

How can Small and Medium-Sized Companies participate in emerging markets? – Theoretical approach for a market entry in Lithuania –

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Keywords:

Small and medium-sized enterprises, SME, Logistics, Logistic Providers, market entry, strategy, strategic management, Lithuania

Abstract:

In recent years, many countries have opened their markets to an unprecedented level. The European economy is one of the largest international sales and sourcing markets, where purchasing power and labour qualification is one of the highest in the world.

Among the new members of the European Union especially Lithuania is perceived as one of the most attractive markets by the German companies due to its favorable geographical location and rapidly developing economy. Since Lithuania started opening its borders to foreign trade and investment, its foreign trade relations have increased dramatically and the trade volume of German businesses grew significantly. Therefore the demand for logistics and transportation services has risen. Despite all possible challenges and risks the increasing economy offers new chances and opportunities to companies specialising the field of logistics.

As transport and logistics play a vital role in the economy of Germany, this paper focuses on small and medium-sized logistics providers. First, background information about German small and medium-sized logistics providers is given. Secondly, an analysis of Lithuanian market is conducted regarding Lithuania's transportation systems and the allocation of strategic logistics centres. In Lithuania foreign investments in the logistics sector, mainly in transportation, have substantially risen in the recent years. Thus, it offers excellent opportunities for transport and logistics related activities. As a first conclusion the advantages of a market entry will be reviewed.

Furthermore, a theoretic approach for a market entry strategy is described. Factors that should be taken into account by small and medium-sized companies while entering new markets are introduced and discussed. Finally, the paper illustrates opportunities and threats for small and medium-sized logistics providers to enter new markets in Lithuania.

Finally, opportunities and threats for a market entry are introduced and discussed.

1 Introduction

Increased global competition is frequently mentioned as one major driver of changes taking place in the business environment of many companies. Established company structures are permanently put under pressure by these changes. Changes or implementation of logistics services is a business with an immense potential of growth.

The European economy is one of the largest international sales and sourcing markets, whereat purchasing power and labour qualification is one of the highest in the world. In recent years, many European countries have opened their markets to an unprecedented level, giving equal terms of competition between foreign and locally produced goods. The tendency is to produce goods in a country where the desired quality can be achieved at the least possible cost and shipped to all the markets where they can be sold with a profit. German companies encountered opportunities to enter markets with much higher economic growth than in the home country.

Since the expansion of the European Union in 2004, the Baltic Sea Region has become one of the most dynamic regions within the European Union. These new markets are of special interest for German small and medium-sized enterprises, which make up the vast majority of the total number of enterprises in the country. Among the new members of the European Union especially Lithuania is perceived as one of the most attractive markets by the German companies due to its favourable geographical location and rapidly developing economy. Since Lithuania started opening its borders to foreign trade and investment, its foreign trade relations have increased drastically and the trade volume of German businesses grew significantly.¹ Therefore the demand for logistics and transportation services has risen. Despite all possible challenges and risks the increasing economy offers new chances and opportunities to companies specializing in the field of logistics.

According to the increasing market pressure by international competitors small and medium-sized enterprises are forced to realize possible competitive advantages. This paper elaborates a company's advantages entering a new market, explains different views of strategy making and derives recommendations for a market entry by small and medium-sized enterprises in Lithuania.

¹ Currently there are already 1,200 companies with German capital in Lithuania (Lithuanian Ministry of Foreign Affairs 2007).

2 Theoretical Approaches in strategy making

In order to give a short overview of underlying principles of strategy making for entering a new market, firstly basic approaches of strategic management are introduced.

In general, strategic management aims at ensuring a company's success and future existence based on long-term profitability (Bleicher 1999). Although strategic management has been evaluated and reviewed by numerous authors, there is no common understanding of a "Strategic Theory of the Firm" (Al-Laham 2003, Whitehill 1996).

A typical business firm has three levels of strategy: the **corporate strategy** on central level, which gives the overall direction in terms of the general attitude of the company. Part of the corporate strategy should be patterns of decisions regarding the types of businesses in which an organization works as well as the flow of financial and other resources to and from its divisions. Besides, relationships of the company with its key groups in the environment should be considered. At the divisional level, the **business** (or competitive) **strategy** is emphasizing the improvement of the competitive position of the products or services in the specific market segment served by that division. The aim of the **functional strategy** is to maximize resource productivity. Functional departments, such as finance, marketing, human resources or real estate, pull together their activities and competences to improve performance.

Facing environmental changes and an increasing competition for new customers the aim of a company strategy is to put a specific business model into action. Strategic decisions may include for example cost-intensive product development, elementary changes of the production program, concentration on a specific level of the value creation or the buyout of a competitor. The task of strategic management is to create and to beware good prerequisites for sustainable success on a long-term base.

The base of these decisions and the strategic orientation are internal or external views: The underlying principle of external views is a structure-conduct-performance (Porter 1981): That means that a company's success bases on a few central characteristics. The most well-known theory is the market-based view, which focuses on the conditions and prerequisites of the specific market (Porter 2005).² By cost reduction, differentiation or specialization companies aim at reaching an important position in the market (monopoly). Focussing on internal strengths the Resource-Based View (Lewis, Gregory 1996, Barney 1991) and the Knowledge-Based View (Al-Laham 2003) emphasise the company's structure, culture and core competencies (resource-conduct-performance).

As Fig. 1 shows strategy development can proceed in two ways depending if the external market with customers and competitors plays a dominant role (market-based view) or if internal prerequisites are mainly considered (resource-based view).

² The Society-based View and the Relational-based View are also among the external views.

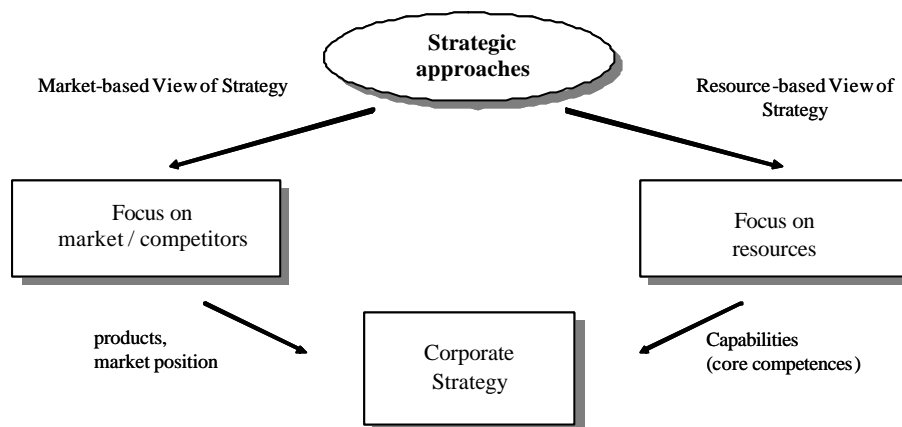


Fig. 1: Development of a strategy (Marquardt 2004)

Ideally both views should be combined in a corporate strategy. Appropriate forms of strategy development are contextually determined depending on a company's individual situation.

3 The Lithuanian Market

3.1 General Information about Lithuania

Situated along the south-eastern shore of the Baltic Sea, Lithuania shares borders with Latvia to the north, Belarus to the southeast, Poland and the Russian exclave of the Kaliningrad Oblast to the southwest.

Lithuania's population is about 3.38 Million; about 554,000 are living in the capital city Vilnius (Statistics Lithuania 2007). The country is divided into 10 counties governed by city councils. There are three major ethnic groups in Lithuania: Lithuanian 83.4%, Poles 6.7%, Russians 6.3%. According to statistics from year 2005 among all Lithuanian work forces 1.61 million, 56% were involved in services; 20% in industry and construction; 16% in agriculture. Annual population decrease is - 0.54% (Statistics Lithuania 2007).

In a first step the Lithuanian market will be evaluated according to the PEST analysis. Thus, Political, Economic, Social, and Technological factors are described.

3.2 Political Situation

Politics of Lithuania takes place in a framework of a parliamentary representative democratic republic. Officially, the Lithuanian Government and all major political parties support a free-market system, giving priority to financial discipline, currency stability and other business friendly policies. Lithuania is seen as politically stable (Kaufman et al 2002).

Together with the other Baltic Sea States Lithuania joined the European Union on 1 May 2004. Lithuania's strong commitment and effort in joining the EU and NATO has won broad recognition worldwide and the membership preparation process has helped the country to improve its legal, tax and customs systems – all of which has helped growth of the economy and business development.

3.3 Lithuanian Economy

After regaining the independence from the Soviet Union, Lithuania has succeeded in developing the stable foundations of a business-friendly and opportunity-filled economy, geared towards sustained, long-term growth.

The Lithuanian government responded to changes in the labour market by approving the national program for increased employment for 2001 to 2004 (Kairelis 2002). The GDP composition by sectors is dominated by services (60,5%), followed by industry (33.4%) and agriculture (6.1%) (EIC 2005). The labour market is tightening rapidly in 2006 (European Commission 2006). Employment growth is picking up, while the unemployment rate is in marked decline. The European Commission sees this as the result of the combined effect of strong economic growth and increased labour shortages. Unemployment is expected to continue to decrease, although at a slower pace and stabilise to around 5%. Employment growth is anticipated to remain positive, although at lower levels than in 2005-2006. In 2004 the GDP was 17.9 bn Euro in total (EIC 2005).

While in recent years economy growth is slow (less than 2%) in Germany, Lithuanian growth in GDP averaged 7.9% over the period 2001 to 2004 and is estimated to remain robust at well above 6% (European Commission 2006b). The future outlook is also positive for the development of economy in Lithuania.

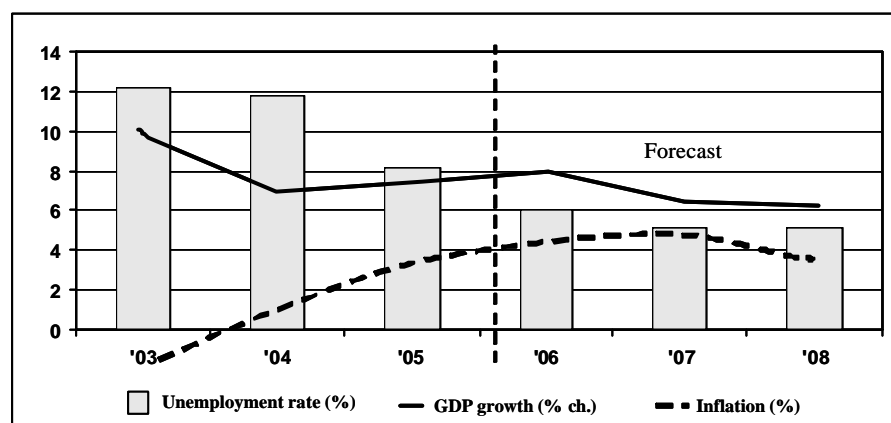


Fig. 2: Lithuania – GDP growth, unemployment rate and inflation (European Commission 2006b)

Main trading partners for Lithuania are Russia, Germany, Latvia, Switzerland, the United Kingdom, and Poland. The tendency over the last years is that trade with eastern countries declines and is compensated by trade with the western European countries. According to the imports data, Germany ranks the second and counts for 17% of all imports (The world fact book, 2004).

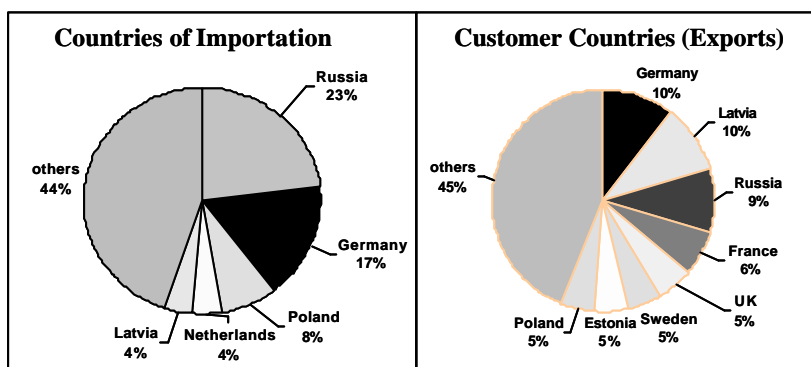


Fig. 3: Lithuanian import and export data (Destatis)

Major traded commodities (imported as well as exported) include mineral products (export value 13.4%, import value 19%), textile and textile articles (export value 9.2%, import value 5.3%), machinery and other equipment (export value 12.1%, import value 16.2%), vehicles and related transport equipment (export value 10.2%, import value 15.8%) (Statistics Lithuania 2007). The outlook for export remains favourable; reflecting positive prospects for Lithuania's major trading partners, while import growth is forecast to remain robust on the back of strong domestic demand (European Commission 2006).

The standard profit applied to Lithuanian entities and permanent establishments of foreign companies is 15% (EIC 2005). The standard VAT rate is 18%.

In Lithuania retail and wholesale trade are the clearly dominating types of economic activities by number and turnover (see Appendix 7). Transport, storage and communication as a group are in the third place by the same criteria.

3.4 Technological Analysis

According to a research about the application of information technologies at enterprises and organizations by the Lithuanian Department of Statistics in 2001, the Lithuanian ICT market has grown due to increased investment in the business customer market segment as well as in the fast developing consumer market. Furthermore, enterprises of all sizes are fairly well equipped with information technologies (UNECE 2003, p. 29). Whereas the ICT use per person has to be increased (European Commission 2006a).

3.5 Social Analysis

Lithuanians, Poles and Russians are living as three major ethnic groups in Lithuania (cf. 3). The average earnings in private sector in Lithuania averaged 379€ per month (gross monthly wage) in 2004 (EIC 2005).³ Employees in SMEs dealing with transportation, storage and communication would earn around 9.7 € per hour. According to Lithuanian Development Agency (LDA), in addition to gross wages paid to employees, an employer is obligated to contribute 30% of the company payroll for Social Security (27% is social insurance, and 3% health insurance) (SMEDA

³ The minimum gross monthly wage is 145 €

2007). Income received a salary from a Lithuanian source is subject to standard income tax of 33% (EIC 2005).

4 The Logistics Market in Lithuania

4.1 Transportation Business

After this general overview about the Lithuanian market an analysis of the logistics sector is conducted. As chapter 4.1 derives the transportation sector already plays an important role. Lithuanian foreign investments in the logistics sector, mainly in transportation, have substantially risen in the recent years. The capital city Vilnius attracts most of the investments; however, from the transportation perspective Klaipeda and Kaunas, being transport hubs, are also of high interest.

As import, export as well as internal trade grows, the demand for further development of transportation sector is consequently increasing (cf. 3.2) offering excellent opportunities for transport and logistics related services.

The transport sector remains one of the most rapidly developing sectors in Lithuania. In recent years the Gross value added (GDP) generated by the transport and warehousing sector continued to grow and in 2004 accounted for 9.6% of the total GDP of the country (cf. UNECE 2005). This indicates a significant impact on the transport sector on the whole economy of Lithuania. The contribution of transport and warehousing activities to the total GDP went from 8,5% in 2001 to 9,6% in 2004 (cf. UNECE 2005). Because of the perceived strategic importance of transport enterprises, the Government of Lithuania decided to keep key companies as semi-public enterprises.

There are three international airports (Vilnius, Kaunas and Palanga). As the cargo traffic via airports is not of high volume (approximately 8000 t in 2005), the focus is put on the passenger transportation. The passengers' traffic at Lithuanian airports has boosted after the accession into the EU. Future forecasts indicate further cargo and passenger traffic growth.

Due to Lithuania's geographic location, the transport sector, particularly freight transit, plays a key role in the economy of the country. Freight shipments between Russia and the CIS, and the West, are the core of the transit industry in Lithuania. Lithuania has only one major seaport, the Port of Klaipeda, which is the hub of the transport transit industry due to important advantages. First, the Port of Klaipeda is the only ice-free port in the area (unlike Riga, Tallinn and St Petersburg ports). Another essential advantage is the best hinterland road with a four lane European standard motorway to Vilnius and rail connection to the East and Moscow. The road infrastructure in Lithuania is good in comparison with neighbouring countries. The total length of Lithuania's road network is 69,067 km (The World Bank 2006). Surface covers 87.9% of all existing roads. 376 km of European standard motorways serve the highest density routes Vilnius-Kaunas-Klaipeda and Vilnius-Panevezys (The World Bank 2006). The Lithuanian rail network consists of 1775.3 route-km with 557 km of double track. Lithuanian Railways (LR) is a profitable state owned company (The World Bank 2006).

There are 902.3 kilometres of inland waterways in Lithuania, including 476.7 kilometres of waterways used for the carriage of passengers and goods (Lithuanian Ministry of Transport 2004). The biggest river port is in Kaunas.

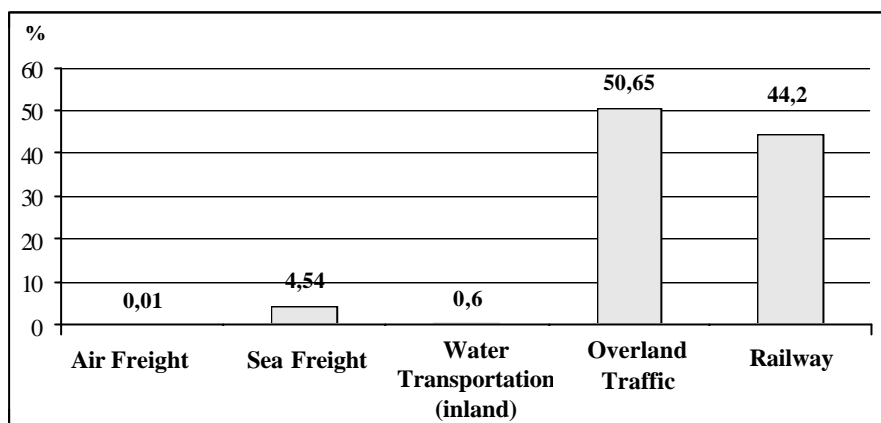
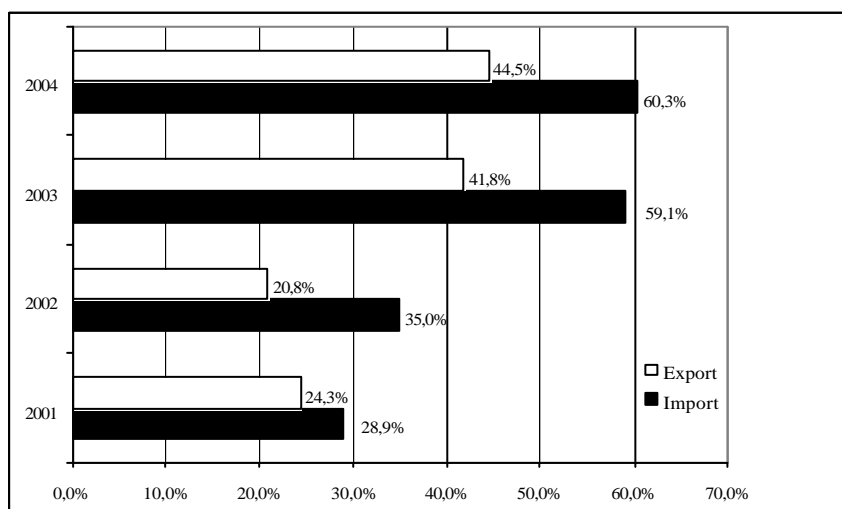


Fig. 4: Modal split in transportation of goods 2005 (million/ton)

According to the Ministry of Transport and Communications of the Republic of Lithuania road and railway are the dominating transportation modes in Lithuania (cf. Fig. 4). Furthermore, in 2005 about 95,000 employees worked in the transportation sector, i.e. 6.5% of all employees, which indicates the current importance of the transportation sector for Lithuanian business.

4.2 The Role of SME in Lithuania

Since 2000 the average size of enterprises decreased (Kairelis 2002). Almost all large industrial and building enterprises have been privatized and split into smaller units. Small and Medium-Sized Enterprises (SMEs) up to 50 employees developed very intensively (Kairelis 2002).⁴ Nowadays SMEs accounted for 99,4 % of the total number of operating enterprises in Lithuania (SMEDA 2007). These enterprises employed 69,7 % of the total number of the employed people and 68,2 % of the gross value added was created in these enterprises. The share of SMEs exports and imports relative to total foreign trade of the country is of growing importance (cf. Fig. 5). Germany is ranked as the third main export country with a 10% share of all exports (cf. Fig. 3). Statistical data reveals that the value of the goods and services created by SMEs is growing each year. Thus, the role of SMEs in the Lithuanian economy is increasing (SMEDA 2007). Already a significant number of SMEs belong to the service sector: 24,2% of the total number.



⁴ Among 128,000 enterprises in Lithuania 80% were SME. However, they employed only 33% of the employed population.

Fig. 5: Comparative Shares of SME Exports and Imports in the Country's Foreign Trade in 2001–2004, % (SMEDA 2007)

The structure of operating SMEs according to the types of economic activities at the end of 2001–2004 is dominated by industry and trade (SMEDA 2007). Still, considerably smaller the comparative share of SME exports compared to that of the imports signals that SMEs are not yet capable of competing with large enterprises in exports possibilities (SMEDA). Thus, SME working in the niche of Logistic Service Providers may offer tailor-made solutions and flexibly react on market changes which may lead to chances and potentials for growth. SMEs growth is one of the priority policies pursued by the Government of Lithuania (European Commission 2006a). Thus, support for SMEs, such as tax relieves, granting of loans, investment of risk capital in SMEs, or establishment of business incubators, is currently implemented.

Especially SMEs do not receive adequate support to improve their ICT knowledge and that sets limits to their geographical placement. The use of logistics related ICT need to be intensified on many areas, and the IT interfaces (e.g. Business-to-Government) need to be understood better (UNECE 2003).

Before working on the details of a market entry strategy, information on the internal and external environment has to be gathered (Schlüter 2004). This so-called environmental scanning usually refers just to the macroenvironment, such as political, economic, social and technological aspects (PEST analysis, cf. 3.2), but it can also include a study on industry, competitors and consumers in the market.

Alongside the PEST analysis an analysis of the strength, weaknesses, opportunities and threats (SWOT) can be used as a basis for the analysis of business and environmental factors. The aim of any SWOT analysis is to identify internal and external factors that are important to achieving the objective by grouping key information into categories.

4.3 Logistics service providers

As logistics outsourcing has become a broad business solution for competitiveness (Laarhoven et al. 2000) more and more companies start to work as logistics service providers. The term logistics service providers is not really defined in literature. Synonyms are the terms 3rd Party Logistics Provider, logistics partners or value-added service providers. The benefits of being associated with third party logistics include reduced logistics investment, improved logistics performance and enhanced core competences of business. While in the past logistics services mainly contained transportation services, the portfolio of logistics services providers have completely changed towards integrated logistics services (Fig. 6).

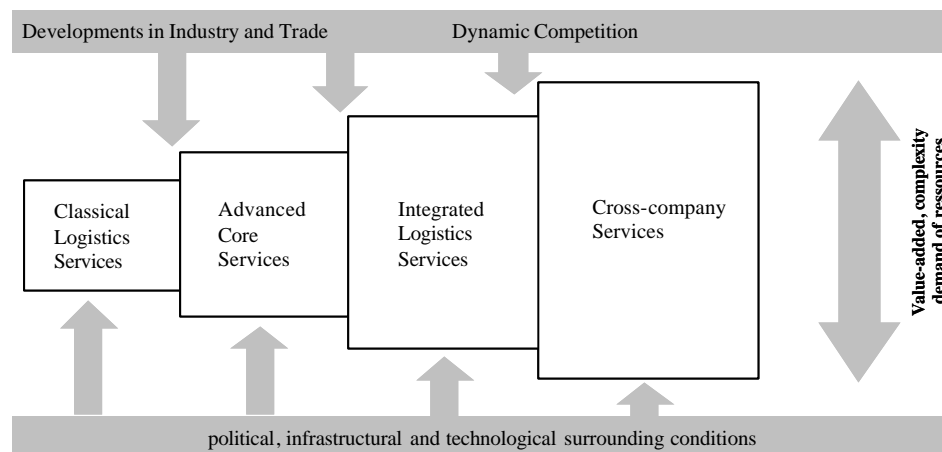


Fig. 6: Development of the activities of Logistics Service Providers (Baumgarten 2002)

Nowadays logistics service providers offer as well integrated logistics services as well as cross-company services. The typical logistics services include, transportation, warehousing, inventory management, reverse logistics, etc. There is no general definition of logistics service providers. The tasks of a logistics service provider are all activities round a product and its packaging. In this paper logistics service providers fulfil all external services, such as delivery, handling and storage of materials. Especially, transportation is the major function in logistics services based on literature (Logan, 2000). In many parts of the world logistics services is an emerging industry, and the market continues to grow (Economist, 2002).

The market volume for logistics services in Germany is estimated by different studies up to approximately 150-170 bn Euro. Thus, approximately 95 bn Euro is generated by primary logistics services such as transport, cargo handling and storage (Jauernig, 2005, p. 16). The turnover by logistics service providers is forecasted to continue to rise in the next years (nowadays approximately 76 bn Euro).

4.4 SME in Germany's logistics business

In Germany there are 3.5 million small and medium-sized enterprises,⁵ which make up the vast majority of the total number of enterprises in the country. Thus, SME are the backbone of the German industry. Two-thirds of all jobs (24.5 million employees) are offered by SME (KfW 2006). Around 16.6 million SME are working in the service sector. The German SME represent 40% of gross investment and 49% of the gross value added (Deutscher Bundestag 2002).

Logistics is Germany's third biggest industry, thus plays a vital role in the economy (Klaus, Kille 2006, p. 53). The volume of business recorded a robust growth from 160 bn Euro in 2001 to 170 bn Euro in 2004. The annual growth rate is 2,1%. With 2,5 million jobs about 7% of the total 38,2 Mio employees work in the field of logistics. Germany's 12174 route-km highway, 34732 route-km railway and 6636 km waterways provide Europe's best infrastructure (Fraunhofer IIS 2005, BVL 2006). In total 838,600 employees work in the German transportation sector (Klaus, Kille 2006).

⁵ SMEs with an annually turn over up to 500 million Euros.

5 Possibilities (and advantages) of a market entry in Lithuania

5.1 Structure of the Transportation market in Lithuania

Entering a fragmented market is easier than entering a market which is divided among several big players. The Lithuanian logistics market is not yet mature, since logistics is a rapidly growing area and the supply-demand relation is not stable yet. Logistics Service Providers that currently operate in the Lithuanian market can be roughly classified into three categories: Former Lithuanian companies, branches of international enterprises and entrepreneurial start-ups.

a) Former Lithuanian Companies.

Well established companies, such as Sanitex, LISCO, Baltijos Grupe, etc. are currently adapting to the new demands of the market for more sophisticated logistic solutions and value added services heading towards supply chain management. These companies have the most experience about the Lithuanian market and well established networks with customers and local partners. However, they have not had much contact with foreign companies to learn from their experiences. Since the logistics concept in Lithuania is lagging behind the most recent innovations in this field, the management of such companies is learning by practice.

b) Branches of International Companies.

Another group of companies are the new entrants that established presence in the Lithuanian market after the EU expansion. These are the branches of large international companies operating in the logistics markets, which have gained much experience from global activities. Such companies include for example DHL Lithuania, DFDS Transport, Kühne + Nagel, Schenker, Scanbalt Trailer etc.

c) Entrepreneurial Start-ups

This group comprises a large number of small recently established entrepreneurial companies. They emerged in response to growing demand for innovations in the logistics services field and look for niche markets in the beginning that would give them strength for further growth. These companies are mainly SMEs, some of which are really successful in establishing good reputation and necessary networks.

5.2 Market entry modes

As in most of the cases an entry into new markets offers changes and risks. Companies, who are the first in the market, can quickly respond to customer's needs and thus, might sustain their position by this First-Mover-Advantage (VanderWerf/Mahon 1997).

Before a company decides to enter a foreign market, it has to define its strategy to go into the market. There is a variety of options depending on costs, risk and the degree of control. A market entry can be recommended in stages in order to limit the risk. For instance as first step exported goods can be brought to the new market, later a representative office can be launched, after that an independent sales organisation might be established and finally, after having gone through these steps, a company may set up its own production capacity in the new market. Meanwhile the experiences collected at each step will influence further expansion (Buckly/Casson 1996). A successful market entry depends on the velocity and the decisiveness of the actors, how they succeed in securing the attractive market. Often a strategy can only

be implemented by accepting short-term disadvantages. But on a long-term base a company strategy keeps competitors out of the target market will succeed.

More specifically four general market entry modes do exist: Licensing, Franchising, Joint Venture, or Wholly Owned Subsidiary (Hill 1997).

In the case of **licensing**, the licensor grants the rights to intangible property to the other entity for a special period of time, and in return, the licensor receives a royalty fee from the licensee. Intangible property includes patents, inventions, formulas, processes, designs, copyrights, and trademarks. One example for licensing is the production of marine engines (Marquardt 2003).

Franchising – in many respects similar to licensing – tends to involve longer-term commitments than licensing. Franchising can be defined as a specialized form of licensing in which the franchisor not only sells the intangible property to the franchisee, but also insists the franchisee agree to abide by strict rules as to how it does business. Whereas licensing is pursued primarily by manufacturing firms, franchising is employed primarily by service companies.

A **Joint Venture** implies establishing a firm that is jointly owned by two or more independent firms. Apart from market entry other objectives for a Joint Venture are risk/reward sharing, technology sharing and joint product development, and conforming to government regulations (Buckley, Casson 1996).

Finally in the case of a **Wholly Owned Subsidiary** a foreign company owns 100 percent of the stock. A wholly owned subsidiary can be established either by setting up a new operation, or by acquiring an established company.

The option carried out depends on the advantages and disadvantages in the specific company case and on the target market. As mentioned before, the decision of entering a market bases on the results of systematic analyses. Furthermore, market entry modes differ by the proportion of capital and management outlay in host and home countries.

In the following chapter conditions and factors, which are influencing logistic companies more than the other types of businesses, are taken into consideration. First opportunities and threats representing the external environment in Lithuania will roughly be evaluated; in a second step some possible strengths and weaknesses of SME will be introduced.

6 Opportunities and threats entering the Lithuanian market

6.1 Opportunities in Lithuania

Logistics will become more important for cities like Kaunas and Klaipėda to maintain their competitive position in a global world. International logistics are also changing rapidly. With containerization of sea transport and the trend towards even bigger container vessels, Lithuanian ports as well as hinterland structure need to adapt. The government has already set up a reform program including financial resources devoted to improving transport infrastructure (European Commission 2006a).

The attractiveness of the potential market can be evaluated by the existing demand for transportation services in Lithuania. The transport demand is expressed in transport needs, even if those needs are satisfied, fully, partially or not at all. According to Rodrigue (2006), transport demand increases in two cases: One the one hand there is an increase in freight, which is being carried (can be estimated by production, population, consumption and income growth), and on the other there is an increase of transportation distances over which freight is carried (due to industrial relocation, economic specialization, etc.).

Lithuania is an attractive region for German transport service providers due to optimistic demand forecasts, good infrastructure, geographical location (being close to the home market and a gateway to the East), and low labour costs and rather fragmented transportation industry. Good infrastructure of Lithuania provides a practical opportunity for logistics companies. A survey of logistic costs in the region indicated that the costs in Lithuania were the lowest in the region (The World Bank 2006). Important routes have capacity for traffic growth.

The demand analysis showed that the prospects for transportation services are favourable due to increasing production, income and expenditure. The demand for advanced logistics services in Lithuania is lagging behind in comparison with the German market. Therefore a German logistics service provider would have an advantage in know-how against the local companies. Finally, the industry structure is rather fragmented so far and the market is not divided yet between the players. Thus, it is a great opportunity to take advantage of the current situation and enter the market in the nearest future.

In addition, SME development is well supported by different Government policies. Since the business climate is favourable and catching up with the EU standards, it is a good possibility to establish presence in the Lithuanian market and start gaining experience to make a fortune of the opened opportunities.

Besides, Lithuanian educational system is still lacking of specialists in transportation segment and logistics, because universities still do not provide specialized education for management in this field. It creates an opportunity for foreign companies, which have experience in developing and penetrating the market in transportation field.

As transportation distances are rather fixed in case of one country analysis, the increase in freight is the major driver in creating the demand for transportation services. Lithuania is facing annual growth in real earnings of the inhabitants, close to 7.8% on average. Higher purchasing power makes a positive impact on the growth of consumption. The production represented by GDP grows rapidly in Lithuania (see chapter 3.3). Thus, although the population growth is negative, growth in production, income and consumption results in an increase of demand for transportation services, which creates an opportunity for logistics companies.

To summarize the opportunities to enter the Lithuanian market:

- fragmented transportation market opens chances for market share
- political stability and Lithuanian membership in the EU and other international organizations
- lower labour costs and less strict labour regulations than in Germany
- eligibility to use the government support available for SMEs
- ability to use tax advantages
- chance to gain knowledge about the local market and consider expansion into neighbouring regions
- the attention and financial resources by government devoted to improving transport infrastructure

6.2 Possible threats in Lithuania

The Lithuanian transport infrastructure still is in the development phase and remains a key problem (European Commission 2006a). Main obstacles in maritime and inland navigation transport sector might be the insufficiently developed network of access

(roads and railways) to Klaipeda port and the insufficiently developed inland waterways transport (old vessels, the difference of depth of the main inland waterway Kaunas to Klaipeda). Besides, road and rail infrastructure currently do not fit European requirements, although it is planned to link Lithuanian railways with rail networks in Western Europe, so-called Rail Baltica (European Commission 2006a). The transport and transit industry is an attractive activity for the private sector. However, because of the perceived strategic importance of transport enterprises, the government decided to keep key companies such as Lithuanian Railways and the Klaipeda Seaport as semi-public enterprises (The World Bank 2006). Besides, Lithuania has set up a reform program in order to promote the competitiveness of Lithuanian companies (European Commission 2006a).

To summarize the market entry barriers in Lithuania SME have to deal with:

- Small number of Transportation modes and entry points
- Despite being fragmented, the competition is still quite intense among all kind of transportation firms
- Less developed technologies in Lithuania might result in obstacles to develop required IT solutions and inter-company connections
- Education institutions in Lithuania do not yet provide an appropriate education for logistics management - training or bringing in expertise might be needed
- Language problems (additionally culture differences may occur)
- Government program to strengthen Lithuanian companies
- Powerful semi-public competitors in the Lithuanian transport sector

Besides, a clear strategy is needed to develop required network better than the local companies might have.

6.3 Strength and weaknesses

In order to achieve a reliable basis for decision making, trends in the market have to be anticipated and interpreted as chances or risks for the specific company. Besides, the enterprise-internal strengths and weaknesses must be evaluated according to the external developments (Krystek, Müller-Stewens (1993). However a systematic collection, analysis and implementation of data are rarely considered for strategic planning (Schlüter 2004, p. 57). A monitoring of all surrounding field is very costly and thus for SME often not possible at all (Schröder 1999).

As this paper is not reviewing a specific business case, some general aspects are described.

Internal factors have to be considered as company's strengths and weaknesses. Examples for SME's strengths are

- Good network
- Competitive advantage because working in a niche as a logistics service provider e.g. transportation of food or pharmaceutical products
- Flexible structure
- Well developed core business

Examples for SME's weaknesses

- Too small for a professional market entry
- No experiences with business in foreign countries
- No specialised logistics services

The description above is only a fictional extract of possible strengths and weaknesses, as a company has to specifically analyse for itself before making its strategic planning.

7 Recommendations for a market entry: Summary and conclusion

After the expansion of the European Union, German SMEs encountered opportunities to enter markets with much higher economic growth than in the home country. In this essay an analysis of the Lithuanian transport sector was conducted and the advantages and challenges of a possible market entry by a logistics service provider were reviewed.

Lithuania is an attractive region for German transport service providers due to optimistic demand forecasts, good infrastructure, geographical location (being close to the home market and a gateway to the East), and low labour costs and rather fragmented transportation industry. In addition, SME development is well supported by different government policies. Since the business climate is favourable and catching up with the EU standards, it is a great possibility to establish presence in the Lithuanian market and start gaining experience to make a fortune of the opened opportunities.

First, the decision whether to enter the market has to be made. Much higher growth of the Lithuanian economy than of Germany and increasing trade relations with the German market suggest that currently there is an opportunity for German logistics service providers to enter the Lithuanian market. In addition, land infrastructure and closeness to Germany are the two favourable factors that make Lithuanian market even more attractive.

Second, after the decision to enter the market is made, the most appropriate strategy has to be chosen. The PEST analysis showed that Lithuanian market has favourable environment for setting up a transportation company due to favourable government policies, relatively low risks (politically stable, complies with the EU standards, etc.) and because labour is cheaper than in Germany. Market analysis alone is not enough for this kind of decision, company's resources and preferences have also to be taken into account.

Finally the entry mode has to be defined by reviewing opportunities and challenges in the target market in more detail.

After making a final decision to enter the market, it would be necessary to review opportunities and challenges taking into account the resources and specific targets of the company.

However, further research of internal company's resources, competencies and goals has to be conducted before making the final decision.

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