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## **International Expansion of Apis Alba to CIS States: Georgia and Kazakhstan<sup>1</sup>**

In early 2021, Apis Alba, family-owned raw honey producer and distributor in Belarus, was poised to double their production capacity and explore the globalization of its market to expand the business. They had become a significant player in the Belorussian honey market, producing 10,000 kg per month and generating \$325,000 USD in annual revenue in 2020.

However, ongoing socio-political unrest in Belarus stemming from a contested election in 2020 culminated in a well-publicized airline incident in which the Belorussian government was accused of forcing down an Irish airline to detain a political prisoner. The resulting threats of economic sanctions from the West severely weakened the Belorussian economy and reduced the market for consumer goods in Belarus. This both weakened Apis Alba's sales and limited their export opportunities, especially to Western countries.

Owners Olga Gavrilik and husband Dr. Alex Gavrilik knew that to save their business, they would have to determine if Apis Alba was prepared to globalize into markets outside of Belarus. Given the uncertain political climate in Belarus, the potential for tariffs, and concerns of future trade restrictions, they looked to the Commonwealth of Independent States (CIS) countries as new potential markets for Apis Alba. Their challenge was to determine what the target countries should be for expansion, how they would enter that market, and what their strategy would be for long-term growth.

### **Apis Alba Company and Business Model**

Apis Alba, Ltd., was a Belorussian family-owned business co-founded in 2011 by Olga Gavrilik and her husband Dr. Alex Gavrilik (**Exhibit 1**). It was founded in Poreche, the Grodno region of Belarus near the Lithuanian and Polish border (**Exhibit 2**). This region was abundant in natural vegetation and agricultural land that both the national government and UNESCO protected. Apis Alba leveraged these natural resources to produce honey in this historically noted honey-producing region of Belarus. The CEO, Olga, was a honey sensory analysis expert, co-founder of the Belorussian Union of Beekeepers'

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Organizations (“BelapiUnion”) and was an expert in honey production. Olga’s husband and Apis Alba’s co-founder, Alex, was a Ph.D. and surgeon who promoted the medicinal benefits of their honey products.

Apis Alba differentiated from the broader honey market based upon its use of 100% organic raw honey, which was neither filtered nor pasteurized, thus protecting its nutritional value and health benefits. Raw honey contained bioactive compounds called polyphenols that acted as antioxidants. Most commercial products were not raw honey; most products were fully pasteurized to improve handling and shelf life. Apis Alba’s line of medicinally beneficial and unique products included whipped honey which was a unique product that could only be made from natural honey and utilized Apis Alba’s original technology. They also carried specialty honeys that included propolis and bee pollen. Propolis was comprised of plant resin, pollen, oils, balm, enzyme, and wax that had numerous medicinal benefits such as being antibacterial, lowering blood pressure, treating bone disease, allergies, killing cancer cells, protecting teeth, reducing stress, promoting athletic performance, and was an effective wart treatment. Bee pollen decreased inflammation and improved immunity. Apis Alba carried multi- and mono-floral honeys, including meadow raw, forest raw, buckwheat raw as well as other healthy bee products flavored with superfoods such as cinnamon, green matcha tea, turmeric, ginger, and blueberries, turmeric & ginger, green matcha tea, cinnamon, and cranberry.

Men accounted for 42% of purchasers but women accounted for 58% of sales. The largest age group of consumers was 25-34, which accounted for 35% of sales. Overall, Apis Alba targeted health-conscious consumers who favored a holistic approach to medicine.

In comparison to other honey producers and distributors, Apis Alba had several competitive advantages. One advantage was their tangible assets which included protected (not polluted) land for an apiary, mobile apiaries on National Lake Reserve, bees, honey processing facilities, decrystallization chambers, and a laboratory. As for intangible resources, honey production was a high-status industry in Belarus, and they had a well-known brand history. They had expertise in honey production, analysis and medicine which was not easily mimicked. The owners brought their own competitive advantages including medical qualifications and expertise which gave credibility to health claims. Connections through the beekeepers’ union BelapiUnion provided valuable wholesale and retail market information as well as expanded influence.

In comparison to “commercial” honey found in supermarkets that was pasteurized, their honey was 100% raw. Apis Alba’s bee products (bee pollen, propolis drops) and natural production methods would position them uniquely for entry into health food chains. Since Belarus was part of CIS and located close to Central Asia, it would be easier to export products. The owners also had connections and previous experience doing business in the USA, Russia, Georgia, Japan, and Singapore.

Apis Alba’s core competency was in-house production and sales. They had a unique way of producing honey by using low heat, a strong production and quality control process and proprietary technology for producing whipped honey. They also did their own in-house quality control, production of whipped and/or flavored honey as well as propolis and bee pollen. Apis Alba outsourced logistics, quality control, events, marketing research, social projects, and social media marketing. Using a distributor for a new market would not be new for Apis Alba as they had done this in the past.

In 2021, Apis Alba was making \$350,000 in annual revenue from its monthly production of 10 tons (metric) of honey per month and could double production. However, sales in Belarus were declining

alongside the Belorussian economy, meaning that Apis Alba needed to globalize their market to preserve the company. They were interested in an export model by partnering & sharing costs with distribution team in the host country, which would be responsible for promotion of their products. Their only preference was that the partner would position products as nutritional superfoods/medical products. They had the ability to obtain a \$100,000 low-interest loan for export costs to support their expansion initiative. Olga and Alex were interested in Kazakhstan as a market, but open to other possibilities.

Given Apis Alba's many competitive advantages, potential for a low-interest loan, possession of resources required for expansion, a lean operational team with many outsourced functions, unique products that can be easily exported to countries with high demand for these products and decreasing demand for their product in Belarus due to external pressures on the national economy, it was the right time for Apis Alba to globalize into a new market for their product. With the political environment, Apis Alba needed to look to the east for expansion and consider CIS countries.

## Background on the Markets

Of the CIS countries, Moldova, Azerbaijan, Tajikistan, Russia and Ukraine were all removed due to import restrictions, contracting markets for honey, and high competition. That left six countries as viable options for Apis Alba: Armenia, Georgia, Turkmenistan, Kazakhstan, Kyrgyzstan, and Uzbekistan. Of these remaining countries, it was important for Apis Alba to consider key dimensions of a market that deemed it suitable or not (**Exhibit 3**). Based on ease of doing business, GDP Growth Rate, HDI, GNI PPP, and Natural Honey Import Growth, Georgia and Kazakhstan seemed like they could be the desirable markets.

## Kazakhstan Market Analysis

### Kazakhstan Macro-Environment Using PESTEL (**Exhibit 4**)

#### Political

Alongside Belarus, Kazakhstan was a founding member of the Eurasian Economic Union and were well established within many other world organizations. They benefited from having connections within these organizations, but also had to follow the rules for all groups. Kazakhstan's Economic Freedom Score showed that the people of Kazakhstan were more in control of what they want to purchase, own, sell, or invest in compared to people in Belarus. However, there were political concerns. Since the economy's growth was strongly related to political stability, this was a risk. Additionally, Kazakhstan ranked high on the Corruption Perception Index which was much higher than in Belarus. Citizens did not have free and fair elections, which was highly concerning given how much power the president had in Kazakhstan. The political situation created further risk of unfair competition.

#### Economic

Kazakhstan was a favorable market for starting a business. Most of the population in Kazakhstan were Upper-Middle class, indicating a large market opportunity. The country also had focused efforts to lower taxes and tariffs on imported goods and agricultural products. On average it took around 5 days to start a business (**Exhibit 5**)<sup>1</sup>. From 2009 to 2019, the GDP steadily increased and was predicted to continue to grow steadily through 2024 (**Exhibit 6**). Their overall economic climate was thriving and strong, with a

high per capita GDP for the region that was also expected to continue growing (**Exhibit 7**). The exchange rate was favorable for Apis Alba and there were already import relations between Kazakhstan and Belarus, as Belarus was Kazakhstan's 10<sup>th</sup> largest source of imports<sup>2</sup>. Kazakhstan had a drop in natural honey imports in 2019, suggesting that the honey market may have already been saturated<sup>3</sup>. Furthermore, Kazakhstan exported more honey than it imported. Even though the economy was doing rather well, it had a high inflation rate. In addition, there was a tariff on agricultural products and a 20% corporate tax rate in Kazakhstan. Although Kazakhstan had a high ease of starting a business, maintaining a business may have been harder there because the conditions for entrepreneurship, finance, education, entry regulations, internal market burdens, and R&D transfer were rather difficult and lower quality.

The spreads/sweetener market in Kazakhstan was \$468 million USD per year. Since Apis Alba's goal was \$15,000 per month in sales, this meant that they would only need to infiltrate 0.04% of the Kazakh market to reach its goal. However, due to a high uncertainty avoidance in the country<sup>4</sup>, Apis Alba would need to leverage their strong reputation in Belarus to earn trust and respect in Kazakhstan as professionals in the honey, pollen, and propolis industry. Olga's respect would stem from being a professional sommelier meaning she had a refined palate, and Alexander would be highly regarded because of his medical background and part in producing these products.

### Social

Expanding into Kazakhstan would be easy from a social perspective since both countries were former Soviet regions that had many similarities in standards, values, and opinions. However, there were some core differences. For example, the majority citizens in Kazakhstan were followers of Islam. 52% of the country's population were in the age range of 25 to 64, which aligned with the target age range for Apis Alba. While Kazakhstan had a large population at 18.51 million, its growth rate of was small. However, only 4.3% of people in Kazakhstan lived below the poverty line in 2019. Selling, advertising and educating would be hard in Kazakhstan since 45% of the population lived in rural areas.

The GNI Index of income equality was 0.772 in 2019 and had been rising, showing an increasing income inequality and contracting middle class<sup>5</sup>. From 2016 through 2019, consumer spending steadily declined, potentially explaining the decrease in consumption and importation of natural honey in Kazakhstan observed from 2018 to 2019. The grocery retail market was very mature and well established. There were mostly "big-name" chain retailers from other countries. These hypermarkets were large chains that competed on cost and were not well-matched to Apis Alba's vision of product placement in specialty health-foods stores.

### Technological

Kazakhstan had a well-developed road and rail infrastructure, which could facilitate ease of exportation to Kazakhstan. In 2019, almost 82% of the country had access to the internet, creating easy advertising opportunities for Apis Alba<sup>6</sup>. However, the government of Kazakhstan monitored and filtered the Internet. Alongside corruption issues, this presented a pathway for established competition to limit Apis Alba's market exposure in Kazakhstan.

### Environmental

Kazakhstan had high pollution and radiation emissions. These came from nuclear tests as well as farming for oil, oil products, natural gas, and other metals. This reduced Apis Alba's local competition for

providing healthy agricultural products while increasing the local demand for health products. Kazakhstan bordered both China and Russia and received many imports from these countries. This meant Apis Alba would be competing with big brand names from Chinese and Russian companies. However, these imports were typically lower quality and competed on cost, as opposed to Apis Alba's value-added products that competed on quality.

### Legal

Kazakhstan used a civil law legal system, similar to Belarus, making it easier for Apis Alba to navigate and settle disputes within Kazakhstan. To combat endemic corruption, Kazakhstan was working towards modernizing their judicial system to include an independent judiciary. Kazakhstan ranked as #4 in the world for ease of enforcing contracts<sup>7</sup>. They were better than average with enforcing property rights and had been working to improve property rights since 2009. While Kazakhstan had strict regulations for importing agricultural products, there was some preferential treatment for fellow CIS countries of origin, such as Belarus. Furthermore, Kazakhstan followed the same "Conformity Assessment" issued by the International Laboratory Accreditation Cooperation that Belarus used for certifying goods coming into the country, suggesting ease of export to Kazakhstan<sup>8</sup>. However, exporting to Kazakhstan required a 12% value-added tax payment in addition to all customs duties and excise taxes at the time of customs clearance. High corruption could be a barrier when exporting to Kazakhstan, as 17% of public service users were paid a bribe in 2019<sup>9</sup>.

### **Industry and Competition Analysis in Kazakhstan**

Kazakhstan's culture of honey consumption among the youth (18-30 years) was less developed than in other comparable countries, estimated at 40-50 grams of honey per year per citizen. However, honey consumption among young people had begun to increase, as honey was a valuable dietary product. In the following years, promoting a healthy lifestyle would only increase, boosting the demand for environmentally friendly and healthy foods, like honey. Natural honey imports were \$389,000 in 2018 (with a 12.1% annual growth)<sup>10</sup>, while Apis Alba's goal was \$180,000 per year in sales. This would be 46.3% of the 2018 Kazak market. However, imports dropped to \$346,000 in 2019, suggesting that the market for imported natural honey may have already been saturated.

Kazakhstan had a national union of beekeepers called Bal-Ara that helped to support funding and subsidies for beekeeping in Kazakhstan. Thus, Kazakhstan was experiencing a surge in beekeeping, however locally produced honey was lower in quality than Apis Alba. Kazakhstan also borders China, which was the largest consumer of honey in the world and exporting demand from China had been growing since 2017<sup>11</sup>. However, when examining exports to China, quantity was valued over quality.

Apis Alba would face substantial competition in Kazakhstan. Numerous established suppliers like Balmira, Kuralay, and Asar International would be a challenge to overcome. Additionally, Apis Alba would compete against "Kazakh Honey," a Pucha company looking to expand into CIS Countries. Meanwhile, Pchela, a manufacturer and exporter, would also be a pivotal player to go against in the country. Apis Alba's biggest challenge would be the Russian giant Tentorium, which also produced high quality bee-derived products with a focus on their health benefits. A particular issue in Kazakhstan would be government corruption: any of these established players had the means, motive and opportunity to bribe corrupt government officials to erect artificial barriers to entry, particularly administrative barriers, against Apis Alba. In order to ensure profitability in this space, Apis Alba would have to position their product as a low-cost, high-quality alternative to existing products, thus reducing

rivalry with existing low-quality players. Apis Alba's supplies in Belarus are protected, limiting supplier bargaining power, while the environmental issues in Kazakhstan limited the potential for new local high-quality entrants or substitute products. Profitability would be reduced by offering high quality at low price. The more that Apis Alba was able to reduce bargaining power of buyers by differentiating their product from Tentorium, the more profitable they could be in the area. The best way to do this would be with their unique whipped honey, which was not a common product and therefore buyers would not have numerous alternatives. Additionally, a targeted marketing campaign could result in a boom in certain regions. It would be essential for Apis Alba to secure ample distribution channels to ensure enough supply reaches consumers.

## **Potential Partner Analysis in Kazakhstan**

Kazakhstan presented an abundance of partnership opportunities for Apis Alba. Notably, Procter and Gamble who operated a Distribution Subsidiary which could help Apis Alba distribute within the country and neighboring nations in the future. LLP Djufri Central Asia distributed various products like Jim Beam Honey and Milk Chocolate Coffets with honey, providing diversification opportunities. LLP Capital Fruit distributed fresh apples and box-grade honey, providing additional opportunities<sup>12</sup>. Selection of a reliable partner in Kazakhstan would be particularly important, as Apis Alba expected their distribution partner to help generate demand for their product, navigate the import process in a fairly corrupt country and act in Apis Alba's best interest.

## **Financial Analysis for Kazakhstan**

Apis Alba's monthly sales revenue, monthly cost of goods sold, and monthly gross revenue is outlined in **Exhibit 8**. The goal was to increase sales through global export by \$10,000 USD per month in the first three months, then by \$15,000 per month by month four of export. Based on production, Apis Alba was roughly selling whipped, raw and propolis honey at the prices outlined in **Exhibit 9**. The exhibit also demonstrates how Apis Alba honey was priced competitively to the large honey firm Tentorium. To be successful in the Kazakh market, which was \$468 million USD per year, Apis Alba would need to infiltrate at least 0.04% of the Kazakh market to reach its goal of \$15,000 per month in sales.

## **Georgia Market Analysis**

### **Georgia Macro-Environment Using PESTEL (Exhibit 10)**

#### Political

Georgia was ranked as the 6th most accessible country in the world to do business, a key consideration for entering a market. As a small company without a legal team, Apis Alba would be vulnerable to established companies utilizing a corrupt government to erect barriers to entry. However, Apis Alba would not face this issue in Georgia which is recognized as a leader in fighting corruption. Georgia was a democracy, was rated as "stable" by credit agencies, and was ranked #16 in the world in economic freedom. Georgia exempted corporate profits from taxation and possessed a particularly inviting political situation for market entry by Apis Alba. Georgia also shared a reasonably porous border with Turkey, which was a globally significant consumer of honey and a recognized intermediary for maneuvering around trade barriers to enable exportation of Belorussian goods to the United States and

other wealthy Western markets. Georgia was planning to apply for EU membership in 2024, which would have significant implications for the potential Belarus-Georgia-Turkey-West route that currently enabled avoidance of trade barriers for Belorussian countries. These favorable political opportunities were balanced against a few minor threats, such as low relative political stability (even though Georgia was “stable,” it is only the 134th most stable country in the world), a listing of “partly free” from Freedom House, which may have been limiting economic growth and non-membership in key economic organizations of which Belarus was party to, such as the EEU, ACD and ECO.

### Economic

In line with political considerations, the Georgian government encouraged entrepreneurship through mechanisms that encouraged market entry, such as simplified regulations, lowered taxes, and an encouraged free market. Its ease of enforcing contracts and obtaining credit was better than much of Eastern Europe. It was easier to import goods into Georgia than in other countries in the region (**Exhibit 11**). Georgia was increasingly reliant on imported goods from outside of Russia and saw its imports of merchandise increase by 20% since 2012, with 15% of that being agricultural products, both higher than the regional average. Belarusian companies were encouraged to trade with Georgia given a favorable exchange rate. Georgia was also a growing market with stable GDP growth over the past decade and a projected growth rate of 4.2% through 2024, beating regional averages (**Exhibit 12**). It would be significantly easier to start a business in Georgia and import goods into Georgia compared to the regional average (**Exhibit 13**). Natural honey imports were growing exceptionally fast, increasing 170.6% from 2017 to 2018, suggesting an unmet demand for natural honey in Georgia which Apis Alba could help fill. However, these impressive growth rates were tempered by a low GDP per capita compared to the Eastern European average (**Exhibit 14**). Additionally, natural honey imports in Georgia were only \$46,000 in 2018. Part of the reason the Georgian government was doing so much to encourage entrepreneurship is because FDI had not recovered since the armed conflict with Russia in 2008. As a result, Georgia had high unemployment, low PPP per capita, and a low GNI, all of which limited its market opportunities. Georgian inflation rates were among the highest globally, presenting a significant risk of holding Georgian Lari from sales in the country. Although Tariffs in Georgia were falling, natural honey imports had a 12% tariff which was the highest level amongst agricultural product imports. Georgia also required all companies to pay 2% of their employee’s salary towards a pension fund, however this would have been a relatively minor expense in this low-wage country.

### Social

Georgia was a CIS country that was culturally similar to Belarus. Although Georgia was a small market with a population of only 3.7 million and a slightly declining growth rate of in 2019, the social aspects of Georgia were overall favorable for Apis Alba. For example, 41% of the population was between the ages of 25 and 54, which fell within Apis Alba’s core market. Furthermore, Georgia was urbanizing, with over half of the population concentrated in cities in the central valley around Tbilisi or along the Black Sea Coast. This concentration of population would limit distribution and marketing costs for Apis Alba to enter the market and would reduce competition from Georgian honey producers, who would also have to transport their products to the cities. Although 19.5% of the population lived below the poverty line, the GNI Index of income equality had been decreasing, suggesting an expansion of the middle class. Georgia had a relatively high HDI of 0.786 which was vital for selling a medicinally beneficial “lifestyle” (non-essential) product. Furthermore, consumers in Georgia were the biggest regional spenders on food and beverages. While Apis Alba’s owners believed that the honey market in Georgia was small, consumption and importation of natural honey increased by 170.6% from 2017 to

2018, suggesting a significant unmet demand for imported natural honey. Most importantly, Georgia shared a porous border with Turkey, a major honey consumer. Georgian honey distributors often sold to Turkish honey smugglers, who brought products into Turkey to avoid Turkish tariffs on CIS honey. Thus, the official statistics on Georgian honey consumption dramatically underestimate demand for natural honey in the region due to this significant black-market demand.

### Technological

Given the state of technology in Georgia, it would be somewhat difficult to educate consumers on Apis Alba's products to create demand, as less than half of the population used cell phones and only 64% used the internet. This limited opportunities for advertisement, despite the introduction of 5G internet and a lack of government censorship of the internet. Apis Alba would largely have to rely on word-of-mouth and more traditional methods of advertisement, rather than the internet to reach the entire population. These risks were significantly mitigated by the fact that Apis Alba's target consumers (health-conscious middle-class adults with some disposable income) were the most likely section of the population to utilize the internet.

### Environmental

Georgia's air, water and soil pollution issues, alongside forest destruction and biodiversity loss presented an opportunity for Apis Alba in that these factors limited both the quality and quantity of local honey production in Georgia. Although there was some risk of political instability, the risk was low and Apis Alba had experience operating in a country with political instability. The key environmental factor for Georgia was its geography. Most Georgians lived within the central valley around the capital, allowing Apis Alba to concentrate its limited marketing and distribution resources in a small area. Even more importantly, Georgia was a central regional transportation hub. Selling in Georgia would be a key stepping-stone to other countries in the region, particularly the comparatively rich, large honey market of Turkey. Georgia was the gateway to selling Belorussian honey to the West.

### Legal

Apis Alba was a small company without its own legal team, so they would have been best suited to deal with a country where navigating the legal system was straightforward and fair. Like Belarus, Georgia used a civil law system, which was easier to navigate than common law. Georgia had been cracking down on corruption since 2004 and had a very low rate of bribery, with only 4% of public service users paying a bribe in 2019. Unfortunately, Georgia did not have a strong record on property rights, so Apis Alba would risk other people mimicking their product's labeling. In addition, settling property disputes and navigating the business environment could be difficult in Georgia given a lack of judicial independence, inefficient municipal decision-making and selective enforcement of economic laws. Exports to Georgia Apis Alba had to be labeled in Georgian.

## **Industry and Competition Analysis in Georgia<sup>13</sup>**

Georgian beekeepers annually produced approximately 3-4,000 tons of honey (**Exhibit 15**). The majority harvested honey around twice a year and owned an average of 50 hives. Georgians generally relied on their family to sell honey within their local towns. Turkish smugglers often bought Georgian chestnut honey and sold it for a high price in Turkey. Georgia had established the Residue Monitoring Plan for quality control on honey<sup>14</sup>. The State Program to Support Beekeeping Agricultural Co-operatives



(2015 through 2017) was created to improve the technical base of agricultural beekeeping cooperatives and increased the quantity and quality of honey and beekeeping products. Participants of this program received the following: beehives, a honey extractor, honey storage tanks, a honeycomb uncapping electric knife, a tank for uncapped honeycomb, and a DC Power converter from 220 V to 12 V.

Georgia had made progress in the honey sector by developing regulations such as the RMP and enlisting the country in the EU third country list as well as accrediting laboratories and supporting agricultural beekeeping cooperatives<sup>15</sup>. Almost 76% of honey consumers bought from relatives and acquaintances as trust was a main factor when purchasing. Private and direct contacts in cities were vital for beekeepers to sell honey in the local market. The second way of selling was agricultural markets and local intermediaries. Only a select number of beekeepers sold to honey processing facilities due to low profits. Most processing plants had their own apiaries.

Natural honey imports were \$46,000 in 2018, representing 170.6% annual growth over 2017<sup>16</sup>. Apis Alba's goal was to sell \$180,000/year, which would be 3.9X that of the 2018 Georgian market. Assuming constant linear growth of 170.6%, the market would be \$2,466,431 in 2022, so their goal would be 7.2% of that market. Of course, that growth could be unsustainable, but it did indicate a trend towards more imports of natural honey which Apis could help drive.

As in Kazakhstan, Apis Alba would face healthy competition in the Georgian honey market. Three honey processing factories would immediately challenge the Belarusian company: Matchakhela, Nena, and Imperveti<sup>17</sup>. These local companies would likely compete on cost, while Tentorium Wellness, a large Russian manufacturer of multiple bee products (lotions, cosmetics, and oral care in addition to honey) would compete with Apis Alba on medical benefits and quality<sup>18</sup>. As in Kazakhstan, Apis Alba would have to position their product as a low-cost, high-quality alternative to existing products, thus reducing rivalry with existing low-quality players. Apis Alba's supplies in Belarus were protected, limiting supplier bargaining power, while the environmental issues in Georgia limited the potential for new local high-quality entrants or substitute products. Profitability would be reduced by offering high quality at low price. The more that Apis Alba would be able to reduce bargaining power of buyers by differentiating their product from Tentorium, the more profitable they could be in the area. The best way to do this could have been with their unique whipped honey, which was not a common product and therefore buyers would not have numerous alternatives. The concentration of the Georgian population in small urban areas would allow for economically targeted marketing in these areas which could contribute to increasing demand for Apis Alba's unique products and reducing buyer bargaining power. A critical difference in the Georgian market compared to Kazakhstan was the reduced possibility for established players in the Georgian honey industry to limit the threat of new entrants (Apis Alba) by utilizing a corrupt government to erect artificial barriers to entry.

## **Potential Partner Analysis in Georgia**

It would be essential for Apis Alba to form partnerships to compete against the established players and distribute its honey products in Georgia. Partnering with IFC Georgia Agribusiness Competitiveness Project<sup>19</sup> would provide Apis Alba with valuable industry insights and position it as a cooperative and involved player. Additionally, Agro Keda and Agro Factory could become valuable exporting partners down the road as Apis Alba looked towards Turkey and other markets. Apis Alba would likewise want to leverage their network of beekeepers to find a reliable distribution partner in Georgia.

## Financial Analysis for Georgia

With Apis Alba's growing need to export, it is important to understand that Georgia's honey import growth had significantly increased in several years leading up to this decision. In 2019, imports increased 170.6% from 2018. Georgia imported 21.1 tonnes of honey in 2017, while they only exported 0.7 tonnes (**Exhibit 16**). Georgia's sweeteners and spreads market was only \$32M USD per year. Apis Alba would be able to capture a larger market share within Georgia based on their monthly sales plan outlined in **Exhibit 8**, expanding their brand awareness in a market less saturated by honey products such as Kazakhstan.

Not only were the opportunities increasing in Georgia, but Georgia's average market price for honey (**Exhibit 9**) aligned well with the prices calculated for Apis Alba's products (**Exhibit 8**). When examining Apis Alba's prices compared to the Georgian company Nena (**Exhibit 9**), Apis Alba prices were already competitively set for the country of Georgia. These results, coupled with Georgia's ease of doing business as outlined in the economic assessment of the country, made Georgia a prime market for natural honey imports. Apis Alba would be able to compete with local producers on quality given their superior quality control and protected natural resources, while they will be able to compete with Tentorium on price. While this rivalry would drive down overall industry profitability to a degree, Apis Alba's prices were so much lower than Tentorium that it was still a significant profit opportunity for Apis Alba.

## Stakeholder position to the challenge

The owners of Apis Alba were committed to the natural manufacturing and production of their honey to distribute its nutritional benefits to their consumers. They believed that their products were unique to the honey industry and well-suited for sale in CIS countries, given that they were organically and naturally produced, and did not undergo alterations that extract the honey's nutritional components. Apis Alba saw CIS countries as uninterested in processed foods and their people more interested in purchasing natural products. To this end, Apis Alba was interested in exporting their raw honey and other unique products such as whipped honey, propolis honey, bee pollen, and honey flavored with other superfoods such as cinnamon green matcha tea, turmeric, ginger, and blueberries and positioning its products as natural superfoods. Upon entering a new market, Apis Alba aimed to generate a sales revenue of \$10,000 over the first three months and then \$15,000 per month after that. Depending on sales volumes, they were prepared to double production to 20,000 kg per month. Apis Alba intended to partner with a local distributor to share the costs of entering a new market and they preferred an export-based sales model. They would continue to outsource logistics, events, quality control, marketing, social projects, and social media marketing while keeping an internal focus on sales and their core competency, production. Ultimately, Apis Alba wanted to see their product for sale in three retail and specialist health food chains. Apis Alba had connections and experience with markets around the globe, including in the USA, Russia, Georgia, Japan, and Singapore. In their global expansion consideration, they were particularly interested in the large and relatively wealthy Kazakhstan market, where they had contacts with existing distributors who sold Belarussian products. However, they were also interested in the Georgian market, and recognized this could be a passageway to further expansion.

## **Decision to Make**

As 2021 continued, Olga and Alex needed to decide which way to move. Both Kazakhstan and Georgia were viable options in their consideration to expand into a new market, but which country would be the best choice? Olga and Alex would need to weigh the strengths and opportunities against their own competencies to find the best match for Apis Alba as they moved forward.

# Appendix of Exhibits

Exhibit 1: Apis Alba, LTD



Exhibit 2: Political map of CIS countries



Source: <http://www.russiamap.org/map.php?map=political-cis>

Exhibit 3: Heat map of suitability of selected CIS countries as a market for Apis Alba

	Armenia	Georgia	Turkmenistan	Kazakhstan	Kyrgyzstan	Uzbekistan
<b>Ease of doing business</b> <sup>20</sup>	47	7	No Data	25	80	69
<b>GDP Growth Rate</b>	7.6%	5.0%	6.2% (2018 data)	4.5%	4.5%	5.6%
<b>HDI</b> <sup>21</sup>	0.776	0.812	0.715	0.825	0.697	0.720
<b>GNI PPP (2019)</b> (in billions)	\$42.8	\$56.8	No Data	\$445.8	\$32.83	\$249.1
<b>Natural Honey Production Growth</b> <sup>22</sup> 2018-2019	2%	-1%	-7%	1%	-0.8%	4.5%
<b>Natural Honey Import Growth</b> <sup>23</sup> 2018-2019	-24.1%	170.6%	-91.7%	12.1%	-7.1%	10.9%

**Exhibit 4: Kazakhstan PESTEL analysis**<sup>24-43</sup>

Kazakhstan	Opportunities	Threats
Political	<ul style="list-style-type: none"> <li>Founding member of the Eurasian Economic Union (EEU, alongside Belarus)</li> <li>Part of: Asia Cooperation Dialogue (ACD), Commonwealth of Independent States (CIS), Economic Cooperation Organization (ECO), International Monetary Fund (IMF), United Nations (UN), and Organization for Security and Cooperation in Europe (OSCE)</li> <li>Economic freedom score of 71.1 (#34 globally)</li> <li>Credit agencies generally rate Kazakhstan as “stable”</li> </ul>	<ul style="list-style-type: none"> <li>Political stability score of -0.08</li> <li>Rank 94 on Corruption perceptions index (score of 38), compared to rank of 63 for Belarus (score of 47)</li> <li>Although nominally a democracy, the office of president is very powerful and the previous one served for 28 years. In 2020 Freedom House rated Kazakhstan as a “consolidated authoritarian regime” which does not have free and fair elections</li> </ul>
Economic	<ul style="list-style-type: none"> <li>Upper middle-income country, GDP per capita is \$8,733, which is high for the region and projects strong growth through 2026 (<b>Exhibit 7</b>)</li> <li>Good GDP growth (<b>Exhibits 6, 7, and 20</b>)</li> <li>4.5% overall stable growth rate from 2009-2019</li> <li>Projected 3.2% growth rate from 2020 through 2024</li> <li>PPP per Capita of USD 24,080 in 2019</li> </ul>	<ul style="list-style-type: none"> <li>10.6% Tariff on agricultural products</li> <li>20% corporate tax rate</li> <li>Natural honey imports dropped to \$346,000 in 2019, potentially suggesting market saturation</li> <li>Exports more honey than it imports</li> <li>Very high inflation rate of 6.8%</li> </ul>

	<ul style="list-style-type: none"> <li>• Low unemployment of 4.6% and on the decline in 2019</li> <li>• \$389,000 in natural honey imports in 2018</li> <li>• Tariffs on agricultural products reduced from 16.7% to 7.6% in 2020</li> <li>• Ease of doing business ranking #25 according to the World Bank</li> <li>• Time needed to start a business: 5.0 days (<b>Exhibit 5</b>)</li> <li>• Time needed to import: 5.5 hours (<b>Exhibit 5</b>)</li> <li>• Very favorable exchange rate with 1 Belarusian Ruble equating to 172.18 Kazakhstani Tenge</li> <li>• Belarus is Kazakhstan's 10<sup>th</sup> largest source of imports (\$654 million in 2019, 1.7% of all imports)</li> <li>• Government working to improve investment climate and increase FDI</li> </ul>	
Social	<ul style="list-style-type: none"> <li>• Spreads/sweeteners is \$468 million/year, their goal is \$15,000/month (0.04% of market)</li> <li>• Scored 88 in Uncertainty Avoidance (Hofstede) (<b>Exhibit 19</b>)</li> <li>• CIS/former Soviet country that is culturally aligned with Belarus</li> <li>• 52% of population is of ages 25-64 (target ages)</li> <li>• Large population of 18.51 million</li> <li>• Only 4.3% of the population lives below the poverty line</li> </ul>	<ul style="list-style-type: none"> <li>• Small population growth rate of 1.3%</li> <li>• 45% of population lives in rural areas spread out across a very large country</li> <li>• Majority Muslim country (70%) with some cultural differences from Belarus based on religious differences</li> <li>• GNI Index of income equality is 0.772 (2019) and has been rising, indicating increasing income inequality and contracting middle class (Credit Suisse)</li> <li>• Consumer spending has been decreasing every year between 2016 and 2019</li> <li>• Decreasing consumption/importation of natural honey</li> <li>• Retail market is mature – well established “big-name” retailers</li> <li>• Grocery stores are typically large chains (hypermarkets)</li> </ul>
Technological	<ul style="list-style-type: none"> <li>• 81.90% Internet penetration (2019)</li> <li>• 12.33M cell phone users (67% of population, Belarus is 70%)</li> <li>• Well-developed road and rail infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• Internet is monitored and filtered by the government; competitors could bribe corrupt government officials to direct traffic away from Apis Alba's platforms</li> </ul>
Environmental	<ul style="list-style-type: none"> <li>• High pollution and radiation emissions potentially limit quality of locally produced honey</li> <li>• Need and demand for natural products with health benefits</li> </ul>	<ul style="list-style-type: none"> <li>• Proximity to China and Russia opens up major source of competition</li> <li>• Political stability index of -0.08 (100<sup>th</sup> ranked country)</li> </ul>
Legal	<ul style="list-style-type: none"> <li>• Uses a civil Law legal system, which is easier for a small company to navigate and settle disputes</li> </ul>	<ul style="list-style-type: none"> <li>• Imported goods are highly and strictly regulated</li> <li>• Kazakhstan charges a 12% value-added tax paid to in addition to all customs</li> </ul>

	<ul style="list-style-type: none"> <li>• Ease of enforcing contracts score 81.3 (#4 in the world)</li> <li>• Better than average and improving property rights, with a score of 61 in 2020 compared to a worldwide average of 57</li> <li>• Moving towards an independent/modernized judiciary system</li> <li>• Kazakhstan uses “Conformity Assessment” issued by International Laboratory Accreditation Cooperation (O)</li> </ul>	<ul style="list-style-type: none"> <li>• duties and excise taxes at the time of customs clearance</li> <li>• Significant corruption, ranked 94 on Transparency.org’s corruption index, with a 17% of public service users paying a bribe in the last 12 months</li> <li>• Imported products must be labeled in both Kazakh and Russian</li> </ul>
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**Exhibit 5:** Time to start a business in and import goods into Kazakhstan compared to the regional average



Exhibit 6: Kazakhstan Real GDP in USD

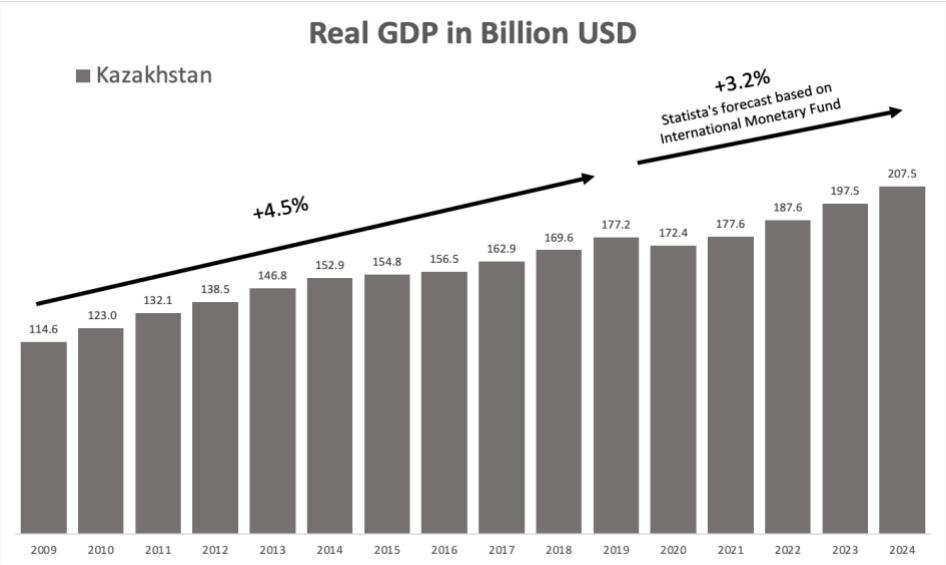


Exhibit 7: Kazakhstan's GDP per Capita in USD and 5-Year Predictions

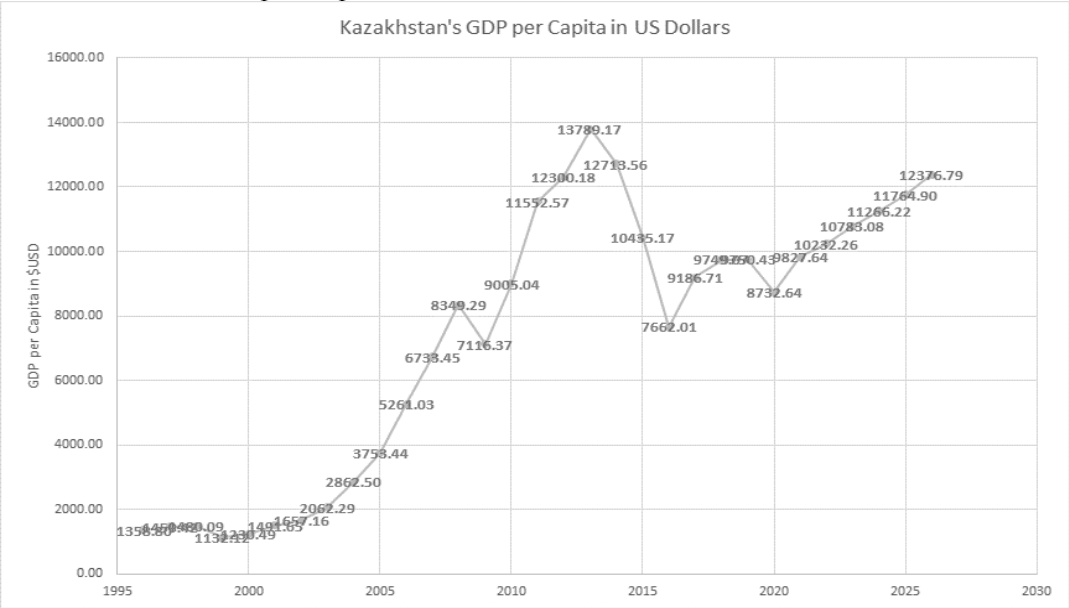


Exhibit 8: Apis Alba monthly gross margin currently and in the next 4 months

	Current	Month 1	Month 2	Month 3	Month 4
Monthly Production in kg	10,000	10,000	10,000	10,000	10,000
Monthly Sales Revenue	\$ 325,000.00	\$ 335,000.00	\$ 335,000.00	\$ 335,000.00	\$ 340,000.00
COGS per 10,000 kg	\$ 7,500.00	\$ 7,500.00	\$ 7,500.00	\$ 7,500.00	\$ 7,500.00
Monthly Gross Margin	\$ 317,500.00	\$ 327,500.00	\$ 327,500.00	\$ 327,500.00	\$ 332,500.00



**Exhibit 9:** Product prices of Apis Alba compared to Tentorium and Nena

	Rough Price of Apis Alba Products	Average Price of Tentorium Products	Average Price of Nena Products
Whipped Honey	\$ 6.35	n/a	n/a
Raw Honey	\$ 19.81	\$ 30.00	\$ 27.00
Propolis Honey	\$ 12.38	\$ 25.00	n/a
Bee Pollen and Honey with Bee Pollen	\$ 3.18	\$ 23.00	n/a

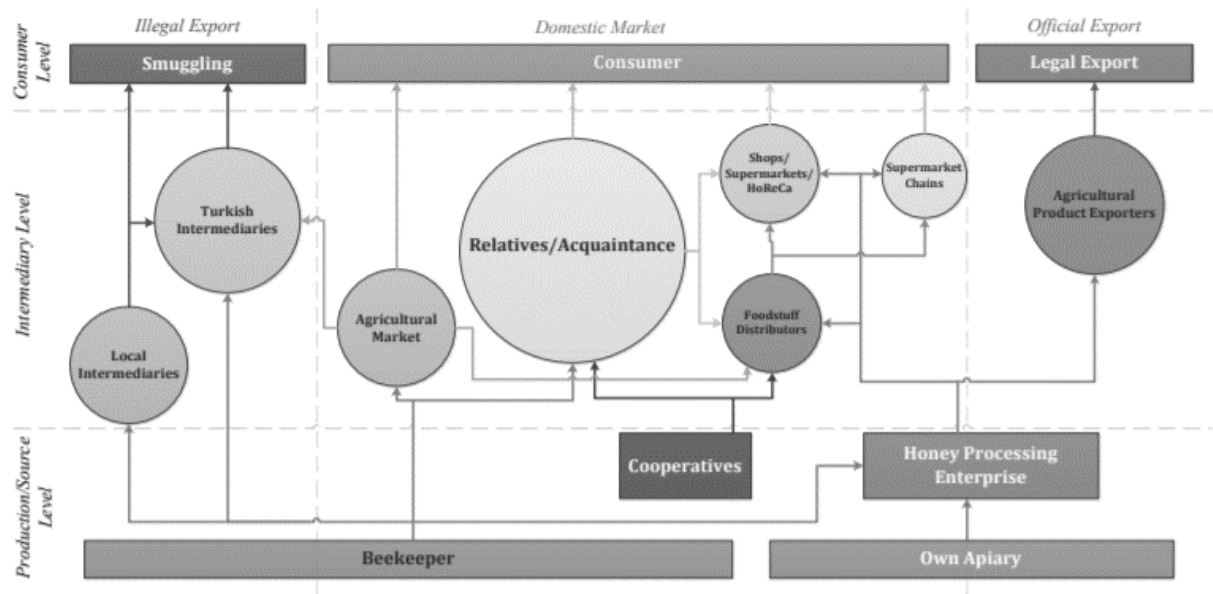
**Exhibit 10:** Georgia PESTEL Analysis <sup>44-54</sup>

Georgia	Opportunities	Threats
Political	<ul style="list-style-type: none"> <li>• Low corruption rank of 45 (score of 56) on transparency.org's corruption perception index, which is the lowest in the region and the government is active engaged in fighting corruption with World Bank recognizing Georgia as one of the fastest reforming economies and a leader in fighting corruption</li> <li>• A democracy, which is a government type conducive to growing businesses. Georgia is a semi-presidential republic with generally peaceful transitions of power since 2004 and limited armed conflict since 2008</li> <li>• Ranked #6 in the world in ease of doing business (World Bank)</li> <li>• Ranked #16 in the world in economic freedom (Agenda.GE)</li> <li>• Major credit rating agencies generally rate Georgia as "stable"</li> <li>• Retained corporate profits are exempt from taxation</li> <li>• Shares a border with Turkey, which is itself a globally significant consumer of honey and is a potential intermediary for maneuvering around trade barriers to export to the United States and other wealthy Western Markets</li> <li>• Member of IS, IMF, UN, OSCE</li> </ul>	<ul style="list-style-type: none"> <li>• Political stability rank of 134 (-0.45)</li> <li>• Freedom House lists Georgia as only partly free</li> <li>• Applying for EU membership in 2024</li> <li>• Not a member of EEU, ACD, ECO</li> </ul>
Economic	<ul style="list-style-type: none"> <li>• Relatively high rate of GDP growth (<b>Exhibit 12 and 21</b>)</li> <li>• 4.8% overall stable growth rate from 2009-2019</li> </ul>	<ul style="list-style-type: none"> <li>• Natural honey imports I n2018 were only \$46,000 USD and face a 12% tariff</li> </ul>

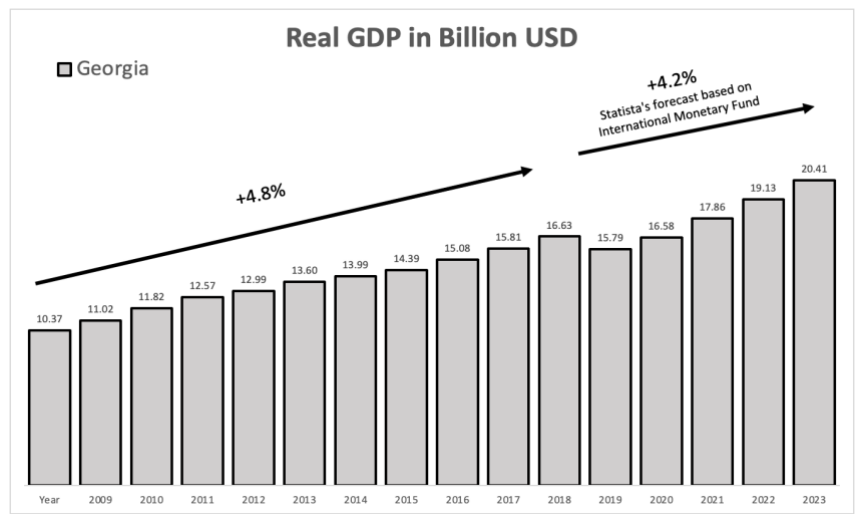
	<ul style="list-style-type: none"> <li>• Projected growth rate of 4.2% from 2020 through 2024</li> <li>• Higher than the average in Eastern Europe</li> <li>• Imports of merchandise have increased by 20% since 2012, a higher rate than the regional average</li> <li>• Agricultural products account for 15% of merchandise imports, a higher rate than the regional average</li> <li>• Favorable exchange rate with 1 Belarussian Ruble equaling 1.27 Georgian Lari</li> <li>• Significantly easier to start a business in Georgia and import goods into Georgia compared to the regional average <b>(Exhibit 13)</b></li> <li>• Ease of enforcing contracts and getting credit is better than much of Eastern Europe</li> <li>• Increasingly reliant on non-Russian imports</li> <li>• Government is encouraging entrepreneurship by simplifying regulations; improving education; lowering taxes to attract FDI; encouraging free market; and encouraging free trade/travel with EU</li> <li>• Not a notable producer of honey (limited local competition)</li> <li>• Natural honey imports grew 170.6% in 2018</li> <li>• \$409M USD in pharmaceutical product imports in 2019 (4.3% of all imports)</li> </ul>	<ul style="list-style-type: none"> <li>• GDP per capita is below Eastern European average at \$4,159 USD (Easter European Average = \$6,2000 USD)</li> <li>• FDI has not recovered since conflict with Russia in 2008</li> <li>• High unemployment (30% of 15-24 age group; 11.8% overall)</li> <li>• Low PPP per capita (IMF 2021 estimate: \$15,709 USD) (World Bank 2019 Data: \$15,656 USD) (CIA 2019 Data: \$14,992 USD)</li> <li>• Very high inflation rates (ranging 2.6-6%, rank is 179)</li> <li>• Low GNI of USD 56.79 billion in PPP Dollars (2019)</li> <li>• Belarus is not a top 10 import partner for Georgia, and agricultural products are not a top 10 imported commodity</li> <li>• Employers are required to pay 2% of employee salaries to a pension</li> </ul>
Social	<ul style="list-style-type: none"> <li>• 41% of the population is between the ages of 25 and 54, within Apis Alba's core market</li> <li>• 60% and growing urban population, which is concentrated in the central valley around the capital city (Tbilisi) with some cities along the Black Sea Coast</li> <li>• CIS/former Soviet country that is culturally similar to Belarus</li> <li>• GNI Index of income equality is 0.687 (2019) and has been dropping indicating increasing income equality and an expanding middle class (Credit Suisse)</li> <li>• HDI of 0.786 ranks #70 of 189 countries</li> <li>• Consumers in Georgia spend the most in the area of food and nonalcoholic beverages</li> </ul>	<ul style="list-style-type: none"> <li>• Low and shrinking population of 3.72 million with a population growth rate of 0.2% in 2019</li> <li>• 19.5% of the population lives below the poverty line</li> <li>• Low per capita spending of USD 2,827 per year compared to USD 3,290 in Belarus</li> <li>• Apis Alba owners report the honey market is small</li> </ul>

	<ul style="list-style-type: none"> <li>• \$8 per month minimum wage and high unemployment means inexpensive labor</li> <li>• Increasing consumption/importation of natural honey, which was up by 180.5% in 2018</li> <li>• Porous border with Turkey results in purchase of honey in Georgia by Turkish smugglers to bring into Turkey</li> </ul>	
Technological	<ul style="list-style-type: none"> <li>• Internet is largely unrestricted (free of state censorship)</li> <li>• 5G internet is being introduced</li> </ul>	<ul style="list-style-type: none"> <li>• Only 2.37 million cell phone users in Georgia as of 2020 (49% of population), compared to 6.64 million in Belarus (70% of population)</li> <li>• Additional infrastructure such as information technology systems and software are needed to support new business growth</li> <li>• Only 64.1% of the population have used the Internet in the last 3 month</li> </ul>
Environmental	<ul style="list-style-type: none"> <li>• Not an ideal location to produce honey due to the country facing air, water and soil pollution as well as forest degradation and biodiversity loss</li> <li>• Georgia's central location makes it a key transportation hub. The route to Georgia is overland through Russia or through Ukraine and then via the Black Sea to Georgia</li> <li>• Member to International Council on Clean Transportation</li> </ul>	<ul style="list-style-type: none"> <li>• Political stability rank of 134 (-0.45)</li> </ul>
Legal	<ul style="list-style-type: none"> <li>• Like Belarus, Georgia uses a civil law system which is easier for a small company to navigate and settle disputes</li> <li>• Low bribery ranking, only 28<sup>th</sup> on the TRACE bribery matrix out of 194 countries with only 4% of public service users paying a bribe in the last 12 months</li> <li>• Government has cracked down on corruption since 2004 (CIA world factbook)</li> </ul>	<ul style="list-style-type: none"> <li>• Poor record on property rights, which are middling and going backwards, particularly poor on IP rights</li> <li>• Lack of judicial independence, inefficient municipal decision making, selective enforcement of economic laws</li> <li>• Products must be labeled in Georgian</li> </ul>

**Exhibit 11:** Georgian Honey Export Strategic Flow. From: Sourced from the Alliances Caucasus Program’s Projects for the Export of Georgian Honey



**Exhibit 12:** Georgia Real GDP in USD




**Exhibit 13:** Time to start a business in and import goods into Georgia compared to the regional average


## It takes 1 day to start a business in Georgia compared to the regional average of 9 days

Business environment: administrative framework

### Business administration in 2019

	Time needed to start a business <sup>1</sup>	Time needed to register property	Time needed to fulfill tax requirements	Time needed to resolve insolvency <sup>2</sup>
 Georgia	1.0 days	1.0 days	216.0 hours	2.0 years
Eastern Europe	9.0 days	9.6 days	231.4 hours	2.4 years

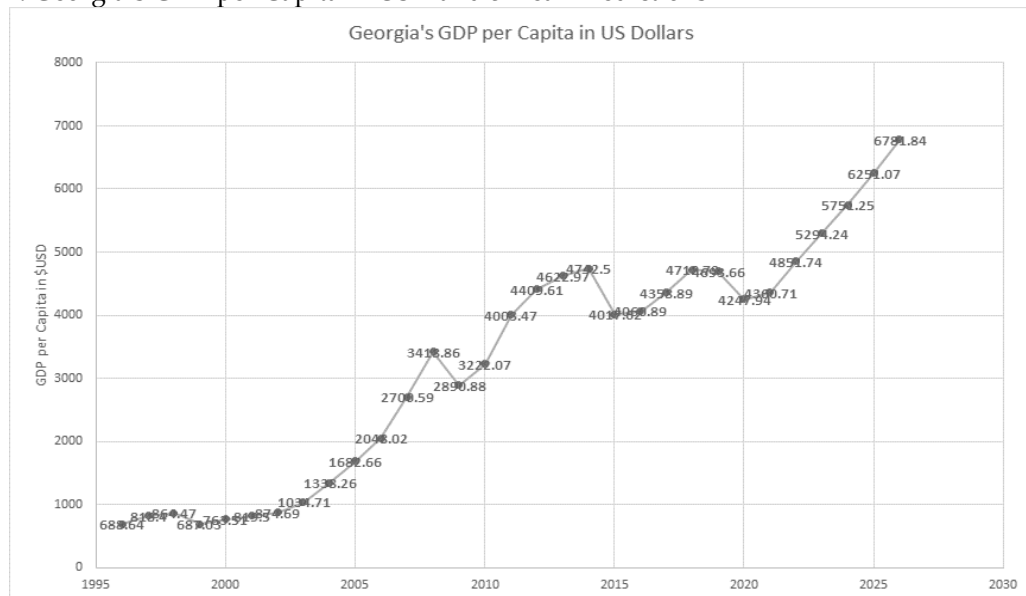
### Delivery in 2019

	Time needed to export <sup>3</sup>	Time needed to import <sup>3</sup>	Efficiency of customs clearance <sup>4</sup>
 Georgia	1.5 hours	2.0 hours	2.4
Eastern Europe	20.2 hours	14.8 hours	2.5

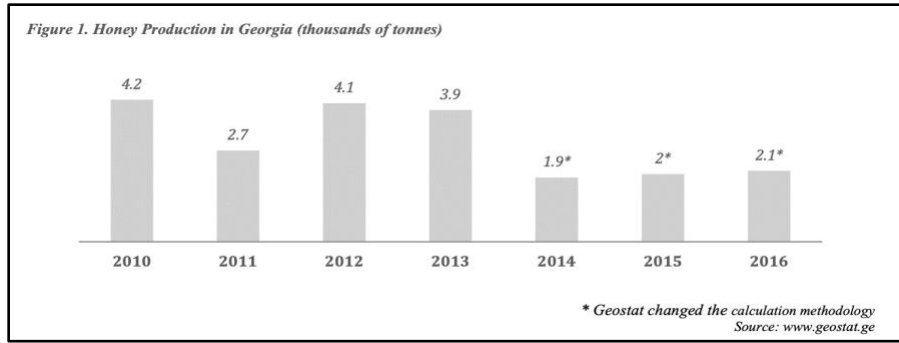
Note: Regional average value is calculated using data from the countries covered by the Statista Country Reports and the source 1: Number of calendar days needed to complete the procedures to legally operate a business 2: Number of years from the filing for insolvency in court until the resolution of distressed assets 3: Time associated with compliance with the documentary requirements of all government agencies of the origin economy, the destination economy and any transit economies 4: In 2018, includes e.g., speed, simplicity, and predictability of customs clearance (5 = high efficiency, 1 = low efficiency) Source: World Bank 2019, Statista 2020

26

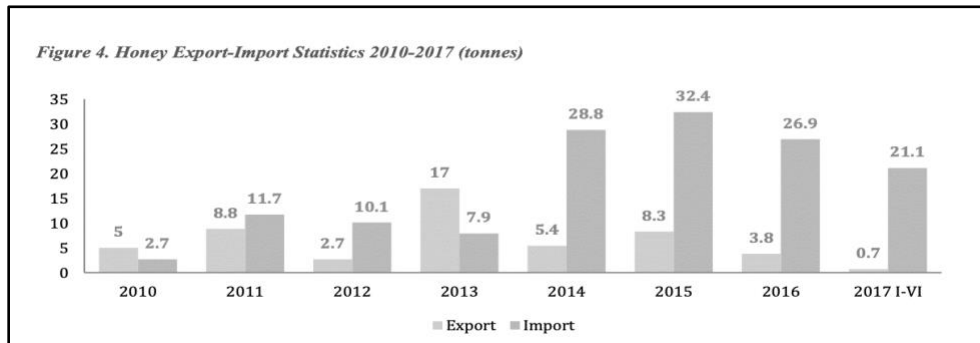
**Exhibit 14: Georgia's GDP per Capita in USD and 5-Year Predictions**



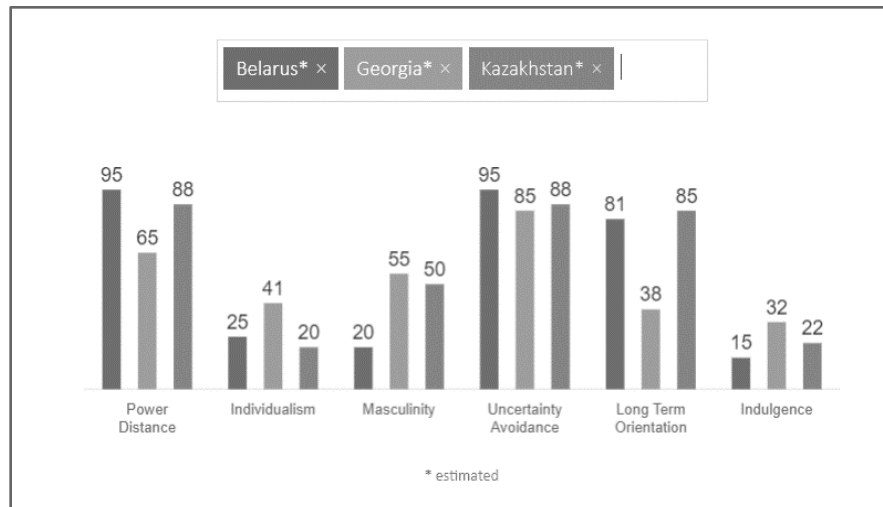
**Exhibit 15: Honey Production in Georgia<sup>35</sup>**



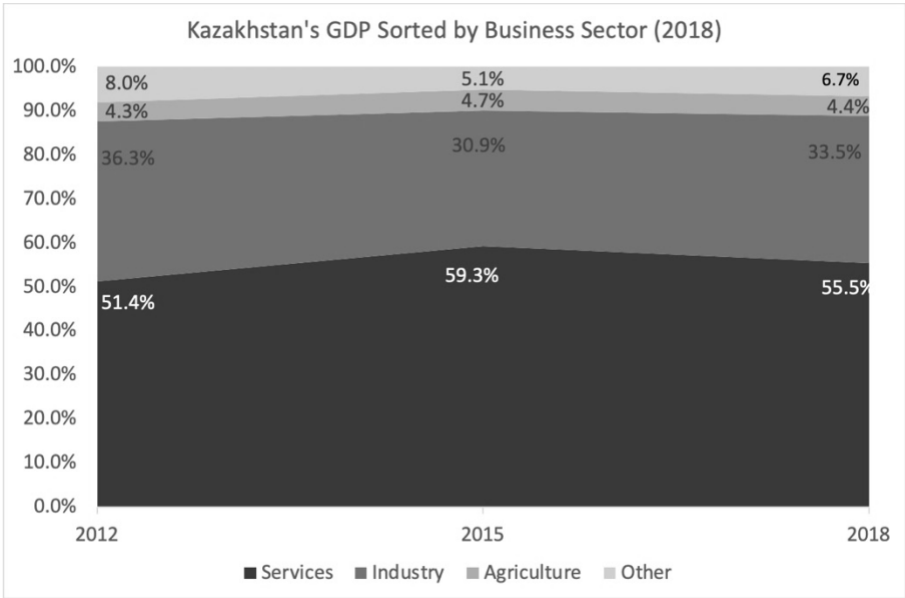
#### Exhibit 16: Honey Export-Import in Georgia<sup>35</sup>



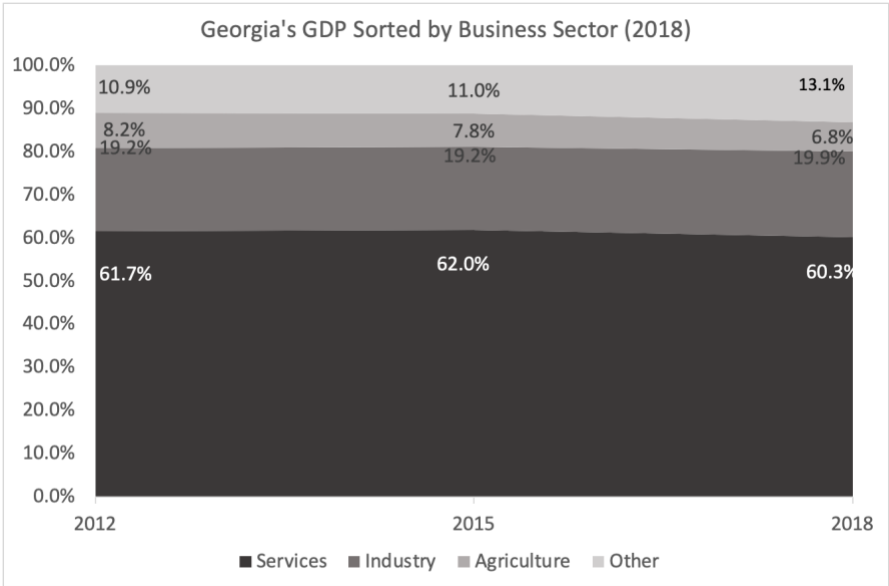
#### Exhibit 19: Hofstede's Dimensions<sup>4</sup>



**Exhibit 20:** Kazakhstan's GDP<sup>54</sup>



**Exhibit 21:** Georgia's GDP <sup>54</sup>



## End Notes

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<sup>14</sup> Grant Money to Start Beekeeping? Does the government fund beekeepers? Retrieved from: <https://www.uaex.edu/farm-ranch/special-programs/beekeeping/uabeeblog/beekeepinggrants.aspx>

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