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**Possibilities for medium-sized Estonian firms on the Japanese
market: the case of Softrend**

Master's thesis

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I hereby declare that I have compiled the thesis independently and all works, important standpoints and data by other authors have been properly referenced and the same paper has not been previously presented for grading.

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TABLE OF CONTENTS

ABSTRACT	5
INTRODUCTION	6
1. THEORY	9
1.1. The concept of internationalization	9
1.2. Models of internationalization	11
1.3. Selection and goals for entering a new market.....	14
1.4. The mode of entry to a foreign market	16
1.5. Internationalization barriers and risks	19
2. THE CASE STUDY OF SOFTREND	23
2.1. Sampling and survey method	23
2.2. About Softrend Group OÜ	25
2.3. The concept of public space furniture	27
2.4. Japan	28
2.4.1. Political factors	29
2.4.2. Economic factors	31
2.4.3. Social factors	35
2.4.4. Technological factors	37
2.4.5. Environmental factors.....	39
2.5. Japanese business culture	40
2.6. Findings and discussion.....	44
CONCLUSION	47
REFERENCES	51
APPENDICES	55
Appendix 1. Interview questions with Softrend Export Manager and Project Sales Manager ..55	
Appendix 2. Interview questions with EAS Project Manager for the Japanese target market..56	
Appendix 3. Interview transcription with Export Manager and Project Sales	57

Appendix 4. Interview transcription Project Manager for the Japanese target market	65
Appendix 5. Softrend Group OÜ logo.....	70
Appendix 6. SWOT analysis of the Softrend company.....	73
Appendix 7. Non-exclusive licence.....	74

ABSTRACT

The given thesis concentrates on exploring the opportunities of Estonian upholstered furniture manufacturer Softrend to enter Japanese market. Softrend is a family business that produces handmade furniture for homes, offices and public areas. Main products of export are public space furniture and main resellers for the current moment are Finland, Sweden and Lithuania. The company is constantly expanding around Europe and sees the potential in the Japanese market.

The main purpose of this thesis is to identify whether Japan is potentially a suitable market taking into consideration cultural differences and distance. It is important to understand the different approach and external marketing environment factors of the country of internationalization. Also to suggest the first main steps and possible risk factors when preparing to enter the new market.

Theoretical part focuses on the concept of internationalization and gives an overview of the main internationalization models that relate to Softrend strategies. There are also presented motivations and goals for entering a new market, the methods to enter the foreign market and the main barriers and risks that can occur during the internationalization process. In order to solve the research problem in the Master's thesis a qualitative research method is used to further analyze the current situation inside and outside the company and the potential in the new market. Two interviews were made for research data collection. One with the experts from inside the company and the second one with representative of the Japanese market in Estonia. Moreover, in addition to the interview to analyze the external environment of Japan there was compiled a PESTE analysis.

The outcome of the thesis is the compilation of suggestions for the Softrend management regarding cultural differences, knowing what barriers can occur when planning the entry strategy and the long-term potential of the Japanese market.

Keywords: internationalization, export mode of entry, export motives, risks and barriers, PESTE

INTRODUCTION

Nowadays the international trade is very common practice in many countries and companies. They import and export many products and services around the world. From the state's point of view export plays an important role because the country's borders, especially in the case of a small country, set limits to the number of clients. Selling their products and services on a larger scale allows businesses to grow more extensively. Moreover, it brings added value to the market, creates new jobs and in the long run stimulates the economy.

The current thesis is related to Estonian company Softrend Group OÜ (hereafter: Softrend). The author is doing digital advertising for the company in Estonia and Finland and thus is connected to it. Advertising is made on social media channels such as Google, Facebook and Instagram.

Softrend is an Estonian upholstered furniture manufacturer that has been in operation since 1997. They have their own factory in Vääna, Estonia and physical stores in Tallinn, Tartu and Helsinki. Softrend is producing furniture both for home and office. The main production that goes to export is the public space furniture. Therefore, current thesis is concentrated mostly on public space furniture for offices, hotels, airports, schools and so on. Most of the production goes to export and the main export countries are Finland, Sweden, Lithuania, also UK and the United States. In many other European countries Softrend has partners, but these markets are not the priority at the moment. Softrend is now looking at Japanese market as their new potential export country.

This study is searching for an answer to the following question:

What is the potential for Softrend to enter the Japanese furniture market?

Softrend is constantly trying to expand to new foreign markets and for the third long-term market after Estonia and Finland they have chosen Japan. Management sees a lot of potential on Japanese market regarding the acquisition power and demand of trendy products. According to the

company's future plans there is a need to acquire in-depth knowledge in order to enter the Japanese market. The company also has to choose the most appropriate way to enter Japan. Every company wants to be prosperous, make some profit and offer quality products and services to their clients. But being successful on the domestic market does not guarantee the success on the foreign one. To achieve the expected goals companies should consider investing time and having discussions over buyer preferences and expectations in the country they are planning to export to. Another important point is to research and create a clear strategy on how to enter the market. Also analyzing export country's dependent elements like political, economic, social, technological and environmental factors helps with the internationalization process. It is necessary to take into account that all markets may be different and that preliminary work is required before entering a new export market.

The aim of this Master's thesis is to review theoretical aspects related to entering the new market, realize the potential as well as the best way to enter the Japanese market based on theoretical knowledge and practical experience in the company. In addition to that, the aim is to give some primary suggestions to the company when planning the primary entry strategy.

The first part of the thesis is focused on the theoretical aspects of the internationalization. The concept of internationalization as well as the main models are explained in the theory part. Selections and goals for entering a new market, the mode of entry and the barriers and risks that can occur when entering the foreign market are described to understand the starting points of export better. Thereupon in the analysis part comes the overview of Softrend and the concept of their exported public space products and the analysis of macro- and business environments of Japan.

The main tasks of the thesis to get an answer to the question posed are following:

- have an interview with the Softrend management
- figure out the current situation and future plans of the company
- have an interview with the expert of the Japanese market
- figure out the main differences and recommendation when doing business in Japan
- analyze the macro-environmental factors of Japan
- find out the potential and give primary suggestions to Softrend to enter the Japanese market

A qualitative research method is used to solve the research problem of the current Master's thesis. Interviews and documents were used to collect and analyze the data. Primary data was collected through expert interviews. One interview was made with two managers of sales and export from Softrend and the second one with an expert in the field of Japan, project manager of Asia Information Centre. Secondary data was collected through a review of company's internal records. PESTE analysis to study external environment of Japan was compiled using the online statistics and articles. The PESTE analysis does not include Legal factors, because the paper is not concentrated on legal aspects and thus the concentration is on other factors. Environmental factors, on the other hand, are important, because company values sustainable use of materials and reusable packages. The thesis analyzes the data and draws conclusions about the company's prospects in the Japanese market.

The results of the thesis will help to answer the question posed in the beginning of the analysis and make proposals regarding primary actions and suitable steps to enter the Japanese market. This thesis will further be shown to the company management for discussions and new ideas for creating a satisfactory plan for further discussions.

1. THEORY

When dealing with the small and limited market it is inevitable that you need to offer your products and services outside the home market in order to succeed and realize your business potential. The key success factor for entering the foreign market may no longer be a good product or service that created a sufficient competitive advantage in the home market, but rather the characteristics of the target country's macro-economic environment that may be an obstacle to success. Therefore, it is necessary to think in detail about entering the foreign market and make decision based on previously made analysis.

In the first chapter the focus is on the theoretical background that is related to groundwork of the internationalization process. It brings out main topics that are important when the company is trying to start exporting. All the companies should consider having a plan or at least doing some research before entering the new market. Theoretical part is bringing out the main internationalization theories that can allow the company to adapt the business plans with existing experience. Then it is important to figure out the strategy, the motives and ways to enter the foreign market. At the end of this chapter, the risks and barriers that may occur before and during export are introduced.

1.1. The concept of internationalization

The modern world is facing globalization and an increasingly interconnected world, so many companies aim to expand their sales into foreign markets. International expansion can help to reach new and potentially more profitable markets, increase the company's competitiveness, and get access to new product ideas easier while manufacturing innovations and the newest technology. The internationalization is likely to be more successful if the company prepares in advance. Planning strategies beforehand has often been regarded as important to the success of the international ventures (Hollensen 2007, 5).

When the company is trying to expand its activities to international markets, its managers should be ready to face any problems and uncertainties like increasing risks and decreasing profits. Even with the best planning and preparations, there is a learning curve for every company that is new in going international (Czinkota *et al* 2004, 1). Internationalization happens when the company increases its R&D, production, selling and other business activities to the foreign markets. For small to medium-sized enterprises (SME) the process of internationalization usually goes in a discrete way. The managers in SME usually try to collect as much information as possible to achieve enough relevant knowledge to initiate the expansion (Hollensen 2007, 41).

Pällin (2014) stated that the main reason of the internationalization, especially in small countries like Estonia, is a small internal market. Another reason for going to a foreign market is the desire to gain or take an advantage of a firm's competitive advantage. To be more detailed the internationalization allows the companies the following:

- To gain the economies of scale, because the size and the volume of the domestic market does not allow to produce the desired amount. The broader market plays a particularly important role when the development costs represent a large part of the product price
- Get the benefits of company-specific advantages such as strong branding or good technology
- Protect against the risks of fluctuation in the domestic market
- Lower the costs, especially if the aim is to produce overseas
- Get the prestige that an image of being an international company can bring
- Get benefits of more favorable tax systems (Pällin 2014, 5)

Firms that start expanding their production abroad can progress through stages of international expertise and activity over time (Czinkota *et al* 2004, 12). Even though some theories describe internationalization as a step-by-step process, others emphasize the importance of networking, foreign direct investments, entrepreneurial activity of the managers and other factors (Vissak 2004, 55). Every firm with a clear level of interest in exporting requires a different type of information and help. Their perspective towards expansion would probably progress moderately from entirely operational concerns to a strategic international orientation (Czinkota *et al* 2004, 12).

1.2. The main model of internationalization

The combination of the international environment and the company have various conditions and situations. The internationalization process of the company reflects diversity that could be shown and revealed with the help of conceptual models. The main components and certain processes of the internationalization activities they are dealing with should at some point be taken into account by the companies (Danciu, 2012). The internationalization of the companies has been studied for over 40 years already. Despite the various approaches there is still no unified theory that would explain the links between foreign direct investments, networks and internationalization. To understand the internationalization process and factors that affect it better, there should be included several approaches (Vissak 2004, 55).

In Estonia the trade deficit is relatively high, so the need to study the factors that influence the internationalization of companies is particularly big. Due to the small population and limited size of the internal market even small companies cannot be confined to the domestic market only. At the same time companies lack resources, knowledge and contacts with foreign buyers (Vissak 2004, 56). It is more likely that on a smaller market where the business grows the question of the internationalization arises faster. For Estonia first cross-border transactions are made with Finland and Latvia, neighboring countries, which to some extent can be considered safe and with less risks. The model that in many cases can be associated with Estonian companies is explained in the following paragraphs.

The internationalization process was studied more extensively in Nordic countries in the early 1970s. One of the first ones who dealt more deeply with theories of internationalization were Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977). This theory was named **Uppsala model** (U-model). It is one of the first models that got a lot of attention and that describes gradual internationalization of the company. Moreover, the idea of this model is based on presumption that the process helps to increase foreign market share, gather knowledge with a long term desire to increase profit and avoid possible risks (Johanson, Vahlne 1977). The development of knowledge about the foreign markets and increased commitment of resources are evolved in a process of internationalization (Johanson, Vahlne 1990).

The main idea of the model is that in the beginning when the company has no real experience or knowledge of the foreign market it is practical to start with the neighboring countries, because they are more familiar. It is more reasonable to start the internationalization process through export, which is a better and safer option than establishing sales offices and production abroad (Vissak 2004). The internationalization usually starts in foreign markets that are close to the domestic market in terms of psychic distance. It is defined as factors that make it difficult to understand foreign environments (Johanson, Vahlne 2009). Psychic distance is not measured in kilometers, but rather in non-parametric measurements like language, culture, difference in economic development (Johanson, Vahlne 1977). Also in the beginning of the internationalization companies usually choose markets that have similar culture and are more identical to the home market and then slowly and gradually expand their business to more distant markets (Alon *et al* 2013). So the most common move is to enter the market that is the nearest one physically. In the early stage companies try to rely on local organization that knows not only the domestic market very well but also the potential customer (Vahlne, Nordström 1993). With all other things being equal, it is still more difficult to build new relationships when the psychic distance is further away. This is the result of the liability of foreignness (Johanson, Vahlne 2009).

Internationalization is a long-term process through which the company can gather useful management experience and knowledge of different foreign markets (Johanson, Vahlne 1990). First of all companies start to operate in the domestic market and then the internationalization process begins with the export of goods and services. As one of the most important obstacles to internationalization are lack of knowledge and resources it is essential to make a research about the market. The gained experience of the local market helps to create sales units and later brings to the creation of production abroad. It usually happens when the foreign corporation already acquired needed knowledge about the situation on the local market and intermediaries or end users are replaced by a number of subsidiaries (Johanson, Wiedersheim-Paul 1975). Afterwards companies start to gradually enter the markets that are physically or mentally further away (Vahlne, Nordström 1993).

Gradual market entering can reduce the investment risk. Starting the export in smaller quantities gives a possibility to examine the market and marketability of goods. By gaining local market information through sales, it is possible to draw conclusions about future business opportunities, which in turn increases motivation for further development (Johanson, Vahlne 1977).

When it comes to foreign markets, two main aspects are market involvement and market knowledge. Market engagement usually consists of two points. Firstly, the amount of resources invested in the market and secondly the degree of capital intensity, in other words how difficult it is to find a market for invested funds in a new location. Market knowledge is the second important aspect of Uppsala model. Both as awareness of choices and problems as well as making proactive choices between alternatives. When acquiring the knowledge, there are two broad lines of proactive and responsive learning. Critics have noted that Uppsala model is focusing too much on the use of responsive learning, which means gathering information about existing solutions, because proactive learning tries to find new solutions. This may also limited the choices that are made in the future (*ibid.* 1997)

Knowledge can be divided further into general knowledge and market-specified knowledge. General knowledge is educational and relates to widespread marketing methods and specific types of customers. Market-specific knowledge derives mostly from national specifications, the local business climate and the specific partner (Johanson, Vahlne 2009). One more knowledge adds a new concept to market consciousness when creating a relationships. It is called relational knowledge. This situation is described by strong communication between partner and knowledge sharing. Not only does one learn from one's own experiences, but knowledge accumulates through communication and exchange (Johanson, Vahlne 1997).

The observations of Johanson and Vahlne from the year 2009 have added some change systems to their previous studies from the year 1977. First of all companies learn from the experience of functions and current pursuit in foreign markets. Secondly, commitments help companies to change decisions that they make to strengthen the position on foreign markets. Relationships in internationalization process are all connected. Those connections are labelled as business networks. In turn they create knowledge of these interconnected relationships that accrue not only between the firm's own activities. There is also the connection between its partners that have connections with other partners. That is how one company could be engaged indirectly in a knowledge creation process that expands far beyond its scope.

1.3. Selection and goals for entering a new market

The idea of the internationalization can be internal or external for the company. It can happen that there is more potential for the growth of the company in the foreign market than in the domestic one. Alternatively, the decision can be made based on the external source, when a potential buyer overseas has heard about the company's product and wants to purchase it (Alon *et al*, 2013.) The most obvious one is usually the decision of determination and commitment to succeed. The management must see the potential on the new market and make necessary preparations to succeed. This commitment should be ready to withdraw any setback or failure that can occur during the preparations of the process of internationalization itself. All levels of management should be involved in the process already from the beginning (Czinkota *et al*, 2004). To a large extent it is through relationships that help companies build trust and commitment (Johanson, Vahlne 2009). Usually there is a mixture of factors that result the decision and taking steps towards internationalization (Hollensen 2007, 42). A good measure of the commitment shows the structure of the company. It is good when there is one person who is primarily responsible for all the steps of exporting. Another point to succeed is the ability and skills of the company. The resources needed should be easily available either in-house or in some other form (Czinkota *et al* 2004, 4).

There has been a lot of empirical research to find out what exactly intends to drive the company's international knowledge. Generally speaking there are two groups of the internationalization motives that are called proactive and reactive motives (Alon *et al*, 2013). Proactive motives shows an incentive of strategic change. Reactive motives influence and change the activities of the company over time (Czinkota *et al* 2004, 4). Reactive motives specify that there is a pressure or threats that the firm reacts to in the domestic market and tries to adjust passively to them by changing the activity over time (Hollensen 2007, 42). To be more precise, the proactive companies start internationalization because they want to, reactive ones because they have to (Czinkota *et al* 2004, 4). Table 1 on the next page shows a brief overview of major motives for exporting that are assembled from Czinkota (2004) and Hollensen (2007) and that are in fact very similar.

Table 1. Major motives to start exporting

Proactive motives	Reactive motives
Profitability and growth	Competitive pressures
Managerial urge	Overproduction
Unique product	Excess capacity
Technological advantage	Declining domestic sales
Exclusive market information	Unsolicited foreign orders
Economies of scale	Extend sales of seasonal products
Tax benefits	Proximity to international customers

Source: Czinkota et al 2004 (3-8), Hollensen 2007 (42-48)

The main reason of proactive motives is profitability. International sales may bring higher profit margins. Other motives are unique products and technological advantages. They can bring benefit to the company among other competitors on the market, but it is difficult to prognose how long such a competitive advantage will last. Exclusive market information such as special knowledge about the market, foreign customer or market situations that are not widely known by other companies, could be one more proactive motive. Very important motivating role hold also tax benefits and economies of scale (Czinkota *et al* 2004, 5).

Reactive motives are often reaction to competitive pressures. The fear of losing domestic market shares to competing companies may lead to a motivation of internationalization. Overproduction and excess capacity are also serving as a major motive. Downturns in the domestic business cycle and not full utilization of the equipment for production can be a starting point of the expansion of the company to international markets. Similarly, when the domestic market sales are in a stable or declining stage of the product life cycle, it may be more beneficial to expand the market rather than attempt a pushback of the life cycle process at home market (Czinkota *et al* 2004, 6).

Companies should always take into account a number of conflicting obstacles before or during the process of internationalization. When thinking about an entry mode, company needs to be ready for unexpected external factors that may happen in the foreign target country. It is vital to be prepared to amend the entry mode in order to maintain or strengthen its position on the market.

1.4. The mode of entry to a foreign market

The most notable internationalization decision for the majority of the companies is how they should enter new markets. The commitment they will make with the entry mode decision will affect every aspect of their business for many years ahead. Previous identification of the potential country and discussion about the development of international market strategy would give a better overview and enable companies to select the most appropriate method for the given situation. Every market entry strategy has its advantages and disadvantages and decision-making process might be critical regarding the firm's evaluation of the cost and risk associated with each method. There is no ideal market entry strategy. The companies need to decide what would be the best for them, as different market entry methods might be adopted by different companies entering the same market and/or by the same company entering different markets (Phillips *et al* 2001, 247).

Hollensen (2007) introduces three different rules that Root (1994) has mentioned in his studies and that describe what kind of strategy could be used when choosing the right entry mode. These three rules are following:

- 1) Naïve rule – the same entry mode is used for all foreign markets
- 2) Pragmatic rule – workable entry mode is used for each foreign market, usually it is a low-risk entry mode that in the end might not be the best mode
- 3) Strategy rule – based on systematical comparison and evaluation before the choice and implementation of the entry mode

Another significant point of choosing the right entry mode is the influence to entry mode decision. The main factors that influence the decision are stated in Table 2 (Hollensen 2007, 298).

Table 2. Factors affecting the foreign market entry mode decision

Internal factors	External factors	Desired mode characteristics	Transaction-specific behaviour
<ul style="list-style-type: none"> • Firm size • International experience • Product/service 	<ul style="list-style-type: none"> • Sociocultural distance between home country and host country • Country risk/demand uncertainty • Market size and growth • Direct and indirect trade barriers • Intensity of competition • Small number of relevant intermediaries available 	<ul style="list-style-type: none"> • Risk averse • Control • Flexibility 	<ul style="list-style-type: none"> • Tacit nature of know-how • Opportunistic behavior

Source: Hollensen 2007, 298

Internal factors indicate the firm's size and its resource availability that provides the basis for increased international involvement over time. Another company-specific factor is international experience. International experience lowers the cost and uncertainty of serving the market and increases the chances of companies applying resources to foreign markets. External factors that influence the entry mode are mostly based on the distance of the foreign market, country and trading risks that may occur, and the competition. Foreign markets are usually riskier than the domestic market. Moreover, the larger the country, its market and the growth rate, the more likely company would consider establishing a wholly-owned sales subsidiary or tries to participate in a majority-owned joint venture (Hollensen 2007, 300).

The final part of the entry mode strategy is choosing the right mode. The choice of entry modes depends on endogenous factors (business potential) and exogenous factors (describing the business position in the target market or the industry in which the firm operates) (Wach, 2014). The market entry decision is determined to a large extent by the company's intentions and points of view to international marketing and the ability of the management to operate in the foreign market (Doole *et al* 2001, 250). There are three types of entry modes that companies can choose when entering the new market: exporting modes, contractual modes and investment modes.

Table 3. Entry modes of internationalization

Exporting modes	Contractual modes	Investment modes
Indirect Export	Management contracts	Branch
Direct Export	Subcontracting	Joint venture subsidiary
Cooperative export	Licensing	Wholly-owned subsidiary
	Franchising	

Source: Hollensen (2007) and Wach (2014), compiled by the author

Indirect exporting is suitable for companies that have little inclination or few resources for international marketing. Indirect export method is sale of goods or services through the domestic intermediary (Wach, 2014). Having their products being sold and managed by others is the simplest and cheapest method for the company. The main advantage of indirect exporting is the least cost and risk at the entry and opportunity to manage and control how, when and by whom the products are sold. The four main methods of indirect exporting are domestic purchasing, an export management company or export house, piggyback operations and trading companies (Doole *et al* 2001, 250).

Direct exporting can happen through a foreign agent, foreign distributor, representative office or an own distribution network (Wach 2014). When the company is planning to secure a more long-term or permanent presence in the foreign market, more proactive moves should be involved. More uncertainty will be brought down when the marketers understand the key components of the export marketing. The benefits over indirect export are that it is easier to use more influence over international activities with a greater control over the selection of the markets, the elements of the marketing, better feedback and overview of the changing situations and competitor activity (Doole *et al* 2017, 231). Therefore, it would be company's responsibility to bear the costs of the marketing, distribution and administration. Nevertheless, direct exporting is the most common way to enter the foreign markets (Hollensen 2007, 235).

Contractual modes relate to cooperative relations executed through contacts with foreign partners, mostly manufacturers. The advantage of this mode is to allow the company to concentrate upon its sales and marketing activities and because of the minimized investment, the withdrawal would in the end be easy and less costly if the product proves to be unsuccessful (Doole *et al* 2017, 238).

In other words this method allows the company to realize the success on the market and enables to have foreign sourcing without making the final commitment (Hollensen 2007, 330). Management contracting is a knowledge-based management service where an exporter provides the service for a company that is owned by the importer. The main disadvantage is a relatively low profitability. Another entry mode with a relatively low profitability is subcontracting, where the domestic manufacturing company is needed for the foreign counterparty. That way they can execute the specific order. It has low risk and capital commitment. Two other entry modes that require relatively low levels of investment are licensing and franchising (Wach 2014). Licensing lets foreign firms manufacture the owner's product for a fixed price in a specific market. The rights can be covered by a patent or design or any intellectual property (Doole *et al* 2017, 239). Franchising is an agreement with the owner company on the use of a brand on the terms agreed.

Investment modes help to keep a good image of a company on the local market and offer full control. These modes are based on foreign direct investments. The main downside of the branch mode is comparatively complicated registration procedure. Joint venture subsidiary and wholly-owned subsidiary have, in addition to complicated registration procedures, also quite a high risk and entry cost (Wach 2014). A joint venture is a partnership between two or more parties that are placed in different countries. It can be either a contractual non-equity joint venture or an equity joint venture (Hollensen 2007, 230).

1.5. Internationalization barriers and risks

Advances in transport and communications, economic integration, liberal trade policy, a growing economy and relative peace between countries are just some of the factors that have contributed to the gradual disappearance of transnational borders (Leonidou 1995, 29). Suppliers of the goods and services abroad may face more serious risks and barriers in the foreign market than in the domestic one. The risks arise due to the insufficient information on the position (economic, political) in the country of recipient or on the position of a specific buyer. When concluding an international contract, it is important to work on the risks associated with export. They are inherent in all trading operations. Moreover, international trade faces some additional risks that are discussed below.

There are many companies that are hesitant to enter foreign markets and some companies that are already involved in international markets face various challenges that may hinder their further development. Particular attention needs to be paid here to the barriers faced by exporting companies as this is the most popular way of entering foreign markets (Leonidou 1995, 29). There is a wide variety of risks that may occur and that can in its turn be divided as the problems that affect the start of the export and that appear in the process of exporting. During the period of preparations, the main barriers that can appear are the lack of connections on the foreign market, lack of export commitment, financial capital for expansion, productive capacity and foreign channels of distribution, as well as insufficient finances and knowledge (Hollensen 2007, 53). The existence of these obstacles can explain why current exporters do not often use their full potential or why companies not operating on international markets are reluctant to do so (Leonidou 1995, 29).

The failure on foreign markets can also lead to a negative attitude towards international activities, which may transfer from current exporters to potential exporters. Therefore, removing or minimizing occurred obstacles would help to achieve the desired goal of national governments, which is to increase exports and attract more interest (Leonidou 1995, 30). To look at risks more in depth, it is possible to divide them as economic, legal, sales, political, competition, staffing, product, natural and distribution risks. The main critical barriers that may happen during the process of internationalization are divided into three groups: general market risks, commercial and political risks (Hollensen 2007, 53).

Export barriers exist at all stages of the internationalization period already from the initial steps and preparations to expand. The main differences are in the nature and severity of the obstacle. However, the companies that have reached the same stage of internationalization may not perceive export barriers in the same way and may react differently to them. It all depends on the management, the organization itself and the environmental impact. Export barriers can also be different because the companies are different in size and have different global experience. Therefore, export barriers will be more complicated for companies with less experience in international business (Leonidou 1995, 32).

Over time the distribution of export barriers has changed and expanded. Leonidou (1995) had initially classified export barriers as internal and external. Internal ones were based on the home country and external ones on foreign market barriers. Internal barriers are usually related to a

company's existing organizational resources, while external barriers are connected to the environment in which the company operates. Usually it is easier to overcome the domestic barriers because they can be used and managed more easily by the exporters. Companies are more familiar with legislation and system on the domestic market (Leonidou 1995, 32).

Hollensen (2007, 54) has brought out and divided the critical barriers that occur during the process of internationalization into three groups: general market risks, commercial risks and political risks. The risks are explained in the Table 4.

Table 4. Barriers that slow down process of internationalization

General market risks	Commercial risks	Political risks
Market distance	Exchange rate fluctuations	Foreign exchange control
Competition in foreign markets	Export financing difficulties	Foreign government restrictions
Difference of the usage of products	Shipment or distributor process delays or product/material damage	Implementation of national legal codes regulating the exports
Language and cultural differences	Refusal of the customer to pay due to distributor	Lack of government assistance
Difficulties with finding a suitable distributor	Contract dispute or product nonacceptance	Lack of tax incentives
Product specification difficulties		High foreign tariffs on exported products
Complexity with shipping services		Confusing regulations and procedures for import
		Complicated trade documentation
		Disturbance like revolution or wars
		National export policy

Source: Hollensen (2007, 54), compiled by the author

Main risk-management strategies that exporting companies can count on are avoidance of export to high-risk markets, diversification of external markets, insurance of all the risks when possible and ability to structure the business so the buyer carries most of the risk (Hollensen 2007, 54).

Exporting goods and services abroad is more complicated than doing it on the domestic market. Risks and barriers exist at all stages of export, so companies need to be prepared to face and overcome them already in early stages of planning the internationalization strategy. There are mainly internal and external barriers. The first of which is related to the barriers within the company and the others to the environment in which the company relates. The main risks on the external markets are general market risks, political risks and commercial risks. It is important for the company to consider these risks when they start exporting.

2. THE CASE STUDY OF SOFTREND

The second part of this paper is introducing Softrend Group OÜ and the concept of public space furniture, also the analysis of the current situation and already existing activities on the foreign markets are presented. Hereafter comes the analysis of the potential entry market Japan, where author compiles and examines the data about Japanese market and its business environment and ethics. Besides that possible barriers and risks are brought out. The analyzed data gives the overview of the risks and potential of the Japanese market to the company management to be more prepared for the upcoming fairs and market entry in general.

2.1. Sampling and survey method

Johanson and Vahlne (2013) have stated in their research that it makes more sense to study internationalization process long term. It would help to bring out the strategic decisions and the overall context that is important to understand the process of internationalization. For re-internationalization Welch and Welch (2009) suggest using case studies to investigate the internationalization of the company over a longer period of time and include the explanatory factors in the background of the study. Case-based analysis has some benefits, because it is flexible and allows to combine existing theories with data from a given observation. The analysis usually involves three components, which are the examination of the overall background of the case, interviewing the person or persons involved in the case and finally analyzing the obtained data and carrying out further investigations if necessary (*ibid.* 2009).

The qualitative research methods are used to solve the research problem of the thesis, thanks to which the necessary data is collected during the interviews and in-house documents examination. The primary data was collected during the expert interviews that were done with three people in total. The first interview was done to understand the current situation of the company better, its motifs of entering the new market and the barriers the company's management sees there. Another aim was to get a better picture of the potentiality and future plans regarding the Japanese market.

The interview was done with two managers from Softrend – Project Sales Manager and Export Manager. Project sales manager has a longer experience in the company and Export Manager is responsible for preparations and building up the strategy to enter the market, that is why both were chosen to participate in the interview to complement each other where necessary. The purpose of the second interview was to get a better overview of the Japanese market from the expert. Enterprise Estonia (EAS) is already helping Softrend with questions regarding the entry to Japan. It was useful to interview the expert of the Japanese market explaining the potential, possibilities and barriers of the new market. Interview questions are added to the Appendixes 1 and 2 and the transcription of the answers are outlined in Appendixes 3 and 4. Secondary data is collected during the review of company's internal records. The company's analyses are prepared after thorough examination of the documents, data collection and author's personal experience showing the current situation of the company in both Estonian and foreign markets. The analysis may identify business opportunities and potential barriers that may arise when operating on international markets.

Following analysis is about the Japanese environment. It brings out the factors that have to be taken under the attention regarding the success and potentiality in the chosen Asian market. It would bring more clarity when choosing the entry mode and evaluate the success on the Japanese market. There qualitative research method was also chosen. The necessary data was collected during the review of the sources like interviews, reports, in-house data and other Internet data sources, news and public data from public authorities. The external environment is analyzed using the PESTE analysis. Legal part is not covered in this paper, as it is not relevant to current analysis. Macro-environmental factors of Japan give an aerial view on the whole environment from many different angles that may have a profound impact on an organization's performance. It attempts to anticipate future political, economic, social, technological, legal and environmental trends that may affect the organization in the future (McGrath, Bates 2016).

2.2. About Softrend Group OÜ

Softrend is an Estonian upholstered furniture manufacturer with 20 years of experience. It is a family business that has been operating already since 1997. All the furniture is made in Vääna, Estonian city near Tallinn, where Softrend has their own factory. The furniture is handmade and designed by Estonian designers. As shown in the table 1 Softrend offers a big variety of living room, bedroom, dining room, children’s room and public space furniture. Moreover, they have a significant variety of accessories like mirrors, carpets, curtains and lamps (Softrend, 2019).

Table 5. Overview of the Softrend company

Company	Softrend Group OÜ
Established (year)	In 1997
Country of origin	Estonia
Factory location	Vääna, Harjumaa, Estonia
Production, manufacture	handmade furniture
Main production	sofas and beds
Size of the company	small
Number of employees	55, of which 35 are craftsmen
Showroom locations	1 Helsinki, Finland 2 Tallinn and 1 Tartu, Estonia
Furniture category	Living room Bedroom Dining room Children’s room Public space
Public space	Sofas Armchairs Poufs Space dividers and screens Creative corners

Source: Composed by the author based on the company data

Making decision in the family means considering the long term success. As Softrend is a family business, then their decision are based on the idea of sustainable development, according to which it is important to consider the environment and other people’s needs in business and production. Benefits of a small company provide flexibility, a personal approach and the ability to react quickly. Softrend has a wide selection of models, sizes, covers and filling materials. It helps to offer exactly what a customer needs (In-house resources, 2019).

To analyze the current situation of the company, there is prepared a SWOT analysis in Appendix 7 that combine the factors to sales abroad. The analysis focuses on the factors that can influence the sales process the most.

Softrend takes care of the nature and uses leftover materials sustainably. Their product range has ‘green’ pillows that are made of leftover materials and they also have an upcycling product range. The packaging in which the company is delivering the products is also made out of the recyclable material. That way they believe they are not hurting the environment we live in. One of the Softrend goals is to become a waste-free company. They are looking for new ways and new technologies to use all sorts of excess material without creating more waste. When cutting fabric Softrend’s craftsmen use a special cutting machine to minimize waste when cutting fabric (*ibid.* 2019).

Table 6. Softrend quality standard

Functionality	Design	Service
Durable, high-quality materials	Wide selection	20 years of experience
High-quality fabrics	Many compatible products	Follow-up service
Comprehensive and continuous product development	Comfortable products made in a collaboration with leading designers	Design-conscious consultants
Customized sofas for everyone	Timeless and calm style	

Source: In-house resources, 2019

Softrend has gained its trust not only in Estonia but all over the globe, mainly in Europe. 50% of its production goes to export and the majority of the products comprise furniture for public space. The main resellers are in Finland, Sweden and Lithuania. Finland is the only foreign market that

has a showroom, which is located in Helsinki. Other countries that are partners of Softrend are Belgium, Denmark, France, Germany, Iceland, Ireland, Italy, Netherlands, Norway, United Kingdom and USA (In-house resources, 2019). Relatively new markets are Czech Republic and Hungary. Softrend has also some contacts on the Chinese market, but they can't say that they have really entered the market. When planning to export, Softrend is mainly looking for the markets with a good acquisition power, mostly developed countries due to the medium cost of furniture that they produce. The most successful entry was to Denmark. Project sales manager found a reliable partner that took everything under his control. The success there is measured by time, it was one of the fastest entries (Interview, 2019).

2.3. The concept of public space furniture

Softrend is expanding its soft force into a creation of working environment. The idea is to make office space more comfortable and feel like home. The selection of public space products contains series of couches, armchairs, poufs and acoustic screens. They can be used in private meetings, dividing space into different zones or improving the acoustic properties in the room. There is a possibility to customize every public space product, have different combinations of layout and order in many different sizes (In-house resources, 2019).

The public space selection contains product series of couches, armchairs, poufs and acoustic screens (Appendix 5). The idea of expansion the public space furniture is to make office spaces more homely and comfortable. The solutions for public space aim to create working environments that support various activities depending on the needs of the person. The furniture can be used during the easy-going conversations, meetings, one-on-one talks, relaxation time or hide away to delve into work. Moreover, the furniture is suitable not only for offices, but also for hotels, lounges and can be used as a sensory furniture for autistic people (*ibid.* 2019).

The public space furniture is sound absorbing. The screens are removable and the furniture absorbs sound that allows to have a more private conversation or a place to contemplate things in peace. The acoustic environment affects both people's working efficiency and their health. Acoustic absorption means that sound does not reflect off a material after reaching it. The materials used for that are porous and breathable (*ibid.* 2019). Most of the public space furniture is also suitable to use for people with autism.

2.4. Japan

Japan is an archipelago or an island country on the east coast of Asia. The country consists of islands in a northeast-southwest arc that stretches to approximately 2 400 kilometers through the western North Pacific Ocean. There are four main islands that take up nearly the entire land area. These islands are Hokkaido, Honshu, Shikoku and Kyushu. The biggest one of them is Honshu, followed in size by Hokkaido, Kyushu and Shikoku. In addition to four main islands there are many smaller islands. The capital city of Japan, Tokyo, is located in east-central of Honshu and is one of the world's most populous cities. Japan's nearest mainland neighbors are Russia in the north and Korea and China in the western part and Taiwan in the south (Hijino, Notehelfer 2019). The landscape of Japan is rugged, over four-fifths of the county is covered with mountains. There are many volcanoes, about 200 in total, some of them are dormant and approximately 60 of them are still active. The highest peak and also one of the most famous mountains in the world is mount Fuji (Japan Country Profile, 2019).

Japan is officially called the State of Japan, the literal translation of which is Nippon-koku or Nihon-koku. The characters that compose the name Japan mean “sun-origin” that is often referred to as “The land of the rising sun” (Japan, 2019).

General information about Japan:

Form of government: Constitutional monarchy with parliamentary government

Language: Japanese

Capital: Tokyo (Tōkyō)

Surface area: 377 970 square kilometers

Number of prefectures: 47

Population: 126 700 000

Time zone: GTM +9

Main religions: Shintoism, Buddhism, Christianity

Currency: Japanese Yen (1 EUR = 121.03 JPY)

(About Japan, 2018)

2.4.1. Political factors

Japan has constitutional monarchy as its current form of government and the emperor being the head of the state. However the emperor has limited powers like many other monarchs in the world. He is more like a ceremonial figurehead of the country and by the constitution he is defined as “the symbol of the state and the unity of the people”. The Prime Minister is the one holding the power with the elected members of the Japanese legislature that is called the National Diet or the Kokkai. The parliament consists of the House of the Councillors (the upper house) and the House of Representatives (the lower house). The upper house is elected for a six-year terms and the lower one for a four-year terms. According to the Constitution of Japan the nation’s highest organ of state power is the National Diet. Since 1st of May 2019 the emperor of Japan is Naruhito, who followed the abdication of his father emperor Akihito (Naruhito, 2019).

The major political parties are Liberal Democratic Party (LDP) and the Democratic Party of Japan (DPJ). One of the most interesting experiences in politics has been conservative LDP that is being dominant in the country for more than half of a century since it was founded in 1955. The dominant party system continues to operate and remain relevant until nowadays. LDP has been continuously been in power except the years 1993 until 1994 and from 2009 until 2012 when it was in opposition. DPJ has played an important role as an opposition several times (Стрельцов, 2016). For years Japan has had some pressure to revise the constitution. It has not been amended since the year 1947 when it was enacted. The LDP have advocated for revision since the formation of their party, but it did not meet the interests of other parties. Only after 2000s the Diet created a commission for discussions about the constitution. Yet the future of the constitution revision is uncertain to the present moment (Council on Foreign Relations, 2019).

The political environment of Japan is stable. The index refers to political stability and absence of violence and terrorism. On the chart 3 the World Bank provides the data regarding the political stability of Japan over the years 1996 to 2017. During that period the average value for Japan was 1.05 points, where the minimum is 0.88, year 2010, and maximum is 1.25, year 1998. The stability index varies from -2.5 points (weak) to 2.5 points (strong) (The Global Economy, 2019).

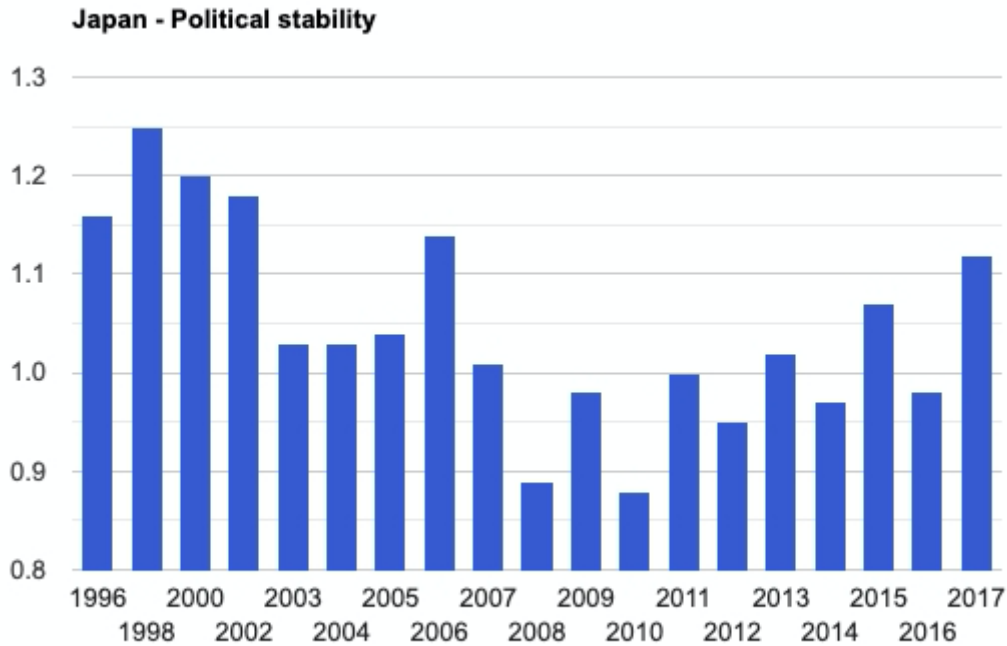


Chart 1. Japan political stability index

Source: The World Bank, 2019

Also the corruption level of Japan has increased a lot during the last ten years. On the scale of -2.5 as weak and 2.5 being strong the average value for Japan has been 1.38. Since the early 2000-s the index has increased from 0.97 in 2002 to the maximum of 1.69 in year 2014. The last given data refers to the year 2017 which is 1.52 (*ibid.* 2019). There is still some slight corruption in the country, but the overall level is low. In the Freedom in the World score Japan is ranked 1 with the status of most free country. The political rights and civil liberties have also ranking 1 showing that the country is overall very free politically. The freedom is measured on the score of 1 to 7. The total aggregate score is 96/100, where 100 shows he most free country (Freedom House, 2017).

The desire for internationalization and recognition has crucially shaped Japanese foreign policy. It has mainly been focused on peaceful means of achieving international superiority. Japan's closest ally is United States. Both countries rely on economic ties for their wealth. The relationship between Japan and the United States has characterized Japan's multilateral diplomacy (Lipsy, 2008). Japan belongs to the number of international organizations such as Asia Cooperation Dialogue (ACD), G-20 Major Economies (G20), G-8 major economies (G8), Organization for Economic Co-operation and Development (OECD). Moreover, Japan is a key contributor to major

organizations like World Trade Organization (WTO), the United Nations (UN) and International Monetary Fund (IMF) (Country Economy, 2019).

2.4.2. Economic factors

Main aspects of the economy of Japan:

GDP: \$5.4 trillion

GDP growth: 1.7%

GDP per capita: \$42 832

Inflation (CPI): 0.5%

Population below poverty line: 16.1% (2013 est.)

Unemployment: 2.8%

Average monthly salary: 684 471 JPY = 5630 EUR (The Heritage Foundation, 2019)

Japanese economy is one of the largest in the world. It is currently on the 3rd place after the United States and People's Republic of China. Already between the 1960s and 1970s the economy of Japan kept high growth to become the world's second largest economy. But during the 1980s an equity and real estate property price raise led the country into recession. In 2000 the economy boosted again and the growth rate increased by 3%, which then landed to an average growth of 1.7% over 2000 to 2006. That time economy grew again by 4%. The progress weakened when devastating tsunami and earthquake hit Japan in March 2011 and nuclear power plant accident happened. Since 2012 the economy was again on an upward trend. Japanese economy moved out of a deflation through financial, monetary and growth policies. The primary deficit has been shrinking by increased tax revenue (Statistics Bureau, 2019).

The bigger increase began in 2013 when the government introduced "Three Arrow" strategy supported by Prime Minister Shinzo Abe. It was an economic revitalization agenda of monetary easing, adaptable fiscal policy and structural reform. Japan has showed a moderate progress in ending deflation but demographic decline such as low birthrate, aging and shrinking population create a long-term challenge for the economy. The legislation that was adopted in 2012 to help raise government revenue by raising the consumption tax rate led to a contraction in 2014. So the next increase was postponed by the Prime Minister for the end of 2019. To strengthen the economy in the long term, structural changes are important to unbolt the productivity (Central Intelligence Agency, 2019).

Japan has been dependent on energy and raw materials that are imported to the country, because the country itself is poor in raw materials and minerals. After the earthquake and the tsunami disaster in 2011 and the shutdown of the nuclear reactors the industrial sector of Japan became even more dependent on the imported fossil fuels. The government is looking forward to restarting the nuclear power plants that follow new and strict safety standards to highlight that nuclear energy is important as a base-load electricity source. Since August 2015 one nuclear reactor at the Sendai Nuclear Power Plant in Kagoshima has already been successfully restarted and several other reactors have started to operate again and some are still with a pending status. Prime Minister Abe's economic program establish an important role on the reforms of the electricity and gas sectors (ibid.).

Japan, being the 4th largest export economy in the world after China, the United States and Germany, exports \$694B and imports \$632B according to the 2017 data and showing the positive trade balance of \$62.4B. The most recent exports are conducted by cars which makes 15% of the total export of Japan. On the chart 2 cars are represented in the transportation that make 24% of the total export category of Japan. Another big export subcategory from the Transportation are vehicle parts that take around 5% of the total export. Biggest export in machines category are integrated circuits (4%), machinery having individual functions (3%) and industrial printers (2%). Category Other shows mineral products (2%), textiles (1%), stone and glass (1%) and paper goods (0.87%). Japan has won the preferences of many people in different countries, because the whole production is high-quality (OEC, 2017).

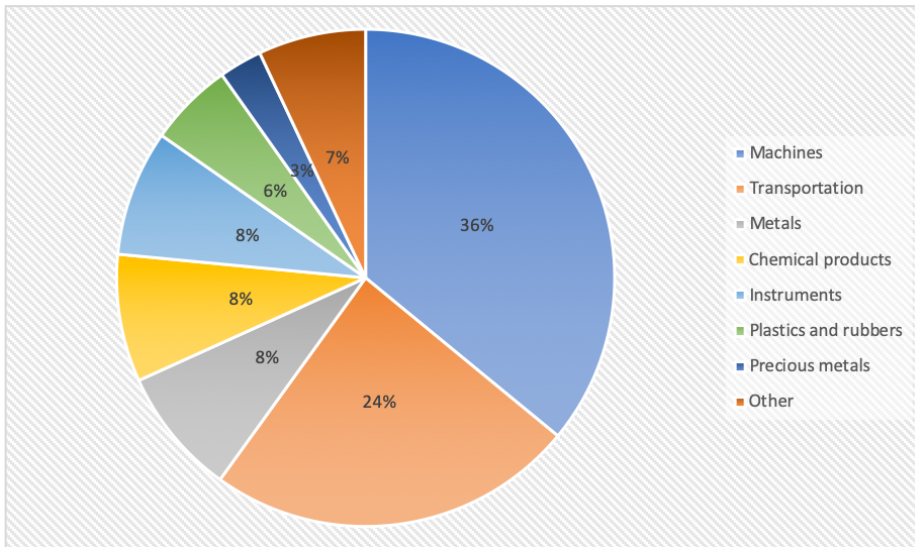


Chart 2. The main export categories of Japan

Source: OEC - The Observatory of Economic Complexity (2017), compiled by the author

Japanese imports represent about 4.2% of total global imports. Around 60% of Japan's total imports are purchased from Asian countries. The top import destinations for Japan are China (25%), the United States (11%), Australia (6%), South Korea (4%) and Saudi Arabia (4%). Estonia ranks number 87th as an import destination of Japan. The main import categories as seen on the Chart 3 are machines, mineral products, chemical products, textiles and metals. More precisely the most recent imports are led by crude petroleum (9%), petroleum gas (6%) and broadcasting equipment (4%). Other sections include mainly food stuff, plastics and rubbers, vegetable products and 2.3% of the total import make miscellaneous products like furniture, seats and other furniture. (OEC, 2017)

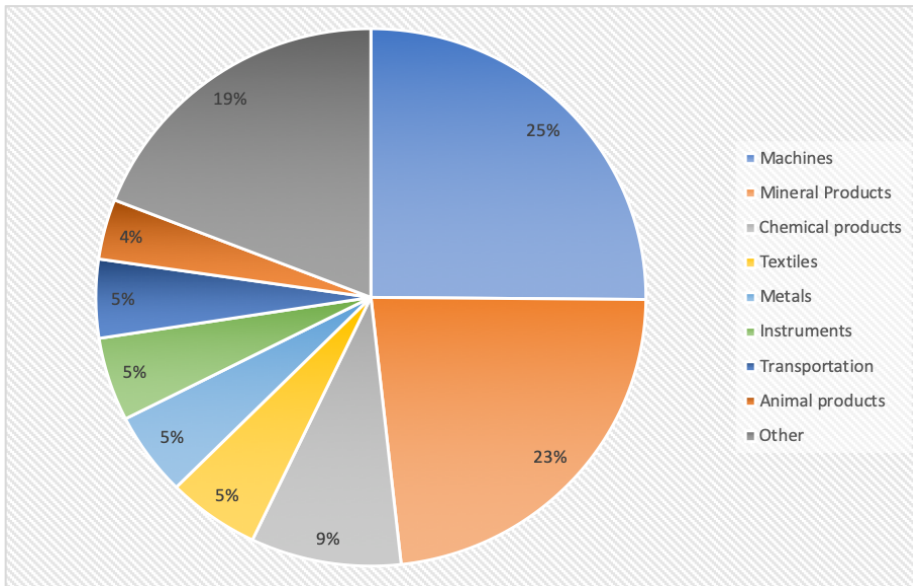


Chart 3. The main import categories of Japan

Source: OEC - The Observatory of Economic Complexity (2017), compiled by the author

Almost the entire volume of hydrocarbons consumed are imported from other countries. At the same time half of the oil comes from the Middle East and gas mainly from Malaysia, Australia and Indonesia. Coal is also imported mainly from Australia, Indonesia and China. The purchase of these materials is carried out at fairly high prices. All this makes the country being dependent on the supply of commodities. The main risk is the import of oil from the unstable Middle East region (Market Research Reports, 2019). This is one of the main reasons for restarting the nuclear power plants that Japan has been trying to do since the year 2011.

Since 2011 imports exceed exports. This means that Japanese goods are in a lower demand. In 2015 the imbalance began to cover slowly, but in 2016 the situation went downwards again. Moreover, since the late 1990s Japan has been known as the economy that is struggling to overcome a long lasting deflation. A huge amount of money flows into the system and the currency yen is declining artificially. However, in the long run it does not bring the expected results. Deflation processes in Japan are very strong and during the crisis they intensify. At the same time, overproduction and commodity saturation are observed in the country, but people prefer to keep banknotes that are permanently rising in price. This is affecting the consumer activity negatively (Nishizaki et al, 2014). Japan has also the highest national debt to GDP ratio in the world. It is constantly growing and prevents the economy from developing. By the year 2019 it is \$9.087 trillion. It happened because for almost 20 years the budget deficit was financed by government

bonds. Most of them are owned by the Japanese themselves, so they basically owe it to themselves, the older generation borrowed from the younger one (World Population Review, 2019).

The main strengths of the economy:

- High level of technological development
- Export of high-quality high-tech products worldwide
- High level of welfare

The main weaknesses of the economy:

- High wages and deflation of the yen deprive products of a competitive advantage
- Oversaturation of the domestic consumption and lending market
- High dependence on raw materials imports
- Huge government debt in relation to GDP
- Aging population

In conclusion Japan can rightfully be called a highly developed post-industrial country with a competitive economy. The country spends those reserves that it managed to stock up at the most favorable times. Undoubtedly, the scientific and technological opportunity that provides potential for new breakthroughs and inventions can help to promote the development of the economy.

2.4.3. Social factors

Japan has experienced a remarkable growth during the past 100 years as a result of sociological, industrial and scientific changes. The country is ranked 11th as the most populated country in the world. Total population in 2019 was 126 860 301, but it had decreased comparing to the year before due to the falling birth rates by -0.27% (World Population Review, 2019). During the last years the population growth happened primarily due to the natural increase, social increase played just a minor role. Moreover, the average life expectancy has grown since the World War II and is now ranking on quite a high level in the world. In 2017 it was set all-time record for both genres, when it was 87.3 for females and 81.1 for males (Statistics Bureau of Japan, 2019). The aging society in Japan is progressing rapidly in comparison to the United States and European countries. The percentage of the aged population, which is 65 years old and over, was 26.6 percent of the total population in 2015. The percentage is bigger than in countries like the USA, France, Sweden or Germany, where the aged population percent grew faster during the 1900s than it was in Japan. On the other hand, the child population, which is 0-14 years old, was 12.2 percent of the total

population in the year 2018. It was the lowest level on record (*ibid.*). Japan's Gini coefficient has also been increasing. Gini coefficient is used as a proof of economic inequality. The country with a score 0.0 on the Gini scale shows perfect equality in income distribution. The higher the number over 0, the more inequality in terms of financial prosperity there is in the country. As of 2019 Japan's Gini coefficient is 32.1% (World Population Review, 2019). The studies have shown that the reason of the increase of the Gini coefficient is the increase in the number of old people in Japan, whose income is equal to zero, but who have fair amount of savings. The reason is mostly the ageing society, but the rising unemployment rate amongst young people has also affected the end result (Fujiwara, 2013).

The education system of Japan played a major part in the recovery and rapid economic growth of the country after the World war II. The primary and secondary education is based on 6-3-3 system: six years in elementary school, three in lower secondary school and three in upper secondary school. The compulsory is the nine years at elementary and lower secondary schools. Institutions for higher education are universities, junior colleges and colleges of technology (Statistics Bureau of Japan, 2019). Japan's education system is one of the best in comparison with other OECD countries. Over half of the people who had attained tertiary education between years 25 to 64, which is 13 percent higher than the OECD average is. Around 91% of people enrolled in the university or vocational programs complete it successfully. The number of graduated students remains below the OECD average due to the low female participation. Gender inequality persists not only in education but also in employment (OECD, 2019).

Japanese society is facing a high level of gender inequality. However, the status of women is rising and women have more impact on the country dynamics, the percentage of women involved in decision-making processes is still low. After Second World War women got the right to vote, run for parliament, own property rights and be educate (Yamaguchi, 2017). The number of working women between 1970 and 1985 increased by 50%. Nevertheless, in the 21st century the society remains unequal from a gender perspective. According to Global Gender Gap Report by World Economic Forum of 2016, out of 144 countries Japan was ranked in 111th place. In 2017 it was on the 114th place. The percentage of female national civil servants in the year 2018 was 33.9% and the women in the managerial position was only 4.4% in the year 2017 (World Economic Forum, 2016). Nearly 70% of women who quit their jobs do so because of the marriage or childbirth. Moreover, it takes over 25 years for a woman to achieve the same managerial position that men can reach within five years (Yamaguchi, 2017).

The medical care system of Japan is achieving the highest life expectancy in the world. It is influenced by the high standard of healthcare as well as improvements in the living environment and better nutrition. The health insurance regime of Japan ensures that anyone can receive medical treatment for their needs (Statistics Bureau of Japan, 2019). The health care service systems in Japan are mandatory and are delivered by non-profit public health insurance systems. These systems are based on occupation, municipality or separate system for people over 75 years. The financing of the cost of medical care is made through insurance premiums, tax revenues and copayments. Patients are accepting responsibility for 30% of the total medical cost. Low income people, elderly or infants are completely or partially free from copayments (Ikeda, 2004).

The official language of Japan is Japanese. It is the sixth most spoken language in the world. More than 99% of the population speaks Japanese as their first language, the remaining percent is Chinese, Korean or other language. Older generation knows mainly just one language which is Japanese. The younger generation has to study English, because it is taught at school. The level of English is better in big cities and rural areas alike (Central Intelligence Agency, 2019).

2.4.4. Technological factors

The industrial technology in Japan is growing and becoming one of the leading ones in the world. The country is catching the attention of prominent technology and science policy researchers. The government has directed its efforts to research and development, direct financing and also protected the business side of the market. Japan is supporting technology and its expenses for the research and development (R&D) of science and technology are on a very high level. It supports its positions as a technology based country and ranks second among major industrialized countries after the USA. Universities and colleges spend more than 90 percent of the R&D expenditure on natural science, while for development purposes the business enterprise allocates around 70 percent. By the end of March 2018 around 90 percent of the researchers at business enterprises were in the manufacturing industries. The biggest number of which were in motor vehicles industry, information and communication electronics equipment industry and business oriented machinery industry (Statistics Bureau, 2019).

Japan has no domestic oil or natural gas reserves. It has limited domestic energy resources and since 2012 they use less than 10% of the country's total primary energy. Japan ranks in the top three after USA and China as the largest oil consumer and net importer in the world. It is also the

world's largest importer of liquefied gas and is in the top three countries of the highest coal importers behind India and China. Due to the lack of sufficient domestic hydrocarbon resources Japanese companies are actively participating in oil and natural gas projects all over the world to provide engineering, construction, financial and project management services for energy projects (U.S. Energy Information Administration, 2017).

Country's least expensive sources of electric power – nuclear power - served about 27 percent of the power generation in Japan prior to the 2011 earthquake. It was the third-largest consumer of nuclear power in the world after United States and France. By 2013 Japan used virtually no nuclear energy. The notable loss of nuclear power was replaced by imported natural gas, low-sulfur crude oil, fuel oil and coal. That led to the higher electricity prices for consumers and revenue losses for electric utilities. Hydroelectric power, nuclear power and other renewable energy sources make up comparatively small part of total energy consumption of the country. Japan's total energy consumption by the year 2015 consisted of 42% petroleum and other liquids, 27% coal, 23% natural gas, 5% hydro, >1% nuclear and 3% other renewables, particularly solar power (*ibid.*).

Japan is very advanced in automation and innovation. Many offices and forms are automated. They use automation in restaurants, hospitals, offices, airports and factories that are highly efficient due to the use of high tech automated system. Japan also contributes a lot in the robotics and artificial intelligence (Shiroyama 2017).

Already since 1960s Japan has been one of the world's most commercially innovative countries. Well planned automobile design and production was dominated by Japanese companies like Toyota, Honda and Mitsubishi. Consumer digital products that went global were developed by Sony, Panasonic and Toshiba. The country has developed rapidly and is also known for its high-quality production, world-leading commercial electronics, substantial use of robots, solar power and LED lighting. These innovations made Japan one of the world's most successful economies in the recent years. The country is steadily investing in space-based solar panels, nanotechnology, hydrogen energy and robotic technologies that are likely sustaining the commercial welfare. These investments are considered risky, but highly rewarded. Moreover, Japanese society is aging, so the companies are vigorously developing technologies to make lives of senior citizens and their caretakers easier and hassle free using robotic pets or smart appliances (*ibid.*). Even though Japan has developed successful long-term business planning, progressive government policy, high quality standards and consumer beliefs and national support for making experiments, there are still

some challenges that Japan is facing. For instance growing international competition, increasing aging population, high energy cost and labor shortages (*ibid.*).

The number of Internet users has been growing since the start of commercial usage in 1993. By the year 2013 it exceeded 80 percent and by the end of September 2018 it has not changed much. The ratio of individuals by that time was 79.8 percent. According to the age group between 13 and 59 years old the individual Internet usage rate went over 90 percent. Looking at the status of Internet use by device by the same age group the highest usage rate showed smartphones. Smartphones were used by 59.5 percent and computers by 48.2 percent of the users by the end of September 2018 (Statistics Bureau, 2019). Total number of Internet users by the year 2016 was 116,390,962, which is 92% of the total population of Japan. The most used social media platforms are Line, Instagram, Facebook, Pinterest and TikTok (Central Intelligence Agency, 2019).

2.4.5. Environmental factors

The main distinguishing feature of Japan is its high seismic activity. Up to 1500 earthquakes happen there every year. Most of them have no destructive power, but are felt by the person. Japan is almost always at risk of sharp and uncontrolled environmental pollution. The earthquake in 2011 is the proof of that. It led to many negative consequences in the country's bio-capacity. The large-scale cleaning of fields, forests and villages that was initiated by the Japanese government caused many doubts in experts, because an intense impact on the environment could cause other environmental problems (Тихоцкая, 2011). To solve the nuclear waste problem Japan tried to adapt the underground technology for its disposal. According to the Prime Minister the technique of burying the waste deep beneath the ground should be safe, but there have been many concerns regarding the technology. Mainly because of Japan's seismic nature (Green Coast, 2019).

Other major environmental problems of Japan nowadays are air pollution with exhaust gases from motor vehicles, the disposal of household waste and the swamping of important water bodies. The industrial and scientific activities of modern Japan are aimed not only at technological progress, but also at protecting the environment. Today there is a balance between the development of technology and the protection of nature. Japanese engineers make a huge contribution to the world experience in energy-saving technologies. As part of the fight for clean air, more and more advanced automobile engines are being developed and electric vehicles are being introduced (Fujikura, 2011).

The waste and its disposal management are one of the most prevalent challenges in Japan. The country is too small compared to the waste materials released every day. This causes burning of the waste which in its turn significantly raises the amounts of dioxin in the country's atmosphere. The biggest waste in Japan is food waste that is 5-8 million tons per year, while its self-sufficiency in food is the lowest among developed countries (39%) and it continues to decline despite the claims to increase it. Most of the food waste is generated in the households rather than food establishments or shops (*ibid.*). One of the innovations in Japan that catches more and more attention is the concept where a professional chef prepares high-quality dishes from products brought by the participants from home, which for various reasons have become unnecessary to them. It started in 2013 in order to encourage people to think about how any high-quality products go to waste (Тихоцкая, 2011).

Japan is moving towards becoming a “green” country. In addition to natural factors and a high degree of concentration of economic activity and the population in a small territory, the proximity to nature and special ecological thinking that are traditional characteristics of Japan, also played a role. The environmental component plays an increasingly important role in improving the efficiency of the economy and the quality of life of the population. Japan is well aware that many environmental costs are increasingly turning into an economic category: favorable environmental living conditions are not only people's requirements for quality of life, but also necessary for the functioning of high-tech industries (*ibid.*).

2.5. Japanese business culture

Japan has the most isolated island culture and nonetheless has developed and created a modern society with its unique values, traditions and customs. When the foreign company wants to start the business in Japan they should definitely learn some basics about the Japanese business culture. They will almost certainly come across misunderstandings related specifically to intercultural differences (Oikawa, Tanner 1992). However, Japanese professionals are well trained to do business with the West and will do their best to adapt to the lifestyle of communication of the foreign companies and their management (Interview with the expert, 2019). Nevertheless, it is important to learn about some of the features of the Japanese business culture, business etiquette and negotiations.

The Japanese market is relatively “open”. This word could have many different definitions, but it is still possible to say that the market is easily accessible for other firms to enter unless government imposes some laws, rules or regulations specifically to discriminate foreign companies, their products or services. Nevertheless, there could be some barriers that may occur on the Japanese market such as (McAlinn 1996, 17):

1) Governmental

These barriers include tariffs, quotas, standards, import procedures, certification and other that have been lowered or eliminated during the last decades through bilateral or multilateral trade negotiations (*ibid.*).

2) Structural, organizational and institutional

Japanese like long-lasting and long-term ties in everything. It can apply to supplier-user ties, banking, distribution channels, corporate cross-shareholding and other structural features of the economy. It might become difficult for the new foreign companies that want to enter the market, because this kind of features are usually initiated for the domestic market and it's companies (*ibid.*).

3) Attitudinal and psychological

Local people value things that are made in Japan a lot. There is an obsession of self-sufficiency and wanting to make things themselves rather than depend on the foreign supplier. Even though due to the lack of natural resources the raw material is mostly imported. Another aspect of this barrier is the myth that Japanese products and services are better than any other foreign product or service. During both interviews with Softrend and EAS experts it was clear that in reality Japanese people value and prefer also foreign company's production, especially from Europe (Interviews, 2019). The last aspect here is the uniqueness of the country. Some Japanese people believe that Japan is unique even regarding soil and snow and foreign products do not fit the standards. Nonetheless, not many people nowadays would use these points in their arguments (*ibid.*).

The typical behavior of Japanese people are stereotyped. They are usually known as being in a harmony with other people and the environment, being conservative, have obedience and respect for elders, seeing personal relations as a core of society and being thrifty in life (Li, Putterill 2007, 148). When starting the business relations with Japanese it is useful to know the basics of the hierarchy, respect, greetings and communication between the partners.

Hierarchical structures rooted in Confucianism always determine a person's position in a group and in society. Status depends on factors such as age, profession, company and marital status. The hierarchical system requires a relationship corresponding to a high status. Therefore, it is good to find out the status of the person with whom you do business and adapt the behavior. Another point to maintain the harmony in the society and hierarchical structure is an expression of respect for others. It also remains the core factors of the communication between people. Respect is conveyed through words, behavior, etiquette, body language and other nuances of non-verbal communication (McAlinn 1996). In the business culture three main characteristics of the person build the successful relationship with the Japanese and these are sincerity, compatibility and trust (Interview with the management, 2019). Sincerity means that you compromise, understand and desire to do the business on a personal level. Compatibility shows that you are concerned about company's reputation, establishing personal relationships and not focused on the financial side (Li, Putterill 2007).

The ethics of Japanese businessmen are significantly different from the ethics of Westerners. In order to avoid bewilderment and misunderstandings, it is necessary to take into account national differences and know some rules in business culture in Japan. Besides the trustworthy and friendly relationships in communication it is useful for a foreigner to know some two other aspects of behavior in Japan that are following:

- Bowing when greeting is an integral part of the behavior of the Japanese society. It is used at a meeting, to attract attention, to show gratitude, express sympathy or apology. However, foreign businessmen are not required to bow, they will most likely be greeted with a handshake and a slight nod of the head (Oikawa, Tanner 1992). Nevertheless, it is not expected of the foreigner to know words and phrases in Japanese. It is a misconception to think that Japanese people are waiting to hear greetings only in Japanese. (Interview with the expert, 2019)
- Exchange of the business cards is like a whole ceremony in Japan. It is believed that the business card represents a person. Any business acquaintance with representatives of Japanese business begins with the obligatory exchange of business cards that are taken with both hands. It shows reverence to another person (Oikawa, Tanner 1992).

Peng and Meyer (2009) showed the systematical difference in cultures and outlined three ways to understand the cultural differences as context, cluster and dimension approaches. The most

straightforward dimension is the context one and it is divided into low-context cultures and high-context cultures. Japan belongs to the high-context culture, where communication depends a lot on underlying unexpressed context, where word “yes” does not always mean a consent. Nevertheless, the most influential one is the dimension approach. Peng and Meyer (2009) used Hofstede’s dimensions of cultures to explain in what section different countries in the world belong to. The work of Hofstede and his colleagues is widely used and represents five dimensions: power distance, individualism, masculinity, uncertainty avoidance and long-term orientation. Table 7 represents where according to Hofstede Japan is placed in comparison to other countries. The scores reflect the relative standing among countries, not absolute positions and are explained below the table.

Table 7. Japan in the Hofstede’s dimension of culture

Power distance	Individualism	Masculinity	Uncertainty avoidance	Long-term orientation
Japan (54)	Japan (46)	Japan (95)	Japan (92)	Japan (80)

Source: Peng M. and Meyer K., 2009

The power distance is the degree to which the less powerful members of institutions and firms within a country perceive and recognize the unequal distribution of power. Japan has an intermediate score (54) which means that Japanese are conscious of their position in the hierarchy and always act accordingly. Individualism is the degree of independence a society maintains among its members. Japan (46) has a more collectivistic society than individualistic, because the harmony in the group is more important than the expressions of individual opinions. Moreover, Japan (95) is the most masculine country in the world which refers to the fact, that Japanese people are associated with the male role, where they are being assertive and decisive. Femininity on the other hand is associated with compassion, care and quality of life. Uncertainty avoidance refers to the extent where society deals with the fact that the future can never be known. Japan (92) is one of the most uncertainty avoiding countries. It can be connected to the fact that Japan is constantly threatened by natural disasters from earthquakes, tsunamis and volcano eruptions. So Japanese people have learned how to prepare themselves for any uncertain situation. The long-term orientation focuses attention on the perseverance and preparations and saving for the future. Japan (80) is one of the most long-term oriented societies. They are nurturing long-term ambitions and try to do best in their life time.

Business in Japan is very closely connected with the culture and philosophical and religious views of the Japanese. If foreign companies decide to connect the business with Japan on a long-term basis, then in addition to the language it is also useful to have some basic knowledge of Japanese culture and mentality.

2.6. Findings and discussion

The following chapter points out the main findings that were obtained during the second part of the thesis. According to these findings it is possible to answer the question pointed in the beginning of the thesis and give suggestions and advices regarding the possibilities of Softrend on the Japanese market to the company.

According to the case study of Softrend and Japanese macro-environment and culture, there is a great potential and possibility for the company on the Japanese market. In particular Japanese people are interested in the European brands and the good quality of the products. Most of them value the design and the quality that Europe, especially Nordic countries, offer. Estonia is not that well-known in Japan, therefore its products would be a great diversity to already known Swedish and Finnish design and quality. Moreover, the public space concept is suitable for Japan due to a bit different working environment that Europeans are used to. Japanese spend a lot of time in their offices and working hours can reach late evenings, so comfortable and trendy furniture in the office is needed. Also the environmental friendly concept is not unfamiliar to the Japanese people. The industry and scientific activities of Japan are aimed to protect the environment. Nowadays there is a balance between the technology development and nature protection. Japan is moving towards becoming a “green” country with a high-end waste and disposal management. Softrend is also promoting its environmental friendly concept and is reaching towards completely waste-free company. Moreover, Softrend sees more potential on developed markets rather than developing ones. It is mostly explained by the acquisition power developed countries have. Softrend goods are high quality and with a medium price. Japan and some other Asian countries have a high demand of trendy products. Softrend is a small and flexible company that can customize and adjust its products according to the trends and market demands. For example make the chairs and poufs a little bit shorter as Japanese people are in general shorter.

Another main point is that Japanese people often take a long-term approach in developing relationships both in everyday life and business. The process is usually time consuming and requires relationship that outgrows to friendship. Japanese also value consistency a lot when doing business. If the foreign company wants to do business in Japan, it would be good if the representative has a personal level of interest in Japan and Japanese culture. The representative should also like Japanese people enough to enjoy their company and be willing to spend time outside the office. In addition to relationships that are based on trust, it is considered a good form when the company management is being present on the market as often as possible and takes part of the events that are organized by local companies or partners. If foreign company wants to succeed in Japan, then long term commitment should be one of their interests. It takes longer time to get things started in Japan. Attending furniture fairs in Japan as often as possible would show the Japanese customers and partners that the business is growing. Softrend has been operating on the market already more than 20 years and expanded in many European countries. Moreover, they offer five year warranty on their products. It all shows that Softrend is expanding businesswise and is confident in the equality of the product they offer.

There are also some risks and barriers that Softrend can meet on the Japanese market already when doing the preparations for export. According to the data that was collected in the PESTE analysis and also the interviews, Japanese language is the main and most of the time the only spoken language in the country. Any company that is planning to enter the market needs to review and translate the marketing materials and have a partner or a translator that can participate in the fairs or during the meetings. Another obvious reason is the distance of the export market. It means that there will be logistical costs that can be high or it would be difficult to find the right transportation manager. Estonia does not have transportation companies that can bring the needed products to Japan quickly and at a reasonable price so the cost of transportation does not have a significant effect on the cost price of the goods. As discussed in the interview with the project manager to Japanese market, the Estonian and Japanese companies need to agree on the terms of transportation costs. Japanese companies usually refuse to pay the whole transportation costs, because according to the trade terms the rule that would apply is Ex Works (EXW). In this case there is a minimum responsibility on the seller, who only has to prepare the goods and package them at the specified place, usually the seller's factory. The whole responsibility is on the buyer, Japanese company, who has to take care of loading the goods, all export procedures, onward transport, insurance and all other costs that arise after collecting the goods. It is too costly and risky for the buyer company, so Japanese firms usually demand CIF Tokyo, where the seller takes full responsibility for

delivering the goods to the port of the buyer, covering also insurance and freight. Buyer is organizing the transportation only from the port of discharge in this case when the goods reach the Japanese port.

Japanese business culture and ethics are different from Estonian one. There are certain rules that people who want to do business in Japan should know. It does not mean that without knowing these rules the company will not succeed, but out of respect to the Japanese people and business partners, it is a big plus to know how to behave in certain situations. Japanese people are also taught how to do business in Western countries, so they do not expect the foreigner to know everything. Moreover, Japanese people are very helpful and hard-working. They expect friendly relationship and consistency even with the business partners.

The advantage of Japan is the technological development but at the same time the disadvantage is that there is too much bureaucracy. Japan is very advanced in mass production and robotics, but registering the business in Japan is very time consuming and needs a lot of paper work. Nevertheless, Japan has a good Internet. It has one of the fastest Internet speeds in the world. The access is cheap and it is very reliable. Social media is used by many Japanese and the most popular social media platform is Line, followed by Twitter, Instagram, Facebook and Pinterest. The use of social media in Japan is growing every year, especially the messenger and picture uploading type of apps like Line and Instagram. This would be a good opportunity for Softrend to try and promote the goods also on social media targeting people by age and interests and uploading pictures that sell.

CONCLUSION

In the modern world, internationalization is a natural part of the company's development. It becomes even more common in a small country. Small to medium-sized enterprises that have very limited home markets but still want to expand, usually consider to start exporting their goods or services to other countries. The current thesis is concentrated on Estonian upholstered furniture manufacturer whose goal is to enter the Japanese market.

The research problem of this paper was resulted from the wish of the company's management to expand to Asia, more specifically to Japan. The management had an idea that Japan is a good potential export country for the company regarding acquisition power and demand of trendy products, but the overall knowledge of the market suitability was missing. Based on that it was necessary to acquire a thorough knowledge of the potential Japanese market.

The purpose of the current thesis is to get an answer to the following question: What are the possibilities for Softrend on the Japanese market?

First of all the theoretical part explained the concept of internationalization and the most widespread model of internationalization: the Uppsala model. From the analysis part it came out that Softrend started its export also according to the Uppsala model, when they first started exporting goods to Finland and later Latvia and Lithuania. Also separate types of goals and motives that occur when planning the entry to the foreign market were pointed out. Moreover, different risks, barriers and entry modes to the foreign market were analyzed. Based on this, it was found that direct exporting is the most popular way of entry mode. It also emerged from the analysis part, specifically the interview with the Japanese expert, that the most common way to enter the Japanese market is through direct export.

Following the research problem and the need to answer the question posed, the following investigative tasks were performed:

- Have an interview with the Softrend management
- Have an interview with the expert of the Japanese market
- Get to know the current situation of Softrend and make SWOT analysis
- PESTE analysis to figure out macro-environmental factors of Japan
- Give primary entry suggestions to the company

In the second part of the thesis the overview and the activities of Softrend both on Estonian and foreign markets were introduced. Moreover, the concept of public space furniture was presented. The company's potential to enter the new market and advantages of the firm were investigated using the SWOT analysis. Japanese market was analyzed with the help of PESTE analysis. Thereupon, the conclusion and suggestions that are suitable for Softrend were made.

To solve the problem and answer the question of the current thesis, the qualitative research method was used. The primary data was collected during the interviews with Softrend Project Sales Manager and Export Manager as well as with the Project Manager of the Japanese market from EAS. Secondary data was gathered observing the in-house documents and official website of the company. Based on all this data the findings and discussions were introduced in the end of the case study part. The conducted analysis established the company's opportunities and potential problems that may arise when operating on the Japanese market.

Within the framework of the research, the finest suggestions and results were found in order to solve the posed problem of the thesis. The results of the research showed that there is a good potential and great possibilities for Softrend on the Japanese market. First of all the European design, good quality and environmentally friendly products are influential for Japanese people. The economic situation and technological advancement of Japan are benefits for Softrend in a long-term, because the company is always trying to improve its products and due to a small company they are flexible and able to customize the products according to the market needs. Softrend does not see any direct competition on the Japanese market. Of course there are many other furniture companies there, but Softrend is looking at it more as being side by side, not having a competition. The consistency and already having some knowledge about the Asian market is also a plus for the firm. Moreover, Japan does not require import tax for the furniture that is

exported from Estonia. Japan is also trying to lessen the paper work and bureaucracy and make property buying and business registration much easier process for the foreigners.

The findings of the thesis and suggestions to the company are summarized as follows:

- Softrend has a great potential to successfully enter to the Japanese market. Japan has one of the largest developed economies and the purchasing powers. Softrend is mainly looking for developed countries due to the acquisition power, because the products are high quality with a medium-price.
- Japanese people value environmentally friendly products and they are reaching towards the environmentally friendly and developed country and they are trying to improve the waste disposal management system. Softrend is also very advanced in environmental friendly concept and is reaching towards being completely waste free company. It is a great advantage, but as Japan in general pays attention to such factors, it is strongly recommended to advertise other qualities and characteristics of the company and their products to stand out. Even though Softrend is not trying to compete with other companies on the Japanese market, they should still think about contributing some additional value to compete with other environmentally friendly companies.
- Another great advantage of Japan as the new export market is that Japanese people like trendy products. It applies also to work places, offices and lounges. There is also a high demand of products from Europe and mostly furniture from the Nordic countries. Many know about the Swedish and Finnish design, but not that many about Estonian one. To begin with the accent should be also on advertising Estonia as a country, because the trust in the country and quality of the manufacturer would also increase the trust both in potential partners and clients. It would be a benefit for people to know why should they buy from a company in Estonia. Another important advantage is that Softrend is a small and flexible company that can easily adjust its furniture according to the market trends and needs. It is especially necessary to adjust the furniture according to the height and complexity of people in Japan.
- Japanese people are shy, respectful and hard-working. Japanese business etiquette is different from European one, so it is nice to know local traditions and ethics to become successful on the market. The relationship building with Japanese takes time and is based a lot on trust and friendship. Majority of the population speaks only Japanese, especially the older generation. It is not mandatory to learn phrases in Japanese, but it is essential to translate all the advertising materials, texts and descriptions to Japanese.

- In addition to trust, people in Japan also value consistency. Keeping connected and being in touch with potential partners and attending furniture fairs in Japan as often as possible is the key to success. Presenting their furniture a least once a year on the same fair is already a good sign of success.
- A major obstacle may be the distance of Japan from Estonia, which means that logistical costs may be high and finding the right transport manager may be time consuming. To start with, Softrend can try to find a company that is operating in Estonia and exports to Japan and consolidate the shipment. Another side of the transportation is the cost. Softrend needs to decide who bears the responsibility regarding logistics (cost, freight, insurance).
- Finding the right distributor in Japan is the key for success. It may be time consuming as many exporting companies are also using the help of distributors. Softrend would also need a partner that has a marketing background to translate all the materials to Japanese language. In cooperation with the Japanese partners should be made an analysis of potential customers and market demands to choose what types of products should be supplied to Japan. After first year of presence in Japan, sales statistics needs to be monitored to better formulate the demand of products.
- Social media is very popular in Japan, especially platforms like Instagram, Facebook and Twitter. In addition to attending furniture fairs, Softrend can try to advertise their brand and public space products on social media. The author of the current thesis is doing digital marketing for Softrend in Estonia and Finland. With translated texts it could be tested in Japan as well.

The potential in Japanese market for Softrend is big and there are other topics to cover when planning the entry to Japan. The author of the Master's thesis suggests other subjects for further research, as this one was concentrated more on the primary steps and realizing the potential of the market. First of all it would be beneficial to analyze with the management the furniture fair that took place in Japan in November. Make notes, realize the expectations and analyze the weaknesses. Another part would be to make a research of the success on the market in one year to have a better picture of the entry mode, demand of the customers and additional risks that may arise.

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APPENDICES

Appendix 1. Interview questions with Softrend Export Manager and Project Sales Manager

Questions for Jason Medina and Rene Mere

Occupation: Export Manager and Project Sales Manager

1. To what markets has Softrend exported so far? What are the main markets?
2. What was the main reason to enter foreign markets?
3. How does Softrend decide where and when to expand globally?
4. What makes Asia a potential export area?
5. How successful was the entry to China?
6. What was the main reason in choosing Japanese market as your next export country? What potential do you see there?
7. What kind of barriers do you expect in Japanese market (language, intercultural, legal etc)?
8. How are you planning to soften these barriers?
9. What are your main short and long term objectives in entering Japanese market?
10. What are the main problems with the company's sales activities in foreign markets?
11. What do you think is your competitive advantage, especially on foreign markets?
12. Can you name the main competitors that operate on Japanese market?
13. What are your next potential entry markets?
14. What kind of entry strategies does Softrend usually use and why?
15. What distribution channels do you usually use?
16. What entry mode does Softrend prepare to implement in Japan? What steps does Softrend prepare to follow to implement the chosen entry mode?
17. What market entry was the most successful one? What factors influenced the success?
18. Which market has been the least successful one? Why?
19. How do you evaluate company's success on foreign markets? What can you suggest to improve the situation?

Appendix 2. Interview questions with EAS Project Manager for the Japanese target market

Questions for Tsubasa Yoshito

Occupation: Project Manager for the Japanese target market

1. What main cultural differences can occur when entering Japanese market?
2. Softrend is very environmental friendly and has a title of being zero waste company. How much do Japanese people value this kind of concept nowadays?
3. How does the business environment in Japan differ from the Estonian one?
4. What are the main risks when entering Japanese market for foreign/European countries?
5. What distribution channels usually work the best for the countries that try to enter Japan?
6. How do you evaluate the competition between the local and the foreign (furniture) companies?
7. Do you know some competitors from the furniture sector you can name?
8. Are there any legal restrictions/specific rules for foreign companies in terms of acquiring property in Japan?
9. What would you recommend to the furniture company to focus on when entering the Japanese market?

Appendix 3. Interview transcription with Export Manager and Project Sales

Answers from Softrend Export Manager Jason Medina and Project Sales Rene Mere

Time and place: Softrend Pärnu mnt showroom, Pärnu mnt 139c. 2.10.2019

Durability: 1 hour 10 minutes

1. To what markets has Softrend exported so far? What are the main markets?

Rene (R): If we are talking about our new markets, more precisely public space products, then our target market is mostly Europe, but we operate also on the global market. The closest markets where we have partners are Finland, Latvia, Lithuania and Sweden. Now we have also entered Norway and have partners there. Basically the main markets we are working on are Scandinavia and some other European countries. Although we have partners in countries like Czech Republic, Hungary and Italy, they are too new to comment for the current moment. The biggest market for now is Finland. It comes from the history as we have our old partners there. But with other countries our strategy can be described as Born Global. We do not really have a certain strategy plan when we enter the new potential market. We also do not work one market at a time. We are working at the same time with different countries. It doesn't mean that we will not enter deeply to one market. Maybe Japan would be the best market where we can enter with more detailed strategy. But it will take more time. We can have more focused strategy plan when we cover more markets.

Jason (J): We started in 1997 mainly with the products we are trying to export globally now. For the past 3 years when the company really decided to export the public space line, as we do not actually export home line, the company decided to export to Finland, Sweden, Denmark, Norway, Latvia and Lithuania. Now we also started exporting to United Kingdom, United States, France and have some contacts in Germany and Ireland. In short we target the main European market. The idea to export to exotic destinations started recently, around March-April, and that is when we decided to look for countries like India, Japan, South-Korea, New Zealand and Australia. We try not to focus only on one market, but on all equally, not to limit ourselves to specific results and be able to grow.

2. What was the main reason to enter foreign markets?

J: We want people to know Softrend. We want to make sure that wherever people go, they know the name Softrend and when they see the logo they also know what brand it refers to.

R: It is connected to the natural growth of the company. Estonian market is too small to do business and grow at the same time. It is important to grow especially with the office furniture line, because it is much smaller than the home line.

3. How does Softrend decide where and when to expand globally?

R: The idea to enter the foreign markets began almost from the beginning of creating the public space line. First markets to enter we chose the ones that are closer to Estonia like Scandinavia and Baltics. It is a logical step after the first years when we tested our products on our home market. It is wise to try with the closest countries to see if you have some delivery problems or installation problems. It is not wise to send the products straight away to Asia.

J: Logistically speaking we wanted to be effective. We love the idea to go to Japan, where we are going to the fair in November. But in reality sending things to Japan will take 8 weeks just to transit excluding the time the goods are in the seaport and the manufacturing process. When it comes to Europe, we can get an order from London today, manufacture it in 3 or 4 weeks depending on the order and deliver by 4 or 5 business days. As it changes a lot, then for quicker results we obviously chose Europe. The decision to expand more than Scandinavia and Baltics and later Europe has mainly been to explore the acceptance of our product elsewhere. That is the main reason we now chose Japan. We do not know what is going to happen with the idea to enter there, but we want to test. The CEO and project sales manager are very supportive with that idea. Nonetheless, we try to pick the countries where we at least have an idea that the products might be successful and there is a high demand of the product.

4. What makes Asia a potential export area?

J: For us this part of the world is fascinating by the culture and the way of doing things. It also works the other way around. I have a knowledge of the Korean market, they idealize the whole American and European idea of living. That in my mind makes them a good target to expose our great products that we have and that we create in Europe. It also shows them that these products are accessible for them. We are not planning to target every Asian country, because not every Asian country has an acquisition power to buy certain things from other countries. But in general countries like India, South-Korea, Malaysia and Japan are very fast moving countries and they

have a high demand of trendy and new things. Our product qualifies as good, trendy and high-quality one and can actually make an impact to the market.

R: I agree. Of course we are tracking the global trends and what is happening in European and global furniture markets. Asian countries are growing in furniture business. Basically we are tracking the global trends as well when we are selecting new countries.

5. How successful was the entry to China?

R: We cannot really say that we have entered China because we have only some big customers who have other companies or small branches there. So we have not really started entering the market.

J: The trick with China is that around 20 or 25 years ago Chinese decided to create a mass production of everything and the quality has never been the main thing. Since everything we buy now is made in China the quality of the products has actually gone higher and therefore the companies have been stronger and more successful. It is quite hard even to compete with certain manufacturers mainly because of the Chinese and their mentality. They still think they can get things cheaper and faster on their own market. With some exceptions they are mostly not worried about high quality products, European products in general. Same can also be on Russian and German markets as they are such strong producers of many different things.

6. What was the main reason in choosing Japanese market as your next export country? What potential do you see there?

J: I already have some experience in the Korean market and I see potential on these Asian markets. At the same time we were discussing entering the Japanese market with our project sales manager and CEO in the meeting, our marketing manager provided us with the information about the program that Estonian design house is doing by bringing some companies into a fair in Japan. It immediately sounded like a good idea to try, because we like to test out new markets. That is how the whole idea of coming to Tokyo started. We would like to test and see how it goes. We are going there as a group of 25 companies all together so we have a large area of only Estonian products. It is easier that way than bring only our stuff and only ourselves and be independent with the exhibitor. It has been a tremendous amount of work, more than we expected. We have visitors including journalists that come to see us. One of the biggest problems has been the language. We had a CEO of one of the biggest exporter companies from Japan and he spoke no word of English. So that is a huge challenge. That is also another reason why we decided to try it out. The potential we see in Japan is mainly the acquisition power, the demand of trendy products like our and the

mentality being so advanced when it comes to the working environment. We mainly focus on having the products that feel like home but that are actually used for work. Since Japanese people work so much and so hard it would be a good way to strategize and show them that there can be a way to feel comfortable at work.

R: EAS is an opportunity. They are also following the global trends and are familiar with Asian countries and their growth.

J: Estonian design house program is supported by EAS and it makes us feel more comfortable to join the project and collaborate. We have already worked with EAS and we know how strong they are. They do the homework before they even come out with an idea, so we fully trust them. We attend seminars together and we have cultural events in our office where people from Japan tell us how we can address to a Japanese person, how to talk and how to receive business cards. So we are well prepared to enter the market.

7. What kind of barriers do you expect in Japanese market?

J: Language is the main concern. And of course as I mentioned EAS is preparing us on how to greet and welcome Japanese people.

8. How are you planning to soften these barriers?

J: EAS is supporting us a lot. They have the legal experience and they do the homework. I am working with EAS project managers to Japan regarding all the possible issues and the certificates that needs to be required. Luckily for us our products and all Estonian products are in the list of non-taxable for importers. Neither we or our possible buyer have to pay any import tax. But many other countries have it really high. All this information and little details are being handled from EAS and if there is anything that needs to be done they let us know immediately.

R: The most important barrier breaker is the local consultant and their language skill.

9. What are your main short and long term objectives in entering Japanese market?

J: While entering any Asian market, in this case Japan, we can't think about going to one fair and be successful. With Japanese people and Asian people in general you need to have a trustworthy relationship. If you go to a fair one year and skip the second year people would be skeptical about doing business with you. They would think that last year you were successful and this year not anymore. This kind of little things. On a long term I propose that if from this visit we see the potential, then we should have a connection and visit the country for at least 3 or 4 years before the business really starts. Short term would be just to get there which we are currently working on.

10. What are the main problems with the company's sales activities in foreign markets?

R: The biggest of course is the competition and the challenge that nobody knows our brand yet. Our products are very high quality but with a middle range price. It is a very attractive offer but until customers don't know our products we need to build the trust. This would be the main challenge.

J: The main thing is to get ourselves known. The difficult challenge we have right now is to capture the attention to the right customer. Our products are very good and the price is also good comparing to the high quality, but we need to capture the right attention as it is a new product and there have been challenges with marketing, from which the biggest one is the language barrier. Our international materials are in English, but not everyone in countries like Japan or Germany speaks English so we need to change our strategy. We are translating some marketing materials. We need to adapt to every single market in the world to get to know our brand and also adjust to some specific target and finding their specific user.

11. What do you think is your competitive advantage, especially on foreign markets?

R: Our brand, design and quality. Of course the competitive advantage is to develop the right product to the end customers. Also we are a small company comparing with big brands and big companies on a global market. So we are fast learners. We can quickly turn our products in something more trendy and something that meets the needs of the market. The advantage is also the flexibility of the small company.

J: Yes, definitely it is not a unique product. But our advantage is that we are following the trends and trying to know what the consumer needs. It is a very trendy product and the main advantage that we have is the highest quality product with a mid-range price. Usually people are looking for something cheap and affordable but with a high quality. But this does not go together. As another advantage we have is that most furniture providers give one or two years of warranty, but we are confident about our high quality and give five years of warranty. This is already a sign that we give you something good.

12. Can you name the main competitors that operate on Japanese market?

R: It is hard to describe the competitors, because all the global brands are competitors in some ways. They are already represented in every market. We are basically competing with big brands that are mostly from Europe.

J: None of the competitors companies in Japan are actually Japanese. I don't see any competitors from Japan, I see companies similar to what we do, but not the same. Mostly the price they offer is higher than ours. But we don't consider it as a competition, we are more like side by side. It is up to the customer to have a quality product with a high price or choose the higher quality with a mid-range price.

13. What are your next potential entry markets?

J: We are going to Tokyo, Japan, in November. We are exploring the idea of having a collaboration with a company in Australia. We are flying from Tokyo to Sydney to meet our possible partner. I would still like to grow the market in Europe. The main markets we are targeting now are Spain and Portugal, because we already have some collaboration in Italy. As an exotic destination it would be Australia and New Zealand.

R: We will also continue with Germany, because we have not really entered this market completely. It can take up to two years.

14. What kind of strategies does Softrend usually use when entering foreign markets?

R: We use EAS as mentioned before and one strategy is to participate in professional fairs. We need to be on one fair minimum five times. We are also looking for the local fairs and together with the partners bigger or smaller fairs in between. The local fairs are usually very helpful.

J: The main thing that helped us and that we continue doing is supporting our local partners and attend fairs many times in a row. Seeing the company many times in a row shows that it is strong and still exists. Consistency is very important.

15. What distribution channels do you usually use?

J: We can afford to use only one. Every market is different. In the UK for example we found a distributor, who wanted to be the only one for that market. This company is big and strong and can handle all the markets, resellers and suppliers below them.

R: It is different with every market and we use different channels. With some countries we use agents, with other countries distributors. It depends on the partner and the acquisition power. It is a little bit different in the way that there could be different partners. We are chasing the distributors but sometimes it depends on what kind of products they already have, what is their portfolio for brands, maybe they have similar brands and they can't take us. Then we continue with agents. There is a trend that agents are starting as a distributors or they can start as an agent and then become a distributor.

J: We always give our distributor the opportunity to collaborate. First we do the background check of the distributor that wants to collaborate, then we give them 12 or 24 months to prove themselves. But already during the first six months we know if the company is a good partner or not. This January we gave 12 months to the UK distributors to prove themselves, but they are already very successful. On the contrary the reseller we have in Italy haven't done sales as much in two years. We work with all the channels but every market is different and we mostly put the power on the partner if the partner is able to handle the responsibility. Now whoever from the UK comes directly to us then as a proof of our loyalty we immediately forward the email or phone call to our distributor there.

16. What entry mode does Softrend prepare to implement in Japan? What steps does Softrend prepare to follow to implement the chosen entry mode?

J: We are just testing now and right now we are working with our agent from EAS and his main goal is to find us distributors. If we will not be able to find them, the next step would be to find a reseller or ideally a good agent who can actually handle the task of being able to find the right partner. But again, it is too soon to say how we are going to work in Japan.

R: We should also provide and support our local partners with the marketing materials.

J: We support our partner digitally, but a lot of people need further assistance, for example the catalogs. For Japan we are already working on the language barrier. We are translating the catalog to Japanese, because we want to make sure that they are successful. For now we have our catalogs in Russian and English, but we are going to make them in all the languages we export to. That is the part of our commitment to support our channels, our future partners and collaborators.

17. What market entry was the most successful one? What factors influenced the success?

R: The fastest entry was to Denmark. The collaboration and the feedback from the Danish market and how much people are already using our products shows that there is a turnover that is growing and its going very well. I checked the whole country, selected different partners and then we decided to continue with one distributor. It was a successful choice and helped us to expand very fast in Denmark.

18. Which market has been the least successful one? Why?

J: It is really hard to say. I can say maybe where we had the difficulty to enter. Any country when it comes to logistics and custom difficulties are always hard. For example the bureaucracy in Russia is very big. Same with Ukraine, they rather come and pick up the goods from Estonia,

because we do not want to enter to that market. There is too much to do, so much bureaucracy that we do not want to handle. Russia is a huge potential country, but there is a chance that goods are not even going to cross the border. Talking about more positive experience, then UK market has been very successful and selling a lot. But now we need to figure out how to deal with Brexit if it ever happens.

19. How do you evaluate company's success on foreign markets? What can you suggest to improve the situation?

R: We need to continue everywhere and more deeply. We see a big growth on the Northern-American market and we would like to be represented there in the near future. We even have sent our furniture to Google's New York office.

J: Yes, we are quite successful but we need to expand more. North-America is important to continue with, mostly countries like Mexico, the United States and Canada. In Latin-America the only potential country that we would actually consider is Brazil. However, Brazilian import taxes are extremely high, almost 80% of the cost of the product are just taxes. There is also a lot of corruption, so I would not waste my time on Latin-America. They can buy goods from the US. It is easier for the Latin-American people to get anything from the US than Europe.

Appendix 4. Interview transcription Project Manager for the Japanese target market

Answers from EAS Project Manager for the Japanese target market

Time and place: EAS office, Lasnamäe 2 15.11

Durability: 50 minutes

1. What main cultural differences can occur when entering Japanese market?

Tsubasa (T): The main difference is that the business in Japan usually starts with the relationship and trust. If Softrend wants to enter the Japanese market they need to have some kind of an importer who buys the furniture and sells it in Japan. Usually Japanese stores like Nitori do not buy directly from Softrend. Also the retail stores usually do not want to deal directly with the producers, because then they should deal with hundred other producers for who they would not have enough time. There is always a wholesaler in the middle, who sells variety of products to the retail store that handles only one company but many products. Buying directly from Softrend might have some risks in the trading. If something happens on the sea during the transportation, then Softrend is not the one in charge. These are the risks they do not want to deal with. Also Softrend should have a distributor. People would might ask about it and if they do not have one, it can be a problem. This is the case that is different in Japan that wholesaler has an important role and the retail store don't want to cut wholesaler, they want to cope well with the wholesaler. The retail companies in Japan have more than thousand companies and that is why the wholesaler in between is important. Finding the right distributor is the key for Softrend. It is easy to find the retail store, but not the distributor. Also the language is a big barrier. Not everyone in Japan speaks English. Even when people in the company have a business degree, they might not speak English. It is useful to find a partner who can help to translate to Japanese and who is from the marketing field so that the text they translate sells as well. Finding the partner is also more difficult, because many are already dealing with the imported furniture companies. Moreover, there should also be more promoting regarding the country. Estonia is small and not many people have heard about it. When people in Japan see the Finnish product, they know straight away what country it is and that the quality is great. But not many know Estonia. It is important for EAS as well, to work more on the country level.

2. Softrend is very environmental friendly and has a title of being zero waste company. How much do Japanese people value this kind of concept nowadays?

T: From the end user point of view of course it is important. But still for majority of people the main criteria is price. If the price is too high, then people would think twice if they should spend such an amount on environmental friendly products. The percentage of people who are valuing this concept is growing, but the price would still matter even for them. Many Japanese companies are also producing their products in environmental friendly way, so Softrend has to compete in that way as well. If Japanese want something cheap, they buy from China. Nowadays even Japanese companies have to compete with Chinese products, because the quality of them is getting better. Environmental friendly approach is important for Japanese market, but because of that the producer has to provide some additional value.

3. How does the business environment in Japan differ from the Estonian one?

T: The Japanese domestic GDP is not growing that much. Now it is around 1%. But Estonia is growing faster, it is around 4%. The consumer price index in Estonia has been increasing by 80% during the last 17 years. But in Japan the index has been almost 0%. Many things in Japan are cheaper, but some foreign companies think that they can sell their products with a better price. The inflation in Estonia is crazy. The second thing is that the customs that produce sell to wholesaler first. The wholesaler will take care of the retail stores. This is a common practice, because the population is 100 times bigger and the land is eight times bigger than Estonia. In Estonia almost everything happens in Tallinn and in Japan even though Tokyo is big, other regions have a strong economy as well. If you travel to Japan and go to the countryside you can see different stores and brands that are not represented in Tokyo. Like in Estonia Selver and Coop are even on the countryside. The difference is that there are many small companies in Japan and that is why the wholesaler is important.

The business environment regarding people is more conservative, especially older generation. When they do business with foreigners they are more open. If I talk to Japanese people who are customers, then I have to follow the certain rules and manners, but if the foreigner is talking to the Japanese regarding business, then it is okay not to follow the rules, because foreigners are not supposed to know the rules. In some seminars or lectures you are told how to greet and introduce yourself in Japanese, but you don't have to do that. Japanese people also learn how to do business in Europe and in the US. It is also not expected from the foreigner to know Japanese or some phrases and words in Japanese. Younger generation is now more open. The start-up culture with

flexible and open minded people are rules are becoming more popular than big companies with a long history and certain rules.

4. What are the main risks when entering Japanese market for foreign/European countries?

T: I think logistics is one of the biggest risks. Usually when Estonian companies ship products to Japan it happens by sea and it takes almost two months. The company has to take care of logistics and think about the stocks in Japan. If the stocks run out then they lose the opportunity. For Japanese people nowadays even when buying online, is important to get the product already the next day. So the speed matters a lot. In Estonia is it okay to wait for a week when ordering something, but in Japan the next day or within three days is maximum. Two months waiting time is too risky. Regarding trade terms if Softrend wants to sell the sofa, then the rule is Ex Works in Incoterms, EXW. The way from Softrend's warehouse to Muuga seaport and then to Japan is all buyers responsibility. Japanese pay the whole logistics cost from the factory in Estonia. Also when something happens on the way from the factory until the Japanese seaport, it is also Japanese company responsibility. Japanese companies usually do not want to have this kind of risks, especially if something happens inside Estonia. They usually demand CIF Tokyo, which means that Softrend is responsible for the insurance until the seaport of Tokyo. So if something happens until the product reached Tokyo seaport it is all Softrend's responsibility. These risks needs to be discussed, who will be responsible at what stage.

5. What distribution channels usually work the best for the countries that try to enter Japan?

T: For furniture it is usually an importer and wholesaler together. Sometimes wholesaler and importer are separated. In this case the importer is doing only the importer procedures. And the wholesaler takes care of the domestic channels. But usually the importer and wholesaler are together. They import and then they distribute the product to the local Japanese retail stores as well. This is usually the best way to sell in the Japanese market. Big companies like Nitori and Ikea and not interested in smaller furniture companies that have a higher price than the average. For them price is also important and everything they produce and design has a goal of being the with lowest price possible. So Softrend needs to think about finding a wholesaler.

6. How do you evaluate the competition between the local and the foreign (furniture) companies?

T: Japanese people have nothing against foreign brands, but domestic producers in Japan also offer good quality products and furniture. It is all up to people's preferences. Some people prefer something others do not have and others like European design a lot. This kind of people do not care so much about the price, but more the design. The design that Softrend offers is appreciated very much in Japan. People get tired of North European style like Sweden and Finland have, because they have been on the Japanese market for a long time. Japanese people want something new.

7. Do you know some competitors from the furniture sector you can name?

T: I cannot really name the main ones, but I know that Italian furniture is very popular in Japan. Interoffice is one website that represents many office furniture brands.

8. Are there any legal restrictions/specific rules for foreign companies in terms of acquiring property in Japan?

T: It is the same as in Estonia. There are no regulations. The paper work is annoying, more bureaucratic. The legal adviser or lawyer is needed. The government is trying to change it now, but it still far from what it is in Estonia. Also there are no restrictions in buying property. For products of course there are some regulations. Like in EU there are some regulations, CEMAC regulations. There are also some regulations in Japan that Softrend needs to check. From this year February between EU and Japan came into effect an economic partnership agreement and most of the interior designer products are free of import duties.

9. What would you recommend to the furniture company to focus on when entering the Japanese market?

T: It is good to have a company's office, their own store in Japan. So they can also have a higher sales number. It would be fine for the wholesaler to sell, but they would focus on other companies as well. So in the end it is good to have their own sales channel and where they can distribute themselves to the local distributor. It is also good to first sell online and at some point open the physical store. If people in Japan can buy furniture from Softrend straight away, then I think they will be successful on the Japanese market. Also Instagram is very popular in Japan, most of the people use it and nice pictures matter a lot. So good marketing strategy would also boost the popularity of the company. Another thing is focus on the women. Around 40% of married women are housewives and they stay at home. The social scheme in Japan is different. So when they buy something, in 80% of cases women decide. Usually only the house and car are decide by men, but

everything else is decided by women. So it is important to keep in mind how the housewife would use the product.

Appendix 5. Softrend Group OÜ logo



Appendix 6. Softrend Group OÜ some examples of public space furniture

Sofas



Armchairs



Poufs



Appendix 6. SWOT analysis of the Softrend company

Internal strengths		Internal weaknesses	
1	Long-term market presence – 20 years of experience	1	Lack of suitable marketing materials for foreign markets
2	Competent staff	2	Superficial entry to the foreign markets
3	Durable and high-quality materials	3	Long delivery time – clients want their products faster
4	Sustainable approach	4	The high price of the quality product
5	Comprehensive and continuous product development	5	Trust building with potential clients and partners is time consuming
6	Possibility to customize the product according to the market and customer needs	6	Limited financial resources
External opportunities		External threats	
1	Participation on international fairs	1	Not a fully unique product
2	Open markets and continuous expansion	2	Tight competition on export markets
3	New product (line) development	3	Unpredictable natural disasters

Source: Internal resources, compiled by the author

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