration

- Direct exports on contracts with retail networks;
- Exports through distributors;
- Direct exports through company’s retail stores (10 own stores «Natura Siberica»);
- Franchise on the development of a retail shop in Japan;
- Exports through e-channels;
- Exports from company’s own production capacities in Estonia;
- Development of the contract manufacturing (mixing ingredients) in the United States;
- Own production capacity in Estonia.

6.4. Country expansion

- The CIS countries: Ukraine, Belarus;
- Baltic countries;
- Central and Eastern Europe countries: Czech Republic, Poland;
- Scandinavian countries;
- Countries of Southern and Western Europe;
- South-East Asia: Vietnam, China, South Korea, Japan;
- Latin America: Argentina;
- Middle East: Saudi Arabia;
- The USA.
- Top-5 foreign markets are: Spain, France, Great Britain, Poland and Baltic states.

6.5. Configurations of company's international business

- Four company's own farms for cultivation of organic raw materials in Khakassia, on Sakhalin island, on Kamchatka and Kuril islands.
- Collecting of wild plants and raw materials in six Russian regions with the involvement of indigenous population of Siberia.
- Imports up to 70 % of primary products.
- For rented plants in Russia, producing cosmetics and packaging for the domestic market and for exporting.
- Plant in Estonia (Eurobiolab), producing brands especially for Ukraine and Baltic countries.

6.6. International marketing

- Positioning with an accent on the unique plant components from Siberia and cultivated on the organic farms.
- Offer to foreign consumers of quality products at reasonable prices
- By its composition and components used "Natura Siberica" cosmetics are at the level of world cosmetics leaders, working in the premium class.
- Cosmetics "Natura Siberica" is focused on the generation 25-30+, "Organic Shop" brand fills a niche of 16+.

6.7. Product policy

Superiority over the largest international manufacturers in terms of the breadth of the product range.

Three umbrella brands by main price segments:

- Budget – "Grandma Agafia's recipes" (around 500 Stock Keeping Units (SKU));
- Medium – "Natura Siberica" (around 500 SKU);
- Premium – "Planeta Organica" (over 200 SKU);
- Chain stores of organic and natural cosmetics and products under the international brand "Organic Shop".

New brands for specific consumer segments:

- “Siberian helicopter” for youngsters;
- “Organic People”;
- “Savon de Siberia”.

6.8. Pricing policy

Coverage of all price segments;

Absence of discounts in company’s own retail stores.

6.9. Sales policy

- Sales through retail networks:

- In the United Kingdom: Harrods, WholeFoods, Tesco, Marks&Spenser
- In France: Monoprix, Carrefour and E.Leclerc, Auchan
- In Finland and Baltic countries: Stockmann
- Local retail chains in Spain, Italy, Germany, Belgium, Sweden and Australia.

- Sales in specialized stores through distributors;

- Sales through company’s own branded stores;

- Sales in the hotels and spa-facilities.

6.10. Communication policy

- Instagram, company’s own YouTube channel (in plans);
- Brand promotion through hotels and spa-facilities;
- Participation in specialized exhibitions;
- Presentations with the participation of celebrities;
- PR campaigns prevail over conventional advertising.

6.11. Organization and coordination

- Each group of brands, farms and manufacturing units is managed by separate legal entities: “Pervoe reshenie” LLC, “Natura Siberica”, “Planeta Organica”, et al.
- International expansion is coordinated by the Branch of international sales.
- Distributive network counts around 350 distributors, there is a trend on the decreasing of this number with simultaneous increase of coverage areas.

6.12. Internationalization results

- Number of branded stores: more than 70, including 10 – abroad;
- Number of employees: around 2200;
- Countries of presence: about 50;
- Annual turnover (2016): 12 billion rubles;
- Share of revenue, received in foreign markets, of the total turnover: 20%
- Growth of the company’s foreign sales in 2016 by 3.5 times compared to 2015.
- The share of foreign sales in the total profit of the company is 15 %.

- Confident positions of “Natura Siberica” brand on both Russian and foreign markets.

7. Conclusion

Integration of research and educational tasks in the development of the case-studies on internationalization of Russian innovative companies allows obtaining both educational and scientific results.

Educational result: students acquire necessary competences of research work in groups on the real materials of companies. To assess strategic decisions and actions of companies students should learn and use theoretical concepts of international trade and internationalization and tools of international business (SWOT-analysis, portfolio analysis, types of business models).

Scientific result: creation of the case-study database, transfer of qualitative indicators into quantitative, scaling create an opportunity of constructing a model of internationalization, of better understanding motives and actions of the company in the process of internationalization, depending on internal and external factors. Current survey shows the vital importance of project-oriented learning and building collaboration networks in the hyper-connected world, especially in the field of international economy.

It is important to formulate the main principles of the project-oriented learning and teaching within student collaboration teams:

- Interdisciplinary approach – meaning "holistic networks" rather than determinism in case of Master students' research.
- Awareness of the global context for the particular business network – which is extremely important in the process of growing transparency and openness.
- Future orientation of any research – a “Foresight push” that should be given to students by tutor selecting an appropriate toolkit.

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