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International Strategy of BAKU GLASS Company

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Declaration:

I hereby declare that I am the sole author of the thesis entitled “International Strategy of Baku Glass LLC”. I duly marked out all quotations. The used literature and sources are stated in the attached list of references.

In Prague on .....................

Signature

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INTRODUCTION

The company "BAKU GLASS LLC" was founded in the year 2005. Today it is one of the most promising enterprises in the glass container industry, which specializes in the production of glass containers for canning and beverages.

Being the first company in the market engaged in the production of glassware has resulted in the company enjoying some first mover advantages. Unfortunately these advantages are rather hard to maintain than to get. However, today the company faces the reality: the world of intense competition, struggle for winning the customers and constantly changing demands of the markets. The lesson was that even though speed is an element necessary for success it is not in itself sufficient. Only an expedient use of resources will ensure that the advantages of being first are exploited at its full capacity.

Until now, BAKU GLASS has positioned itself as price-competitive, innovation driven and at last as a highly reliable business partner. In order to take leading positions in Azerbaijan, BAKU GLASS consistently carries out investment programs on modernization and introduction of new technologies, constantly works over improvement of quality and assortment expansion. Flexible pricing and flexible production management are those core competencies of BAKU GLASS that help to react in due time to changes in market conjuncture and secure competitiveness of its production.

The company's operations has long been oriented mainly towards supplying of the domestic market with the glassware, however today Baku Glass acts as one of the largest exporters in Azerbaijan to Georgia and Russia. Both of these markets, mainly the glass production industry are specific in terms of trends and demands. The specifics will be discussed in this paper. Having said that BAKU GLASS does trade internationally and has well secured its positions in foreign markets does not mean that there is no space for improvement and strengthening its international presence.

One of the goals of this work is to introduce new solutions and put forward new proposals in order to alter the international strategy of BAKU GLASS. This work is indented to be a mixture of theory, research and practical part where the
interrelation between these three elements enable to view a clear logic on how the international strategy for the company analyzed was elaborated. So, specifically, this paper has put a proposal for Baku Glass to set-up a new production plant in Georgia in partnership with the local beverage producer, such mode of entry to Georgian market was considered most appropriate taking into account different practical and theoretical matters, which are described extensively in the paper and attempt to provide a prove to this hypothesis.

The first part of the work deals with the company itself. A background to the company from the days of its birth is given as well as the current position on Azeri market. The strengths and weaknesses of the company are analyzed for the purpose to later provide it with possible solutions. The portfolio of activities is presented in this section as well. A description of its core competencies and major activities related to international trade is given. This part talks about the export activities of Baku Glass to Georgia and Russia.

Secondly, this paper concentrates on the glass production industry itself. Some global players in the glass industry, including one player that has a direct connection to analysis provided in this work and common trends are presented to provide a picture of the world glass market. Moreover, this section of the work attempts to underline the growing importance of the glass production industry worldwide as well as demonstrating the growing relevance of glass as a packaging material. It is presented that glass has been recognized for its very valuable attributes that contribute to sustainable living. As a support to that a paper provides some recent researches that indicate the growing preference for glass among consumers worldwide, which again stresses the adequacy of discussing this issues.

The third part is a theoretical base that served as a learning platform and later on contributed enormously to the decision made towards the proposal of the strategy for BAKU GLASS. The benefits and drawbacks of going international have been presented and weighted between each other, showing different purposes and motives for companies to pursue the international expansion. It was not enough to look at the sole reasons for entering the foreign market, but necessary to see what
really determines the choice of the entry mode. Having studied number of literature, and studies related to that topic, the decision has been made to look closer at joint venture as mode of expansion as it seemed the most appropriate for this work.

The last part of this work is the presentation of Georgian market; some environmental analysis has been provided to illustrate the current economic and political situation of the country. The cultural aspect of the country was also considered, as it is one of the determinant elements of the future success of the project. Georgian culture was compared with Azeri culture to demonstrate the compatibility in the context of market entry partner selection process. Later, a great contribution to the paper was the in-depth study and research of the glass production industry in Georgia. The market trends, local industry players, supply and demand of glass bottles, the whole beverage segment was studied in order to determine the attractiveness of this sector.

Finally, it was not for nothing, Georgian market in the last section of the work has been presented as a huge business opportunity for Baku Glass to consider in its international expansion strategy. More specifically, the joint venture creation with one Georgian beverage producer has been proposed based on the competitive analysis of the Georgian market. A proposal as such was to set up a new production plant in partnership with the local beverage producer and the SWOT analysis of this event is presented at last.

The analysis made in this paper, both theoretical and practical parts, made it crystal clear that the Georgian market cannot stay untapped for any longer and if BAKU GLASS does not hurry with the strategy to enter this market by creating a joint venture with the local firm, the potential of this fast growing and prospering glass market maybe be swallowed by its competitors.
1. BAKU GLASS LLC– COMPANY INFORMATION

1.1 BASIC FACTS ABOUT BAKU GLASS LLC

BAKU GLASS LLC is a major producer of empties, a stable working enterprise that takes leading position among manufacturers of empties on the territory of the Republic of Azerbaijan. The company was founded on February 15, 2005 and currently operates in the production of various assortment of glassware. The company was registered by the Regional Division of the Baku State Registration of Legal Entities under the Ministry of Justice of Azerbaijan Republic and started the production in 2006.

The company currently has two plants, with the production capacity of 50 million units of glassware per year, located in Absheron district of Baku in the village Magamedly. Besides the standard production process, there is a frosting shop (place where bottles are given a matted effect), with the production capacity of 20 million units a year, and a decoration shop (where exclusive bottles are made), with the same production capacity, that operate at the factory premise. The factory mostly deals with the production of ordinary bottles of sizes from 0.25 liters to 3 liters and glass cans from 2.5 liters to 6.5 liters. Currently BAKU GLASS employs more than 200 workers including administration staff.

In the year 2004 the idea of creating this sphere of activity in Azerbaijan was born and slowly but surely the founders of the company started to build it piece by piece. The works of extensive research on glass market of Azerbaijan begun - more specifically the glass bottle production industry was studied and discovered as a very promising and potentially beneficial investment opportunity. Nearly two years of collection of all the corresponding materials and preliminary market analysis, a thorough study of the industry showed the need and relevance of this production sphere. At that time, Azerbaijan market was filled with foreign imports that themselves alone could not meet the entire demand of the market.
As a result of the assessment and carried out estimates on creation of this production structure, the investment direction of this project was defined. Thus, thanks to capital investments of local businessmen the realization of the idea to create a production facility started its process - organizational, construction and assembly works, and preparatory works on establishment of this enterprise begun. It should be noted that the company, ever since its founding until now, operated solely without involvement of foreign capital, i.e. all the company’s assets are spread among the local owners.

So, why were the investors so much attracted to this particular market segment that subsequently led to the development and later boosting of this sector in Azerbaijan? As it was said earlier, as a result of the collapse of the Soviet Union, all the glass production enterprises in Azerbaijan were ceased to exist, all the glassware was imported from abroad – BAKU GLASS took well advantage of such market conditions. However, it was not a sole reason to start such a huge in terms of capital investment project, which also requires exhaustive, in-depth technical understanding of how this particular business works. There was something more that triggered the investors to face those challenges and it was the relevance and potential they saw in glass as a packaging material itself. The possibility to experiment with the appearance of the packaging material, and hence the product itself, is extremely relevant in the conditions of market relations and Glass here provides an extensive field for experiments. Certainly, competition from other packaging materials, in times of development of modern technologies, has been steadily increasing, but the Glass does not give up its position. Besides, Glass manufacturers have not been idle and constantly improve the product, creating and perfecting packages for different lines of customers. And it is not a coincidence that namely Glass is the material used for creating exclusive packages. ¹

¹ Exclusive bottles are bottles that are designed and decorated with sophistication according to the demand of the client; here the shape, size and design are unique to the product. Exclusive bottles are extremely relevant in this industry today, explicitly for three important reasons: firstly, it is a protection against counterfeiting, secondly, it is a way to differentiate the product on shelf and finally, it raises the status of the product
As a result, in Azerbaijan began a gradual crowding out of foreign competitors from the domestic market by local manufacturers, who started with the implementation of the most advanced technologies in order to survive this competition. BAKU GLASS took all the necessary measures in order to win this tug of war and remain on the market. Thanks to its precisely articulated strategy, the mission was accomplished and the main goals were successfully achieved – today Baku Glass is one of the strongest and competitive profit-making production facilities in Azerbaijan.

### 1.2 BAKU GLASS – POSITION ON THE MARKET

Under current market conditions in Azerbaijan, a great devotion of attention goes to the design of the packaging because its core function remains the same at all times – “to sell the good”. Characteristically, each plant produces its own original bottles of various brands, and here it comes the battle of beverage manufacturers where they try to conquer each other in unusual forms of packaging.

During the soviet times, much less importance was attributed to the product packaging, all the production was based on using standard forms and designs. Only with the transition to market economy in Azerbaijan the demand for bottles of unusual shapes and attractive designs (as well as for the whole packaging industry) started to gain relevance and experience growth. At first, this demand was satisfied mainly due to imports, but after certain economic reforms that aimed to stabilize the economy, more and more domestic enterprises started the production of exclusive luxury glass.

So, it takes special technology and techniques to deliver the exclusive glass bottle. BAKU GLASS from the day of its birth has set one important objective – to implement the technology that enables the production of bottles of all shapes and designs. This until today is one of the biggest competitive advantages of BAKU GLASS; precisely thanks to this decision they were able to win over customers in both Azerbaijan market and even in a highly consolidated Russian market.

Then what is this technology and why is it such a huge advantage to have it stationed in a factory plant? The first is the equipment that enables the satination or
in other words matting of the bottle – the process of chemical etching under which the bottle takes a “frosting effect” on itself - the color of the bottle becomes matted when the bottle is placed in a hydrochloric acid, which changes the surface structure.\(^2\) After the bottle has been matted, glass takes on a nice soft shade, which looks elegant and is pleasant to touch. The possibility of such transformation has made satination very popular in the process of decorating the bottles of alcoholic beverages of almost all segments: vodka, brandy, wine, champagne, liquors and soft drinks.

Satinating (or matting) is a very popular method of applying the image on the glass surface, which is not erasable and remains on the surface for the life of the glass product. Such matting methods enable to give the glass product unique look while embodying all the most daring design decisions Such equipment allows the frosting effect to spread not on entire bottle, but its individual parts, for example, a bottle of vodka can be subjected to the process of matting, excluding the neck, creating an effect of being just extracted from the freezer. Wine bottles are usually being satinated completely, leaving the transparent bottom that allows the consumer to assess the purity and quality of the product inside.

In addition to frosting, the decoration of glass can be done in a number of other ways. Glass painting is often used when there is a need to apply a special image, or brand logo on a glass surface, and after the product undergoes a multistage firing at very high temperature, the image becomes an integral part of the bottle. In contrast to the frosting, decorating with glass paints, one can turn an ordinary bottle into a work of art.\(^3\) The advantage of decorative equipment is that it is does not require a non-stop production process unlike glass. It can be stationed at the factory and used based on the need. In Azerbaijan the demand for decorated bottles is not as large, however BAKU GLASS was not in the position to lose the opportunity to serve the customers who demanded the decorated bottles, otherwise there was a risk to lose those customers to Russia.


**Strengths:**

- The company builds its strategy on in-depth market research and tries to influence the strategies of other beverage producers
- The company offers the entire development cycle of the operation – starting from the design of the decorated bottle, to packaging and delivery of goods to the customer)
- Take the proactive approach - the team of designers and specialists are creating new models of bottles and offer them to customers
- Decoration of the bottle is performed solely with the latest high-tech equipment and with the use of high-quality materials (nets, thread, paint, chemicals);
- Highly qualified staff who receive regular training, refresher courses, and are knowledgeable of the market trends
- An effective system of quality control
- The company supplies 60% of Azeri market
- The company has installed 4 lines of production, which enables them to accept small orders – to win the customers over from the competitions.
- Establish long-term relationship with customers
- The company has an advantage as it possesses the administrative resource – the crucial factor to survive in Azeri market

**Weaknesses:**

- The Azeri market is very specific and different in terms of the large amounts of small orders, which require a lot of flexibility and adjustment. Distilleries are frequently changing the shapes and designs of bottles.
- The production of the company depends on raw materials that are imported to the country.
1.3 THE PORTFOLIO OF ACTIVITIES OF BAKU GLASS

As it was described earlier, BAKU GLASS was established initially with the purpose to satisfy the needs of domestic market – production of bottles of any shapes and sizes was possible thanks to modern technology implemented from the first days of the operations of the plant. Today, when the company succeeded to establish its positions and secure stable production, BAKU GLASS slowly started to look for other markets and consider international activities as a part of their foreign market penetration strategy.

Moreover, being the first company in the post Soviet Union area, which adopted Chinese technology as a part of their production equipment. BAKU GLASS was granted exclusive distributorship of all glass-related production machines by Sanjin Techhouse Machinery for the whole CIS region. BAKU GLASS was the first company that believed and trusted Chinese technology, since that time the company has created a reputation of a trusted and reliable business partner to China. Exclusive distributorship has widened the scope of opportunities for Baku Glass and became one of the biggest sources of capital inflow to the company. Not only Baku Glass has benefited from such arrangement, but Sanjin equivalently. China has claimed that today, especially Russian customer is hesitative to visit China and Sanjin plant due to heavy visa regime and language barrier that in a long term might create obstacles for conducting business as such. Favorable geographic location of Azerbaijan meant that representatives from neighboring countries, whose glass market industry was undergoing a steady growth, could have the opportunity to get acquainted with Chinese technology in an a easiest possible way – as a result Baku Glass become a role model showroom for Sanjin.

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4 Shandong Sanjin Glass Machinery Co., Ltd. - Founded in 1959, Sanjin is the leading international supplier of machinery and systems for glass container industry. With 50 years' experiences in glass container forming, glass conditioning, gob forming, cold end inspection, container packaging and quality assurance, the products of Sanjin have been widely used in international glass container industry.
And it worked. Slowly but surely Chinese technology started to attract Russian glass producers. BAKU GLASS took a position of a turnkey\(^5\) supplier and started to execute a number of turnkey\(^6\) projects in Russian fast growing market. However, after BAKU GLASS accumulated more knowledge and experience in Russian market, they found that there are more things to do there - the company started to produce for export.

Today, BAKU GLASS has acted only as a passive exporter of glass bottles to its neighbors: Georgia and Russia. But the resources of the company, its capacity and know how may enable much wider expansion strategy to foreign markets. Speaking of Russia and Georgia, both are very different in terms of growth trends and demands of the glass industry, however despite this, BAKU GLASS has something to offer - there are opportunities and untapped niches for BAKU GLASS in both Russian and Georgian markets.

However, this work is solely concentrated on Georgian market as a potential target for BAKU GLASS international strategy. The strategy has been elaborated based on a thorough analysis of the Georgian market and a final decision has been made to enter this market in partnership with a local firm. A great theoretical platform has contributed to this decision and joint venture was a mode best suitable for the company taking into account a number of factors.

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\(^5\) Turnkey project - project that is constructed by a supplier/developer and sold or turned over to a buyer in a ready-to-use condition.

\(^6\) If an entrepreneur chooses the path of turnkey, he still enjoys the discretion in choosing and characterizing sub providers according to particular needs, preferences, and budget. Choosing an external leading supplier can increase CAPEX by approximately 10% compared to self-management. However, for “newcomers” this option is preferred, as self-management entitles construction risks that at the worst can have an adverse impact that will jeopardize the whole project.
2. Characteristics of Glass Market Industry – Relevance of the Topic

2.1 Global Market Overview – Global Industry Players

The growth of the global glass packaging market reflects the high appreciation and confidence embedded in this material from the side of the large industry leaders. The protective nature of this highly ethical material enables it to represent some of the most essential and frequently consumed foodstuffs. Yahoo Finance provides a brief snapshot in figures of the industry situation and trends as of 2010.7

In 2009 the glass market was valued at approximately USD 26 billion, with Asia-Pacific dominating 35.7% of market coverage, following by Europe accounting for 30.7% market share in this sector. However, the same year Europe registered 47.3% share of new food and drinks produced and packed in glass, and Asia-Pacific this time being second showed 20% share in NPD (New Product Development), which is actually 3.3% more from 2006. A 15% of all food and drinks launched in 2009 were packaged in glass, which is also a year of 0.7% decline in this market over 2006. During the 2009 almost 50% of the new products packaged in glass were the foods category, which is 6.7% more over 2006.

There is a high consolidation in this market with Owens-Illinois (O-I) and Saint-Gobain dominating the industry with market shares of about 30-32% and 19-20% respectively. In US O-I is an unchallenged market leader with a 41.5% market share in glass packaging followed by its main competitor Saint-Gobain with around 28% market share. The O-I’s market share in Europe is approximately 37.5%. Competition from Europe is represented by Saint-Gobain in Europe and Brazil, Vetropak in the Czech Republic, Ardagh plc in the UK and Amcor Limited in Australia.

As of interest to this paper, the background to another global player in glass industry will be provided. The company Şişecam founded in 1935 operates predominantly in the field of flat glass, glassware, glass packaging, and glass fiber, as well as in soda ash, chromium, mining and electricity production. The company has its operations facilities located in eight countries employing 17,850 people.

Anadolu Cam is glass packaging company of Şişecam that carries out its production in Georgia, Turkey, Russia and Ukraine. The total annual production capacity of the company for FY10 has reached 2 million tons with the breakdown as follows:

- 800,000 tons per year at 3 plants in Turkey
- 1.1 million tons per year at 5 plants in the Russian Federation
- 30,000 tons per year at 1 plant in Georgia
- 85,000 tons per year at 1 plant in Ukraine

According to Şişecam 2010 annual report, the glass packaging market grew continuously during 2000-2008. Yet, starting from the last quarter of 2008, this market underwent a severe recession as a result of the global crisis. Since the second half of 2008, the financial turmoil that has hammered the world's developed economies has become increasingly severe, as its effects have spread around the world into developing economies as well. Parallel to the declining oil and metal prices from the second half of 2008, PET and metal packaging prices have been declining.

In 2010, when the unfavorable conditions were substantially fended off, a growth trend was re-entered. The recovery maintained in Turkey and Russia through the year positively reflected on the demand. With the aim of meeting the rapidly

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growing demand, as of the second quarter of the year, all the plants in Turkey and Russia started to operate at full capacity.

### 2.2 Growing Importance of Glass - The Right Packaging Material

"For the first time ever, we confirmed what we’ve theorized for some time - consumers recognize the advantages of glass and prefer it over other packaging materials," said Carol Gee, chief communications officer, O-I.\(^{10}\)

For the fact, consumers around the world prefer glass to other packaging materials. The major concerns are directly associated with health issues and ability to preserve taste as well as recycling. The taste, quality, health and environmental sustainability is what consumers appreciate all over the world. Ultimately, glass packaging supports each of these preferences. Moreover, people have shown concerns not only about what is inside of the package, but the package itself. The flexibility associated with the design of the package has created enormous value-added to the manufacturers of glass containers.

Unfortunately, despite that numerous studies and surveys have demonstrated a clear preference for glass, the situation in the market does not adequately reflect this trend. In 2008 the research conducted by Owens-Illinois (O-I), a leading manufacturer of glass containers, has indicated that glass packaging is the most favorable choice for food category - 91%, at the same time glass containers occupy only 10% of packaging market for this sector\(^{11}\). As a result of such unfortunate findings, O-I has launched a worldwide campaign called “Glass is Life”.\(^{12}\) This


innovative marketing campaign aims to highlight the unique properties of glass containers, and attempts to return brand to the glass.

2.3 **Glass is Pure**

Glass is the purest and the most natural material for packaging beverages – its purity comes from the most abundant raw materials on Earth – sand, soda ash, limestone and cullet.13

In the end of 2010, the large-scale survey was carried out across 19 European countries by FEVE, the European Container Glass Federation, which revealed that Europeans attach great positive feelings towards glass packaging with a favorability score of 79% as opposed to its alternatives such as plastic or metal. Moreover, 88% of people think that consuming products packed in glass is a healthy living choice. The survey also revealed that 84% of people believe that certain products must be packaged in glass and they must have the right to acquire such products, namely in glass.

The nonporous and impermeable nature of the glass is a guarantee against adverse leaching effect on human health, which means there’s no risk of toxic releases from pack to product. Moreover, odorless and flavorless nature of glass promises no change in the taste of the content. The 87% of buyers were convinced that glass packaging is the best at preserving the original taste of the content and 83% think it sustains the nutritional value of their food and beverages. It is of no surprise that glass is the only packaging material rated “GRAS” or “generally regarded as safe” by the U.S. Food & Drug Administration.14

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2.4 **Glass Has a Premium Image**

“If It Ain’t Got Glass, It Ain’t Got Class” — Lukas Paul, FORTUNE Magazine

In addition to its purity, one of the tasks of the packaging is to be appealing and survive the shelf space – and here glass again excels. The co-founder of the German company that dominates smoothie segment, True Fruits, Nic Lecloux is convinced that glass builds brands. He said “When it came to design the packaging, we had a very clear vision of what we want to have. We wanted something as sophisticated and sexy as the content is – and so glass was really the only option.” He also explained how glass helps to transport the quality of the product, building brand loyalty and communicating premium position of their product. According to Nic Lecloux, one of the important attributes of glass is that it builds trust and appreciation of the product packaged, quickly convincing the buyer of the quality attached to the product.

The availability of various technologies has made it possible to decorate bottles by adding special appeal to the product it contains. The FEVE revealed that 86% of European consumers associate glass packaging with something of prestige value that brings in the spirit of special occasion. Such attitude towards glass is observed among American and Russian consumers. The survey conducted among 1000 consumers in US showed that 81% of people say that glass containers look the most appealing on the shelf, 76% of people say products packaged in glass are higher quality and 1 in 3 people would buy their favorite foods and drinks in glass if those were available. The results of the study conducted in 2007 in Russia show that 14% of respondents feel positive about paying extra 20% for comfortable and well-designed premium package. A FEVE study has even indicated that a solid 42 percent of the respondents to the survey would be willing to pay extra for glass. The

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graph shows a more detailed classification on the extra amounts willing to be paid for premium packaging.

**Figure 1: People willing to pay extra for glass packaging**

![Pie chart showing distribution of willingness to pay extra for glass packaging](chart.png)

Source: FEVE. European Packaging Survey

**2.5  Glass is 100 percent recyclable and sustainable**

In Europe 11 million tones of cullet are recycled every year, which in terms of CO2 savings, is equivalent to taking about 4 million cars of the road.\(^8\)

Glass is the only packaging material that is 100% recyclable that can be recycled endlessly and made into new bottles and jars over and over again with no loss in quality or purity. According to Michael Delle Selve, communications and operations manager for the FEVE, “Recycled glass, known as cullet, has a lower melting point than raw materials, which means that more glass can be melted for the same energy investment, emissions can be reduced and the furnace life extended. Up to 90% of cullet can be used to manufacture new containers and the only real limit to using recycled glass is the amount of glass recovered and the availability of cullet of good quality in Europe.” \(^9\) Therefore, clear advantages that recycled glass offer are: reduced costs associated with quarry of raw materials, extended life of plant

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equipment, and saved energy. According to Glass Packaging Institute, with every additional 10% of recycled glass in the manufacturing process, lead to the drop in energy costs as close as to 3%.

**Figure 2: Strong support for glass as a packaging material**

Source: FEVE. *European Packaging Survey*
3. International Expansion Strategy – Modes and Other Factors of Influence

3.1 Reasons for Expanding to Foreign Markets

“There is no longer any such thing as a purely national economy. The rest of the world is just too big to ignore, either as a market or as a competitor. If business schools do nothing other than to train their students to think internationally, they would have accomplished an important task.” -- John Young, CEO, Hewlett-Packard

This section of the work is intended to be a theoretical support to a later discussed practical issues related to the activities performed by Baku-Glass. While there is so much to be gained while incorporating international trade into the company’s repertoire, there is also the very real chance of losing the opportunity to make even greater profits. The purpose is also to illustrate the extreme relevance of considering the amount of risk ready to be taken in order to not only stay competitive in the market, but also to survive on it.

There are many reasons why companies consider foreign expansion and not surprisingly there are many different risks involved depending on the type of the entry mode chosen. The brutal truth is that today companies of all sizes pursue one single goal – to make greater profits – and staying the same size, planning for no potential growth will only create more space for the competition to strengthen their positions. If the company does not grow, the competitors will grow and this threat of decreased competitiveness is sometimes the overriding reason many companies decide to go international. Some of the main reasons for adopting global strategy can be categorized into reactive motives and proactive motives.20

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Reactive motives –include all the actions where a company receives information and acts upon it. These motives occur when companies do not have a specific direction for international expansion, it is a pure reaction to some market pressure - economical, political, or competitive.

**Competitive Environment**

Competition, as it was said earlier, is one of the most common reactive reasons that urge companies to consider engaging in international activities. Companies may look for expanding sales abroad if their domestic market share is threatened by foreign entrants. There is also a danger that competitors who already have overseas operations may get so entrenched in those markets creating a greater barrier to entry at a later time. Therefore, companies are to certain extent forced to follow their competitors to new markets, as this will result in increased production and reduction of costs through economies of scale, and thus gaining the advantages at home.

**Trade Barriers**

Trade barriers, such as tariffs, quotas and many others constitute another reason for companies to adjust their global strategy i.e. switching from exporting to manufacturing overseas. With all respect to many international organizations that strive to liberalize trade and in fact have achieved laudable results, some countries’ restrictive trade practices and political environment leave no choice for the companies but to set-up manufacturing operations abroad.

**Regulations and restrictions**

These are very similar practices imposed by the governments e.g. environmental regulations or labor regulations, which increase the cost of production and undermine competitiveness of the company. This will surely result in companies seeking out for less restrictive and more attractive locations.

**Customer demand**

Another motivating reasons are declining domestic sales, changing consumer tastes

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or the displacements of current products by the latest innovations leave no choice but to expand abroad. Instead of investing additional resources into trying to push back the products that are at their declining stage of product life cycle – the life cycle of such outdated products can be extended through selling them in foreign countries. It can also be seen from the logistics point of view. Certain customer may start to demand the supplier to reallocate operations to the territories for undertaking better control over the supplies.

Among some other reasons is excess capacity, when the production equipment is not fully utilized, meaning that a part of economic benefit for the company is lost. Companies may see foreign expansion as away to insure more adequate distribution of fixed costs. Or during the times of economic downturn, when the companies experience overproduction, seeking for foreign outlets for excess inventories can be regarded as a short-term solution. Usually those activities are terminated as soon as the domestic demand heals up. It is a one-try strategy, as foreign customers would not appreciate such occasional business relationships.

**Proactive motives** – are sometimes called the aggressive reasons, are the result of companies competitive positions; it is the eager to take initiatives, to anticipate prospective changes and to act upon them. However, the major motive is the desire for greater profits, and this can only be made possible with production increase, which leads to taking advantage of economies of scale and consequently drive to expand business beyond the national boundaries.

**Growth opportunities**

Today in the world of globalization and international trade watching for new customers, searching for investment opportunities in new markets, and planning for increasing market share are not to surprise one. And when those opportunities are limited in home markets it is naturally to look for expansion to international market.

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Besides being a place where companies could invest their surplus profits, expanding to foreign markets is sought to be a way to fully utilize resources in human and capital assets such as management, machinery, and technology.\(^2^5\)

**Economies of Scale**

Economies of scale is the key concept to any business in any industry. Production becomes more efficient with increase in output. Worth to mention that economies of scale for a certain company can be viewed from two perspectives: external and internal with internal economies being the one, which arise from expansion of a particular firm.\(^2^6\) The internal economies include technical, managerial, financial, commercial and risk-bearing economies.\(^2^7\) All the mentioned are of an extreme value to any company and taking advantage of these economies will only result in decreasing costs and increasing power of the company.

So, the importance lies in the ability of the company to pass on lower costs to customers through lower prices and thus increase its market share. This applies to both domestic and foreign markets therefore overall competitive position of a firm is strengthened. Or, alternatively, the company may chose to earn from higher profit margins bearing the risk of losing the possibility to win a portion of market share.

**Resource Access and Cost Savings**

Resource access and cost saving are the principles for successful business operations. It is a great deal to a company to ensure the availability of raw materials and maintain control over the production inputs, in addition reducing the transportation costs and improving supply chain management; if this is done hand in hand with lower labor costs then a company has all the major ingredients for becoming a true competitive business player. In such conditions, a company would no doubt choose to shift the production from domestic to a more attractive foreign market and operate therefrom.


\(^{26}\)Narayanan Nadar, Vijayan. Managerial Economics. 2009.

\(^{27}\)Ibid
Also, possessing special knowledge of foreign markets or individual contacts suddenly obtained in those markets may trigger the businesses to turn to them, as the access to exclusive information can sometimes mean “being in the right place at the right time”.

**Incentives**

Countries, mainly those in need of improvement and development, are voluntarily ready to provide incentives such as tax exemptions, tax holidays or loans in exchange for capital infusion, technology and know – how by foreign companies. Despite of the attractiveness of such incentives, instability, economical and political, of the developing countries should be put into consideration to avoid the possibility of becoming victims of expropriation or tax burdens.

### 3.2 MODES OF EXPANSION TO FOREIGN MARKETS

“What entry mode that a multinational company chooses has implications for how much resources the company must commit to its foreign operations, the risk that the company must bear, and the degree of control that the company can exercise over the operations on the new market.” (Charles Hill et al, 1990)

Globalization and rise of global competition has prompted the companies of all sizes to consider international expansion. Companies that seek foreign locations and wish to enter foreign markets are facing a dilemma of which entry mode to use for that market. The difference in those lies on a matter of preferred level of control meaning the authority over operational and strategic decision-making, and level of resource investment, meaning the financial and managerial capacity of the firm.  

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These combined make the entry mode selection a critical and strategic step in the international strategy formulation.

Understanding the factors that condition the choice of the international expansion mode is a serious challenge and a critical determinant of the potential success of the foreign project. Most of the literature has divided such factors into firm-specific factors, industry-specific factors, and country specific factors. And only after these factors have been properly assessed and weighted between each other, and the risk appetite of the firm has been set - the strategy choice can be made.

The international market participation strategies can be divided into three main groups: 1. Exporting and importing, 2. Non-equity based cooperations, 3. Foreign capital investments. Under the first group – such export modes are possible: through intermediary, exclusive distributorship, agency and commission agency, piggybacking and through an export alliance. Often small companies that succeeded in domestic markets and view foreign market as a mean to dispose their surplus domestic production without extensive resource engagement would consider one of the choices above. The second group category offers the following choices of entry: licensing, franchising, management contracts. Finally, the last group – that is typical for large companies with strong resource base that prefer to maintain control over foreign activities includes such modes as establishing a whole-owned subsidiary, joint ventures and strategic alliances formation, and cross border mergers and acquisitions.

As of interest to this paper, not all the strategies will be discussed in detail but only those that are relevant and important for the study of Baku Glass future international expansion strategy. Nevertheless, the main issues and challenges, from a theoretical point of view, related to selection of the entry mode will be outlined and analyzed. Based on this analysis and other factors of influence, the strategy for Baku Glass will be proposed in the Chapter 5.

The table below summarizes and divides different participation strategies into four quadrants. Entry choices are often said to be a compromise among four criteria: control, return, risk and resources and can be classified into equity based and non-equity based. By including the factors that influence these criteria authors developed a framework for explaining the choice between different market entry strategies.

**Figure 3 Modes of Expansion to Foreign Market**

![Modes of Expansion to Foreign Markets](image)


### 3.3 Determinants of Modes of Entry

The OLI model, which has become the centerpiece of the literature on international business, suggests that firm will engage in value-adding activities abroad if three sets of advantages are sufficient. The first are the *ownership* advantages – a so-

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33 The Eclectic Theory was evolved in 1980 by John Dunning, emeritus professor at the Rutgers University (United States) and University of Reading (United Kingdom).
called asset power of the firm, which enables it to compete with host country local firms. It comprises intangible assets such as patent or technology knowledge, or management knowledge. A size of the firm matters, as it reflects the capability to absorb the transaction costs associated; a firm’s international experience is likely to have an impact on choice of entry.

The second advantages are location specific (country specific) factors that are characterized by market potential and investment risk involved. Even investing into markets with relatively low potential gives the opportunity to establish long-term presence in that market, as long as the benefits outweigh the costs associated with the host country risks\(^\text{34}\). According to Dunning, today location specific advantages are gaining importance as these factors are having an increasing impact on non-production costs which in today’s global competition are rising faster than production costs.

The last one is internationalization – It should be more profitable to the firm to utilize the advantage than to sell it or lease it through product licensing, capital lending or technical assistance - catering to the demand in that country should be more beneficial than arms-length transactions like licensing.\(^\text{35}\)

The Dunning’s theory, however, does not present any obvious logic as to how a company should enter a new market possessing those advantages stated above. Should the company enter as a wholly owned subsidiary (WOS) or in partnership with a local firm i.e. as a joint venture (JV) or by the way of acquisition of a local firm? What are the major concerns of the firms when choosing mode of entry?

As it was shown above, the intangible asset power of a company, provided in form of technology or R&D, is one of the major powers when entering the foreign market.

\(^{34}\) There are contextual risks that include political risk (e.g. instability of political system), ownership/control risk (e.g. expropriation, intervention), and transfer risk (currency inconvertibility, remittance control). Transaction risk arises internally from the opportunistic behavior of firms such as defaults on their obligations. (Yigang Pan and David K. Tse)

However, it can be easily put at risk when a company considers entering into partnership with the host country firm. On the other hand, partnership means limiting the uncertainty, related to firm’s insufficient information and knowledge of the local market industry, by sharing this risk with the local firm. Consequently, a firm will desire a greater control and will tend to choose a more integrated form of ownership structure such as WOS if its product or process are R&D intensive; Accordingly, it will opt for less control if a host country is attractive as a location to set up operations.36

The literature argues that the following factors have the direct impact on a firm’s choice of mode of entry to foreign market:37

- *Policy and business environment associated risks of the host country* -

Firms prefer to enter countries with high investment risk and high market potential through JV agreements. This statement appears to be logical, as if the goal of the firm is to establish market presence by taking advantage of high market growth of the country with questionable business environment, where uncertainty over stability of government policies may have detrimental impact on the survival of the business, JV not only insulate from such investment risks but assist in accessing the market. A firm is able to insure to certain extent that the operations are not interrupted for unjustified reason by local government and that all negotiations with officials will be handled by the side of the local partner.

- *Market potential of the host country*

Agarwal, S. and S. N. Ramaswami argue that JV arrangements may be more appropriate for low potential markets. So, if the firm perceives the host market to be

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small the JV relationship succeeds, otherwise the firm will desire to enter the market by itself. However, sometimes the choice does not lie upon a firm alone, some countries FDI regulations require the entry with a local partner. Of course the choice can be not to enter the market at all, but depending on a single firm strategy the loss of a market with potentially high growth can become detrimental in the long run.

- **Cultural distance between the host country and the country of origin of the firm**

Kim, W. C. and P. Hwang claim that the location unfamiliarity in terms of cultural differences decrease the likelihood of the firm to enter alone, but rather favors JV agreements. The flexibility and ability to adapt has little to do with geographical distance; it is more about the extent of similarity between institutional frameworks, business culture and business environment. However, this is not as simple issue as it may seem from the first glance. As much as large cultural differences favor the entry with a local partner, the JV formation requires understanding and trust for executing the project. Therefore, the impact of cultural distance can be double sided and may vary from one situation to another.

- **Experience of the firm with respect to operating in the country concerned and/or, on its experience in similar countries**

It is obvious to think that if a company possesses multinational experience or any significant operational experience in similar markets, they would opt for entering the market on their own. However, this is not a sole choice for such a company, as knowledge about existence of some reliable partners could trigger them to choose a less risky and cost efficient method as JV.

### 3.4 Joint Venture Partner Selection Process

A firm typically attempts to form JV only if perceived additional benefits outweigh expected costs of utilizing it. Having understood the benefits, which the firm can grasp out of the JV, it is crucial to realize that without the existence of an appropriate firm for local partnership a JV formation becomes impossible. But the
existence of the partner is not only a decisive factor for the final decision to establish JV, but determines the success of it, therefore literature studies have granted high importance to the partner selection process in the event of JV formation. A firm should seek the partner who can supply the complementary skills or capabilities that will contribute to attaining firm’s strategic objectives. Byung Il Park in his study has identified three key criteria, which are determined to be fundamental principles for successful JV relationship formation:

1. **Complementarity** – is the opportunity to extract complementary resources of each other and to gain access to the resources inherent in partner firm in order to motivate the share of firm-specific information and knowledge. Complementarity is a good way to avoid a possibility of free riding and to insure the devotion of both parties involved.

2. **Compatibility** – is defined as a shortcut to improving competitive power and enlarging operational efficiency by selecting a partner with compatible characteristics that also possesses complementary resources. According to Park JV “obtain sustained competitive advantages by harmonizing unique factors derived from internally-oriented characteristics” e.g. in cultural terms it means achieving synergy in future collaboration and most importantly a predisposition to trust.

3. **Reciprocity** – Only collaboration based on reciprocity will lead to desired results in a most efficient way. Park explains, while a firm shares the risks related to environmental uncertainty with local partner, on their behalf, local firm rely on the industry knowledge of their foreign partner. There should be no surveillance or prevalence among partners in JV relationships.

### 3.5 Managing Joint Ventures

Joint ventures are great tools used to access new markets, knowledge and other resources with a great reduction in risk bared. Yet, to manage a joint venture is not of a simple task, as it is owned by several companies. Here, we are facing the
differences in goals, management style, complexities associated with cultural differences, government policies and business practices. There are four phases which the JV proceeds through: 1) assessing the strategic logic for creating the venture, 2) selecting a partner 3) negotiating the terms, and 4) implementation and ongoing management of the business. At each phase there are some important management decisions to be made that can have a direct impact on the performance of JV. Beamish and Nathaniel have emphasized six managerial issues, which are more relevant to some phases than other. (See Appendix 3) The six important managerial issues addressed in the JV partnering process are:

• Performance – the main concern of the managers to JV is to find an appropriate measure for the performance. This should be done before any negotiations proceed, otherwise it may result in precocious conflicts with partners and unenforceable contracts. Also, unwillingness to provide necessary information for achieving either party's goals as well as attempts to maximize ones own goal may result in unfriendly relations and failure of the JV

• Knowledge Management - the transfer of knowledge must occur in JV as a natural step towards achieving the goals. However there are questions in place as for to which extent the knowledge should be transferred? Will the imbalance in ownership occur once one party obtains greater and valuable knowledge than the other? The dissolution of the venture is like to occur once partners try to outpace each other. Each partner should accentuate the attention on enhancing its own capabilities in order to enable complementarity of the resources. Presence of trust is a factor related to all aspects of the execution of the JV agreement.

• Internationalization – it is said that a firm possess certain competitive advantage when it engages in international JV. It is true in a sense when the

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risks of the investments are substantially reduced due to the fact that by partnering with the local firm more doors are opened and more ways are cleaned up to start the joint journey. However, for that journey to be successful without deep pits a partner must be selected very carefully taking into account his goals, experience, market knowledge and most importantly his willingness to provide access to these information.

- **Cultural Differences** – in management terms, communication, decision-making and managing personnel becomes intricate when the cultural differences are large. Specifically, difference in uncertainty avoidance\(^{39}\) will likely breed disagreement and conflict between the partners; difference in long-term orientation is reflected in difference in objectives, perceived opportunities and threats in the environment of JV, which may result in dissolution of the JV agreement.

- **Governance and Control** – one thing is to build a JV and another one is to govern it. The two issues of concern are: equity share of each partner and share of responsibilities. Some studies have shown that the imbalance of ownership increases the probability of failure; such share of equity is optimal when it ensures the maximization of return to both partners to JV. To a certain extent this largely depends on the resource each partner contributes, which in turn determines their bargaining power; a small resource contribution may alert for limited commitment. Speaking of the share of control of JV, Beamish insists that partners should only be responsible for the activities at which they excel.

The illustrative summary of the major elements and factors of influence described in this chapter can be found in APPENDIX 4.

\(^{39}\) Uncertainty avoidance – the degree of tolerance or one’s comfort level in ambiguous situations; will lead to differences in how partners perceive and respond to various events in the environment of JV (Harry G. Barkema and Feek Vermeulen).

“Selection of a local partner is a critical decision in joint venture formation. In the most general terms, the global firm requires a partner whose strengths meet the primary needs of the venture. If marketing and distribution are the principal requirements, the ideal local partner will be an experienced and established distributor of related products. If relations with the home government is critical, a local partner with close ties to the government is needed” – J. Michael Geringer

4.1 Georgia Economic Overview

Driven by a surge in foreign investment, Georgia’s economy performed impressively for several years but the economy contracted in the second half of 2008. Both the conflict with Russia and global recession influenced dramatically Georgia's economy and its major industries. GDP growth rate was dramatically slowed down - the rate fell from 12.4% in 2007 to -3.8% in 2009. In 2010 it equaled to 6.4% (See Appendix 5). 40

Georgia’s major economic sectors’ growth rates were deteriorated significantly. In many cases negative growth rates were posted along with very low rates in the most growing industries: construction (-11%), transports (-10%) and processing industry (-1%), real estate (1.5%). FDIs attracted by the country amounted to USD 1,563.9 million, down 22.4% year-on-year (year 2008). FDIs attracted by the

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country as well showed a sharp decrease after 2008 events, however, the country is regaining its attractiveness. 41

The contraction of demand and price decreases in the world commodity markets resulted in sharp reduction of Georgian export revenues. On the upside, the decrease of world prices on oil and food products alleviated pressure on the current account. Although the 2008 current account deficit turned out to widen to its largest level since 2000. Market interest rates were increasing steadily (1-4% growth) till the second half of 2008. Market interest rates on loans have increased dramatically - about 14% (average of 2008) compared to 2006 and equals 21.2% in 2008, 25.5% in 2009. 42

Prior to these events the economy was growing at double-digit pace - GDP growth rate in 2007 was 12.4% - driven by construction (14.3%), communication (9.3%) and the financial sector (14.7%), hotels and restaurants (13.5%), real estate (14.8%) and industry (mining - 20.2%, processing- 13.7%). FDI inflows were increasing rapidly as long as investors' high expectations were caused by growing GDP rate and gradually stabilizing environment.43

For the period of 2010-2011 Georgian economy has shown a pretty favorable growth of 6% p.a but the FDI has not recovered since the 2008 as a result of a conflict. Unfortunately, another key macro indicator i.e. Unemployment is still at a very high 16% rate. 44The main problem from the past is the taxation issue. Despite the fact that the government undertook certain steps in order to simplify the tax code and thus increase the tax enforcement it failed to do so. The main reason is the

presence of corruption, which is a strong phenomenon in all post communist countries including Georgia.

The global meltdown of 2008-2009 led to a decline in the budget surplus and as a result the country ran into difficulties. The country strives to again start the growth by attracting the FDI through foreign policies that would include reduced regulation, taxes and corruption. Georgia’s main economic areas are in agriculture business that include grapes, citrus fruits, hazelnuts mining of manganese and copper; and output of a small industrial sector producing alcoholic and nonalcoholic beverages, metals, machinery, aircraft and chemicals. Natural gas and oil products are used in the extent that they are imported. More and more power is being used from water in a form of hydropower plants. Furthermore, there is a strong dependence on the natural gas imports from Azerbaijan that is now number one importer and has overtaken Russia. The goal of Tbilisi is the construction of pipeline that would make Georgia a strategic point between Europe and Asia for gas, oil and other goods.

4.2 GEORGIA – POLITICAL SITUATION

Georgia has successfully encouraged many reforms since 2004. Most significant reforms that increased standard of living were reforms in healthcare, social security, and corruption. But still there are many topics that need improvement - freedom of press, weak judiciary and an ineffective civil service that often results in poor enforcement of legislation and citizens are not protected from violations of their property rights. Infrastructure is significantly improved but mainly in cities and it is still poor in regions. However despite the evident deficiencies in the reform processes, Georgia’s continues efforts to adopt a democratic, market-oriented system that must be encouraged both within the country and by the international community.

As for economic reforms, personal income taxes were cut in 2009 and social benefits were increased; the program for privatizing large-scale public enterprises was


substantial and is largely finished; new tax incentives for private businesses are being introduced, the documentation requirements for import and export were simplified, and there was a significant decrease in the cost of trade; Georgia eased the process for dealing with construction permits by introducing a simplified process for obtaining confirmation from utilities, a risk-based approval process for building permits, and new time limits for the occupancy certificate. Overall reforms have significantly reduced the cost of doing business in Georgia. By World Bank figures Georgia is ranked as 16th in 2012, as opposed to 112th in 2005, by ease of doing business. According to Transparency International, in 2011 Georgia is ranked 64th out of 183 countries with the score 4.1 on a scale from 10 to 0, which is lower than in several European Union member states, including Slovakia, Italy, Greece, Romania and Bulgaria.

Russian Federation’s influence on Georgia and passion for gaining authority in Caucasus region has many years history. In addition Georgia’s president’s pro-western views and hopes for integration in NATO are not in correspondence with Russia’s political and economic interests. Along with WTO membership Georgia was granted permanent, normal access to US markets in 2000. Georgia’s strategy has been to develop a network of international agreements with its neighbors in order to stabilize the region. This strategy also includes transferring oil and gas to Western Europe. All these factors and Georgia’s bold steps caused conflict with Russia to develop into armed conflict in August 2008. Georgia’s hopes of restoring national sovereignty over the break-away province of Abkhazia and South Ossetia appear to be out of the question after the Russian attack on Georgian forces. These events led to high level of political instability in Georgia and surrounding regions. Along with war there is also local instability. Opposition parties have tried to remove the president not once during 2007-2009 by massive demonstrations. These factors cause high level of risk for investors in Georgia and also obstruct tourism development.

4.3 **Georgia – Business Culture**

When it comes to analyzing the culture and in particular the Georgian business culture it is interesting to see many similarities that Georgian culture has with the Azeri. It is hard to reveal any serious differences in countries business etiquette, and throughout the research it became even more convincing that Azerbaijan and Georgia exploit the same approach in negotiations and doing business. As a description tool a model developed by Geert Hofstede (Cultural Dimensions) will be used.48

In Georgia people are integrated into groups, where extended family ties are very strong. Hiring relatives is very common, but at the same time it assumes mutual obligations, and the hired person is responsible for creditable behavior as a representative of the family, and therefore is not expected to express disagreement with the team. Another thing showing Georgian collectivist nature is that for them “Group interests come first.” Although nowadays there is a tendency to gradual transformation, where people seem to move towards individualism, especially when it comes to small business. It is ok to put individual’s own good first, but it has to be value adding to common prosperity as well. Age and experience are hugely respected and being born to a family of the fifth-generation professionals, simplifies career growth in that field a lot.49

In Azerbaijan we can see a similar approach, as the country is as well a collectivists nation. Even though the political regime has changed in both countries, the tendency to follow a group’s decision and a group leader is still taking place today in many companies in Azerbaijan. It is not common that a person will voice his or her own opinion if it contradicts the opinion of the group. On the contrary, aspiration for personal achievements and desire to be special might be taken as a rejection and incapability to work in a team. It is not an exception that some employees are not self-sufficient and highly depend on each other in a business environment. Even

though today we are moving away from the communist views towards individualism, it is still hard to keep focused on one’s individual goals because of the emotional collectivism that is taking place in both countries. Therefore, a foreign business partner who comes to do business in Azerbaijan should not expect any employee to say or do something that will bring the individual benefit and satisfaction but at the same time will hurt the group. In addition, the foreigner should not expect a manager to take an immediate decision that will influence the company.

Another interesting dimension is the masculine/feminine perspective. According to the Badalbeyli, for the most part Georgia is the masculine society. Gender equality will never get even close to absolute, because of the (a) mentality, (b) nomadic/agricultural past as opposed to industrialization. Georgia pursues masculine approach towards work but at the same time follows the feminine approach towards life - modest behavior is encouraged, respect of elderly is a must, work-life balance is important, people of Georgia know both - how to work hard and how to relax, enjoy life, food and a good company.

When it comes to dealing with each other i.e. in which way human beings deal with each other Georgia is rather particularistic society and not universalistic. Preferential treatment of people is common. That is why relationship building and having proper contacts are essential to success. That affects bargaining techniques (Georgians start bargaining only after they have found out who the partner is at an informal setting). Relationship of trust should be established with one another before any business can be done. Azerbaijan fully belongs to the masculine society. First, there is a gender division of jobs. In Azerbaijan, a foreigner should not be surprised that the top managers are mostly men. There is a slight chance that a woman will take part in a negotiation process. Even though the role of women is gradually changing today, many people still believe that a man is a better leader. Another reason is that one has to be tough and aggressive to run a business in Azerbaijan; therefore, a woman is not a perfect fit for a top management position.
Georgians are flexible and if required easily adjust to changes. During the negotiations they maintain a positive attitude towards their partners, and they accept their alternatives delightfully, if the alternatives are reasonable and mutually beneficial. So there should not be worries of meeting stubborn counterparts with narrow outlook in Georgia, on the contrary they are very forward-looking and considerate of the new ideas and possibilities as long as it does not undermine the trust in the deal.

When it comes to decision-making, do not expect to receive a straight “yes” or “no”, as it takes time to analyze the partner’s intentions. The negotiations can go back and forth, but that is all for the sake of perfection and avoidance of the possible mistakes in the future.

Special attention should be paid to gifts and souvenirs from Georgian business partners as even the expensive ones shall not be considered a bribe, but rather an expression of openness and willingness to cooperate. But presenting a gift to your Georgian partner can be tricky, so be prepared for some flirting around, as Georgians actually need to be persuaded into accepting a gift, to find it polite to reject a gift twice, and only if you are assertive enough and still insist, they will happily accept it!

What concerns the non-verbal communication, sometimes the self-expression of Georgian people can seem somewhat strange and rude to foreign partner because they tend to raise their voices and speak very loudly. However, this is done not for the purpose of showing power or dominance, but only to emphasize the point. Georgian people widely use object communication to stress their position and status (funny enough it can be visual expression of success and wealth, for example, dressed in expensive clothes, wearing accessories and driving a fancy car.

Both countries exercise particularism. People have a tendency to think that they are special and privileged. A habit to overlook the laws and act in accordance with ones preferences and convenience is normal. Preferential treatment of people is not considered unethical. Relationship building and having proper contacts are essential to success. That affects bargaining techniques, as people in both countries start
bargaining only after they find out who the partner is at an informal setting. Therefore, if a foreign partner comes to any of these countries he or she should expect that rules do not mean order. Many people in the company fail to follow regulations or meet the deadlines because of different excuses they might have.

Both societies cannot be classified as flexible and easily adjustable to changes. Both do accept alternatives, if they are reasonable and mutually beneficial. In Azerbaijan people are forward-looking and considerate of the new ideas and possibilities as long as it does not undermine the trust in the deal and most importantly win-win approach is expected. The situation is slightly different in Georgia, as business people can be more persistent preferring win-lose approach. Because of the country’s political system, people in Georgia are afraid of changes. Every change is a danger. Stability is considered to be the key to success even though there might be a lot of new ways to improve the quality of life or business. Thus, during the negotiation process, a business partner should emphasize the importance of consistency and stability. This also explains why many employees prefer to use older methods and technology and to have no desire to train themselves.

4.4 **Glass Market Overview - Supply Side**

**JSC Mina**

The local production is dominated by Mina, the only glass container producer in Georgia. Leading Turkish glass conglomerate, SISECAM, purchased old Soviet glass factory, Mina Ksani, in 1997 with the support from International Finance Cooperation (IFC) and European Bank for Reconstruction and Development (EBRD). Mina covers the needs of the majority of the Georgian market at about 60% to 70% satisfying the demand for beer and mineral water and a substantial part of the champagne and non-alcoholic drinks. Having started to serve the Turkish market in 2006 resulted in 50% of its

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51 Parshina, Alesya. *Investor Overview of Nonalcoholic Beverage Sector in Georgia*. Publication. United States Agency for International Development and the
production going there, however 42% of the production still accounts for the domestic market. Mina also exports glass containers to Azerbaijan and Armenia.

Mina plant, has suffered from political troubles between Georgia and its important export market, Russia. The political trouble has caused the business great losses. The first hit was felt when Moscow banned Georgian mineral water. Demand from mineral water producers, Mina’s main customers – Borjomi and Nabeglavi - fell by 60%. \(^{52}\) Today the production capacity of the company is 35 thousand tons (glass furnace output) per year, amounting to about 100 million bottles. The company plans to double its production and restructure the plant equipment, which will require the investment of some 24 million USD. \(^{53}\)

One of the company’s important assets is the high tech equipment and quality control installations provided by leading European companies. The process of packaging is also advanced and almost entirely automated; the company is fully equipped with necessary modern software bases for controlling the warehouse movements and production processes.

Strengths

- As a local producer, Mina benefits from good market access, short lead time and local currency trading
- Mina is a part of global glass production group, thus enjoys access to financial resources, knowhow, experience and expertise
- Mina is known brand in Georgia

Weaknesses

- Do not manufacture brown and dead leaf colored glass containers

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• Do not have production capacity to meet the growing demand of the market
• Customers complain about poor service and quality

**Saranist – ArmGlass**

Founded in 1989, Saranist is Armenian leading flint and colored glass producers. A variety of clear glass jars and bottles are produced both to satisfy the needs of the domestic market and are significantly oriented toward export to Georgia⁵⁴.

Saranist recently received great financial assistance from the EBRD, which will lend USD 3.5 million to support the company in increasing its production capacity by installing new furnace and glass blowing line.⁵⁵ The funds will be used to buy raw materials necessary for increasing the production capacity and expanding the product portfolio to meet the domestic demand and increasing demand in Georgian market.

As a result of exploitation of the new production line, the company increased its pace of exports to Georgia and in the first quarter of 2011 the exports of wine bottles grew by 171% compared to the last year.⁵⁶ Overall the production rose by 26.3% compared to the year 2010, when 70 % of produced glass containers went for exports.⁵⁷ Vardan Manukyan, the direct of Saranist, stated that compared to Armenia, the wine market in Georgia is constantly growing at 20%-30% a year. One of the biggest disadvantages, according to Manukyan, is the high-energy cost associated with the production, which makes 30% of the manufacturing costs, thus resulting in small profit margins. Therefore, there is a huge vulnerability of Saranist to losing its competitive position in case the tariffs on natural gas increase.

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⁵⁷ Ibid.
The Armenian Glass World Company was founded in 2004. As of today, the company has invested 30 million Euros in three production lines with 120 million outlets per year and high quality 6-color bottle decoration capability that presents 42 million USD annually in sales. Participation in construction and installation of equipment of such leading European and American companies as Glass Technologies” (Italy), “BDF-Boscato Dalla Fontana” (Italy), “Saint Gobain SEPR GROUP” (France), “Allglass” (Italy), “Fermac” (Italy), has greatly contributed to gaining the reputation of a reliable business partner.58

Concerning Georgian market, Glass World’s products are sold mainly to:

- Natakhtari
- Borjomi
- Ushba
- Castel Sakartvelo
- Kula

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4.5 Glass Market Overview - Demand Side

The customers of glass bottles in Georgia are mineral water producers, breweries, wineries and other soft drinks and natural juice producers. The following are the main consumers of glass bottles in the Georgian market:

IDS Borjomi Georgia

IDS Borjomi Georgia belongs to one of the largest natural mineral water producers IDS Borjomi International that took complete dominant position in this segment throughout CIS and Baltic states.

IDS Borjomi Georgia is beyond a question an acknowledged market leader in Georgia’s bottled water industry, which succeeded in establishing its well-known brand names like Borjomi, Likani, Borjomi Springs and Bakuriani. Borjomi remains its best and biggest selling brand with a world wide presence in over 30 countries59.

The positioning of this mineral water is crystal clear, natural and healthy drinking water that creates a drive and boosts energy. Borjomi has long been exposed to the risk, as its export production was largely dependent on Russia – accounted to about 65% - and it was lost in just one day when in 2006 Russian banned the imports after sharpening of Georgian-Russian relations.60 Today, one of the key success principles, which the company actively pursues, is the further geographic expansion of sales and market diversification. Borjomi plans to widen the product portfolio and offer new mineral water brands to new markets.

Castel Sakartvelo

Castel Sakartvelo brewery was established in 1997 by French manufacturer of alcoholic drinks Pierre Castel. The injection of 37 million USD into this project resulted in a birth of a brewery

of modern standards with operations carried based on high-end technologies. Beers of such names, as Zekari, Germanuli, Castel, Herzog, Argo, also soft drinks, in particular lemonade of Zandukeli are currently produced at the factory.61

Castel Sakartvelo’s market share in Georgia estimates to 20-23% of beer and lemonade production. The evidence of growing demand for these products in Georgia as well as on foreign markets led to the decision to make addition investment into expansion of the current production line as well as renovation of the existing ones. According to David Nizharadze, distribution manager of Castel Sakartvelo, the sales increased by 70% in 2010 compared to 2009 figures.62

According to Bahtyar Bairamov, the General Director of Castel Georgia, the capacity of the company is unlimited in terms of satisfying the needs of Georgian market, the current production amounts to 30,000 hectoliters (1 hectoliter = 100 liters), the company capacity is 100,000 hectoliters per month, this includes beer 70-80%, as well as lemonade Zandukeli - 20-30%.63

Efes Georgia

In February 2008, Efes Breweries International, one of the largest beer producers in the world, and a 70% subsidiary of Turkish Anadolu Efes, has made a 100% acquisition of Lomisi, the company that dominates Georgian beer market with a market share of 42%, which is up from 35% in 2006 and with a market share up 30% in soft drinks segment.64 Alejandro Jimenez, chairman of the board of management and CEO of Efes Breweries International

(EBI), said: "We are excited to access the very dynamic and rapidly growing Georgian beer market".\textsuperscript{65}

There are two breweries, which Lomisi today operates, one in Alkhagori and in Natakhtari. Natakhtari brewery occupies more than 65% of Georgian beer market, offering six kinds of beer to Georgian consumers. Lomisi also operates a soft production in Georgia.

\textbf{JSC KAZBEGI}

Kazbegi was founded in 1994 by the president of the Kazbegi group Gogi Topadze who invested 16 million USD into restructuring the factory after he bought at auction.\textsuperscript{66}

Despite of the presence of such transnational companies as Coca Cola, Pepsi and Schweppes, Kazbegi managed to cover 20% of the Georgian soft drink market.\textsuperscript{67} One of the company's competitive advantages is the extensive use of natural ingredients and ecologically pure raw materials in the production process. The product portfolio of the company is impressively diverse: they produce twelve different kinds of beer, ten types of ice tea, and six types of lemonade soft drinks.

Before the entrance of \textit{Efes Breweries International (EBI)}, which acquired Natakhtari brewery, Kazbegi was dominating the local market. Now, the EBI has expressed its interest in purchasing a stake in Kazbegi and such an aggressive policy from the side of Turks can lead to them taking monopoly position on the Georgian market of beer and refreshment drinks.\textsuperscript{68}


Teliani Valley

Since its establishment in 1997 JSC Teliani Valley is the largest and most well known winery in Georgia. Company currently sells its high quality wines in more than 20 countries and holds a portfolio of more than 46 brands.\(^6^9\) As of today, the company occupies 40%-45% of market share in Georgia and a 10%-11% of export market share. Around 70% of its wine production is export oriented. Last year, 1,5 million bottles of wine were exported to 25 different countries by Teliani Valley, 80 000 of which were exported to the U.S.\(^7^0\)

For the first time in history, Overseas Private Investment Corporation (OPIC), saw the potential of wine sector development in Georgia, as a result Teliani Valley was provided with 8 million USD loan package, the proceedings of which will be oriented towards boosting of this sector. Company has made US its primary future export market and plans to use the funds for developing processing equipment, purchasing new vineyards and increase exports. Additional 7 million USD will be invested by wine producers themselves for developing new products and supporting the wine sector growth in general.\(^7^1\)

4.6 Georgia Beverage Sector – Market Analysis

If otherwise stated this chapter’s analysis was based on two publications by United States Agency for International Development, Georgian Sector Overviews for International Investment Guide as of 2007 and Alcoholic Beverage Sector in Georgia as of 2008, and based on the publication of Ministry of Economy and Sustainable Development of Georgia in cooperation with national investment agency Invest in Georgia, Georgia’s Export Opportunities in Beverages Sectors as of 2010.


Mineral water segment

The land of Georgia is very rich and abundant of mineral resources and other valuable raw materials. There are more that 2000 mineral water springs discovered in Georgia, back in the days until now, the consumption of this type of water is recommended for the treatment of numerous diseases. Georgian water differs in its exceptional taste from the European alternatives.

In the year 2005 exports of mineral water scored 49% more than previous year amounting to USD 32,48 million, and a glass per capita consumption rate in the country in 2006 was 16-17 kg. In the same year, the output in mineral water sector was around USD 163 million, with average person consumption about 15 liters, the figure 15% higher than in the previous year. The output of mineral water sector in 2006 amounted to almost 134 million bottles produced, creating from 400-500 employment opportunities.

Studies have shown, that the loss of Russia market, having significantly damaged the performance of main industry players, did not put a decisive end to the export potential of mineral water, on contrary the growth in this sector is expected to be steady. Georgia has shifted its strategy towards seeking new markets for its exports, and in 2007, 80% of mineral water exports went to Ukraine, Azerbaijan, Armenia, the EU, and the UAE. The last figures on Georgian mineral water indicate an output of approximately USD 77 million, 40% of which was exported.

Soft drink segment

Soft drinks are persistently gaining popularity among Georgian consumers, while soft drinks producers are taking advantage of a market trends and implementing modern technologies to ensure quality processing using classic recipes. Preferences of Georgian consumers for soft drinks are as follows: 33.6%-Natakhtari, 21.6%-Coca-Cola, 12.8%-Kazbegi, 11.2%-Pepsi, 5.6%-Sante, 2.4%-Nikora, 1.6%- Castel.

There has been a trend of annual increase by 5% - 7% in consumption of soft drinks in Georgia. This is highly reflected in the country’s export/import dynamics. For the
year 2005 the amount exported approximated to USD 20 million – a 45% increase from the previous year. A drastic increase in imports was observed with 130% in 2005 in comparison to the previous year. The trend continued in 2006 resulting in 127% increase on 2005 figures. Georgian soft drinks have been appreciated and recognized as very tasteful and healthy beverages not only locally but also on the international arena. It has been proved that despite such growth, the industry is still relatively small and there is space for further growth.

**Figure 4 Soft Drinks Exports from Georgia 2000 - 2006**


The production capacity in 2006 was estimated as 32% higher than in 2005. There was an estimate of production capacity of 23,350,000 bottles in 2006 of the major global players in Georgian market (Coca Cola, Pepsi, Nestle, Danone). The predications are that slowly but surely Georgian soft drink market will be seeing expansion and will meet the demand of an estimated one billion potential consumers within the Caucasus region, the Black Sea region, Russia, Central Asia, the Balkans and the EU.
Figure 5 Local Production of Soft drinks 2000 – 2006


**Wine segment**

A decrease in vineyard acreage in the period of 2004 -2010 is observed globally in such countries as Spain, France and Portugal, while the so-called “new world” wine regions are found in China, Chile, Australia and Uzbekistan. The same period is marked successful for Georgia – an increase of 3.5 percent in vineyard acreage and overall 15.8% production increase. In this numbers Georgia outperforms Zealand and Switzerland – countries with similar production volumes. Georgian wine making has long been known and recognized in the Caucasus region as well as among former Soviet Republics. Today, there is growing interest and demand for Georgian wine worldwide.

According to the National Statistics Office of Georgia, in 2011 wine was ranked 10th major export commodity, amounting to 2.5% of the total export and reached the highest levels since Russian embargo in 2006 – USD 54.1 million. The rise in exports of 37.7% to 16.9 million liters compared to previous year with Ukraine, Belarus and Kazakhstan being the major export destinations.  

The industry has suffered from the Russian embargo on Georgian wine; however,

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this alone was not detrimental to the survival of this sector, which shows a growing trend. Georgia has engaged in diversification of its markets and heavy promotion of its wine in the West. Today, there are 180 wine companies operating in Georgia, the export activities of key players reach up to 95% of total production.

**Figure 6 Georgian Wine Export by Countries (2010)**

![Georgian Wine Export by Countries (2010)](image)

Source: Ministry of Agriculture of Georgia, *Georgia’s Export Opportunities in Beverages Sectors*

**Beer segment**

The beer market is also showing substantial growth. 80 million liters of beer was produced in Georgia in 2010 with a net worth of $56 million. This is only a minor increase in comparison to 2007 when Georgian beer companies produced about 70 million liters. Georgia's major export destinations for beer is Azerbaijan, Armenia, Greece, Ukraine and Israel. Compared to the year 2007 when total volume of exported beer amounted to 131,000 liters, this number almost quadrupled in 2010.

The main competition that Georgian beer companies have to face come from the main beer importers to Georgia - beer producers from Austria, Czech Republic

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Germany, Italy, Russia, Turkey and Ukraine. The imported beer in 2007 amounted to approximately 10 million liters an estimated USD 6 million. In 2008 this figure doubled and some 20 million liters were imported. Slowly the local beer producers started to increase the production and some substantial investments have been made in this sector. Thus, it was possible to observe a decline in imports and in 2010 the number was 15 million liters, which is about USD 8 million.74

Consumer preference survey conducted in 2010 has identified some of the most popular brands on Georgian market with the following results: 45.56 % of votes went to Natakhtari -produced by the Natakhtari Brewery; second place went to Kazbegi produced by Kazbegi Brewery and Herzog of Castel Sakartvelo received 23.33%.

**Figure 7 Beer Export Value**

Source: Ministry of Agriculture of Georgia, *Georgia’s Export Opportunities in Beverages Sectors*

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Another factor confirming the growing beer sector and growing demand for beer is Lago Chocheli’s initiative to build a new beer factory in Georgia with the production capacity of 400,000 hectar liter beer and 300,000 hectar liter lemonade. The huge initial investment of around USD 46 million has been made in order to take advantage of beer market opportunities. The company plans produce weak alcoholic or non-alcoholic drinks, including fruit juices for the domestic market as well as for exports.\textsuperscript{75}

5. Baku Glass International Strategy Proposal

Having thoroughly analyzed all the possibilities of foreign entry strategies with all the major advantages and disadvantages weighted between each other; the applicability of particular strategies to BAKU GLASS, taking into account the company’s size, foreign market experience, industry knowledge and resource availability - in addition, the attractiveness of Georgian market with its fast growing beverage sector and favorable market conditions - the priority choice was given to enter Georgian market in partnership with a local beverage producer.

In 2010 the Georgian glass bottle annual consumption was 147M containers of different sizes, which is equivalent to 50K Ton.

Demand for glass bottles in Georgia is mainly for mineral water, wine, beer, and soft drinks. The main product segments are standard CC500 mineral water bottles, flint colored, CC 750 wine bottles, dark green and dead leaf colored, and CC330 beer bottles, mainly amber colored.

<table>
<thead>
<tr>
<th>Capacity: 750 ml</th>
<th>Capacity: 500 ml</th>
<th>Capacity: 330 ml</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weight: 560 g</td>
<td>Weight: 240 g</td>
<td>Weight: 160-210 g</td>
</tr>
<tr>
<td>Height 300 mm</td>
<td>Height 250 mm</td>
<td>Height 242 mm</td>
</tr>
<tr>
<td>Color: Flint glass, antique green, dead leaf green</td>
<td>Color: Dead leaf green, flint glass</td>
<td>Color: Dead leaf green, amber, flint glass</td>
</tr>
</tbody>
</table>
5.1 **BAKU GLASS AND XXX COMPANY - THE FORMATION OF JOINT VENTURE**

*Competitive Assessment:*

- Georgia has abundant supplies of sand – which is the most important raw material for glass production (see Appendix 5)
- The Georgian lands are plentiful of limestone – the next indispensable input to glass (see Appendix 5)
- Georgia is a country with low labor costs, despite this being home to the main Soviet glass plant and with extensive Turkish 12-year investment in this sector, the skill base of labor can be considered strong
- The current trend observed in Georgia among the companies in the industry, is a shift from PET packaging towards glass packaging
- The territory of Georgia is very abundant with fruit and mineral water resources in different regions, which is a positive fact for the development of this sector
- The demand for wine, mineral water and soft drinks is a constant in Georgia, as these products are a part of Georgian culture
- New beer factory Zedazeni will be opened in the village Saguramo of Mtskheta – which can become another potential customer
- Positive trends observed in global beverage markets could mean extensive growth potential to Georgia taking into account its favorable geographic location

*Taking into account the findings above such a proposal had been elaborated:*

BAKU GLASS and XXX Company should form a joint venture and with joint forces should take a full advantage of prospering and promising Georgian market by mutually committing to provide each other with necessary market knowledge and industry know how in order to rip off the maximum benefits from this partnership. And lastly, both parties must realize that the presence of such key implications as honesty, trust, and commitment for the success of the JV, not the maximization of one's own goals but reaching for the objectives set for the JV by proper division of responsibilities between partners according to the functional expertise of each
partner is essential for achieving the best possible results.

*BAKU GLASS on its part will commit to:*

1. Supply XXX with all the production equipment involved and related to glass container industry. This should include the major machines as well as control and parts necessary for the production.
2. Provide preliminary design with layout proposal of the plant construction and installation and production assistance.
3. Assign expert team and engineers who will assist in training the workforce for both production operations and maintenance related services.
4. Ensure 100% commitment in terms of providing know how, technology and resources (depending on the equity share)

*XXX on its part will commit to:*

1. Provide with legal services associated with obtaining permissions from the government and other authorities for property/land purchase, construction, and licenses.
2. Facilitate the process by ensuring that local government does not make unnecessary interruptions and the plant starts operations according to the schedule.
3. Provide access to distribution networks and open contacts to local industry players.
4. Ensure 100% commitment in terms of providing local market knowledge, negotiations with government officials and resources (depending on the equity share)

### 5.2 Setting up a New Plant

In order to demonstrate and replicate the production process in Georgia, several detailed interviews were conducted with engineers of Baku Glass. Below are the most important areas that are necessary to be covered when starting a green field project either as a foreign direct investment project or joint venture. It should be
pointed out that these are extremely labor and capital-intensive investments and a failure in each category can result in disastrous outcomes.

Each of the areas described below requires a detailed study and consultation with experts and local authorities so it fully corresponds to the requirements of the project.

1. **Product Design**

According to the worldwide standards the design and the shape for the production of glass bottles depends on the type of the beverage applied i.e. has to be individualized so it fulfills the requirements of the bottle manufacturer. Despite the fact that the beverages include a different variety of alcoholic and non-alcoholic drinks (juices, lemonades, vodka, wine, Champaign), there are certain requirements of the design that all of the above-mentioned types have to meet. The process of creating a design for the bottles must include three fundamental features that are vital for its effectiveness. These include the necessity of the finished bottle to be convenient for the technological production, transportation and consumption. One of the major criteria that should be taken into consideration when designing a bottle is the convenience and practical approach to its creation, hence, the rule of the bottle is that it must easily and comfortably fit the human hand. Minimization of acute angles is an important aspect of the designing process as their presence makes a bottle more fragile during the transportation that is why streamline form is more suitable. Also, the design of any bottle produced depends on their further usage, for instance, the bottles for non-alcoholic drinks must take a shape that users would enjoy it at any time e.g. while driving a vehicle - the bottle should be sized in a way to fit the cup holder of the car. The bottle must be shaped in a way to eliminate all possible risks of the occurrence of potential damages, thus it must stand steadily on a flat surface e.g. on a table. During the production process it is very important that the producer pays special attention to the label location. The label should not be convex in order to prevent its damage by means of a friction during the transportation. The volume of the bottle is an important part of the
designing process; for instance, during the transportation it is necessary to consider capacity of the transport means as the volume of the bottle defines it. For example, if the transportation of the bottles will be carried by railway or motor transport it is necessary that the bottle at its greatest capacity would occupy the least volume.

2. Quality management

Quality management in a glass-producing factory is based on properly structured and planned process to eliminate the possibility of technical failure, or a defect. The control begins from the quality from the purchase of the raw materials. The raw materials analysis is necessary at each purchase. Every factory must be equipped with high tech laboratory. In cases when raw materials do not meet certain standards it should be rejected and should not be allowed to the production process at all. If the raw materials suit the manufacturer and the production begins, the equipment, which would check container on quality, has a decisive effect on quality of the bottle produced. These are the devices enabling to determine equal distribution of glass over the bottle and thus create symmetry. Next step after the distribution of the glass is the necessity of the presence of device that does the fritting of the bottle. Fritting of glasses makes the glass stronger. Glass should pass through the furnace at least for an hour and half. Because the formation occurs at a very high temperature the production must move through the furnace very slowly for the glass to be less fragile in the circumstance of sharp temperature changes because, for instance, bottles for juice and can food are produced frequent under temperature jumps. Wine bottles belong to this group, juice and canning production is exposed to sterilization in autoclaves and if fritting is wrong the bottle will not maintain difference of temperature and will cause micro cracks to occur. The next on the line is the device called the “inspector of quality”. It is usually located at the place where the bottle exits the heater. The laser inspector assures that the bottle does not contain micro cracks that cannot be noticed with the naked eye. And finally is the last check, which is done by a person placed at the end of the production line who is responsible for visual control, which includes the control of inner and
outer throat of the bottle as well as its size with the help of special technical tools. This check has to be conducted every 30-40 minutes to assure against leakage, as the diameter of the throat is exposed to the change during the production. Weight control – all the parameters of the bottle (weight, height, and size) must be defined in advance, as the failure to meet these parameters would cause the reduction/increase in the amount of the liquid applied. If any problem occurs during the production, different departments have to inform about it to the major department of quality control. The quality control department is responsible for carrying out all the procedures mentioned above from the point where the raw materials enter the production until the final stage of the production. This also includes the control of the temperature and amount of pressure inside as it has a direct influence of the formation of the bottle e.g. sparkling drinks can sustain only certain pressure. People employed at these positions are certified engineers and are to control the quality of the bottles both in process of production and after the production ends.

3. Production Process

The process of glass boiling is the most important one in the whole production process; as if the formula gets disrupted the whole production becomes a waste. The detailed production process is illustrated in the Appendix 6.

4. Location

First of all the location of the factory must be built in proximity to the raw materials, in this case these are limestone, glass cullet, quartz sand, soda and etc. The presence of potential customers is also a critical factor to consider as this reduces the transportation costs. When deciding about the location, the developed infrastructure must not be forgotten; at least rail and highways to ensure that the delivery happens more effectively - quicker and safer. The availability of energy resources is crucial as the production at the factory is a non-stop process. The place must be approved with the local authorities because the factory can cause certain damages to the environment and inhabited regions.
5. **Layout design**

The layout design depends on the power of the furnace and its capacity as it determines the amount in tons of glass to be boiled. The Institute of Project Planning defines the proper layout and develops a project in accordance to the quantity of production planned to produce taking into account all necessary parameters. These include:

- Project of glass furnace
- Project of production of workshop
- Project of composite workshop (here the mixture of the ingredients are prepared and passed to the furnace)
- The warehouse of raw materials
- The warehouse of finished goods
- Place of glass cullet processing (here the labels, covers are sorted)
- The project of the administrative building

6. **Human resources**

The effective production of bottles at the factory requires the recruitment of highly qualified people, they must be educated in this field, especially they have to be familiar with the technical tools required to be used throughout the whole process of production. This is vital in avoiding any potential mistakes such as failure to properly watch the monitors displaying the figures of the furnace (pressure, temperature etc.), failure to detect a defect or overall the ability to understand and quickly adapt to the situation if any problem occurs. The quick reaction and decision-making skills are very important in such kind of production as it lasts 24/7, the worst scenario would happen if the production stops. It is possible to determine the quality of work delivered, as usually depending on annual amount of production there is always approximately a loss in terms of defects. So, for instance, let’s assume that 5% is the annual defect rate, so if the rate in the following year is reduced, employees get bonus for the delivery of quality work.
7. Supply chain

In Azerbaijan, the fundamental factor is how serious the partner is according to their historical performance and reputation. The relationship developed within a long time is usually valuable for businesses as better terms of trade can be negotiated easier. These include prices, terms of payment (deferred or under bank guarantee) simply put, flexible and convenient terms. So, Baku Glass builds its long-term relations with the companies that supply the company with raw materials and wrapping materials. However, before agreeing to cooperate with any suppliers, Baku Glass requests to see the certificates of quality of their goods (to minimize the risks of waste), the location of the supplier (the close the better and the cheaper), look at their performance and strategies.

8. Inventory management

In Baku Glass the supply division is responsible for the inventory management. It receives the information from different warehouses about the delivery of materials on time. They have to build and keep the communication network with all the warehouses to ensure that the information reaches them on time to keep the schedule on track.

- The warehouse of raw materials – it is necessary to have a timetable of delivery of raw materials. There must be at least two month of the reserves of the raw materials in stock. People responsible for this must conduct a daily report about the amount of raw materials consumed and delivered. This enables to control the process of glass boiling, as if the consumption increases the required amount it means that the formula was disrupted. All the raw materials must be used in accordance with the formula specified for a particular bottle.
- The main mechanic controls the warehouse of spare parts. He must have all the necessary spare parts at his disposal in case if any emergency occurred. Spare parts must be duplicated and stored, as the repair must happen at the quickest time possible due to the fact that production must not stop! So there
must always be a contingency plan or all the necessary tools in case if the repair to an important part is needed.

• The warehouse of wrapping material - the same as for the warehouse of raw materials.

• The warehouse of finished goods (bottles) – Is in a direct contact with the production department and selling department, as they function in accordance with each other.

• Special database that contains the all above-mentioned figures.

9. Scheduling

Scheduling depends on the type of the bottle and on its parameters (weight, height and configuration). A special program is put into operation that controls the daily production. The regime of the program is put daily depending on a certain type of the bottle that must be produced. The program can be set in a way that it would be able to produce more or less bottles. However, what matters is the prior planning of this program setting. It is important to reach efficient production and eliminate possible defects and this can never be done if the program is overloaded and the production volume is increased to the amount unreachable - it will only increase the defect rate. The program has to be scheduled minimum six months in advance. The schedules of the supply of raw materials as well as the delivery of finished good to the clients are done one year in advance. Also the prices are fixed in a forward contract for a period of one year.

10. Maintenance

Despite the fact that any factory when purchases the furnace receives the guarantee for its function must have the department that controls the work of the furnace; and it must be very effective. They have to control it on a daily basis, they must make sure that it works perfectly and if any weaknesses are determined they must take radical measures in fixing the problem in terms of strengthening the furnace. There are also preventive and ongoing maintenance that must be exorcized for hot furnace to ensure that the production never stops.
It is important to be able to conduct the maintenance in a shortest time and in order to achieve that it must be planned long before the scheduled date.

The key to success of the potential plant depends on all the above-mentioned factors. None of them can be given more or less attention, as all are crucial in succeeding in this business. They all are interconnected and supplement each other in all the activities. The production will only start when customers place the order, so aim is to increase quality and decrease costs. This can be reached when all the critical decisions are perfectly planned and solved.

5.3 Setting up a New Plant - SWOT Analysis

**Strengths:**
- Current local competitor operates at full capacity, which does not cover the needs of the whole market
- The demand in the market is steadily growing in the whole beverage segment
- CC750 wine bottles, brown and dead leaf colored bottles are all imported and not manufactured locally
- The new plant will gain competitive advantage to the imported products with shortened lead time as well as lessened transportation troubles
- Sales in local currency is always preferred on the local market
- Combined resources, increased technological expertise and market knowledge will lead to higher efficiency and quicker market adaptation.
- Access to established markets and distribution channels will ensure faster penetration into the segment

**Weaknesses**
- Need to build a brand name, while competitors are known
- Need for initial high investment
- High energy costs, which account to about 50% of all manufacturing costs
- This business does not tolerate errors, as those will result in additional high losses. Therefore a very careful planning and scheduling is essential.
Opportunities

- Lack of local production of certain types and colors of bottles will enable easy and quick penetration
- As customers report, market leaders have significant quality deficiencies, low packing standards and poor service, quality production can grant the new plant a competitive advantage and enhance market penetration
- With combined resources can potentially increase the capacity for producing for export taking into account growing popularity of Georgian wine worldwide (e.g. especially in U.S)

Threats

- Entrance of new global players to the local market
- Unforeseen technological, marketing, financial and organizational interruptions that will add costs and delays to the original budget
- The local competitor is a part of an international group that may decide to start an aggressive price war
- The local competitor may consider additional investment to enlarge production capacity and product quality
- Geographically close competitors such as Saranist and World Glass who has lately made investments in production capacity may try to enlarge their Georgian market share.
CONCLUSION

The paper was created with an attempt to analyze the glass container production company called BAKU GLASS and to provide the company with recommendations for its international strategy. BAKU GLASS has gained a strong position in Azerbaijan in the glass production industry and has become a strong competitor in local market. Up to date, the company’s sole international activity, as a glass container producer, has been the exporting activity. BAKU GLASS has found the niche in Georgian market and has been supplying the Georgian liquor distillery with the exclusive glass bottles.

Thanks to theoretical foundations and principles laid in various scholarly papers dedicated to foreign market entry strategies and joint venturing, as well, specific industry data and market information together with practical information provided from the side of BAKU GLASS, it became possible to draw a clear picture of glass production industry of the studied market and to make the contribution to the improving the current position of BAKU GLASS in international arena.

This paper has tried to prove that joint venture formation is the most suitable entry mode to be chosen when considering setting up a production plant in Georgia – and it succeeded. Moreover, having studied the Georgian market more closely, it was revealed that this market has much greater potential and opportunities for BAKU GLASS to take advantage of. Among Georgia’s leading drinks producers are: Natakhtari (a soft drink and beer market leader), Teliani Valley (wine producer), IDS Borjomi (a market leader in Georgia’s mineral water), Castel Sakartvelo (Beer factory) and Kazbegi (Beer and beverage).

The following diagram describes the Georgian glass container market volatility as a result of new manufacturer entering the market in terms of supply and demand curves.
- S0, S1 – Represent the Georgian glass bottle supply, currently consisting of three main producers, before and after joining of the new producer
- D0, D1 – Represent the demand for glass bottles in Georgia coming from soft drink, mineral water, beer and wine manufacturers.

A new producer in the market increases the supply – the supply curve shifts to the right from S0 to S1. Despite the increase in amount of supply, local market price is not expected to decrease in coming years as 1) local beverage manufacturers preference to buy bottles from local producer to shorten lead time and to pay in local currency and 2) expected total market growth D0 to D1.

Currently, market supply is divided as follows:

- JSC Mina, local manufacturer, subsidiary of Sis eve Cam, supplies 50% of market demand, mainly CC500 mineral water and CC330 beet bottles. This manufacturer has already exhausted its capacity, and cannot expand for the foreseeable future.
- Two Armenian producers, Saranist Armglass $ Glass World, together capture 34% of the market, supplying bottles of most types and colors. 60% of the imported glass containers are wine bottles.
Many small manufacturers from countries such as Turkey, Ukraine, Italy and China, whose total market share is 16%. Not one of those, which supply all kinds of bottles, reaches 3% of the market.

As import dominated market, the local beverage industry suffers from typical disadvantages such as, problematic lead-time, and exposure to currency exchange rates, poor service and unnecessary transport costs.

Business Opportunity

The combination of single local manufacturer, which produces at full capacity and limited variety, and the import disadvantage of long lead-time, creates a feasible business opportunity for a new local brand to develop, which will provide high quality products of variety of types and colors, accompanied with high-level service.

Since the bottle market is set as B2B and large manufacturers prefer to split purchases between suppliers to reduce risk, it is most likely that beverage manufacturers in Georgia will transfer a segment of their purchases to the new local manufacturer. Having the option of procurement in local currency, which will reduce exposure to changes in exchange rate fluctuations.
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APPENDIX

APPENDIX 1

Packaging Materials Market Share for Beverages

Sources: Selve, Michael Delle. *New Insights in Sustainability and Glass.*
APPENDIX 2

The European Containers Glass Industry in 2009

- > 159 manufacturing plants in 21 EU countries
- > 46,000 employees
- > 26 MT of glass containers produced
- Big contribution to EU trade balance thanks to exports of high added value products (whisky, wine, perfumes etc.)

Sources: Selve, Michael Delle. New Insights in Sustainability and Glass.
APPENDIX 3

Importance of Managerial Issues During the Joint Venture Partnering Process

APPENDIX 4

Favorable Environments for Licensing, IJV and WOOS

APPENDIX 5

Interest rates on loans in Georgia

GDP growth (annual %) in Georgia

Source: Indicators for GEORGIA. TradingEconomics.com.
APPENDIX 6

Georgia – Sources of Raw Material

Source: Interactive Map of Georgia. Invest in Georgia.
APPENDIX 7

The production process of glass containers:

The raw materials used are typically sand, soda ash and limestone.

Cullet is added and used to produce new glass containers.

Furnaces heat the glass to around 1,500 °C. A typical furnace will hold around 400 tonnes.

Furnaces are either dedicated to one colour or run ‘campaigns’ of different colours.

A stream of molten glass is drawn from the furnace. This is cut into cylinders known as ‘gobs’.

The gobs are fed into initial moulds and blown into a pre-formed stage or ‘parison’.

The parisons are then flipped into a second set of moulds and blown into their final form.

After annealing to relieve internal stresses, the containers are inspected for quality issues or defects.

Most common glass colors:

white flint
amber containers
green containers

60% maximum cullet content
65% maximum cullet content
95% maximum cullet content
