

KYMENLAAKSON AMMATTIKORKEAKOULU

University of Applied Sciences

International Business/International Trade

Maxim Ushakov

DEVELOPMENT OF E-COMMERCE FOR KYMENLAAKSO REGION WOOD INTERIOR
MATERIALS PRODUCTION AIMED AT THE RUSSIAN MARKET

Bachelor's Thesis 2012

ABSTRACT

KYMENLAAKSON AMMATTIKORKEAKOULU

University of Applied Sciences

International Business

USHAKOV, MAXIM

Development Of E-Commerce For Kymenlaakso Region
Wood Interior Materials Production Aimed At The
Russian Market

Bachelor's Thesis

52 pages + 5 pages of appendices

Supervisor

Minna Söderqvist, Principal Lecturer

Commissioned by

Wood Academy Project

November 2012

Keywords

E-commerce, e-marketplace, Finnish forest industry,
wood decorating materials

This thesis gives an overview of the current state of wood decorating materials production and retail in Kymenlaakso region and lists the most significant players in this sector. As well as that, it describes Russian customers' preferences as to wood decorating materials and proposes a possible trade scheme with e-commerce concepts to be applied for involving the companies in question of international trade with Russia.

The research was aimed at presentation of a clear picture of current situation of wood decorating materials production and retail in Kymenlaakso, description of the North-Western market of the Russian Federation as well as at the applicability of the concepts of e-commerce for attracting Russian customers. The research was conducted with the help of secondary information sources as well as an interview and a customer survey. The research type used was desktop research. It allowed to analyze the current case, to study the problem thoroughly and to suggest a possible solution of the problem.

The research showed that there is a demand for Finnish wood decorating materials among Russian customers, though there are inconveniences related to the purchasing process. The research strived to simplify the process of starting sales via Internet for Kymenlaakso-based producers and retailers and provided the principal model of the organization which would be in charge of Internet-based activities.

TABLE OF CONTENTS

ABSTRACT

1	INTRODUCTION	6
1.1	Background.....	6
1.2	Purpose of the thesis	7
1.3	Research and development setting	8
1.4	Limitation of the study	8
1.5	Structure of the thesis:	9
2	RESEARCH METHODOLOGY	10
3	E-COMMERCE.....	14
3.1	Benefits of e-commerce.....	14
3.2	Pillars of success.....	15
3.3	Website promotion	17
3.4	Electronic marketplace	18
4	FINNISH FOREST INDUSTRY.....	19
4.1	Kymenlaakso region.....	20
4.1.1	Interior wood materials production and retail.....	21
4.1.2	Producers and retailers	21
5	RUSSIAN MARKET OVERVIEW	26
5.1	Demand for wood decorating products	27
5.2	Preferences of Russian customers	28
6	LOGISTICS	30
7	CUSTOMER SURVEY.....	36
7.1	Questionnaire results	38
8	RESULTS AND MANAGERIAL IMPLICATIONS.....	41
9	EVALUATION OF THE STUDY AND FURTHER RESEARCH RECOMMENDATIONS	45
10	CONCLUSIONS.....	46
	REFERENCES.....	48

APPENDICES

Appendix 1. Questionnaire

Appendix 2. Questionnaire results

Appendix 3. INCOTERMS 2010 responsibility matrix

LIST OF FIGURES

Figure 1: Structure of the thesis	9
Figure 2: The research process.....	10
Figure 3: The Pillars of Success for Organizations based on the Internet	16
Figure 4: The most important dimensions behind residence preferences	29
Figure 5: Delivery by truck	32
Figure 6: Combined cargo delivery.....	33
Figure 7: Delivery by sea	34
Figure 8: Combination of delivery modes	34
Figure 9: Examples of itemized rating scales	38
Figure 10: Customers' preferences	39
Figure 11: Likelihood of making online purchases.....	40
Figure 12: Business model.....	42
Figure 13: Cash flow.....	43

LIST OF TABLES

Table 1: Arvolista Oy wood decorating product range	22
Table 2: Koskisen Oy wood decorating product range	24
Table 3: Container Types & Dimensions.....	35

1 INTRODUCTION

1.1 Background

This work is a part of Wood Academy project, which is conducted by Kymenlaakso University of Applied Sciences, Lappeenranta University of Technology, the city of Kouvola and the European Union. The general aim of the project is to facilitate the innovative development of wood materials' applications in the spheres of building, construction and interior design. (Lappeenranta University of Technology n.d.)

Main partners of the project are presented by local producers and retailers of wood decorating products in Kymenlaakso region (Kymenlaakso University of Applied sciences n.d.). The size of producers and retailers varies from small local manufacturers and stores dealing with domestic markets to international giants with worldwide operating networks.

Due to the economic slowdown in European countries, the production of sawn wood has decreased in the course of the last few years. The future forecasts also predict reductions in the volumes of the domestic building sector. Pessimistic economic forecasts cause concerns among consumers that many municipalities cannot afford to launch construction investments. A slowdown in the construction activity comes in tandem with a decreased demand for wood products. (Paper and Wood Insights 2012)

In order to comply with the oncoming challenges, the producers need to search for alternative markets. The closest and one of the biggest ones is the Russian Federation. Russia's rapid recovery from the recent economic recession, increase in households' incomes and, consequently, an increase in demand for residential construction in the future can create demand potential for Finland and especially for the components of wood residential construction, including wood interior products (Välkky et al. 2011, pp. 84-86).

It is well known that the key factors for achieving success are the ability to anticipate changes in consumer needs and to quickly apply adaptations to them. One of the most efficient, fastest, easiest and most convenient ways to enter a new market is to utilize e-business technologies. (Nelson 2008, p. 3)

It is stated that more and more businesses are moving to the Internet as it assists to save time and money. Majority of retail companies at least own a webpage and as a maximum are constantly selling through the web great amounts of goods, owing to the fact that Internet has become accessible to virtually anybody. (Nelson 2008, p. 4)

The potential of the Internet for international e-commerce is obvious. Big cross-border business conducted via web benefits by the capability to bring customers, sellers and suppliers closer and maximize results. It promotes economies of scale, reduces operational costs and improves customer service by enabling businesses to communicate directly with the client. (Nelson 2008, p. 73)

Taking into account all the above mentioned information, reasoning and ideas, one of the best possible solutions for the current case would be the implementation of e-marketplace concept for business operations.

1.2 Purpose of the thesis

The purpose of this thesis is to describe wood interior materials production of Kymenlaakso region and potential markets of North-Western region of the Russian Federation; identify the concepts of e-commerce and e-marketplace; and design the possible scheme of their implementation in order to attract Russian customers and thus improve the state of local producers and retailers of wood decorating products.

The implementation of e-commerce techniques would allow the companies to increase the amount of customers, to decrease the costs related to the business operations and inventory handling, increase profits and facilitate the purchasing process and cash flow. Due to the fact that Russian customers are among the European leaders in online purchasing activities (ComScore 2011), the new technology might be highly appreciated by the target customers. Moreover, the customization of the e-commerce technology in accordance with the preferences of Russian customers, such as the language of the webpage and specific product requirements, purchasing patterns and specific features of delivery might significantly simplify the purchasing process, removing the obstacles that might occur in that type of international trade. These improvements would be able to push forward the development of Kymenlaakso wood interior materials industry, increasing the amount of investment into the region.

1.3 Research and development setting

The aim of this thesis is to contribute to the growth of international involvement of the wood-processing companies located in the Kymenlaakso region, which will consequently result in enhanced performance, boosted reputation, improved competitiveness and overall development of the region.

Objectives of the study are as follows:

- to clarify the concepts of e-commerce and electronic marketplace and give the description of their implementation in the case of international trade;
- to depict the current state of the Finnish forest industry, Russian market and preferences of Russian customers;
- to describe the leading producers and retailers of wood interior materials of Kymenlaakso, their product range, specific features as well as location of their production facilities;
- to offer suggestions for further development of the local producers and retailers in order to attract Russian customers.

The research questions of this work are:

- i What is the current state of wood interior products industries in Kymenlaakso?
- ii How to apply the concepts of e-commerce for attracting Russian customers?

1.4 Limitation of the study

The research will be applied only to Kymenlaakso region of Southern Finland and the North-Western region of the Russian Federation due to the inability to cover entire markets of both countries. Moreover, the study will be artificially limited to business-to-consumer relationship, whereas the products to be taken into consideration will be Finnish wood interior products.

1.5 Structure of the thesis:

The thesis is structured in the following order. The structure is presented in Figure 1.

Introductory part

- The background of the study, research questions and objectives are defined

Methodology

- Methodology of the study is described

Theoretical part

- Describes the e-commerce concepts, logistics activities and their relevance to the current study case

Conceptual basis

- Includes desktop research of related industries, current state of Kymenlaakso region and market of North – Western Russia interview with the representative of the logistics company and analysis of a questionnaire distributed among the Russian customers of K-Rauta.

Conclusions and suggestions

- Describes the results achieved together with the solutions to the current case

Figure 1: Structure of the thesis

The research process itself consisted of the steps expressed in Figure 2.

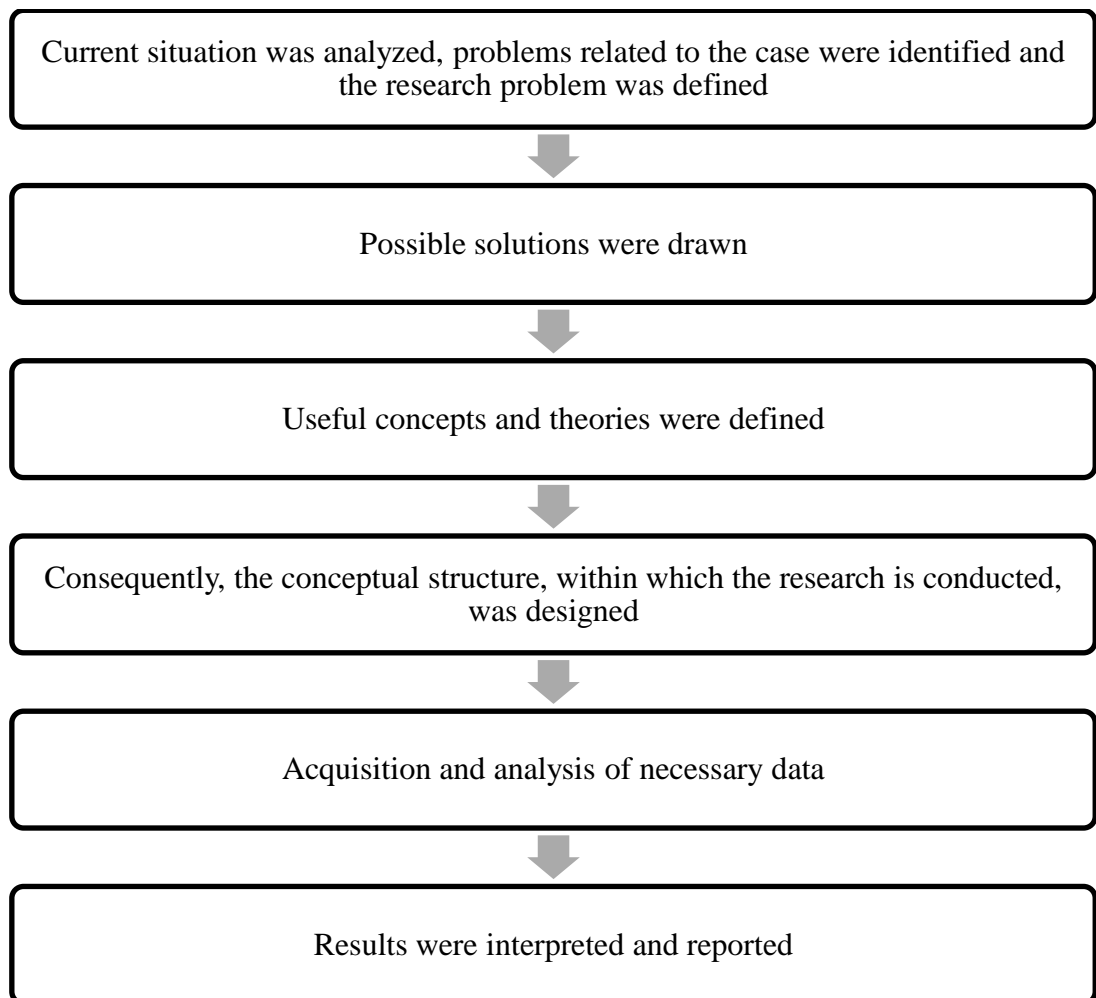


Figure 2: The research process

2 RESEARCH METHODOLOGY

In order to process all the information related to the field of the study, the research methodology needs to be defined. The following chapter provides an explanation of how the information was gathered, presented and summarized during the study.

According to Kothari (2004, p.1), research is an academic activity, and it can be defined in several ways:

- Research is “*the manipulation of things, concepts or symbols for the purpose of generalizing to extend, correct or verify knowledge, whether that knowledge aids in construction of theory or in the practice of an art*”

- Research is *“an original contribution to the existing stock of knowledge making for its advancement”*
- Research is *“the search for knowledge through objective and systematic method of finding solution to a problem”*
- Research is *“the systematic approach concerning generalization and the formulation of a theory”*

The purpose of the research is to find a solution to a problem using proper scientific methods and come to the conclusions, which have not been stated yet. (Kothari 2004, p. 2)

Generally, research objectives can be grouped together by their means (Kothari 2004, p. 2):

- To get familiar with the topic or to gain a new understanding of it (it is termed as exploratory or formulative research studies)
- To describe carefully the features of a concrete individual, group or case (also known as descriptive research studies)
- To define the similarities and associations to a problem and the frequency of the processes under study (diagnostic research studies)
- To test the hypothesis by constructing the causal links (hypothesis-testing research studies)

The basic types of research are:

(i) Descriptive, the main aim of which is to find and state the facts as they are in present and is characterized by the inability to control variables. This type is common for descriptive studies and, for instance, can be used for measuring preferences of people. (Kothari 2004, p. 2)

(ii) Analytical type refers to the revision of already available facts for evaluation of the material. (Kothari 2004, p. 3)

(iii) Applied (action) research aims to find the solution for the certain social or business problem as, for example, marketing research. (Kothari 2004, p. 3)

(iv) Fundamental research is held in order to generalize and formulate a theory like in case of researches concerning to the natural phenomenon or pure mathematics. (Kothari 2004, p. 3)

(v) Quantitative research is conducted by measuring the amount or quantity and is applicable to the problems which can be expressed in terms of quantity. (Kothari 2004, p. 3)

(vi) Qualitative research is based on the qualitative phenomenon of the investigated problem. It is especially important for the researches on the behavioral studies where motives and desires are discovered. (Kothari 2004, p. 3)

(vii) Conceptual research is connected with some idea and commonly is used to develop or interpret the theory. (Kothari 2004, p. 4)

(viii) Empirical is the experimental type of research during which the facts are being found to prove or disprove the hypothesis. This type is characterized by the full control of the researcher over the variables under study. (Kothari 2004, p. 4)

According to Kothari (2004, p. 7), research methods may be described as all the techniques applied to conduct the research. Research methods can be subdivided into 3 groups: methods implying accumulation of data, especially in case when already available data are insufficient for the solution achievement; statistical methods used to relate the data and the unknowns with each other; methods that are used to assess the precision of the results achieved. (Kothari 2004, p. 8)

At the same time, the research methodology is defined as a consequent way to the solution of the research problem. Research methodology is based on logical application of research methods as well as describing the reason of choosing a particular method and excluding of others. (Kothari 2004, p. 8)

Data, which are used during a research, can be classified into primary and secondary, depending on the fact whether it is original and collected for the first time or it was already collected by somebody else. (Kothari 2004, p. 95)

Kothari (2004, p. 95) named few methods of collecting primary data: observation, interview, questionnaires, schedules and other methods. Whereas secondary data is gathered mainly from various governments' publications, technical journals, books,

magazines, newspapers, reports and publications of different associations and research institutions, public records and statistics, historical documents and others. The process of collecting secondary data is defined as desk research (or desktop in case of computer use for the conduction of research). (Kothari 2004, p. 95)

Based on the theoretical framework mentioned in this chapter and the research questions, which include the description of the current state of the local industry and require a solution to attract Russian customers, it would be reasonable to use the desktop research type as the most appropriate type of the research. That particular type of research would allow to analyze the current case relying on secondary data collected, to study the problem thoroughly and to provide a base for designing a possible solution of the problem.

During the study, vast amount of information was examined. The main emphasis was put onto official Internet-based resources. The most important databases were: the Finnish Forest Research Institute (METLA), Finnish Forest Industry Federation, Kymenlaakso Chamber of Commerce, publications of Food and Agriculture Organization of the United Nations, Puuinfo, publications of Russian consulting agencies, producers' and retailers' homepages, electronic and printed books, journals, internal documents connected to the Wood Academy project and e-mails. The sources of information chosen were reliable and up-to-date. While searching the information, the most important criteria were production volumes, product range and specifications, various statistical numbers.

The information gathered during the study was mainly secondary, thus the desktop research method of data collection was utilized. However, additionally, customer survey of the Russian customers was also arranged. The survey was carried out via questionnaires which allowed to collect recent information concerning customer preferences and to reassure the fullness of the research done. That source of information would be considered as primary data. The results are mentioned in the appendices.

Desktop research was chosen in order to analyze information and alternative solutions available and, consequently, the hypothesis was proposed as a suitable solution of the business problem.

3 E-COMMERCE

A broad definition of e-commerce describes it as a process of purchasing and merchandising or exchanging goods, services and information through telecommunication and computer networks (Bushry 2005, p. 3). However, e-commerce can be considered from the point of view of different perspectives (Kalakota & Whinston 1997, p. 3):

- Communications perspective: e-commerce is described as the “*delivery of information, products/services, orders and payments*” via electronic channels.
- Business process perspective: e-commerce is viewed as the use of technology for the purpose of automating business transactions and workflow.
- Services perspective: e-commerce serves as a means of cutting down the transaction costs between businesses, consumers and management while enhancing the quality of goods and services and increasing the speed of delivery.
- Online perspective: e-commerce gives an opportunity to purchase and merchandise goods, services and information via online services.

E-commerce can exist in many forms depending on “*the degree of digitalization of the product/service sold, the delivery process and the payment process*” (Bushry 2005, p. 4). Each of the three elements mentioned can be either physical or digital. In traditional commerce, all of them are physical, while in pure e-commerce goods and services as well as the delivery and payment processes are digital. However, in case one or two of the elements are digital, the process is described as partial e-commerce, which is a mix of traditional and pure e-commerce. (Bushry 2005, p. 4)

3.1 Benefits of e-commerce

According to Bushry (2005, p. 13), there is a number of advantages for companies e-commerce has if compared to traditional trading practices. Since the number of Internet users amounts to 2,279 billion people worldwide (Internet World Stats 2012), e-commerce gives companies an opportunity to conduct business and market

their products in national and international markets as well as reach potential customers from various geographical locations.

Then, e-commerce can help to significantly reduce inventories and, as a consequence, storage, handling, insurance and administrative costs by enabling an electronic exchange of information between suppliers and manufacturers regarding inventory levels and production rates, and this information can be used for just-in-time manufacturing. Besides, two-way communication via Internet between buyers and sellers allows customization of final products and services. (Bushry 2005, p. 13)

Moreover, e-commerce can be considered as an environmentally friendly process since it reduces business paper consumption. Companies benefit from lowered paper needs in terms of reduced expenses connected to paper acquisition and manpower required as well as from less time needed to create, process, distribute, store and retrieve information. Businesses can also benefit from using e-commerce due to enhanced customer service since the Internet allows customers to access information before (product specification and pricing), during (order status) and after a sale (assistance in installation). (Bushry 2005, p. 14)

3.2 Pillars of success

According to Plant (2000, pp. 12-13), there are specific pillars of success that should be taken into account when establishing a new Internet-based organization, namely technology, market, service and brand (See Figure 3).



Figure 3: The Pillars of Success for Organizations Based on the Internet (Plant 2000, p. 12)

As can be seen from Figure 3, the Technology pillar includes the following factors (Plant 2000, p. 12):

- An organization needs to understand its technology goal within the existing industry and market;
- An organization must choose between being a technology leader (bleeding edge) and relying on stable systems (leading edge);
- The technology should serve the needs of customers from a technology perspective;
- An organization must consider whether it is possible to create barriers to entry with the help of technology employed and whether it can be used for locking in its customer base.

Regarding the market, an organization should identify its target market and determine whether this market is open to new entrants. Then, it should consider changes that might take place in this market over the years, such as market segmentation and market growth in short- and long-term perspectives. Based on the changes expected, an organization must determine whether it will be flexible enough to react to them. Moreover, a new organization must be prepared to counter already

established businesses in the market, for instance by means of its flexibility and technologies employed. (Plant 2000, p. 12)

The third pillar of success is concerned with the service, implying that an organization is required to have extensive knowledge about its customers' expectations regarding service level. An organization must also comprehend the influence its service will have on its value proposition as well as understand its value chain. In particular, attention should be paid to the link between attracting and retaining customers and organization's service level as well as to the way value can be created during transactions for customers. (Plant 2000, pp. 12-13)

Finally, an organization should assess its capability of creating a strong brand as well as choose the basis of its brand, which can be represented by technology leadership, service provision or market positioning. (Plant 2000, p. 13)

3.3 Website promotion

For many people the most convenient way to navigate in the internet is to use the online search services. Since every Internet-based organization is supposed to have a website, it is important to consider the ways in which a website can be promoted. The most commonly used way is SEM (Search Engine Marketing), which is used to promote websites by enhancing their visibility in search engine result pages. Different methods of SEM might be subdivided into 2 broad categories: Search Engine Optimization and Paid Search. SEO utilizes the Search Engine algorithm of redirection to specific websites. In this case the result listings are called organic. Whereas Paid Search employs Search Engine to launch an advertisement based on the specific words entered to the search field. (Filipe & Obaidat 2009, p. 113)

Techniques employed in SEM include (Filipe & Obaidat 2009, pp. 113-115):

- SEO (Search Engine Optimization): aims to optimize website content, using keywords in titles and throughout all website, with the purpose of acquiring a higher rating in search engine result pages.
- AdWords (by Google) is a program that allows advertisers to purchase text and links on search engine result pages.

- Paid per click advertising is a tool used to direct traffic to websites, where advertisers pay publishers only in case an advertisement is clicked.
- Social Media Marketing: involves the use of social media in order to influence consumers' decisions.
- SEMM is a technique similar to SEO, but it focuses on ROI (Return on Investment) management and does not use paid means of achieving top ratings in search results.
- Paid inclusion (sponsored listings): the search engine company charges fees for including webpages in their search index (used in Yahoo SE).

3.4 Electronic marketplace

An electronic marketplace is defined as an “*interorganisational information system that allows the participating buyers and sellers in a market to exchange information about prices and product offerings*” (Standing 2009, p. 1). Companies which participate in the marketplace take advantage from the acceleration of news and information flows, cost reductions, improving the service quality and exposure to global markets (Standing 2009, p. 2).

The marketplaces can be broadly classified into the four groups according to the implementation of the operations. They are: independent e-marketplace, buyer-oriented e-marketplace, supplier-oriented e-marketplace and vertical and horizontal e-marketplaces. Independent e-marketplace usually corresponds to the space for business-to-business operations, managed by the third party. The access for sellers and buyers is opened by the registration and registration fee payment. Buyer-oriented e-marketplace is naturally setup by the consortium of buyers in order to build the advantageous purchasing environment. Supplier-oriented e-marketplace, also known as supplier directory, is run by the number of suppliers in the industry who are intended to build the connections with the number of buyers and conduct sales via Internet. Vertical and horizontal e-marketplace works to link buyers and sellers across various industries or regions. (Business Link n.d.)

In the current case, it would be reasonable to focus on supplier-oriented marketplace built by suppliers of interior wood products aimed to attracting Russian customers.

4 FINNISH FOREST INDUSTRY

As a foreword, the current situation in the Finnish forest industry will be clarified. According to the Finnish Forest Research Institute METLA (2012), “*today forestry and the forest industry make up about 5.1% of Finland's gross domestic product and approximately 18% of Finnish exports*”. The biggest shares of total export value of forest industry products are occupied by high-quality printing and writing paper (over 40%) and sawn goods and wood-based panels (about 20%) (METLA 2012).

According to METLA (2011, p.12), the weightiest consumers of Finnish forest industry products are:

- The EU - nearly 60% of all forest industry exports (especially Germany, United Kingdom, France and Spain);
- Asia – 13.1%;
- United States – 5.2%;
- Russia – 4.8%;
- Other countries – 14.5%

The Finnish forest industry can be structured in the following way (Forestindustries 2012):

- Sawmill industry;
- Wood-based panel industry;
- Paper and pulp industry;
- Converting and packaging industry;
- Construction;
- Biomass and biofuels.

The main focus of this study will be on wood-based panel industry and partly on sawmill industry. This is due to the fact that sawn timber is a key material of the Finnish wood products sector because it is normally used as a raw material for

further processing, while wood panels have become a widespread decorative material among Russian customers (Paper and Wood Insights 2011).

Finnish sawn timber is distinguished from the others by excellent quality and technical characteristics, such as material strength (Paper and Wood Insights 2011).

The most important sectors of use of sawn timber are:

“the timber framing (structural sawn timber) and a multitude of interior decoration products, such as floorings, wall panels, mouldings, doors, window frames and furniture. Additionally, sawn timber is used in construction to make casting moulds and scaffoldings” (Paper and Wood Insights 2011).

Another product described in this work, Finnish wood panel, is considered to be a safe, healthy and eco-friendly solution which can be used in construction, furniture production and transportation activities. This is mainly because of the fact that strict European environment protection regulations are applied during the production of this decorative material and raw materials are recyclable and supplied from renewable forests. (Paper and Wood Insights 2009)

Competitive advantages of Finnish producers are high-quality raw materials, reliability and the efficiency of production. On the other hand, raw materials are rather costly, which reduces the competitiveness of Finnish producers. (Paper and Wood Insights 2011)

4.1 Kymenlaakso region

Kymenlaakso region lies across the trade route which connects the European Union and the Russian Federation. Major industries representing importance are logistics and forest industry, therefore the economy of the area depends much on exports. After overall recession, the decline in exports from Kymenlaakso as well as in the region's companies' turnover was recorded. However, according to the recent forecasts, the recovery of the Finnish economy is anticipated due to an increasing demand for Finnish exports. (Kymenlaakso Chamber of Commerce 2012)

Russian market appears to be one of the main sectors because of the strategic position of the Kymenlaakso region next to the Russian border. It is forecasted that

imports to Russia are to be increased by 7.0% in 2012-2014. The main three industries of the region – paper, machinery and chemical industries - are experiencing a decline compared to the level of 2007. However, in the construction industry, a stable rise was observed after the recession. In spite of the fact that it was halted in the last quarter of the year 2011, the level of turnover for this industry surpassed the level of 2007 by 12.0%. (Kymenlaakso Chamber of Commerce 2012)

4.1.1 Interior wood materials production and retail

Wood as a natural material enhances cosiness and the comfort of living inside the house. Moreover, it is stated that wood surfaces affect the humidity by maintaining its ideal level. They have the ability to bind moisture and release it afterwards. Also, there is an impact on the acoustics of the house: pleasing acoustics are created by soft and uneven structure of wood. (Paper and Wood Insights 2006)

Consumers tend to appreciate the quality of wood as well as constantly expanding range of goods offered. Old classics are coming back along with standard models and individualistic ones. Most of these products are very adjustable, so it is possible to combine them with each other or with other materials for decoration. Wood decorating materials can also be used to have an effect on the surfaces, for example to soften large, uniform walls and ceilings. (Paper and Wood Insights 2006)

In addition to the above mentioned advantages, the wood as a decorative material is more eco-friendly than competitive materials as it can be recycled; the resources are renewable and even at the end of its lifecycle it still can be used as a fossil fuel. Wood decorating materials are also considered to be a climate-friendly alternative which performs as carbon stores. (Paper and Wood Insights 2009)

4.1.2 Producers and retailers

This section lists the biggest producers and retailers of wood interior products located in the Kymenlaakso region. Among other things, their product range, distinct characteristics as well as location of their production facilities will be described below.

Arvolista Oy

Arvolista Oy has been producing surface-treated mouldings and panels for the domestic and foreign markets since 1994. The company is located in Myllykoski, Kymenlaakso and its high-quality products ensure solid professionalism. In 2011, according to the Finnish Customers Survey, the company was granted the title “the strongest company in the region”. (Arvolista n.d.)

Raw materials of decorating products are pine and foreign hardwoods as well as spruce panels. Painted mouldings are being produced entirely of knotless, finger-jointed pine. The company is Finland's first manufacturer to install a customized video surveillance system on its painting line. Estimated volumes of production of that highly automated line are 150,000 metres per week. An interesting fact about the company is that it operates only via its retailers represented by leading construction and timber stores across the country. The main retailers in Kymenlaakso are K-Rauta, Rautia, Puukeskus and Talouspuu Oy. The company's wide product range is presented in Table 1. (Arvolista n.d.)

Table 1: Arvolista Oy wood decorating product range (Arvolista n.d.)

Product category	
Scotias:	Scotias, ceiling mouldings, cornices
Mouldings for doors and windows:	Architraves, decorative mouldings, decorative cover lists, door moulding packs
Angles:	Angles, decorative external corners
Skirtings:	Skirtings, small skirtings, decorative skirtings, round mouldings, quadrant, round mouldings
Sauna and shower room items:	Sauna coated panels, sauna benches, front boards, corner moulding, architraves, sauna coated mouldings, scotias, ceiling mouldings, semicircles
Panels:	Pearl panels, end jointed panels, white sauna

	coated panels, white lacquered panels, panels with end joint
--	--

Stora Enso

Stora Enso is currently one of worldwide leading producers of paper, wood products, bio- and packaging materials. Company operates in over 35 countries around the world. Besides the production of chemical pulp, paper and board the company produces 6 million cubic meters of sawn wood and value added products annually. (Stora Enso n.d)

The wide product range of Stora Enso Wood Product branch includes interior decorating panels under Effex registered trademark. Stora Enso Effex wall and ceiling panels are high quality decorating solutions designed with the emphasis on wood. The panels are completely made of pine and Stora Enso (n.d.) states that “*the natural strength, durability and everlasting appearance of wood have all been intensified by creating a knotless, clear linear grained panel for use in interior spaces*”. (Stora Enso n.d)

An Effex panel is many-sided and adaptable product for creating a quiet and trendy effect for any premises it is utilized in. It can be applied as a decorating material for the large surfaces, such as the whole wall or ceiling, or as a separate design element. (Stora Enso n.d)

The product range is perfectly presented in Puumerkki retail stores of Kymenlaakso, whereas the nearest production site - Honkalahti Sawmill is located in Joutseno in South-Eastern Finland. (Stora Enso n.d.)

Koskisen Oy

Koskinen Oy is a family-owned wood-processing business which has a global operation network and is proud of its over-100-year history. Its headquarters are located in Järvelä, Southern Finland. The company specializes in the production of specific wood construction materials for massive construction projects as well as for private sector. The range of Koskisen Oy products is presented in Table 2. (Koskisen n.d.)

Table 2: Koskisen Oy wood decorating product range (Koskisen n.d.)

Product category	
Birch products:	Glued laminated design panels, furniture coating, thin and flexible birch plywood, glue laminated birch panels, thin birch plywood, thin birch plywood for various end-uses, glue laminated birch for stairs, birch timber and birch veneer
Chipboard:	Chipboard for floors, edge-banded furniture board, melamine coated furniture chipboard, uncoated standard chipboard, special chipboard, underfloor heating board, chipboard for interior walls
Plywood:	Flooring panels, decorative panels, easy-to-clean slip-resistant flooring material, furniture coating, thin and flexible birch plywood, formwork plywood, paving block, plywood with plastic coating, plywood with plastic coating, die cutting panel, die cutting panel, die cutting panel, painting panel, thin birch plywood and all-purpose panels
Processed timber products:	Primed exterior cladding products, biologically treated timber, planed timber larch, planed timber pine, planed timber spruce

The list of retail stores and timber traders which are involved in the project is composed of the following companies.

K-Rauta

K-Rauta is an international concept of Rautakesko, which “is a leading retailer of hardware, construction materials, furnishing products and related services” (KESKO 2012). The company is listed among the 5 largest European do-it-yourself retail chains, possessing over 350 hypermarkets in Finland, Scandinavia, Baltic countries, Russia and Belarus. It is also considered to be the most dynamically developing branch of Finnish international concern KESKO. The first K-Rauta retail store in Russia was opened in 2006 and since then the division has expanded up to 14 stores in Moscow, Saint-Petersburg, Yaroslavl, Tula, Kaluga, all together attracting over

700,000 customers per month. As for Kymenlaakso, K-Rauta stores are located in Kouvola and Kotka. (K-Rauta n.d.)

Puumerkki Oy

Puumerkki is a building materials wholesale chain, which is engaged in the production of wood-based products and in serving building contractors, retailers and the whole industry in Finland and Baltic countries. With outlets located around Finland, Puumerkki provides tailored products and services for national and local needs, with proficiency of an international organization. In the region of the study the store is located in Kotka. (Puumerkki n.d.)

Starkki

Starkki is one of the leading national retailers of construction materials and supplementary products. With the history of over 100 years of business operations, Starkki's retail network extends to 21 stores in 19 different cities around Finland. In figures, the turnover of the company is EUR 470 million and the number of staff amounts to 1,000 employees. In Kymenlaakso, the store is situated in Kotka. (Starkki 2011)

In comparison with other abovementioned retailers, the significant and distinctive feature of Starkki's webpage is the availability of online purchasing, whereas none of the others have this kind of service.

Puukeskus

Puukeskus is one of Finland's leading suppliers of timber and building materials. The company offers its products for wholesale trade as well as to individual customers. The company was founded in 1929 in Helsinki. Product mix is diversified and provides everything for construction and decoration needs. In Kymenlaakso, the chain is presented by the store in Valkeala. (Puukeskus 2012)

Talouspuu A. Rinne Oy

Talouspuu is a local store, which specializes in the production of construction and wood products. The range of products includes construction materials, timber, interior products, instruments and other supplementary goods. The company is located in Kuusankoski. (Talouspuu 2011)

Summarizing the above mentioned information, there is a number of retail stores and production facilities in Kymenlaakso region which are specializing in wood products and their distribution. The size of these enterprises varies significantly together with production volumes and turnover. The evaluation of their performance was based on Internet resources, especially on companies' homepages. The overall impression is neutral due to the professional outlook and amount of information on one side, but on the contrary - lack of internationalization and poor functionality of the pages. Websites rarely offer Russian translations of the pages whereas the English versions are more or less available. As well as that, only one website had an online shopping function, so the situation with wood-processing companies of the Kymenlaakso region leaves a lot to be desired.

5 RUSSIAN MARKET OVERVIEW

Russia is an essential and tempting co-operation partner for the forest-based sector of Finland. Russia's economy is constantly growing and abundance of energy supply and forest resources provide various opportunities for the development of business operations. However, the forest sector should continuously enlarge the amounts of investments into the Russian Federation, in case stability and predictability of business environment are set up there. (Forestindustries 2012)

In 2012 The Russian Federation has entered WTO. According to METLA (2012) the Russian market will become more open for the competition and the business environment will become more predictable too. Also for the Finnish forest sector enterprises, Russia's entrance to the WTO is considered as welcoming step. According to the WTO regulations, "Russia must significantly reduce its import tariffs for industrial products by 2016" (METLA 2012).

"The largest percentage of reductions in import tariffs will apply to the products of the wood processing industry. This will enhance the competitive position of Finnish companies. At present, almost all wood products are subject to a 20% import tariff for the protection of domestic production. The import tariff for prefabricated wooden houses, for instance, will be greatly reduced and will stand at 5% in 2016. The tariffs for glued laminated timber, floor tiles, windows and doors will decline by about half". (METLA 2012)

According to the research made by Russian Business Consulting (2012), positive dynamics of building materials consumption in the Russian market have been observed since 2011 due to the recovery of the Russian economy. After 2011, downturn in residential construction has been replaced by the growth, and it is forecasted that during the period between 2012 and 2015 the volume of the construction industry output will be increased.

Consequently, the production of materials for construction and interior decoration has started to improve, and the future growth is anticipated as well. Despite the development level of Russian national manufactures, it is stated that the dependence of Russian market on imports is still strong. (RBC 2012)

Largest retailers of wood products in Russia are presented by big chains of hypermarkets, located in the most developed regions. In the north-western area, the most significant players are K-Rauta, Castorama, OBI and Maxidom. They are selling a wide range of do-it-yourself materials for both outdoor and indoor construction and interior design. As for the small companies, there is a trend to be focused on the narrow niche and to create unions. It is predicted that the sharpest struggle will unfold between DIY-hypermarkets. However, small retailers still have some advantages, namely the quality and special features of the product range and unique approach to the customer as well as occupation of a particular niche. (RBC 2012)

5.1 Demand for wood decorating products

At the moment there is no operating federal institution in the Russian Federation engaged in forecasting of demand for wood products, and particularly for Finnish wood products. Consequently, general demand evaluations within the national economy are mainly conducted by large, integrated timber corporations. (Food and Agriculture Organization of the United Nations 2012, p. 27)

It was also mentioned by Food and Agriculture Organization of the United Nations (2012, p. 27) that state participation in the creation of the internal market demand for forest products is narrowed to public support actions aimed at the development of domestic economic sectors using applicable regulations and improvement programs.

Demand for many forest products was reduced by the low purchasing power of the general population due to the economic slowdown during the recent years. The most significant influence on the industries supplying basic wood materials, such as sawn wood, plywood and fibres, is created by the wooden housing construction. Meanwhile, having considerably strong state support, the development of wooden housing construction is able to encourage high production rates on all types of wood-based panels in the nearest future. This tendency will be stable for the future period up to 2030. (Kurochkina 2009, pp. 22-23)

In 2010, according to Food and Agriculture Organization of the United Nations (2012, p. 27), there were 58.4 million square meters of residential buildings constructed in Russia in total, whereas the share of individual housing construction was 43.6%, meanwhile over 80% of residential construction took place in the European part of Russia. The biggest wooden housing markets are Moscow, the Moscow Region, Saint Petersburg and the Leningrad Region (Food and Agriculture Organization of the United Nations 2012, p. 27).

The abovementioned information reaffirms the fact that the Finnish wood decorating materials producers might have rather bright perspectives in the Russian market in the nearest future, taking into account the perspectives of economy growth, the scope of construction and vast territories of the Russian Federation.

5.2 Preferences of Russian customers

During the study, it was determined that the popularity of wood materials is constantly growing among Russian customers. Wood might be implemented in private construction as a construction and decoration material, in public buildings for decoration purposes as well as in outdoor and environmental construction. Russian citizens value wood due to the fact that it is an ecological, hygienic, warm and long-lasting material, which creates cozy and comfortable atmosphere in the house. (On-line SPb 2012)

It was also revealed that Finnish quality derived from technical solutions and their implementation in general is appreciated by Russian customers and this is also true for construction materials. In the long run, the companies planning to operate within the Russian market can rely on good reputation, which has already been earned since the Soviet era period. (Välkky et al. 2011, p. 124)

According to Vålky et al (2011, p. 98), there was the Kymleno Housing Fair organized in Koltushi, Leningrad region, which is located approximately 25 kilometres away from Saint Petersburg. The aim was to make Russian customers familiarized with Finnish small-house construction as well as get practical experience about sustainability of Finnish wooden-house areas in Russia. During this fair, a questionnaire was distributed among the visitors, and in total it was completed by 133 persons between 15 September and 9 November 2008. (Välkky et al. 2011, p. 98)

Consumers were asked their three most important dimensions behind their residence preferences. The selections were valued so that every respondent's most important factor was given 3 points, the second most important 2 points and the third most important 1 point (the Borda count method). The points were counted up and the results are as following presented in Figure 4 (Välkky et al. 2011, pp. 99-100)

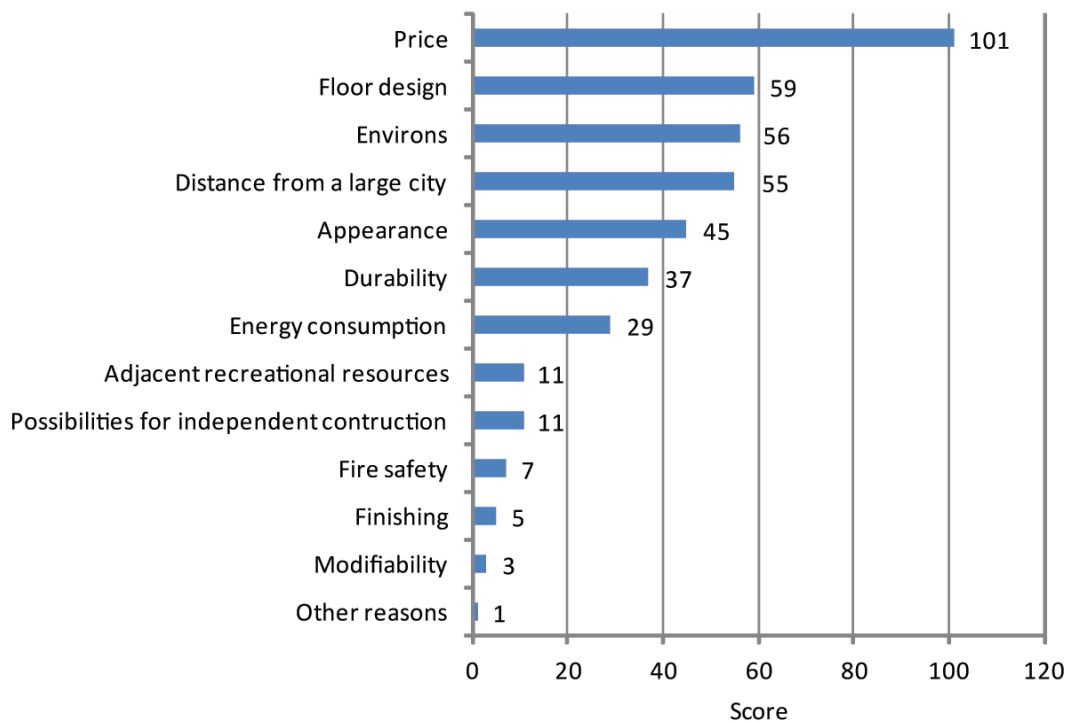


Figure 4: The most important dimensions behind residence preferences. (Välkky et al. 2011, p.100)

Price proved to be by far the most important selection criteria. Floor design, environs and distance from a large city were the next most important factors. Also, appearance, durability and energy consumption had moderate significance. Conversely, possibilities for independent construction, adjacent recreational

resources, fire safety, finishing and modifiability aroused much less interest. (Välkky et al. 2011, p.100)

Moreover, the research showed that the main criterion, which influences the selection of decoration materials in construction, is appearance, the second in the rating is the ease of maintenance, next is the price, and fourth is the ease of installation and use. Specifically, the respondents under 40 years old thought about the price as a more significant feature than the older ones. Price and appearance of decorating materials were much more important factors for those people who had no future construction plans, than for those who had some plans. Respondents who were living in their own one-family houses thought about the ease of maintenance of decorating materials as more important factor than those people who lived in blocks-of-flats. (Välkky et al. 2011, p.99)

Information about Russian customers' preferences as to private construction and decorating materials gathered by means of this questionnaire can be utilized in this work as a basis for choosing the right messages and placing emphasis on right factors when promoting the products of Finnish forest industry among the Russians.

6 LOGISTICS

As defined by Kotler (1999), the term "logistics" refers to "*planning, implementing, and controlling the physical flows of materials and finished goods from the point of origin to the point of use to meet the customer's need at a profit*". From the point of view of the involvement of different parties in logistics activities, logistics can be divided into first, second, third and fourth party logistics. First party logistics is the traditional variety of logistics, which is simply logistics performed by a first party entity, for instance a producer who transports its goods to its customers or distributors. Second party logistics refers to the process where a second party, such as an importer or a buyer, performs logistics to obtain goods from the first party. Third party logistics is performed by a third party logistics provider who takes responsibility for performing logistics tasks for either first or second party. (Chu et al. 2004, pp. 8-9)

Finally, fourth party logistics providers act as intermediaries between manufacturers and 3PL providers and their function is to “*centrally manage the complete supply chain for a company or a specific industry*” (BIG 2004, p.9).

In order to gain an understanding of the delivery process from Finland to Russia, it is important to examine it before beginning of exporting activities. First of all, it is necessary to mention the current customs regulations of the Russian Federation applied to the goods transported through the border. According to the Federal Customs Service of the Russian Federation (Federal Customs Service 2010), individuals entering the customs territory of the Customs Union are allowed to carry 50 kg of goods free of any duties. The regulation covers only goods specified for private use, which are not imported for any commercial purposes. The total value of the imported goods shall not exceed the equivalent of EUR 10,000 when transporting goods by air and EUR 1,500 when carrying goods by other types of transport. In case the above mentioned limits are exceeded, the imported goods are subjects to declare and customs duties and taxes in the amount of 30% of the customs value of goods, but not less than 4 euros for each kg are imposed on them.

Taking into account the restrictions mentioned above, it was determined that there was a need to examine alternative ways for the transportation of wood decorating materials through the borders of the Russian Federation. The decision was grounded on the facts that specific features of the materials, such as the size and weight of the package, might exceed the customs restrictions which would significantly increase the costs of the imported materials. Thus, the logistics company was reasonably considered to be involved in the process of transportation of goods.

During the study, an interview was conducted with the representative of a logistics company named Viamex Oy, which is located in Kotka and deals with international transportation to the Russian Federation. Information presented further in this section has been gathered in the course of this interview.

According to Vadim Bashlov (2012), there is no specific company, which is engaged in the delivery of constructing materials only. In common, they operate with different products classified by transportation requirements, e.g. general products, food, perishable goods, chemicals, bulked cargo etc..

The order quantity might be: up to 80 cubic meters - then the whole truck is given to one customer. 20-40 cubic meters - then the order is delivered by truck with combined cargo (cargo composed of the different suppliers' goods). It is generally unprofitable to order a combined truck if the order quantity exceeds 40 cubic meters.

It is not important who orders the transportation (private individual or a company), the difference lies in the mere fact that the firm can return VAT from the part of the delivery. It is always possible to develop the delivery plan for each specific situation, and the cost of the delivery will be calculated according to it.

The most common mode of delivery is delivery by truck. The process of transportation is listed in Figure 5:

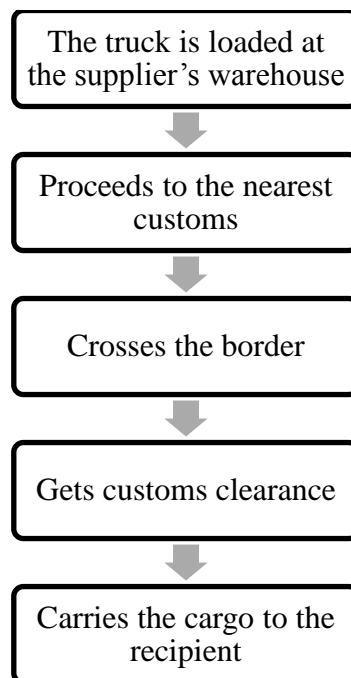


Figure 5: Delivery by truck

The next option available is combined cargo delivery. The process of combined cargo transportation is listed in Figure 6. This option is profitable from the financial point of view unless a client occupies more than 30-40% of truck loading space.

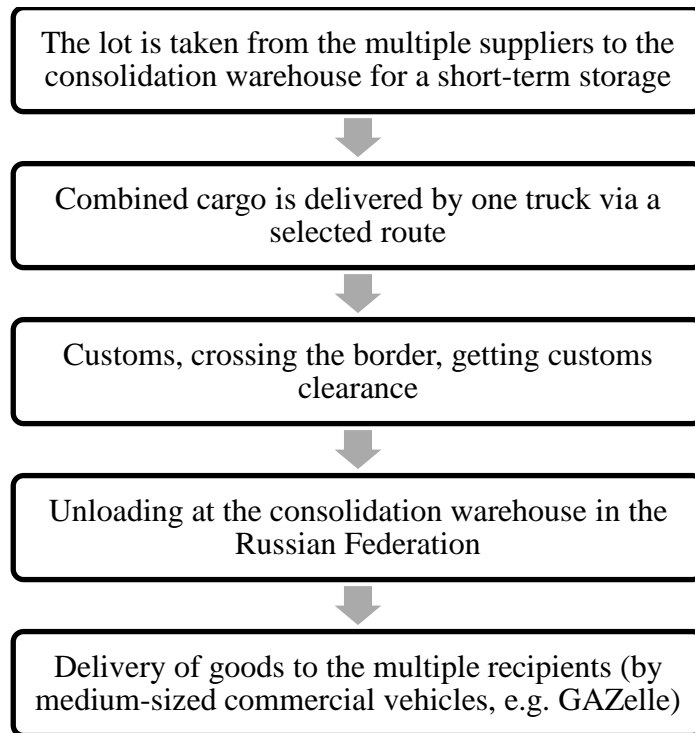


Figure 6: Combined cargo delivery

Delivery by train has a similar structure as a combined cargo option. Usually this mode is used with the larger size of shipment or due to the size overage. In the case of constructing materials, most likely there will be no need to use this delivery mode.

The cargo might be delivered by sea as well. The process of delivery by sea is explained in Figure 7.

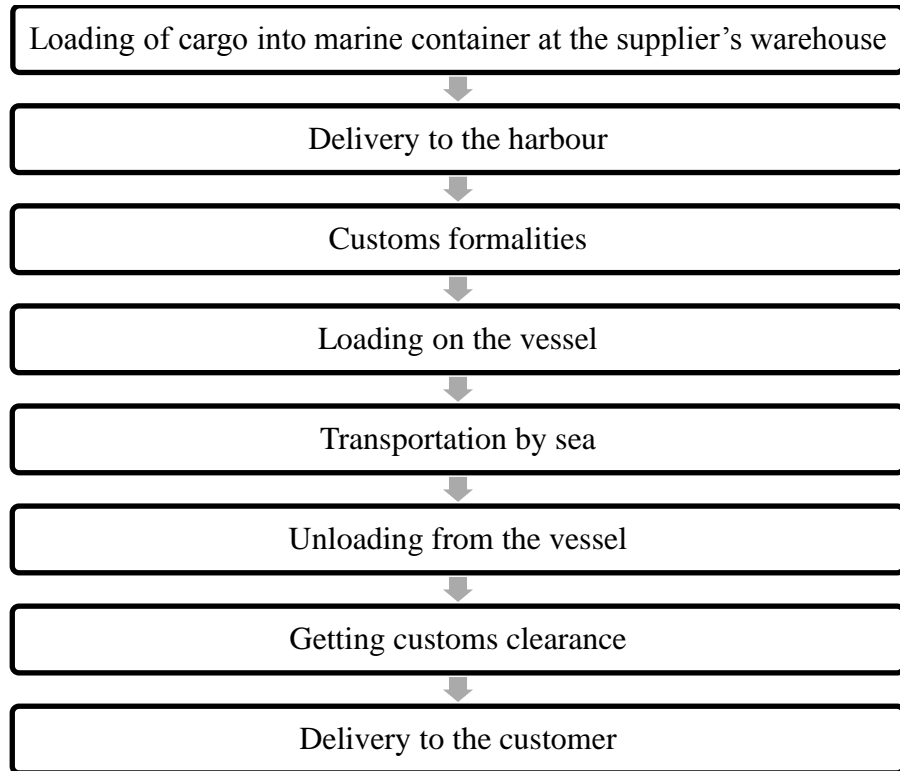


Figure 7: Delivery by sea

The delivery modes might be combined - several modes are used during the transportation. This process is listed in Figure 8

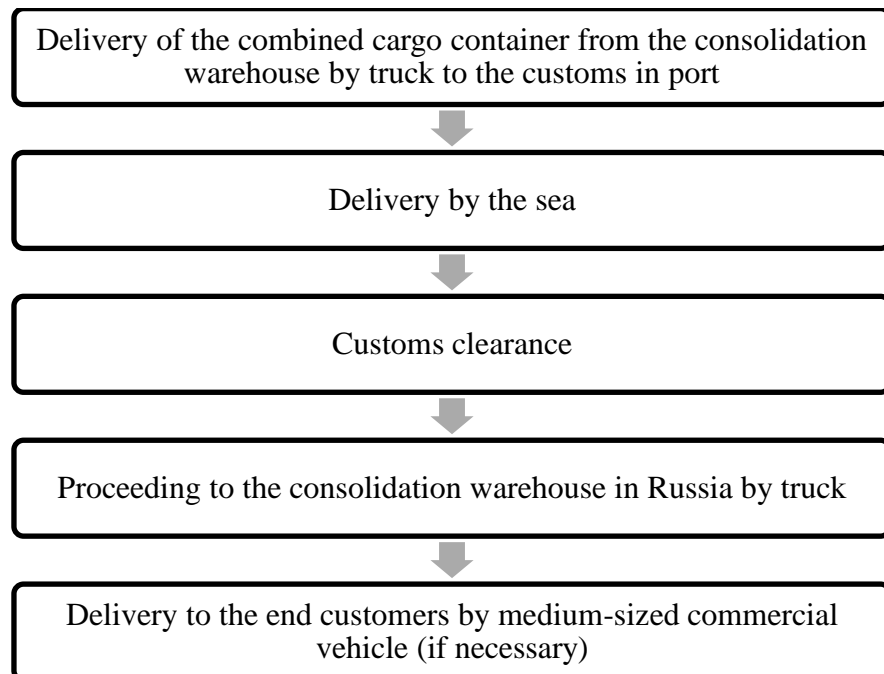


Figure 8: Combination of delivery modes

During the delivery by air consolidation warehouses are used as well. The combined cargo is delivered to the terminal, proceeds to the customs clearance and later on is

transported by the air. In common, this mode of transportation is used for expensive cargo delivery, such as mobile phones, or in urgent cases, for instance exhibition models.

It is certain that restrictions exist, but they are will not affect the delivery procedure in case of construction materials. Some restrictions regarding container types and their dimensions are presented in Table 3.

Table 3: Container Types & Dimensions (Source: Norman Global Logistics 2012)

	STANDARD 20'	STANDARD 40'	HIGH CUBE 40'
INSIDE LENGTH	19' 4" (5.900m)	39' 5" (12.036m)	39' 5" (12.036m)
INSIDE WIDTH	7' 8" (2.350m)	7' 8" (2.350m)	7' 8" (2.350m)
INSIDE HEIGHT	7' 10" (2.393m)	7' 10" (2.392m)	8' 10" (2.697m)
DOOR WIDTH	7' 8" (2.342m)	7' 8" (2.340m)	7' 8" (2.338m)
DOOR HEIGHT	7' 6" (2.280m)	7' 6" (2.280m)	8' 5" (2.585m)
CAPACITY	1,172Cft (33.2Cu.m)	2,390Cft (67.7Cu.m)	2,694Cft (76.3Cu.m)
TARE WEIGHT	4,916lbs (2,230kgs)	8,160lbs (3,700kgs)	8,750lbs (3,970kgs)
MAX CARGO WT	47,900lbs (21,770kgs)	59,040lbs (26,780kgs)	58,450lbs (26,510kgs)

The dimensions in Finland are noticeably greater, but in the case of international delivery it is necessary to comply with the rules of the most demanding country. The total weight of the truck crossing the border of the Russian Federation must not exceed 40 tons. However, there are no restrictions on the total value of the goods assuming that it is an officially made commercial delivery.

The cost of the delivery varies depending on the required set of documents and calculated on examples for similar lots. The supplier should prepare at least 2 papers: an Invoice (kauppalasku) and a Packing list (pakkauslista). If the lot is small, these two papers can be combined in one. The sender can also make an export declaration or entrust the forwarding company to do this. Moreover, the certificate of origin, licenses and a cover letter can be required.

The forwarding firm is responsible for the majority of papers. The list depends on the type of goods and the current customs rules of all countries participating in the international transportation. The minimum set includes CMR (waybill, rahtikirja)

and the paper-guarantee/insurance TIR (MTD book) or T1 (Northern passport), the security from a carrier or a freight forwarder from the side of the Customs Union.

The other participant of the delivery process is customs broker. Customs broker in the Russian Federation submits the declaration and complete customer formalities for the cargo. He can also obtain missing licenses and certificates.

Obligations of the customer are limited to signing the CMR for the delivery of the cargo. From that moment the delivery is considered to be completed if there is no need to return the containers, for instance a marine container to the port.

In general, the seller is already informed about the sales terms, however it is possible to negotiate other terms. The INCOTERMS 2010 responsibility matrix is presented in Appendix 3.

7 CUSTOMER SURVEY

During the study, questionnaire-based interviews were conducted among the Russian customers of a popular Finnish construction materials retail store in order to gain some understanding of Russian customers' attitude towards Finnish building materials.

According to Brace (2008, pp.3-4), in order to create a successful and effective questionnaire, the following structure needs to be applied.

Exclusion questions are commonly used to protect the survey from the respondents working in marketing or the client's industry. The purpose is to ensure the confidentiality of the survey and avoid the distortion of overall attitudes of ordinary people (who represent the majority) with professional behavior. (Brace 2008, pp. 36-38)

Screening questions are asked to identify whether the respondent belongs to the survey target group or not. Most of the surveys are conducted to question exactly specific people; therefore it is important to detect suitability of the respondent from the very beginning. (Brace 2008, pp. 38 – 40)

Main questions are designed in a carefully planned order of the topics presented to the respondent. As usual, it is recommended to start with general questions about

customer's attitude to the market and then proceed to more specific questions. (Brace 2008, p. 40)

Open questions - the type of questions where no answers are suggested and the respondent is expected to answer by him/herself. Open question can be short or more detailed, but always unprompted. It is helpful to open out a conversation. (Brace 2008, p. 46)

Closed questions consist of the limited range of predictable answers. Typical answers could be "yes" or "no", but the respondent can also be asked to choose from the alternatives. (Brace 2008, p. 46)

Closed questions are pre-coded beforehand, and open questions can appear either open-ended or pre-coded. (Brace 2008, p. 47)

Pre-coded open questions are accompanied by a list of possible answers, designed by the researcher on the base of his/her expectations or previous studies. This type provides better consistency of responses. In common, ready-made answers are supplemented with "other answers" option, giving the respondent the possibility for verbatim response. (Brace 2008, p. 55)

Dichotomous questions can simply be answered "yes" or "no", and they are logically put in a descending order. The most important feature of those questions is that they gain information about current expectations or intension. (Brace 2008, pp. 56 - 57)

Multiple choice questions provide the respondent with more than one possibility to choose from a range of predictable answers. (Brace 2008, p. 57)

Besides the above mentioned questions, the respondent needs to express the attitude or describe the perception in a format, which can be analyzed. In general, the itemized rating scales are used to measure the attitude. This approach is based on developing the attitude statements or dimensions provided for the respondents, who are asked to describe their attitudes with the help of a scale. (Brace 2008, p. 66-67)

The rating scale is usually balanced by equal amount of positive and negative answers contained in it (Brace 2008, p. 67). Some examples of the itemized rating scales are presented in Figure 9.

SHOW CARD.	
How likely are you to use the train for this journey in the near future?	
Very likely	1
Quite likely	2
Neither likely nor unlikely	3
Quite unlikely	4
Very unlikely	5
Don't know (not on card)	6
<hr/>	
SHOW CARD.	
Using the scale on this card please indicate how effective are the management and staff in seeming well organized and systematic in carrying out their work.	
Highly effective	1
Effective	2
Neither effective nor ineffective	3
Not very effective	4
Not at all effective	5
<hr/>	
SHOW CARD.	
Thinking about travelling in and around the city, which of the statements on this card best describes how you feel about using the bus?	
The only method I would use	1
One of the methods I would be happy to use	2
It's not my preferred way to travel but I would consider it	3
I would only use it if there was nothing else available	4
I would never use it	5
<hr/>	

Figure 9: Examples of itemized rating scales (Brace 2008, p. 68)

Moreover, the task is to write questions in an accessible way with careful consideration of respect towards the respondent. Questions commonly have to be phrased in everyday language and have to be similar to a general conversation. Technical and other special terms should be avoided when possible. (Brace 2008, p. 106-107)

7.1 Questionnaire results

Objective of the questionnaire presented in Appendix 1 is to measure the attitude towards Finnish decorating products and different ways of purchasing them. The respondents of this questionnaire are Russian customers of Finnish construction materials retail store and the language of the questionnaire was Russian.

Appendix 2 shows results received after having questioned 30 Russian adult customers. The table includes neither people who have rejected to answer the questions (6 people) nor people who turned out to be ineligible for the questionnaire with the help of the first three questions (16 people). As well as that, responses to the first three questions were not included in the results table since these questions

were aimed only at recognition of a respondent's eligibility for the questionnaire and do not have any connection to the actual objectives of this work.

The first question was aimed at gaining a better understanding of Russian customers' preferences as to Finnish decorating materials. The most significant factors that affect Russian customers' buying behavior are shown in Figure 10.

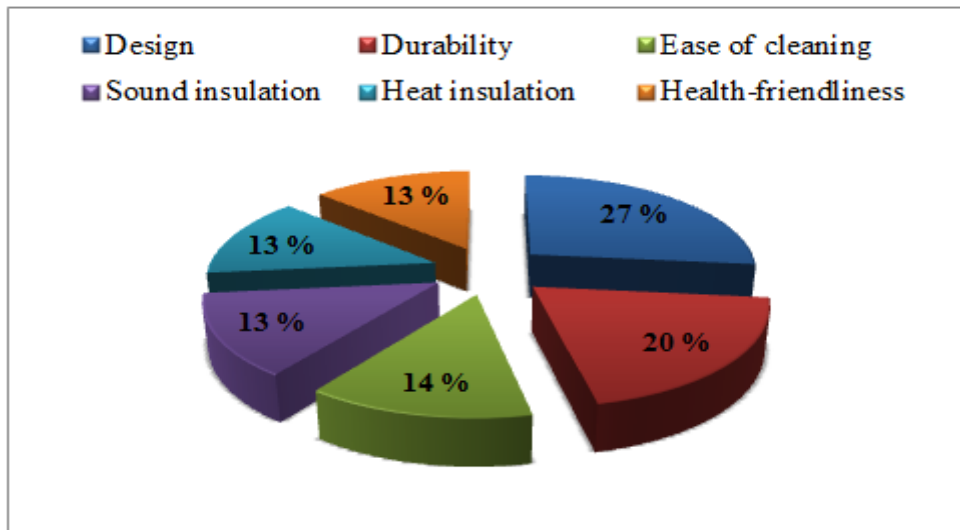


Figure 10: Customers' preferences

As can be seen from Figure 10, the most important characteristics that Russian customers would prefer to experience in Finnish decorative products include design, durability, heat insulation, sound insulation, health-friendliness and ease of cleaning. This can be considered as valuable information for marketing campaigns of the proposed e-business since these are the factors that should be emphasized in order to attract Russian customers.

The second question was concerned with Russian consumers' general willing to use Finnish decorative products in their apartments, cottages and offices. The summary of results is as follows:

1. Highly attractive – 10 (33,3%)
2. Quite attractive – 13 (43,3%)
3. Not very attractive – 4 (13,3%)
4. Unattractive – 3 (10%)

It can be concluded that Finnish decorating materials are generally attractive to Russian customers and, therefore, there is a demand for those products in the Russian market.

People who have stated that the idea of Finnish decorating materials being used in various premises belonging to them does not appeal to them were also asked about their satisfaction with construction materials presented in the Russian market. Since the average grade received in this case is 3.8 (taking into account that the lowest grade possible was 1 while the highest – 5), it can be stated that people not attracted by Finnish decorating materials would most probably remain loyal to Russia-produced alternatives even if marketing campaigns of Finnish products are launched.

The next question attempted to find out if Russian consumers prefer self-delivery or a third-party delivery when talking about construction materials. As can be seen from Appendix 2, the majority of respondents stated that they find it difficult to perform the delivery themselves. The second most popular answer was ‘I will never make a delivery from Finland myself’ (7 people) while 5 people said that they can arrange delivery themselves but do not find it fully convenient. People who have stated that they are fully satisfied with self-delivery were excluded from the questionnaire at this point.

Question 7 revealed how the actual idea of establishing e-commerce is perceived by Russian consumers. The results are visualized in Figure 11.

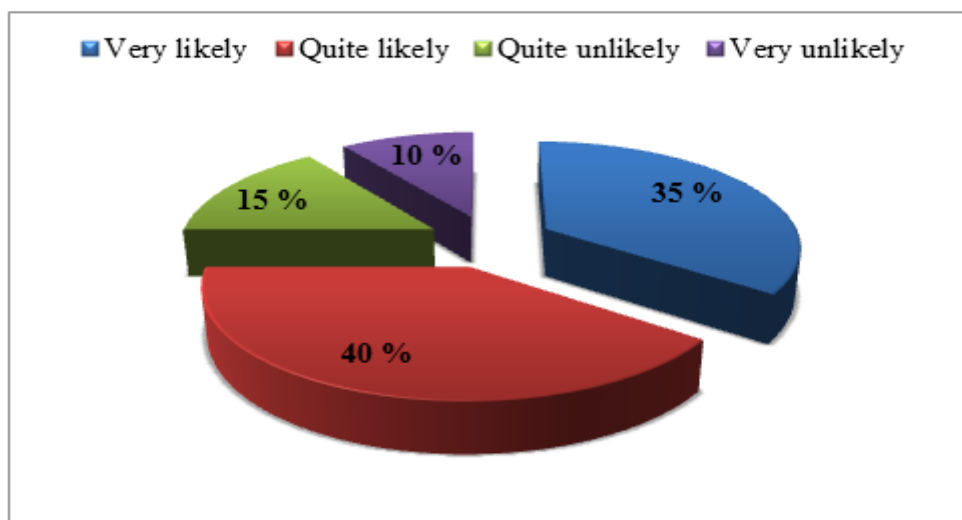


Figure 11: Likelihood of making online purchases

As can be seen from Figure 11, Russian consumers are generally attracted by the possibility to make online purchases of decorating materials. Altogether 75% of respondents were interested in the e-business concept, which gives a basis for considering e-commerce as a project that is likely to occupy a share of the Russian market.

Among the problems denoted by customers who have not expressed their interest in buying decorating materials online was the perception that online-store prices will be essentially higher than those that can be found in regular Finnish stores. Also, people expressed their concern in firm's inability to arrange prompt delivery and general lack of trust towards e-commerce. One respondent was also worried that he will not be able to make a correct choice if he has to choose from mere images.

Appendix 2 also shows that all Russian consumers who have taken part in this questionnaire prefer the goods ordered via a proposed online store to be delivered straight to their homes. At the same time, almost half of them said that they will not find it too inconvenient to collect their order from a warehouse.

To conclude, general interest of Russian consumers towards the concept of e-commerce has been recognized with the help of this questionnaire. In addition, questionnaire results provided information on Russian consumers' preferences as to product characteristics and delivery methods, which will later be used for business promotion and development.

8 RESULTS AND MANAGERIAL IMPLICATIONS

According to the research questions set, the following results were achieved during the study. The scope of industries was carefully analyzed as well as the markets of both countries. Their performances were presented during the study. Webpages of the companies were carefully investigated and necessary information regarding their services, product range and specifications was gathered. The evaluation of their online presence was also made during the study, underlining the weaknesses and directions for the further development.

Analysis of customers' preferences and their attitude towards Finnish wood decorating products was also done, based on the desktop research of previous publications, plus an additional own customer survey was conducted. Logistical

aspects related to the transportation of decorating materials were considered and the appropriate modes were defined. All the information allowed proceeding consequently to the evaluation of the managerial solutions available. The most suitable one is described further.

Summarizing all the information gathered and results achieved during this study, the following solution for the implementation of e-commerce in development of Kymenlaakso region wood interior materials production was suggested.

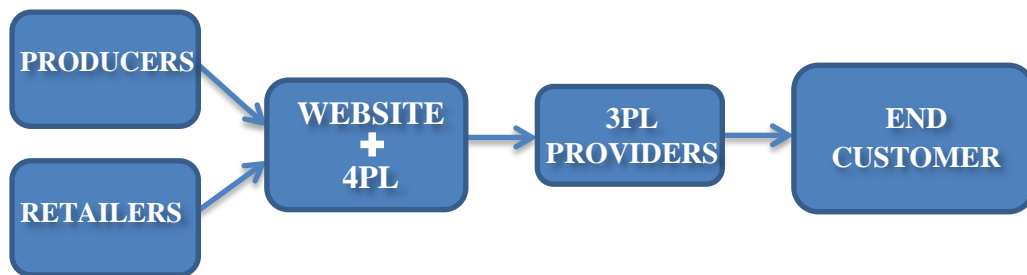


Figure 12: Business model

Figure 12 shows a business model of a new organization that is suggested to be created as a result of this work. The idea behind the new business is that it will act as an intermediary between producers and retailers of wood products in the Kymenlaakso region and end customers in Russia. It means that the organization will be responsible for continuous collection of information connected to each company's assortment, pricing and product availability as well as for publication and updating of gathered data on its website.

The website will be presented in supplier-oriented e-marketplace form, organized under suppliers' initiative to build the connections with the number of buyers and conduct sales via Internet. The web pages should be available in Russian language and should contain the full spectrum of suppliers of Kymenlaakso region, representing the full product range of wood decorating materials, their specifications, prices and it should also have the comparison function. From the customer perspective, it will be responsible for order processing and the transfer of inquiries to the producers and retailers as well as for handling customer conflicts and conduction of customer surveys.

Utilizing the theoretical concept of e-marketplace the new organization will pay essential attention to the promotion of the webpage. As it was stated by Filipe & Obaidat (2009, p. 114) “*the searchers tend to trust the relevance of organic links over sponsored links*” thus the technology of Search Engine Optimization will be applied. The contents of the website will be optimised with the purpose of acquiring a higher rating in search engine result pages. Additionally, social media marketing campaign might be involved in the search engine marketing in respect that the social media networks are subjects of high popularity among the Russian customers. However, in this case this technology is regarded as an issue for the further development researches.

At the same time, the company will serve as a fourth-party logistics provider, implying that it will be responsible for managing third-party logistics providers, truckers, forwarders and customs brokers. In other words, it will be in charge of the entire delivery process. Most probably, the fact that the new company will act as a fourth-party logistics provider will also make the participation in a new project more attractive for producers and retailers since the Incoterm applied to them will be Ex Works, meaning that those companies will not be responsible for the product as soon as it leaves their warehouses.

The company will charge a fee in a form of a percentage of sales that will be executed through its website. It can be considered as a more reasonable way of charging a fee for acting as an intermediary and a fourth-party logistics provider than specifying a uniform payment for a certain period of time for all companies since companies who might have difficulties selling their products through the website will be dissatisfied with the fact that they have to pay the same amount of money as companies reaping high profits by means of the website, thus they will be more likely to give up using e-operations.



Figure 13: Cash flow

Figure 13 demonstrates cash flow that will be in operation when a new business is established. As can be seen from the figure, the customer will make a payment to a new company by means of a web-payment service presented on company's website. Then, the new company will distribute money due to third-party logistics providers and producers and retailers after having charged the fee in a form of the percentage of sales.

Since successful e-business operations require customer expectations to be thought over, a questionnaire about their attitude towards Finnish wood decorating products was distributed, and its results might be used to meet or exceed prospective customers' expectations.

As well as that, these results might be used to determine the most significant customer needs and develop a clear customer value propositions that reflect those needs. In particular, a value proposition will explain what specific benefits a customer will get from using company's services, how its products will solve customer's problems as well as how the company differs from its competitors. For instance, a new web-based organization selling decorating materials can emphasize such services as fast delivery (faster than it would take a person to travel to Finland and buy the same amount of products because of long distances and due to import restrictions imposed on individuals), the fact that products it sells are of high-quality and can solve customer's problems connected to house decoration and to its sustainability and that services it offers save customer's time associated with traditional shopping from its competitors.

Another important element of every business is the value chain, which consists of 5 main areas: inbound logistics, operations, outbound logistics, marketing and sales and services. A newly created organization that will act as a marketplace between wood-processing companies of the Kymenlaakso region and Russian customers has to consider carefully all of the areas since it will have to cope with challenges associated with international trade, long distances and cultural differences. The first sphere, inbound logistics, is focused on such factors as order and request processing time as well as manufacturers' capacity to meet the demand. The second area connected to operations implies that a company's product quality has to meet customer expectations. Outbound logistics are linked to order fulfillment speed and quality, on-time delivery and management issues, such as reporting, audit and

invoice accuracy. Marketing and sales include pricing, invoicing and understanding of own product value and customer needs. The last sphere named “Services” is concerned with customer problem resolution, customer surveys and customer audit.

It can be seen that the success of a new organization will significantly depend on the degree of integration between suppliers, the organization itself and forwarding companies. Only in case efficient exchange of information is established between these parties, such actions as prompt order fulfillment and notification about product availability can be carried out. As well as that, customer feedback and regular customer surveys will have to be carried out in order to be able to meet customer expectations as well as to acquire new and retain existing customers.

Identification of how the new business will differ from its competitors is not only important when developing value propositions. It is also helpful when determining brand values, which will be communicated to the customer and will form a basis of the brand. Some of the brand values for the new company may be: Quality, Innovation, Value for money and Integrity. However, brand values recognized by the company at the beginning of business operations will have to be constantly changed to comply with changing market conditions. At the same time, the company will have to ensure that customer experience reflects the values it has communicated.

9 EVALUATION OF THE STUDY AND FURTHER RESEARCH RECOMMENDATIONS

During the process of research the vast amount of work was done. The task itself seemed quite challenging from the very beginning of work. The fact that the field of study was quite unfamiliar implied the oncoming difficulties related to specific terms which are used in the industry of the study as well as the operations of the companies, specific products and their features were quite unclear. There were lots of obstacles and struggles with defining the methodology of the research. In order to overcome all these problems the wide range of sources of information was examined as well as theory related to the practical issues was revised. Gradually as the topic was becoming clearer the plan of activities became evident. And finally the results were achieved and reported and hypothesis was offered.

Despite the lack of researcher's proficiency in the wood industry sector, the results are believed to be of social importance and provide useful information for the development of the region's industry and might be applicable in other international business operations.

Though there is still work to be done. That might be quite interesting to develop the social media marketing campaign for the wood interior producers, due to the increasing popularity of social networks and further integration of businesses into them. The further researchers might also study the other areas where the concepts of e-commerce might be applicable which will encourage Finnish economy and international trade between the neighbouring countries.

10 CONCLUSIONS

This thesis was aimed at evaluation of the current state of wood decorating materials producers and retailers of the Kymenlaakso region and at development of a trade scheme, which will both suit local companies and attract Russian customers. Desktop research, customer survey, statistical information and an interview with a logistics company's representative made it possible to draw the following conclusions.

This research can be considered to be both reliable and valid. This is because the results gathered with the use of different means were corresponding and consistent, and at the same time research questions set at the beginning of this research have been answered properly.

First of all, companies suitable for this research were chosen and the current state of wood decorating materials production and retail was assessed with the help of desktop research. It was proved that local companies have a product range that is suitable for this research, and this information served as a basis for further investigation.

Desktop research and customer survey proved that there is demand for Finnish wood decorating materials in the Russian market (77% of respondents stated they would like to use Finnish decorating materials in their premises); however, there is no possibility of purchasing them if inconvenient self-delivery is not taken into account.

Thus, the trade scheme proposed in this work can be a sound basis for commencing e-commerce with Russia in case Kymenlaakso companies will be willing to do so. The statement that this scheme is prospective can also be backed up with the fact that 75% of respondents found the idea of being able to purchase decorating materials online to be attractive.

As well as that, the research strived to simplify the process of starting selling via Internet for the Kymenlaakso-based producers and retailers. For instance, customer survey revealed that while marketing Finnish decorating materials, such factors as design, durability, heat insulation, sound insulation, health-friendliness and ease of cleaning should be emphasized due to the fact that these characteristics are valued by Russian customers the most. Besides, issues connected to logistics were analysed, and the most convenient way of delivery (fourth-party logistics) was recognized. In addition, the most important factors that should be taken into account when establishing an Internet-based organization have been thoroughly analysed, and useful suggestions were made based on the so-called pillars of success, which will also facilitate the process of commencing e-business operations.

All things considered, research objectives were met and this work has the potential of serving as a basis for Kymenlaakso wood decorating producers and retailers willing to make use of demand for products they offer in the Russian market.

REFERENCES

- Arvolista n.d., Arvolista Oy, Finland, viewed 3 September 2012, <<http://www.arvolista.fi/>>.
- BIG 2004, *4PL – What is it?*, Business Intelligence Group Pty. Ltd., p. 9.
- Brace, I 2008, *Questionnaire design: How to Plan, Structure and Write Survey Material for Effective Market Research*, Kogan Page Ltd., London, pp. 3-107.
- Bushry, M 2005, *E-Commerce*, Firewall Media, USA, pp. 3-4, 13-14.
- Business Link n.d., *E-markets, online auctions and exchanges*, Business Link's Archive, viewed 13 September 2012, <<http://webarchive.nationalarchives.gov.uk/20120823131012/http://www.businesslink.gov.uk/bdotg/action/detail?itemId=1075387418&r.11=1073861197&r.12=1073866263&r.13=1075387398&r.s=sc&type=RESOURCES>>.
- ComScore 2011, *comScore Releases Overview of European Internet Usage in September 2011*, viewed 10 August 2012, <http://www.comscore.com/Insights/Press_Releases/2011/11/comScore_Releases_Overview_of_European_Internet_Usage_in_September_2011>.
- Chu, S, Leung, L C, Hui, Y V & Cheung, W 2004, *4th Party Cyber Logistics for Air Cargo*, Springer, USA, pp. 8-9.
- Federal Customs Service of the Russian Federation 2010, *Information for individuals crossing the customs border of the Customs union*, viewed 15 September 2012, <http://utu.customs.ru/index.php?option=com_content&view=article&id=279:info-fiz2&catid=58:info-fiz-cat&Itemid=73>, translated from Russian.
- Filipe, J & Obaidat, M S 2009, 'e-Business and Telecommunications', Springer, Germany, pp. 113-115.
- Food and Agriculture Organization of the United Nations 2012, *The Russian federation forest sector outlook study to 2030*, viewed 12 October 2012, <<http://www.fao.org/docrep/016/i3020e/i3020e00.pdf>>.

International Business Training 2011, *Incoterms 2010 Rules: Chart of responsibility*, Intermart, Inc., US, viewed 30 October 2012, <http://www.i-b-t.net/PDFs/Incoterms_2010_chart.pdf>.

Internet World Stats 2012, *Miniwatts Marketing Group*, viewed on 20 august 2012, <<http://www.internetworldstats.com/top20.htm>>.

Kalakota, R, Andrew B, Whinston 1997, *Electronic Commerce: A Manager's Guide*, New Jercey, pp. 3-27

KESKO 2012, *Building and home improvement trade*, viewed 15 October 2012, <<http://www.kesko.fi/en/Company/Divisions/Building-and-home-improvement-trade/>>.

K-Rauta n.d., K-Rauta, Finland, viewed 15 October 2012, <<http://www.k-rauta.fi/yritystieto/pages/tietoak-raudasta.aspx>>.

K-Rauta n.d., K-Rauta, Russia, viewed 15 October 2012, <<http://www.k-rauta.ru/AboutUs/Pages/%D0%9E%D0%BD%D0%B0%D1%81.aspx>>, translated form Russian.

Koskisen n.d., Koskisen Oy, Finland, viewed 15 October 2012, <<http://www.koskisen.com/>>.

Kothari, C R 2004, *Research Methodology: Methods and Techniques*, New Age International, Delhi, pp. 1-95

Kotler, P 1999, *Marketing Management: Analysis, Planning, Implementation, and Control*, 9th ed., Prentice Hall, Essex, England

Kurochkina, O 2009, 'Russian timber processing complex is losing markets and timber', *Lesprom Inform*, no. 7 (65), p. 22-23.

Kymenlaakso chamber of commerce 2012, *Kymenlaakso economics trends 2012*, viewed on 10 September 2012, <http://www.kymichamber.fi/export/sites/www.kymichamber.fi/liitetiedostot/Vaikuttaminen/Kymenlaakso_TOL_1_12_ENG.pdf>.

Kyminlaakso University of Applied Sciences n.d., *Wood Academy*, viewed on 20 July 2012, <<http://www.kyamk.fi/Ty%C3%B6el%C3%A4m%C3%A4lle/Projektit/Wood%20Academy/Toiminta/>>.

Lappeenranta University of Technology n.d., *Wood academy*, viewed on 20, July 2012, <<http://www.kouvola.lut.fi/en/research/woodacademy>>.

METLA 2011, *Finnish Forest Sector Economic Outlook 2011-2012*, viewed 14 September, <<http://www.metla.fi/julkaisut/suhdanekatsaus/2011/outlook2011.pdf>>.

METLA 2012, *Forest industries and labor*, viewed 20 September, 2012, <<http://www.metla.fi/metla/finland/finland-forest-industries.htm>>.

Nelson, C A 2008, *Import/Export How to take your business across borders*, McGraw-Hill, pp. 3-73

Norman Global Logistics 2012, *Container Types & Dimensions*, Norman Global Logistics, UK, viewed 30 October 2012, <http://normanglobal.com/index.php/tools/category/container_types_sizes>.

On-line SPb 2012, *More and more buyers prefer long-lasting building materials*, viewed 1 November 2012, <http://www.on-line.spb.ru/posts/Vse_bolshe_pokupateley_otdayut_predpochtenie_dolgovechnim_stroitelnim_materialam.php>, translated from Russian.

Paper and Wood Insights 2006, *Interior decoration and garden building new sources of demand for wood*, viewed 14 September 2012, <<http://www.forestindustries.fi/juurinyt2/Uutiset/Pages/InteriordecorationandgardenbuildingUutisetourcesofdemandfor.aspx>>.

Paper and Wood Insights 2009, *Wood in furniture and interior decoration – a choice that favours the environment as well*, viewed 14 September, 2012, <<http://www.forestindustries.fi/juurinyt2/uutiset/Pages/Woodinfurniture.aspx>>.

Paper and Wood Insights 2011, *Finnish sawmilling industries suffer from high cost level*, viewed 14 September, 2012, <<http://www.forestindustries.fi/infokortit/sawmillingandpanels/Pages/default.aspx>>.

Paper and Wood Insights 2012, *Economic Uncertainty saps wood products industry production*, viewed 20 September 2012, <<http://www.forestindustries.fi/infokortit/woodq22012/Pages/default.aspx>>.

Plant, R T 2000, *E-commerce: Formulation of Strategy*, Prentice Hall Professional, New Jersey, USA, pp. 12-13.

Puuinfo n.d., *Sisustaminen*, viewed 10 April 2012, <<http://www.puuinfo.fi/sisustaminen>>.

Puukeskus 2012, Puukeskus Oy, Finland, viewed 10 April 2012, <<http://www.puukeskus.fi/>>.

Puumerkki n.d., Puumerkki Oy, Finland, viewed 10 April 2012, <<http://www.puumerkki.fi/>>.

RosBusinessConsulting 2012, *Construction materials retail networks*, Analytic report, RBC Research, <<http://marketing.rbc.ru/research/562949983903974.shtml>>, translated from Russian.

Starkki 2011, Starkki Oy, Finland, viewed on 14 October 2012, <<http://www.starkki.fi/>>.

Stora Enso n.d., Stora Enso Oyj, Finland, viewed 15 October 2012, <<http://www.storaenso.com/>>.

Standing, C 2009, *Electronic Markets: Benefits, Costs and Risks*, Palgrave Macmillan, Basingstoke, p. 2

Talouspuu A. Rinne 2011, Talouspuu A. Rinne Oy, Finland, viewed 11 April 2012, <<http://www.talouspuu.fi/>>.

Bashlov, V. Interviewed by: Ushakov, M. (25 October 2012).

Välkky, E, Viitanen, J & Ollonqvist P 2011, “Impacts of Changes in Forest and Economic Policy and Business Preconditions in Russia and Finland, Working Papers of the Finnish Forest Research Institute 218”, <<http://www.metla.fi/julkaisut/workingpapers/2011/mwp218.htm>>.

Zinovieva, I S 2008, 'Modern ways of sustainable development of the forest sector in Russia: Conference notes', Odessa, pp. 22-23

Appendix 1: Questionnaire

Q1 What is your profession?	
If marketing → The respondent to be excluded from the interview	
Q2 Do you or anybody in your household intends to buy in the near future or hereafter the construction materials for you apartment, cottage or office?	
If YES → go to Q3	
Q3 Do the construction materials you intend to buy include such items as wall panels, skirtings, scotias or moldings made of wood?	
If YES → respondent is eligible for the questionnaire	
Q4 What features are you looking for in Finnish decorating materials? Mark two most important:	
Durability	Decay resistance
Design	Wear resistance
Ease of installation	Dust emission
Ease of cleaning	Sound insulation
Ease of maintenance	Eco friendliness
Interior compatibility	Moisture resistance
Temperature resistance	Insect counteraction
Fire safety	Hygiene
Health friendliness	Wall alignment

Q5 How attractive is the possibility of using Finnish decorating materials in your apartment, cottage or office?			
1. Highly attractive	2. Quite attractive	3. Not very attractive	4. Unattractive
If 1, 2 → Q 6, If 3, 4 → Q 5.1			
Q5.1 Are you satisfied with the resembling materials available in Russia?			
Classify and close			
Q6 To what extent is it convenient for you to make a purchase in Finland and then deliver it by yourself?			
1. Very convenient	2. Self-delivery can be the case, however it's not absolutely convenient for me	1. It is difficult for me to deliver by myself	2. I'll never make a delivery from Finland by myself
If 1 Classify and Close, If 2, 3, 4 → Q7			
Q7 How likely it might be that you make a purchase if there is a possibility to order materials via Internet?			
1. Very likely	2. Quite likely	3. Quite unlikely	4. Very unlikely
If 3, 4 → Q7.1 If 1, 2 → Q7.2			
Q7.1 What drawbacks and obstacles do you personally find while thinking about ordering Finnish decorating materials?			
Classify and Close			
Q 7.2 Do you prefer delivery straight to your place or is it possible that you receive the ordered items from the local warehouse?			
1. Yes		2. No	

	Question 4	Q5	Q5.1	Q6	Q7	Q7.1	Q7.2
1	Durability and Design	2		3	2		1, 2
2	Ease of cleaning and Moisture resistance	1		1			
3	Heat insulation and Durability	3	3				
4	Fire safety and Heat insulation	2		4	1		1
5	Durability and Sound insulation	4	3				
6	Insect counteraction and Hygiene	1		3	1		1
7	Health-friendliness and Design	2		3	2		1, 2
8	Sound insulation and Heat insulation	2		4	1		1
9	Ease of installation and Ease of maintenance	2		1			
10	Interior compatibility and Sound insulation	1		2	3	Actual materials may differ from images.	
11	Dust emission and Moisture resistance	3	4				
12	Decay resistance and Design	4	5				
13	Wall alignment and Durability	1		3	1		1, 2
14	Ease of maintenance and Durability	1		4	2		1
15	Wear resistance and Cold resistance	3	3				
16	Design and Ease of cleaning	1		2	4	Lack of trust towards e-commerce.	1
17	Fire safety and Health-friendliness	2		4	1		1
18	Moisture resistance and Heat insulation	2		3	2		1, 2
19	Eco-friendliness and Wear resistance	1		2	3	I expect high prices.	1, 2
20	Cold resistance and Durability	2		3	2		1
21	Interior compatibility and Ease of cleaning	2		4	2		1, 2

22	Ease of installation and Wall alignment	1		4	1		1
23	Design and Sound insulation	1		2	4	Increased prices.	1
24	Health-friendliness and Design	2		1			
25	Temperature resistance and Hygiene	2		3	2		1, 2
26	Health-friendliness and Decay resistance	3	4				
27	Design and Wall alignment	2		4	1		1
28	Ease of cleaning and Design	2		2	3	Slow delivery.	
29	Fire safety and Ease of installation	4	5				
30	Wear resistance and Cold resistance	1		3	2		1, 2

