Success is 90 percent about finding the right partner

Arūnas Laurinaitis, *Vice-President* of Lithuanian Confederation of Industrialists—whose long and distinguished career even includes overseeing a Lithuanian investment project in Kakheti—has much experience-based advice to offer producers from small countries (whether Georgia or Lithuania) can compete in the European market. Above all, he stresses the importance of building credibility and trust among international partners, given the dangers that beginning exporters can face.

ARŪNAS LAURINAITIS
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Experiences in Georgia

Over twenty years, Laurinaitis has held a variety of leading positions, including president of Achema Group (the second-largest privately-owned enterprise in the country), which brings together some 50 different companies and is best known for manufacturing fertilizer and other products for agricultural companies. It is also very active in the energy sector, the area that first brought Laurinaitis to Georgia.

In 2008, responding to the Lithuanian government's call to invest in Georgia and thereby strengthen bilateral relations, Achema purchased the electricity distribution network in the Kakheti region. While it aimed to increase network efficiency, it faced two main challenges: 1) the high prices charged by electricity producers, offering little room for profit; 2) the ineffective employment system in the sector: people were hired not due to business needs or even to individual competence, but because of family links with current employees. Laurinaitis regrets that due to high management costs and minimal return on investment, Achema eventually had to sell the network and withdraw from Georgia altogether.

How can SMEs succeed in the European market?

In his current capacity, Laurinaitis focuses on building bridges to foreign markets in order for Lithuanian producers to gain a foothold. Asked about small and medium-sized businesses, he agrees that small producers face even greater challenges in preparing to export. However, there are also advantages; for example, SMEs can more easily work with business partners from the EU that can bring experience and know-how. According to Laurinaitis, for exporters, "success is 90 percent about finding the right partner," one that brings the best combination of experience and expertise while sharing profits equally. Through such partnerships, new export producers can establish trust, demonstrate excellence and reliability, and eventually be able to operate independently in the targeted market.

Before starting exports, however—as Laurinaitis stresses—one must first ensure that one's product fully meets all quality requirements. Since the European market is so far advanced technologically, and since its consumers' needs are so demanding, it is critical to make certain that one's product is suitable. If not, the possibility that it might be more profitable to produce something else from existing materials should be investigated. Second, Laurinaitis advises SMEs to consider establishing cooperation agreements with larger companies at home—and only then, "like a small fish alongside a shark," enter the European market. He bluntly acknowledges that for small producers, it is difficult to establish business relations and negotiate business deals, while advertising and participation in international trade fairs and expositions presents a financial burden.

Should new producers decide to go it alone, they should execute a thorough market analysis and identify the specific EU country in which there might be demand for its product. The next step, according to Laurinaitis, is to find ways to enter the targeted market. One option is reaching out to the SME association in the target country; in Laurinaitis' view, this is more effective than contacting chambers of commerce, which concentrate on representing larger firms. While the latter will most likely forward inquiries to the appropriate company, there is still a risk that messages can get lost. Finally, producers can reach out to the local embassy of the target country. Embassies frequently host visits by business representatives from their country and can often bring potential partners directly to exporters' farms or production facilities in order to evaluate products and even discuss cooperation prospects.

As previously mentioned, it is costly for small producers to attend international trade fairs, one of the best ways of developing business connections. The solution, in the case of Georgia, is to use the resources provided by the Georgian government, especially by institutions such as Enterprise Georgia that are charged with coordinating such events—while, of course, with promoting Georgian exports in general.

When asked about finding business partners on the Internet, Laurinaitis observes that in his experience, it is preferable—and more effective—to present one's ideas in person. It is also easier then to ask for introductions to other appropriate people. In this way, people-to-people networks are formed based on trust; one also can learn about the competence and reliability of a potential partner before actually meeting.

Lessons from engaging with international business partners

Reputation is of crucial importance in international business, since as soon as a country becomes more open, foreign firms of questionable ethics will inevitably appear and seek to profit from novice exporters' lack of knowledge. Laurinaitis observes that from 1/5 to 2/3 of all those who express initial interest in establishing business relationships with local producers fall into this category. Accordingly, then, new exporters need to be cautious in order to avoid situations in which, for example, they receive only partial payment for an export shipment and—after inquiring about the balance—learn about the bankruptcy of their partners. In such cases, the cost of initiating legal proceedings in a foreign country is usually so high that compensation is rarely received. Another such situation is when foreign partners use various tactics to ensure that they get more than an equal share of the profits. For example, after contracts are signed, partners request more money for required certificates, insurance, and so on—while in fact these services are fictitious, and are "provided" by a partner subsidiary. Lithuanian producers had to deal with these kinds of business practices when they began exporting to the EU; as Laurinaitis observes, it took time for the business culture to adapt.

However, cooperation with larger European companies provides many advantages. In addition to the transfer of know-how, as mentioned above, these larger firms can help their partners obtain import certification. In addition to the general regulations that apply throughout the EU, individual Member States can issue technical requirements as well. Local partners can lead exporters through these processes while also assisting in improving the product or adjusting it for the local market. One possibility worth noting is that larger companies often seek exclusive rights to sell partners' products; according to Laurinaitis, entering into exclusive agreements for one to two (though no longer than three) years can be a very useful way of gaining experience, learning about the local market, and gaining the trust of local partners—thereby eventually leaning to self-sustaining, independent market participation.

West or East?

Many Lithuanian producers, much like their Georgian counterparts, maintain strong business relations with Eastern markets. For Laurinaitis, greater engagement with the West does not necessarily mean that existing links with the East must be eliminated; in his view, both should be targeted. Maintaining links with Eastern business partners ensures a continued source of income that can then be invested in accessing Western markets. In the end, while the latter require the investment of more time and resources to gain a foothold, eventually profits are as good as they are in the East. The difference is that Western markets are not only larger but also more predictable, stable, and standardized; there is less risk that one's product will be pushed out or placed under embargo, as often happens in the East. Once one enters Western markets, argues Laurinaitis, one's success is permanent!