
The Continuing Boom in the Russian Economy and Changes in the Russian Market Strategy of Japanese Companies (Summary)

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Introduction

Russia's GDP demonstrated significant growth in 2003, increasing 7.3% on the previous year and achieving positive growth for the fifth year in succession since 1999. Against the background of the stabilization of the political and economic situation under the Putin administration and the Russian economy's shift to the market system, the employment and income environment has improved and individual consumption has continued to exhibit strong growth, with a consumption boom taking place in large cities in particular. At the same time, foreign direct investment (FDI) in Russia is relatively low considering the scale of the economy. According to UNCTAD's *World Investment Report 2003*, cumulative FDI in Russia was \$2.2563 trillion as of the end of 2002, accounting for just 0.3% of total FDI across the globe (\$712.235 trillion). Furthermore, according to Goscomstat (State Committee of the Russian Federation on Statistics), FDI in Russia was

\$26.231 billion, of which Japan accounted for just 5% (\$1.353 billion). Thus, it cannot be said that Japanese companies are active in the field of FDI. However, Japanese companies are upgrading their export strategy *vis-à-vis* Russia. This paper mainly analyses how Japanese companies have altered their Russian market strategy, from the perspective of export marketing channels. The situation is analyzed from this kind of perspective because developing distribution channels, such as links with local distribution agents, is a prerequisite for expanding local markets. As a result of analyzing 11 major Japanese companies, their export marketing channel strategies for the Russian market can be typified as follows.

(1) Use of a local distribution agent in the target country: Mitsubishi Heavy Industries, Daikin Industries

Both Mitsubishi Heavy Industries and Daikin

²⁸ Banwari Mittal & Jagdish Sheth, 2001.

Industries use local distribution agents in the target country for their exports. With this form of distribution, the company does not have to invest in fixed capital and can just pay commission to traders who have a local sales network, so exports via a local distribution agent are particularly important for companies that have only just entered a foreign market. The advantage of using a local distribution agent is that the sales network of the local partner can be used.

(2) Establishment of a sales subsidiary as a joint venture with a trading company: Fanuc, Ricoh

Fanuc and Ricoh have established sales subsidiaries as joint ventures with Japanese trading companies. By making use of the human resources and networks that trading companies have built up in the CIS countries over many years, manufacturers can save time and money on investment in gathering information about local markets, forming local sales networks and investing in sales activities. What is more, given the differences in language, customer needs, distribution systems, trade practices and competition situation in Russia, the investment of a great deal of time and resources is required in order to cultivate specialist human resources with know-how about local sales and the ability to gather information about foreign markets, and to build a local sales network. The trading companies' resources are complementary resources for Fanuc and Ricoh. Furthermore, the establishment of a local corporation in the form of a joint venture enabled the risk to be diversified.

(3) Establishment of a wholly owned sales subsidiary: Yokogawa Electric, Amada, Honda, Olympus, Komatsu

Unlike representative offices or overseas branches of companies, the local corporations that Yokogawa Electric, Amada, Honda, Olympus and Komatsu established in Russia are incorporated in that country, so they can carry out all activities. Their establishment of sales subsidiaries in Russia can be viewed as the construction of a company-wide vertical marketing system. This is because the head office's wishes can be reflected in the local corporation directly and rapidly, and be developed into full-scale marketing activities. With regard to the Russian marketing channel policies of Yokogawa Electric, Amada, Komatsu and Honda, in addition to direct channels selling goods to the end-user, it seems they also use distribution agents. This is because they are developing the market using multiple marketing channels in order to reduce transaction costs arising from specific characteristics of the commodity or region.

(4) Establishment of an offshore sales subsidiary: Matsushita Electric Industrial, Canon

Both Matsushita Electric Industrial and Canon have established sales subsidiaries in Finland, while also setting up representative offices of those subsidiaries in Moscow. It is possible for local corporations to conduct sales activities in Russia, but Russian laws governing the operations of such corporations are more onerous than

those governing representative offices, including laws and regulations relating to the settlement of accounts, cash transfers and tax payments. Fearing that they would be left open to problems arising from the creation of new systems or the actual implementation of rules by the Russian government, both companies avoided establishing companies incorporated in Russia. Were it not for the existence of an unofficial "grey" customs system, both companies would apparently have established sales subsidiaries in Russia and built a vertical marketing system. Taking into consideration Russia's grey customs system, the construction of a vertical marketing system through the establishment of an offshore sales subsidiary could be described as a Russian-style marketing channel strategy.

Conclusion

1. Most Japanese companies see Russia as an extremely attractive market, in terms of its scale and potential for growth. However, there are many risks in emerging markets. Consequently, they have initially learned about the Russian market and gathered information after entering it by means of methods that do not require the investment of a great deal of resources, such as establishing representative offices, undertaking indirect exports via a trading company or selling products through local distribution agents.
2. As a result of Russia's recent economic growth, Japanese companies' export strategy *vis-à-vis* Russia has shifted towards the establishment of local subsidiaries, which require the investment of large quantities of resources. This takes the form of capital investment in export channels to Russia. The establishment of sales subsidiaries by Japanese companies can be viewed as the beginning in earnest of direct marketing of exports to Russia. Capital investment in export channels is investment in Russia, involving the export of capital, and is distinct from mere exports of goods. The export marketing being developed here is one form of global marketing.
3. When Japanese companies establish sales subsidiaries in Russia, they often opt to set up wholly owned subsidiaries or split the equity contribution fifty-fifty with a trading company.
4. Japanese companies are making an active commitment to the Russian market. They are bearing the majority of the risks involved in setting up a wholly owned subsidiary, undertaking direct export marketing, and trying to build a vertical marketing system for the Russian market.
5. Whether marketing consumer goods or industrial goods, relationship marketing (marketing efforts involving various personalized services, the provision of additional services, and customizing the services a company offers to the needs of a particular buyer) is important. In order to achieve this, it is necessary to ensure that the sales service center is directly operated by the company. If the company is to undertake exports to Russia in earnest, it is ultimately preferable for it to establish its own sales subsidiary, rather than leaving sales to be handled by a distribution agent.