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# CHALLENGES OF CROSS BORDER COOPERATION IN THE FIELD OF E-COMMERCE. FINNISH ENTREPRENEURS' EXPERIENCES AND EXPECTATIONS OF E-COMMERCE ON THE RUSSIAN MARKETS

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## Benefits of e-commerce

The reason of constantly growing e-commerce is that there are meaningful benefits for a company that has brick and mortar type of store. According to Havumäki H. & Jaranka E. in their book on electronic commerce, they compared the benefits of ecommerce to regular physical store in a following manner: E-commerce does not need any printed, tangible marketing materials such as leaflets, expensive billboards nor give up samples for testing to other stores. A webstore's shelves are always in order and as soon as an item is sold out it is immediately deleted from the webpage where the consumer has real-time information about the availability. Among with the other benefits of e-commerce, thanks to the automation, the managing can be done in the smaller human resources, cost and time efficiently on a SME scale.

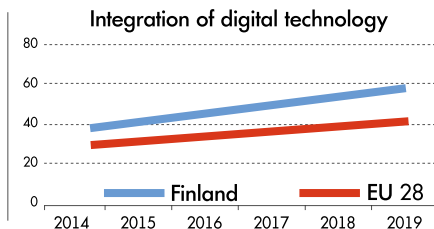
Most importantly, Webstore is available globally to any person who uses internet. It means that a company can reach the consumer on a whole different level, however, there are certain challenges and expectations of Finnish entrepreneurs that lately in this article are presented.

## Overview of a Finnish e-commerce

In a race of ecommerce utilization of small and medium size companies, besides the Finnish potential in digital technology, it's integration of online selling has more work to do. According to Digital Economy and Society Index 2019 Finnish country profile concluded by European Commission, comparing to other SME's, amount of small and medium size companies selling online has grown 3% since 2016. Out of all SME companies, only 6% has sales abroad. That means that there must be actions taken in case the online sales to grow, but what can improve the competitiveness? Can the cross-border trade between Russia and Finland perhaps be the solution and how to make cross-border trade to be less of a barrier for many entrepreneurs? First step is to identify the complexities of the context.

## 4 Integration of digital technology

| 4 Integration of digital technology | Finland |       | EU    |
|-------------------------------------|---------|-------|-------|
|                                     | rank    | score | score |
| DESI 2019                           | 5       | 58,3  | 41,1  |
| DESI 2018                           | 5       | 55,9  | 39,6  |
| DESI 2017                           | 6       | 49,9  | 37,6  |



|                                    | Finland   |           |           | EU   |           |
|------------------------------------|-----------|-----------|-----------|------|-----------|
|                                    | DESI 2017 | DESI 2018 | DESI 2019 | rank | DESI 2019 |
|                                    | value     | value     | value     | rank | value     |
| 4a1 Electronic information sharing | 37%       | 39%       | 39%       | 9    | 34%       |
| % enterprises                      | 2015      | 2017      | 2017      |      | 2017      |
| 4a2 Social media                   | 26%       | 29%       | 29%       | 6    | 21%       |
| % enterprises                      | 2016      | 2017      | 2017      |      | 2017      |
| 4a3 Big data                       | 15%       | 15%       | 19%       | 5    | 12%       |
| % enterprises                      | 2016      | 2016      | 2018      |      | 2018      |
| 4a4 Cloud                          | 40%       | 48%       | 50%       | 1    | 18%       |
| % enterprises                      | 2016      | 2017      | 2018      |      | 2018      |
| 4b1 SMEs selling online            | 17%       | 20%       | 20%       | 8    | 17%       |
| % SMEs                             | 2016      | 2017      | 2018      |      | 2018      |
| 4b2 e-Commerce turnover            | NA        | NA        | NA        |      | 10%       |
| % Some turnover                    | 2016      | 2017      | 2018      |      | 2018      |
| 4b3 Selling online cross-borders   | 6%        | 6%        | 6%        | 23   | 8%        |
| % SMEs                             | 2015      | 2017      | 2017      |      | 2017      |

Picture 1. Digital Economy and Society Index 2019, Country Report Finland

## Survey of the companies located in Oulu region

Among the respondents 45% were high level executives like CEOs or company owners and entrepreneurs. 40% are managers in marketing, export and sales. Also, the part of participants are professionals in the field of customer service, search engine optimization and production.

In the survey 20% of participants were in a company that sells to the consumers while majority of respondents had both, the consumers and companies as a client. Vast majority of these companies are mostly micro companies or small companies. (90%).

The companies that participated in the survey were operating in various of industries, which provides different point of views from the different industries and share their experiences to crystalize the problems that the companies have observed or expect on a Russian market. From the production of metal and medical machinery industry to education export, marketing services, hospitality services, and consulting.

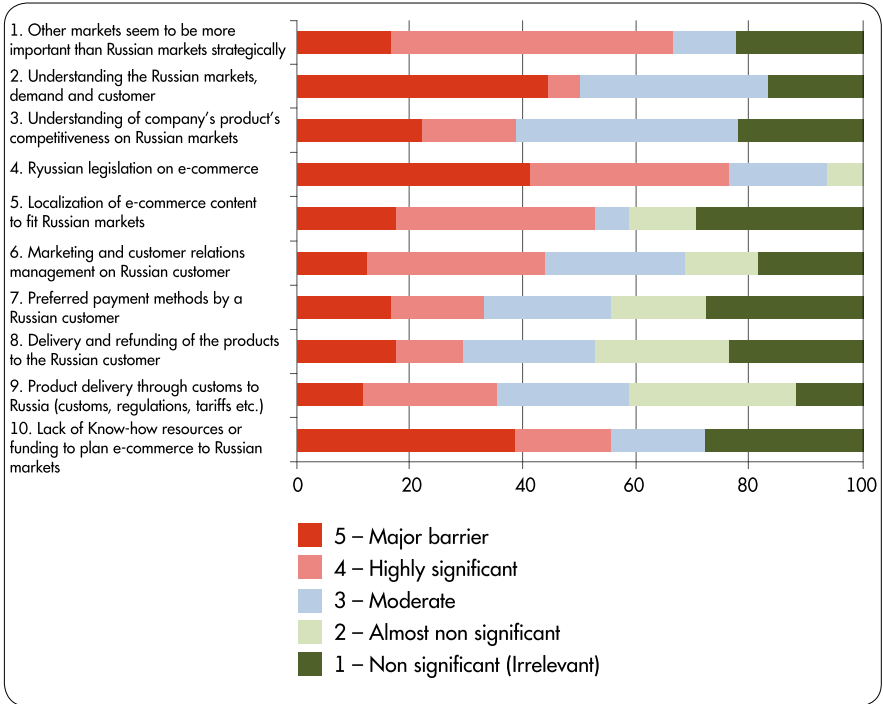
## Barriers in Finnish-Russian e-commerce

In the last part of the survey, the level of different e-commerce barriers was evaluated through various of fields where the potential problems could be revealed. In the questionnaire there were 10 different variations from where answerer had to evaluate the significance of each obstacle mentioned and the respondents were asked to rate them from 1 to 5 (1 = Nonsignificant barrier – 5 = Very Significant barrier). After the questions are answered, a respondent gave open comments and thoughts or additions to their answers to share the knowledge and experience on that topic.

|  | 5    | 4    | 3    | 2    | 1    | n= |
|--|------|------|------|------|------|----|
| 1. Other markets seem to be more important than Russian markets strategically      | 16.7 | 50.0 | 11.1 | 0.0  | 22.2 | 18 |
| 2. Understanding the Russian markets, demand and customer                          | 44.4 | 5.6  | 33.3 | 0.0  | 16.7 | 18 |
| 3. Understanding of company's product's competitiveness on Russian markets         | 22.2 | 16.7 | 38.9 | 0.0  | 22.2 | 18 |
| 4. Russian legislation on e-commerce   | 41.2 | 35.3 | 17.6 | 5.9  | 0.0  | 17 |
| 5. Localization of e-commerce content to fit Russian customer                      | 17.6 | 35.3 | 5.9  | 11.8 | 29.4 | 17 |
| 6. Marketing and customer relations management on Russian markets                  | 12.5 | 31.3 | 25.0 | 12.5 | 18.8 | 16 |
| 7. Preferred payment methods by a Russian customer                                 | 16.7 | 16.7 | 22.2 | 16.7 | 27.8 | 18 |
| 8. Delivery and refunding of the products to the Russian customer                  | 17.6 | 11.8 | 23.5 | 23.5 | 23.5 | 17 |
| 9. Product delivery through customs to Russia (customs, regulations, tariffs etc.) | 11.8 | 23.5 | 23.5 | 29.4 | 11.8 | 17 |
| 10. Lack of Know-how resources or funding to plan e-commerce to Russian markets    | 38.9 | 16.7 | 16.7 | 0.0  | 27.8 | 18 |

Picture 2. A percentual values provided by replies.

A visual representation as shown below:



Picture 3: Evaluation of Finnish-Russian e-commerce barriers and how there were rated in the survey.

According to the respondent's opinion, 4 most outstanding barriers in the e-commerce on a Russian market are following:

**Russian legislation on e-commerce** 76,5% of all respondents have chosen 5 or 4. As the most significant barrier when doing business on a Russian market. Participants of the survey specified it as the legislation in Russia can be quite complicated or the information about company related export requirements is cumbersome.

*“Of course there could be some challenges in terms of legislation, especially in our case, our products require very expensive certifications and other uncertainties and of course to overcome this challenge we must have some sort of partner that have the permissions so we could export to Russia, otherwise it is very expensive.”*

Some companies replied that having a partner in Russia is vital or very important to operate on the Russian market. It saves a lot of time when there is either an office, a consultant or a supplier, depending on a company that can take a responsibility of a legal questions on the Russian side. It is important to mention that when respondents were asked opinion of finding a partnership, some say that the communication with a Russian partner is done in English and there are no problems with it. As an example, finding the partnership could be done by participating on the business networking events in Russia or Finland, searching the partner from existing networks such as Business Oulu or participating to other relative events for matchmaking.

### Over half of the survey participants prefer other countries as a target market

66,7% of all the replied companies think that markets from the other countries seem to be more attractive for their company than Russian market. According to respondents, the problem is that for example micro and small companies is that they have to allocate their resources prioritizing their own business operations and existing target market preventing their ability to start researching on an expansion opportunities because it is time consuming and requires a lot of effort to do it.

### Lack of knowhow, funding or other resources and localization issues

Small businesses lack the resources in the several ways; The company has no employees who can speak Russian language and either there are no resources to go through a localization process or hire a person with the language skills.

The survey has revealed that the the lack of knowledge about doing business on a Russian market and the information is unavailable for them which is seen as an obstacle in Finnish entrepreneur's point of view.

*"Our company has not considered the opportunity to widen our business on Russian markets, because we concentrate more on other ones. Therefore, related obstacles and problems are significant. A small business can only concentrate on a certain area at a time. Russia can of course be our target market one day; however, we should get more up-to-date information about the Russian markets."*

One of the representatives has commented that utilizing the existing joint on-line platforms for web selling directly to the Russian customer is seen as an effective and cost-efficient way of distributing their goods.

Among other free word comments there is a reply concerning earlier mentioned overview on Finnish e-commerce and expansion cross-border states that Russian customer generally has a good image of Finnish products

*"Lack of courage and capability of calculated risk-taking. Actual companies that act are very rare. Back in 2012-2014 there would have been a niche and less competition. Slow and fearsome Finnish companies have lost the opportunity. On the other hand, there is still an opportunity to succeed on Russian markets because of Finnish good reputation and image of high quality. Trust is a high in value on the Russian markets."*

### Survey participants are asked about political cross border relations impact on attitude towards Russian markets and entrepreneurship on a Russian market.

To rate the significance on a scale from 1-5 (1 = not at all, 5 = Serious impact on motivation) The most frequently answered reply was that political relations does not affect on the attitudes of the Finnish entrepreneurs (50%).

#### Does political relations affect your company's motivation to expand on Russian markets? n=16

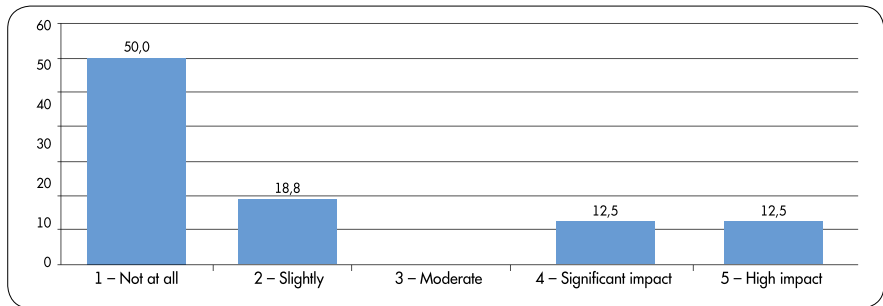


Figure 1. Participants are asked if political cross-border relations affect the motivation (N=16).

According to a comment from one of survey participants a cooperation between Russia and Finland is a win-win;

*"Finland and Russia are in need of both political and economic cooperation so the cross-border relations between both countries would grow economically".*

Other survey participant brought up that the media has a role in the expectations to some extent:

*"One of the biggest problems in Finnish politics is that the media places Russia in a position of the threat to Finland's security and through these negative image building, people's attitude towards doing business with Russia and resulting in higher threshold for Finnish entrepreneurs to go on Russian markets."*