



PERSPECTIVES OF EXPANDING BUSINESS INTO RUSSIA

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ABSTRACT

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The purpose of the thesis was to analyze and evaluate the Russian market taking into account all its advantages and disadvantages and to find out whether it was profitable for the case company Hotel Vip Club International Oy to expand its business into Russia. The study includes theoretical framework covering different essential theories and concepts, information about tourism and hotel related business in Russia, and the peculiarities of doing business in Russia including the analyses of the Russian market.

The data collection method chosen for this study was qualitative. It embraced studying publications, articles and journals providing sufficient and updated information about the current situation on the Russian market and possibilities of doing business in Russia. Other significant data were interviews with the representatives of the Finnish companies successfully operating in Russia. They cover the problems Finnish companies face when planning to start their business in Russia, the false expectations they have and also advice to avoid some common mistakes. Marketing mix, PEST and SWOT analyses were also performed for evaluating the case company's ability to expand its business into Russia.

It was difficult to give a definite answer whether it is worth for Hotel Vip Club International Oy to start its business in Russia due to the equal number of strengths and weaknesses of the Russian market. It should also be considered how serious the company's ambitions are to conquer the new market and how much time, effort and money the company would be ready to spend for achieving the goal of earning great profits by being a part of the Russian market.

Key words: business, Russian market, tourism, hospitality, marketing

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1 INTRODUCTION

Nowadays Russia is a very attractive and profitable market to do business in due to its promptly growing economy, vast natural resources and a great number of potential customers. In spite of the current unfavourable political situation and estrangement in relations with the Western countries, international companies are nevertheless engaged to invest in its market.

Besides being Finland's neighbour country, Russia is also a very significant business partner with a great variety of opportunities considering its major territories and population. According to the minister of the economic development of Finland Jan Vapaavuori, it is also a great trade partner and second biggest export market of Finland. More than 600 Finnish companies operate in Russia and nearly 100 companies invest in the Russian economy. "Our export to Russia is growing faster than the whole Finnish export in general and the forecast of the growth of Russian economy is more optimistic than in Western countries", confirmed the minister (Finvesti 2013, 1).

The research was conducted for the case company Hotel Vip Club International Oy planning to open a branch in Russia. The purpose of the research was to analyze the Russian market; opportunities, perspectives and necessity of the company to expand its business into Russia. The objectives of the research embraced collection of authentic information that can be used for evaluation of the market and the company's potential to expand its business by entering the market of the neighbour country.

The data of the research included two interviews with the representatives of Finnish companies successfully operating in Russia and secondary data, such as articles, publications and journals. A great number of theoretical materials were used as a background before proceeding to the practical issues and analyses. The main research method was qualitative. However, the research also contained graphs and numbers from the surveys that were significant for making numerical analyses necessary to answer the research questions.

2 THEORETICAL FRAMEWORK

The chapter introduces the focus of the research including research questions, data and methods. Theoretical aspects which contribute in exploring the main research questions of the thesis are also presented.

2.1 Research topic

The topic of the current research was chosen by the author after having an internship in the Finnish company “Hotel Vip Club International Oy”. Since the company has already been operating in Tampere for almost 10 years, it became necessary for them to open some additional branches abroad. Considering the fact that Russia is a neighbour country with Finland and known to be a significant and profitable partner, the company wished to learn more about the Russian market, the ways of entering it and it questioned the necessity of opening a branch there taking into account all the pros and cons.

Consequently, the aim of the research was to discover peculiarities of the Russian market and opportunities of the current company for opening its branch there. The objectives of the research were to provide the company with efficient and authentic information about advantages and disadvantages of entering the Russian market and with preferences of Russian customers in hospitality business.

This was a very essential topic both for “Hotel Vip Club International Oy” and for a great number of other Finnish companies which might wish to start their business in Russia, too and which could find the information provided in this research useful for them. The research could help them to estimate their possibilities of entering the Russian market, considering all its peculiarities and differences from the Finnish one.

It is also worth taking into account some specific aspects as culture differences between two countries including business culture, cross-cultural communication and the way of making co-operation agreements. The above mentioned characteristics were, described explained and compared in the present research based on the theoretical material and the author’s own experience.

Being Russian by nationality, it was easier for the author to make the current research because of having some basic knowledge of the way business is done in Russia. It is also worth mentioning that a great amount of useful information was provided only in the Russian language, which helped to define the Russian market and customers, and understand all the formalities of opening a branch in this country.

2.2 Research questions

The following research questions were proposed to be explored and analyzed by means of the theoretical information and data analysis. They represent the core of the research and serve as auxiliary elements helping to fulfil the research.

- Is it worthwhile for the above mentioned Finnish company to open a branch in Russia?

Since the company has already been operating successfully on the Finnish market, they would like to expand their business by investing in the Russian market. But at the same time, if entering the neighbour country's market proves out to be challenging, highly priced and not profitable, it might be more beneficial for the researched company to continue doing business and connect with potential Russian customers directly from the main office in Finland or searching for another more appropriate country for opening a branch in.

- How to enter the Russian market?

Considering the differences in the juridical issues, culture, ways and rules of doing business between Finland and Russia, it is essential to define the general information about the Russian market by identifying all the necessary procedures and useful facts and tips to be taken into account.

In order to answer the above mentioned questions, it was substantial to include some sub-questions which were the following:

- How to find a franchisee in Russia?

- What is important for Russian travellers when choosing accommodation?

The sub-questions were examined in the process of the current research by leading the author to answer the main above-mentioned questions.

2.3 Data collection methods

In order to conduct the research the qualitative method was used for collecting the information. Since the topic of the research was connected with analysing the Russian market and Russian way of doing business, this method of collecting data was the most appropriate one. However, some graphs collected from different surveys also were used to indicate the specific preferences of Russian tourists when choosing an accommodation as it was mentioned in the research questions.

Qualitative research is a type of scientific research. It is especially effective in collecting culturally specific information about values, opinions, behaviours and social contexts of particular populations. The advantage of qualitative research is its ability to afford complex textual descriptions of people's behaviour. This method also covers intangible factors, such as social norms, socioeconomic status, and ethnicity. Qualitative methods are generally more flexible than quantitative and allow a better adaptation between the researcher and study participant. In qualitative methods mostly "open-ended" questions are asked, meaning that respondents are more flexible in answering these questions in their own words and such responses are usually more complex than "yes" or "no". (Northeastern University 2014.)

Both primary and secondary data were used for the research. The primary data consisted of the interview in the written form to learn about the experience of Finnish companies successfully operating at the Russian market. The secondary data contained articles, publications and journals which were the basis of the research since it was essential to take into consideration different points of view, especially notes and comments of professionals that assisted in finding the right direction.

2.4 Concepts and theories

In the process of conducting the current research, different theories and concepts were applied and analyzed. Considering the fact that the topic is mainly connected with marketing and intercultural communication, they became the key concepts used for this research.

2.4.1 Marketing mix

Marketing mix is a set of tools used by companies for promoting their products in the market. In other words it means “Putting the right product in the right place, at the right price, at the right time”. (Mind Tools 2014.)

The concept of “Marketing mix” was mentioned for the first time in the article published by Nail Bordon (1964). This original model consisted of a great number of tools, such as pricing, branding, distribution, personal sales, advertising, service etc. Afterwards, it was developed by E.Jerome McCarty (1964) who grouped all the components into the “4Ps” model which included *product, price, place and promotion*. (Power-branding 2014.)

Marketing mix is not a scientific theory, but merely a conceptual framework that identifies the principal decision making managers make in configuring their offerings to suit customers’ needs (Goi 2009, 2). However, according to Möller (2006), marketing mix has played a great role in the development of marketing theory and practise.

Product

Product is a very significant component of marketing. It is the basis of all other concepts, since without a product there is nothing to sell, nothing to promote and nothing to price. If a customer is not satisfied with the product, no additional factors of the other concepts of the marketing mix will facilitate its performance in the market. (Hundekar, Appannaiah & Reddy 2010, 49.)

Kotler (2007) suggested his own view on the concept of product through three levels – the core product, the actual product and the augmented product. *Core product* depicts what customers wish to buy and what benefits they will get from an offer. *Actual product* is about transferring core product benefits into a product that customers will buy. *Augmented product* includes additional non tangible benefits that a product can offer. For example, a core product “car” might be four wheels, a seat, a steering wheel and an engine; the actual product could be a Ford Mondeo and the augmented product would be a Mondeo with sunroof, extra powerful engine etc. (Hackley 2009, 68.)

When planning to introduce a new product in the market, companies have to take into consideration the following questions:

- ✓ Who are potential customers of the product?
- ✓ What benefits will customers gain from it?
- ✓ What are its advantages comparing to competitors’ products?
- ✓ How does the company plan to position the product?

Price

Price is also a very important element responsible for the final income of the product being sold. It can be determined as the value of a product or service expressed in monetary terms. A buyer usually sees price as a set of expectations and satisfactions. Therefore, it must be equal for different kinds of benefits, such as psychological, economic, ecological, social and psychological ones. (Sherlekar & Gordon 2010, 113-114.)

Price is established by such components as demand and supply. It serves as a source for regulating business profits and distributing the economic resources for optimal production and allocation. The selling price is significant for business serving as a connection between different aspects of marketing (figure 1) because of a number of useful functions it performs:

- monitors the sales volume and market share
- defines the sales revenue
- adjusts the rate of return on investment
- influences unit cost in mass production

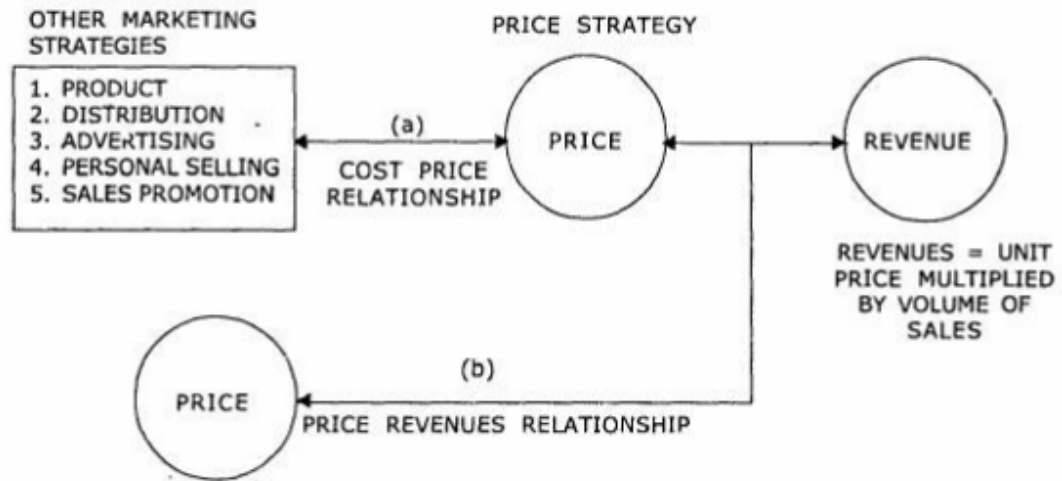


FIGURE 1. Place of price in the marketing strategy (Sherlekar & Gordon 2010, 115)

Place

Place provides availability of a product for a target market and means that a product/service of a company has to be at the right place (where a potential customer can observe it, learn about it and buy) at the right time (when there is customers' demand). (Power branding 2014). According to Kotler (2007), place or a distribution channel can be described as a number of companies or individuals facilitating in transferring titles to the particular good or service while moving from a producer to a consumer. (Ramachandra, Chandrashekara & Shivakumar 2010, 126.)

In order to choose the right place or distribution channel, it is necessary to take into account the following questions:

- Is a product/service going to be offered and sold directly or through another intermediary? What kind of intermediaries should be involved?
- Is one distribution channel enough for succeeding in sales?
- What kind of markets and channels are better for distribution?
- What are the conditions of distribution?

Promotion

Promotion is the set of marketing communications used to attract customers' attention to a product/service. Potential customers should know that the right product is available at the right place and at the right price.

Marketers usually face a problem of focusing from mass marketing to target marketing since customers do not differentiate between message sources which marketers use. Value and utility are the key points of a successful promotional strategy. In order to have great achievements in promotion, it is necessary to establish market segments. (Ramachandra, Chandrashekara & Shivakumar 2010, 148.)

Sherlekar and Gordon (2010) offer the following objectives for successful sales promotion:

- ✓ to obtain extra market share or revenue
- ✓ to expand the target market
- ✓ to evolve conducive consumer experience with the product
- ✓ to set an additional value to the product and develop brand franchise

A great number of objectives can be used for favourable promotion. However, the most difficult part is to determine the right tools for achieving set goals.

2.4.2 Marketing communications

Marketing communications is the promotional process through which the information about a product is delivered to the target audience. It is worth considering the fact, that no single company is able to promote itself on all markets at the same time, satisfying the requirements of all customers. A company can succeed if it is aimed at the definite market with a high probability that customers will be interested in its marketing program. It is necessary to understand and take into account an audience's communication environment in order to define the right type of a market to be targeted at. (Fill & Jamieson 2011, 1.)

The first basic model of mass communication was evolved by Schramm (1954) which was depicted by him as a linear process, as in figure 2.

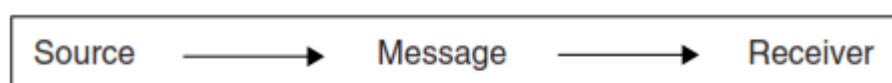


FIGURE 2. Schramm model of mass communication (Schramm 1954)

According to this model, a source is a key factor for a message (production of information) which is then disseminated to a receiver. For example, a letter which is written by someone and its content can be comprehended as a message. The letter is sent to a recipient, a target of information. The model shows a one-directional process meaning that there is no connection between a source and a receiver. A message is represented as a separate object and therefore, it is incomprehensible whether the way of the message is directed straight to the receiver or if it is controlled by the source. (McCabe 2009, 25-26).

Buttle (1990) argues against the existing communication theories and indicates the lack of distinctiveness in marketing communications theory. However, in his point of view, the work of Schramm (1954) had been widely applied in different communication processes. It is similar to his own concept of communication as a “magic bullet” which accentuates knowledge transfer from one mind to another. (Ozuem W.F 2005, 49).

The key problem when planning promotional campaigns is the right message to be transmitted. The main task is to make sure that the receiver will interpret the message in the same way as the company meant. (Ruskin-Brown 2004, 166.)

The model DAGMAR (Defining Advertising Goals for Measured Advertising Results) was proposed by Russel H. Coney (1961). This approach can be explained as the advertising planning for selecting and setting particular goals and for using these goals in order to measure productivity. According to Coney (1961), marketing goals are different from the advertising ones since marketing goals deal with sales and advertising goals are about customers’ movement along the hierarchy. (Scribd 2014.)

2.4.3 Marketing communications in tourism and hospitality

The most important factor for a successful marketing is defining what kind of expectations customers have about a service and what benefits they would wish to get. Therefore, coincidence between the service product both from consumers’ and suppliers’ point of view plays a great role for services marketing. (Raju 2009, 48.)

When speaking about marketing in hospitality industry, it usually means selling and advertising. In order to succeed in the hospitality marketing, the concept product has to be thoroughly defined from its initial conception prior to its delivery to the customer. Thus, planning is an essential part of a successful marketing strategy. (Brody 2009, 81.)

There are various definitions of the tourism marketing. According to Krippendorf (1971), it means “systematic and coordinated execution of business policy by tourist undertaking whether private or state owned at local, regional, national or international level to achieve the optimal satisfaction of the needs of identifiable consumer groups, and in doing so to achieve an appropriate return”. (Singh 2008, 6-7.)

Marketing communications vary depending on different types of service:

- intangible
- perishable
- inseparable
- heterogeneous

Tourism and hospitality belong to intangible services since it is impossible to perceive service prior to purchase. Mittal and Baker (2002) described intangibility in terms of communication features and benefits concentrated on difficulties it might cause. According to them, there are four key challenges:

- *Abstractness*, concerning difficulties in relation between abstract concepts of the services (e.g. “a good night’s rest”)
- *Generality*, meaning difficulties in expressing differences between a company’s service offer (cabin service) from another
- *Non-searchability*, defining the fact that customers cannot search any references about a company or test their service, meaning that they have to be accepted on trust
- *Impalpability*, being related to the problem of having a physical experience and thus interpreting service only through communication

They also mention three key goals of communications strategies: creating brand identity, positioning of the brand and creating demand. They claim that hospitality organiza-

tions should be more precise in defining clear peculiarities of the services taking into consideration all the details, providing crucial information concerning the evidence of “trust”. (McCabe 2009, 9-10.)

Band (1991) also argued in relation to the fact that organizations had to pay more attention to the value of their customers. He defended that it was necessary to identify companies’ contribution to customers’ satisfaction by means of systematic examinations.

In accordance with Bateson’s (2002) point of view, service has several components, such as benefits including the physical evidence of the service, the effects of service personnel and other customers. He insisted on providing customers with consistent service elements. (Laws 2004, 107.)

2.4.4 Tourism and hospitality management

In most cases management can be determined as controlling the organization’s resources in creating services or products in accordance with tourist requirements. There are special important functions for organizing tourism businesses, such as sales, human resource management, accounts and finance. (Page 2003, 249.)

Mattsson (1985) differentiated between two types of relationship leading to a company’s success: *vertical relationships* (meaning the relationship between a company and its customers) and *horizontal relationships* (between a company and others supplying it). Buhalis and Laws (2001) stressed the key aspects of channel management and tourism and hospitality. Further researches were connected with service design, service encounters, service quality and customer satisfaction, internal marketing and relationship marketing. (Laws 2004, 159.)

Managers usually set up particular goals for a successful tourism business organization (Page 2003, 250-251):

- *Profitability*, which can be attained due to a greater amount of services produced by attracting new customers and reducing costs
- *Efficiency*, by minimizing consumption resulting in more cost effective outputs

- *Effectiveness*, attaining the desired outcome
- *Other goals* (e.g. coordination, connection, raising public awareness and undertaking activities for the wider public good). These goals do not necessary lead to profit but they should be taken into consideration.

Service management in general has been rapidly growing. A great number of dimensions and concepts have been applied to the improvement of service management, in other words hotel and tourism management as well. Planning, organizing, staffing and controlling are the key principals relevant for all kinds of service management. (Krishna, Raghavan, Reddy & Appannaiah 2010, 3-4.)

2.4.5 Cross-cultural communication

Efficient cross-cultural communication is impossible without special knowledge of the subject. Unawareness of culture differences may cause communication problems due to misunderstandings that might occur. Therefore, a key to successful business negotiations is preparedness to differentiate between cultures, taking into consideration specific features of different worlds. Lewis (1996) suggested a model in which he divided cultures into three main categories for analyzing culture differences between them (Table 1).

TABLE 1. Three categories for analyzing culture differences (Lewis 2005, 33-34)

<i>Linear-active</i>	<i>Multi-active</i>	<i>Reactive</i>
introvert	extrovert	introvert
patient	impatient	patient
quiet	talkative	silent
minds own business	inquisitive	respectful
does one thing at a time	does several things at once	reacts
works fixed hours	works any hours	flexible hours
punctual	not punctual	punctual
dominated by timetables and schedules	timetable unpredictable	reacts to partner's timetable

sticks to plans	changes plans	makes slight changes
sticks to facts	juggles facts	statements are promises
job-oriented	people-oriented	people-oriented
follows correct procedures	pulls strings	networks
dislikes loosing face	has ready excuses	must not lose face
separates social and professional	interweaves social and professional	connects social and professional

According to Lewis (1996), Finland is closer to the linear-active category which includes those who plan and manage their actions carefully, concentrate on one thing at a time, follow correct procedures and separate social and professional. Switzerland, Germany and Sweden also belong to this category. Russia is more multi-active culture meaning that people are more energetic, social and emotional. Their work is based mainly on feelings, they can do several things at once and have unpredictable schedules. The other examples of this category can be Slavic countries, Italy, Spain and Greece. Those who belong to the reactive category are patient and silent introverts who react to partners' timetables, make slight changes and connect social and professional. Japan, China and Vietnam are the typical examples of reactive cultures. (Lewis 2005, 42.)

Therefore, it is necessary to take into account all the differences in personal characteristics and ways of doing business in different cultures. When the notion of cross-cultural communication is used for organizations, it is connected with different business customs, beliefs and communication strategies. Non-verbal communication, language differences and negotiation habits are important factors to pay attention to.

3 THE CASE COMPANY

The current research was conducted for the Finnish company Hotel Vip Club International Oy (HVC) located in Tampere. The company provides its members with the most affordable accommodation through its own partner hotels, as well as with long-term accommodation, beneficial offers of flight tickets, car rentals, booking a table at a restaurant, or a taxi. Reservations are also made by the company's reservation desk which can assist their members on any questions concerning accommodation or other services provided by the company.

Hotel Vip Club International Oy is mainly focused on business travellers who often have to stay at hotels in Finland and abroad. The proposal for such business travellers is very advantageous, since the cost of the membership card of Hotel Vip Club International Oy is not high taking into account frequency of possible trips.

Hotel Vip Club International Oy's members have the following benefits:

- ✓ Hotel room with a 50% discount
- ✓ Friendly customer service, skilled in languages
- ✓ 10 % discount of meeting services in conference hotels
- ✓ Benefits available also on leisure time as well as on business travels
- ✓ No reservation or service fees
- ✓ Car rental through Avis Car Rental at the best available discount rate. The discount of 20-30 % is valid in over 100 countries.
- ✓ HVC Travel Finder searching for affordable flights or car rentals
- ✓ HVC Long-term accommodation service
- ✓ Taxis online booking
- ✓ Booking a restaurant table online

Since HVC has been operating in Finland for ten years, it was obvious for the company to start expanding its business abroad. Russia, being Finland's neighboring country and known as a good investment channel, attracted the company and was chosen to be a possible appropriate option to do business in.

4 TOURISM AND HOSPITALITY IN RUSSIA

4.1 Overview of tourism in Russia

According to UNWTO (The United Nations World Tourism Organization) ranking among 133 countries, Russia takes the 5th place in tourism opportunities and the 9th place concerning a cultural-historical tourism potential. The most developed kinds of tourism in Russia are beach holidays (with the market share of 38%), cultural tourism (20% market share) and business tourism (18% market share). However, the GDP index of tourism industry is rather poor – only 2%. (Kulachinskaya 2012, 187-188.)

One of the key problems of Russian tourism is defined by high prices for travelling within the country. They include expensive accommodation and air travel. Foreign companies have an advantage offering affordable prices with high level of service. Another problem is a poor legislation which led to an abrogation of licensing and thus, to a great number of unprofessional tourism agencies providing inconsistent discounts. Additional stumbling-block is the tour operators' dumping, when they offer tours with a lower cost price resulting in destruction of tourism market. (Kulachinskaya 2012, 187-188.)

Since additional efforts have been made by means of the new federal tourism development programme, the inbound tourism has also been increased and the image of Russia as a tourism destination was improved. Nevertheless, the outbound tourism index has remained much larger. Furmanov, Balaeva & Predvoditeleva (2010) stated that the number of outbound trips by Russian tourists has considerably increased due to some factors:

- ✓ visa-free regime introduced by a number of countries
- ✓ increasing number of new Russian tour operators and travel agencies including leading international tour operators
- ✓ development of information technologies
- ✓ development of services (transportation, insurance, banking)
- ✓ long holidays
- ✓ interest in learning new cultures

Due to the collapse of some largest tourist agencies in Russia, the new legislation for tourist operators was reformed. As it is stated in the legislation, it is compulsory for each tour agent to become a member of a compensation fund, thereby protecting tourists.

4.2 Most popular destinations for Russians

4.2.1 Leisure trips

According to the results of RosIndex research made by Synovate Comcon, Turkey, Egypt and Greece are the most popular destinations for Russian tourists in 2014. A majority of Russian tourists (41%) prefer resort holidays, 24% are interested in the cultural tourism and around 24% are for independent travelling. (LENTA.RU)

However, as it is stated in the research, the popularity of these destinations among Russian tourists has been gradually reduced. Nowadays, a greater number of tourists decide to spend their holidays in Spain, Italy and Finland. Such countries as Thailand, Cyprus, China, Tunisia and Bulgaria also belong to the most admired travel destinations attracting more and more Russian tourists.

As it was mentioned in the article published by ATOR (Association of Tour Operators of Russia), the interest in some destinations had considerably decreased comparing to the previous year. Nevertheless, the top 10 countries frequently visited by Russian tourists in summer of 2014 were:

1. Turkey
2. Egypt
3. Greece
4. Spain
5. Italy
6. Cyprus
7. Montenegro
8. Thailand
9. Bulgaria
10. Tunisia

The popularity of Turkey and Egypt is connected with the fact that tourists can stay at hotels and spend their leisure time at the most affordable prices. It is also worth mentioning that such tours can be also short – only for 3 days which is a good opportunity for Russian tourists to spend the weekend abroad. Another very attractive factor for Russian tourists when choosing the above mentioned top two countries is that a tourist visa for travelling to Turkey is not needed (only for trips less than 60 days) and a visa to Egypt can be received right at the airport. Therefore, that is a great advantage over other countries considering the opportunity of saving time and money.

Winter resorts for Russians are not only countries with snow and mountains, but also destinations with warm summer weather such as India, Egypt, Thailand and Dominican Republic. The most popular winter trips are also usually made to Austria, Finland, France, Greece and Italy which attract Russian tourists by a great variety of ski trails and beautiful landscapes.

4.2.2 Business trips

Business trips are also frequent among Russian tourists. Destinations primarily visited by Russians are usually situated within the country and these are, as a rule, big cities. According to the HeadHunter survey, 61% of respondents working at foreign companies and 43% of respondents from domestic companies announced that they had to make business trips occasionally. They mentioned that such official journeys are indispensable since it is very significant for a business success. A great number of such trips (88%) are domestic ones within the country, 15% of trips are made to Europe and 13% to the CIS countries.

The most popular cities visited on the purpose of business trips are Moscow, St. Petersburg, Yekaterinburg, Kazan, Novosibirsk, Voronezh, Nizhniy Novgorod, Krasnoyarsk, Saratov and Sochi. The countries frequently visited by Russian business tourists are Germany, France, China, Belgium, Finland, Spain, Ukraine, USA, UK and Poland. (Business Pskov 2013.)

4.3 Hospitality market in Russia

Hospitality industry in Russia has considerably improved during the past five years. Due to the fact that hospitality industry is a great opportunity for high incomes in the federal budget of the country, the quantity of hotels in Russia has been rapidly growing. The fall of the Soviet Union influenced the development of hotel business in Russia negatively. The lack of tourists visiting the country caused reduction of demand for hotel rooms thus decreasing the number of actual hotels. Tourists have become the target group for Russian hotel owners only recently. Hotels are not only oriented on business trip guests anymore, they also endeavor to attract tourists who are interested in learning different cultures and exploring sights. Consequently, different types of hotels are being opened in Russia nowadays: mini-hotels, family holiday centres, motels and hostels. (Открой бизнес 2014.)

Nevertheless, big luxury hotels are still being built more frequently than small hostels, especially in Moscow and St. Petersburg regardless of high investments. It is worth risking, since it will be very profitable for owners in the future, even if they have to invest incredible amount of money in the beginning.

Another significant peculiarity of Russian hotels is their being renovated from old hotels operating during the Soviet era. They are purchased and later can be considered as a private property which is completely reconstructed and renovated in design, become connected with international hotel brands and start working according to some established standards. Such hotels are frequently purchased by international hotel chains due to big sizes of hotels and great potential for a successful business. (Открой бизнес 2014.)

According to most specialists, Russian hospitality industry has a great potential. Provided that the government of the country starts co-operating with hotels and foreign investors, this economic sector will be undoubtedly growing.

4.4 International hotel chains in Russia

The first international hotel operators opened in Moscow in 1990s were Radisson Slavyanskaya Hotel, Renaissance Olympic Hotel and Baltshug Kempinski Hotel. Later a greater quantity of chain hotels appeared also in St. Petersburg and other cities with a multimillion population. Moscow and St. Petersburg are the leading cities with 66% of the room supply, Sochi has 7% of international hotels, 6% are situated in the Moscow region, followed by Yekaterinburg (5%) and other (23 in total) locations. It is planned that the number of international chains in Russia will considerably increase – 257 new hotels (56, 825 rooms) operating in more than 50 cities and towns. The difference between the quantity of international hotels in 2013 and by 2017 is depicted in figure 3 and figure 4. (Ernst & Young 2013.)

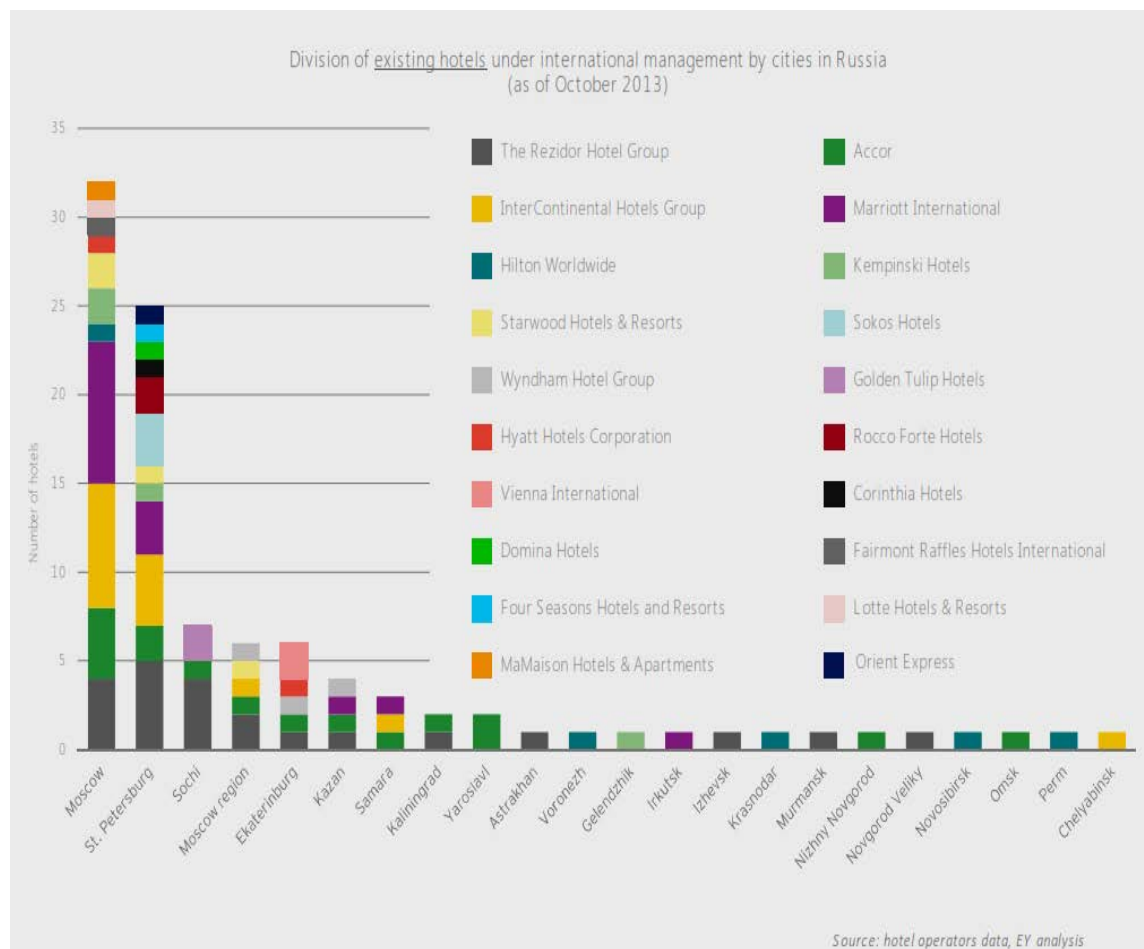


FIGURE 3. International chain hotels in Russia, October 2013 (Ernst & Young 2013)

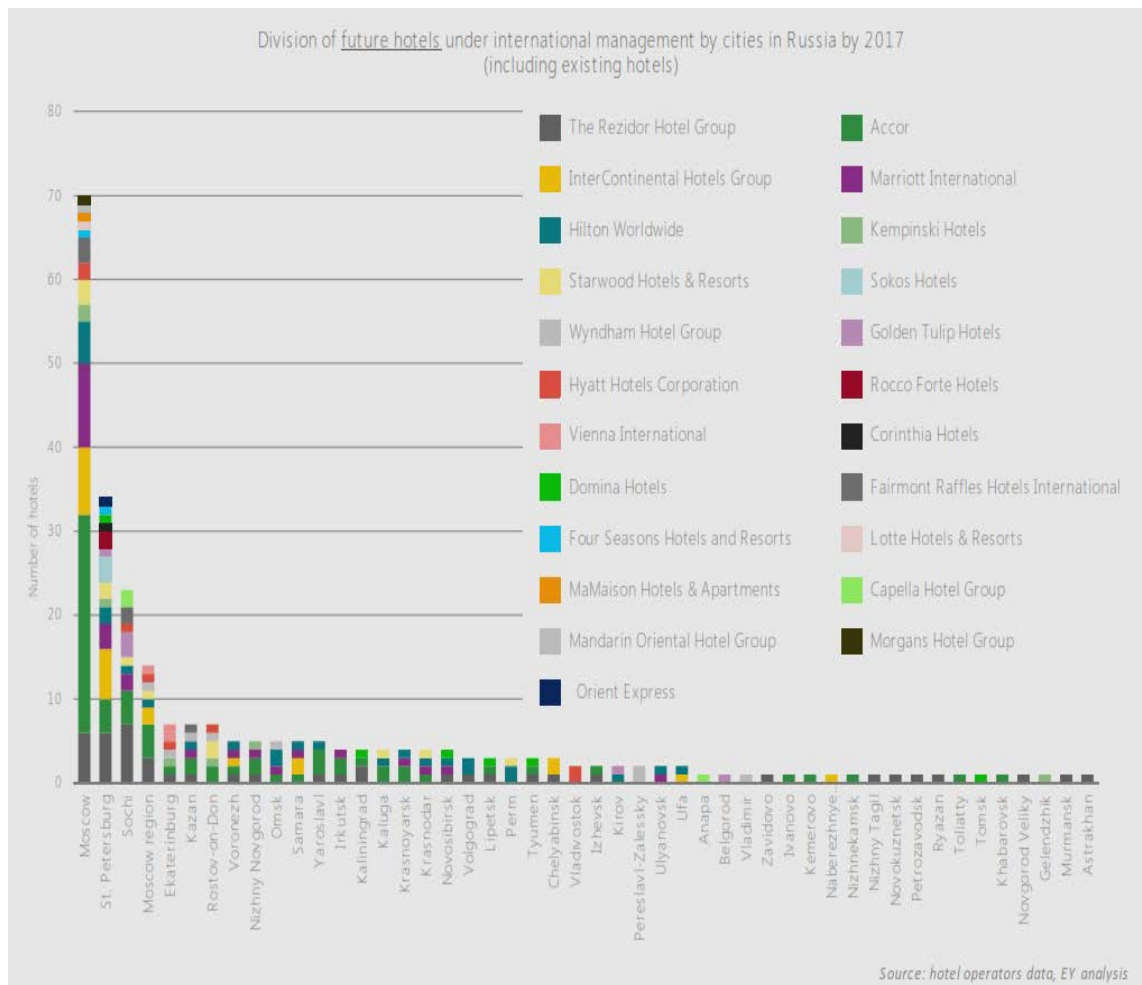


FIGURE 4. International hotel chains in Russia by 2017 (Ernst & Young 2013)

A great number of international hotel chains entered the Russian market in 2013 and the expansion is also planned for 2017. The leading hotel operators in Russia are Carlson Rezidor Hotel Group (with a total of 25 hotels with 7720 rooms), Accor Hotels, InterContinental Hotel Group and Marriott International. During the next 6-7 years Carlson Rezidor Hotel Group plans to increase the number of its hotels up to 48 with 12,854 rooms. Accor Hotels also intends to expand the quantity of its hotels by opening 45 brand hotels with 7,942 rooms. By the end of 2013, the Marriott International chain had 14 hotels with 3,482 rooms in Russia. The company expects to implement 9 additional hotels with 2,130 rooms by 2019. InterContinental Hotel Group, having 13 operating hotels with 2,130 rooms plans to open up to 25 hotels with 6,339 rooms. Hilton Worldwide intends to increase considerably the number of its hotels in Russia – 21 new hotels with 4,206 rooms. The comparison between the quantity of existing brand hotels on the Russian market in the year 2013 and new possible hotel chains of 2019 are illustrated in figure 5 and figure 6. (KPMG 2014.)

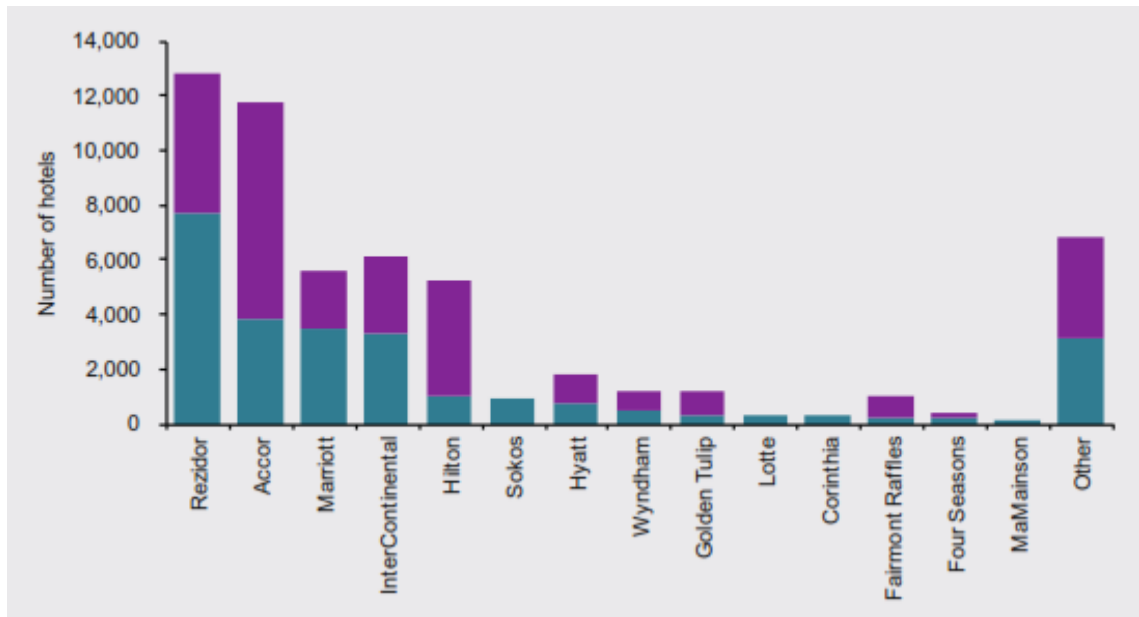


FIGURE 5. Rating of international operators with a presence on a Russian market (KMPG 2014)

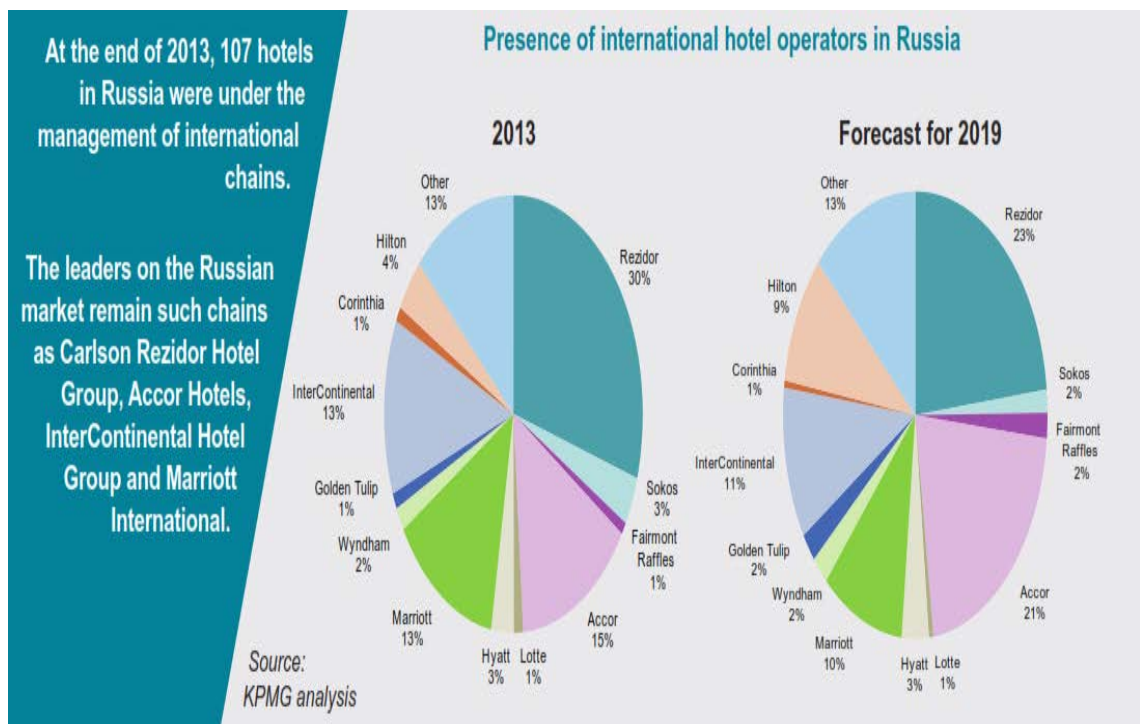


FIGURE 6. International Hotel Operators in Russia in 2013 and 2019 (KMPG 2014)

Initially the Russian market of hotel chains included only two cities – Moscow and St. Petersburg due to the great share of supply. However, taking into account the major international events, such as the Olympic Games in Sochi in 2014 and the World Cup in 2018, the leading hotel chains reconsidered their policy and thus intend to expand the

number of their hotels also in other cities and towns of Russia. As it is shown in figure 7, new international brand hotels will be opened in such cities as Rostov-on-Don, Yaroslavl, Kaluga, Voronezh and other cities and towns prior to the beginning of the World Cup in 2018. It is demonstrated in figure 7 that some of the hotel chains do not exist in several destinations yet, namely Rostov-on-Don, Tyumen, Kaluga and Ufa. However, a great number of new brand hotels plan to operate there by 2019. (KMPG 2014.)

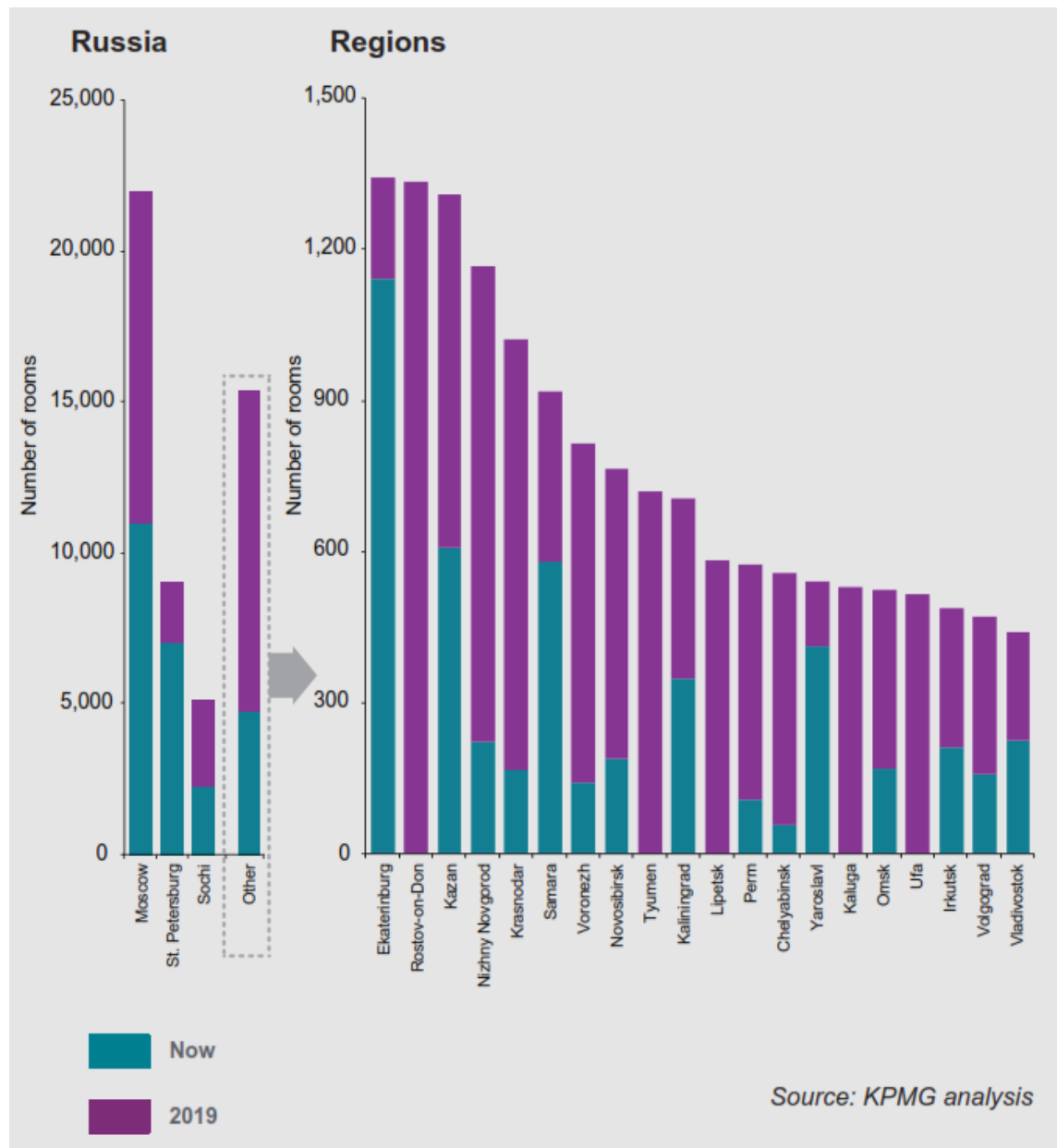


FIGURE 7. Distribution of existing and future room inventory of international hotel operators (KMPG 2014)

4.5 Preferences of Russians when choosing an accommodation

Russian tourists have started travelling more frequently recently and therefore they have become a “slice of the cake” for a great variety of destinations they visit. They stay at luxury hotels, have dinner at elite restaurants and purchase goods of famous brands.

Some European countries reconsider their business plans orienting them to Russian tourists and investors. Austria was the first country to make necessary changes in their tourism strategy to attract more Russian tourists. Skiing business became more adjusted to their needs – special menus in Russian, Russian speaking ski instructors and Russian music playing on the background. Italy, being one of the most popular countries for Russians, also made considerable changes in the tourism industry by providing different kinds of services in Russian, especially in the resort destinations. Finland is also one of the countries that became more oriented to Russians. Nowadays, it is possible to pay with Russian roubles in Stockmann shops to make it easier to purchase more goods, not being concerned with the money exchange. (Бельгийская Федерация Русскоязычной организации 2013.)

In accordance with the survey made by Orangesmile.com, it was discovered what kinds of services Russian tourists would expect to have staying at hotels. The most significant factor for Russians (68% of the respondents) is availability of tea and coffee making facilities. Concerning the other preferences, the choices of men and women were different. 55% of men prefer to have a big TV-set with a wide range of channels in their hotel rooms. However, for 68% of women, hairdryer is the most important thing they would need while staying at a hotel. All the respondents also mentioned free Wi-Fi and complete bathroom with a bath as some of their preferences. A beautiful landscape from the window is also the factor Russian tourists (70% of the respondents) would take into account when choosing a hotel. Women would prefer to have a view on a beach or cultural sights from the window, while men do not consider it to be important at all. 30% of the respondents specified that they did not need sewing facilities in the rooms, as well as a chocolate bar as a gift from a hotel. Most of the respondents prefer to stay at mini hotels or international hotel chains instead of luxury hotels. Booking of hotel rooms has also changed – Russian tourists do not anymore trust travel agencies in choosing an appropriate hotel, they use online bookings as an opportunity to choose a suitable hotel at an affordable price. (WebTravel 2014.)

4.6 Russian online booking market

Experts affirm that nowadays the Russian online booking market has been developing rapidly. A greater number of people prefer to plan their holidays and book hotel rooms on their own without applying to tourism agencies. Online booking market in Russia was rather poor some years ago. Nevertheless, sales through internet has become more and more popular and familiar for tourists. As the president and co-founder of the company Ostrovok.ru Kirill Maharinskiy states, approximately 10% of Russian tourists used online booking services in 2012 and their number was supposed to increase up to 15% in 2013. According to the manager of the operational department of Oktogo.ru Olga Favarizova, Russian online booking market will be rapidly growing up to 40%-50% during the next years. (TRN-NEWS.RU 2013.)

It is planned to open a separate online booking system of hospitality services in Russia in future. Sanatoriums and boarding houses will receive an advertisement through this system and Russian tourists will be recommended to give preference to domestic destinations. It will be useful for the development of Russian sanatoriums or holiday centers and Russian customers who will get reduced prices. (RG.RU 2014.)

European online travel agency eDreams has been expanded recently by targeting its market to Russia. Due to the country's big population and active users of internet (77 million users) with an annual growth rate of 55%, it was profitable for the company to launch its services in Russia. The director of eDreams Pablo de Pocioles states: "Internet penetration in Russia is at 55% and growing at an unstoppable rate that is much higher than other countries. So this opening is a huge opportunity for us". (TTG Digital 2014.)

According to "National Geographic Traveler Awards", ostrovok.ru is the best internet service in Russia. The company provides its customers with online bookings of hotel rooms at very affordable prices. They have a great number of partner hotels especially in Russia and make focus on those destinations and hotels that are the most popular among Russian travellers. (Ostrovok.ru 2014.)

It is obvious that Russian market of online booking has been constantly developing. A greater number of people use online services nowadays for searching for an appropriate

apartment or flight at suitable prices. Its capacity will potentially continue to grow and soon it will become comparable with leading European and US American booking services.

5 DOING BUSINESS IN RUSSIA

5.1 Profile of the Russian Federation

<i>Area</i>	Russia is the largest country in the world comprising two continents (Europe and Asia) and having the total area of 17 million square kilometres.
<i>Population</i>	143,800,000
<i>Ethnic Groups</i>	81% Russian 3,7% Tatar 1,4% Ukrainian 1,1% Bashkir 1,0% Chuvash 0,8% Chechen 11% Others
<i>Capital</i>	Moscow
<i>Language</i>	Russian + 27 other co-official languages in different regions
<i>Life expectancy</i>	67 years
<i>Government</i>	Federated Republic
<i>President</i>	Vladimir Putin
<i>Currency</i>	Russian rouble
<i>Nominal GDP (2013)</i>	USD 2,094 billion
<i>Real GDP growth (2013)</i>	+1,3%
<i>GDP per capita in PPP (2013)</i>	USD 15,177
<i>FDI (2013)</i>	USD 94.1 billion
<i>Inflation (2013)</i>	6,5%
<i>Foreign reserves (01.03.2014)</i>	USD 493,3 billion

The Russian economy has been rapidly expanding due to the GDP index growing annually by 7%. According to President Putin and Prime Minister Medvedev, Russian econ-

omy would continue to be innovated and modernized which could bring it the position of the largest consumer market in Europe (with GDP per capita growing up to 35,000 USD) by 2020. Therefore, Russian market will attract more and more foreign investors in future.

5.2 Background to business in Russia

A great number of foreigners still have stereotypes about Russia and doing business there. They fallaciously believe that investing in Russia will cause the loss of money since it will be immediately stolen and an investor will be killed at a hotel. This is the most common opinion among foreigners, and this is absolutely absurd nowadays.

Russia is listed among the countries with a great potential of doing business in. However, there are some factors preventing investors to start up their business, namely economic risks and imperfect legislation since the laws are constantly rewritten. Nevertheless, after Russia's joining the World Trade Organization (WTO), it became more beneficial for potential foreign companies to invest in business in the country which is rich in high-class professionals, great nature resources and unlimited opportunities for the economic development. Henceforth, international trade and investment co-operations are based on WTO rules which will result in a more predictable and stabilized environment. (Корпоративный юрист 2014.)

Good personal relationship when doing business is very significant, as well as Russian experts who are always needed to adjust possible misunderstandings. It can be even a company serving as a representative and assisting foreign investors. The cultures can be completely different and therefore, the ways of conducting negotiations and making agreements with Russian might be challenging for foreign investors.

5.2.1 Foreign investment law

In accordance with the Federal Law on foreign investments, foreign and native investors have the equal rights for conducting business activities in Russia and disposing profits gained. Foreign investors can be subject to certain limitations connected with protection

of constitutional guarantees (health, rights and lawful interests of citizens), or state defence. However, some restrictions on business activities such as licensing, notifications and permission requirements are applicable both for Russian and foreign entities. According to the Russian legislation, foreign investors' rights and interests are fully protected. In case of unlawful actions, their losses can be recovered by the Federal or regional state authorities. (KMPG 2014, 15.)

Foreign investors are also protected from unfavourable alterations in Russian legislation, provided that the foreign investor possesses more than 25% of a Russian company's share capital. The protection is implemented against:

- Newly admitted laws changing customer duties, Federal tax rates, contribution to state non-budgetary funds
- Modification of current laws leading to the investor's tax increase
- Any limitations on foreign investments in Russia

This protection is valid during the first seven years of an investment's payback period starting from the beginning of funding. (KMPG 2014, 15.)

The Prime Minister Medvedev approved the bill removing restrictions for participation of foreign companies in the capital share of small and medium-sized enterprises. According to the experts, it would help to legalize business of Asian investors and attract Western ones. The previous abridgement was risky for foreigners and more expensive in terms of realization of their project. The new amendment provides foreign investors with more favourable conditions of doing business. Moreover, Prime Minister suggested simplifying the process of entering the Russian stock market. President Putin signed the legislation on visa exemption for foreign investors. (Dp.ru 2013.)

5.2.2 Legal structures for doing business

According to the Russian legislation, foreign companies have the following options of registering their business in Russia:

- Branches and representative offices

- Legal entities
- Joint activity agreements, known as simple partnerships

Branches and Representative Offices

Branches and representative offices (RO) differ in accordance with the activities they fulfil. RO have a limited set of obligations which only include subsidiary and preparatory activities without a possibility of doing marketing or gathering information. Branch, on the contrary, is allowed to perform all kinds of activities similar to head office, including representation. Branches are also occupied with commercial activities connected with taxation and therefore they are liable for profit tax. Due to the limitations of ROs, they cannot be subject to profit tax. Nevertheless, some offices conduct such commercial activities, including the fulfilment of sales contracts. At these rates, the offices will be subject to profit tax as in the case of branches. (Deloitte 2014, 8.)

The registration process for branches and ROs consists of the following stages (Deloitte 2014, 9):

- ✓ Accreditation and merger into the State Register of Accredited Foreign Representative Offices/Branches
- ✓ Affirmation of the design of the organization's stamp
- ✓ Registration with the tax authorities (regardless if activities are taxable or not)
- ✓ Registration with the State Statistics Committee and registration with social funds

Legal Entities

Before applying to registration of the business, the right legal entity has to be chosen. The most common types of legal entities are:

- ✓ Open Joint Stock Company (OJSC)
- ✓ Closed Joint Stock Company (CJSC)
- ✓ Limited Liability Company (LLC)

Open Joint Stock Company

The number of shareholders in OJSC is unlimited. The share capital is defined by a nominal value of shares purchased by shareholders. The minimal charter capital is 100,000 RUB (approximately 1,914 EUR) which can be paid either by fund or by property.

Closed Joint Stock Company

This type of legal entity can include up to 50 shareholders. The share capital consists of the nominal value of shares. The minimum charter capital is 10,000 RUB (approximately 191,40 EUR). Shares of CJSC can only be distributed within founders or other predefined persons, the general number of whom does not exceed 50.

Limited Liability Company

It has the simplest shareholding structure due to its law outlay and uncomplicated accounting. It includes elements of a partnership and a corporation. The maximum number of shareholders is also 50. The minimum charter capital is 10,000 RUB (approximately 191,40 EUR). Nevertheless, it is obligatory to register all the possible changes in shareholding in the relevant registration body. (Russian Law Online 2014.)

The registration process for Legal entities is the following (Deloitte 2014, 11):

- ✓ State and tax registration
- ✓ Affirmation of the design of the organization's stamp
- ✓ Registration with the State Statistics Committee and social funds

Joint Activity Agreements (JAA) or Simple Partnerships

For this type of agreement a company has to contribute funds or property in the form of assets to the joint activity which is taxed according to the participants' level. One of the partners is usually responsible for bookkeeping. (Deloitte 2014, 11.)

5.2.3 Franchising

When starting up business abroad, it is required to take into account the economy of the country. A country with a growing economy is a perfect solution for franchising and Russia being the world's 11th largest economy by nominal GDP is a great example. There are plenty of market opportunities there.

Even with the franchising market of only 3,5% of the whole value, it has a great potential. World-famous brands, such as Subway, Baskin Robbins, Zara and H&M continue to invest in the Russian market. The most popular types of franchising in Russia is food segment followed by clothes and services. These segments are growing rapidly regardless of the political situation related to Ukraine and sanctions imposed by USA and EU. (FRANCHISOPEDIA 2014.)

However, the most considerable economic problem of Russian franchising is instability with constant ups and downs which influence demand for all kinds of goods and services and therefore affect franchisees. The main problem is connected with the imperfection of legislation where the term "franchising" is not fully determined. Nevertheless, some amendments were introduced to the Russian law in 2013, according to which franchisees are now able to define the prices for sold services and goods. Another problem is connected with the lack of experience of entrepreneurs. Therefore, proper education in the sphere of franchising should be organized. (Гильдия маркетологов 2014.)

Despite all the possible difficulties, franchising in Russia is still very attractive for foreign investors and they continue to expand their business. Russia officially became the member of the World Trade Organization in 2012, thus facilitating the expansion of market opportunities for foreign companies, including franchising.

5.2.4 Accounting environment

The Russian financial reporting system is similar with the International Financial Reporting Standards. Nevertheless it is more like a summary of the international model since it has to correspond to the tax rules. The Russian government made considerable changes in the electronic documentation field by planning to implement it throughout

all state bodies by 2017. In accordance with the new legislation it has become possible to make agreements and contracts electronically, in addition legalizing the use of digital signatures, e-invoices and other electronic documents. (Deloitte 2014, 12-13.)

According to the new amendments starting from January 1, 2014, documents presented to the tax authorities by telecommunications must be signed with a qualified signature which is relevant for tax returns, advance payment reports, VAT invoices, declarations, notifications and other types of documents. Another regulation adverts to requesting documents from entities, according to which all requests will be possible to send as a hard copy or electronically. Consequently it is recommended for entities to have communication channels with tax authorities to avoid possible problems since it will become impossible to operate without electronic documentation system. (Deloitte 2014, 13.)

5.2.5 Taxation

A Foreign Legal Entity (FLE) is obligatory to register with the Russian tax authorities within 30 days provided that they conduct business activities for a period exceeding 30 days despite of the fact that activities are taxable or not. When operating in several locations, the company has to be registered in each of them. (Deloitte 2014, 17.)

Profit tax

Foreign legal entities are subject to profit tax on profits conducted through permanent establishment. The term “Permanent establishment” is defined according to the Tax Code as any representative office, division, agency, or any other place of activity by which the business in Russia is carried out. The standard rate of the tax is 20% of which 2% is for the federal government and 18% to authorities. (Deloitte 2014, 17.)

Property tax

Property is to be taxed if it is located on a land which is considered to be used for business, administrative or commercial purposes, provided that at least 20% of the building's space is used for offices. According to the new rules, the maximum tax rate will

not exceed 1,5% for the property in the Moscow region and 1% for other regions in Russia. In 2015 the tax will be changed by increasing up to 1,7% and 1,5%. In 2016 the tax rate will be equal for all Russian regions and it will not exceed 2%. (Baker & McKenzie 2014.)

5.3 Promotional campaigns

5.3.1 Online marketing

Russian online market being one of the largest markets on the web has been rapidly growing. The quantity of users nowadays is over 80 million. Internet marketing in Russia has become one of the most significant and efficient tools to promote products and services. However, it is necessary to take into consideration some essential issues (Promodo 2014):

- Russian language. All the promotional campaigns and customer service are to be accomplished in Russian. Domains .ru and .rf should also be used when creating a webpage for Russian customers.
- Local search engines and social networks. The search engine Yandex and social network vk.com are the most widely used tools for marketing in Russia.
- Internet payment methods. Qiwi, Webmoney and Yandex Money are the most popular ones in Russia. All of them are debit accounts which are supposed to be safe.

Russian market is still considered to be difficult for foreign companies despite the GDP growth and a number of internet users being increased daily. Therefore, different efficient ways are produced for attracting and reaching Russian online users. Students of the Duke University suggest some interesting significant facts and features about online marketing in Russia that could be useful for companies planning to open their business in Russia and advertise themselves through local channels (Forbes 2014):

- Russia's growing urban middle class. The population of middle class in Russia is approximately 15%-25% which is expected to grow 16% by 2020. Most foreign companies direct their business to Moscow and St. Petersburg, disregarding

other cities and towns with a large quantity of potential middle class customers. Therefore, gaining success in the two main Russian cities, big companies generally plan to expand their business by opening branches in other destinations that can be potentially profitable.

- Strong media. The Russian media market has been rapidly growing and is expected to become the fifth largest TV-advertising market in the world by 2015. Therefore, offline advertising is still very significant.
- Local competitors. Russians do not prefer risks and generally they trust to those companies that they already know or which have been recommended by someone. Therefore, a new foreign company entering the Russian market has to gain confidence to attract new customers.

When planning to start business in Russia, it is also recommended to have a webpage available in the Russian language besides Finnish and English. As a result it can help a company to look more competent and prestigious and thus more attractive for Russian customers. Mobile application in Russian would also be a useful addition to the marketing since the number of mobile users continues to increase and people tend to use mobile phones more frequently than computers.

5.3.2 Search engines and social networks

Yandex

Considering the great population of Russia and thus of internet users, it was obvious to create own marketing campaigns and search engines optimized for the needs of the country. The major and most popular Russian search engine with over 60% market share is *Yandex* which is also used in Ukraine, Belarus, Kazakhstan and Turkey. (Yandex 2014.)

It is essential to adapt website and advertisements to *Yandex* because of its great advantage over Google in Russia. However, it is necessary to take into consideration that the search results in *Yandex* depend on a region. For instance, when typing “taxi” in the search field, *Yandex* automatically offers results relevant for the current region, not for other destinations. *Yandex.Direct* is used for contextual advertising of services and web-

sites which is more specific comparing to Google Adwords. *Yandex.Metrica* is used for analyzing visitors' behaviour and effectiveness of advertisement. (Nix Solutions 2013.)

Yandex has expanded its dominance in Russia by making sales also to foreign advertisers, reaching approximately 85 million dollars in 2013. According to Tiziana Tini, the marketing manager of an Italian luxury store, “Yandex is the largest player in Russia, and if you need to reach out to a broader audience, you have to go with it”. (Bloomberg 2014.)

VK (VKontakte)

VK, which was launched in 2006, is nowadays the largest and most popular Russian social network with the number of users of about 300 million including users from former Soviet countries. It was also ranked eighth among ten most popular international social networks and considered to be the second most frequently visited website in Russia after *Yandex*.

According to Brand Analytics data, a monthly number of VK users was 52,1 million users among which 18,1 million are active users. The biggest age group (39%) consists of young people between 18 and 24 years old, 28% of users being younger than 18, 26% of users are at the age of 25-34, 5% are 35-44 year old users and 1% are the age group of 45-54 and 1 % older than 55 (figure 8).

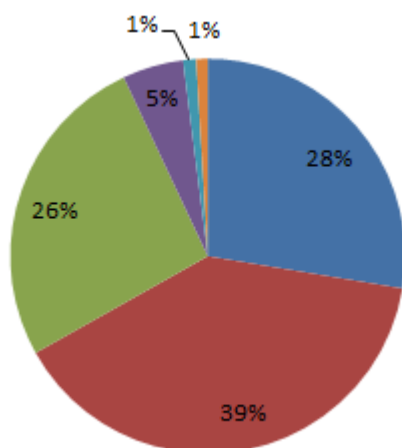


FIGURE 8. The number of VK users in May 2014 (Habrahabr.ru 2014)

Taking into consideration a considerable number of users and thus potential customers, VK is an attractive marketing channel through which it is possible to create groups, public pages or communities and advertise products or services. Numerous world-famous brands have created an account on VK to be always in contact with customers, and to make promotional campaigns by uploading pictures or videos and plenty of other useful options (figure 9).

FIGURE 9. Advertising on VK (Digital in the Round 2013)

These communities or groups are frequently visited by their members where they leave comments or feedback and ask questions. Such pages are also shared among friends, thus making an advertisement. It is important to maintain the interest of the audience by making contests and making customers participate in them by providing them with special gifts or discounts. There is also a possibility of creating banners where advertising costs vary in accordance with the frequency of the ad displayed or clicked – cost per click is approximately €0.27 to 0.6 and cost per mile €0.07 to 0.17. (Toimelias 2014). Therefore, VK is a very good marketing channel in Russia available at affordable prices or even completely free of charge.

Odnoklassniki (OK)

Odnoklassniki is the second most popular social network in Russia with about 200 million users including former Soviet countries. Like VK, it is possible to advertise prod-

ucts or services through this social network by choosing the target audience orienting the product or a service on a determined group.

In accordance with the Brand Analytics data, *OK* had 40,8 million users among which 2,5 million are active users. The most popular age group (31%) is between 25 and 34 years old, 18% are 35-44 year old users, 15% are young people between 18 and 24 years old, and 12% are users with such age groups as 45-54, older than 54 and younger than 18 (figure 10).

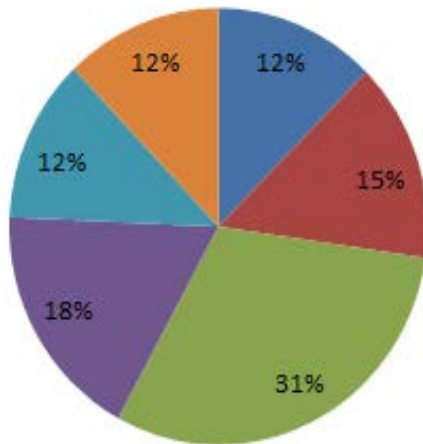


FIGURE 10. The number of OK users in May 2014 (Habrahabr.ru 2014)

Facebook with approximately 23 million Russian users is far behind the two leading Russian social networks. *VK* continues to grow and attracts even more users including world-famous celebrities. However, a great number of Russian users have several accounts simultaneously, for instance both *VK* and *Facebook* or *VK* and *Odnoklassniki* or all three (figure 11).

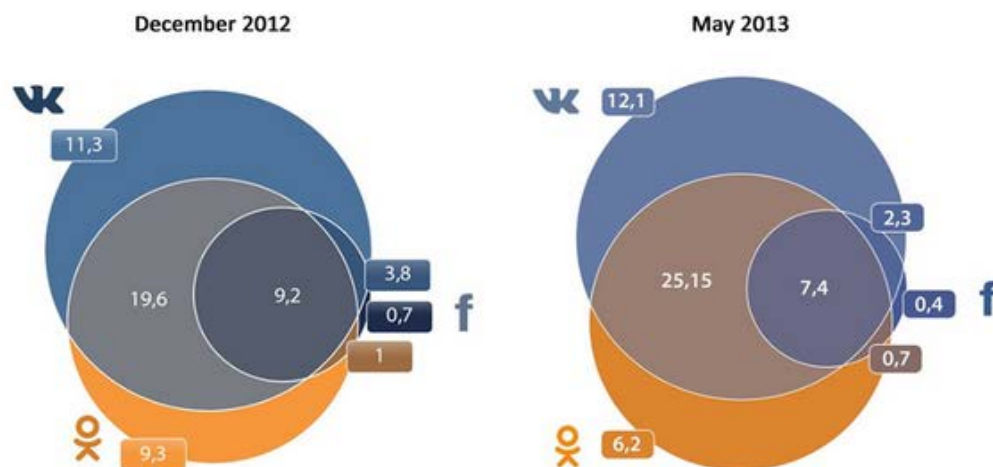


FIGURE 11. The percentage of people using VK, Odnoklassniki and Facebook (Russian Search Tips 2014)

5.4 Finnish and Russian management styles

Finnish business style is based on equality. Every person in a Finnish company is considered to be valued highly and to play a great role in the organization. Due to such peculiarities, it is obvious for Finns if a leader consults employees when gathering some information or when making a decision. Their business style is formal. Therefore, Finns are used to focusing on business rather than on someone's interests and not caring about being friends at the working places but only partners. (Kwintessential 2014.)

When dealing with Russians in business, it is significant take into account an open and honest approach. Firmness and virtue are valuable for Russians, although it is necessary to be open and friendly. Employees are supposed to fulfil instructions defined by the leader since consulting with subordinates can be interpreted as lack of knowledge or decisiveness. Making friends and discussing personal life at the working place is common unlike for Finns. (Kwintessential 2014.)

Finnish managers are task-oriented. Productivity, profits and achieving goals are the key aspects which they appreciate highly. Effective cross-cultural communication with Finns is based on knowledge of employees who can always be consulted concerning possible improvements and benefits for the organization. Successful intercultural communication with Russians occurs realizing their warm-up when socializing. Personal relationship is always favoured and valuable. (Kwintessential 2014.)

Finland belongs to a controlled time culture where schedules and deadlines are very substantial. Missing a deadline is considered to be a bad quality. Employees are expected to work hard and even to sacrifice their weekends to achieve a goal. Russia is a moderate time culture with flexible deadlines and schedules. However, in order to make a successful deal, they can adopt to peculiar standards of adhering to schedules. It is important to define the importance of deadlines when dealing with Russians, since ability to work strictly according to schedule can be individual. (Kwintessential 2014.)

Finns are used to working in teams supporting a cooperative management style. Russians, on the contrary, feel comfortable being dictated what task has to be implemented

independently. Nevertheless, modern young Russian employees are flexible to working both in teams and independently. Concerning negotiation and communication styles, Finns are direct in speaking what they think and expecting the same honesty from others. They value quality in work being interested in long-term goals. Relationship between partners is obvious to take place outside the office in a restaurant or sauna. Russians negotiate slowly, being cautious in making decisions. The relationship with foreign business partners can be firm in the beginning, but warm and sincere later. (Kwintessential 2014.)

According to Lewis (1996), Finland is considered as a linear-active culture, thus having some specific characteristics as being open, direct and modest. They also appreciate understatement and humour, as well as their personal space. Being punctual, faithful and keeping your word are also important features. Russians belong to the multi-active culture. They can be talkative and even impatient having at the same time such positive characteristics as warmth, generosity, compassion, deep friendships. Russians indicate trust with being ready to help and give an advice. (Lewis 2006, 336-337, 375-377.)

6 RUSSIAN MARKET ANALYSIS

6.1 Marketing mix

Product

Product is the essential and basic part of the marketing mix analysis. Taking into consideration the fact, that the current analysis is connected with hospitality/tourism related services, the researched product is intangible. Therefore, the product in this particular case is presented as a number of various services. Hotel Vip Club International Oy (HVC) specializes in different kinds of travel related services with the main function of providing its members (mainly business travellers) with hotel rooms at a 50% discount. After purchasing the membership card, members get access to all special benefits and services offered by HVC.

According to Kotler (2007), product is divided into three levels: *core*, *actual* and *augmented* product. *Core product* (the basic idea of the product or the reason for its purchasing), for HVC is offering accommodation at the most affordable prices at their partner hotels all over the world. HVC has a great number of famous partners, such as Radisson, Scandic, Norwegian.com, Hilton, Hertz, Best Western, AVIS, Finnair, Holiday Inn, Sixt, SAS, Lufthansa and Ryanair.

Actual product (additional auxiliary services for consuming a core product). The example of the actual product of HVC is a free reservation service for booking hotel rooms for members, including the possibility of reserving a table at a restaurant or booking a taxi.

Augmented product (product or service for adding value to the core product in order to gain advantage over competitors). A range of the augmented services offered by Hotel Vip Club International Oy are HVC Travel Finder searching for available hotel rooms, flights or car rentals at the most affordable prices and HVC Long-term Accommodation Service (furnished rooms or cottage accommodation). HVC mobile application is also a useful and convenient tool for card members.

In order to dominate over possible competitors with similar services, it is significant for HVC to continue attracting new partner hotels, especially the Russian ones considering the plans of the company to expand its business into Russia. Augmented services also have to be supplemented with new co-operations providing new services to assure the current HVC members and new potential customers in the uniqueness and usefulness of the product. It is also essential to learn about preferences of Russians when making business or leisure trips, their expectations and demand for the current services. Since Russian tourists travel frequently at least to Finland, this service could attract them considering a great number of HVC partner hotels in Finland.

Place

The concept of place is connected with distribution channels through which a product or service is purchased. The office of HVC is located in Tampere, Finland. New potential customers (companies) are contacted by telephone and offered to purchase membership cards. Nowadays, HVC searches for new members only around Finland and therefore the target market is Finnish companies. However, the next target country for attracting new customers will be the United Kingdom and other European countries later. It is also planned to expand the business by opening an office in Estonia.

All kinds of services provided by HVC are depicted on the official website which is supplied with a wide range of features, such as booking an accommodation, flight or car rental at the most affordable prices. Profile of the company on Facebook is also an effective platform for distribution of the service both for the current members and new customers providing them with the information about the company in general and benefits through membership, as well as new services available. Moreover, the distribution is accomplished through a convenient mobile application, available for iPhones, Windows Phones and Android.

Considering the fact that the target market nowadays is only Finnish companies, HVC members generally travel around Finland. Therefore, in order to attract more foreign customers, especially Russian ones since they are a new target group, an agreement with more partner hotels should be made. These potential new customers will probably be more interested in domestic destinations to where they travel frequently.

Opening branches in other countries will also enhance the image of the company emphasizing its success on the international level and great experience in doing business. St. Petersburg would be the most appropriate place for Finnish-Russian co-operation and for HVC. First of all, it is located close to Finland and trips between St. Petersburg and Finland are made frequently. Secondly, there are plenty of Finnish companies in St. Petersburg and Russian ones in Finland, and therefore, there is a great demand for business trips. Consequently, St. Petersburg would be the best option for HVC to open its branch.

Price

Price refers to the value of the product depending on a variety of factors, such as the cost of production or service, target segment, demand and correspondence of price to the quality. The general price for the HVC membership card which is valid for one year from the date of the registration is €35. Since the target group is business travellers, the cost of the card is paid off quickly depending on the hotel a customer stays in. The price is very beneficial for business travellers preferring to reserve rooms at more expensive hotels, since the cost of the card can be equal to the price of one night at a hotel. HVC members have a wide range of hotels to choose from, as well as a great number of other benefits that correspond to the price of the card and quality of service.

Since some potential customers hesitate about purchasing HVC membership card owing to the fact that it might not be paid back, they can be attracted for joining the HVC club by the company adding even a greater number of new services available for the same membership card with the price of €35. When aiming to be oriented on leisure travellers or business ones travelling also during their holidays, it is recommended to gain more options of resort hotels. Therefore, the value of the card will be increased and the price will completely correspond to the quality of service and variety of benefits.

When doing business with Russia, it is required to take into consideration the difference in currency. In accordance with the current complicated political situation, the value of rouble has decreased. Therefore, taking the actual price of the membership card - €35 and exchanging it in accordance with the current tariffs (€ equals approximately to 56 roubles), it could be rather expensive and not beneficial for some business travellers. Consequently, there should be a balance and optimal price in roubles for HVC and for

potential Russian customers. It is useful to learn the average cost Russian business travellers spend for trips and after that to determine the most appropriate price.

Promotion

Promotion includes activities accomplished for advertising a product or service and persuading potential customers to purchase it. HVC has an official website with all the information about its services being frequently updated. The company's page on Facebook is also informative and serves as a good marketing tool, since social networks are very popular and actual nowadays. However, the main promotional channel of HVC is contacting companies directly by telephone, explaining and describing all the benefits of the services and persuading potential customers to join HVC.

Before entering the Russian market, it is required to make a big promotional campaign to inform potential customers about a new and unique service they could be interested in. The most efficient, however, probably expensive way of advertising a new service in Russia can be a TV commercial at St. Petersburg's local channel. Another good opportunity could be to make an advertisement at a Finnish-Russian newspaper that would be a good step on the way to doing business in Russia, since the company will already be known to Russian customers even before opening the branch in St. Petersburg.

The main marketing channels nowadays are online marketing and social networks. Facebook profile of the company will not be enough for Russian customers since they are not frequent users of this social network. Russia has its own "Facebook" called VK with approximately 300 million users. The easiest and completely costless way of starting a promotion through VK is creating a public page for HVC and thus informing people regularly about all the updates and benefits. It is also possible to make a chargeable commercial which will be visible to a greater number of people beside followers of the public page.

It is also recommended to make a big promotional campaign for companies with frequent business trips and general potential customers when opening the actual office in St. Petersburg. It could contain a short history of the company and description of all the benefits of the membership card and probably even upcoming updates. Connections and opinions are very significant in Russia. Therefore, those potential customers who appre-

ciate the necessity and usefulness of the membership card will inform their friends and relatives about a positive experience. However, in order to attract new customers in the beginning, it would be beneficial to present 5-10 cards for free. It is possible to make it through a random choice between participants of the opening ceremony. It will be their first positive impression of the company and they will undoubtedly wish to use this card to learn how it actually works.

6.2 PEST analysis

PEST analysis (acronym for *Political, Economic, Social (Socio-cultural), Technological*) is an economic tool used for evaluating market of a business organization considering its political, economic, socio-cultural and technological factors. The analysis helps to identify the general view of a company's business environment and define the most significant factors affecting business.

Political

Russian Federation is a federative presidential republic. The Constitution, adopted by the national referendum in 1993, determines the political system. The head of the state is the President, designated by election every 6 years.

The political situation in the country is generally considered as unstable and the legislation is exposed in relation to unpredictable changes. The President Putin agrees that political and economical reforms are essential for building stability. According to officials, a number of considerable problems still obtain, for instance, the lack of agility in Russian labour, the lack of reserve industrial capacity, an ageing population, and private sector investment falling rate. Even taking into account a great net capital outflow, the instability and inadequacy of law is the main factor prevailing in making the final decision about doing business in Russia. (Centre for European Reform 2013.)

In addition to the instable law, the problem of corruption is also substantial and considered to be a big sore in Russia. Despite a great number of measures taken for improvement of the situation, the problem is still urgent and corruption becomes latent. According to the survey of Transparency International, 57% of respondents still determine the

problem of corruption. In order to clarify the level and urgency of the situation, professor of the university in London Alena Ledneva together with other co-authors made a research in 2001, in which more than a hundred of managers of Russian and foreign companies participated. The research showed that corruption in Russian business was still a major sore. (Slon.ru 2012.)

However, it also depends on companies whether they suffer from corruption or can manage all the issues legally. As CFO of Sokos Hotels in St. Petersburg Matti Myllymäki stated: “You fix your problems with corruption which only creates more corruption. Do things correctly and you have no need to bribe”. In spite of the fact, that corruption is the main factor frightening foreign investors, this statement means that there is a possibility of avoiding the problem. Nevertheless, answering the same question of the interview “Is the problem of corruption still actual for Russian market?”, representative of the East Office of Finnish Industries Raimo Valo confirmed the existence of corruption, however, emphasizing that “Finns can easily stay out of it and still do business in Russia”.

Another stumbling block is bureaucracy which is one of the most important political and socio-economical factors taking a great role in the formation of the society. And Russia is generally considered as the country associated with bureaucracy. Anti-bureaucracy has recently become more popular among Russian people. The term “government official” has a negative meaning nowadays embracing such notions as extortion, violation of human rights, and humiliation.

Considering the above-mentioned disadvantages on the way to doing business in Russia, the country has the Intellectual Property Law adopted in December 18, 2006. The following legal protection is granted for legal entities, goods, works, service or enterprises. A trade mark together with service mark, i.e. the sign identifying services provided by enterprises or legal entities, which will be followed by a certificate that confirms the exclusive right to that trade or service mark.

The current situation in Ukraine also influenced the political image of Russia and no one can predict the result of the “sanctions war”. The US and European Union continue to apply sanctions against Russia which will have a boomerang effect and as a result, Europe itself and European business in Russia can considerably suffer.

Economic

The GDP in Russia advanced 0.7 percent in the third quarter of 2014. The average annual rate was 3.63 from 1996 till 2014. 53 percent of the whole GDP apply to services, namely to wholesale and retail trade, vehicles, motorcycles and other personal goods repair (17 percent); health, education and public administration (12 percent); real estate (9 percent); transport storage and communication (7 percent). 40 percent of the total GDP is contributed to the important segments of industry – mining (11 percent), manufacturing (13 percent), and construction (4 percent). (Trading Economics 2014.)

The latest interest rate of Russia was registered as 9.5 percent as reported by the Central Bank of Russia. The average rate between 2003 and 2014 was 6.53 percent with the highest benchmark of 10.50. Considerable changes have occurred in September and October due to the current political situation, fall in oil prices and sanctions against Russian largest companies. According to the estimations of the Bank of Russia, the inflation will remain above 8% at the end of 2014 and the first quarter of 2015. (Trading Economics 2014.)

The US and EU sanctions imposed on Russia also hit the country's banking sector. As a result, the leading Russian bank Sberbank has to do a great amount of work to re-orient itself to the domestic funding system. About 57 billion dollars of external debt will have to be refinanced. The other major Russian banks, such as VTB, Bank of Moscow, Gazprombank, Russian Agricultural Bank and VEB encountered the same restrictions. (The Moscow Times 2014). Visa and MasterCard also stopped processing payments of major Russian banks, as a result hitting not only the economy of the country itself but also millions of individuals who trusted them. Therefore, Russia had to develop its own chip technology replacing Visa and MasterCard systems. President Putin signed a law adopting a new technology and paying system which also contained a "security fee" for foreign payment systems that will counterbalance all the possible failures in future. (Rt.com 2014.)

However, regardless of all the sanctions and their negative effects on the Russian economy, President Putin stated that it would be beneficial for Russian domestic market and doing business inside the country since some companies were already thinking about registering their business "at home". He added that Russian authorities had plenty of

important and necessary tasks to create better conditions for the business inside the country. Putin also believes that the situation with the sanctions can make Russian authorities work harder and better for the improvement of the country's economy. He also mentioned on the interview, that politics and economics were interdependent. Nevertheless, in his point of view, Visa and MasterCard were always mistakably considered as depoliticized economic entities which at the same time proved to be under strong political pressure. Therefore, creating Russia's own payment technology is essential due to the current political-economic situation. (TASS 2014.)

Social

Russia is one of the largest countries in the world with the population of 146 million people. Therefore, the cultural diversity is also great and it is almost impossible to characterize every person identically. However, Russian people have some typical features that unite them and make them different from the West or East. The most well-known and typical feature is Russian hospitality. Being invited to the Russian dinner, visitors should be convinced that they will be fed and treated properly. Russians always cook a great variety of delicious dishes for their guests, even if these dishes are very expensive and hosts never or rarely cook such delicacies for themselves. Another characteristic feature is patience and fortitude since Russians have always been adjusted to different kinds of possible difficulties and inconveniences, attempting to find a solution for any situation. Sympathy is also typical for Russians who can compassionate, listen and try to help.

The attitude of Russians to Finns and Finnish products is positive. The excellent quality of Finnish goods has been well-known to Russians since the Soviet times. Finland itself also attracts a numerous quantity of Russian tourists visiting the country frequently in different seasons. Finns themselves are also known as very honest people and thus it is considered secure and advantageous to do business with them.

The importance of the Russian language is also necessary to mention since the majority of Russians do not have enough skills of the English language. Nowadays there are plenty of international companies in Russia where the official language is English. However, when starting business in Russia, it is recommended to have a good interpreter to make sure that all the details of negotiations will be understood correctly. Herei-

nafter, it is advisable to learn at least the basics of the language to be able to speak to the employees.

Establishing personal relationships is a very important factor to consider when doing business in Russia. Having good personal connections can be very useful in business, especially when it is necessary to quicken the process of preparing important documents. It is also possible to find potential customers much faster when your business is recommended to potential clients by friends or acquaintances. Networks in Russia can be also useful when looking for a good prestigious job which is impossible to get without being recommended by someone.

Social networks have also to be taken into account. A great number of internet users in Russia prefer social networks not only for personal communications, but also for purchasing different kinds of goods (clothes, cosmetics, food, books, etc.) and using hotel or tourism related organizations' services. Plenty of advertisements can be found on the most popular Russian social networks VK and OK. Even brands which are known all over the world use them for marketing and thus make big profits.

Technological

Russia has numerous historical achievements in technology well known all over the world. However, nowadays the country is very dependent on western technologies which have suffered due to the sanctions of EU and the US. The most considerable measures and restrictions concern imports of equipment and technology in oil industry which undoubtedly have an effect on the country's economy in general. The sanctions also concern Russian banks. Therefore, Russia had to develop its own technology replacing foreign payments Master Card and Visa by Sberbank's Universal Electronic card.

The number of new modern technologies in Russia continues to increase. The RUS-NANO group was established by the state in 2007. Its main goal is facilitating in realization of state politics aiming to bring Russia to the world leaders of nanotechnologies. Foreign companies are also present in this group. Finnish Industry Investment joined the group in 2010 signing an agreement about investment programme for 50 million euro in nanotechnology. (Tekes 2014.)

Another example of modern technology is FASIE fund furthering in the development of small enterprises in the scientific and technical sphere, which is a state nonprofit organization. Tekes made an agreement with FASIE in 2011 according to which FASIE provides financiers and funding for Russian companies and Tekes for Finnish companies. (Tekes 2014.)

It is worth mentioning the Skolkovo Innovation centre which is a modern high technology complex in developing and commercializing of new technologies. The federal law about this Innovation centre was signed by the President Medvedev in 2010. Companies operating in Skolkovo, working mostly at the higher-priority spheres of the Russian economy modernization, such as telecommunications, economic conditions and space, biomedical technologies, power-efficient technologies, Information Technologies, and nuclear technologies will be provided with the special economic conditions. The major companies that have already joined the Skolkovo centre are Nokia, Siemens, Microsoft, Boeing, Intel, Ericsson etc. (Tekes 2014.)

Russian mobile market has become more connected with internet comparing to the previous years when a mobile phone was only a source of calling and sending messages. Nowadays, people tend to use smart phones and applications for ordering a table at a restaurant, a taxi, a flight, a room at the hotel and for other different needs. As it is stated in the research made by eMarketer, Global Mobile Landscape 2014, the number of mobile phone users in Russia will reach 122.3 million in the next few years and it is expected to increase by 2017 with the change of the rate from 80% in 2014 to 86% in 2017. At the same time, the number of mobile Internet users will increase by almost 50%. (Russian Search Marketing 2014). Therefore, mobile applications play a great role at the Russian market as a source of attracting more and more potential customers every year. It should be taken into account by the case company Hotel Vip Club International Oy when planning to work for marketing of the business.

Online banking in Russia has also become more popular and widespread. People tend to purchase products by ordering them through Internet since it is sometimes much cheaper and more profitable. Internet banking is also used frequently for paying bills as it is a very convenient way to escape queues.

6.3 SWOT analysis

Strengths

- The largest country in the world = a great quantity of potential customers
- Unique geographical location (linking Europe with Asia)
- Russia is one of the fastest growing and emerging markets
- Russia is one of the largest markets in Europe
- Participation in the WTO
- Infrastructure development
- Low tax rates comparing with Finland
- High occupancy rates
- Well-educated workforce
- A growing middle class
- Development and growing of Russian hospitality market
- A great number of new hotel brands being built around the whole country
- Investor protection
- Low fees for registering properties comparing with other European countries
- Neighbouring country with Finland
- Finland is a popular business and leisure destination for Russians
- Numerous Finnish companies operating in Russia successfully
- Good attitude of Russians to the Finnish quality of goods and services

Undoubtedly, the main strength of choosing Russia as the place to expand business in is its great population, meaning the enormous number of potential customers. Only St. Petersburg has the population being more than the population of the whole Finland and that makes it an attractive market for Finns. The location is also very beneficial since St. Petersburg is the closest large city of Russia near Finland. The geographical position has also an important role for the case company because of the Russians travelling not only to Europe, but also to Asia.

Economically Russia is also considered to be profitable due to the large and fast growing markets. Participation in WTO can be named as one of the key strengths since the process of doing business became easier and safer. Russia is an attractive market not

only for Finnish companies, but also for most world-famous brand companies, including hotel brands that are nowadays being built not only in the largest cities of Russia, but also in the province. Sokos hotels are also present on the Russian market as well as other various Finnish companies operating in the country successfully.

Weaknesses

- Unstable economic situation
- Current political situation with Ukraine
- The number of sanctions applied against Russia
- A great amount of money and time spent for starting a business
- Negative stereotypes about Russia
- Government interference
- Bureaucracy
- Bribery
- A great number of official documents to be collected
- Constant changes to the law
- International payment systems Visa and MasterCard not serving Russian banks anymore
- Language barrier
- Currency differences
- Personal contacts playing a great role in success
- High level of monopolization
- Culture differences (time management, negotiating process, Russian collectivism vs. Finnish individualism, etc.)

Taking into consideration the current economic and political situation, it is impossible to predict correctly the future of Russian economy. This factor would probably restrain some companies to start business there taking into account possible risks and instability. It is also not evident what other sanctions might be applied to Russia and what would be the result.

Bureaucracy and bribery are still the main problems foreign companies can face with starting their business in Russia. However, taking into consideration the interview with

the representatives of Finnish companies, it cannot be a stumbling block on the way to success. Constant changes in the law system might also bring inconvenience to new companies. Language barrier can also become a problem for some companies, therefore, it is recommended to consult a Russian person understanding all the features of the local business. Moreover, it is important to make more personal connections which can be very useful in case of some difficulties.

Opportunities

- A great number of international companies in Russia requiring business trips frequently
- FIFA World Cup 2018 (meaning a great number of travellers and new hotels to be built)
- New innovations and technologies implemented for attracting foreign investors
- Attracting more potential travellers between Russia and Finland
- Making connections and agreements with more partner hotels from Russia
- Consulting with other Finnish companies operating in Russia
- Being the first company with unique beneficial service
- Online marketing on Russian social network and search engine at affordable prices or completely free of charge
- Numerous international hotel brands to cooperate with

It is difficult to make clear forecasts about the Russian market due to the number of advantages and disadvantages that sometimes may even contradict to each other. However, there are opportunities for Hotel Vip Club International Oy that can probably overshadow weaknesses, such as numerous international companies operating in Russia and demanding business trips frequently. FIFA World Cup 2018 could also be a beneficial event attracting potential customers due to its taking place in different cities or towns of Russia.

Nowadays, there are plenty of companies assisting in making online reservations but the service of Hotel Vip Club International Oy could be unique and interesting not only for business travellers, but also for leisure ones that make trips frequently. The quantity of partner hotels in Russia could also increase since many business trips are usually made inside the country.

Threats

- Current incomprehensible political and economic situation
- Possibility of new sanctions to be applied
- High cost inflation
- Corruption risks
- Domestic competitors with similar kinds of services

Any kind of business usually has some threats that can prevent a company from being successful and Russian market is not an exclusion. The incomprehensible political and economic situation is still the key negative factor that could be an obstacle on the way to making a successful business in Russia.

6.4 Finnish companies' experiences in doing business in Russia

Russian market has already attracted a great number of Finnish companies and their quantity continues to grow. According to Maarit Toivanen-Koivisto, Vice Chairman of the Board of the Finnish Commerce Federation, Finnish companies are mainly interested in the Russian middle class trying to do their best to understand the peculiarities of Russian customers and build a long-term relationship with Russian suppliers. (Kauppa.fi 2014.)

Although entering a new foreign market can be unpredictable and underestimated, numerous Finnish companies have been successfully operating at the Russian market. However, sometimes companies blinded by their future success and great profits in Russia have false expectations about the real situation and opportunities to make great progress. In order to make a clear picture of opportunities and threats of operating in Russia, two Finnish companies were interviewed as the examples of successful business in Russia. As it is stated by CFO of Sokos Hotels in St. Petersburg Matti Myllymäki, Finnish companies do not make a sufficient market research, thus lacking for reliable information. Moreover, they do not make a long term planning, expecting to make great profits almost immediately after entering the market. He is also convinced that Finnish companies willing to open their branches in Russia do not take into consideration such

factors as the different way of doing business in the country, the necessity of attracting local experts with a great experience, and the biggest matter is that they do not endeavor to adapt their goods or services to the local customers. According to the answers of the interview, the representative of the East Office of Finnish Industries Raimo Valo has the same opinion about the false expectations of Finnish companies. He also emphasizes that they do not realize the high level of bureaucracy and expect a fair treatment abiding by the law which does not always happen.

Referring to Raimo Valo concerning difficulties Finnish companies usually are faced with, he mentions political risks and difficulties arising from possibility of authorities to limit their operation unpredictably. However, in his point of view this problem might not be typical for tourism business. Matti Myllymäki cites similar examples, also stating that personal contacts being very important in Russia are frequently underestimated by Finns.

Concerning the question about the opportunities of tourism/hotel related companies and their success in Russia, Raimo Valo indicates the similarity of Russian and Finnish nature, however, stating that clean and unique Finnish nature and its peculiarities could attract more Russian tourists to visit Finland.

Answering the question “What are the main differences between the Finnish and Russian way of doing business?”, the interviewees had different points of view. Raimo Valo mentions that “In Finland everything works but nothing is possible and in Russia nothing works but everything is possible”. He believes that Russia has more possibilities and Finland is a safer place to operate. Matti Myllymäki underlines personal relationships and connections, and warns Finns about bureaucracy and governmental relationships which, in his point of view, are often underestimated by Finns. Both interviewees also agree that language barrier cannot be a great obstacle on the way to a successful business since it is always possible to learn the language if it is necessary.

The question about the actuality of corruption was answered differently - Matti Myllymäki advises to avoid this problem by fulfilling all the operations correctly. Raimo Valo agrees that Finns can evade corruption, although the problem exists even in USA and Finnish companies might overestimate the meaning. However, he is more pessimistic about the “sore” of business in Russia claiming that the problem is still urgent.

A great number of companies apply to franchisees when starting a business abroad. Answering the question of how difficult it is to find a good franchisee in Russia, both interviewees claim that it is not easy and repeatedly good connections are needed. Nevertheless, they are positive about this matter stating that it cannot be a great problem, especially in tourism industry.

The next question was about hiring the appropriate personnel in Russia. According to Matti Myllymäki, the problem does not only exist in Russia and it could be urgent anywhere else. He adds that a good recruitment can be easily done by Finnish companies. In Raimo Valo's point of view, the problem is considerable and has to be taken into account.

Answering the question about how his company can assist "newcomers", Raimo Valo emphasizes that they only work with big companies that are already very successful in Finland and abroad. Matti Myllymäki has almost the same point of view, claiming that the matter depends on a company. Both interviewees also gave some advice to Finnish companies planning to do business in Russia. Matti Myllymäki underlined the time and money needed for all the preparations which is different in comparison with local operations in Finland. He also appealed to trust locals and allow them to assist newcomers in peculiarities of Russian business. Raimo Valo paid attention to the seriousness Russian market had to be treated with. He recommended entering the market only when being convinced to have enough budget and patience to overcome all possible difficulties.

7 CONCLUSION

The aim of the current research was to estimate the Russian market for providing relevant information about the possibilities of the case company Hotel Vip Club International Oy to expand its business into Russia. The objectives of the research, that included collecting the sufficient information about the Russian market by means of articles, publications and interviews, were successfully accomplished in the research process. The main research questions, including sub-questions were also answered being adduced by illustrative examples, such as figures and tables. In spite of the fact that the method of conducting the research was qualitative, numerical graphs were also present in the research indicating the number of Russian tourists travelling, their preferences in choosing accommodation or destination, international brand hotels built and planned to be built in Russia in future and the number of online users on social networks that are very popular in Russia nowadays and thus could be an excellent opportunity for marketing.

However, it is impossible to make an evident statement concerning the perspectives of the future business in Russia due to the almost equal number of positive and negative aspects that might affect the business. Despite the great number of potential customers, it is essential to take into account the amount of time and money spent for expanding the business from Finland into Russia. It is necessary for the case company to establish priorities and decide how ambitious its desire is to plunge into the Russian market and for how long it is ready to wait until the first considerable profits.

It is recommended for Hotel Vip Club International Oy to make a further research about Russian market based on the details that are significant for the company considering all the peculiarities of the services they provide. Relying to the help of some Finnish companies, such as Suomalais-Venäläinen kauppakamari assisting in the process of starting business in Russia would be useful and beneficial for the company for getting important tips and advice of the companies already operating in Russia successfully. It is also almost impossible to expand business into Russia without consulting with a Russian professional having a great experience of introducing the Russian market to foreign companies.

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APPENDICES

Appendix 1. Thesis interview about *Doing Business in Russia*

1. What kind of false expectations do Finnish companies usually have planning to enter the Russian market?
2. What difficulties do Finnish companies face with?
3. What opportunities do tourism/hotel related companies have to succeed in Russia?
4. What are the main differences between the Finnish and Russian way of doing business?
5. How often can a language barrier become a big obstacle on the way to success?
6. Is the problem of corruption still actual for the Russian market?
7. How difficult is it for Finnish companies to find a good franchisee in Russia?
8. Do Finnish companies have to manage with difficulties in hiring appropriate personnel in Russia?
9. How could your company assist “the beginners” in preparing for starting their business in Russia?
10. What advice would you give to Finnish businessmen planning to invest in the Russian market?

Appendix 2. Thesis interview about *Doing Business in Russia* answered by CFO of Sokos Hotels St. Petersburg/Sokotel LLC Matti Myllymäki

1. What kind of false expectations do Finnish companies usually have planning to enter the Russian market?
 - Companies do not do sufficient market researches
 - Companies expect instant profits
 - No long term planning and no resources to use
 - Do not understand or take serious the local license and business environment differences
 - Do not have local understanding, lack of using the experienced industry experts, foreigners and locals
 - Their products as they are, are good enough, no localization needed

2. What difficulties do Finnish companies face with?
 - Authorities
 - Licenses
 - Underestimating the meaning of personal contacts

3. What opportunities do tourism/hotel related companies have to succeed in Russia?
 -

4. What are the main differences between the Finnish and Russian way of doing business?
 - Need of controls
 - Meaning of personal relationships
 - Underestimating the governmental relationships
 - Underestimating the burden of bureaucracy

5. How often can a language barrier become a big obstacle on the way to success?
 - Never. If it does, it is an excuse.

6. Is the problem of corruption still actual for the Russian market?

- No. You fix your problems with corruption which only creates more corruption. Do things correctly and you have no need to bribe.
7. How difficult is it for Finnish companies to find a good franchisee in Russia?
- Naturally it is difficult if you do not have existing personal contacts
 - Everything is possible. Franchisee is just one manner of market entry. Other issues mainly regulate the success.
8. Do Finnish companies have to manage with difficulties in hiring appropriate personnel in Russia?
- Lack of good personnel is a common problem, not specific problem of Finnish companies. In north-west region Finnish companies have good reputation which can ease the recruitment.
9. How could your company assist “the beginners” in preparing for starting their business in Russia?
- Depending on the industry and size of the company.
10. What advice would you give to Finnish businessmen planning to invest in the Russian market?
- You need 50% more time to go to Russia compared to operations in Finland. And it takes 40% more money than you thought. Use locals, trust locals, localize your business.

Appendix 3. Thesis interview about *Doing Business in Russia* answered by the representative of East Office of Finnish Industries Raimo Valo

1. What kind of false expectations do Finnish companies usually have planning to enter the Russian market?
 - Multiple issues, depending on previous experiences. For instance market size. People expect the market to be much bigger and to have more competition. They also expect to get fair treatment from authorities and judicial system. They cannot imagine the level of bureaucracy which will affect them. On the other hand they probably expect more corruption and in a different form.

2. What difficulties do Finnish companies face with?
 - Absolutely the biggest problems are related to political risk. This means local political risk and difficulties which arise from authorities who can either limit their operations or stop them, at will. This does not happen often, but there are such examples.
 - This is probably not the biggest worry in tourism industry. They might underestimate Russian consumers' needs and desire for quality.
 - Other problems are related to normal business risks which are common in every market place.

3. What opportunities do tourism/hotel related companies have to succeed in Russia?
 - Finland is regarded as a safe, clean and functioning country which has similar nature as Russia. We also have amazing natural opportunities in fishing, hunting and picking mushrooms etc... which are luxury items in Russia. This combined with a functioning infra are our advantages with countries close by.

4. What are the main differences between the Finnish and Russian way of doing business?

- In Finland everything works but nothing is possible and in Russia nothing works but everything is possible. Russia is a market economy at its most extreme, but competition is not expected nor appreciated. Finland is a highly regulated, small but safe place to operate. Possibilities are limited.
5. How often can a language barrier become a big obstacle on the way to success?
- It is a barrier to success, always. But can be solved easily by learning the language. Takes time, but is very rewarding.
6. Is the problem of corruption still actual for the Russian market?
- Yes, and it is not getting better. We have different understanding for corruption in Finland. Most of the corruption we see in Russia is called “Tips” in the USA. Real corruption exists, but Finns can easily stay out of it and still do business in Russia. Highly recommended.
7. How difficult is it for Finnish companies to find a good franchisee in Russia?
- It is difficult, if alone. A joint venture might work in tourism industry which is anyway fee-based. It is rather easy to keep track and share the revenues.
8. Do Finnish companies have to manage with difficulties in hiring appropriate personnel in Russia?
- This is a big problem, probably the biggest in the big cities. Turnover is a problem, too. Might be 40% annually. How to keep the personnel loyal without continuous salary increases is a problem. I have no answer.
9. How could your company assist “the beginners” in preparing for starting their business in Russia?
- We don’t assist beginners, we work with established, large companies only.
10. What advice would you give to Finnish businessmen planning to invest in the Russian market?
- To seek advice and take Russia seriously. You cannot handle Russia with your left hand or half time.

- There are lots of possibilities, but you have to do things better than others, like in all businesses.
- Don't spend your last EUR in this process, if you are not ready to take the risks, as well.