Turnkey Projects– Russia

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Executive Summary

In this paper, we will discuss Apple’s attempt to enter the Russian market and the entry strategy which can be utilized to enter the Russian market. We will focus this paper on turnkey projects. We will define turnkey project and also give examples of advantages and disadvantages to utilizing turnkey projects as a vehicle of entry into a given market. We will also discuss examples of Russian turnkey projects in other industries and the results of the turnkey projects in the other industries. Lastly, we will discuss our rationale to why turnkey project will or will not work for Apple.

Introduction

With Apple attempting to expand its market share to the areas outside the United States, Apple is looking into entering the Russian electronic market. The world is continuously evolving and economically businesses are no longer localized. Part of the process of entering into the Russian electronics market, Apple performed its due diligence on the trade barriers that exist.

Turnkey Projects

Turnkey projects became an option for companies attempting to enter foreign markets without having to deal with or negotiate trade barriers like tariffs or quotas. Despite having trade barriers, companies found that utilizing entry strategies to overcome barriers, they can still operate a profitable business in a foreign country. Before selecting an entry strategy, a company must perform due diligence to determine the
feasibility and profitability on entering into a foreign market. Based on our prior research, Russia still appears to be an opportune market for Apple to introduce its iPod. According to its website www.apple.ru, Apple has begun to introduce its products to the Russian (www.apple.ru).

Turnkey projects have their advantages and disadvantages. Turnkey projects occur when an agreement is made where every aspect of a project for the foreign customer are maintained by the contractor. These aspects even include some human resources functions. Upon the plant’s completion, the key to the plant is handed over to the foreign customer. As a result, the foreign customer has now gained entry into the foreign country. For example, what if Apple wants to manufacture its iPods in Russia; as a result, Apple would hire a contractor (Russian) to act as somewhat of a Project Manager overseeing the entire project. Once the project has been completed, the plant’s keys would be handed over to Apple to begin manufacturing its iPod in the Russian plant. Now, Apple would have entered the foreign market it intended to without paying tariffs or being hassled being quotas or other forms of trade barriers.

Many companies utilize turnkey projects to enter foreign countries. Like Siemens, ECI telecom, and McNally. Siemens and Elektrozavod will establish a joint venture and implement a number of turnkey projects in Moscow and in the process, updating facilities (Anonymous). These turnkey projects will revamp Russian utilities in the Moscow region and improved efficiency power plants. ECI telecomm signed an agreement with ICE a government utility in Costa Rica to develop a communications network (Tikva). ECI would develop and install the network infrastructure and once,
complete the project will be turned over the ICE. McNally Bharat Engineering Company plans to use turnkey projects to enhance and increase its business (Anonymous).

Industries where the products are expensive to manufacture tend to be the more popular industries for turnkey projects like the chemical industry and refining. As a result, the turnkey project may not be the best suited entry strategy for Apple to enter the Russian market.

Russia being a target for a potential market is due to its new found economic stability and its rich environment for scientific technology. Russia’s economic growth over the past few years can be directly attributed to government’s commitment to improving the country’s faulty economy and its shift from a communist government to democratic government. Russia is a new hot foreign market.

With any strategy, there are advantages and disadvantages. The advantages are turnkeys are less risky than FDI, excellent strategy when FDI limited by host-country government regulations, economic returns, and obtaining the necessary know-how (Hill, p. 469). With FDI, it can be an efficient method of utilizing global resources; however, it has adverse effects on competition and loss of national sovereignty (Hill, p. 469). A number of host countries have limits on FDI which make it difficult to enter their markets. Many Middle-Eastern countries have FDI restrictions which limit FDI. In turnkey situations, companies can earn tremendous economic returns as well as utilizing a contractor’s expertise.

According to Melymuka:

Turnkey project teams can also bring advantages. These include access to a broader skills pool; positive team dynamics established during previous engagements; and the ability to transfer product and project management skills, as well as systems operation, maintenance and evolutionary frameworks, to permanent staffers (Melymuka, p. 42).
These advantages are accurate and true. When outsourcing jobs, a firm takes advantage of the contractor’s expertise and the skill set. There are also cost saving that occurs, because the contractor can perform the work more efficiently.

The disadvantages are no long-term interest from the company investing in the foreign country, potentially adding competitors to its market, and selling of the competitive advantage (Hill, p.469). What happens when the host country’s market explodes and becomes one of the larger markets for the company, but they only prepared for a short-term investment and the turnkey project is better suited. When building a turnkey relationship, competitors can potentially be created, because technologies are shared and can be easily duplicated for the good of the host country. Also with turnkey project, a company shares its competitive advantage which can enhance competition.

Other disadvantages are that resentment can develop since an outside contractor has been requested to perform jobs during a turnkey project. Another disadvantage of a turnkey project is it is difficult to develop rapport with a contractor in such a short-time, which reinforces the need for excellent communication between the firm and the contractor. The firm must also humble itself by heeding the contractor’s advice in various situations where the contractor makes suggestions based on its experience and expertise. Lastly, it can be difficult for contractors to understand the firm’s scope and goals. Everything returns back to excellent communication between the firm and the contractor.

To make a turnkey project work as efficiently as possible, two things needs to happen. There needs to be excellent communication between both parties and a good mix of people. For the project, the right skills level is needed as well as the right
personalities. The wrong people and the wrong skill level can be disastrous to the project. Excellent communication is required for the project, since parameters and concerns need to be evaluated and discussed to be move the project forward in the right direction.

Based on the advantages and disadvantages, Apple would be wise not to utilize the turnkey projects as a mode for entry into the Russian markets. With barriers being removed like government and political restrictions, alternative vehicles for the entry into Russia may be more feasible and useful like possible joint ventures, franchising, etc. Apple manufacturing its iPod in Russia is possible, if the technology can be made available for production. Turnkey projects appear to be more productive in the refining industries; based on my research, I could not see any evidence of any successful electronics manufacturing turnkey projects.

Conclusion

In conclusion, turnkey projects can be an excellent vehicle to gain entry into a foreign market. Unfortunately for Apple, the turnkey project appears to be better suited for chemical and petroleum refining industries as opposed to manufacturing of electronics or information technology. It is not to say that in the future, that turnkey projects will not be acceptable for use in the electronics or information technology industries with the technology rapidly evolving or Apple could simply become a trendsetter and trailblazer being the first company in its industry to make a turnkey project profitable. Russia is not new to turnkey projects, but they are only utilized in a couple of industries. It would be wise for Apple to use another vehicle as a mode of entry into the
Russian market. In this situation, it would be like sticking a square peg in to a round hole, it just would not work. Apple would be wise to steer clear of this mode of entry and not turn a turnkey into a turkey.
References


