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# Expanding a retail business into Russia: A case study of the Tokmanni Group

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Expanding a retail business into Russia:  
A case study of the Tokmanni Group

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The purpose of this thesis is to research international retailing market data for the future use of the Tokmanni Group as the company plans to expand operations into Russia. The theoretical background of the thesis consists of two sections: an overview of the current state of the Russian retail sector, and a discussion of trends in marketing and communication. The thesis project was conducted in Finland and used a qualitative research method.

Empirical research was conducted for the thesis through the case study of Tokmanni. The empirical section reports on the results of a case company interview, internet source analysis and summary. The empirical section explores the understanding of the retailing market while taking into account the current Russian retail economy and business environment. The analysis, which is based on information from local Russian and international retailers, provides an overall description of the Russian retail market and will support Tokmanni in choosing effective marketing channels, and planning a more effective marketing campaign in future.

The recommendations and development ideas are presented in the last section of the study.

Key words     retail business, entry strategy, retail channels, marketing promotions

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## 1 Introduction

In the decades of the last century, a new term in international business studies emerged, which was “retail”. The world-wide retail distribution sector provides a significant and dynamic relationship between producers and consumers. Within the distribution sector, retailing provides the majority of contributions to national economies. (Wrigley & Lowe 2010)

The case company for this thesis is Tokmanni. The Tokmanni Group is a national discount retail store chain with a network of 144 stores operating under seven different brands (Tokmanni, Tarjoustalo, Vapaa Valinta, Robinhood, Säästöporssi, Maxi-Makasiini and Maxi Kodintukku) and covering the whole of Finland.

The Tokmanni Group’s mission is to offer an extensive range of quality products at affordable prices. In order to reach a wider customer base, the group managers would like to operate new business channels and set up stores in Russia. (Tokmanni Group 2012)

### 1.1 Purpose of this thesis

The purpose of this thesis is to research international retailing market data in order for Tokmanni to expand their operations into Russia.

This study explores the understanding of the retail market in Russia while taking into account the country’s current retail economy and business environment. The Tokmanni Group prefers to analyze the potential markets based on local Russian and international retailers. According to the findings and analysis, Tokmanni would be able to decide what niches exist for expanding business and controlling business activities.

### 1.2 Research problem and approach

The main research problem of this thesis is how to set up a new retail business in Russia. Other questions that this thesis discusses include the state of the retailing economy in Russia today, the effective types of marketing channels and a survey of popular marketing campaigns in Russia.

This is Tokmanni Group’s first attempt to enter the Russian market, and due to the uniqueness of Russia’s market, its macro and micro economic environment, all suggestions and conclusion are based on internet and business article research plus bench marking of the best practices of successful competitors.

A qualitative research approach was adopted in this study. The writer of this thesis conducted two interviews with the Tokmanni Group's human resources (HR) manager in order to acquire general information about the company, and conducted three case studies which yielded yet more information about what actions are needed to be successful in Russia's retail market.

### 1.3 Theoretical approach

The main theory used in this study is based on retail business and marketing strategies. As Tokmanni is a discount retailer, it is necessary to understand the retailing business, the various types of retailers and retail logistics in order to offer quality suggestions for Tokmanni's marketing and entry strategy into Russia.

### 1.4 Structure of the study

This study consists of several sections. The first section is the introduction of the subject and background of the study. This section contains a general overview of the situation of recent retailing business all over the world, background information about the case company, the purpose of this research as well as the research problem and approach. Based on the given information, the reader of this thesis can better comprehend the research context and its main objective.

The second section focuses on theoretical studies, which offer the proper theoretical evidence and linkage between chosen theory and empirical study. At the beginning of this section, the author presents a background of retail business that attempts to establish a common understanding of the retailing phenomenon. Then the research proceeds by describing international entry requirements in order to understand a range of international qualifications and laws. Furthermore, the business marketer should know the concept of marketing channels and networks which offer applicable logistics and distribution channels.

The third section concentrates on research methodology and introduces validity and reliability. The empirical study follows in section four, which presents the case company, analyzes current situation and raises comments.

The fifth section covers conclusions and further suggestions based on findings.

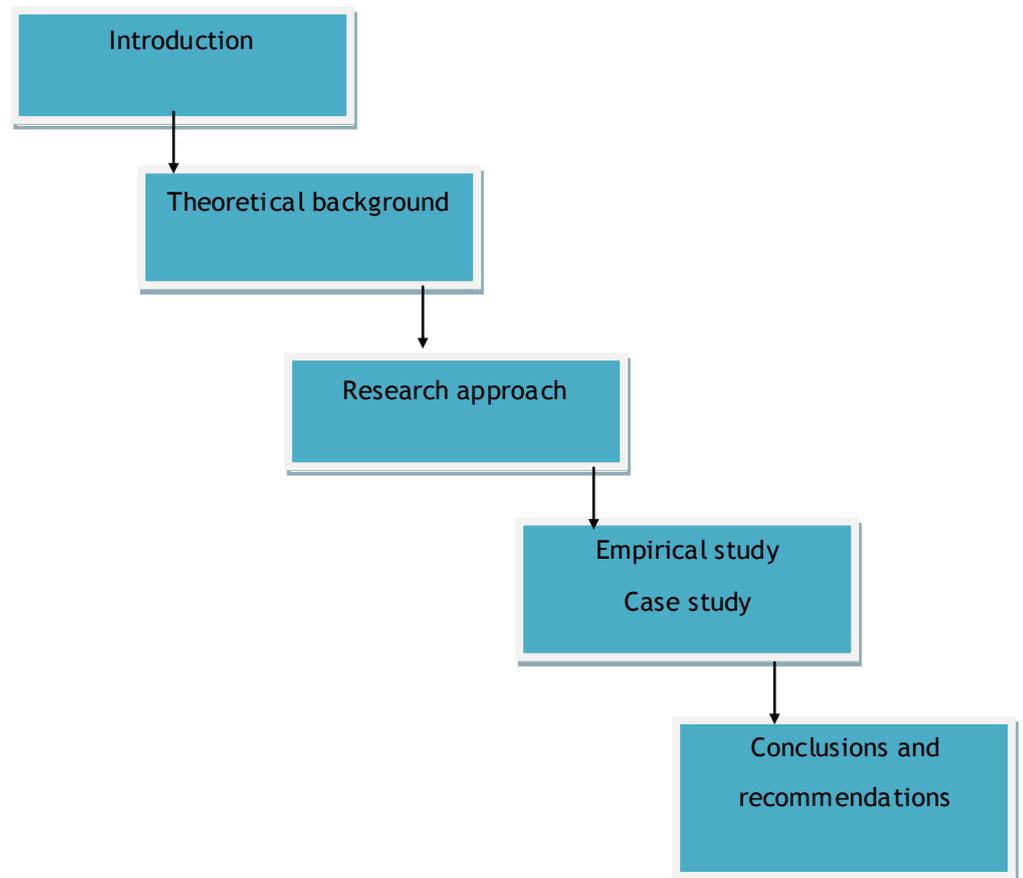


Figure 1: structure of study

## 2 Theoretical background

### 2.1 Introduction to retail

Gupta and Randhawa (2008, 1) define retail as “the activity of selling goods and services to final customers for their own personal use”. Retailers play a key role in the process from manufacturers, growers, providers to customers who consume the products. Retail belongs to marketing strategy since it serves the targeting process and guarantees that the benefits of products are transferred to particular customers; besides, retail is a complex business in its own details such as transferring the products to specific locations, modifying products ranges on the basis of shopping task, ensuring the process runs smoothly and conquering all the managerial challenges. (Gupta & Randhawa 2008, 1)

#### 2.1.1 International retailing

According to Varley and Rafiq, the most active international retailers are those operating in the luxury business. However, food retailers are also becoming more active. Retailers are

much more adventurous that they are considering expanding business to more difficult and farther distance markets, partly because they think entering underdeveloped markets is likely to offer first-mover advantages.

There are three major themes for retailing internationalization, they are “The eclectic theory” “The push-pull theory” and “The strategic management theory”.

### 1. The eclectic theory

This theory is used to examine retailers’ motives and explain why retailers want to move to foreign direct investment instead of exporting or other forms of internationalization. The eclectic theory have three benefits, they are ownership-specific advantages, internalization, and locational advantages. (Varley & Rafiq 2004, 271)

Ownership advantages are firm-specific advantages on the basis of proprietary know-how. The proprietary know-how, which can offer competitive advantage in the market, contains technical know-how, patents, copyrights, brands as well as process knowledge. In most cases, brand name is the main type of proprietary know-how. Retailers who have its legally protected brands are easier to exploit in foreign markets. (Varley & Rafiq 2004, 271)

Internalization advantages are the methods of servicing international market. The internalization suggests that “the transaction cost of non-equity involvement in international markets (such as exporting, franchising or licensing) is greater than the firm undertaking the activity itself.” In this case, a retailer who wants to franchise its concept worldwide will find the expenses of exporting, marketing, setting-up contracts and enforcing franchise may be greater than returns. Therefore, the retailer would set up subsidiaries in other countries. However, it is legal for retailers who have strong brands to export their own labels products. (Varley & Rafiq 2004, 272)

Location-specific benefits are created from locations in foreign markets. The advantages include lower labor costs, grater market opportunity, bigger market size, and lower competition. (Varley & Rafiq 2004, 271-272)

### 2. Push versus pull theories

Location-specific advantages clearly reflect “pull” theory. However, push theory always plays more significant role in initial stages of internationalization. Push theory refers to factors such as saturated domestic markets, mature retail format, trading restrictions, strong competition, and unfavorable economic conditions. Several actions have been taken In order to

solve those problems, for example the European Union and international alliances have been established to lower the trade barriers. (Varley & Rafiq 2004, 272)

### 3. Strategic management approach to internationalization

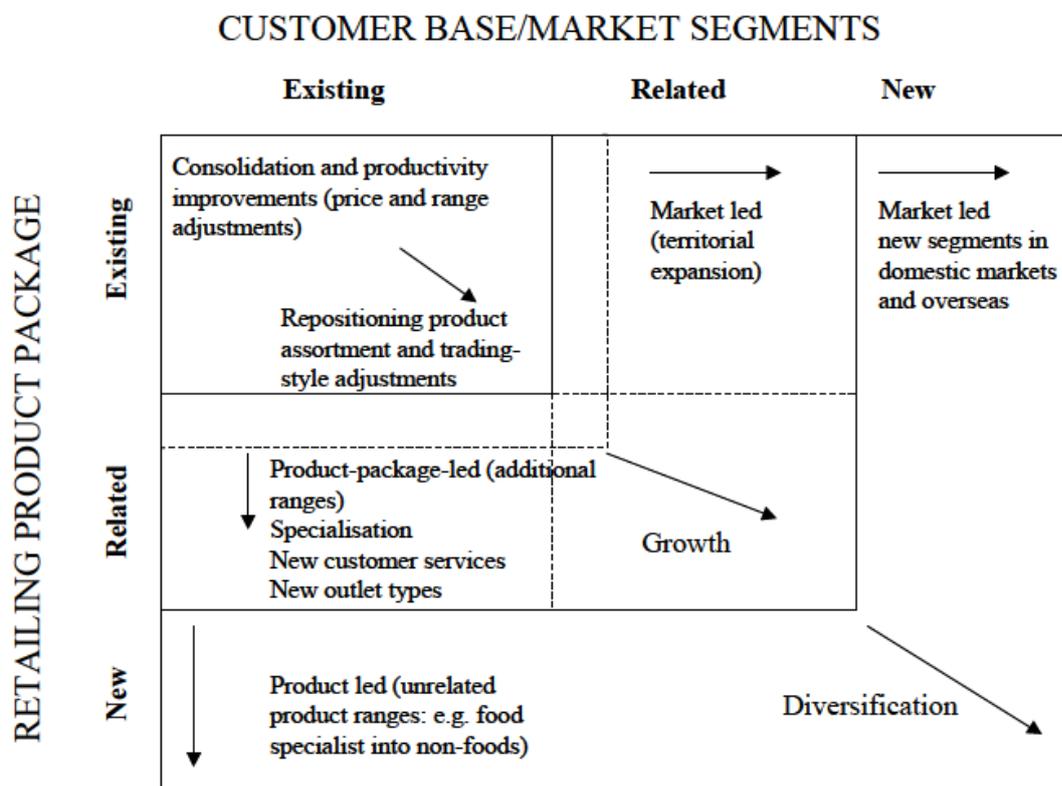


Figure 2: Corporate strategy and internationalization (Knee and Waters 1985, 12)

A strategic management suggests that “it is just one of a number of growth strategies that a firm can undertake” (Varley & Rafiq 2004, 272). In 1985, Knee and Walters extended Ansoff’s product-market growth matrix (1965) and explained the existing product into new markets. (Figure 2). When an organization moves from a domestic entity to an international organization, it must consider the possible broad complexities such as decision, culture, customer base, retail formats and so on. An organization must determine what merchandise they intend to sell, where and how the organization makes these products or services, where they sell the products and who do they sell to.

For example, it is not a proper strategy for Aldi- a limited-line discount retailer, to expand their ranges to absorb non-food merchandise. Since the space limitation and inevitable rise in costs will jeopardize the competitive advantage of the discount store. Thus, saturation of domestic markets drove Aldi to international market. (Varley & Rafiq 2004, 273)

### 2.1.2 Role of retailers and responsibility

Before the store is built, it is necessary for the retailer to consider location since it may take more than one year to recognize a proper site and even longer to correct. Once the store opens, the retailer should establish a customer base through advertising and promotion. The selling approaches for many retailers going to markets include stores, catalogues, mail order, tele-sales and the web. At the store, the retailer needs to intrigue customers through window display or good visibility of attractive products, once the customers make purchase actions; the retailer needs to get them to come back again. (Dent 2011, 247-248)

### 2.1.3 Retail formats

The format of retail is generally an appearance that appears to customers. The retailer format is the way to distinguish types of retailers, the organization, the categories sold, the quantity of storage, variety of service as well as price level. Choosing retail formats is a strategy for retailers, since it concerns several factors related to economic scale and efficiency. There is diversity of store-based formats in recent retailing landscape; they are introduced as follows:

#### 1. Department stores

A department store is a multi-level store which is divided into several characterized areas or departments on the basis of product category. Department stores normally offer a large range scale of products so that consumers can meet their need. But other department stores decrease their categories and force on depth or better quality of goods. Nowadays, department stores are not only the retailers, but also the tourist attractions and entertainment. (Varley & Rafiq 2004, 24)

#### 2. Variety stores

“Variety stores offer a large variety of products under one roof, including both food and non-food items.”(Varley & Rafiq 2004, 25)

Variety stores provide inexpensive products such as cleaning supplies, electronics, toys and so on. However, some variety stores are more similar to department stores, providing that they have adequate space in order to expand the width and depth of items. (Varley & Rafiq 2004, 25)

### 3. Specialty stores

Specialist stores offer a more restricted range of products and target narrowly defined customers. Specialist stores are commonly located in shopping centers or central retail areas.

Specialist stores cater to one product area; Even though the product range is narrow, the store size and space can be wide, for example, the camera shop. (Varley & Rafiq 2004, 26)

### 4. Category killers

The category killers originated in the USA, they describe a large specialist store which can be found in inexpensive sites such as those located out-of-town or on the outskirts of the main town retail. The product range is narrow, but category killers possess larger sized stores which can allow a very extensive selection of a particular product. (Varley & Rafiq 2004, 27)

### 5. Convenience stores (C-stores)

There is no official definition of a convenience store, but the following criteria can generally refer to this format: self-service, 1000-3000 square feet selling area, parking facilities, open 7 days a week for many hours (in some cases 24 hours) and a wide range of products with limited brand choice. The products may be provided are take-away food, DIY, toys and petrol. (Nielsen. 2001)

### 6. Supermarkets, superstores and hypermarkets

A supermarket is the most successful model of retail. It allows customers to get involved with the products prior to purchase. A supermarket allows the retailer to render a wider choice of products at lower prices with larger space. Consumers can satisfy their demand for “everyday goods” in supermarkets. A supermarket is normally located in a town center or neighborhood site and the items sold are mainly food and household consumables. Some supermarkets have grown into superstores with increasing diverse products and more convenient methods of shopping. The product range extends from grocery to clothing, home furnishings and entertainment goods. A superstore is 25,000 square feet and it is normally located in out-of-town or in town outskirts locations. A hypermarket is huge retail outlet which covers 50,000 square feet also normally located in an out-of-town location. The proportion of non-food items in a hypermarket is greater than those in supermarkets and superstores. . (Varley & Rafiq 2004, 28-29)

## 7. Warehouse clubs

A warehouse club stocks a restricted range of groceries, household appliances and clothing. The price of warehouse club products is lower and the store environment is basic. Customers need to purchase a large quantity of products. (Varley & Rafiq 2004, 29)

## 8. Catalogue shops

A catalogue shop has a wide range of catalogues from which customers can choose based, but has very little products to display. A catalogue shop can specify the product and deliver it to consumers' homes. (Varley & Rafiq 2004, 29)

## 9. Discount stores

Varley and Rafiq define a discount store as "a retailer that sells merchandise at a price level that is lower than "typical high-street stores"". The price of items sold in discount stores remains consistently low. Sometimes the product range is managed by opportunistic purchases by the retailer, or retailers may sell planned ranges of products with an unusually low profit margin. Discount stores can be either small or huge. (Varley & Rafiq 2004, 29-30)

## 10. Factory outlets

A factory outlet normally arranges inferior quality or previous season's stock. In this way, retailers or manufacturers have an opportunity to sell off unwanted merchandise, and customers who are inspired by bargains can afford the brands. (Varley & Rafiq 2004, 30)

## 11. Charity shops

A charity shop usually sells donated stock or specifically sourced merchandise. The items sold are normally donated by public or volunteers. The business cost is low since all the sources of products are free, the items can be sold at competitive price. (Varley & Rafiq 2004, 30)

### 2.1.4 Retail locations

Position can be referred to site, according to the definition, strategic position is a "measure of how well or poorly a store's site is located in the immediate retail area relative to other businesses."

The location decisions are complicated, since they should satisfy consumers' demand for convenience, accessibility and quality; besides, location is one factor to build competitive advantage for organization. There are three main types of retail locations. (Varley & Rafiq 2004, 145-146)

#### 1. Solus or freestanding site

Varley and Rafiq define solus site is "a standalone site away from other shopping centers." Such stores are usually built with purpose such as monopoly or operational efficiency. The examples for solus sites are grocery, DIY and furniture stores. The location should be convenient to customers to reach and the area is not shared with competitors. The disadvantage for solus site is that retailers cannot count on "center" to attract customers and has to generate promotion tactic. (Varley & Rafiq 2004, 146)

#### 2. Unplanned shopping center

Unplanned shopping center is normally located in "high street" or central business districts in town centers. The ownership of the center is fragmented. "Center" attraction, including business, leisure attraction and variety of retailers, is the main benefit and it relies on customer traffic. (Varley & Rafiq 2004, 146)

#### 3. Planned shopping center

A planned shopping center is maybe a single building with one or numbers of stores, for example a shopping mall, or a group of separate stores with common access and car parking. A planned shopping center is normally under single ownership and promoted by their owners, it serves particular or geo-demographic customers. The difference between unplanned shopping center and planned shopping center is that the latter one has consistent image for center. In order to obtain this image planned center should restrict retailers' business actions such as store design and commercial layout. (Varley & Rafiq 2004, 146-147)

#### 2.1.5 Retail logistics

Supply chain is the process to show "how products move through various stages between the supplier's factory and the customer." (Varley & Rafiq 2004, 111) Many retailers have international supply base so that co-operated transportation stages including sea or air freight are required. There are different supply services involved in logistics. In some situations, the products are possessed by retailers so that logistics service is conducted by retailers themselves. Or the ownership of products moves from manufacturer to agent or to wholesaler be-

fore reaching the retailer. In other cases, the logistical operators are “third party” contractors who provide transportation, warehousing and distribution management for retailer clients. (Varley & Rafiq 2004, 111-112)

The distribution channel is where the “deals” are bought and sold. These company or departments within companies are mainly responsible for sales, negotiations, and ordering. Then the supply chain participates, to do the “physical” work which covers manufacturing, transporting, storing the goods, and facilitating the sales with services. (Hugos M & Thomas C 2005, 32)

The distributor is an intermediary that offers merchandise or service to other intermediaries. The core role of distributors is to provide products on demand, to save or to minimize the stock burden on behalf of its customers. (Dent 2011, 27-28)

There are three types of distributors, they are concretely discussed below:

**Value added distributors:** The tasks of value added distributors are building the demand for products through marketing activities or promotion. They concentrate on products which are operated within limited number or at an early stage of the life cycle in the market. (Dent 2011, 32)

**Broad line distributors:** The core task is to provide market access for suppliers. They focus on offering mainstream products in market. (Dent 2011, 32)

**Fulfillment distributors:** they operate their business in aftermarket products and consumables. In this mode, distributors are logistics engines for the supplier and they have to run to create brand awareness. (Dent 2011, 33)

#### 2.1.6 Customers

Retailing is the process to sell goods to ultimate customers, so that the interest of retailers is to obtain as much information about customers as possible and offer ideal products to customers. It is claimed that the customers’ behavior is changing all the time in modern society, so that it is required to analyze the changing body based on demographics.

Demographic is “the study of populations in terms of measurable aspects such as birthrate, age profiles, working patterns and occupations, family and household structures, education levels, and total income and expenditure levels” (Brassington and Pettitt 2007, 40) These changes are on the basis of development and economic atmosphere in a given population so that they are out of a retailer’s control. (Varley & Rafiq 2004, 57)

## 1. Age profile

The age profile is directly related to retailing business. The death rate and birthrate have positive and negative effects on customer base. It is obvious that some retailers are more sensitive to the age of customers, for instance, prams and infant milk powders have direct link to babies, young fashion products are vulnerable to a falling population of teenagers. In the twenty-first century, retailing business shows that the key challenge for retailers is how to adapt to aging population since older groups are time and cash-rich even though they are less mobile. (Varley & Rafiq 2004, 58)

According to Levy and Weitz (2000), there are some ways for retail business to cater to elder clients. First of all, retailers need to recognize the needs of senior people and respond to them with respect. Secondly, it is feasible to design the store environment which is suitable for elders, for example, a rest area or good lighting. Thirdly, the retailers need to print out information such as brochures that customers can take away. Moreover, employing older people may be better to serve "grey market". (Varley & Rafiq 2004, 58)

## 2. Working patterns

The trend that more women work both part-time and full-time has had very important impact on retailing, more women have moved from traditional manufacturing occupation to the service sectors. The influences of working women on retailing are as follows:

- 1) The convenient products in the grocery market are growing, for instance, most supermarkets have ready-prepared food.
- 2) The products and services under one roof are popular. Many superstores offer pharmacies, post-office service alongside their main products.
- 3) The fashion of working wardrobe in clothing sector is growing.
- 4) The increased offer of child-oriented facilities.
- 5) More service and health offerings have emerged. (Varley & Rafiq 2004, 58-59)

## 3. Income and expenditure

People have experienced the life with increasing personal disposable income after the Second World War. According to the research of Varley and Rafiq, nowadays, people spend a smaller proportion of income on "the essentials" such as food and housing, nevertheless, the proportion of income on discretionary merchandise such as fashion goods, holidays, and entertainments has increased. (Varley & Rafiq 2004, 59-60)

Retail segmentation or targeting is the process that the retailer divides the total population of consumers into several segments. The consumers are placed into segmentation on the basis of their own physical or psychographic characteristics, and then the retailer offers the merchandise according to “target markets”. (Varley & Rafiq 2004, 69)

There are some common methods to segment markets by retailers.

- 1) Demographic: age, gender, family size, occupation, income (Varley & Rafiq 2004, 69)
- 2) Psychographic: social class, lifestyle, personality, attitudes (Varley & Rafiq 2004, 69)
- 3) Behavioral: benefits sought, loyalty status, usage rate (Varley & Rafiq 2004, 69)
- 4) Geographical (Varley & Rafiq 2004, 69)

#### 2.1.7 Retail promotion

The expense on promotion has been increasing over last decades since retailers want to establish and spread their own brands. The important role of promotion is to increase the demand of products, build up and reinforce the store image, and enhance the reputation. (Varley & Rafiq 2004, 235-236)

Advertising is a “paid-for non-personal communication” by retailers through several media including newspapers, magazines, television, radio as well as mail. The function of advertising is to inform the customers of benefits of retailer’s offerings. There are two types of retail advertising: institutional and promotional. Institutional advertising is the long-term performance; it focuses on positioning in the market and building the retail brand. Promotional advertising is short-term performance; the purpose of this kind of advertising is to display the products and price. (Varley & Rafiq 2004, 236-237)

Sales promotion is the incentive used by retailers in order to stimulate or increase sales. It is provided to customers in a given period of time and it encourages immediate response from customers. The frequently used types of sales promotions are discussed below:

- 1) Coupons: redeemable certificates with a specified amount of money. It is frequently used by supermarkets. (Varley & Rafiq 2004, 241)
- 2) Price deals, refunds and rebates: temporary price reductions. Rebates are offered to cover part of cost of products. (Varley & Rafiq 2004, 241)
- 3) Special packs/bonus packs: offering extra packs for free instead of lowering price. (Varley & Rafiq 2004, 241)
- 4) Multi-buys/multi-save: giving additional products for free. The most common form is “buy-one-get-one-free” BOGOF. (Varley & Rafiq 2004, 241)

- 5) Sales: price reductions across the store. End-of-season sales are most normal type in fashion retailing since retailers want to get rid of stock. (Varley & Rafiq 2004, 241)
- 6) Contests and sweepstakes: contest is a competition or a game which requires skills, such as riddles. Sweepstakes is a competition which chooses winner by chance. (Varley & Rafiq 2004, 241)
- 7) Premiums: premium is offered for free or reduced cost as an incentive to buy a product. Premiums are the forms of in-pack or on-pack gifts, free mail-in offers and so on. (Varley & Rafiq 2004, 241)
- 8) Demonstrations and sampling: in-store demonstration is a way for retailers to incentive customers to conduct impulse purchase. Free sampling is also a way to introduce new products or expand products range. (Varley & Rafiq 2004, 241)
- 9) Special events: for example fashion show in a clothing store, cooking events in a dinnerware store. (Varley & Rafiq 2004, 241)
- 10) Loyalty programmes: points are awarded and collected for every purchase in the store. The total points can be redeemed for goods or discount. (Varley & Rafiq 2004, 241)

## 2.2 Introduction to market strategy

### 2.2.1 International marketing

International marketing is the activity that the organizations make one or more marketing mix decisions across national boundaries. It is the process that a firm establishes manufacturing facilities cross the global boundaries and coordinates marketing strategies around the world. International marketing is a complex action since it involves several business types, thus how international marketing defined is based on the level of involvement of a company in global business. (Doole & Lowe 2008, 5-6)

Export marketing: straightforward activities involve transporting its goods or services across the national boundaries. (Doole & Lowe 2008, 6)

International marketing: an organization controls marketing activities for example the operations and the products will be sold in more than one country. Sometimes the marketing activities are independent. (Doole & Lowe 2008, 6)

Global marketing: the organization concentrates on selecting and exploiting global marketing opportunity and conducting global resources in order to achieve international competitive advantages. (Doole & Lowe 2008, 5-6)

### 2.2.2 Social and cultural considerations

A successful development of an international strategy is based on a solid understanding of similarities and differences among cultures in different countries. The consideration of various social and cultural factors is the key challenge for global explorers to improve their strategies. (Doole & Lowe 2008, 71)

**Education:** the level of formal primary and secondary education, for example, the labeling of products with hazardous side-effects should be paid high attention in a market which has very low literacy level. (Doole & Lowe 2008, 74)

**Social organization:** the native social considerations covers kinship, social institutions, interests groups as well as status system. For instance, the housewife-related merchandise is particularly popular in a country which women enjoy high social status. (Doole & Lowe 2008, 74)

**Technology and material culture:** it is the ability for local markets to handle modern technology. The firm always finds that the products remains freezing in a market where customers are lack of technical skills. (Doole & Lowe 2008, 74)

**Law and politics:** cultural sensitivity is utmost importance in political issues. It is the norm of behavior accepted and traditions in the local culture. (Doole & Lowe 2008, 75)

**Aesthetics:** it is the local culture's cognition of things such as beauty, good taste and design. The firm should ensure that the color, music, communication strategy, brand name are acceptable or appealing to local eye. (Doole & Lowe 2008, 75)

**Values and attitudes:** values cover time, work, wealth, achievement and risk-taking activities. It has significant effect on products, packaging, and communication strategy. The firm will adopt different methods, for example offering cars to inspire sales personnel to boost sale. (Doole & Lowe 2008, 75-76)

**Religion:** it is the culture variable which is not always apparent on marketing strategy. However, in some countries, the religion occupies dominant force; for instance, some tattoos, patterns or words are scared or unlucky. The advertisement should be taken serious in such countries with highly religion awareness. (Doole & Lowe 2008, 76)

**Language:** it can be divided into two types-spoken language and silent language. Spoken language is the vocal sounds which are pronounced and written by local people. Speaking or

writing in another language can be very risky since not everyone can comprehend the message of products. Moreover, it raises high awareness when conducting language translation in advertising, using clever words can influence target audience and leave deep impression, but inadequate translation occurs clumsy errors. Silent language is the non-verbal communication through body language, silences and social distance. (Doole & Lowe 2008, 77-79) People are more sensitive to silent language on various aspects:

- 1) Time: the significance on deadline or schedule. (Doole & Lowe 2008, 79)
- 2) Space: size offices or communicating distance. (Doole & Lowe 2008, 79)
- 3) Things: material possessions. (Doole & Lowe 2008, 79)
- 4) Friendship: the importance of friends as emergency or networks. (Doole & Lowe 2008, 79)
- 5) Agreements: rules of negotiations. (Doole & Lowe 2008, 79)

### 2.2.3 Marketing entry strategy

Having identified a suitable entry strategy is a key element for running a successful international business. There are various types of entry strategies such as indirect exporting, direct exporting, foreign manufacturing strategies without direct investment, foreign manufacturing strategies with direct investment and cooperative strategies. Indirect exporting is that the firm only needs to sell products overseas by other contractors including export houses, trading companies. For direct exporting strategy, the company becomes more active in the process of exporting. Foreign manufacturing strategies without direct investment is the strategy that involves production and service supply from overseas plants, this strategy arranges local manufacturer to produce products into international markets or licensor grants the right to use patent rights, trademarks, copyrights or know-how to licensee. A foreign manufacturing strategy with direct investment is the role of assembler, wholly-owned subsidiary or merger. Corporate strategy covers joint ventures, strategic alliances and Reciprocal share holdings. (Doole & Lowe 2008, 239-357)

The direct exporting is the most suitable strategies for Tokmanni since the company intends to purchase products from manufacturers in Russia or China.

Direct exporting is the most popular way for long-term activity since it requires fewer resources, low investment and little effect on existing operation. The benefits of direct exporting are that the company creates more influence through international activities, controls the markets selection, improves feedback about the performance, changes individual markets and competitors activity, and establishes expertise in international market. However, the company must quite ensure that the costs can be justified. (Doole & Lowe 2008, 241) The various methods for direct exporting are discussed below:

**Agents:** They are low-cost directors. The agents contracted on behalf of exporters to obtain orders, agree sales targets, contribute forecasts and develop strategy on the basis of their knowledge of the local market. (Doole & Lowe 2008, 241-242)

**Distributors:** distributors purchase product from the manufacturer, organize selling and distribute products. They normally pursue rights for a particular sales territory and represent manufacturers in that area. The distributors always take high risk and profit on unsold products. (Doole & Lowe 2008, 242-243)

**Management contracts:** management contracts act as sellable product which focuses on services, business skills and management expertise. Management contracts have several patterns of manifestation such as installing operating, controlling systems, and training local staff. (Doole & Lowe 2008, 243)

**Franchising:** a franchiser grants the legal right to use trademarks, logo and products to the third party- a franchisee. The franchise fee is awarded by franchiser. In this strategy, franchiser provides staff training, assistance, offering resources and controls operation of franchisee. It is the low-risk way to build greater markets coverage. (Doole & Lowe 2008, 243)

**Direct marketing:** it is referred to e-commerce development in current society; it is the marketing and selling strategy which uses mail order, telephone, television, media or internet rather than face-to-face contact. (Doole & Lowe 2008, 244)

### 2.3 Marketing communications

Marketing communications are the approaches that companies attempt to inform, persuade and remind consumers about the merchandise and brands they sell in direct or indirect way. In this changing marketing communication environment, advertising is often a crucial role but not the only one. The introduction of marketing mix will present the complexity of marketing communications. (Kotler & Keller 2009, 510)

**Advertising-** it is the paid form of non-personal presentation and promotion of goods, ideas or services and it is produced by an identified advocator.

**Sales promotion-** it is a short-term incentive to impulse customers to purchase products and services.

**Events and experiences-** it is the company-sponsored activity or program which aims to create brand-related interactions.

Public relations and publicity- it is the program which promotes or preserves the image or individual products of a company.

Direct marketing- it is the strategy of using mail, telephone, fax, e-mail, or internet to communicate, response or dialogue target customers.

Interactive marketing- online activities or programs which intend to raise awareness, improve image or create sales for target or potential customers.

Word-of-mouth marketing- it is the program using people-to-people oral, written or electronic communications to introduce the merits or experiences of using products or services.

Personal selling- face-to-face interaction to make presentations, answer questions and obtain orders. (Kotler & Keller 2009, 512)

#### 2.4 Summary of the theoretical discussion

In conclusion, theory parts consists of three criteria, they are retailing business, international marketing and marketing communication.

In retailing business, the author of this thesis gave the definition of retailing business, which helps reader to comprehend the role and responsibility a retailer has. Then the theory of retail format follows, introducing the types of retailing business. The discussion about Locations and logistics explains how to choose proper sites for different types of retailers, and how do retailers go through all the retailing process. At last, choosing target customer stands an important role since it helps to divide customer segmentation and concentrate on key area with various promotion methods.

For marketing strategy part, the general understanding of international marketing is required; the readers of this study can fully comprehend how social and cultural considerations influence the market entry strategy for a foreign retailer.

The marketing communication part elaborates different tactics in marketing communication environment, and provides the valid and efficient ways for advertising.

#### 2.5 Framework of the theoretical section

The purpose of the study is researching the suitable way for Tokmanni to expand retailing business in new country-Russia, thus the theory part focused on retailing business and international marketing strategy.

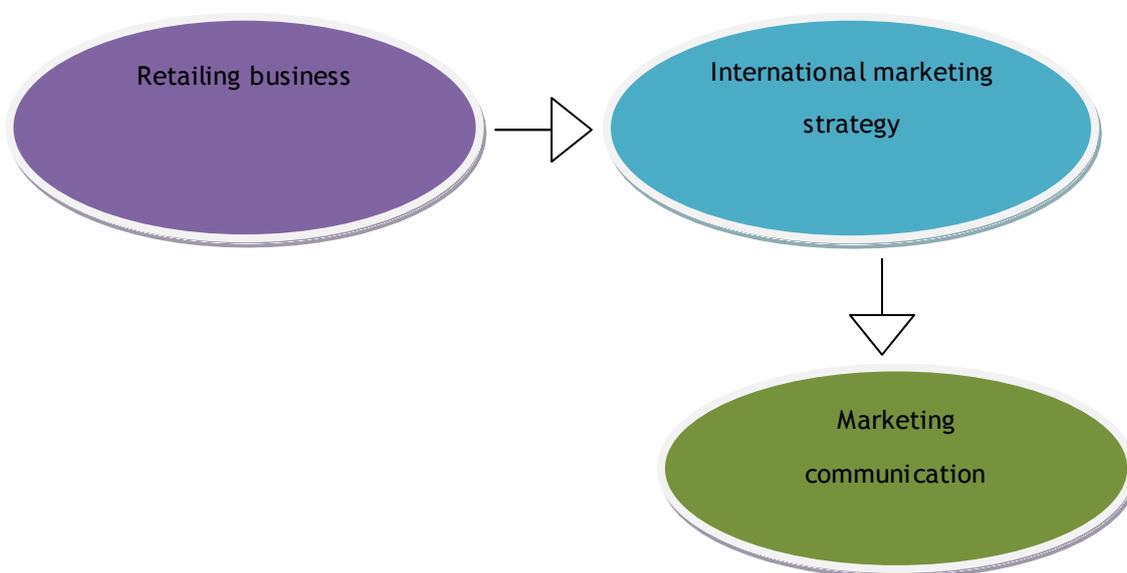


Figure 3: Framework of the theoretical section

### 3 Research approach

#### 3.1 Various methods

This section describes how the general research has been processed, and what methods have been utilized in this research.

There are eight types of research can be conducted into study. They are Experience, Surveys, Case study, Action research, Grounded theory, Ethnography and Archival research. (Saunders, Lewis & Thornhill 2009, 141) Case study was the main mold in this research.

Research Approach refers to the methodology that has been adopted to conduct the research. There are four main approaches which include Quantitative research, Qualitative research, Pragmatic approach to research (mixed methods) and Advocacy/participatory approach to research (emancipatory) (The four main approaches 2012). In this research, the author tends to use qualitative research.

According to Saunders, Lewis & Thornhill, qualitative is used predominantly for any data collection technique (such as an interview) or data analysis procedure (such as categorizing data) that generates or uses non-numerical data. In this case study, the author recorded,

analyzed and attempted to uncover the deeper meaning and significance of behavior and experience of foreign corporate in Russia, including contradictory beliefs, marketing behaviors and complex experience. The approach espoused by qualitative tends to be inductive and generalized in order to adapt to larger group.

### 3.2 Chosen methods

In this study, the author adopted qualitative method which includes case study, interviews, text and data analysis

Case study: Robson (2002: 178) defines case study as “a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence”. Diverse methods of data collection and analysis used include observation, interviews, consultation with other people and personal or public records. The researchers inquire a particular phenomenon (e.g. coping with a diagnosis) and select one or more individuals in the specific situation case study/studies. (Research methods 2012). There are two distinct case study designs: single-case study design and multiple-case study design. A single-case study is an examination of one individual or group. Researchers would select a typical or outlier cases. The other one is “Multiple-case studies”, which uses replication, the deliberate process of choosing cases that are likely to show similar results. (Case study). In this paper, the author used multiple-case studies, choosing outlier cases to yield more information in order to exam what has happened in Russian retailing market, and analyzing similar cases to identify the major challenges that exist and to offer recommendations.

Interview: It is the approach to treat respondents’ answers as external reality such as facts and events, or internal experience such as feelings and meanings. (Silverman 2000, 122) In interview the researcher is keen to acquire specific information so that several questions are needed to ask.

Interviews were accomplished by face-to-face communication, meeting and presentation. The respondent gave a presentation to broadcast company and was randomly answering the questions which were arisen by participants.

Text: In qualitative research, the research only needs to analyze small numbers of texts and documents for different purpose. The goal is to comprehend the participants’ categories and to how the categories are applied in concrete activities. (Silverman 2000, 128) In this paper, the approaches for texts are assembling files such as the files from internet and books.

Data analysis: According to Dawson, quality analysis is very personal process since researchers bring their own preference or experience in study. There are various ways to analyze qualitative data; the frequent adopted approaches are analysis formats, qualitative continuum, thematic analysis, comparative analysis, content analysis and discourse analysis. (Dawson 2006, 110-121)

In this study, the author adopted comparative analysis and content analysis.

Comparative analysis is the method that data from different people or cases are compared or contrasted; the researcher can analyze data among tapes, research literature, memos and videos, and compare the issues until no new topics are arising. (Dawson 2006, 116)

Content analysis is the most frequent method for qualitative analysis. Using this method, the researcher has a list of categories or let the categories emerged from data. In this process, the researcher systematically works with assigning codes which may be numbers, transcripts, internet resources and text. (Dawson 2006, 118)

### 3.3 Validity and reliability

Validity is another expression of “truth”. (Silverman 2000, 175)The claims of study are not valid under several conditions: a few instances are reported, the criteria or grounds are not provided and the original materials are not available

Reliability refers to the level of consistency with instances which are referred to the same category by different observers or by the same observer on different occasions. When calculating reliability, it is necessary for scientific investigators to document their procedure and to present the categories which have been used consistently. (Silverman 2000, 188)

In this study, all the material and reference came from the literature books, interviews and internet, the original materials of books are available, interviews contains authoritative speech and internal company’s files, and the internet sources have abandon instances to support the validity.

The instances displayed in this study were based on the internet resources and the survey reports. All the examples were anyhow interesting for the case company.

## 4 Empirical study

#### 4.1 A case company: Tokmanni Group

Tokmanni Group is the largest Nordic discount retailer with a leading position in the Finnish market. Tokmanni has been turned from nine entrepreneur-driven local discount retailers into biggest discount retail chain in the Nordics. (Interview with Milistver, 2011)

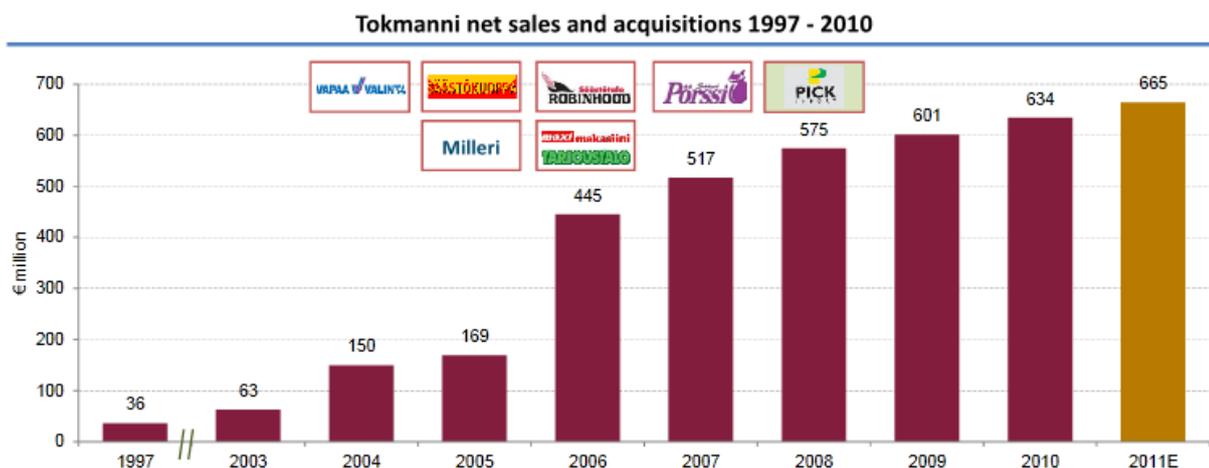


Figure 4: Tokmanni net sales and acquisitions 1997-2010

Tokmanni has a nationwide store network with local strong brand. The network includes 48 Tokmanni stores, 31 Tarjoustalo stores, 17 ROBINHOOD stores, 10 MAXI makasiini stores, 28 VAPAA VALINTA stores and 10 Pörssi stores. (Interview with Milistver, 2011) Tokmanni national stores network is controlled under centralized operation, which manages from administration, filed operation, sourcing, warehouse, IT to HR.

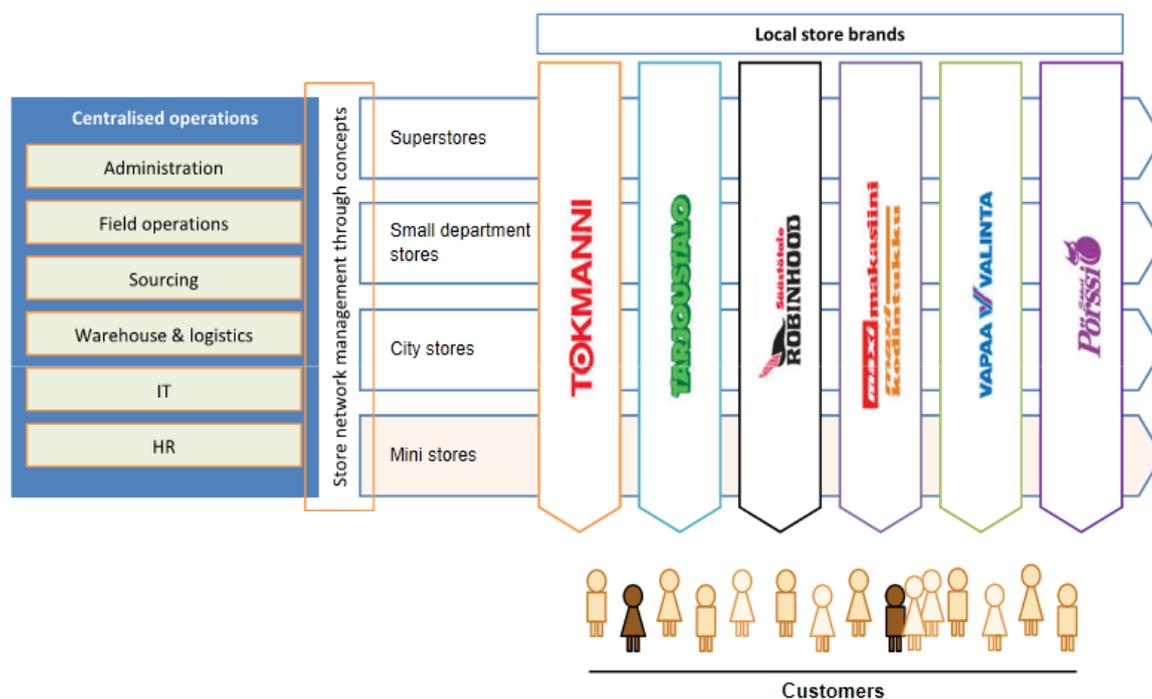


Figure 5: Tokmanni operational model

Tokmanni possesses a large range of products assortments which can specialize customers' need. The products categories cover groceries, clothing, techno chemicals, household and seasonal products, tools and electrical equipment, home decoration and textiles, home electronics and entertainments, sports and leisure. (Interview with Milistver, 2011)

The logistics center of Tokmanni was established in 2008 in Mäntsälä with the Area of 74 400 square meters. It manipulates the biggest part of product flow. The turnover of pallets is 700000 pallets per year and 200 trucks loads per day. (Interview with Milistver, 2011)

The strategy of Tokmanni concentrates on proactive expansion and renewal of store network, moreover, Tokmanni applies effective tools to forecast sales and purchase products to follow. (Interview with Milistver, 2011)

#### 4.1.1 Visions, values and responsibility

“Affordability, good quality, conveniently and quickly is Tokmanni’s vision”. Milistver, the HR manager of Tokmanni, said. Tokmanni employs over 2800 personnel in Finland. Finnish suppliers, partners and manufacturers are favorable for Tokmanni. Most importantly, Tokmanni devotes itself to environmental friendly business, with 44% of waste recycled, 39 % re-utilized, 30 % less electricity spent and 100 % recycling of equipment. “Tokmanni is the

member of the international BSCI-initiative, which supports and promotes responsible imports from the developing countries and monitors the suppliers.” (Interview with Milistver, 2011)

#### 4.1.2 Underlying market and competitive landscape

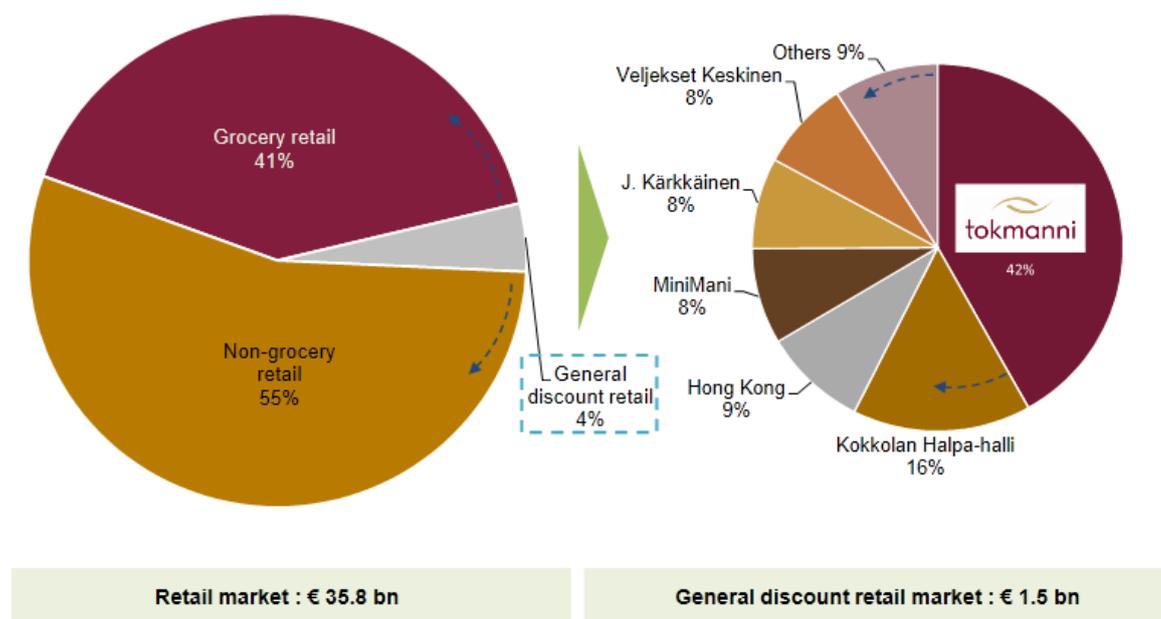


Figure 6: Market position in Finland in 2010 (interview with Milistver, 2011)

Based on figure 6, it is manifest that discount retail market penetration is still low in Finland and is assumed to capture further market share in the future. Tokmanni has a clear market leadership in the Finnish discount retail segment. (Interview with Milistver, 2011)

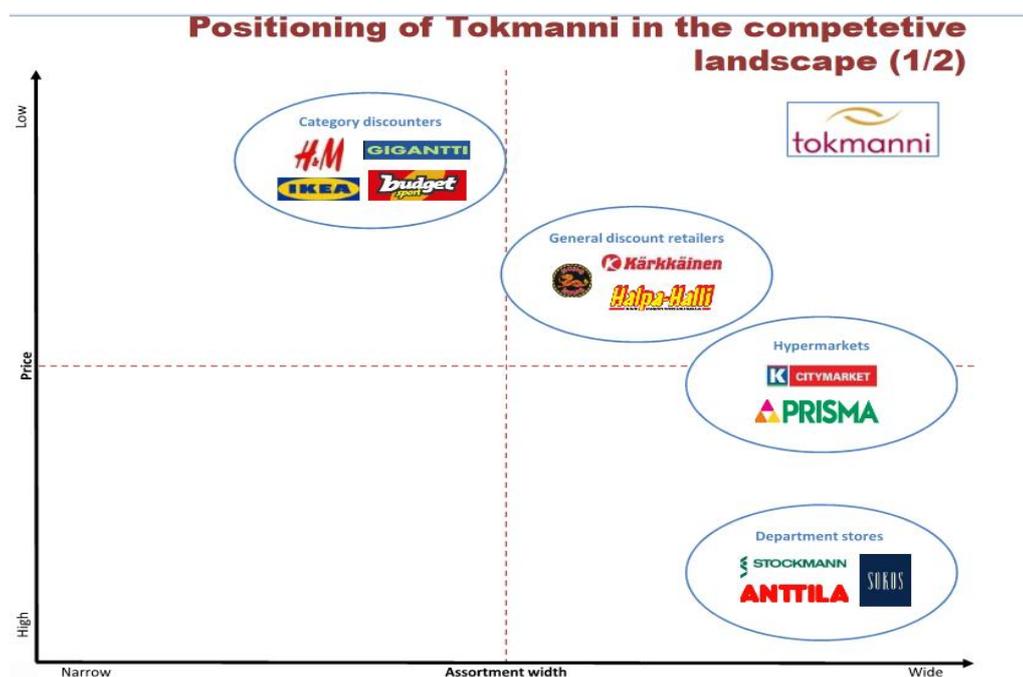


Figure 7: Marketing positioning of Tokmanni in 2010

Figure 7 illustrates that Tokmanni has gained competitive advantage on the basis of wide range of low priced quality products.

In addition to develop the current business in Finland, Tokmanni is investigating other expansion routes which can offer attractive chance for further growth. The next step for Tokmanni is expanding operations into Russia since Russia has a large retail market with high growth potential. (Interview with Milistver, 2011)

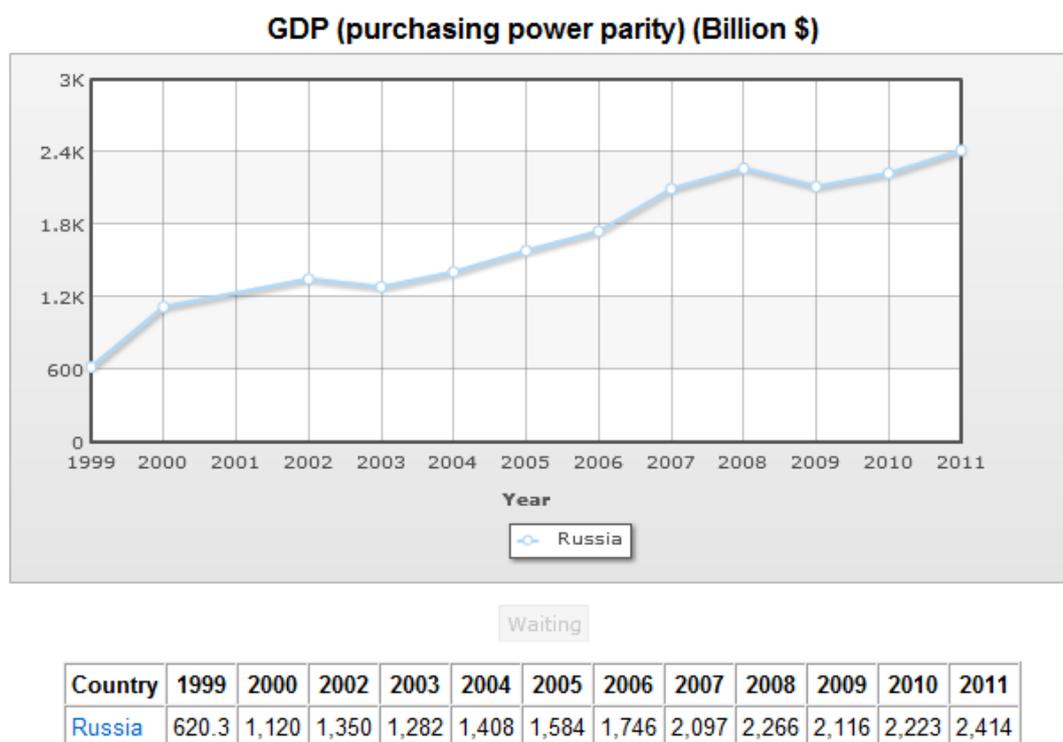
#### 4.2 Trend of today's retailing market

In the 1980s, business expert Michael Porter wrote in his books - Competitive Strategy and Competitive Advantage, that successful corporations either had the lowest costs or produced a unique product.

So people witnessed that a new business model has emerged in global market. Some of the world's biggest companies are now achieving unprecedented widely economic scale and market dominance by means of a global discount strategy by acquiring very small profit margins on extremely high volumes. These companies obtain low-priced raw materials from every site; compel offshore suppliers to cut costs, ship products across or between countries, and set retail prices close to wholesale cost. But this is done by relying on huge sales turnover on small profit margins.

With continuous developments, the industry was transformed by the adoption of ‘lean retailing’ (Abernathy et al, 2000). It is an approach to use integrated logistics and supply chain management methods to record consumer demand, allow tracking orders from manufacturer to retailer, and underpin substantial reductions in retailer inventory. It is a ‘just-in-time’ demand-pull-supply system which essentially linked reordering to real-time electronic point-of-sale (EPOS).

#### 4.3 Economy in Russia



Graph 1: GDP- Per capital in Russia 1999-2011 (GDP 2011)

Russia experienced strong single-digit growth for several years. In 1999 the PPP in Russia was very low, which was 620 billion USD. After 12 years development, the PPP in Russia reached 2414 billion USD in 2011, which was 4 times as much as the amount in 1999. Even though there was a decline from 2008-2009 due to worsening economic conditions, it recovered soon and increased at 5.3% in 2010. Today Russia is one of the top European consumer markets for food, beer, wine, mobile phones, automobiles and home improvements (DIY).

##### 4.3.1 Retail business in Russia

According to Russia Retail report's forecasts (Q4 2011), the country's total retail sales will ascend by more than 24% with local currency in 2015, growing from a projected RUB15.31trillion (US\$615.91bn) in 2011 to RUB19 trillion (US\$764.86bn). There are several key

points behind retail market expansion, such as rising disposable incomes, an expanding middle class and rising levels of credit penetration. Besides, it is a major inroad that retailers win the market with accelerating foreign direct investment (FDI). (Russia retail report 2011)

Although the population is forecasted to decrease from 141million in 2011 to an estimated 139 million in 2015, GDP per capita is predicted to rise more than 84% by the end of the forecast period, standing at US\$22,520. The country's large population- the prosperous urban population of Moscow- provides a solid base for the expansion of the retail market. (Russia retail report 2011)

Retail sales for the CEE (Communaute Economique Europeenne) countries in 2011 are forecasted to reach to US\$1,275 billion. Russia's predicted market share was 48.3% in 2011; the figure is expected to rise slightly, to 48.5% in 2015. (Russia retail report 2011)

#### 4.3.2 Most popular retail chains in Russia

The following table illustrates the top 10 largest retailers in Russia in 2008; they were ranked by sales revenue.

No	Retailer	Country of origin	Chains	Sales (\$ m), 2008	Store count, 2008
1	X5 Retail Group	Russia	Pyaterochka, Perekryostok, Merkado	8,800	1,101
2	Euroset	Russia	Euroset	5,700	4,963
3	Metro Group	Germany	Metro Cash and Carry, Real	5,634	74
4	Tander	Russia	Magnit	5,348	2,582
5	Eldorado	Russia	Eldorado	4,100	1,200
6	Svyaznoy	Russia	Svyaznoy	2,930	1,752
7	M.Video	Russia	M.Video	2,733	157
8	Auchan Group	France	Auchan, Auchan City	2,722	53
9	Kopeyka	Russia	Kopeyka	2,100	517
10	Lenta	Russia	Lenta	2,040	34

Table 1: Top 10 largest retail market players in Russia, 2008 (PMR Publications 2008)

X5 Retail Group was recognized as the most reputable and credible retailer among the top five retailers in Russia in 2008, and it kept the first place in 2010 according to the Global

Reputation Index (GRI) consumer research. Overall, most of retail chains were Russia's local brands; only German Metro Group and French Auchan were in the ranks, which were top 3 and 8 respectively. (Popular retail chain 2011)

#### 4.4 Retail regulations in Russia

##### 1. Trade hours

Monday - Saturday: 9.00 - 21.00

Sunday: 10.00 - 19.00. 10.00 - 22.00 for shopping centers (GEMS 2 Country pages 2011)

##### 2. Planning and legislation

Generally, all commercial uses are permitted in commercial zones. Banking and noisy establishments (night clubs and the like) will require additional approvals. In Moscow, a special committee of the local government controls outdoor signage. (GEMS 2 Country pages 2011)

##### 3. Basis of measurement

Shops are measured by metric square meters. Accommodation is valued with an overall rate per square meter. (GEMS 2 Country pages 2011)

##### 4. Market transparency

It is difficult to gain access to the terms of transactions for High Street leasing. More information is available within the shopping centers. (GEMS 2 Country pages 2011)

##### 5. Rent payment

Rent is paid monthly in advance. Rents are quoted by using US\$. VAT at 18% is charged on rental payments and is generally recoverable. Some landlords in shopping centers will consider leases with a base rent and turnover arrangement. (GEMS 2 Country pages 2011)

##### 6. Tenants' covenant

Typically a tenant will need to offer a rental deposit equivalent to one to six months' rent. Alternatively, a bank or parent company guarantee is required. The rent deposit or bank guarantee is generally refundable to the tenant when lease expires. (GEMS 2 Country pages 2011)

## 7. Service charge

Service charges are common, and the rates per sqm vary widely. In a regional shopping centre the annual service charge may vary from US\$ 75 to US\$ 150 per sqm. On the High Streets, service charge may be typical to cover land rent, communal charges and advertising rights. (GEMS 2 Country pages 2011)

## 8. Property taxes and other costs

The Russian system of taxation is relatively straightforward. The tax on company profit is at 24%, income tax for individuals is at 13% and value added tax is 18%.

There is no specific occupation tax paid by retailers. Owners of shopping centers pay an annual tax equivalent to 2.5% of the value of the centre and they usually pass this cost through the service charge. (GEMS 2 Country pages 2011)

## 9. Agents' fees

Landlords and tenants can employ their own consultant. Each will take responsibility for their own fees. They will pay a fee to 8.33% of the average annual base rent, and the fee is negotiable. (GEMS 2 Country pages 2011)

## 10. Incentives

Few incentives are available. However multi-national, anchor tenants often receive a landlord's contribution with the shop fitting investment. (GEMS 2 Country pages 2011)

## 11. Lease length and terms

For in-line retailers, three to seven years is a common lease length whilst for anchors 10-12 years is more common. (GEMS 2 Country pages 2011)

## 12. Repairing liability

Shopping centers are going to impose design standard for tenants. In certain centers, landlords provide standard shop fronts. Tenants construct the interior and decorate with own signage. But changes to shops require the landlord's consent. (GEMS 2 Country pages 2011)

#### 4.5 Analysis of effective logistics and distributors in the Russian retail sector

Nowadays, the knotty problem for retailers is the logistics and distribution channels; it seems difficult for retailers choosing sites for distributions and getting products since Russia is the country not only with big-scale area, but also with scattered landscape. For example: the major challenge for the store network of the METRO Group has to be manipulated the fields of logistics and procurement. The central procurement company- METRO Group Buying International (MGBI) purchases 140,000 different products from more than 2,000 suppliers in Russia every year. And the MGBI have to transport the products over a distance of more than 2,500 kilometers. (METRO logistics 2011)

However, X5 Retail Group has opposite situation, because the distribution channels and the logistics models are well suited. The management of the Company believes that having stores in key locations is essential to the success of the Group. Pyaterochka- the biggest discounter line for X5 Group, runs own logistics operations. It has a modern distribution centre in St. Petersburg; the management of center enables the Group to supply its stores in a cost-efficient and fast conducts. The Group is building a distribution centre to service its stores in the Moscow area and plan the expansion of Pyaterochka's distributions in St. Petersburg. Possessing own distribution center offers Pyaterochka plentiful competitive advantages, which reduce costs such as shelf storage and cross-docking, dispatch products to certain stores and manage packaging in efficient way. (X5 distribution channels 2011)

Moreover, Pyaterochka's store developed a team which is professional in acquiring rights to obtain desirable land sites and properties at reasonable cost. The team enables the Group to possess approximately 20 to 30 land sites a year and offers land bank for store development in Russia. What is more, the company managed to build relatively small stores with a standardized design. It selected a certain third-party contractors and design firms which have worked in St. Petersburg. The Group's contractors in St. Petersburg developed nearly 20 stores for the chain in 2004. Thus the Company believes that the relationships with these contractors offers the Group a competitive advantage and allow it to continue building new stores to the chain. (Pyaterochka Holding N.V. 2005)

#### 4.6 The effective marketing channels

The marketing channels cover various relationships and co-operations. The retailers can gain competitive advantages and reinforce brand image through customers, suppliers and other organizations.

##### 4.6.1 Relationship with customers

Customer relationship is the most important relationship of any business, as Ted Levitt said: "the purpose of a business is to create and keep a customer". Relationship with customers is complicated since customers will concern about company's performance, price, quality of product and service.

Every company has its own strategy for building customers' relationships and keeping key accounts. An example of Lenta illustrates what drives Lenta to success.

Lenta is one of the leading hypermarket chains in Russia operating 41 trade stores throughout the whole country. Lenta offers customers with high quality goods, a large range of products and the lowest prices by eliminating the middleman. Even though the number of buyers has been constantly growing, Lenta knows that each customer has his individual needs and wishes. Therefore maintaining direct communication through mail, SMS-notifications or email-posting is the strategy for Lenta to update customers' demand. Moreover, Lenta provides customer card which their clients can have 5% on all goods offered by "Lenta" or take special offerings from Lenta. This successful strategy has stimulated over than 3 million of Russians to become card holders. (Lenta customers 2009)

#### 4.6.2 Relationship with suppliers

##### 1. EDI

The dictionary defines Electronic data interchange (EDI) as "the structured transmission of data between organizations by electronic means." It is normally used when people transfer electronic documents or business data from one computer system to another computer system. In business, the transformation occurs from one trading partner to another trading partner without human intervening. (Electronic data interchange 2013)

In 2004 Lenta Company applies ECOD system on the basis of EDI technologies to deliver electronic exchange and return orders with its suppliers. Since August, 2008, approximately 500 companies- about one-third of all suppliers, maintain order communication with "Lenta" by using EDI technology. "Shipment notice" was initiated in Lenta for electronic exchange with suppliers; using shipment notice allows Lenta and its suppliers to accept information on quantity of shipped products and logistical places in trucks. This method significantly simplifies process for shipment and acceptance. For example, the procedure of shipment and acceptance normally covers several stages including supplier issues "shipment notice", the products acceptance network issues "goods acceptance sheet", the warehouse receive the goods and special codes. These procedures consume plenty of time without ECOD system. If supplier adopts electronic documents, all the issued documents are already in electronic

system instead of issuing paper documents, the “shipment notice” is automatically changed into “goods acceptance sheet” from supplier’s system to retail trade system. The time spent by suppliers is reduced 2-3 times. EDI system acts as a link, which allows all parties involved in business process exchange the information of shipment, traffic and delivery items. It increases the efficiency of cooperation, and reduces delivery terms. (Lenta supplier 2009)

## 2. Category Captainship

Category Captain is the joint-operation program offered by Lenta to its suppliers. With the project on a category, Lenta offered comprehensive information including: sales data, hypermarkets’ plans, information about plans on development of the company.

Specifically, the Category Captain suggests Lenta and its suppliers to designate goals and tasks of the project, works required to be done, persons responsible for doing the work, time and budget needed to take, volume of investment in a category.

Lenta has already accomplished some successful projects by adopting Category management with companies, for example Procter&Gamble, Schwarzkopf&Henkel, Nestle, Danone, and Diageo. The results of Implementation of such projects are optimistic. Category management increases category for Lenta and sales for supplier. According to the data in Lenta, the sales volume of the products increases 60% after implementing programs. (Lenta joint program 2009)

### 4.6.3 Build partnership and networks

In order to attract customers and reinforce marketing competitiveness, more and more retailers set up new relationships with partner on several joint programs, including travel offers, pharmacy, dry-cleaner’s services, small repairs, mobile communication payment and so on. Among all the networks, the “Mobile virtual network operator” is normally adopted.

The definition of Mobile virtual network operator (MVNO) is that “sells mobile phone service by making use of another company’s existing network infrastructure”. On 14 May 2010, X5 Retail Group signed a partnership contract with Russian and CIS (Commonwealth of Independent States) mobile operator MTS.

The MVNO program was launched initially in Moscow and the Moscow region. By choosing this strategy, MTS offered available phone numbers and provided full package of GSM services to X5 subscribers. The services include voice communication, roaming, mobile internet, SMS and MMS. In order to attract and service subscribers, X5 qualifies the services with its private

label, set the tariffs, and support in-store information offering. Moreover, X5's MVNO platform was designed to link with loyalty bonus system in Perekrestok and Karusel retail chains. In this way, subscribers can exchange accumulated points in Perekrestok and Karusel in terms of loyalty bonus programs for mobile services. (X5 MVNO 2010)

#### 4.7 Development of marketing campaigns

##### 4.7.1 Advertising in Russia

"Blind agencies are leading blind advertisers" is the proper description for current advertising market in Russia.

Several reasons can explain why the quality of ads in Russia is horrible. Firstly, most of Russian advertisers don't have the yard stick to recognize what good advertising is about. Secondly, Russian advertising market does not have educators with practical experience. The ads produced by Russian makers are always considered too often and money-consuming. (Russia's advertising 2011)

Moreover, there is no available copy writing of note in Russia. Thus considerable proportion of Russian ad agencies ignores the copy writing. (Russia's advertising 2011)

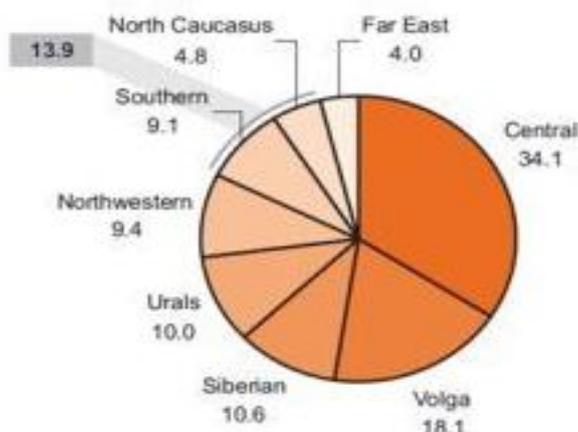
##### 4.7.2 Target customers

According to UN Population Division data, in 2005, 37% of the Russian population ranges from 20 to 44 years old, and the proportion had increased slightly in 2010 to 38%. This segment of the population is a dominating role for retail spending. (Russia retail report 2010)

##### 4.7.3 Market segmentation

### Retail turnover in Russia by Federal District (%), 2010

Total: RUB 16,436bn (\$541bn)



Note: North Caucasus Federal District was formed in 2010, as separate from the Southern Federal District.

Source: PMR report „Retail in Russia 2011 – Regional focus. Market analysis and development forecasts for 2011-2013“

www.pmrpublications.com

PMR: Retail turnover in Russia by Federal District

Graph 2: Retail turnover in Russia by Federal District

According to graph 2, it is apparent that Central Federal District (extremely west geographically), which comprised 34% of country sales in 2010, remained the largest retail market in the country. The Far East area, which possesses the largest area but owns only 6% of population in Russia, had the lowest share of retail sales. (Russia retail market 2011)

#### 4.7.4 Effective promotion strategies in the Russian consumer market

As theoretical part mentioned earlier, there are various way to promote and reinforce the popularity for retailers, here are some examples of successful promotions used by international retailers.

##### 1. Metro Group

The promotion approach adopted by metro is unprecedented; the tactic is related to special events, but for a long-term goal. In order to qualify the people's career in retailing, the METRO Group created the "Metro Education" project in Russia. In this program, METRO Group supports business schools in more than 14 cities in Russia and qualifies junior staff with yard stick for Metro. In this way, Metro advertises itself through Russian family, reinforce the store image, and enhance the reputation. (Metro education program 2011)

## 2. X5 Group

Growing private label is a major tactic for X5 to attract customers. X5 have capability to price private label items at a significant discount by maintaining similar quality and comparable or higher margins. In the medium-term, X5 aims to increase private label offerings to 50% of assortment in soft discounters.

In 2007, a new marketing promotion named “the Magic Coupon” was initiated by X5 Retail Group. The promotion was immediately launched by all Perekrestok supermarkets in Moscow and 20 Russian cities. (X5 customer focus 2009)

Under the terms of this tactics, the customer who makes a purchase over 600 rubles will receive a “Magic Coupon”, which is a small square paper contained terms of use and spotted field. During promotion, the participated customers should place the coupon on a particular colored spot. The participant can read the name of the prize and pick up it in any Perekrestok store.

There are two forms of prizes, the customers can either receive a prize immediately, such as a bottle of wine or other consumer appliances, or collect several coupons to form the sentence “Perekrestok - the Number One Supermarket in Russia” and win a special prize which worthies 2000 rubles (X5 Magic promotion, 2007)

## 3. Lenta

Lenta takes a promotion with refunds approach, every two weeks Lenta publishes catalogues of special offers with the discounts up to 30%, and seasonal sales the discounts may amount to 70 %. (Lenta special offers 2009)

### 4.7.5 Growth in online retailing

Group buying is the activity that the retailers offer products or services with significantly reduced price on a condition that a minimum number of buyers make the purchase.

The Nielsen Company’s data showed that 83% of Internet users have online shopping experience in Russia, and the shopping frequency is on the overwhelming trend: in 2007, 56% of respondents will go online shopping at least one time in approximately three months and in 2009 the number has reached 63% in 2011. However, the data base of Step by Step company

shows that the purchasing frequency of group buying still lags far behind Australia, New Zealand, America, Canada, China and most western European countries.

For the past few years, the hottest global internet company is Groupon. Groupon is a deal-of-the-day website which offers significant discount certificates.

Overall, the popularity of Group buying has been increasing year by year. Almost every big city has organized BBS and forum for group selling. The main products are clothing, food, small home appliance, household articles. (Group buying 2011)

## 5 Conclusion and recommendation

### 5.1 Conclusion for retailing prospect in Russia

In general, with large population base, economic growth, rising in living standards and consumption boom, Russia has become most favorable destination for investment in retail industry.

From the list of the top ten grocery retailers in Russia, it is obvious to see that most of the top retailers were dominated by local players. Only two foreign retailers, Metro and Auchan, took the places among the top ten. This proves how difficult the Russian retail market is to enter from the outside.

The overall situation brings lots of opportunities and competitions for retailers. In order to survive from severe competition, retailing giants take tremendous negotiation power with manufactures and they can ask for volume discount, it is suggested that Tokmanni, as small and medium retailers, can offer low-price products by cutting overhead cost, sales increased and profits soared.

### 5.2 Recommendations for entry strategy

There are lots of opportunities in retail space as in cities with over 1 million populations, and various shops in shopping centers bring massive flow of people. Thus Central Federal District such as Moscow and St Petersburg is the best location.

Since Tokmanni Group manipulates eight brands, "which one brand will set foot in Russia market" should be considered. According to the research, the non-food retailing business typically experienced rapid growth then food retailing. Among non-food business, clothing and footwear market are outstanding due to the recovering of middle-price level. Thus,

Tokmanni- one of the eight brands under Tokmanni Group and specialized in selling non-grocery products, is the first store to enter into Russia.

The direct exporting is the most suitable strategies for Tokmanni since the company intends to purchase products from manufacturers in Russia or China. Tokmanni can require native agents in order to obtain orders, agree sales targets, contribute forecasts and develop strategy on the basis of their knowledge of the local market.

### 5.3 Recommendations for partnership

According to original understanding of ineffective distribution network and poor infrastructure, it is highly recommended for Tokmanni to have a native third-party contractor who can help to design or search adaptive sites. In this way, Tokmanni can build its own distribution center or own-designed warehouse in Metropolitan areas.

EDI should be considered. It acts as a platform for all parties to exchange the products and logistical information. It is an efficient way to dispatch products to certain stores and manage packaging.

Moreover, setting up data interchange system between retailers and suppliers about products categories has great importance. Tokmanni can redesign the goals with its suppliers on tasks, the responsible personnel, time tables, budget and investment. From all the information showed and shared with cooperation for category, Tokmanni can be advised and take set of actions to promote sales in category, optimize the range and structure of production, and facilitates the process to achieve the goals.

### 5.4 Recommendations for promotion

Even though Russian increasing trend of retail stimulates advertising, the ads in Russia still keep low quality. It is attributed to immature advertising market, no professional practice as well as no copywriting with note. Here are two criteria for foreign companies to pay attention when they advertise:

1. Need to review the selling points: some products features are popular in Europe but it suffered ignorance in Russia. (Russia's advertising 2011)
2. Russifying: nowadays English language is still over people's head in Russia. So that translating company's name and slogan into Russian is the best way to reach wider audience base.

The most popular way for short-term promotion is sales promotion; it includes bonus cards, discounts, refunds or seasonal sales. Moreover, providing clients with company-sponsored activity such as contests and sweepstakes is also a suitable way for signing into people's eyes.

It is suggested for Tokmanni to introduce own private label for the long run benefit, in this way, Tokmanni can reduce the cost of material, maximize products assortments, and maintain similar quality and comparable or higher margins. Moreover, interactive marketing, in other words, online activities or programs can be considered, since online sale is potentially dynamic market to offer group buying with lower price than stores and it is also an alternative for advertising.

In summary, giving customers the best price is critical for increasing basket size and sales per square meter.

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