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Estonian Catches a Whiff of Profit in Russia

By Jennifer Rankin

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TALLINN, Estonia — Eva-Maria Kunapuu began making scented candles in her kitchen seven years ago when she couldn't find any decent ones in the shops in her hometown of Tallinn. Now she is waiting for the first shipment of candles, soaps and fragrant bath luxuries made by her company Joik to land on the shelves in Moscow.

"We are very excited to have this opportunity. [Russia] is an important market for us," says Kunapuu, a 35-year old Estonian who gave up her job as a lawyer to turn her candle-making hobby into a company in 2006.

Joik, which is pronounced "Yoik" and describes the singing style of the Sami people in the Arctic north, had a turnover of $529,000 in 2011 and exported to four countries: Finland, Sweden, Norway and Denmark.

Having studied what it believes to be the marketing specifics of Russia — which include keeping prices high and targeting well-heeled consumers, who the firm believes are also

ecologically conscious — this small Estonian company, which employs seven people, is going to have a crack at the lucrative market. Around 30 different kinds of Joik products — soaps, candles and bath milks — are hitting the shelves of elite Moscow supermarket Azbuka Vkusa in mid-September.

The company's journey from kitchen counter to supermarket shelf is part of a bigger story of healthy export growth from the Baltic countries to Russia, with demand picking up after the economic crisis of 2008-2009. Russia is Estonia's third-largest trading partner and imported $2.2 billion of the Baltic nation's products in 2011 — about 12 percent of the total. Unlike Lithuania and Latvia, Estonia also has a positive trade balance with Russia.

The Baltic states were renowned in Soviet times for their top-quality dairy and meat products. Food and drink still account for 9 percent of Estonian products sent to Russia, although the main exports are machinery, equipment and chemicals. Kadri MKesalu, Joik's marketing manager, thinks that Estonia's reputation will help the company establish itself quickly in a familiar market. "In Russia, Estonia represents quality. In the Soviet Union you could only get good coffee in Tallinn," she claimed.

Doing business in Russia is quite a different matter from doing business in Sweden or Finland, Estonia's top two trading partners.

"You have to think five steps ahead on the Russian market," said MKesalu, speaking at the company's fragrant headquarters on the outskirts of Tallinn, where all the products are made.

It has taken the company more than six months to get its products into Russia, compared to less than a month to start shipping the same goods to Norway, she said. This is because the full product line has to be registered with the Russian authorities and is subject to import taxes that do not apply in the European Economic Area.

The company also had to hone its marketing strategy for Russia. Joik struck a deal to sell their product in Azbuka Vkusa, the ritzy supermarket known for offering foreign delicacies and everyday produce at eye-popping prices. Azbuka Vkusa has exclusive rights to sell the products for a trial period — a deal worked out with the help of an independent brand manager Joik used from consulting firm KMT Lang. Finding a correctly positioned sales outlet is an important part of Joik's strategy: Their handmade soaps and candles are marketed as "everyday luxuries" and are only sold in department stores or premium gift shops.

Yet this luxury branding has been ratcheted up a notch or two for sales in Russia. Products will be priced two to three times higher than in other markets, a reflection of import taxes as well as brand image. "In Azbuka Vkusa, the price has to be high for the client to buy anything," MKesalu said.

MKesalu has already tailored the company's local marketing strategy for Estonia's Russian-speaking consumers, who make up about one third of the 1.3 million population of the Baltic country. Whereas the company might target an Estonian-speaking consumer with a quarter-page or half-page advertisement in a magazine, for Russian speakers, "You have to have a whole page on glossy paper to make an impact," she says. Another distinctive feature of doing business in Russia is that Joik will work with a Russian partner to help distribute the goods. "You need someone who knows not just the business, but the legislative side

and the not-so legislative side as well," MKesalu said.

Finding a Russian business partner is essential, especially for small and medium-sized companies, said Martins Tiknuss, international sales coordinator at market intelligence firm GatewayBaltic.

"Unless you are a multinational, you need to have a very special partner with whom you can develop the business together." A partner, such as a wholesaler or distributor, is important to help foreign players find the right niche in the Russian market, as well as dealing with corruption and import taxes, he said.

Although there may be 142 million people in the Russian market, foreign companies selling consumer goods would be well advised to focus on the elite segment rather than compete with locals selling goods very cheaply, Tiknuss added.

In its established European markets, Joik positions itself as a natural cosmetics company. The company eschews paraffin oil in candle making and says it avoids unnecessary packaging and unnatural ingredients.

Yet demand for ecologically friendly goods is much lower in Russia. This is a market where consumers value brand names and quality, Tiknuss said. "Russia is five to seven years behind in its thinking on eco-products." He predicts that Russian consumers will start to embrace these products. "The only question is when this will happen, because at the moment [ecology] is not an important issue to the public." Joik founder Kunapuu is optimistic that Russian consumers will jump onto this trend: "From the research we did it seems that natural cosmetics are growing in Russia, but, of course, it depends on the client group. We are targeting those who may be more aware of the [ecological] problem."

Yet the biggest challenge for any company seeking to get into Russia may be uncertainty.

"The market is of course a very big market, but there is one significant negative thing and that is its unpredictability. We never know when the market will be [politically] influenced and how this will turn into negative consequences," Tiknuss said. Russia's recent accession to the World Trade Organization is likely to reduce rather than eliminate this unpredictability, he thinks.

"There is more uncertainty about what you can expect," said Joik founder Kunapuu. For now, she is not setting sales targets, but simply hopes to reach the company's first customers. "We hope people will find us and like us."

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