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**The investigation of the market for the purpose of
opening the Duty Free shop in the Koltsovo
International Airport of Yekaterinburg**

Master's Thesis 2014

Abstract

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The investigation of the market for the purpose of opening the Duty Free shop in the Koltsovo International Airport of Yekaterinburg, 55 pages

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The purpose of the study was to investigate the market with a view to open the Duty Free shop in the Koltsovo International Airport of Yekaterinburg. The object of the investigation was to carry out a research, justify the appropriateness and make recommendations and proposals for the opening and operation of a shop at the Koltsovo Airport Domestic Terminal. The subject of the investigation was a case study of the Yekaterinburg Koltsovo International Airport Domestic Terminal.

Strategic analysis methods were used during the research process including analysis of macro-environmental factors (PEST), SWOT, analysis of micro-environmental factors (Porter 5 Forces). For the purpose of identifying micro-environmental factors, value chain analysis was utilised. Such methods as passenger interviewing and survey were also employed during the research to estimate prospective customers' preferences.

While justifying the selection of research methodology in view of the project specifics the author described legal and economic specifics of duty free trade and the methods selected by the author to do a research. The practicality of these particular methods for analysing the efficiency of a project for opening a duty free shop was justified. Also was made the background for further selection of research methodology for the duty free market at the Yekaterinburg Koltsovo International Airport.

Keywords: Duty Free, Strategic management, Forecasting method

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1. Introduction

1.1 Background

The world's first duty free shop was opened at Shannon Airport by Dr. Brendan O'Regan in 1947 to serve trans-Atlantic airline passengers travelling between North America and Europe. The idea was that having passed passport control, the passenger had left the country and therefore the duties (or taxes) of that country became invalid. So everything bought after passport control should be considered as duty-free. (Taxfreetravel, 2014.)

To tell the truth, Dr. Brendan O'Regan was not the pioneer, but it is used to say that he was a "father" of a modern concept of Duty Free as a direct place where you can buy goods you are interested in.

Diplomats living in embassies (considered as foreign territory), the military and men at sea had enjoyed duty-free allowances for years before the Shannon shop opened its doors. Indeed, liquor had been available to British seamen for onboard consumption since the 1500s. In the 19th Century, ships passengers were also allowed to purchase supplies without duty and were able to enter the country they were visiting or returning to without paying import duties on items they had bought during their voyage. (Taxfreetravel, 2014.)

When Dr. Brendan O'Regan started his business it was forbidden to have a stationary shop at the custom clearance control zone - that is why all the goods were delivered directly at the Gates to the customer, and pre - orders were received before boarding and custom control. Such a system remained unchanged in the USA but only partially – goods that the customer had bought in the shop must be delivered by the shop assistant in case the customer demands it.

In 1959 Customs & Excise in the UK finally allowed duty-free shops airside, initially just for liquor sales; it was until 1964 that tobacco, perfume and other gifts could also be sold after passport control (Taxfreetravel, 2014).

Another step in the development of Duty Free market dates from the nineteen-sixties and is connected with the names of Mr. Charles Feeney and Mr. Robert Miller – the founders of most successful joint venture, known as DFS (Duty Free

Shops). DFS started operating in Hong Kong and expanded globally over the years. (Taxfreetravel, 2014.)

1.2 Objectives and delimitations

The aim of the work is the reasonability of opening the Duty Free shop in Yekaterinburg International Airport.

The object of this research is ZAO Kapo Duty Free, a company that plans to set up a 500 sq. m unconventionally new designed shop as part of the Yekaterinburg Koltsovo International Airport Domestic Terminal.

The subject of the research is a case study of the Yekaterinburg Koltsovo International Airport Domestic Terminal. The setting up of a shop should be planned in the course of work in such a way that the Airport would also benefit from rented areas, and that the company opening the shop would make profit. ZAO Kapo Duty Free took part in the tendering process, design project development, delivery of shop fixtures and fittings, personnel recruitment and training and, finally, the opening and operation of the shop.

The timeliness of the research is that the managerial problem should be solved immediately as the Yekaterinburg Airport develops at a rapid rate. Much attention is given to the layout and interior design of sales areas. A new International Terminal is already open, wherein ZAO Kapo Duty Free was awarded a tender to open and operate a duty free shop.

The objective of the paper is to carry out a research, justify the appropriateness and make recommendations and proposals for the opening and operation of a shop at the Koltsovo Airport Domestic Terminal.

The goals of the research In order to attain the objective set, the following several interconnected and interdependent goals should be addressed:

- To review the basic theoretical approaches to a strategic market research.
- To justify the selection of research methodology in view of the project specifics.
- To analyze the dynamics of the development of the Ekaterinburg Koltsovo Airport as a proposed location of the shop.

- To justify the appropriateness of setting up a duty free shop.
- To make recommendations for the balanced inclusion of the shop to be opened into the general concept of the Yekaterinburg Koltsovo air terminal city.

1.3 Research questions

According to Robert K. Yin, defining the research questions is probably the most important step to be taken in a research study. A basic categorization scheme for the types of questions is the familiar series: “who”, “what”, “where”, “how” and “why” questions. If research questions focus mainly on “what” questions, either of two possibilities arises. First, some types of “what” questions are exploratory. This type of question is a justifiable rationale for conducting an exploratory study, the goal being to develop pertinent hypotheses and propositions for further inquiry (Yin, 2009, p.9.).

The first Robert K. Yin type of question seems to be appropriate for the Thesis. To understand the necessity of opening the Duty Free shop in Yekaterinburg International Airport the reader should be able to find the answer to the first question of the research:

- *What is the sense of opening the new Duty Free shop - is it worth it or not?*

However, as an exploratory study, any of five research methods proposed by Robert K. Yin can be used – for example, an exploratory survey (testing, for instance, the ability to survey startups in the first place), an exploratory experiment (testing, for instance the potential benefits of different kinds of incentives), or an exploratory case study (testing, for instance, the importance of differentiating “first – time” startups from startups by entrepreneurs who had previously started other firms) (Yin, 2009, p. 9.)

The second type of “what” question is actually a form of a “how many” or “how much”. Identifying such ways is more likely to favor survey or archival methods than others. For example, a survey can be readily designed to enumerate the “what”, whereas a case study would not be an advantageous method in this situation (Yin, 2009, p. 9.).

In this case second research question seems to be appropriate for this Thesis and it is as follows:

- *What kind of services do the passengers need from the shop?*

In contrast, “how” and “why” questions are more explanatory and likely to lead to the use of case studies, histories and experiments, as the preferred research methods. This is because such questions deal with operational links needing to be traced over time, rather than mere frequencies or incidence (Yin, 2009, p.9.).

In this context most suitable questions for the research are:

- *Why it is worth to open the shop in Yekaterinburg?*
- *How will the shop fit to the general concept of the Kolcovo Airport?*

1.4 Research methods

Speaking about research methods, it is usual to start from analysis methods description and from analyses itself. So, what is analysis? Analysis is a very dynamic process. The analyst has to brainstorm, try out different ideas, eliminate ideas, eliminate some, and expand upon others before arriving at any conclusion (Yin, 2009, p. 9.).

Analysis is a process of examining something in order to find out what it is and how it works. To perform an analysis, a researcher can break apart substance into its various components, then examine those components in order to identify their properties and dimensions. Finally, the researcher can use the acquired knowledge of those components and their properties to make inferences about the object as a whole (Corbin, Strauss, 2008, p.46.)

Another approach to analysis would be to begin with the whole, observe to see what the substance and how it seems to work, then take it apart to determine its various components, studying the makeup and functions of the components and their relations to the whole (Corbin, Straus, 2008, p.46.). More about it would be examined in Chapter 3.

One of the main fundamental paths to success of the Thesis is a data analysis. There are many different stories that can be constructed from data. How an analyst put together the concepts often requires many tries before the story or findings “feel right” to him or her. Feeling right is a gut feeling. It means that after

being immersed in the data the researcher believes that the findings reflect the “essence” of what participants are trying to convey, or represent one logical interpretation of data, as seen through the eyes of this particular analyst. (Corbin, Strauss, 2008, p.47.)

The data is the term used to describe the raw material of quantitative methods (Morris, 2008.) (furthermore the reader will find wider information about the method itself), which gets presented, manipulated and analyzed. Examples of so-called “raw” data - that is, before it has been processed in any way – would be the results of a market research questionnaire, the wages of a group of employees, the values of a portfolio of shares, or the point-of-sale (POS) information. Data in this form convey very little to most people, particularly when there is a huge amount of it (Morris, 2008 p.1.) In this case this type of POS interviews with gathering information at the cash desks is essential for the research. More about it the reader can find in the Chapter 3.5.

As far as quantitative method had been already mentioned before, there is a need to go deeper in understanding it. Clare Morris declare in the book of Quantitative Approaches in Business Studies that “quantitative methods involves numbers, uses formulae, requires some manipulation of figures...isn’t it math?” she asks (Morris, 2008, p.3.). Ms. Morris claims that “it’s certainly true that these methods are based on mathematic ideas..., but there are some important differences.” (Morris, 2008, p.3.) In the case of mathematics, calculations are the most important aspects, with quantitative methods calculations are still important, but it is not the end of the story. Calculations need to be interpreted in practical terms before they become useful aids to the solution of business problems. It is said that there is a need to get used to the idea that very often it’s a matter of opinion which measure is the best one to use in a given situation, and there may be a good case for several options, so there is no “right or wrong”. (Morris, 2008, p.3.)

Strategic analysis methods that are also going to be used during the research process include analysis of macro-environmental factors (PEST), SWOT, analysis of micro-environmental factors (Porter 5 Forces), whereby company’s external environment would be analysed. To identify micro-environmental factors, value chain analysis would be utilised. Furthermore, such methods as passenger

interviewing and survey (as was mentioned before) would be employed during the research to estimate prospective customers' preferences.

1.5 The structure of the paper

The information about basic theoretical approaches to a market analysis the reader may find in Chapter 3 which is going to provide a review of literature concerning strategic market research. In this section, the role of a strategic research in successful setting up of a new project is going to be analysed; and basic methods and tools that are currently used worldwide to do such a research are going to be considered. The key goal of this section is to create a background for further selection of research methodology for the duty free market at the Yekaterinburg Koltsovo International Airport.

While justifying the selection of research methodology in view of the project specifics also in Chapter 3, the author is going to describe legal and economic specifics of duty free trade and the methods selected by the author to do research. The practicality of these particular methods for analysing the efficiency of a project for opening a duty free shop is going to be justified

Due to the results of analysis of macro-environmental factors (PEST), analysis of micro-environmental factors, value chain analysis and passenger interviews, in the Chapter 4 the author is going to present and analyse the results of the research carried out and to describe the position of a duty free shop in the general concept of the Koltsovo Airport. Would not be overlooked also shop design project, its product and brand policy, marketing strategy, organizational structure and basic approaches to its financial structure.

Based on the results provided in the previous section, Chapter 5 will draw a conclusion on whether passengers need a shop's services or not.

2 Company presentation

KAPO Duty Free is one of the largest companies in the market of free trade in Russia. The company was established in 1996 opening the first border-shop at Torfyanovka-Vaalimaa Russian-Finnish border.

Facts about KAPO Duty Free are:

- KAPO has over 300 employees employed in more than 11 sites in different places of the country.
- Over 2000 clients make purchases in the company's 15 shops daily.
- Range of goods in KAPO shops consists of more than 5.000 names.
- In 2013 the turnover of KAPO Duty Free exceeded 250 million US dollars.
- The forecast for 2014 is 400 million US dollars

KAPO Duty Free combines comprehensive experience of trading activity with good understanding of air terminal's business. Also one of the factors guaranteeing successful operation of the company is its perfectly-developed logistics system.

For more than a ten years' period of work the company has established an extensive branch network on the borders with Finland, Norway, China, Estonia, Ukraine and in the International sector of Koltsovo Airport in Yekaterinburg. (Figure 1) Among the immediate environment of a shop to be set up, the most important element is the Airport where the shop operates. For the moment, the Koltsovo International Airport (Yekaterinburg, Sverdlovsk Region) is the most rapidly developing regional airport in Russia. Koltsovo Airport is the fifth (after Moscow and St Petersburg airports) Russian airport by the number of passengers serviced. According to the Airport, 2,7 million passengers were in Koltsovo in 2010. The capacity of its terminal is 8.5 million passengers a year – hereinafter, unless otherwise specified, data on the state and development of the Airport is provided by its administration.

At the present time, flights via the Koltsovo Airport are operated by 38 leading Russian and foreign airlines, which directly connect Yekaterinburg with more than 100 cities. Among foreign carriers who perform direct flights to the Ural capital, German, Czech, Turkish, Chinese, Finnish and other airlines can be distinguished.

The Koltsovo Airport is a member of the Airports Council International (ACI) and of the "Airport Association of CIS civil aviation", which unites Russian and CIS (Commonwealth of Independent States) airports. Participating in operations of these organisations allows the Airport to be in the centre of all international affairs in the field of air passenger care, service and airfield economy.

The Koltsovo Airport became a winner of the "Airport of the Year" prize awarded by the Airports Council International. In 2000, the Koltsovo Airport was given a title "Best Airport of the Year in the CIS countries". In 2006 and 2011, the Koltsovo Airport was recognised as "The most dynamically developed airport in Russia and the CIS countries"; in 2011, "Promising Airport of Russia and the CIS countries".

In 2013, the Koltsovo International Airport passed certification for the compliance with the requirements of the international standard ISO 9001:2003. Koltsovo became the first airport in the territory of the Ural and Siberian Region that passed such certification. A ISO 9001:2000 Certificate confirms that the quality management system of the Koltsovo International Airport meets the requirements of the international standard as to provision of passenger, luggage, mail and cargo services during domestic and international air carriages.

An investment programme aimed at the development of the Koltsovo Airport Terminal has been implemented since 2005. The duty free shop with the total area of is a part of the programme.

KAPO Duty owns 14 shops in different regions of the country, including 3 international airports and, thanks to its advanced infrastructure, has good knowledge of the markets of Russia and the CIS. The company maintains good business background and is ready to assume together with G.Heinemann upon itself both moral and financial liability for concession of Duty Free in Koltsovo airport.



Figure 1 KAPO Duty Free shops

ZAO “KAPO DF” is an essential part of “Duty Free Holding International”

“Duty Free Holding International” consists of 8 Duty Free Companies which keep in possession Duty Free shops: “Duty Free Holding International” shops offer to the customer great variety of goods. Among them are such a famous perfumery and cosmetics brands as Lancôme, Chanel, Christian Dior, Givenchy, Estee Lauder, Giorgio Armani, Ralph Laurent, Calvin Klein, etc. Company offers a huge amount of famous alcohol brands of a perfect quality and origin, the most famous cigarettes brands , the cigars and the tobacco that are also in a whole stock at KAPO DF shops.

2.1 Company strategy

2.1.1 Pricing strategy

One of the reasons to establish a new Duty Free shop is to make the created environment and reputation of KAPO shops at the Airport Koltsovo more attractive for both Russian and foreign passengers, which will be facilitated by a sustainable price policy and centralised deliver system.

KAPO Duty Free company will continually adhere to the competitive price policy to meet customers' expectations. KAPO's prices are revised once a year subject to the then-current situation in the market. Therefore, KAPO keeps its prices stable for a customer and a less or during a year. Throughout a year, no price is increased, but regularly reduced for all product categories (particularly, through special offers).

KAPO Duty Free will carry out a comparative analysis of prices twice a year. The key goal of the KAPO Duty Free price policy is to maintain high competitive power, since company's prices largely contribute to creation of an image and perception of the relevant airports in both Russia and abroad. Speaking about the pricing policy of the company, alcohol prices in the Duty Free shop should be from 25 to 30 % less than at the internal market. Perfumery prices in the Duty Free shop should be from 15 to 20 % less than at the internal market. Price differences are determined by the import taxes, excise duties and valued added tax. Duty Free does not suffer from those, so the price is lower.

2.1.2 Customer service policy

Twice a year, in April and September, KAPO Duty Free together with the supplier hold training workshops to train sales assistants in working with customers, duly product displaying, and presenting new types of products. For 2 full working days, manufacturers' representatives train personnel in sales technique and familiarize them with new products. The total number of participants to the workshop is 70 persons.

For employees working at the shop, KAPO Duty Free organises courses of colloquial English, as well as special cashier courses, with qualification certificates awarded.

In case of a complaint made by a customer, a shift administrator takes the required actions. If the customer is dissatisfied with product quality, or if a breakage or faulty product appeared to be inside the package, the customer is offered either a replacement for a similar product or a cash register money refund. A check-out counter and a designated programme allows technically to remove the purchase from a cash register, but only using the key and the password of the administrator. At the end of a shift, the final receipt is endorsed with the number of refunds.

If a customer is dissatisfied, for whatever reason, with service at the shop, an administrator is obliged to accept oral or written complaints (a book of complaints must be in place), write down the customer's address and telephone and report to the branch director. Having clarified the situation, the branch director must respond on the essence of the complaint and tender apologies. KAPO's motto is "The customer is always right".

Disabled people will not be prevented from product selection. The shop area is open and structured, which allows even a disabled customer to know product categories. Wide passages between the rows, paths visually marked in the flooring, a special lighting system duplicating the floor pattern and additional signs will help find the right area and ensure the right choice of purchases.

All these factors make purchasing possible for a disabled person. Sales assistants will always be there to help.

2.1.3 Logistics and information technology

KAPO Duty Free has almost a 15-years' experience in retailing for travellers, in particular, as to an integral logistic system and comprehensive service support, which are the key factors of success. A logistics centre of KAPO's supplier in Hamburg will be the main support for well-established logistics for the shop at the Airport Koltsovo. The logistics centre is designed specifically for quick handling of both large and small orders and will allow to service a Koltsovo storage several time a month. With KAPO's integrated delivery chain, the company ensure the product availability while reducing its storage cost.

In accordance with the high customer service level set by us, we see the delivery chain from the perspective of the end user, thereby ensuring the availability of

required products at minimum effective costs. Product accounting systems of KAPO Duty Free serve for accurate and detailed control of individual product flow, as well as analysis and extrapolation of data. Replenishment of stock will be based on an actual and pre-estimated consumer demand. KAPO's cash terminals will be directly connected online with company's warehouse and product flow planning systems.

The company's operating procedures involve such stages as:

- Electronic system for pre-ordering products from the supplier;
- Beforehand receipt of accompanying documents for products delivered;
- Beforehand obtaining/renewal of quality certificates and hygiene certificates for products delivered;
- Product turnover accounting from the receipt until the sale to the end user;
- System for making customs freight declarations; effective as of January 2011, implementation of e-declaration;
- Acceptance of products to warehouses using mobile data gathering terminals;
- Various forms of reports on product movement for any period of time;

Such procedures allow to reduce the time of product movement from the supplier to the end customer to a minimum, to respond promptly to economic collapses and changes in law, i.e. to increase company's income and develop successfully.

2.1.4 Information technology, IT systems

For the purpose of product and financial accounting, KAPO use hi-tech computer and commercial equipment, Microsoft software and software of other world famous brands, 1C-Company and 1C-Accounting systems, Intel Pentium processor based cash registers, own certified cash register software, as well as software developed in Germany for KAPO's shops, which proved to be effective for many years up until now.

The use of mobile data gathering and processing terminals (scanners) considerably speeds up the process of accepting products to a warehouse, allows

to obtain almost exhaustive information about the products arrived with further uploading thereof into a database, facilitates necessary inventory checks at the warehouse and in sales area, provides an opportunity for the administrator to promptly prepare an order from the warehouse for the sales area.

The use of data from points of sale (POS is a computerised cash register terminal), in particular, regular transfer of product movement data, gives company an opportunity to standardize its order system and delivery chain logistics by way of balancing the product flow and demand as much as possible. As a result, given a minimum product stock at a warehouse, the company can promptly respond to changes in demand, which provides an obvious benefit.

Computer Assisted Ordering (CAO) software will be installed at the shops as part of KAPO's integrated IT system. It integrates product movement data (recorded by the POS system), specific features of customer demand, external factors that influence the demand (e.g. seasonal changes, rush days (holidays, exhibitions, etc.)), actual stock, receipts of products and an acceptable minimum level of product availability in stock. Based on these and forecasted data, the electronic ordering system will automatically generate an order. KAPO's IT system also provides the possibility to organise best container load, taking into account such parameters as weight, volume, number of articles per box, per pallet layer and per pallet—all these parameters are pre-set in KAPO's database.

CAO is important for cost effectiveness and efficiency of company's product replenishment cycle, since it facilitates the optimisation of replenishment based on accurate and reliable data on sales. It is a basic platform for KAPO's centralised purchasing system which is aimed at providing the right product to the right location in the right time in the right quantity and in the most effective manner.

Upon request, XML data can be transferred by the KAPO's IT system, and data about revenue can be gathered using boarding passes and provided to the lessor.

2.1.5 Organizational structure of the shop

The workflow will be organised in 4 shifts. Such a working order is conditioned by the need for around-the-clock service of the shop. As it was identified by analysing the Airport operations in the previous sections hereof, flights at the Airport are performed around-the-clock; therefore the shop also has to have the same schedule of work. It should be noted here that the night-time passenger traffic is not considerably less intense than the day-time one. All employees of the Ekaterinburg branch of ZAO Kapo Duty Free, who will be engaged in service rendering, are Russian citizens, except for representatives of Gebr. Heinemann

The company's organizational structure (Figure 4) more likely can be classified as line and staff one. However, it should be noted that it has some features of project or matrix structure, which will appear in the course of development of the shop. This is due to the fact that category-specific managers must be in a direct contact with sales assistants to ensure the superior customer service level at the shop.

The total number of new staff members of KAPO Duty Free is 36 persons. The employees will wear a company uniform (Figure 2)

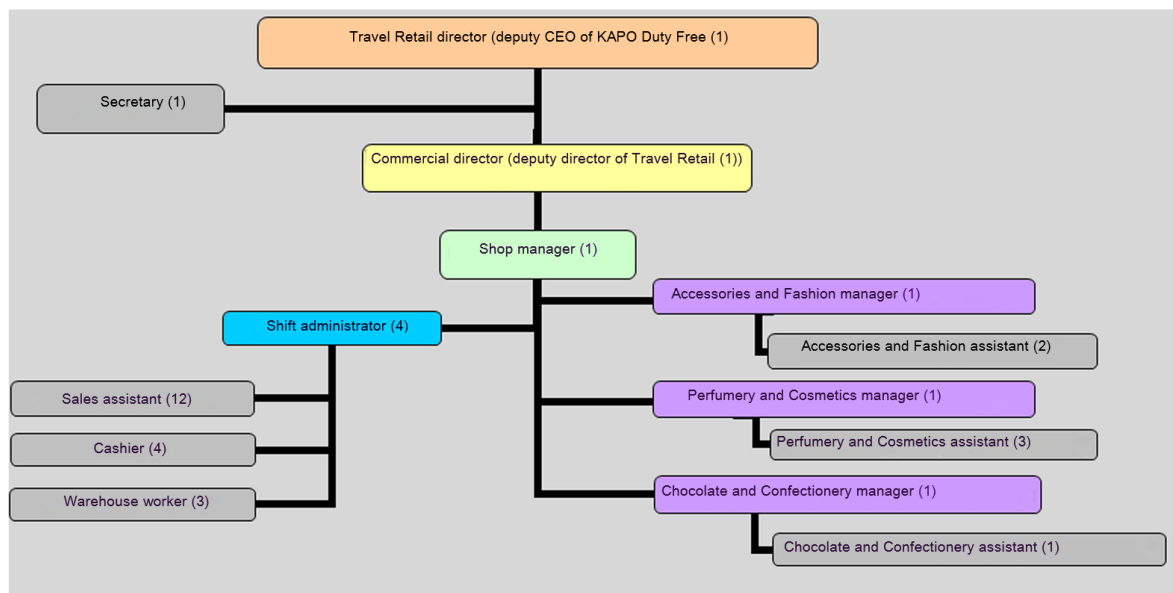


Figure 2 the structure of the shop. (Number of employees in brackets)

2.2 Project investigation specifics

KAPO Duty Free Company has already an existing Duty Free Shop warehouse in Yekaterinburg with alcohol, cigarettes, perfumery and confectionary in stock. Preorder sales via Internet take place in common. Goods are delivered directly before boarding in a strongbox. Already existing shop does fill the bill of the airport. At the beginning of the 2015 new tender for the purpose of opening a new Duty Free shop will take place. Trading area for the opening of a crew shop also is going to be presented for the tender.

KAPO Duty Free Company combined with its supplier and business partner – Gebr. Heinemann and Yekaterinburg Airport specialists had already started to prepare documents for the tender 2015. That means that passenger interview costs as a part of the investigation would be covered by the company supplier and would be presented in the Thesis.

Yekaterinburg International Airport was chosen as a place to build a second Duty Free shop because Yekaterinburg city, by inhabitants living in it, is number 4 city in Russia after Moscow and Saint Petersburg. Yekaterinburg city is so-called a transit “Hub” between Europe and Russia. All the connected flights between Europe and Asia take place in Yekaterinburg Airport.

The Airport rental fee is 40 percent from the DF shop sales according to the preliminary agreement.

All regular assortments such as alcohol, perfume, tobacco and confectionary products would be presented in the Duty Free shop.

The shop will need a license from Federal Service for Alcohol Market Regulation (the same as for internal market).

The warehouse of the Duty Free shop gets the Federal alcohol license for the period from 5 to 7 years (according to the practice) - it gives a right to the shop to buy and to keep goods. The warehouse should strictly follow the rules of the Federal Service for Alcohol Market Regulation not to lose the license.

The shop itself gets the activity patent from the local authorities if the condition of the trading area suits Fire and Sanitary norms. According to the rules, nobody can have their own buildings at the airport, but it is possible to build temporary constructions in the territory you rent.

3 Theoretical framework

3.1 Marketing research procedure

Strategic market research provides information required to launch a new project. It is appropriate to consider two basic project types as KAPO DF authorities declare:

- A fundamentally new project.
- A project similar to one already operating. The new project can be different in market location, target consumer audience, composition of partners, etc.

In either case, a marketing research should be a strategic basis for setting up a new company. For a project implemented by analogy, a company can use its consumer behavioural research experience and other information accumulated by it. Its primary goal here is to explore the new market and identify its specifics, i.e. its differences from that wherein the company currently operates (KAPO DF, 2014.).

Philip Kotler defines marketing research as a systematic design, collection, analysis, and reporting of data and findings relevant to a specific marketing situation facing the company (Kotler 1991, p.2.).

Marketing research findings enhance the adaptability of a firm to the market reality and consumer needs. Doing a market research allows not only mitigating entrepreneurial risks but also improving business performance.

The key stages of market research are (Marketing investigations):

- Identifying actual and potential market capacity. Market capacity analysis will help the company assess its chances in the market correctly and avoid undue risks and losses.
- Identifying company's own share in the market.

- Analysing demand. This analysis will give an evaluation of consumer loyalty to a product and the company, will help set competitive prices for products, introduce changes into the product itself, optimise promotion channels and advertising strategy, i.e. adjust all marketing mix components.
- Analysing competitors (supply). Knowledge of competitors' products and marketing policies is required for a better market orientation and to adjust an individual pricing and promotion policy.

3.2 Strategic marketing research methods and tools

Studying a company's business environment follows two main directions — studying market performance and studying a firm's actual and potential opportunities.

Immediate or market environment (microenvironment) are those elements of company's external environment which have a direct influence on it and which, in turn, can influence the company itself as well. Macro environment influences a company indirectly, and its actors are not intended to influence activities of particular firms. Companies themselves also do not have many opportunities to influence macro environment and, therefore, have to adapt to it (The strategy: thinking vs. planning.)

Hence, considering the company's macro environment separately from its microenvironment is primarily connected with different degrees of the company's dependence on them: a company studies its market environment to change and adapt it to itself, whereas it studies macro environment to adapt itself to it (The strategy: thinking vs. planning.)

In order to make a strategic diagnosis of external environment, the following approaches can be employed:

1. M. Porter's five competitive forces analysis, with the five competitive forces that determine industry profitability identified, i.e. studying immediate (market) environment (microenvironment);
2. PEST analysis – analysis designed to identify political, economic, social and technological aspects of external environment which can influence company's strategy, i.e. studying macro environment.

3. SWOT analysis.

According to M. Porter (Porter, 1979.) (Figure 3), the potential industry profitability is determined by five competitive forces because each of them directly influences individually or jointly, companies' expense and income levels. The entry of new competitors and substitute products results in intensification of rivalry, and, as a consequence, reduction of company's profitability. By bargaining, major suppliers and consumers make profit for themselves while reducing the same for the company. Strengthening the competitive position among other marketers also requires investments consisting in expenses for product promotion, advertising, marketing, extra R&D, which, in turn, may result in income minimization. (Figure 3)

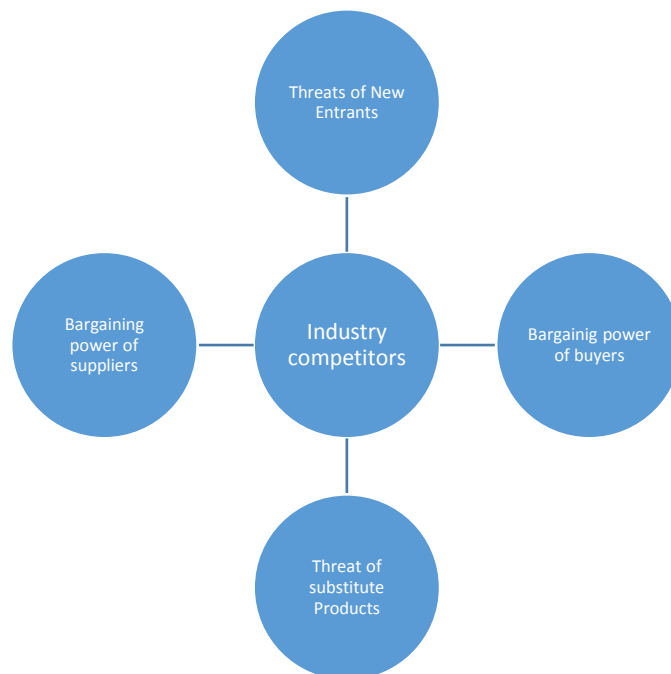


Figure 3. M.Porter's Five Competitive Forces Model (Korobeinikov, Kolesov, Trifilova, 2002).

A company's market share and amount of its profit depend on the efficiency of resistance to the five competitive forces. Subject to the existing situation in the industry, a company, according to M. Porter, can strengthen its competitive advantages by being the leader in cost reduction, differentiating products, focusing on a particular market segment or introducing a novelty into the market (Korobeinikov, Kolesov, Trifilova, 2002.).

PEST analysis (sometimes designated as STEP) is a marketing tool designated for identifying Political, Economic, Social and Technological aspects of external environment, which influence the company's business (Figure 4).

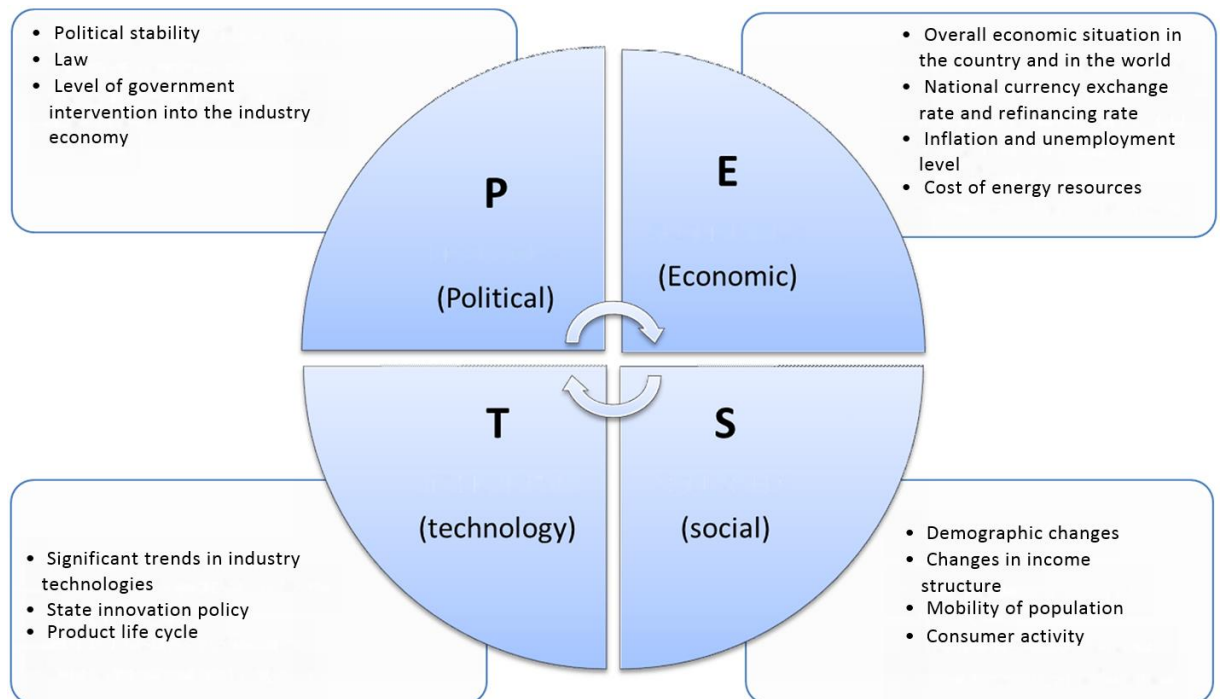


Figure 4. PEST analyses (Korobeinikov, Kolesov, Trifilova, 2002)

The components of PEST analysis can be considered as follows:

- Political aspect – primarily relates to state regulation of activities of a private business company.
- Analysis of economic aspect allows, to understand, how basic economic resources are formed and allocated at the state level.
- Social aspect is largely connected with formation of consumer preferences of the population, determining a potential demand for a company product in a strategic perspective.
- Technological aspect is also considerably important since any company is threatened by a loss of its product due to displacement thereof by more technologically advanced one. (Strategic behaviour: from development to implementation.)

PEST / STEP analysis allows to assess the current company's (project's) market position and prospects for its change, provides information required to analyse

risks, design a risk management programme, design a product or service development programme and justify commercial success (Korobeinikov, Kolesov, Trifilova, 2002.).

Though the PEST analysis method is rather common, there is no any uniform form for reporting research findings. A possible option can be as follows (Table 1) (PEST analyze):

EXTERNAL ENVIRONMENT FACTORS	Relative importance of factor influence				INFLUENCE ON COMPANY STRATEGY
	in time*	By type**	by dynamics***	Relative importance of factor****	
P Political					
E Economic					
S Social					
T Technological					

Table 1. PEST Table comparative (PEST analyze, 2009)

Table includes:

External environment factors, such as: Political, Economic, Social and Technological

Relative importance of factor influence, which should be filled with the abbreviation N, F, N/F and I, while speaking about time influence of the external environment factors. More detailed explanation is below:

*) - influences at the present time and is likely to cease to influence (within 6 to 12 months.) N

- influences now and will continue influencing (for over 6 to 12 months.)

N\F

- does not influence now, but will be of importance in the future (after 6 to 12 months.) F

- has a short-term influence I

Relative importance of factor influence, which should be filled with the symbols + or -, while speaking about the influence by the type of the external environment factors. More detailed explanation is below:

- **) - has a positive influence +
- has a negative influence -

Relative importance of factor influence, which should be filled with the symbols >, =, <, while speaking about the dynamics of the external environment factors. More detailed explanation is below:

- ***) - influences and increases its influence >
- influences with a constant importance =
- influences but diminishes its influence <

Relative importance of factor influence, which should be filled with the meanings of CRITICAL, VERY IMPORTANT, IMPORTANT, MINOR, UNIMPORTANT, while speaking about relative importance of factor. More detailed explanation is below:

- ****) - CRITICAL: factors that either threaten the company's existence or require a major revision of company's mission and objectives

The table helps to understand the influence of external environment factors on company strategy:

- VERY IMPORTANT: factors that are the most likely to cause changes in company's activities, its operational structure, external relations, rules and policies (personnel, legal status, ownership), but without changing company's objectives and mission

- IMPORTANT: factors that entail some (limited) changes in company's activities and structure

- MINOR: factors that influence company's activities, but without changing considerably its organizational structure

- UNIMPORTANT: factors that do not have a considerable influence on the company

All what is mentioned above should be done with taking into account factors that have an *influence on company strategy* at the very beginning when filling in the table. More detailed analyses could be found in Chapter 2.4.

When considering the company's external environment, its current state is primarily analysed, based on which it is appropriate to forecast its development. Forecast is a justified judgement about the possible state of an item in the future or about alternative ways and time to attain such states. Forecasting is the process of making a forecast. A forecasting stage is a part of a process of making forecasts, which is characterised by its own goals, methods and results. Division into stages is connected with the specifics of making a systematic description of the forecasting object, data gathering, as well as with model building and forecast verification (Carlberg C., 2013.). Therefore, it should be stressed that a company is primarily interested not in the past of its environment, but in the future, which analysts try to foresee by reviewing the past trends. Statistical and expert methods can be used to make forecasts. (Behrenes W., Hawranek P.M, 1991)

3.3 Using the forecasting method to justify the planned indicator of economic effect of the project implementation

Forecasting is a strategy used in different fields to predict the future based upon the past. This strategy is pulled from different data sources to provide a financial expert or entrepreneur with the needed information to run a business or invest more effectively and successfully (Forecasting methods, 2009.)

A forecasting method using a series of questionnaires and expert opinions is referred to as the Delphi Method. In the 1960s, a group of experts were gathered and given questionnaires to answer. These were collected and the results put together to create a second questionnaire. The experts continued to receive these compiled questionnaires until the forecasting predictions were narrowed down to only a few options. Today, this method of questioning and requisitioning is still used a method of forecasting. (Forecasting methods, 2009.)

Therefore, it seems appropriate to forecast development of the Airport, a part of which is the duty free shop being set up.

The most important indicator whereupon forecast data about potential demand for services of the shop to be opened may be based on the passenger traffic indicator.

Forecasting is carried out by the method of extrapolating past values of the indicator to the future taking into account data concerning the overall trends in development of both Russian and global economy.

Due to the fact that the results of the Airport's past years' operations were considerably affected by the world economic crisis, which started in 2008, when making a prediction estimate, it must be borne in mind which fluctuations of the indicators of development of the Airport were caused directly by the crisis.

4. Empirical finding

4.1 Using the method of survey of potential buyers

To survey passengers, Ivan Korotkov, ZAO Kapo Duty Free together with its German partner and Airport specialists had made interview with Airport passengers in June - July 2014. The research objectives included:

- 1) Making a socio-demographic portrait of Airport passengers/visitors.
- 2) Studying passengers' flight patterns (flight purpose, geography, air carrier, etc.).
- 3) Identifying the level of satisfaction with Airport services and identifying unsatisfied passengers'/visitors' needs.
- 4) Analysing the demand for and experience in purchasing at the duty free shop.

A face-to-face interview was carried out in different halls of the Airport, lasting for 5 to 15 minutes.

The interview was made using a POS (Point-of-sale) survey - a survey given to a paying customer in-store, i.e. in such a case, in the Airport itself, seems most appropriate. The distinctive features of this method are high speed and relatively low cost of survey. Besides, all other methods of survey in such a case are inefficient, since purchases at a duty free shop can only be made by passengers of the Airport, and people will not become passengers only for such purchases. One of the main weaknesses of such survey—limited duration of interviewing—is

insignificant in the given case, since passengers can be surveyed within the period of waiting their flights, as they are, as a rule, not busy in that time. Questions were:

- *Could you tell how much money did you spend for purchases at the Duty Free shop?*
- *Why did you purchase at the Duty free shop?*
- *Who made purchases at the Duty Free shop? (The question of gender).*
- *Why did not you purchase anything at the Duty Free shop, although you come to it?*
- *Why did not you come in and purchase anything at the Duty Free shop?*
- *What do you like and what don't you like about the duty free shop at the Kolcovo Airport?*
- *What do you like specifically about the Duty Free shop at this Airport?*
- *What didn't you like specifically about at the Duty Free shop of this Airport?*

In order to increase the objectiveness of the research, it was decided to survey not more than 15 persons from the same flight.

There are 5 points of survey identified in total: international and domestic flight departures halls, a VIP terminal, international and domestic flight arrivals halls and a common hall at the international and domestic flights terminal.

Due to the fact that shop's target audience consists of passengers aged 18 to 65, the sample is limited by these criteria.

4.2 SWOT analyse

To understand advantages and disadvantages of the project, the investigation could not be done without a SWOT analyses (Figure 5). SWOT includes the four main features of Strengths, Weaknesses, Opportunities and Threats.

Strength of opening the Duty Free shop in Yekaterinburg is the fact, that KAPO is a well-known Duty Free company in Europe and Russia. More than that, KAPO has a good logistics supply chain, provided by its partner – Gebr. Heinemann. During 25 years of operating, the KAPO Duty Free Company had got a good reputation in International Duty Free market.

One of the Weaknesses of opening the Duty Free shop in Yekaterinburg is that Yekaterinburg department (Sverdlovsk region) is too far from the central office team (Leningradskaya district) – 2400 kilometers. The company could also face difficulties in finding specialists with the experience in working at a Duty Free market in Sverdlovsk region. The problem that should be solved beforehand is a lack of foreign languages skills among shops assistants in the future, so in this case there might be a need of extra language courses

Speaking about Opportunities for opening the Duty Free shop in Yekaterinburg, the fact should be mentioned that as far as Yekaterinburg is a so-called hub between Asia and Europe, the shop itself could be “the path” to the Asian region in the future for the KAPO Duty Free Company. It is usual to say that having such a Duty Free shop in International Airport of Yekaterinburg will be a prestigious one for the company while mentioning the opportunities. Opening the Duty Free shop will also provide attractiveness for the new brands and products to the Duty Free market.

Taking into consideration threats of opening the Duty Free shop in Yekaterinburg, one of them could be a goods delivery delay. One more could be disadvantageous terms of the agreement (such as high rental price for example). Threats of new Duty Free operators coming to the market and the airport particularly is also one of the possible threats of opening the Duty Free shop in Yekaterinburg (Figure 5).



Figure5. SWOT analyses of KAPO Duty Free

4.3 Legal and economic specifics of operations of duty free shops

By using the PEST analysis form given in the Chapter 3, the following data may be obtained for the shop being set up (Table 2):

EXTERNAL ENVIRONMENT FACTORS	Relative importance of factor influence				INFLUENCE ON COMPANY STRATEGY
	in time*	By type**	by dynamics***	Relative importance of factor ****	
P Political					
International relations of Russia	NF	+	>	CRITICAL	Increased tourist flow to and from Russia
Constancy of customs law Russia	NF	-	=	IMPORTANT	Maintaining special conditions of operations of duty free shops
E Economic					
End of the global financial crisis	N	+	>	IMPORTANT	Post-crisis increased purchasing power of passengers and raised passenger traffic
Dynamics of the RUB to EUR rate	NF	-	=	SIGNIFICANT	Negative effect of rise in the RUB to EUR rate on company's competitive power
Growth of unemployment in Russia	I	+	<	UNIMPORTANT	Possibility to save on salaries
S Social					
Demographic changes	F		=	UNIMPORTANT	Social factors influence company's activities with an extensive delay
Other social factors	F		=	UNIMPORTANT	
T Technological					
Emergence of new technologies in making sales booths.	NF	+	=	UNIMPORTANT	Possibility to make a shop more attractive for Airport passengers
Improvement of cash-register and settlement equipment					

Table 2. Pest table comparative (Dekanblog, 2009)

Explanation of the table is below:

Political factors

International relations of Russia is a critical factor for the case of opening the Duty Free shop, because, more the passenger flow is, more potential buyers at the shop are. It influences now and will continue influencing and it will increase influencing, because of the fact that passenger flow increases at the moment and will be increasing, according to the Custom Service Officials database (see page 30, table 2). Of course it has a positive influence for the Duty Free shop.

Constancy of customs law in Russia is an important factor, because it maintains special conditions of duty free shops operations (see pages 29-30). It influences with a constant importance but has a negative influence because of its constancy.

Economic factors

The end of the global financial crisis is an important factor, because post-crisis increased purchasing power of passengers and raised passenger traffic. It influences at the present time and is likely to cease to influence. It has a positive influence and increases its influence.

Dynamics of the RUB to EUR rate is a significant factor, because the rise in the RUB to EUR rate has negative effect on company's competitive power. It has a negative influence. It influences now with a constant importance and will continue influencing.

Growth of unemployment in Russia is unimportant factor – the only influence could be that the company will have possibility to save on salaries and not to increase it. It has a positive short-term influence and it influences but diminishes its influence.

Social factors

Demographic changes and other social factors are unimportant factors, because social factors influence company's activities with an extensive delay. It influences with a constant importance and it does not influence now, but will be of importance in the future.

Technological factors

Emergence of new technologies in making sales booths as well as improvement of cash-register and settlement equipment is an unimportant factors, but it can be a possibility to make a shop more attractive for Airport passengers. It influences now with a constant importance and will continue influencing, and it has a positive influence.

The element of PEST analysis that is most important for consideration in this paper is 'Political' (taking into consideration the Duty Free business) sector; therefore, it seems appropriate to pay special attention to it. This is connected with the specifics of operations of duty free shops, which largely conditions the advantages of this project. In this regard, let's consider the legal framework of activities of duty free shops more precisely.

Legal (in the context of law) and economic specifics of operations of duty free shops are governed by the Customs Code of the Russian Federation ("CC RF") and the Customs Code of the Customs Union ("CC CU") enacted in 2010. Hence, Article 202 of CC CU specifies, among seventeen types of customs procedures, a procedure called 'duty free trade'. Chapter 41 of CC CU, entitled 'Customs Procedure of Duty Free Trade', contains a definition and clarifies the content of the customs procedure of duty free trade — "...is a customs procedure when products are sold by retail at the duty free shops to individuals, departing from the customs territory of the Customs Union, or to foreign diplomatic missions, representations of international organisations equated therewith, consular institutions, as well as diplomatic agents, consular officers and their family members living together with them, without being charged customs duties, taxes and without applying non-tariff regulation measures."

Customs procedure of duty free trade may be applied to any products, except for those prohibited for importing to the customs territory of the Customs Union, as well as those prohibited for circulating in the members states of the Customs Union.

A declarer of products to be placed under the customs procedure of duty free trade can only be the owner of a duty free shop, where such products will be sold. Products are placed under this procedure by submitting a customs declaration. The customs procedure of duty free trade ends when the products placed under this customs procedure are sold by retail at the duty free shops to the public or

when the products are placed under another customs procedure. (“CC CU” A.202, Ch.41, Russian Custom Law.)

A Russian legal entity can only be the owner of a duty free shop. There are specific requirements for arrangement and equipment of a duty free shop:

1. Facilities of duty free shops may include sales area, back rooms and storages. Such facilities should be equipped so that to ensure sales exclusively in sales areas of the duty free shop, as well as to safeguard the products and ensure the possibility of customs control to be held in their respect.
2. The federal ministry authorised in customs affairs sets mandatory requirements to arrangement of storages in a duty free shop.
3. Shop’s sales areas should be located so that to exclude the possibility of leaving products purchased at the duty free shop on the customs territory of the Russian Federation, in particular by way of transferring them to individuals staying in that territory.
4. Duty free shop facilities are customs control zones.

Duty free shops are set up in accordance with the procedure for setting a treatment at Russian Federation State border entry points provided that there are registration documents or permits in place for retail trade in the products, if the liability to obtain the same is provided for under the laws of the Russian Federation or local government regulations. As is evident from the foregoing, one of the main conditions is locating shops in a frontier zone, after passing passport control, which provides for the requirement to coordinate their opening with border authorities and customs services, as well as with administration of checkpoints and customs clearance points. Therefore, purchases are only available to passengers who passed passport control in the departure area of the International Airport Terminal. (Russian Custom Law)

It should be emphasised specifically that an important competitive advantage of duty free shops is the exemption from the import duty, value added tax and other taxes imposed upon movement of products across the customs border of the Russian Federation, as well as from economic prohibitions and restrictions

established under the laws of the Russian Federation concerning the state regulation of foreign trade activities, such as licensing and setting quotas, e.g. special duties, etc. However, no exemption from economic prohibitions and restrictions exclude the liability to comply with other prohibitions and restrictions. Thus, as products are sold at the duty free shops located in the territory of the Russian Federation, and they are purchased by Russian nationals, the provisions of the laws of the Russian Federation which prescribe mandatory confirmation of conformity of products to the established technical standards and requirements, in particular certification, apply to such products. The conditionality of the exemption from customs duties and taxes is determined by the established restrictions for the use and disposal of products placed under the customs treatment of duty free trade — retail sale directly at shops (no wholesale trade is allowed) with subsequent export from the customs territory of the Russian Federation. This implies the basic restriction of duty free trade —products placed under this customs treatment should not enter the country's domestic circulation, which is expressly provided in requirements to equipment and arrangement of duty free shops. In order to control the compliance with the said restrictions, special marking of excisable products with "only duty free" stickers was introduced.

It should be noted that one of the most important conditions of placing products under a customs treatment of duty free trade is providing a security for payment of customs dues in any of the following ways:

- pledge over the product or other property
- bank bond
- cash deposit
- guarantee

Unless a confirmation of security for payment of customs dues has been provided, no product may be delivered or declared under the duty free trade treatment. The amount of payment is calculated for duty free shops as a 1/12 of the amount of taxes and duties which could have been paid, if the products would have been delivered to the country's domestic market. However, this type of charges applies only to shops which operate in the duty free market for more than a year. For newly opened shops, a security for each particular delivery within the first year of

operation must be provide, i.e. a conditional amount of import duties and value added tax is charged upon each delivery.

4.4 Analysing the dynamics of the development of the Ekaterinburg Koltsovo Airport as a proposed location of the shop

Pursuant to the strategy for the development of the Koltsovo Airport, the following is planned for the nearest future ¹:

- To complete reconstruction of the airfield complex. As part of the project for reconstruction of the Terminal, the Koltsovo Airport plans to implement the Fluid design concept, which supposes a harmony of flowing lines of points of sale and catering points to ensure the perception of the Terminal as a whole common comfort zone for passengers. Designer solutions for the organisation of a common area within the sterile zone as part of the Fluid concept provide for the use of visually marked paths. in the flooring system to direct passenger flows along all sales areas. Throughout the way, waiting areas will be located, thereby forming comfort zones. Furthermore, rounded suspended ceiling structures and special lighting system will be used in common areas to duplicate the floor pattern. This will allow to percept the Airport as a comfort area creating an illusion of the magnitude of a man within the surroundings. Having passed the registration and inspection areas, a passenger flow will come into the sterile area. On the second floor, there was the shop (Travel Retail Shop) right at the entrance, which is expected to be opened by ZAO Kapo Duty Free. In Q2 2011 reconstruction of the internal and international terminal is completed, which allowed to double the total area of the terminals. During the reconstruction, the international terminal that was closed until recently was merged with the existing domestic terminal.
- To revise the passenger service technology — the number of check-in counters to be increased; the inspection area will be moved to the 1st floor, passenger flows will be redirected. Great attention is given to the concept of locating sales areas and interior design in a united sterile area. A technological and designer concept is developed by leading German

¹ Hereinafter, unless otherwise specified, data on the state and development of the Airport is provided by its Administration

consultants from the Hochtief Airport and Arnogroup, who have a vast experience in designing international airports.

- To take actions to design an air route network and attract new airlines, as well as actions to develop freight carriages, including construction of a large-scale logistics centre, which will allow to optimise the process of delivery to our shops. The actions taken in the Airport will enable to make a quantum leap in development in a short time, to create a high-efficiency transport infrastructure that meets all international requirements. Accordingly, an increase in passenger traffic at international flights of the Airport may be expected.

Further to the discussion of the development of the Airport, quantitative forecast indicators can be given. Table 3 shows the total monthly passenger traffic from January 2008 to December 2013, which is regularly evaluated by Airport employees. (Table 3)

Month	2008	2009	2010	2011	2012	2013
January	82,455	91,414	126,797	159,377	134,035	166,424
February	78,214	92,249	116,873	152,689	119,429	154,766
March	90,277	107,596	136,993	169,719	134,766	179,058
April	106,076	122,163	160,155	187,700	147,347	191,673
May	119,938	130,794	179,497	213,990	171,196	229,924
June	162,278	177,602	242,249	273,783	208,068	262,667
July	193,636	204,727	282,409	292,376	237,104	303,306
August	206,012	222,622	301,356	308,327	247,138	312,434
September	168,381	191,227	252,240	248,108	219,640	273,776
October	129,433	148,125	193,604	195,091	193,777	229,651
November	114,804	133,251	177,253	166,210	174,503	202,900
December	115,288	143,178	175,671	162,025	182,133	205,670
Total	<u>1,566,792</u>	<u>1,764,948</u>	<u>2,345,097</u>	<u>2,529,395</u>	<u>2,169,136</u>	<u>2,712,249</u>

Table 3 - Passenger traffic dynamics at the Koltsovo Airport from January 2008 to December 2013 (data collected by Russian Custom Service Officials)

The same figures are given in Figure 6 for illustration purposes. As seen from the data provided, positive dynamics of the indicator of passenger traffic at the Airport could be observed during the period under review. An exception was 2012, wherein passenger traffic decreased not only against the previous year, but also against 2010. As was said above, this phenomenon is a consequence of the global economic crisis (budget shortfall of 2012 and rouble devaluation of 2012) which should be taken into account when extrapolating the data available. The graph clearly denotes the influence of seasonality on services provided by the Airport: most flights are taken in summer, with least flights taken in winter.

In addition to seasonality, administration of the shop to be opened has to consider the distribution of the number of flights during a day. Analysis of this information will allow taking a more justified decision as to hours of operation of the shop, and plan shop's income more precisely. This information is shown in Figure 6.

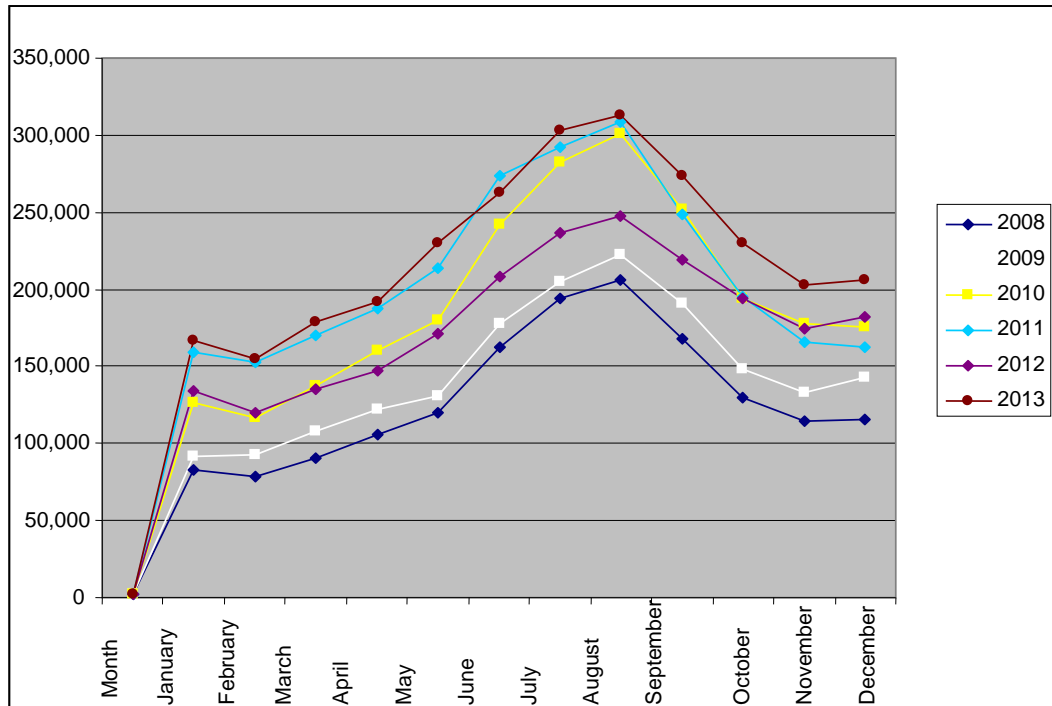


Figure 6. Passenger traffic dynamics at the Koltsovo Airport from January 2008 to December 2013 (data collected by Russian Custom Service Officials)

For the same purpose of increasing the effectiveness of planning shop's hours of operation and revenue plan, it is necessary to consider the dynamics of Airport workload within a week (Figure 7 and Figure 8). The data in Figures 7 and 8 shows that the most loaded days are Mondays in early morning (06.00 to 07.00 a.m.) and evening (06:00 p.m.) hours.

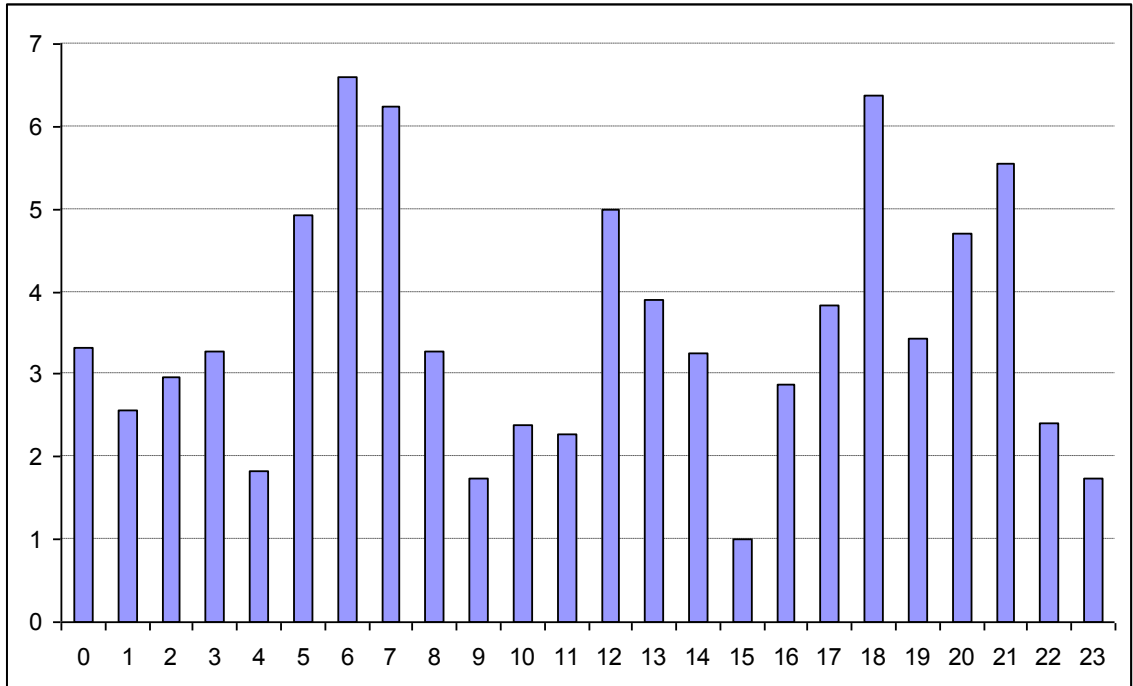


Figure 7. Hourly flight operation dynamics at the Koltsovo Airport. (from 0 to 7 – number of days in the week, starting from Monday to Sunday, from 0 to 23 – working hours), data collected by Russian Custom Service Officials

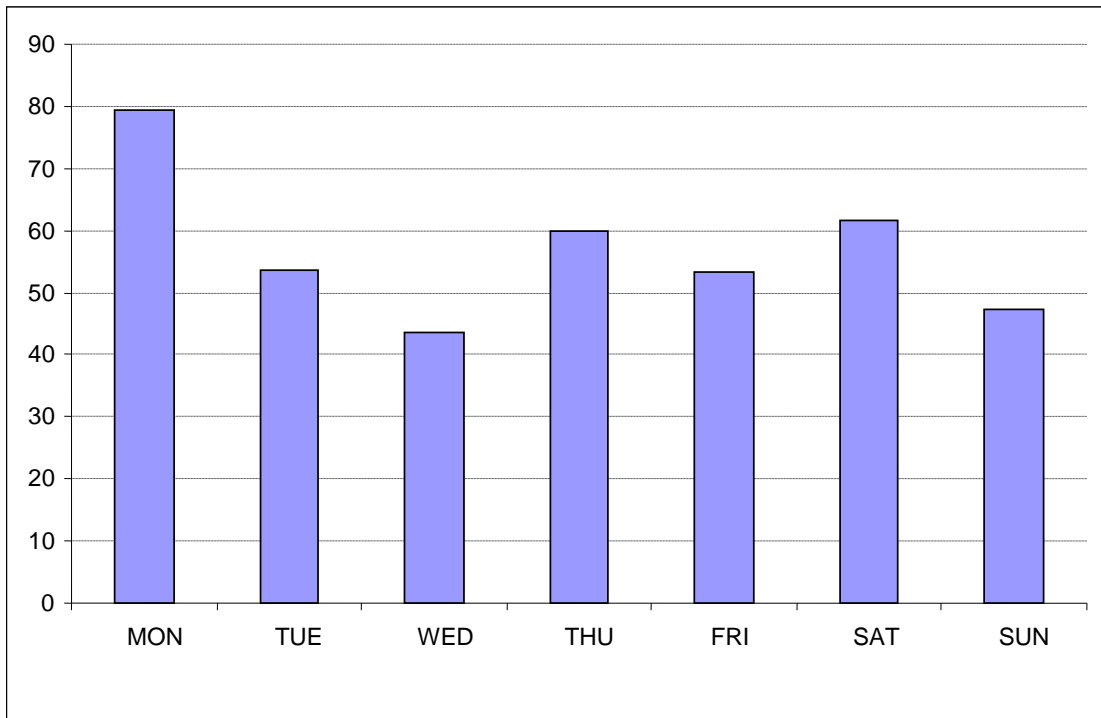


Figure 8. Daily flight operation dynamics at the Koltsovo Airport. (from 0 to 90 – number of flights), data collected by Russian Custom Service Officials

Based on the data analysed and using the extrapolation method, Airport employees obtained forecast data about further increase in passenger traffic at the Airport. According to their estimates, the expected passenger traffic will nearly reach 4 million passengers in 2015. An average increase in passenger traffic at the Airport for the last 6 years was about 30%, and is expected to grow up in the near term.

4.4.1 A portrait of a potential buyer

During the research 1,537 persons was interviewed, among which 1,335 were departing and arriving passengers at internal and international flights, and 202 were welcomers and seers-off. The survey was carried out among men and women aged 18 to 65 with average and above the average income level. Average age of passengers is 39 years old (Figure 9).

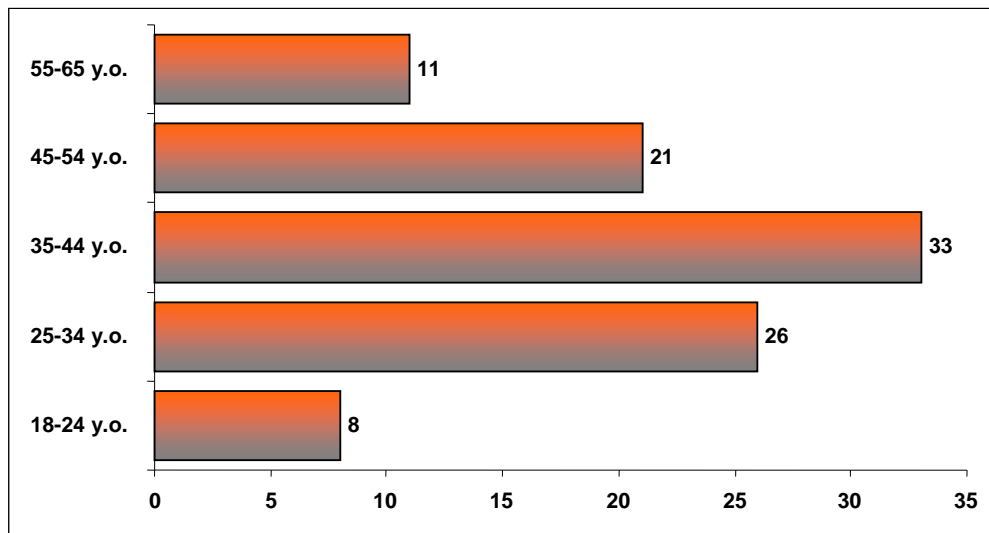


Figure 9. Age-wise passenger structure (made by Gebr. Heinemann authorities)

As seen from Figure 9, the number of men and women interviewed in the research was much the same.

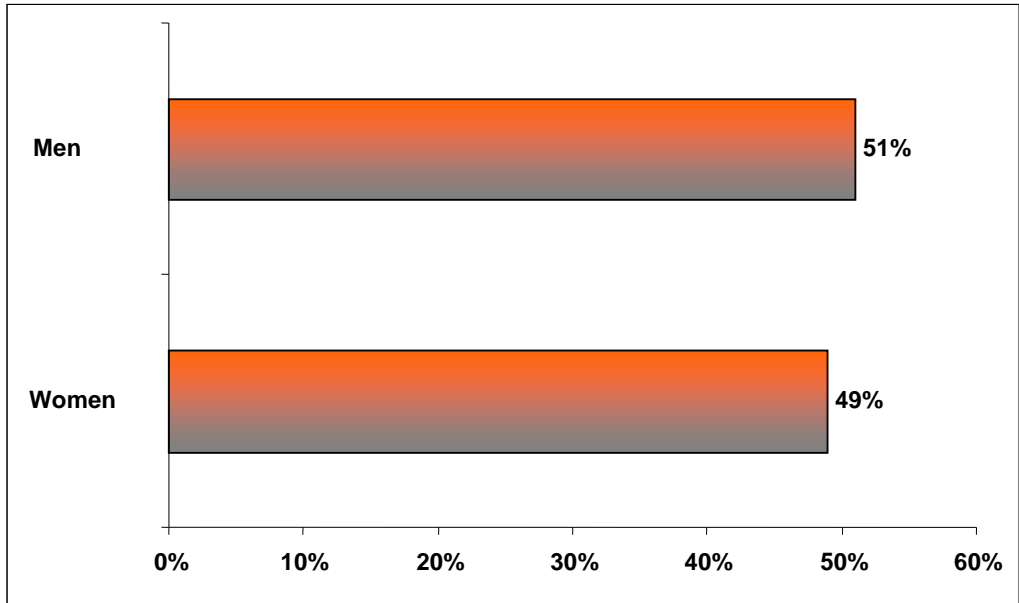


Figure 10. Gender based passenger structure (made by Gebr. Heinemann authorities)

Social characteristics of passengers are shown in Figure 10. It can be seen that most respondents attribute themselves to the Manager category, with the number of office workers being considerable as well.

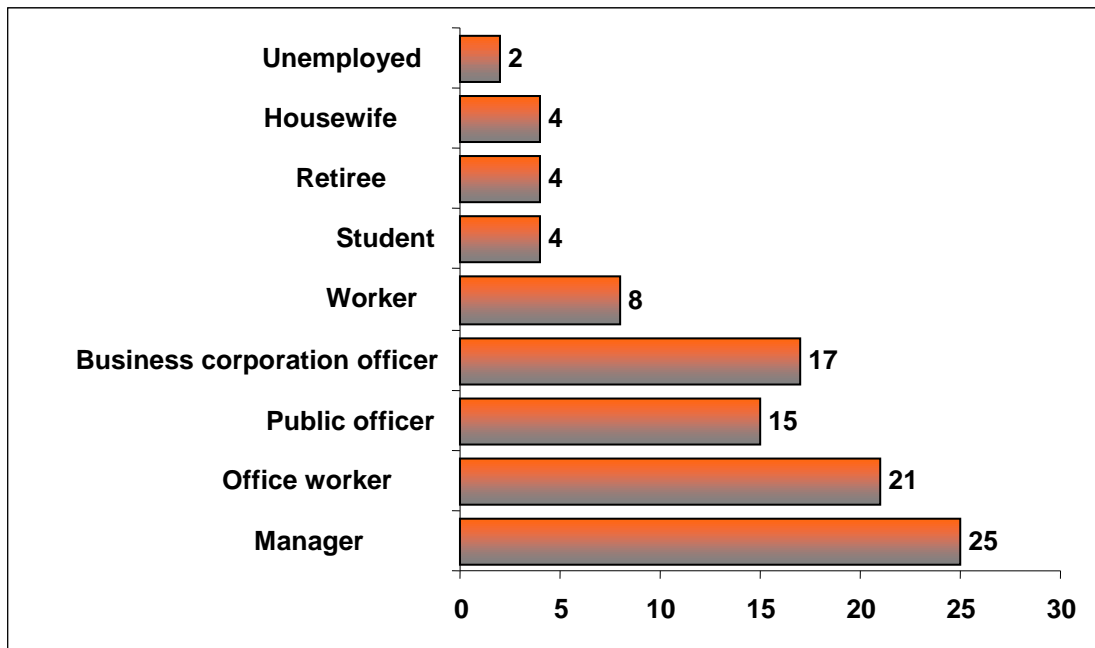


Figure 11. Social passenger structure (made by Gebr. Heinemann authorities)

Most respondents travel for business purposes – 62% (Figure 11).

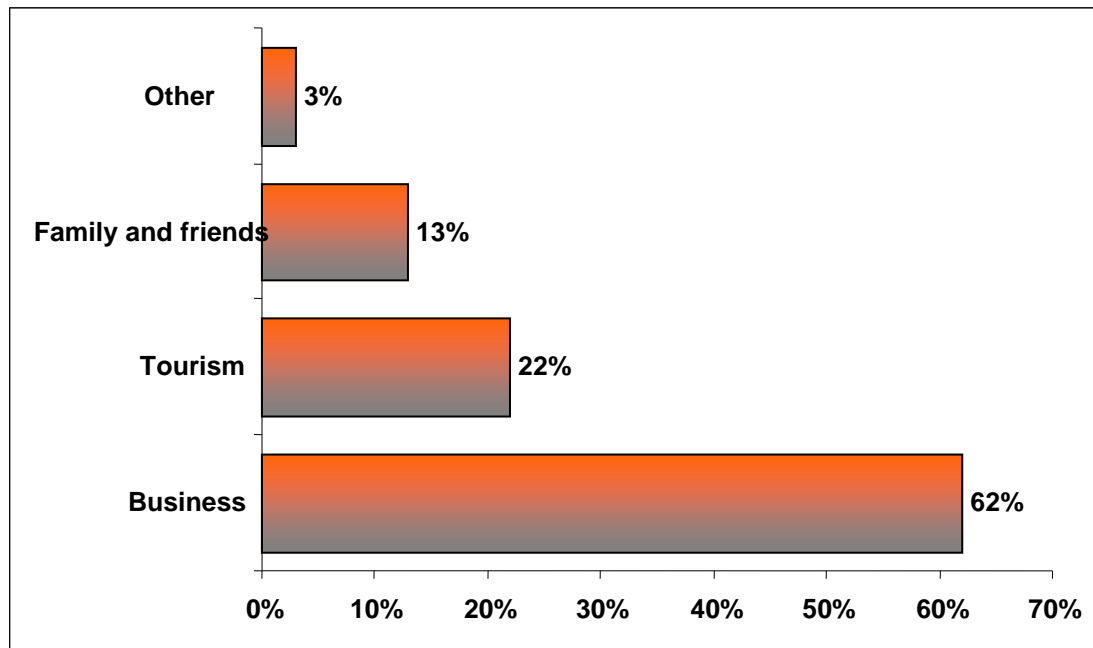


Figure 12. Passenger structure by purpose of travel (made by Gebr. Heinemann authorities)

Therefore a portrait of a potential buyer of the shop to be opened may be drawn. They are men (51%) and women (49%) aged 25 to 34 (26%), with 33% of them being passengers aged 35 to 44. A relatively high percent (11%) are people aged 55 to 65.

In terms of a social status, 25% are company managers, followed by office workers, business corporation officers and public officers.

4.4.2 Flight patterns

These data allow making a conclusion that the primary purpose of travel of the said passengers is a business trip, which is also confirmed by the graph. A relatively high percent are passengers travelling for tourism purposes (22%). Respondent passengers from international flights travel by air 3 times a year on average. Respondent passengers from domestic flights travel by air less frequently— about 2 times a year. The structure of international flights is as follows: about a half of international flights are performed to the Asian countries (primarily, Turkey); about 20% of passengers travel to the CIS countries (primarily,

Tajikistan); much the same percent of passengers travel to Europe. More than 40% of domestic flights are performed to Moscow. Every fifth or sixth passenger travels to Sochi. Over 5% of respondent passengers travel to such cities as St Petersburg, Krasnodar, and Anapa. Passengers also come to Ekaterinburg from such cities as Norilsk and Khabarovsk. About 10% of passengers have to take transit flights via another city (primarily, Moscow). Most of them take a transfer flight to travel to another Russian city, and every fourth passenger, to travel abroad thereafter. Over half respondents travelled abroad at least once a year. Most flights were taken by them to the Asian and European countries. About 10% of respondents travelled to Egypt. Almost 70% of respondent passengers travelled to Russian cities during a year. They travelled primarily to Moscow and St Petersburg. A duty free shop is a popular service among passengers departing by international flights. About 30% of passengers going abroad make purchases at a duty free shop. For details see Figure 12.

4.4.3 Demand

What are in the highest demand at the duty free shop are strong alcoholic beverages, which are more often purchased by men. Popular product types also include confectionery, soft drinks, wine, beer and perfumery.

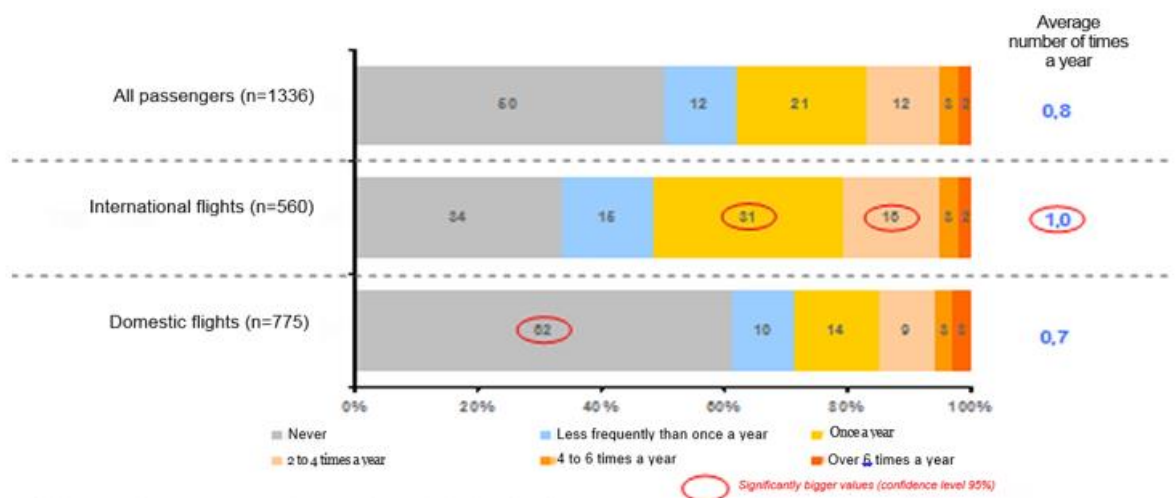


Figure 13. Frequency of purchases at Duty free shop Sample: departing and arriving passengers.

To understand the table above the reader should look some calculations in the table below. The main idea in this chapter is to understand (or to calculate) the

average number of times a year, while speaking about the frequency of purchases at Duty Free. As an example in the table below, International flights passenger's information was taken. The reader should understand that at this point forecasting method was used and the results are preliminary.

The author of the article asked the question "How many times a year do you fly?" to 101 International flights respondents and they answered differently. Thirty-four respondents answered that they never flew before - it means that their flight frequency a year is 0. Sixteen respondents answered that they fly less than once a year - it means that their flight frequency a year is 0.5. 31 respondents answered that they fly once a year – it means that their flight frequency is 1. 15 respondents answered that they fly from 2 to 4 times a year – it means that their flight frequency is 3. 3 respondents answered that they fly from 4 to 6 times a year – it means that their flight frequency is about 5 times a year. Finally, 2 respondents answered that they fly over six times a year, but the author of the article decided to mark their flight frequency as 6 to make it unprejudiced.

To calculate the average number of times a year, while speaking about the frequency of purchases in a Duty Free shop, the author of the article decided to use a formula, which is as following – Number of respondents at each frequency group (six all in all, such as: "Never", "2 to 4 times a year", "Less frequently than once a year", "4 to 6 times a year", "Once a year", "Over six times a year") multiplied on numbers a year (never – 0, less than once a year – 0.5, once a year – 1, from 2 to 4 times a year – 3, from 4 to 6 times a year – 5, over six times a year – 6) and divided to the total amount of the respondents which was 101 all in all. After all the results (or the final meaning) of the calculation of each so-called "frequency group" were added together. (Table 4)

International flights (number people)	Flight frequency (according to a questionnaire) approx. a year	Average number of times a year. (International flights number of people * approx. flight frequency a year/total number of people)
34	Never = 0	= (34*0/101=0)+
16	Less frequently than once a year = 0.5	= (16 * 0.5/101=0,07=0,1)+
31	Once a year = 1	= (31*1/101=0,3)+
15	2 to 4 times a year = 3	= (15*3/101=0,4)+
3	4 to 6 times a year = 5	= (3*5/101=0,1)+
2	Over six times a year = 6	= (2*6/101=0,1) =
Total number = 101		Total number = 1

Table 4. Calculation example (based on International flights).

Passengers usually purchase more products than they planned initially. An exception is perfumery, some shoppers refuse to purchase is.

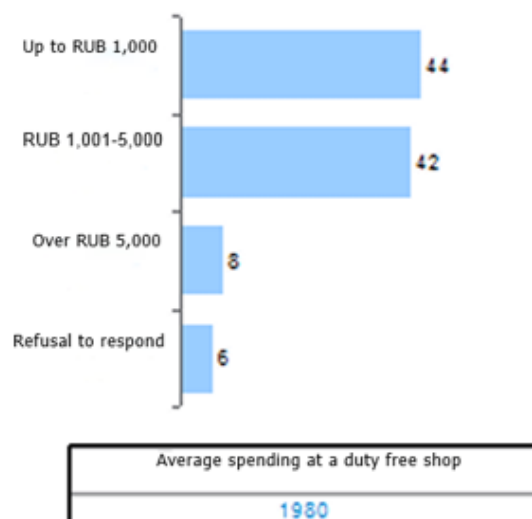


Figure 14. Expenses for purchases at a duty free shop.

With the help of Gebr. Heinemann authorities 1980 respondents were interviewed and the question was “Could you tell how much money did you spend for purchases at the Duty Free shop?” The results are as following: about RUB 2,000 is spent for purchases on average. About 45% of buyers make up to RUB 1,000 purchases and almost the same percent of buyers spend from RUB 1,000 to RUB 5,000. Over RUB 5,000 is spent max. 10% of visitors.

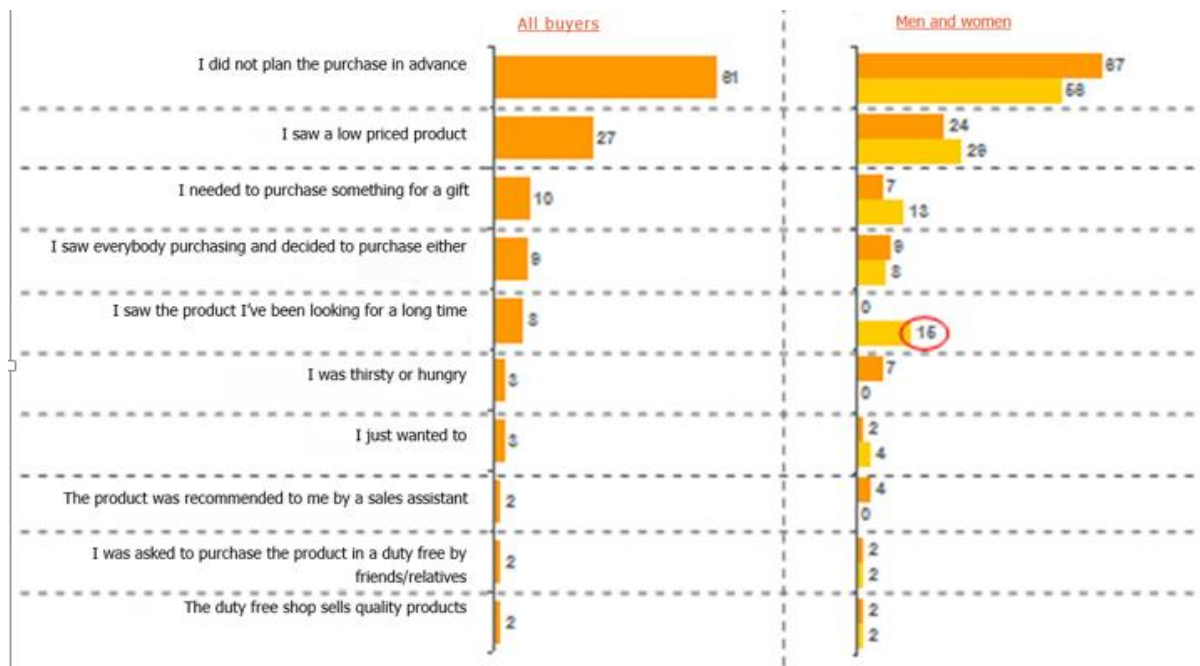


Figure 15. Reasons to purchase at the Duty Free shop of the Kolcovo Airport.

The author of the thesis asked respondents the following question, “Why did you purchase at the Duty free shop?” of all respondents (number = 93) who made purchases at the Duty Free shop (men (number = 47), women (number = 48)). The answers are as following: departing passengers primarily need to have for sale jewellery (16% of respondents). About 9% of buyers believe that more menswear, electronics and products to go should be sold, and that the range of strong alcoholic beverages should be expanded. Sixteen % of buyers plan a purchase at a duty free shop in advance. Every fourth passenger decides to purchase something when he sees a low priced product. Women make unplanned purchases when they see what they have been looking for for a long time. It is those who did not plan any purchase that did not make purchases. Every fifth

passenger who did not come to a duty free shop never purchase at the duty free shop.



Figure 16. Reasons to refuse to purchase at the duty free shop of the Kolcovo Airport.

The author also asked respondents the question “Why did not you purchase anything at the Duty Free shop, although you come to it?” and the question “Why did not you come in and purchase anything at the Duty Free shop? Passengers who did not make a purchase at the duty free shop totalled 99 passengers.

4.5 Reasonability of setting up a duty free shop

As far as Kolcovo Airport Authorities declares, passengers and visitors were generally satisfied with the product mix at shops and pharmacies. For a half of respondents it was difficult to say what is needed for sale, and every third respondent said he is satisfied with everything. Children’s food and potable water were named more often among missing products. About 5% of respondents are dissatisfied with high prices in the Airport shops.

In general, market and consumer demand analysis showed that most passengers who did not make a purchase at the Airport shops think that airport trade is boring. Such an opinion applies to the whole of Europe.

This implies that applying a fundamentally new approach to organisation of trade in duty free shops is required. It seems obvious that existence of only economic

incentives for consumers – preferential tax treatment of products – cannot ensure to the fullest extent the required demand for the shop. It is also important to emphasise that organisation of a retail trade environment at the Airport should have a regional nature in the future, which will represent the modern Russia and meet or even exceed passengers' expectations.

The author of this thesis asked respondents the question “What do you like and what don't you like about the duty free shop at the Kolcovo Airport?” and the question “What do you like specifically about the Duty Free shop at this Airport?” and the question “What didn't you like specifically about at the Duty Free shop of this Airport?”. Number of respondents who made purchases at the Duty Free shop was 93 passengers. The greatest virtue is low prices (at least 30% lower than in the domestic market). A wide range of products was advocated by 34 respondent, with 18 respondents having an opposite opinion. A service level was highly rated by 23 respondents, with only one rating low. Absence of queues at cash registers and quick service was appreciated by 13 buyers, while 9 respondents noting slow service and queues at cash registers. Considering the data obtained in the course of the consumer survey, KAPO Duty Free will satisfy the demand of shopping passengers at the Airport and provide them with a relevant product mix that meets their demand in a comfortable environment of the attractive shop. An integrated business concept designed by the company focuses its activities on satisfying buyers' interests and allows to continually adapting to changing market trends.



Figure 17. Shops' consumer preferences.

4.6 Planned economic effect of the project implementation

As far as the Thesis work is dedicated to the opening of a Duty Free shop, financial efficiency is the uppermost component of a business plan of the business company.

Operation of the shop in such a large airport as Koltsovo attracts investors and creates relatively strong competition among foreign economic actors. Therefore, an estimate of rent offered should be analysed in the most thorough manner. The company's financial proposal consists of several components:

- Guaranteed minimum sum (GMS) by categories of such products as perfumery, cosmetics, accessories and confectionery for each year of rent. Turnover is expected to grow with an increase in passenger traffic that is why a rental offer is not the same for each year and each category.
- The proposed guaranteed minimum sum as a percentage of rent.
- Evaluation of rental payments in thousand roubles, by product category.
- Amounts as percentage of turnover, by product category and year of rent;

- Planned capital investment, consisting of capital investment in the first year of rent (construction and installation operations, equipment, clerical aids, office equipment, personnel training, transport, etc.) and future capital investment.

Having reached a certain turnover level, a company must pay a % of its turnover by product category. If, for any reason beyond the reasonable control of the Airport, the turnover is less than that planned, then the company shall pay the fixed minimum guaranteed sum. For obvious reasons of confidentiality, amounts of proposed rental payments are not given herein. Budgeting is out of the company's funds.

As noted above, according to Kolcovo estimates, about 30% of passengers going abroad make purchases at the duty free shop, with an average invoice amount being 25\$. Based on this data, shop's revenue was forecasted (Table 5).

	2015	2016	2017	2018	2019
Revenue, RUB	338,000	371,000	408,000	449,000	494,000
Capital investment, RUB	55,000	3,000	2,000	1,000	2,000
Variable expenses, RUB	192,660	211,470	232,560	255,930	281,580
Profit, RUB ths.	90,340	156,530	173,440	192,070	210,420
Variable costs, RUB per RUB 1 of revenue	0.570	0.570	0.570	0.570	0.570
Fixed costs, RUB per RUB 1 of revenue	0.163	0.008	0.005	0.002	0.004
Financial strength,%	62	98	99	99	99
Return on sales,%	27	42	43	43	43
Breakeven point, Rub	127,907	6,976,744	4,651,163	2,325,581	4,651,16

Table 5. Shop's revenue forecast

Based on the forecasted revenue and information on fixed and variable costs of the shop, such

important indicators as financial strength, return on sales and breakeven point can be calculated. Results of all such calculations are shown in Table 3. The data provided shows that return on sales after full cost recovery of the project will be 43%, which is a relatively high value, and financial strength is 99%, which is a very good result. Such high financial indicators of the company will be attained by working in the field of preferential tax treatment, i.e. duty free trade.

Therefore, it may be concluded that this shop at the Airport Koltsovo is in-demand. Currently, there is a considerable unsatisfied demand from the part of Airport passengers for products of the duty free shop. Market analysis and conclusions

concerning the potential demand amount enable to draw a conclusion that this project is highly profitable and will be paid off very quickly.

5 Conclusion

The objective of the Investigation is to carry out studies and elaborate a concept for the commercial company and proposals for opening and operating the shop at the Koltsovo Airport Domestic Terminal.

To attain the objective, the following goals were set prior to the research:

- To review the basic theoretical approaches to a strategic market research.
- To justify the selection of research methodology in view of the project specifics.
- To forecast the dynamics of the development of the Ekaterinburg Koltsovo Airport as a proposed location of the shop.
- To justify the appropriateness of setting up a duty free shop.

To address the first goal, literature on strategic market research was studied, the role of strategic research in successful setting up of a new project was analysed, and basic methods and tools that are currently used worldwide to do such a research were considered. Therefore, a background for further selection of research methodology for the duty free market at the Ekaterinburg Koltsovo International Airport was created.

To address the second goal, legal and economic specifics of duty free trade were analysed. The appropriateness of using a number of methods to analyse the efficiency of the project for opening a duty free shop was justified.

To address the third goal, the position of a duty free shop in the general concept of the Koltsovo Airport, in particular, shop's marketing strategy, organizational structure and basic approaches to its financial structure, was described.

The fourth goal was addressed based on the results of the previous goals, i.e. a conclusion on whether passengers need shop's services or not, and, accordingly, on development prospects and efficiency of this project was drawn.

Therefore, the goals set were addressed to the fullest extent, and the objective was attained a concept for the commercial company and proposals for opening and operating the shop at the Koltsovo Airport Domestic Terminal was elaborated.

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