



CASE STUDY ON LIGNELL&PIISPANEN “SCANDINAVIAN TRADITION SHARED WITH THE WORLD”

Work Package 2

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LIGNELL&PIISPANEN

"SCANDINAVIAN TRADITION SHARED WITH THE WORLD"

A – EXECUTIVE SUMMARY

Case explained here is written for educational and learning purposes under EU project, INNO-case, 2013. The target audience comprises entrepreneurs/learners, who have similar problem to solve in his/her job/company as well as students and SMEs, who are interested in export issues. Case has been created by using qualitative methodology i.e.by interviewing staff. The analysis is based on the interviews and written theory sources.

This INNO case has to do with the L&P (Lignell&Piispanen Ltd, family owned company). L&P is situated in Kuopio, Finland where it has had its offices and production facilities since the beginning. L&P has been operating in various industries for 131 years, starting from 1882. At the end it narrowed down its activities to milling and alcohol industries. However, this case will focus on the latter one.

The case describes a local family business, which started successful penetration of international markets and has ambitious plan for the future. It managed to adapt its product portfolio for foreign clientele and found approaches to sell those products. This case highlights particularities of B2B market in a frame of governmental alcohol monopoly, forcing companies in this industry to go abroad and search for alternative solutions in marketing. Finally, the major problem of the case is related to choosing a right middle person, who has a vital importance to entering a foreign market and then operating in it.

This case is based on the interviews with Managing Director Mr. Harri Nylund and Export Manager Mr. Antti Hynninen in May 2013.

B – BASIC INFORMATION ABOUT COMPANY

L&P, a trading name of a family business Gustav RaninOy, is nowadays a prosperous company, operating in alcohol industry (production, imports/exports, and sales) and mainly concentrating on producing unique premium- quality arctic berries liqueurs. L&P is a small-sized international company, hiring just 27 people: four people in administration, five in sales, two in the milling and the rest in production sides. The financial information

on the company is not available given it is Limited Liability Company. However, the turnover is estimated to be approximately EUR 8.4 m. L&P is a private company and is 100% owned by the members of the Ranin family(30-32 shareholders) to whom the company has belonged throughout six generations.

Gustav Ranin Ltd. is involved in two main activities: in milling and alcohol industries. The main product of the mill side is rice, imported from Italy. The company washes, polishes and sells it. Gustav Ranin Ltd.possesses the only rice mill in Nordic countries; the similar closest one is situated in Germany. As for alcohol production line, representing 75% of Gustav Ranin Oy operations, the main products are liquors, made from Finnish berries. Apart from that, L&P has a very strong portfolio of cognac from France, whiskey, wines, strong spirits – basically, all kinds of alcohol, even including some industrial and kitchen use alcohols.

L&P operates only on “Business to Business” markets due to Finnish alcohol law, prohibiting companies to address final consumer directly. Finnish alcohol law gives the consumer selling monopoly of alcoholic beverages containing more than 4.7 percent alcohol by volume to government-owned monopoly company Altia, and the retail activity takes place through ALKO Oy. Retail Alko selection encompasses 45 of L&P products. Moreover, L&P is one of the largest cognac importer in Finland and the market leader in the flavored vodka segment. Another significant distribution channel are Baltic duty-free venues, represented by such clients as cruise liners Tallink-Silja and Viking Line, not forgetting Finland’s largest airline Finnair and Helsinki International Airport. Finally, the export activity is expanded to Sweden, Norway, Estonia, Germany, Austria, Switzerland and China as well as to duty free shops along the Finnish and Russian border, where the company is the market leader in the berry liquor segment.

The company’s strengths primarily lay in the premium quality of a product and long-term, trustful relationships with customers. Reputation is one of the greatest values for L&P. Moreover, strong team spirit and high respect for tradition and past, complemented with high professionalism of every employee and strive for innovation, give the company a vital competitive advantage.

The main weaknesses come from a tight budget, especially in terms of marketing expenses, where each decision should be rigidly planned in order to pay off and bring maximal additional value in the form of PR or simply word-of-mouth “advertising”. Moreover, despite the premium quality of the product, the company finds it challenging

to communicate product's value to a customer given its original nature and "Nordic character" – mysterious and incomprehensible for many people out in the world.

C – ENVIRONMENTAL ANALYSIS

Alcohol sector in Finland is a competitive and price driven market. L&P faces tough competition from two sides: mass consumption alcohol and similar to company's high-quality products. The former one is represented by low-price vodka, beer, and half a dozen of cheap wines; the latter one – by premium alcohol goods of other companies. The strongest competitors are Altia (the biggest in Finland) and Pernord Ricard – a huge joint venture, ranking number 2 on the world alcohol sector arena. As already mentioned, L&P operates in B2B market, which means the company has its customers – companies, which then sell the product to end-users. Therefore, L&P's market can be divided in two parts: direct clients and final consumers.

Direct clients include suppliers, importers, and duty free operators. All of them are carefully chosen in order to respond to high demands of L&P. In other words, the clients should share the same core values as L&P and have a similar to L&P's portfolio, so that company's premium goods do not neighbor upon those with doubtful image. In return, L&P does its best to establish long-term, win-win relationships with the clients and is always open for a dialogue and suggestions on partnership improvement. All the business is built on ultimate trust and reputation.

Speaking about final consumers, L&P defines them as 25-39 year-old people, who live in metropolitan area. They have strong requirements for quality and are environmentally concerned. Moreover, L&P target people, who are interested in fashion, culture and design. The company aims to create a unique experience for them, not just sell a product

Given the fact that L&P is a Finnish based company with its headquarters in Kuopio, it is strongly influenced by Finnish market conditions but rather by Finnish laws, legislations, and fiscal policy. The latter ones are truly draconian and put the alcohol companies' operations hard. To understand the situation one should pay attention to the legislation, which really sets L&P in a complicated situation. The following examples show how tough the market conditions are for a liquor producer and seller as L&P.

The state owned retailers called ALKO, founded in 1932. ALKO has the monopoly distribution for all beverages with alcohol volume higher than 4,7 %. The only exceptions are local produced beverages that can be sold by the farmer, but only with alcohol content maximum 13% alc. vol.

Existing age limit means that only 18 years old people are allowed to purchase alcohol beverage with maximum 22% alc. vol. In order to purchase stronger alcohol beverages one has to be 20 years. To order alcohol on restaurants, one has to be 18 years old for all type of beverages.

Also, serving alcohol in restaurants/bar sector is limited. Marketing is forbidden for alcohol beverages with an alcohol degree per volume higher than 22%.

The lack of central European alcohol culture is missing and the tendency for mass consumption of cheap bulk alcohols brings a challenge for L&P, which doesn't just sell premium product but rather unique experience, – how to persuade people to turn their faces to “less but more”? Also in alcohol business the beer has become a favorite drink in Finland, which starts ringing an alarm for L&P: success on domestic markets can stagger if people continue consuming alcohol on order just to get drunk. An opposite trend in alcohol consumption, however, may balance the situation - civilized “European” drinking is also gaining its popularity.

D – DEFINITION OF THE PROBLEM

The major problem of the case is related to finding a right agent and establishing effective, long-term partnership. As already mentioned, L&P operates in B2B, where personal relationships, partnerships and intermediaries play a critical role. The problem L&P had to tackle was related to choosing a right middleman, who would be responsible for Swedish market and represent the company there. After years, company's performance on the Swedish “battlefield” was in stagnation and an action needed to be taken immediately.

It all started in far-away 1980s, when L&P decided to enter Swedish market with its only for that moment product. Alcohol market in Sweden is similar to Finnish one in the sense that it is also government's monopoly. Thus, alcohol products can only be sold through the System Bolaget– a government owned retail shop, which could be compared to Finnish “ALKO”. In order to reach Swedish market faster and more successfully, L&P took a decision to do it through an agent – a partner-importer of wine, whose main responsibility was to promote and sell L&P products to the Swedish System Bolaget. While L&P's portfolio was constantly widening and new spirits were gradually introduced, the agent kept selling just one initial spirit with no ambition to push through any other product to Swedish market. So, L&P and the agent had several meetings, where, they thought, mutual understanding was achieved. Both parties admitted the fact that new products should be introduced to System Bolaget, and a promise was given to do it as

soon as possible. *"Year after another we tried to activate and communicate the dealer (importer). We hoped at least to meet the buyer in System Bolaget. We were stuck! We could not get any results or listings to the Swedish alcohol monopoly. In the meetings the atmosphere was always positive and the same promises were made for years. But whatever had been discussed, the outcome was the same – nothing was happening. There was one and only L&P product exported to System Bolaget."* It took years of considerable export losses until L&P finally took an action to change the agent.

Today, in 2013, there is a new agent, whom L&P met at an International Wine and Spirits fair and started conversation there. The new partner was focused on spirits rather than on wines or beers, so the views on portfolio offer of both parties were in accord. Moreover, this partner was motivated to work with L&P, interested in the products, and saw lot of potential in the Swedish markets: *"we found a common language and shared mutual values"*.

The problem described above was solved out completely last decade. However, the bottleneck on the way to Swedish market existed over 20 years due to deep trustful relationships with the agent and binding situation related to Alko's monopoly in Finland. Even though, the urgent need to change the agent was evident, it was a hard decision to take. Mr. Nylund described the change issue: *"the change event was very unpleasant as the agent had been working such a long time and the ties had become very close and confidential"*.

E- GUIDANCE TO SOLUTION

The major problem of the case was finding right agent and establishing effective, long-term partnership. An agent can be an independent individual or company whose main function is to act as the primary selling arm of the producer and represent the producer to users. Agents take possession of products but do not actually own them and usually make profits from commissions or fees paid for the services they provide to the producer and users. This type of intermediary plays an important role in distribution channels, and finding the right one significantly contributes to company's welfare and success on the market. The benefits of strong in-market representation include:

- dealing directly with company's clients in helping grow its export sales
- access to local knowledge
- on-going market intelligence about competitors and trends

- a watch-dog who can identify people infringing on your trade mark/patents
- someone to assist with local rules and regulations e.g. special labeling requirements
- in-market customer support for queries, support and warranty
- usually have an established network of retailers and/or wholesalers, saving you market development costs and time (<http://www.iccnz.com/>).

The critical importance of a good agent is not questioned. But what is questioned naturally after observing L&P situation is: "why the change of the agent took such a long time?" The question is quite logical but the answer may not be that obvious and lying on the surface.

The first reason for such a long decision-taking may be hidden in culture peculiarities of both Finns and Swedes. Richard D. Lewis in his book "When teams collide" explains that especially Swedes agree in teams and always need to have unanimity. Desire of harmony and willingness to postpone controversial decisions do slow things down. Lewis sees that tendency towards over-analysis often invites criticism by more action-minded colleagues, such as Finns for example. Also Lewis says that interpersonal aspects are always more important than power, wealth or assets (Lewis, 169, 2012). Further Lewis sees that relationships pave the way for the sale of products "rather than the other way round". Lewis describes Finns as the ones who "regard statements as promises". They are very honest, committed and long-term oriented, which makes disruption of partnerships, especially this long, painful. Maybe "the truth" in the problem discussed can be found somewhere in the intercultural behavior - Finns and Swedes communicating easily with each other but still understanding the issue in their own way.

Lewis (234, 2012) sees that in some cultures people do not think aloud and actually dislike doing so; as example he gives Swedes, Finns and Japanese people. Also discussing and forming consensus are typical especially for Swedish meetings. Also Swedes often do not give the answer and take time for consideration for example by asking time to be able to consult their colleagues. Now several years later it is mainly guesses when trying to open the issue in hand. Swedish managers wish to "hear the opinion of all the present and are reluctant to move forward, especially in the case that there is not unanimity" (Lewis 2012, 236 - 238).

Daniels etc. in their book "International business: environments and operations" also agree that language and "other cultural factors" may create misunderstanding. He also

lists one typical problem "poor selection of overseas agents or distributors". In this case, it is now impossible to say which the actual reason was. Only from today's perspective it is obvious that the change of the agents should have taken place earlier.

It might be cultural misunderstanding which caused the problem, but it also could be a lack of experience in dealing with agents. As a result, L&P set trust and personal rapport as a priority for its agent and was neglecting its performance indicators. Even though, trust and personal rapport are key factors in choosing an agent or another type of intermediary, but certainly there are many other aspects to be taken into consideration: due diligence, knowledge of the market, sole or multiple agency. Certainly there are numerous requirements for a good middleman, but every company has to tailor its own package depending on its needs, values, objectives and business strategy.

F – ANALYSIS/DISCUSSION/REFLECTION

The major goal of the case was to depict a process of choosing a right agent, which for L&P took several attempts and quite a long period of time. The particularity of the case is that the switch for a new agent was happening for 20 years of low exports without any special hindrances existing at the first sight. When brainstorming, however, it becomes clear that there could be such pitfalls as intercultural communication, lack of experience, and absence of objective criteria for agent's performance assessment.

The company has taken a step to change the agent, which was right. However, the question, thrusting itself upon, is why it took so much time. Probably, a company should have analyzed its partnership much earlier objectively, not subjectively, basing on hard facts, not personal feelings as the main reason L&P held back to the former agent was that *"they were really nice people"*.

The case shows the importance of intermediaries, highlights possible hurdles while building effective relationships with them, and gives some practical tips on how to choose the right middleman. Every company, which cooperates with agents should develop not only win-win relationships, but also – measurable ones, which can give a full picture of mutual performance. Needless to say, in this case intercultural communication was in a significant role.

G – REFERENCES& LITERATURE/RECOMMENDED READING

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Nylund Harri, Managing Director, Lignell&Piispanen Ltd., Interview, 23 May, 2013

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