



WHO

Saare Paat is a small company building wooden boats, founded in 1993, in the course of the restructuring of a large collective fishing farm. In Estonia, many private businesses have started in a similar way: an opportunity arose during the dismantling of the sprawling public sector and of what had been state-imposed collective enterprises. In the case of Saare Paat, a traditional trade of boat building with a history of over 100 years on the island of Saaremaa was restored.



"As we wish to increase our production volume, finding new markets is our everyday task," - Peeter Laum, Manager.



During the years of Soviet occupation, Estonia was isolated from the West and all overseas contacts were suspended. The shipping and sailing traditions were discontinued, although the collective fishing farm maintained a few small boat building facilities. In 1989, when the first co-operation contacts were renewed with Western businesspersons, an Estonian-Swedish joint venture called Saare Marine Industries was set up by the fishing farm Saare Kalur (*Island's Fishers*) in order to build traditional wooden boats. The islanders who had fled to Sweden during World War II now helped to establish contacts with Scandinavian entrepreneurs and to develop new technologies together. The joint venture did not do as well as was expected: so the production line was shifted to the manufacture of garden furniture. Meanwhile, 3 local persons established their own firm Saare Paat (*Island's Boat*) in 1993. They started by renting space from Saare Marine Industries.

By 1997, Saare Kalur had been reorganized into a holding company. It bought out the Swedish owners and became a shareholder of Saare Paat. Today, 81% of the shares of Saare Paat belong to this holding company and the remaining 19% to 2 private individuals: one being Peeter Laum, the production manager of Saare Paat. Saare Kalur is now a holding company with almost 400 shareholders. Its major activities comprise investment, business and real estate administration.

"We will not be taken seriously unless we bring out a new model to the market every year. We are like car manufacturers, constantly developing the already existing models and working out new products." – Peeter Laum, Manager.



WHAT

Since the very beginning, Saare Paat has produced wooden boats. This is labour intensive production and therefore allows competing successfully on cost advantages, because wages in Estonia, and especially in the countryside, are considerably lower than the country's Western neighbours, such as Sweden and Finland. Step by step, volumes have increased and new products based on other technologies, such as fibre-glass yachts and speedboats, have been added to the firm's products. Meanwhile, the volume of production of wooden boats has remained stable, this being about 25 boats a year.

The production of Saare Paat is of top quality. It cannot be otherwise. So far, the new fibre-glass yachts have been sold via a Finnish partner, a company that is well known internationally. This strategy however diminishes the visibility of Saare Paat as a brand. However, now that a Norwegian engineer has designed the *Stormer*, a new speedboat model for Saare Paat, it is expected that this product will become the firm's own major branded manufacture.

WHERE

Saare Paat's production has been targeted for export from the very start. Selling to the domestic market was unthinkable since there was simply no local market for such products at that time. It was a situation of 'export or perish'. Exports now represent some 90% of the firm's gross annual turnover. The marketing department is looking for new markets and new clients; the firm has exhibited and promoted its products in boat exhibitions and trade fairs. The firm's main export market is Finland, followed by Norway, Sweden, Germany, the Netherlands, Denmark and France.

INTERNAL SUPPORTS

The success of Saare Paat is largely based on the collaboration and synergy of a relatively young team having been co-workers since the collective farm period. With the inspiration and know-how given by the Swedish partners, they could launch the manufacture of boats and, year by year, succeeded in increasing the volume of export. As graduates of the Faculty of Economics of Tallinn University of Technology, the members of the team could resort to their solid academic education as well as to the management and leadership experience gained during their careers in the collective farm. Last but not least, practically all the managers have always been active yachtspersons. Business planning and other new skills were acquired in the course of their work.



Three private persons raised leverage capital. The premises for the factory were obtained during a reorganization of the ownership of the collective fishing farm into the ownership of the holding company. At first, Saare Paat rented the building from the joint venture company; now it owns its premises.

Wooden boat-building is thriving in Saaremaa. The local vocational school offers a training specialisation in carpentry and this serves as a good basis for the further specialisation needed in Saare Paat. The firm is thus obliged to provide its own in-house training for its special skilled workers, under the watchful eye of the Production Manager. Saare Paat also produces plastic yachts in co-operation with FinnGulf, a Finnish company. For this reason, 10% of the staff has had training in Finland. Cultural and linguistic closeness between these two territories enables such training in spite of the fact that Estonian workers mainly speak their mother tongue.



Although the firm's wages and salaries are close to the island's sectoral average, the turnover of staff from Saare Paat remains rather high. Management wishes to achieve a more effective organisation of work, which would make it possible to pay their workers better salaries, and this should, in turn, contribute to a higher rate of worker retention.



Workers build yachts together as a team. If the work is completed in time, all the workers are rewarded financially.

EXTERNAL SUPPORTS

So far, Estonia enjoys a competitive advantage based mainly on cheaper production inputs, such as labour and locally available raw material. Knowledge capital is mainly sourced from Western countries. It is difficult to predict how long it will take for Estonian firms to reach a higher, innovation-driven stage where competitiveness will be primarily determined on the basis of skill and technological sophistication. Meanwhile, Estonia has built up a harmonised tax regime with generous tax rates.



The State, mainly through Enterprise Estonia, has also introduced support schemes which enable entrepreneurs to access different funds. There are 13 different support programmes available, co-financed by European Union structural funds. Saare Paat has applied for EU grants in order to support its product development. The Estonian State also subsidises transport costs to/from Saaremaa, though costs remain higher than for the rest of the country. Meanwhile, the cooperation between firms and universities in support of research and development requires strengthening.

The success of Saare Paat is largely based on the collaboration and synergy of a relatively young team who have been together since the collective farm period. With the inspiration and know-how given by the Swedish partners, they could launch the manufacture of boats and, year after year, managed to increase export volumes. As Economics Graduates of Tallinn University of Technology, apart from being active yachters, members of the production team can resort to a solid academic education as well as to the management and leadership acumen gained during their previous careers. Business planning and other skills are acquired in the course of the work.

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Activity: Wooden & Fibre-Glass Boat Manufacturers
Employees: 44
Established: 1993
Contact: Peeter Laum,
Production Manager

Saare Paat continues a long, boat building tradition at an ideal location. Saaremaa has the additional advantage of being a tight and safe island community: less crime, a better quality of life for its residents, and a stable commercial environment for its businesses.