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School of Business and Management

Industrial Marketing and International Business

MANAGEMENT OF GLOBAL DISTRIBUTION NETWORK

Master's Thesis

Examiner: Professor Asta Salmi, LUT

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ABSTRACT

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The topic of this master’s thesis is global distribution network management. As multinational corporations do business more and more globally, this topic can be considered very important, especially as subsidiaries and distributors of the company have a crucial role in the sales and brand image of the company they are representing. The special focus of the thesis was how to manage the established distribution network more efficiently and with better performance. This research was a qualitative case study conducted in the Russian subsidiary of the Finnish forest machine manufacturer Ponsse. The main aim of this study was to find ways to improve cooperation in two levels; between HQ and subsidiaries and between subsidiaries and its distributors in B2B markets in Russia and identify best practices in management of subsidiary and distributor network.

The literature part of this thesis consists mainly of global strategy management, subsidiary and distributor management. In addition, general business issues in Russia are presented and the main emphasis in this section is on B2B business and forestry industry. The empirical part of this thesis consisted mainly of interviews conducted mainly in Russia at OOO Ponsse and its distributors, but also in the HQ. Furthermore, strategic benchmarking with a major Finnish B2B company was done for this thesis in both HQ and subsidiary level.

TIIVISTELMÄ

Tekijä: Henry Huusko **Työn nimi:** Kansainvälisen jakeluverkoston johtaminen	
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Tämän diplomityön aiheena on kansainvälisen jakeluverkoston johtamisen kehittäminen. Kansainvälisten yrityksen kasvun johdosta tätä aihetta voidaan pitää erittäin tärkeänä, koska eritoten konsernien tytäryhtiöillä ja jälleenmyyjillä on tärkeä rooli yrityksen myynnissä ja brändikuvan edustamisessa. Tutkimuksen tavoitteena on selvittää, miten johtaa jo perustettua tytär- ja jälleenmyyjäverkostoa tehokkaammin ja menestyksekkäämmin. Tämä tutkimus on laadullinen tapaustutkimus, joka tehtiin suomalaisen metsäkonevalmistaja Ponssen venäläiselle tytäryhtiölle. Tutkimuksen päätavoitteena oli löytää keinoja parantaa yhteistyötä kahdella tasolla; pääkonttorin ja tytäryhtiöiden välillä sekä tytäryhtiöiden ja jälleenmyyjien välillä Venäjällä B2B-liiketoiminnassa ja tunnistaa parhaat toimintatavat kansainvälisen jakeluverkoston johtamisessa.

Työn teoriaosuus koostuu pääasiassa kansainvälisestä strategiajohtamisesta sekä tytäryhtiön ja jälleenmyyjän johtamisesta. Lisäksi, yleiset liiketoimintaan vaikuttavat tekijät Venäjällä on esitetty siten, että pääpaino on B2B liiketoiminnassa ja metsäteollisuudessa. Diplomityön empiirinen vaihe koostui enimmäkseen haastatteluista Ponsse Oyj:n, OOO Ponssen ja jälleenmyyjien henkilöstön kanssa, mutta myös strateginen benchmarking tehtiin suuren suomalaisen B2B yrityksen kanssa sekä pääkonttorin että tytäryhtiön tasolla.

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First, I want to thank Ponsse personnel both in Finland and Russia. Company culture and open-mindedness allowed me to gain excellent access to data both in Finland and Russia. Thanks to this, also the interviews with distributors were done without any problems. This factor was a big issue considering the success of this project. I worked with people from several different departments, companies and cultures (the distributors), which was very interesting and motivating. Moreover, special thanks to Jaakko Laurila for giving me a change to do this work in St.Petersburg and Harri Perätalo for the great cooperation, including both everyday work at the office and several Ponsse events and business trips. Great thanks go also to Jani Laherto and Professor Asta Salmi. Mutual interest from company and my side secured great circumstances for this thesis work.

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In St.Petersburg, Russia, on the 13th of November 2017

Henry Huusko

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1 INTRODUCTION

The main topic of this master's thesis is global distribution network management. In the introduction chapter background of the study, purpose of the study, research questions and structure of the thesis are presented. The theoretical part of this thesis takes a view on the literature on such topics as subsidiary and distributor management, global strategy management, brand management, strategic benchmarking and Russian business environment and management methods in general. After theoretical part, research methodology of the study is presented.

The case study was conducted in OOO Ponsse, which is the subsidiary of a Finnish forest machine manufacturer Ponsse Plc in Russia, and interviews were done with different segments in Ponsse Group (both HQ and subsidiary) and distributors of OOO Ponsse. Strategic benchmarking with a major Finnish B2B company was also carried out and this benchmarking company is called as "Company X" in this thesis and all the actual names of directors and managers are encrypted for confidentiality reasons in every level of the study.

In conclusions chapter the main aim is to provide general information about the current situation in Russia and to generate useful knowledge for Ponsse that could be concretely applied to their operations in global distribution network management. The managerial recommendations were given first to the subsidiary, OOO Ponsse, in order to improve the current situation there and then for Ponsse Plc in order to provide documented data and identify the best practices used in Russia. This information could be also used as an internal benchmark with other subsidiaries and distributors of the corporation. Theoretical solutions and contribution were also drawn based on the theories used and applied in the context of the empirical case.

1.1 Background of the study

There are many studies about the cooperation between HQ and subsidiaries, but not much study about the connection between the subsidiary and its local distributors, especially in B2B markets. This research will in that sense provide an interesting case study on this topic that raises more interest, as companies are becoming more international and enlarging through distributors. For example, in academic sense this research aims to give guidelines for Finnish companies, how to develop the management of their distribution network and this way to improve their sales in the chosen market area.

In addition to theoretical contribution, the research gap of this research derives from the practical business issue about improving the management of global subsidiaries of Ponsse Plc and distributor network in OOO Ponsse. In Russia, Ponsse does a major share of their sales through distributors so this was an issue, where there was some demand for a research study. Despite the financial crisis and uncertainty in Russia, Ponsse has succeeded relatively well in Russia even during the past couple of years. For many other Finnish or international companies this time has been extremely difficult, but on Ponsse’s side, the situation is good.

For several years, Russia has been one of the largest market areas of Ponsse. Some financial information about Ponsse and share of Russia and Asia segment is presented in Table 1. It can be noticed that Russia and Asia segment counted for 14.7% of the net sales and 22.3% of the operating result of Ponsse in 2016.

(EUR 1,000)	Northern Europe	Central and Southern Europe	Russia and Asia	North and South America	Total
Net sales of the segment	360,031	106,390	77,256	131,500	675,178
Revenues between segments	-156,774	-1,365	-1,002	-4,473	-163,615
Unallocated sales					5,837
Net sales from external customers	**203,256**	**105,025**	**76,255**	**127,027**	**517,400**
Operating result of the segment	9,636	17,109	12,316	15,117	54,178
Unallocated items					980
Operating result	**9,636**	**17,109**	**12,316**	**15,117**	**55,158**
Depreciation and amortisation	**10,490**	**213**	**263**	**939**	**11,905**

Table 1. Operating segments in 2016 (Ponsse 2017a).

When thinking about strategy and actions for the future, it is good to understand, how Ponsse fleet (number of machines in the market) is growing during the next few years. Growing fleet offers more business opportunities for parts and service sales. Development of both own and distributors’ service centers and customer service in overall requires clear guidelines, attention (time) and resources in order to take care of customers in a long term and utilize business opportunities. Nevertheless, this all should be done based on Ponsse spirit and original values of the company.

Strong growth also brings challenges, and it is important to know and evaluate, what the subsidiaries and distributors of the company are doing and how they sell the products in different market areas. Monitoring and managing continuously this network has become a hot topic and proper ways to control ones distribution network could be seen as a source of competitive advantage. Moreover, the management of subsidiaries everywhere in the world should be in top level and systematically organized.

In a longer perspective, the background of the research derives from the author's work experience at Ponsse (previous summer jobs) and general interest in business in Russia. The author has always wanted to do his master's thesis for a Finnish company about its business operations in Russia, so this was a great opportunity given by Ponsse. The topic of the thesis and selection of distributors for the focus group was chosen already almost 1,5 years before starting the actual work. This fact highlights two points; first, there was a plenty of time for the author to plan the study properly and second, the company members decided the topic for a certain need, which secured the mutual interest during the thesis work.

1.2 Purpose of the study and research questions

The goal of this master's thesis research is to take a deep look into Ponsse's distribution network in Russia and find ways to improve this cooperation between HQ, Russian subsidiary (OOO Ponsse) and its distributors and identify the best management practices related to the links between these actors. Eventually applying these methods is meant to lead to better and faster customer service with end-customers and growth in sales. Secondary aim is also to produce data and document the current situation in Russia and describe, how distribution network is managed in Russia. This way it is easier to view in the HQ, what actually happens in Russia.

In the best case, this information can be applied also to other subsidiaries of the company as an internal benchmark. Moreover, one of the main aims of the work is to get the distributors work better with Ponsse spirit, so that the Ponsse values and brand are well reflected through distributors to end-customers. This is very important, because distributors are the face of Ponsse for the end-customers. Russia is a good choice and sample for this kind of case study, because

OOO Ponsse has a wide distribution network in Russia and this information could be used as an internal benchmark inside Ponsse Plc.

More concretely put, the aim is to develop the evaluation and control over distributors. This way it is also more visible in the HQ, how the corporate strategy is implemented through the distribution network on distributors. Eventually, the distributors should be managed by OOO Ponsse more efficiently. Brand management and implementation among distributors is also a crucial part of this research and can be considered important, as distributors are the stakeholders that also deliver the brand message to the end-customer. The idea is to notice especially the differences between big and small firms as distributors, cultural and geographical characteristics in different regions (for instance, what is the image of Finnish brand in Karelia vs. Khabarovsk) and the orientation of distributors (companies focusing only on forestry industry vs. multi-brand distributors).

The main research questions of the study are the following:

1) *How global network management is carried out at Ponsse currently and what can be improved?*
2) *How the cooperation works between Ponsse Plc and its Russian subsidiary (OOO Ponsse)?*
3) *How the Russian distributors are managed by OOO Ponsse?*

In conclusions part these questions are answered. There are also several sub-questions, which helped and were the basis to conduct the in-depth interviews and form a concrete picture about the overall situation. These sub-questions are presented in Appendix 1. The other appendixes are about the actual interviews.

1.3 Structure of the study

The structure of this study consists of theoretical part, empirical case, discussion part and conclusions of the research. Theoretical frameworks are also applied in the empirical part. In the empirical part results from the data collected (in-depth interviews, company reports, statistics, audit results) are presented and based on this data, analysis is formed in the discussion part. According to the analysis, managerial recommendations are given in the conclusions. The results are findings of the best practices and obstacles in global distribution network management.

The empirical case study consisted of interviews in different levels (benchmarking, Ponsse Oyj, subsidiary OOO Ponsse and Russian distributors). In addition, benchmarking study was also done for this thesis with Company X. Benchmarking from different companies and industries was a fruitful additional feature for the study in order to gain knowledge about alternative ways in distributor management. Because of differences in overall businesses and company sizes, some features cannot be compared, but some features can be compared and to some degree even adapted to Ponsse. The connections researched are presented in Figure 1.

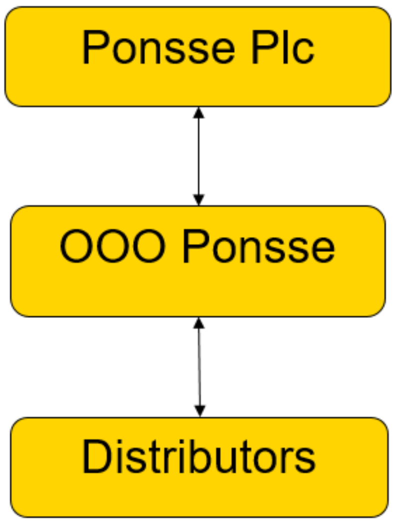

Figure 1. The connections that were focus of the research.

2 GLOBAL STRATEGY MANAGEMENT

This chapter covers the theoretical frameworks of this study. Global business strategy is presented first and then widened to subsidiary and distributor network management. In addition, brand management and strategic benchmarking are viewed and some general information about business in Russia, Finnish business in Russia and forestry industry in Russia are taken into consideration as well.

According to Hout, Porter and Rudden (1982), a global strategy is appropriate for global industries, which are defined as those in which a firm's competitiveness in one national market is significantly affected by its competitive position in other national markets. These kind of interactions between a firm's positions in different market areas may arise from scale benefits or from the potential of synergies or sharing of expenses and resources across markets. In general, in a global strategy standardized products exploiting economies of scale and value-adding activities are typically concentrated in a limited set of locations (Johnson et al. 2008, pp. 300).

2.1 Managing subsidiary and distributor network

Global business strategy is crucially important theme among companies with international operations. In globalization, strategy and organization are inextricably intertwined. The organizational form facilitates some types of international strategy and not others. Individual companies typically evolve over time from one form to another as their international activities and strategies develop. (Mazzucato 2002, pp. 359) The basic concept of global business strategy is shown in Figure 2.

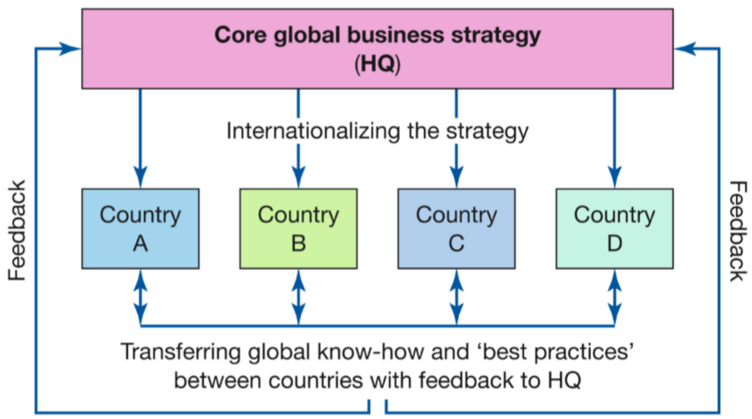

Figure 2. Global business strategy (Hollensen 2012, pp. 729).

In this model, the core global business strategy is formed in the HQ of the company. Internationalizing the strategy means that the strategy formed in the HQ is shifted and adapted to global markets. Communication should also work both ways, so that the HQ receives feedback from the global markets in order to develop the strategy with global knowledge and “best practices” cases. (Hollensen 2012) Corresponding HRM practices is also a crucial issue to be discussed, when conducting subsidiary implementation (Ahlvik, Smale & Sumelius 2016).

The business theory suggests that the power of the HQ rests more on its legitimate right to give and implement orders, than on its better knowledge. This power should not be underestimated, as it is built in the culture that a subordinate should follow the orders and instructions. However, authority does not provide fiat as the dominant mechanism of influence. Instead, authority and knowledge about business networks work as sources of power. The HQ typically possesses influence through formal authority, while the subsidiary typically earns its influence through its network knowledge. It is normal for a struggle for influence to exist in the multinational firm between the HQ and subsidiaries, as well as among the subsidiaries. In that sense, the HQ is just one actor among others, as it has to compete for influence with other departments within the firm. Furthermore, there are also others, for instance external business partners, competing for influence. (Forsgren 2008, pp. 114-115)

2.1.1 Subsidiary Management

Subsidiaries’ internal and external integration have also an impact on operational performance and there are links between all these factors. Subsidiaries of manufacturing companies operate as members of two networks: the internal manufacturing network of the company and the external network of supply chain and distributing partners. Eventually knowledge generated within the internal manufacturing network can only be transfered into subsidiary-level operational performance, if it is shared and recombined with external supply chain partners. The best outcomes can only be achieved if both suppliers and customers are included in this process. (Demeter, Szasz & Racz 2016)

Global knowledge management and learning across borders between business units, subsidiaries and departments that are located across continents is highly complex and requires consideration of different issues and factors. The global strategy exploits the knowledge of the parent organization (HQ) through worldwide diffusion and adaption. It aims to achieve the slogan “think globally but act locally” through dynamic cooperation between the headquarters and the subsidiaries. (Hollensen 2017, pp. 729) Companies following such a strategy coordinate efforts, ensuring local flexibility while exploiting the benefits of global integration and efficiencies, as an ensuring worldwide diffusion of innovation (Desouza & Evaristo 2003).

A key issue in knowledge management is continuous learning from experience (Stewart 2001). This means that the goal of knowledge management as a learning-focused activity across borders, is to keep track of valuable capabilities used in one market that could be used elsewhere (in other geographical markets), so that firms can continually update their knowledge without “reinventing the wheel”. (Hollensen 2017, pp. 729) The steps in transferring the firm’s best practices to other international markets are:

1. By comparing the different procedures in the firm’s international markets, the firm should be able to pick up best practices. Subsequently, the possible implications of the best practices are discussed in the top management group.
2. After the procedures for diffusion of the best practices have been established in the top management group, the next phase is to see if these best practices can be used elsewhere in the firm’s global markets. In order to disseminate global knowledge and best practices, meetings (with representatives from all international markets) and global project groups should be established. If done successfully, the benchmarking could result in a global learning process, where the different international marketing managers would select the most beneficial elements from the presented best practices and adapt these in the local markets. (Hollensen 2017, pp. 729)

However, knowledge developed and used in one cultural context is not easily transferred to another. In general, the ability to manage the “global knowledge engine” to achieve a competitive edge in today’s knowledge-intensive economy is one of the keys to sustainable competitiveness. Of course, the type of knowledge that is strategic for an organization and which needs to be managed for competitiveness varies depending on the business context and the value of different types of knowledge associated with it. (Hollensen 2017, pp. 729)

Learning from subsidiaries is important from management practices, as effective subsidiary learning can render sustainable competitive advantage in the host country. Managerial learning resembles systems-structural learning and entrepreneurial learning resembles interpretive learning. Moreover, there are differences in the surrounding contexts and MNE knowledge flows. (Dimitratos, Plakoyinnaki, Thanos & Förbom 2014)

Due to continuing globalization of systems and processes, there are increasing restrictions (from the HQ) on the ability of subsidiaries to develop a unique position to ensure their survival and growth. In this process, the subsidiary must clearly define its boundaries, as there are activities that may not be cost-effective or strategically beneficial to pursue. However, the subsidiary CEO must identify the value-added business that will generate strong returns and then bring the problem and its solution to HQ rather than waiting for it to take initiative. (Hollensen 2017, pp. 425)

A strong home culture is likely to help subsidiaries to develop their own strong culture and identity. On the other hand, a relatively strong country culture, meaning there are unique cultural values and behavior in the local community, is likely to make obstacles to the development of the MNC's unique company culture in the subsidiary. The subsidiary operates in a host country and thus forges relationships with local actors, such as suppliers and customers, who embody country and local cultural values that differ from the home country and the HQ values. The cultural interaction between organizations in different countries with different cultural values can be analyzed with a framework. (Hollensen 2017, pp. 425) In this matrix framework, there are four combinations:

1. **Integration.** Here the MNC's company (HQ) values are maintained in the subsidiary. Meanwhile, the subsidiary develops a high level of external contact and embeddedness to the host country's national and local culture. Therefore, the subsidiary has close relationships to the local actors, such as local suppliers. At first glance, this strategy seems attractive, but integrating two cultures is challenging.
2. **Separation.** Here the MNC's company (HQ) culture is also maintained, but the subsidiary limits its external embeddedness to the local actors, especially suppliers.
3. **Assimilation.** The option implies a high level of external embeddedness and lack of maintenance of the MNC (HQ's) own identity and culture. The subsidiary acts more on its own and assimilates into the local region with its own cultures and values.

4. **Marginalization.** Here the MNC (HQ) culture is not established in the subsidiary and the subsidiary limits its external embeddedness, which is not the best strategy for achieving success. (Hollensen 2017, pp. 425)

Before the MNC makes a choice of location for its subsidiary in a country, it could benefit from assessing the nature of the local culture and its strength in the target market. This kind of assessment would be especially important MNCs pursuing both active interaction with local actors and close collaboration between home and the subsidiary in that such a strategy requires the integration of two cultures. Moreover, a lack of globalization experience would make such an assessment even more necessary. (Sasaki & Yoshikawa 2014)

Business marketing is not just about developing good offerings and selling them with good performance and it is not either just developing and managing many different relationships and taking difficult decisions about resource allocation between them. All of these are meaningful but the activities of a business marketer take place within the wider context of a network. The network affects each relationship in a similar way that each relationship affects the transactions that take place within it. It is crucial for the business marketer to be aware of these network effects. (Ford et al. 2002, pp. 48-49)

“A subsidiary’s environment is first of all its set of direct exchange relationships with other counterparts and indirect exchange relationships that are connected to the direct ones” (Ghoshal & Bartlett 1990). As Gupta and Govindrajan (1994) recognize multinational corporations as networks of different flows, where subsidiaries play different strategic roles. Andersson and his fellow researchers have done several studies about the link between HQ and subsidiaries of the company. For example, they have done research on subsidiary network embeddness, which helps to understand the business environment of the subsidiary with its external business partners. The subsidiaries are dependent on specific resources for their operations. It is not just the focal subsidiary’s dependence on and adaptation to its counterparts that constitutes embeddedness, but also the counterpart’s on and adaptation to the focal company. This means that the strength of the interdependence that exists in the focal company’s enacted network that constitutes the focal subsidiary’s embeddedness. (Andersson & Forsgren 1996)

Defining the subsidiary’s environment as identifiable direct exchange relationships with business partners and indirect exchange relationships connected to the direct ones has implications for perception of control, integration, performance and influence in the multinational corporation. When the subsidiaries are embedded in such business network structures, there is a reason to believe that the ability of the HQ to make a correct evaluation of the behavior and performance of the subsidiaries diminishes because headquarters lacks knowledge of the subsidiaries' business environment. Moreover, adaption and interdependence result in exchange partners in business networks being important to each other and enables them to exercise a certain amount of control over one another. One consequence is that, when trying to control the subsidiaries' behavior, top management must compete with the subsidiaries' exchange partners' influence. (Andersson & Forsgren 1996)

Brand management is also important in B2B (business-to-business) marketing. Even though some of the world's biggest brands are B2B companies, brand marketing literature usually takes a B2C (business-to-consumer) perspective. (Glynn 2012) For B2B brands, the process begins with a firm's marketing program directed at potential customers. This marketing program affects the B2B customer mindset or brand equity. Success with clients or the creation of brand equity is reflected in an enhanced market performance. A crucial notion is that success at each stage may be either enhanced or inhibited by multipliers. Examples of multipliers include the quality of the marketing program, which may build customer awareness of the brand, channel support and competitor actions that have an effect on B2B brand performance. (Keller & Lehmann 2003)

Branding is deeply connected to global marketing strategies, which is extremely important for international enterprises. Global marketing strategies present three mode for this: globalization (standardization), localization (differentiation) and glocalization, which is a mixture of both modes. (Hollensen 2012) The basic frame of glocalization in shown in Figure 3.

Figure 3. Global marketing strategies (Hollensen 2012, pp. 655).

Globalization mode is formed from global low-cost production and sales, global roll-out of concepts/high speed and low complexity. On the other hand, localization mode focuses on being culturally close to consumer, flexible response to local customer needs and regional and local market penetration. Glocalization mode has both global and local features. From this framework has arisen the phrase: “Think global, act local”. (Hollensen 2012)

Some global branding programs built their respective brand identities around adaptability to customer needs and the provision of a total solution. This identity was built around five capabilities: relational support, coordinating network players, leveraging brand architecture, adding value and quantifying the intangible. Underpinning these identity promises were five organizational level supportive capabilities: entrepreneurial, reflexive, innovative, brand supportive dominant logic and executional capabilities. This approach resulted in global brand leadership. (Beverland, Lindgreen & Napoli 2007)

Distributors are assumed to contribute positively to brand retention and the type of brand moderates the effect of distributor performance on brand retention. In addition, distributor retention is determined by different drivers for distributors selling different types of brands. Extrinsic distributor quality affects distributor retention most for distributors selling premium brands and distributor payment equity is the most important determinant of retention for distributors selling economy brands. (Verhoef, Langerak & Donkers 2004)

Solving the global/local creative challenge is also a remarkable issue for major brands. They want to implement a single message globally, and empower it to perform locally with a single high-impact creative concept. The useful outcomes are obvious, as local culture, language, history, values, climate and other aspects still differentiate one market from another and influence the effectiveness of the message. In this sense, blindly relying on central assumptions from the HQ and using very standardized strategy everywhere can be a damaging thing for the business. The major tests for global brands is when the time comes for the idea to be implemented in the local markets. Keeping all the markets in the picture may seem to be a huge challenge, but inviting local brand managers into conversation around the creative concept is essential to the success of global campaign. Thus, flexible and transparent cooperation are the key issues when getting local markets involved. (Hollensen 2017, pp. 655)

The most essential issues in the literature of subsidiary management that will be used in the empirical part are internationalization of global strategy, the role and power of HQ compared to subsidiary, subsidiary's external network of distributors, integration of the company culture and brand management. Transferring global knowledge and "best practices" between countries with feedback to HQ is challenging to organize, but with the right phases, it can be done.

2.1.2 Distributor Management

While there are many variations in the precise form and structure of intermediary arrangements, two main forms can be identified – agents and distributors. These terms have significant legal and other differences in market servicing characteristics. Simply put, an agent operates on behalf of the exporter in the foreign market, but does not purchase and take title to the products. In contrast, a distributor does purchase the exporter's product, thus not only representing the exporter in the foreign market, but also acting as its direct customer and operates independently from the exporter. By purchasing the product and taking title, the distributor takes on a higher level of legal responsibility for the performance of the product in the relevant foreign market compared to the agent. Moreover, local warranties apply to a distributor but not an agent. In general, there is a higher degree of control in agency relationships than in distributor arrangements, but higher financial risk in the sense that the cost of a customer's non-payment or slow payment is borne by the exporter rather than the agent. (Welch, Benito & Petersen 2007, pp. 255)

For product's requiring spare parts and servicing support, such as with machinery and equipment, distributors tend to be favored route (Gourlay 1994). The demands of technical representation may restrict both agent and distributor forms. The choice of agent versus distributor is undoubtedly affected by company-specific concerns, the nature of its preceding international experience, including commitments entered into and outcomes from past activity and approaches it has received. As to the preference for distributors, it is often the perceived lower costs relative to a staffed sales office/subsidiary that are stressed, rather than differences relative to agency arrangements. (Welch et al. 2007, pp. 256)

Distributors are shown to accomplish the sales and profit goals of their manufacturer principals largely when the ties that bind the partners are close and on the other hand, trading partners whose weak ties limit information flows, adaptiveness and collaborative spirit appear to suffer a performance penalty (Bello et al. 2003). Resource adequacy is a factor in the development of close ties: the establishment and maintenance of positive relationships with distributors is a resource-demanding exercise. Despite their importance, it is common for exporter-distributor relationships to become troubled or to break down to the point where exporters seek to terminate the arrangement and seek a replacement or to change mode altogether. Where sales prospects in the market concerned are deemed to be very positive, there is a strong incentive to take action. Even when the distributor is demonstrating adequate performance, the incentive to take over control of the foreign activity can be a powerful change factor. (Welch et al. 2007, pp. 258)

Research also indicates that a certain comfort level on the part of the exporter often develops with acceptable distributor performance and a positive relationship between the parties. Early empirical research on the reasons for shifting to establishment of a sales subsidiary in the foreign market showed that the conditions supporting the move had existed for some time and it needed a trigger to start the push for action to be taken. Even if it is relatively straightforward to drop a distributor, this may be difficult because of the depth and breadth of the business enacted through the distributor. To the extent that the product range handled by a given distributor expands over time, along with sales and marketing network development, it becomes more difficult to contemplate removal of the intermediary and building up an alternative operation. (Welch et al. 2007, pp. 258)

Exporters often stress the fact that it is the foreign distributor that builds relationships with foreign customers and exporters run the risk of having their customers move with the intermediary in replacement situations. In some market areas, certain distributors are known to actively discourage contact between the exporter and customers in the foreign market, as a way of maintaining control of operations, generating dependence and ensuring their positions as distributors within that market. The reality of many distributor-exporter relationships is that the exporter is effectively the “junior partner” with local information, knowledge and networks providing a considerable power base for the distributor. Exporters often notice that they need to develop independent sources of information in the foreign market to enhance control and provide a more assured basis for decision making about the form of future involvement. (Welch et al. 2007, pp. 258-259)

The issues associated with terminating foreign distributors have led some exporters to develop approaches, which build greater flexibility into distributor arrangements and processes to make it easier to enact foreign market servicing changes. In some cases, the acquisition of the distributor is a possible solution. In cases where the exporter wants to phase out the distributor it is ready to use transfer pricing policies or diminished sales support to make the operation less viable for the distributor. (Welch et al. 2007, pp. 259-260) The concern is that, if the business grows successfully in the foreign market, the distributor will have greater advantage and reason to fight removal with potentially damaging consequences (Nielsen 1998). As exporters anticipate the likelihood that problems with their foreign distributors might occur, there is an inevitable concern about the ability and cost of undertaking distributor replacement. This seems to be increasingly leading to a variety of approaches to ease the switching cause. (Welch et al. 2007, pp. 260)

The success or otherwise of indirect exports via foreign distributors is heavily dependent on the initial choice of distributor in a foreign market and then management of the resulting distributor relationship. The research and managerially oriented literature are aligned in stressing the importance for the exporter of developing a positive relationship with the distributor, of building trust. Relationship building covers several aspects, including adequate margins and credit terms, delivery reliability, exporter visits and responsive communication, support provided by the exporter in the form of appropriate product information and promotion assistance, training and technical and service back-up. There appears to be limited faith on the part of exporters in the ability of formal contracts to ensure positive performance by foreign distributors and in their ability to protect the rights of the exporter. (Welch et al. 2007, pp. 261)

It is not surprising that so many exporters stress effective relationship management as the only viable long-term strategy to ensure positive outcomes from distributor use. The only way to ensure a reasonable degree of control and effective performance is through the development of a positive, committed and active relationship with the foreign distributor. However, active management of distributors is resource demanding, particularly on staff. In that sense, it is usual that exporters with many distributors in a range of countries find that they have to limit the extent of foreign visits and interaction. This is despite the recognition of the potential problems this may produce. Exporters often refer to the erratic pattern of foreign sales that can arise from infrequent visits to distributors and irregular direct contact. There is a tendency for sales to rise after a visit and the flurry of activity associated with it, including additional promotion and customer interaction. The extent of fluctuation of sales is partly dependent on the amount of time between visits, which means that the longer the gap the greater the impact on sales of each visit. (Welch et al. 2007, pp. 262)

The position of distributors and their approach to the business enacted on behalf of the exporter are important considerations for exporters. Distributors will often serve more than one exporter and exporters sometimes have unrealistic expectations about the extent of distributor effort relative to the level of business likely to be generated. Distributors are concerned about the security of the exporter’s business and their own position. If the distributor achieves strong sales growth, that may become an incentive for the exporter to replace the distributor with a sales subsidiary. On the other hand, if the distributor is perceived as performing too poorly, it risks termination and replacement. For the distributor, this tends to be the reality, which frames the relationship with the exporter. As a result, intermediaries will often have a vested interest in limiting information disclosure and operating in a way, which maintains a sense of dependence on them by the exporter. (Welch et al. 2008, pp. 263)

Partnerships with local distributors seem sensible, as distributors know the distinctive characteristics of their market and most customers prefer to do business with local partners. Once the basic design of the channel has been determined, the international marketer must begin to fill it with the most potential candidates and must secure their cooperation. (Hollensen 2017, pp. 609) Arnold (2000) suggests the following guidelines to the international company in order to anticipate and correct potential challenges with international distributors:

- **Select distributors – do not let them select you.** Typically, potential distributors at international fairs and exhibitions approach companies, but the most eager potential distributors are often the wrong people to cooperate with them.
- **Look for distributors capable of developing markets, rather than those with a few obvious contacts.** This means sometimes bypassing the most obvious choice – the distributor who has the right customers and can generate quick sales – in favour of a partner with a greater willingness to make long-term investments and an acceptance of an open relationship.
- **Treat the local distributors as long-term partners, not temporary market entry vehicles.** Many companies actively signal to distributors that their intentions are only for the short term, drawing up contracts that allow them to buy back distribution rights after a few years. Under such a short-term agreement, the problem is that the local

distributor does not have much incentive to invest in the necessary long-term marketing development.

- **Support market entry by committing money, managers and proven marketing ideas.** Many companies are reluctant to commit resources at the early stages of a market entry. However, to retain strategic control, the international marketer must commit adequate corporate resources. This is especially true during market entry, when companies are least certain about their prospect in new countries.
- **From the start, maintain control over marketing strategy.** An independent distributor should be allowed to adapt the company's strategy to local conditions. However, only companies providing solid leadership for marketing will be in a position to exploit the full potential of a global marketing network.
- **Make sure distributors provide you with the detailed market and financial performance data.** The company's ability to exploit its competitive advantages in the international market depends heavily on the quality of information it obtains from the market. Therefore, a contract with the distributor must include the exchange of such information, e.g. detailed market and financial performance data.
- **Build links among national distributors at the earliest opportunity.** The links may take the form of creating an independent national distributor council or a regional corporate office. The transfer of ideas within local markets can improve performance and results in greater consistency in the execution of international marketing strategies. (Arnold 2000)

There exist also the most important criteria (qualification) for selecting foreign distributors, grouped into five categories. According to Cavusgil et al. (1995), these criteria are financial and company strengths, product factors, marketing skills, commitment and facilitating factors. These criteria are shown in Table 2.

Table 2. Criteria for evaluating foreign distributors (Model of Cavusgil et al. 1995 in Hollensen 2017, pp. 610).

Financial and company strengths	Product factors	Marketing skills	Commitment	Facilitating factors
Financial soundness	Quality and sophistication of product lines	Marketing management expertise and sophistication	Willingness to invest in sales training	Connections with influential people (network)
Ability to finance initial sales and subsequent growth	Product complementarity (synergy or condlict?)	Ability to provide adequate geographic coverage of the market	Commitment to achieving minimum sales targets	Working experience / relationships with other manufacturers (exporters)
Ability to raise additional funding	Familiarity with the product	Experience with target customers	Positive attitude towards the manufacturer's product programme	Track record with past suppliers
Ability to provide adequate promosition and advertising funds	Technical know-how at staff level	Customer service	Undivided attention to product	Knowledge of the particular business
Product and market expertise	Condition of physical facilities	On-time deliveries	Willing to commit advertising resources	Government relations
Ability to maintain inventory	Patent security	Sales force	Willing to drop competing product lines	Proficiency in English
Quality of management team		Market share	Volatility of product mix	
Reputation among current and past customers		Participation in trade fairs	Percentage of business accounted for a single supplier	
Ability to formulate and implement two- to three-year marketing plan		Member of trade association	Willing to keep sufficient inventory	

Some of these criteria must then be chosen for a more specific evaluation, where the potential candidates are compared and contrasted against determining criteria. In this example, the first two criteria of five categories are used for screening potential channel members. The specific criteria to be used depend on the nature of a firm’s business and its distribution objectives in given markets. The list of criteria should correspond closely to the company’s own determinants of success – all the things that are important for competitiveness. (Hollensen 2017, pp. 610)

When the international company has found a suitable distributor, a foreign sales agreement is formed. Before final contractual arrangements are made, it is wise to make personal visits to the prospective channel member. (Hollensen 2017, pp. 611) The agreement itself can be relatively simple, given the numerous differences in the market environments, certain elements are essential, as follows:

- names and addresses of both parties

- date when the agreement goes into effect
- duration of the agreement
- provisions for extending or terminating the agreement
- description of sales territory
- establishment of discount and/or commission schedules and determination of when and how paid
- provisions for revising the commission or discount schedules
- establishment of a policy governing resale prices
- maintenance of appropriate service facilities
- restrictions to prohibit the manufacture and sale of similar and competitive products
- designation of responsibility for patent and trademark negotiations and/or pricing
- the assignability or non-assignability of the agreement and any limiting factors
- designation of the country and state (if applicable) of contract jurisdiction in the case of dispute (Jain 1996)

The long-term commitments involved in distribution channels can become particularly difficult if the contract between the company and the channel member is not carefully drafted. It is normal to prescribe a time limit and a minimum sales level to be achieved, in addition to the particular responsibilities of each party. If this is not carried out satisfactorily, the company may be stuck with a weak performer that either cannot be removed or is very costly to buy out from the contract. (Hollensen 2017, pp. 612)

Contract duration is important, especially when an agreement is signed with a new distributor. In general, distribution agreements should be for a specified, relatively short time period and the initial contract with a new distributor should stipulate a trial period possibly with purchase requirements. Geographic boundaries for the distributor be determined with care, especially by smaller firms. The payment section of the contract should stipulate the methods of payment as well as how the distributor is to draw compensation and distributors usually derive compensation from various discounts, such as the functional discount. Product and conditions of sale need to be agreed on as well. The products or product lines included should be stipulated, as well as the functions and responsibilities of the distributor in terms of carrying the goods in inventory, providing service in conjunction with them and promoting them. In addition, means of communication between parties is also a crucial issue, as the company should have access to all information concerning the marketing of its products in the distributor's territory, including the past records, present situation assessments and marketing research. (Hollensen 2017, pp. 612)

Geographic and cultural distances make the process of motivating channel members difficult. Motivating is also difficult because distributors are not owned by the company. Since distributors are independent firms, they will seek to achieve their own objectives, which will not always match the objective of the company. The international company may offer both monetary and psychological rewards and intermediaries will be strongly influenced by the earnings potential of the product. If the trade margins are poor and sales are difficult to achieve, distributors will lose interest in the product and concentrate on products with a more rewarding response to selling efforts, because they make their sales and profits from their own assortment of products and services from different companies. (Hollensen 2017, pp. 612-613)

It is important to keep in regular contact with distributors. A consistent flow of all relevant types of communication will stimulate interest and sales performance. The international company may place one person in charge of distributor-related communications and put into effect an exchange of personnel so that both organizations gain further insight into the workings of the other. (Hollensen 2017, pp. 613)

Control problems are reduced substantially, if distributors are selected carefully. However, control should be sought through the common development of written performance objectives. These performance objectives might include some of the following: sales turnover per year, market share growth rate, introduction of new products, price charged and marketing communications support. Control should be exercised through periodic personal meetings. Moreover, evaluation of performance has to be done against the changing environment. In some situations, economic recession or fierce competition activity prevents the possibility of objectives being met. However, if poor performance is established, the contract between the company and the distributor will have to be reconsidered and perhaps terminated. (Hollensen 2017, pp. 613)

Typical reasons for the termination of a distributor relationship are:

- The company has established a sales subsidiary in the country

- The company is unsatisfied with the performance of the distributor (Hollensen 2017, pp. 613)

Open communication is always needed to make the transition smooth. For example, the distributor can be compensated for investments made and major customers can be visited jointly to assure them that service will be uninterrupted. Termination conditions are among the most important considerations in the distribution agreement. The causes of termination vary and the penalties for the international company may be substantial. It is especially important to find out what local laws say about termination and to check what type of experience other firms have had in the particular country. In addition, in some countries terminating an ineffective distributor can be time-consuming and expensive. In the EU, one year's average commissions are typical for termination without justification. The international company could also consider an acquisition of this firm if the intermediary is willing to sell. (Hollensen 2017, pp. 613)

Managing business relationships with distributors requires also auditing. A company's relationships are its primary assets, without which neither its skills nor its physical resources can be exploited. The marketer needs to maximize the rate of return on these assets and a relationship audit of each important relationship is a useful starting point. Less significant relationships can be audited as a group. Auditing questions may concern for example history and current status, atmosphere of the relationship, potential and investment, network and current operations. (Ford et al. 2002, pp. 116-117) Examples of possible auditing questions are presented in Appendix 2. These questions were also used during the project work, when the interview form with distributors was formed.

From the theoretical point of view, the following issues are essential in distributor management and will be also used in the empirical phase of this thesis:

- role and rights of a distributor (when it is good to use a distributor and when not)
- management of exporter-distributor relationships
    - building, controlling and terminating relationships
    - motivating distributors
    - different strategies
- acquisition of a distributor
- distributor agreement
    - terms

    - ability to protect the rights of the exporter
- selection criteria for distributors

2.2 Strategic Benchmarking

An organization's strategic capability needs to be evaluated in relative terms since it concerns the ability to meet and beat the performance of competitors. There are different ways, how relative performance might be understood. Benchmarking is one of them and benchmarking is widely used to further inform the relative standing of organizations. The significance of benchmarking is not in the detailed "mechanics" of comparison but in the impact that these comparisons might have on behaviors. It can be regarded as a process for gaining momentum for improvement and change. (Johnson, Scholes & Whittington 2008, pp. 144-147)

There are a number of different approaches to benchmarking and in this thesis, the focus is on industry/sector and best-in-class benchmarking. In industry benchmarking, the insights about performance standards can be gleaned by looking at the comparative performance of other organizations in the same industry sector or between similar public service providers. These industry norms compare the performance of organizations in the same industry or sector against a set of performance of indicators. While it may make sense to compare like with like, a danger of industry norm comparisons is that the whole industry may be performing badly and losing out competitively to other industries that can satisfy customers' needs in different ways. (Johnson et al. 2008, pp. 145)

This means that a benchmarking regime should probably look wider than a particular industry or sector. The defects of industry norm comparisons have encouraged organizations to seek comparisons more widely through the search for best practice wherever it may be found. Best-in-class benchmarking compares an organization's performance against "best-in-class" performance – no matter where that is found. The real advantage of this approach is not just beyond industry comparisons, that it is concerned with shaking managers out of the mindset that improvements in performance will be gradual because of incremental changes in resources or competences. Benchmarking can only provide the "shock" that in turn should encourage managers to understand better how to improve their competences, but then they will need to observe, how activities might be performed better. In general, benchmarking can be used to spot opportunities to outperform dramatically the incumbent providers by organizations, which may not be current competitors but which are particularly competent at certain activities or business processes. This is an example of stretching core competences to exploit opportunities in different market areas. (Johnson et al. 2008, pp. 145-147)

However, benchmarking has its dangers too. One of the major criticisms of benchmarking is that it leads to a situation where "you get what you measure". This perhaps may not be intended strategically. The process mechanics can take over and cloud the purpose of the exercise and it can also result in changes in behavior that are unintended and certainly dysfunctional. The general point is that if the basis of benchmarking is flawed it can set off a reorientation of strategies that are flawed – in the sense that they do not lead to genuinely better performance. Furthermore, since benchmarking compares inputs (resources), outputs or outcomes, it is also important to remember that it will not identify the reasons for the good or poor performance of organizations since the process does not compare competences directly. In benchmarking, managers need to observe and understand how top-performing organizations undertook their activities and to assess if these could be imitated or improved upon. (Johnson et al. 2008, pp. 147-148)

Strategic benchmarking by definition means benchmarking the business strategy or business processes to uncover projects that could lead to breakthrough type improvement in profit or productivity. Management can set different targets to improve based on the observed benchmarks, as short-term goals for entitlements, improvement goals, parity goals and stretch goals. These goals can be understood by the picture presented in Figure 4. (Watson 2008)

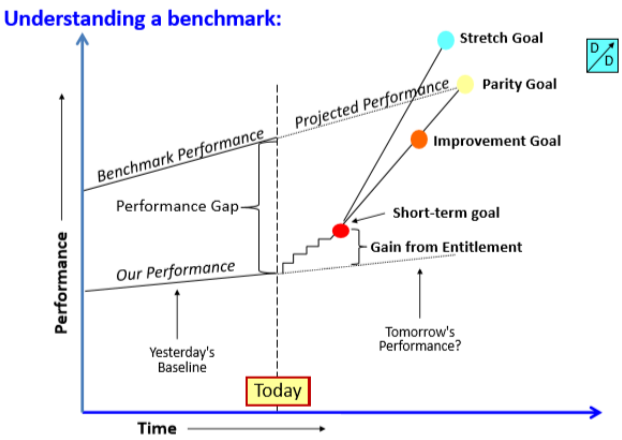

Figure 4. Evaluation of the performance gaps and goal-setting (Watson 2008).

Benchmarking study findings should discover differences to drive management decisions for addressing opportunities for improvement:

- Objective self-assessment of own performance and identification of opportunities for improvement
- Objective comparative performance measures that permit a more “scientific” improvement target-setting
- Operational definition of “best practice” that was used to consistently deliver the leading performance results
- Identification of potential gap-closing activities that may be adapted to improve own organization results
- Management decisions and action plans to enable change in process operations based on the findings (Watson 2008)

2.3 Business environment in Russia

In this chapter, the business environment in Russia is described. Furthermore, culturally specific factors in management and negotiations and general data about the forestry industry in Russia are also covered.

2.3.1 Russian business environment

Russian economy bases on natural resources and big state-owned corporations. Especially compared to other countries, the share of SMEs in GDP is relatively low in Russia and SMEs employ about 25% of total employment in Russia’s economy (RCSME 2016). Energy resources are the main source of income and the dependence on oil with current oil prices is hurting Russian economy a lot (Bloomberg 2016). In 2015, fuels and energy products accounted for 63% of Russian exports and about a half of the federal budget, which highlights the importance of this sector in Russian economy (Trading Economics 2016).

There has been a lot talk and efforts in order to diversify the structures of the Russian economy. The Gref programme under the first Putin administration contained a broad range of measures designed to stimulate both the entry of new firms and the growth of existing SMEs. Vladimir Putin’s second term saw determined state-led efforts to stimulate innovation and kick-start strategic non-commodity industries and Dmitry Medvedev's presidency was then marked by the global financial crisis. So far, the results have not been significant and for instance, labor productivity in Russia is still a lot lower than compared to Western level. (EBRD 2013)

The decreased value of Russian ruble against euro causes a lot of problems and lower purchase power for Russian customers and companies. The exchange rate of ruble between 2001-2015 is presented in Figure 5. Figure 5 shows the strong fluctuation of the ruble's value especially during the past few years. The low value of ruble means that if Russian customers have their own income in rubles, then purchasing imported products is a lot more expensive for them compared to the time period 2000-2014.

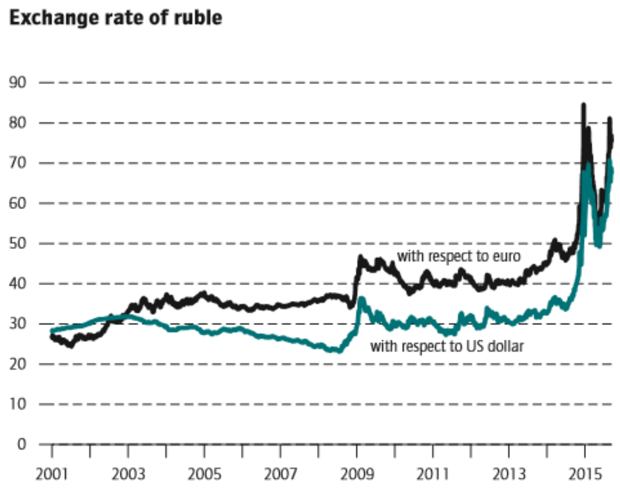

Figure 5. The fluctuation of the Russian ruble 2001-2015 (Dreger et al. 2015).

A sustained fall in real incomes has kept the domestic demand limited, but the government's policy response package of a flexible exchange rate policy, expenditure cuts in real terms and bank recapitalization along with tapping the Reserve Fund have helped adjustments to the changed environment. The Reserve Fund is now under severe pressure, as it is expected to be depleted in 2017. However, the unemployment rate has stayed low mostly because of flexible wages, which can be seen in Figure 6. (World Bank 2016)

Figure 6. Unemployment rates (%) in Russia between 2011-2016 (World Bank 2016).

BOFIT (The Bank of Finland Institute for Economies in Transition) released its forecast for Russia 2017-2019 in March 2017. They claim in their forecast that after two years of decline they see a possible growth of 1,5% of GDP in 2017. This growth is supported by higher oil prices and private domestic demand, which also stimulates imports. The newest data that Russia's economic recovery is moving faster than predicted in autumn 2016. Russian growth should remain sluggish in coming years as the economy is already operating near full capacity and needed structural reforms are still nowhere in sight. (BOFIT 2017)

Household consumption is expected to show gradual recovery. Real wages and real household disposable incomes have begun to rise in recent months and unemployment has declined. Consumer confidence has improved and household borrowing has recovered slightly. Retail sales showed signs of improvement in the beginning of 2017, but the uncertain economic outlook restrains consumption growth. After three years, also fixed investment is expected to grow slightly in 2017. Industrial production capacity is nearing full utilization and indicators of business confidence have risen. Corporate profits have developed favorably, but demand for corporate borrowings remains weak. Although financing costs are still relatively high, investment demand is mainly inhibited by the weak growth outlook and poor business environment. (BOFIT 2017)

The impact of public sector spending on economic growth continues to wane. The approved 2017-2019 budget framework foresees only minor increases in public spending. Given that inflation should run at around 4-5% p.a., public sector is expected to contract in real terms. The budget includes no more economic crisis programmes as in recent years. Budget deficits in past years have gobbled up a large share of Russia’s national savings from oil earnings. However, the approaching presidential elections in 2018 may increase pressures to boost public sector spending. (BOFIT 2017)

The volume of imports should grow again after a strong decline in 2017. Import growth will be supported by the gradual recovery in demand and robust appreciation of the ruble in the beginning of 2017, but is restricted by import bans on several food items and public procurements. The ruble’s exchange rate soared from last year’s lows as world oil prices started to recover. The price of oil is expected to remain stable and capital outflows from Russia have subsided. Russia’s annual inflation slowed to below 5% in February 2017, but inflation expectations remain relatively high. The Central Bank of Russia has kept a relatively tight monetary stance, holding the key rate at nearly 10% in order to reach its 4% inflation target by the end of 2017. (BOFIT 2017)

The Russian economy is expected to grow at a modest rate of 1,5% p.a. over the next three years 2018-2020. The biggest short-time risk to this forecast is the price of oil. Second risk factor is geopolitical tensions. Public spending could briefly support growth, but it could also heighten Russia’s fiscal vulnerabilities in the long term. On the downside, import recovery after such a dramatic fall could be stronger than expected, as the efforts of import substitution seem to have proceeded modestly. Achieving fast sustainable growth would require structural reforms such as enhancing the business environment, adoption of new technologies and reducing the state’s role in the economy. Implementation of such reforms would support investment activity, improve productivity and also promote diversification of the country’s production structure and decrease Russia’s dependence on oil prices. (BOFIT 2017)

2.3.2 General issues for Finnish companies operating in Russia

As a big neighbor for Finland, Russia has always raised great interest towards Finnish companies (all sizes; small, medium and big enterprises). According to the union of Finnish enterprises, there are 4000 Finnish companies that export to Russia and 1300 companies that import from Russia (Finnish Entrepreneurs 2016). Furthermore, according to estimations there are more than 500 companies, which have subsidiaries or other investments in Russia (Confederation of Finnish Industries 2016). Therefore, it is clear that as a business market, Russia has always been and will be in the future very important market area for Finnish companies.

However, Russian business culture is different from Finnish one, which is an issue to be taken into consideration in Finnish companies. Russia is a young market economy (about 25 years after the collapse of Soviet Union and communism), and this factor still has a major impact on the business culture in Russia. This means that the old features from the communist system are still visible to some degree. To some extent, the Russian system seems to be a normal European market economy, but its history of autocracy and contemporary political and business culture change the situation. So e.g. the legislation is quite similar than in Europe, but the implementation of laws is different. This could lead to problems in bureaucracy and some hazard problems and situations especially in industries that are crucially important to Russian government (e.g. energy sector). (Storchevoy 2016)

Collectivism and high power distance are also features of Russian culture and mentality (Hofstede 2017). Russia and the Soviet Union have always been led by strong leaders, which can be explained by people's attitude towards power and the acceptance of distributed power and wealth. Finnish culture is not that power distant and hierarchies for example at work and in business relationships are not considered so important than in Russia. Management and especially responsibility are wider terms and not that focused to one person in Finland. There is also a difference in the image of the countries, as Russia has always considered itself as a power state and Finland tries to be eligible export-driven small country. There is also a social contract between Russian government and Russian business. This means that Russian businesspeople (especially the managers of large companies) probably do not criticize Russian government openly among foreign business partners, even though they may think something else. They also do not want to hear challenges of Russia's political power in order to continue doing business as usual. (Storchevoy 2016)

The importance of personal relationships also in business is still especially important in Russia. In general, Russian customers want to know personally their foreign or Russian business partners before they want to start doing real business with them. So informal relationships and friendship play a highly notable role in business conduct (Storchevoy 2016). Russians are also quite short-time oriented and sometimes also Finnish managers could be surprised by the fact that Russian partners want to start actions immediately and are not properly able to design long-term plans, which could be partly explained by historical and cultural background (Storchevoy 2016). These kind of cultural differences could also cause problems in the operations and information flow between the Finnish HQ and Russian subsidiary (if there are not Finnish expatriates managing the subsidiary).

In negotiations with Russian partners, Finnish managers should take some features into notice because of cultural issues. Russians prefer face-to-face negotiations with the decision-makers. They can be emotional and act like in a theatre in a business meeting and they may have hidden desires and expectations. Status and dress code are important because of the respect to hierarchies. Sometimes compromises can be seen as a sign of weakness so strong decisions are valued. These things are also factors that could help Finnish companies and managers adopt in Russia easily, and the Finnish brand is still in good condition in Russia. Russians want to do business as usual despite of sanctions and Finnish companies and partners are still welcomed to Russia. (Troshkov 2016)

According to survey of Finnish-Russian Chamber of Commerce from the autumn 2015, there are threats related to economic recession, import substation policy and other factors. These things could harm the operations of Finnish companies in Russia. There are for example financing problems of the Russian customers, extended geopolitical tensions, general uncertainty, unstable value of the ruble and expensive price of imported foreign goods and the decrease in consumers' purchasing power. Moreover, there are also the possibility of introducing more sanctions and counter-sanctions, regulations and administrative barriers, the strengthening of the state and the risks related to localization, joint ventures and technology transfers. (Tekes 2015)

In general, companies that have state-organizations as clients could be damaged more by this policy compared to companies that operate just with private companies. Import substitution program was created for 20 different industries in order to decrease Russia's dependence on oil, improve own production and the modernization of the economy and diminish the risks for industries that could be in great problems in sanction cases. In medical sector, telecommunications, ICT and aviation industries the objectives of the program are most ambitious and to some extent quite unrealistic. (Tekes 2015)

The import substitution policy has at least not yet affected that much on Finnish companies operating in Russia, but there is a risk that it may cause some challenges in the future. So far, only 18 percent of the Finnish companies operating in Russia have considered the effects in their activities and most of the Finnish companies think that this program will not affect their business in Russia (Tekes 2015).

Local HR practices have also their influence on the working environment in Russia. Virpi Outila wrote her doctoral dissertation about HR practices in Russia. According to Outila, Western management practices may not completely apply in Russia. For example, employees making initiatives and sharing responsibility are not basic fundamentals of the working culture in Russia. Outila's research indicates that in Russia, the manager's main role is to give tasks to subordinates and the subordinates' role is to carry out the tasks given to them. Furthermore, the manager's supervision of the subordinates is intensive and continual. The main goal of the supervision is to support the subordinates, but also to prevent mistakes being made. (Outila 2016)

Imposing punishments for mistakes is considered important in Russia, because it is believed that learning takes place through punishments. The Russian manager thinks that if the employees are not punished for mistakes, they will not know that they have made a mistake. For this reason, it is always important to find the person who was guilty of the mistake. Traditional values change slowly, at all. For this reason, Western companies are recommended to take note of the local culture and adapt their operating practices to the local working environment in order to obtain the best results. (Outila 2016)

According to the survey conducted by the Finnish-Russian Chamber of Commerce in spring 2017, both exports and imports have increased in trade with Russia during the past few months. The results were remarkably more positive than in the survey from autumn 2016, as 63% of the respondents expected that their business in Russia would improve in the next six months (27% in the previous survey). However, Finnish companies still do not hurry up with their investment decisions, as just 26% of the companies have made investments in Russia during the past 12 months. The respondents told that the main problems in business in Russia are the uncertainty of the economy, exchange rate of the ruble and political situation. (SVKK 2017)

2.3.3 Forestry industry in Russia

On the global scale, the situation in the forestry and harvesting business might be evaluated through sales of harvesting machinery – the larger the sales, the healthier the business and the brighter the prospects. The key forestry markets on the global scale are stable and changes do not happen overnight. However, relatively greater activity is expected in South America, Oceania, South Africa and Russia in the mid-to-long term. In the latter case, we can probably talk only about the longer term, due to the current investment climate and position of the Russian currency, as well as due to lack of infrastructure to make the volumes grow fast. The main driver here is growing mechanization due to greater pressure on production, including per-person production. The growing economy and demand for traditional forest products in Asia and the bioenergy sector in Europe create massive trade flows, which can be seen in Figure 7. (Russian Forestry Review 2015)

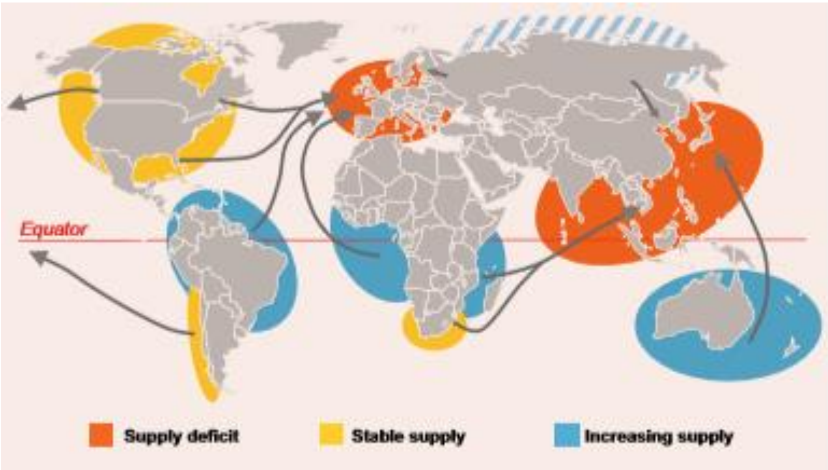

Figure 7. Global wood supply and demand (Russian Forestry Review 2015).

The key developments within the Russian forestry industry during 2014 were almost exclusively unrelated to the industry itself: the conflict in Ukraine, sharp devaluation of the ruble, rising cost of capital and overall increasing uncertainty in the mid-term. However, the prospects are not bad, as there are expected cautious growth in export-oriented sectors, stagnation-to-decline for the bigger non-exporting players and an overall tenuous atmosphere fueling an adjustment towards survival mode against smaller players. (Russian Forestry Review 2015)

Russia has the world's largest "deposit" in terms of forested area (some 800 million ha, approximately 22 per cent of the global total) and growing stock (approximately 24%). About one third of the growing stock (some 29 billion m^3 out of 83 billion m^3) is concentrated in mature and overmature industrial forests. Softwood forests account for approximately two thirds of the forested area. Annual allowable cut (AAC) of some 650 million m^3 is utilized by only some 30% due to the poor commercial availability of many areas (a lack of forest roads, difficult terrain and a lack of consumers nearby as well as a lack of other roads). Actual cuts differ significantly from region to region while remaining more or less stable inside given regions. The greatest harvesting is seen in Siberia, the North-West and the Volga Federal Regions. Those three regions make up approximately three-quarters of the total volume in Russia. Out of the three main regions, AAC utilization is the highest in the North-West (over 35% of the annual allowable cut) and the lowest is in Siberia (some 15%). (Russian Forestry Review 2015)

Annual allowable cut is increasing in line with (estimated) growing stock in mature and overmature industrial forests. For example, AAC was on the level of 510,6 million m^3/a in 2002 and grew to some 633,4 million m^3/a in 2010 vs. growing stock of 23,1 billion m^3/a in 2002 increased to 28,6 billion m^3/a in 2010 (24% increase in eight years in both cases). However, the quality of data is not up to the best standards. (Russian Forestry Review 2015)

In Russia, official harvesting volume in mature and overmature forests grew in 2014 by over 4% compared to the previous year, reaching nearly 120 million m^3. Total harvesting volume, including thinning, was close to 200 million m^3. "Gray" and illegal harvesting is likely to add up to some 20% to this number. Exports grew from 19,0 million m^3 in 2013 to 20,9 million m^3 in 2014, 9,8% increase. In monetary terms, export volumes increased by 8,3% in current USD. In the first half of 2014, export volumes grew even faster – some 17,7% compared to the first half of 2013 by volume. (Russian Forestry Review 2015)

The highlight of the year in 2014 for the sector was the ruble devaluation followed by better margins for exported wood and thus a push towards growing export volumes and growing ruble prices, especially in regions like Russian Siberia and the Far East. However, non-integrated harvesting companies remain quite cautious and the favorable situation is not likely to lead to significant growth in harvesting capacity due to general unpredictability in the legislative field as well as due to the sharp increase in the cost of capital. On the other hand, we are likely to see an increase in harvesting capacity for integrated players – and thus further rise in the share that the big integrated players have in the harvesting sector in Russia. (Russian Forestry Review 2015)

Some further efforts to decrease the level of illegal cutting was seen on the part of the Russian government in 2014. New legislative act 415 FZ tightens rules concerning illegal harvesting (larger fines, the introduction of a unified information system, unified lease agreements). Other promising changes in the forestry sector included the introduction of pilot regions in Russian Siberia and the North-West to move away from extensive forestry (large areas, clear cutting, low maintenance) to intensive forestry (Scandinavian model) as well as larger spending on improving the accuracy of forest resources data. The goal is to reach a frequency of no less than once a decade for the key regions. It should be noted that many initiatives in Russia develop from “best intentions and right words” to “just additional uncertainty, bureaucracy and burden for the forest industry players” with amazing speed. (Russian Forestry Review 2015)

In general, over the last decade, wood supply developed from the notion that “there is enough wood in this country for any project” to significantly restricted in some geographical areas and industries (specifically, sawmilling and plywood production in Western Russia) – and it keeps tightening. Now it can be seen that wood supply prospects are the first-priority “must-check” for almost any project of any scale in any locality. The most significant restrictions are seen in Western Russia (Central, North-West and South) while their effects are felt a bit less in Siberia and the Volga Federal Region. (Russian Forestry Review 2015)

The situation differs significantly from product to product and from the macro-scale to the micro-scale. Sawlogs and plylogs are in the highest demand almost everywhere, while the situation with pulpwood varies from one end of the spectrum to the other: in some regions, leaving pulpwood in the forest is not regarded as an embarrassing practice while in some others the price of pulpwood goes hand in hand with small-diameter sawlogs. As an example, short-radius delivery pulpwood is in high demand around pulp mills in Siberia and in the North-West, to the degree that cooking small and medium diameter sawlogs is not a rare practice. (Russian Forestry Review 2015)

According to the forecast of the Russian Federation’s forest sector development through to 2030 prepared by the UN Food and Agriculture Organization, the potential of the Russian forest sector is far from being fully exploited. Moreover, according to moderate scenario, the timber harvesting and processing level can be increased several-fold. The timber reserves in the forests of the Russian Federation are 83 billion m^3, but the timber harvesting in 2013 was 193 million m^3 (0,23% of the reserve). Transport accessibility is the only restraint in the development of timber harvesting. Some priority investment projects have faced the problem of raw timber procurement. As many forest sites are inaccessible for transport, the allowable cut cannot be utilized in full all over the country. The timber volume that can be harvested on a forest site in Russia for one year without breaking the law is called the allowable cut according to forest plans and regulations and it is depicted in Figure 8. (Russian Forest Review 2015)

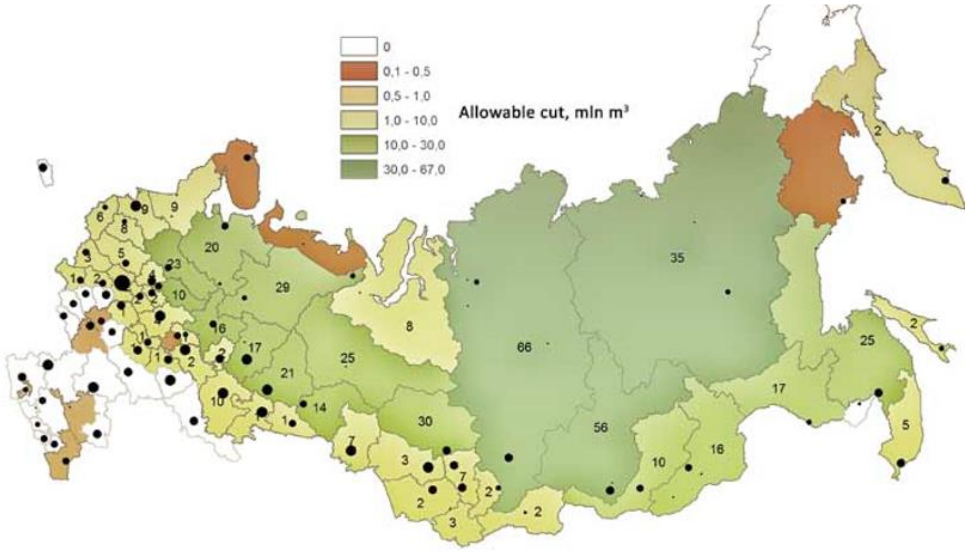

Figure 8. Allowable cut in commercial forests by Russian region (Russian Forestry Review 2015).

Currently, investments in the construction of a logging road network and intensive forestry remain risky, because mechanisms of accounting of investment in state-owned forest resources have not been created yet. Still, active work in this field is ongoing. The model of transition to intensive forestry is stated in the fundamentals of the governmental policy of the Russian Federation. It is planned that this model is implemented in each constituent, with regard to its needs and regional features. Still, separation of forest sites at the stratum level for intensive and extensive forestry remains a crucial task. Nowadays the Forest Code provides for approval of regional forest use and regeneration rates, which enables the regions to develop their regulations for intensive forestry. The intensive forestry concept developed to date provides all the necessary prerequisites for the practical implementation of the intensive model. (Russian Forestry Review 2015)

2.4 Summary of the literature

In this thesis, the literature part consists of theories about global strategy management, distributor management, brand management, strategic benchmarking and background information about Russian business environment currently in general and in forestry industry. The main emphasis is definitely on distributor management, as the empirical part aims to find solutions mainly on distributor management issues.

Importance of global strategy adapted and integrated in the operations of every subsidiary and distributor globally is especially important. Global strategy management is a way to get the strategy formed in the HQ adapted in global networks. Distributor management is especially important in that sense, as distributors are not part of the corporate so the control over them is not that simple to organize, as it is with subsidiaries. Strategic benchmarking worked also as a good theoretical framework for this thesis, even though in minor roles.

Business environment in Russia has changed tremendously since 2014. There are many reasons for those changes and there have been wide consequences for international companies operating in Russia. As the price of oil has declined sharply since summer 2014, also the exchange rate of the ruble has changed a lot so that the value of ruble is currently weaker than a few years ago. However, in 2017 the situation has improved in trade between Russia and Finland.

Forestry in Russia is an industry, in which the business did not decrease that much compared to the general business environment during the past few countries. Russia is a country with the vastest forest resources in the world and there is still a lot of capacity to be used in this sector. Moreover, the trend is moving more towards European methods and intensive logging in harvesting, which generates original growth potential for forest machine manufacturers in Russia. However, illegal cuts and the reliability of statistical data are still issues to be improved.

Analysis will be conducted through theoretical frameworks in the discussion part. For instance, theoretical contributions about distributor management in communication, distributor contracts will be noticed and possible improvements will be discussed about the practices, which Ponsse is currently using at the moment. Russian business environment in some factors is also discussed, but it is important to notice that forestry industry is a relatively small industry in Russia and fluctuation of the whole economy do not have a such a big impact as for example on energy and construction businesses in Russia. The main cycle of this thesis is presented in Figure 9.

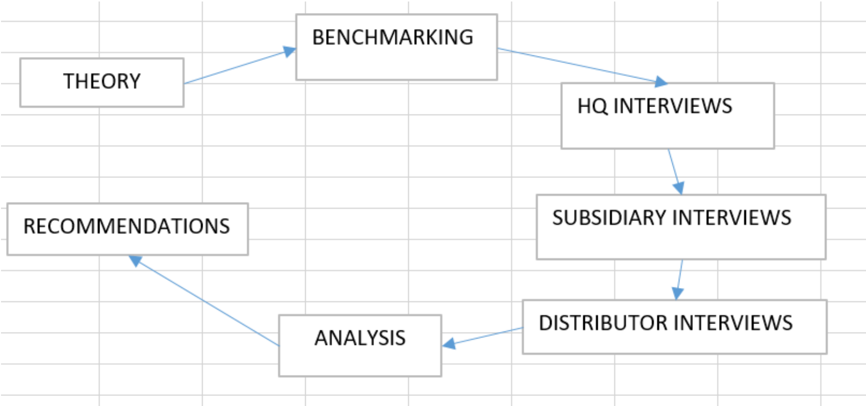

Figure 9. Working cycle of the master's thesis project.

To conclude, the most important themes that will be discussed in the analysis part, are the following:

- internationalization of global strategy
- the role and power of HQ compared to subsidiary
- subsidiary's external network of distributors
- integration of company culture to subsidiaries
- brand management
- management of distributor relationships (building, controlling and terminating)
- motivating distributors
- enlargement strategies, as acquisitions of distributors
- distributor agreements
    - terms and ability to protect the rights of the exporter
- selection criteria for distributors
- strategic benchmarking
- Russian business environment

3 RESEARCH METHODOLOGY

Case study is a strategy for doing research, which involves an empirical investigation of particular phenomenon within its real life context using multiple sources of evidence. Case study provides a rich understanding of real life context and uses and triangulates multiple sources of data, as interviews, observations, documentary analysis and questionnaires. (Saunders, Lewis & Thornhill 2009) This research was a qualitative case study, because non-numerical answers were needed for the research questions presented previously. The study was done for one company including distributors and subsidiary in Russia, so case study was justified as a research strategy.

Reliability refers to the extent to which the data collection techniques or analysis procedures will give consistent findings. It means that if the measures will give the same results on other occasions, will other observers reach similar observations or is there transparency in how sense was made from the raw data. (Easterby-Smith, Golden-Biddle & Locke 2007) Therefore, high reliability of the research means alternative researchers would also reveal similar information than what is presented in that research (Saunders et al. 2009). Reliability of this study was secured in several ways (for instance a high number of interviewees) in order to have objective results.

Validity means that the information is correct and useful in the context of the research. Validity is concerned, whether the findings are really about, what they appear to be. For example, is the relationship between two variables a causable relationship? (Saunders et al. 2009) The validity of this research secured with the high availability of primary data and people on management positions involved in real-life business and decisions.

The success of this project could be assessed as very good. The accessibility for the primary data and response rate were on excellent level for this study. The interviews were done on either Russian or Finnish, depending on the native language of the interviewee, which obviously improved this research. Probably the only downside could have been the bias of the author of the thesis, as he was working for Ponsse on the same time and the objectivity of the research could have been doubtful in this case. Observations were also a big part of the data collection and observatory bias was the biggest reason for the good access to primary data. Time horizon of this research is longitudinal, as some information from previous years was collected as well.

This thesis work was a qualitative case study about OOO Ponsse and its 10 distributors in Russia and one in Belarus (Ponsse 2017b). Almost all of the distributors of OOO Ponsse are included in the study by interviews with the management of the companies, but a few were selected also for on-site visits. The exact numbers about the personnel interviewed are presented in Table 3.

Table 3. Summary of interviews for the study.

Level of study	Number of interviewees	Additional information
Benchmarking	10	2 different meetings (one in Finland and one in Russia)
HQ	9	In Vieremä and Iisalmi
Subsidiary	27	In the main office and 2 site visits
Distributors	9	3 site visits and 6 other interviews
Altogether	**55 persons**	

Proper planning of each phase of interviews was a crucial part of work in order to keep the study balanced and well structured. It was also important to have some time for deep analysis after data collection. Chronically the work progressed very well, as benchmarking meetings and theory part were done first, then discussions in the HQ and after that started the deeper empirical phase in Russia with the subsidiary and its distributors. The research approach is inductive, as the work tries to understand distributor management from the results of Russian specific case.

The thesis research was a nine months' project in 2017. All the interviews during this thesis were semi-structured (length approximately 60-120 min) and they were the main source of primary data. The first two meetings about this project were about benchmarking with Company X. After that in the HQ of Ponsse, there were interviews with different directors and managers in May 2017. The interviews with the personnel in the HQ were needed in order to fully understand, how Ponsse Plc manages its subsidiaries and distributors and how does the people in the HQ see the current situation in Russia.

After those meetings in the HQ, the author moved to Russia and the main place for the work was OOO Ponsse's main office in St.Petersburg. Data collection started in Russia by interviews with the personnel of the subsidiary. Most part of the interviews for this chapter were done in the office in St.Petersburg, but also site visits to Pitkäranta and Tomsk were done. Moreover, one interview was executed with the financing company of OOO Ponsse, De Lage Landen. These interviews during the summer 2017 focused on two links from OOO Ponsse; the connection to the HQ and also the connection to the distributors. Discussions and interview forms were built based on the main tasks and responsibilities of the interviewees separately.

The last part of data collection was the interviews with the directors of each Russian distributor and the interview form was the same for every distributor. The approach and motivation of distributors was that the author collected feedback from distributors, so they could tell their honest opinions about the current situation. The sample was most part of the population (9 were interviewed from 11 distributors). In-depth interviews with the directors of the Russian distributors were the most important source of information about the distributors. Some of the interviews were done during the Dealer Director Days in September 2017 (with six distributors) and with others the author visited distributors in August-September 2017 (with three distributors). Two distributors were not interviewed due to schedule problems.

The theme of distributor interviews was more on receiving feedback from distributors and hearing their opinions about the level of cooperation in different issues. "Cooperation" was highlighted rather than "management of distributors" in order to have a careful and open-minded approach with distributors equally, even with the ones that are not performing at the wanted level currently. The participants of the each level of the study are presented in tables 4-9. The names of interviewees are encrypted because of reliability reasons. The questions forms used are viewed in appendixes 3-7.

Table 4. Benchmarking meetings in spring 2017.

HQ LEVEL on the 27th of March 2017		
Place: The factory of Company X, length 150 min		
Name	**Title**	**Company**
Director XA	Business Unit Director	Company X
Manager XA	Manager of Distributor Relations	Company X
Manager XB	Manager of Safety Issues	Company X
Manager XC	Manager of Distributor Quality	Company X
Director A	Chairman of the Board	Ponsse Plc
Director B	CEO	Ponsse Plc
Director C	Sales and Marketing Director	Ponsse Plc
SUBSIDIARY LEVEL on the 15th of April 2017		
Place: Restaurant in St.Petersburg, length 120 min		
Name	**Title**	**Company**
Director XB	Managing Director	Company X Russia
Director OA	Managing Director	OOO Ponsse
Manager OA	After Sales Manager	OOO Ponsse

Table 5. In-depth interviews in the HQ (Ponsse Plc) in Finland in May 2017.

Name	Title	Date	Place	Length (min)
Director B	CEO	2.5.2017	Vieremä	120
Director C	Sales and Marketing Director	2.5.2017	Vieremä	120
Director D	CFO	11.5.2017	Vieremä	120
Director E	Service Director	19.5.2017	Iisalmi	120
Manager A	Global Service Manager	12.5.2017	Iisalmi	60
Manager B	Spare Parts Manager	15.5.2017	Iisalmi	60
Manager C	Quality Manager	16.5.2017	Vieremä	90
Manager D	Service Manager, Service Agreements	12.5.2017	Iisalmi	120
Manager E	Area Director and Used Machines Product Manager	19.5.2017	Vieremä	60

Table 6. Interviews in St.Petersburg (OOO Ponsse) during the summer 2017.

Name	Title	Date	Length (min)
Director OA	Managing Director	30.6.2017	120
Director OB	Deputy General Director	23.6.2017	90
Manager OA	After Sales Manager	11.7.2017	180
Manager OB	Spare Parts Manager	14.6.2017	60
Manager OC	Sales Manager	29.6.2017	90
Manager OD	Chief Accountant	10.7.2017	120
Manager OE	Sales Manager	13.6.2017	90
Manager OF	Marketing Manager	17.7.2017	60
Manager OG	Regional Sales Manager	19.6.2017	90
Manager OH	Logistics Manager, machines	12.7.2017	90
Manager OI	Warranty Coordinator	15.6.2017	60
Manager OJ	Product Manager, harvester heads	5.7.2017	90
Manager OK	Training Manager	29.6.2017	150
Manager OL	Service Manager	13.7.2017	120
Manager OM	Spare Parts salesmen, dealers	5.7.2017	90
Manager ON	Deputy Chief Accountant	6.7.2017	120
Manager OO	Lawyer	18.7.2017	120
Manager OP	Logistics Manager, spare parts	10.8.2017	90
Manager OQ	Manager, De Lage Landen	20.7.2017	60

Table 7. Interviews in Pitkäranta Service Center (OOO Ponsse) in June 2017.

Name	Title	Date	Length (min)
Manager PA	District Headman	8.6.2017	60 min
Manager PB	Head Engineer	8.6.2017	60min
Manager PC	Center Manager	8.6.2017	
Manager PD	Head Mechanic	8.6.2017	
Manager PE	Sales Part Manager	8.6.2017	60 min (all together)

Table 8. Interviews in Tomsk Service Center (OOO Ponsse) in August 2017.

Name	Title	Date	Length (min)
Manager TA	Area Sales Manager	17.8.2017	60 (both together)
Manager TB	Mechanic	17.8.2017	
Manager TC	Spare Part Manager	15.8.2017	90

Table 9. Interviews with Russian distributors during autumn 2017.

Name	Company	Job Title	Date	Place	Length (min)
Director DA	DMI Forest	General Director	26.9.2017	Larnaka, Cyprus	120
Director DB	Remtechnika	Director	26.9.2017	Larnaka, Cyprus	120
Director DC	Lespromservis	General Director	29.8.2017	Syktyvkar	120
Director DD	Zeppelin	Director of forest machine department	5.9.2017	St.Petersburg	120
Director DE	Vologdascan	Director of forest department	26.9.2017	Larnaka, Cyprus	90
Director DF	Gidroservis	Director	25.9.2017	Larnaka, Cyprus	90
Director DG	Kostroma-Servis-Ponsse	Director	25.9.2017	Larnaka, Cyprus	90
Director DH	Udarnik (Belarus)	Director	26.9.2017	Larnaka, Cyprus	60
Director DI	Nord-West Kom	Director	9.8.2017	Petrozavodsk	120

The limitation of the work is the fact that it is done for one company on one industry in a single country. However, some benchmarking from other industries will be noticed. The results will be reliable at least for the case company Ponsse. As for future studies, I recommend similar studies on different industries in Russia or in other market areas in forestry industry.

4 CASE PONSSE IN RUSSIA

Ponsse Plc was established in 1970 and the company’s shares are quoted on the NASDAQ OMX Nordic List since 1995. The global subsidiaries of Ponsse Plc are presented in Table 10. (Ponsse 2017c)

Table 10. Foreign subsidiaries of Ponsse Plc (Ponsse 2017c).

Name	Country	Year of Establishment
Ponsse AB	Sweden	1994
Ponsse North America Inc.	USA	1995
Ponsse SAS	France	1995
Ponsse UK Ltd.	Great Britain	1995
Ponsse AS	Norway	1997
OOO Ponsse	Russia	2005
Ponsse Latin America Ltda.	Brazil	2005
Beihai Ponsse Trading Co Ltd.	China	2007
Ponsse Asia Pacific Ltd.	China	2007
Ponsse Uruguay S.A.	Uruguay	2007
Ponsse Machines Ireland Ltd.	Ireland	2017

In this thesis, distribution network management is researched through a case, which is Ponsse in Russia. The product and service offerings of Ponsse are presented in Figure 10.

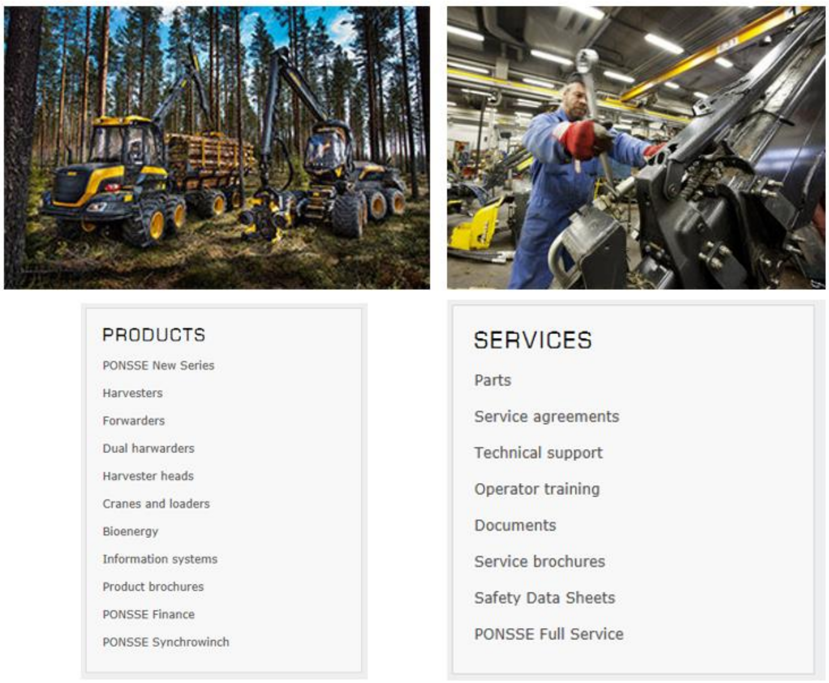

Figure 10. Product and service offering of Ponsse Oyj (Ponsse 2017c).

4.1 Benchmarking with Company X

Company X was a good selection for benchmarking company and it was important to have a view from different industry in order to check and review distributor network management practices in other companies. The theme of the meetings were subsidiary and distributor management and comparison of these activities between Ponsse and Company X. In this chapter, the results of these meetings are presented. To some extent, comparison between the operations of Company X and Ponsse can be done, even though the company sizes and industries are a bit different. On the other hand, both X and Ponsse are very successful Finnish B2B companies and they compete for the global market leadership in their industries.

4.1.1 Benchmarking on HQ level

The first benchmarking meeting was a meeting on the HQ level at the factory of Company X in Finland. The main themes of the meeting were sales management in one business unit and distributor management in Company X, but also mutual comparison about these themes were covered.

The basic fundamentals of the strategy of both Company X and Ponsse are very customer-oriented. During the period of the previous CEO, the strategy of X was divided into different sections. The implementation of this strategy is now in progress globally. Moreover, Company X puts a lot of emphasis on the family business feeling and values, which play actually even a greater role in Ponsse’s strategy. Communication packages are the tools for implementation of the strategy of Company X globally. The packages are first distributed to area and country directors, which further on distribute the packages to their employees and managers of business units. The main parts of the strategy are depicted in one picture, which shows the main fundamentals of the strategy of X. (Director XA 2017)

The strategic targets are measured regularly, so the management can see, which subsidiaries and distributors perform well according the strategy and which not that well. Moreover, quality and safety are basic principles in every market and need to be taken seriously everywhere. “Company Way” means that the main guidelines are conducted everywhere in the same way, even though the details are done differently. These strategical objectives should be tightly followed everywhere. (Director XA 2017)

Altogether, Company X operates in more than 100 countries, in which there are approximately 60-70 subsidiaries and 30-40 distributors (Manager XA 2017). Ponsse operates in about 40 countries with 11 global subsidiaries and 32 distributors (Director C 2017). About half of the subsidiaries of X used to be distributors of X before they were acquired. The basic principle is that in countries, where Company X has a subsidiary, it does not have distributors. The only exception is Russia, where in addition to subsidiary X has 13 distributors. (Manager XA 2017) Ponsse does have distributors in addition to subsidiary in Russia, USA and Brazil (Director B 2017).

Company X does not have two different distributors competing with each other in the same market area. In addition, it does not bypass its dealers, which means that they do not attend to sales where their distributor already is. Moreover, if someone of the main competitors establishes a subsidiary in some country, where X has a distributor, then X also founds a new subsidiary in that country in order to avoid "double-profits" in their pricing and in that sense maintaining their competitiveness. However, X aims to operate through distributors as long as possible. Distributors are branded clearly as distributors and not as a part of X. For example, in shirts of mechanics of distributors this manner is visible and marked as "authorized distributor" and not just "X" in order to avoid misunderstandings. (Manager XA 2017) There is a difference in this custom, as Ponsse's distributors wear the same clothing as Ponsse's personnel (Director C 2017).

A typical distributor of Company X consists of an owner, a couple of salesperson, a few other administration workers and mechanics. The size of the company causes the biggest differences among distributors. In practice, this means that the bigger distributors are better organized, more professionally managed and they are financially in a better shape. Distributors of X sell mainly only their products, which means that they do not sell products from other industries. However, distributors of X may sell products of local manufacturers, if they are really strong in it and it does not hurt the sales of X offerings. (Manager XA 2017) Ponsse does have multi-brand distributors, as for example some the distributors of Ponsse are also distributors for Volvo and excavator manufacturers. The best performing distributors are usually focused just on Ponsse. Moreover, Ponsse does not allow its distributors to sell products of their competitors. (Director C 2017)

Company X sets clear requirements for possible new distributors. For example, the current situation is reviewed by using different tools, as for example matrixes measuring performance of the distributors. The goals to be achieved are usually market leadership or the second place in the market. The level of management and company in general should be reliable and especially service business should be carried out with high professionalism. Safety procedures should be done according to requirements and quality issues. The financial side of the distributor needs to be in balance and no “grey activities” or other criminal background are allowed. From the side of X, all the distributors should be treated with the same care and attention. (Manager XA 2017)

In general, Company X divides its distributors into 3 classes by contract terms:

- Authorized Distributor (the minimum level)
- Certified Partner (professional management, relatively good sales)
- Premium Partner (the highest level, excellent sales) (Manager XA 2017)

From the day of signing a contract, it usually takes a year until the first sale and a decade to develop the distributor into that condition that Company X is willing to acquire it (minimum level of sales). In the management and encouragement of distributors, X has established two potential ways. The first way is to let the distributor grow big enough and then acquire it. About this way, X communicates openly with its distributors, so they know that despite the difficulties faced, a sustainable growth could bring a nice paycheck in the future. This also means that the distributor is such a good company that the purchase decision will not be too difficult for X to be made.

The second way is to help the distributor grow, but there is not an intention to acquire the distributor in the future. Moreover, in the contract terms with distributors there is mentioned that competitors of X cannot acquire its distributors. This condition has never been used, because even theoretically considered it is easy to say that if a competitor does an acquisition, then X just establishes a subsidiary in that market and “kills” that business. This happens, because the subsidiary sells with lower prices compared to a distributor based business with “double-profits”. (Manager XA 2017)

Company X manages and controls its distributors with a strong hold. Financial incentives are used and new possible ways to control and monitor distributors are developed all the time. Cash flows are on a good level with distributor activities and X does not finance their distributors. However, payment terms with distributors can be fixed case by case, if mutual trust and history of cooperation allow it. Company X transfers their knowledge and “traditions” to their distributors and in this activity a strict attitude is definitely needed. This means that even in poorer societies, for example in Africa, the local distributor must operate according to the quality and safety requirements set by X. (Manager XA 2017)

Company X does auditing on three levels:

- site visit auditing (service installations, once a year)
- review of the matrixes (by phone/face-to-face)
- strategical review with the management of the distributor (Manager XA 2017)

Company X has also established an organized distributor management unit. Key account managers are responsible for approximately five distributors. Moreover, area managers are responsible for the distributors in their areas and they have meetings 4 times a year. There are several positions that are usually geographically distributed, except order intake unit. Also online tools are widely used, especially for Marketing & Support. (Manager XA 2017)

All the distributors of Company X assemble once a year together and there are organized a lot of training and workshops. Contact Call is also an important tool of cooperation with distributors. It means a monthly call organized by area managers, where all the people responsible for that distributors are present. In this call, the market situation and forecast for near future sales are viewed with distributors. Distributor tells in this call to whom and where he is selling at the moment. (Manager XA 2017)

Distributor contracts with Company X are mainly non-exclusive and expensive terminations of contracts are to be avoided. A distributor contract can be terminated or the terms of the contract can be modified based on the following conditions:

- if a distributor violates the contract terms
- performs poorly and lacks behind the sales targets (Manager XA 2017)

Training of distributors in Company X is very systematical. The self-service of distributors is aimed to be as good as possible in X. This means that in practice distributors should not need to ask for advice in technical questions for X, because they have all the information needed at their disposal. The training material consists of online portal (videos, modules and tasks, certificates and training packages), which is a relatively efficient and affordable way to conduct training, because training personnel do not need to travel that much globally anymore. (Manager XA 2017) This is a different situation on Ponsse's side, but as one can think, training of a mechanic for forestry machine repairs is a lot more challenging than for products of X (Director C 2017).

In brand management of Company X, the main emphasis is on the product brand. It is so well known company in its field that they do not really need to put a lot of resources on promotion and marketing of the brand. Principles of sustainable development are also followed with every distributor. For example, distributors can choose that from which factory the products are delivered (several factories globally). In addition, the Finnish brand is seen as a good thing among the customers of both X and Ponsse. (Director XA; Director C 2017)

Benchmarking organized with Company X was a good way to see an example from different industry. There were several things that were similar between Company X and Ponsse, but also some issues that Ponsse could learn from Company X and adapt to their own methods of distributor management. The similar things were:

- both companies have very customer-oriented strategies
- operating through a distributor as long as possible
- site visit audits
- similar attributes on brand management

The things to be developed in Ponsse and learned from Company X were:

- strategy implementation packages (project, timeline, responsibilities)
- strategy as a picture and use of communication tools, when integrating the strategy
- systematical follow-up of strategical objectives
    - Contact Call
- enlargement strategies (especially acquisition of a distributor)
- distributors of Company X work only on one industry
- auditing on different levels (site visits, matrixes and strategical discussion)
- classification of distributors
- strong hold on distributors
    - financial intensives

    - new ways are developed all the time
- procedures of terminating distributor agreement
- systematical distributor training system
    - self-service as much as possible
    - extensive use of online portals

4.1.2 Benchmarking on subsidiary level

The benchmarking meeting in subsidiary level took place in St.Petersburg in April 2017. The main theme of the meeting was the comparison between Company X and Ponsse in distributor management in Russia. The subsidiary in Russia is a clear exception in the global network of Company X. Only in Russia, there are both a subsidiary and distributors working in the same country. (Director XB 2017)

Company X has long traditions in doing business in Russia (Director XB 2017). Ponsse established its subsidiary OOO Ponsse in Russia in 2005 and for Ponsse, Russia is the biggest export market (Director OA 2017). In the portfolio of X, Russia is not that important in a global scale. Therefore, in this sense the interest from the HQ towards the Russian market is relatively bigger in Ponsse. (Director XB 2017)

For Company X, the subsidiary accounts for major share of the sales in Russia and distributors minor. For Ponsse the situation is other way round, as distributors account for major share of the sales in Russia. X never bypasses its distributors, so the subsidiary and its distributors do sales clearly separately. It has approximately several hundreds of employees in Russia (most of them are mechanics) and for Ponsse the staff consists mostly of the employees of distributors and less than half are own workers. This means that X does basically relatively more business through own organization and Ponsse through distributors in Russia. (Director OA; Director XB 2017)

In Russia, Company X competes in higher medium and premium segments. There are many local manufacturers in its industry, which produce low quality products but they can be significantly cheaper than the products of X. In its own segments, the main competitors of X are only international companies. One of these competitors has also a factory in Russia, but they have had many problems making it work during two decades. The main competitors of

Ponsse are international companies and there are not local manufacturers in that industry. (Director XB 2017)

The variety of the end-customers of Ponsse in Russia is very wide from small companies to big pulp mills (Manager OA 2017). The management of Ponsse uses a lot of time especially with the big customers (Director OA 2017). For Company X, the distribution of sales is focused on Moscow and St.Petersburg and other cities and distributors form a smaller share of the sales. (Director XB 2017)

For Company X this means that most of the time is focused on working with the biggest regions and cooperation with distributors is not that active than for Ponsse. Moreover, Company X does not participate in tenders, where customers are looking for bribes or other kind of corruption. Corruption is not allowed in any circumstances. This rule applies for both X and Ponsse and actually to all international companies that are active in Russia. Tax officials can check international companies more often than local companies, but everything can be solved with honest and transparent working culture. (Director OA; Director XB 2017)

When talking about payment terms, a distributor pays Company X 50% when placing an order and 50% two weeks before the delivery is shipped from the factory. For Ponsse, payment terms vary and for new deals, Ponsse gets 100% of the money before the shipment. However, there are also exceptions, where there is more time given for a customer to pay. The common history and trust between Ponsse and distributors also affect payment terms. During the past few years, inflation has been quite high in Russia, which has caused high interest rates for loans and problems for customers to raise funds for investments. (Director OA; Director XB 2017)

In Russia, Company X has 13 distributors and OOO Ponsse has 11 distributors, from which 10 are located in Russia and one in Belarus. In X, the subsidiary is clearly responsible for strategy integration among its distributors in Russia. The biggest differences (strengths and weaknesses) among distributors are caused by the size of the company and professional management customs (there is still somewhere a Russian way to lead). In Russia, X does not categorize its distributors like in the HQ level and it does not plan to acquire its distributors and neither does Ponsse. X never has two distributors selling in the same area, but Ponsse has recently shared the region of Vologda between two distributors. This has improved briefly the situation there and increased the sales there. This decision derived from the fact that the original distributor did not alone perform well there, so another distributor was then introduced in the area. (Director OA; Director XB 2017)

Company X has set clear and detailed contract terms with their distributors and also terminations are done by the terms of contracts. Previously Ponsse did not have highly detailed contracts with their distributors, but now the form of these is contracts is being developed. Sales targets are marked into contracts and then the results are checked. If these targets are not achieved by the distributor, then these terms can be modified. Distributors of X are usually given rights to sell some products of local manufacturers, if they are good in it and have a well-established service fleet on those products. X does not have multi-brand (selling products from other industries) distributors, but Ponsse has them as some of its distributors are also involved for example in excavator business, which has worked quite well. Moreover, Ponsse's distributors have been grateful for Ponsse for their fast responses, low hierarchy levels and fluent cooperation. (Director OA; Director XB 2017)

The distributors of Company X gather once a year for a sales meeting and the responsible managers have once a month a Status Call with each distributor. In this call, the current situation on the market is checked and some estimations given about the sales of next few months. X does not really do auditing regularly with their distributors in Russia. Only exception is audit about work safety during some business trip (conducted by members of the management team of the subsidiary). (Director XB 2017)

The distributors of OOO Ponsse are gathered twice a year and Ponsse does ESW (Effective and Safe Workshop) auditing very actively among its distributors. Auditing has definitely had a positive impact on distributors and especially rivalry between distributors is a factor that pushes them performing better, without any monetary incentives. The results of ESW auditing are shown to everyone at once and they follow the progress of their rankings very carefully. This is a remarkable change compared to the starting point, when distributors considered auditing just "stalking" and they demanded for monetary incentives. (Director OA; Manager OA 2017)

Company X does not manage or control its brand strictly and brand management is rather product-driven also in Russia. Both X and Ponsse are known as Finnish high-technology companies, which bring quality requirements in the eyes of the customers. Moreover, both companies are promoted especially as family businesses. Ponsse's strong values and the fact that the ownership has "faces" is definitely a positive feature among distributors and customers.

The top management and owners also do many business trips to Russia, so for Russian customers it is easier to believe that their message is heard also in the HQ. Even though some competitors sometimes talk lies about Company X and Ponsse, both of them have highlighted to their salespersons and other people involved in customer interaction that never do the same mistakes. (Director XB; Manager OA 2017)

Similar issues noticed between Company X and Ponsse in Russia were similar hybrid model (subsidiary and distributor network working with it) and the fact that the main competitors of both Company X and Ponsse are international companies. Some issues that differed or lessons to be learned for Ponsse after benchmarking with Company X in Russia were distribution of sales (subsidiary/distributor network ratio), focus on cities/regions, payment term policies and area distribution among distributors.

4.2 Ponsse’s strategy from HQ point of view (Ponsse Plc)

The current service network of Ponsse globally, including both distributors and subsidiaries, is presented in Figure 11. The distributors are generally managed from the HQ, except a few subsidiaries that are managing distributors in the same country. (Director C 2017)

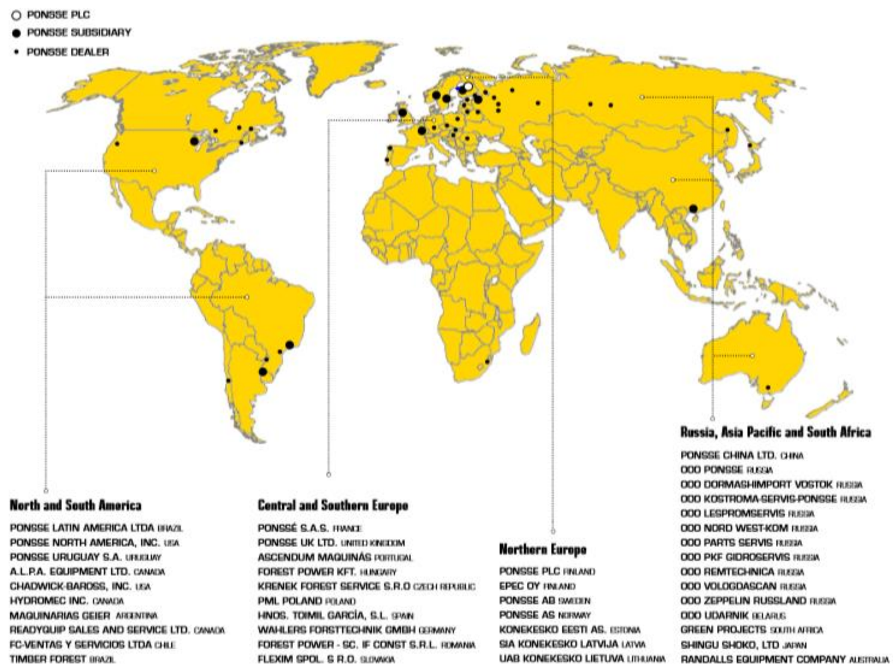

Figure 11. Ponsse service network globally (Ponsse 2017a).

This chapter will include reviews about general cooperation, communication, audits, sales in general, financial issues, marketing and training. These issues are covered in both global and Russian level.

4.2.1 Distribution network management globally

Why does Ponsse Plc have distributors? Sales through a distributor does not require a similar investment as when establishing a subsidiary from scratch. In the most important markets for Ponsse, there are subsidiaries established, but through a distributor, it is easier to enlarge elsewhere. In general, it can be also considered that as local companies, good distributors know their market area, customers and local conditions very well. The downside is that a distributor will take its profit margin in the sales of Ponsse products, which increases the price for end-customers, unless Ponsse decreases its own profit margin. (Director C 2017)

The main thing about distributor management is that all the departments are on the same page and work together (Director C 2017). This means that sales, service, finance, training and all other departments are cooperating with each other. Systematical and well-functioning communication with distributors is critically important. Constant visits and routines are needed and sometimes they concretely occur more sales, as distributors become more motivated. The question then is, how to make the distributors maintain their top level all year round despite the visits from the HQ of Ponsse? (Director C 2017)

Efficient inlet of projects and communication through the whole distribution network is remarkably important. The question is then, how is this communication organized? It all derives from leading people instead of just managing processes. This means that there needs to be standardized methods to lead people and criteria for assessing the performance of both the subsidiaries and distributors. There now exists a couple of tools, as audits, but there is also a need for improvement especially in strategical issues in the evaluation process of distributors. (Director B 2017)

A good distributor is committed and it has knowledge, own professional personnel enough and money to finance its own operations without the additional financial support from Ponsse (Director C 2017). The size of the company has its own effects. If multi-brand distributors are considered, their finances are usually on a good level, but in the internal hierarchy of the distributor, the role of Ponsse may be questionable, if they sell some products of international companies from different industries. This means that the level of commitment to the sales of Ponsse is doubtable. The distributors that are small measured with financial figures are usually totally committed to Ponsse and they have the will to develop, but then they may not have the funds needed. A good distribution network does not have any weak links, which means that the distributors should do the customer service in the same way as Ponsse does. (Director C 2017)

Area and other managing directors carry the main responsibility over distributors, as they are the ones mainly communicating with distributors. Personal relationships with distributors are always an important thing to consider, especially with distributors that are small companies and stritctly ruled by the owner. This cooperation needs to be in a good level so that also the business between Ponsse and its distributors goes well. In the long-term cooperation this factor is crucial and even bigger temporarily problems can be solved with good communication and lower expenses. (Director C 2017)

Unlike Company X, Ponsse would probably never be able to focus just on industry-specific distributors and quit cooperation with multi-brands distributors, as this is special industry and relatively small in the world level. Multi-brand distributors of Ponsse sell excavators, trucks or other industrial vehicles in addition to the products of Ponsse. There is a small number of distributors in the world that are completely focused on forestry machine business and starting this business from scratch requires big investments. (Director C 2017)

Auditing

ESW (Efficient and Safe Workshop) is an auditing system of Ponsse, which started in 2011. This system is aimed mainly at service business. In this audit, service centers are evaluated from 0 to 100 points and stars are awarded based on points. (Manager D 2017) This auditing system is done once a year in every service center, which are willing to participate to this system. If a service center achieves 5 stars, then this place will skip the following year and take the next audit in two years. The first audit with a new service center is not official yet, as it is more about training the distributor/subsidiary about what is done and required during this audit. The evaluation criteria and methods of ESW auditing develop all the time. ESW auditing has had remarkable benefits in the development of service centers and service business overall and raised interest globally a lot. (Director E 2017)

Ponsse has focused a lot in ESW auditing system, also financially. Ponsse Plc awards The Dealer of the Year according to ESW results among distributors. ESW enforces to monitor the activities of distributors. Face-to-face communication with distributors was quite different before ESW, so now these audits have brought more transparency between Ponsse and its distributors. ESW gives clear results and reflects the facts, whether a distributor has developed its own business or not. Nevertheless, there is still some need for deeper measurement of the understanding of service business and its development. (Director E 2017)

Communication ways

MD meeting is organized twice a year between Sales Director, area directors and managing directors of subsidiaries. Location of the meeting is once a year in the HQ in Vieremä and once a year at the site of some subsidiary. In these meetings, the current status of global sales is reviewed and integration and acceleration of new projects are started by first informing managing directors and the goal is that then they share the information forward in their own organizations. (Director C 2017)

Steering meeting is one of the best performing ways to communicate in the distribution network of Ponsse. In steering meetings, there are representatives from the HQ of Ponsse, major end-customers and distributor in the region. In these meetings, the major issues both strategically and operatively are discussed between all of the parties mentioned. In a smaller scale of steering meeting, there are fewer people present. (Director C 2017)

Partner Days is an event that is organized once a year and in the event, all the subsidiaries and distributors are gathered in one place. The first time this event was organized was in June 2017 with a good participation rate. The reason for this was to inform distributors about new issues and increase communication with them. Among other activities there were also workshops conducted. In one workshops, only the members of distributors (no Ponsse workers) participated and the theme of this discussion was about their expectations from Ponsse's side. The ideas presented were about distributor support, technical issues, investment targets and motivation of distributors.

Communication to distributors and subsidiaries is also related to the volumes in the market, as there is more communication with bigger countries, where there are more machine sales and service business. In the cooperation, the positions and roles of people need to be clear for everybody, which is important to remember, as Ponsse has grown by huge steps in the past few years. The main concern in this communication is that it could take some time to get answers from the HQ. Therefore, answers should be given faster to questions asked from the network. Moreover, the goals set for distributors happens partly from the HQ and partly locally. Some targets are the same for every distributor and some are different depending on the market area. (Director E 2017)

Financial management with distributors

In general, the common understanding about sales and profitability is on a good level in subsidiaries, but there is some need for improvement, when considering balance sheets. Moreover, in some cultures, people tend to focus just on the current moment and managing financial operations is just about bookkeeping, which means looking into history. Instead of just looking back, there should be also a view forward, which means in practice budgeting and other tools of financial management. This probably requires more efficient procedures and use of time and this progress is now being developed in the whole Ponsse Group. Changes in these issues will probably take some time, as it is a lot about individual capabilities. (Director D 2017)

Motivation of distributors

Motivation of distributors is done usually through financial incentives. This means in practice for example discounts in spare parts and product campaigns for some period of time. In general, more strict attitude with the payment terms is required, as all the money should be received, before the machine is delivered from the factory. Nevertheless, this is challenging, as Ponsse wants to always be as customer-oriented as possible and sometimes flexibility is required. The other way is to give some kind of penalties in case of low-performing distributors. If a distributor does not perform well enough, there could follow some consequences. For example, the terms of distributor agreements could be modified. Hereby the terms of agreements should be as detailed as possible straight from the beginning. The question is, which way to use? Is it “trick or treat?” (Director C 2017)

Ponsse’s control over some distributors is not on an adequate level currently. Motivation of some distributors is the main some concerns, as they neglect e.g. the goals set by Ponsse for them. It is important to notice that this issue is not related to the size of the company, as there are both good and bad examples among both big and small distributors. In addition, with multi-brand distributors, the cooperation has always been challenging and it is not easy to identify over-performing distributors among multi-brand companies. Commitment of these companies to forestry machines business is usually seen as challenging. With smaller distributors, the success in personal relationships between Ponsse workers and distributor is an important factor, as these smaller companies are strictly managed by the owner of the company. (Manager A 2017)

Ponsse does not categorize its distributors, as Company X does in HQ level. This derives already from the values and principles of the founder of the company, Einari Vidgrén. In practice, this means that Ponsse has not wanted to classify its customers as A/B/C customers, as the customer service needs to be in a top level with everyone. If someone is taken more care of, some other is then forgotten and he will then buy his next machine from a competitor. However, some kind of sorting of distributors could work as a motivating factor. In this model, clear standards should be defined and according to these standards, a distributor can move on higher level by performing better. (Director C 2017)

Spare parts

Spare parts have an important role in the whole business of Ponsse in order to keep the machine fleet running. In spare part sales, fundamental factors for the success are marketing and training of the salesperson. There are several things organized in order to increase the competence of subsidiary and distributors’ workers for spare parts. The overall communication with subsidiaries in spare part department varies. With a few subsidiaries, there are video meeting once a month. Budgeted sales, training and technical problems are the main themes of this meeting. (Manager B 2017)

Monitoring of distributors is not a routine, but sometimes their reference prices are asked. Distributors have the reference prices for sales price of parts, but how the distributors follow them and sell in practice, is not monitored. However, deep cooperation with distributors promotes improvements in this issue and in the future online tools increase the transparency of the pricing policies of distributors. (Manager B 2017)

Training

The meaning of product training, especially with highly modern Ponsse machines, is extremely important in the global markets. Only in Finland, the level of the education of operators is adequate, which means that in Russia and many other countries companies themselves need to train their personnel for using the machines and services. Now this takes a lot of resources from Ponsse and the instructors need to travel a lot also in the areas of distributors. However, the goal is to get to the situation, where the distributors have their own professional trainers and instructors. This would share more the responsibility of training operators and mechanics to distributors' side. (Director C 2017)

Locally subsidiaries are mainly responsible for training in different market areas. Every subsidiary has IST (Internal Service Trainer), who is in charge of service training in his areas. All the ISTs gather once a year in order to update their knowledge according the newest changes and upgrades. (Manager A 2017)

New distributors

The selection of distributors is an especially important choice in forestry machine business, as distributors do operatively the sales of Ponsse products in their markets. In order to become an official distributor of Ponsse, the potential distributor must be approved by the Board of Ponsse. This is the main rule, but the distributor selection process requires a bit more systematical procedures. (Director C 2017)

Unlike Company X enlarges through mergers, Ponsse does not plan to enlarge its distribution network by acquiring its current distributors. The reason for this is high investments required and now there is not this kind of enlargement strategy. These acquirements would cut down the price for the end-customers, when there is no distributor between taking its profit margin, but the initial investment funds required are still remarkable. Moreover, Ponsse’s industry is highly specialized and during economic fluctuations, the ups and downs are quite steep in this business. This means that through a distributor the business is more agile, as there is a distributor carrying the risk for example with personnel. (Director C 2017)

Brand Management

Brand management in Ponsse is driven by the strong product brand. Some additional features are used, as Ponsse Collection products (clothing and other branded products), succeeded product launches and factory visits to Vieremä and Ponsse Club, which is place close to the factory in order to host guests. The factory visits are popular especially among Russian customers. Moreover, the Finnish brand has a good sound globally, as it works as a guarantee for high quality. (Director C 2017)

4.2.2 The situation in Russia from the HQ point of view

From the HQ point of view, OOO Ponsse in strongly lead locally by managing director and after sales manager, who are Finnish expatriates working in OOO Ponsse. The most part of the communication from the HQ takes place with these two Finns. (Director C 2017) Management there is working mainly really well and work is executed according to agreements. Moreover, managers from the HQ are very little in direct communication with Russian distributors, as there is always the subsidiary between through which the messages go, in addition to the language barrier. (Director B 2017)

General issues about OOO Ponsse and the Russian market

OOO Ponsse is one of the best subsidiaries of Ponsse Plc. The strengths of OOO Ponsse are strong performance in both machine and spare parts sales, well-structured and organized communication with distributors (annual Sales and Service Days and Dealers Directors Days), professional staff (service and training) and small amount of used machines. (Director C 2017) The subsidiary and the overall Russian market in general are very active. Right from the beginning, OOO set minimum standards for the Russian distributors and this system has worked well with the strong control over distributors. For instance, ESW auditing works on a great level in Russia. (Director E 2017)

Russia is a good market to launch new projects. There is a strong will to move forward and adapt new things in the Russian market and in the distribution network there. The working culture maybe helps, as Russians are used to continuous changes and the decisions of the management do not arise any protests. Moreover, all the employees seem to be very motivated to their work and the management team of the subsidiary has a remarkable role in creating that kind of culture in the subsidiary. (Director E 2017)

Financial side of OOO Ponsse is under the responsibility of the chief bookkeeper and managing director. These two persons form the budget for every quarter together with other departments. The thing to develop in Russia is definitely cash flows. Most part of the year the cash flow of OOO Ponsse is negative and during summer time even to a large degree. With this kind of model, the negative cash flow continues increasing with the relation to the sales. This is an issue, which clearly needs to be developed from the HQ point of view. (Director D 2017)

Spare part business in Russia is also strongly managed by the subsidiary OOO Ponsse. The work done there is on a great level and OOO definitely listens to its distributors and is cooperating systematically with them. For example, the program of Sales and Service Days has developed a lot from the first time this event was organized. The growth of sales seems to be continuing on a same level also in the future. (Manager B 2017)

From the HQ perspective, it seems that training in Russia works very well. Training manager is in charge of the training in Russia and in the organization of OOO Ponsse, he can totally concentrate on that task. The training organization is built well and the communication between HQ and training issues works well. OOO manages training in a different way than Ponsse Plc, and that is the way it is supposed to be, because of the country-specific factors. (Manager A 2017)

In Russia, the scale of different kinds of end-customers is very wide. The level of experience in forestry industry varies a lot and cultural differences inside the country are big. Customers of used machines are usually new to the business, who see some business opportunities in forestry as well. Sometimes just speeches do not cover the acts, which means that even though hands were shaken, deal happens only when money are received first. Russian customers also know the general price levels very well. Quality is the main sales argument also, when second hand machine sales of Ponsse are considered. Ponsse does the maintenance in a way that also used machines can be used for profitable harvesting. So far, the amount of second hand machines has been low in Russia compared to the sales of new machines. This is because of the machines are used a lot and new machines are bought without giving the used machine in exchange in the trade, as machines are used until the very end. (Manager E 2017)

Legislation in Russia brings some several challenges for used machine business. Imported harvesters already carry a recycling fee and forwarders may also carry it in Russian Federation in the future, which means that no customer will buy an imported used machine from other countries. In practice, all of the used machines in Russia are originated from the domestic market in the future and there will be no more exported used machines transported and sold from Europe to Russia. (Manager E 2017)

Distributors in Russia

Financial support of distributors is a thing that Ponsse tries to get rid of in Russia (Director D 2017). From the HQ point of view, OOO Ponsse supports financially its dealers a bit too much and there should be more systematical procedures with the payment terms (Director C 2017). One of the main issues is to find a way to motivate distributors to invest in this business with their own funds or through financing. This also requires a change in the working culture, as distributors are used to achieve profits fast and do not totally understand the patience needed, when doing investments. Supporting financially distributors and high stock values are the main reasons, why operative cash flows tend to be negative occasionally. Moreover, the transparency to the financial condition of distributors is not quite clear now, which means that Ponsse does not know exactly, in which kind of condition their distributors financially are. (Director D 2017)

Ponsse’s distributors are customer-focused, which is really good for sales and service, but many of them are also small companies that cannot do all the investments needed by themselves. Now Ponsse is searching for financial partners that could bear the risk and give some payment time to distributors, but Ponsse would get the money from the machines sold immediately. The interest rate for the distributors to be paid is assumedly the main issue to be solved with financial institutions. However, the turnover of trade receivables is on a good level and there have not been credit losses in Russia. (Director D 2017)

The most discussed Russian distributor of Ponsse was definitely Zeppelin during the meetings in the HQ. There are two reasons for it: at first, as a company, it is big, financially in a stable condition and can finance its own operations independently. Second, it operates in potentially big areas, but is performing very poor in sales. It is a crucial thing to handle the relationship well with Zeppelin, whether the cooperation between Ponsse and Zeppelin terminates or not. This is also an issue for the public image of Ponsse. (Director D 2017)

The good distributor is the one, which can grow its own activities and business in its area continuously and in a determined way. Measured by these arguments, the best distributor of Ponsse in Russia is probably DMI in the Far East of Russia. It has been motivated to develop, but it probably would not as big as it is now without the financial support from Ponsse. But then needs to be thought, which is more important; more sold machines with longer payment times or payments on time, but sales are lower? (Director E 2017)

Russians seem to believe in the power of strong brand. Ponsse branded oils are a great example of succeeded sales supported by brand, as the sales of these Ponsse oils has started well especially in Russia. (Manager B 2017) Ponsse sales shops are also a bit different in Russia and the visibility of Ponsse products among our distributors is important (Director E 2017).

4.3 Review on subsidiary level (OOO Ponsse)

The main purpose of this chapter is to review the current situation in Russia based on the results and findings of interviews done in Russia during the summer 2017. OOO Ponsse has its main office in St.Petersburg and there are also own sites in Pitkäranta, Tomsk, Tikhvin and Segezha (Ponsse 2017b). Moreover, OOO Ocean Safety Center is a company of Ponsse for real estates in Russia (Manager ON 2017).

All the distributors of OOO Ponsse are listed in Table 11. In addition, the year of signing the distributor contract with OOO Ponsse is shown in the list. The distribution of sales is quite centered, as four biggest distributors form most part of the distributor sales in Russia and this ratio will probably remain or even increase in the future (Director OA 2017).

Table 11. Distributors of OOO Ponsse (Ponsse 2017b).

No	Name	Year of signing distributor agreement with OOO Ponsse
1	OOO Dormashimport	2007
2	OOO Remtechnika	2008
3	OOO Lespromservis	2003
4	OOO Zeppelin Rusland	2004
5	OOO Vologdascan	2015
6	OOO Gidroservis	2011
7	OOO Kostroma-Servis-Ponsse	2010
8	ODO Udarnik (Belarus)	2009
9	OOO Mega-Machinery	2016
10	OOO Nord-West Kom	2006
11	OOO Parts Servis	2012

The strategy of OOO Ponsse is divided into different strategic goals. The main aim is that every one of the distributors fulfill these strategical objectives. The strategical goals of OOO Ponsse are the following:

1. We invest more on service than our competitors
2. We continuously increase our spare part stocks close to our customers
3. The objective in new machine sales is a good market share (in regions)
4. We favorably differ from our competitors with offering better training concepts
5. We have a strict business plan in trade-in deals in every region
6. We differ from competitors with the best customer relations
7. We adjust effective deliveries of machines
8. We will use financing in order to support growth and improve market share (Director OA 2017)

Ponsse sites in Russia

A site visit to Pitkäranta service center in Karelia in Russia was the first time, when interviews were done with OOO Ponsse workers in the beginning of June 2017. Ponsse started its activities in Pitkäranta already in 2006 and the new service center was opened in 2013 (Manager PA 2017). Then in August 2017, a site visit to Tomsk service center was done. The center in Tomsk used to belong to a distributor of OOO Ponsse, Zeppelin Russland, and eventually it became part of OOO Ponsse in 2011 (Manager OA 2017).

A site visit to Pitkäranta service center in Karelia, Russia, was an eye-opening experience for the author. First of all, even though the infrastructure (roads and buildings) are not in a good condition, the service center of Ponsse there was built by Finnish standards, not Russian. This service center was the first in Russia, which got 5 stars in ESW audits of Ponsse Global Service. Pitkäranta is definitely a great example and internal benchmark for other service centers in Russia, including distributors' ones. The main focus in Pitkäranta has been the long-term development of service earlier and also currently. Even though the service center there does not locate in a big city, the strong side is that the center is located close to the machine fleet and local customers there. (Manager PA 2017)

Ponsse has recruited professional and good employees there, which also have initiatives to conduct different and complicated tasks in addition to their main working tasks. They feel free to work on different things and most of all, they have the motivation needed and they do not protest, if customers need help in complicated problems, which are not his main field of knowledge. This is actually very different from the general Russian mentality, in which it is quite usual to avoid taking responsibility especially in non-familiar tasks. Furthermore, as international companies are quite rare in those areas in Russia, Ponsse as a Finnish company is known as a good employer. (Manager PA 2017)

Second site visit among OOO Ponsse service centers was done in Tomsk, where the service center used to belong to a distributor of OOO Ponsse, Zeppelin Russland, before. This change from Zeppelin to OOO Ponsse went extremely well, as the same people stayed there and the working environment improved as OOO Ponsse had more resources and motivation to invest there. Since the change in 2011, many things have improved and the situation in the market is very good. The communication between different places (St.Petersburg, Pitkäranta and Tomsk) works very well. (Manager TC 2017)

The service center in Tomsk is nowadays located in rented facilities and the aim is to move to new facilities quite soon. It is not so easy or meaningful to invest on rented place, which means that the development of the current service center is a bit on hold. The future center will be on the same top level as the service center in Pitkäranta. However, the main problem in Tomsk area is to find technically suitable and knowledgeable people. (Manager TC 2017)

General issues in Russia

Currency exchange rate (RUB/EUR) and its fluctuations have an effect on sales, as the sales prices in rubles could change a lot in a very short notice, if the exchange rate variates a lot. In addition, the high interest rates for credits in Russia cause problems for investments and risk-taking. (Manager ON 2017) Moreover, especially the demand of Ponsse branded products is highly demanded on EUR/RUB currency rate (Manager OM 2017).

The sales in Russia has some peaks and the demand tends to be a bit seasonal. One difference to Europe is that customers (especially smaller ones) do not plan their machine acquirements far in advance. This leads to situations, where customers need the machines immediately, when they tend to have a work contract for cuts and money to buy a machine. This derives from the fact that customers do not have a future perspective and certainty that who will cut the trees in that area in 5 years. However, bigger customers already do planning of purchases of machines far in advance. (Manager OE 2017)

Black market and business are strong stereotypes linked to business in Russia in overall. This is not true everywhere, but Karelia is one of the most difficult regions to find honest business partners in Russia (Director OA 2017). Nevertheless, the size of black market has decreased in Russia and incomes are more and more official nowadays for instance in Karelia. Previously, for instance spare parts were smuggled from Finland to Russia, as the price of parts is higher in Russia than in Finland. This business has also decreased and Ponsse controls carefully that only original Ponsse parts are sold there. (Manager PA 2017)

Safety and ecological issues are not yet that important than in Europe for instance, but the importance of these issues will grow also in Russia in the future. Ponsse should now start great efforts in order to be the best company in the market in these issues in the future. (Manager OB 2017) Long distances have definitely also an effect especially on logistics and freight costs. This fact is highlighted with customers and distributors that are located in Siberia or Far East. (Manager OM 2017)

Import substitution program and its effects to Finnish firms are depended on the industry. For example in forestry machine industry for Ponsse this import substitution program will not have a big effect, because basically all the forestry machines working in Russia are imported and there is no noticeable local manufacturers in this industry. In the decree 659 of the import substitution program by the Ministry of Industry and Trade of Russian Federation (2015) it is announced that the plan is to change the share of export from 90 percent to 75 percent in “the development and production of forestry machines with both tracks and tires”. This may mean mainly some increased use of local suppliers in spare parts, but for the complete machines this decree will not affect a lot and comprehensively this plan with these figures will be unlikely executed. In this decree 659, the agricultural machinery is on the highlight and the share of forestry machines in this program is minor. Moreover, the customers of Ponsse in Russia are mainly from the private sector and strategically this industry is not very important for the big state corporations, so in that sense the situation is quite safe for Ponsse in Russia. Nevertheless, in Russia many things can change in an overnight, so Ponsse also needs to be aware of the possible changes.

4.3.1 Cooperation inside the Ponsse Group

The aim of this chapter is to view the current situation inside OOO Ponsse. Main focus is on different departments of OOO Ponsse and also the cooperation with the HQ is viewed.

Cooperation and communication inside OOO Ponsse

Communication between different sites works well inside OOO Ponsse. OOO Ponsse has good workers and especially members of management team are very experienced. In general, information is not spread as wide as in Finland between different departments inside the organization. (Director OA 2017) OOO Ponsse is a family-kind-of community, where the Ponsse spirit is very vivid (Manager ON 2017).

In general, people at OOO Ponsse (including all sites) were glad with the level of communication inside OOO Ponsse. Almost everybody were also clearly aware of their main tasks and goals in their work. Especially the low hierarchy levels are appreciated among Ponsse Group. People are not afraid of making mistakes and they are willing to try new and challenging things. (Manager OG 2017).

Sales

It can be mentioned that Ponsse's after sales works well in Russia, as at the moment a customer, who buys his first machine, always buys his second machine from Ponsse in every case (Manager OK 2017). After sales department has their own strategy that is implemented to both OOO Ponsse and distributors' personnel. This strategy is built quite clearly and it focuses on three key areas: customer oriented service, training and service center development. These focus areas include targets, which are then followed. (Manager OA 2017)

The key issue in this strategy implementation is the participation of people. If people feel that they have a chance to affect their working tasks and targets, they become more motivated. If tasks are just given without dialogue, then the motivation is not internal and on the best level. Clear targets and follow-up of proceeding are important steps in strategy implementation. After sales works along with machine sales and supports overall sales well then. The situation in after sales in Russia is quite good on management level, but people and tools are missing in some areas on the field. However, these issues are also developing and the developments projects started in 2015-16 in a bigger scale. (Manager OA 2017)

One internal issue for after sales is the reporting form of after sales. After sales figures received from the ERP system are on general level not detailed enough. In practice, this means that for after sales management it is difficult to do internal follow-up. Moreover, now it takes a bit too much time to receive quarter financial report for service sales from different centers of OOO Ponsse. (Manager OA 2017)

Spare parts

Most of the issues and problems linked to spare part sales are solved locally in Russia, without the need to ask for help from Finland from the HQ. Only unsolved cases, which require actions from the HQ, are told to the spare parts managers in Finland. This is a good thing as there is knowledge enough to solve the problems locally and in operative level is a plus for the whole cooperation inside Ponsse Group. It would be worse, if the subsidiary in Russia should ask for help in basic issues, as it would be a lot slower way to manage the processes. (Manager OB 2017)

Service bulletins are Ponsse's way to inform the network about machine updates and changes in spare parts. To some degree, there are some problems in the realization of these updates, as information does not flow well enough from the HQ and further on to distributors. Moreover, the warranty coordinator in Russia always needs to translate the bulletins from English into Russian, which reserves a lot of time, but does not really create value for the business itself. This will be an issue probably in the future as well, because Russian distributors do not really speak English. Translation work could be outsourced, but that requires exact knowledge about forestry machine industry from the external party. (Manager OI 2017)

Finances

OOO Ponsse does a budget and then this budget is presented in MD meeting. Budget needs to be realistic, but it can be fixed later on. Machine sales is the biggest factor, when forming a budget, as after sales is more stable and easier to predict. (Director OA 2017) In general, bookkeeping practices in Russia are very bureaucratic, which means that this requires resources for companies of every size and documents are rarely handled in electronic form (Manager ON 2017).

Budgeting used to be easier, when number of delivered machines was smaller, but now it has become more difficult, as sales of machines have increased a lot, but the bookkeeping organization not. One internal challenge in internal system of OOO Ponsse is that the two ERP systems used for finances do not synchronize well with each other. (Manager OD 2017) New budgeting and accounting tools are now being implemented in order to speed up the processes and diminish the amount of manual work in accounting. In internal processes, information gathering from different departments is the key to form a reliable and trustworthy budget. (Manager ON 2017)

Transfer pricing has big effects on financial results of the subsidiary, OOO Ponsse. In the case of Russia, most part of the profit is left in Finland and only minor part in Russia. Transfer pricing is also crucial factor behind poor cash flows of OOO Ponsse and growth in machine sales only accelerates this phenomenon. However, low amount of credit losses is a good sign. (Director OA 2017)

Cooperation with the HQ

OOO Ponsse takes a lot of responsibility as a subsidiary should take, so help is not often needed from the HQ in Finland (Director OB 2017). The subsidiary and Ponsse Plc have a subsidiary meeting once every two months and most important issues are discussed in these meetings (Director OA 2017). In general, most of the workers of OOO Ponsse were very glad with the level of communication between OOO and Oyj. The roles in different departments seemed to be very clear and everybody knew, whom to contact if help is needed. Still, the main problem in communication between Oyj and OOO is the thing that most of the Russian workers (especially among distributors) do not speak well English, which also is one explaining factor, why the Russian market is strictly locally managed by OOO Ponsse. (Manager OB 2017)

OOO Ponsse is one of the latest subsidiaries of Ponsse Plc, which does not have the newest version of the ERP system. The system should be the same for all the subsidiaries, but in this case, it is not. Now in Russia it takes more people to do different tasks, as systems and processes are not automatized and not cooperative with the systems in the HQ. (Director OA 2017)

There are several problems linked to the lack of newest version of the ERP system in Russia. With the big growth of spare parts sales for example, the resources are already now in critical limits. (Manager OB 2017) This is a problem also for internal trainings as spare part trainings in the HQ are conducted on the version that is not use in Russia, which does not help Russian workers, as they are using the old version (Manager OM 2017). Moreover, the lack of the newest system also increases the amount of inefficient manual work for service managers, as in the old system service work is reported manually and not automatically (Manager OL 2017).

Training

Training manager is responsible of all kinds of trainings and technical support. There is a group of instructors working with the training manager. The members of this group usually visit customers’ and distributors’ sites rather than inviting all people for trainings to OOO Ponsse site. In general, training could be seen as a strength for OOO Ponsse compared to competitors. (Manager OK 2017)

Salespersons are very glad with sales training organized by Ponsse Plc (Manager OG 2017). However, there are some things to be developed in the training system of Ponsse. The materials that Ponsse uses in sales trainings should be provided more as a firm package. If analytics and results about machine performance are calculated in Brazil, it does not necessary help to sell machines in Russia. In order to use full potential in Russia, tests should be more run in Russian market conditions. (Manager OC 2017)

In general, the level of training materials need to be also improved. Nowadays Ponsse does not have a comprehensive version of training manual as there only spare part books mainly, which vary and require updates more frequently than what happens now. These support materials may require improvements and finished with better quality. There should be also detailed instructions about the contents of trainings and not just a list of trainings required. (Manager OK 2017)

In some issues, the HQ does not give enough instructions for OOO Ponsse, as for example training organization basically helps only in technical issues. Ponsse Academy is an internal organization of Ponsse for training, but its role and level of activity is not clear at least in Russia. Training manager of OOO Ponsse thinks that there is a need for estimation system of workers. In practice, this means that the professional level of mechanics or any other worker could be measured and then the knowledge of each worker could be proved to customers with certificates. (Manager OK 2017)

Marketing

Ponsse branded products seem to sell well especially in Russia. Nevertheless, when we think about the importance of brand management, the order is quality, service, history and values. If the product and service are not working well, then even the finest brand does not help to satisfy customers' needs. (Manager OB 2017) Especially factory visits to Finland help to promote Ponsse brand. During factory visits, customers and other stakeholders can see the place, where machines are manufactured, videos about the history and path of Ponsse, meet someone of the main owners and visit Ponsse Club. (Manager OG 2017)

Ponsse is a family company and for some customers it is easy to identify themselves with Ponsse. The owners of the company are clearly recognized and customers can meet with them, which is a big strength compared to the competitors. (Manager OE 2017) Full concentration on manufacturing CTL forestry machines is without a doubt also a strength for Ponsse in Russia

(Director OA 2017). Family company seems to be a more important factor for branding than originality from Finland (Manager OF 2017).

4.3.2 Cooperation with the distributors of OOO Ponsse

In this chapter, the cooperation between OOO Ponsse and its distributors is viewed on the base of interviews conducted with OOO Ponsse workers. The general lines are mainly viewed here and the more detailed information about different distributors separately is covered in the next chapter.

Cooperation in general

Distributors are engaged to know their markets and local conditions extremely well, as they work as official representatives of Ponsse in different regions in Russia (Manager OE 2017). Managing director of subsidiary accounts mainly for the strategical questions with distributors and he is in contact continuously with every distributor. It can be said that a problem of a distributor is also a problem of OOO Ponsse, which means that problems are aimed to solve together with flexibility. (Director OA 2017) It is always important to remember that distributors are separated from Ponsse Plc, which means that some distributors are more dependent on Ponsse than others are. Nevertheless, the most important thing in distributor management is the reliability of a distributor towards Ponsse. (Director OB 2017)

One of the main themes of cooperation is that communication and messages flow in the organization (up ←→down) very smoothly. It is not good enough, if only the managers know the main idea, but the people working in the field and customers do not know. This information flow is a bit doubtable among distributors. Moreover, distributor management is always a dialogue, not just monologue. Ponsse has also a responsibility to work on the level that it requires from its distributors. In addition, the values of Ponsse (honesty) need to be adapted among distributors and their working culture should be the same than OOO Ponsse. (Manager OE 2017)

The regions in Russia are shared in responsibility areas by salespersons. There are five responsible area managers in different areas. Mainly a distributor is managed by one area manager, but in some cases, one area manager is responsible for several distributors and one distributor may have several area managers in different regions. The decision to share responsibilities between area managers of OOO Ponsse by areas and not by distributors was made because that time the persons (area managers) had the best knowledge about different areas. Nevertheless, the most important thing is to focus on the most important issues, as resources are not adequate to control everything. (Director OA 2017)

OOO Ponsse also organizes two kinds of events for its distributors: Sales and Service Days and Dealers Directors Days. Both of these events last approximately 3-5 days. The main aim of Sales and Service Days is to provide latest news and important information for the key persons of distributor companies, which control and develop regional sales and service. At least one person from sales and one person from service attend to these days and they can give also feedback for OOO Ponsse. In addition to presentations from personnel of OOO Ponsse, also group works are conducted. (Director OA 2017) The aim of Dealers Directors Days is described in chapter 4.4.2.

Communication with distributors

Communication with distributors takes place daily, but mainly on operative case-by-case issues (Director OA). Newsletters and other information materials are forwarded to distributors both by sales and service personnel (Manager OG 2017). On a daily basis communication is more about operative issues (machine sales and problematic situations), but sometimes roles seem to get mixed, as distributor send messages for people, which are not responsible for that issue. Nevertheless, people seem to be very willing to help each other in order to answer and fulfill the customer's needs.

In some occasions, the communication between OOO Ponsse and its distributors does not go as wanted. It is sometimes difficult to gather legal, financial or staff information from distributors. This phenomenon is bigger with big distributors, as they may think that they have the power to do whatever they want, because they bring a lot of money for Ponsse as well. Smaller distributors are mainly more dependent on Ponsse and they answer faster. (Manager OO 2017)

ESW and other audits

ESW audits is one of the main ways of OOO Ponsse to motivate its distributors to develop their service centers and service business overall. From the results of ESW audits, distributors can concretely see, what they need to do in order to improve their performance in service. The key is to start development and investments in order to achieve the level targeted. *How to motivate distributors in these issues?* This is probably one of the key questions in distributor management. (Manager OA 2017)

The scale of ESW audits can be too wide at times and investments suggested are maybe not necessary for every market, considering the actual machine fleet in that area. In practice, this means that all the Ponsse service centers are obliged to have all the features mentioned in ESW audits and it is doubtable, if it really improves customer service. (Manager PA 2017) Usually it is difficult to motivate the distributor to invest to fulfill the improvements recommended in the audits (Manager OE 2017). However, the main idea is to standardize the service of Ponsse, no matter where the customer works (Manager OA).

There is a target result set for ESW audits for distributors (Manager OA 2017). ESW audits started in Russia in 2012 and the development during these 5 years has been remarkable. Every distributor needs to develop, the bigger ones in detailed issues and the smaller distributors in overall in their business. It is important to notice that in the beginning, there were not that many distributors and service centers as in 2017. As Ponsse is a global company, it is possible to learn and gain knowledge across borders. Even the auditing team can learn a lot from service centers in different countries. (Manager OB 2017) Other audits (sales and marketing audits) could be developed in similar ways than ESW (Director OA 2017).

There are also other audits and tools to lead and control distributors of OOO Ponsse. OOO Ponsse does also a sales audit and this audit was done first time in 2017. The criterion for this audit is still under development, as it is not as far developed as ESW audit for service. (Manager OE 2017) In 2017, also marketing audit was done first time with all Russian distributors. The aim of the audit is to have similar form and disposal of Ponsse brand among all distributors in Russia. Audit is done during a site visit and after the audit, results and recommendations for development are given. HQ in Finland has not yet itself done sales or marketing audits with its direct distributors, but there has raised some interest about it. (Manager OF 2017)

Machine sales

The owners of distributors are not very involved in daily machine sales. There are still exceptions, but in general owners do not do sales regularly and if they do, it affects a lot on results positively. (Director OA 2017) In general, every distributor does still not have enough salespeople, which means that for instance in harvester heads and second hand machine sales OOO Ponsse itself needs to do sales in the territories of distributors. (Manager OJ 2017).

Once in a quarter, sales statistics from every distributor are received. These statistics include sold machines, lost deals and budgeted sales for the near future. This forecast is then later checked, if sales took place as planned in reality or not. If there was a big error in the forecasted sales budget, the reason for that is then found out and solved. Moreover, offers (prices offered) and received tenders are also viewed in these statistics. (Manager OE 2017)

Second hand machine sales is not yet a big issue in Russia, but it will be more in the future. This means that distributors of OOO Ponsse need to better understand trade-in business and it should happen quite fast. The change of culture is in progress and now in Russia the strategy for second hand machines is being implemented. If distributors are not capable of taking the second hand machine into their balance sheets, OOO Ponsse will sell the new machine during the trade-in with end-customer. (Manager OC 2017) In harvester head sales, also the main development area is change in mentality of the distributors. Many distributors are still not taking seriously harvester head business and do not see the business potential for them. (Manager OJ 2017)

After sales

The profitability of spare parts sales differs depending on whether the sales is to direct customer or distributors sales, as the margins are higher in sales to direct customers. Spare parts discounts are the same for every official distributor of OOO Ponsse. (Manager OB 2017) Moreover, distributors have credit limits for spare part orders. Sometimes follow-up of these limits is challenging, but limits are definitely needed, as distributors cannot purchase their spare parts without payment time given from OOO Ponsse. (Manager OM 2017)

The pricing policies of distributors are quite easy to follow from the subsidiary perspective. OOO Ponsse gives preference pricing lists to its distributors and they should sell the spare parts with those prices. If there would occur a situation that a distributor of Ponsse would try to sell spare parts with higher prices than the prices in the reference lists (in order to increase its own profit), customers would probably immediately contact spare part managers of Ponsse about that issue. Electronic systems would also provide more transparency in this issue, but now this is still lacking. (Manager OB 2017)

Spare parts auditing could also be needed, where service centers are regularly checked if they are equipped with enough amount of necessary and high-demand spare parts. The inventory management of distributors is still mainly managed manually with Excel files., which is definitely a shortage in the distributor network. Most of the distributors do not have CMI (Centrally Managed Inventory) system or even ERP system. Future development in this issue is one of the focus areas in distributor management about spare parts in Russia. (Manager OB 2017)

In warranty issues, the chain should be following: customer → distributor → OOO Ponsse. However, sometimes customers of distributors approach directly OOO Ponsse, which is not a right way to handle the process if the customer is a client of a distributor. The main reasons for the low activity rate of distributors in guarantees are uncertainness, lack of knowledge and poor level of spare parts stocks. Distributors should take more responsibility over guarantee issues. Nevertheless, the roles for communication in warranty issues are clear between warranty coordinator and service people of distributors. (Manager OI 2017)

Finances

The goal of OOO Ponsse is to have a financial organization working with the four biggest distributors. In the big picture, these distributors are the most important target group for financing solutions and the focus is on them. (Director OA 2017) The smallest distributors of OOO Ponsse are basically not able to do any business without Ponsse’s financial support, as it is very difficult for them to do investments only with own funds (Manager OG 2017).

Solutions of external financing have already started with some distributors. Full 100% payments in advance happen also sometimes. Direct sales from factory does not seem interesting for distributors, as through this procedure they should handle with V.A.T. and customs tariffs, which would lead to demand on high discounts. (Manager ON 2017) High interest rates have been a general problem in Russia for a while, but it is definitely for Ponsse a major obstacle considering the target of having all distributors working with external financing. Moreover, bad financial situation of some distributors is also a hindrance to have them financing from banks. (Manager OD 2017)

De Lage Landen (DLL) is a Dutch company providing finance for end-customers and distributors of Ponsse. DLL communicates directly with distributors of OOO Ponsse and especially with the owners and people deciding financial issues. Distributors are rated based on the requirements and they are the following:

- history of success
- financial situation (affects interest rates and payment terms)
- does the distributor focus only on Ponsse or is it a multi-brand distributor (Manager OQ 2017)

Often, when machines are delivered to Russia to port in St.Petersburg, they are left there in order to wait payments from distributors. This means that distributors are first waiting payments from their customers and if those payments are delayed, then distributors' payments for Ponsse are delayed. (Manager ON 2017) Especially the biggest distributors of OOO Ponsse do not keep up with the payment terms well enough (Manager OD 2017). In order to avoid these situations, Ponsse has launched in 2017 a prepayment system of 10% prepayment of the machine price to be paid in five days from placing an order and then the rest 90% of the machine price should be paid, when the machine is transported from factory in Finland to Russia. In practice, if a distributor does not pay prepayment or rest of the sum in time, then the machine is free for sale for other customers or distributors. (Manager OH 2017)

More strict follow-up and policy with payments should be conducted. Some distributors count that Ponsse has money and they can be flexible. It can be mentioned that for 10 years distributors of OOO Ponsse are used to make flexible solutions about payment terms for free, without interest rates. This was done in order to support distributors to grow, but it is time for them to stand on their own feet. Nevertheless, careful actions are needed in order to make sure that sales will not be decreased due to strict payment term policies. (Manager ON 2017)

Marketing

In general, the long-time cooperation between Ponsse and its distributors is the biggest factor affecting marketing issues. It is not remarkably important, whether a distributor is a multi-brand distributor or not. Distributors are given some minimum requirements considering marketing and use of Ponsse brand. Fulfillment of these tasks depends on the size of the distributor company, as in bigger companies there are separate marketing departments and in smaller companies, the owner is also responsible for marketing. However, also the small ones fulfill their requirements. Distributors are the same family with OOO Ponsse, so these two parties are not visually separated by clothes. (Manager OF 2017)

From the Russian point of view, Ponsse does not have clear norms and rules about the use of Ponsse brand. Initiative impact should come from the HQ, as subsidiary can only control, what can be done in local conditions and what cannot. Ponsse has an instructions book for brand, but the frames are quite wide there. Because of this, evaluation is too much subjective and is difficult to give detailed instructions for distributors. (Manager OF 2017)

Training

The training side among distributors is deeply connected to the management in distributor companies. Usually the distributors with strong directors have firmly organized training system and vice versa. Well-managed distributors have trained instructors of their own and they have clear action plan to be followed. A lot is dependent on working teams and commitment among distributors. So far, about half of the distributors have their own instructors. (Manager OK 2017)

Sales training is also done for Russian distributors (Manager OE 2017). Distributors are mainly trained locally in local conditions, so OOO Ponsse personnel visit usually distributors' sites rather than gathering all the distributors to Finland (Director OB 2017). The concepts works that instructors go to distributors' sites and train them there at their facilities. It is a more cost-efficient way to handle training rather than inviting all the distributors to OOO Ponsse site in such a big country than Russia. (Manager OB 2017)

4.4 Research on Russian distributors

The distributor network of OOO Ponsse basically covers all the areas, where there are harvesting and possible customers for OOO Ponsse at all (Director OA 2017). The map of the areas of different distributors is shown in Figure 12.

Figure 12. The areas of distributors of OOO Ponsse (Director OB 2017).

4.4.1 Internal research on distributors

In this chapter, the distributors of Russia are viewed through their web pages and some statistics from Ponsse OOO. In this sense, internal research that Russian distributors are viewed only with information from Ponsse workers and online sources and the opinions of distributors themselves are viewed in chapter 4.4.2. Some distributors were covered more thoroughly in the last chapter, which means that the same issues are not repeated in this chapter.

OOO Dormashimport

OOO Dormashimport (DMI) is one of the biggest distributors of OOO Ponsse and it works in Khabarovsk, Irkutsk and Sakha Yakutia regions. It performs very well especially in sales and invests a lot in their business. Their focus is on Ponsse, even though they are also a distributor of Mercedes-Benz trucks in their regions. (Director OA 2017) Visually the website of DMI is quite good. The company presentation of Ponsse is clear and the main emphasis seems to be on Ponsse. News about Ponsse are well up-to-date, product catalogs and services are well presented and used machines are also covered. (DMI 2017)

They have a good managing director, even though he is not willing to give exact financial or other data to OOO Ponsse. Recently DMI has formed its company structure as DMI Group, including 7 companies and 3 of these companies are involved in Ponsse business. The reason for this change was tax planning, as one company takes the profits, other owns the real estates and so on. (Director OB 2017) DMI has gained high market shares in its regions and its new machine sales have grown on a good tendency (Director OA 2017). Its results in ESW audits have increased especially in Khabarovsk, but recently also in Bratsk (Manager OA 2017).

OOO Remtechnika

OOO Remtechnika is a well-performing distributor of OOO Ponsse in Siberia (Krasnoyarsk territory and Khakassia republic). The first contact between OOO Ponsse and Remtechnika happened in tradeshow Elmia in Sweden. The managing director of Remtechnika is described to be a great businessman and they have also good service personnel. Remtechnika is a very active distributor, promotes well Ponsse brand and invests significantly on Ponsse business. Recently it has for example renovated its service center. (Director OB 2017)

Based on the web pages, Remtechnika is highly focused on Ponsse. Image and colors are all according to Ponsse brand and also history of Ponsse is well-explained. Pages contain a lot of information, stories and photos about Ponsse and different events. The company itself is founded already in 1934 and Remtechnika formed dealer agreement with Ponsse in 2007. In 2013, Remtechnika started as a distributor of Dafo as well. (Remtechnika 2017) In general, Remtechnika seems to be especially good in promoting Ponsse brand.

Remtechnika has gained a good market share in Krasnoyarsk in the past few years and its new machine sales has increased extremely well especially in 2017 (Director OA 2017). ESW results of Remtechnika have been on a quite good level in Lesosibirsk already for a while, but in Krasnoyarsk improvements are still very needed (Manager OA 2017). Remtechnika is better in guarantee issues than other distributors, as they can solve the problems themselves locally (Manager OI 2017).

OOO NPP Lespromservis

OOO NPP Lespromservis is a big distributor of OOO Ponsse and it works in Komi Republic and Kirov region. These areas are not far from St.Petersburg, if measured in Russian scale. Lespromservis is a multi-brand distributor as they sell also trucks of Volvo. Lespromservis has a strong organization and relationship with OOO Ponsse is on a normal level. They are extremely good in service work in forests and difficult conditions. (Director OB 2017) Lespromservis has gained good market shares in its regions and it is estimated to sell a good number of machines also in 2017 (Director OA 2017). ESW audit results of Lespromservis have also improved and are above average (Manager OA 2017).

The web pages of Lespromservis reflect that it is not very concentrated on the sales of Ponsse, as other trademarks from different industries (Volvo, Husqvarna, JCB) are widely presented. The company was founded in 1993 in order to sell domestic hydro components and motors. In 2003, Lespromservis started as a service dealer of Ponsse in its regions. Strong sides of the web pages are well-explained service options and catalogues of the components. (Lespromservis 2017)

Ponsse has a Full Service project with Lespromservis and that topic was also discussed in the meetings in the HQ of Ponsse Plc. Briefly, Full Service means a service agreement, where the subsidiary or a distributor of Ponsse takes completely care of the service and spare parts deliveries of client’s machine fleet, usually on the principle 24/7. In the Republic of Komi, there is one of the biggest clients of OOO Ponsse and with this customer, Lespromservis is running a Full Service project. In June 2017, this project was awarded as the Best Full Service Project of the year in 2016 in Ponsse Group. In general, OOO Ponsse does not participate quite actively on the operative work of this project, as Lespromservis is the main actor there managing the service work there. (Manager OA 2017)

OOO Zeppelin Russland

OOO Zeppelin Russland is a distributor of OOO Ponsse in Arkhangelsk, Vologda, Novgorod, Smolensk and Moscow regions. Zeppelin as a whole is relatively bigger company than Ponsse. The company itself is German and the HQ of the corporation locates in Germany close to Munich. Cooperation with Ponsse started officially in 2004, but basically Zeppelin was the first company that distributed Ponsse machines in Russia already in the end of 1990s. (Manager OE 2017)

The big company size of Zeppelin has its own effects, both positive and negative. As a German company it has strict structures and organization levels in the company, which a bit diminishes the flexibility in their activities. On the other hand, systematical ways of doing business also have good effects. For instance, Zeppelin is the best distributor of OOO Ponsse according to payments on time (Manager OD 2017). However, the main problem of Zeppelin is the lack of Ponsse spirit, bad sales and poor activity with investments. The period of slow development was approximately years 2009-2016. (Manager OC 2017) ESW audit results of Zeppelin Russland have not developed on a wanted way so far (Manager OA 2017).

In some regions, Zeppelin is stronger than in some others. In Vologda and Arkhangelsk, it does not perform that well compared to how it performs in Novgorod, Tver, Smolensk and Moscow regions (Manager OG 2017). Arkhangelsk is “a key area” in Russia, as many machines are sold there annually, but Zeppelin does not perform well in sales there. One of the reason is that the competitors are at their best there, but the main thing is that Zeppelin does not work enough. (Manager OC 2017)

Based on the websites of Zeppelin Russland, it is easy to notice that Ponsse does not have a remarkable position in internal sales and hierarchy of this distributor. Zeppelin Russland operates on 10 different industries and the websites mainly tell and describe about the business of Caterpillar, which is a huge construction equipment manufacturer. Through Caterpillar, Zeppelin seems to have big state-owned corporations as customers. Videos and awards gained from CAT are widely presented on the web pages, but there are no success stories told about Ponsse that much. (Zeppelin 2017)

In order to improve performance of Zeppelin Russland, Ponsse and Zeppelin had a meeting and a development plan was formed. This development plan contained several issues about developing Zeppelin's activities in Arkhangelsk. In paper, these targets sound great, but it will be seen if they are fulfilled in reality. This protocol and visits of top management of Ponsse Plc from Finland have had definitely a positive effect on the efforts of Zeppelin. Recently it looks like Zeppelin has started to invest remarkably more on Ponsse than during previous years. It seems that these discussions and "pushing them against the wall" have made Zeppelin more motivated. Distributor agreement has also been one difficult issue and the future cooperation is defined by the efforts of Zeppelin. (Manager OC 2017)

OOO Vologdascan

OOO Vologdascan used to be a distributor of the main competitor of Ponsse until 2015 (Manager OE 2017). It came to OOO Ponsse distributor network to share the Vologda area with Zeppelin and most of all, improve the sales of Ponsse in that area. One idea was that previous customers of Vologdascan (other trademark), could now become customers of Ponsse. (Manager OG 2017)

Vologda as a region is an important market area considering forestry machine business and previously Ponsse lost several tenders there. The situation in general in Vologda is complicated for Ponsse, as Vologda region is shared by two distributors and as can be assumed, these two distributors do not have good relationships with each other. (Director OB 2017) However, Vologdascan has not yet showed great performance either on sales or ESW results (Director OA 2017).

The layout of web pages of Vologdascan (Ponsse sales) looks quite good and this site is only about Ponsse. All the basic information about Ponsse products, services and company history are presented. However, the company itself seems mainly be focused on partnership with Scania trucks, which can be easily noticed even in the name of the company. Vologdascan was based in 2010, as it started as a distributor of Scania. However, there is no information about the history about previous partnership with the competitor of Ponsse. (Vologdascan 2017)

OOO PKF Gidroservis

Gidroservis works in regions (Perm region and Udmurtia), where the size of the market is quite small (Manager OE 2017). Gidroservis has worked long as a distributor of Ponsse, but it does not do investments, its image is not quite good and facilities in its service center are not according to Ponsse's standards. The company is strictly managed by the managing director. (Director OB 2017) Ponsse brand is quite visible on the web site of Gidroservis. In addition to Ponsse products, Gidroservis is also a distributor of other trademarks (Palfinger and some Russian industrial companies). (Gidroservis 2017).

Market share of Gidroservis is well below targets and machine sales are not really developing in the right direction (Director OA 2017). However, Gidroservis operates in a small market area, so it knows its market quite well (Manager OE 2017). In ESW audits, Gidroservis has improved well and received the second best result among Russian distributors (Manager OA 2017). Gidroservis is a good example considering training, as the director there has selected the right persons in right positions and they have a good instructor (Manager OK 2017).

OOO Kostroma-Servis-Ponsse

OOO Kostroma-Servis-Ponsse (KSP) works in Kostroma, Ivanovo and Jaroslav regions and it started as a distributor of OOO Ponsse in 2008. The son of the founder of the company is managing director nowadays. This distributor is completely focused on Ponsse and in that sense dependent on Ponsse. KSP found the place for its new service center with the help of OOO Ponsse and it has built its new service center step-by-step. Ponsse has helped this distributor also financially. (Director OB 2017) The web pages of KSP seemed quite modern and well built with videos, photos and nice layout. Only Ponsse products are presented, which highlights that the total focus of the company is on Ponsse. (Kostroma-Servis-Ponsse 2017)

With KSP, there are big problems with warranty issues. As a small company, they do not have resources and spare parts required in their stock. The owner is responsible for everything (both sales and service) and this leads to situations, where eventually customers are forced to wait for parts, which decreases customer satisfaction. (Manager OI 2017) KSP has a moderate market share, but its new machine sales were a disappointment in 2017 (Director OA 2017). KSP got a moderate result in its first ESW audit in Kostroma (Manager OA 2017)

ODO Udarnik

ODO Udarnik is the only representative of OOO Ponsse in Belarus and non-exclusively in Ukraine as well. Ponsse's history in Belarus considering distributors has been quite vivid, as Udarnik is already the 3rd partner there (the first two partnerships did not succeed). There were problems with reliability issues with the previous distributor companies. In general, there is a lack of money in the country and it is a difficult business environment when thinking about for instance payment terms. The bureaucracy is difficult when exporting to Belarus and considering the complicated circumstances Udarnik is performing quite well. (Director OB 2017)

Is it mentioned in their website that Udarnik's basic business is the wholesale provision of demanding customers with a wide variety of lumber and timber materials, industrial resins and chemistry. Udarnik cooperates with the leading forest harvesting and wood processing enterprises in Belarus. Udarnik also reveals that they are the leading supplier of wood chips to EU countries. Ponsse is presented as one of the five business branches, quite equally compared to the others. (Udarnik 2017)

Among distributors of foreign manufacturers in Belarus, Udarnik is doing quite good. Market share and new machine sales are improving. (Director OA 2017) Moreover, Udarnik was awarded as the most developed dealer in 2016 in the whole Ponsse Group based on ESW results among the whole Ponsse Group (Manager OA 2017).

OOO Mega-Machinery

OOO Mega-Machinery is the newest distributor of OOO Ponsse and it operates in the regions of Sverdlovskaya, Bashkirya, Tatarstan, Chuvasiya, Mariel, Ulyanovksaya, Rostov, Ryazan, Kemerovo, Omsk, Novosibirsk and Pskov. Mega-Machinery used to be a distributor of the main competitor of Ponsse until 2016. (Manager OE 2017) As a new distributor, it has not yet done many sales, so development is needed in communication and sales training with Mega-Machinery (Manager OG 2017).

Mega-Machinery is a part of a bigger corporation (UniRent). It is mainly focused on selling excavators, as Case. It is not just clear yet for OOO Ponsse, whether Mega-Machinery is highly committed to invest on Ponsse service and spare parts or are they just looking for profit as "easy money", when selling Ponsse products in their regions. The son of the owner of the whole corporation is in charge of forestry department in Mega-Machinery. (Director OB 2017) Based also on the webpage of Mega-Machinery, they are mainly focused on Case, but Ponsse is also relatively well presented. Mega-Machinery presents itself as an official distributor of Ponsse, which is actually not very true yet, as only preliminary agreement is on force. (Mega-Machinery 2017)

As a new distributor, Mega-Machinery is now competing on areas with some other distributors of OOO Ponsse. For example, Nizhniy-Novgorod is this kind of region. It will be probably given to Mega-Machinery, if it is ready to invest there. (Manager OC 2017) Moreover, Mega-Machinery did quite badly in its first ESW audits, but it is something, where they can quickly improve as a new distributor (Manager OA 2017).

OOO Nord-West Kom

OOO Nord West Kom (NWK) is a representative of Ponsse in Karelia Republic and Murmansk region. The owner of NWK changed in 2012 and the name of the company was West Kom before. In overall, this company has been an official distributor of OOO Ponsse for a long time (since 2006), but they have not developed their business well enough. (Director OB 2017) In general, the situation in Karelia is complicated, as there are working both subsidiary’s service center (Pitkäranta) and distributor’s service center. Customers prefer to use Pitkäranta’s services rather than distributor’s, especially as NWK is not performing as good as Pitkäranta. (Manager OG 2017) NWK concentrates only on Ponsse business and it is visible on the web pages of the company (Nord-West Kom 2017).

NWK needs to improve its sales, training and overall activities in order to remain as an official distributor of OOO Ponsse. It seems that in Karelia, Nord-West Kom is mainly interested just selling spare parts, because it gets its profit as a distributor of Ponsse products. It now seems that Ponsse does all the work (spare parts sales, service) and NWK only works as an information center and sends the invoice to a customer, while taking its profit from the parts. (Manager PB 2017)

However, according to some customer feedback, they are still performing quite fine and it needs to be mentioned that for end-customers it is generally more comfortable to use services of the company itself than distributors’ services, especially when the level of performance of the distributor is so much lower. Obviously, the communication between Pitkäranta and Nord-West Kom does not work almost at all and people do not trust each other. Market share of NWK is not adequate and its machine sales have been remarkably worse than in a previous year. (Director OA 2017) Moreover, its results of ESW audits have been poor and no development has taken place during several years. (Manager OA 2017)

The general opinion among the workers of OOO Ponsse was that in the future NWK should be fired as a distributor of Ponsse and Karelia region should be handled just by OOO Ponsse, because OOO Ponsse already has quite established position in Karelia with service center in Pitkäranta and other sites in Tikhvin (Leningrad region) and Segezha. This procedure should be done step-by-step and according to current agreements, so Ponsse also keeps its face in this case. However, sales especially on spare parts is actually quite stable. This is one of the main reasons, why OOO Ponsse has not yet finished its partnership with Nord-West Kom. (Director OA 2017)

OOO Parts Servis

Parts Servis is a small distributor as a company and it works in Khanti-Mansisk Autonomous region. However, in this region, there are quite many harvesting companies and competitors of Ponsse are quite strong there. (Director OA 2017) They are now building a new service center and in general, they have developed their business step-by-step. Communication with Parts Servis is done mainly with the managing director, who is responsible for both sales and service. (Manager OG 2017) OOO Parts Servis does not have their own websites, so it was not possible to give an evaluation on that. Market share of Parts Servis is low and it seems that it is not improved in machine sales at least in 2017 (Director OA 2017). ESW audit has not yet been done with Parts Servis, as they are expected to move to different facilities in the near future (Manager OA 2017).

Distributor agreements

Distributor agreements are one form to manage and control cooperation with distributors, especially from legal point of view. All the distributor agreements between OOO Ponsse and its distributors were viewed (during summer 2017) and estimated for this work. There are 13 sections in each agreement and they are covering the most important parts of cooperation with distributors. (Manager OO 2017)

Moreover, the distributor agreements include also appendixes, which concern territories, products and audits. These appendixes for example define the exact working areas including exclusivity issues and spare parts discounts. Most of the agreements will be prolonged next time in 2019, which means that there is time to form new requirements or issues to the agreements. In these agreements, there are written requirements and obligations for distributors, but the main problem seems to be that the fulfillment of these requirements is not well followed. The distributors are used to a bit weak control over the years, and now adaptation of tighter control causes resistance. (Manager OO 2017)

4.4.2 Interviews with distributors

Parallel with the author's in-depth interviews, management of OOO Ponsse had their own in-depth discussion with each distributor during the Dealers Directors Days in Cyprus in autumn 2017. In their interviews, results of audits and customer satisfaction surveys, development plans and area responsibilities were viewed. The development plan includes basic information about the distributor, market data about the regions of a distributor, on-going projects, future investments and questions about financing issues. Only the owners/CEOs of distributor companies attend to Dealers Directors Days. The main aim of these days is to form a deep analysis on the market situation in different regions. In general, the meaning of this event is very big for the cooperation between OOO Ponsse and distributors. (Director OA 2017) Due to schedule problems, Mega-Machinery and Parts Servis were not interviewed for this thesis work.

Dormashimport (DMI)

DMI started its partnership with OOO Ponsse in 2007. That year a site in Khabarovsk was opened and in 2009 also in Irkutsk. In 2017, new facilities in both Khabarovsk and Komsomolsk-na-Amure were opened and in 2018, a new service center will be opened also in Bratsk. From this information one can notice, how heavily DMI invests in Ponsse currently. (Director DA 2017)

Ponsse forms a remarkable part of the overall net sales of DMI. DMI has sold well and gained good market shares in its regions. This distributor provides also tree-to-length method machines (Ponsse manufacturers only cut-to-length machines), which means that DMI wants to have all scale in its offering. DMI operates in the Far East, so it needs to be remembered that almost everything (materials, logistics) costs more than closer to Europe. Main sales arguments there are price, availability of spare parts and customer relationship. Illegal dealers sell also Ponsse spare parts in Far East, which is a problem for DMI. (Director DA 2017)

DMI would like to see more people working at OOO Ponsse, especially Finns. Overall support from OOO Ponsse is fine, but sometimes it takes too much time to get answers. DMI feels that there is no need to communicate with the HQ, as all communication takes place with the subsidiary OOO Ponsse, and that is enough. (Director DA 2017)

Support (including technical) from Ponsse is on a good level. Logistics is an issue for Ponsse, as the main stock in Russia is located in St.Petersburg and not in Moscow. DMI thinks that mostly audits of OOO Ponsse are fine, but sales audit was not really useful at all. Delivery time of machines is not a big problem for DMI. It was said that marketing of Ponsse is quite poor, at least from DMI point of view. A Finnish brand is a nice plus, but the productivity of Ponsse machines should be more highlighted. In addition, DMI would also see a wider scope of training from Ponsse’s side. (Director DA 2017)

DMI expressed it quite clearly that they are not interested in external financing. They do not like DLL, the terms are difficult to understand, payment terms too short and risks too high. Financing is a difficult theme for DMI, even though they have some experience from previous years. DMI would like to see some new financing alternatives suggested by OOO Ponsse. (Director DA 2017)

Remtechnika

Remtechnika started cooperation with OOO Ponsse in 2008 and the machine fleet has increased rapidly. The year 2017 is the best year in the history of Remtechnika. They have increased their market share in a great way and they have succeeded to make deals with all small, medium and big customers. (Director DB 2017)

The main problem in the cooperation with OOO Ponsse is the lack of new machines, which means the capacity of the factory in Finland. Delivery time is too long now and they have lost deals, which they could have easily won without the challenges with deliveries. Remtechnika is totally focused on Ponsse and it can be noticed from the thrive and enthusiasm that they have currently. Remtechnika is also very active and creative in sales, and price of the machines does not seem to be a problem for them in sales. (Director DB 2017)

Remtechnika is very satisfied with their responsible area manager from OOO Ponsse and even though the long distances, spare part deliveries from OOO Ponsse are also working well. Remtechnika does not consider ESW audits that important, as most of the service work is done in forests and not in service centers in Siberia. However, this might change as second hand machines are repaired in service centers and in the future Remtechnika is more willing to invest in them also. As the other distributors of OOO Ponsse, also Remtechnika thinks that there is too little technical support from OOO Ponsse. (Director DB 2017)

One of the main wishes of Remtechnika is to have financing from foreign banks with good terms. They think that prepayment system is good and clarifies the situation. Remtechnika has already started to work with DLL, but they think that leasing is too expensive and not interesting in a bigger scale. (Director DB 2017)

From Ponsse, Remtechnika would like to have more training simulators (cooperation with institutes) and marketing materials (for organizing trade shows). Remtechnika invests heavily on marketing and is especially good in selling Ponsse branded products, as for example Ponsse oils. Remtechnika is also looking forward to the training system of Ponsse, as they think that training programme of Ponsse is not that clear to them yet. (Director DB 2017)

Lespromservis

The interview with Lespromservis was done in their office in the city of Syktyvkar, which locates in the Republic of Komi. Lespromservis was established in 1994 and they have four different business areas and Ponsse is one of them. The cooperation with Ponsse started in 2003 and now, it is financially the most important partnership for Lespromservis. (Director DC 2017)

The cooperation between Ponsse and Lespromservis has developed well during these years. The goal is to improve technical service and change customer service more predictive.

However, the competition has got tougher and profit margins lower also in the regions of Lespromservis. Lespromservis highlighted that the quality of the machines is a competitive advantage, which Ponsse must maintain. (Director DC 2017)

Communication with Ponsse works well according to Lespromservis. Special thanks goes to R&D department of Ponsse, as modifications on machines can be done fast based on customer feedback. The general support of Ponsse is on a good level and especially different audits help to see, where the distributor needs to develop. However, they think that auditing is done too often and more focus could be put on technical support for example. (Director DC 2017)

Technical support of OOO Ponsse should be improved to some extent. Now it is not clearly structured, persons responsible are not always known and it takes time to receive answers. Moreover, also the system of area managers was a bit unclear for Lespromservis, as sometimes their area manager contacts them and sometimes managing director. Lespromservis has started also trade-in business and invests in second hand machines. On the other hand, the financing options of OOO Ponsse do not seem good for them and they are not interested in them. Their best suggestion was that OOO Ponsse should have a sales stock for new machines in Russia. (Director DC 2017)

Lespromservis has gained good experience from running Full Service projects. Actually, they have 3 different projects, as one project is for a big customer and two projects for small customers. In addition, they have used CMI (Centrally Managed Inventory) system for spare parts for 3 years. The biggest advantage of CMI is that service level has improved and they do not have that many “dead stock” items than before the use of CMI. They had nothing to complain with guarantee issues with OOO Ponsse. (Director DC 2017)

Lespromservis has two instructors and their people attend on the trainings of Ponsse regularly. They highlighted that training is going on the right direction and the development in the past two years has been great, as there is now a clear plan of trainings, which is followed and fulfilled. Moreover, Lespromservis has a marketing plan and they are satisfied with the marketing material provided by Ponsse. Stereotypes about Ponsse have changed in Komi and Kirov, as for example 10 years ago people used to think that Ponsse is just a beautiful machine, but not enough powerful to work in tough conditions. Now this kind of thinking has diminished. (Director DC 2017)

Zeppelin Russland

Zeppelin and OOO Ponsse have been partners about 15 years, but this period has not been as successful as wanted. In the areas, where Zeppelin operates, Ponsse was the last that entered the market compared to the main competitors. Since the economic crisis in 2008-2009, Zeppelin has not succeeded in improving its market shares. According to Zeppelin, the main sales argument in its areas is the price, not productivity. (Director DD 2017)

Zeppelin is a multi-brand distributor, and the share of Ponsse in their overall business is quite small. Now Zeppelin has invested more on Ponsse business than earlier. For instance, they have fulfilled most of the things promised in the protocol meeting about Arkhangelsk region. This money has come from other departments than Ponsse, and now they should start making money. Altogether, this is partly an internal battle of Zeppelin. If distributors do not make profit, they are not going to invest in that business and they need to have certainty, whether they can work in that area also in the future. (Director DD 2017)

Vologda is now been divided between Zeppelin and Vologdascan by machine sales lists. Spare parts and service work are not included in these lists, which means that these offerings are free for sale for every customer. Ponsse should focus more on customers, but now time is spent too much on internal problems. Zeppelin has not invested in Vologda in 2017, as they have focused on Arkhangelsk. The clear message of Zeppelin is that they want to work in Vologda alone. (Director DD 2017)

Ponsse is forming its distributor management in a more systematical way, so that management and decision making is not so dependent on certain people. Now, OOO Ponsse sets targets and requirements to its distributors, but the follow-up and monitoring are missing a bit. There should be more clearly defined, who is responsible from Ponsse's side and what happens from violations of a distributor agreement. Moreover, the future cooperation between OOO Ponsse and Zeppelin is more dependent on Ponsse. Zeppelin hopes that Ponsse clarifies its distributor strategy and uses clear standards for distributors (Director DD 2017)

Communication itself works well between OOO Ponsse and Zeppelin. Zeppelin feels that feedback is heard and they have a connection to the HQ in Finland if needed. However, sometimes the area managers of OOO Ponsse cannot give quick answers for questions about discounts. The overall support from Ponsse's side is good in general, but not enough sometimes because of lack of resources. Financially Zeppelin is maybe the best distributor of OOO Ponsse, and they do not have anything to complain about the payment terms. (Director DD 2017)

Different audits of Ponsse had good feedback from Zeppelin. They do not let distributors to stay at their place, as they should keep developing all the time. However, all the terms of ESW audits may not be needed in every situation. Zeppelin had good results in sales audit, as they have a full organization, but in marketing audit, they have some room to improve. Zeppelin has also intentions to grow in trade-in business and build repairing facilities for second machines in their service centers. (Director DD 2017)

Zeppelin has now a couple instructors in their own staff. They consider that the best training of OOO Ponsse is done in Pitkäranta, as trainings in the factory are in held in English and that is why they are not so effective due to the language problems. Zeppelin has now invested more on marketing and became more active on that field as well. The brand of Ponsse is more known in regions of Zeppelin than 10 years ago. (Director DD 2017)

Vologdascan

Vologdascan became an official distributor of OOO Ponsse in 2015 and before that, it was a sub-dealer of Zeppelin. Vologdascan is a multi-brand distributor, and its goal is to provide technique from several industries (forest machines, excavators, trucks) so it has a complex approach in order to provide all of these equipment, if customers would like to have them all as a package. The share of Ponsse in the overall net sales of Vologdascan is quite moderate, but it is growing. They have gradually developed their business also in the sales of Ponsse. (Director DE 2017)

The main target of Vologdascan is to become an exclusive distributor of Ponsse in Vologda region (now divided with Zeppelin). Vologdascan would like to have clear standards and requirements set by Ponsse and written in paper, which shows that what is needed in order to have exclusivity there. They are looking for more result-based decision making from Ponsse’s side and either continue or quit the relationship with OOO Ponsse, depending on the results achieved. Anyway, the future investments are a lot dependent on this and they will not be made without certainty for future. (Director DE 2017)

The market share of Vologdascan are growing and it was good that they have accurate data of it. Orientation on customers is a strong sales argument for Vologdascan. They have started trade-in sales, but they gave a bit criticism for Ponsse, because of small amount of information and training given about trade-in machines. Vologdascan has started to use external financing with DLL. They consider that financing is a new theme and appeared instantly. (Director DE 2017)

Vologdascan is satisfied with the communication and area manager system with OOO Ponsse. Different audits are helping a distributor to develop its activities, but Vologdascan still did not perform very well in these audits. Vologdascan also wants more standardized deliveries for spare parts. Vologdascan has now actively focused also on marketing and planning to hire an instructor. In general, Vologdascan is ready to invest a lot on Ponsse business, including new service centers. (Director DE 2017)

Gidroservis

The share of Ponsse in the overall business of Gidroservis is not very big. Gidroservis operates in small market areas and now it has not performed well in new machine sales. Main sales argument in their regions is the price and now Gidroservis is losing deals. However, the overall fleet has grown some from the start and without Gidroservis, there would not be any Ponsse machine on that region. Gidroservis is also satisfied with the area manager of OOO Ponsse. (Director DF 2017)

Cooperation with forest institutes is also important. There future operators get to known to machines and it is important that Ponsse is also visible there. This is one kind of way to improve Ponsse's brand. Used machines are used in training and education. In general, it was mentioned that there is too little technical support and Gidroservis suggested that Ponsse should organize a 24/7 technical support by phone. In addition, the meaning of audits is not understood by Gidroservis. Nevertheless, spare parts and guarantee issues work well with OOO Ponsse. (Director DF 2017)

Gidroservis is not ready to invest their funds in trade-in business and they refused to use external financing, as it includes too many risks from their point of view. However, they have hired an instructor and are working on a good level in that issue. Gidroservis thinks that there is not enough training from OOO Ponsse. (Director DF 2017)

Kostroma-Servis-Ponsse (KSP)

KSP has been a distributor of OOO Ponsse since 2011 and the organization of KSP has grown a bit by bit and roles have now become clear. They are energetically developing their activities and KSP has just finished the construction of a new service center. The overall market areas of KSP are smaller than in Siberia, but KSP has a realistic plan to grow in its areas. Ponsse is the biggest dealership of KSP, but they have plans to gain more other dealerships as well. (Director DG 2017)

Communication between OOO Ponsse and KSP works well, especially through area manager. Audits were considered as useful tools. The weakest point according to KSP is technical support from OOO Ponsse, as there are not enough resources. Volumes are growing, so there should be more technical support and training. In addition, marketing of Ponsse could be a bit more active. (Director DG 2017)

Based on machine fleet, KSP has a good market share. Competitors are further from customers, which gives advantages for Ponsse, as its service is closer to customers in Kostroma. KSP has also started well in harvester head sales and they are also learning trade-in business. (Director DG 2017)

External financing is a new theme for KSP, as it is a new theme for almost every distributor of OOO Ponsse. KSP also thinks that the prepayment system set by OOO Ponsse in spring 2017 is too heavy. They would like to see an online reservation system for machines or for immediate cases, where customers have money needed in their hands. Overall, OOO Ponsse should inform its distributors better about different financing options. (Director DG 2017)

KSP has had some problems with guarantee issues, as the programme seems to be difficult to use. They would like to have more training with guarantees, as in sales (more technical comparison to competitors). KSP does not have a marketing plan, as it is not one of their priorities. Ponsse as a brand looks as a product with higher quality, higher price and better availability of service. (Director DG 2017)

Udarnik

Udarnik operates as the only distributor of OOO Ponsse in Belarus. Belarus is a difficult market, where bureaucracy is tougher than even in Russia. In addition, the state has a big role in any kind of business there and it regulates a lot. There is also a Belarussian forestry machine trademark, Amcodor, which is supported and favored locally a lot in Belarus. However, Ponsse has gradually developed in Belarus since 2009 and now it seems that the market is opening more for foreign manufacturers as well. (Director DH 2017)

The share of Ponsse of the overall net sales of Udarnik is moderate, but they are glad with the cooperation with OOO Ponsse. They communicate systematically with their area manager at OOO Ponsse and they feel that support from Ponsse's side is on a good level. In general, Udarnik knows its market really well. (Director DH 2017)

Udarnik has now become more active in sales, as the whole market in Belarus has started to grow. Trade-in deals have already been done, but several documents required from the state and customers are the main hindrance in this issue. The main aim of Udarnik is to find foreign financing partners with beneficial payment terms. (Director DH 2017)

Nord-West Kom (NWK)

The interview with Nord-West Kom was done in the facilities of the distributor in Petrozavodsk. The discussion was conducted still in the old office, as the new service center was under construction still in August 2017. In addition, the construction site for the service center was briefly viewed. It was obvious to see that the new service center is the biggest investment in the history of NWK. According to some feedback, customers were already desperately waiting for the move and positive thoughts about NWK have increased. (Director DI 2017).

The current owner started in NWK in 2012 and this change caused a lot of work. Their future perspective is especially growth in Karelia. Now the company is completely focused on the sales of Ponsse, but they have some ideas to enlarge on other products as well. The terms of distributor agreement were suitable and additional agreements as well. (Director DI 2017) When asked about their market share, they could not say any exact figure or they did not want to tell it.

NWK highlighted that contacting customers should be always done through a distributor. NWK did not give OOO Ponsse information about customer satisfaction survey, because they are competing about customers with the service center of OOO Ponsse in Pitkäranta. In practice, NWK does not communicate at all with people in Pitkäranta. (Director DI 2017)

There were good things and things to be developed in the cooperation with OOO Ponsse. They were very satisfied with their area manager from OOO Ponsse and they consider ESW audits as a very good tool for development. Only the recommendations after audits could be a bit more detailed and evaluation criteria different for a distributor that has a center of Ponsse in the same region. Moreover, technical support of OOO Ponsse used to work better last year. NWK is planning to recruit an instructor, but the timetable is open yet. (Director DI 2017)

NWK is not interested about external financing and current financing options of OOO Ponsse are too challenging. They also need to wait pre-payments from end-customers, before they can pay OOO Ponsse the prepayment. Moreover, they are not capable of taking second-hand machines in to their own account and they felt that there is too less information about trade-in business. Other materials (service catalogues and marketing posters) are good from NWK point of view. (Director DI 2017)

As NWK is located in Petrozavodsk, close to Finland, Ponsse is well known as a Finnish brand there. As Finns have themselves especially previously harvested a lot there, the machine fleet is a bit older there than in other areas in Russia They were very proud that the top management of Ponsse Plc visited their facilities in 2016. (Director DI 2017)

5 DISCUSSION

Ponsse’s distribution network in Russia was wide, challenging and extremely interesting topic for a master’s thesis research. In this chapter, the analysis from each level (benchmarking, HQ, subsidiary, distributors) interviews is viewed. The overall analysis was formed from different perspectives of Ponsse’s business in Russia in order to give answers comprehensively to the research questions. In this chapter, analysis is formed for both subsidiary and distributor management.

5.1 Analysis about subsidiary and global distributor management

This chapter contains a deeper analysis about global distributor management and subsidiary cooperation between Ponsse Plc and OOO Ponsse, which means in practice analyzing the current state of Ponsse Plc and its management of distribution networks in general. Analysis about the distributor network management in Russia is provided in the next chapter.

Findings from benchmarking

Company X and Ponsse are different companies working in different kind of industries, but many similarities can be found as well. Even though the product offerings (value of a unit) or company sizes are different, it is still possible to compare the methods and procedures connected to the distribution network management. Both of these companies have very customer-oriented strategies and sales procedures were also quite similar, as added value is especially based on services. When brand management is considered, both of the companies trust on their product brand, but also the background of a family company is highlighted (in Ponsse to higher extent). In general, the benchmarking meetings followed the agenda written in the theory of strategical benchmarking.

It was said that Company X tries to work as long as possible through a distributor on a market in order to avoid big risks and keep cash flows free. This same assumption can be noticed in the actions of Ponsse as well, as it operates through a subsidiary mainly only in the biggest market areas, where there is a need to have a subsidiary. However, Company X works in one market either through a subsidiary or a distributor, as Russia is the only exception with both Company X and Ponsse.

Distributors of Company X are completely focused on Company X, which is linked to the fact that the industry of Company X is very big globally. Ponsse's industry is relatively specialized and the size of the market is smaller, so Ponsse needs to have multi-brand distributors as well. In some cases, it is a good thing and in some cases bad. For instance, multi-brand distributors can be financially more capable if they do sell products from other industries as well, but then the commitment on Ponsse could be doubtable, if other brands are financially more important for that certain distributor.

Company X implements its strategical changes through communication packages. These communication packages and their integration to network was well planned. Project length, phases and responsibilities were well defined and roles were clear. Strategy is described in a picture, which is easy to understand, when integrating the strategy to the network. This kind of picture about the strategy could be worth doing also about Ponsse's strategy. Internationalization of the global strategy was done with similar principles as written in the theory.

At Company X, one of the most interesting issues considering communication with distributors was Contact Call. During these calls organized once a month, area manager and other responsible people for that distributor, strategical objectives are measured. Organizing this kind of Contact Call system could be worth doing in Ponsse as well. Area directors of Ponsse Plc could start at a sequence of once a quarter and then see, if it is worth prolonging this system.

The auditing system of Company X seemed to be very structured providing them a strong control over their distributors. These three kind of auditing (site visits, review of matrixes, strategical discussions) seemed very interesting and useful tools. Ponsse is already very experienced with on-site audits due to ESW auditing system, but Ponsse still a bit lacks of matrixes and more strategical discussions. At least on short notice, strategical discussions could be done for example once a quarter between a distributor and area director.

In global level, Company X also classified its distributors to 3 different categories. In order to upgrade ones class, a distributor should improve in sales (device fleet) and the organization itself. Financial incentives are used, which are definitely one of the most important tools to motivate distributors. Company X did not define exactly, what kind of financial incentives they use, but new ways and methods are developed all the time. This is a sign of a strong control over distributors. Company X also used matrixes (different indexes and KPIs' measurement) in order to evaluate their distributors' performance. The systematical procedures for the evaluation of distributors' performance is the key in classification systems in order to have proof and arguments.

Company X gives great support for their distributors especially in training, or at least it is very efficiently organized. Training is organized very systematically in Company X, as most of the training is conducted online as a self-service. This means that in practice, online portals are used extensively and Company X personnel does not need to operatively support their distributors that often in training issues. This is a big factor to be benchmarked in Ponsse, as there is a lot of potential to use also online portals inside Ponsse Group.

One of the fundamental parts of the growth strategy of Company X was to develop its distributors and eventually acquire them as part of Company X corporation. Almost half of the subsidiaries used to be distributors of Company X that Company X acquired later on. This has probably been a huge motivating factor for the distributors of Company X to grow. However, Company X uses this tactics only on a global level (when a distributor represents the whole country), as in Russia, there were no plans to acquire distributors. Company X did these acquisitions as mentioned in the literature.

Distributors agreements of Company X are all non-exclusive. Termination of agreement can be done, because of two reasons; low performance on sales or violation of a distributor agreement. Ponsse usually has only exclusive distributor agreements, which is also linked to the industry specifics, as there are less number of possible distributor candidates.

Subsidiary vs. distributor focus

When a company is entering new market areas, there is always the choice to be made, which way to use. Establishing a subsidiary helps to compete in the market with prices, as "double-profits" are cut. Business through subsidiaries is also more easily organized, as there are "own" personnel working and this way it may be a better way for customer experience. However, sales through distributors is a better way especially with cash flows, as firm investments and own resources are not so much needed locally. Business through distributors requires strict management in order to keep the original image of the company in different cultures and societies. It adds more challenges, if the distributor is a multi-brand distributor, but it is not also a good thing, if a distributor completely focused on Ponsse business is very small as a company.

It would be interesting to have a model, where it can be counted, when it is better to operate in the market through a subsidiary and when through a distributor. In practice, how many machines need to be sold in the market for a profitable business with remarkable investments. Buyout of distributors or certain sites of distributors is also an option then, if the distributor performs very well. If a distributor does not perform well, then there is the possibility to establish an own site there, if resources are available for that. Dealership, which means changing from a subsidiary to a distributor, is also an option.

Communication and cooperation in general

Communication between Ponsse Plc and its distributors works in different ways. First, communication is related to the volumes in sales, which means that more selling distributors are communicating more with Ponsse. Feedback goes from distributors to Finland (HQ) mainly through area directors or department managers in different issues, and roles and responsibilities seemed to be clear for everyone. Only the time to have answers may sometimes be quite long. There are some common routines, but there could be also a chance to increase the amount of strategical discussion with global distributors. It is still difficult to give an estimation about how systematically the communication works and is it on an adequate level as only one area director was interviewed.

Support, control and motivation of distributors

The main needs for development seemed to be in the control and motivating tools of distributors. According to the managers of Ponsse Plc, stronger control is needed in several issues. Creating ways to control distributors without losing sales or good relationships with distributors is a crucial issue. Especially in the corporate culture of Ponsse, the importance of personal and constructive relationships need to be remembered, when trying to control and motivate distributors as well. Tools described in the literature can be also used in order to find ways to increase the commitment of distributors.

Distributor visits were one of the key parts in the cooperation with distributors, as face-to-face discussion is the best type of communication. However, some global distributors seemed to sharpen up their activities in order to show better during the visits from the HQ of Ponsse. In general, distributors should perform on the top level all the time and not just during the personal visits. For Ponsse, it can be mentioned that additional reports are not needed, just more systematical communication both in operative and strategical issues.

Monitoring and control over distributors is also important in order to review constantly, how distributors are performing. The main thing is to find always the essential also in distributor surveillance. This monitoring should always lead to recommendations for improvements, for example in the use of Ponsse brand of distributors' own marketing materials and eligible follow of reference selling prices of Ponsse spare parts. Monitoring increases transparency between Ponsse Plc and its distributors. Moreover, violations of mutual rules could more lead to financial payments as well. On the other hand, this kind of system would probably make it even more difficult to attract new and capable distributors for doing Ponsse business.

Financial incentives are the main way to support, control and motivate distributors. Discounts, payment terms or additional services are these kinds of tools for motivating distributors. Bonus system would also be an option, where certain achievements increase bonuses of the distributors. Operative support includes for instance service, training and help in marketing. Finding additional ways to support distributors in addition to financial incentives would be a big solution for Ponsse in order to increase the level of commitment among distributors.

Evaluation of distributors

Evaluation of distributors was also one of the key issues in the improvement of distributor management. Currently, Ponsse does not have strict standards for their distributors, so the situation varies case by case. If the owner of a distributor is motivated to develop its business and invest in Ponsse sales, he will probably do it. If not, the situation is quite bad for Ponsse and Ponsse has not yet found clear ways to control this. Some forms and models for distributor evaluation are needed, and the criteria should be described carefully.

Ponsse Plc does also auditing with global distributors, but not as intensive as OOO Ponsse with Russian distributors. This could be a way to have more tools for evaluating distributors of Ponsse Plc. Ponsse Plc does only ESW audits and not audits for sales and marketing, as OOO Ponsse does. Growth in systematizing these audits could be one way to increase the transparency and evaluation of distributors in other means than service or pure sales figures. These auditing results combined with for example sales (market share) or customer satisfaction survey could form one general dealer audit, which could be also used for categorization of distributors.

Distributor agreements

Distributor agreement is a formal part of the cooperation between exporter and distributor, as mentioned in the literature. Cooperation with distributors is unofficial in the beginning, so it needs to be standardized, when to begin to form the contract. One phase could be, when a decent amount of machines are sold and investments needed done in order to apply the Ponsse quality standards. Distributor agreements should include the same terms and detailed as mentioned in the literature. This one form for distributor agreements should be standardized and developed to be used in every case. Exclusivity issues is just be determined later on then. Distribution selection process is then crucial, as it determines the future success in that market area. Nevertheless, as written before, this thesis work focuses more on managing an existing distributor network than enlarging with new distributors.

Cooperation with OOO Ponsse

Based on the research done in the HQ, OOO Ponsse had several strengths. It was considered as one of the best performing subsidiaries of Ponsse Group and the growth has been strong there in every way (both in machine and spare parts sales). This factor needs be remembered, as the situation may differ in different subsidiaries of Ponsse Plc, as OOO Ponsse is an example of a good case. In general, it would be desirable that processes are standardized everywhere in the world and the customer of Ponsse has the top-level customer service, no matter in which market area he operates. It was interesting to compare the role and power of the HQ compared to subsidiary in practice and notice similar things mentioned in the literature.

Overall remarks of the subsidiary cooperation

Some observations and remarks can be done about the cooperation between Ponsse Plc and OOO Ponsse. During the past few years, OOO Ponsse has been successful, especially related to the general business environment in Russia. However, according to the observations of the author, this is the fact because of active and professional personnel, and not because of systems. Subsidiary management is not highly systematized in Ponsse Group now, so a lot is dependent on the local management. In this case, it has been a good thing that the HQ has given quite wide rights for OOO Ponsse to manage the subsidiary as they want, because the local management knows the local conditions the best. On the other hand, there is also a demand for improvements for subsidiary support, especially connected to training.

Communication between the HQ and OOO Ponsse seems to work very well. Especially well, the communication works with the top management, as there are also Finns working in OOO Ponsse in Russia. This helps a lot, as still many Russians have problems with English language, but as a global company, all information should be also in English. Roles are clear and messages are answered fast or after satisfactory waiting time. There are some exception, when bigger trade shows are being organized and it could take some time to receive answers then. However, the HQ does not give clear guidance to organize the communication inside the subsidiary, for example about regular meetings between departments.

One of the main challenge considering cooperation between the HQ and OOO Ponsse was linked to the lack of the newest update of the ERP system. This lack caused mainly problems for after sales (spare parts and service work) and financial departments (budgeting). In practice, more manual work is needed, as the system does not fix these issues automatically. This slows down the development, as basic operations need to be done manually and in other subsidiaries, the newest update already works. Some new services and applications cannot be adapted in Russia without the newest update. Trainings in the HQ are executed on the newest programme, which means that currently these trainings are not helpful for OOO Ponsse workers.

There was a strong need to improve the training system of OOO Ponsse and also more detailed instructions for the use of brand (brand book) is needed. The training should be systematically organized in a training programme, where training plans (both theoretical and practical), evaluation and grading instructions, brochures and development plans for each employees are located. This kind of system could include also a lot of online (self-service) training, which could be directly benchmarked from Company X.

Transfer pricing is an issue linked to the pricing policies and competitiveness of Ponsse in Russia or in different global market areas. There are of course reasons, why most of the profit is left to Finland (taxation and risks). Could this transfer pricing be more derived and defined on certain market areas? Transfer pricing has its own effect also on distributors' profit margins obviously.

Internal processes of OOO Ponsse

Observations about the internal cooperation inside OOO Ponsse were also viewed for this work. OOO Ponsse is more locally managed, which means that it does not need help of the HQ in several operative issues. It can be mentioned that this is a good thing, as operative issues can be handled more locally. The strategical objectives of OOO Ponsse are also clearly defined and followed. The organization of OOO Ponsse is already quite well structured and there are people named for every department, but there are some excessive pressure for some departments (training, technical support, marketing, financial management).

Communication flows very well also inside OOO Ponsse. Especially people in other sites (Pitkäranta and Tomsk) were very satisfied with the current situation. However, the communication is not highly systematized, as it works mainly case-by-case. Bookkeepers hoped a bit more discussion with other departments, when forming a budget, but in the big picture, they were also satisfied. In some cases departments gather regularly (for instance after sales), but for example salespersons could communicate a bit more efficiently with each other. When taking into account the local conditions, the current situation looks still good.

During the interviews with the management of Ponsse Plc, the importance of financial management (including follow-up of cash flows) was highlighted instead of only basic bookkeeping. Financial management and cash flow analysis are a relatively new theme in OOO Ponsse and the importance will grow more and more (including roles and responsibilities in the organization). New budgeting tool will hopefully give relief with the huge amount of manual Excel work and increase the efficient use of time. This is especially important in order to have more time to work with financing organizations that are interested in financing OOO Ponsse's distributors.

The overall opinion of OOO Ponsse workers that Ponsse is highly respected employer in Russia. Based on observations of the author and his previous working experience of Ponsse in Finland, it can be stated the company culture of OOO Ponsse is from Vieremä (the HQ of Ponsse Plc). It is not Russian style company culture with high hierarchy levels and bureaucracy. People are given responsibility, but also results are required from everyone. In general, the adaption of HQ company culture has taken place in Ponsse Russia as written in the literature. The attitude towards new things and changes in OOO Ponsse seemed to be very positive.

5.2 Analysis about distributor management in Russia

Distributor management is a crucially important theme for Ponsse in Russia and probably its importance will only grow in the future. Future enlargements will most likely occur through distributors rather than establishment of new service centers of OOO Ponsse, even though that alternative can be used also, if needed.

Findings from benchmarking

It was interesting to notice that Company X had differences in their distributor management between HQ and subsidiary levels. For example, Company X does not categorize its distributors or plan to acquire them in Russia, as in global level these issues were keystones in global distributor management of Company X. Moreover, Ponsse did audits and organized events with distributors and Company X did not do either in Russia. Audits (especially ESW) are a crucial part of distributor management for Ponsse, but not for Company X in Russia. Russia is actually more important for Ponsse than for Company X in the big picture, which could also be noticed in several ways, as number of visits from the HQ to Russia.

Both Company X and Ponsse have similar kind of hybrid models, which means that there is an established subsidiary and distributors work under the command of this subsidiary. The difference was just that Company X does more sales relatively through the subsidiary and Ponsse through distributors. Company X and Ponsse are both strongly locally managed in Russia, which means that the HQ does not attend much on the operative management. In addition to similar features, there were some issues that differed or lessons to be learned for Ponsse after benchmarking with Company X in Russia.

Company X did more sales through the subsidiary than distributor network in Russia. This ratio is not to be recommended for Ponsse, as Ponsse's business is widely divided in the regions (where the forest resources are located) and Company X's focus is on the biggest cities. Thereby, in the business of Ponsse with seasonal demand fluctuations and business areas, it is a more flexible way to have an efficient distributor network than subsidiary's site everywhere established. However, if needed, OOO Ponsse has the opportunity to wide also its own subsidiary's network in order to replace a distributor, which does not perform as well as required.

Company X had some stricter policies with payment terms than Ponsse with its distributors in Russia, but it needs to be remembered that the cost of a product is also different. In addition, the distributors of Company X focus only on the business of Company X, which means that to some degree Company X has more power and possibilities to define their terms for their distributors. Ponsse works in a specialized industry, which means that it is more difficult to order and control for instance multi-brand distributors. The working regions of the distributors of Company X were also a bit more strictly defined than for Ponsse's distributors.

Current situation with distributors and comparison between them

To summarize, OOO Ponsse has four kind of regions in Russia considering subsidiary sites and distributors' ones. The types of regions are the following:

- only OOO Ponsse site in the region (e.g. Tomsk)
- only distributor's site in the region (e.g. Krasnoyarsk and Khabarovsk)
- both OOO Ponsse and distributor's site in the same region (Karelia)
- two different distributors working in the same region (Vologda)

In practice, the situation in the sales of Ponsse seems to be the best in areas, where there is either OOO Ponsse site in one region or a distributor's site in the region. The reason is that probably this kind of system is more understandable and comfortable for end-clients. If a distributor does not perform well, it is more recommendable to enter the market by subsidiary site or change the distributor (if potential candidates are available).

The four biggest distributors of OOO Ponsse

The four biggest distributors of OOO Ponsse are DMI, Remtechnika, Lespromservis and Zeppelin. They are operating in the biggest regions, where are the most of the customers. Especially DMI has recently invested a lot in Ponsse business. Remtechnika has grown a lot recently and it is the most active distributor of OOO Ponsse. Lespromservis has great experience in service work, but now they have the need to invest on machine sales forces as well. Zeppelin has underperformed in sales, but it is in general quite well organized company.

One of the fundamental difference is that in DMI, Remtechnika and Lespromservis, the main owner of the company is in charge and deciding about investments. In Zeppelin, the director of forestry department is not in a similar position, as he needs to have an internal struggle in the organization of Zeppelin in order to get funds for investments on Ponsse business. Therefore, it seems that clear ownership and owner-based operative management has had an effect on the tendency of investments by distributors.

Case Zeppelin

The organization of Zeppelin Russland is big, as they are a big distributor of Caterpillar. However, their machine sales have not been satisfactory and for example results of ESW audits have not developed, which is a sign that investments have not been made on service at least. This is especially important issue for OOO Ponsse, as Zeppelin represents Ponsse in very important regions. The period of slow development of Zeppelin was quite long, so for the future it is recommendable to react faster in the cases, where an important distributor is not performing as well as wanted.

Nevertheless, in 2017 the situation has partly turned better at least in Arkhangelsk. The protocol meeting and the visit of the top management of Ponsse Plc have definitely waken up the organization of Zeppelin and they have started fulfill the requirements, which were written on paper. This shows that Zeppelin has a will to continue cooperation with OOO Ponsse at least in Arkhangelsk, but they have not invested basically anything in Vologda in 2017.

The situation in Vologda is still quite messy, as this region is shared between Zeppelin and Vologdascan by customer lists (machine sales). According to the interviews with both Zeppelin and Vologdascan, this system is not beneficial for anyone, as customers do not understand this system and both of these distributors are not ready for heavy investments without final decisions about Vologda region. Meanwhile, the competitor is very strong there and it takes the advantage of the situation. There should not be internal struggles, if Ponsse wants to be the best in these Arkhangelsk and Vologda regions. In this sense, strategy for the next 5 years in these regions is recommended to be formed.

For the near future of Ponsse in Vologda, there are basically two options; free competition between these two distributors or selecting the one distributor, which will take over the whole region. The current system with customer list restrictions is not recommended to be prolonged. Free competition should also be a temporary solution (1 year recommended) and after this period, there would be more data for the final choice of the representative of OOO Ponsse (exclusive distributor) in Vologda. Follow-up of the requirements of exclusive distributor should be carried out regularly and requirements are recommended to be quite strict. Main guideline in this selection process should be that what is the best solution for the customers of Ponsse there.

Situation in Karelia

In Karelia, the situation is complicated too, as Pitkäranta (OOO Ponsse site) and Nord-West Kom (NWK, a distributor) share the same area. Experience has shown that customers prefer to use the services of Pitkäranta, as the service center there is better equipped and according to Ponsse standards. Moreover, there are small sites of OOO Ponsse in Segezha and Tikhvin (Leningrad region). This is normal, as there has been more resources to be invested in Pitkäranta as OOO Ponsse site and the situation in Karelia shows that for the future, it is not recommended to share a region between a subsidiary site and distributor. It is evident that there have been problems in the management of NWK, but this kind of model would not probably work also in the case of an excellent distributor, the subsidiary site always attracts more customers.

Based on interviews with both people in Pitkäranta (or OOO Ponsse overall) and people in NWK, the relationship between these two parties is quite difficult currently. It is a pity, as for example for training Pitkäranta is the best place of Ponsse in Russia. Many operational things (guarantee issues, service work and spare part sales) are not going in a right way now in Karelia.

NWK respects Ponsse products and the brand itself, but somehow the subsidiary OOO Ponsse is now seen as a competitor, which is a visible threat for the cooperation between these parties.

As NWK is about to open a new service center, determined development of that center is needed and required from Ponsse’s side. If NWK succeeds in it, there is still some potential to continue cooperation between OOO Ponsse and NWK. After all, the customer base of NWK is relatively large and spare parts sales are quite fine. Nevertheless, if they do not fulfill the requirements of OOO Ponsse in 2018, it is recommended to carry on doing business in Karelia only through OOO Ponsse sites. NWK has been a distributor of OOO Ponsse for a long time, so they have had several opportunities already before.

Other smaller distributors

The rest of the distributors (Gidroservis, Kostroma-Servis-Ponsse, Udarnik, Parts Servis and Mega-Machinery) can also be evaluated. KSP, Udarnik and Parts Servis seemed ambitious for growth and they have positive feelings about their Ponsse sales. Mega-Machinery is a new distributor that operates on several regions, which are quite challenging and small market areas considering Ponsse business. Gidroservis had several problems, and their future commitment for the Ponsse business is a bit doubtable.

General cooperation and communication with distributors

Cooperation between OOO Ponsse and its wide distributor network takes place on multiple levels. The roles between distributors and personnel of OOO Ponsse seemed to be very clear and messages are sent to right persons, even though it goes many times case-by-case. The distributors were mainly satisfied with the information flow (including bulletins and other materials) from Ponsse’s side. In some cases, personnel of OOO Ponsse thought that it is difficult to receive information (financial, HR and legal information) from some certain distributors. In general, communication works very well and fast about operational issues, but there might be need for increasing strategical discussions with each distributor.

Area managers with managing director carry the main responsibility of the distributors of OOO Ponsse. Area management system (distributor responsibilities) is now area based, which means that regions are divided by the salespersons of OOO Ponsse. The reason for this is that the salespersons knew the best these certain areas. However, in some cases, if one distributor operates in several regions controlled by different area manager, the situation and communication became slightly problematic. Based on distributor interviews, it would be a better system in the future that every distributor would have only one responsible area manager. In practice, this means that the system of area management would change from area based to distributor based. One additional feature could be adding people from after sales to area management system as well.

Planning of distributor management is executed with a great care in OOO Ponsse. As most part of the sales goes through the distributor network. Responsibilities are mainly clear and communication works. Especially the annual events (Sales and Service Days and Dealers Directors Days) organized twice a year are properly planned and the programme is developed continuously. The aims of the events are also different, which means that there is not too much repeat of already learned issues.

Ponsse's brand seemed to be quite similar in different regions around Russia and sales arguments the same as well. It was interesting to notice that the position as a family company had a more positive effect than the Finnish origin for the brand. This was because this factor makes Ponsse different from its competitors and increases positive feelings especially among customers that are also family-owned companies. Factory visits in Finland and meeting the main owners of Ponsse Plc were especially highlighted.

Financing of distributors

Distributor financing was one of the key issues of this thesis, as it was the key development point from HQ point of view. Based on the interviews with distributors of OOO Ponsse, they already understand the importance of external financing, but they do not totally understand the terms of credit options presented by OOO Ponsse. In general, financial risks (credits) is a new theme for most of the Russian distributors, which makes it difficult to change attitudes. Financing is an issue, where third parties (banks or other financial institutes) are also involved, which means that if the financial condition and balance sheet of the distributors are questionable, it will also cause challenges. Having the distributors motivated on financing is one thing, and actual credits given from banks is another thing. Financial support for distributors' investments (loans given by OOO Ponsse) in general is acceptable, if the sums are moderate, they really accelerate progress and payback schedule of these loans is followed strictly. Nevertheless, it is not recommended to give financial support for the same distributor continuously.

Overall feeling is that OOO Ponsse needs to enhance its communication about financing with the distributors. They do not understand currently thoroughly this issue, which means that OOO Ponsse should give more pressure on them. In addition, the distributors thought that DLL is not suitable option in every case, which means that active search of other financing alternatives is recommended. It is very clear that distributors themselves are not actively searching for financing, so OOO Ponsse needs to push this task itself forward.

Supporting, controlling and motivating distributors

OOO Ponsse support in general was said to be on a good level from distributors point of view. Distributors feel that their feedback is heard and communication works. However, the lack of fast technical support from OOO Ponsse was the main operational problem according to distributor interviews. Distributors thought that OOO Ponsse does not put enough resources on organizing proper and online technical support (one man is not enough). The main suggestion was to hire a new person, who would answer about technical support on phone/email all the time and only focusing on technical support.

Based on the interviews with distributors, it came very clear that which is the biggest factor and main source of their motivation. It is their own profit margin from the sales of Ponsse products. Motivation is increased, when they sell with better margins and decreased in opposite situations. Bonus system for successful achievements could be one tool for this, if distributors achieve some target figures, attend certain amount of trainings or do some investments. The main reason for financial incentives that if a distributor develops its overall Ponsse business and makes results, his profit margin will also increase.

On the other hand, violations of distributor agreements could lead to some financial payments. This all would definitely require strict control from Ponsse's side in order to avoid misunderstandings and errors. Introducing new system for financial incentives would also be challenging mentally, when considering Ponsse spirit and previous history of long-term cooperation between OOO Ponsse and its distributors.

Requirements for distributors already now exist to some extent, but it was said that up-to-date follow-up is a bit lacking. The follow-up of fulfillment of requirements is better to be organized systematically. In the end, the main reason of surveillance and requirements is to make the distributors more committed on developing their sales of Ponsse and increasing their level of performance.

Different audits were the keystone in monitoring distributors' development and the tendency of investments. Overall opinion of audits were very positive also from distributors' point of view, but there were also a couple critical notions. Main message was that audits do not let distributors to be lazy or not developing Ponsse business. Executing large audit system annually obviously requires significant input and allocation of resources from the side of OOO Ponsse, but audits seem to be worth it.

From 3 different audits (ESW, sales and marketing), ESW was the most developed audit measured by experience, criteria and future recommendations given for distributors. In addition, ESW form is used everywhere inside Ponsse Group, which means that the criteria belong from the HQ. It is recommend to develop criteria and analysis of sales and marketing audits in a similar way in order to be more useful for distributors' development. For instance, the use of financing could be added on sales audit. Moreover, it might be worth considering doing parts of the audits online (for instance Skype) or combining audits as one dealer audit in order to decrease costs (travelling) and improving the use of time.

The common opinion of the distributors was that they wish a more structured approach and management from the side of OOO Ponsse. Especially multi-brand distributors explained a bit the methods of other major companies, as Mercedes-Benz, Volvo, Caterpillar and Scania, and these distributors felt that Ponsse is now building more organized distributor management system, but there is still something to reach for. However, Ponsse does its business on own principles, so there is no need to copy others completely. On the other hand, advices and wider understanding could be helpful for Ponsse as well.

Dealer grade model

During this thesis work, the author built a general grading model, the target of which was to give a grade for a distributor based on several factors. So far, distributor evaluation has been done mainly through sales statistics and ESW audits, but this model aims to combine other audit results and sales well. The results derive from 50% from the market (market share and customer surveys) and 50% from the 3 audits conducted by Ponsse. The criteria for this dealer audit are presented in Table 12. As seen in the table, market share and ESW audit result have the biggest impact on the final grade of a distributor. In 2017, the Best Dealer award was given based on this model by OOO Ponsse.

Table 12. Criteria for overall dealer grading model.

Criteria	**%**
Market share	30
Customer Satisfaction Survey	20
ESW	30
Sales audit	10
Marketing audit	10
Altogether	**100**

Possible categorization of distributors

There has been discussion about starting a classification system for distributors. Company X used three different categories in global level (no categorization in Russia), but most likely two levels would be more convenient for the distribution network of OOO Ponsse. For example, overall grading could work as a measurement, which shows the level that is required for a distributor of the higher class. Main principle should be that better performing distributors also gain better terms financially (a better profit margin). This would lead to stronger efforts by the less-performing distributors to try harder in order to upgrade their status level. On the other hand, this kind of classification could be against the original values of Ponsse.

Distributor agreements

The terms of distributor agreements between OOO Ponsse and its distributors seemed to be in order and including all the phases recommended in the literature as well. Agreements included also requirements based on machine fleet of the distributor, but the surveillance or consequences were not detailed described. Stricter follow-up of the fulfillment of these requirements is recommended, and responsibility areas need to be shared. Exclusiveness and clear distributor areas are also things, which could be defined more strictly. Exclusivity is a good thing, when a motivated distributor has the certainty that it will work also in the future in that region. However, exclusivity is questionable, when a distributor is not willing to develop its business and loses to competitors. Violations of these terms (selling in other distributor's area) could lead to financial penalties.

Effects of Russian business environment on Ponsse

This analysis reflects also some observations considering the Russian business environment. Ponsse's business has not been damaged by the fluctuations of the ruble so badly than in some other industries. One of the explaining issues is that wood is an export product for Russia, which means that some of the customers of OOO Ponsse have their incomes in currency (€, USD). Especially in 2017, the demand for CTL forestry machines was very high and it is challenging to find one factor, which explains this growth thoroughly. The value of ruble is still far from the times before 2014, but the fluctuations have got smaller and the rate has been quite stable for some time. This stability might have been an impulse for companies that halted their investments in 2014-2016.

Other explaining factor could be the growth of industry in general, as more people and companies have started this business in Russia. There are more professional staff than before, but the condition of the infrastructure (roads) still limits the amount of available harvesting. In 2018, there will be the next presidential elections and according to some estimations, companies have in 2017 accelerated their investments, as the future situation after the elections is quite difficult to predict.

Otherwise, politics does not affect business of Ponsse that much in Russia. Recycling fees for second hand machines will make it impossible to import used machines and custom tariffs may change, but otherwise international companies can operate peacefully there. Corruption exists in some regions and "grey dealers" are selling non-original or smuggling original Ponsse parts, but these issues are decreasing. The high inflation has obviously been a hindrance in financing issues, but some relief can be seen, as in 2017 the reference rate of the Central Bank of Russia has lowered and the general inflation as well. This will be seen as more attractive terms for financing in the future hopefully.

6 CONCLUSIONS

The main aims of this thesis work were to produce data and document the current situation in Russia for the needs of Ponsse Plc. Moreover, the aim was also give recommendations and suggestions for action for both Ponsse Plc and OOO Ponsse in their distributor management. Perspectives and main emphasis of the thesis were on distribution network strategy, support and control of HQ, growth and profitability, cash flows, management of the network and communication.

Best practices and recommendations discovered in this study could be used also elsewhere in global subsidiaries of Ponsse Plc as internal benchmark. At best, this work gives alternatives, how to standardize management practices, which can be distributed to other market areas as well. Strategical communication ways were one of the main point of views too.

6.1 Key answers to research questions

In the introduction of the study, research questions of the thesis were presented. The main research questions of the study were the following:

1) *How global network management is carried out in Ponsse currently and what can be improved?*
2) *How the cooperation works between Ponsse Plc and its Russian subsidiary (OOO Ponsse)?*
3) *How the Russian distributors are managed by OOO Ponsse?*

These questions were analyzed and discussed in the previous chapter and further recommendations are given in chapters 6.2. and 6.3. These recommendations are especially about areas to be improved, as good points are already mentioned previously in the analysis part. Global network management of Ponsse Plc in overall is a lot dependent on individual people. At times, it is a good thing, but some standardization of management practices is needed in general. Main conclusions are listed in Table 13.

Table 13. Main remarks and recommendations of the work.

PONSSE PLC	OOO PONSSE
More systematical training programmes	Active search of distributor financing options
ERP updates	More strategical discussions with distributors --> Contact Call
Benchmarking from Company X	Area managent system and distributors' areas
Development of Partner Days	Improving audits and technical support
Internal benchmark about distributor management methods of OOO Ponsse	Distributor classification
Company culture of OOO Ponsse is from Vieremä	Distributors of OOO Ponsse truly are partners!

Flexibility is absolutely one of the biggest strengths and sources of competitive advantage of Ponsse. It is part of the company culture, which is definitely vivid in OOO Ponsse. However, it can be noticed that the main concerns and challenges are caused by flexible methods and lack of structured systems. It was the general opinion of both Ponsse workers and Russian distributors that a more structured distributor management should be organized. Nevertheless, at first it needs to be defined, whether too structured systems are against Ponsse spirit.

6.2 Recommendations for OOO Ponsse

Recommendations for OOO Ponsse can be started from the benchmarking with Company X. As told before, benchmarking was more informative and useful in HQ than subsidiary level. Some things cannot be adapted, as Company X’s distribution of sales and dependency on bigger cities, which means in practice that it is more reasonable for Ponsse to operate through distributors in different regions in order to avoid too risky investments.

In internal procedures of OOO Ponsse, financial management was a concern from the HQ point of view. However, according to the observations of the author, this side is also carried out with good professionalism. A lot of time is now spent on manual work, but approving new tools will enhance these processes. Main challenges are linked to the older version of ERP system, but updating this system and proper training for using it are the tools for this issue. It will then give more time for developing current situation with financial management or distributor financing.

However, Contact Call regularly with each distributor separately could be worth to be benchmarked and adapted from Company X. In OOO Ponsse, each area manager could start having contact calls with their distributors once a quarter. This discussion could be face-to-face meeting or also via Skype. This discussion would be more strategical, focusing on forecasted sales, overall situation in the market (including exact market sales) and current development projects.

Strategical discussions organized with each distributor during Dealers Directors Days were already a step forward in this matter. This discussion is now organized once a year, but the follow-up or reporting of the results of these discussions could be done in a more detailed way. This way it is not just about having a discussion, but also clear plans and timetable for future development incentives.

The responsibilities of area managers of OOO Ponsse are now based on areas and not on distributors. It is recommended to change this system in a way that a distributor is controlled by one area manager. This way area manager should be completely aware of the situation in distributor’s every working region and from the distributor point of view, the communication is more simple and understandable.

The ratio of the sales distribution (distributors/OOO Ponsse sites) was itself on a good level, but some corrections of distributor areas could be done. The most challenging areas considering this issue were Karelia (both a subsidiary site and a distributor site) and Vologda (2 different distributors in the same region). According to this analysis, these should not be long-lasting situation and for the future decisions about areas, it is recommended to do business either through own site or one distributor on one region in Russia.

Development of different audit systems is one of the key focus areas, as OOO Ponsse is aiming to enforce their control and monitoring over its distributors. Collecting information (tendency of audits and customer satisfaction surveys) is already on a very good level, but analysis of auditing results and especially presenting the suggestions for improvements in a more detailed way could be done in the future. Results could be distributed more efficiently inside OOO Ponsse as well, so that the area manager would be very aware of the distributor’s results, of which he is responsible for. In addition, criteria of sales and marketing audit could be reviewed and developed further on.

Distributor financing and adapting it thoroughly to the distributor network of OOO Ponsse was one of the main challenges during the period of this thesis work. However, remarkable improvement in the situation was observed, as the distributors seemed to understand better the importance of this theme and more beneficial offers from financing companies started to appear more and more. It is important to remember that in order to have a wide base for distributor financing, it is recommended to use several financing partners and bid their offers for several different services (leasing, stock/distributor financing and factoring). With the best partners, it is also recommended to aim for long-time cooperation, so that they would continue working with OOO Ponsse also during harder times.

Distributor agreements were in general on a very good level, but some improvements can be recommended. First, many requirements are defined in the agreements, but quite little follow-up of the fulfillment of the requirements is done currently. This monitoring could be done during different audits and the strategical discussions between the distributor and management of OOO Ponsse. Second, distributors highly requested clear lines and borders for the area distribution between distributors. One option is to define more strictly, which distributor has exclusive right for the territory and which one not. Third, classification of distributors to two classes (exclusive dealer and service dealer) might be an idea to be further developed on. Financial incentives should be the factor, which motivates distributors to aim for the status of exclusive dealer.

The main issue to be improved from distributors' point of view was technical support of OOO Ponsse. Regarding the heavily increased volumes, it is recommended to either have more resources and people on technical support (for instance phone service) or organize this support in a different way.

6.3 Recommendations for Ponsse Plc

Recommendations for future development start from the benchmarking study. Benchmarking with Company X was noticed to be more fruitful on HQ level than on the Russian subsidiary level. Company X is internationally a huge company, which has a strict control over its global distributors. Issues to be benchmarked and adapted from Company X to Ponsse were distributor classification system, auditing on three levels, Status Call and strategy integration in communication and enlargements through acquisitions of distributors. For Ponsse, this acquisition strategy could work in global level, when one distributor works in one country. On Russian scale, it is not to be recommended, as only partially, if for instance a service center of distributor could be purchased. However, it is important to remember the background of companies as well, which means that when some things are to be adapted from another company, the company culture and values of the other company need to be remembered as well.

In general, communication between OOO Ponsse and Ponsse Oyj seemed to work very well, so there is hardly any serious issues to be improved for this theme. People seemed to know the right roles, answers are given and received fast and in this case, the subsidiary management of Ponsse Plc has definitely succeeded. Moreover, the company culture of Ponsse (from Vieremä, Finland) was definitely vivid and strongly visible in the Russian subsidiary. OOO Ponsse is strongly locally managed, which is a good thing. It is better that the HQ need to give extensive operative support for the subsidiary mainly in the most challenging cases, and local supervisors should be trained well then.

One of the main challenges for OOO Ponsse was that they are using the older version of the ERP system of the corporation. This has led to a situation, where systems in the HQ and in the Russian subsidiary do not completely function and integrate together. It has caused problems for finance, spare parts and service departments. Moreover, trainings organized in the factory are not so effective then and some new services/applications cannot be used in Russia. For the future, it is recommended that when ERP system is updated in the HQ, it should be updated very briefly after that in all of the subsidiaries as well.

According to the staff of OOO Ponsse, there is a strong need to develop the training system of Ponsse Plc in a more standardized way. This means that trainings should be conducted in a similar way according to general standards. Now there are lists of needed trainings, but no clear contents of the trainings specified, certification system or modules. Training is definitely recommended to be invested on and developed in the future in Ponsse Plc. In addition to training, more systematical approach is needed for example in the case of Ponsse branding book and marketing material.

There were some issues that Ponsse Plc could benchmark internally from OOO Ponsse in distributor management. For instance, the management of Russian distributors is very carefully planned at OOO Ponsse, which is obviously connected to the importance of the distributor network in Russia. Furthermore, there are less distributors in Russia than direct distributors of Ponsse Plc, which means that the distributor network in Russia is a bit easier to control in some ways. This is shown for example in the tendency of doing audits, which Ponsse Plc could do a bit more often or on a wider scale than just ESW for service. However, it is very certain that as operating in a very specialized industry, Ponsse needs to always have also multi-brand distributors, as there may not be enough potential distributors just willing to focus only on Ponsse.

Ponsse Plc organized Partner Days in 2017 for the first time for its subsidiaries and distributors. It is recommended to continue organizing and developing this event. Elements from Russian Dealer Days could be adapted, as news, group works and especially individual strategical discussions between distributors and area directors. However, on a global level it is more recommended to organize this event once a year, as it might be too challenging and not necessary to gather all global subsidiaries and distributors twice a year together.

To conclude, it must be highlighted that Ponsse has succeeded in integrating its original company culture from Vieremä to its Russian subsidiary. People are active, responsible and keep their focus on the customer, which is seen in the working culture. That is also a remarkable base for the current and future success of Ponsse in Russia.

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APPENDIXES

Appendix 1. Sub-questions formed from the main research questions.

Sub-questions about cooperation/communication:

Are the targets of the HQ clearly adapted in the subsidiary? How does HQ control OOO Ponsse and how is this control seen among the personnel of OOO Ponsse? What are the differences in organizational structures of Ponsse Plc and OOO Ponsse?

What do the distributors think about the level of collaboration between them and OOO Ponsse at the moment? What factors in communication between distributors and Ponsse should be improved or take more into account? Are there any special features in distributor cooperation and giving feedback in Russia?

What are the main differences between different kinds of distributors, strengths and weaknesses (company size, location, level of focus on forestry machines vs. multi-branding)? Can distributors evaluate their own performance critically? How do they conduct continuous improvement?

How do the environment and working culture in different regions affect to distributors' and OOO Ponsse's activities? How should Ponsse consider these effects in their distributor collaboration?

Sub-questions about brand management:

How to specify Ponsse brand and values in order to be transfer them to the distributors' activities? Do the values of distributors respond to subsidiaries and parent companies' ones? If not, how should the subsidiary consider this issue?

How does the Finnish brand look like in the eyes of customers and distributors? How big influence does it have? How do OOO Ponsse and distributors support it? Who takes the responsibility locally and what kind of challenges does this cause?

Appendix 2. Possible questions in business relationships auditing.

1. History and current status

- What is the history of the relationship?

- What is the current purpose of the relationship for both parties?
- What is the substance of the relationship: actor bonds, activity links and resource ties?
- What is its financial performance?

2. Atmosphere of the relationship
- How committed are both companies to the relationship and to that investment?
- What is the distance between the two companies?
- What is the power and conflict position in the relationship?

3. Potential and investment
- What is the potential of the relationship for both parties?
- What investment is required from both parties to fulfil that potential?
- What are the threats to the relationship?

4. Network
- What is the network position of the relationship?
- What is its role in the company's portfolio?

5. Current operations
- Is current management of the relationship in line with overall strategy?
- Is the current pattern of interaction appropriate?

Appendix 3. Benchmarking questions on HQ level.

Strategy

1. How the subsidiaries and distributors of Company X implement the strategy and goals of the corporation?
- How do they see and understand these targets in practice?
- Are these goals the same in all market areas globally?

2. Which factors are positive drivers in the strategy implementation of X among its distributors?
- Success factors and best practices?

3. Which factors affect negatively on the strategy implementation of X among its distributors?
- Obstacles and hindrances?

4. Is the cooperation between X and its subsidiaries and distributors on the same level everywhere?
- Are there any special features in giving feedback and distributor cooperation in different market areas?
- Use of key account managers?
- Management of strategical changes in networks?
- Is marketing planned mainly locally/in the HQ?

5. How do you monitor the own strategy of the distributors and how is it coherent with the strategy of X?
- Evaluation methods and how often auditing is conducted?
- Do the distributors evaluate their own strategy critically?

6. What are the biggest differences among your distributors?
- Both in strengths and weaknesses?

7. How do the business environment and culture effect on the cooperation between X and its distributors?
    - In which ways does X take these features in account in its cooperation with distributors?

8. How does X enlarge its global sales networks?
- New subsidiaries/distributors/service dealers/joint ventures? (percent shares)
- The selection of new distributors and the processes connected? (selection of areas/regions, approval and vice versa closing the contract?)
- Cooperation with the distributors of competitors?
- What requirements do you have in order to acquire the distributor?

9. The implementation of HR strategy and training globally
- Safety and business performance go along?
- Spreading the practical working culture?
- Employee satisfaction measurements globally?
- Local managers vs. expatriates?
- Training of mechanics/salespeople?

10. How does X implement the principles of sustainable development in its distribution networks?
- Logistics in the distribution networks?
- Selection of factories, logistic centers and R&D centers?

11. Service and solution business in networks
- Does X use a lot of external service dealers?
- The scale of solution business and offerings? (can be compared to Ponsse Full Service)

12. Risk management in networks
- How is the responsibility carried and implemented in practice?

Brand

13. How does X transfer effectively its brand and value base to its distributors and their activities?

- How does X influence on the values of its distributors and their use of its brand?
- How is customer loyalty increased?

14. How does X use the Finnish brand in different market areas?
- How does the Finnish brand look like from the customer and distributor point of view?
- How is it controlled locally and what kind of challenges does it cause?

Appendix 4. Benchmarking questions on the Russian subsidiary level.

Strategy

1. How Company X in Russia and its distributors apply the strategy and targets of the corporation?
- How do they see and understand these targets in practice?
- Are these goals the same in every region?

2. Which factors affect positively on the adaption of the strategy of X in Russia among its distributors?
- Best practices?

3. Which factors affect negatively on the adaption of the strategy of X in Russia among its distributors?
- Obstacles and hindrances?

4. Is the cooperation between X in Russia and its distributors on the same level everywhere?
- Are there some special features in some regions in giving feedback and cooperation with distributors?
- The use of key account managers?
- Managing strategical changes in the network?

5. How do you monitor the strategy of the distributors and how it copes with the strategy of X in Russia?
- Evaluation methods and how intensively?
- Do they evaluate their own actions critically?

6. What are the main differences among your distributors?
- Both in strenghts and weaknesses?
- How do you define the level of your dealers?

7. How do the business environment and culture affect on the cooperation between X in Russia and its distributors?
    - How does X take these factors into account in their cooperation with distributors?

8. How does X in Russia expand their sales network?
- New own offices/distributors?
- The selection of new distributors and processes included? (geographical location, approval, on the other hand termination of contracts, change of a distributor, contract terms)
- Cooperation with the distributors of competitors?
- Which requirements to acquire a local distributor?

9. The application of HR strategy in Russia
- Safety and business go hand in hand?
- Spreading the practical working culture?
- Following employee satisfaction?
- Local management vs. expatriates?
- Training of mechanics/salespeople?
- Compare with Ponsse training mechanics

10. How does X apply the principles of sustainable development in its distribution channels in Russia?
- Logistical choices?
- Warehouses and sales offices

11. Service and solution business in Russia
- The spread of solution business (compare to Ponsse Full Service)
- Does X use a lot external contract servicemen in Russia?

12. Risk Management in Russia
- How is carried out in practice?

Brand

13. How does X effectively transfer their brand and values to the operations of their distributors?
- How does X affect on the values of distributors and the use of its brand in Russia?
- Increasing customer loyalty?

14. How does X use the Finnish brand in Russia?
- How does the Finnish brand look like in the eyes of customers and distributors?
- How responsibility is taken locally and what kind of challenges does this cause?

Appendix 5. Example of questions forms used in the interviews with HQ members.

1. Review of the project and results of benchmarking
   - The phase of the work and future plans

2. The strategy of Ponsse Plc's distribution network
   - Strategy integration in global networks

- Communication and control in general
- Emphasis on subsidiaries vs. distributors

3. The distributors of Ponsse globally
   - In which level the cooperation between Ponsse Plc and its distributors is in general?
   - The control of Ponsse Plc?
   - Flexibility of communication?
   - Does Ponsse classify its distributors? If not, should it do it?
   - Motivating distributors/monetary incentives?
   - Terms of distributor agreements?

4. OOO Ponsse at the moment
   - How does it perform?
   - Sales, profitability and cash flows
   - Cooperation with distributors and managing the distributor network?
   - Cooperation with the HQ, communication?

5. Best practices among Russian distributors
   - Best and most growing distributors?
   - What Ponsse does the best with them?
   - Contribution of training

6. Points of development
   - Where and how we need to develop?
   - Differences in management

7. Brand Management
   - Does Ponsse do it actively?
   - What values are highlighted?

Appendix 6. Example of questions forms used in the interviews with subsidiary members.

This meeting was done with the spare part manager of OOO Ponsse.

ТЕМЫ ВСТРЕЧИ / THEMES OF THE MEETING

1. Презентация своего проекта / Presentation about my project and master's thesis
   - ***Развитие менеджмента дилеров / Development of dealer management***
   - Что уже сделано? / What has happened so far?
   - Что будет сделано? / What happens next?
   - Проект продлится до конца года / The project will last until the end of this year
   - Всегда могу Вам помочь в отношениях с дилерами и Ponsse Oyj / I can always help you in relationships with both dealers and Ponsse Oyj

2. Сотрудничество с дилерами / Cooperation with dealers
   - Уровень и методы коммуникации / Level and methods of communication
   - Обратная связь / Feedback
   - Принципы обслуживания клиентов / Principles in customer service
   - Лучшие способы управления на практике / Best practices in management
   - С кем из дилеров Вы взаймодействуете больше всего? / With whom do you discuss the most?
   - Скидки для дилеров / Discounts for dealers
   - Ценовая политика дилеров / The pricing of dealers (for end-customers)
   - Главные различия между дилерами (преимущество и слабости) / Main differences among our dealers (strengths and weaknesses)
   - Что ещё можно улучшить? / What can be still done better?

3. Сотрудничество с Ponsse Oyj / Cooperation with Ponsse Oyj
   - С кем из Ponsse Oyj Вы взаимодействуете больше всего? / With whom do you discuss the most?

- Уровень и методы коммуникации / Level and methods of communication
- Поддержка от Ponsse Oyj / Support from Oyj
- Насколько легко цели Ponsse Oyj адаптировать к российской действительности? / Is the goal setting of Ponsse Oyj easily adapted here?
- Обучение / Training
- Система аудита ESW / audit system ESW
- Новые сервисы / New services
- Бренд менелжмент / Brand management
- Что ещё можно улучшить? / What can be still done better?

Appendix 7. Example of questions forms used in the interviews with the directors of distributors of OOO Ponsse.

Обсуждение с xx.xx. / Discussion with xx.xx.

xx.xx.2017 *место / Date and place*

ОБРАТНАЯ СВЯЗЬ ПО СООТРУДНИЧЕСТВУ И КОММУНИКАЦИИ ДИЛЕРОВ И ООО «ПОНССЕ» / FEEDBACK ABOUT THE COOPERATION AND COMMUNICATION BETWEEN DISTRIBUTORS AND OOO PONSSE

ТЕМЫ ВСТРЕЧИ / THEMES OF THE MEETING

1. Презентация своего проекта / Presentation about my project and master’s thesis
    - ***Развитие менеджмента дилеров / Development of dealer management***
    - Что уже сделано? / What has happened so far?
    - Что будет сделано? / What happens next?
    - Проект продлится до конца года / The project will last until the end of this year

2. Стратегия Ponsse в Ваших регионах / The strategy of Ponsse in Your regions
    - Какое развитие с начала сотрудничества с ООО Понссе до сегодняшнего дня? / How has the development been from the start of cooperation with OOO Ponsse until now?
    - Какая ситуация будет через 5 лет? / What kind of situation there will be in 5 years?
    - Ваши главные задачи и цели в Ваших регионах? / What are Your main tasks and goals in Your regions?
    - Какого доля Ponsse бизнеса в Вашем целом оборота компании? / What is the share of Ponsse business in Your whole net sales of the company?
    - Вы чувствуете, что можете общаться со заводом тоже? / Do You feel that you have the connection to the factory as well?

3. Сотрудничество в общем с ООО Ponsse / Cooperation with OOO Ponsse in general
    - Уровень и методы коммуникации / Level and methods of communication
    - Обратная связь / Feedback
    - Поддержка от Ponsse / Support from Ponsse
    - Системы аудита (в общем) / Audit systems (in general)
    - Что ещё можно улучшить? / What can be still done better?

4. Продаж / Sales
    - Ситуация на рынке (по сравнению с конкурентами) / Situation in the market (compared to the competitors)
    - Развитие доли рынка 2012-2017 / Development of market shares 2012-2017
    - Какие планы у Вас есть с б/у техникой? / What kind of plans do you have with used machine sales?
    - Срок доставки машин / Delivery times of machines

5. Послепродажный сервис / After Sales
    - Запчасти (CMI) и сервисная работа / Spare parts (CMI) and service work
    - Ваши сервисные центры / Your service centers
    - Гарантия и техническая поддержка / Warranties and technical support
    - Выбор новых сервисов / Offering of new services

6. Финансирование / Financing
    - Эта важная тема Вам или нет? / Is this an important theme for You or not?
    - Внешнее финансирование / External financing
    - Что Вы думаете о разных финансированных вариантов Ponsse? / What do You think about the different financing options of Ponsse?

7. Обучение / Training
    - Ваши планы иметь/обучать своих инструкторах? / What are your plans to have/train Your own instructors?
    - Обучение продажа и сервиса на Ponsse / Sales and service training in Ponsse

8. Маркетинг / Marketing
    - У Вас есть маркетинг план? / Do You have a marketing plan?
    - Маркетинг материалы Ponsse в общем / Marketing materials of Ponsse in general
    - Ценности Ponsse / The values of Ponsse
    - Бренд Ponsse в Ваших регионах / Ponsse brand in your regions

ДРУГИЕ ЖЕЛАНИЕ? ЧТО ЕЩЁ МОЖНО УЛУЧШИТЬ? / OTHER WISHES? WHAT CAN BE STILL DONE BETTER?