
Entering market in St. Petersburg, Russia – Kärävä Oy




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ABSTRACT

The company commissioning this thesis is Kärävä Oy. This company was founded in 1988 and since then they focus on producing timber of different quality and size. Their clients are wholesalers of timber and wood products, along with sauna manufacturers. Produced products are used for interior finishing in commercial and public areas. Moreover, Kärävä Oy is also producing interior materials for saunas.

Main purpose for this thesis is to analyse if entering Russian market will be profitable and safe for company Kärävä Oy. In order to understand if internationalization to Russia is profitable this thesis will analyse theory in order to understand most suitable ways of going international. Main theoretical background is based on literature and articles which can be accessed with Google Books and Hamk E-brary. Theoretical research will focus on three main areas: internationalization, market entry theory and cultural differences between Finland and Russia. Practical approach will focus on market research which will include price research, competitor/partnership analysis, PEST analysis and survey which will target potential customers. In order to get relevant data for practical research were used sources dated 2007 the latest. Sources were checked for their validity with double check of information and Google Scholar.

Main results achieved from analysing practical research show that it is profitable to go international for Kärävä Oy. Best starting point is to get in contact with K-Rauta and agree on exporting. Moreover, it is important to know that Russian sauna is called banya and it is different from sauna known to Finnish people. Potential customer survey showed that market of St. Petersburg is open for more companies producing saunas/banyas and people are willing to buy high-quality Finnish products for an extra price, because customers feel that Finnish products and materials have very good price-quality ratio. Majority of Russian customers are ready to pay up to 2000 euro for sauna and 25% of questioned are able to afford even more expensive sauna. These numbers should be satisfying for Kärävä Oy and should motivate company to start internationalization process.

In conclusion, if Kärävä is going to accept these results then company should invest more resources into market research and start negotiations with K-Rauta for first export possibilities. It is important to remember cultural differences between Russian and Finnish culture and for the best results it is almost mandatory to find Russian person for managing internationalization process.

Keywords Sauna, Export, K-Rauta, Russia, St. Petersburg

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1 INTRODUCTION

Main purpose for this thesis is to analyse if entering Russian market will be profitable and safe for company Kärävä Oy. In order to make this report as useful as possible, there will be theoretical analysis of internationalisation methods, market entry and international marketing. Furthermore, Russia is a country with specific history, background and traditions that affect business culture of this country. Those specific business culture details are of extreme importance when it comes to joining Russian market. As main target market for Kärävä Oy is St. Petersburg, this report will be focused on analysis of the market situation in this particular region.

Important goal of this Thesis is to make a conclusion, based on which company Kärävä Oy will be able to decide if it is worth the risk to go international and join market in St. Petersburg.

2 COMPANY INTRODUCTION

The company commissioning this thesis is Kärävä Oy. This company was founded in 1988 and since then they focus on producing timber of different quality and size. Their clients are wholesalers of timber and wood products, along with sauna manufacturers. Produced products are used for interior finishing in commercial and public areas. Moreover, Kärävä Oy is also producing interior materials for saunas. (Kärävä.fi)

Kärävä Oy wants to grow and go international. As for their start point they decided to join the market in St. Petersburg, but in order to make it as confident, efficient and risk-free as possible, Kärävä Oy asked HAMK to assign student for research of market situation in Russia and St. Petersburg in particular.

3 COUNTRY DESCRIPTION

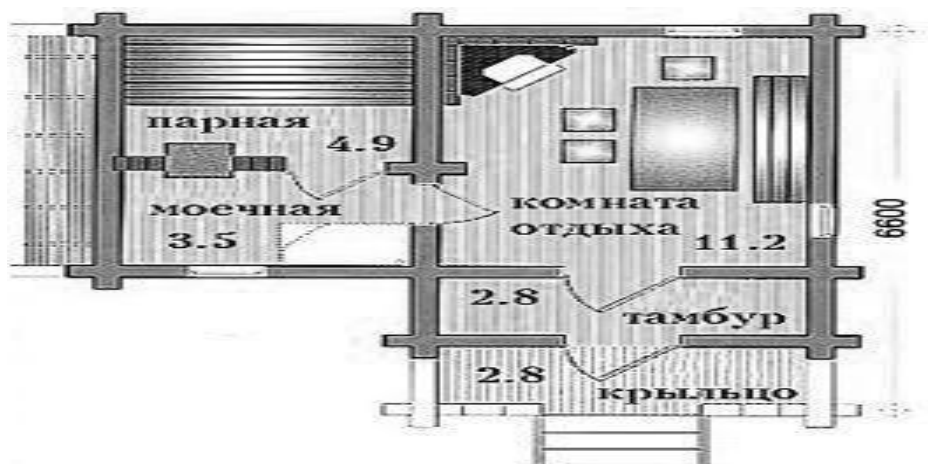
Bordering in the West with European countries and in the East with North Pacific Ocean, Russia is the biggest country in the world with around 17 million square meters area. Modern political history of this country was very rich and interesting. Up to year 1991 Russia was a communist country – the former Soviet Union. That time in the Soviet Union market was almost entirely closed and focused on oil and gas export. In 1991 after the political change, Russia became the country, which is known nowadays. Having open markets and around 60% of the people working in the service sector, Russia is still very dependent on the natural resources they possess (CIA, 2012). Finland was always a part of Russian history, though sometimes this history was not pleasant for both of these countries. Nowadays, Russia is one of the most important partners for Finland and along with years of successful cooperation. At the moment Russia is the biggest trade partner for Finland surpassing Germany and Sweden (Economy Watch

2010). Of course, both countries are very pleased with this situation and both are willing to continue successful cooperation.

3.1 Sauna tradition differences between Finland and Russia

Both countries are very proud of their national tradition which is going to sauna. In Russia sauna is called “banya”, while both “banya” and Finnish sauna look alike, there are differences that are crucial to Russian customers. It is common that people do not see any difference between sauna and “banya” but those are two different traditions, which have only one thing in common – high temperatures. In order to understand differences there is a need to point out 3 major conflict points between two traditions.

The first major difference is that temperature in the “banya” is not allowed to be more than 75 degrees Celsius, while humidity can go up to 70%. At the same time in sauna temperature can go up to 130 degrees with humidity not exceeding 10%. Lower humidity makes it easier for the human body to manage higher temperatures. Secondly, Russian “banya” does not allow ventilation, because otherwise, all vapour will be gone and the effect of sauna will be lost. Meanwhile in sauna it is nearly impossible to stay safe without good ventilation, because otherwise heat will be unbearable for human body. Third difference is in approach to sauna effect on people. In “banya” human body is heated “to the bones” due to high humidity, and use of the twigs from birch (sometimes other tree) to splash the human body. In sauna body is heated only “on the surface” which makes it almost impossible to remain there for a relatively long time. (Mironoff banya, 2013) Last difference is social. People in Russia go to sauna to socialize, talk about life or celebrate something. On the other hand, in Finland, sauna is a weekly tradition, when Finns go to sauna just for the sake of going to sauna and supporting traditions (this will be also justified in chapter 4.3.3). This means, structurally both places can be different. In sauna you have 3-way structure – changing room, shower and sauna itself. In “banya” you have changing room, then so called “predbannik” which literally means “room before sauna” where people sit together eat, drink and have fun; after goes same system as in sauna (shower + banya).



In this picture you can see typical system of Russian banya. Rooms with numbers 2.8 are porch

Source: Rem Story SPB

and so called tambour (dress room), room 11.2 is “predbannik”, room 3.5 is shower room and room 4.9 is banya. Numbers are relative size of area in square-meters. The “predbannik” issue may not look serious, but it is crucial part of any “banya” you can find out there in Russia. Not including “predbannik” with all needed accessories such as table, wooden benches, places to keep products, will mean losing nearly half of whole “banya” tradition.

These differences are very important to understand and take in account if sauna producing company is willing to join sauna market in Russia. Because producing sauna for Russia should be oriented on Russian customers, not Finnish ones. Later on in the market description chapter, prices and materials will be analysed.

4 THEORY

In this chapter, there will be an analysis of theoretical issues connected to moving business abroad. In order to make it as clear as possible an analysis will be based on different theoretical material and supported by viable sources. Main topics will be analysing fields such as: internationalization theory, market entry theory and cultural differences between Russia and Finland.

4.1 Internationalization

In economics and business, internationalization is a process of increasing involvement of companies in international markets. There are different reasons for internationalization. These reasons will be analysed in this chapter.

4.1.1 Reasons for internationalisation

For most companies there are two different reasons for going international. The first reason is proactive, which means that it is planned by the CEO and this plan is supported by meaningful reasons. The second reason is reactive, when company faces a need in internationalization in order to survive.

4.1.1.1. Proactive reasons

One of the most obvious reasons for internationalization is willingness to increase profit and enhance company’s growth. Especially these reasons are of a huge importance for SMEs that are just starting to explore international markets. With getting more experience in that market management can determine their attitude towards joining international market(s). Obviously, desired profitability from going international in most cases differs from the actual results. Especially this gap increases when company is inexperienced and decreases for company with more experience. Even after thorough and precise planning different external influences can shift profit

picture dramatically. In case of sudden exchange rate increase, profitable decision may become a huge loss for a company. Overall, the stronger is company's attitude to grow, the more efficient will be activities this company creates.

Second important motive is managerial urge. This one is quite simple to understand. This reason is entirely based on motivation and the need for general management to make a company's activities more global (even if it implies starting from joining only one international market in the beginning). Usually this motivation can be explained by willingness of managers to be a part of international company. This allows managers to find reasons for international business travels. Same frequent is managers urge to have continuous growth and market expansion. In SMEs decision is usually made by General Manager as a single decision maker, while in larger companies these kinds of decisions are based on thorough research and agreement of shareholders. Lastly, internationalization process may be encouraged by cultural background of manager. Those who were experiencing international influence throughout their life tend to be more international oriented. (Essentials of global Marketing, Sven Hollensen)

The third reason is having some special technological competence and/or unique product. A company may provide special services or products, that are not widely (if at all) available from international competitors. Moreover, a company may have made a technological invention in this market. If product is genuinely unique and technologically advanced they will definitely provide strong competitive advantage and result in a major success abroad. However, a company should be aware of the time span that a product will remain unique and advantage will continue. In the past it may have been 5-10 years in order for more advanced product to be introduced to the market, but nowadays this may be months or even weeks. Technological progress is growing too fast to be sure in uniqueness and technological advancement of a certain product. Anyway, company producing superior product(s) will receive enquiries from foreign markets because of its uniqueness and perceived competence. Moreover, company may get more international experience and develop their product. It will result in superior market position and possible success.

Fourth reason is possible market opportunities abroad. There might be an open niche for company to take and if company possesses needed resources and capabilities to take this niche and respond to opportunities it offers, then it might result in a successful internationalization act. From time to time, developing markets are growing insanely fast providing interesting opportunities for companies that are a ready to expand. As an example of this kind of market can be China or any other developing Asian market. To some extent, Russian market is also one of rapidly growing and developing ones.

The fifth reason is Economies of Scale. Becoming a part of emerging global markets enables company to increase output and therefore reduce costs per unit, while climbing on the learning curve (gaining experience in a certain production process and getting knowledge how to optimize it).

As Boston Consulting Group showed to the worlds, that increasing output can reduce costs per unit up to 30%, companies started to try international markets in pursue of greater market share. Last reason is tax benefits. Companies tend to move their production to the places with lowest taxes in order to increase profits. However, WTO introduced anti-dumping law, which punishes companies who sell their products on local markets at very low prices, because it harms local producers. (Essentials of global Marketing, Sven Hollensen)

4.1.1.2. Reactive reasons

The most common reactive reason for internationalization is high saturation in local markets. The product which you are producing and selling locally is produced by many companies. It results in a high competition level in the region and in the end will result in lower profits. Normally, companies are not satisfied with declining profits, thus they might decide to join international market(s), which are not yet that saturated. With proper execution of internationalization process company might increase their market share and thus they will increase their profits, avoiding saturated local markets. Although, this is still a risky decision because if opening a branch abroad will fail – whole business will be endangered.

The second reason is willingness to extend product life cycle. Product, which is getting to its maturity stage usually, brings less profit to the company. There are couple ways to extend it and one of those solutions might be launching product in new market. Target market for renewing product life cycle should be rapidly developing, not familiar with a product and possibly should have high customer base. Perfect example of renewing product life cycle by entering new markets – Toyota Qualis which was obsolete in most markets in the world, but launching it in India made it a hit and one of the biggest successes in Toyota history.

The third reason is having excess production. When a company produces more than it can sell locally, they should either stock it up or export it and sell on the new market. It might be performed by setting the price of the product lower than new market's normal price (dumping). Though, WTO is controlling any dumping activities, so this might result in huge fines. Another way to get rid of excess production is to move it do emerging markets (such as India) where demand is very high.

The next reason to go international is local competition. Domestic competitors could have possible obtained cost advantage through internationalization. Best possible way to avoid this competition is to join new, open market where competition is not that high and price elasticity is lower.

One more reason is seasonal fluctuations of product demand. Some products have high demand during spring/summer, while having almost no demand during winter. Example of this product might be harvesting machinery. You can sell it locally during harvest season, but later on there will be no demand. Meanwhile, southern countries have different season- ing; thus they will have high demand for harvesting machinery at the same

time. This decision will literally remove seasoning weakness of product and make it viable during whole year.

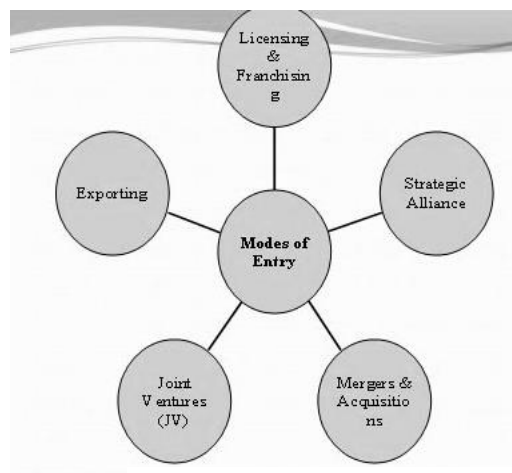
Last, but not least, one reason is customer following. Realising that your main customer base is abroad might bring company a great success. For example bicycle producer in Finland understands that demand for bicycles in Finland is times lower than in Netherlands. Switching from Finnish market to Dutch market will be a great decision, because this will allow company to boost profits and gain even higher market share. (Essentials of global Marketing, Sven Hollensen)

4.1.1.3. Conclusion

As it can be read, there are a lot of reasons for going international. Company just needs to realise if they really want to do it. Other way might be if company will realise that they need to do it. Anyway, if decision is reactive or proactive, still it takes a lot of planning for company. Without thorough planning, expanding might be very dangerous for a company. Overall, all reasons are valid and if company will find one of them suitable – they can start planning their expansion.

4.2 Market entry theory

Entering a new market is always risky. Managers always tend to reduce risks to as low level as possible. In order to help managers to decide how to join foreign market there are different market entry modes.



Source: Internationalization course presentation

As it is shown in this picture, there are 5 different market entry modes, which will be analysed in the next five chapters.

4.2.1.1. Licensing and Franchising

Best analogy which will explain licensing is with Governments and Companies. Government gives licenses to new firms allowing them to produce their product. Same way any successful business can sell their license to

other company, allowing company to use their trademarks, patents, unique designs or special business secrets. Licensee will pay for use of the license and they are obliged to follow strict rules, which may come up within licensing contract. By using licensing, small companies can let their brand grow without any actual investments into facilities abroad, and become better known internationally.

Franchising is very similar to licensing, but the franchisor also allows using their operating systems. This way company that bought a franchise is using standard package of trademarks, patents, designs and business secrets, as well as they often use distribution systems and marketing campaigns. Usually, the company that buys a franchise has to pay an upfront fee and monthly/annual fee. As well as licensing, franchising can help small companies to grow without investing into new international plants. Most popular example of franchising is McDonalds. They are selling their franchise to all countries, but they also monitor if everything is done with a set up standards.

Main difference between these two market entry modes is set up time. Licensing can be set up in days or maybe weeks, while franchising requires standardised operating system, marketing, internal operations to be prepared. Moreover franchisor has to apply for a franchising licence, in order to be allowed to sell their franchise. Other difference is that when company bought license, they are allowed just to start production and perform it exactly as it is said in the agreement. While franchising usually has some form of quality control from the franchising company as it was mentioned earlier with McDonald's example. (Gaebler – Franchisees versus licensees)

4.2.1.2. Exporting

Exporting is selling goods in foreign markets in order to earn profits. There are 2 different types of exporting – direct and indirect. Direct exporting is selling product directly to customer abroad. Customer might be an agent, retailer or ordinary customer of Ebay. Indirect exporting is selling your product to buyer in your home country, who will later export it abroad.

Why companies decide to export? Firstly, it is the least risky way to go international. Basically, when you have sold your batch of products to the retailer or agent you do not need to bother how to sell it to customers in local market. It is mainly importer who takes biggest risk. Secondly, exporting can extend market for a product that was doing very good at domestic markets. This way you can use export as a least risky way to try new market. With this simple operation you will understand if there is a demand for your product and later possibly open there a different business branch. Third reason is increasing product life cycle. As was discussed in the internationalization chapter, exporting product to a new emerging market can revive it (example of Toyota Qualis in internationalization chapter). The fourth reason is economies of scale. By having larger cus-

customer base company can produce more products, thus they will increase benefits from economies of scale.

As any action that has advantages, exporting also has its disadvantages. Firstly, exporting is high costly. Company has to pay traveling costs, management fees, shipping and agent fees. All these cost has to be covered by profits from exported products. Secondly, exporting implies good understanding of laws and regulations, which vary from country to country, can change very fast, making your product impossible to sell. Third disadvantage are transportation policies. Shipping rules and regulations are usually very complex when it comes to big amounts of products exported. Fourthly, if company is exporting to a country with different currency it may result in lower profits than expected. Also, if your currency is too strong, product will be perceived as more expensive and thus it will not be as demanded as it could be. Moreover, some countries can manipulate their currencies, which may result in a loss for your business. Lastly, most of times exporting is performed with long-term payments which can cause some problems in redeeming your money from importer.

Overall, exporting is the safest way for a company to try-out product in a new market and later open a new business there.

4.2.1.3. Strategic Alliance

Strategic alliance is an agreement between two or more companies to co-operate in an activity. Cooperation only affects certain activities, while inside operations of the company are left intact. Aim of a strategic alliance is to build a cooperation based on the expertise of each company and use those different expertizes to complement each other. Strategic alliance can be used to get access to the new market as quickly as possible, using partner-company as a help. Partner-company has a lot of experience in their home market, so they will be more than happy to share it with their strategic partner. This will obviously increase sales and give both companies a possibility to gain new skills and develop new technologies. If strategic alliance is strong, then they can develop new product together with a profit they got from cooperation.

As every business action, strategic alliance has its advantages and disadvantages. Let us take a look at the advantages. Firstly, companies involved in strategic alliance share fixed costs and resources, thus increasing profits and financial possibilities for both companies. Secondly, all companies involved will get new connections, which can possibly result in enlarged distribution channels. With it, companies will have flexibility in their choice of distribution channels, afterwards allows using them for their own business. Third reason is getting international business contacts (also possibly political contacts). Advantage in this reason is quite obvious, more connections you have, the easier your business will work. Fourth reason is about company's image. If company is only operating at their domestic market, they will have no possibilities to gain international recognition. While company which is involved in strategic alliance - operates internationally (in most cases), thus company is getting known in the

market where alliance is operating, afterwards, resulting in possibility for company to join new market with an existing image and popularity.

Talking of disadvantages, firstly, company will have less management involvement in the business. If there are 2 companies in strategic alliance, they will rarely have 50/50 share, usually one company has higher involvement than other. This situation will result in less managerial power of company having weaker share, afterwards resulting in loss of decision making power. Secondly, due to cultural differences and different management styles, it is very hard to keep objectives on targets. This may end up with not clear goals and heavy communication problems. Third disadvantage is loss of control over quality, employees and operating costs. Having in mind that alliance is operated with 2+ different companies makes understanding this problem easier. Companies have different quality approach, personnel management approach and this is where clash of 2 interested sides happens. Fourth reason is about political and economic instability. You always must have up-to-date information about the host country political situation and economic perspectives. (Import & Exports, About.com) If you will not be cautious enough, you may end up in the situation Royal Dutch Shell had in Russia in the year 2007, when Russian government asked Shell to cut their share in Sakhalin II project. (Moscow Times, 2007)

Concluding everything, strategic alliance is a good way of joining international market, but company should take this action very seriously, otherwise it will backfire on them and result in huge losses.

4.2.1.4. Joint ventures

A joint venture happens, when two companies come together to work on one project together. Main difference from Strategic alliance is that companies are investing in the project equally in terms of money, time and effort in order to be successful in that particular project. Most of the time joint ventures are small-medium size projects, but large companies also use this method in order to diversify and feel safe while dealing with a project which needs high level of investment.

First advantage of a joint venture is rapid short-term growth on foreign markets. As companies are investing equal amount of funds, they are more likely to get high return on investment from the project. Moreover company which is working in a foreign market has a chance to build-up their market power in a new place. Second advantage is transfer of technologies and know-how's from both companies, resulting in a better performed project along with gained knowledge for both companies. As always, knowledge is power and it is always an advantage when you can get more of it, especially if this knowledge is international (opens new doors for a company abroad). Thirdly, as joint venture project tend to have high return on investment funds generated from this project could be used for a new, bigger project. Fourth reason is lower risks compared to solo-performed project. As it was mentioned before, joint venture has equal investment

from 2 companies; this obviously means that risks are shared between to party, making risks lower for both.

First disadvantage is investment risk. Even though, it was mentioned earlier that risks are low, there are still risks. Company is investing certain amount of money and if project fails, these funds are gone. Secondly, also a bit contrary to what has been said, return on investment is delayed. Early times in joint venture project, investments are only start working, so there will be no return from these funds and it may result in short term losses. Thirdly, management process can come with difficulties and conflicts. As any international activity it comes with cross-cultural differences, which will result in misunderstanding, conflicts and possibly different ethical difficulties. Some actions in different cultures are perceived as not ethical, while in other culture they are more than normal.

Overall, a joint venture might be a bit overrated, though it is impossible to underestimate positive effects that help to finish even hardest projects. (International Joint Ventures, Volume 30)

4.2.1.5. Mergers and acquisitions

A merger is a process when two companies join each other and form a new company, whereas acquisition is a process whereby one company purchases another company. In case of acquisition there is no new company being formed. Benefits from these two actions are quite remarkable. After performing either merger or acquisition, company can easily succeed in generating cost efficiency through achieving new levels of Economies of scale. Also, acquiring or merging with a company in a low tax country can lead to reduced tax (more profit for a company) and increase revenue due to higher market share gain. It is expected that companies who go through merging or acquiring one another will have higher shareholder value than before. (Economywatch 2010)

As any action mergers and acquisitions have their pros and cons. First good reason for them is possibility to generate very high profits. After merging or acquisition company is open to a whole lot of new resources, which can be enough to either boost existing power or save company from collapsing. Secondly, by merging with supplier (or acquiring supplier) company can reduce raw material costs as well as logistic costs while. Third reason is expanded market penetration possibilities. As it was stated in the intro to mergers and acquisitions, performing such action will increase volume of potential customer base. For example company which operates only in U.S is acquiring or merging with a company from China. From now on they have U.S markets along with Chinese market open for them. Fourth reason is tax benefits and legal implications. As it was mentioned before by acquiring or merging with a company situated in the low-tax country, parent company can cut their tax costs by a huge margin. Also, in some countries you are not allowed to produce certain product, this means if you will perform an action mentioned before, you can produce a product which is restricted in your country.

Cons for mergers and acquisitions are going hand in hand with pros. Firstly, merger or acquisition are a high-risk action. Around 60% of mergers or acquisitions fail, sometimes resulting in bankruptcy of parent company/companies. Secondly, company can lose skilled employees in leading positions. When you are merging or acquiring a company there will be switches in positions, because both companies want to save as many of their employees as possible. Such a loss is inevitable because it does not matter how hard it is to replace, you still need to do that. Third reason is improper organisation or internal structures. After merger or acquisition company is not as well structured as it was before, so if this will not be held properly, company will face a lot of unnecessary costs. Fourth reason is inability to work with enlarged market. As it was mentioned in “pros” after merging or acquiring a company, bigger market share becomes available and not everyone knows how to deal with it. Without proper experience company will lose thousands of potential customers and make damage incurable. (Investopedia)

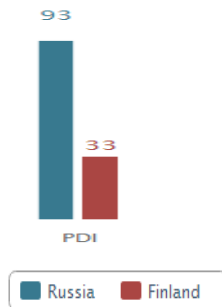
4.3 Cultural differences between Russia and Finland

Russia and Finland are geographical neighbours, but nevertheless these two countries are nearly as different as it is possible. In order to analyse differences and point out crucial ones Hofstede’s study will be used.

Hofstede’s study is based on 5 different dimensions which were used to take a broad look on culture-specific things. These dimensions are: Power distance, individualism/collectivism, masculinity/femininity, uncertainty avoidance and long term orientation.

4.3.1 Power distance in Russia and Finland

Power distance indicates how less powerful members of society accept power distribution and also how they expect it to be. In most cases power is distributed unequally, though there are cultures where this inequality is as low as possible, on the other hand there are cultures with completely one-sided power distribution. People in cultures with high power distance typically respect hierarchy in which there is place for everyone and if person is higher than you in hierarchical order, then you should respect him in a way he thinks will be suitable. Citizens of countries with high PDI (power distance) are usually happy with this situation and take it as granted. On the other hand there are countries with low power distance, where people like to feel equality among different levels of hierarchy. In these societies “big boss” is not that powerful and his word is not final, because people tend to strive for redistribution of power to make it as equal as possible. This short analysis of PDI-dimensions brings this topic to comparison of completely two different countries – Russia and Finland.



Source: Geert Hofstede website

In this graph it is clearly seen, how different Russia and Finland are culturally. As it is shown, Russia has a level of power distance equal to 93, while Finland is set on 33. This means that perception of power and its distribution in these two countries is pretty much as different as possible. Russia is a very hierarchical country; it was visible throughout whole history and still visible now. This fact is very important to know when you are doing business with Russian people. (The Hofstede Centre, 2013)

As in any typical high PDI country, in Russia people who have power tend to demonstrate it to others. Demonstration of power may come from anything, preferences in the way a person is called (Professor, Sir etc.), in the way a person is dressed. In Russia, people with power and wealth tend to spend more money on their appearance, for example expensive suits, than almost anywhere else in the world. In the workplace, new or inexperienced employees are usually not trusted with a job and always have supervisor watching their every step. Outside of work employees and employers rarely have any kind of friendly relationships because employers tend to think they are above it. It is also important to understand employees are not very happy to spend time with their employer because of the fact, that usually employer/employee relationships are quite tense. Though it is the fact that it is not a rule that is set in stone, behaviour may vary from company to company, which means that there are companies with a very low power distance inside the organisation. Besides business, high PDI affects political situation in the country. In countries with high PDI politics are more totalitarian and tend to get most of the power to their hands, which is actually quite visible in Russia and their political situation at the moment. Also high power distance has clear behavioural patterns in social life, when elders have almost unlimited respect and if one does not respect person just for the fact that he lived long life, then it is a very rude gesture.

On the other hand there is Finland with PDI as low as 33, which indicates quite the opposite of what was written in paragraph about Russia. Low power distance in Finnish business life reflects firstly in employee-employer relationships, where both treat each other with respect and employer does not show-off with his position and/or power. As opposed to high PDI country in Finland employers tend to trust employees with important assignments and not over-supervise them during their working time. Often employers and employees socialise together after work in order to maintain mutual respect and friendship, very important parts of a low PDI company. In political life there is usually liberal party having power, though in Finland political situation has recently changed a bit after last elections. In Finland's social life prevails egalitarianism, equality

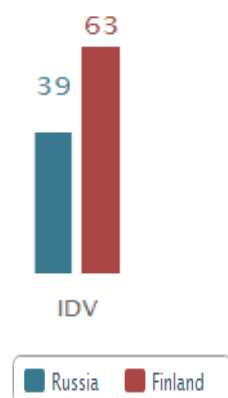
between people, social groups, beliefs and political orientations. (The Hofstede Centre, 2013)

In conclusion to analysis of PDI factor it is important to note that those differences make new business quite hard to manage with cultural difference especially because of the fact how different are those two countries in the way of doing business. Moreover perception of life in people's minds is extremely different, so business man should take in account all those details and build a plan on how to tackle problems, which may be caused by simple cultural difference.

4.3.2 Individualism in Russia and Finland

Individualism indicates how independent members of society among themselves are. Putting in simple words, how people perceive their life in society, are they focused on themselves or they think of society as “we” not as “I” and tend to group together. In countries with low individualism, people tend to have big and very strong families, when they gather together every week-end to have a family dinner. Overall people in collectivist society (low individualism = collectivism) tend to group more and solve their everyday problems together. It is clearly visible in neighbourhoods where people always get together to solve problem with their neighbourhood and they find a solution together. In individualistic society, people tend to think of them and society not “we” but “I and society”, putting themselves a bit more distant from activities that are mostly related to collectivistic societies.

This short analysis of Individualism brings this topic to comparison of completely two different countries – Russia and Finland.



Source: Geert Hofstede website

This graph shows quite a difference in perception of life between Russia and Finland. As it is shown Russia has index of 39 which is more collectivist country, while Finland is index is 63 reflecting the fact how individualistic in Finnish society. This reflects the facts that in Russia people tend to group together and think of everything “we” not “I”, while Finnish people are most likely to think about themselves on the first place. (The Hofstede Centre, 2013)

As any low-individualism country, Russia has clear indication of that in their business and everyday life. In everyday life people always tend to

talk about what happened in a “we” way (for example “we went to shop”) this is just a small fact that proves Hofstede’s research right. In low-IDV (low-individualism) countries conformity is greatly appreciated. People should look-alike and be more or less similar, because otherwise you there might be problems with acceptance in the society. As it is said, news shows everyone how Russia treats homosexual-community, which is by all means different from what is perceived normal. The most fascinating fact is that that all those anti-homosexual action are forced by government. This is another proof of eligibility of the research. (CNN, 2013) People in collectivistic societies tend to put group interest above personal interest, so if something is needed for a company, which is not that pleasant for person, then he will most likely do it because it will bring greatest profit for a group. On the other hand, people in collectivistic societies tend make sacrifices for the “greater good” of family. This means that if there will be a choice between family and work, family will most likely be set as a priority.

In low-IDV society rules provide stability, order and some sort of obedience, which results in a good life for the society.

On the other side of a border, there is Finland which is highly individualistic country, which is also reflected in everyday life and business relationships. As opposed to low-individualism personal identity in Finland revolves around “I” not “we”. Main goals of biggest part of society are personal goals and personal achievements, not corporate or group achievements. This means that if you want person to work good in a company give him personal incentive (for example career possibilities or salary bonus), not “for the company’s good” one. This will result in a very high productivity of employee, because now he will strive to get to his goal. Also, individualism is encouraged in people; they are motivated to be different in their style, taste or their personality. Being just like the others will not be highly appreciated. Moreover, individual rights of people are supreme, that’s why most laws protect freedom of speech and freedom of choices. In Finland, almost no one cares if you look different, think different or decide to make different from normal decisions, it is totally fine and accepted by society. One fact which is common in high-IDV countries, but is not that common in Finland, is acceptance of achieving personal goals at some expense of the others (excluding some extremes like illegality and amorality) (The Hofstede Centre, 2013)

Overall, individualistic countries work around individuals and their needs, goals and freedoms.

In conclusion, if a Finnish company goes to Russia, then there should be some facts to be known. Firstly, people tend to have high responsibility for their families and can easily choose family over business. Secondly, when some group of people achieve something, you should praise the group all together, not only individuals. Also, promotions in this kind of society are based on seniority, not on achievements and progress. Doing otherwise will create instability inside of the company. Last but not least, decision making is usually quite slow process, because it goes through all hierarchy

levels before something will be finally decided. As it slows everything down, every action should be planned with included decision-making delay.

4.3.3 Masculinity/Femininity in Russia and Finland

This dimension indicates if society is driven by competition, goals, achievements and success or quite the opposite, if society is driven by caring for others, family, having good quality of life. In feminine society mark of success is having good quality of life, not standing out from the crowd being different or wealthy. Overall masculinity/femininity shows if people are motivated by the fact that they should be best of the best (masculinity) or they should do what they like the most (femininity).

Many people tend to mistake masculinity with its direct meaning (being “manly”). Hofstede has never made a parallel between being masculine and striving for goals, he is only using term masculine to take out some qualities like achievement orientation, being best of the best and so on. Same thing goes with femininity, which is about person doing what he likes and caring about others, not being feminine in a direct meaning of the word. (The Hofstede Centre, 2013)

This short analysis of Masculinity/Femininity brings this topic to comparison of completely two different countries – Russia and Finland.



In this case, results are surprising. Finland and Russia are on the same level of having low-masculinity, with Finland being a bit more feminine than Russia. Difference between 36 for Russia and 26 for Finland is not that high to compare differences of these countries. Therefore, there will be just small analysis of the fact that both countries are mostly feminine.

As when it stands for Russia these results are truly surprising, due to the fact that Russia has high power distance, it was strange to see Russia being feminine country. But looking deeper into the history and overall behavior of people it is clearly seen, that Russians are quite modest about their achievements and contributions. During USSR times, scientists who explore something new were not rewarded because they were sometimes too young, but it was not bothering at all, because they were happy with what they were living. Dominant behavior is only acceptable from people of higher rank, but never from people from same hierarchical step. This is what probably has 10 points difference between Russia and Finland, as in

Finland dominant behavior is rarely accepted. Also, difference between Russia and Finland comes from equality of genders. In feminine countries men and women are usually very equal, but in Russia it is not like that.

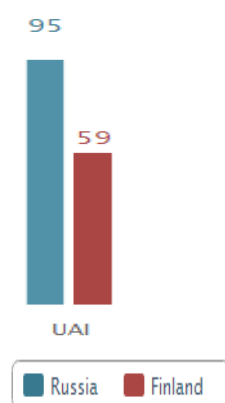
Overall low masculinity score for these countries shows that they are very oriented towards quality of life, family and relationships. Most of the conflicts are settled by negotiation or some sort of it. People usually value their personal time and it is rude to bother people with work when they are off their working hours. (The Hofstede Centre, 2013)

In conclusion, as both countries are similar in this dimension, there should not be any problems concerning business life, although some actions should be weighted before taken. For example, working overtime is not normal and if you ask someone to do it, then person should be rewarded for doing it. Also, in business trust and good relationships are more important than profits and goals, so "friendly" companies may ask for some special favors and denying them might do some damage to your image among your competitors.

4.3.4 Uncertainty avoidance in Russia and Finland

Uncertainty avoidance indicates how people are dealing with the fact that future is unknown, are they trying to plan and control everything thoroughly or they just let it be. Unknown future always brings anxiety and different cultures try to fight anxiety with totally different tool, may it be strict rules and regulations, or religious beliefs. This concludes in the fact that countries with high UAI (uncertainty avoidance) tend to worry about their future and look for opportunities to make it as predictable as possible, removing all possible uncertainties. On the other hand there is quite opposite low UAI, when people tend to feel secured about their future and are willing to innovate and maybe find way to make future better with innovations. In these kinds of countries risk is embraced as a way to success. (The Hofstede Centre, 2013)

This short analysis of Uncertainty avoidance brings this topic to comparison of completely two different countries – Russia and Finland.



Source: Geert Hofstede website

This dimension is also quite logical as it goes with most of them. Russia has index of 95, which is one of the highest in the world, meaning that un-

certainty avoidance is incredibly high and people do not feel secure. On the other hand there is Finland with pretty much average UAI index, meaning that Finnish people feel somewhat secure, but still are willing to find ways to make future less uncertain. (The Hofstede Centre, 2013)

As it was mentioned earlier Russia has incredibly high UAI. High UAI is usually present in the countries with long history, which brings very tough experiences over the years and people remember of those. This knowledge forces people to feel, that something bad may happen, because bad things happened during the course of history. Russia had terribly hard experience in the past century and this experience is very fresh in the minds of people. They remember sudden devaluation of currency in the very late 199x and thus people tend to have their savings in different banks under different currencies.

Other “feature” of high UAI countries is homogenous community. You can’t tell that Russia is homogenous, there are over 100 cultures in there, but those cultures are separated in regions and only started to mix with each other in the last 10-15 years. But over the course of history, main culture in Russia was common through all communities; mostly everyone had common ideas and goals (especially during Soviet Union). Thus you can probably say that to some extent Russia was homogenous, but it started to change recently. Moreover, in countries with high UAI risks are usually avoided as much as possible. Most Russian investors invest only into very secure projects even if they do not bring as much profit as more risky ones. Last but not least is some kind of ideological stagnation which happens when people have tough time accepting new ideas and/or concepts, which are accepted in the low UAI countries easier. This totally fits Russia with common mentality and having hard time accepting modern features as gender equality, freedom of sexual orientation and so on.

Overall cultures with high UAI have hard time adjusting to modern trends, new behavioural stereotypes and are really worried for their future.

As Finland is not a low UAI country, it has some differences, but not completely opposite as it happened in, for example, Power Distance dimension. What definitely differentiates Russia from Finland is the fact that Finland has migration process going on with a very high speed, when people from Asia, Africa or Europe come to Finland to study or live. More diverse population reduces UAI due to large cultural and societal differences which are getting mixed up with local ones. Finnish people tend to take calculated risks in order to maximize profits, but still they do not embrace risk-taking as a very good quality for business men. With risk taking also comes innovation as it is always risky to innovate. This is may be somewhat paradox but Finns tend to innovate and appreciate innovation, with innovation started Nokia which is still successful even with downfalls.

Overall Finland is in the middle of not worrying for their future and being really worried about it.

In conclusion, it is important for businessmen to know how to tackle problems which may appear when you start working with a country which has insanely high UAI. Firstly, do not expect immediate flow of new ideas, let people get used to what they are doing and only then try to foster innovation in some ways. You need to give people some time to develop confidence. Secondly, while involving in local projects, invite local partners in order to give your employees confidence, because local partners will be able to explain and work in the same way people are used to it. This decreases the uncertainty element and keeps employees calm. Last but not least, while proposing or presenting something always be as thorough as it is possible. Best way to make people believe in your project is to back it up with as many facts and figures as possible while noticing how low-risk will be this project.

If businessmen will follow these “rules” while working with countries with higher UAI than their own, then it will be possible to negate conflicts and run needed projects smoothly.

4.3.5 Long term orientation in Russia and Finland

LTO (long term orientation) indicates how people treat their lives long terms (looking into what might be possible in 10 years or what will be left to their grandkids) or short term (how much profit will I make from this project). Countries with high LTO index (like China) are focusing on the future; they are willing to delay short-term things (success, wealth) in order to have good and secure future. In high LTO cultures, people value persistence, saving and are adaptive to changes. Countries with low LTO index have people who are focused on the current goals and successes which they perceive more important than some future possibilities. In short-term oriented society people value traditions, current social hierarchy and fulfilling their social obligations over the long term goals. They care more about immediate results than long-term fulfillment.



As you can see in this graph, Finland has low LTO, which means short term orientation. Russia has no data so any analysis is nearly impossible without decent speculation with personal knowledge and some facts from previous dimensions. For the sake of analysis in the second part of this chapter long-term orientation will be analysed.

As it was mentioned earlier Finland has low LTO => short term orientation. Main features of it are: firstly, having personal stability. In short term oriented cultures people tend to focus on their stability right at this moment because this is most important for them, as it will bring them most

happiness. Secondly, short-term oriented people respect traditions; they feel that remembering what was in the past helps them in building their present. So, respecting old habits and remembering traditions are ones of the most important things to do for short-term oriented person. Thirdly, short-term oriented people always “protect their face” which means that they are worried about their image, which is key to their success at the moment. Bad “face” results in bad relationships with people, employees and possible future contacts. (Andrews University, 2013)

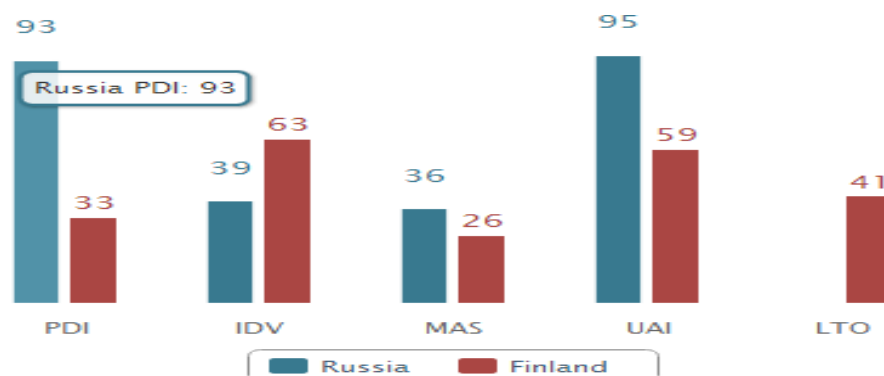
Overall, low LTO cultures look only at past and present, nearly ignoring somewhat far future as it does not matter. Finland is not totally short-term as LTO score is somewhat average. Finnish people tend to follow a “carpe diem” lifestyle, which is in English seize the day.

For the sake of analysis, high LTO in Russia will also be considered. Cultures with high LTO tend to focus on persistence and stability. For long-term oriented people steady and slow development is more favourable than skyrocket growth, which may result in huge downfall. Also, it is important to be adaptable to the new situations that arise during that long-term plan, people have set to themselves. Moreover, high LTO cultures do not see leisure time as something important, it is mostly a thing which may interrupt long term plans. Of course, main sector of investing is real estate as it has highest profits with long-term investment plan. (Andrews University, 2013)

In conclusion, it is crucial to understand if people you are working with are long-term or short-term oriented, as it will make your partnership with them easier if you know how to approach them. It is nearly useless to motivate long-term oriented person with immediate profits, as well as it is useless to motivate short-term oriented person with possible 300% profits after 20 years.

4.3.6 Conclusion

Overview of information in previous chapters is in the table below.



Source: Geert Hofstede website

Russia and Finland are 2 very different countries and data which is provided by Hofstede's research only proves it. It is very challenging for a Finn to run a successful business in Russia because of all this differences.

Finns are used to low PDI, because since high-school it is completely fine to have friendly relationships with your teachers, as it continues workplace, where employer can go with employees to café. While in Russia it is just other way around. Businessmen should be able to find needed balance between what he used to do and what will suit other culture better. Though, differences in some point are compensated by almost similar results in masculinity, which negates one sort of problems from the table.

Overall I feel like it is fairly challenging to work with Russian companies/employees, but very rewarding as Russians tend to be very hard working and power-appreciative. Being a good leader will only bring you complete respect and trust from your employees. Based on cultural research I can conclude that working with Russian customers/employees/companies will be very challenging, rewarding and interesting.

5 MARKET ANALYSIS

In this chapter there will be analysis of practical issues connected to moving business abroad. In order to make it as clear as possible analysis will be based on different fields of foreign market supported by viable sources. Main topics will be analysing fields such as: potential local partners or competitors, ways to advertise products in Russia, analysis of average prices, modern business environment in Russia and it all will be concluded with PEST analysis.

5.1 Potential partners and/or competitors in Russia

This chapter will focus on overlook of market in St. Petersburg and also will take a look at companies who operate everywhere in Russia. Main goal of this chapter is to get a vision of market situation in Russia (St. Petersburg in particular)

100pechey – Is a company with an idea that sauna accessories are not just small things that can be there or not, sauna (banya) accessories are there for making experience and atmosphere as good as possible. With this philosophy 100pechey are offering to their customers all variety of products starting from special hats and going all the way up to special birch “venik”. All their accessories are specially decorated to make atmosphere in sauna unbelievable. Whole varieties of products are made from materials that are resistant to high temperatures and are not getting extremely hot. Wooden products are made from special wood, which will disperse healthy fumes when it will be heat up. Company also offers personal assistance in picking up right accessories. (100pechey.ru)

Saunday – is a company that produces huge variety of equipment for sauna, banya and bath. They sell all types of sauna radiators, chimneys, water tanks for banya, steamers, and wooden cover for sauna, doors and more.

Customer can order sauna with special “insides” online and wait for people to come and build it. Saunday is a very strong sauna retailer with good product chain. (saunday.ru)

Happy Home – Company similar to 100pechey with philosophy that sauna is a special thing, but without accessories it is losing in quality and atmosphere. They offer everything you can use in sauna from textile products (hats, pareo’s, bathrobes), cosmetics, “veniks” and other standard accessories. One special thing is that this company is positioning itself as a place where customer can buy a gift for their friends and family. (Happyhome.ru)

Richwood – produces and sells saunas from all sorts of wood. Offering this huge variety of materials allows them to make special range of prices which will be suitable as for middle class customers as to very rich customers. If customer has room for banya already made, then they offer final furnishing of sauna. Their own designers make sure that sauna will fit customer’s personality and style of life. Company also offers repair feature if something happened to sauna. Overall Richwood is a very strong company which is offering wide range of products and prices. (richwood.ru)

Russkii Master – company which operates since 2001 and from there on company positions itself as reliable and stable partner for business and private customers. Main activity of the company is production and sale of materials which are suitable for sauna and banya construction, furnishing materials from special wood. Having their own manufacturing site allows company to offer materials with a price which is lower than competitor price. Russkii Master is a strong company which is working at its own, with their own manufacturing plant. (derevovdom.ru)

Bany812 – is a company which history goes 12 years back. They operate only in St. Petersburg and Leningrad region. They have good connections with their suppliers and customers, because of their stable and high-quality work. Bany812 make banya and saunas at the place opposite to most manufacturers who offer ready-made banyas. They justify their position because they want to bring high-quality to customer’s place and it is only possible if company will do it exactly where sauna should be built. On company’s website you can find contact with their customers. Bany812 is a solid company with stable target market which consists of people who go for summer vacation to their summer house. (bany812.ru)

Banidom – is a company with a philosophy of banya being a place where customer can hide from everyday problems and relax. Company offers their own ready-made projects as well as custom project, which is created by customer himself. Company’s main activities are – constructing banya from a raw wood and building houses. This company has no “banya” focus because they focus on all wood-based construction. (banidom.com)

Rem Stroi SPB - is a constructing company with banya-construction as a part of their business. Banya building-wise they offer same services as Banidom.

This company is a huge manufacturer in St. Petersburg, but does not focus only on constructing banyas.

Besides St. Petersburg focused companies there are also big companies who operate in Moscow, St. Petersburg and other big cities in Russia. Those companies are: Sauna-Expert, Saunov, Nash Kedr and Banny Master.

Sauna-Expert – Is a huge retailer who offers all sorts of products for saunas. They offer special heaters, doors, furnishing, construction and design. Company has 15 year experience in sauna construction, which makes it one of the oldest sauna producers in modern Russia. (sauna-expert.ru)

Saunov – Is the only online sauna-shop in this list. On their website they offer all accessories for saunas as well as they offer heaters and other essential sauna parts. This company is a retailer and they sell products from different manufacturers.

Nash Kedr – is a company focusing on both private and business customers. They offer wide range of sauna products made from different type of wood, allowing company to arrange flexible prices.

Banny Master – Company producing furniture for sauna. They produce benches, tables and other types of furniture needed in sauna or banya. Banny Master is one of the companies which are focusing only on furniture, without offering huge variety of product lines.

All of companies that were mentioned above are competitors from the beginning, but some of them might be open to cooperation and sell Kärävä's products in their shops. Companies that I would recommend to contact are Saunday and Saunov.

5.2 Average prices

Prices of building average sauna

	Rem Stroi SPB	Bany812	Banidom
Lowest price	3500 euro	3087.5 euro	2525 euro
Average price of all offered products combined	-----	4016.5 euro	3225 euro
Highest Price	Depends on customer need	4466.25 euro	4125 euro

Source: Own creation, prices adjusted from Rubles.

Pricing was taken from websites of the companies. 3 companies were chosen as an example of price for building a sauna or banya. These are the companies that either focus only on construction of banyas or are professional constructing company.

Pricing for Rem Stroi SPB is completely flexible, lowest price I could get with in-built calculator was around 3500 euro. There is nearly no limit in how good customer wants his sauna to be. (Sources: spbremstroi.ru, bany812.ru, banidom.com)

Prices of accessories for the sauna:

product	100pechey	Happy Home	Saunov
Wooden bucket	23.4 euro	24.3 euro	17.75 euro
Ladle	4.4 euro	5 euro	6.5 euro
Wooden scone	7.6 euro	10 euro	7.5 euro
Wooden mats	4.7 euro	4 euro	5.5 euro
Wooden bench	10.1 euro	Not available	25.5 euro
Headrests	6.5 euro	16.75 euro	5.5 euro
Sauna textile	5 euro	19.25 euro	5.5 euro
Venik	4.5 euro	5 euro	3.75 euro
Total	66.2 euro	84.3 euro	77.5 euro

Source: Own creation, prices adjusted from Rubles.

Pricing was taken from websites of the companies. 3 companies were chosen as an example of price for sauna and banya accessories. These are the companies that either focus only accessories for banyas or sell them as their complementary products. In pricing symbol “+” shows that this is minimum price for the product and there is available variety of more expensive products. Symbol “+” shows that there are product(s) both cheap-

er and more expensive, but cheap product was not suitable for analysis. (Sources: 100pechey.ru, happyhome.ru, saunov.ru)

Pricing for both accessories and banyas/saunas is obviously quite flexible, which is visible from tables above. Cheapest sauna to construct will cost around 2500 euro, while most expensive one can be as expensive as customer will only wish.

Same stands for accessories, you can get “banya set” for 66 euros, or you can spend more and get products of better quality and brand. For Kärävä Oy it means that pricing range where it can fit is very high and being company with around average prices might bring success in Russian market.

5.3 Advertising possibilities in Russia

In this chapter all well-known possibilities to advertise in St. Petersburg will be listed and analysed. As in any other place there are endless possibilities to advertise and get best of a company. Some of them may be good; some of them may be a bit worse, but after all they offer to companies a good way to make their brand visible.

5.3.1 Online advertisements and sales possibilities in Russia

Online services allow companies to put information about their product on the web.

OZON.RU – is an online “megamarket” which was founded in 1998 and is first and the biggest online retailer working in a B2C (business to customer) environment. Company is known for their perfectly balanced logistics and easy to use interface, both together it sums up in cheaper goods with a pleasure of purchasing. Being biggest online retailer in Russia, this website is visited by 600 000 people every day. Clients do up to 12.5 million transactions and view up to 70 million pages every month.

OZON offers everything online market needs – clear pictures, good description of a product, feedback system, recommendation system which is based on customer preferences. For businesses who want to work with OZON, they offer broad range of advertising products such as banners, being able to get to promotional page (where products of the week listed), putting advertisement in the online journal OZON-Guide, where company employees recommend certain products. Besides online features, companies can use offline ones such as brochures. Companies, who sell at OZON, get their own page where they can build their own “mini market” with special offers like product of the month (with additional discount for example), list their company’s news and latest product innovations. Tools are chosen by company itself, possibly with a help of OZON employees, based on budget, goals and target market. (ozon.ru, 2013)

Yandex.Market – Yandex is an online search engine which offers broad variety of services, such as Yandex.Mail, Yandex.Weather etc. This company is basically Russian Yahoo/Google and this allows them to have loyal customers in Russia, because they are best search portal in Russia. Yandex.Market itself is small version of OZON. They offer online everything from batteries to houses and of course saunas. Their engine allows businesses to put their products online with some sort of advertisement. Overall Yandex.Market is a good place to start and try-out some strategies, but it is fairly small to count for big success. (market.yandex.ru, 2013)

Saunov.ru – As mentioned earlier, this website is a good online market for saunas and banyas and their accessories. They sell products mainly from Russia, but they also sell Finnish accessories (mainly heaters). This website has advantage of being strictly sauna oriented

Vk.com – V Kontakte is mainly known as Russian-Facebook, website with very big customer base. This is a very good chance for small companies to climb their way up, because opening page is free of charge and big customer based makes sure, that some people will get at your page and check out your products.

Overall, I would recommend OZON, Saunov and VK for sales and advertising. OZON is good because it is a giant retailer with numerous possibilities of selling, but downside of it is the fact that opening your own “mini-market” in OZON can be quite costly. But personally I would recommend VK and Saunov in order to start building customer base in a steady and calm manner.

5.3.2 Offline advertisements and sales possibilities in Russia

K-Rauta Saint Petersburg – K-Rauta is well known retailer in Finland who offers all sorts of product for home, construction and leisure time at customer’s summer house. In Russia K-Rauta is also very strong retailer with connections to different manufacturers. They sell local products as well as products from abroad, for example from Finland. Private businesses can be partners with K-Rauta and sell their own product at the store. K-Rauta works also in Moscow and other big cities in European part of Russia. For a Finnish company it is very comfortable to work with a partner who has also big retailer shop in Finland. (k-rauta.ru, 2013)

Maxidom – Is a retailer with 15 years of experience. This company is quite similar to K- Rauta, but it is local company, so customers may prefer it over international company. Company’s main activity is selling local and international products with decent price/quality ratio. Maxidom is very famous in St. Petersburg, over 98% of town citizens know about this store and 75% made their purchases there. (MAXIDOM website, 2013) This company has experience in cooperation with exporters and is always willing to broaden range of their products. Maxidom is a very good company to partner with.

These are two biggest companies that have experience in working with international partners, have good image and are very popular in St. Petersburg. I would strongly recommend considering making contacts with either of them, because it can be the best way to start selling products in Russia.

5.3.3 Conclusion

Russian region (St. Petersburg in particular) is very attractive sales-wise and marketing-wise. There are numbers of possibilities that were not listed here, because they do not seem to be as important as listed ones.

5.4 Modern business environment in Russia

As was stated in paragraph 4.3, Russia is absolutely different country. Doing business there is nothing but very challenging, although market growth is extremely high, which makes this country attractive to entrepreneurs.

5.4.1 Business climate

After the collapse of USSR, business environment in Russia started its development. In the year 1992 Russian market became open to everyone and numbers of business men came in for some profits. At first financial and legal systems in Russia were disastrous and company could lose everything, just because they did small misstep. Nowadays tax system in Russia is fairly transparent, Russian market is completely integrated with global market, customs became less complex. On the other hand, business operations in Russia are far from healthy. It is hard to achieve certain goals without facing corruption, bureaucracy and poor legal system. Government has set its goal number one – fighting corruption. Moreover, for small companies it is hard to find resources for their company, because interest on bank loans is extremely high. In order to fight those issues Russian Government introduced new economic policy and some major development goals. (S&G, 2013)

Economic policy in Russia is focusing on stability of country in social, political and economic fields. During crisis times, when companies were going bankrupt, Russia together with Central Bank have developed special package which was aimed at reducing damage done to crisis and stimulate regeneration of economy. In year 2005 Russian government introduced several National Programs, which are focusing at main areas of human welfare – health, education, housing and agriculture.

Other major developments goals were introduced in the article written by Dmitri Medvedev, president of Russian Federation. Article was called “GO, Russia” and it identified key areas for development of Russia. Those areas were exactly as follows:

”Efficiency of production, transport and use of energy has to be increased and new fuels (besides fossil) have to be introduced for use on domestic markets.

Nuclear energy sources should be renewed and maintained in the safest possible way.

Improving IT and influence the development of global data networks. Creation of supercomputers and special equipment will be funded.

Develop Russia’s own ground and space infrastructure in order to maximise efficiency of information transfer

Take a lead in producing medical and health care equipment in order to make progress in fighting special viral, cardiovascular, neurological diseases and cancer.” (S&G, 2013)

Overall, it is clearly visible that Russia is doing progress in making business environment healthier in order to attract international investments.

5.4.2 International agreements

Russia is a strong international power and has a lot of influence of everything that happens globally. Russia is a successor to the former USSR in international law, thus it has permanent seat on the UN Security Council, membership in numerous international organisations, rights and obligations under international treaties, and debts. Russia is also active member of G8 (Group of Eight), joining this organisation in 1994 Russia has its positions there secure and influence only powering up. Here is the exact list of organisations Russia is member of:

International Structures

- *United Nations: Security Council, General Assembly, United Nations specialized agencies*
- *Group of Eight*
- *Group of Twenty*
- *Council of Europe*
- *Organization for Security and Cooperation in Europe*
- *Permanent Court of Arbitration, also known as the Hague Tribunal*

Economic Organizations

- *United Nations Conference on Trade and Development*

Financial

- *International Bank for Reconstruction and Development*
 - *International Development Association*
 - *Multilateral Investment Guarantee Agency*
 - *International Monetary Fund*
 - *International Finance Corporation*
 - *Bank for International Settlements*
 - *Paris Club*
- (S&G, 2013)

Russia has special relationships with organisations country is not member of such as NATO, European Union and World Trade Organisation. With NATO Russia has signed NATO-Russia pact, agreeing on mutual friendship and development. With European Union Russia has Partnership and Cooperation agreement, which ensures healthy relationships between these two countries. Main factors are: Common economic space, Common space of freedom, security and justice; cooperation in the field of external security; research and education.

With WTO Russia is currently negotiating and having role of an observer. (S&G, 2013)

5.4.3 Legal Environment

Legal environment in Russia is far from ideal, because if you are involved in some kind of tax dispute, then your process can take 9-12 months at least, because you will have to go through several courts (3 levels) up to Arbitraz (head court in Russia). This is one of the things that scare investors and entrepreneurs away.

5.4.4 Regulations for businesses

There are 2 main regulations for businesses in Russia – Competition Policy and Price control.

Competition policy in Russia is focused on fighting with monopolies. Primary regulator of the market is Federal Anti-monopoly Service (FAS); its main priority is to monitor companies in order to maintain competition law obedience, which is in fact anti-monopolistic law. Basically it is prohibited to get a control over pricing, which will put company into the dominant position. However there are some exceptions, such as if company is dominant force in the market already, then no one would force it away, but will just imply the rule of pricing, when company is not able to dump prices. FAS can also audit companies in order to control if company is following competition law. Russian law implies criminal responsibility for breaching competition law.

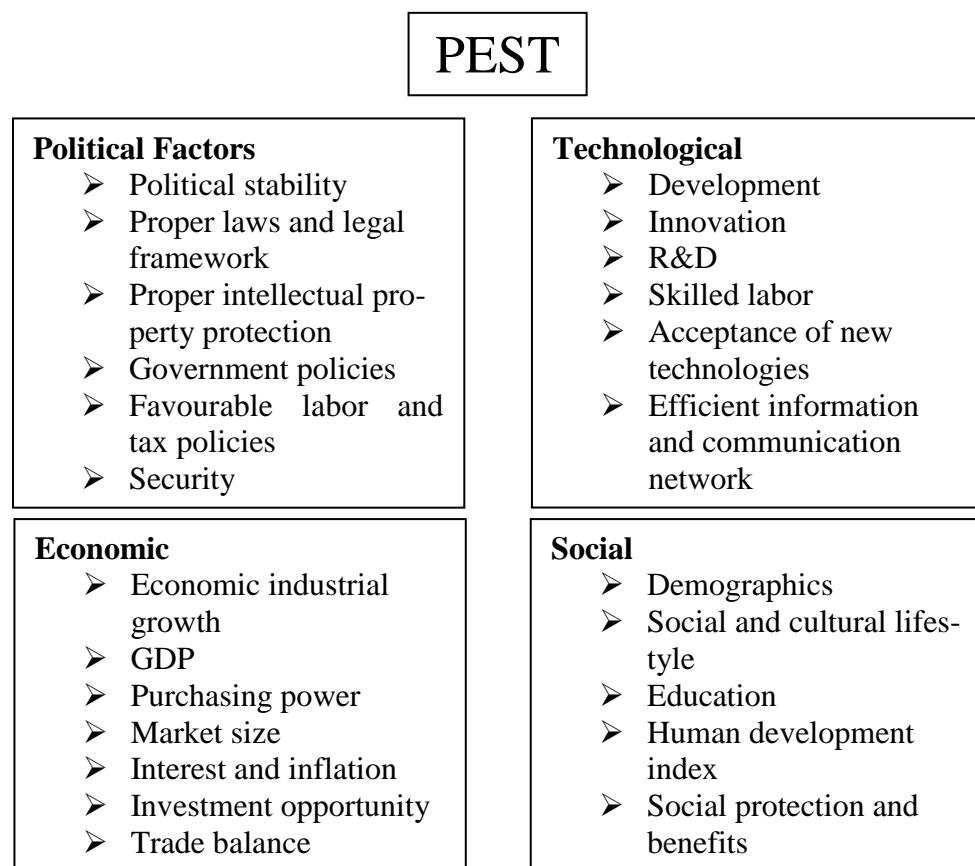
Price control in Russia is a rule when companies should set prices according to state tariffs; this rule mainly concerns natural monopolies such as gas, railway, and electricity companies. If any company seem to be dominating the market, it will get attention of FAS in order to clarify if every action taken the company follows the law. All patents and trademarks in Russia are international and are protected by intellectual property protection law. Protection of intellectual property in Russia, at least on legal basis, is done at global level, making it safe to bring company's innovation to Russia. (S&G, 2013)

5.4.5 Conclusion

Business situation in Russia is getting more and more stable year after year. Yet there are some legislative hiccups, but opportunities that are offered by Russian market are too good to ignore them because of that.

5.5 PEST Analysis

PEST analysis is a macroeconomic framework for analysing conditions in a certain country based on 4 different factors – political, economic, technological, and social.



Source: Own creation

5.5.1 Political

Political factors highlight the degree of government intervention in economy. Most influential factors are political stability, law and legal framework (which were touched upon in the previous chapter) as well as labour and tax policies. Nevertheless there are factors which are also dependant on government and are crucial for modern business. Those are intellectual property protection and business security in the region.

5.5.1.1. Stability

There are a lot of different opinions on political stability in Russia nowadays. In this chapter there will be presented two completely different

points of view one from the side of Russia and other from the side of Europe.

The Guardian had an article dated 1st March 2012 called “Putin may win the election but for Russia political stability is over”. In this article journalist writes about last year president elections where Vladimir Putin was elected for the third time in Russian history. Long story short polls show total dominance of Putin as a leader in peoples mind (63-66% popularity rate), but those who are against him are worried that those polls (and elections itself) are paid-off. People in Russia are getting used to go to rallies for both Putin supporters and oppositions. Two huge forces are looking at each other and waiting for someone to make the first step. (The Guardian, 2012)

Other point of view comes from Russia from a news agency RT. Title of an article dated February 2011 is “Stability in Russia: one of the highest in the world”. In this article main focus is given to the fact that Russia has changed a lot in the past 25 years. Since the collapse of USSR most of Soviet structure stayed intact in politics, which resulted in shake-offs during 1990’s. But at the moment all problems are solved and political structure has changed, making Russia the most politically stable country in the world by the words of Deputy Prime Minister Igor Sechin. Also he stated that Russia has very good investing climate and should be attracting even more investors. (RT, 2011)

Information which is coming from those two articles is indeed completely different but one is certain for sure – Russia is the better place for business now than it was 20 years ago.

5.5.1.2. Intellectual property protection

In Russia there is a strict system of Intellectual property protection and all information about it can be found on the website of Russian Chamber of Commerce. Russian IPR is not yet as complex and deep as most of the western IPR systems, but it is secure enough for businesses to be safe. Company which is operating in Russia can ensure safety of the following operating assets: company and brand name, trade and service marks, company-unique software and databases, inventions, selection achievements and know-how’s. If company has online presence in Russian market then additionally company can protect their domain name and unique web-design and content.

Company and brand name have common protection policy which is granted by trademark. Once protection is granted any illegal use of company name and brand is prosecutable. Creative works are protected by copyright law, although it has a lot of complication (e.g. creative work was done by employer then also civil law applies). Know-hows and inventions can be protected by patenting. In connection to E-commerce owner can ensure copyright protection on design, contents and database.

Overall Russian IPR system is far from perfect and very far from complex western IPR systems, but it still can provide basic protection from infringement and stealing. It is important to notice that system is improving year after year and entrepreneurs should feel safe starting business in Russia (RUSCHAMB, 2013)

5.5.1.3. Government policies

Russia is still in the stage of development because the country as we know it now is only 22 years old. Government has introduced in the past series of national projects which were oriented on boosting medicine and education systems in Russia. It would be fair to say that it gave results because both systems were ruined after the collapse of USSR. Now Russian government introduced new projects to be done until year 2018. Those projects are as follows: improving government administration, promoting inter-ethnic harmony (some sort of anti-racism development); introducing new demographic and social policies; increasing level of healthcare and education; investments in science; creating affordable housing for citizens.

Why is it important for businesses? High level of education provides highly skilled workforce and every employer wants their employees to be healthy. Also improving government administration has a focus on getting rid of corruption which will only play on hand for foreign investors. This means that all changes which government is planning to implement will be very positive changes for investors and entrepreneurs. (Government.Ru, 2013)

5.5.1.4. Labour and tax policies

Tax system in Russia is very new and different from what is normal in Finland. Main difference is that personal income tax rate is flat low on 13% of income. Moreover corporate tax is also flat and was reduced recently from 35% to 24%. Also VAT tax is fixed at 18%. Tax burden also depends on a sector company is operating in, for example extraction of natural resources is taxed on 45.1% rate while wholesale and retail only at 3.8% tax rate. (Appendix 1)

In order to register as a foreign taxpayer in Russia, company should register in every region it has activities in and provide detailed reports of activities every 30 days for a year. Special cases are as follows: a) ownership immovable property in Russia b) ownership vehicles in Russia c) a company has movable property subject to taxation in Russia d) has Russian bank account(s). (PWC Russia, 2008)

Labour policies in Russia are somewhat similar to European labour policies. Standard working hours are 40 hours during five-six days with hour-reduction for people with special conditions. Employers should keep record of their work-time even if they were working overtime. All employees are entitled for 28 days of annual paid leave (can be vacation or sick leave), normally employee is entitled for a vacation after at least six

months of work in the company. Employee should plan his vacation and present his plan before by December of preceding year. Russian Labour Code gives additional protection to employees with special conditions such as: female employees, employees with kids, minors and others. If employee decides to quit then he should give a two-week notice before resignation.

Important to know, employees do not pay any social contributions, but they are covered by their employer. Employers pay UST (Unified social tax) which is 26% of remuneration for low-income and 2% for high income payments. Also employers pay OPI (Obligatory Pension Insurance) which depends on employee remuneration. Moreover employers pay AI (Mandatory Accident Insurance) it varies from 0.2% to 8.5% depending on the risk level. (PWC Russia, 2008)

5.5.1.5. Business security

One of the major business security issues in 2000s in Russia was Shell Sakhalin conflict, which was touched upon in the previous chapters. In the year 1996 Shell made a 22\$ billion deal with Russia and took part in Sakhalin development project. This deal was not in favour of Russia but it was 1990's and Russia was in terrible situation, so they agreed on the deal. Eleven years later in the year 2007 Shell was accused in abusing situation in 1996 and was denied the share of project from 55% to 27.5% and making main shareholder Gazprom. (CNN, 2007)

Why is this situation relevant to the topic? It is obvious that if business is big, strong and shows a lot of competition to local business, then government may intervene and push it back either directly or using new regulations and policies. While it does not harm medium sized businesses directly but they also can get hurt. This issue is relevant especially now when Russia is trying to empower local small and middle-size businesses. (GTReview, 2013)

5.5.2 Economic

Economic factors highlight the impact of economy on businesses in the region. Most influential factors are GDP, Tax rates (was touched upon in the previous chapter), inflation and interest rates. Nevertheless there are factors which are also dependant on economy such as purchasing power of customers, market size and investment opportunities. Those are intellectual property protection and business security in the region. Although, this chapter will start with economic and industrial growth of a county as it will be a ground for other data.

5.5.2.1. Economic and industrial growth

Before year 2013 Russia had a positive growth rate of 3.4%, although growth rate is still positive, but momentum is lost and World Bank is predicting drop of growth rate up to 1.8% which is almost 50% loss. The rea-

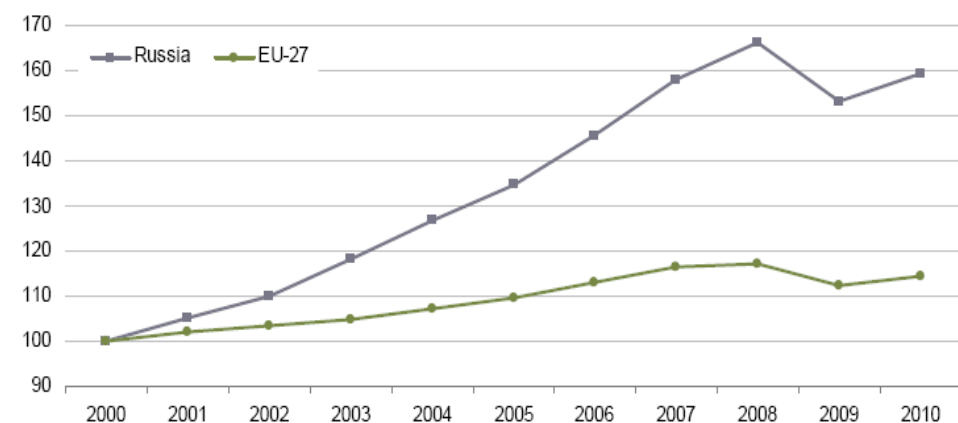
sons for the slowdown are weaker demand, high dependence of Russia on Oil-gas and other natural resources. Also, high-investment projects such as Sochi Winter Olympics are almost done and there are no as high valued projects as this. Due to dependence on oil and gas export, Russian position on the market was harmed by a stable oil-barrel price which stopped at 100\$ per barrel. Consumers, investors and entrepreneurs are not that certain about Russian future and are more careful with their money. That results in lower investment rates and lower consumption.

World Bank assumes that growth rate which Russia will achieve in 2013 will be optimal for current situation in Russia, meaning that earlier growth was boosted by high oil price and Winter Olympics project.

Despite the grim future, World bank projects Russian growth rate in 2014 to be back to 3.4% due to projected oil price increased to 105\$ per barrel. Nevertheless, World Bank still sets “high risk” grief on any Russian investments. (World Bank, 2013)

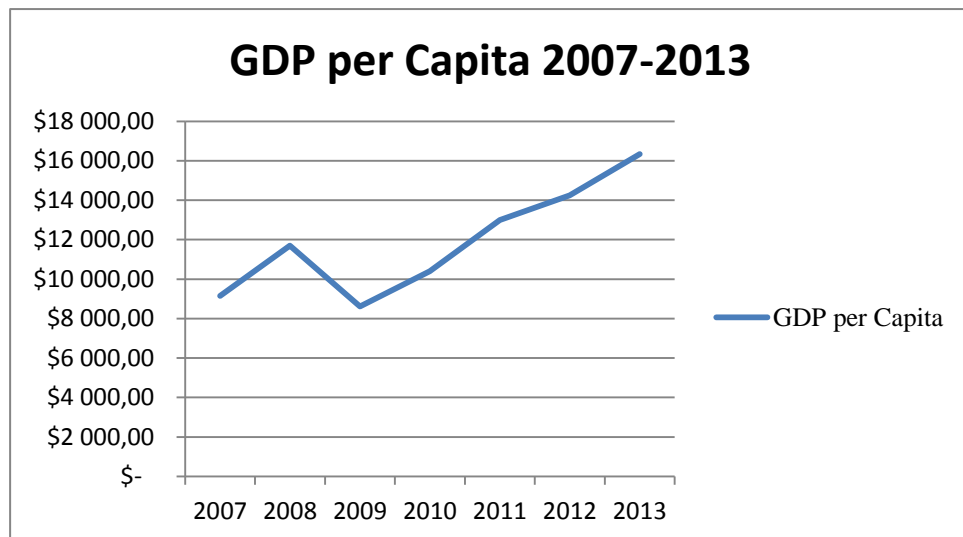
5.5.2.2. GDP

Russian GDP growth rate was good compared to EU27 on a time-span of 10 years (2000-2010). Above you can see indexed table comparing Russian and EU27 GDP.



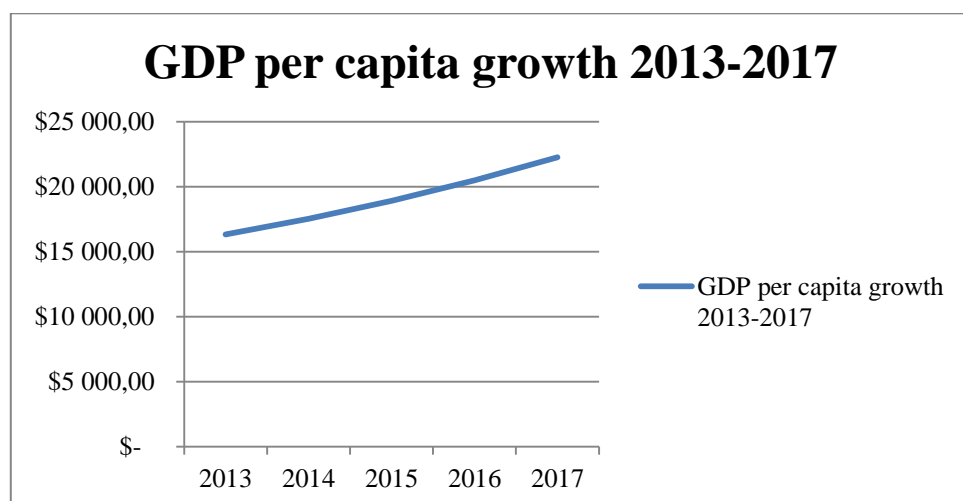
Source: EuroStat

As you can see Russia has stable growth rate until World Financial crisis and in the year 2010 started recovery process. According to EconStats GDP per capita in Russia was as follows:



Source: Own creation based on data from EconStats

As you can see after mid 2009 Russia has recovered from crisis and is going through growth phase once again. GDP values for year 2011 were 12993\$ per capita, in the year 2012 they were 14246\$ and in year 2013 they are still at the level of 16337\$. (EconStats, 2013) EconStats predicts continuous growth rate for Russia:



Source: Own creation based on data from EuroStats

In the next four years it is forecasted that Russia will have GDP very steady GDP growth rate at around 2-3% as it was also forecasted by World Bank (this means that data is accurate and legit). (EconStats, 2013)

Overall it looks very positive for investors who are thinking about opening a business in Russia. Although World Bank marks Russia as “high risk”, statistics show that future is quite bright.

5.5.2.3. Purchasing power of customers

Recent information on the purchasing power of customers indicates that Russian customers are able to buy 70% more durable goods and 25% more food than they could do during the Soviet era and early 1990s. Also WHO

(World Health Organisation) reports that Russians spend 40% more on private healthcare, which is more than average level in Europe. Moreover, Russians have one of the highest square feet per capita in Europe on a level of 237 square feet. The only country in Europe with higher measure is Finland with 420 square feet per capita.

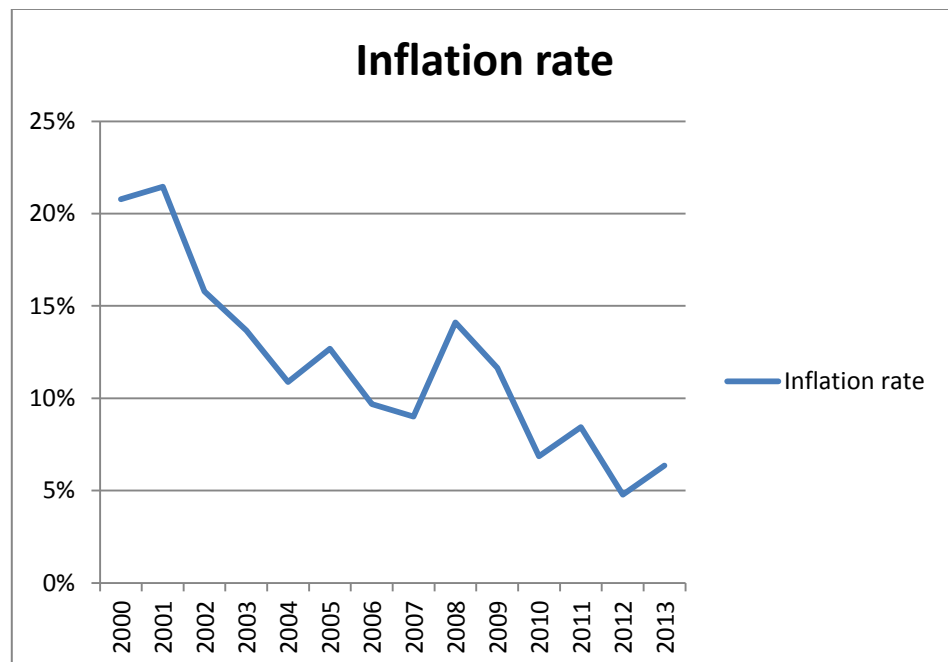
Overall income growth in Russia was around 45% in 20 years, which is indeed not that much, but still Russian people are able to live a good life and they can afford goods they want.

5.5.2.4. Market characteristics

Russian market characteristics are very interesting to investors and entrepreneurs. It is possible to buy a lot of market-specific researches for 1000+ euro. It is impossible to use this kind of literature in this thesis, thus eurostat information will be used. Total population in Russia is 141 million with average life expectancy 74.2 years for women and 61.8 for men. In Russia there are 67% economically active people and men being the most economically active.

5.5.2.5. Interest and inflation

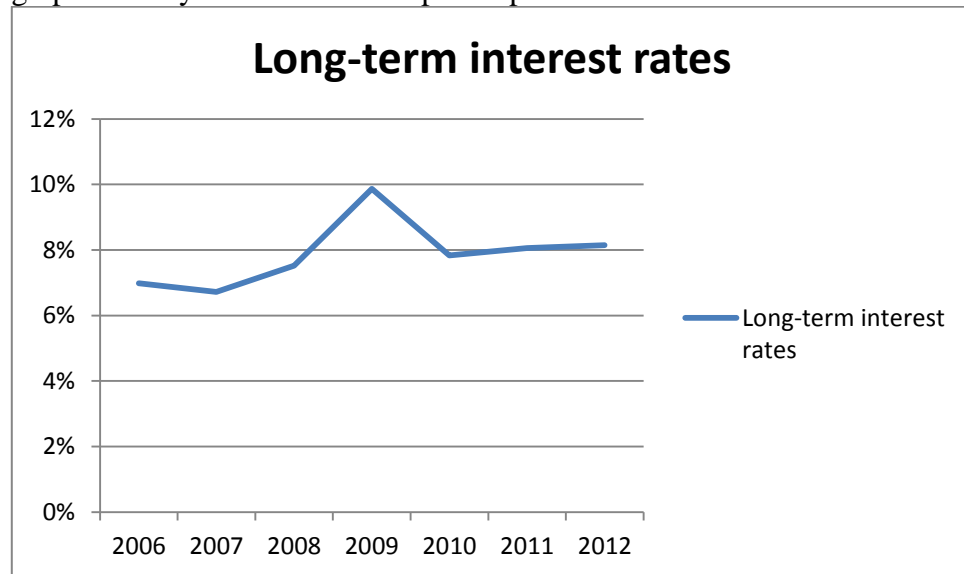
Inflation rate in Russia was always an issue in the last 20 years. Although last year's developments successfully lowered inflation rate in Russia to the adequate level:



Source: Own creation based on EuroStats data

As you can see on this graph inflation has always fluctuated but pattern of inflation reduction is quite clear. EconStats project future inflation rate to be at 6.5%. (EconStats, 2013)

Interest rates in Russia always were very high compared to Finland. In the graph below you can see development process of interest rates in Russia.



Source: Own creation based on OECD data

Long term interest rates in Russia are now at the level of 8.15% (as of 2012), which is very high level interest rate. (OECD, 2012) Overall, Russia is a country with high inflation rate (compared to 2% average inflation rate target of EU) and very high long-term interest rate. This makes taking loans in Russia a very risky and expensive action and not advised to do.

5.5.2.6. Investment opportunity

Latest investment opportunity in Russia is Sochi 2014 Olympic Games, which attracted enormous amount of investors who were happy to invest money in a very secure project which was controlled by Russian Government. After Sochi2014 project will be over, there are still numerous possibilities for investment in Russia. Most obvious ones are investment into extraction of natural resources. In this market segment Russia is a strong leader and it may bring up high profits. (Invest.Gov.ru, 2013)

But neither of those actions is connected to the thesis topic, so the question is what kind of investment will go on par with this thesis topic? As it was mentioned earlier in chapter 5.5.1.3 that Russia is going to boost healthcare and education until year 2018. Also it is known that Russians are very keen on using saunas as method of improving personal health. Thus healthcare can be good investment target, for example opening network of saunas which will be used as a health improving method by Russian citizens. (Just some personal thoughts)

5.5.3 Social

This chapter will focus on social aspect of the PEST analysis. It will consist of demographics, social and cultural lifestyle, education and HDI (human development index). Understanding social aspect is very im-

portant for businesses because it can help with understanding of certain culture and people's needs.

5.5.3.1. Demographics

As it was mentioned in the chapter 5.5.2.4 that Russia has population over 140million and 45.8% of population is 25-54 years old. Male to female ratio is 0.85/1, meaning that for 1000 women there are only 850 men. 72% of population lives in urban areas, but this number is slowly decreasing at a rate of 0.2% per year. This can be explained with the fact that Russian people originally have a habit to live closer to the nature. (Indexmundi, 2013)

Two biggest cities in Russia are Moscow with population of 10.9million and Saint Petersburg with population of 4.575million. Main target of our research is Saint-Petersburg and its demographics. In Saint Petersburg male population is 45% and female 55%. There are about 1,6million to 1,8million families. Most families (36%) consist of 3 people and families with 4 people are making up to 22% of whole families in St. Petersburg. (Express To Russia, 2013)

Why is it important for this research? Sauna and banya in Russia is completely social and family thing. You can rarely find a person who will start the sauna and go there alone, because usually people go to sauna and banya with friends and family. The bigger is the family the more likely they will have sauna at their house or summer house.

5.5.3.2. Social and cultural lifestyle

Russian people consider themselves as a very educated nation due to very high educational standards in USSR. Also, the fact that Russia was a motherland for writers and poets such as Pushkin, Tolstoy, Dostoevsky and many others, makes Russian people proud of their nation and history, especially when educational background is considered. Also price for books is very low, so people even with very low income can afford a lot of good books for a reading time in the evening. Also, something that is not as common in Europe is amount of theatres in Russia. Basically any city has theatre where almost everyday citizens can find something to watch or listen to. This is especially important for St. Petersburg as this city is regarded as a cultural capital of Russia. There is no other city in Russia where you can find so many theatres, museums and book stores.

As it was mentioned in the Culture Differences chapter, Russia is highly collectivistic country and people tend to get into groups of friends and start family fairly early. Knowing right people can also help you to get things done faster and easier.

Russian people do not have western politeness and usually try to be straightforward with others. It is not the way of being rude, but just the way of doing things in Russia. Also Russian people tend to find crazy so-

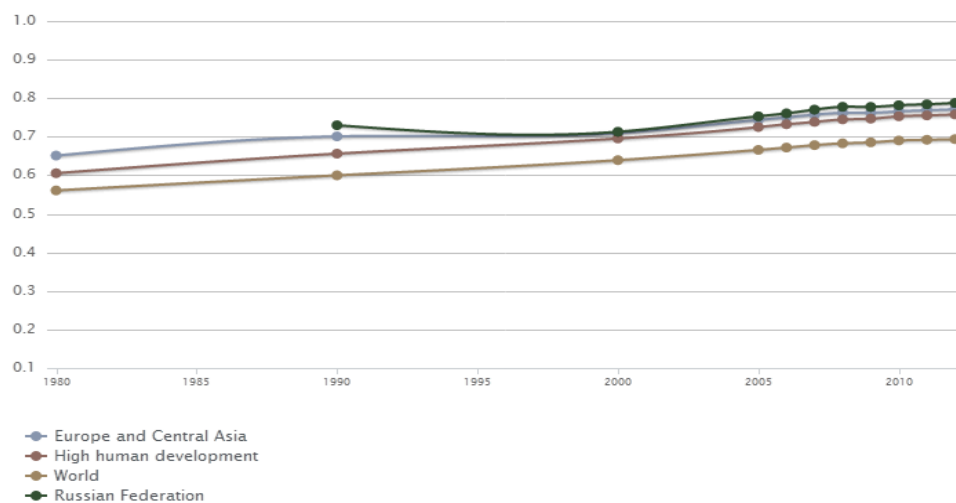
lutions for common problems and it serves as a reason for saying “this nation is invincible” (regarded as: no one can beat this country). Last but not most important point is that Russians love their country and anyone who will insult Mother Russia can become a very unwelcomed person or even kind of an enemy. (Just go Russia, 2011)

5.5.3.3. Education

As it was mentioned in the previous chapter, Russian people are considering themselves as a highly educated nation. Reason for that is somewhat complex education system. Perks of the system do not give this country 1st place in “best education” competition, but ensure that person is prepared for everything in his life. School is 11 years long and during this year’s kids get some knowledge about everything and also have their focused study (sort of major) in math/physics or anything else they want to. All education in Russia is controlled by ministry of education (which receives a lot of criticism). (Ministry of Education, 2013)

5.5.3.4. Human development index

HDI (Human Development Index) is one of the measures of country’s success. Before introduction of HDI analysts were using typical economic measures which did not show how developed certain country in social aspect, which is extremely important in modern business. Russia is ranked 55th out of 187 countries with HDI of 0.788 which is well above average in the region.



Source: UNDP, 2011

In this graph you can see steady trend of HDI increase after 1990s. Also it is visible how Russia HDI is going on par with European average level of HDI.

5.5.4 Technological

This chapter will focus on technological development of the country. It will touch aspects such as development, innovation and R&D. Also, it is very important to know if labour is decently skilled in the region. Last but

not least this chapter will analyse efficiency of information and communication networks in Russia.

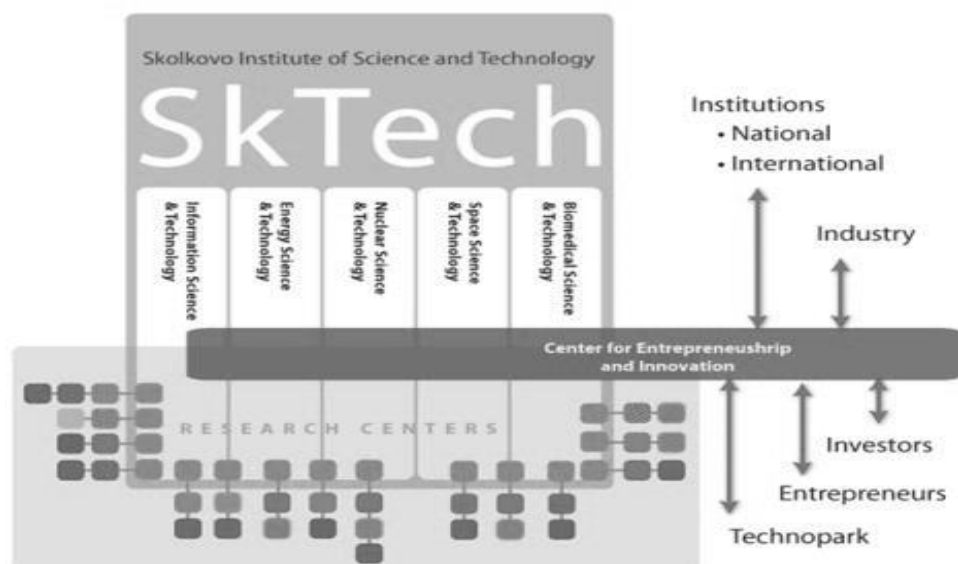
5.5.4.1. Development

After the collapse of USSR, Russia is struggling with revival of science and technology because all of it was left in 1990s in a terrible shape. In the year 2007 Russia was placed 50th in a technological report which was made by UN. This rating was conducted with a use of 11 indicators such as: number of Internet users, level of education and literacy rate, access to stationary and mobile telephones, as well as wideband digital networks. (RIA Novosti, 2009)

At the moment Russian government is supporting huge project which is called Skolkovo. Skolkovo is planned to be an analogue of Silicon Valley in US, a region where science is concentrated. According to Skolkovo website, its main goal is to concentrate intellectual capital in one place in order to achieve new highs in science and technology. (Skolkovo, 2013) Further discussion in this chapter will continue to be about Skolkovo and Skoltech.

5.5.4.2. Innovation and R&D

In order to foster innovation Russian government did not stop only on Skolkovo, but also they opened university called SkolTech which is outside of Moscow and its main goal is to educate creative thinking and innovative people. The graph below explains every step in innovation process taken by SkolTech.



Source: SkolTech, 2013

As you can see on this illustration taken from SkolTech website, university is taking major part in fostering innovation and then investors and entrepreneurs start to intervene in the process helping with finances. Also,

national and international institution will bring their brightest minds to make innovation as efficient and well-thought as possible.

5.5.4.3. Skilled labour

Russian education in the past was top-notch in the field on physics and math, that's why so many inventions were made by Russian scientists. Now SkolTech wants to revive educational glory from the past and provide Russian labour market with fresh and very skilled labour. When SkolTech project will be launched on a full power (at the moment it is at the development stage), it will have 200 faculty members, about 400 post-doctoral scientists and 1200 graduate students working in the following core areas: Information Sciences and Technology; Energy Sciences and Technology; Biomedical Sciences and Technology; Nuclear Sciences and Technology; Space Sciences and Technology; Entrepreneurship and Innovation cutting across all the above areas. (SkolTech faculty, 2013)

5.5.4.4. Information and communication network

Russia is the biggest country in the world. With big size of the country comes obvious complication in communications. There are places where it is hard to get even with special vehicles and in those places thousands of people live. Russia is trying to tackle technological challenge by making internet, phone and telecommunications available in every region. Process is still going and is far away from completion, but some results are already here. Latest data shows that amount of phone numbers in Russia is 161million which is higher than actual population size; meaning that at its best every person has at least one mobile phone. (Princeton, 2009) Internet accessibility was key point of development in the year 2007 and it resulted in 50million people (older than 15) accessing internet from Russia. This number is far from European countries (population % wise), but to be honest Russian territory is 1/6 of the land overall and it is hard to achieve higher results. (comScore, 2011)

5.5.5 Conclusion

PEST analysis shows that Russia is a country that should attract investors, because it is a country which is going through very strong development phase at the moment and any investment can be really successful. Also, Russian citizens are getting richer, thus they are going to be able to afford more and more, increasing market density with new companies who want some of that income. Also, Russia is now developing new systems to protect investors and entrepreneurs and make Russia even more attractive to invest. Moreover, current Sochi2014 project is coming to an end, but new football World Championship 2018 project is just starting and it will be massive.

In conclusion it is safe to say that Russia is a good place to invest and develop your business. For Kärävä Oy it is a great opportunity to become big international company with a lot of customers.

5.6 Customer's opinion analysis

This thesis is required to have a field research material, which is in this case customer opinion analysis. Author of this thesis conducted a survey which should reflect how potential customers perceive current sauna and banya market in St. Petersburg. Moreover, potential customers were also asked about their preferences and pricing range they can afford.

In order to get as clean results as possible author has contacted some of the citizens of St. Petersburg directly asking their opinion and assistance in distribution of the questioner. Also, popular forums of St. Petersburg were contacted and asked for help, among them is fan club of St. Petersburg local football club FC-Zenit. Most of the fans of this football club are living in St. Petersburg and are aged from 20 to 50 on average; this age range makes them perfect potential customers. Questioner was answered 84 times by 84 different people and shows clear pattern of how it would behave if there would be more answers.

Important to know that questioner was conducted in Russian language because majority of customers feel more comfortable using Russian language while answering on different surveys. Also conducting survey in Russia reduces chances to have answers being collected from non-target group. Both original and translated copies are available in appendices. Questioner was conducted using Webropol service which was offered by HAMK to thesis writers.

Further, all graphs and questions will be directly translated in English, for original copies reader can open Appendices 2 and 4.

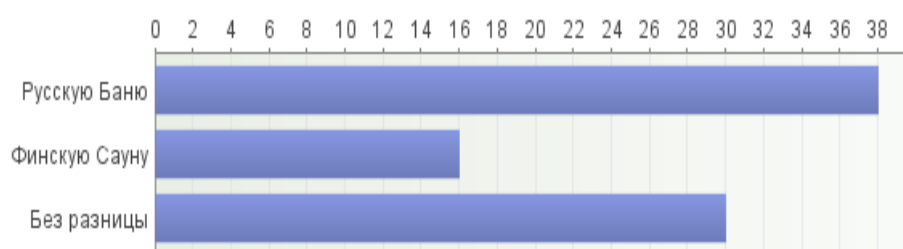
5.6.1 Survey analysis

First question of the survey was intended to justify one of the points in this thesis, which stated that Russians prefer Russian banya over Finnish sauna. You can see the results below:

1. Do you prefer Russian Banya or Finnish Sauna?

Answers are from top to the bottom – Russian Banya; Finnish Sauna; Doesn't matter

Number of respondents: 84



Majority of respondents state that they would prefer Russian banya over Finnish sauna. In numbers, 45% of respondents prefer Russian banya and only 20% would prefer Finnish sauna. Almost 35% of potential customers

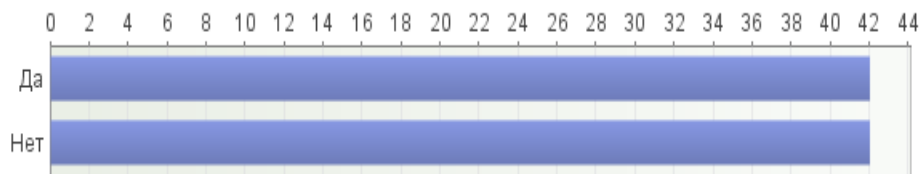
do not care about type of sauna and they just like going to both of them. These results justify the statement made in the chapter 3.1 that Russian people would prefer banya over sauna. From these results a conclusion can be made that if Kärävä Oy is going to sell their products to Russia they should consider producing Russian banyas over Finnish saunas. Difference between both is explained in chapter 3.1.

Next question was about having sauna or bayna at home or summer house. Results were fairly surprising:

2. Do you have Sauna or Banya at home or at your summer house?

Answers: Yes; No

Number of respondents: 84



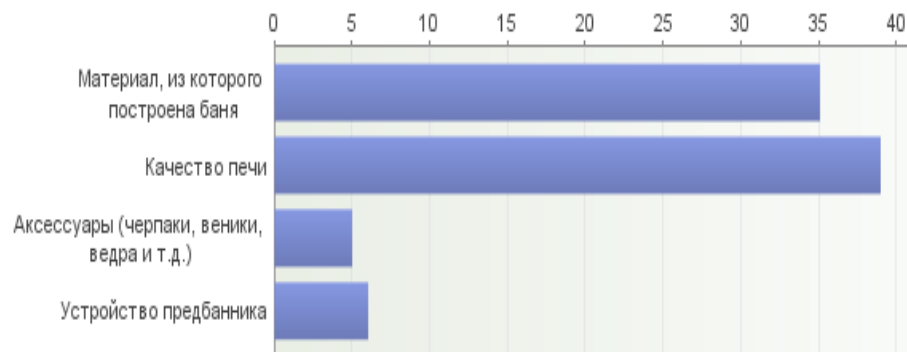
As you can see the answers distribution is perfectly at 50% for having sauna at home and 50% for not having sauna at home. This result is good for Kärävä Oy because if we assume that this trend is continued even with thousands of replies, then there is big amount of people who will potentially buy sauna or banya very soon. Reason for this conclusion is stated in PEST ananlysis – Russian citizens are getting richer and can afford more than they could earlier. Concluding these results it is safe to say that there is huge market of potential customers in St. Petersburg.

Next question is about the degree of importance of certain sauna/banya components such as materials, heaters, accessories and predbannik.

3. What is the most important for you in Banya/Sauna?

Answers: Material from which sauna is constructed; quality of the heater; accessories; Predbannik (explained in the chapter about banya's)

Number of respondents: 84



Results are fairly even in the first two rows where importance of material is chosen by 41% of respondents and quality of the heater is chosen by 46% of potential customers. Accessories and predbannik are less im-

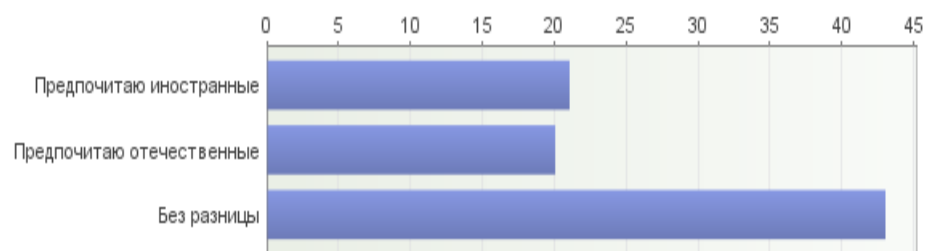
portant for respondents holding with 6% and 7% accordingly. For Kärävä Oy it means that production of high-quality materials is almost as important as production of good sauna heaters (it is important to remember that sauna and banya heaters can have different characteristics). Even though results for accessories and predbannik are quite low it is still important to produce them also maintaining high Finnish quality of the products.

Next question was intended to know if respondents prefer local or international materials for sauna and banya.

4. Do you prefer materials from local producers or international?

Answers: International; Local; doesn't matter

Number of respondents: 84



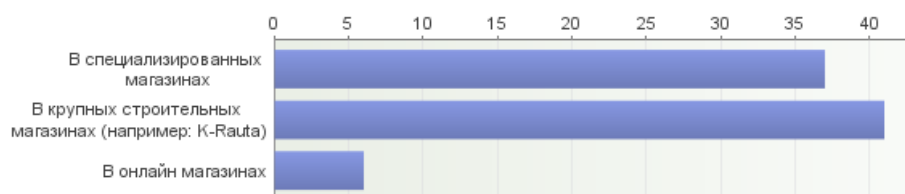
Results were quite surprising, because it was predicted to have local products leading (because local producers know more about banya traditions), but majority of respondents 51% answered that they don't care about origin of the products. Next leading answer was international materials holding up with 25% and local producers are favoured by 24% of customers. For Kärävä Oy this is also good news, because if local customers would highly prefer local products over international it would be hard to compete with them, but in this case quality and price range can decide which product is going to be purchased.

Next question was determined to understand where people prefer to purchase everything for saunas and banyas.

5. Where do you prefer to buy everything for your banya/sauna

Answers: In the specialized shops; In the building retail centers like K-rauta; Online

Number of respondents: 84



As it was mentioned in the chapter 5.3.2 that K-Rauta is operating in St. Petersburg. It is company which also operates in Finland and will be easiest to deal with. Results of questioner justified point of making agreements with huge retailers like K-Rauta because 49% of respondents prefer to buy everything for their sauna and banya there. Only 45% of respondents are

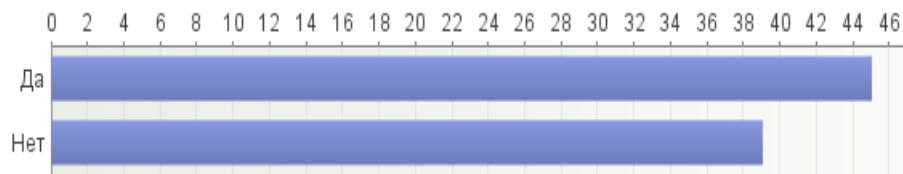
buying their accessories and materials for sauna and banyas in specialized shops. Also only 6% of potential customers would buy their sauna/banya and accessories for it online. For Kärävä Oy it is the greatest opportunity to make arrangements with K-Rauta and similar retailers in order to start selling their brand products and increase brand awareness in St. Petersburg.

Next question was about having more sauna/banya producers in St. Petersburg and is respondents think that more producers are needed.

6. Do you think if St. Petersburg needs more banya/sauna producers?

Answers: Yes; No

Number of respondents: 84



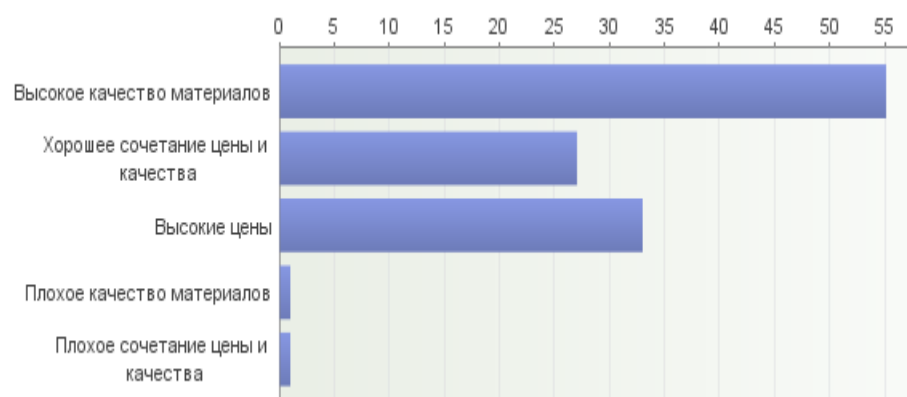
Almost 53% of respondents think that new producers are needed. This means that minority of 47% thinks that St. Petersburg has more than enough sauna/banya producers. These results should satisfy Kärävä Oy, because potential customers are ready to acknowledge more sauna and banya brands, because in their opinion there is clearly not enough producers.

Question number seven asks customers about perceived image of Finnish saunas and materials.

7. What do you know about Finnish saunas and banyas? (it was possible to pick multiple answers)

Answers: High quality materials; Good price-quality ratio; High prices; bad quality of materials; Bad price-quality ratio

Number of respondents: 84



Results were expected because Finnish manufacturers are well known for their high-quality products. Over 65% of answers have very positive image of Finnish quality of materials. After that 39% of answers that Finnish materials and products are overpriced. Though not so far away is opinion that Finnish materials have very good price-quality ratio, almost 32% of

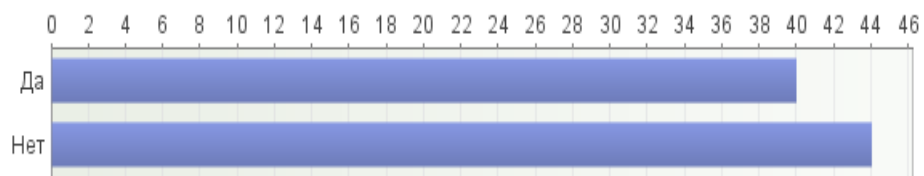
answers states that. And only 2 answers state that Finnish material quality and price-quality ratio is bad. For Kärävä Oy and other Finnish manufacturers results of this particular question are very relieving, because majority has very positive image of Finnish materials. Although, a lot of answers stated that Finnish product have high prices, but then almost same percentage of answers stated that price to quality ratio is very good.

Next question is asking about friends and family of respondents, if they have ever purchased Finnish saunas or accessories.

8. Have your friends or family purchased Finnish saunas or accessories?

Answers: Yes; No

Number of respondents: 84



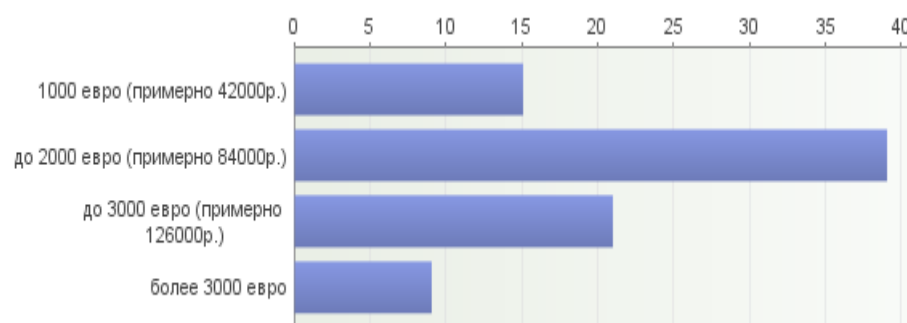
As in the most 2-answer questions results are very close. Respondents who had no friends and family purchasing Finnish saunas and accessories make 52% of answers. On the other hand there are 48% of respondents who have someone who purchased Finnish sauna or accessories. For Kärävä Oy these results are also quite satisfying because there is 52% of people who are yet to experience high quality of Finnish products and materials, which means big potential market.

Next question is touching upon the price range customers are ready to pay for ready-made sauna or banya. Price range is taken from chapter 5.2.

9. How much are you ready to pay for sauna construction?

Answers: 1000 euro; up to 2000 euro; up to 3000 euro; more than 3000 euro

Number of respondents: 84



The majority of respondents 46% are willing to pay up to 2000 euro for constructing sauna or banya. Also, exactly 25% of respondents are willing to pay up to 3000 euro for sauna construction. Only 19% are ready to pay around 1000 euro, but to be clear no Russian manufacturers will offer sauna for 1000 euro. Then 10% of customers are willing to pay more than 3000 euro. Obviously prices for saunas and banya is lower in Russia than in Finland, but these results show that on average customers are going to

pay up to 2000 euro for sauna construction and quarter of customers can pay up to 3000 euro, which is a good fact to know.

Last question is about accessories for sauna and how much people are willing to pay for it. Price range is taken from chapter 5.2.

10. How much you are ready to pay for small set of accessories for sauna which consist of ladle, wooden bucket and venik?

Answers: under 1000 rubles (25e); 1000-1500 rubles (25-37e); 1500-2000 rubles (40-50e); more than 2000 rubles (50+e)

Number of respondents: 84



Answer distribution is fairly equal to say that majority is willing to pay more than 1000 rubles. Up to 27% of respondents are willing to pay more than 2000 rubles (50 euros) for a good quality set of accessories for sauna. 26% of respondents are willing to pay either 1000-1500 rubles (25-37e) or 1500-2000 rubles (37-50e). Only around 21% of respondents are willing to pay only up to 1000 euro, price range which is quite hard to find in Russia. Overall, for Kärävä Oy it gives picture of price range at which they should offer accessories for saunas and banyas. But most importantly that accessories should include venik for sauna/banya because it is inextricable accessory for Russian people going to sauna and banya.

5.6.2 Conclusion

It is safe to say that survey gives very good first impression on the subject. People are willing to accept new companies and are willing to buy Finnish products even at higher prices, because Russian people value quality of materials. Also it is important to know that 50% of potential customer base are yet to have any kind of banya or sauna, which makes them very attractive for Kärävä Oy.

Moreover it is good to know that Russian people prefer to purchase everything for their sauna and banya in big construction retail stores like K-Rauta. As it was mentioned before K-Rauta can be starting point for Kärävä Oy to export their high-quality products to Russia and get some recognition. Besides retail stores there are specialized sauna stores in St. Petersburg who sell saunas and banyas from international suppliers.

Overall, survey results can give a “GO” for Kärävä Oy to conduct deeper research and start contacting retailers for contract details.

6 RECOMMENDATIONS AND CONCLUSIONS

This chapter will be putting together conclusions and also giving recommendations by author of this thesis.

6.1 Conclusions

Kärävä Oy chose Russia as a target market for their internationalization process. It is safe to say that destination choice was very smart by Kärävä because of the facts that were described in the chapters before. In order to make conclusion clear and understandable it will be presented in points.

1. Russia is an emerging economy and even if now growth has slowed down, Russia is still considered to be giant market with endless possibilities.
2. Sauna and banya traditions in Russia are deep and very strong, that means that almost every Russian person alive was in sauna or banya at least once in their life, but most likely people have a habit of going to sauna.
3. Russian people are getting richer, thus they are able to afford more that they could before. Banya is an essential part of Russian culture and almost every family will end up buying it or they will cooperate with neighbours to get one together.
4. Russia and Finland have very good recent history of relationships (besides WW2) and these relationships are getting stronger every year. This means that Russian people appreciate quality of Finnish products and are ready to pay for it a bit more.
5. Although Russian and Finnish people are completely different as it was mentioned in the chapter 4.3, still there are points where Russians and Finns are together and long relationships between those two countries are only proving this point.
6. Modern business environment in Russia is safer than it was 10 years ago. This fact should be considered by companies and many firms are already doing business with Russia.
7. If Kärävä OY is going to open shop in Russia or even manufacturing plant, they can save a lot of money because at the moment labour in Russia is cheap and very qualified.
8. The fact that Russia is very big country opens a lot of perspectives if not only St. Petersburg market is considered. Besides big cities there are a lot of smaller ones where sauna and banya is a weekly tradition.
9. Going international can open new horizons for Kärävä Oy due to the reasons that were stated in chapters 4.1 and 4.2

10. Last but not least is the fact that implementing new standards in production process by Kärävä Oy can increase profits in the local markets.

6.2 Recommendations

Before going international it is recommended to do deeper market research than this thesis can offer because company always has more resource to do so.

As it was mentioned several times Kärävä has a great opportunity to make agreements with huge retailers such as K-Rauta. Reason for choosing K-Rauta is the fact that it is the safest way to try-out new market and look how sales go. Also, K-Rauta is operating in Finland and it will be easier for Finnish company to agree on conditions with them, rather than with Russian retailers.

It is recommended to reorganize production in order to be able to provide banya specific materials and equipment. For example banya has higher temperatures and it is preferred to heat it up with wood rather than electrical heater. Also selling banyas without predbannik (explained in chapter 3.1) place where people rest and socialize after going to banya itself, is worthless because predbannik is huge part of banya as a tradition.

While dealing with Russian market it is important to remember differences of Finnish and Russian culture and understand some special ways of getting things done in Russia.

If Kärävä is going to open manufacturing plant and shop in Russia, then they should consider Russian manager for this plant, otherwise it would be nearly impossible to achieve success in Russia. Russian mentality is very different and no one besides locals can understand it properly.

Overall, this thesis supports the idea of exporting to Russia and brings up points which prove legitimacy of this idea.

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Direct and indirect tax burden

9.2 Direct and indirect tax burden

According to the Federal Tax Service's official web site, indirect taxes compose about one-third of total taxes collected in 2006:

Direct taxes collected in 2006 in Russia:

Mineral resources extraction tax	36.5%
Corporate income tax	17%
Unified social tax	10.5%
Other taxes	2.1%

Indirect taxes collected in 2006 in Russia:

VAT	30.8%
Excise	3.1 %

The tax burden depends on the sector of the economy in which a company operates. According to the data of the Federal Service of State Statistics, the tax burden in 2006 was as follows:

Sector	Tax burden, % of turnover
Extraction of natural resources	45.1
Food production	13.1
Metals production	6.7
Automotive and components	5.5
Construction	11.9
Wholesale and retail	3.8
Hotel and restaurant	10.7
Telecommunications	16.5

Source: PWC Russia

Original copy of questioner

1. Вы предпочитаете русскую баню или финскую сауну *

- ☐ Русскую Баню
- ☐ Финскую Сауну
- ☐ Без разницы

2. Имеется ли у Вас сауна/баня дома или на даче? *

- ☐ Нет
- ☐ Да

3. Что для Вас самое важное в бане/сауне? *

- ☐ Материал, из которого построена баня
- ☐ Качество печи
- ☐ Аксессуары (черпаки, веники, ведра и т.д.)
- ☐ Устройство предбанника

4. Вы предпочитаете иностранные или отечественные материалы для саун/бань? *

- ☐ Предпочитаю иностранные
- ☐ Предпочитаю отечественные
- ☐ Без разницы

5. Где Вы предпочитаете покупать все для Вашей сауны/бани *

- ☐ В специализированных магазинах
- ☐ В крупных строительных магазинах (например: K-Rauta)
- ☐ В онлайн магазинах

6. На Ваш взгляд, есть ли потребность в новых производителях саун/бань в Санкт-Петербурге? *

- ☐ Да
- ☐ Нет

7. Что Вы знаете о финских строительных материалах и аксессуарах для бань/саун? *

Выберите варианты ответа, которые первыми приходят вам в голову, когда вы видите Финские строй. материалы и аксессуары. Можно выбрать несколько вариантов.

- ☐ Высокое качество материалов
- ☐ Хорошее сочетание цены и качества
- ☐ Высокие цены
- ☐ Плохое качество материалов
- ☐ Плохое сочетание цены и качества

8. Приобретали ли Вы или Ваши знакомые финскую сауну или финские строй.материалы/аксессуары *

- ☐ Да
- ☐ Нет

9. Сколько Вы готовы заплатить за строительство бани? *

- ☐ 1000 евро (примерно 42000р.)
- ☐ до 2000 евро (примерно 84000р.)
- ☐ до 3000 евро (примерно 126000р.)
- ☐ более 3000 евро

10. Сколько Вы готовы заплатить за набор аксессуаров для бани, включающий в себя банный веник, деревянное ведро для воды и ковш. *

- ☐ До 1000 рублей
- ☐ 1000 - 1500 рублей
- ☐ 1500 - 2000 рублей
- ☐ более 2000 рублей

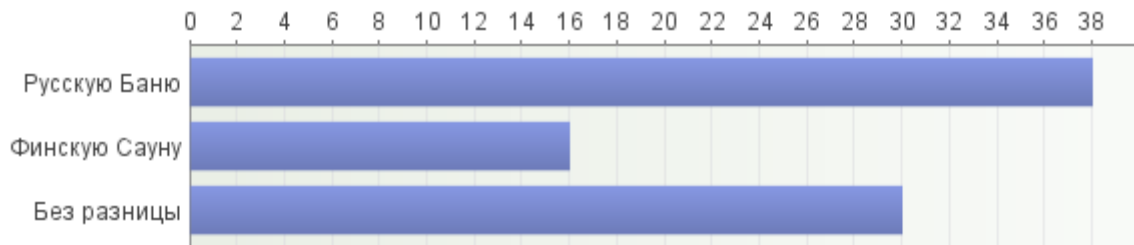
Отправить

Original copy of results (imported from Webropol)

Строительство саун в Санкт-Петербурге

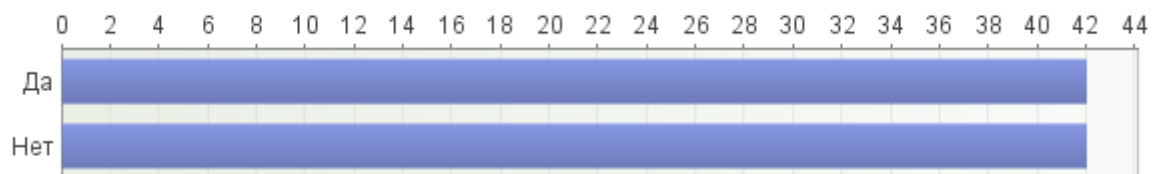
1. Вы предпочитаете русскую баню или финскую сауну

Number of respondents: 84



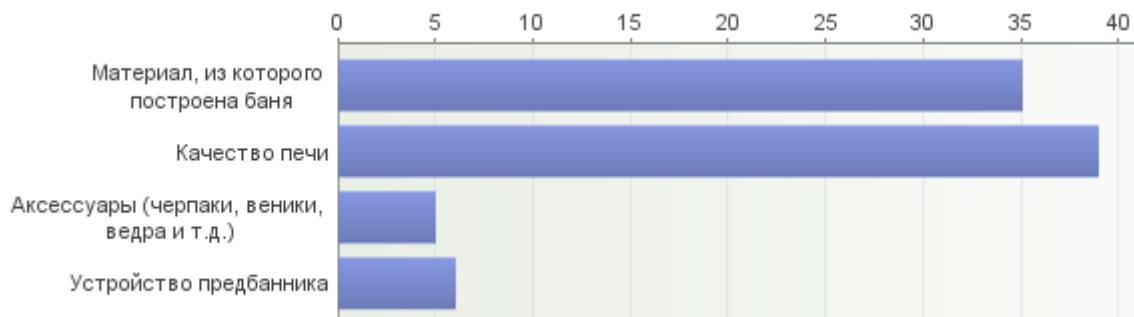
2. Имеется ли у Вас сауна/баня дома или на даче?

Number of respondents: 84



3. Что для Вас самое важное в бане/сауне?

Number of respondents: 84



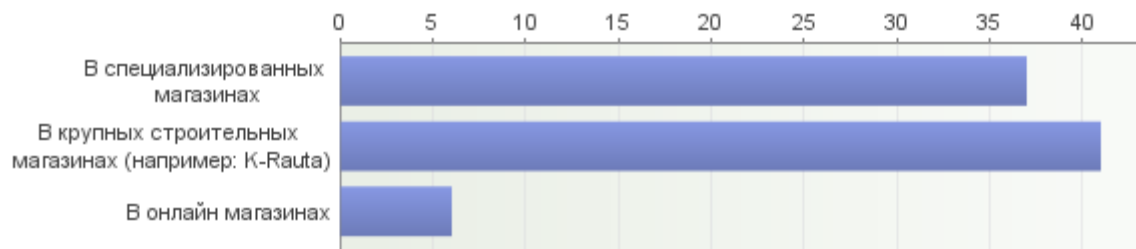
4. Вы предпочитаете иностранные или отечественные материалы для саун/бань?

Number of respondents: 84



5. Где Вы предпочитаете покупать все для Вашей сауны/бани

Number of respondents: 84



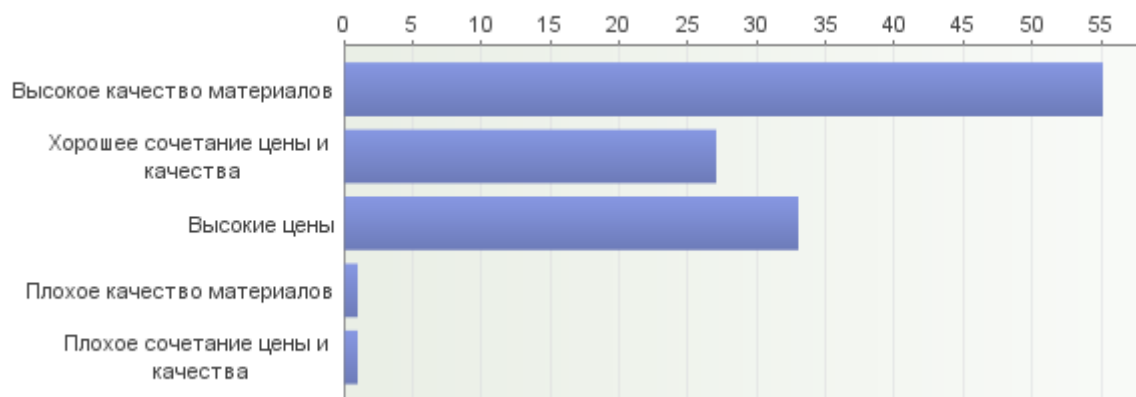
6. На Ваш взгляд, есть ли потребность в новых производителях саун/бань в Санкт-Петербурге?

Number of respondents: 84



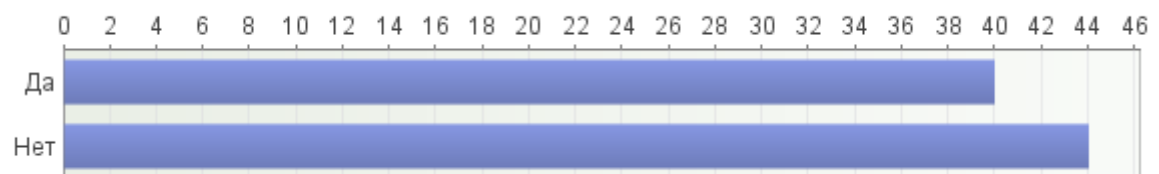
7. Что Вы знаете о финских строительных материалах и аксессуарах для бань/саун?

Number of respondents: 84



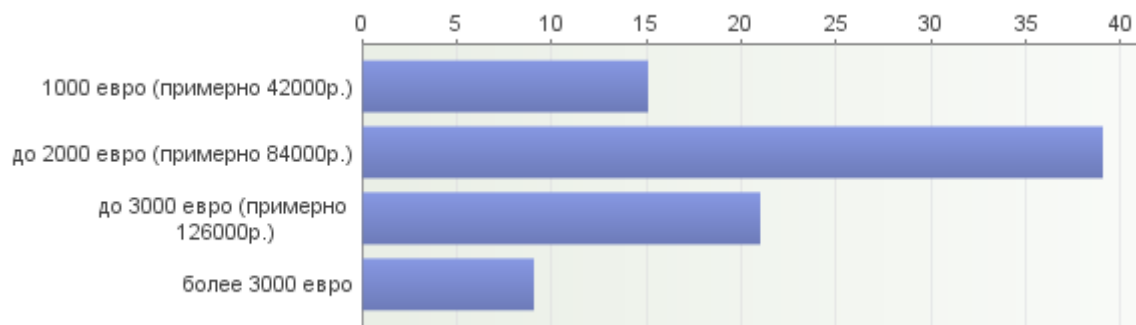
8. Приобретали ли Вы или Ваши знакомые финскую сауну или финские строй.материалы/аксессуары

Number of respondents: 84



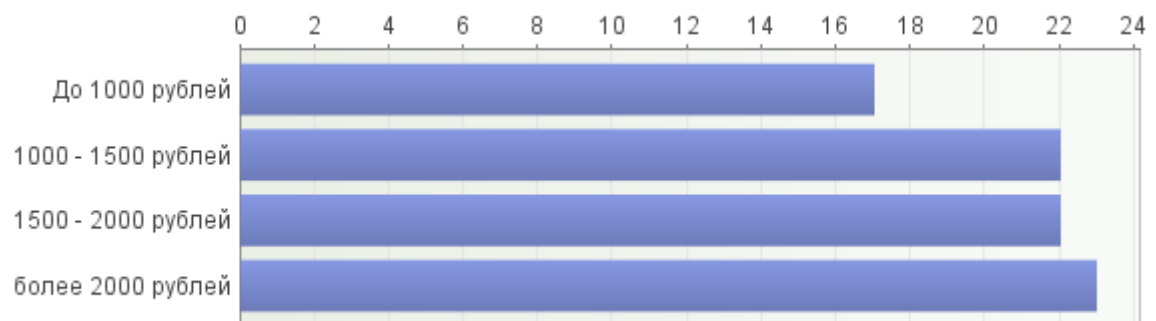
9. Сколько Вы готовы заплатить за строительство бани?

Number of respondents: 84



10. Сколько Вы готовы заплатить за набор аксессуаров для бани, включающий в себя банный веник, деревянное ведро для воды и ковш.

Number of respondents: 84

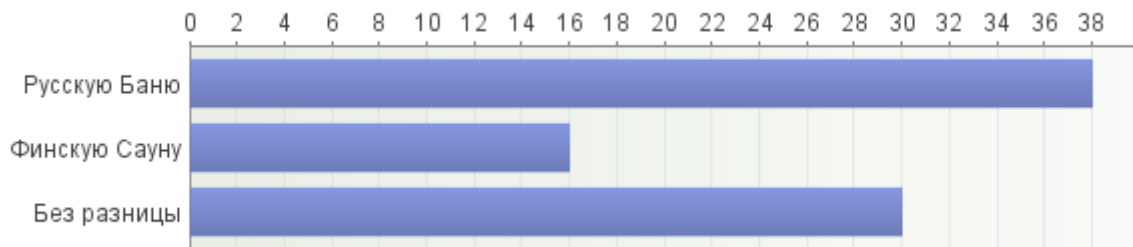


Sauna and Banya sales in St.Petersburg – Translated results

1. Do you prefer Russian Banya or Finnish Sauna?

Answers are from top to the bottom – Russian Banya; Finnish Sauna; Doesn't matter

Number of respondents: 84



2. Do you have Sauna or Banya at home or at your summer house?

Answers: Yes; No

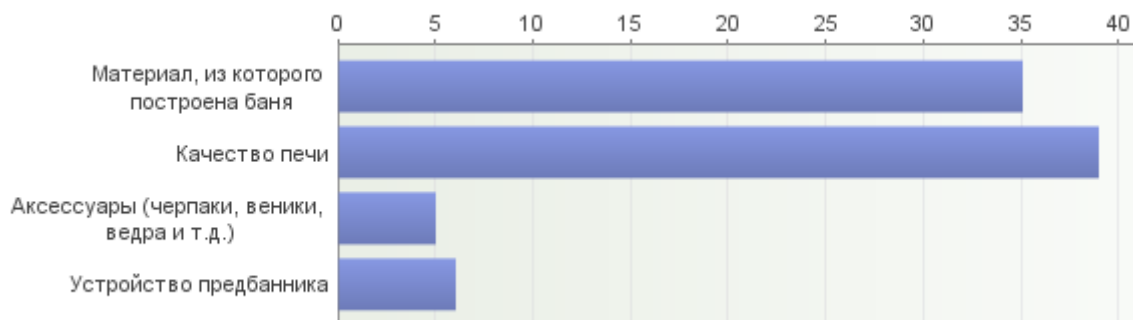
Number of respondents: 84



3. What is the most important for you in Banya/Sauna

Answers: Material from which sauna is constructed; quality of the heater; accessories; Predbannik (explained in the chapter about banya's)

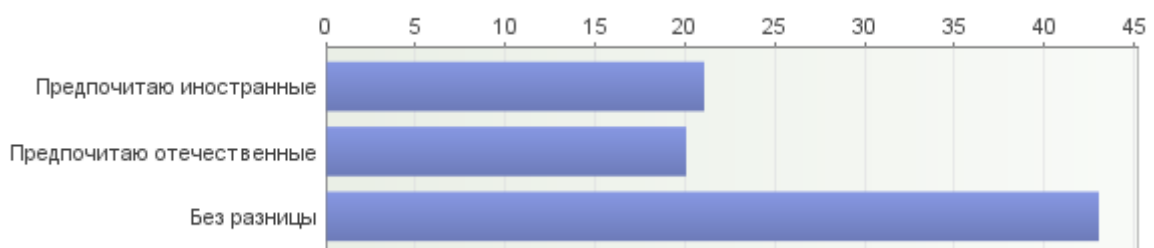
Number of respondents: 84



4. Do you prefer materials from local producers or international?

Answers: International; Local; doesn't matter

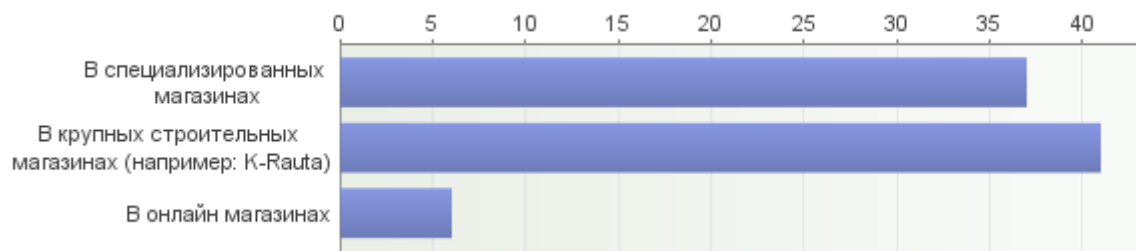
Number of respondents: 84



5. Where do you prefer to buy everything for your banya/sauna

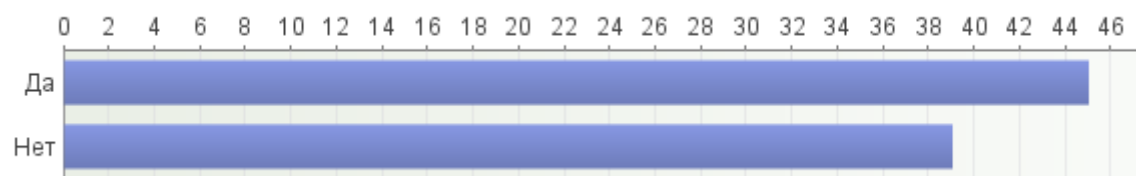
Answers: In the specialized shops; In the building retail centers like K-rauta; Online

Number of respondents: 84



6. Do you think if St.Petersburg needs more banya/sauna producers?

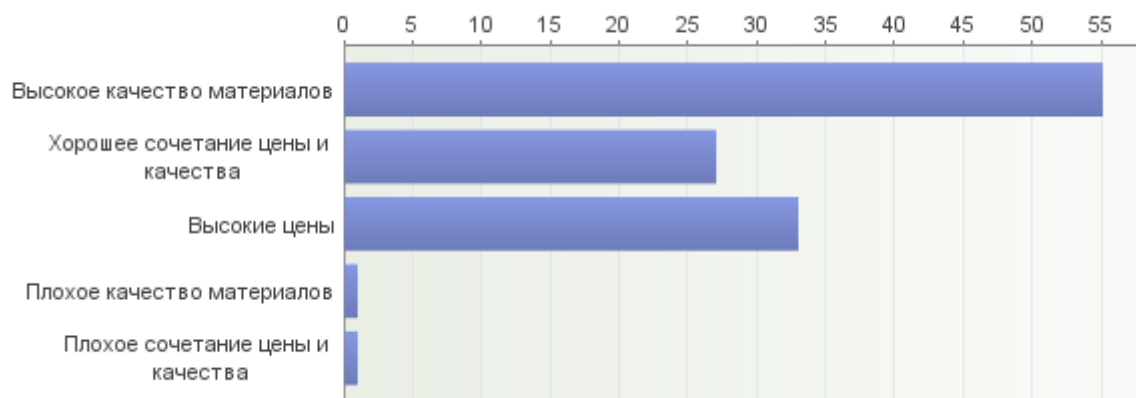
Answers: Yes; No



7. What do you know about Finnish saunas and banyas?

Answers: High quality materials; Good price-quality ratio; High prices; bad quality of materials; Bad price-quality ratio

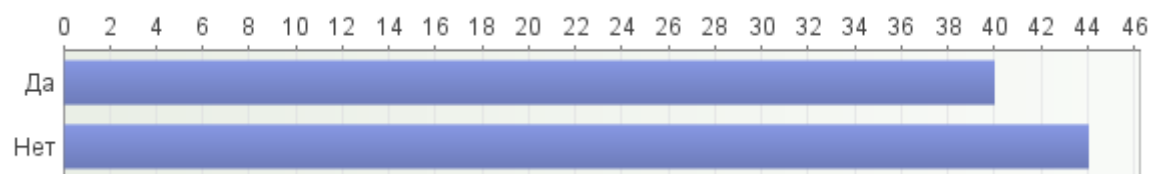
Number of respondents: 84



8. Have your friends or family purchased Finnish saunas or accessories?

Answers: Yes; No

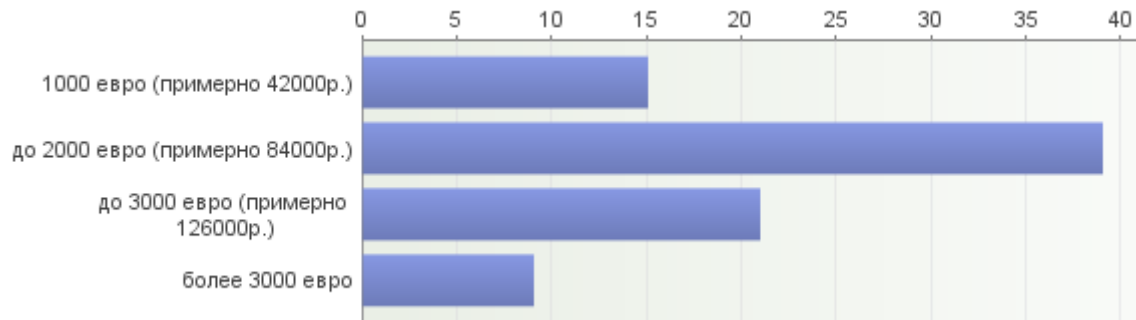
Number of respondents: 84



9. How much are you ready to pay for sauna construction?

Answers: 1000 euro; up to 2000 euro; up to 3000 euro; more than 3000 euro

Number of respondents: 84



10. How much you are ready to pay for small set of accessories for sauna which consist of ladle, wooden bucket and venik?

Answers: under 1000 rubles (25e); 1000-1500 rubles (25-40e); 1500-2000 rubles (40-50e); more than 2000 rubles (50+e)

Number of respondents: 84

